

June 5, 2025

TO: Douglas County School District (DCSD or the District) Board of Education (BOE)
FROM: DCSD Fiscal Oversight Committee (FOC)
SUBJECT: School Year Budget – 2025/2026

The FOC's primary function is to assist the BOE in fulfilling its fiscal oversight responsibilities with integrity and reliability. The FOC has prepared the following comments regarding the 2025/2026 school year budget.

The FOC has reviewed the 2025/2026 budget as presented to the committee on June 5, 2025. We commend the District Staff for providing a detailed budget and related information, and we are confident that this will be beneficial as the BOE navigates the next school year.

The FOC has reached agreement that the 2025/2026 budget is reasonable, and the budget has also identified some important risks and implications. The FOC would like to also highlight the following short-term and long-term concerns to the BOE for consideration:

- **Drawing Down Fund Balance Over Time**

- DCSD projects to draw down the Fund Balance by \$18M in 2025/2026 to help cover investments in personnel and student programming, as well as funding operational expenditures such as transportation, facility operations, and support systems. SY 2025/2026 will be the third year in a row using fund balance (i.e., expenses greater than revenue). Given the remaining unassigned general fund balance at 5% of planned expenses, this is not a concern by itself, but rather a longer-term trend to consider along with the other items noted in this memo when planning for DCSD's future and determining a sustainable path on future budgets. Additionally, showing expense discipline to keep expense growth aligned with revenue growth, especially in a trend of declining enrollment will be important to maintain credibility with the county's voters when needs for bonds or mill levy overrides are proposed by DCSD.
- The proposed budget does maintain the Fund Balance above 2020 (and prior) levels, and is maintained at 5% of budgeted expenses, which is on top of an additional 3% maintained by the BOE per its policy (shown as committed rather than unassigned fund balance). We do not include the 3% TABOR reserve since a declared emergency is required to use these funds.
- Managing down the Fund Balance has been a strategic focus of DCSD in recent years, however, there must be minimum Fund Balance thresholds to consider in future years. It may be wise for the BOE to consider a threshold to establish in policy beyond the BOE's 3% committed reserve to use in managing the unassigned general fund balance. DCSD staff has discussed best practices on this with the FOC and we expect those conversations to continue as we review ongoing financial results and future budgets.
- Reduction of reserves beyond minimum thresholds may impact DCSD's financial stability, sustainability, and ability to maintain a strong credit position. We also believe this is imprudent.

- **Ongoing Impact of Declining Enrollment**

- 751 fewer projected neighborhood students, a 1.7 % decline over 2024/2025, which results in less state revenue to DCSD over time. While DCSD is being helped by the averaging in the funding formula, higher enrollment years have dropped off and even the average is showing a more significant impact.
- DCSD enrollment has been declining for years, and is projected to continue to do so, creating a long-term concern whether future revenue will cover anticipated expenses. As such, continued work on the growth and decline initiatives will be critical.

- **Growth and Decline in Neighborhood Schools**

- Providing educational opportunities to communities where neighborhood schools are not available will continue to cost DCSD more for transportation and have a negative impact on the community.
- Under-utilized buildings with fixed costs will carry a higher cost per pupil to operate, potentially impacting the availability of programming and student services.
- Growth in certain areas of DCSD also creates capital spending needs at the same time as other areas have excess capacity or a need to close buildings presenting further fiscal challenges.

- **Impact of Anticipated Decreasing Future Revenues and Increasing Future Expenses**

- As employee pay continues to increase over time, DCSD will need to consider the appropriate changes in the number of employees to align with the decreases in revenue, potentially limiting DCSD's ability to remain agile in recruiting new employees and retaining current employees.
- Expense management that does not adequately address building and property maintenance can create costly and unexpected expenses in the future (repair, replacement, etc.) and negatively impact the learning environment and community.
- Reduction in programming may have a negative impact on student and district academic performance.
- DCSD may not be able to fund resources for emerging educational needs.

Being effective stewards of taxpayer funds and clearly communicating with staff, parents, and other constituents is important. We thank the BOE for working with the FOC, and we look forward to continuing to assist the BOE with its fiscal oversight responsibilities. We would be happy to respond if additional information or clarification is needed.

Sincerely,

A handwritten signature in black ink, appearing to read "James Coope", written in a cursive style.

James Coope,

FOC Chair, on behalf of the DCSD FOC