

# WEST BLOOMFIELD SCHOOL DISTRICT



WEST BLOOMFIELD  
SCHOOL DISTRICT

WILLIAM D. MULL  
ASSISTANT SUPERINTENDENT FOR  
BUSINESS AND OPERATIONS

MEMORANDUM  
February 20, 2014

TO: Superintendent Hill & Board of Education

FROM: William Mull, Asst. Superintendent for Business

RE: February 24, 2014 Board Meeting Agenda Item:  
2014-15 Budget Preliminary Discussion

Based on assumptions detailed in this report, the preliminary General Fund budget calculation for 2014-15 is summarized as follows:

	2014-15 <u>Preliminary</u>	<u>Change</u>	2013-14 <u>Amended</u>
<b>GENERAL FUND</b>			
Beginning Fund Balance	\$ 2,055,314	( 814,725)	\$ 2,870,039
Revenue	63,370,291	618,287	62,752,004
Expenditures	<u>(66,702,113)</u>	<u>(3,135,384)</u>	<u>(63,566,729)</u>
Surplus (Deficit)	( 3,331,822)	( 2,517,097)	(814,725)
Ending Fund Balance	\$(1,276,508)	( 3,331,822)	\$ 2,055,314
Ending Fund Balance as % of Expenditures	-1.9%		3.2%

The assumptions detailed below are based on the Governor's School Aid Fund Proposal released earlier this month. The projected loss in enrollment is estimated at -275, and there are no budget reductions built in to this preliminary budget at this time. It should be noted that there will be some reductions in instructional staff due to the projected loss of 275 students however the staffing analysis for next year is not yet completed. Other revenue enhancement measures and/or reductions in expenditures will be necessary in order to avoid a projected fund balance deficit at the end of next year. It is expected that during the coming months as the budget development process continues, there will be fluctuations in these numbers and assumptions based on internal factors as well as external factors; namely the legislative budget adoption process at the State level for the School Aid Fund.

**REVENUE ASSUMPTIONS**

Pupil Count:

The blended pupil count on an FTE basis, according to District State Aid Status Reports and including internal preliminary projections, is as follows:

	Projected	Actual	Actual
	<u>2014-15</u>	<u>2013-14</u>	<u>2012-13</u>
	5,781	6,056	6,349
Change from prior year	-275	-293	-254

The District Foundation Allowance for 2013-14 \$8,676 per pupil FTE however we do not collect that full amount from every student FTE. The District collects the lesser of its own Foundation Allowance or the sending resident school district. Taking this into account the overall average that the District expects to collect this year for all pupil FTE's is estimated at \$8,532. Therefore the reduction in revenue for 2014-15 based on a loss of 275 pupil FTE's at \$8,532 equates to: (\$2,414,556)

Foundation Allowance:

The Governor's budget proposal includes an increase in the Foundation Allowance of \$83 per pupil FTE for the District. Our base Foundation Allowance is currently \$8,676 so this amount would improve to \$8,759 for next year. Our effective Foundation Allowance (see above) is currently \$8,532 so this amount would improve to \$8,615 and this is the figure that the preliminary budget is predicated upon. Therefore the increase in revenue from the improvement in the Foundation Allowance, based on 5,781 pupil FTE's at \$8,532 equates to: \$ 479,823

Categorical Revenue:

The Governor's budget proposal provides for the continuation of:

- Best Practices at \$52 per pupil FTE
- Academic Performance at \$30 per pupil FTE
- Hold Harmless Guarantee at \$18 per pupil FTE
- Technology Infrastructure at \$10 per pupil FTE

The district deferred the 2012-13 technology infrastructure grant proceeds to 2014-15 so that deferral amount will be a reduction in 2014-15 however there is also an offsetting reduction in grant expenditures of the same amount. Taking into account a projected loss of -275 pupil FTE's for next year, the sum of these factors equates to a revenue loss of: (\$ 98,100)

MIPSRS (Retirement Expense) Cost Offset Categorical Revenue:

On the expenditure side of the budget, the MIPSRS rate is projected to increase by +4.05% at a cost increase to the District of approximately \$1.29 million. The State currently provides partial relief in the form of Categorical funding to help offset the cost of retirement expense for school districts. The amount of Categorical funding to offset MIPSRS's expense is projected at:

	Projected <u>2014-15</u>	Change <u>2014-15</u>	Budgeted <u>2013-14</u>
Section 147a	- 0 -	(\$474,402)	\$474,402
Section 147c			
% based on prior year payroll	7.62%	3.06%	4.56%
	\$3,228,156	\$1,482,020	\$1,746,136

Therefore, the net increase in Categorical funding for MIPSRS' cost offset equates to: \$ 1,007,618

Revenue from Autistic Impaired Special Ed Center Program:

The District has two Special Education Center Programs (Autistic Impaired and Emotionally Impaired). The Concept of county-coordinated (by Oakland Schools) Special Education Center Programs is being phased out per an agreement made by the Oakland County Superintendents. This means that Center Program budgets need to be "rolled in" to the District's General Fund. For 2014-15, the larger of our two Center Programs, the Autistic Impaired Program, is being reclassified from the Special Education Center Program Fund to the General Fund.

Part of being a Center Program is the right to charge the Program for rent and indirect costs, and the right to charge an annual expenditure contingency against the fund of 5% of annual operating expenditures. Those monies then formerly came into the General Fund as revenue. The sum of those monies in 2013-14 is budgeted at \$286,645 so this is revenue that will not continue for the General Fund for 2014-15.

However, the revenue derived annually from Oakland Schools PA 18 Special Ed Operating millage is formula driven, and the formula takes into account deductions for operating Special Ed Center Programs for the aforementioned indirect costs, rent, and contingency as well as tuition revenue received. In the long run the District is projected to receive additional revenues from PA 18 funding each year greater than the loss in revenue from indirect, rent and contingency. PA 18 funding is based on previous year actual expenditures so the District will not see that permanent benefit commence until the 2015-16 school year. There will be a one-year penalty to District revenues in 2014-15 for transitioning this Center Program to the General Fund however in the long run this is a better service delivery model from a financial perspective.

The General Fund will be absorbing AI Center Program costs in 2014-15 budgeted at \$1,707,324. The revenue increase to offset these new expenditures in the General Fund is budgeted at \$1,321,722 so that is a net budget deficit for this program of (\$385,602) for 2014-15. Beginning in 2015-16 it is projected that PA 18 funding will increase permanently by \$600,000 per year due to the elimination of Center Program status for this program. Therefore the net increase in revenue due to this change for 2014-15 equates to: \$1,321,722

Other Miscellaneous Adjustments to Revenue

Budget analysis based on review of year-to-date actual operations projected for the full year and projected for next year, and updated data on the District's State Aid Status report equate to a combined budget increase over multiple line items of: \$321,780

<b>TOTAL NET CHANGE TO GENERAL FUND REVENUES</b>	<b>\$618,287</b>
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**EXPENDITURE ASSUMPTIONS**

AI Center Program:

Program expenditures being rolled into the General Fund. See detailed explanation in revenue section above. \$1,707,324

Retirement Rate:

The retirement rate is projected to increase from 29% to 33.05%. There is additional Categorical revenue to help offset this growth in expenditures, see detail in revenue section above. The net increase in expenditures for retirement is budgeted at: \$1,289,237

Elementary Lunchroom Paraprofessionals:

There are 20 part-time lunchroom paraprofessional positions spread out among the District's five elementary schools. These 20 part-time positions equate to 5 FTE's. These costs were transferred from the General Fund to the Food Service fund a few years ago. The Food Service Program has posted operating deficits for the last two years and is projected to finish with an operating deficit this year. The District is going out for bid for third party contracted food service management companies and these companies generally do not provide these services. In the event that the Board may decide to outsource the Food Service function for 2014-15, it is recommended that these employees remain as school district employees because of the supervisory nature of their duties over students. Also, in order to generate the most competitive bids that we can, this service would be an outlier in our RFP and may affect bid response. The net cost to return these lunchroom paraprofessional positions to the District's general fund equates to: \$122,409

Contracted Pupil Transportation:

The District is entering year 3 of the initial contract with Durham to provide pupil transportation services. The contract calls for an 8-year old average for the age of the bus fleet of 52 buses, and a maximum age of 12 years old for any one bus. In order to maintain this goal, 2014-15 is the first year that the contactor is expected to purchase and furnish new school buses that will be utilized in the District. There are 7 new (replacement) buses scheduled to be purchased. There is a daily route premium up-charge of \$46.15 built into the contract to amortize the cost of these buses. In addition the contract stipulates an overall rate increase of approximately 2.8% for 2014-15. The combined cost increase for Durham Services therefore equates to: \$113,425

Other Employment Benefits:

The total increase in employment benefits other than Retirement is projected to increase by one half of one percent. The annual cap for Health and Dental Insurance is budgeted to increase by +3% however those rates are on a calendar year basis, so that has the effect of being a +1.5% annualized is the school district fiscal year. Other employment benefit rates are anticipated to remain flat. Therefore the total cost increase associated with other employment benefits is: \$ 62,768

Athletics and Student Activities:

The cost increase for athletics is mainly due to employment benefits. Assuming the same offerings and participation and staffing levels from the current year, the cost increase for athletics and activities is: \$ 24,933

Utilities:

The District is entering into an energy savings program agreement with Executive Energy Inc. The cost of this program is \$30,000 plus 30% of verified energy savings. For 2014-15 the budget is based on gross savings of \$107,143 with fees to Executive Energy estimated at \$62,143 for a net budget reduction in Utilities in the amount of: (\$45,000)

Board of Education Election Expense:

There is no election anticipated to be conducted during 2014-15 therefore the budget appropriation for this expense can be eliminated: (\$ 50,000)

Reduction in Miscellaneous Grant Expenditures:

Miscellaneous Grant revenue reductions are offset by corresponding reductions in Grant expenditures: (\$ 76,394)

Information Technology:

In 2013-14 the District outsourced the management of this function to Oakland Schools. This change became effective during October so the district retained its own IT employees for approximately 3 months this school year. Those costs can be fully eliminated for 2014-15, providing a cost reduction in the amount of: (\$204,735)

Other Miscellaneous adjustments affecting multiple accounts, net increase	191,415
<b>TOTAL NET CHANGE TO GENERAL FUND EXPENDITURES</b>	<b>\$3,135,382</b>

**FACTORS THAT HAVE THE POTENTIAL TO POSITIVELY AFFECT THE BOTTOM LINE**

- \$812,000 budgeted in 2014-15 will be fully eliminated after this fifth and final year of the obligation for the Voluntary Severance Incentive Program
- Act 18 revenues are expected to increase by approximately \$600,000 annually commencing in 2015-16 due to the elimination of Center Program status for the Autistic Impaired Program
- Although the General Fund Balance is not sufficient at this time, the successful passage of the Sinking Fund Millage in 2013 provides an estimated \$2 million in annual income and also provides safety in the form of a “rainy day fund” for any potential emergency facilities-related issues
- The District is advancing in its IT capabilities and expanding opportunities for students with the expected purchase of over \$2.5 million this Spring for new technology equipment in order to expend remaining bond funds. There is expected to be some bond funds (approximately \$300,000) remaining that the District has until 6/30/16 to expend.
- Annual growth in employee Health Insurance costs has been mitigated for the most part due to the cap limitation provision
- Some reductions in staffing will be necessary due to projected loss of 275 pupils for next year
- The Headlee rollback penalty for non-homestead properties will be eliminated with the successful passage of the operating millage renewal ballot question which will generate an additional \$50,000 in annual income commencing in 2015-16
- The potential sale of Ealy Elementary school is expected to generate one-time revenue
- The State legislative budget adoption process could provide additional revenues from this preliminary budget calculation. This could also go the other way
- The beginning fund balance for 2014-15 is predicated upon 100% collection of budgeted revenues in 2013-14 and 100% expenditure of budgeted appropriations for 2013-14. If the district is able to have a favorable budget vs. actual operating performance, it is possible that the beginning fund balance for 2014-15 could be higher than what is reflected in this preliminary discussion report.

Actual Results from 2012-13:

	<u>Budgeted</u>	<u>Actual</u>	<u>Difference</u>	<u>%</u>
Revenue	\$64,369,354	\$64,254,624	(\$ 114,730)	-0.17%
Expenditures	<u>\$64,349,622</u>	<u>\$63,197,284</u>	(\$1,152,388)	-1.79%
Operating Surplus	\$ 19,732	\$1,057,340		

**FACTORS THAT HAVE THE POTENTIAL TO NEGATIVELY AFFECT THE BOTTOM LINE**

- The retirement rate continues to spiral with little assurance that the State can provide increases in the Foundation Allowance and/or Categorical funding so that school districts will actually have more net revenue to operate with in successive years than previous years
- The declining enrollment trend for WBSD provides a difficult challenge in that generally speaking we are not able to reduce staff on a dollar for dollar basis to match the reduction in revenue from the loss of students

**BUDGET ADOPTION CALENDAR FOR 2014-15**

In order to comply with legal requirements for the Board of Education to adopt a budget for the 2014-15 school year no later than June 30, 2014 the following budget calendar is recommended:

February 24	Board Meeting	Preliminary discussion of the 2014-15 Budget	
March 10	Study Session	Budget Analysis Report	
March 24	Board Meeting	(Tentative)	Ongoing Budget Discussion
April 14	Study Session	(Tentative)	Ongoing Budget Discussion
April 28	Board Meeting	(Tentative)	Ongoing Budget Discussion
May 12	Study Session	Discuss Food Service Management Proposals (Tentative)	Ongoing Budget Discussion
May 19	Board Meeting	Decision regarding potential outsourcing of Food Service Budget Recommendations for 2014-15	
June 9	Special Board Meeting Study Session	(If necessary) (Tentative)	Depending on Food Service decision Ongoing Budget Discussion
June 15	Sunday	Publish required Notice of Public Hearing	
June 23	Special Board Meeting Board Meeting	6:30PM 7:00PM	Public Hearing on the 2014-15 Budget Regular Meeting; Approve Budgets for 2014-15