

THE GROSSE POINTE PUBLIC SCHOOL SYSTEM
Grosse Pointe, Michigan

AGENDA NUMBER AND TITLE:

**Resolution to Commence 2011-12 Budget
Development and Related Parameters (REVISED)**

Budget Development Assumptions

The major categories detailed below are represented on a year over year basis. For reference, in our current year, we project to run a budget surplus of \$1.91 million before the funding of the first of two Early Retirement Incentive payments of \$1.62 million each.

Major Revenue Categories

1. Foundation Allowance (state and local operating revenue per pupil)
 - The state's Consensus Revenue Estimating Conference (CREC) held on January 14, 2011 was the most optimistic in years, with upward revisions for both 2010-11 and 2011-12 School Aid Fund revenues. By current estimates and by state law¹, the Foundation Allowance increase by \$219 per pupil, translating to a \$1.8 million revenue increase Based on experience, and in consultation with the administration, the Foundation Allowance is likely to scale with the MPSERS rate (i.e. a significant increase yields a higher likelihood of a significant Foundation Allowance increase). Our current assumption is moderate for both.
 - ***Assumption: \$110 increase per pupil.***
2. General Education Student Enrollment (full time equivalent)
 - Lower grade level enrollment continues to be smaller than graduating classes, a pattern mirrored across the state².
 - ***Assumption: Decrease of 45 students***
3. State Categorical Revenue
 - The increase is relative to 2010-11 when revenue in this category was lower than normal as a result of a true up for previous years' program costs. The overall run-rate revenue is not appreciably different.
 - ***Assumption: Increase of \$1.9 million***
4. County Revenue
 - We currently project this to be flat, but this is an area we will monitor closely.
 - ***Assumption: No change***
5. Federal Revenue
 - As ARRA and EduJobs funding sunsets, this reduction was anticipated.
 - ***Assumption: Decrease of \$2.4 million***

Major Expense Categories

1. Direct Compensation³
 - New contract structure and retirements delivered a \$4.5 million reduction from 2009-10 to 2010-11. This number now is expected to rise as step and lane changes deliver salary increases. This forecast also assumes the elimination of employee positions

¹ For reference, the Michigan Senate Fiscal Agency summary of the CREC can be accessed at <http://www.senate.michigan.gov/sfa/Publications/BudUpdates/ConsensusRevEstimates.pdf>

² For reference, the state projects a 1.3% reduction of K-12 students statewide in 2011-12. We project a 0.55% reduction.

³ Excluding federally funded jobs, as noted, the number of employees comprehended are the same as the 2010-11 school year, despite a forecast of fewer students.

funded by expiring federal revenues, noted for the “supplement, not supplant” characteristics⁴.

- **Assumption: Increase of \$0.9 million**
2. FICA Costs
 - Scaling with salaries, a moderate increase results.
 - **Assumption: Increase of \$0.07 million.**
 3. Retirement (MPSERS) Costs
 - The MPSERS rate, currently incurring a cost 20.66% of our salary expense, is highly variable and speculation has been that it may increase to as high as 27%. Such an increase would only be affordable to most cash-strapped Michigan public school districts if accompanied by a large Foundation Allowance increase. With a moderate Foundation Allowance assumption, we make one similarly moderate for MPSERS.
 - **Assumption: A 23% rate yielding a cost increase of \$1.6 million.**
 4. Health Care Costs
 - Net health care costs decreased a year ago by 3.6% or \$0.37 million. In 2010-11 costs project for a reduction of 4.7% or \$0.47 million, the result of new contracts with increased employee contributions and a 4.1% decrease in Blue Cross/Blue Shield enrollment rate (fewer employees covered on the plan). The same 5% gross cost increase assumption for 2011-12 is conservative for budgeting purposes.
 - **Assumption: Increase of \$0.5 million.**
 5. Non-Bargaining Unit Expenses (predominantly not human resources related)
 - Tight expense controls have seen \$3.1 million (16.7%) in reductions in this category from 2007-8. We anticipate this category to be flat from 2010-11.
 - **Assumption: No change**

Summary of 2011-12 Revenue and Expense Forecast

Category	Forecast
Revenues	\$0.254 million (increase)
Expenses	\$2.884 million (increase)
Structural Budget Carryover ⁵	\$1.913 million (positive)
Net 2011-12 Forecast	\$0.717 million (shortfall)⁶

General Development Provisions

The Board recognizes and affirms that the primary function of the Grosse Pointe Public School System is to foster the educational development of each and every student. The administration is encouraged to bring forth a budget recommendation that places us in the best position to execute on that mission while remaining cognizant of practical and financial realities.

Specific Areas of Focus, Procedures, and Timeline

Elementary Program and Class Size

The Board of Education understands the administration is evaluating modifications to the elementary program. The Board would prefer to receive the administrations recommendations in **April**.

- The recommendations should contain explanation of the financial implications using the average loaded FTE costs in the January 14, 2011 BMU so we can properly understand the net effect of the changes.

⁴ This Resolution does not direct the elimination of these jobs, it merely assumes them not part of original forecasts. The administration, as it brings forth recommendations, will either endorse keeping the jobs, in whole or in part, with other funds or they may choose to redeploy those positions without the previous Federal constraints.

⁵ When doing year over year analysis, the structural impact of previous years must be a part of the calculation

⁶ This foots to the \$716,673 projected forecast in the current Budget Modeling Utility (dated 01/14/2011)

- The proposal should be inclusive of all other support services and ancillary instructional resources, and traditional classroom teachers. Staff levels recommended should be presented in comparison to those reflected on the December 7, 2010 Staff Utilization Utility report.
- Within that recommendation, propose class size guidelines for 2011-12, also with financial projections and using the currently projected enrollment footing to the aggregate fall projection of 8,090.
- Identify clearly the class size methodology as it relates to part time General Education students and Special Education students so all parties understand how each sections projected and actual class size is derived.
- Recognizing that enrollment changes in the fall can affect section creation and teacher requirements, propose a final date whereby no further section changes would be recommended.
- Validate whether grade level enrollment by building, should it become apparent that insufficient enrollment exists to support the same number of originally projected sections would be collapsed and a procedure and timeline to support this action.

Secondary Program

The Board of Education is not aware of activity on the secondary level paralleling exactly the elementary study, but we realize that the administration analyzes current programs and designs relative to achievement and School Improvement Plan goals. In recent years, foundations courses and other remediation services have been a high priority and that a straight class size average calculation can abstract some of these concerns. In keeping with the timeline of a June approval, the Board would like to receive a budget presentation from the administration in **March**. Like that anticipated for the elementary program, care should be taken to:

- Identify a class size and staffing methodology using enrollment projections that foot to the current aggregate enrollment projection of 8,090 general education students.
- Articulate any other staffing change requests (as compared to the current levels in the Staff Utilization Utility breakdown of record from December 7, 2010).

Special Education Program

The Board of Education recognizes the equal importance of supporting the development of all of our students. Special Education staffing and finances differ significantly from General Education. The Board is also concerned with the missed revenue forecasts that have occurred in 2009-10 as well as 2007-8.

- In **May** the Board would like to receive a budget and staffing update of our Special Education program, highlighting any required staffing changes from 2010-11 to 2011-12.
- At the same time, we would also like to receive a report validating projected Special Education revenue projections for the 2010-11 year with projections for 2011-12.

High School Athletics and Extra Pay for Extra Duty

The Board is not requesting specific reductions in these areas. For high school athletics, we desire to maintain our same philosophy of keeping net costs within the same fixed percentage of General Fund Revenues. In 2010-11, Athletic Costs net off Participation Fees, Gate and other revenue amounted to \$0.82 million, or .82% of GF Revenues. Given the flat 2011-12 revenue forecast, High School Athletics should budget to maintain the same net budget of \$0.82 million. The Board desires to not reduce any sport options, increase participation fees, or decrease EPED investment where our students are currently benefitting.

General Administrative Operational Cost Efficiencies or Revenue Enhancements

The Board continues to encourage the administration to identify any and all areas of cost containment, reduction and revenue enhancement to be brought to the Board's attention when relevant to budgeting at any time before **May**.

Use of Fund Equity

With the assumptions contained herein, bargaining unit total compensation costs would increase by approximately \$3.0 million, outpacing Proposal A governed revenues by 335%. It is this very pattern that has led to recurring structural budget shortfalls. Preserving General Fund equity by cutting programs, options or support services defeats the intent of the contract design. Therefore the Board of Education, based on current assumptions, anticipates allowing for the use of General Fund equity in the development of the 2011-12 budget. This position should not be interpreted as encouragement to be any less prudent than the administration has been during these difficult financial times. Responsible financial management and related staffing and program decisions should prevail.

Staff Recall and Post-June Additional Staff Requests

Over the last few years different procedures (e.g. Enrollment Variation Account) have been used to ensure the administration is adhering to Board of Education expectations relating to finances and staffing. Contract requirements often dictate staff may be laid off and subsequently recalled and classroom assignments are also a consideration. Furthermore, as enrollment differs from projections, staffing requirements may change particularly if we adopt in 2011-12 as we did in 2010-11 strict class size guidelines. In **May**, the Board would like to receive the administration's recommendation on how we can best meet everyone's needs, with student considerations being first and foremost, as it relates to staff recalls, placement, and staff increases.

Protocols for Recommendations

As recommendations are presented for the Board of Education's consideration, it is understood that they are the consensus recommendation of both the operating level administration (elementary, special education, secondary) and the central office administration. Should the operating level administration feel so strongly about a recommendation that the central administration did not bring forth to the Board, the Board encourages them to bring this to the Board's attention. In either case, Board approval is required for execution of any recommendation.

Baseline Reference Materials

The Budget Modeling Utility dated January 14, 2011 and the Staff Utilization Utility dated December 7, 2010 will serve as a common data platform for the development of the budget, recommendations and analysis. As assumptions and forecasts change, the BMU may change, but in order to have common reference materials for the Board, the Administration, and the Public this protocol must be established. If amendments are made to this Resolution and throughout the budget development process as variables are altered or confirmed, these Materials may change.

REQUEST: That the Board approve the revised 2011-12 Budget Development and Related Parameters presented.

Submitted by:
B. Walsh
February 21, 2011