

Memorandum

From: Brendan Walsh, Treasurer, GPPSS Board of Education
To: Members of the GPPSS Board of Education
Cc: Suzanne Klein, Chris Fenton, Tom Harwood
Date: February 1, 2011
Subject: Introduction to Budget Development Parameters Resolution

In response to concerns of the original version of the Budget Development Parameters, I am breaking out the content into two segments. The first, this memorandum, provides background for the Resolution. The second is the Resolution itself. The Resolution will be voted upon, therefore representing the will of the Board of Education. This memorandum is not voted upon and therefore represents only my opinion.

In this memorandum I will address questions raised by Board members, extract some material that was once contained in the original Resolution that was protested as opinion, and conclude with those questions which would seem to require Board decision relative to these questions that could serve as the basis for the February Work Session.

Some topics to address based on Board feedback:

The ARRA/EduJobs Questions

The ARRA/EduJobs in question are definitively funded in the current year (2010-11) budget and thus the \$1.91 structural surplus in 2010-11 is accurate.

It makes little difference whether our assumptions have these roughly 8.5 positions (4.5 teachers and 4 classroom assistants equating to roughly \$650,000 in cost) in the 2011-12 projections or not, mainly since we appear to be in agreement that Fund Equity is likely to be expended to cover a projected shortfall in 2011-12. At issue is whether the administration recommends them as part of their 2011-12 plans.

This is an issue that may be better recollected by those on the Board at the time of the original ARRA grant. The restrictions on ARRA funds were significant, without which it is likely that the administrative recommendation for those 8.5 positions may have been different. Also worth recalling was Board consternation at that time when the administration assumed Board consent on those hires when the Board had not granted it, an issue that drove many of the future practices about requiring Board approval before job offers could be made.

Starting budget development on the assumption that the positions are not funded is more in line with the full zero-based approach used last year when these positions, by virtue of their funding source, were exempted.

For these reasons the assumptions used in the Resolution assume them not there, but this cannot be construed as a unilateral elimination of the positions. That only happens by

Board decision in the form of final budget approval. The Resolution anticipates the administration will make their recommendation and the positions will be fully restored, partially restored, not restored, or distributed elsewhere (given the lack of constraints).

For context, if a Board member wants to analyze the effect of the full restoration of these positions, the simplest calculation would be to increase the projected shortfall by roughly \$650,000 above the previously projected \$717,000 for a total of \$1,367,000.

Qualification of Initiatives as Defined by the GPEA Contract

The Board received a legal opinion that rendered a decision on Debt Retirement that should serve as reference on that matter. As for the Early Retirement Incentive, it is my personal opinion as Treasurer that the ERI payment would not be considered a new initiative since it is called for specifically in the contract agreed upon by both the Board and the GPEA. If the Board wishes to expend more money to clarify this with lawyers then it may choose to do so.

State Categorical Revenue True Up

The baseline for the contract is specifically the district's annual audit, within which the changes in these funds (as all funds and expenditures) are memorialized. I have asked the administration to prepare a memorandum on the issue of how these revenues have been affected.

Athletic Budget

The question was raised whether the high school budget expenditure proportion is equal to the current year. The answer is yes. The gross expenditure is 1.42% and the net expenditure (accounting for revenues from gates, participation fees, camps, etc.) is 0.82%. The Resolution calls for the same 0.82% of net expenditure in 2011-12.

On the issue of its affect on the 3% clause, again if the Board wishes to expend for legal fees it obviously may, however since the transfer is in response to a state mandate to fold in Athletic Budgets into General Fund Budgets then the contract clause does not treat it as a new initiative.

MPSERS and Employee Contracts

The new contracts do not give us local authority to alter the MPSERS rate, which is set exclusively by the state and to which we are legally bound. The protection provided by the contract is based on the overall effect of the contract. If MPSERS, Health Care, and Salaries increase at a rate beyond funding to a point where we drive Fund Equity levels below 10% of GF expenditures, compensation would then adjust downward until Fund Equity were restored to 10%.

Health Care Projection

A concern was raised that the 5% projected cost increase is too conservative so as to have a padding effect on the budget. This is a subjective matter, but it is worth noting that for years the district had budgeted for 10% annual increases. Most professionals in the health care field would tell us that 5% is far from conservative particularly as many schools anticipate increases well into the teens. Our health care advisers have also said that as a

self-funded enterprise, our costs have run generally lower than average, but that a small number of catastrophic events can easily drive this number higher.

As for the contract and health care, the contract prescribes that annual health care cost increases will be split evenly between the district and employees.

Non-Bargaining Unit Expenses

The “no-change” is in reference to total aggregate cost, the vast majority of which are non-human resources expenses. Swapping out direct employees for contract employees for two administrative positions, while an important decision, does not represent a significant change on a \$15.2 million number (perhaps \$20-\$30,000). Again, this is an issue of whether 6220 wants to give Board direction on this matter. It is not a direction to “not change anything” but simply states an assumption on a cost basis that we are not projecting an appreciable dollar value change.

Class Size Baseline

The baseline is just that. It memorializes what the averages were for this year. The Resolution does not prescribe a proposed guideline or configuration in the case of the kindergarten program, but rather specifically asks for such recommendations to be brought forward.

Timelines

Questions were raised as to timeline of the Board receiving formal recommendations from the administration. In the case of the Elementary program, the Administration specifically requested April be the earliest for this activity due to the reviews and committee work happening. Again, should a Board member wish to take action to request the Board to take official action before this time, that option always remains. Even in the instance of May receipt of the Special Education recommendations, we have found there to be very little room for discretion as most of these staffing decisions are prescribed by state law. Since Board action on a budget is not required until the end of June, a May receipt leaves a few to several weeks to decide. This is a subjective matter, but it is my opinion that this timeline will work.

Also note that the Administration is likely to provide incremental updates along the way. The Resolution does not prohibit this or prohibit Board members from requesting updates prior to the timelines contained in the Resolution.

GENERAL BACKGROUND INFORMATION

Board Policy 6220 requires that the Board annually direct the district administration to commence development of the ensuing year’s budget by the adoption of a resolution that articulates “*the preference of the Board in advance of budget development to avoid ambiguity and to allow the community to have a clear view of the budget development process from its inception.*” Policy states that the parameters shall:

- A. Identify specific financial goals and objectives that the Board requires in regards to

specific cost reduction, revenue increases or other financially related objectives for particular budget elements.

- B. Identify particular budget related strategies that the Board prefers the administration to pursue or avoid in their development of the budget.
- C. Be as specific as possible in terms of the objectives, but allow for flexibility in the administration's approach to budget development.

The budget development process relies on a series of expense and revenue assumptions that yield a projected annual surplus or shortfall. In recent years, projected shortfalls have been the norm as human resources cost increases outpaced Proposal A governed revenues. Staff reductions, class size modifications and other expense reducing measures resolved the projected shortfalls. A common parameter was the preservation of General Fund Equity, a reaction to revenue and expense uncertainty.

Bargaining unit agreements reached over the last several months were designed to adjust automatically to that same uncertainty while also guaranteeing General Fund Equity would always return to 10% if it ever fell below that level of General Fund expenditures.

This brings a different tenor to budget development. Preservation of General Fund Equity is now primarily governed by our bargaining unit contracts as they respond to revenue and expense variables beyond our control when previously governed primarily by local budget decisions.

Budget decisions now, a process commenced via this resolution, should be made with a cognizance of the district's educational mission and goals, guided by fiduciary responsibility, and supportive of the spirit of our partnership with our community of citizens and staff.

The Board is not obligated to deliver overly specific parameters at this time anymore than we are bound to adhere to any we approve. This procedure merely presents the opportunity to communicate agreed upon interests that may affect what we receive, when, and in what manner. More discussion will inevitably follow as the administration builds the budget.

Class Size Baseline

Elementary

In the development of the 2010-11 budget, the administration recommended, and the Board accepted, the following elementary class size guidelines:

- Kindergarten not to exceed 25 students
- Grades 1-3 not to exceed 27 students
- Grades 4-5 not to exceed 30 students

These maximum levels are much higher than the actual average across the district¹:

¹ These guidelines were met with the exception of two sections of 3rd grade at Montieth and one 1st grade section at Defer (28 each)

| Actual Class Size Averages for 2010-11 | | | |
|---|--------------|------------------------|---------------------------|
| 2010-11 School Year | FTE | Enroll by Grade | Average Class Size |
| Kindergarten | 23.0 | 477 | 20.7 |
| 1st Grade | 23.4 | 501 | 21.4 |
| 2nd Grade | 25.3 | 508 | 20.1 |
| 3rd Grade | 25.3 | 590 | 23.3 |
| 4th Grade | 25.0 | 583 | 23.3 |
| 5th Grade | 26.0 | 617 | 23.7 |
| 2/3 Magnet | 2.0 | 43 | 21.5 |
| 4/5 Magnet | 2.0 | 45 | 22.5 |
| Totals | 152.0 | 3,364 | 22.1 |

Secondary

Middle school staffing was budgeted to yield an average of 25.6 students per class. The actual average after enrollment and staffing changes in 2010-11 is 25.5.

High school staff was budgeted for a 27.5 per class average. The actual average after enrollment and staffing changes in 2010-11 is 26.85.

Class Size Considerations for 2011-12 Budgeting

As student enrollment is expected to fall 45 students, fairly equally distributed across district buildings and grades and since General Education teacher headcount, as projected, would remain flat, class sizes would fall very moderately – certainly not appreciably.

Elementary class sizes gather the greatest attention. Sharp reductions in class size result from the addition of a section, typically when adding a third section to a grade that had two (and vice versa). For consideration, those schools and grades that most closely abut the current maximums are:

- Defer 1st and 2nd
- Maire 4th
- Mason 3rd
- Monteith 3rd, 4th and 5th

As a practical matter, determining a revised (lower) class size maximum is more complicated than simply calculating the effect of adding sections to these grades as they project into 2011-12. In other words, the addition of additional sections would have far greater impact than simply lowering the maximum since, with a new section they would all be well below any revised maximum. With additional sections², the revised averages would have been:

² Assumes no stacking or looping, which could conceivably offer a means to significantly reduce class sizes with a single split at Defer and one at Monteith, thus requiring 5 general education teachers and 1.0 for specials.

| Class Size Averages IF Above Noted Hot Spots were addressed with another section | | | |
|---|--------------|------------------------|---------------------------|
| 2010-11 School Year | FTE | Enroll by Grade | Average Class Size |
| Kindergarten | 23.0 | 477 | 20.7 |
| 1st Grade | 24.4 | 501 | 20.5 |
| 2nd Grade | 26.3 | 508 | 19.3 |
| 3rd Grade | 27.3 | 587 | 21.5 |
| 4th Grade | 27.0 | 585 | 21.7 |
| 5th Grade | 27.0 | 618 | 22.9 |
| 2/3 Magnet | 2.0 | 43 | 21.5 |
| 4/5 Magnet | 2.0 | 45 | 22.5 |
| Total | 159.0 | 3,364 | 21.2 |

Doing this would therefore increase teacher FTE requirement by 7.0 for traditional classroom sections plus another 1.4 for specials sections at an estimated overall cost of about \$1.0 million. Building space is an equally significant consideration. This would require analysis, but it provides a general sense of scale and effect of altering our current class size guidelines.

On the secondary level, further for scale and context, returning the middle school day to a 7 periods would require about 15 more teacher FTE's (assuming same class size and enrollment) at a cost of approximately \$1.7 million. Other transition costs are not calculated.

Along the same lines, to convert the high school bell schedule to an A/B block with all students obtaining 7 annual course credits a year, 8.3 more teacher FTE's would be needed at a cost of approximately \$1.0 million. Again, other transition costs are not calculated.

Reducing class sizes by an average of 1 student per class across all of middle and high school would cost approximately \$1.1 million.

Special Education

In previous years' analysis of Special Education services, we have found the combination of state and county laws, students' Individual Education Plans, and funding mechanisms whereby finances follow definition of staffing needs, little room exists for discretionary budget decisions. More commonly, services provided to primarily General Education students, or for supplemental special needs assistance has been more variable. Given that IEP's drive these needs, isolated financial analysis has not proven informative to budgeting.

More relevant is proper accounting for anticipated categorical aid from the state and county. In two of the past four years, significant misses in financial forecasting have occurred. These tend not to be structural financial issues, but more accurate accounting is desirable.

Questions to be addressed at the Board's February 24th Work Session

I have tried to accommodate or answer questions raised by Board members either in this memorandum or through modifications to the originally proposed Resolution to the extent that they do not counter decisions that, in my opinion as treasurer, I would not support. This of course does not mean the Board cannot amend the Resolution by majority vote before it is taken up for approval.

To that end, based on the feedback I have received as of February 1, 2011, the following items are my effort to represent the concerns of Board members that are not reflected in the Resolution as revised and that I, as Treasurer, am not endorsing.

- A. Direct the administration to create new initiatives to improve the student learning environment each year for the full 3% allowable under the contracts or otherwise hold a line item in the budget for the equivalent amount.
- B. Direct the administration to assume no jobs would be eliminated year over year from 2010-11 to 2011-12 including any positions currently funded with federal sources that will not be available in 2011-12.
- C. Change the variable assumptions used in the Revised Resolution. *(Note: Pending the opinions of individual Board members, I do not know precisely what these would be, but this will serve as placeholder to do so.)*
- D. Change the timeline for when the Board would receive recommendations from the levels and units outlined in the Resolution. *(Note: Since no alternatives were given, I do not know what the preference is.)*
- E. Use the Resolution as a vehicle to direct administration on contract versus direct employment of building or executive administration at the outset of budget development. *(Note: The alternative is to receive these recommendations from the administration in the course of the budgeting process.)*

Requests to the Board

This Revised Resolution is developed now in response to feedback and questions received on January 24th and in the next couple of days following. This memorandum will be received by Board members on February 1st (and also posted to the district website.) I am appealing to all trustees to:

1. Raise any additional questions not answered in the materials you have now received to Mr. Steininger who can funnel them to either me or Dr. Klein.
2. Similarly, if you have additions or amendments to make in the list of questions to be taken up at the February 24th Work Session that you bring them to Mr. Steininger's attention in writing by end of day on Monday, February 14th.
3. At the Work Session itself, it has been my recommendation to Mr. Steininger that this list be approached in a formal fashion where discussion is governed by motions and votes. The amendments should be proposed in the form of a motion which will require a second to be discussed. Discussion should be monitored to ensure time is available for all amendments catalogued by this process (i.e. so we don't spend an inordinate amount of time on any one item at the expense of taking up the others.)
4. The actions taken at the Work Session will be merely to amend the Revised Resolution, as opposed to approving elements of the Resolution. We will have wherewithal to mark up the Revised Resolution should we need to. Again, the more specific we know the potential amendments in advance (e.g. a requested change in assumptions) the more we can prepare for this potential eventuality.

Respectfully submitted,



Brendan P. Walsh
Treasurer, GPPSS Board of Education