Grosse Pointe Public School System

Financial Transparency Series

2011-12 FINANCIAL STATE OF THE DISTRICT AND PROJECTED EFFECT OF EMPLOYEE CONTRACTS

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G·P·P·S·S

GROSSE POINTE
PUBLIC SCHOOL SYSTEM

Key General Concepts

Source Data

- Statewide comparison data is from the Michigan Dept. of Education
- Years 2008 through 2011 figures foot to the district's annual financial audits. (2008 is the 2007-8 Fiscal Year)
- Years 2012 through 2015 use reasonable projections and also account for the effect of employee bargaining unit contracts (BMU provides budget for next four years)

Compensation Definitions

- Direct compensation is salary and any additional direct cash payments made to employees, governed by contract (e.g. extra pay for extra duty)
- Indirect compensation is net health care, FICA and MPSERS, the state mandated retirement benefit system

School Funding

- State dictates per pupil operating revenue
- Health care is negotiated locally, but with expiration of current contract, employee contributions will increase
- Retirement rate (MPSERS) and FICA are non-negotiable locally. MPSERS costs derived by state set percentage rate applied against salary costs.

Employee contracts – Key Concepts

Theme & Intent

- Emphasizes total compensation rather than just direct compensation
- Shares risk and reward proportionally across all employees
- Ties total compensation to school funding variables beyond our control

Triggers & Effect

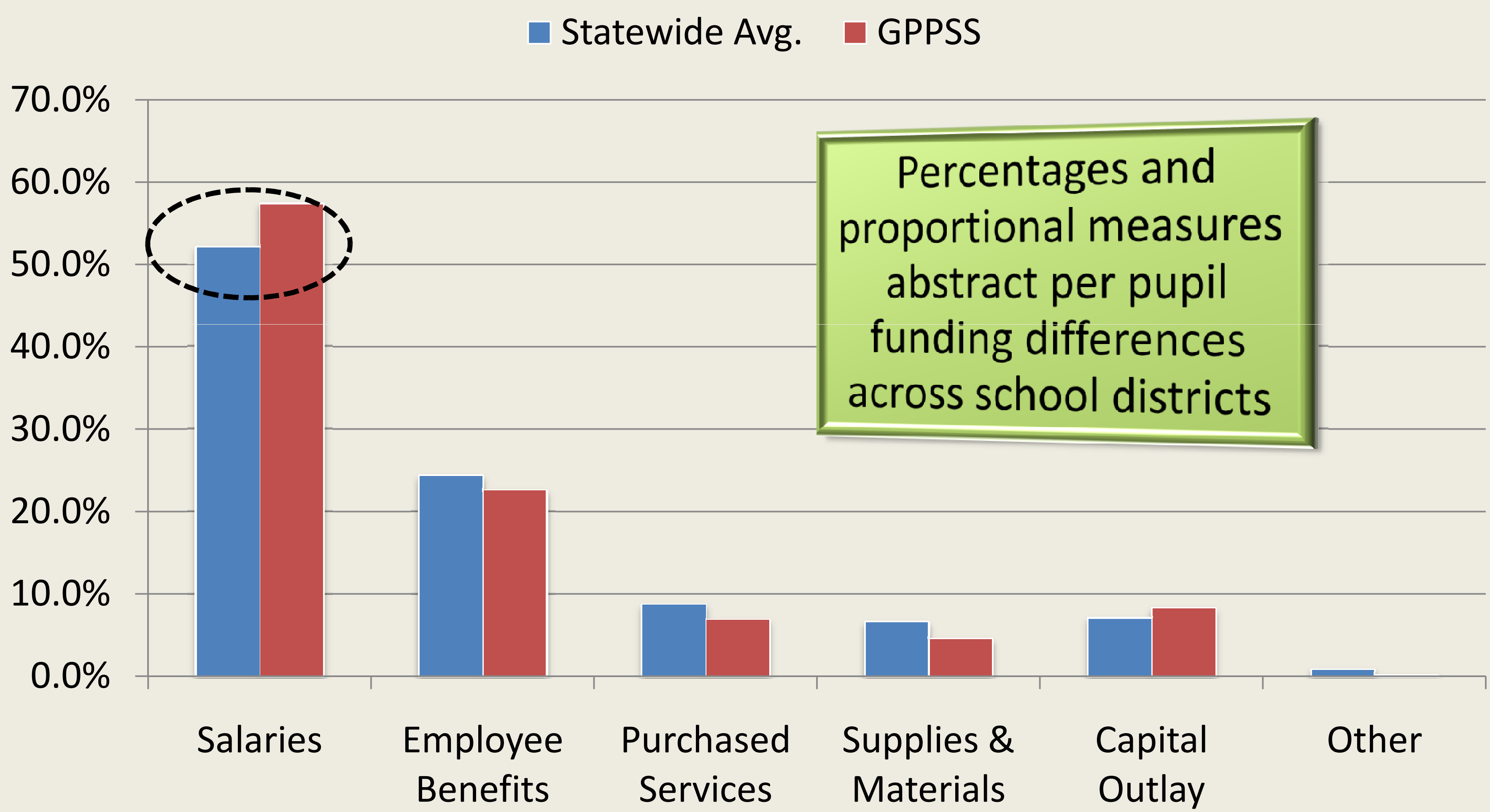
- Acknowledgment between the district and bargaining units that a 10% Fund Equity level is sufficient
- If Fund Equity drops below 10%, employee total compensation is reduced proportionally to their percentage on overall budget

Implications & Benefit

- The district's financial health is protected by the contracts whereas before Fund Equity itself was the protection
- Allows the district to make investment decisions guided first by best interests of students, not compensation or budgets

GPPSS and statewide proportional investment by object

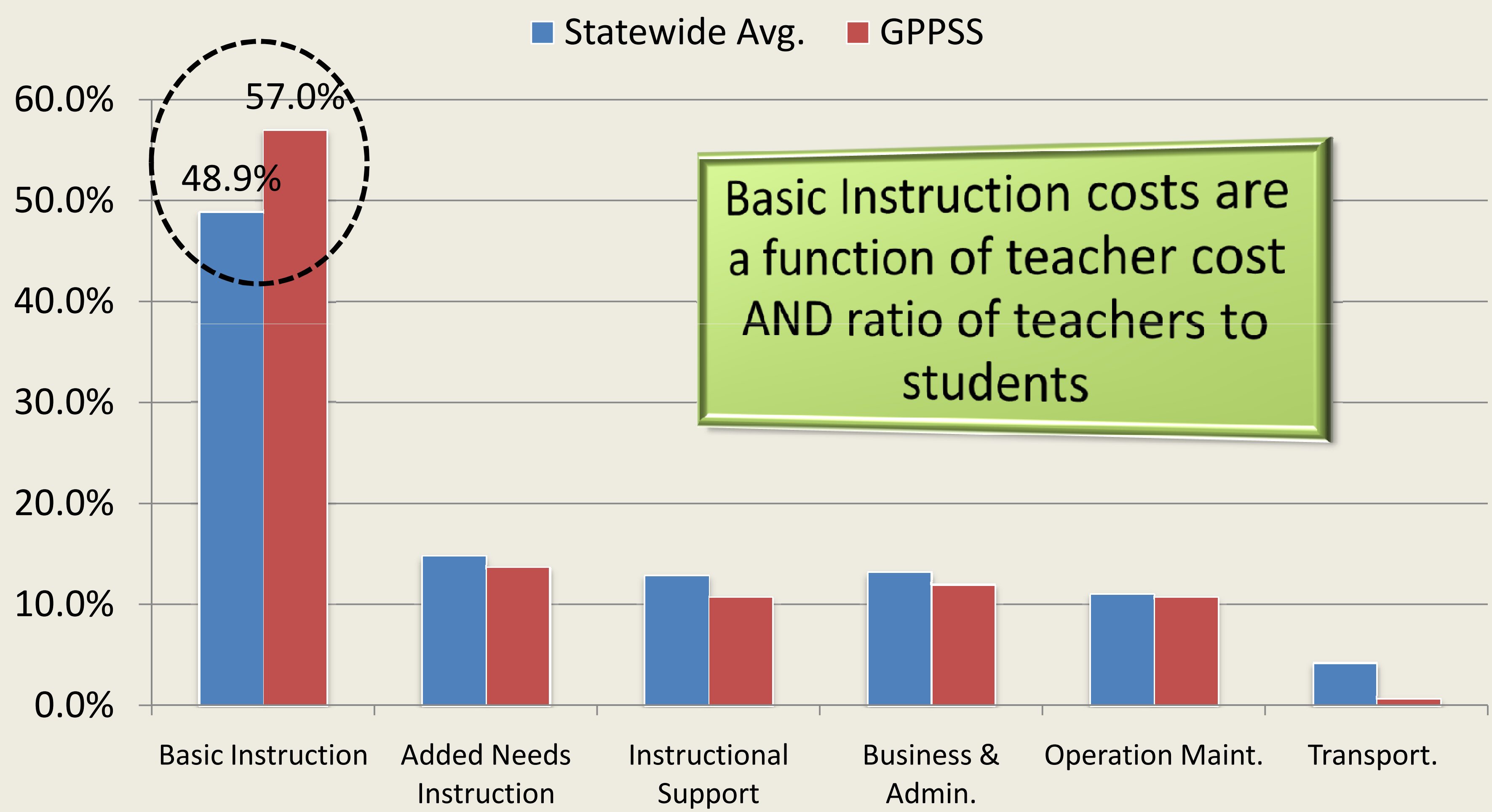
Salary costs are our largest expense and most significantly out of skew with state



(Source: Michigan Dept. of Education)

GPPSS and statewide proportional investment by function

Basic Instruction also our largest expense and again most out of skew



(Source: Michigan Dept. of Education)

Revenue and Expenses from 2004 to 2010

A story of irreconcilable trends

	Per Pupil		Statewide Rank	
	2004	2010	2004 (of 744)	2010 (of 783)
Enrollment	8,915	8,416	32	31
Operating Revenues				
Local	$ 3,087	$ 2,912	82	111
State	$ 7,524	$ 7,464	23	111
*Federal**	$ 212	$ 649	555	472
Total	***$ 11,028***	***$ 11,025***	***42***	***63***

** 2010 was a bubble year for Federal revenue*

	Per Pupil 2004	Per Pupil 2010	Rank 2004	Rank 2010
Expenditures				
Basic Instruction	$ 5,658	$ 6,283	28	31
Added Needs Instruction	$ 1,033	$ 1,505	218	134
Instructional Support	$ 1,014	$ 1,397	86	49
Administration	$ 1,160	$ 1,319	300	332
Operations & Maintenance	$ 1,458	$ 1,175	91	199
*Transportation**	$ 45	$ 75	571	601
Total	***$ 10,368***	***$ 11,754***	***38***	***45***
Revenues less Expenditures	***$ 660***	***($ 729)***		

** 2010 state average transport cost/pupil was $377*

(Source: Michigan Dept. of Education)

Good news, bad news story of salary compensation and pupil to teacher ratios

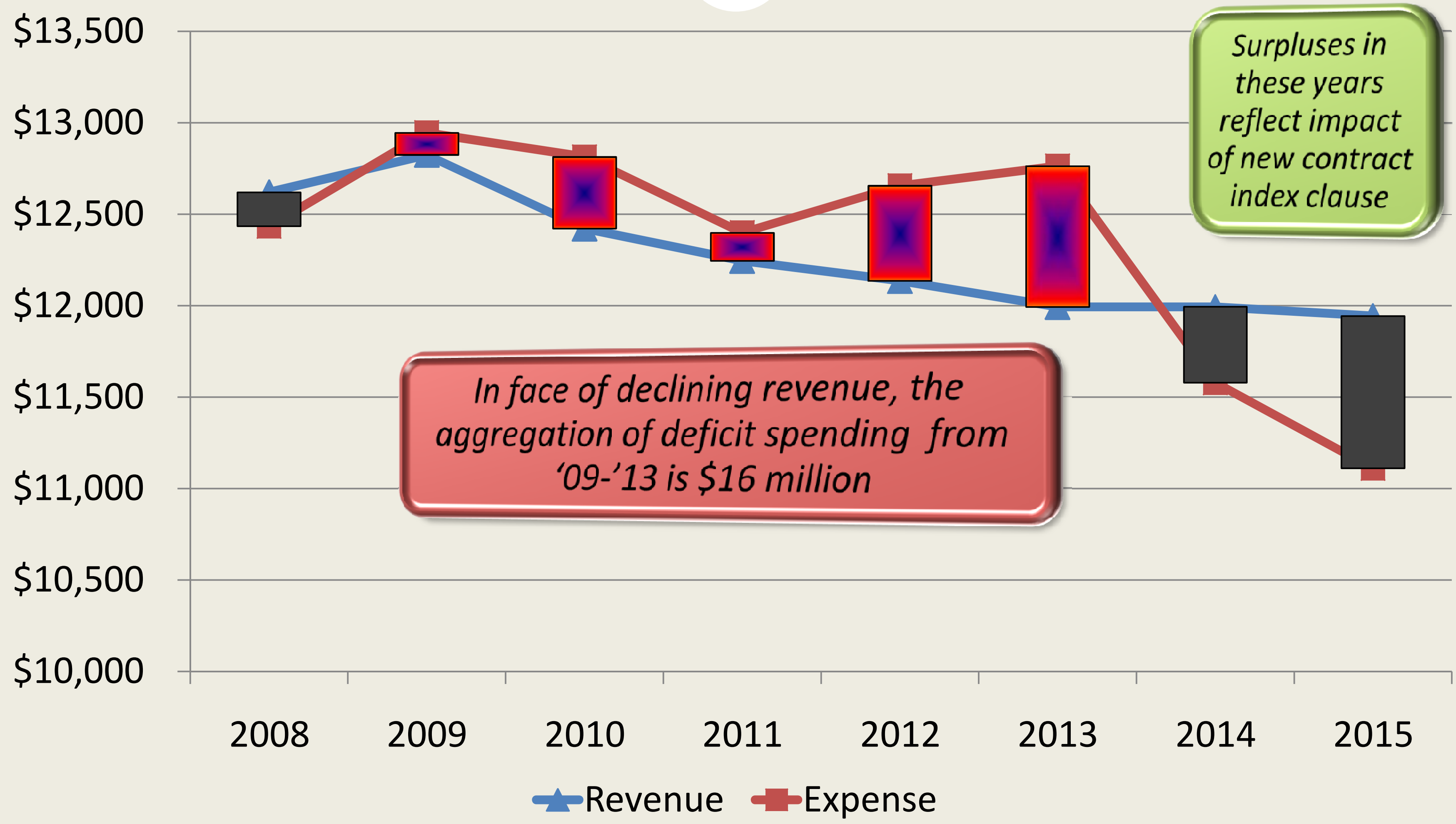
	2004	2010	Statewide Rank 2004 (of 744)	Statewide Rank 2010 (of 783)
Total Operating Revenue per Pupil	***$ 11,028***	***$ 11,025***	***42***	***63***
Instructional Salaries per Pupil	$ 6,536	$ 7,444	18	26
Support Services Salaries per Pupil	$ 2,645	$ 3,055	90	47
Average Teacher Salary	$ 66,799	$ 85,851	7	2
Combined Retirement and FICA Rate	20.64%	28.26%		
General Education Pupil to Teacher Ratio				
Statewide Average	22.0	22.9		
GPPSS Average and Statewide Rank	18	20	144	223
GPPSS Rank among same sized districts (49 total)			3	3

If projected salary reductions triggered by teacher contract were to happen, our average teacher salaries would rank 52nd in the state

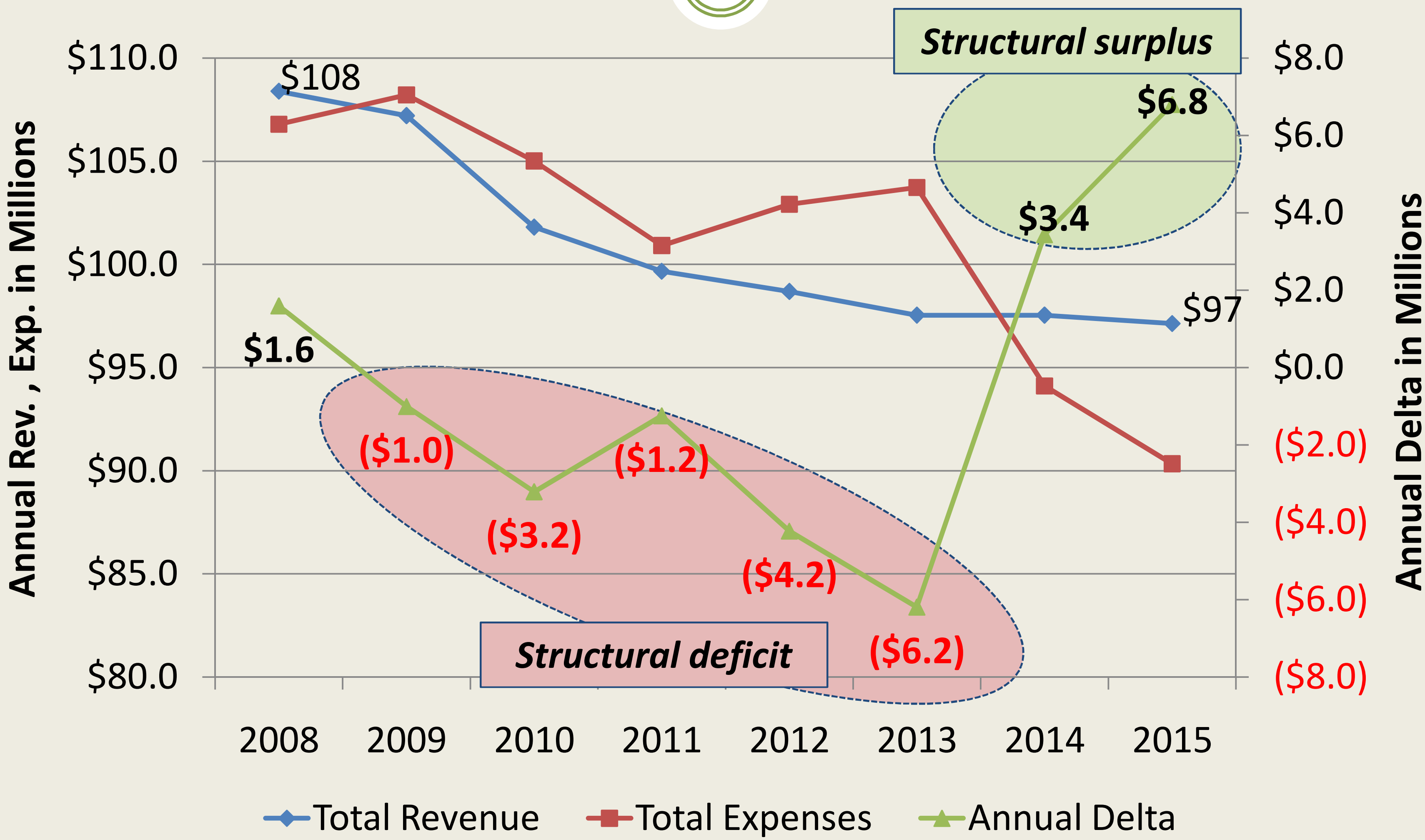
(Source: Michigan Dept. of Education)

Revenue and Expenses per Pupil

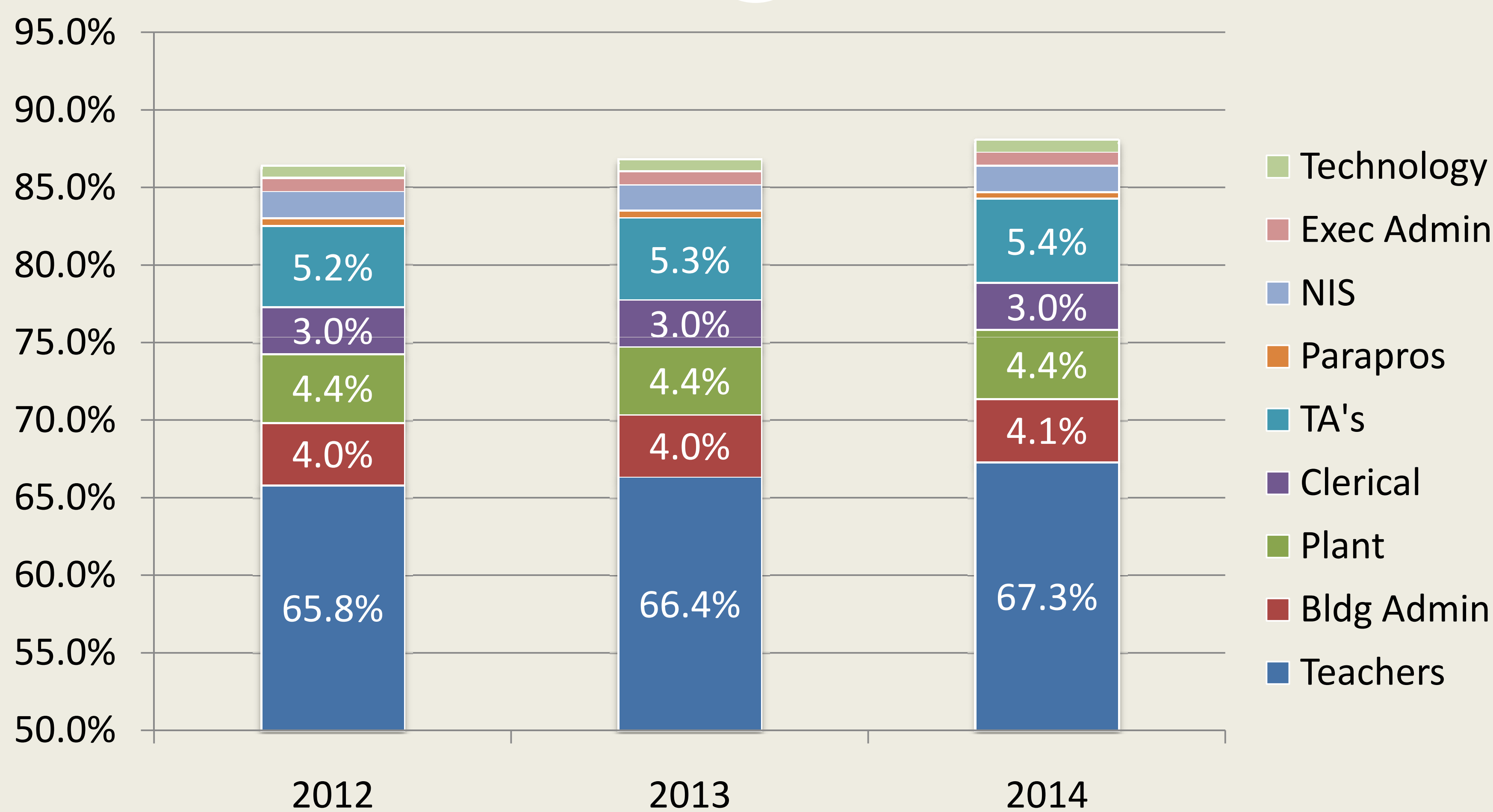
Annual surplus in 2008, Deficits in 2009 through 2013



General Fund Annual Revenue and Expenses

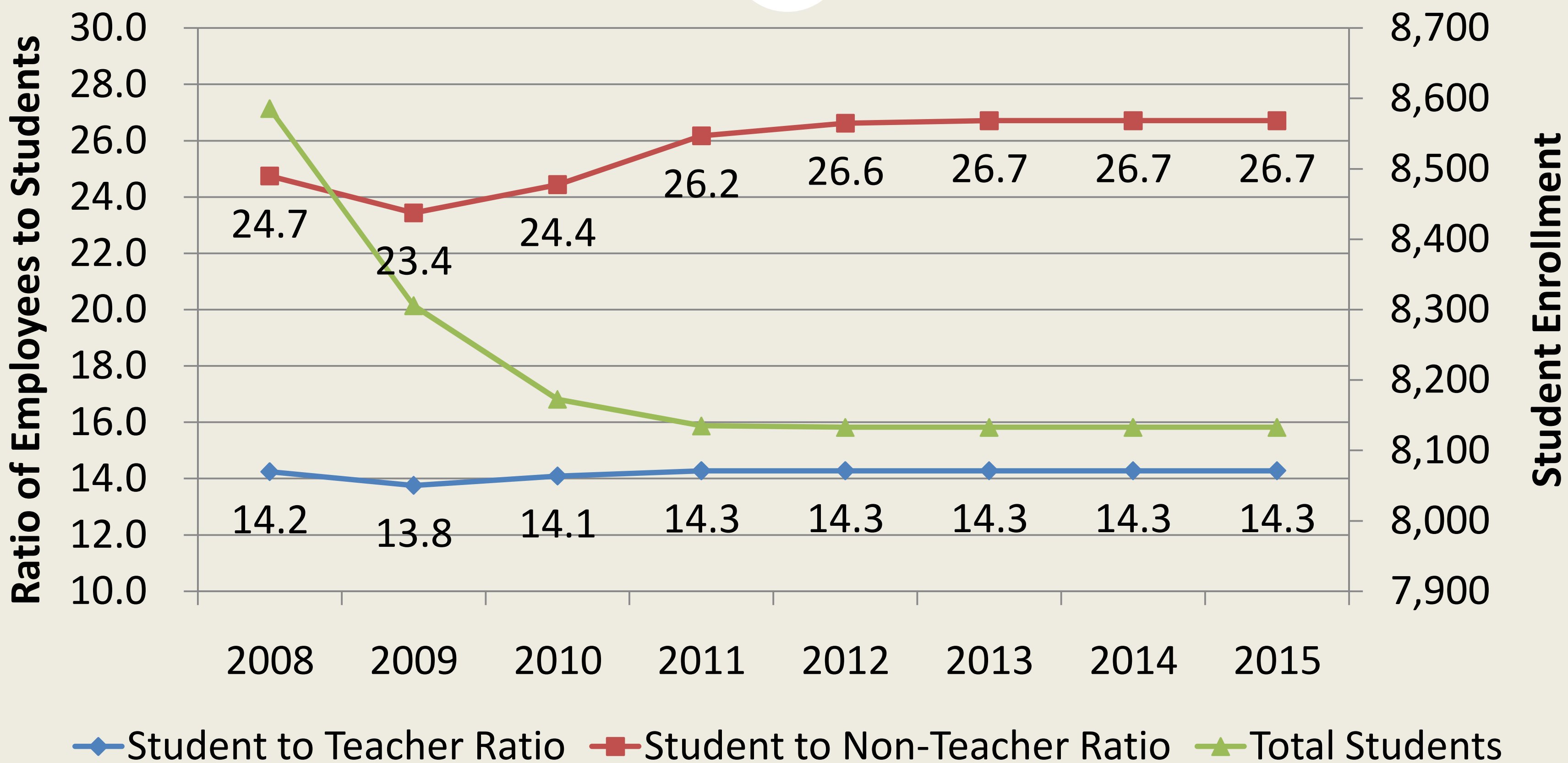


Total compensation by employment group as a percentage of total General Fund expenditure



Ratio of Employees to Student Enrollment

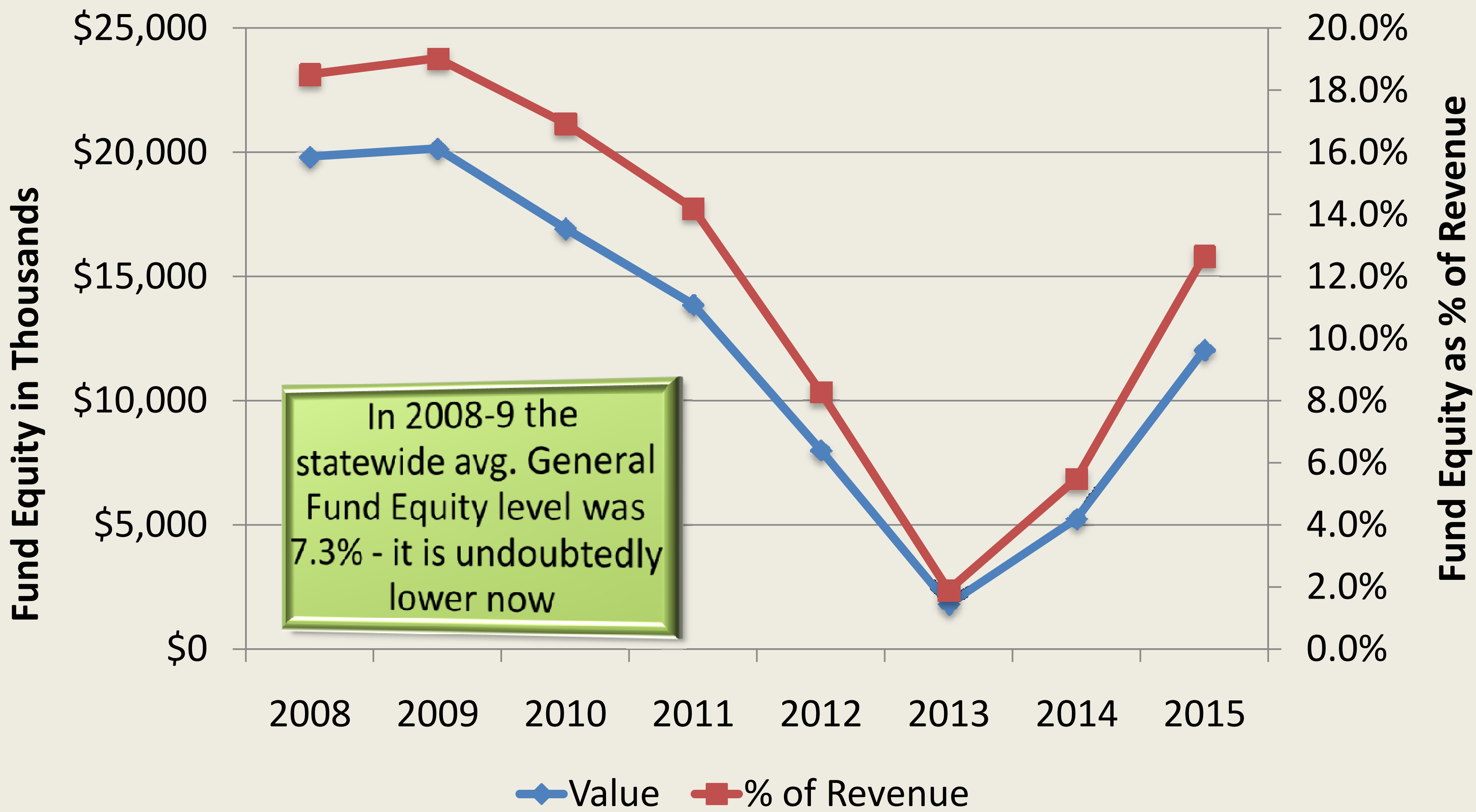
8% workforce reduction from 2007-8 through 2011-12



If we tried to solve deficit via staff reductions, we'd cut 55 employees – including 37 teachers…

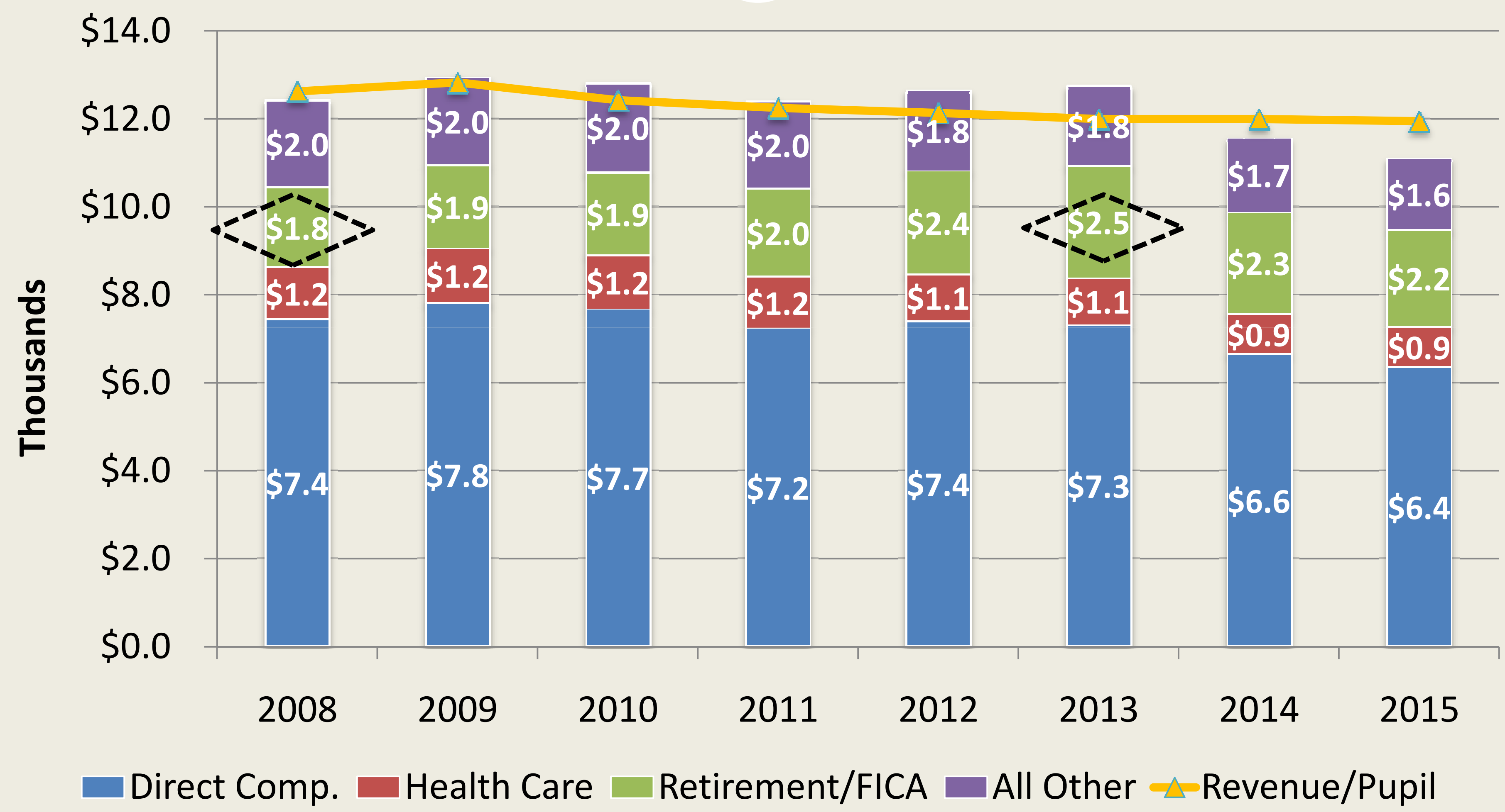
…and even then the root cause of the structural deficit would not be solved.

General Fund Equity total value and as % of General Fund revenues



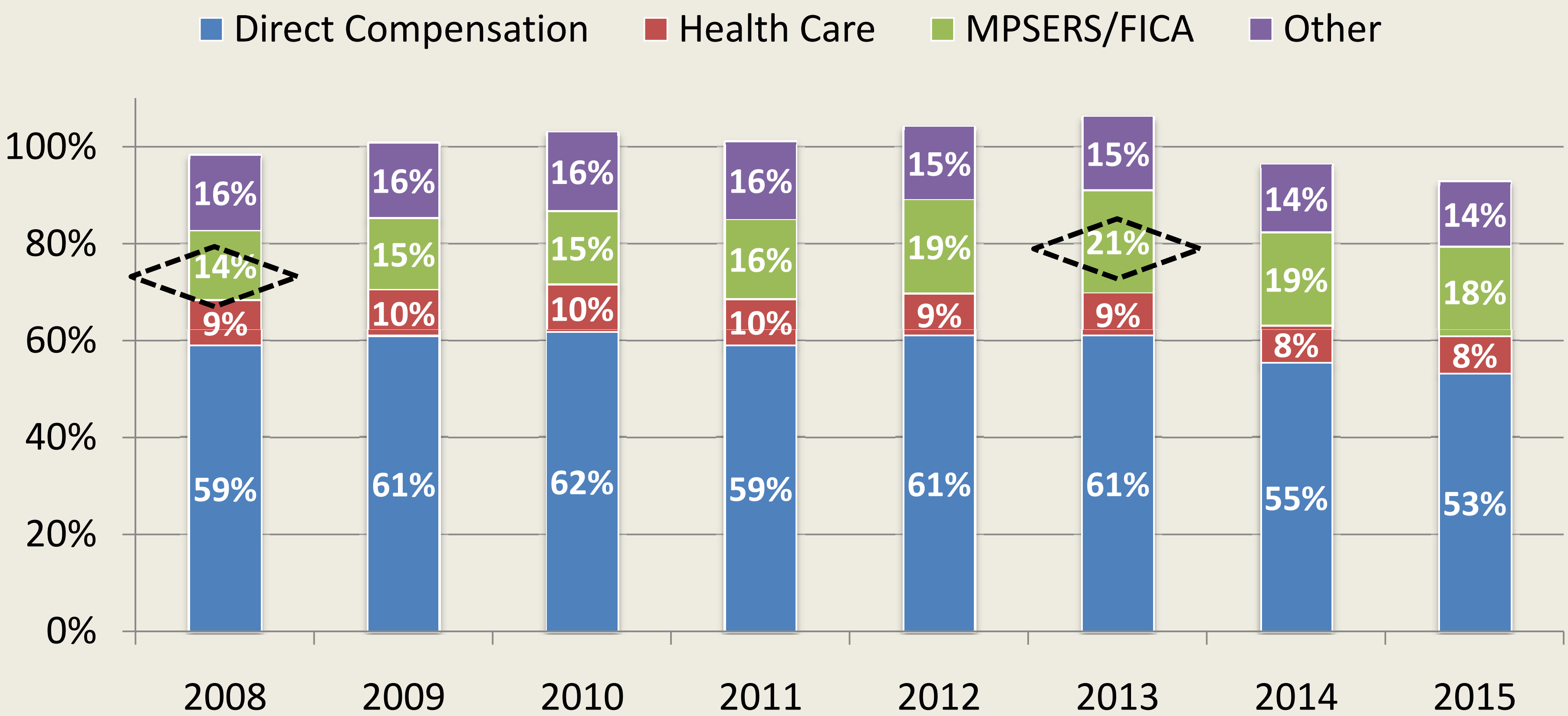
Expenses per pupil by major expense category

Small margin of expense over revenue is amplified by student count



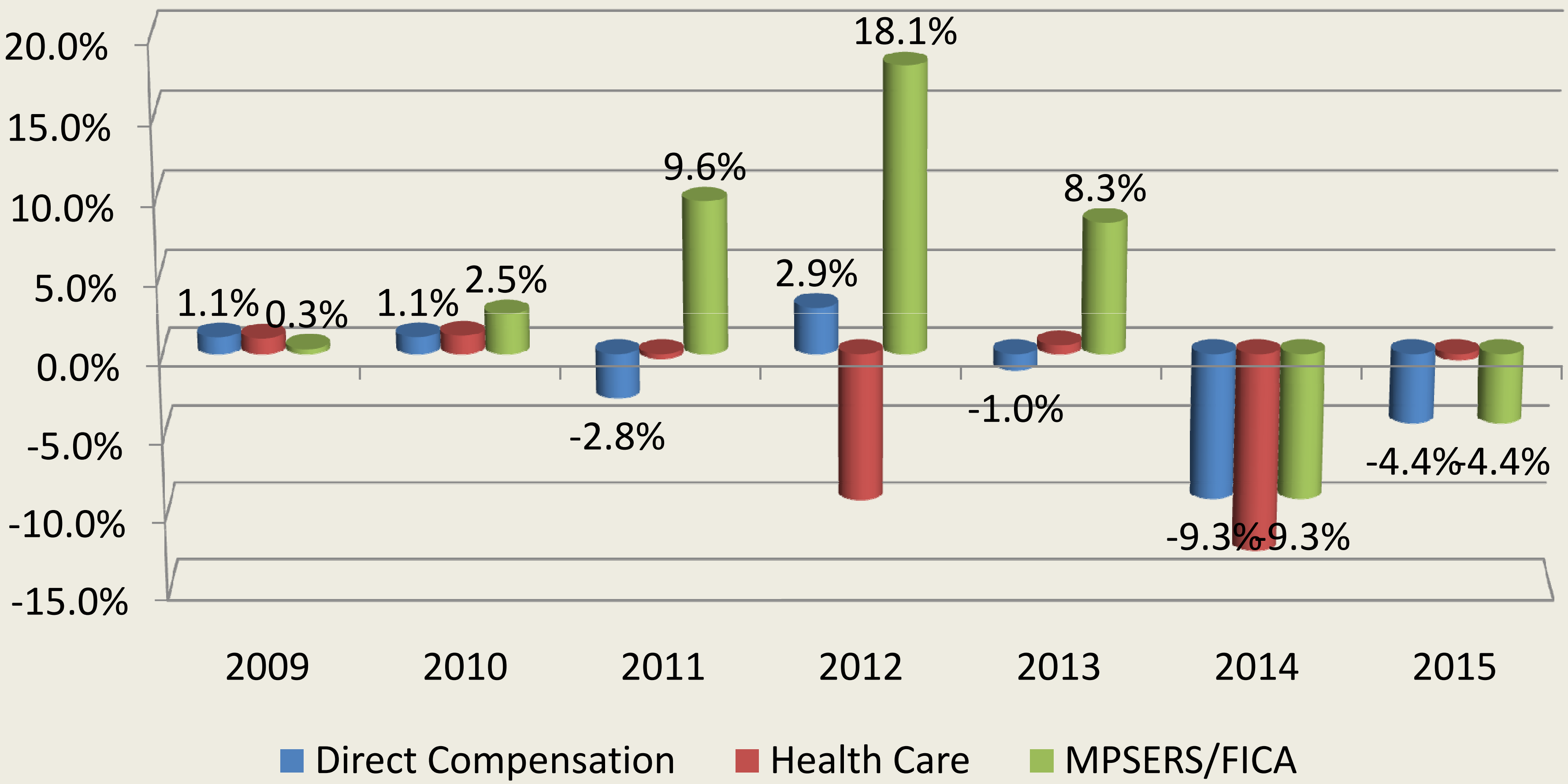
Major expenses per pupil as a % of revenue <u>per pupil</u>

Retirement cost escalation is clearly our biggest problem



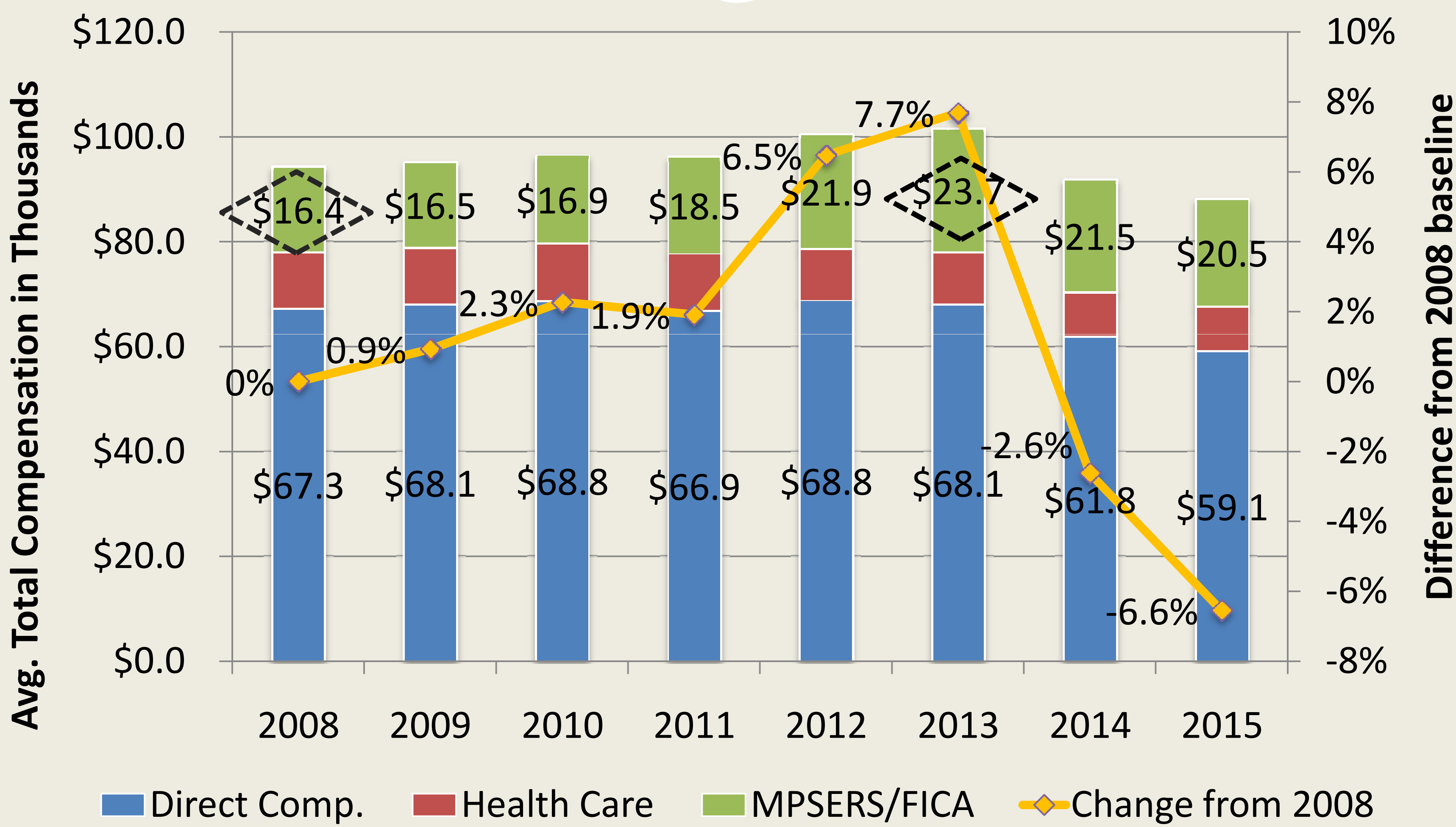
Retirement costs are a function of state set rate applied to salaries. Salary reduction is only way to reduce retirement costs.

Year over year percentage change in average total compensation by major element

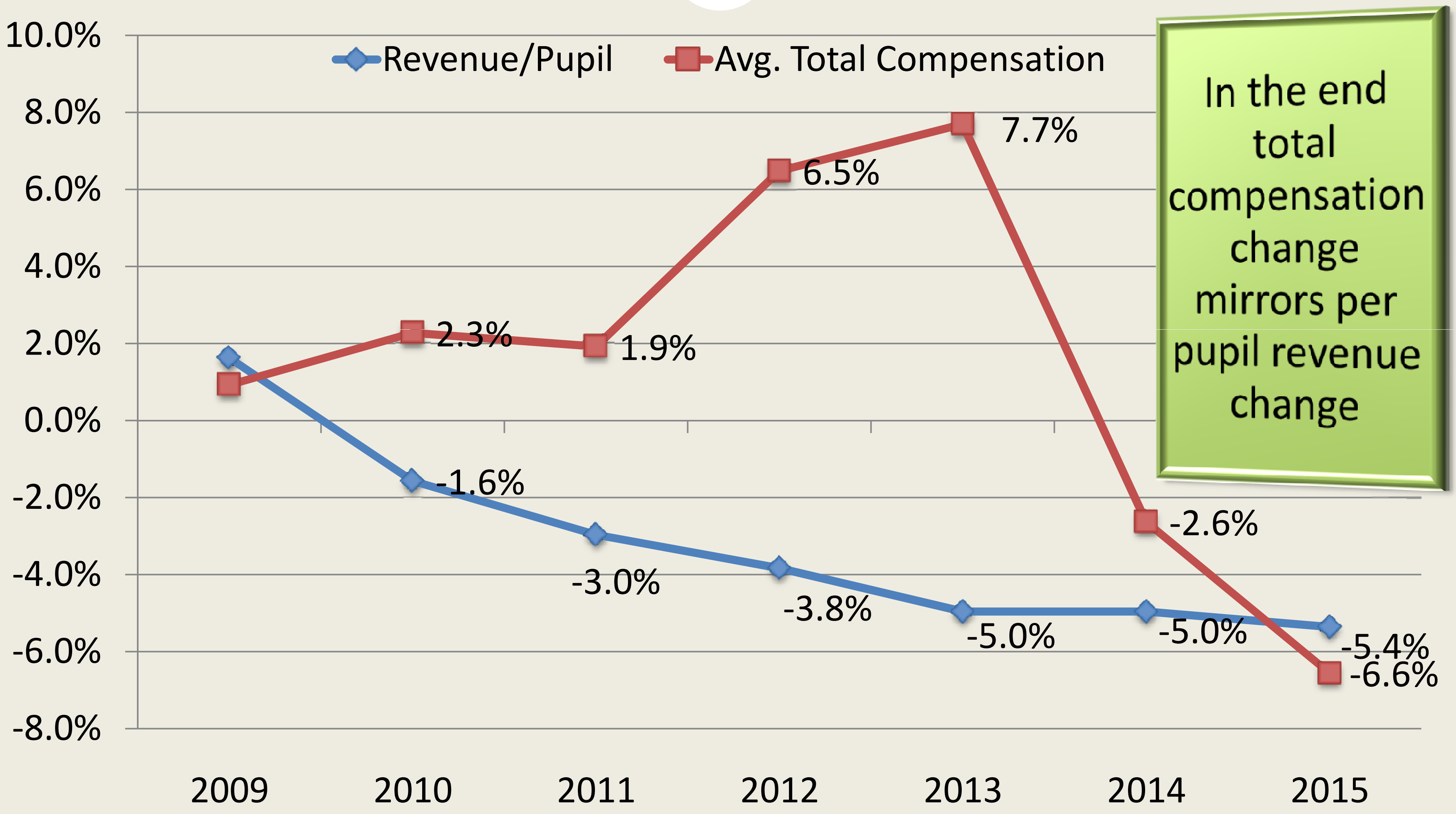


Total compensation per employee

and average total compensation per employee % change from 2008



Change in per pupil revenue vs. change in average total compensation per employee against 2008 baseline



Various Revenue & Retirement Rate Scenarios and Effects

	Current Projection	Scenario A	Scenario B	Scenario C	Scenario D
Change in Revenue per Pupil					
2011-12	($58)	$0	$0	($58)	($58)
2012-13	($142)	$0	$0	$1,155	$0
2013-14	$0	$0	$0	($455)	$0
2014-15	($50)	$0	$0	($50)	$0
MPSERS (Retirement) Rate					
2011-12	24.46%	20.43%	24.46%	24.46%	24.46%
2012-13	27.46%	20.43%	24.46%	27.46%	16.50%
2013-14	27.46%	20.43%	24.46%	27.46%	21.10%
2014-15	27.46%	20.43%	24.46%	27.46%	22.30%
Average Salary Reduction					
2011-12	N/A				
2012-13	-2.65%	0.00%	-2.15%	-2.65%	-2.88%
2013-14	-10.19%	-2.19%	-6.00%	0.00%	0.00%
2014-15	-5.62%	-1.49%	-2.00%	0.00%	0.00%
Ending Fund Equity %					
2011-12	8.28%	**11.23%**	8.72%	8.28%	7.78%
2012-13	1.90%	8.61%	5.43%	**10.00%**	**10.00%**
2013-14	5.49%	8.95%	8.34%	**10.00%**	**10.00%**
2014-15	**12.65%**	**10.32%**	**12.91%**	**10.00%**	**10.00%**

Summary

Despite a massive change in our revenue model, compensation systems never truly adapted.

As MI has lost wealth and tax revenue, GPPSS is similarly not as wealthy in both absolute and relative terms.

Salary costs are our most out of skew expense. Combined with rising retirement rates, this has created a structural deficit unlikely to be fixed with increased revenue.

Our contracts provide a mechanism to rationalize our salary costs against this backdrop while allowing GPPSS to preserve its programs and design.