

THE GROSSE POINTE PUBLIC SCHOOL SYSTEM
Grosse Pointe, Michigan

AGENDA NUMBER AND TITLE:

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

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.

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 in 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 funded by expiring federal revenues, noted for the "supplement, not supplant" characteristics.
 - ***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 25%. Such an increase would only be affordable to most cash-strapped Michigan public school

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.

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

- 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 ⁴	\$1.913 million (positive)
Net 2011-12 Forecast	\$0.717 million (shortfall)⁵

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 district⁶:

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

⁴ When doing year over year analysis, the structural impact of previous years must be a part of the calculation

⁵ This foots to the \$716,673 projected forecast in the current Budget Modeling Utility (dated 01/14/2011)

⁶ These guidelines were met with the exception of two sections of 3rd grade at Montieth and one 1st grade section at Defer (28 each)

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 sections⁷, the revised averages would have been:

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.

⁷ 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.

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.

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.
- 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 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.

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.

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

Submitted by:
B. Walsh
January 24, 2011