

School District of the City of Royal Oak
MEMORANDUM

TO: Thomas L. Moline

FROM: John R. Schwartz

DATE: December 18, 2006

SUBJECT: General Fund Budget Amendments

On the January 11th Board of Education meeting agenda, General Fund budget amendments will be recommended for Board approval. While the budget amendment process is considered routine in nature and a part of the normal course of business, there are significant budget adjustments included in this amendment. The following is a narrative summary of the significant budget changes:

Revenue

Overall, budgeted General Fund revenue is increasing by \$9,050. The significant revenue changes are comprised of adjustments in the following areas:

- Property tax revenue is projected to increase by \$632,281. This is the direct result of higher than expected taxable valuation growth in non-homestead properties. While this appears to be great news, you must keep in mind that our revenue is determined by the number of students and the per pupil foundation allowance. This increase in non-homestead property tax revenue does not mean additional funding to the District. The funding formula is such that the more non-homestead property tax we receive, the less the State of Michigan has to pay us. A corresponding reduction in State revenue is included in this amendment.
- An increase of \$100,000 in anticipated interest earnings is expected. This is primarily the result of the current investment yield on our investments and our effort to maximize the “dollars” that are invested.
- Facility rental revenues are expected to decline as a result of fewer rental opportunities in this year of renovation and consolidation. A reduction of \$50,000 is included in this amendment.
- The addition of two new State categoricals is included in this amendment. A Declining Enrollment Categorical of \$220,402 and a Middle School Math Categorical of \$67,109 of being added to the revenue budget.

- The September student count yielded a decline of approximately 230 students in our K-12 programs. The enrollment in our Alternative Education Program at Churchill Community High School increased by almost 20 students. We originally projected a decline of 261 students last Spring when the budget was adopted. As a result, a positive budgetary adjustment was made to reflect approximately 44 more students (blended count) than we originally budgeted.
- A State Aid proration is expected to occur during the 2006-07 fiscal year. There is a significant projected shortfall in the State School Aid Fund that will be finalized at the January 2007 Revenue Consensus Committee Meeting. A proration that could approach \$180 per student is a possibility. An amount of \$750,000 has been budgeted for the expected “take away” of State funding.
- Federal grant revenue is being increased by \$45,993. This is the result of receiving revised grant allocations.
- Other miscellaneous revenue accounts were also adjusted to reflect most up-to-date information.

Expenditures

Total budgeted expenditures are anticipated to increase by \$871,837. The significant changes are summarized as follows:

- Adjustments have been made to salary and fringe benefit accounts to reflect current staffing levels, fringe benefit participation and recently ratified employee contracts.
- An increase in federal grant expenditures of \$45,993 is included in the amendment. This is the result of receiving revised grant allocations and corresponds to the increase in budgeted grant revenue.
- A significant increase in projected Center Program tuition costs are necessary to reflect current enrollment and tuition rates received from Oakland Schools. This resulted in an increase of \$356,000 in Center Program tuition. This tuition increase is mainly due to the higher number of our own resident students we send to other district’s Autistic Programs.
- An increase in legal fees and other professional services is included in the budget amendment. This primarily resulted from the professional expertise needed in property sales and contract negotiations.
- Numerous other changes were made to various expenditure accounts to reflect most up-to-date information.

Fund Balance

The projected fund balance at the end of the fiscal year is estimated to be \$11,124,413.

	<u>Budgeted Amount</u>
General Fund Revenues	\$61,196,910
General Fund Expenditures	<u>67,797,317</u>
Revenues over (under)	
Expenditures	\$ (6,600,407)
Favorable Budget Variance	1,500,000
Anticipated Expenditure Carryover	2,000,000
Fund Equity at June 30, 2006	<u>14,224,820</u>
Projected Fund Equity at	
June 30, 2007	<u>\$11,124,413</u>

While this projected fund equity represents a “reasonable level”, the challenges we face in next year’s budget preparations are great. Even with the anticipated savings that will materialize with our middle school and elementary school consolidation, the significant loss in revenue from declining enrollment, the increased costs of retirement and health insurance premiums will result in budget reductions, and perhaps program changes, in 2007-08.

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