

School District of the City of Royal Oak
MEMORANDUM

TO: Thomas L. Moline

FROM: John R. Schwartz

DATE: March 18, 2011

SUBJECT: 2011-12 Budget Development Update
General Fund

The budget development process has received much attention over the past few months and will continue until the 2011-12 budget is adopted on June 9. The importance of budget development cannot be understated. With limited financial resources, the budget development process is critical in establishing District priorities. As always, our goal is to maintain and preserve instructional programs offered to our students. Unfortunately, in an economic climate of declining revenue and increasing costs, maintaining all instructional and co-curricular programs will be next to impossible. Change will be necessary and will lead to the elimination and restructuring of programs and services. The following is a summary of the most recent, significant developments in the budget process:

Revenues

- The per pupil foundation allowance used in the calculation of foundation revenue incorporates the \$470 reduction proposed in the Governor's recommended budget. The per pupil foundation allowance used in budget development is as follows:

Per Pupil Foundation Allowance	\$9,078
Governor's Proposed Reduction	<u>(470)</u>
2011-12 Projected Per Pupil Foundation Allowance	<u>\$8,608</u>

The reduction of \$470 per student amounts to a loss of approximately \$2.4 million in revenue.

- The enrollment forecast prepared by Plante & Moran CRESA was used to calculate the blended student count. The blended count is the weighted average of the February 2011 count (25%) and the September 2011 count (75%). The projected loss in blended student count is -107.15 and is illustrated as follows:

2011-12 Projected Blended Student Count	5,171.50
2010-11 Audited Blended Student Count	<u>5,278.65</u>
	<u>(107.15)</u>

This represents a loss in foundation revenue of approximately \$922,000.

- Taxable valuation is projected to decline by -4.73% for homestead property and by -9.91% for non-homestead property. This taxable valuation decline impacts property tax revenue and the hold-harmless millage rate. The hold-harmless millage rate is projected to be 3.0605 mills, a slight increase over the current year levy of 3.0212 mills. A final calculation of tax revenue and the hold-harmless millage rate will be completed after taxable valuation amounts are received from the Oakland County Equalization Department in mid-May.
- The funding generated from the county-wide special education millage (PA 18) will decline significantly in 2011-12. The projected revenue reduction for Royal Oak is \$789,000.
- Current year ARRA allocations have been exhausted and, as a result, are not reflected in the 2011-12 budget. Federal Education Jobs Funds will be available in 2011-12 in the amount of \$603,167. Once a spending plan has been developed for these funds, the revenue and related expenditures will be reflected in the budget. The Federal Education Jobs funds is a one-time allocation and must be used for staff related expenditures.
- Facility rental revenue has been improving each year since the bond issue projects have been completed. We expect this to continue into next year.

Expenditures

- Elementary classroom teacher allocations were determined using the enrollment forecast prepared by Plante & Moran CRESA and a 30:1 student to teacher ratio. Please keep in mind that a 30:1 ratio does not mean that each classroom will have 30 students. Some classrooms may have fewer than 30 students and others may have more. In previous years, a 26:1 ratio was used to determine teacher allocations for each building.

Increasing this ratio is absolutely essential to address the budget shortfall and to preserve programs offered to students. The following summarizes the elementary staffing allocation changes by building:

Northwood	- 2.1 fte
Oak Ridge	- 1.2 fte
Oakland	-
Upton	- 1.5 fte
Addams	- 1.1 fte
Keller	<u>+ 1.4 fte</u>
	<u>- 4.5 fte</u>

- The Royal Oak Middle School classroom teacher allocation was also determined using a 30:1 ratio. The impact is a staff reduction as follows:

Classroom teachers	- 6.3 fte
Foreign Language	+ <u>0.8 fte</u>
	<u>- 5.5 fte</u>

- The Royal Oak High School classroom teacher allocation also used a 30:1 ratio. To emphasize again, increasing class size is an important budget strategy to help preserve programs offered to students. Recommended staffing changes at ROHS are summarized as follows:

Classroom teachers	-12.0 fte
Department Chairs	- 1.2 fte
Attendance Office	- <u>0.8 fte</u>
	<u>-14.0 fte</u>

- Special education staffing levels are under review. At the present time, current staffing levels are maintained in 2011-12. Future changes in staffing will primarily be the result of student needs (IEPs), enrollment of new students or students leaving the District.
- A total of 4.0 fte unallocated teaching positions are included in the preliminary budget. This is consistent with prior years. These positions will only be used if absolutely needed to alleviate significant class size overages.
- Class size relief paraprofessional staff has been increased to a total allocation of 6.0 fte. This represents an increase of 5.0 positions over the current year and is the direct result of the increase in class size across all levels.
- One (1.0) secretarial position will be eliminated at Churchill Community Education Center. This will be achieved through attrition.
- One (1.0) Career Technical Education paraprofessional will be eliminated. This position has been supported through grant funds. The grant is being discontinued in 2011-12. The elimination of this position will also be achieved through attrition.
- One (1.0) administrator and one (1.0) secretary will be eliminated at the Maintenance and Transportation Center. This was approved by the Board of Education at the March 10 meeting.
- The MPERS retirement rate has been increased from the current rate of 20.66% of wages to 24.46% of wages. This represents a significant increase in cost to the District.

- The increase in health insurance premiums is budgeted at 10%. Actual rates are expected to be received in April. This also represents a significant cost increase to the District.
- The expected favorable budget variance in 2011-12 has been reduced to \$500,000 (down from \$1.0 million). The more we “tighten” the budget, the less likely the favorable budget variance will approach the historical level of \$1.0 million.
- Athletic Program changes at ROMS are recommended as follows:
 - Combine the two football teams into one. Participation has been low to a point that it is difficult to maintain two teams.
 - Eliminate one wrestling coach. Current participation does not warrant two coaches.
 - Change Pay-to-Participate to a per sport fee rather than the current one-time fee of \$100. Recommendation is as follows:

\$100	First sport
50	Second sport
No fee	Third sport

A reduced fee will be charged for students eligible for reduced meals. There will be no fee for students eligible for free meals.

- Athletic Program changes at ROHS includes the recommendation to eliminate the boys and girls golf teams. This sport has low student participation (8 on each team) and is considered an expensive sport with coaching supplementals, green fees, entry fees, and supplies/materials spread over few students.
- There is a recommendation to use \$1.0 million of fund equity to prevent further program reductions in 2011-12. This was discussed and supported at the last Finance Committee meeting.

Many other budget considerations are being reviewed and analyzed for possible recommendation.

Current Status

The following is the 2011-12 budget status as of March 18:

	Budgeted <u>Amount</u>
Projected Revenue	\$53,438,400
Projected Expenditures	<u>55,154,287</u>
Projected Revenues Over (Under)	
Projected Expenditures	\$(1,715,887)
Recommended Use of	
Fund Equity	<u>1,000,000</u>
Operating Deficiency – March 18	<u>\$ (715,887)</u>

The remaining operating deficiency will be addressed over the coming weeks. We expect a good portion will be eliminated through the strategic use of the Federal Education Jobs Funds. The plan includes the identification of staff positions/programs that will be eliminated in 2012-13. Education Jobs Funds will be used in 2011-12 to fund the staff positions/programs targeted for elimination in 2012-13. Once the funding is gone, the staff positions/programs will also be eliminated. This achieves a necessary budget reduction and prevents a “funding cliff” that is so common when one-time funds are used.

This memorandum is intended to provide the Board of Education an update on the status of budget development as of March 18. We will continue to “fine tune” the proposed budget over the next few weeks. A significant budget recommendation will be made at the April 14 Board of Education meeting.

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