



**Willow Run Community Schools
Business Services Office**

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Internal Memorandum

To: Willow Run Board of Education

From: David M. Houle, Controller, WISD / Director of Finance, WRCS

Date: 15 June 2007

RE: **2007-08 PROPOSED BUDGET ASSUMPTIONS**

OVERVIEW

This memorandum is prepared to highlight certain significant assumptions made to prepare the Willow Run Community Schools Proposed Operating Budget for the 2007-2008 Fiscal Year. Many of the assumptions follow the leadership provided by the Deficit Elimination Plan (DEP) adopted by the District's Board of Education in December 2006 and later conditionally approved by the Michigan Department of Education. Although the DEP provided specific strategies to mitigate the District's accumulated fund balance deficit, it was predicated on the assumption that the long standing enrollment declines that have vexed the District would stabilize. Sadly, the enrollment declines experienced during the 2006-2007 school year substantially exceeded projected declines thereby, exacerbating the structural annual operating deficit of the District.

Adding to the fiscal conundrum, the projected results for the 2006-2007 fiscal year portend a substantial worsening of the fund balance deficit in the amount of (\$913,472) which would increase the District's fund balance deficit to (\$2,688,705). Last year's attainment of a fund balance deficit was a most grave and serious occurrence. Correcting the District's financial fortune will require courage and integrity to make what may be perceived as unpopular decisions. Those decisions will no doubt result in sacrifice by all stakeholders of the Willow Run Community. These are the themes embedded in the DEP where much of the cost saving initiatives involve some form of reduced salary and benefit costs while attempting to provide a substantially similar qualitative experience for the District's most crucial stakeholders, its students. This will prove to be no small challenge.

Education funding and the economic conditions present within the State of Michigan continue to be the District's most formidable challenge. A cursory review of the foundation allowance shows a continued paucity of funding. Although the legislature appropriated a \$175 per pupil increase to the foundation allowance for the 2005-2006 school year, those funds paled in comparison to the cost increases experienced from structural step increases, increased retirement and health insurance expense. You may recall that Michigan districts had not experienced an increase to the foundation allowance for the prior three years. In fact, two of those years (2002-03, and 2003-04) districts experienced a mid-year reduction (proration) to the foundation allowance. Although the legislature increased the foundation allowance by \$210 per pupil in 2006-2007, again this increase fell short of the cost increases experienced from structural step increases, increased retirement and health insurance expense. Further,

throughout the entire year the meager increase remained in jeopardy of a mid-year reduction (proration). At this time there is discussion in Lansing about decreasing the foundation allowance by \$46 per pupil for 2007-2008. While this is not a certainty, we have predicated the per pupil funding for the 2007-08 budget on this decrease.

Of the many challenges currently faced by the District, significant issues affecting the revenue base for the 2007-2008 budget include:

- Inadequacy and uncertainty regarding educational funding
- Southeast Michigan current unfavorable economic climate
- Declining student enrollment
- Salary increases – annual salary step increases, insurance premiums, and retirement contribution
- Utility expense increases
- Ongoing contract negotiations with multiple bargaining units

Revenue Highlights:

Revenues were analyzed and adjusted to reflect the most current and accurate information available at this time. The following are the assumptions and rationale used in the development of the 2007-2008 Proposed Operating Budgets:

- The State Foundation Allowance is estimated to be \$7,422. This is comprised of the 2006-2007 Foundation Grant of \$7,465 less \$46 as recommended by various sources in Lansing based on the most recent revenue estimates of the State. Additionally, it is assumed that the Reduced Class Size Grant (Formerly 32e categorical amount) of approximately \$191 per student will continue. This \$191 amount is utilized towards controlling class sizes.
- Local source revenue was adjusted to reflect changes in the Taxable Value of Non-Homestead property within the Willow Run School District. The anticipated collections of taxes on delinquent personal property has been aggressively budgeted relative to recent experience.
- The plan is predicated on the levy of the full statutory required 18 Mills on Non-Homestead property in the Willow Run Community Schools District. This is based on the favorable disposition of the community with the August 2006 Headlee Override Millage approval. Currently, as a result of prior Headlee Millage Reduction Fractions, (MLF) the District's local tax levy is limited to 17.1620 Mills on Non-Homestead property. The additional 0.8380 Mills allows the District to realize its full statutory foundation allowance and will increase revenues by approximately \$155,723 for the 2007-2008 School Year.
- Other State Sources consisting of the following "Categoricals" continue to be the subject of intense debate in Lansing:

• At Risk (31a)	\$1,236,501
• School Lunch (31d)	\$ 41,000
• School Readiness (32d)	\$ 224,400
• Adult Education (107.1)	<u>\$ 84,890</u>
Total	\$1,586,791

- An enrollment projection was recently completed by Middle Cities Education Association (MCEA) using a rubric approved by the Michigan Department of Treasury. In the analysis

enrollment is projected for a five year period. The projected numbers from the MCEA analysis were used to develop the 2007-2008 operating budget. The 75/25 blended count for the State Aid Membership was used to calculate the amount of State Aid the District is expected to receive. The blended count was computed as follows:

Actual Gen. Ed K-12 Spring (Feb 2007)	2,398.50 x 25% =	599.63
MCEA Fall 07 Gen. Ed K-12 Projection	2,326.00 x 75% =	1,744.50
Total General Ed Blended Count		2,344.13

Special Education enrollment is projected to remain constant at 59.77 FTE. Therefore, total blended count enrollment for the District is projected to be 2,403.89. The Gross Foundation Allowance revenue for 2007-2008 is projected by multiplying the projected Gen. Ed K-12 blended count of 2,344.13 by the projected Per Pupil Foundation Allowance of \$7,422 and the \$191 class size reduction grant, totalling approximately \$17,845,862.

The DEP contemplates a reasonable increase of \$210 per pupil for 2007-2008. This would generate an additional \$492,267 in State Aid which could be applied to mitigate the accumulated fund balance deficit. This element of the DEP has not been included in the opening budget at this time. Given the financial condition of the State of Michigan, such an increase would be highly speculative. Moreover, as the District has yet to address and resolve its ongoing structural deficit it would be premature to rely on exogenous revenue sources as a remedy.

Because of the projected 2007-2008 enrollment decline of 97.06 students from the 2006-2007 General Education blended count of 2,441.19, total state aid revenue will be lower by \$738,918 from the levels contemplated in the DEP. The following is a review of the recent enrollment declines:

o Actual Blended Count 2005-2006	2,576.91
o Budgeted Enrollment 2006-2007	2,533.54 (<i>projected 43.37 worse than 2005-2006</i>)
o Actual Blended Count 2006-2007	2,441.19 (<i>135.72 worse than 2005-2006</i>)
o Budgeted Enrollment 2007-2008	2,344.13 (<i>97.06 worse than 2006-2007 and 232.78 worse than 2005-2006</i>)

- All other local revenues were estimated based on prior year's activity and anticipated activity. Local source revenue will decline by approximately \$180,000 with the elimination of the Ford-UAW program. A concomitant adjustment has been made to reduce anticipated expenditures.
- State of Michigan Special Education Section 52 Foundation Funding was based on last year's FTE enrollment of 59.77.
- Federal Source Revenues have been projected to be just over \$3.3 million dollars for 2007-2008. The projection includes the actual amounts awarded where that information is known and estimates have been used that are based on the most current information available at the time. All Grant revenue is subject to change based on pending changes in Federal funding. This includes the use of carryover amounts of unexpended grants in the current year.

- Intermediate and Local District Sources are projected based on current information available at this time.
- Proceeds from the Sale of Capital Assets are projected to decrease by \$500,000 from 2006-2007 levels. The sale of the Administration Building and its adjacent property was a windfall from a one-time event for the prior year. Various expense budgets were reduced to reflect minor savings from no longer supporting this facility.

Expense Highlights:

Total expenditures were adjusted for the following reasons:

- Total salaries reflect all salary step increases and other adjustments. Other than previously agreed step changes, no salary increases have been budgeted for the 2007-2008 year. You may recall that the DEP contemplates that salaries will be frozen at 2006-2007 levels. Implementation of this strategy would yield additional savings of approximately \$250,000 for WREA (Teachers) alone. The following is a list of the District's bargaining units and their corresponding contract expiration dates:
 - WREA (Teachers) – 6/30/05 – Currently negotiating
 - AFSCME Local 3451 (Maintenance, Transportation, Food Service) – expires 6/30/07 – w/ wage and health care re-opener for 2006-07
 - Management Support Unit (Secretaries) – Expired 6/30/04 – currently negotiating
 - WRAEA (Adult Educators) – expired 6/30/06 - currently negotiating
 - WR Para Educators – expired 6/30/04 – currently negotiating
 - WR Administrator's Association – expires 6/30/07
- Salary & Benefits expense is driven mainly by staffing assignments. Staffing assignments have been updated and are based on the best information available as of this date. Known vacancies have not been budgeted for replacement.
- Pursuant to the DEP, selected positions were not included in the 2007-2008 budget for return of the incumbent or replacement. The departmental operating budgets for 2007-2008 **do not** reflect funding for these positions. A summary of the staffing retrenchment is as follows:
 - Custodial and operations savings related to the decommission of the Thurston Building
 - Eliminate General funding for all Technology Stipends
 - Layoff / Reduce two Food Service positions
 - Layoff / Reduce two Custodial positions
 - Layoff / Reduce twelve Teaching staff positions
 - Retirement / Resignation of six Teaching staff positions
 - Retirement of one Professional for Information Technology
 - Maintain / Fill Human Resource Director
 - Police Liaison position continues to be shifted partially to grant funding.
- The 2007-2008 Budget is predicated on the DEP strategy to reform all employee health insurance to a Preferred Provider Plan providing substantially similar, if not improved coverage. The plan is a high deductible plan where the employee is responsible for meeting the deductible prior to insurance coverage. The deductible is \$1,250 annually for single coverage and \$2,500 annually for 2- Party and Family coverage. The Plan can be coupled

with a Sec 125 Flexible Benefit Plan or an HRA to provide tax benefits to plan participants. The plan includes much preventative care, not provided under the current product. Prescriptions are without a co-pay once the deductible is met. Additionally, and consistent with the DEP strategies, the 2007-2008 Budget assumes reducing the “cash in lieu” payments from opting-out of District health insurance to \$600 annually. Implementations of these changes will likely affect staffing and benefits and as such are subject to negotiations.

- Health Care and other employee insurance benefits cost rates were obtained from the insurance companies to reflect actual cost wherever possible. The following is a brief summary of anticipated changes in benefit costs by category:
 - Health Insurance for all employees – 35% decrease (approximate)
 - Retirement – 16.72 % rate, 5.7% decrease due to a one-time accounting standard change of the State to “mark to market”
 - Workers’ Compensation Insurance – 20% increase
 - Dental, Life Insurance, Vision – 2% to 4% (approximate)
 - Approximately \$130,000 has been added for Unemployment Insurance claims

Employee benefits are a subject of negotiations and options are being explored between bargaining units.

- No funds have been provided for the bus replacement cycle of the District.
- Teaching supply line item budgets were increased to \$50 per student. The allocation among the buildings was updated based on the Spring 2007 enrollment by building. Textbooks, office supplies, custodial supplies were maintained at 2006-2007 levels.
- Utility costs for Gas, Electric, Telephone, Water & Sewage are budgeted to remain constant at 2006-2007 levels. A District wide energy study may well be in order to explore energy saving initiatives to help the District operate within its limited resources.
- Outgoing Transfers were adjusted to subsidize the Athletics Fund, Community Service Fund (Child Care) and the Food Service fund (School Lunch Program). The General fund subsidy for Student Athletics is budgeted at \$385,955 for 2007-2008. The Community Service Fund subsidy is budgeted at \$39,321. Although this loss is undesirable, it is less than the annual losses that the program had historically incurred. Food service is projected to lose \$30,470 due to the District’s declining enrollment. This is a substantive change from the surplus that the General Fund enjoyed last year. Fortunately, the General fund will only subsidize this loss in the amount of \$6,681 as \$23,789 will be available in the Food Service Fund balance to absorb the balance of the loss. Additional enrollment declines will only exacerbate financial losses for the Food Service Fund.
- All Special Revenue Funds are based on prior year activity and anticipated activity.
- Other adjustments were made to reflect various program initiatives and to further consolidate similar expenditures in certain categories.

As always, this appropriations budget is based on the best information available this time. All things being equal, it is our belief that this proposed budget fairly represents anticipated results of operations for fiscal year 2007-08.

**GENERAL APPROPRIATIONS RESOLUTION
RESOLUTION FOR ADOPTION BY THE BOARD OF EDUCATION
WILLOW RUN COMMUNITY SCHOOLS
GENERAL FUND BUDGET FYE-JUNE 30, 2008**

RESOLVED, that this resolution shall be the general appropriations of the Willow Run Community Schools for the fiscal year 2007-2008; A resolution to make appropriations; and to provide for the disposition of all income received by the Willow Run Community Schools.

BE IT FURTHER RESOLVED, that the total revenue, including a tax levy of 18.000 mills on Non-Homestead and other qualified properties, and unappropriated fund balance be available for appropriations in the **GENERAL FUND** of the Willow Run Community Schools for the fiscal year 2007-2008 as follows:

REVENUE:	<u>June-06 Actual</u>	<u>June-07 Amendment</u>	<u>June-08 Budget</u>
Local Revenue	\$ 3,062,553	\$ 4,028,607	\$ 4,081,827
State Revenue	18,560,581	18,864,813	\$ 17,801,169
Federal Revenue	3,162,859	3,338,459	\$ 3,336,484
Incoming Transfers & Other Transactions	3,618,110	3,080,481	\$ 2,525,703
Fund Modifications	-	-	-
TOTAL REVENUE AND INCOMING TRANSFERS	<u>\$ 28,404,103</u>	<u>\$ 29,312,360</u>	<u>\$ 27,745,183</u>
FUND BALANCE AS OF JULY 1ST	\$ 194,269	\$ (1,775,233)	\$ (2,688,705)
Less Appropriated Fund Balance	-	-	-
FUND BALANCE AVAILABLE TO APPROPRIATE	<u>\$ 194,269</u>	<u>\$ (1,775,233)</u>	<u>\$ (2,688,705)</u>
TOTAL AMOUNT AVAILABLE TO APPROPRIATE	\$ 28,598,372	\$ 27,537,127	\$ 25,056,478

BE IT FURTHER RESOLVED, that \$ 27,745,183 of the total available to appropriate in the **GENERAL FUND** is hereby appropriated in the amounts and for the purposes set forth below. The Board is adopting a deficit budget for 2007-08 and is in the process of filing a deficit reduction plan with the Michigan Department of Education in compliance with the Uniform Budgeting and Accounting Act and the State School Aid Act.

EXPENDITURES

Basic Programs, Instruction	\$ 11,685,088	\$ 11,887,457	\$ 10,453,610
Added Needs, Instruction	2,685,356	2,824,635	2,393,997
Adult and Continuing Ed	468,385	472,272	358,683
Pupil Support	3,669,415	3,680,554	3,542,149
Instructional Support	2,856,869	1,980,582	1,919,848
General Administration	262,648	258,458	418,870
School Administration	1,646,369	1,437,502	1,475,975
Business Support	374,174	797,484	828,277
Operations/Maintenance	3,925,146	3,625,123	3,254,175
Transportation	1,186,125	1,470,194	1,552,326
Central Services	695,976	737,308	538,866
Community Services	356,803	359,843	352,090
TOTAL EXPENDITURES	<u>\$ 29,812,354</u>	<u>\$ 29,531,412</u>	<u>\$ 27,088,866</u>
Outgoing Transfers	221,818	224,300	224,300
Fund Modifications	339,433	470,120	432,017
TOTAL APPROPRIATED	<u>\$ 30,373,605</u>	<u>\$ 30,225,832</u>	<u>\$ 27,745,183</u>
FUND BALANCE ENDING JUNE 30TH	<u>\$ (1,775,233)</u>	<u>\$ (2,688,705)</u>	<u>\$ (2,688,705)</u>

**GENERAL APPROPRIATIONS RESOLUTION
RESOLUTION FOR ADOPTION BY THE BOARD OF EDUCATION
WILLOW RUN COMMUNITY SCHOOLS
ATHLETIC FUND BUDGET FYE-JUNE 30, 2008**

RESOLVED, that this resolution shall be the general appropriations of the Willow Run Community Schools for the fiscal year 2007-2008; A resolution to make appropriations; and to provide for the disposition of all income received by the Willow Run Community Schools.

BE IT FURTHER RESOLVED, that the total revenue and unappropriated fund balance be available for appropriations in the **ATHLETIC FUND** of the Willow Run Community Schools for the fiscal year 2007-08 as follows:

REVENUE:	<u>June-06 Actual</u>	<u>June-07 Amended</u>	<u>June-08 Budget</u>
Local Revenue	\$ 16,312	\$ 9,085	\$ 9,085
State Revenue	-	-	-
Federal Revenue	-	-	-
Incoming Transfers & Other Transactions	413,604	402,113	385,955
Fund Modifications	-	-	-
TOTAL REVENUE AND INCOMING TRANSFERS	<u>\$ 429,916</u>	<u>\$ 411,198</u>	<u>\$ 395,040</u>
FUND BALANCE AS OF JULY 1ST	-	\$ -	\$ -
Less Appropriated Fund Balance	-	-	-
FUND BALANCE AVAILABLE TO APPROPRIATE	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
TOTAL AMOUNT AVAILABLE TO APPROPRIATE	\$ 429,916	\$ 411,198	\$ 395,040

BE IT FURTHER RESOLVED, that \$ 395,040 of the total available to appropriate in the **ATHLETIC FUND** is hereby appropriated in the amounts and for the purposes set forth below.

EXPENDITURES			
Basic Programs, Instruction	\$ -	\$ -	\$ -
Added Needs, Instruction	-	-	-
Adult and Continuing Ed	-	-	-
Pupil Support	-	-	-
Instructional Support	-	-	-
General Administration	-	-	-
School Administration	-	-	-
Business Support	-	-	-
Operations/Maintenance	-	-	-
Transportation	-	-	-
Central Services	-	-	-
Support Services - Other	429,916	411,198	395,040
Community Services	-	-	-
TOTAL EXPENDITURES	<u>\$ 429,916</u>	<u>\$ 411,198</u>	<u>\$ 395,040</u>
Outgoing Transfers	-	-	-
Fund Modifications	-	-	-
TOTAL APPROPRIATED	<u>\$ 429,916</u>	<u>\$ 411,198</u>	<u>\$ 395,040</u>
FUND BALANCE ENDING JUNE 30TH	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**GENERAL APPROPRIATIONS RESOLUTION
RESOLUTION FOR ADOPTION BY THE BOARD OF EDUCATION
WILLOW RUN COMMUNITY SCHOOLS
COMMUNITY SERVICE FUND BUDGET FYE-JUNE 30, 2008**

RESOLVED, that this resolution shall be the general appropriations of the Willow Run Community Schools for the fiscal year 2007-2008; A resolution to make appropriations; and to provide for the disposition of all income received by the Willow Run Community Schools.

BE IT FURTHER RESOLVED, that the total revenue and unappropriated fund balance be available for appropriations in the **COMMUNITY SERVICE FUND** of the Willow Run Community Schools for the fiscal year 2007-08 as follows:

REVENUE:	<u>June-06 Actual</u>	<u>June-07 Amended</u>	<u>June-08 Budget</u>
Local Revenue	\$ 142,390	\$ 66,500	\$ 66,500
State Revenue	-	-	-
Federal Revenue	-	-	-
Incoming Transfers & Other Transactions	65,546	39,381	39,381
Fund Modifications	-	-	-
TOTAL REVENUE AND INCOMING TRANSFERS	<u>\$ 207,936</u>	<u>\$ 105,881</u>	<u>\$ 105,881</u>
FUND BALANCE AS OF JULY 1ST	\$ -	\$ -	\$ -
Less Appropriated Fund Balance	-	-	-
FUND BALANCE AVAILABLE TO APPROPRIATE	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
TOTAL AMOUNT AVAILABLE TO APPROPRIATE	\$ 207,936	\$ 105,881	\$ 105,881

BE IT FURTHER RESOLVED, that \$ 105,881 of the total available to appropriate in the **COMMUNITY SERVICE FUND** is hereby appropriated in the amounts and for the purposes set forth below.

EXPENDITURES	\$	\$	\$
Basic Programs, Instruction	-	-	-
Added Needs, Instruction	-	-	-
Adult and Continuing Ed	-	-	-
Pupil Support	-	-	-
Instructional Support	-	-	-
General Administration	-	-	-
School Administration	-	-	-
Business Support	-	-	-
Operations/Maintenance	-	-	-
Transportation	-	-	-
Central Services	-	-	-
Support Services - Other	-	-	-
Community Services	207,936	105,881	105,881
TOTAL EXPENDITURES	<u>\$ 207,936</u>	<u>\$ 105,881</u>	<u>\$ 105,881</u>
Outgoing Transfers	-	-	-
Fund Modifications	-	-	-
TOTAL APPROPRIATED	<u>\$ 207,936</u>	<u>\$ 105,881</u>	<u>\$ 105,881</u>
FUND BALANCE ENDING JUNE 30TH	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

**GENERAL APPROPRIATIONS RESOLUTION
RESOLUTION FOR ADOPTION BY THE BOARD OF EDUCATION
WILLOW RUN COMMUNITY SCHOOLS
FOOD SERVICE FUND BUDGET FYE-JUNE 30, 2008**

RESOLVED, that this resolution shall be the general appropriations of the Willow Run Community Schools for the fiscal year 2007-2008; A resolution to make appropriations; and to provide for the disposition of all income received by the Willow Run Community Schools.

BE IT FURTHER RESOLVED, that the total revenue and unappropriated fund balance be available for appropriations in the **FOOD SERVICE FUND** of the Willow Run Community Schools for the fiscal year 2007-08 as follows:

REVENUE:	<u>June-06 Actual</u>	<u>June-07 Amended</u>	<u>June-08 Budget</u>
Local Revenue	\$ 320,424	\$ 281,320	\$ 276,963
State Revenue	108,967	118,543	119,000
Federal Revenue	908,102	780,544	676,484
Incoming Transfers & Other Transactions			-
Fund Modifications	-	28,626	6,681
TOTAL REVENUE AND INCOMING TRANSFERS	<u>\$ 1,337,493</u>	<u>\$ 1,209,033</u>	<u>\$ 1,079,128</u>
 FUND BALANCE AS OF JULY 1ST	 -	 \$ -	 \$ -
Less Appropriated Fund Balance	-	-	-
FUND BALANCE AVAILABLE TO APPROPRIATE	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 TOTAL AMOUNT AVAILABLE TO APPROPRIATE	 \$ 1,337,493	 \$ 1,209,033	 \$ 1,079,128

BE IT FURTHER RESOLVED, that \$ 1,079,128 of the total available to appropriate in the **FOOD SERVICE FUND** is hereby appropriated in the amounts and for the purposes set forth below.

EXPENDITURES			
Basic Programs, Instruction	\$ -	\$ -	\$ -
Added Needs, Instruction	-	-	-
Adult and Continuing Ed	-	-	-
Pupil Support	-	-	-
Instructional Support	-	-	-
General Administration	-	-	-
School Administration	-	-	-
Business Support	-	-	-
Operations/Maintenance	-	-	-
Transportation	-	-	-
Central Services	-	-	-
Support Services - Other	1,203,275	1,185,244	1,102,917
Community Services	-	-	-
TOTAL EXPENDITURES	<u>\$ 1,203,275</u>	<u>\$ 1,185,244</u>	<u>\$ 1,102,917</u>
Outgoing Transfers	-	-	-
Fund Modifications	134,218	-	-
TOTAL APPROPRIATED	<u>\$ 1,337,493</u>	<u>\$ 1,185,244</u>	<u>\$ 1,102,917</u>
 FUND BALANCE ENDING JUNE 30TH	 <u>\$ -</u>	 <u>\$ 23,789</u>	 <u>\$ (23,789)</u>