East Grand Rapids Public Schools

January 13, 2012

Dear EGRPS Families,

This is the first of a series of four communications regarding the 2012-2013 budget projections and assumptions. The district is currently forecasting a budget deficit for the 2012-2013 school year; the projected revenues and expenses are listed below, along with the impact on the district's operating fund balance.

Projected Revenues	$25,912,658	Beginning Fund Balance:	$3,500,382
Projected Expenses	$29,230,776	Ending Fund Balance:	$ 182,265
Budget Deficit	**($ 3,318,117)**		

The current projected deficit of $3.3 million would virtually deplete the district fund balance reserve if no adjustments are made to our operating budget. The projected deficit equates to 11.3% of our current expenditures. Our district personnel costs are over 85% of operating expenses and an additional 5% of expenses represent outsourced personnel costs.

The purpose of this communication is to provide you with a better understanding of why the district is forecasting a deficit for 2012-2013.

1. We will explain the major budget assumptions influencing the forecasted deficit.
2. A 5-year historical perspective of our operating budget is illustrated.
3. The budget reductions the district has implemented the last three years to maintain financial stability is presented.

2012-2013 BUDGET ASSUMPTIONS: ***Why does the district have such a sizable deficit?***

School districts have five major budget assumptions that impact budget projections. There are two main revenue assumptions; state per-pupil funding, and projected student count. The three main expense assumptions are salaries/wages, health care costs, and retirement costs. These assumptions, and the impact they have on our 2012-2013 budget projections are described below:

1. **State per-pupil funding:** With the passage of Proposal A in 1994, funding for public schools shifted from the local level to the state level. The state provides districts the majority of its funding on a "per-pupil" amount. The state per-pupil amount has been cut $470 per student in the past three years ($170 per pupil in 2009-2010, and $300 per pupil in 2011-2012). East Grand Rapids Public Schools per-pupil amount peaked at $7,867 in 2008-09, and is currently $7,397 for 2011-2012.

The district's budget assumption for next school year reflects no increase or decrease in funding **($7,397 per pupil).** In addition, new language was included in the State School Aid act which states that for the 2012-13 school year half day kindergarten programs will only receive half the per-pupil funding. Districts would be required to run full day, every day kindergarten programs to maintain full funding. Since we currently offer half day kindergarten programs, we are budgeting for a $900,000 loss of revenue from the potential change in kindergarten funding.

In addition, the district has benefited the last four years from state and federal "one-time" funds which have kept overall per-pupil funding at a stable level, while the state base per-pupil amount has been cut. The state and federal one time funds expire at the end of this school year, and there is no promise of continuing these additional funds. The additional funds are highlighted below:

	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013 (F)
Per-Pupil Amount	**$7,867**	**$7,697**	**$7,697**	**$7,397**	**$7,397**
State One-Time Funds	$0	$0	$0	$198	$0
Fed One-Time Funds	$0	$278	$155	$150	$0
Total Funding	**$7,867**	**$7,975**	**$7,852**	**$7,745**	**$7,397**
Kindergarten Funding	$7,867	$7,975	$7,852	$7,745	**$3,699**

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The impact of having state per pupil funding cut by $470 per student since 2008-2009 equates to an annual revenue loss of approximately **$1.4 million**. The potential cut in kindergarten funding for half day programs would result in an additional annual revenue loss of approximately **$900,000**.

2. **Projected Student Count:** The district's projected student enrollment for next school year is **3,000** for budget purposes. The district's enrollment figures have been very stable, with annual enrollments ranging between 2,975 and 3,010 over the past five years.

3. **Salaries/Wages:** District employee groups (classifications) have wage/salary scales with a beginning wage/salary, and a maximum wage/salary. Movement within the scale is based on years of experience within the specific classifications. When the district budgets for salaries and wages, it looks at the cost impact of increasing or decreasing the classification scale. For next school year, the district budget assumption reflects **no increase** to the wage/salary scales, but does include allocations for the cost of the step increments, which are estimated to be **1.8%** (**$275,000)** of this year's wage/salary expense.

4. **Health Care Costs:** This fall, Public Act 152 was signed into law, which limits the amount a public employer can spend towards an employee's medical insurance premiums or reimbursements of out of pocket costs. The annual maximum contributions are $5,500 for a single subscriber, $11,000 for an employee and spouse, and $15,000 for a full family. The savings provided by Public Act 152 decreased our projected expenses for next year by approximately **$600,000.**

5. **Retirement Costs:** All public school districts are **required** to participate in the Michigan School Public Employees Retirement System (MSPERS). The system is a defined benefit pension retirement program and is funded partially through employee contributions (between 3% and 7% of their salary/wages), and primarily through state mandated district contributions. The state mandates a "percentage contribution rate" to school districts each year, and districts pay that percentage on every dollar of wage or salary paid. February 2011 the state provided school districts with the rates for this school year (**24.46%**) and next (**27.37%)**, whereas two years ago, the rate was **16.94%**. The increase in the required contribution rate has dramatically increased district retirement costs:

School Year	MSPERS Contribution Rate	Retirement Expenses
2009-2010	16.94%	$2,742,273
2010-2011	20.66%	$3,211,237
2011-2012	24.46%	$3,575,906
2012-2013 (Forecast)	27.37%	$4,181,636

As the table shows, retirement expenses will have increased approximately $1.5 million in four years, and **$600,000** from this school year to next school year alone.

In summary, the district has a $3.3 million deficit based on funding cuts and state retirement increases alone. The annual budget impact of funding cuts and retirement rate increases for the past four years is **$3.8 million**.

$470 cut in per-pupil funding	$1,400,000
Kindergarten funding for half day	$900,000
Retirement cost increase	$1,500,000
Total Annual Impact	**$3,800,000**

HISTORICAL BUDGET PERFORMANCE: We are fortunate that the district has maintained and improved its financial stability over the past several years while Michigan's economy has struggled and financial support for schools has been reduced or stagnated. Our fund balance has increased from $2.9 million at the end of the 2004-05 school year to the present amount of $4.2 million which reflects 60 days of operation. Our annual budget performance the past several years is provided in the table below:

	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012(B)
Revenues	$27,558,634	$27,866,286	$27,850,107	$27,834,153	$28,005,362	$27,869,332
Expenses	$26,934,247	$27,267,529	$27,692,998	$28,326,870	$28,193,600	$28,618,035
Net Change	$624,387	$598,757	$157,109	($492,717)	($188,238)	($748,704)
Unreserved Fund Bal.	$4,234,595	$4,659,884	$4,683,818	$4,351,535	$4,249,086	$3,500,382

BUDGET REDUCTIONS: The district has maintained a strong financial position over the past several years; however significant budget reductions have been made the past three years in order to maintain this financial stability. These reductions totaled $2.6 million and the Board of Education worked diligently to avoid significant reductions in programs and opportunities for students. However, based on the projected budget deficits for next school year, it will be difficult to avoid budget cuts that do not directly affect students and simultaneously maintain a solid financial position. As the Board considers the feedback received through the surveys and focus groups, they will also be taking into consideration what has already been reduced the past three years and the potential impact additional reductions would have on programs and services:

2009-2010 Budget	**Annual Savings**
Special Education staffing reductions	$165,000
10% reduction in building budgets	$122,900
Central office support staff reductions	$90,000
Reduce one 4th grade section at Lakeside	$70,000
Outsource child care providers	$57,000
Restructure technology staff	$40,000
Athletic budget reductions	$25,500
Eliminate secretary to Food Service director	$25,000
Eliminate middle school athletic secretary	$25,000
Eliminate High School part time media center secretary	$20,000
Elimination of High School co-op coordinator	$16,000
Increase Child Care rates	$15,000
Eliminate district funding for after school security at Middle School	$10,000
High School science lab setup budget	$5,000
	$686,400

2010-2011 Budget	**Annual Savings**
Custodial Cost Reductions	$350,000
Restructure Media Centers	$163,000
Reduce administrative costs	$130,000
10% Building/Department budget reduction	$80,000
Consolidate 4 3rd grade sections to 3 4th grade at Lakeside	$60,500
Reduce General Education teaching staff at High School by 1.0 FTE	$60,500
Reduce Middle School counseling from 2.0 to 1.0 FTE	$60,500
Reduce central office support by 1.0 FTE	$50,500
Combine High School Registrar & Guidance Office secretary positions	$50,500
Partner with Grand Rapids Public Schools for Food Service	$50,000
Discontinue Print Center service	$41,000
Reduce Special Education Social Work	$36,000
Receive Visually Impaired teaching service from KISD	$35,000
Reduce High School Special Education teaching staff by 0.4 FTE	$28,000
Reduce High School front office secretarial by 0.5 FTE	$25,000
Replace Middle School teachers monitoring lunch w/aide	$16,000
High School/Middle School counseling additional days	$12,000
Reduce HS Wrestling budget by 50%	$10,000
	$1,258,500

2011-2012 Budget	Annual Savings
Reduce Elementary reading support from 4.0 to 3.0 FTE	$87,000
Reduce Special Ed teaching at High School by 1.0 FTE	$85,500
Eliminate district-wide media center specialist	$85,000
Eliminate middle school athletics funding support	$75,000
Accounting Supervisor reduced to 1/3 FTE through retirement	$50,000
Discontinue Youth Development funding support	$50,000
Administrative 20% health care contribution	$41,000
Reduce Elementary resource rooms staffing reduced from 3.0 to 2.6 FTE	$33,000
Occupational Therapist savings from retirement, 0.1 FTE reduction	$32,500
Elimination of Energy Manager position	$30,000
20% Reduction in PAC Management costs	$25,000
Increasing HS Pay to Play to $150 per sport/$400 cap for school year	$22,000
Director of Guidance retirement replacement	$20,000
Eliminate Building Tech Coordinators	$19,000
High School 7.5% building budget reduction	$15,000
Regional/State Tournament athletic expense reduction	$10,000
	$680,000
Three-Year Total of Reductions	**$2,624,900**

Thank you for taking the time to read this communication and to educate yourself about the district's operating budget. We hope this information was useful and provided you with a clearer understanding of how the district's operating budget has performed historically, the financial challenges the district faces in the coming years and the reasons behind these financial challenges. In subsequent communications, we hope to provide a greater understanding of how the district's operating budget functions. It is our goal to continue supporting the mission of *educating and inspiring students to navigate in a global community.*

Sincerely,

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Superintendent

Kevin Philipps
Assistant Superintendent of Business