

# SCHOOL FINANCE 101

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Presented by:  
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Troy School District

# OUR PURPOSE

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Inform the community about:

- Where the District receives its revenue
- How school funding works
- How school funding has changed since Proposal A
- The fiscal challenges the District faces
- Budget actions to date
- Financial future – Budgeting Assumptions and Forecasts

Our commitment is to be as transparent as possible as we move forward

# HOW DOES THE TROY SCHOOL DISTRICT RECEIVE REVENUE?

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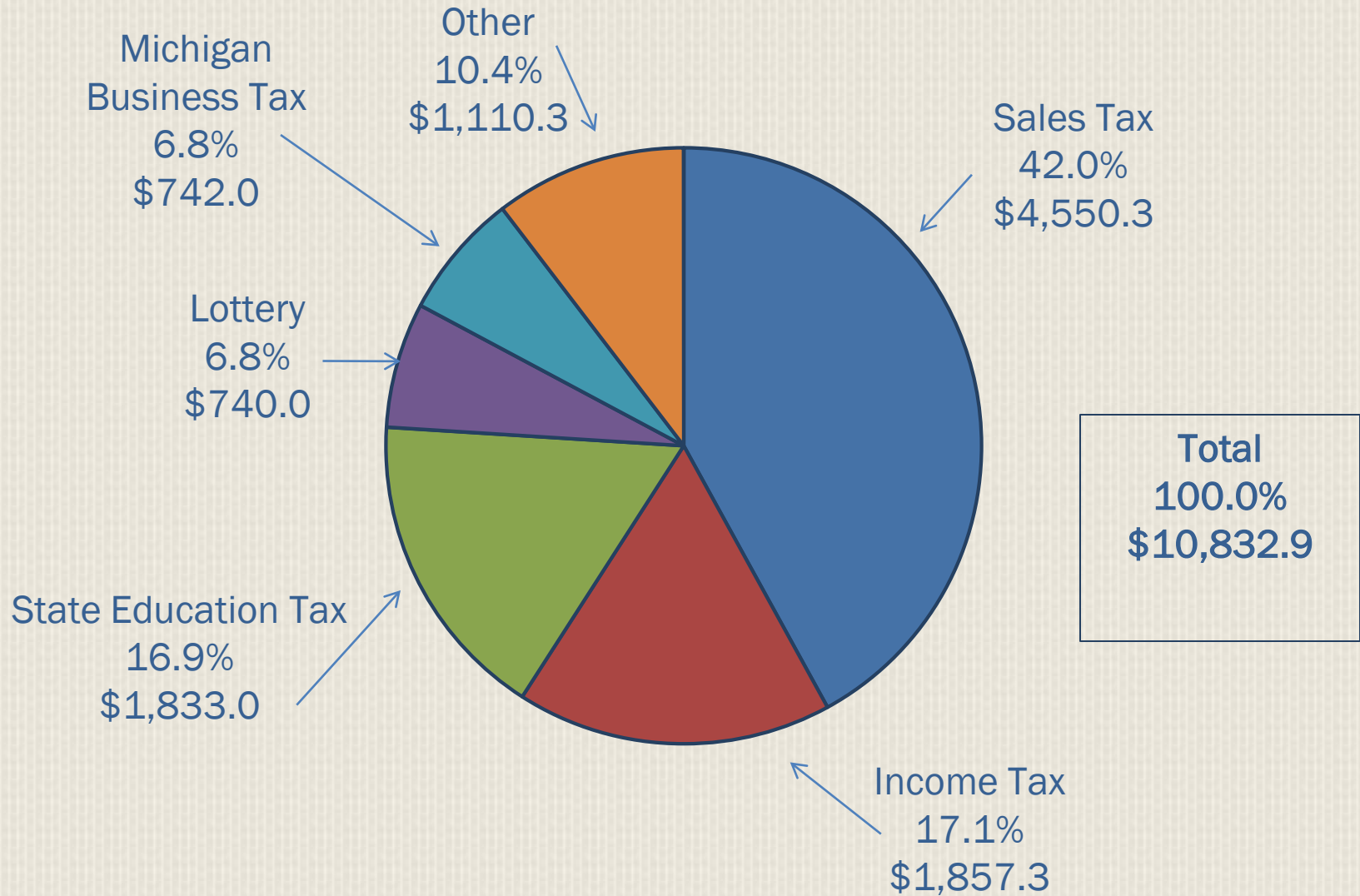
- Prior to Proposal A, schools were funded by local property taxes.
- For the 1993-94 school year, the Troy School District received 96% of its revenue from local property taxes.
- Proposal A, effective with the 1994-95 school year, drastically changed the funding formula for districts.

# HOW DOES THE TROY SCHOOL DISTRICT RECEIVE REVENUE?

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- Schools are now funded on a per pupil basis, known as a foundation allowance, based on available resources in the State School Aid Fund.
- Revenues to the School Aid Fund fluctuate with the economy.

# FY 2010-11 School Aid Fund Revenue Sources (Millions of Dollars)



# HOW DOES THE TROY SCHOOL DISTRICT RECEIVE REVENUE?

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- The foundation allowance for every school district was established based on its per pupil spending during the 1993-94 school year.
- The Legislature adjusts the foundation allowance annually.
- For the 2010-11 school year, the Troy School District received 32.16% of its revenue from local property taxes (96% pre-Proposal A), 52.3% of its revenue from the State. The remaining 15.54% is from other sources.
- For every additional \$1.00 the Troy School District receives in local property taxes, it receives \$1.00 less from the State.

# FOUNDATION ALLOWANCE COMPONENTS

State Foundation Allowance, excluding 20(j)	<b>\$8,241.00</b>
Section 20(j) (categorical)	<u>248.18</u>
State maximum Foundation Allowance	\$8,489.18
Local Hold-Harmless	<u>1,034.00</u>
Base Fiscal Year 2010-11 Foundation Allowance	<u>\$9,523.18</u>
State elimination of 20(j) funding (permanently gone)	(248.18)
Foundation Allowance proration	(154.00)
Subtotal per pupil allowance	<u>\$9,121.00</u>
Additional State reduction (offset by ARRA)	<u>(116.00)</u>
Adjusted Fiscal Year 2010-11 Foundation Allowance	<u>\$9,005.00</u>

NOTE: The Troy School District received \$308.35/pupil of Federal Economic Stimulus funds in 2010-11, but it did not increase the foundation allowance. The stimulus funds replaced a portion of the State contribution.

# STATE AID FORMULA

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Total Number of Students X Foundation Allowance =  
Membership Allowance

Membership Allowance - Local Property Taxes =  
State Aid

- Increased property taxes result in decreased state aid allocation.
- Only way to increase operational revenue is to:
  - a) Increase student count
  - b) Increase foundation allowance
- Bond issue funds CANNOT be used for general operating purposes.

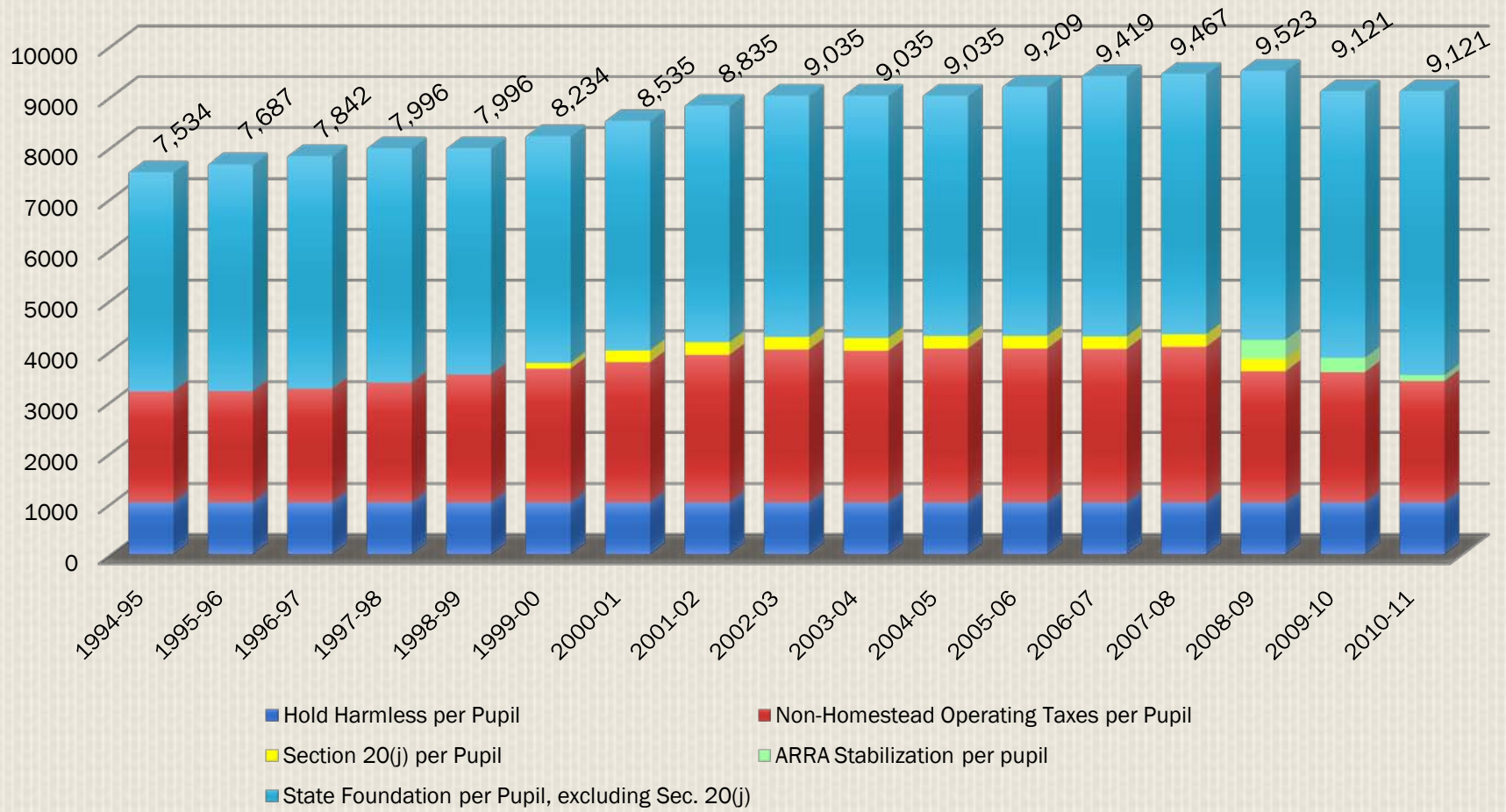
# 2011-2012 REVENUE

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Foundation allowance X number of students =  
79.4% of general fund revenue

- Foundation allowance set annually by legislature
- 2010-11 TSD Foundation Allowance = \$9,523.18  
2011-12 State Aid Cut (projected) (270.00)  
2009-10 Section 20(j) Veto (248.18)  
(permanently gone)  
2011-12 TSD Foundation Allowance \$9,005.00

# HISTORY OF FOUNDATION GRANT



# OTHER MAJOR CHANGES AS A RESULT OF PROPOSAL A

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- Prior to Proposal A, District paid 5% of all wages into public school employees' retirement system.
- State of Michigan paid the remaining pension liability (8.06% in 1993-94).
- Since Proposal A, District is responsible for entire pension obligation.
- District obligation fiscal year 2010-11 is:

	7/1/10-9/30/10	10/1/10-10/31/10	11/1/10-6/30/11
Hired prior to 7/1/2010	16.94%	19.41%	20.66%
Hired 7/1/2010 or later	15.44%	17.91%	19.16%

# THE CHALLENGES WE FACE

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- Difficult economic climate
- State revenue reductions
- Increased costs
  - Health care
  - Employer contribution to State retirement system
  - Uncertainty of State funding
  - Salary increases (steps) from Collective Bargaining Agreements

# THE CHALLENGES WE FACE

## REVENUES

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- Continued shortfalls
  - TSD 2011/12 shortfall estimated to be \$13.6 million
  - 2011-2012 shortfall (“Funding Cliff”)
    - The Senate Fiscal Agency projects a continuation of \$270 per pupil reduction, while the House Fiscal Agency projects a minimum continuation of \$100 per pupil reduction, for the 2011-2012 school year.
      - Additional potential cost shifts from the State’s General Fund to the State School Aid Fund
        - Community College General Fund Shift (\$191/per pupil) would reduce our district’s revenues by an additional \$2.3 million
        - Higher education budget General Fund cost shift (\$996/per pupil) would reduce our District’s revenues by an additional \$12.1 million

# THE CHALLENGES WE FACE

## REVENUES

### School Aid Fund Balance Sheet (Dollars in Millions)

<b>ESTIMATED REVENUE</b>	<b>FY 2010-11 YTD</b>	<b>FY 2011-12 YTD</b>
<b>ESTIMATED SCHOOL AID FUND REVENUE</b>		
Beginning Balance	\$ 272.6	\$ 523.8
Revenue Estimate (May 2010)	\$ 10,832.9	-
Revenue Estimate (Jan 2011) CREC	\$ 146.2	\$ 11,193.7
Subtotal	<u>\$ 11,251.7</u>	<u>\$ 11,717.5</u>
<b>ESTIMATED OTHER SCHOOL AID REVENUE</b>		
General Fund/General Purpose (GF/GP) Grant	\$ 18.6	\$ 18.6
Treasury Reforms	\$ 2.3	\$ 2.3
Tax Amnesty	\$ 26.1	\$ (11.2)
Liquor Reforms	\$ 0.9	\$ 0.9
Federal Ed Jobs Funding	\$ 316.3	\$ -
Federal State Fiscal Stabilization Funds (ARRA)	\$ 184.3	\$ -
Federal Aid	\$ 1,677.8	\$ 1,677.8
Subtotal	<u>\$ 2,226.3</u>	<u>\$ 1,688.4</u>
<b>TOTAL REVENUE</b>	<b>\$ 13,478.0</b>	<b>\$ 13,405.9</b>
<b>ESTIMATED EXPENDITURES</b>		
YTP Appropriations (2011) /Current Baseline (2012)	\$ (13,134.2)	\$ (12,733.2)
Estimated Adjustments (January 2011)	\$ 180.00	-
<b>TOTAL EXPENDITURES</b>	<b>\$ (12,954.2)</b>	<b>\$ (12,733.2)</b>
<b>HOUSE FISCAL AGENCY ESTIMATED YEAR-END SCHOOL AID FUND BALANCE</b>	<b>\$ 523.8</b>	<b>\$ 672.7</b>

Source: House Fiscal Agency January 2011 Revenue Conference

# THE CHALLENGES WE FACE

## REVENUES

	HFA	SFA	DIFFERENCE
ESTIMATED YEAR END (9/30/2012) SCHOOL AID FUND BALANCE	\$ 672.7	\$ 410.3	\$ 262.4
Foundation Allowance Restoration (\$100 per pupil and Section 81)	\$ (279.6)	\$ -	\$ (279.6)
	\$ 393.1	\$ 410.3	\$ (17.2)
<b>Potential Cost Shifts*</b>			
Community Colleges General Fund Cost Shift (\$191 per pupil)	\$ (295.9)	\$ (295.9)	\$ -
Higher Education Budget General Fund Cost Shift (\$996 per pupil)	\$ (1,543.4)	\$ (1,543.4)	\$ -
Subtotal	\$ (1,839.3)	\$ (1,839.3)	\$ -
Adjusted Year-End Balances with Transfers	\$ (1,446.20)	\$ (1,429.00)	\$ (17.2)
<b>Note: District Budget Forecasts already include expenditure increases of the following:</b>			
MPSERS Rate increase for 2011-12 to 26.76% from 20.66% (\$374 per pupil)	\$ (579.5)	\$ (579.5)	\$ -
Health Insurance Premium Estimated Increase 8% (\$100 per pupil)	\$ (154.4)	\$ (154.4)	\$ -
	\$ (733.9)	\$ (733.9)	\$ -

Source: House Fiscal Agency January 2011 Revenue Conference

# THE CHALLENGES WE FACE

## REVENUES

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### Effect on TSD Budget (per pupil)

	<u>House</u> <u>Fiscal</u> <u>Agency</u>	<u>Senate</u> <u>Fiscal</u> <u>Agency</u>
2009-10 Section 20(j) Veto (permanently eliminated)	<u>(248.18)</u>	<u>(248.18)</u>
2011-12 Potential State Aid Cut	(100.00)	(270.00)
P-20 2011-12 Potential General Fund Cost Shifts	<u>(1,187.00)</u>	<u>(1,187.00)</u>
Potential 2 year Reduction (per pupil)	(1,535.18)	(1,705.18)

# THE CHALLENGES WE FACE

## REVENUES

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### Possible Effect on TSD Budget

- 12,096 students x (\$1,535.18) = (\$18,569,537)
- 12,096 students x (\$1,705.18) = (\$20,625,857)

# THE CHALLENGES WE FACE

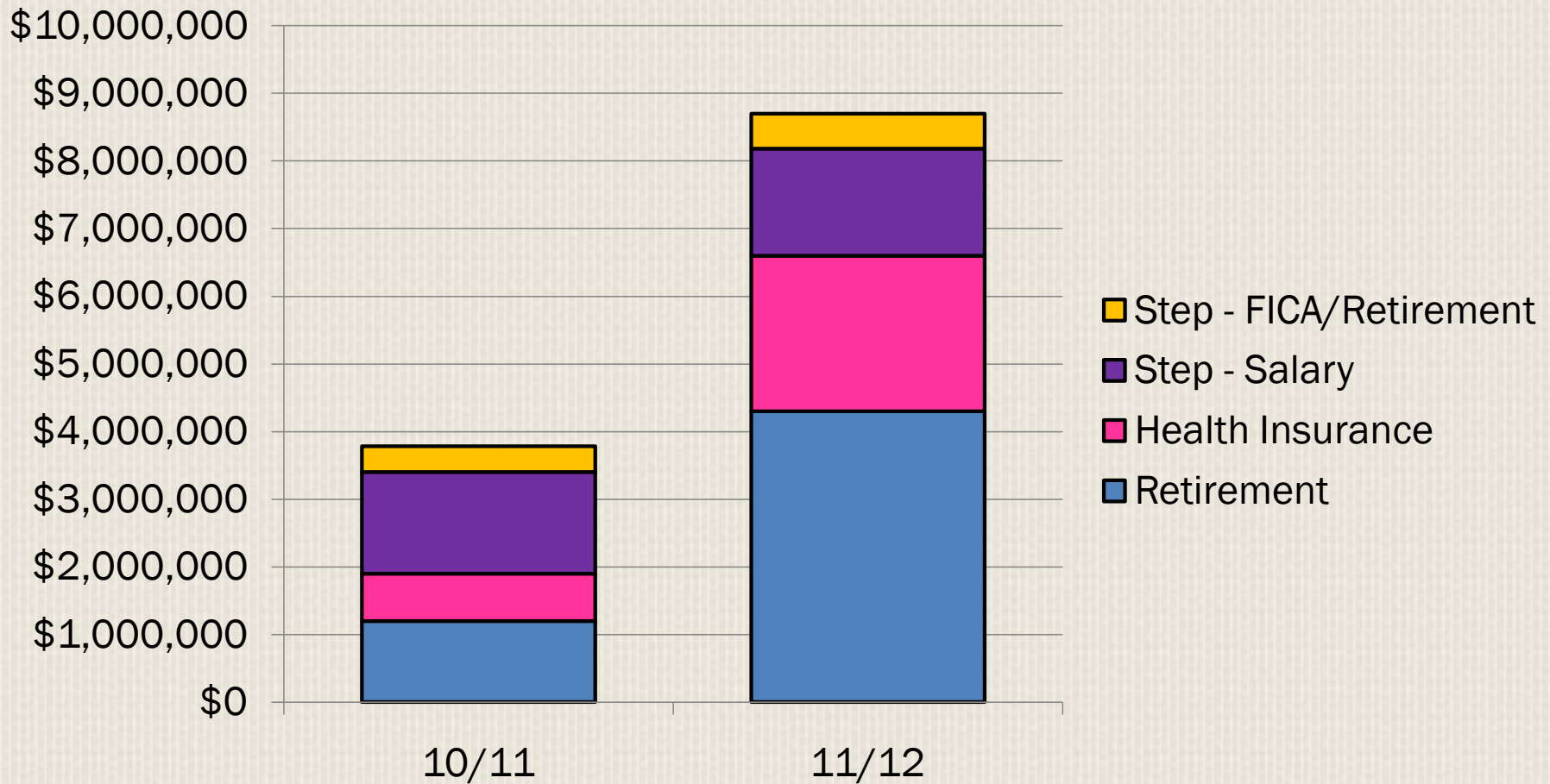
## EXPENDITURES

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- Annual increased costs
  - The public school employees' retirement rate is expected to rise approximately 6% from 2010-11 to 2011-12, costing the District \$4.3 million.
  - Increases in health insurance will cost the District \$2.3 million assuming a 16% increase.
  - Employee step increases will cost the district \$1.6 million in salary costs, with an additional \$514,000 in FICA and retirement costs.
  - Increased costs add \$8.7 million to the District budget annually.

# THE CHALLENGES WE FACE

## EXPENDITURES



# THE CHALLENGES WE FACE

## SUMMARY

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- Troy School District anticipates a structural deficit for the 2011/2012 year based on 2011/2012 revenue and expenditure levels
  - The District has used its rainy day fund (fund balance), but it is insufficient to get us through the downturn.
  - Expenditures exceeded revenues five of the last seven years.
  - For 2010/2011, even with \$6.2 million in cuts, the adopted budget still had an operational deficit.
  - Expenditures are projected to exceed revenues for the next three fiscal years, even with substantial cuts planned for each of these years.

# THE CHALLENGES WE FACE

## SUMMARY

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- Additional State level issues
  - Michigan continues to grapple with an economic recession.
  - We do not expect a rebound in the Michigan economy until 2020 to 2025.

# BUDGET ACTION TO DATE

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Since the start of the 2002-03 school year, TSD has:

- Reduced its fund equity \$18,639,308
- Instituted budget adjustments of \$39,358,859
- Totaling \$57,998,167

# TROY SCHOOL DISTRICT

## FUND EQUITY

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	General Fund	Durant Fund	Total Fund Equity
6/30/2002	\$ 33,623,857	\$ 5,877,644	\$ 39,501,501
6/30/2010	\$ 13,250,895	\$ 5,610,166	\$ 18,861,061
Decrease	\$ 20,372,962	\$ 267,478	\$ 20,640,440

# SUMMARY OF BUDGET ADJUSTMENTS

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YEAR	ADJUSTMENT AMOUNT
2003-2004	\$ 11,689,091
2004-2005	\$ 3,428,057
2005-2006	\$ 2,915,176
2006-2007	\$ 5,898,750
2007-2008	\$ 1,003,695
2008-2009	\$ 519,791
2009-2010	\$ 7,661,031
2010-2011	\$ 6,243,268
GRAND TOTAL	\$39,358,859

# ADJUSTMENT HIGHLIGHTS

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## 2003-2004

- Reduced Staff
- Reduced Capital Outlay Expenditures
- Sold Parcel of Land
- Reduced Departmental Budgets

## 2004-2005

- Implemented Additional Staff Reductions
- Eliminated Print Shop
- Reduced Building and Instructional Budgets
- Transferred Funds from Sports Camps
- Reduced Building & Departmental Supply Budgets
- Reduced Conference Budgets

# ADJUSTMENT HIGHLIGHTS

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## 2005-2006

- Implemented Additional Staff Reductions
- Reduced Textbook Budgets
- Reduced Instructional Supply Budgets

## 2006-2007

- Increased Class Sizes
- Implemented Additional Staff Reductions
- Reduced Custodial Department Staff
- Initiated School of Choice for K-1
- Reduced Building & Department Supply Budgets
- Reduced Conference Budgets

# ADJUSTMENT HIGHLIGHTS

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## 2006-2007 (cont.)

- Consolidated Bus Runs
- Eliminated Kindergarten Mid-Day Bus Runs
- Eliminated Computer Technicians
- Raised Athletic Ticket Fees

## 2007-2008

- Contracted Sub Teachers and Non-Staff Coaches
- Consolidated Middle and High School Bus Stops
- Instituted Programs to Maximize Utility Savings
- Reduced Building & Department Supply Budgets
- Reduced Conference Budgets
- Implemented Additional Staff Reductions

# ADJUSTMENT HIGHLIGHTS

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## 2008-2009(cont.)

- Contracted Retirement-Eligible Non-Rep Employees
- Reduced Discretionary Budgets
- Reduced Conference Budgets
- Increased KinderPlus Fees
- Increased School of Choice Students

## 2009-2010

- Contracted Campus Aides
- Reduced Elementary/High School Media Specialists
- Reduced High School Counselors (including PASS)
- Reduced High School Assistant Principals

# ADJUSTMENT HIGHLIGHTS

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## 2009-2010 (cont.)

- Instituted Pay to Participate Program
- Participated in Electric Choice Program
- Contracted Custodial, Transportation and Food Service Departments
- Eliminated Bus Purchases
- Closed Middle School Pools
- Entered into Energy Contracts for Long Term Savings

## 2010-2011

- Eliminated transportation for non-MHSAA sports at high schools

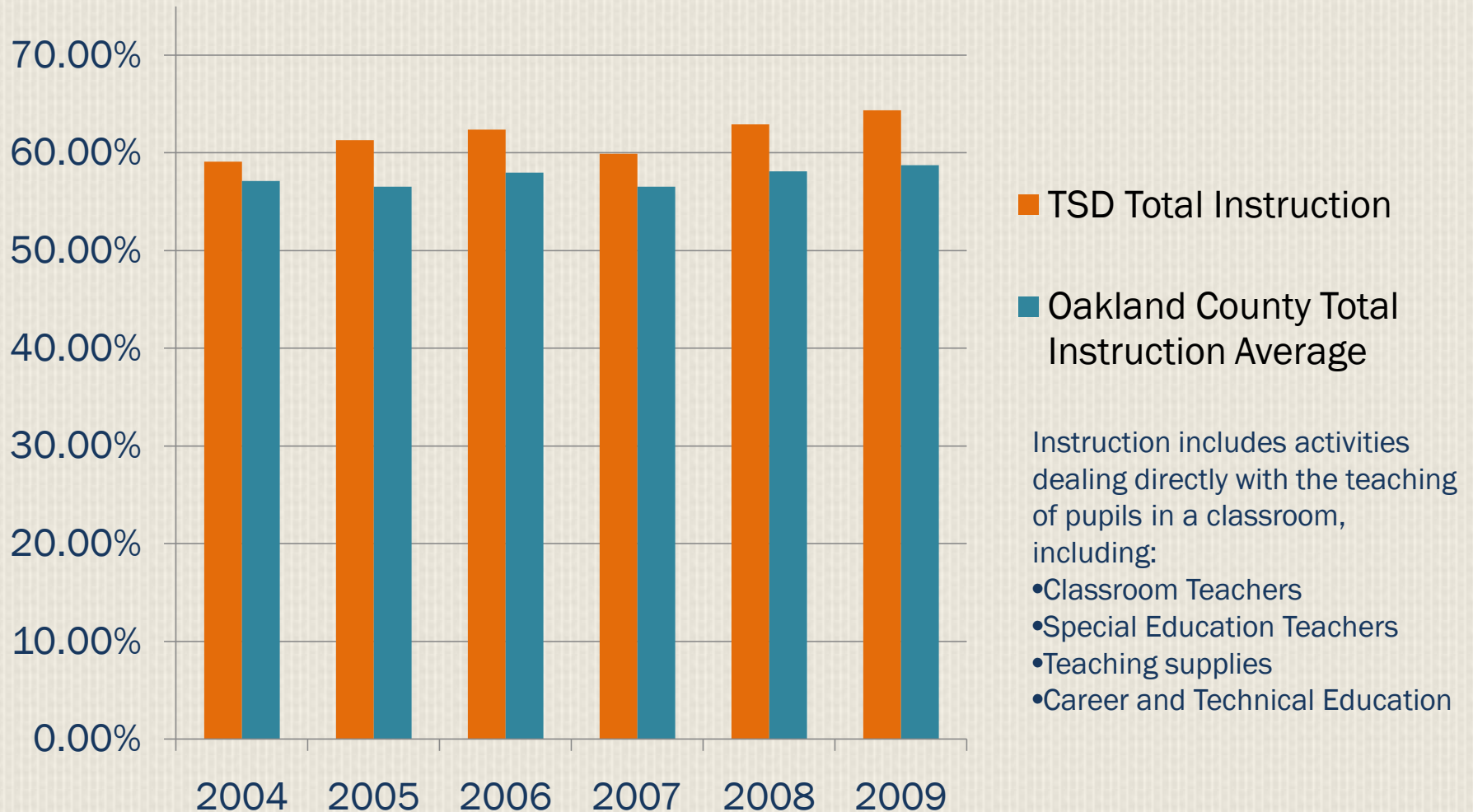
# ADJUSTMENT HIGHLIGHTS

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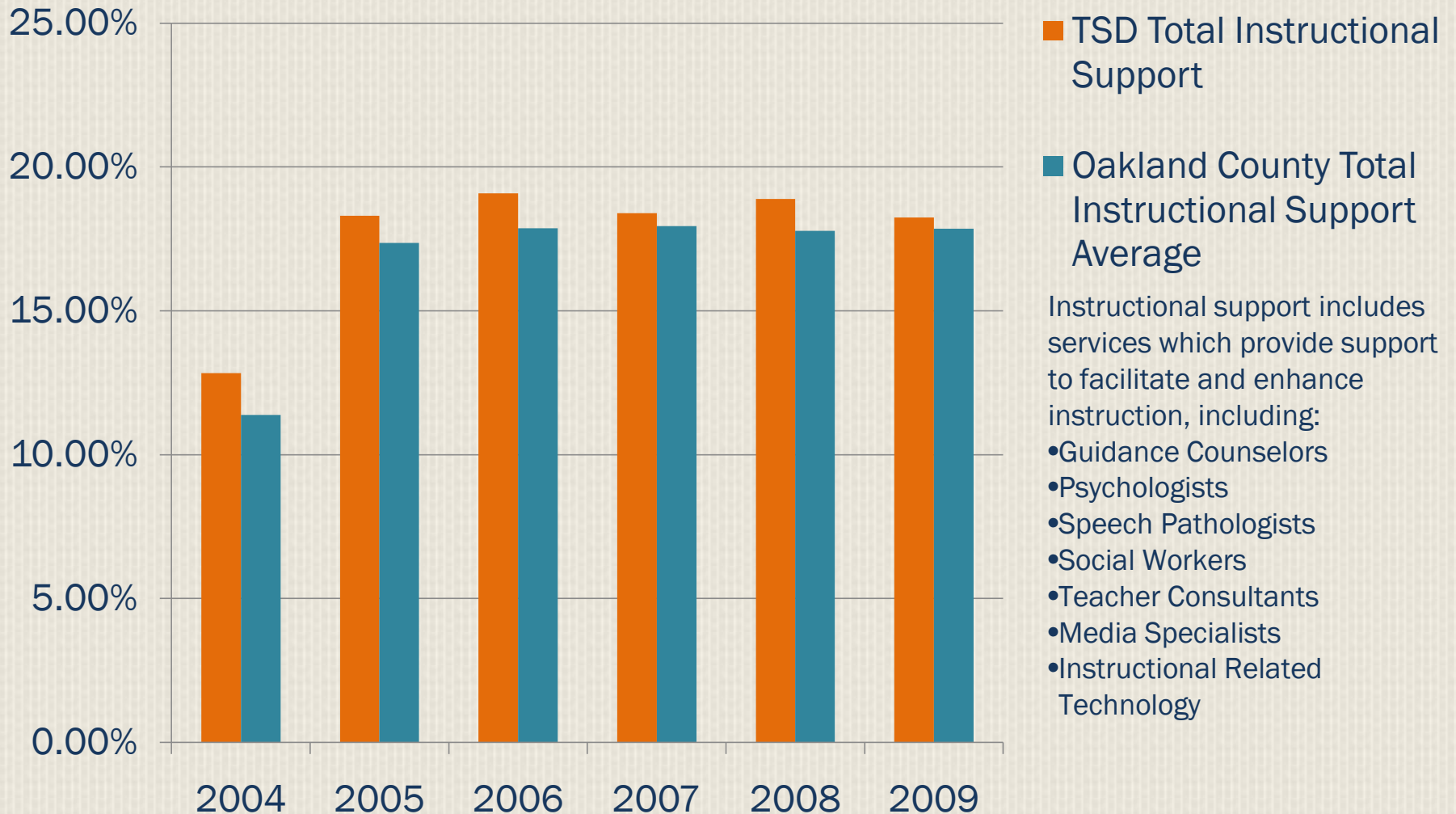
## 2010/2011 (cont.)

- Increased Pay to Participate fees for Athletics and clubs
- Implemented additional staff reductions
- Increased class size at elementary and high school levels
- Eliminated one half of counselor extra days
- Increased counselor ratio from 335:1 to 390:1
- Privatized Grounds
- Eliminated 2 busing routes
- Modified cleaning schedule with Enviro-Clean

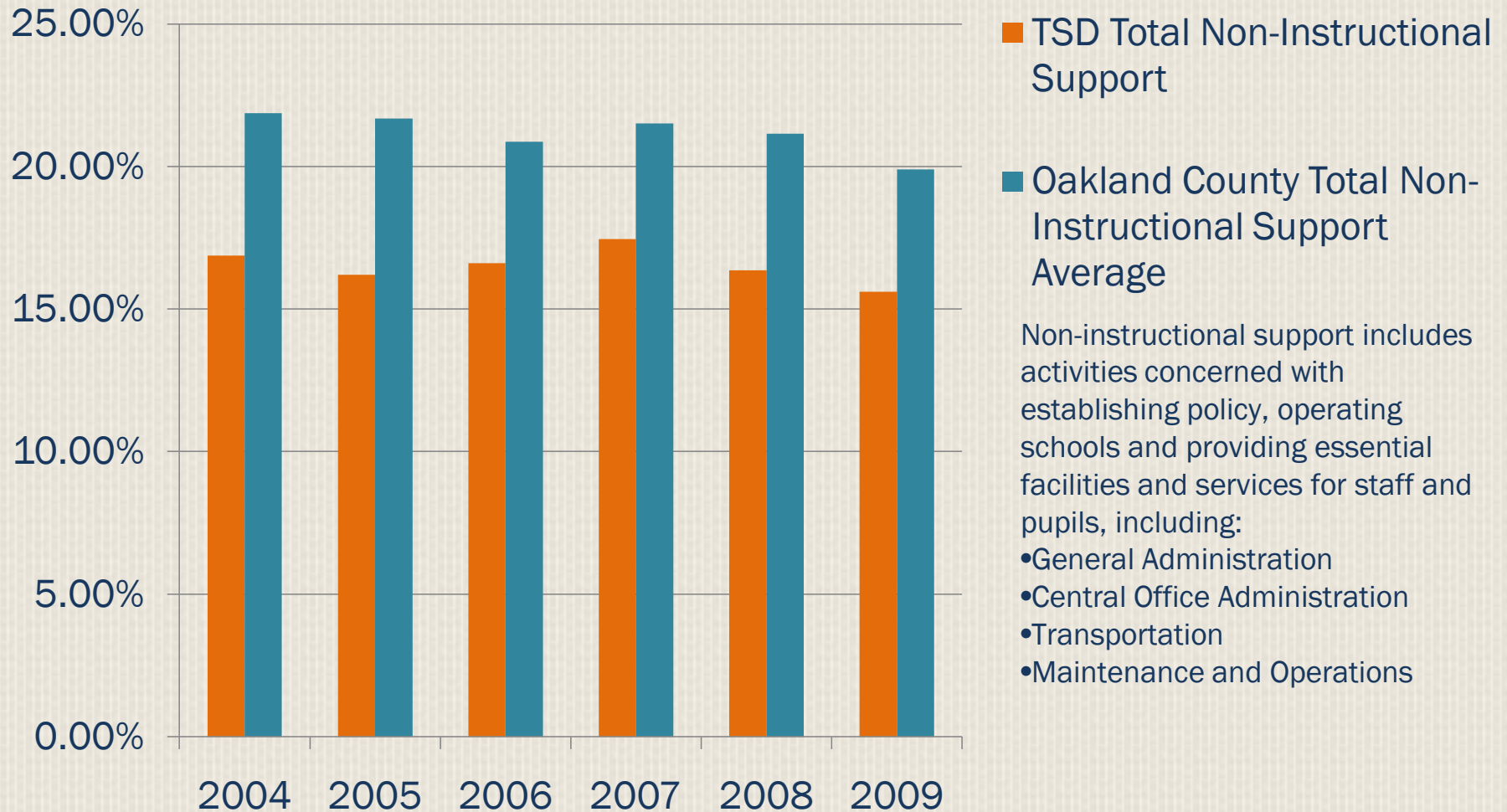
# COMPARISON OF EXPENDITURES VS. OAKLAND COUNTY - INSTRUCTION



# COMPARISON OF EXPENDITURES VS. OAKLAND COUNTY - INSTRUCTIONAL SUPPORT



# COMPARISON OF EXPENDITURES VS. OAKLAND COUNTY - NON-INSTRUCTIONAL SUPPORT



# BUDGET ASSUMPTIONS

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- Projected enrollment remains static at approximately 12,000 students through 2013-14.
- No increases to foundation allowance after state aid cuts through 2013-14.
- County wide special education funding reduced by 1/3 or approximately \$2.5 million through 2013-14.
- No increases in compensation, except step increases, for all staff groups beginning with 2011-12 school year.

# TROY SCHOOL DISTRICT

## BUDGET FORECAST SUMMARY WITHOUT PROPOSED CUTS

	Actual	Amended	Proposed	Proposed	Proposed
	2009/10	2010/11	2011/12	2012/13	2013/14
Revenue	135,916,214	136,363,473	130,049,866	129,274,695	128,560,091
Expenditures	137,649,867	135,897,825	143,723,546	147,297,084	151,692,807
Proposed Cuts	-	-	-	-	-
Total Expenditures	<u>137,649,867</u>	<u>135,897,825</u>	<u>143,723,546</u>	<u>147,297,084</u>	<u>151,692,807</u>
Total Gain/(Loss)	<u>(1,733,653)</u>	<u>465,648</u>	<u>(13,673,680)</u>	<u>(18,022,389)</u>	<u>(23,132,716)</u>
Ending Fund Balance*	<u>18,861,061</u>	<u>19,326,709</u>	<u>5,653,029</u>	<u>(12,369,360)</u>	<u>(35,502,076)</u>
F/B % of Expenditures	13.70%	14.22%	3.93%	-8.40%	-23.40%
Projected Enrollment	12,076	12,063	12,096	12,027	11,936
Cuts per Student	-	-	-	-	-
Fund Balance per Student	1,562	1,602	467	(1,028)	(2,974)
*Ending Fund Balance Includes Durant Fund Balance.					

# TROY SCHOOL DISTRICT

## BUDGET FORECAST SUMMARY WITH PROPOSED CUTS

	Actual 2009/10	Amended 2010/11	Proposed 2011/12	Proposed 2012/13	Proposed 2013/14
Revenue	135,916,214	136,363,473	130,049,866	129,274,695	128,560,091
Expenditures	137,649,867	135,897,825	143,723,546	141,297,084	137,692,807
Proposed Cuts	-	-	-6,000,000	-8,000,000	-8,000,000
Total Expenditures	<u>137,649,867</u>	<u>135,897,825</u>	<u>137,723,546</u>	<u>133,297,084</u>	<u>129,692,807</u>
Total Gain/(Loss)	<u>(1,733,653)</u>	<u>465,648</u>	<u>(7,673,680)</u>	<u>(4,022,389)</u>	<u>(1,132,716)</u>
Ending Fund Balance*	<u>18,861,061</u>	<u>19,326,709</u>	<u>11,653,029</u>	<u>7,630,640</u>	<u>6,497,924</u>
F/B % of Expenditures	13.70%	14.22%	8.46%	5.72%	5.01%
Projected Enrollment	12,076	12,063	12,096	12,027	11,936
Cuts per Student	-	-	(496.00)	(665.00)	(670.00)
Fund Balance per Student	1,562	1,602	963	634	544
*Ending Fund Balance includes Durant Fund Balance.					

# FOR MORE INFORMATION

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- Troy School District Web Site  
[www.troy.k12.mi.us](http://www.troy.k12.mi.us)
  - Parent Tab
    - Budget
      - Budget Adoption Resolutions
      - Questions and Answers
      - Audits

# NEXT STEPS

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- Continued discussions with State Lawmakers – ongoing
- Community Meetings – March 7, 8, 9, 10, 2011
- Development of budget proposals – January-April 2011
- Adoption of Budget Reduction Plan by the Board of Education – April 19, 2011
- Adoption of 2011-2012 budget by the Board of Education – June 2011
- New budget effective July 1, 2011

# WHAT CAN YOU DO?

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- Write State Lawmakers
  - Contact information available at TSD web site (Parent tab; Legislative Updates)
- Study school finance issues closely
- Offer your input at  
<http://www.troy.k12.mi.us/finance/input.asp>

# QUESTIONS

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