



MEMORANDUM

TO: Shawn Lewis-Lakin

FROM: Rick West, Executive Director Finance & Operations

DATE: April 4, 2014

RE: General Fund Budget Amendment #2

Rick West

Progress has been made in reducing the operating deficiency in the General Fund. Currently, the stated budget shortfall as recommended in this amendment is \$1,420,567. Efforts will be made to further reduce this deficiency over the coming weeks. The following is a summary of the most recent, significant developments as analyzed by revenue source and expenditure object code:

Revenue

- Local Revenue increase is largely due to the increase in anticipated local tax revenue as a result of increased non-homestead taxable value reported to the state by Oakland County. Increased local revenue as a result of increased non-homestead property values will reduce state revenue as the state's obligated portion of the per pupil foundation allowance will decrease. We will be collecting revolving statements from the municipalities which levy taxes on Royal Oak in the next month or so. This will allow us to better know how much we should anticipate in local delinquent tax collections by June 30th.
- State revenue has a slight increase as we added Best Practice Revenues of \$260,000 into the amendment as a result of the resolution adopted by our board and submitted to the state. We anticipate receiving our first best practice payment in April. Pupil count is a significant factor in the amount of state revenue we receive. It is anticipated that our blended pupil count (.9 fall 2013 count x .1 winter 2014 count) will be 5,031.15 which is approximately 129 students less than the 5,159.99 that was budgeted for in the original budget. The reduction of students has resulted in a loss of over \$1.1 million dollars to our revenues.
- Federal revenue was increased to recognize actual grant awards. These revenues are offset dollar for dollar with expenditures. Our federal programs include: Adult Education, IDEA (Special Education), IDEA Preschool, Title I (Education for

Disadvantaged), Title II (Professional Development), and Title III (Immigrant, English Second Language).

- Incoming Transfers and Other Transactions were not significantly impacted in this amendment. The majority of this revenue is attributed to PA 18 funding which is the county wide millage for special education that is collected by the county and passed on through an established allocation method to the local districts. Payments are net of tuition expenses owed by local districts for the education of our students being served in center based programs; however, we account for the entire allocation in our revenue and expenditure line items.

Expenditures

- Salaries were reduced to reflect contractual obligation to be paid to employees for the remainder of the fiscal year. This is consistent with our budgeting approach in which we conservatively allocate funds to our salary budget lines and reduce them throughout the fiscal year.
- Benefits include life, disability, health, dental, vision, retirement, employer paid social security, workers compensation, unemployment, and cash in lieu of benefits. All line items have been adjusted to reflect actual to date expenditures plus anticipated expenses for the remainder of the fiscal year. Benefits for July and August are accrued back to this fiscal year; therefore, the benefit lines do take into account a potential increase in premiums for those two months and the increase in the hard cap amounts as established by PA 152. The result of the adjustment and increase in premiums has increased the anticipated benefit expenses from budget amendment 1 by approximately \$440,000. Unemployment was originally budgeted at \$150,000 and was reduced substantially to \$8,900 to reflect the actual expense in which we will incur. Again, this is a consistent approach and we will closely monitor these line items the next couple of months as we prepare for the final amendment.
- Contracted/Purchased Services bottom line expenditures were not significantly impacted in this amendment. Contracted/Purchased Services include EduStaff Personnel (i.e. substitute teachers, coaches, pupil accountant, etc...), GCA Services (Custodial, Maintenance, and Grounds), and Durham Transportation Services. Contract substitute teacher line items were not adjusted in this amendment. We will monitor these lines as we prepare for the final budget and amend them to reflect actual expenses. GCA is under contract and we will pay them approximately \$2 million this fiscal year. We were able to reduce the budget amount for Durham Transportation Services line item by \$100,000 through effective and efficient routing. The \$100,000 was maintained and spread over repair building and supply lines in the operations budget.
- Supplies line increases are largely attributed to the approval and purchase of a K-5 math curriculum in the amount of \$486,000. There is still approximately \$1 million in supply line money that has not been spent or encumbered. By the final amendment, all purchase orders will have been completed and most invoices paid which will allow us to be very accurate on the supply line item budgets. A portion of building supply line item budgets

were transferred to building capital outlay line items to prepare for the purchase of technology devices.

- Capital Outlay has been increased by \$246,000 as a result of transfers from building level budgets to prepare for the purchase of technology devices. These line items will be increased by an additional \$190,000 in the final amendment to account for the total \$432,000 of technology devices expected to be purchased. This increase will be offset by other general fund line item transfers. There is an additional \$400,000 maintained in capital outlay lines for technology and vehicle purchases in which there is no current plan to use these funds.
- Other Expenses were not significantly impacted by this adjustment. A little more than half of the \$647,000 is for taxes abated and written off. We receive monthly invoices from the county in which we owe for prior and current year tax tribunal settlements. The expense to date is approximately \$150,000. As a conservative approach, I recommend maintaining the \$339,000 budget and adjust it in the final amendment. A journal entry will be completed in June/July to allocate an appropriate amount of the expense to the debt retirement, which will decrease the expense in the general fund.
- Outgoing Transfers and Others were reduced by approximately \$200,000 as a result of reduction in tuition paid to center based programs. As explained in the Incoming Transfers and Other Transaction revenue paragraph above, PA 18 funds are allocated to local districts net of tuition payments. If tuition payments decrease, our net revenue for PA 18 funding will increase if the allocation remains the same. Reduction in tuition paid to center based programs is a result of the decision to add the K-2 ASD program. Addition expenses in these object codes include transfers to the Community Service Fund (\$429,506) and transfer to the 2011 Energy Bond payments (\$243,836).

In summary, revenues are increasing approximately \$360,000, expenses are increasing approximately \$120,000, and the operating deficiency is reduced by \$240,000. A final amendment will be prepared beginning now and presented and proposed in June.

Attachments:

GF Budget Amendment 2

GF Budget Amendment 2 Resolution