

Pontiac School District Financial and Operating Plan

December 15, 2013

Executive Summary

The Pontiac School District Financial and Operating Plan is hereby submitted in compliance with a Consent Agreement entered into by Pontiac School District and the Michigan State Treasurer. Included within this submittal is a request for MDE approval of a Deficit Elimination Plan revision. The Plan submitted eliminates the Deficit by the end of the 10th year (FY 23/24). Total expenditures per pupil decline by 25.8% from \$14,905/pupil in FY 11/12 to \$11,055/pupil in FY 23/24. Total expenditures per pupil "excluding" the energy bond annual payment, emergency Loan debt service, interest costs and capital repairs decreases from \$13,460/pupil in FY 13/14 to nearly \$11,000/pupil by FY 23/24. This level of expenditure is very near the current level for several Urban School Districts in Michigan who are not in deficit. The average contribution to Deficit Elimination per year is \$1,085 per pupil which represents on average 10% of all State and Local Funding. The Plan is aligned with a revised FY 13/14 Budget amendment which is included in the submittal. Significant elements and assumptions of this Plan are summarized below.

Enrollment:

Approximately 6,500 resident Pontiac School District students attend schools at other LEAs. The Plan assumes that Regular and Special Education student enrollment will decline in FY 14/15 by 2.5% but that simultaneously, Alternative Education FTE will increase by 110 FTE to a total of 200 then grow slowly to 275 FTE (a conservative figure given the nearly 600 dropouts). This will be accomplished by using a third party contractor to retrieve dropouts into Alternative Education. In FY 15/16 the base k-12 enrollment again drops by 1%. Each year thereafter the enrollment assumption is an increase of 2% or about 90 to 100 students. This results in a retrieval of Pontiac resident students and new students entering Pre-k of 750 students over a 10 year period. This represents a recapture of 11.5% of resident students attending school at other LEAs.

The rationale for the enrollment figures used in the Plan is provided at the end of this summary.

Foundation Funding from the State of Michigan:

The Plan assumes that the Foundation funding level will increase by 1% in FY 14/15 and 0.75% each year thereafter. The Plan assumes that Section 31 a funding for At-Risk students will be no less than \$500 per eligible pupil during each year.

Special Education Funding from PA-18 (local property tax):

The assumption is that this funding source will increase by \$100,000 each year due to increasing property values in Oakland County.

Emergency Loans from the State of Michigan:

The Plan includes a \$10 Million Emergency loan in both FY 13/14 and again in FY 14/15. These loans are essential for cash flow purposes alone, however, some of the proceeds are also needed to address critical capital repair issues in the near term and therefore \$4.5 Million of capital repairs are shown in the Plan during FY 14/15. The Plan anticipates a 4%, 25 year repayment with only interest payments on these loans until July 1, 2016 then a level payment until paid off.

Advance Refunding of Energy Bond

At present, approx. \$16.9 Million of additional debt service payments are required for Energy Bonds issued in 2006. Payments increase slowly from \$1.756 Million in FY 13/14 to \$2.508 Million in FY 20/21. FY 20/21 is the last year of these payments. On average these payments are over \$2 Million a year and represent 3.5% of the entire annual budget. It is highly unlikely that a buyer can be found who would purchase Advance Refunding Bonds issued by Pontiac School District. Therefore, the plan anticipates seeking and gaining voter approval by no later than February of 2015 for an Unlimited Tax General Obligation Bond sufficient to support an Advance Refunding of the 2006 Bonds during FY 15/16. The Energy Bonds are callable in 2016. It is recognized that a failure to obtain support for the Advance Refunding will require devastating additional cost reductions of \$2 Million (3.5%) to the recurring expenditure base or an extension of the Deficit Elimination Plan period.

The General Obligation Bond Debt millage is now 3.87 mils. This millage would otherwise expire during 2015 as the bonds the millage support will be paid off in that year. A successful election to support the Advance Refunding in February of 2015 would still result in a property tax levy reduction of more than 50%.

Property Insurance Claims

The District has numerous Property Insurance Claims totaling well over \$25 Million. The District is represented by Special Legal counsel on these matters. The Plan includes revenue from these claims in the amount of \$1.4 Million in the spring of 2014 and \$2.5 Million by June of 2016. This is a conservative level and represents less than 15% of the amount of the Claims.

Revenue from sale of land and vacant building

The Plan does not incorporate any revenue from sale of land or vacant buildings. However, an offer has been made on one property and is under consideration now. Additional offers are possible.

Payments to MESSA

The Consent Agreement requires that the District remit current monthly premium pre-payments to MESSA by each respective due date. The 2 year Cash flow has a tab showing payments to vendors and

clearly shows that the monthly premiums are remitted as required and that payments on the amount owed to MESSA for previous years and not subject to the Judgment levy are paid as well.

Wages, Benefits and Staffing:

The Plan assumes that in FY 13/14, 10 days will be added to the school calendar and the costs for this extended school year are paid for with Federal Title I funds. Beginning in FY 15/16 the additional days are increased to 20 for a 200 day school year. This change will require bargaining with affected bargaining groups. A wage reduction of approx. 5.5% is assumed for each 10 day period which is approx. \$900,000 for each 10 day period. The staff involved will have their pay reduced by nearly 11% then receive that amount back by working an extra 20 days a year. (This cost reduction is in addition to the 6% pay reduction which became effective on 7/1/2012). Agreement has not yet been reached through bargaining with the Teachers Association for FY 13/14. The Plan assumes that health insurance costs will be reduced by \$2.5 million annually beginning 1/1/2014. In FY 14/15, the Plan calls for grades 7 to `12 to be staffed for 5 rather than six periods per day savings approx. \$1.18 Million annually. Given these changes, Total wages and benefits have been reduced by over \$17 Million (29%) from \$58.7 Million in FY 11/12 to \$45.2 Million in FY 12/13 to a projected \$42.6 Million in FY 13/14 and to a projected \$41.7 Million in FY 14/15. The enrollment during this period dropped by 19.2%. The Plan does not assume any change to the MPSERS rate paid by employers.

The Plan recognizes that an additional \$1.5 Million (recurring) cost reduction will be necessary in FY16/17. This reduction will be addressed through staff reductions and or bargaining regarding wage and or benefit reductions or all of these approaches. The \$1.5 Million is the equivalent of 5.5% of wages excluding Grant wages (\$275,000 for each percent). The reduction was allocated to functions in FY16/17 on a prorata basis. In the tenth year of the Plan and each year thereafter across the board wage hikes, on schedule, are included.

The Plan incorporates a cost increase of \$300,000 a year (compounded) for addressing wage and or benefit cost increases and other effects from inflation. These funds can be allocated to inflation on goods and services, wage or benefit costs such as step increases and or off schedule wage changes or all of these. This cost is not allocated to functions in the Plan submitted as the impact by Function will vary and is not predictable. As a result a new row is added to the Plan so the cost is included in total expenditures.

Unemployment Insurance costs are currently \$350,000 a year and are reduced in FY 17/18 to \$250,000 a year. Workers Compensation annual costs are reduced from \$350,000 in FY 13/14 to \$150,000 by FY 17/18.

Staffing changes include the following:

Teacher positions have declined from 250 FTE in October of 2012 to 214 FTE in October of 2013 and to a projected 200 FTE by October of 2014, an overall reduction of 20%. Approx. 12 FTE teacher positions will be reduced from grade 7 to 12 in FY 14/15 by reducing the number of periods in a school day from six to five.

Additional staff reductions this year or next include: 3 School Administrators, 1 HS counselor, 5 Secretaries, 1 Psychologist, 1 Adaptive PE, 3 Teacher Assistants, Executive Asst. in the Business Office, 1 maintenance staff, 1 receptionist and 18 school building helpers. Food Service Management, Maintenance, Operations and Grounds staff and Transportation services have all been outsourced to Third Party Providers. Human Resource, Technology and Business Services are now provided by Oakland Schools Staff and or contractors pursuant to Intergovernmental Agreements.

Special Education Expenditures

Pontiac Special Education population continues to be among the highest in the state. Special Education expenditures in FY 11/12 totaled \$16.9 Million and in FY 12/13 totaled \$ 12.2 Million and to nearly \$10.5 Million in FY 13/14. The Special Education headcount in FY 12/13 was 1,025 (20%) and the Special Education FTE was 424.26 (8.2%). The FTE count for Special Education is over twice the state average. The General Fund pays the portion of Special Education costs which are not supported by PA-18 millage funding, State or Federal IDEA grants. The General Fund subsidy for Special Education costs amounts to approx. 30% of total special education costs or approx. \$3.7 Million.

The Plan assumes that the concentration of special education students will NOT change over the next ten years.

School Closure and Consolidation

The plan assumes that Frost Elementary school will be closed in September of 2014 and the preschool program shifted to WHRC where sufficient empty classroom space is available. Savings estimated by making this change are \$300,000. The Plan also adds an elementary school in the summer of 2024 to accommodate the enrollment growth projected to occur over the 10 year Plan period.

Class Size

The plan assumes that Title I and Section 31 a funds will be utilized to reduce class size from nearly 40 to 1 to an average of 30 students by FY18/19 (within five years as required by the Consent Agreement). The plan also allocates 30% of all additional funds received from enrollment changes to additional staff for instruction (variable costs). The Plan allocates an additional \$2.5 Million of General Fund money to support class size reduction in FY24/25 which is the year after the district eliminates the Deficit.

Inflation and wage improvement over the 10 Year Deficit Elimination period

The Plan anticipates that inflation costs on a \$58.5 Million base expenditure budget, including wage and benefit changes, utility costs, supplies and purchased services will average approximately ½ of one percent each year.

Capital Needs for Facility repairs and improvements

A Facility Condition Assessment has just been completed. The Assessment indicates needs over the next five years for capital repairs is approx. \$60 Million. The plan includes use of Operating Budget resources, particularly proceeds from two Emergency Loans, totaling \$15.5 million over the ten year period. As a result approximately 2.6% of operating funds are used for capital repairs. The Capital Repair Funding Plan is insufficient given the identified needs and remains a significant concern. (See below for remedy). The need for a Sinking Fund Election is clear but the plan submitted does not include any resources from such an election.

Cash Flow and Interest costs

The current 2 year cash flow forecast is based on the assumptions used in the Plan including State Aid Notes, Tax Anticipation Notes (each year at 8% interest) and two Emergency Loans of \$10 Million each at 4% interest. However, during the Spring of FY 15/16 there remains some risk of a cash shortfall occurring. This risk is dependent on the timing of Insurance Claim settlement in that Fiscal Year. The amounts being paid to ORS on the cash flow for monies owed represents only the 7% interest charge and amounts to about \$738,000 a year. The timing of the payment of the principal amount owed to ORS is included in the Plan during FY 15/16 after property insurance claims are expected to be realized. Negotiations for payment plans with other vendors are ongoing, including the Oakland County Treasurer, DTE, GCA Maintenance contractor, and Unemployment insurance.

Due to insufficient cash to support ongoing operations, interest and penalty costs in FY 14/15 are expected to be over \$2.8 Million (SAN, TAN, Emergency Loan, ORS and County Property tax). This amount is 4.2% of the entire budget for that year.

Federal Grants, State Grants and Categorical Funding

The plan anticipates using these funds to support the Education Plan and to support a portion of the Security Workforce cost as permitted by law. A large Grant Carryover from FY 12/13 into FY 13/14 will be utilized during the next two years. Thereafter, the Plan assumes that Federal Grants will grow at ½ of one percent a year and that Section 31 a funding will be \$500 per pupil at a level of approx. 83% of the student population for FY 14/15 and beyond.

Indirect costs are maximized for all Grants which permit this expenditure. The result is a reduction of costs showing in the Business Services Function area.

Pontiac Enrollment Projections – Rationale

The revised District Improvement Plan pending at MDE has initiatives that aggressively go after increased student learning and enrollment growth. We believe that in very short order the initiatives will grow Pontiac enrollment by at least 2% per year (about 90 students annually) which is based on regaining less than 12% of the students living in Pontiac but attending school elsewhere. Those initiatives and more are listed below.

- Pontiac High School will implement the turn-around model next fall, replacing at least 50% of its staff. In addition the model will incorporate blended learning with more project based units, supported by online curriculum (Florida Virtual University via REMC), and be aligned to the common core standards. Students will be given a chrome book to enhance the use of technology, teaching/learning will continue to be site-based, and class periods will be extended as will the school calendar. (Oakland Schools will be contracted to facilitate and monitor this project)
- Pontiac Middle School will also make greater use of technology and blended learning, with projects around career awareness and community service. Students will also be given chrome books to facilitate this effort. (Oakland Schools will be contracted to facilitate and monitor this project.)
- Of course, student enrollment will be enhanced by ensuring a safe and orderly environment in all Pontiac schools, especially the secondary ones. To that end, Pontiac is increasing its efforts around culture and climate. The AdvancEd climate surveys will be done with students, parents, and staff during second semester of this year. Results will be studied by both Pontiac and Oakland Schools' staff to determine program improvements that have to be put in place for the current year as well as the 2014/15 year.
- Drop-out Recovery Program will conservatively return 200 Pontiac students to the district next year and is likely to double that number by the second year. There are approximately 600 former Pontiac students who have dropped out of school in the last three years. Pontiac will work through a contract with Oakland Schools and The American Academy. The American Academy has been vetted by Oakland School and has an impressive record of success with 225 students across our state right now.
- If the class size waiver is approved and class size can return to 30 or less in grades K-6 by second semester of this year, it will be a strong message to parents that Pontiac is moving in the right direction. Class size is a key factor when parents are selecting schools.
- Pontiac's plan for extending the school year through the end of June will not only be attractive to parents but will have significant impact on student learning.
- Talks have begun with Oakland University to create a lab school at one of Pontiac's elementary buildings. This will be a research/teaching school similar to the one recently started with the Avondale school system. Pontiac will work with Oakland Schools and Oakland University on the model for implementation in 2014/15 school year.
- The implementation of instructional learning cycles within the PLCs in each of Pontiac's buildings is designed to bring more focus and action around student learning. Oakland Schools' consultants are primary facilitators and trainers for this effort which requires data analysis of student achievement on formative common assessments around agreed upon learning goals at least once every six weeks. Teacher collaboration around that data leads to adjustments made in teaching. This initiative has already started and will continue with increased attention.
- Also, instructional coaches will be assigned to every Pontiac building starting second semester, once the DIP is approved. These coaches will work with teachers on integrating research based best practices into their classroom teaching. Hattie's Visible Learning resource will be used along with other vetted practices proven to increase student learning. Oakland Schools' staff will train and assist Pontiac's instructional coaches.

- Pontiac is contracting with Oakland Schools to provide co-evaluators to work with building administrators to observe and assist in the rating of all teachers. These evaluations will be used to determine continuation of employment. Quality teachers are the most important variable in improving student learning. The benefit of all these initiatives to improve instruction in the classroom will not only raise student achievement, but will grow enrollment as confidence gains.
- Pontiac will pursue a partnership with community agency(s) to provide for before and after school care. This will be attractive to working parents and is likely to attract enrollment.
- Pontiac elementary school staff will develop a thematic focus as they become academies of learning. These academies will be designed to enhance learning and increase student engagement.
- Starting in the 2014/15 school year, pending approval by MDE for the use of grant funds, Pontiac will begin to immerse students in a world language in the first grade, moving up the grades each year. This offers Pontiac students the opportunity to become bilingual before the age of 10, and research has shown that early study of foreign language helps develop reading skills in later grades. This is also an enhancement that will attract students and parents.
- Pontiac will leverage its place in early childhood education by making sure that it fills every slot allotted to it for three and four year old preschool programs. Once students have a good experience with the Pontiac schools they are more likely to stay with Pontiac schools.