

To: Board of Education

From: Sharon Raschke

Date: April 20, 2020

RE: Financial Update - March 31, 2020

Financial updates to the Board are provided at the close of November, March, May, and June each year. The purpose of this memo is to provide an overview of financial performance through March 31, 2020. Included with this Financial Update is a compilation of individual financial narratives that were prepared by the administrators, department managers, and program directors.

The “Board Monthly Financial Report” summarizes the revenue and expenditures of the General Fund, Community Services Fund, and Food Services Fund to the functional level, consistent with the actual Board adopted budget. The Board receives this report monthly.

The “Expenses by Building/Program” provides additional detail by building and function. It is the summary referenced by the administrators and managers when summarizing their assessment of financial performance.

Financial Summary

The budget is developed based on planned funding, staff, and programs with the most accurate information available at the time. Consistent with what we have done historically, we budget based on full staffing and do not prorate based on vacancies that might occur due to mid-year turnover or leave of absences. Administrators, directors, and managers are conservative and careful in authorizing spending. Some expenses, such as utilities, can be volatile and may be somewhat unpredictable. Other expenses, such as tax refunds and deductibles on property insurance claims, are budgeted based on historical data, but favorable circumstances may allow us to minimize such expenditures in a given year. Inherent to our philosophy, budgets are not spent out simply because money has been approved. When final results come in under budget the excess funds are either carried over to the following year, when applicable by board policy, or added to fund balance.

Review of Revenue Budget Categories

General Fund Revenue – Revenue amounts are projected or estimated based on the amount and timing of payments for state aid per pupil foundation, number of students, local property taxes, federal grants, state grants, local grants, and other local revenue.

Foundation – The state aid per pupil foundation was based on \$8,328. The student count was planned based on the October 2019 student count of 3,627 (3,580 general ed). The actual foundation allowance is based on 90% October 2019 and 10% February 2019 counts. The February count was 3,622 (3,575 general ed). Based on Governor Whitmer’s Executive Order, we do expect that school districts will receive their full foundation allowance for the 2019-20 school year.

However, realize that the amount of revenue the State is collecting amid the pandemic has fallen to unprecedented levels. The amount of foundation allowance we receive is directly tied to the amount of revenue the State collects for the State School Aid Fund. Expect there will be a little to no increase, and possibly a reduction, in the foundation allowance for 2020-21 and out a few years.

Other State Categoricals – Also included are the Foundation Guarantee, Early Literacy, Data Collection, First Robotics, Recycling Infrastructure, Retirement Rate offset and Retirement unfunded stabilization payments. We also anticipate we will receive the full allocations for 2019-20, but may see a reduction or elimination next year.

Sale of Assets – In accordance with the district’s disposal of obsolete property process, the district sold or is in the process of selling hundreds of used desks, tables, chairs, books, and textbooks. The obsolete furniture is the result of outfitting classrooms at Beacon, Anchor, and pilot classrooms throughout the district as well as the sale of some fixtures from the Copeland building. We have received \$11,000 from sale of obsolete assets.

Indirect/Direct Transfers to General Fund – The budgeted transfers are \$142,477 (10%) from Food Service and \$133,151 (7.5%) from Community Education. Transfers through March 31 were \$97,511 and \$94,075, respectively. While the transfers are expected to be in line with the budget, we know Community Education will require a substantial General Fund Subsidy for the remainder of 2019-20 while we continue to pay staff without any offsetting revenue.

Capital Projects – I am pleased to share that we have been awarded a grant from the Volkswagen State Mitigation Trust through the Michigan Department of Environment, Great Lakes, and Energy (MEGLE). The grant award of \$211,198 will cover 25% of the cost to replace 8 school buses. We planned for replacement of school buses through the 2017 Bond. We will use the bond funds to cover the 75% district match. This was a competitive grant.

Review of Expense Budget Categories

The percentage of expenses used that are reported in the financial reports include expenses paid and encumbered (open purchase orders). Buildings and other programs have varying levels of purchase orders that have been issued for anticipated expenses. This may be misconstrued that a building or department has spent a larger portion of its annual budget or is doing better or worse than previous years. Please be cautious of making judgments without having the background information that supports the budget information presented.

As you know, Michigan Governor Gretchen Whitmer’s Executive Order 2020-5, issued a temporary order that closed all elementary and secondary school buildings beginning March 16, 2020 through April 5, 2020. Executive Order 2020-21 extended school closures through April 13, 2020 and Executive Order 2020-35 Suspending Face to Face Learning at K-12 schools for the remainder of the school year. The Governor’s Executive Order 2020-35 required all schools to begin providing learning opportunities for all students. It further ordered that all employees must receive their normal pay for the rest of the school year. Some of our staff provided an essential service and directed to report, some worked remotely, and others did not have a role that worked in those scenarios.

We may incur additional expenses implementing the Continuity of Learning Plan. We may also realize additional revenue from State or Federal emergency relief. We have established appropriate revenue and expense lines to record and track these variances.

Payroll – Expenses for salaries affect every building/program area with staff. The budget for salaries is based on annualized contracts. Year to date payroll was approximately 75% complete for non-teaching staff and 58% complete for teaching staff. As a condition of the Executive Order, school districts are required to continue to pay employees regularly scheduled hours. We will experience a minor reduction in payroll expenses related to the elimination of extra time paid to teachers for coverage, after school work, and support staff overtime. We also have eliminated all substitute costs that are contracted services thru EduStaff for teaching subs and paraeducator subs for the remainder of the school year. This will result in expenses favorable to budget.

Leave of absences affect overall results compared to budget. When staff has enough sick days banked to be paid for the duration of the leave, we incur the cost of the absent staff plus the cost of a substitute for that position. When a portion of the leave of absence is unpaid the lower cost of the substitute results in a reduced cost of coverage for a particular position. So far this year, we have managed or are currently managing leaves of absences for 25 employees, including 16 teachers, 1 administrator, 2 B&G, 1 para-educator, 1 secretary, 1 Community Education employee, 1 individual contract employee, and 2 Food and Nutrition employees. Most leaves create vacancies that need to be filled with substitute employees and result in a negative variance to budget. For teachers whose leave of absence was the entire school year, we already adjusted the budget for the savings due to the unpaid portion of the leave. With schools being shut down, we will not be paying for substitute coverage for staff on leave. This will result in expenses favorable to budget.

Health-Related Benefits – The 2019-20 budget for health related expenses is a combination of MESSA fully insured medical, dental, vision, LTD, Life, and BCBS fully insured medical. At this time 3/4 of the annual budget has been recorded. The health costs will vary from budget mostly because of enrollment changes at open enrollment. For example, an employee who opted out of coverage changes to full family coverage on January 1, due to an open enrollment election, would create a negative variance. There will be no loss in employee health benefits due to schools being shut down.

Retirement Costs – Expenses for MPERS retirement affect every building/program area with staff. The rate charged per employee is completely dependent on the individual employee's retirement elections. The employer contribution to the defined benefit plan is 20.96%-27.50%. The employer contribution to the defined contribution plan is 4%-9%. The District's MPERS liability and rate stabilization rate is estimated to be 12.41% of the budgeted 2019-20 wages. The amount paid for the rate stabilization flows through our books, meaning we receive revenue to match the expenses billed by MPERS. The majority of employees' elections require the District to pay 39.91% in total. We pay as much as 42.57% for employees electing the newest defined benefit plan. The District pays 42.37% for newly hired employees who completely opt out of the State Retirement system and make contributions on their own toward retirement. We will see a small savings in retirement costs to the extent extra payments are not made to staff while schools are shut down the remainder of the school year. This will result in expenses favorable to budget. However, realize that the financial crisis due to the pandemic will impact retirement costs in future years due to lost returns.

Payroll Taxes/FICA – Employees are participating in Sec 125 programs such as Dependent Care, Flexible Spending, and HSA's. Consequently their wages are exempt from FICA and Medicare payroll taxes. This saves both the employee and employer portions. Employee contribution to health care elections are also exempt. We are \$60,000 favorable on related benefit lines through March 31.

The CARES act allows employees to make changes to their Dependent Care elections if their daycares are closed. It also expands utilization of Flexible Spending and HSA accounts. We will be implementing the appropriate plan document amendments.

Instructional Support – The Special Education Director has prepared a narrative for matters related to special education. The Executive Director of Instruction and Strategic Initiatives has prepared a narrative for matters related to Curriculum and Instruction. Instructional Support also includes the costs of the Nurse. An additional Nurse was hired in November to meet the needs of students at our middle school level.

Board of Education – This category includes activities of the Board of Education including board stipends, workshops, legal, unemployment, audit, and election costs. To date we have spent \$42,000 on legal costs, exceeding budget by \$2,000. The overall result of this category is somewhat uncertain, so we will likely request a budget amendment to appropriate additional funding for Board legal costs.

Executive Administration – This category is for the office of the superintendent. The budget includes superintendent and per contractual obligations. This category is expected to be within budget.

Business Office – This category includes the Business Office and associated services. In February, we added a part time employee, Beckie Sterlitz. We had been trying to expand our cross training effort to have others in the department become proficient with payroll and benefits, but there was not enough time to fully cross train someone while doing their own work. With the added part time position, we cross-trained Katie McClellan to handle payroll. Right from the beginning of the shutdown on March 16, the Business Office staff continued working full time to maintain critical infrastructure services, including payroll, benefits, paying bills, accounting, and capital infrastructure projects. After the stay-at-home order was issued, we increased our personal protection routine and moved to A and B teams with three of us in the office 7:30-11:30 and three from 12-4. All work remotely the remainder of each day. Since the shutdown, both Mike Wagner and Katie McClellan are working on payroll and benefits. Without the timely addition of the extra part time position, adjusting to the shutdown would have been nearly impossible.

I have personally spent the entire last month navigating the shutdown and executive orders to translate the business, financial, payroll, and benefit implications into processes and communications within the Business Office and our District.

This category is expected to be within budget.

Business Services - This category includes severance payments, board insurance, non-health claim deductibles, interest expense, property taxes, and tax refunds/collection costs.

We are responsible to pay property taxes on the house under life lease until it is converted to public use. The debt taxes paid are refunded by our Debt Fund. The net cost was approximately \$4,900 this fiscal year.

This category is expected to be within budget.

Utilities/Security – This category includes district utilities, the liaison officer, and property insurance. Since the schools were essentially vacated in mid-March, we do anticipate a reduction in water/sewer usage, electricity, natural gas, and trash pickup costs. We also experienced a milder than average winter. A favorable variance for utilities is expected.

Personnel - This category is for the office of personnel. This category is expected to be within budget.

Transfers - This category is for recording transfers out of General Fund for consortium, special education tuition, and community services fund subsidy. The Consortium transfer is for our portion of costs associated with our participation in the vocational education program. The Special Education transfers are for our usage of Special Education services housed at other districts.

The Athletic Program was budgeted to receive a subsidy up to \$531,978 as approved in the November revision. The transfer through March 31 was \$450,000. With Spring sports being cancelled, all pay to participate fees are being refunded. We will not incur any cost of bussing to games or game officials. Payments to coaches are being discussed. Athletics will need an additional subsidy from General Fund.

The Community Education program was expected to return to General Fund 7.5% of expenditures to support a portion of the indirect costs incurred and was also not budgeted to receive a subsidy from General Fund this year. Community Education is continuing to pay its teachers and daycare workers through this shutdown without any corresponding revenue. Community Education will need to be subsidized by General Fund for all its losses incurred due to the shutdown.

Please see the program reports from the Athletic Director and Community Education Director.

Debt Services – This category is for the Common Debt Retirement of the 1998 Debt, 2012 Building and Site and Refunding Debt, and 2017 Building and Site and Refunding Debt.

Revenues are property tax collections. Property tax revenues and settlements from the 2019 tax year are being received. Expenditures are principal and interest payments on the bonded debt. While the goal is that these funds have revenue equal to expenses and no fund balance, the timing of payments on the debt and the taxes received from collections generate some fluctuation in balances. No borrowing was necessary from the School Bond Loan Fund to cover our obligations for the November 1, 2019 debt interest payment and we have collected sufficient debt taxes with the 2019 levy to cover the May 1, 2020 principal and interest payments and the November 1, 2020 interest payment.

As of March 31, we repaid \$4,229,500 to the State School Bond Loan Fund and anticipate another repayment when we receive our final tax settlement. As soon as we collected any excess debt taxes, we wired funds to the State of Michigan to reduce our loan and save on interest costs to the greatest extent possible. The projection is that we will repay about \$4,400,000 to the School Bond Loan Fund before June 30, 2020. In 2018-19 we repaid \$2,223,900 to the School Bond Loan Fund. During 2017-18 we collected ample debt taxes to cover the November 1, 2017 and May 1, 2018 principal and interest payments, and in 2016-17 we borrowed \$1,110,170 from the State School Bond Loan Fund to make our November 1 interest payment and then repaid \$757,925 towards our balance by year end.

The Michigan Tax Tribunal issued a ruling in August upholding the nonprofit/charitable institution status of Chelsea Health and Wellness Foundation in regards to the Dexter Wellness Center taxable value for 2017. The tax refund for the debt portion was \$43,161 which included \$3,300 in interest and is unrecoverable. The refunded debt will affect the amount available to repay the School Bond Loan Fund. During 2018-19 the Michigan Tax Tribunal issued this same ruling in regards to the Dexter Wellness Center taxable value for years 2014, 2015 and 2016. The 2018-19 tax refund for the debt portion was \$127,400 plus an additional \$16,588 in interest. All the refunds are a direct loss to our school district taxpayers.