



July 21, 2016

Mr. Mike Weiler
Superintendent
Kent City Community Schools
200 Clover Street
Kent City, MI 49330

Dear Mr. Weiler:

Attached is the completed Administrative Review of Kent City Community Schools per Public Act 109 of 2015. According to the Michigan Department of Treasury, the review was to be completed by July 25, 2016. A copy of this review is being sent to Treasury from my office.

I will work with you in the near future to schedule the public meeting presentation. In the meantime, if you have any questions please let me know.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Mike Hagerty', with a long horizontal flourish extending to the right.

Mike Hagerty
Assistant Superintendent for Administrative Services

MH/kd

Attachment

cc: Ron Caniff, Superintendent, Kent ISD
Michigan Department of Education
Michigan Department of Treasury

Administrative Review of Kent City Community Schools

per Public Act 109 of 2015

July 21, 2016

Introduction

On February 26, 2016, Kent City Community Schools received a letter from Paul Connors at the Michigan Department of Treasury declaring that “potential fiscal stress exists” for the District. This notification was in compliance with Public Act 109 of 2015 which indicates the potential for fiscal stress exists when a school district may have an operating deficit during the current school fiscal year or the following two school fiscal years or that the school district may be unable to meet its financial obligations while also satisfying its obligations or abilities to provide public educational services in a manner that complies with this act, the State School Aid Act of 1979, and applicable rules.

Under Public Act 109 of 2015, the district could choose to enter into a contract with an Intermediate School District to perform the administrative review or submit periodic financial reports to the Department of Treasury. On April 26, 2016, Kent City Community Schools entered into an “Agreement For Administrative Review of Financial Status” with Kent ISD to perform the administrative review. Public Act 109 of 2015 requires all those items identified under MCL 380.1219 be included in the administrative review and shall include but is not limited to all of the following:

- i. An examination of financial practices, including at least an examination of the District’s compliance with the Uniform Budgeting and Accounting Act, 1968 PA 2, MCL 141.421 to 141.440a, budget to actual expense report monitoring, and budget amendment practices after budget adoption.
- ii. An examination of staffing and a comparison of staffing to other school districts, as applicable.
- iii. An examination of wages and a comparison of wages to other school districts in the area, as applicable.
- iv. An examination of benefit costs as a percentage of wages and a comparison of benefit costs as a percentage of wages to other school districts in the area, as applicable.
- v. A school building student capacity utilization review.
- vi. An examination of non-instructional costs by function and a comparison of those costs to other school districts, as applicable.
- vii. A review of enrollment projection methods and history.
- viii. An examination of deferred maintenance and capital investment needs. Capital investment needs include technology equipment and technology infrastructure needs.

- ix. An examination of substitute costs, workers' compensation costs, unemployment compensation costs and forecasts, and a review of other insurance programs.
- x. An examination of pupil transportation costs and routing.
- xi. An examination of the current and future costs of existing bargaining agreements.

Executive Summary

The District fund balance has fluctuated within a reasonable, albeit risky, band of 6% to 10% of revenues from Fiscal Year 2011 to Fiscal Year 2014. In FY-2015, due to excess expenditures of \$410,000, the fund balance declined to 2.5% of revenues. This level of spending in excess of revenues is not sustainable and will deplete the remaining reserves absent significant intervention. The District projects a modest increase in fund balance for FY-2016 to an estimated 3.00% of revenues. FY-2017 projects an increase in fund balance; however, ongoing contract negotiations add an element of caution to any estimate until negotiations are resolved. The district expressed confidence it will continue to make modest gains on increasing the fund balance to the minimum desired 5%.

Enrollment has remained relatively stable and is down only slightly from FY-2011 enrollment of 1,356 to the current year FY-2016 level of 1,341. Between these years the enrollment fluctuated between a low of 1,311 and high of 1,388. This relative stability has allowed the district to manage its resources and maintain a stable financial position with the exception of two major draws against fund balance in FY-2013 and FY-2015 of over \$400,000 each year. As will be discussed the most recent operating deficit in FY-2015 appears to have occurred primarily due to issues related to budget planning and budget control.

It is imperative the District remain disciplined in its spending habits while working to regain the minimum 5% fund balance level. Because of uncertainty surrounding enrollment and long-term funding, it is suggested the district target a fund balance range of 8 to 10% for greater stability. During this fund balance restoration period the District will need to be cautious related to employee costs, both in contract negotiations and in staffing levels. Such caution, along with the implementation of the suggestions below, should allow the District to reach its fund balance target then gradually reward staff.

Recommendation

As required by the Michigan Department of Treasury, the administrative reviewer shall issue recommendation(s) to the District concerning those steps the District should consider taking to avoid a deficit. Below is the recommendation as well as a number of suggestions to successfully implement the recommendation. This recommendation and these suggestions were created by comparing a variety of costs, staffing, and operation metrics of the District to a peer group of thirteen districts from around the state with similar student population, free/reduced lunch %, foundation allowance, and square miles. All data used was audited, with the 2014-15 year being the most recent.

Recommendation: the District shall restore the fund balance to a level equal to or greater than 5% of revenue (as defined by the Department of Treasury) by the end of the 2017-18 school year.

Suggestions:

- Support Staff: REP (Registry of Educational Personnel) data reflects the District has support staff in the categories of school support, student support, and other support that exceed peer averages by 40%, 58%, and 27% respectively.
 - A thorough review of the district REP data should occur to determine the positions involved in these variances.
 - A review should be conducted to determine if some of the work performed by these positions could be eliminated, reduced, reallocated, or consolidated with the goal of fewer positions.
 - The goal is to bring the District more in-line with the peer averages.

- Special education: Comparative data reflects the District spends \$845 per pupil on special education while the peer average is \$621 per pupil, a difference of \$224 or 36%.
 - Special education costs can be more volatile than general education costs due to programming costs and the reality that one new student can substantially impact costs.
 - A thorough review of special education services, staffing, and costs should be conducted to bring the District more in-line with the peer group.
 - The cost savings of the District spending comparable to the peer group is approximately \$300,000.
 - Any efforts to address costs must keep in mind the Maintenance of Effort requirement. Kent ISD staff can assist in this analysis if needed.

- Athletics: Historical FID (Financial Information Database) data reflects the cost of athletics from 2010-11 to 2014-15 increased 28% while the District's student count remained relatively flat.
 - Compared to the peer group the District spends 14% more on athletics.
 - The potential cost savings of the District spending comparable to the peer group is approximately \$50,000.
 - A thorough review of athletic offerings, costs, and staffing should be conducted to bring the District in-line with the peer group.

- Enrollment Projection and Pupil Accounting: School district funding is based on enrollment. It is important enrollment be monitored closely and annual estimates developed.
 - The District spends more than peer districts in pupil accounting (\$20,822 vs \$8,479). A thorough review of pupil accounting should be conducted to ensure proper accounting practices are adhered to while bringing the cost closer to peer districts.
 - Pupil accounting has become more complex over time. Kent ISD pupil accounting staff should be a regular resource consulted whenever there is any interpretation required regarding pupil accounting as it is the primary basis for funding.
 - Annual enrollment forecasts can be obtained from various forecasting firms. The value of these forecasts is they take into account the size of various student classes, births for kindergarten forecasts, and student movement between grades. These

forecasts provide a systemic process that provides multi-year forecasts that can be updated annually.

- Pupil Transportation Services: The district spends \$864 per pupil versus peer spending of \$502.
 - This difference of \$362 per pupil represents a 72% premium for the district. If spending was at the peer level it represents almost \$500,000 in potential savings. This potential impact is mitigated somewhat as the district spends slightly more on capital outlay. The district also spends more in special education transportation (largely offset by state revenues) due in large part to the district's geographic location.
 - Routing should be reviewed carefully to look for any possible efficiencies.
 - The district's square miles are less than the peer districts by 21% so there is less geographic area to cover.
 - An additional complication related to transportation is that the bus fleet is relatively old and high mileage. The average age of buses exceeds 12 years and the average mileage per bus is 142,000 miles. Both these numbers are at the high end of their respective areas. The ultimate result will be the need for new buses placing additional cost pressure on the district.

 - Instructional Support Services: Functions 211 to 219 are significantly higher than peer districts (\$647 per pupil versus \$308). These areas represent primarily special education itinerant staff services such as psychologists and social workers.
 - ISD's handle special education and itinerant staffing differently so this isn't always an "apples to apples" comparison.
 - In comparing these costs to Kent county districts on a per pupil basis the district is slightly above the average county cost (not including Grand Rapids Public Schools).
 - At the very least, itinerant staff case-loads should be examined carefully and possible staff sharing with other districts should be explored. An example would be to work with the other districts in Region I to determine if staffing efficiencies can be realized by any potential sharing of itinerant staff.

 - Non-Instructional Central Support Services: Function 281 to 289 exceed peers by \$108 per pupil representing potential savings of \$140,000.
 - Included in Central Support Services are Planning & Research, Personnel, Non-Instructional Technology Services, and Pupil Accounting.

 - Employee Costs: Employee costs represent the greatest share of the district's budget. It is therefore imperative that employee costs be closely monitored and controlled in order to attain a sound financial position.
 - The two main areas that factor into employee costs are the cost per employee and the number of employees.
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- Employee contracts are negotiated for various employee groups to establish wages and employee benefits. The negotiations process largely determines the cost per employee. Care must be taken to insure:
 - Full costing of all economic contract provisions including such items as:
 - Base salary increase
 - Schedule steps
 - Retirement and FICA costs related to any salary/wage increase
 - Insurance and pension cost increases
 - Shift premiums and premiums for such provisions as overtime in excess of that required by law
 - Any form of additional compensation such as class size limitations or any other area that dictates additional pay or more employees
 - Attrition Management - A detailed staffing process should be developed and instituted. Every vacancy should be evaluated for the potential to do the work differently:
 - Eliminate the position
 - Combine work with another position
 - Phase out the work over time with another position absorbing the duties
 - The key to effective employee cost management is recognition of the relationship between employees and cost.
 - The number of employees
 - The cost per employee
- Budget Control Process: Budget control is critical once the budget is developed and adopted. Some techniques to incorporate into the regular control process:
 - Identify all major budget categories with the goal of focusing on where the larger dollars are expended. These will typically include:
 - Employee costs including salaries, benefits, retirement, and FICA.
 - Utility and energy costs.
 - Special education tuition and transportation costs.
 - Insurance including property and liability coverage.
 - Tuition and dual enrollment payments.
 - Software licenses.
 - Other major line items.
 - Setup a control system including historical data from prior years for comparison purposes. It is helpful to have historical comparative data for reference points when monitoring current year activity.
 - Develop a system projecting year-to-date data for the entire year. This system should project current year-to-date numbers to an annual basis.
 - Energy Management: Energy costs represent a major cost in the operation of school district facilities. The controllable portion of energy costs is usage. There are a number of programs available that assist districts in controlling the volume of energy consumed. The district should explore these options.

Areas of Note

While the intention of the review is to issue recommendations as to how the District can eliminate the potential for fiscal stress, a number of areas were noted during the review where the District has performed well financially, often due to difficult decisions. Following are a number of such areas:

- Classroom Expenditures: from 2010-11 through 2014-15 student FTE was relatively flat. The District made increased investments in classroom programming during this period of time. Classroom expenditures as a % of total expenditures increased from 56% to 58%.
- Office of the Principal Expenditures: during the period of time noted above when student FTE remained stable, classroom expenditures increased 13% while spending on the office of principal increased 11%.
- Business Services: during the period of time noted above when student FTE remained stable, business service costs declined 15%.
- Migrant Program Impact: The district has a significant migrant program that adds complexity in analyzing the district operation. Various areas are impacted and were taken into account during the review.

Conclusion

Kent City Community Schools has significant opportunities, as noted in the “suggestions” section above, to improve the financial strength of the district. In addition to all the work already being done by the District, financial improvement will require difficult decisions to allow the District to be removed from the fiscal stress designation under current law.

This report is issued by Kent ISD on July 21, 2016 by Mike Hagerty, Assistant Superintendent for Administrative Services.