

November 7, 2016

Jon Felske  
Muskegon Public Schools  
349 W Webster Avenue  
Muskegon, MI 49440

Dear Jon,

Following is our completed administrative review in accordance with our agreement dated August 4, 2016. The Muskegon Area ISD has performed an evaluation of Muskegon Public Schools (MPS) pursuant to Public Act 109 of 2015 focusing on the following information:

- 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 and public school academies in the area, as applicable.
- iii. An examination of wages and a comparison of wages to other school districts and public school academies 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 and public school academies 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 and public school academies, 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 cost, 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.

Most of the comparative analysis was done using Eidex Insights which uses compiled FID data through fiscal year 2015. We also were able to upload the MPS FID file for fiscal year 2016, however, this is only used to represent continued MPS trends as the peer group does not have this data available. In addition to Eidex, the MAISD used other available information, including the district’s collective bargaining agreements, Bulletin 1014 data, MI School and other information.

**Peer Districts**

We were limited to finding a small sample of comparable school districts to run our analysis. In the end we identified five peer districts. The districts used for comparative data were narrowed down using the following metrics:

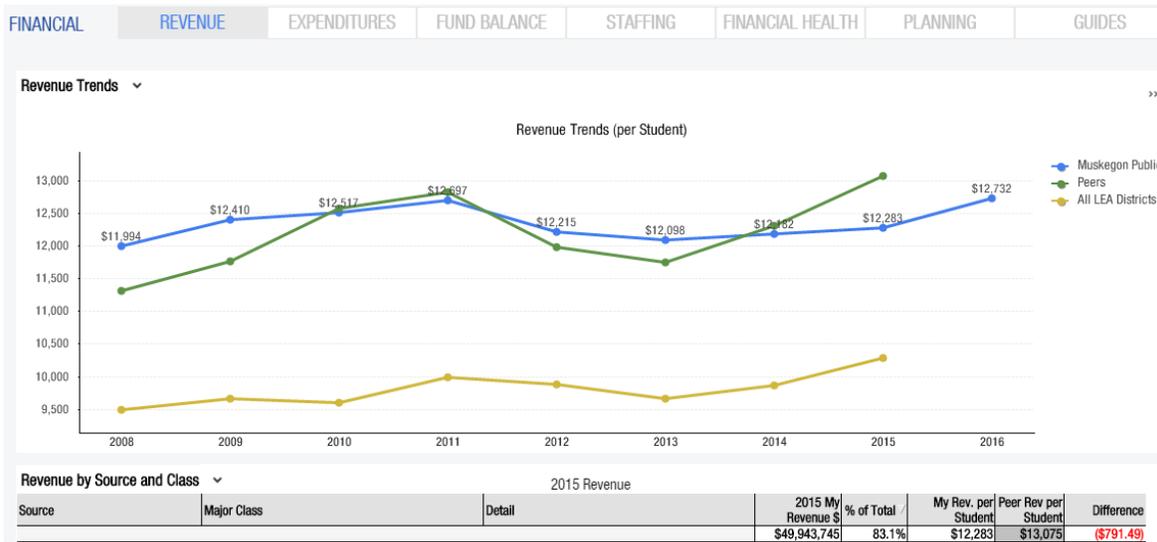
- LEA Districts only
- 2015 enrollment figures ranging from 3,500 to 5,500 students
- 2015 free and reduced lunch percentages ranging from 75% to 90%

5 Peers found	Students	% FRL
Flint Schools	5,360	88%
Lincoln Park	4,815	79%
Muskegon Public	3,885	87%
Oak Park Schools	4,754	80%
Pontiac Schools	4,158	75%
Wyoming	4,358	77%

For all transportation issues we focused on using just three of the above listed districts based on further limiting our pool to districts with less than 20 square miles. This peer group consisted of Lincoln Park, Oak Park and Wyoming.

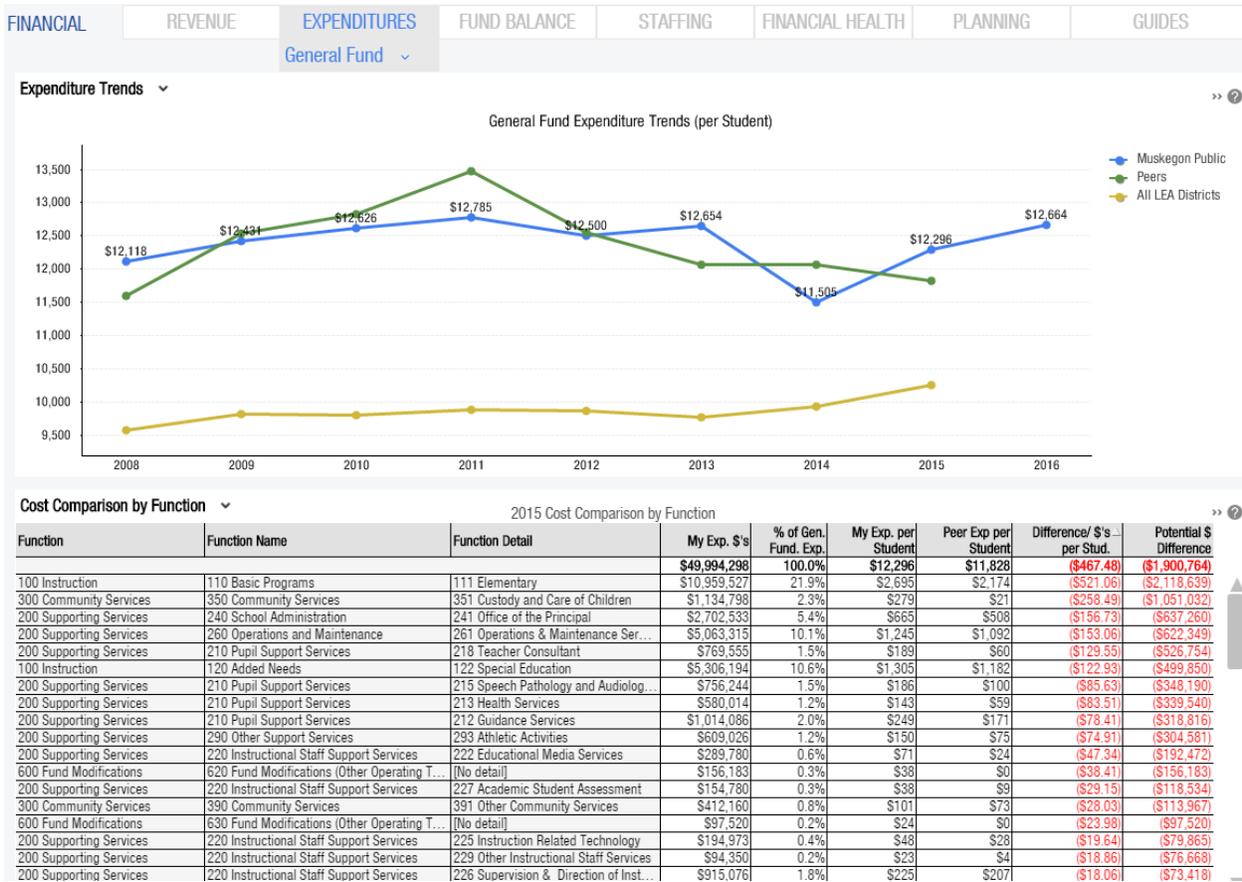
## Revenue Trends

Per student revenue trends are very much in line with the MPS peer group.



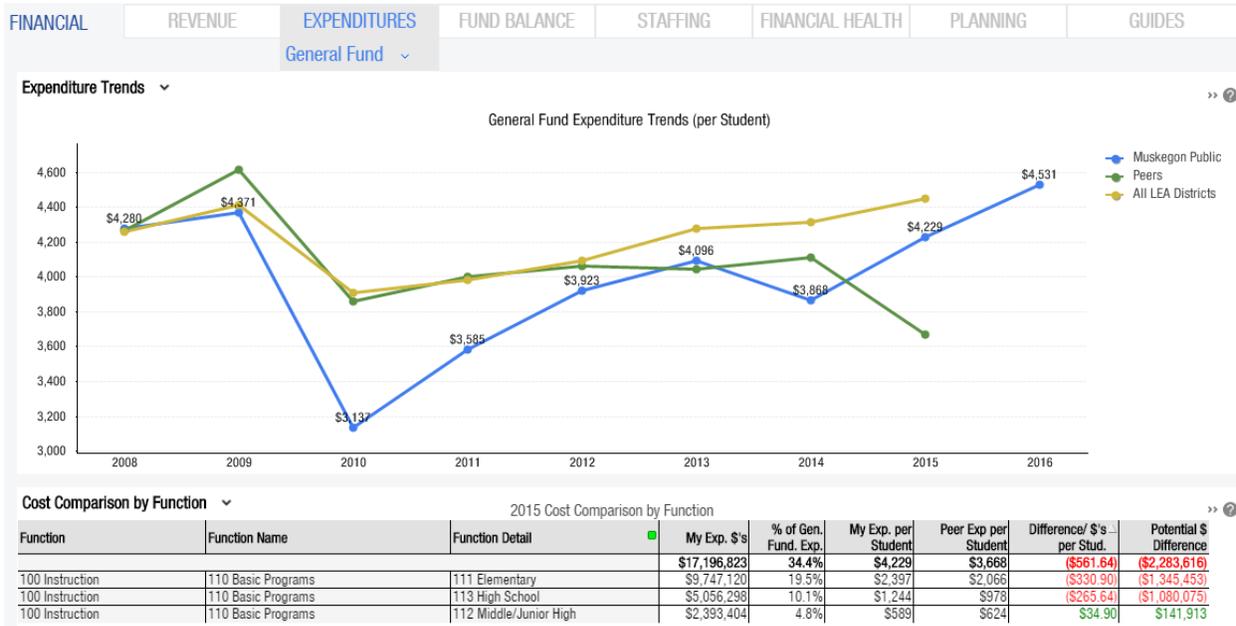
## Expenditure Trends

Per student expenditure trends indicate that there are concerns. Compared to its peer group, MPS spends a potential difference of \$1.9 Million more each year. Expenditure comparisons became the focus of the evaluation.



## Basic K/12 Programing (After backing out all grant related expense.)

The MPS cost for basic programs exceeds the peer group at all but the Middle School level. As presented below, this trend also continues in the 2016 fiscal year.



## 111 Elementary

Cost Comparison by Object

2015 Cost Comparison by Object

Object	Object Name	My Exp. \$'s	% of Gen. Fund. Exp.	My Exp. per Student	Peer Exp per Student	Difference/ \$'s per Stud.	Potential \$ Difference
2000 Employee Benefits	2100 Employee Insurance	\$9,747,120	19.5%	\$2,397	\$2,066	(\$330.90)	(\$1,345,453)
1000 Salaries	1200 Professional-Educational Salaries	\$1,165,382	2.3%	\$287	\$176	(\$110.73)	(\$450,228)
4000 Other Purchased Services	4900 Other Purchased Services	\$5,345,939	10.7%	\$1,315	\$1,205	(\$109.80)	(\$446,461)
4000 Other Purchased Services	4900 Other Purchased Services	\$325,501	0.7%	\$80	\$0	(\$80.05)	(\$325,501)
2000 Employee Benefits	2800 FICA, Retirement, WC, Unemployment	\$2,318,566	4.6%	\$570	\$552	(\$17.86)	(\$72,616)
6000 Capital Outlay	6400 Equipment and Furniture	\$85,664	0.2%	\$21	\$5	(\$15.70)	(\$63,852)
5000 Supplies and Materials	5100 Teaching/Testing Supplies and Materials	\$126,848	0.3%	\$31	\$18	(\$12.93)	(\$52,556)
3000 Purchased Services	3600 Printing and Binding	\$49,371	0.1%	\$12	\$1	(\$11.00)	(\$44,741)

Elementary faculty wages and benefits are much higher than peer group. This shows a potential savings of \$969,305. Staffing levels or staffing compensation is high compared to peer group. The average teacher wage in MPS is not out of line according to Bulletin 1014 data. This same data also shows that pupil/teacher ratio is low (second in peer group and 25<sup>th</sup> in State of Michigan).

Object 4900 represents a transfer of \$325,501 to the local organizational museum for student art instruction and field trips.

Supplies and printing costs are high compared to peers. Potential savings exceed \$100,000 if these costs are reduced.

## 113 High School

### Cost Comparison by Object

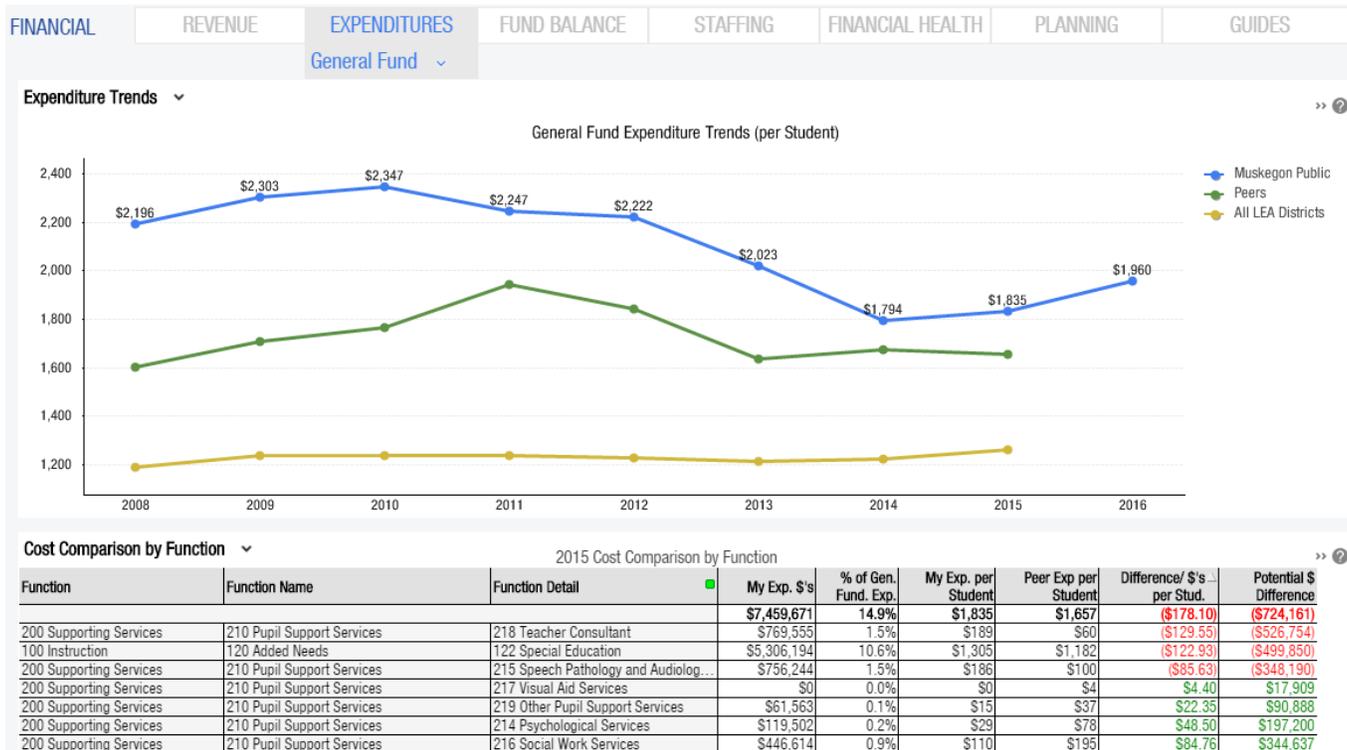
2015 Cost Comparison by Object

Object	Object Name	My Exp. \$'s	% of Gen. Fund. Exp.	My Exp. per Student	Peer Exp per Student	Difference/ \$'s per Stud.	Potential \$ Difference
		\$5,056,298	10.1%	\$1,244	\$978	(\$265.64)	(\$1,080,075)
1000 Salaries	1600 Operation and Service Salaries	\$412,088	0.8%	\$101	\$3	(\$98.85)	(\$401,917)
1000 Salaries	1200 Professional-Educational Salaries	\$2,259,026	4.5%	\$556	\$470	(\$85.55)	(\$347,834)
2000 Employee Benefits	2800 FICA, Retirement, WC, Unemployment	\$1,165,234	2.3%	\$287	\$202	(\$85.08)	(\$345,920)
2000 Employee Benefits	2100 Employee Insurance	\$535,964	1.1%	\$132	\$84	(\$48.14)	(\$195,745)
3000 Purchased Services	3100 Professional and Technical Services	\$267,435	0.5%	\$66	\$33	(\$33.07)	(\$134,444)
1000 Salaries	1800 Temporary Salaries	\$71,502	0.1%	\$18	\$1	(\$16.70)	(\$67,888)
6000 Capital Outlay	6400 Equipment and Furniture	\$81,630	0.2%	\$20	\$4	(\$15.73)	(\$63,959)
3000 Purchased Services	3400 Communications Services	\$49,911	0.1%	\$12	\$2	(\$10.59)	(\$43,060)
3000 Purchased Services	3600 Printing and Binding	\$29,243	0.1%	\$7	\$1	(\$6.45)	(\$26,226)

High School wages and benefits are significantly higher than the peer group. MPS appears to have a number of non-certified staff included with the instructional process. Teaching staff costs versus peers are also high.

Substitute costs at MPS are high when compared to its peer group at the high school level. Potential savings here are over \$200,000.

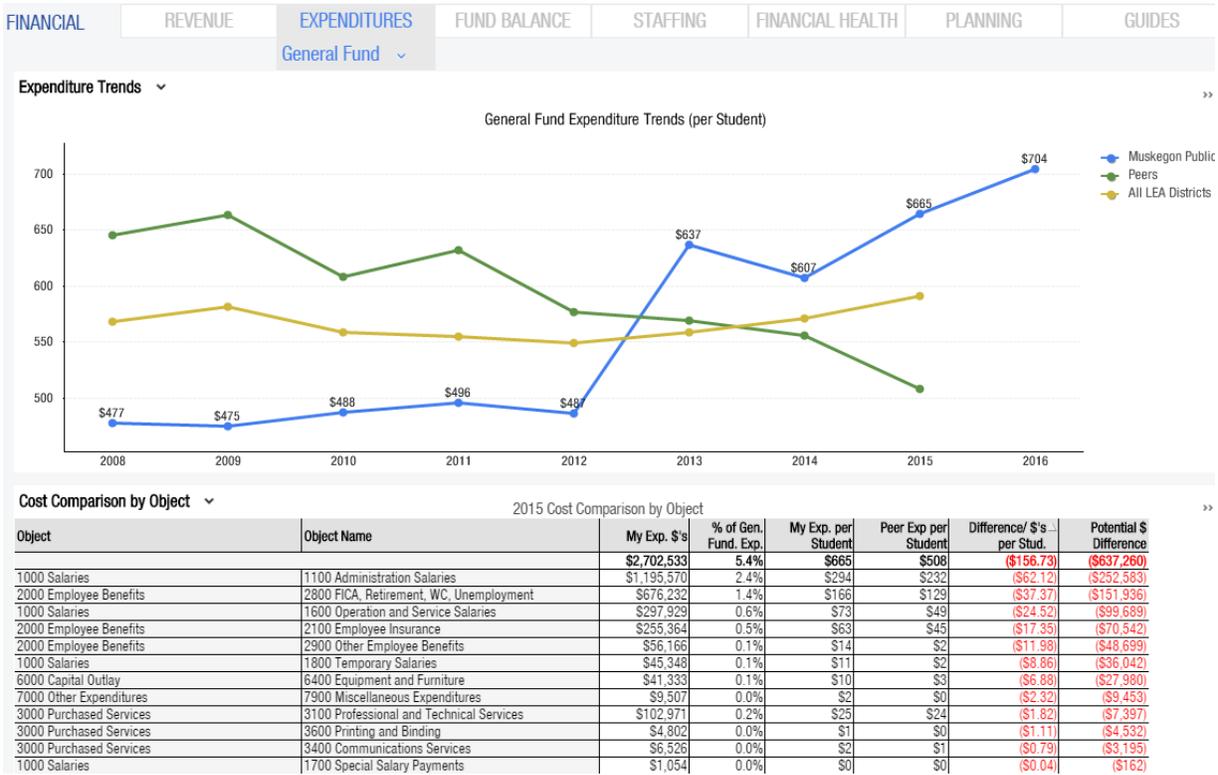
## Special Education



Special Education costs show an inconsistency with the peer group and a likelihood that the district is exceeding what they are obligated to spend. MPS has the potential to save a net of \$725K, however, they will also need to consider spending more in some deficient areas.

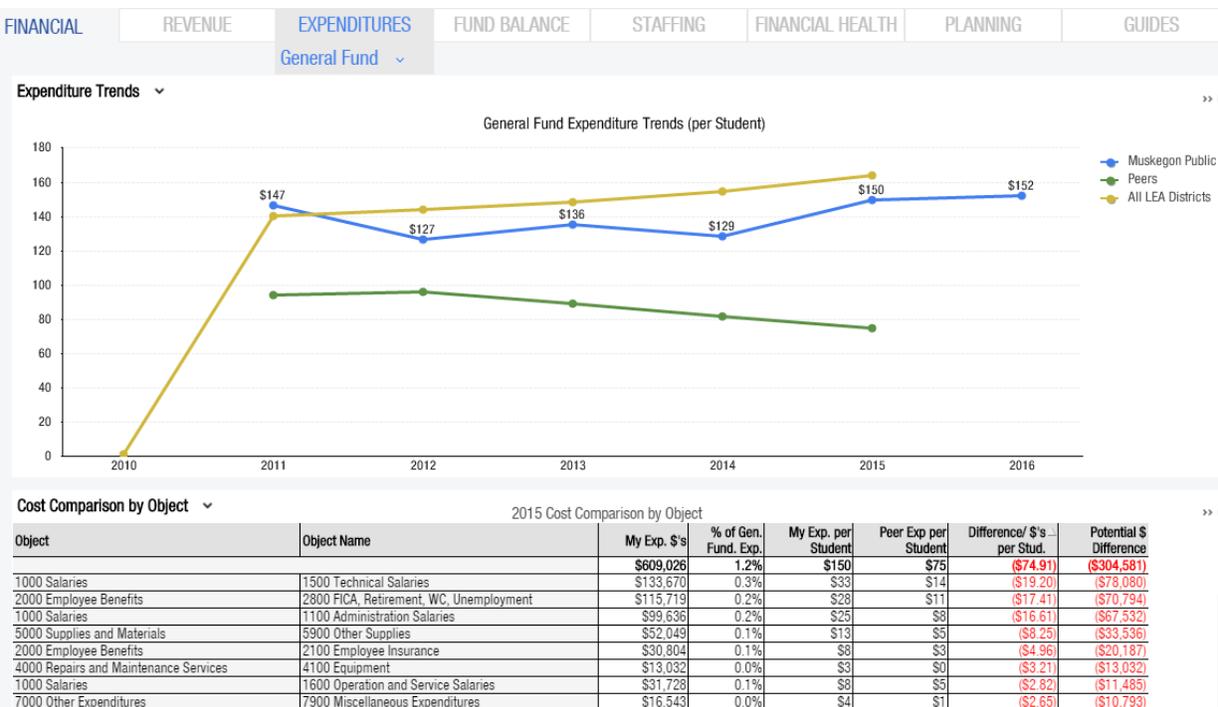
MPS uses more paraprofessionals than peers and could potentially save \$500K if they reduced this method of support. Teacher Consultants and Speech Pathologists are utilized very extensively at MPS, and there appears to be a lack of Psychological and Social Work support for special education students.

# Principal Accounts



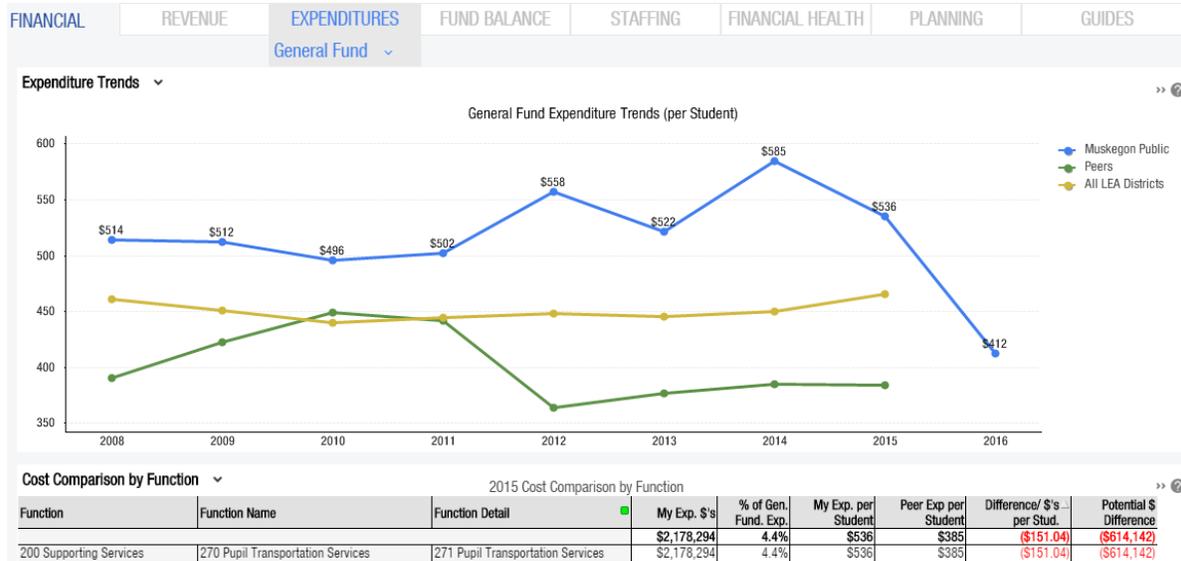
MPS spends \$250K more on building administrator wages than its peers. MPS also spends \$100K more on secretarial support wages in the building offices. When insurance and benefits are added to this cost, this shows a potential savings of \$575K.

## Athletics



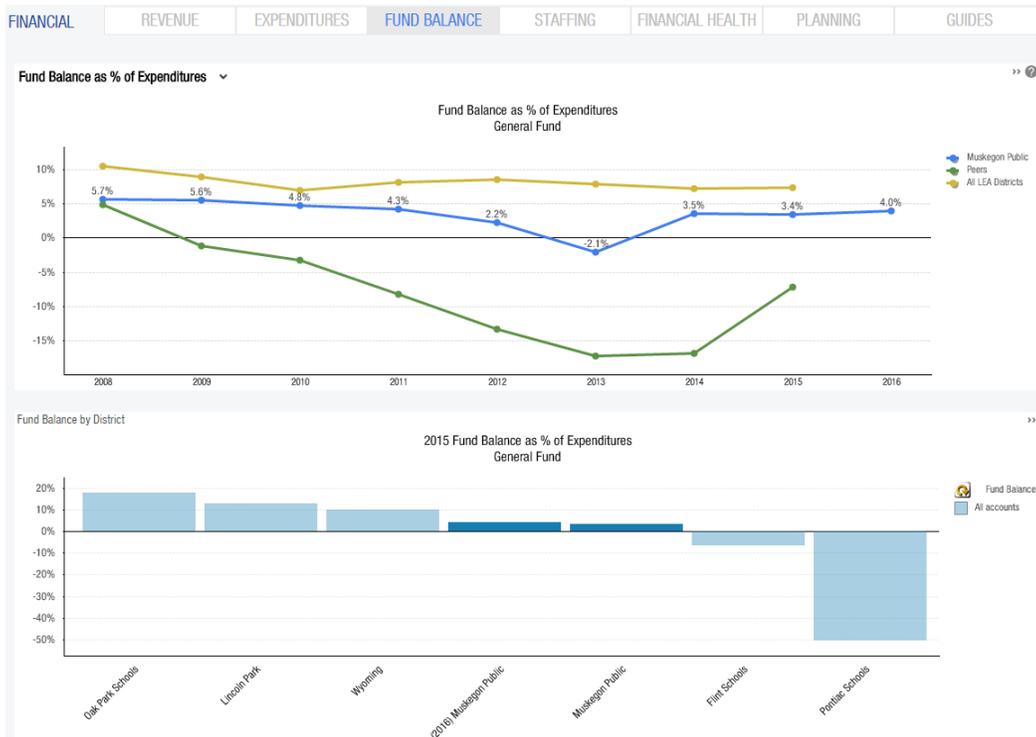
MPS has a potential to save \$227K by examination of wages paid to coaches, the athletic director and secretary. When comparing the athletic cost per student to all LEA schools, MPS appears to be more in line. There is still potential for savings in this area.

## Transportation & Operations



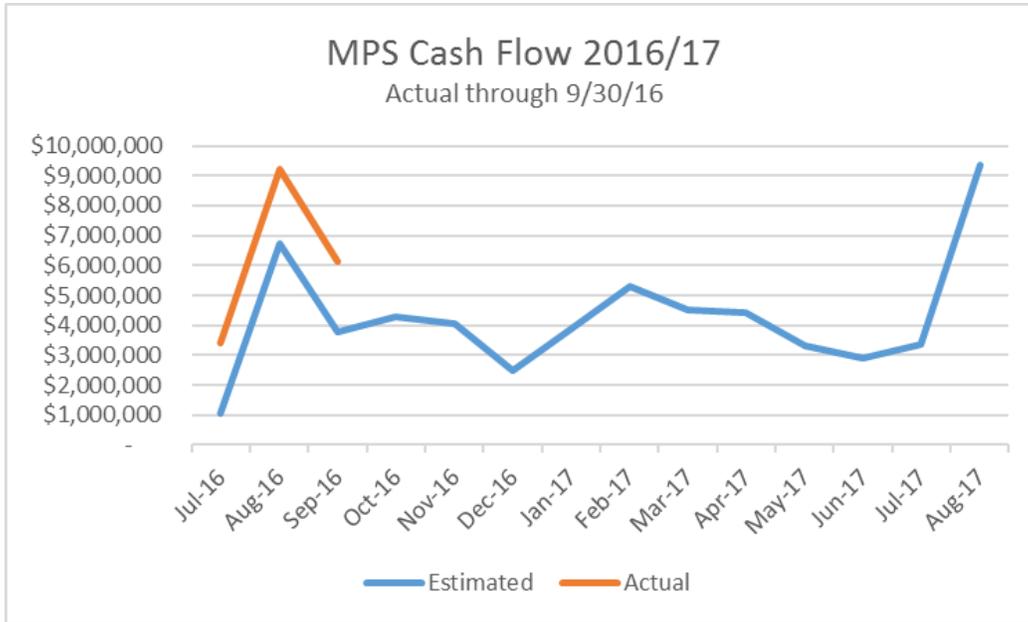
While Transportation and Operations appeared to be an issue in fiscal year 2015, the district has privatized both services and has brought the cost per student down to a more appropriate level.

## Fund Equity



MPS ended 2015/16 at a 4.0% of revenues fund balance. The current year 2016/17 budget, adjusted for a better than expected enrollment, will bring that figure down to around 3.75%. Using the Treasury forecast model and the MPS trends over the last three years, MPS will likely end the 2017/18 school year with 3.5% of revenues in its ending fund balance.

### Cash Flow



The MPS cash flow estimated vs. actual appears consistent and should provide ample cash balances to meet the day-to-day cash needs of the school district.

## Recommendation

Based on our review, the Muskegon Area ISD makes the following recommendation:

- ▶ The MAISD recommends that Muskegon Public Schools restore and maintain the General Fund Equity Balance to a level exceeding 5% of revenue.

In helping to direct MPS to continue to make necessary changes, we are also providing the following areas that should be considered by administration and the Board as possible areas of cost savings for the district:

- ▶ Teaching Staff – Cost for teacher wages at the elementary and high school level is high. Bulletin 1014 reflects that the average teaching salary is ranked at the 11.65 percentile, however the pupil to teacher ratio at the district is within the top 3 percent. A thorough review of classroom sizes should be conducted to bring MPS more in alignment with the peer averages. An increase from 25 pupils per teacher to the peer group average of 27 would equate to 13 fewer teachers. The district should also, on an annual basis, ensure that staffing levels are adjusted each fall to reflect the current student enrollment. This change will likely require focused negotiations on Article 11 of the teacher agreement. Current language is overly generous with regard to class size (overload) stipends.
- ▶ Substitute Teachers – In 2015, MPS spent \$645,000 on substitute instructional staff. Using an average cost per day of \$106, this equates to 6,084 absences. Dividing that figure by the total instructional staff equals an average of 16 absences per staff each year. MPS should review its practices for professional development during the school year as well as looking into contractual obligations requiring substitute coverage.
- ▶ Special Education – SE Cost per student is \$178 over the peer average. From discussions with business office staff, it appears that there have been financial improvements in this area in the current year, however, further refinement of this program is necessary. A thorough review of caseloads should be conducted, balancing the needs of each special education student with the practicality of what is mandated. One area to consider looking closely at is the number of paraprofessional staff that provide SE instructional support services in the district.
- ▶ Building Administration – Principal accounts are \$156 per student over the MPS peer average. Both administrative and clerical wages and benefits are higher. Consideration should be made toward reducing the number of building administrators and clerical staff to bring the district more in line with peer school districts.
- ▶ Media Services – Library costs at MPS are \$47 per student higher than the MPS peer average. Efforts should be made to study how other districts maintain and support the library functions for less cost.
- ▶ Non-professional Instructional Staff – There appear to be a numbers of instructional positions in general education that are held by non-certified staff. This is most prevalent in the High School. All these positions should be thoroughly evaluated to determine their effectiveness. This area represents a \$436,000 potential savings to the district.
- ▶ Athletics – Athletic expenditures are \$75 per student high compared to the peer average. MPS shows higher costs in the areas of Coaching, Athletic Director and clerical salaries and benefits. A review of wages and positions in each classification should be made to reduce costs in this area.

- ▶ Employee Wages – MPS teaching staff salaries are top-heavy with 40% of this group at Step 15 or higher. Consider negotiating a different schedule for new staff with additional steps so progression time to the top step is increased. Additionally, always strive to hire new staff at Step 1 whenever possible.
- ▶ Employee Benefits – Consider negotiating with all groups for an alternate health insurance provider. While the CAP limits the district’s exposure, high employee insurance costs add pressure for staff to request a higher level of compensation.
- ▶ Energy Costs – Consider having Consumers Energy or other energy analysis company perform an energy assessment on the MPS facilities. Per student energy costs show a potential savings of \$283,786 when compared to your peer group.

You, along with the MPS business staff, have been provided access to our shared Google drive which includes all the information and insights that were discovered during our process, as well as copies of correspondence, our agreement, and other information.

I’ve discussed with Catherine presenting these findings to the MPS Board at the November 21, 2016, Board meeting, however, I will get in touch with you in the near future to confirm this date. If you have any questions, feel free to contact me at (231) 767-7207.

Sincerely,



Mike Schluentz  
Associate Superintendent, Administrative Services

Cc: Justin Jennings, Assistant Superintendent, Muskegon Public Schools  
John Severson, Superintendent, Muskegon Area ISD  
Department of Treasury  
Dan Hanrahan, Department of Education  
Phil Boone, Department of Education