



Lake  
Orion  
Community  
Schools

# District Financial Status & Executive Plan Financial Analysis

*October 12, 2016*

EDUCATING OUR STUDENTS FOR THE CHALLENGES OF TOMORROW



# Why did we start this to begin with?

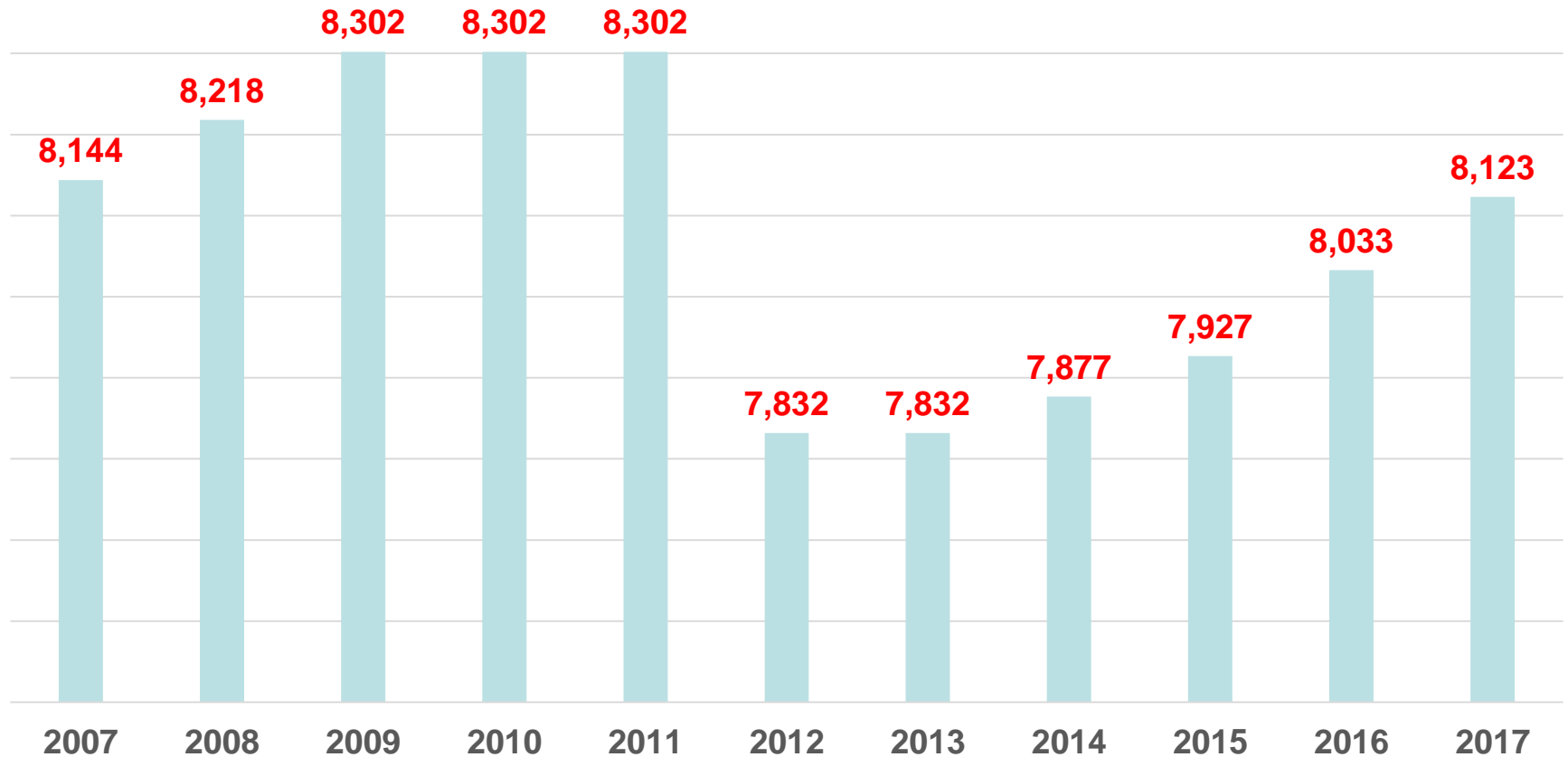
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To maintain and enhance the excellent educational programs for all students  
as a result of

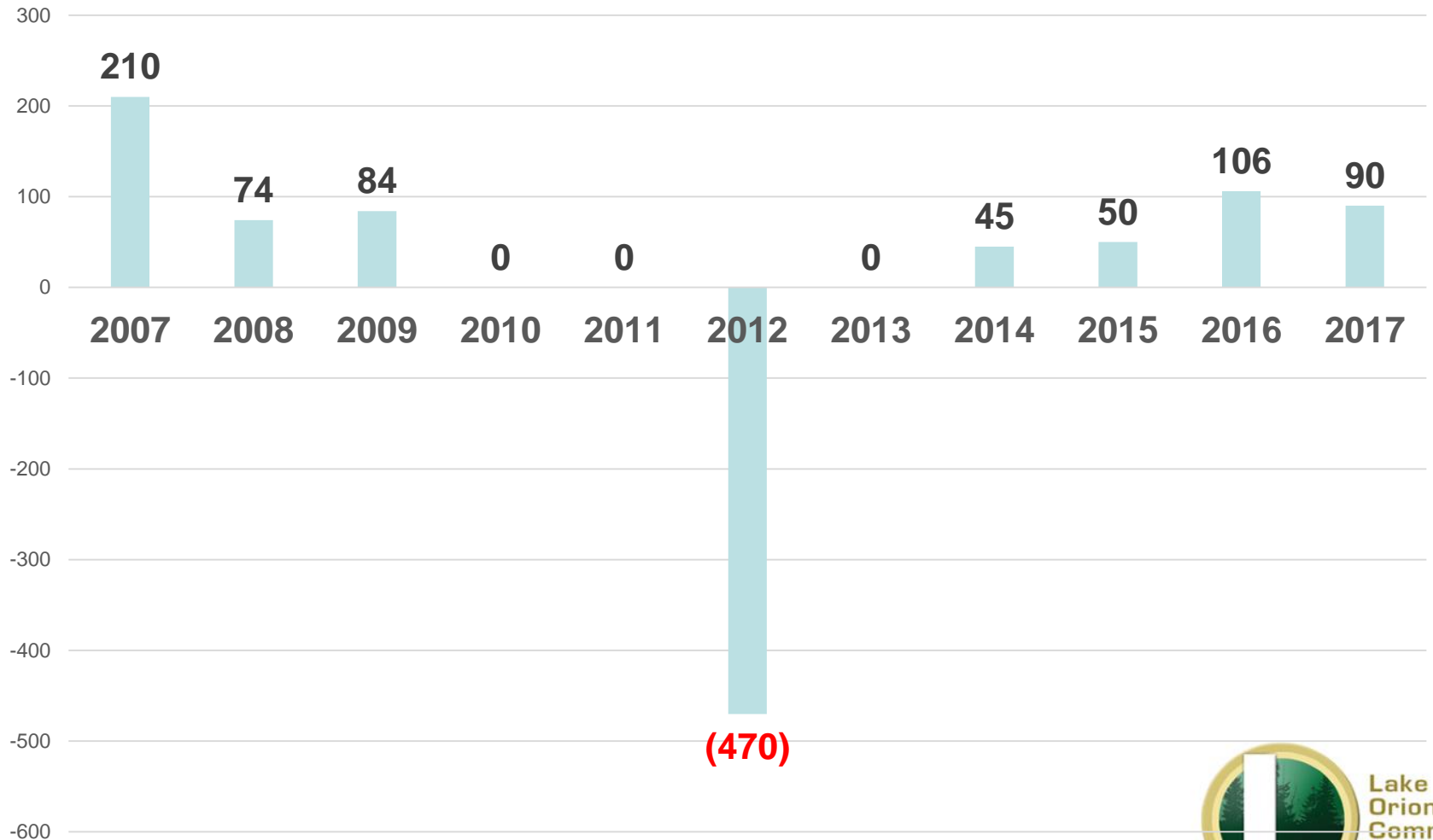
- **reduced funding for public schools**
- **declining enrollment due to aging-out of district population**



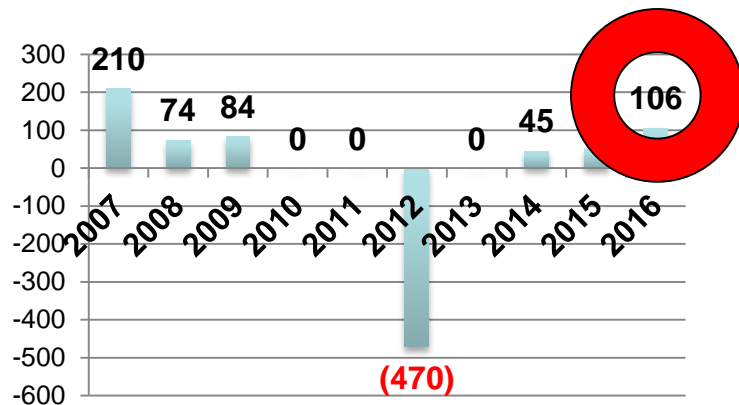
# Foundation allowance history



# Foundation allowance change from previous year



# Foundation allowance change from previous year

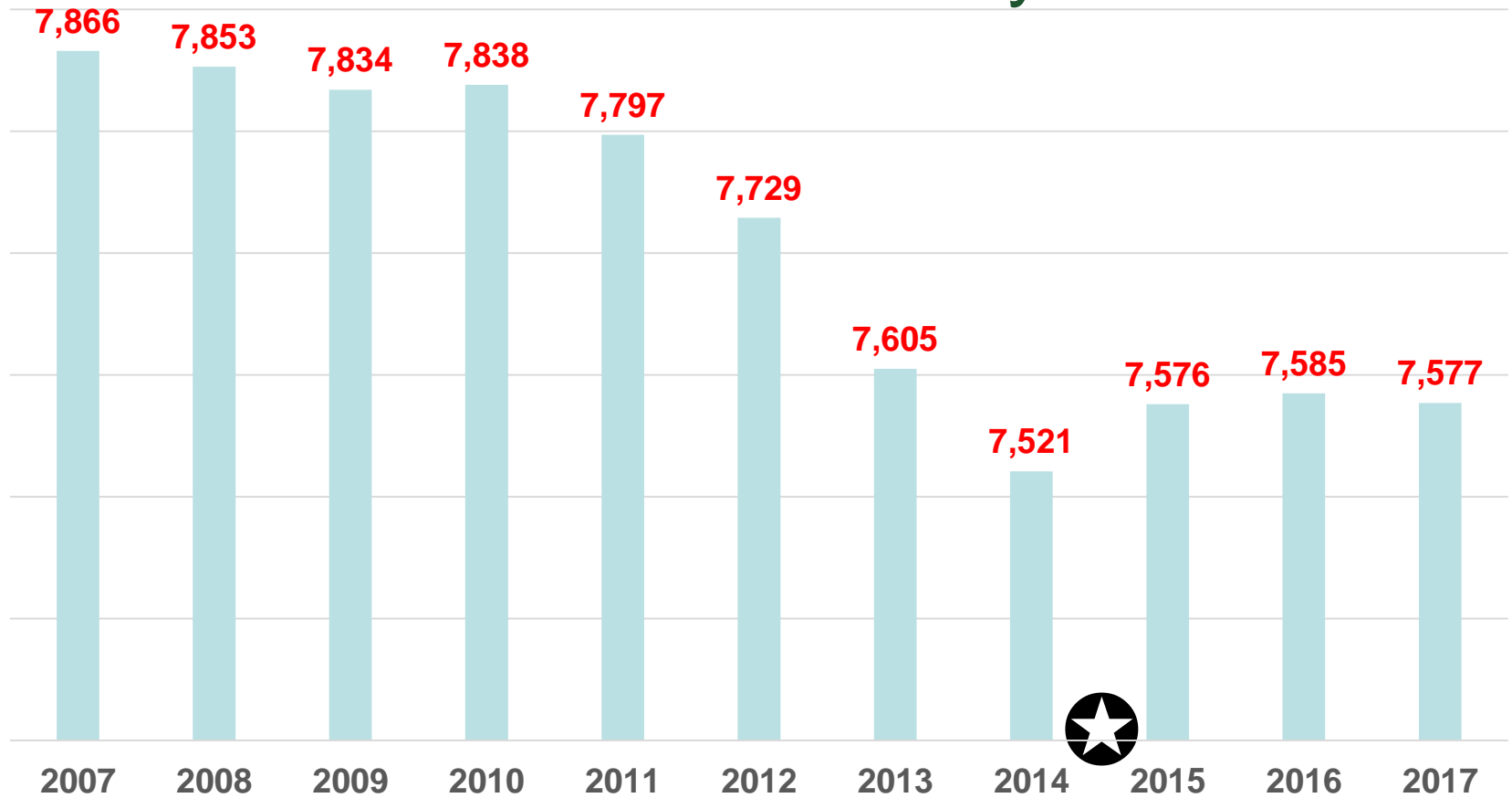


It is important to note that what appears as an increase of \$106 for FY16, in actuality only resulted in a \$25 increase for LO from previous year; \$17 of which must be used for at risk students. This is because of a (\$120) reduction in previous year allocation we received for best practices (\$50) and performance incentives (\$70) that was eliminated.

In other words, the \$106 increase in foundation allowance was not that for LO. We would have received (\$14) less; however there was a stipulation to make sure everyone got some increase so they added a \$39 hold harmless for all districts that would be losing \$ so we ended up with an increase of \$25 from last year; of that \$25, only \$8 can be used for all students; \$17 must be used only for at-risk students.



# Enrollment History



★ SOC started



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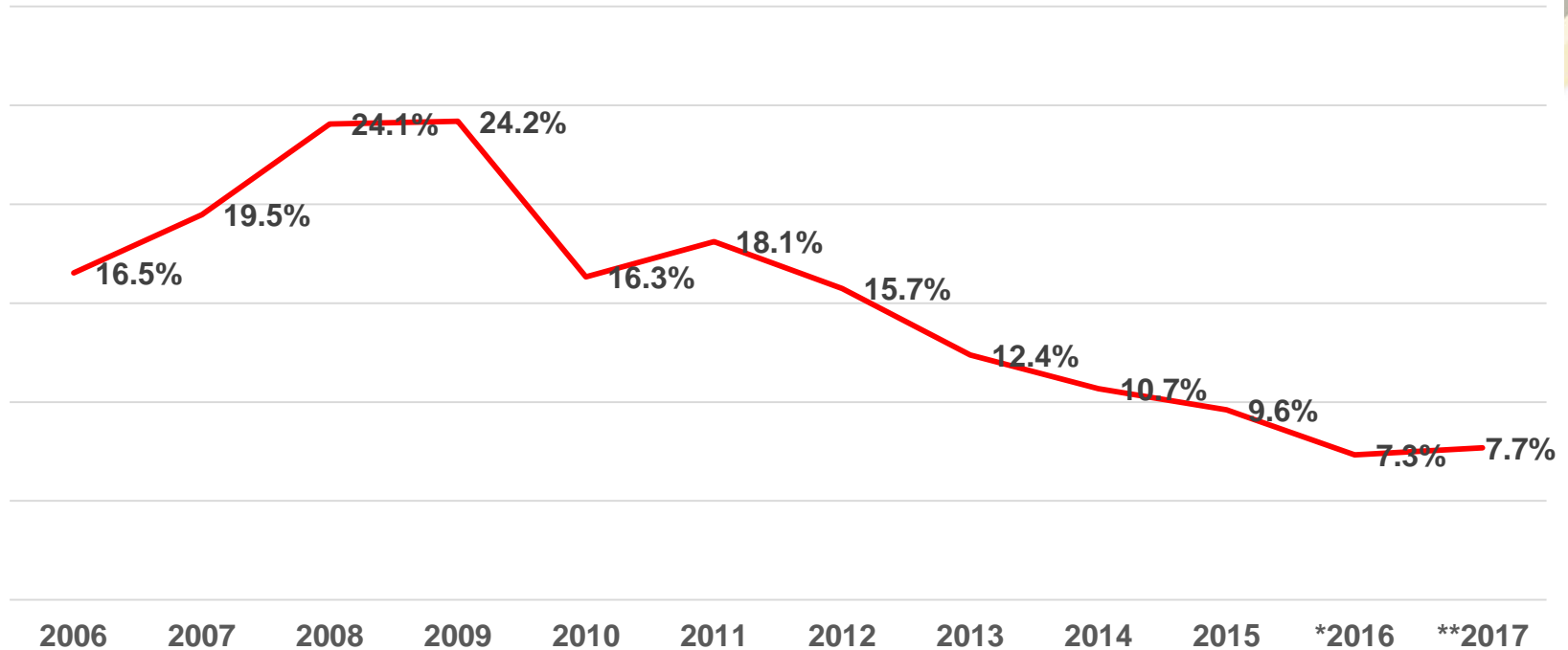
# Enrollment/Staffing misconception

If you lose 200 students, you should be able to eliminate about 6 teachers. That calculation assumes that the loss occurs at the same grade level and/or at the same school.

If you look at the distribution of lost students, they are spread across the entire district, at all levels and at all schools. So it could mean that we have 3 fewer students in the 1<sup>st</sup> grade at Paint Creek which would **not** result in a staffing reduction.

# What is the effect?

Our expenses are exceeding our revenue –  
In other words, we're spending more \$ than  
we are getting in and we're depleting our  
fund balance.





# What is a fund balance?

- A fund balance IS NOT: the equivalent of a person's savings or cash accounts. It IS NOT entirely cash that can be used for any purpose.
- People tend to think of a fund balance as a savings account. It is not, nor is it a “rainy day fund.”
- Fund Balance IS: Assets (what a district owns) less Liabilities (what a district owes).
- A misconception is that the entire amount of a fund balance can be spent on any item that a School Board sees fit. In reality, only **unassigned** fund balances, may be spent at the discretion of the School Board.



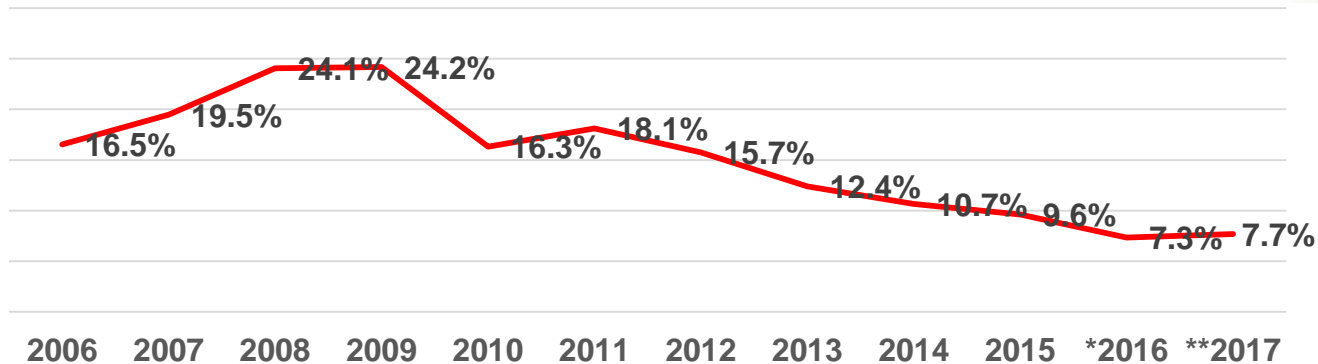
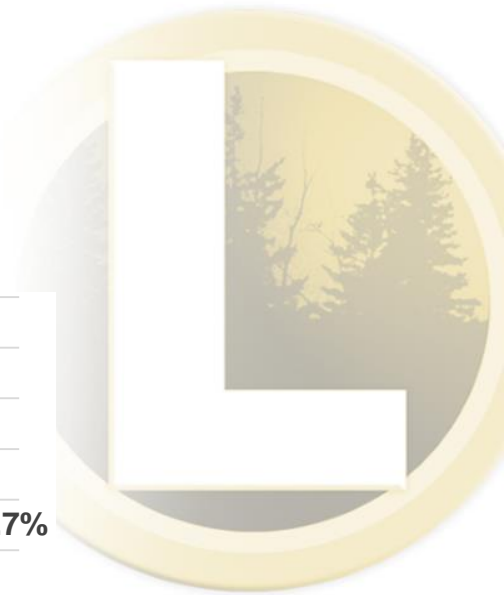
# Why do districts accumulate fund balances?



- To create a financial cushion to meet unexpected expenses and emergencies
- To demonstrate financial stability to enhance district bond ratings for lower interest rates
- Auditor & school board policy dictate maintaining a fund balance of 10%
- \*To cover cash flow deficits until property taxes are collected and state aid payment is made to the district

\*Note: As a result of our current diminished fund balance, for the first time we have had to borrow against our line of credit to make this week's payroll until our state aid payment is received. Once the payment is received, the loan is immediately repaid (usually within a week); however, the loan results in approximately \$600 in interest.

# What created the significant reduction in our fund balance?



As a result of two failed bond elections, we began using our unreserved fund balance for facility repairs and technology upgrades.

In other words, we started borrowing from ourselves.

# How was unassigned fund balance spent following failed bond elections?

The following are the **technology** projects addressed with the \$3.0 million in fund balance funded projects as authorized by the Board in the summer of 2011 and completed in 2012.

1. District-wide wireless network project installation
2. Computer equipment replacement project
3. EqualLogic virtual environment and disaster recovery project installation





# How was unassigned fund balance spent following failed bond elections?

Roofs and roof repair



Bathroom facilities

HVAC systems



| Project Category | Project Description | Project Amount |
|------------------|---------------------|----------------|
|------------------|---------------------|----------------|

#### Installment Purchase Agreement #1

|            |                                     |                 |
|------------|-------------------------------------|-----------------|
| Technology | Instructional desk tops and laptops | 744,500         |
| Technology | Interactive projectors              | 525,000         |
| Technology | Server room upgrades/enhancements   | 188,700         |
| Technology | Phone system replacement-equipment  | 213,750         |
| Security   | Voice/video/door release            | 60,000          |
| Security   | Security camera system upgrades     | 125,000         |
|            |                                     | <hr/> 1,856,950 |

#### Installment Purchase Agreement #2

|            |   |                 |
|------------|---|-----------------|
| Security   | Limited card reader door access system  | 125,000         |
| Security   | Alarms, motion detection, door contacts | 250,000         |
| Security   | Door hardware replacement and rekeying  | 125,000         |
| Security   | HVAC systems critical alarms            | 50,000          |
| Technology | Phone system replacement-infrastructure | 261,250         |
| Technology | Server room upgrades-infrastructure     | 197,000         |
| Facility   | Paving and concrete upgrades            | 200,000         |
|            |   | <hr/> 1,208,250 |

#### Energy Conservation Bond

|            |  |                 |
|------------|--|-----------------|
| Facility   | Roof Replacement                           | 3,010,000       |
| Facility   | CERC facility renovation                   | 550,000         |
| Facility   | Replace one chiller at LOHS                | 125,000         |
| Facility   | HVAC, energy controls, elec/light upgrades | 850,000         |
| Technology | Network infrastructure switches            | 625,000         |
|            |  | <hr/> 5,160,000 |

To further meet the needs of the district to address urgent facility issues, technology and safety/security, the School Board approved \$8 million in Energy Conservation Bonds and Installment Purchase Agreements.

The repayment of these “loans” reduces the general operating budget (instruction) by \$800,000 annually for 10 years.



# What has been done to reduce expenses?

| Fiscal Year  | Costs Reduced,<br>Eliminated, & Avoided |
|--------------|---|
| 1999-2006    | 10,121,836                              |
| 2007         | 1,796,260                               |
| 2008         | 1,918,854                               |
| 2010         | 130,000                                 |
| 2011         | 2,025,100                               |
| 2012         | 3,023,184                               |
| 2013         | 2,650,000                               |
| 2014         | 2,420,000                               |
| 2015         | 750,000                                 |
| 2016         | 572,200                                 |
| <b>Total</b> | <b>25,935,234</b>                       |

We have reduced, eliminated and avoided close to \$26 million in expenses over the past years.

# How was this done without significantly affecting the instructional programs?

- Employee related concessions
- Employee contributions to health care
- Outsourcing/privatizing support services
- Improving efficiency in facility and energy management systems
- Restructuring of bus fleet & transportation routes
- Restructuring voted and non-voted debt
- Sharing personnel & services with other districts
- Restructuring operational functions - print shop operations, facility operations...



# Budget Review – FY2017

## Original Projection of the Operating Deficit

- FY2016 Am1 Operating Deficit (\$1,930,319)
- Revenue Loss - Student Decline (\$1,004,125)
- Expected Expenditure Increases (\$1,000,000)
- Projected FY2017 Operating Deficit **(\$3,934,444)**

unaudited



# Phase I Adjustments

- District wide personnel and compensation reductions
- Schools of Choice and Shared Time Services revenue enhancements
- Reorganized and reduced transportation department
- Restructured and reduced athletic programming
- Passed a Building and Site/ Sinking Fund Election
- Refinanced existing debt
- Outsourced IT services and security functions
- Eliminated 6<sup>th</sup> grade World Language Program
- Closed Moose Tree
- Reduced staff
  - Technology Staff
  - Middle School media specialists and one core MS staff
  - Family School Coordinators
  - Administrative support



# Balanced General Fund Budget for FY2017

## General Fund FY2017 Proposed Budget Overview

|  |    |                   |
|--|----|-------------------|
| Total Budgeted Revenue                               | \$ | 79,739,204        |
| Total Budgeted Expenditures                          |    | <u>79,583,268</u> |
| Net Operating Surplus(Deficit)                       | \$ | 155,936           |
|  |    |                   |
| *Budgeted Fund Balance, June 30, 2017                | \$ | 6,116,481         |
|  |    |                   |
| Fund Balance as a % of Expenditures                  |    | 7.7%              |
| Fund Balance as a % of Expenditures net of Sec. 147c |    | 8.2%              |

Note: Revenue & expenditure budgets include \$4.6 million in sec. 147c "pass through" funding.

\*Audit adjusted Fund Balance

# What is the goal of Phase 2?

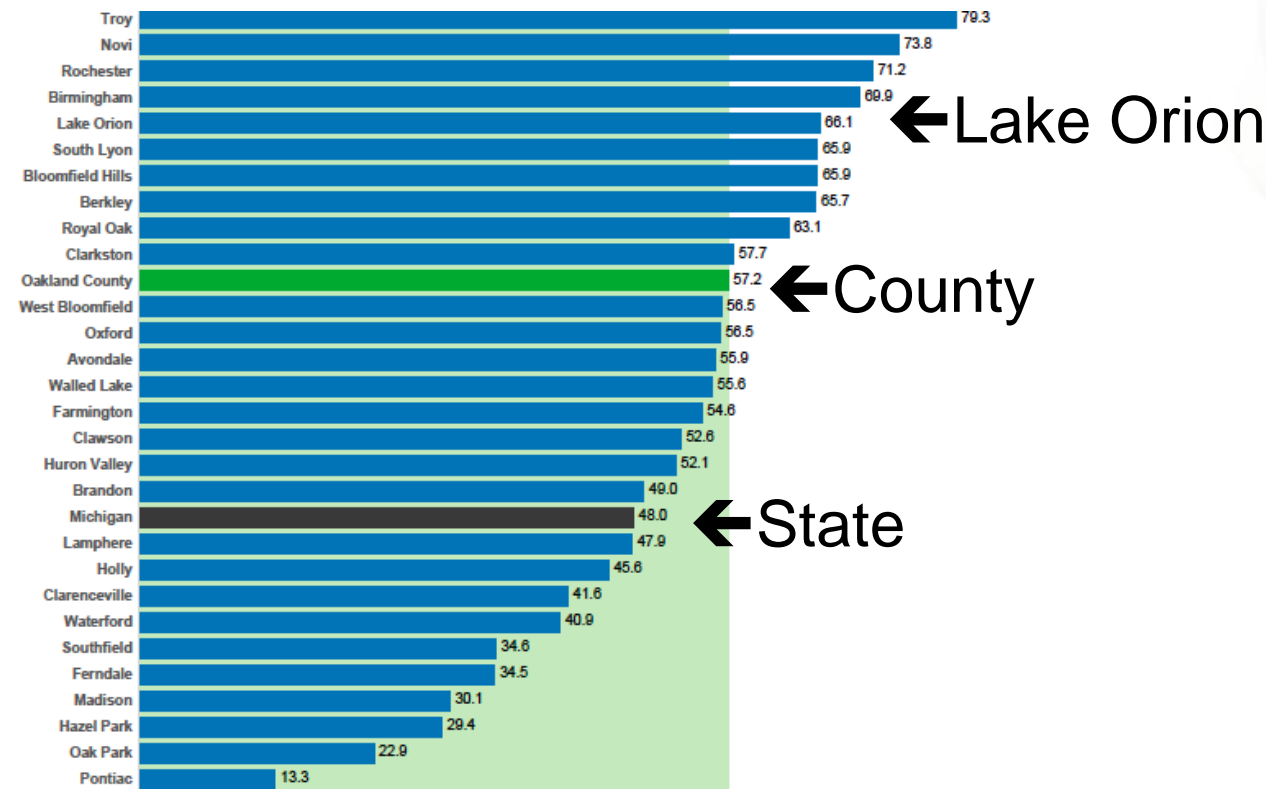


## GOAL

Sustain reasonable class sizes, maintain the excellent educational/instructional curricular and co-curricular programs we have, and consider expansion of educational opportunities for all children by “right-sizing” the district to align with the current and projected funding and student enrollment

# Lake Orion excellent education for all children

## High Achievement



2015 MSTEP assessment ELA grades 3-11

# Lake Orion excellent education for all children

- Highly effective and dedicated staff
- Nationally acclaimed Early Literacy Program
- Middle School Teaming
- Freshman Academy
- Pre-engineering programs
- Award winning music, art, broadcasting, journalism, forensics, robotics, leadership, programs, etc.
- Strong, competitive athletic programs
- Multiple student support services and programs (SOS, Real Talk, STAR, Olweus Bully Prevention, etc.)
- ...



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# Financial Analysis of Executive Plan for LOCS Restructuring

Presentation to Board of Education  
October 12, 2016

EDUCATING OUR STUDENTS FOR THE CHALLENGES OF TOMORROW



# Executive Plan for District Restructuring



1. Reduce one elementary facility
2. Close and sell current Webber Complex
  - Alternate - close and sell current Pine Tree Complex
3. Relocate the balanced calendar school from current Carpenter facility to current Orion Oaks facility and discontinue specialized programming at Stadium Drive and Orion Oaks Elementary Schools
4. Redraw school boundaries to redistrict K-8 student population



# Executive Plan (continued)



## 5. Assets-Real Estate

- Sell Clarkston/Adams Road vacant property
- Consider relocating Administrative functions to another facility; sell or lease current complex

6. Continue Schools of Choice for non-resident students to not exceed 10% of total student population

7. Temporarily discontinue intra-district open enrollment

8. During 2017-18 school year, recommend program enhancements for future school years

| <b>Executive Plan<br/>FINANCIAL ANALYSIS<br/>SUMMARY</b>  | <b>+ Cost<br/>Avoidance/Revenue</b>  | <b>- Expenses</b>  |
|---|--|--|
| <b>Close one Elementary School</b>  | <b>\$507,527</b>   |  |
| <b>Eliminate additional staff at<br/>Stadium Drive Elementary</b>                               | <b>\$121,250</b>   |  |
| <b>Estimated Moving Expenses</b>  |  | <b>(\$21,000)</b>  |
| <b>Revenue (SOC) 50 students<br/>(SOC revenue to date:<br/>\$8,217,614)</b>                     | <b>\$406,150</b>   |  |
| <b>Transportation</b>   | <b>\$283,245<br/>Elimination of focus<br/>school transportation<br/>routes</b> | <b>(\$81,038)<br/>Transportation to<br/>relocated Balanced<br/>Calendar School</b> |
| <b>SUBTOTAL OF COST<br/>AVOIDANCE/REVENUE</b>   | <b>*\$1,367,602</b>  |  |
| <b>TOTAL<br/>including expense deductions</b>   | <b>*\$1,265,564</b>  |  |
| *Note: continued decline in resident enrollment will<br>result in less revenue in future years. |  | 26   |

|  |  |
|--|--|
| Executive Plan<br>FINANCIAL ANALYSIS SUMMARY<br>(continued)    |  |
| Cost Avoidance – Sinking Fund                                  | <u>Cost Avoidance</u><br><br>\$3,410,100 |
|  |  |
| ASSET SALE   | <u>One-time Revenue</u>                  |
| Webber Complex   | \$3,990,000 (38 acres)                   |
| Clarkston/Adams Road vacant property                           | \$2,100,000 (20 acres)                   |
| Alternate – Pine Tree Complex<br>Not figured in to total below | \$1,600,000                              |
| Administration Building<br>Relocation expenses TBD             | \$360,000-\$500,000                      |
| TOTAL ASSET SALES (Range)                                      | \$6,090,000-\$6,590,000                  |
|  | 27                                       |

