Memorandum for: Jay School Board of Trustees

Subject: Budget and Finance Report

Date: January 23, 2017

1. Superintendent's Entry Report

On September 13, 2016, I presented the Board of Trustees with a 90 day Entry Plan as part of a proposed transition and assumption of duties as Superintendent of Schools. A component of that plan included an evaluation of current funding and expenditures of the district. Upon my appointment as Superintendent on October 31, 2016, I directed our Business Manager to revise his 2017 Cash Flow projection with more accurate numbers than were available to him as he built the 2017 budget over the summer of 2016. I directed this in order to provide the Board my evaluation of the district's finances. I asked that this revision be done in time to inform the Board as it recognized at the start of the 2017 calendar year.

This revised 2017 General Fund cash flow estimate projects a $384,370 deficit for 2017.

The balance of this memorandum will communicate to the Board my assessment of our historical context, both state and local (where we were), our current financial position (where we are), and actions I recommend taken to address the way ahead (where we are going).

2. State-wide Context

Since 2009, Indiana has been reshaping its school funding system. In the name of tax relief, the system was completely redesigned that year, giving the state a bigger and more direct role in managing the process of paying for public education. Since the 1970s, Indiana has relied less on local property taxes to fund schools than neighboring states, with the state funding a larger share through sales and income taxes than many states that base their systems primarily on local property taxes. In the 2000s, Indiana's state share of general fund dollars to pay for day-to-day operations of schools — such as salaries for teachers and other school workers, equipment like computers and supplies needed to run the schools — had grown from about two-thirds to roughly 85 percent. Just 15 percent of local general funds for schools were paid by property taxes before 2009.[1] Since 2009, the state has assumed nearly 98 percent of the General Fund.

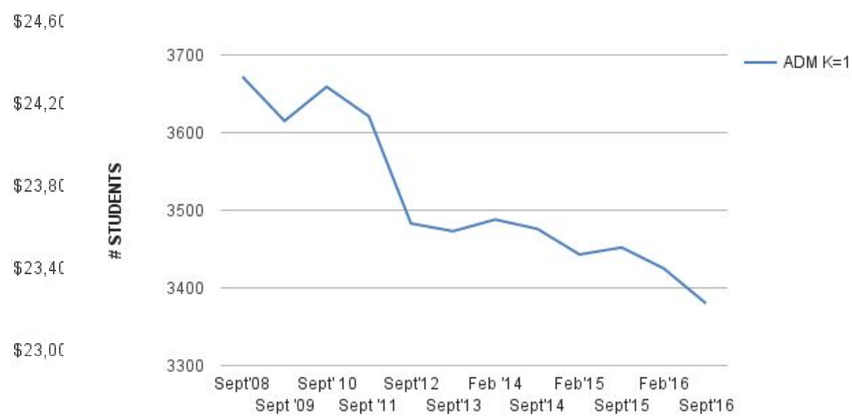
[1] http://www.chalkbeat.org/posts/in/2015/01/04/the-basics-of-school-funding-difficulty-defining-fairness/

In 2011, the Indiana General Assembly changed how public schools in Indiana are funded. Prior to 2011 the state funded school districts directly, now "the money follows the student". In the past five years, the state's education spending has grown from $8.4 billion to $9.3 billion, but recent changes to the funding formula more tightly ties funding to enrollment — so not every district gets more money.[2] Schools with declining enrollment, like many rural Indiana school districts, receive less money from the state.

3. Impacts on Jay Schools and our recent history

Declining Enrollment

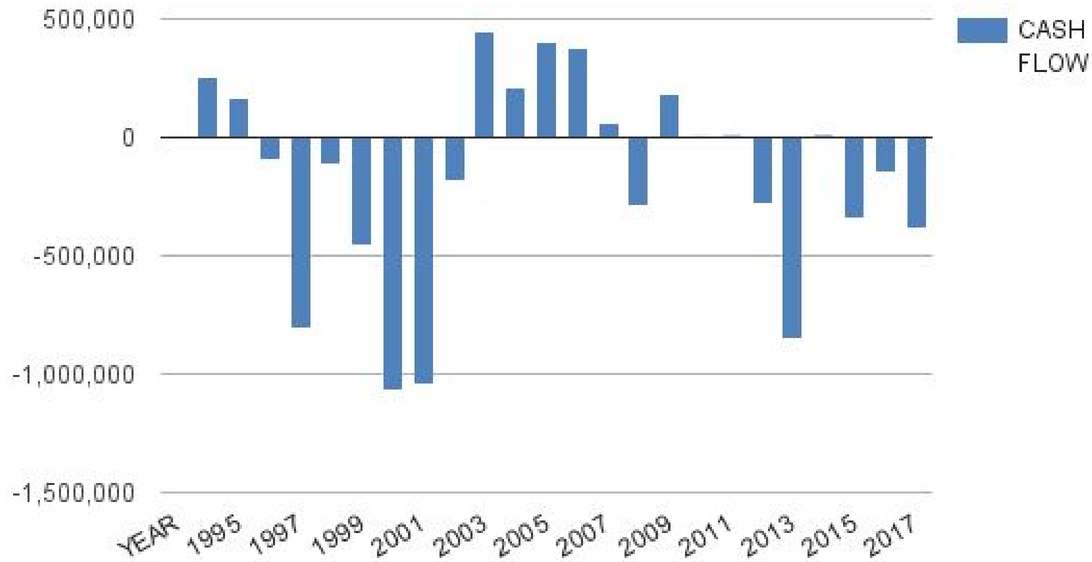
As a result of these changes, the steady enrollment decline in Jay Schools has placed significant pressure on the District's General Fund. Since 1999, Jay Schools has lost 509 students. This trend shows declining enrollment in 15 of the previous 17 school years.

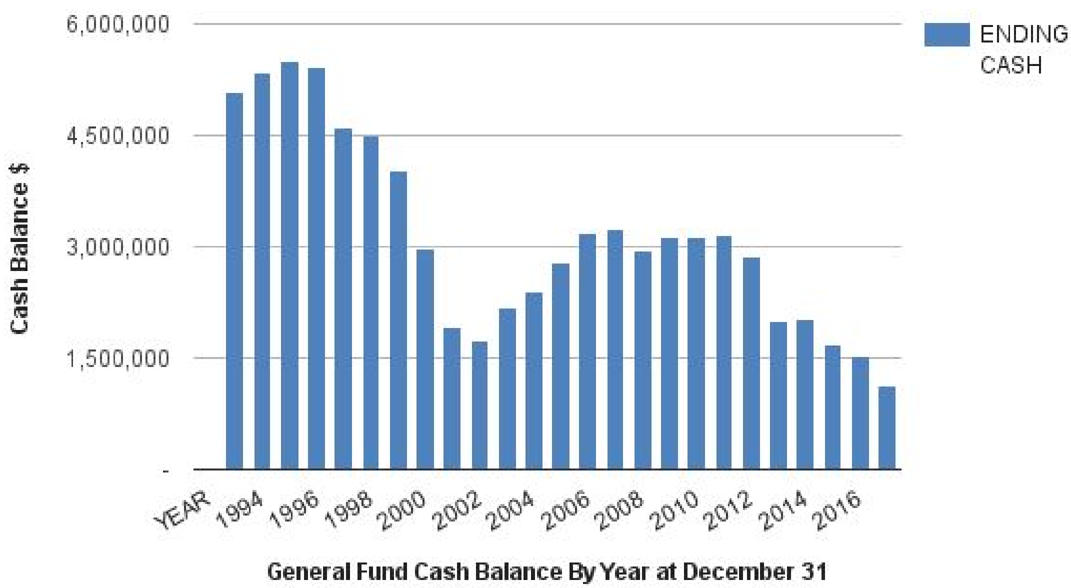


Structural Deficits

We are projected to be in deficit for 2017. If this holds, we will have been in budget deficit 5 of 6 years. Our current cash balance is at an historic 20-year low. Enrollment declines are steady and foreseeable. Without action, the projected 2017 deficit will reduce our remaining actual cash balance in half. The trend of budget deficits and declining enrollment portends to the need for a structural realignment of the district's fiscal framework (buildings, people, programs). Similar to what has been recommended in both outside and inside financial reviews conducted in 2001[3], 2015[4] and 2016[5].

[2] http://indianapublicmedia.org/stateimpact/2016/06/06/rural-school-funding-indiana/
[3] Program Study for The Jay School Corporation, The Myers Group, 2001
[4] The Jay School Corporation, CSO Facility Study, 2015
[5] Financial Health Report, Educational Services Company, 2016

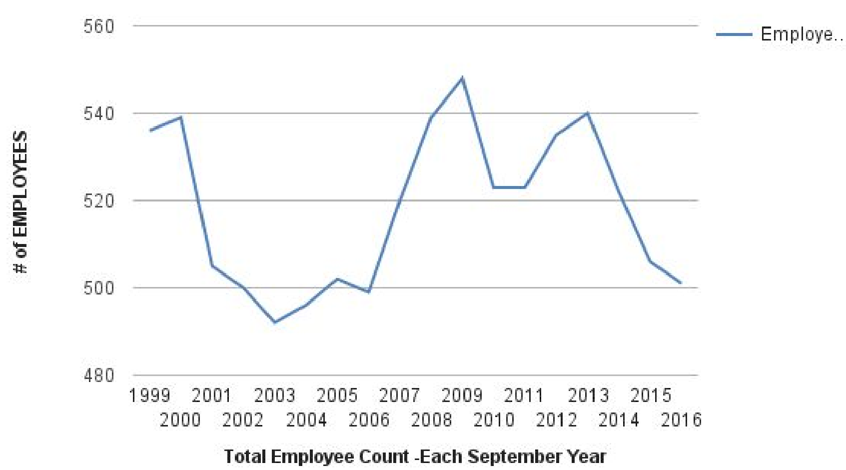




A similar realignment was done in 2001. In that period there were 7 consecutive years of budget deficit (1996-2002) that reduced the cash balance from 5.5 mil to 1.8 mil. Steep reductions-in-force (RIF) were made to certified and noncertified staff (apx 20 certified and 20 support staff). This brought headcount from 539 employees in 2000, to 492 employees in 2003. Building closures were considered and recommended by outside studies, but not acted on. The staff cuts in 2001 led to 5 consecutive budget surplus years beginning in 2003 through 2007. Cash balance improved from $1.8 mil in 2002 to $3.2 mil in 2007.

From 2006 - 2009 headcount increased from 499 to 548. Beginning in 2010, expenditures and revenues were tightly aligned until 2012. From 2012 to 2016 the trend has been towards deficit. Cash balance in that time has gone from $3.1 mil to $1.5 mil as of December 2016. From 2010 to 2016 staff headcount has been cut from its high of 548 to its current count of 500 . This is nearly the level of its low point of 492 in 2003.

It is also important to note that during the period from 2007 to 2009, as staffing, services and programs increased, Jay Schools entered a period of historically high performance. Technology, educational consultants, additional certified positions and educational support staff were added to achieve higher student learning and performance. From 2011 to 2015 "A" ratings were the norm for the district and its schools. The impacts of poverty were overcome[6] and students grew and achieved at high levels. Several schools earned nationally and state recognized distinctions such as National Blue Ribbon, Title I Performance Awards and Family Friendly School designation.



[6] http://www.thecr.com/Content/Default/Homepage-Rotating-Articles/Article/Jay-has-highest-child-poverty-rate/-3/1518/51373

School Name	2015 -2016	2014 -2015	2013 - 2014	2012 - 2013	2011 - 2012	2010 - 2011
Jay School Corporation	B	A	A	A	A	A
Bloomfield Elementary School	A	A	A	A	A	A
East Elementary School	A	A	A	A	A	A
General Shanks Elem School	B	A	A	A	A	A
Judge Haynes Elementary Sch	A	A	A	A	A	A
Pennville Elementary School	A	D	D	A	A	D
Redkey Elementary School	A	B	B	A	A	B
Westlawn Elementary Sch	B	A	A	A	B	A
East Jay County Middle School	B	A	A	A	A	A
West Jay County Middle School	C	A	A	A	A	D
Jay County High School	B	A	B	A	A	C

Notes:

2015 - 2016 -First year for JCHS to take ISTEP test

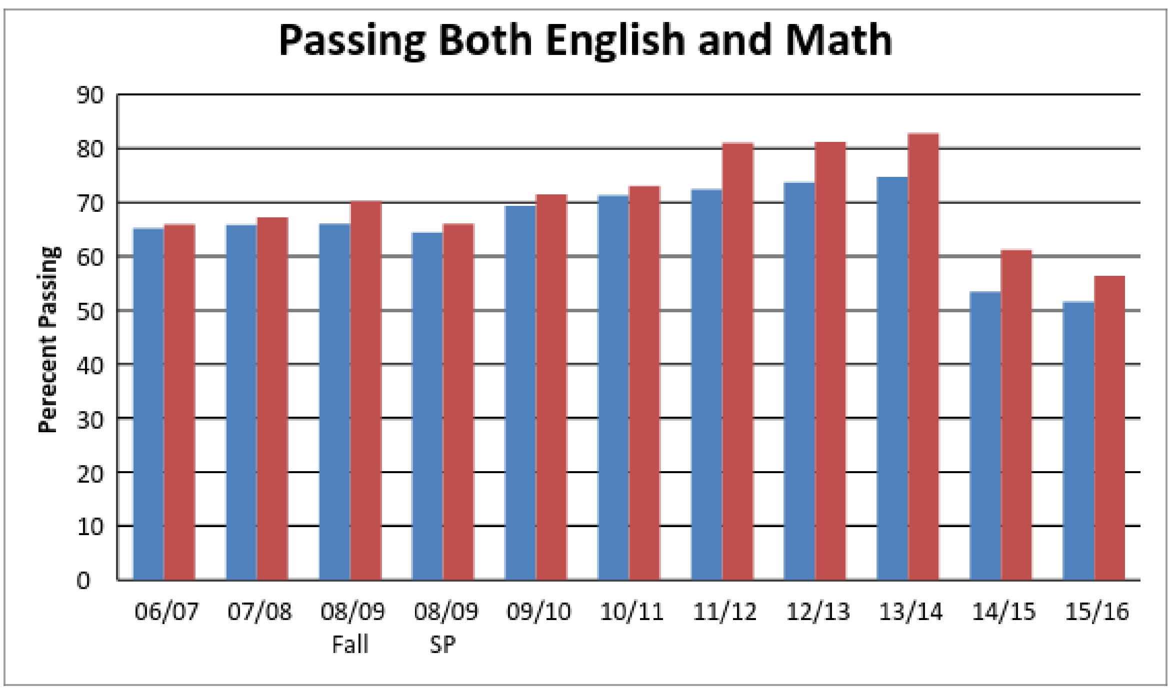
2014 - 2015 - Pearson is new test vendor. New rigor test (College and Career Readiness)

Hold harmless this year (Jay Schools was a B but

due to new test - received previous year letter grade

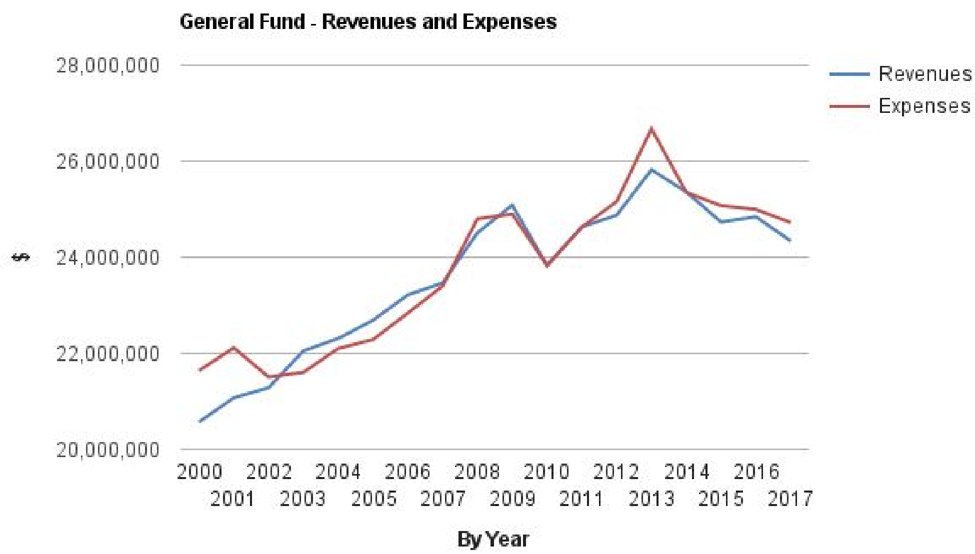
** Note Information from Indiana Department of Education --

http://compass.doe.in.gov/dashboard/overview.aspx



State avg BLUE/ JSC Avg RED

Now we are beginning to see the trend of deficit spending like that seen in the years leading to the cuts of 2001. In 2001, steep cuts (RIF 20 Certified & 20 non-certified) were made over a 3 year period returning the district to steady surpluses in the General Fund. From 2013-2016 a very similar reduction of headcount has been achieved without RIF (21 Certified & 19 non-certified).



Unlike the cuts of 2001, our recent reductions have not reduced our projected 2017 deficit. Although our headcount has nearly returned the 16-year historic low of 2004, our student population has declined by apx 500. The trend toward declining enrollment has not stopped; thus the return to emerging deficits like those of the late '90s and early '00s.

Implications for the Future

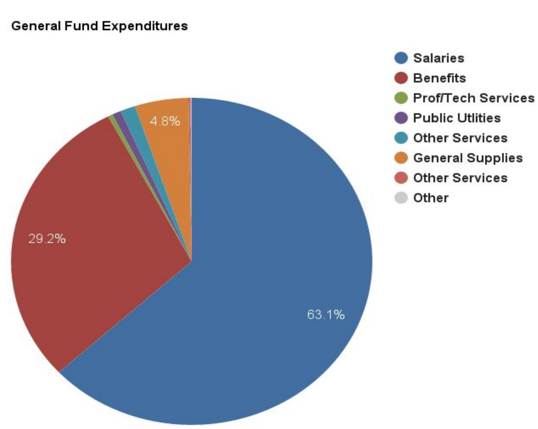
An important difference between the trend toward deficit spending facing us now compared to that facing the District in 2001, is our cash reserves. The course correction of 2001 was precipitated by 7 years of deficit spending subsidized by a General Fund cash balance that had gone from 34% to 8%.

Our present cash balance has fallen to a 23-year low, currently standing at 6% or $1,526,634. Thus, the time we have to bring our spending in line with revenues is shorter than that available to the District in 2001.

A rule-of-thumb for a minimum recommended cash balance is 8-10%. A 10%-12% cash balance would protect the District from an unexpected drop in enrollments, increase in costs or cuts in funding. Another rule-of-thumb is to maintain a cash balance to cover 3 payrolls. It is also important to point out that in cash-based accounting, it is advisable to look at the "unencumbered cash balance". This is the "true cash balance" as there may be cash remaining "on the books" that is already obligated in the following year. Our current unencumbered 2016 cash balance is $874,146. This would cover 1 full payroll. In household terms, this is as if a person were laid off work and had to rely on his or her savings account to weather the storm. In this case, the person would have one paycheck worth of cash in the savings account to pay the bills. If no action is taken to reduce the projected 2017 deficit, the unencumbered cash balance at the end of 2017 is likely to be $415,146. If this follows, the district would be unable to make one complete payroll in the event of fiscal emergency.

Year	Gen Fund Cash Balance	% of Gen Fund		Year	Gen Fund Cash Balance	% of Gen Fund	Unencumbered “True” Cash Balance
1997	$4,611,364	25%		2011	$3,146,137	12%	12%
1998	$4,496,438	24%		2012	$2,863,040	11%	11%
1999	$4,038,413	21%		2013	$2,008,506	8%	7%
2000	$2,969,762	14%		2014	$2,019,927	8%	5%
2001	$1,927,454	9%		2015	$1,679,027	7%	2%
2002	$1,744,881	8%		2016	$1,526,634	6%	4%

It is probable that during the last 3 years of steady attrition (no RIFs), we have gone a long way to “trim the fat”, get “more efficient” and harvest the “low hanging fruit”. What remains for us now, is to determine what level of *people, programs and buildings* we need to achieve our mission in a fiscally sustainable way. As we face the probability of continued cuts to staff and programs, the risks to student learning and achievement are self-evident. As we see our declining enrollment and revenues, the foreseeable impacts on our finances are equally self-evident.



As the pie chart above shows, just over 90% of our General Fund pays for employee wages and benefits. Education is provided by people for people, so this is no surprise. Costs in education are driven by *people, programs and buildings.* These variables are linked. The inescapable inferences is that the General Fund cannot be brought into alignment without cutting staff. It will also be shown, that many of the programs the District offers are managed and delivered by people. It is also true that the closure of underutilized buildings would relieve pressure on the General Fund and preserve education programs and services.

Apart from reducing expenditures, the other path to structural balance is to increase revenues. Referenda have become increasingly more common as a method to fund public schools since 2008, when lawmakers implemented property tax caps. Since then, the portion of tax money that could be distributed to school corporations has shrunk.[7] A referendum is a public question placed on a ballot by a local unit. Indiana Code 20-46-1-8 allows the governing body of a school corporation to adopt a resolution to place a public question on a ballot if the governing body determines that the school corporation (1) cannot carry out its public educational duty unless it imposes a referendum tax levy or (2) that a referendum tax levy should be imposed to replace property tax revenue that the school corporation will not receive because of the application of circuit breaker credits.[8] Past referenda have included construction projects (for various taxing units, including schools) and operating needs (for schools).[9] Since November 2008, 65 percent of school referenda on the ballot have passed.[10]

4. Assessment

- Declining enrollment, foreseeable deficits, diminishing cash reserves, along with aging and underutilized facilities, will negatively impact the ability of the school corporation to deliver on its core mission to educate students.

- The path to balance in 2017 is doubtful. A minimal cash balance is available to aid in the measured and planned implementation of cuts and consolidations, but reserves are limited and will buy only so much time.

- Near, mid, and long-term actions must be taken to reverse these trends and secure the means to carry out our mission on behalf of students and the community.

5. Recommendations

I ask the Board of Trustees affirm the following Budget Control framework:

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[7] http://www.wfyi.org/news/articles/eight-of-ten-school-referenda-pass-on-indiana-primary-ballot
[8] http://www.in.gov/dlgf/8790.htm
[9] http://www.in.gov/dlgf/8789.htm
[10] http://indianapublicmedia.org/stateimpact/school-referenda-scorecard/

Planning and Preparation

1. In accordance with the bylaws of the Board of Trustees (Policy 0155), the Superintendent will form a "Budget Control Committee". The task of this Superintendent-appointed committee is to conduct studies, receive information, generate options, provide analysis, make recommendations to the Superintendent, and act as an advisory. It will consist of Board representation, a JCTA member from each level (elementary, middle and high) and a Principal from each level (elementary, middle and high) or other such persons, from time to time, as the Superintendent shall think best to achieve the purposes of the committee.
2. A simultaneous review of *Programs, People and Buildings* should be done with a view to achieving the correct balance of each for the long-term.
3. A series of Board meetings should be held in various parts of the county with a view to solicit input from the community.
4. Place relevant reports, studies and updates on the school website. Engage with the community, parents, and both internal and external stakeholders.
5. Review the Financial Studies done for Jay Schools in 2001 and 2016.
6. Update the Jay Schools Demographic Study last conducted in 1999.
7. Consider a new Program Efficiency Assessment last conducted in 2001.
8. Review Cost Reduction Survey conducted in 2014. Begin planning for options not yet acted upon.
9. Review Facility and Consolidation study conducted in 2015.
10. Study the applicability, feasibility, process and timeline of a Referendum in accordance with Indiana Code 20-46-1-8.

Finance

1. Refinance Bonds.
2. Remove, where possible, remaining costs to Titled, Grant and other funds to relieve pressure on General Fund.
3. Rebid Property & Casualty Insurance.

Personnel

1. Implement "Hiring Freeze" now (positions affecting safety or legal requirements excepted).
2. Continue attrition based reductions.
3. Review Reduction-In-Force (RIF) procedures and timelines for Certified Staff.
4. Conduct analysis of the schedule and staffing at elementary, middle and high school levels.
5. Review non-certified staffing for reduction or consolidation of duties.
6. Reduce summer workers.

7. Reduce Travel and non-essential substitute teacher costs.
8. Consider contracting technology services.

Programs

1. Prepare contingency plans to move JCHS Annex and Alternative Placement Center at John Jay back to JCHS effective for the 17-18 school year.
2. Review technology spending for reduction.
3. Review Special Education program, budget and staffing.
4. Review Title I program, budget and services.
5. Review Preschool Program, budget and services.

Buildings

1. Complete facility maintenance review currently underway.
2. Review Facility and Consolidation study conducted in 2015.
3. Narrow and or refine options presented in the 2015 Facility Study. Develop contingency plans, process and timelines. Identify decision points.

6. The Process

As a candidate for Superintendent, I presented to the Board of Trustees four points animating my approach to Budget control. This approach will be the lens through which I focus our current efforts:

Budget Control Approach:

1. Proportional: People are more inclined to sacrifice for the common good if they are informed, involved, believe the process is legitimate and everyone shares the burden fairly.
2. Prioritized: Nearly all costs are related to Programs, People and Buildings. They are financially linked. Each affects the other. Target first and foremost non-instructional overhead expenditures. Outside classroom expenditures first, then inside classroom expenditures.
3. Collaborative: Involve all employee groups, and the community in developing principles to guide the process, included them in submitting possible reductions, and allow for everyone to provide feedback in the prioritization process
4. Transparent: Transparency and teamwork builds confidence and trust. Make thinking visible. Use data to drive decisions. Communicate often.

Decision-making Framework

Define the problem – Gain input – Generate Options – Provide Analysis – Give Recommendation – Decide – Implement – Refine & Adjust.

What we have done? What we can do now? What we can do next? When must decisions be made?

<u>Planning horizons and decision points</u>

Decisions will be analyzed in relation to several planning horizons. This is necessary due to school budget preparation and revenue streams from the state. We receive revenues at different points in the year. In addition, reductions to expenditures must be made at certain points in the current school year in order to implement those decisions for the next school year (ex. Block or Team scheduling). Some decisions are constrained to legal timelines and processes tied to the calendar year (ex. RIF). Some decisions may be made that will realize immediate savings, and residual savings over the years (building closures). The point is that many decisions, even if made now, will not produce savings to the district until beyond the current budget year.

Calendar Years: 6 months - 12 months - 24 months - 36 months - 48 months
Budget Years: 2017, 2018, 2019, 2020
School Years: 2016-2017, 2017-2018, 2018-2019, 2019-2020.

7. Financial End State

Jay Schools delivers the highest quality programming to students at the best value to taxpayers. Our budgets are balanced. Our cash reserves are maintained to protect against the uncertainties of the future. Our resources are wisely used. Operations are efficient. Spending is aligned to our goals.

8. The way ahead

Although the facts giving rise to this report are clear and present, they are not cause for panic but rather purposeful preparation and decision-making. The underlying factors compelling these recommendations have been widely known and reported to the community[11].

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[11] Ray Cooney, “No school changes expected,” The Commercial Review, (Portland, In), Mar. 15, 2016
Jack Ronald, “Matters deserve public forum,” The Commercial Review, (Portland, In), Feb. 1, 2016
Jack Ronald, “Some openness would’ve been nice,” The Commercial Review, (Portland, In), Jan. 8, 2016
Ray Cooney, “Reducing staff,” The Commercial Review, (Portland, In), Mar 7, 2016
Ray Cooney, “Student-centered,” The Commercial Review, (Portland, In), Mar 5, 2016
Ray Cooney, “In general, it’s about people,” The Commercial Review, (Portland, In), Mar. 4, 2016
Jack Ronald, “Board should discuss openly,” The Commercial Review, (Portland, In), Oct 3. 2015
Jack Ronald, “Tough Questions need answers,” The Commercial Review, (Portland, In), Oct 2. 2015
Jack Ronald, “Is the savings worth the cost?,” The Commercial Review, (Portland, In), Oct 1. 2015

As we move forward together, let us agree to five propositions:

1) Our schools belong to the community for the benefit of children.
2) When adults work well together, kids win.
3) How we do things is as important as what we do.
4) Honor our past, look honestly at the present, focus on the future.
5) Make all decisions in the best interest of kids.

Much talk will be made about numbers, dollars and cents. This is necessary, but not the point. The finances and budget are not our *end*, but rather the *means* to an end. Our mission is to educate students. Our kids are more than numbers. Our schools are more than letters (A-F). Our communities are more than places on a map. We must reflect that in our work.

We are not the first to have been confronted with these challenges. In earlier times, our community's leaders also confronted difficult realities and reimagined the possible. To be sure that task was a difficult one, with many doubts and differences of opinion. Yet, they focused on the future. They were not paralyzed by the perplexities of the present, and as a result, we are now all "*Jay County Patriots*". Heartfelt nostalgia notwithstanding, the difficult decisions made then, are now nearly universally approved of and considered right. What may be clear to us today looking back, was not so easy to see for those who made these decisions. The same may be said of us years from now. How will our action or inaction be viewed by those who look back to us from some future time? It is always easier to see the present than the future.

Our focus should now be on both our current students and also those students who have not yet arrived to us. We must devote a good measure of consideration to the students who will attend our schools many years hence. What will be the quality of their education? What will be their opportunities as a result of our decisions? As we honor our past, and look honestly at our present, we must also focus on the future. It is now our time and our turn.

Respectfully submitted to the Board of Trustees, January 23, 2017.

Jeremy W. Gulley
Superintendent
The Jay School Corporation

Date: January 7, 2017
To: School Board of Trustees
From: Brad DeRome
Subject: **<u>FINANCIAL STATEMENT NOTES (December 2016)</u>**

<u>GENERAL FUND – YEAR TO DATE RESULTS –(12 Month Actuals- 2016)</u>

-**<u>Actual 12 Mos. State Basic Grant 2016 Revenue</u>**- = $ 23,963,193
-This now reflects the ADM student enrollment count drop of -46 in Sept 2016.
-The now reflects ½ of the Career Technical Ed (Vocational Funding) reduction for the 2016-17 school year. (This was a drop of $ 80,000 in funding in December 2016. The remaining $ 88,000 will be reduced from Jan – June ' 17 in the Basic Grant Funding)

Other Revenue-
- This includes the one time transaction of the $ 50,000 proceeds for the land sale in December.
- This includes the $ 28,000 proceeds from the sale of vehicles/fleet in December.
- This includes the Teacher Performance Award funds of $ 118,000 that will be paid in 2017.

<u>Actual 12 Mos YTD December 31, 2016 . General Fund Cash Flow</u> = ***$ < 152,393 >***

<u>Actual December 31, 2016- General Fund Ending Cash Balance</u> = **$ 1,527,000**
Our ending General Fund Cash Balance = 6.1% of Total Expenditures (Prior Year = 6.7%)
Salary + Benefits as a % of Total Expenses = 90% of General Fund (Prior Year = 89%)
Benefits as % of Total Labor Cost = 45.5% (Prior Year = 46.1%)

- This Actual Results for Cash Flow includes the reduction in staffing that occurred in 2015 and 2016.
- Current headcount of employees are 246 Support and 254 Certified for total = **# 500**

- We are down a total of **-3** employees from Dec 2015. (**# 503**)
- (down -2 Support staff vs.and down -1 Cert Staff vs Dec 2015)
- We are down a total of **-21** employees from Dec 2014. (**# 521**)
- (down # - 7 Support Staff, and down # - 14 Cert Staff vs. Dec 2014)
-
- At end of year, -9 less employees were paid out of the General Fund compared to last year. (# 371 vs. # 380) Last year 75% of all employees were paid from General Fund, this year the number is 73 %..

<u>Actuals - 2016 General Fund Total Revenues</u>: $ 24,843,096
<u>Actuals- 2016 General Fund Total Expenses</u>: $ 24,995,489
= Actuals ***Gen. Fund 2016 - 12 Mos. Cash Flow = $ <152,393> Deficit***

Date: January 16, 2017
To: Jeremy Gulley
From: Brad DeRome
Subject: **<u>FINANCIAL STATEMENT – 2017 Estimate Assumptions</u>**

<u>GENERAL FUND – 2017 CASH FLOW ESTIMATE = $ < 384,000 ></u>

-**<u>Estimated 12 Mos. State Basic Grant 2017 Revenue</u>**- = $ 23,641,000
This 2017 Estimate Basic Grant amount is $ 322,000 less than the 2016 Actual State Basic Grant.
(Actual 2016 State Basic Grant Revenue = $ 23,963,193)
<u>Key Items - Revenue Assumptions:(With Estimated Drop in Enrollment Feb/Sept '17)</u>
-ADM Student Count Actual Sept 2016 = # 3,379, this is < 46 > drop from Feb 2016
-ADM Student Count-Estimate Feb 2017 = # 3,355, this is < 24 > drop from Sept 2016.
-ADM Student Count – Estimate Sept 2017 = # 3,331, this is < 24 > drop from Feb 2017.
-Special Ed Count – This was Estimated as a drop of $ 106,000 from the count as of Dec 1, 2015. ($ 2,742,800 - 106,000 = 2,636,800)

-CTE (Vocational)- I did include the drop for the reduction of $ 169,000 for the 12 mos. of 2017.

Key Items - Spending Assumptions –

-The annual bargained Raises for Teachers that begin Jan 2017 are included at $ 2,000 each.
- Annual Wages / Benefits are higher than the prior year due to wage increases.
- FICA Social Security Payroll taxes are estimated higher by $ 85,000
- The Health Insurance Expense is estimated higher by $ 86,000.
-The Maintenance Staff is reduced by one employee (Dennis James)
- The Admin office is reduced by one Administrator (Jeremy's old position is reduced)
- Health Insurance Expenses - JSC Still contributing $ 7,000/$ 16,000 single / family for 2017. I did not increase the contribution level by the School Corporation per employee.
- I included one more Guidance Counselor (WJMS). This was not in the original 2017 Budget.(Mika Cupp)
- I reduced Summer Custodian Employment Expense Estimate < $ 26,000>
- I did NOT reduce any teaching positions in this Cash Flow Estimate for 2017.
- I did NOT yet replace the Pennville 1st shift custodian. That service is now completed by an Outside Cleaning Service, and paid from CPF.
- Basically all other General Fund Expenses have been re-estimated in the 2017 Estimate when compared to the 2016 actuals.

Estimated December 31, 2017- General Fund Ending Cash Balance = $ 1,142,000