

Potential Amendment to the FY18 Proposed Budget #5

Sponsor:	Director Mark Sain
Date:	May 19, 2017

Intent (required):

To re-allocate \$10 million from pre-paid debt service as follows:

1. \$5 million to fund an effort to attract and to retain employees for hard-to-fill positions;
2. \$3 million to fund incentives for individuals to commit to serve for a minimum of three years in our identified low-performing schools; and
3. \$2 million to fund raises for employees across all of our bargaining units.

School Operations Fund Funding Source/Destination

Page #	Budget Line to be Changed (To/From)	FTE Increase	Amount Increase	FTE Decrease	Amount Decrease
3C-188	DWC-0-0-EMB-DW-EERT — Early Retirement Supplement — Teacher	N/A	N/A	N/A	\$1,895,539
3C-191	SCF-0-0-CTG-DW-ESAA — Unallotted Salary Adjustment	N/A	\$1,648,295	N/A	N/A
3C-191	DWC-0-0-CTG-DW-EEBN — Employee Benefits	N/A	\$247,244	N/A	N/A
Total Expenditure Adjustments			\$1,895,539		\$1,895,539

Revenue Adjustment

	Total		\$1,895,539		\$1,895,539
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School Nutrition Services Fund Funding Source/Destination

Page #	Budget Line to be Changed (To/From)	FTE Increase	Amount Increase	FTE Decrease	Amount Decrease
3C-204	LNC-0-0-LNH-DW-EFOD — Food — Lunch	N/A	N/A	N/A	\$41,576
3C-210	DWC-0-0-NEB-DW-EBAJ — Budget Adjustment	N/A	\$41,576	N/A	N/A
Total Expenditure Adjustments			\$41,576		\$41,576

Revenue Adjustment

	Net Total		\$41,576		\$41,576
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Extension Fund Funding Source/Destination

Page #	Budget Line to be Changed (To/From)	FTE Increase	Amount Increase	FTE Decrease	Amount Decrease
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3C-237	ATH-0-0-PRC-DW-ECTS	N/A	N/A	N/A	\$16,732
New	SCF-0-0-XSC-DW-ESAA — Unallotted Salary Adjustment	N/A	\$14,550	N/A	N/A
New	DWC-0-0-XSC-DW-EEBN	N/A	\$1,882	N/A	N/A
Total Expenditure Adjustments			\$16,732		\$16,732
Revenue Adjustment					
Net Total			\$16,732		\$16,732

Categorical Fund Funding Source/Destination					
Page #	Budget Line to be Changed (To/From)	FTE Increase	Amount Increase	FTE Decrease	Amount Decrease
TBD	Lines in each individual grant will be adjusted.	N/A	N/A	N/A	\$317,909
TBD	Lines in each individual grant will be adjusted.	N/A	\$276,443	N/A	N/A
TBD	Lines in each individual grant will be adjusted.	N/A	\$41,466	N/A	N/A
Total Expenditure Adjustments			\$317,909		\$317,909
Revenue Adjustment					
Net Total			\$317,909		\$317,909

Fund:

- School Operations Fund
- School Nutrition Services Fund
- Extension Fund
- Construction Fund
- Categorical Fund

Required Vote:

- Simple Majority
- Super Majority (2/3)

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Administration Response and Recommendation:

While every budget has inherent challenges and opportunities, developing the proposed 2017-18 budget posed a greater set of difficulties: Currently, the state is still developing its biennial budget. A new administration in Washington, D.C., is also setting its priorities. Additionally, healthcare costs continue to grow as revenues stay flat. In order to maintain our commitment to our students, families, staff, and the greater community, we were challenged not only to deliver a balanced budget, but to rethink and redesign our school-support structure to enhance the delivery of quality instruction.

The proposed budget is a balanced budget wherein projected spending in the School Operations Fund does not exceed projected revenues. This required careful fiscal planning to overcome the structural deficit that existed when the budget process began. The deficit is a result of stagnant revenues clashing with inflationary pressures. Variable costs, such as utilities and transportation, and other operating expenses would require revenue increases that recognize the operating realities of school districts. In addition to modest inflation, MPS faces a six-percent increase in healthcare costs.

MPS is laser-focused and aligning our work to the District's strategic goals and operational plan. The budget reflects our commitment to improving outcomes for our students, including reorganizing to improve staff and student supports; aligning our cost-structure to reinforce those capabilities; and reorganizing to enable improved teaching and learning. All offices are participating in this reorganization which will support efficiency and effectiveness by eliminating overlapping roles, aligning staff's skills with their strengths and district need, and reducing unneeded levels of management within functional groups.

One result of the restructuring of central services within the limited resources available is the reduction of positions. While some are vacant positions, a small number of layoffs result from proposed budget reductions.

The Administration opposes this amendment. Because the state controls the vast majority of district revenues, the Administration can balance the budget only by holding back on spending in areas which we can control. Under these circumstances, we believe the proposed budget maximizes the District's ability to make progress on student achievement, family and community engagement, and efficient operations.

Specifically, the Administration is concerned because:

1. The state budget is still under development. It is possible that our current revenue assumptions will turn out to be optimistic, or that new costs will be shifted or required of the District. It would be prudent to delay further commitments until the fall adjustment process. At that time, MPS will have final fiscal results from the current year, actual enrollment for 2017-18, and perhaps a clearer picture of federal funding projections.
2. The five-year forecast for the District's school operations fund (page 3-19 of the proposed budget) demonstrates that basic inflationary costs in 2018-19 would create a deficit of \$18.8 million. This is because the revenue limit's formula will continue to lower MPS's taxing authority even as enrollment is stabilized.
3. The District's cost-structures are such that, without unforeseen and significant new revenue sources, increasing new obligations will likely result in a further reduction of

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positions and perhaps in employee layoffs. While the 2017-18 proposed budget resulted in a small number of layoffs, the balancing act for 2018-19 would prove more challenging.

4. If the District were to commit to raises, for example, without clearly identifying where other savings would be possible, the result could be an over-commitment of resources which would potentially cause disruption on a larger scale than that experienced by a neighboring school district. If erosion of MPS reserves were to take place, the District's choices become grim.
5. MPS's federal funding projections are on unstable ground. For example: the full \$5 million of revenues from Medicaid is currently at risk. The new healthcare bill that has been passed by the House of Representatives eliminates the school-based services Medicaid program which is the source of this revenue. In addition, the President's proposed budget would eliminated more than \$10 million in Title II funding that currently supports the development and support of teachers and school leaders.
6. Updated estimates of the City's pension costs for 2017-18 may result in as much as an \$800,000 cost increase for 2017-18.

Second, the realities of leveraging funds from long-term obligations are:

1. The District's forecast for required spending in the current year has MPS's expenditures exceeding revenues in the general fund. This means that there may already be a reduction of fund balance due to unbudgeted costs (for example, operation of the schools assumed after the closure of Universal.) We do not have the resources to make additional payments toward debt or retiree healthcare during 2016-17 in order to reduce costs in 2017-18.
2. We cannot defer debt payments which are scheduled for 2017-18 because of covenants which the district has signed.
3. Deferring payments to the OPEB trust is not advised for the following reasons:
 - The establishment of appropriate funding of the trust assures retirees (and active employees who will become retirees) that their post-employment benefits are properly funded. If MPS short-cuts the contributions, the District is "kicking a can down the road" for a future Board and Administration to address.
 - The District's credit rating is currently strong, in part because the Board and the Administration have shown the fiscal discipline to reduce our unfunded actuarial liability, or at least to make the required annual contributions. Paying down less than the annual requirement may decrease the District's credit rating, resulting in higher borrowing costs. A reduced credit rating and increased unfunded liability may also harm MPS's standing in the community as a responsible fiduciary of taxpayer funds.
 - The District loses state aid and interest earnings if required contributions are not made. Based on its having met the annual contribution amount in 2015-16, the District is receiving approximately \$2.8 million more aid for special education this year than if MPS had failed to meet the minimum contribution.

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4. The proposed budget in the school operations funds includes estimated payments of \$9,926,019 for Supplemental Early Retirement Pension (SERP)-Teachers. This is based on actuarial estimates of the annual cost.
 - a. The annual payments for these pension costs are made in June, in part to allow for interest accrual. The payments can be made on July 1 vs. June 30 in the following fiscal year without penalty, but with loss of interest in the following year. That interest amount is less than \$500.
 - b. The Administration has been reluctant to defer these payments into a future year for two reasons:
 - i. First, the budgeted June payment serves as a modest cushion in the event that the District should face cash-flow or fund-balance challenges as it is coming to the end of the fiscal year.
 - ii. Second, the annual payments are not gone (like paying in advance) if the June payment is deferred. If we defer the June 2018 payment, it becomes an extra payment due in 2018-19.

If the Board considers this amendment for approval, the Administration advises the underfunding of the supplemental pension (SERP) as the option with least risk. This account must retain \$3.7 million in funds in the same account. This will be needed for the legally-required contributions. Reduction of the line identified above also leaves the much smaller equivalent SERP for administrators fully funded.

The Administration advises that a plan to attract and to retain employees for hard-to-fill positions and to stabilize staffing in high-needs schools to be brought back with the fall budget adjustments in October 2017.

Costs for Raises Based on 0.4% CPI Rate												
	Board-Operations Fund			All Grants*			Board-Enterprise Funds*			Total - All Funds		
	FTE	Total Salary	Salary & Bene Incr	FTE	Total Salary	Salary & Bene Incr	FTE	Total Salary	Salary & Bene Incr	FTE	Total Salary	Salary & Bene Incr
All Staff	7,626.93	412,073,520	1,895,539	1,234.01	69,110,706	317,909	437.95	12,675,550	58,308	9,298.89	493,859,776	2,271,756
Total by Fund	7,626.93	412,073,520	1,895,539	1,234.01	69,110,706	317,909	437.95	12,675,550	58,308	9,298.89	493,859,776	2,271,756
<i>*Raises will be covered within the grants or fund.</i>												
<i>^FTEs are also included in All Staff</i>												

In the chart above, “Board-Enterprise Funds” refers to the School Nutrition Services Fund and The Extension Fund.

To accommodate raises in the School Nutrition Services (SNS) fund, a reduction of approximately 1.6% of the budget for food can be made. SNS purchases for meals will reflect a modest decrease in quality to accommodate cost reductions.

To accommodate raises for employees paid in the Extension Fund, a reduction to contract services can be made. This will limit the Recreation Department’s ability to supplement staff efforts for services at playground and recreation centers.

For grants (aka *Categorical* funds), the reductions to various accounts needed to fund salary increases will vary by grant.

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The Administration recognizes that MPS must remain competitive in its compensation package to attract and retain qualified staff to serve the children of Milwaukee. While a pause in raises will not reverse the District's competitive position, it can be a marginal discouragement for current and potential employees. It takes more than just paying competitive wages for the District to show that it values its employees. Through efforts including employee wellness activities, professional development, open lines of communication, and increased support, the Administration is working to improve the employee experience.

If the Board approves any amount or percentage for raises, the Department of Employment Relations will enter into base-wage negotiations with the unions certified by the Wisconsin Employment Relations Commission (WERC). Technically, if a district offers the full CPI amount — this year 1.26% — that district would not need to bargain, as it is offering the highest amount subject to bargaining; however, we have always met to bargain even when offering CPI. The unions have wanted to bargain how the percentage amount would be distributed. In the past, they have all chosen a different way for the money to be distributed. Once we come to an agreement, we sign a base-wage contract with the union and then take that contract to the Board for approval through the Committee on Accountability, Finance, and Personnel and then to the full Board. Once approved by the full Board, the plan is then implemented.

Currently, PAMPS, MTEA-Teachers, MTEA-Bookkeepers, MTEA-Educational Assistants, and Local 420 are certified by the WERC. For those not represented by a certified union, any increase in the base wage approved by the Board could be implemented July 1, 2017.