

Rudolph F. Crew, Ed.D., Superintendent of Schools

SUBJECT: FIVE-YEAR BUDGET ANALYSIS

COMMITTEE: INNOVATION, EFFICIENCY & GOVERNMENTAL RELATIONS

At the September 7, 2005, School Board Meeting, Item B-6 presented by Ms. Evelyn Langlieb Greer requested that a five-year budget analysis be prepared that projected revenue and expenses in order to assess the long-term financial impact of critical issues facing the District.

The analysis has been completed and is presented on two attachments.

- Attachment A: Revenue Forecast
- Attachment B: Expenditure Forecast

Enrollment/Full -Time Equivalent Students

The key assumption that affects revenue and expense projections is the number of Full Time Equivalent (FTE) students. FTE projections have their basis in the actual results we are seeing for the current fiscal year. The budget for fiscal 2005-06 was predicated on 362,000 unweighted FTE. The actual headcount is 358,000, a reduction of some 4,000 students. The reduction is driven by an increase in the number of charter schools within the County, a reduction in foreign student enrollment and an increase in voucher and home education participants. These factors are expected to have a similar impact on enrollment in fiscal 2006-07 as a further decline of 4,000 students is expected. What impact, if any, the recent State Supreme Court ruling on vouchers might have on these projected declines can not be predicted. Based on a demographic study done in support of the five-year capital plan, the expectation is that these declines will moderate over the following two years, and enrollment should begin to see modest increases in the last three years of the five-year period. Based on observation of recent results, a demographer has been reengaged and asked to revisit earlier conclusions. If he/she forecasts a materially different trend line, revenue and expense projections will be adjusted accordingly.

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Key Revenue Assumptions and Implications

Other key revenue assumptions are a freezing of the District Cost Differential (DCD) impact and all state categoricals and federal and state grant funds at 2005-06 levels. It was assumed that the District will realize a state funding increase of \$160 million in 2006-07 and each year thereafter through 2009-10. This consists of \$71 million of additional Class Size Reduction (CSR) funds and \$89 million of new categorical and discretionary dollars. The \$160 million was developed using an estimate of programmatic needs, and District staff will convey to the legislature that the funds are required to continue to make the progress noted last year.

In fiscal 2005-06, our actual increase was \$101 million, but the incremental DCD loss was \$37 million and the equalization of the 0.51 local discretionary effort to \$200 per student cost us \$13 million. If both of these had been mitigated, the increase this year would have been \$151 million. In requesting the \$160 million, the legislature is being asked to mitigate the DCD loss, make no further effort to equalize the 0.51 mil, and provide a modest increase on top.

It was further assumed that the District will continue to receive an additional \$160 million in each year through 2009-10, when class size requirements need to be completed. For fiscal 2010-11, additional revenue was decreased to \$89 million, reflecting the end of new class size funds in that year.

Lastly, modest increases in real estate values have been projected over the analysis period, averaging 5% per year. This results in increases in the 0.51 Discretionary Local Millage (DLM) the District receives for operating purposes, regardless of changes in FTE.

Revenue increase assumptions are summarized on the following chart broken into the three major components – Additional Class Size funding; Additional Discretionary funding; and DLM and FTE impact.

	2006-07	2007-08	2008-09	2009-10	2010-11
Class Size Funding	71.0	71.0	71.0	71.0	--
Discretionary Funding	89.0	89.0	89.0	89.0	89.0
DLM, FTE and Other Impact	(15.3)	7.3	18.1	26.3	31.1
Total	135.7	167.3	178.1	186.3	120.1

Attachment A details the revenue computations. Built into these projections is a variance that is subject to four independent variables. The first is the final state appropriation for 2005-06 and subsequent years. The second variable is the annual federal education appropriation level and its impact on major grant entitlement programs such as Title 1 and IDEA. The third variable is student enrollment. In fact, if the Supreme Court decision on vouchers encourages movement back to public schools, the District could be a beneficiary. Lastly, although more modest increases were assumed

in real estate tax rolls than those experienced in recent years, fluctuations are not only possible but likely in South Florida.

Key Expenditure Assumptions and Implications

On the expenditure side, key assumptions include the full implementation of the Strategic Plan and Capital Plan and the meeting of all State requirements, including Class Size Reduction. The School Improvement Zone sunsets at the end of fiscal year 2007-08, and the marginal expenses are redirected into other strategic priorities. In addition, a declining need for remediation/intervention is assumed based on improving academic results. Moreover, raises for all employees are provided for in each year (a 3% general increase rate was used). Lastly, the contingency is maintained throughout.

Attachment B details the multi-year expenditures. In the base year, 2005-06, school site expenditures constituted 80.1% of total budgeted expenses. This increases to 82.7% in 2010-11, continuing the practice of directing as much of our revenues to needs in the schools as possible. The major strategic initiatives included in the 5-year analysis are outlined below:

- Provide for annual **Salary Increases** for all employees.

Projected cost is ~\$64 million in 2006-2007 and then increases at 3% per year through the 5-year analysis period.

- Meet all requirements of the State's **Class Size Reduction** constitutional amendment. By the end of fiscal 2009-10, class sizes in each classroom will meet the 18:1 ratio for K-3; 22:1 for grades 4-8; and 25:1 for 9-12.

Projected cost is ~\$47 million for 2006-2007 and is expected to increase as we meet requirements.

- Continue the programs in the **School Improvement Zone** through the end of fiscal 2007-08, and seamlessly integrate the Zone into the regions at the end of that year.

Projected cost is ~\$40 million for 2006-2007 and 2007-2008. This is in our base year and does not require incremental dollars. Funds will be reallocated beginning in 2008.

- Continue to expand **Summer School** so that it incorporates reading camps for low-performing students, transition academies for incoming 6th and 9th graders, and PSAT preparation expansion.

Projected cost is ~\$30 million for 2006-2007 and is expected to remain flat throughout the 5-year analysis period. This is in our base year and does not require incremental dollars.

- Implement **Secondary School Reform**. This includes implementing small learning communities and flexible scheduling featuring an eight-period configuration and facilitating internship opportunities and dual enrollment.

Projected cost is ~\$12 million in 2006-2007 and is expected to increase over time as we phase in additional high schools and middle schools.

- **Build capacity and enhance resources at school sites to support literacy instruction**. This includes integrating literacy into all subject areas, purchasing core and intervention materials, enhancing professional development for all teachers and hiring additional reading coaches in schools.

Projected cost is ~\$11 million in 2006-2007 and is expected to remain flat until 2009, at which point costs decline for this initiative.

- Enhance **Wellness** curriculum and programs and healthcare services to improve the health of all students.

Total projected cost is ~\$11 million in 2006-2007 and is expected to remain flat throughout the analysis period. In each year, ~\$10 million, of the \$11 million, will be to support School Health Teams to ensure all students receive a standard level of physical and mental health services and will flow directly from the Children's Trust to the service providers.

- Implement **Performance Pay** to further reward high performers throughout the District. The program would start with all MEP employees and a pilot for 1,500 teachers in 2006-07. Performance Pay would be rolled out to all employees by the end of 2008-09.

Projected cost is ~\$5 million in 2006-2007 and is expected to increase as we phase in employees.

- Increase the percentage of **ESE students** spending 80% or more of the day with non-disabled peers to provide an instructional setting that maximizes each student with learning disabilities. Ensure all ESE students are served in their home school or a school in close proximity.

Projected cost is ~\$5 million in 2006-2007 and is expected to increase as ESE students are transitioned.

- Revamp the **Gifted Programs**. Costs include reducing class size to levels commensurate with the constitutional requirements and improving processes to increase participation.

Projected cost is ~\$3 million in 2006-2007 and is expected to increase over time as class size is reduced.

- Increase the percentage of students participating in and successfully completing **Advanced Placement**. This includes College Board-sponsored professional development and site-based support for implementation.

Projected cost is ~\$3 million in 2006-2007 and is expected to remain flat throughout the 5-year analysis period.

- **Expand dual language and arts opportunities** throughout the District. This includes implementing the Board-approved extended foreign language plan, expanding arts and vocational labs, and enhancing professional development for teachers.

Projected cost is ~\$1.5 million and is expected to remain flat throughout the 5-year analysis period.

GAP ANALYSIS

Revenues and Expenditures and the resultant gap are summarized below. Amounts are presented in millions of dollars.

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Total Revenues	2780.8	2916.5	3083.8	3261.9	3448.2	3568.3
Expenditures:						
Schools	2228.7	2363.4	2505.4	2651.5	2853.1	2955.0
School Support	374.2	394.4	410.9	410.8	399.9	396.2
Utilities, Plant, Insurance	177.9	182.5	192.0	202.0	212.0	222.0
Expenditures	2780.8	2940.3	3108.3	3264.3	3465.0	3573.2
Gap	0.0	(23.8)	(24.5)	(2.4)	(16.8)	(4.9)

The schedule reflects a gap in all years. The 2006-07 gap, the one that will be most important to us in the near term, is entirely driven by the FTE reductions. In fact, if enrollment declines as predicted, the assumed state funding increase of \$160 million, which would fully cover all anticipated expenditures for 2006-07, will net only \$136 million of new state revenues which accounts for the \$23.8 million gap. However, this gap, as well as those for subsequent years, can be narrowed or eliminated through grant funding. This is a realistic scenario since all state and federal supplemental revenues, due to their competitive nature, were held conservatively constant throughout the five-year projection.

At this time, revenues and expenditures have not been balanced. This five-year projection effort was primarily focused on examining the estimated costs of implementing state requirements, strategic initiatives, and projected staffing needs (given CSR, the capital plan, and estimated turnover) against a single revenue scenario to see the impact of our critical issues. As discussed above, revenues are subject to a series of assumptions that will, at least for the fiscal year 2006-07, begin to crystallize over the next few months. When the budget for next fiscal year is developed over the

next three months, any gap that results from actual revenue shortfalls will be addressed via additional economies from on-going operations or by rescaling initiatives.

RECOMMENDED:

That The School Board of Miami-Dade County, Florida, receive the five-year budget analysis that project revenue and expenses in order to assess the long-term financial impact of critical issues.

Five-Year Revenue Forecast

ATTACHMENT A

Student Enrollment Projections	362,825	353,822	353,822	356,822	359,822	363,822
BSA Assumption	3,742.42	3,742.42	3,742.42	3,742.42	3,742.42	3,742.42

Major Revenue	BUDGET	PROJECTED	PROJECTED	PROJECTED	PROJECTED	PROJECTED
	Fiscal 2005-06	Fiscal 2006-07	Fiscal 2007-08	Fiscal 2008-09	Fiscal 2009-10	Fiscal 2010-11
Federal	\$ 16,987,400	\$ 16,987,400	\$ 16,987,400	\$ 16,987,400	\$ 16,987,400	\$ 16,987,400

State:						
Florida Education Finance Program	1,004,004,891	878,095,759	778,435,623	679,299,753	576,521,075	474,158,043
Charter School Capital Outlay	6,900,117	7,584,160	8,268,203	8,952,247	9,636,290	10,320,333
Workforce Development	100,289,884	101,090,719	101,891,553	102,692,388	103,493,222	104,294,057
Other Categorical Programs	299,403,601	304,693,830	304,040,019	303,386,207	302,732,395	302,078,584
Miscellaneous State Revenue	1,171,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
2006 - 07 Legislative Ask (incl CSR)-- Cumulative	-	160,000,000	320,000,000	480,000,000	640,000,000	730,000,000
Total State Revenues	1,411,769,493	1,452,964,468	1,514,135,398	1,575,830,594	1,633,882,982	1,622,351,017

Local:						
Property Taxes	996,482,623	1,091,522,970	1,197,634,043	1,314,052,101	1,442,268,081	1,573,926,452
Miscellaneous Local Revenues	67,398,633	66,869,953	66,869,953	66,869,953	66,869,953	66,869,953
Total Local Revenues	1,063,881,256	1,158,392,923	1,264,503,996	1,380,922,054	1,509,138,034	1,640,796,405

General Fund Revenues	2,492,638,149	2,628,344,791	2,795,626,794	2,973,740,048	3,160,008,416	3,280,134,822
Federal Grants	801,391	801,391	801,391	801,391	801,391	801,391
Federal Through State	287,103,335	287,103,335	287,103,335	287,103,335	287,103,335	287,103,335
Foundation Grants	246,625	246,625	246,625	246,625	246,625	246,625
Contracted Programs- Grants	\$288,151,351	\$288,151,351	\$288,151,351	\$288,151,351	\$288,151,351	\$288,151,351

Combined General Fund and Contracted Programs	\$2,780,789,500	\$2,916,496,142	\$3,083,778,145	\$3,261,891,399	\$3,448,159,767	\$3,568,286,173
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Five-Year Expenditure Forecast

ATTACHMENT B

Dept	Base Year	Fiscal 2006-07	Fiscal 2007-08	Fiscal 2008-09	Fiscal 2009-10	Fiscal 2010-11
School Site Expenditures	2,228,691,841	2,363,342,661	2,505,440,008	2,651,458,297	2,853,099,300	2,955,000,552
School Support Expenditures	374,217,981	394,377,185	410,931,501	410,772,341	399,917,542	396,194,543
Utilities, Plant Operation, Insurance and Other	177,879,678	182,492,336	192,000,000	202,000,000	212,000,000	222,000,000
TOTAL EXPENDITURES	2,780,789,500	2,940,212,182	3,108,371,509	3,264,230,638	3,465,016,842	3,573,195,095