

FY07-08 Bgt.
Ref. Doc #3

Cambridge Public Schools

Five Year Financial Plan

For Fiscal Years

FY 2007-08 - FY 2011-12

**Prepared By: James Conry
Chief Financial Officer**

January 25, 2007

Cambridge Public Schools Five-Year Financial Plan

Introduction

This document presents an update of the Cambridge Public Schools Five Year Financial Plan which is intended to provide a long-range financial framework for supporting the educational mission and goals of the school district over a five-year planning period. This update covers the period beginning in fiscal year 2007-08 (July 1, 2007 – June 30, 2008) and ending in fiscal year 2011-12 (July 1, 2011 – June 30, 2012). It also displays the current fiscal year 2006-07 adopted budget.

This document also is intended to serve as a financial planning tool to assist in development of the School Department operating budget, required by state law to be authorized annually by the School Committee, the City Manager, and the City Council. This financial plan differs from the annual budget process in the following ways;

- Financial estimates of Revenues and Expenditures are projected (estimated) for a five-year period rather than the one-year Budget period required for all government entities in Massachusetts.
- In addition to estimates of cost increases and decreases in salaries, benefits, energy, transportation, special education tuitions, and similar items, the plan enables us to estimate future costs of long-range educational initiatives, as well as budget reduction and reallocation decisions, and project the financial impact of such decisions on the district's overall resource allocation plan.

These longer-range views of the school budget are used to facilitate planning for future educational initiatives and response actions that may be necessary to avoid future budget shortfalls. Each year, the plan is updated to reflect actions taken in the previous year, new financial information (for example, this year's major energy cost increases), and updated projections of both revenues and expenditures.

Estimates for FY07-08 Annual Budget

The projections for next fiscal year (FY07-08) currently show a balanced budget between revenues and expenditures. This is the fourth consecutive year this has occurred. The increase in both is estimated at 1.86%. This takes into account a significant increase in Charter School costs, as well as other items identified in the detail pages following.

Estimates for FY08-09 and Beyond

The estimates for FY08-09 and the following three years present a different financial picture from FY07-08, with projected annual funding shortfalls ranging from \$4.1 million in FY08-09 to \$14.1 million in FY11-12. While it is true that we have been able to build structural flexibility into the operating budget over the past three years, the impact of Charter School tuition costs and loss of state SBA reimbursements will make FY08-09 a particularly difficult year. Prudence in the FY07-08 budget process will likely assist us in dealing with issues in the following years.

Revenue Estimates

Revenue estimates for the next five years are impacted by the following:

- Local property tax support for the School budget is estimated to grow at a rate of 3.5% in FY07-08 and 4% annually thereafter. The 3.5% is based on meetings with the City Manager and City financial staff and the Manager's financial guidelines for the School budget and overall City budget. For FY07-08, this results in a school budget revenue increase of \$3,419,421, but this is offset by an increase of \$1,090,666 in estimated net Charter School tuition costs. These costs will continue to grow in the following four years as tuition costs increase and state reimbursement declines.
- State Education Aid (Chapter 70 Aid) is projected to remain level over the five-year period. Although the state legislature adopted a revised CH70 funding formula in FY06-07 that would, from a formula point of view, result in increased CH70 revenues to the city and schools, it is unclear whether there will be sufficient appropriations at the state level to support increases. Also, a portion (\$13.8 million in FY06-07) of general state aid received by the city is allocated to the school budget each year, and those revenues are also uncertain and are therefore projected to remain level.
- School Construction Aid will remain level in FY07-08 at \$3,875,350, but will drop to \$0 in FY08-09 as the final state reimbursements for previously-funded projects end. These projects (Fitzgerald and Morse) were funded on 10-year bonding schedules and will be fully reimbursed by the end of FY07-08. The city has agreed to absorb the debt service costs of two new projects (War Memorial renovations and CRLS HVAC/Roof projects) which have been approved by the state, and the reimbursements for those projects will offset the city's debt cost.
- In FY04-05, the administration developed a plan for a School Debt Stabilization Fund to help offset future costs of non-reimbursed debt service. The School Committee, City Manager and City Council approved the plan, and the School Committee approved an allocation of \$450,000 in the general fund budget to go into this fund, beginning in FY05-06. In addition, savings from special education circuit-breaker reimbursements and tuition savings, and other operating budget surpluses have enabled us to increase the fund balance to \$9,025,000 by the end of FY05-06. This 5-year plan anticipates that \$2.2 million and \$2.1 million will be used in FY08-09 and FY09-10, respectively, to cover debt service on school projects in the final two years of paying off bonds.

An average annual growth rate of 1.56% is projected for total general fund revenues during this five-year period. FY08-09 is expected to be a particularly difficult year with total revenue growth of only 0.59%. This is due to two major factors: net Charter School tuition costs reducing revenues by \$1.6 million, and a decrease in state School Building Assistance reimbursement of \$3.9 million as the final payments are received in the previous year.

Expenditure Estimates

The “Level Service” estimates of cost increases are calculated based on such factors as:

- salary step and degree increments in collective bargaining agreements and non-union salary schedules,
- estimated future negotiated salary increases,
- estimated health insurance and other fringe benefit inflationary cost increases,
- energy cost and transportation cost estimates,
- special education tuition cost estimates,
- similar inflationary items.

Decreases in “Level Service” estimates include:

- decreases in debt service costs as school construction bonds are paid off
- decreases in vocational tuition costs due to declining numbers of tuitioned-out students
- a one-time decrease in special education tuition cost estimates based on savings from state “circuit-breaker” reimbursements and lower tuition costs in FY06-07 that are projected to continue in FY07-08.
- Decreases due to “one-time” budget items (example: one-time purchase of new curriculum materials for systemwide math program in FY06-07 or planned phasing out of multi-year expenditures (example: energy conservation lease in FY09-10).

These budget increases and decreases are referred to as “Level Service” because they assume maintaining the existing level of services to students and staff, and do not take into account new or expanded programs and educational initiatives, or significant reallocation of existing resources to support priority educational goals. These are “cost-driven” budget increases and decreases, rather than “program driven” allocations of resources to educational priorities. The “program-driven” resource allocations are based on the educational goals of the district and strategic decisions regarding funding priorities in a particular fiscal period.

Estimates of budget changes to support “program improvements and new initiatives” will be driven by decisions to allocate dollars to priorities of the district based on an educational plan for improvement. These decisions may involve implementation of new programs or expansion of existing programs, and often include development costs as well as operational costs. Not all program initiatives require increased financial resources, and may involve re-thinking and re-structuring the ways in which services are delivered, or re-allocating existing resources from areas that are lower priorities, or programs where operations can be made more efficient.

Cambridge Public Schools
Five Year Financial Plan - Summary - FY2007-08 thru FY2011-12

(Updated 1/25/07)						
	Adopted Bgt.	Projected	Projected	Projected	Projected	Projected
	<u>FY06-07</u>	<u>FY07-08</u>	<u>FY08-09</u>	<u>FY09-10</u>	<u>FY10-11</u>	<u>FY11-12</u>
I. - General Fund						
Expenditures	\$ 125,362,205	\$ 127,690,960	\$ 132,539,897	\$ 137,620,720	\$ 143,262,403	\$ 149,468,344
<i>\$ Increase over prior year</i>		2,328,755	4,848,937	5,080,824	5,641,683	6,205,940
<i>% change</i>		1.86%	3.80%	3.83%	4.10%	4.33%
Revenues	125,362,205	127,690,960	128,438,393	130,952,912	132,546,898	135,385,016
<i>\$ Increase over prior year</i>		2,328,755	747,433	2,514,519	1,593,985	2,838,119
<i>% change</i>		1.86%	0.59%	1.96%	1.22%	2.14%
Projected Surplus or (Shortfall)	-	(0)	(4,101,503)	(6,667,808)	(10,715,506)	(14,083,327)

Cambridge Public Schools
Five-Year Revenue Projections - FY2007-08 thru FY2011-12

	Prior Year Base Revenues: General Fund:			125,362,205	127,690,960	128,438,393	130,952,912	132,546,898
		Prior Yr.	Revised Bgt.	Proj. Incr/Decr	Proj. Incr/Decr	Proj. Incr/Decr	Proj. Incr/Decr	Proj. Incr/Decr
		<u>FY05-06</u>	<u>FY06-07</u>	<u>FY07-08</u>	<u>FY08-09</u>	<u>FY09-10</u>	<u>FY10-11</u>	<u>FY11-12</u>
I. - General Fund Budget								
<u>A. Taxes</u>								
R.E. Prop. Tax- FY08 3.5%, 4% thereafter	96,153,485	99,509,786	3,419,421	4,001,056	4,097,241	4,201,848	4,328,578	
Less: Net Charter School impact	<u>(471,000)</u>	<u>(1,812,131)</u>	<u>(1,090,666)</u>	<u>(1,596,448)</u>	<u>(1,482,047)</u>	<u>(1,033,613)</u>	<u>(947,209)</u>	
Equals: Property Tax Levy	95,682,485	97,697,655	2,328,755	2,404,608	2,615,194	3,168,235	3,381,369	
Hotel/Motel Excise Tax	936,000	936,000	-	-	-	-	-	
Sub-total: Local Taxes	96,618,485	98,633,655	2,328,755	2,404,608	2,615,194	3,168,235	3,381,369	
<u>B. Fines & Forfeits</u> - Parking Fines	100,000	100,000	-	-	-	-	-	
<u>C. Inter-governmental</u>								
State Education Aid -								
Ch70 Education Aid - level	7,122,205	7,772,248	-	-	-	-	-	
School Lunch Aid	27,615	25,635	-	-	-	-	-	
School Construction Reimb.	<u>4,572,715</u>	<u>3,875,350</u>	-	<u>(3,875,350)</u>	-	-	-	
Sub-total: School Aid	11,722,535	11,673,233	-	(3,875,350)	-	-	-	
General State Aid -Lottery	<u>14,403,380</u>	<u>13,755,317</u>	-	-	-	-	-	
Sub-total: State "Cherry Sheet" Rev.	26,125,915	25,428,550	-	(3,875,350)	-	-	-	
Federal Medicaid Reimbursement	900,000	900,000	-	-	-	-	-	
Sub-total: Intergovernmental Revenue	27,025,915	26,328,550	-	(3,875,350)	-	-	-	
<u>D. Miscellaneous</u>								
Free Cash	300,000	300,000	-	-	-	-	-	
Transfer from Debt Stabilization Fund	-	-	-	2,218,175	(100,675)	(1,574,250)	(543,250)	
Sub-total: Miscellaneous Revenues	300,000	300,000	-	2,218,175	(100,675)	(1,574,250)	(543,250)	
<u>E. Total Est. General Fd. Revenue Incr.</u>		1,317,805	2,328,755	747,433	2,514,519	1,593,985	2,838,119	
<u>F. Projected Total Gen. Fd Revenue Bgt.</u>	124,044,400	125,362,205	127,690,960	128,438,393	130,952,912	132,546,898	135,385,016	
<i>% change</i>		1.06%	1.86%	0.59%	1.96%	1.22%	2.14%	

Cambridge Public Schools
Five Year Expenditure Projections - FY2007-08 thru FY2011-12

				Prior Year Base Budget	125,362,205	127,690,960	132,539,897	137,620,720	143,262,403
		Adopted Budget							
		FY06-07	Estimated "Level Service" Cost Incr/(Decr)	Proj. Inc/Dec FY07-08	Proj. Inc/Dec FY08-09	Proj. Inc/Dec FY09-10	Proj. Inc/Dec FY10-11	Proj. Inc/Dec FY11-12	
A. Salaries & Fringe Benefits									
1.	Permanent Salaries	69,739,626	- Salary Step/Degree/Stipend Increments	928,337	845,154	683,505	629,556	598,435	
			- Decrease in estimated longevity costs	(120,706)	(124,630)	(122,668)	(123,649)	(123,158)	
			- Salary % Incr - FY07-3% mid-yr, FY08 2% mid-yr FY09- 2.9% full yr., 3% annually thereafter	1,731,499	2,889,427	2,307,649	2,376,878	2,492,478	
2.	Temporary & Other Salaries	5,140,502	- Salary % incr for subs & ovt less FY07 bonus	(521,419)	61,977	43,919	45,236	46,594	
3.	Health/Dental Insur & Medicare	14,560,533	- FY08 9% incr., thereafter - 10%	1,310,448	1,441,493	1,585,642	1,744,206	1,918,627	
4.	Pensions - City & MTRB	3,040,189	- FY08 level, thereaft -2.5%, MTRB ends FY10	-	72,298	74,106	(72,291)	77,858	
5.	Other Fringe Benefits	85,115	- level budget	-	-	-	-	-	
	Sub-total: S&W	92,565,965		3,328,160	5,185,720	4,572,153	4,599,937	5,010,833	
B. Other Ordinary Maintenance									
1.	Energy/Utilities	3,831,233	-FY08 5.8%, 6% thereafter	221,305	234,111	256,328	280,671	307,345	
2.	Educational Mat/Supp/Svcs	2,341,112	- level budget	-	-	-	-	-	
3.	Special Ed Tuition	8,647,644	- FY08 5% incr., 5% thereafter - FY07 "Circ-Brk" reimb. & savings @85%	526,895	429,582	452,429	476,458	501,732	
4.	Vocational Tuition (Minuteman)	577,535	- Lower enrollment in FY08, thereafter slight incr.	(129,280)	59,192	46,690	65,881	26,258	
5.	Facilities/Maintenance	2,191,281	- level budget	-	-	-	-	-	
6.	Contracted Transportation	3,920,978	- Reg, Sped & Voc Transportation (7% annual)	274,468	293,681	314,239	336,236	359,772	
7.	All Other	3,689,567	- reduction of 1-time FY0607 bgt items - new TERC curr. materials (\$200K) and CRLS disc. Fds (\$25K)	(225,000)	-	-	-	-	
	Sub-total: OOM	25,199,350		(826,054)	1,016,566	1,069,685	1,159,246	1,195,107	
C. Travel & Training - total		1,614,715	- level budget	-	-	-	-	-	
D. Extraordinary Expenditures									
1.	Debt Service	3,744,874	- Debt Service reduction (existing Debt only) -Debt Service incr. to \$2.0mil level fund bgt	(173,350)	(1,353,350)	(100,675)	(1,574,250)	(543,250)	
2.	Debt Stabilization Fund	450,000	- level budget, for use for future projects	-	-	-	1,456,750	543,250	
3.	Capital Projects	580,000	- level budget	-	-	-	-	-	
4.	Energy Conservation Lease	460,340	- Lease ends in FY09	-	-	(460,340)	-	-	
5.	All Other	746,961	- level budget	-	-	-	-	-	
	Sub-total: EE	5,982,175		(173,350)	(1,353,350)	(561,015)	(117,500)	-	
Total General Fund Increases & Decreases				2,328,755	4,848,937	5,080,824	5,641,683	6,205,940	
Total Budget		125,362,205	Total Projected Budget - General Fund	127,690,960	132,539,897	137,620,720	143,262,403	149,468,344	
				<i>- Percentage Increase</i>	<i>1.86%</i>	<i>3.80%</i>	<i>3.83%</i>	<i>4.10%</i>	<i>4.33%</i>

Cambridge Public Schools
Estimated Expenditures and Revenues Budget - Summary for FY2007-08

A.	Current Year FY2006-07 Adopted Budget			\$ 125,362,205	
B.	Estimated FY2007-08 Cost Increases & Decreases:				
1.	Permanent Salaries	- Salary Step/Degree/Stipend Increments	928,337		
		- Decrease in estimated longevity costs	(120,706)		
		- Salary increases of 2% mid-year, and carryover cost from previous mid-year increase	1,731,499		
		- Reduction of 1-time Bonus payment	(521,419)		
2.	Health/Dental Insur & Medicare	- 9% cost increase	1,310,448		
3.	Energy/Utilities	- FY08 - 5.8% increase	221,305		
4.	Special Ed Tuition	- FY08 - 5% increase	526,895		
		- FY07 "Circ-Brk" reimb. & savings @85%	(1,494,444)		
5.	Vocational Tuition (Minuteman)	- Lower enrollment in FY08, thereafter slight incr.	(129,280)		
6.	Contracted Transportation	- Reg, Sped & Voc Transportation (7% annual)	274,468		
7.	All Other	- Reduction of FY0607 "1-Time" budget items: TERC curriculum materials-\$200k, and CRLS discretionary \$25k	(225,000)		
8.	Travel & training	- level budget	-		
9.	Debt Service	- Debt Service reduction (existing Debt only)	(173,350)		
C.	Total Estimated "Level Service" Cost Increases:			\$ 2,328,755	1.86%
D.	Estimated FY06-07 Expenditure Budget:			\$ 127,690,960	
E.	Estimated FY06-07 Revenues Budget:			\$ 127,690,960	
F.	Difference: Est. Revenues vs. Est. Expenditures			\$ -	