

FY08-09 Bgt.
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Cambridge Public Schools
Five Year Financial Estimates

For Fiscal Years

FY 2008-09 - FY 2012-13

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Cambridge Public Schools Five-Year Financial Estimates

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 2008-09 (July 1, 2008 – June 30, 2009) and ending in fiscal year 2012-13 (July 1, 2012 – June 30, 2013).

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 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 provides a financial framework for estimating 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.

Each year, the plan is updated to reflect actions taken in the previous year, new financial information (for example, major energy cost increases), and updated projections of both revenues and expenditures.

In preparing estimates of expenditures for the five-year planning period, budget increases and decreases that are driven by inflationary factors are referred to as “Level Service” estimates. This is because they are based on an assumption of 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. Level Service estimates are “cost-driven” budget increases and decreases, rather than “program driven” allocations of resources to educational priorities. These include such items as negotiated salary increases, inflationary increases in health insurance, energy, transportation, and special education tuition. Decreases include such items as reductions in scheduled debt service costs, reduced tuition for technical/career education tuition out students, planned phase-out of multi-year costs such as energy equipment leases, and the like.

Estimates of budget changes to support “program improvements and 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 operating 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.

Estimates for the FY08-09 Annual Budget

The projections for next fiscal year (FY08-09) currently reflect a potential budget shortfall of approximately \$3.1 million, which is the difference between projected revenues of \$129.7 million and projected expenditures of \$132.8 million.

	<u>Revenues</u>		<u>Expenditures</u>		<u>Difference: Expenditures over Revenues</u>
FY07-08 Adopted Budget	\$127,690,960		\$127,690,960		\$ 0
FY08-09 Estimated Increase:	<u>2,013,204</u> (1.6%)		<u>5,118,143</u> (4.01%)		<u>(\$3,104,939)</u>
FY08-09 Projected Budget	\$129,704,164		\$132,809,103		(\$3,104,939)

The projected revenues increase of \$2,013,204, or 1.6%, consists of the following.

- **Property tax levy** revenues are expected to increase by \$4,001,056 (4% increase in current year tax levy support of \$100,026,410), based on meetings and discussions with City financial officials. However, this is partially offset by an estimated increase of \$1,031,000 in state-assessed charges for charter school tuition costs. The net increase is therefore \$2,969,214, or 2.97%. Local property tax levy support currently represents 79.1% of the school general fund budget. We anticipate charter school costs will continue to grow over the next four years as tuition costs increase and state reimbursement decreases.
- **State School Building Assistance (SBA) Reimbursement** revenues will decrease from \$3,875,350 in FY07-08 to \$0 in FY08-09, as the final state payments on previously-built elementary school capital projects end as scheduled in FY07-08. The city has agreed to absorb the major share of debt service costs of two new projects (War Memorial Renovation and CRLS Renovation projects) which have been approved by the state, and the state reimbursements for those projects will offset the city's debt cost.
- **Debt Stabilization Fund:** while state SBA reimbursements are ending after FY07-08, principal and interest costs (debt service) on the bonds issued to fund the same projects are continuing for another three years. We were aware of and had begun planning for this circumstance three years ago with the creation of a Debt Stabilization Fund to cover the debt service costs for the three-year period following the end of state SBA payments. In FY08-09, a revenue transfer of \$2,919,340 from the Debt Stabilization Fund to the general fund is planned for this purpose. This includes \$2,218,174 for debt for the older elementary projects, and \$701,165 for the school share of the War Memorial renovation project begun in June, 2007.

- **State Education Aid (Chapter 70 Aid)** is projected to remain level for FY08-09 and for the five-year period. The state legislature adopted a revised CH70 funding formula in FY06-07 that would result in increased CH70 revenues to the city and schools. However, although increased CH70 aid was received in both FY06-07 and FY07-08, it is unclear whether there will be sufficient appropriations at the state level to support future increases. Also, a portion (\$13.0 million in FY07-08) of general state lottery aid received by the city is allocated to the school budget each year, and those revenues are also uncertain and are projected to remain level. State education aid currently represents 9.7% of the school general fund budget.

All other revenues are projected to remain level, based on discussions with City financial officials. The net projected increase is therefore **\$2,013,204**, as previously stated.

The projected expenditure increases of **\$5,118,143** (4.01%) are primarily inflation-driven and consist of the following:

- **Salary step and degree increments** in salary schedules: these generally represent less than 1% of the permanent salaries budget. For FY08-09, they are estimated to increase by \$599,801, partially offset by a decrease in longevity stipends of (\$120,706).
- **Future negotiated salary increases**: negotiated salary schedule increases for all bargaining units are 2.9% for FY08-09, and is estimated to cost \$2,158,781. Also, the FY08-09 budget must include the full-year cost for the negotiated mid-year salary increase (2%/3%) in FY07-08. This is estimated to have a budget cost of \$760,138. The total cost of negotiated salary increases is therefore \$2,859,926. Total salaries are estimated at \$80.1 million, which represents 60.3% of the total budget.
- **Health insurance, dental insurance and medicare insurance** inflationary cost increases are estimated to increase by \$1,758,458 (11%) to \$17,744,439 in FY08-09. This represents 13.4% of the total budget.
- **Energy costs and transportation contract costs**: these are estimated to increase by \$290,332 (7.9%) and \$195,847 (4.5%), respectively, in FY08-09. Also in FY08-09, we project the need for a budget increase of \$226,000 in the transportation budget to cover an estimated shortfall for this item in the FY07-08 budget. The total energy budget for FY08-09 is estimated at \$4,342,283, and the contracted transportation budget at \$4,601,361. The total of the two - \$8,943,644 – represents 6.7% of the total budget.
- **Special education tuition costs** are estimated to increase by \$363,955 (4%) in FY08-09, assuming a relatively stable number of tuitioned-out students (currently 150). Changes to the number of students could cause this estimate to fluctuate widely due to the high cost per student. This increase is offset by a projected general fund savings of (\$365,420) in special education tuition costs resulting from “circuit-breaker” state reimbursements. The total Special education tuition budget for FY08-09 is projected at \$7,718,452, which represents 5.8% of the total budget.
- **Pension** costs are projected to increase by 2.5% to \$3,116,194, or \$76,005. This is the school share of employer pension costs for non-teacher retirees in the City retirement system. Teacher retiree costs are budgeted and paid for in the state pension system.

Decreases in “level service” budget estimates include:

- **Debt Service** costs for previous elementary school project are scheduled to decrease by (\$1,353,350) as bonds are paid off. This will be partially offset by an increase resulting from the school share of debt for the War Memorial project - \$701,165 in FY08-09. As stated previously, debt service costs in FY08-09 costs are covered on the revenue side by the transfer from the debt stabilization fund.
- **Technical/career education tuition** costs are estimated to decrease by (\$172,931) due to declining numbers of tuitioned-out students.

Estimates for FY09-10 and Beyond

An average annual growth rate of 2.23% is projected for total general fund revenues during the five-year period FY08-09 through FY12-13, compared to a projected growth rate of 3.96% in expenditures.

Projections in this document beyond FY08-09 reflect the cumulative effect of differences between estimated revenues and expenditures over the five-year period. Therefore, since state law in Massachusetts requires a balanced budget, resolving the budget shortfall for FY08-09 either by increasing revenues or decreasing expenditures or a combination of the two, will automatically modify the projected shortfalls for the following years.

For FY09-10, the additional projected budget shortfall is less than half that of FY08-09. The following three years present future fiscal challenges as we continue to deal with the major loss of revenues due to charter school tuition charges, limited state revenues, and reliance on the property tax for revenue increases, while still facing inflationary costs in a number of areas, including the following:

- salary step and degree and longevity increments, are projected at a net increase level of less than 1% of total salaries.
- salary increases (not yet negotiated) are estimated at 3% in the years following FY08-09. Total salaries of \$76.69 million currently represent 60.1% of the overall general fund budget. This percentage is projected to decrease slightly to 59.3% over the five-year period.
- health insurance and other fringe benefit costs are projected to increase 12% annually. If actual costs over the five-year period meet these projected levels, health insurance, dental insurance and medicare insurance costs will reach a level of \$27.16 million, or 17.5% of the total general fund budget, by FY2012-13. Currently, they represent 12.5% of the budget, or \$15.98 million.
- future increases in both energy and transportation are estimated in the range of 3.5% - 4.5%. Currently, these two items, totaling \$8.23 million, are 6.5% of the total general fund budget. This is projected to increase to 6.9% by FY12-13.
- special education tuition costs are expected to increase by 5% for the period FY09-10 though FY12-13. Also, we project FY08-09 will be the final year of windfall savings from “circuit-breaker” state reimbursements, since these estimates will then be fully integrated into the total tuition budget.

- planned phasing out of multi-year expenditures (example: energy conservation lease in FY09-10).

School Debt Stabilization Fund

The School Debt Stabilization Fund was established in FY04-05 as a vehicle to help offset future costs of non-reimbursed debt service (principal and interest costs on school capital project bond issues). The School Committee authorized an allocation of \$450,000 in the annual general fund budget to be transferred into this fund, beginning in FY05-06. In addition, savings from special education “circuit-breaker” state reimbursements and tuition savings, and other operating budget surpluses have enabled us to increase the fund balance to \$11.6 million by the end of FY06-07.

The 5-year financial estimates anticipate 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, plus an additional \$700,000 to cover the agreed-upon school share of debt costs on the War Memorial project on which construction began in June, 2007. In the subsequent three years, an additional \$2.4 million is projected to be used for these same purposes. The ongoing War Memorial project debt payments, as well as the unreimbursed debt service costs of the High School Renovation Project, expected to be started in June, 2009, will likely deplete the balance in this fund.

Cambridge Public Schools - Estimated Expenditures and Revenues Budget - Summary for FY2008-09

A.	Current Year FY2007-08 Adopted Budget			\$ 127,690,960	
B.	Estimated FY2008-09 Revenue Increases:				
	1.	Property Tax Levy	- Increase of 4%	4,001,056	
		less: offset by Charter School tuition	- increase in state assessments for Charter School tuitions	(1,031,842)	
		Equals:	- net increase in property tax levy	2,969,214	
	2.	State School Building Assistance aid	- reduction due to final state payments in FY07-08	(3,875,350)	
	3.	Debt Stabilization Fund	- transfer from debt stab. fund to cover remaining debt cost	2,919,340	
	4.	Total Estimated Revenue Increase:		\$ 2,013,204	1.58%
C.	Total Estimated FY2008-09 Revenues Budget:			\$ 129,704,164	
D.	Estimated FY2008-09 Cost Increases & Decreases:				
	1.	Permanent Salaries	- Salary Step/Degree/Stipend Increments	599,801	
			- Decrease in estimated longevity costs	(120,706)	
			- Negotiated salary increases of 2.9%, plus carryover cost of FY08 mid-year increase of 2%-3%.	2,918,919	
	2.	Health/Dental Ins. & Medicare	- 11% cost increase	1,758,458	
	3.	Pensions - Employer Cost	- 2.5% increase	76,005	
	4.	Energy/Utilities	- FY09 - 7.2% increase	290,332	
	5.	Special Ed Tuition	- FY09 - 4% increase	363,955	
			- FY08 "Circ-Brk" reimb. & savings @85%	(365,420)	
	6.	Vocational Tuition	- Lower enroll. in FY09, thereafter slight incr.	(172,931)	
	7.	Contracted Transportation	- Reg, Sped & Voc Trans. (3 - 4.5% annual incr)	195,847	
			- FY07-08 budget shortfall	226,069	
	8.	Travel & training	- level budget	-	
	9.	Debt Service	- Debt Service reduction - elementary projects	(1,353,350)	
			- Debt Service incr. - War Memorial proj.	701,165	
	10.	Total Estimated "Level Service" Expenditure Increases:		\$ 5,118,143	4.01%
E.	Total Estimated FY08-09 Expenditures:			\$ 132,809,103	
F.	Difference: Estimated Revenues vs. Estimated Expenditures			\$ (3,104,939)	

Cambridge Public Schools
Five Year Financial Plan - Summary - FY2008-09 thru FY2012-13

	Adopted Bgt. FY07-08	Projected FY08-09	Projected FY09-10	Projected FY10-11	Projected FY11-12	Projected FY12-13
I. - General Fund						
Expenditures	\$ 127,690,960	\$ 132,809,103	\$ 137,840,146	\$ 142,048,730	\$ 147,923,660	\$ 155,047,957
<i>\$ Increase over prior year</i>		5,118,143	5,031,043	4,208,583	5,874,930	7,124,298
<i>% change</i>		4.01%	3.79%	3.05%	4.14%	4.82%
Revenues	127,690,960	129,704,164	133,173,100	134,950,941	138,479,549	142,566,058
<i>\$ Increase over prior year</i>		2,013,204	3,468,936	1,777,840	3,528,608	4,086,509
<i>% change</i>		1.58%	2.67%	1.33%	2.61%	2.95%
Projected Surplus or (Shortfall)	-	(3,104,939)	(4,667,046)	(7,097,789)	(9,444,111)	(12,481,900)

CPS - Projected Five Year Expenditure and Revenue Totals

A. Expenditures	Actual FY06-07	Adopted FY07-08 Bgt.	% of Bgt	Projected FY08-09 Bgt.	Projected FY09-10 Bgt.	Projected FY10-11 Bgt.	Projected FY11-12 Bgt.	Projected FY12-13 Bgt.	% of Bgt
Salaries & Fringe Benefits									
1. Permanent Salaries	68,171,355	71,572,317	56.1%	74,911,338	77,741,028	80,548,580	83,511,978	86,589,017	55.8%
2. Temporary & Other Salaries	5,067,808	5,120,409	4.0%	5,179,402	5,222,804	5,267,509	5,313,554	5,360,981	3.5%
3. Health/Dental Insur & Medicare	14,217,329	15,985,981	12.5%	17,744,439	19,713,912	21,919,721	24,390,228	27,157,196	17.5%
4. Pensions - City & MTRB	2,956,366	3,040,189	2.4%	3,116,194	3,194,099	3,125,701	3,205,553	3,287,402	2.1%
5. Other Fringe Benefits	76,544	85,114	0.1%	85,114	85,114	85,114	85,114	85,114	0.1%
Sub-total: S&W	90,489,402	95,804,010	75.0%	101,036,487	105,956,957	110,946,625	116,506,428	122,479,710	79.0%
Other Ordinary Maintenance									
1. Energy/Utilities	3,787,992	4,051,951	3.2%	4,342,283	4,513,577	4,697,810	4,893,997	5,340,463	3.4%
2. Educational Mat/Supp/Svcs	2,761,727	2,078,411	1.6%	2,078,411	2,078,411	2,078,411	2,078,411	2,078,411	1.3%
3. Special Ed Tuition	6,466,860	7,719,917	6.0%	7,718,452	8,150,621	8,582,791	9,037,956	9,517,309	6.1%
4. Vocational Tuition (Minuteman)	385,011	448,255	0.4%	275,324	214,727	205,217	237,476	279,344	0.2%
5. Facilities/Maintenance	2,770,533	2,126,088	1.7%	2,126,088	2,126,088	2,126,088	2,126,088	2,126,088	1.4%
6. Contracted Transportation	4,305,938	4,179,446	3.3%	4,601,361	4,752,980	4,962,153	5,159,819	5,366,048	3.5%
7. All Other	3,787,853	3,661,972	2.9%	3,661,972	3,661,972	3,661,972	3,661,972	3,661,972	2.4%
Sub-total: OOM	24,265,914	24,266,040	19.0%	24,803,891	25,498,376	26,314,442	27,195,719	28,369,635	18.3%
Travel & Training - Sub-tot.	1,858,477	1,851,950	1.5%	1,851,950	1,851,950	1,851,950	1,851,950	1,851,950	1.2%
Extraordinary Expenditures									
1. Debt Service	3,724,875	3,571,524	2.8%	2,919,339	2,795,767	1,198,617	632,467	609,567	0.4%
2. Debt Stabilization Fund	450,000	450,000	0.4%	450,000	450,000	450,000	450,000	450,000	0.3%
3. Capital Projects	657,990	580,000	0.5%	580,000	580,000	580,000	580,000	580,000	0.4%
4. Energy Conservation Lease	460,340	460,340	0.4%	460,340	-	-	-	-	0.0%
5. All Other	1,109,590	707,096	0.6%	707,096	707,096	707,096	707,096	707,096	0.5%
Sub-total: EE	6,402,795	5,768,960	4.5%	5,116,775	4,532,863	2,935,713	2,369,563	2,346,663	1.5%
Total Expenditures:	123,016,588	127,690,960	100.0%	132,809,103	137,840,146	142,048,730	147,923,660	155,047,957	100.0%
Change from Prior Year				5,118,143	5,031,043	4,208,583	5,874,930	7,124,298	
% change				4.01%	3.79%	3.05%	4.14%	4.82%	

CPS - Projected Five Year Expenditure and Revenue Totals

A. Expenditures	Actual FY06-07	Adopted FY07-08 Bgt.	% of Bgt	Projected FY08-09 Bgt.	Projected FY09-10 Bgt.	Projected FY10-11 Bgt.	Projected FY11-12 Bgt.	Projected FY12-13 Bgt.	% of Bgt
B. Revenues									
Local Taxes									
1. Real Estate Property Taxes	99,509,786	101,117,075	79.2%	105,118,131	109,237,956	113,501,482	117,900,007	122,462,322	85.9%
2. Less: Net Charter School tuit.	(1,812,131)	(1,090,665)	-0.9%	(2,122,507)	(2,649,824)	(3,538,359)	(3,842,126)	(4,295,032)	-3.0%
3. Equals: Property Tax Levy	97,697,655	100,026,410	78.3%	102,995,624	106,588,132	109,963,123	114,057,881	118,167,290	82.9%
4. Hotel/Motel Excise Tax	936,000	936,000	0.7%	936,000	936,000	936,000	936,000	936,000	0.7%
Sub-total: Local Taxes	98,633,655	100,962,410	79.1%	103,931,624	107,524,132	110,899,123	114,993,881	119,103,290	83.5%
5. Fines & Forfeits - Parking	100,000	100,000	0.1%	100,000	100,000	100,000	100,000	100,000	0.1%
Inter-governmental									
6. Ch70 Education Aid	7,772,248	8,516,353	6.7%	8,516,353	8,516,353	8,516,353	8,516,353	8,516,353	6.0%
7. School Lunch Aid	25,635	26,040	0.0%	26,040	26,040	26,040	26,040	26,040	0.0%
8. School Construction Reimb.	3,875,350	3,875,350	3.0%	-	-	-	-	-	0.0%
Sub-total: Education Aid	11,673,233	12,417,743	9.7%	8,542,393	8,542,393	8,542,393	8,542,393	8,542,393	6.0%
9. General State Aid -Lottery	13,755,317	13,010,807	10.2%	13,010,807	13,010,807	13,010,807	13,010,807	13,010,807	9.1%
Sub-total: State Aid	25,428,550	25,428,550	19.9%	21,553,200	21,553,200	21,553,200	21,553,200	21,553,200	15.1%
10. Medicaid Reimbursement	900,000	900,000	0.7%	900,000	900,000	900,000	900,000	900,000	0.6%
Sub-total: Intergov. Rev.	26,328,550	26,328,550	20.6%	22,453,200	22,453,200	22,453,200	22,453,200	22,453,200	15.7%
Miscellaneous									
11. Free Cash	300,000	300,000	0.2%	300,000	300,000	300,000	300,000	300,000	0.2%
12. Transfer fr Debt Stabilization	-	-	0.0%	2,919,340	2,795,768	1,198,618	632,468	609,568	0.4%
Sub-total: Misc. Revenues	300,000	300,000	0.2%	3,219,340	3,095,768	1,498,618	932,468	909,568	0.6%
Total Revenues:	125,362,205	127,690,960	100.0%	129,704,164	133,173,100	134,950,941	138,479,549	142,566,058	100.0%
Change from Prior Year		2,328,755		2,013,204	3,468,936	1,777,840	3,528,608	4,086,509	
% change		1.86%		1.58%	2.67%	1.33%	2.61%	2.95%	
Projected Surplus or (Shortfall)		-		(3,104,939)	(4,667,046)	(7,097,789)	(9,444,111)	(12,481,900)	