

April 2006

The 2005-06 school year has been a successful one from the finance perspective. The almost \$1.6 million in cuts made in June 2005 along with modest revenue increases from the State have balanced the budget, and made our prospects going forward into 2006-07 bright. The 2005-06 school year has been a difficult one, as staff and students have learned to live with a much slimmer school district, but our goal of making cuts which least affect the educational goals of the District appear to have been largely met.

As we develop the 2006-07 budget, we do so without knowing several key factors. The legislature is still working on setting the per pupil foundation allowance, with proposed increases ranging from increases of \$200 to \$285. An increase of \$200 per pupil equates to approximately \$617,000 additional revenue, while a \$285 increase equals approximately \$879,000 in added revenue.

The State has already set a second key factor, the retirement plan contribution rate, at 17.74% for every dollar of payroll. This is up from the current rate of 16.34%, though lower than we had anticipated. This change alone will cost the District approximately \$180,000 in increased costs.

A third key factor which is yet unknown is the cost increases on health insurance. Historically, the increases have averaged over 12% and if we assume that is the increase for 2006-07 budget, the cost increase will be approximately \$425,000. Combining all of these factors, along with modest salary increases, and one can quickly see that expense increases will almost assuredly be greater than the projected revenue increases, thereby requiring use of our increased fund balance from the 2005-06 year.

Our current estimates of the District's fund balance show it at \$2.1 million on June 30, 2005, increasing to approximately \$2.4 million at June 30, 2006, then dropping back down to \$2.1 million by June 30, 2007. Beyond that point, accurately estimating the District's fund balance becomes difficult due to the many unknown variables, some of which are tied to either the State economy or to politics.

The Public Schools of Petoskey has, to date, successfully maintained programs and avoided significant reductions in staff through a combination of expense cutting, and use of accumulated savings. The District's ability to continue doing so is limited by the amount of accumulated savings, or fund balance. We continue to aggressively look for cost savings and revenue sources, and any suggestions and ideas are appreciated. We are committed to doing what is the best for all students, and will continue to follow that philosophy as we navigate through these challenging financial times.