

---

# Minuteman Budget Process Presentation to the Sudbury Finance Committee

---

Thursday, May 1, 2014

---

# Article 4 Minuteman Assessment

- **MOTION TO AMEND:** Reduce the Minuteman assessment payment to \$549,339 (from \$549,340). Minuteman will be paid in full when the Minuteman administration and the Minuteman school committee present a sustainable financial plan based on right-sizing nonmember enrollment that eliminates over assessments, assessment misstatements, and deficit spending.

---

# A \$1.00 Holdback

- Will NOT jeopardize any student
- Send Minuteman a Message – Right-size enrollment and substantially decrease assessments
- Negative: It may cost voters small dollars in exchange for LARGE assessment decreases
- POSITIVES: The school will be right-sized and refurbished while retaining the 40% MSBA grant
- Do nothing and pay for an 800 student school that requires subsidies totaling \$3.5 million annually

---

# Underfunded Tuition Enrollment

- School committee refuses to put right-size nonmember enrollment on agenda for debate
- No school committee policy on regulating nonmember enrollment
- Uncontrolled Increases in nonmember enrollment
- Over assessments replace lost tuition revenue
- Underutilized tuition revenue
- Unusual Treatment of Revolving Accounts
- Dependence on an underfunded and disloyal tuition enrollment
- Nonmember towns do not contribute to any capital costs
- Result is a Financial House of Cards

---

# Underfunded Tuition Revenue

(As noted by the Sudbury Finance Committee)

- FY15 Operating Budget of \$19.6 million
- Members generate \$13.3 million towards expenses
- Nonmembers contribute only \$6.3 million towards 47% of their related expenditures (less transportation)
- Tuition revenue shortfall of -\$2.6 million/368 nonmember tuition students
- -\$7,146 shortfall per nonmember student

---

# MINUTEMAN REVOLVING ACCOUNT POLICY

?

Blank Page

---

# Underfunded Tuition Revenue

(restated in terms of an over assessment/subsidy)

- FY15 Operating Budget of \$19.6 million
- Nonmembers contribute \$6.3 million
- Chapter 70 aid totals \$2.17 million
- Chapter 71 aid totals \$0.76 million
- Member towns must pay a \$10.47 million balance
- Tuition revenue shortfall of -\$2.5 million is embedded in the \$10.47 million of assessments
- Member towns make up for tuition underfunding through unrevealed over assessments and have been doing so for the last 7 years

---

# REVOLVING ACCOUNT TREATMENTS

- ALL FUNDS KEPT OFF-BUDGET
- TRANSFERS BETWEEN UNRELATED ACCOUNTS (SEE GASB 34)
- ALL TUITION REVENUE FLOWS INTO AND OUT OF REVOLVING ACCOUNTS
- AUDITORS CITE HABITUALLY UNRECONCILED ACCOUNTS INCLUDING TUITION REVENUE ACCOUNTS



---

# Anomalies Identified by the Finance Committee

- 50% Jump in Administrative Overhead
- No Reconciliation of Budget Expenditures and Revenue to Actual Costs and Collections
- No Independent Certified Oversight of the Budget Process
- No Control or Limiting of Nonmember Enrollment

---

# Inflated Assessments

- Normally ASSESSMENT should equal EXPENDITURES less REVENUES
- IF Revenues are Understated:

ASSESSMENTS equals EXPENDITURES minus less or reduced REVENUE.

This results in

**ASSESSMENTS** = EXPENDITURES – REVENUE

Assessments must INCREASE to make up for understated revenue

---

---

# Filling Empty Seats

- A 800 Student School would have a 445 Member and 365 Non-Member Pupil Enrollment (we are at 786 today)
- The Number of Vocational Sections ( $786/17.5$ ) Equals 45 Sections with average Expenditures per Section
- Total Expenditures in FY13 were \$23 million or an Average of \$500,000 in Expenditures for Each Vocational Section
- There are 21 ( $365/17.5$ ) Nonmember Vocational Sections
- We are currently Losing \$140,000 on each Nonmember-only Section (this will increase to \$200,000 in FY2017 as tuition rates fall 25%)
- There are no financial advantages to be derived from enrolling 365 non-member tuition students. Only losses.

# Not Level Service Budgets I

- FY14 Budget was \$18.5 million
- FY15 Budget was \$19.6 million
- A level service budget increase would have been less than 2% or \$370,000 for a total of \$18.9 million
- Instead, the Fy15 budget was increased by almost 6%.
- The additional \$730,000 was budget creep to make up for decreased understated revenues and further institutionalize and conceal true tuition revenue losses
- The FY13 \$17.4 million to FY14 \$18.5 million Level Service budget creep was 6.3% or an additional \$1.1 million when \$384K should have been sufficient BOTH teacher staffing and member enrollment flat **EXCEPT FOR .....**

---

# Not Level Service Budgets II

- Significant 44% increase in NONMEMBER OUT-OF-DISTRICT tuition students
- The non-Level Budget increases were required to make up for lost tuition revenue
- And to replace understated budget revenues including tuitions and nonmember fees.
- Tuition losses were being made up using the pretext of Level Service budgeting to institutionalize nonmember town subsidies

---

# Evidenced Over Assessments I

- Feigned Level Service Budgets to increase contributions
- IN FY12 understated Budget revenues and LS budget increases totaled \$1.7 million (\$1.8 million in FY13 and \$1.8 million in FY14)
- Deficit Spending increases of \$250k annually
- Underutilized Tuition Revenues increasing by over \$1 million annually and kept off-budget in revolving accounts
- Actual to budgeted expenditures show \$2.6 million in additional Administration and Education Services for nonmember tuition students

# OFF-BUDGET ADDED SPENDING

	FY2013 BUDGET v AUDITORS		Auditors ACTUAL EXP			
		GENERAL FUND - BUDGET AND ACTUAL P.17 (Budgetary Basis)	Statement of Activities p.7 & p.12		PERCENTAGE OFF- BUDGET INCREASE IN EXCESS OF BUDGET EXPENDITURES	INCREASES IN EXCESS OF BUDGETED EXPENDITURES
1000	Administration	\$1,451,093	\$1,799,127	(\$348,034)	23.98%	
2000	student Instruction	\$8,607,719	\$10,169,529	(\$1,561,810)	18.14%	
3000	student services	\$1,976,580	\$2,490,162	(\$513,582)	25.98%	(\$2,423,426)
4000	Operations & Maintenance	\$1,660,819	\$2,036,283	(\$375,464)		
	Fixed Charges	\$2,522,460	\$7,765,326	(\$5,242,866)		
5000	insurance retirement Leases			\$0		
6000	community services	\$0	\$197,007	(\$197,007)		
	Miscellaneous / Other	\$21,472	\$69,736	(\$48,264)		
	Capital Acquisitions	\$522,194		\$522,194		
7000	Asset Acquisitions & Improvement			\$0		
8000	Debt service / Interest	\$421,589	\$231,393	\$190,196		
9000	tuition payments			\$0		
	Depreciation		\$888,353	(\$888,353)		
		\$17,183,926	\$25,646,916	(\$8,462,990)		

# Evidenced Over Assessments II

- No E&D increase when there should be at least \$1 million increases each year in order to return understated but collected windfall revenue to member towns to decrease assessments
- Audited Net Asset increases of \$1 million or more through FY2012
- The deferring of revenue into the next fiscal year to avoid further increases in underutilized tuition revenue
- In FY12, the assignment of \$3.7 million to the FY13 budget when over \$6 million dollars in tuition revenue was collected in FY2012 (budget stated \$4.3 million in tuition revenue).
- FY12 Ending TRIAL BALANCE Tuition Revolving Account ASSET  
\$3,741,828.00
- In FY13, the assignment of \$5.0 million to the FY14 budget when over \$6 million dollars in tuition revenue was collected in FY2013 (budget stated \$4.6 million in tuition revenue).
- FY13 Ending TRIAL BALANCE Tuition Revolving Account ASSET  
\$5,173,030.69
- \$6.2 million in tuition revenue to be collected in FY14 and a greater amount to be collected in FY15



# Evidenced Over Assessments III

FY2012 Revenue Sources	Budgeted Amount	DESE & MM ACTUALS	Understated Difference Resulting in Over Assessment
Tuition	\$4,335,000	\$5,180,984	\$845,984
Member Post Grad Tuition	\$75,000	\$91,333	\$16,333
C.70 School Aid	\$2,029,285	\$2,129,272	\$99,987
c.71 trans aid	\$495,000	\$760,235	\$265,235
<b>subtotal</b>	<b>\$6,934,285</b>	<b>\$8,161,824</b>	<b>\$1,227,539</b>
c.71 trans aid as an assessment	\$0	\$495,000	\$495,000
Unjustified Member Post Grad Tuition	\$0	\$274,000	\$274,000
Member Student PG Tuition (25%)	\$0	\$91,333	\$91,333
<b>subtotal</b>	<b>\$6,934,285</b>	<b>\$9,022,158</b>	<b>\$2,087,873</b>
Increased Revolving Account Deficits			\$250,000
Unnecessary E&D Appropriations			\$200,000
<b>Total</b>			<b>\$2,537,873</b>

# Evidenced Over Assessments IV

FY2012 Revenue Sources	Budgeted Amount	DESE & MM ACTUALS	Understated Difference Resulting in Over Assessment	GENERAL FUND	Rev Acct
Tuition	\$4,335,000	\$5,180,984	\$845,984		\$845,984
Member Post Grad Tuition	\$75,000	\$91,333	\$16,333		\$16,333
C.70 School Aid	\$2,029,285	\$2,129,272	\$99,987	\$99,987	
c.71 trans aid	\$495,000	\$760,235	\$265,235	\$265,235	
<b>subtotal</b>	<b>\$6,934,285</b>	<b>\$8,161,824</b>	<b>\$1,227,539</b>	<b>\$365,222</b>	<b>\$862,317</b>
c.71 trans aid as an assessment	\$0	\$495,000	\$495,000	\$495,000	
Unjustified Member Post Grad Tuition	\$0	\$274,000	\$274,000	\$274,000	
Member Student PG Tuition (25%)	\$0	\$91,333	\$91,333		\$91,333
<b>subtotal</b>	<b>\$6,934,285</b>	<b>\$9,022,158</b>	<b>\$2,087,873</b>	<b>\$1,134,222</b>	<b>\$953,651</b>
Increased Revolving Account Deficits			\$250,000		\$250,000
Unnecessary E&D Appropriations			\$200,000	\$200,000	
<b>Total</b>			<b>\$2,537,873</b>	<b>\$1,334,222</b>	<b>\$1,203,651</b>

---

# HALF AND HALF

- The over assessments go into the general fund or off budget revolving accounts
- Budgeted and understated c. 70 and c.71 aid go into the general fund
- The budgeted and understated tuition revenue go into off-budget unreconciled revolving accounts resulting in underutilized tuition revenue only portions transferred into the general fund

---

# Chapter 71 Transportation Aid Included as an Assessment

- Chapter 71 aid has averaged \$650,000 per year for the last 8 years
- Over those same 8 years, transportation costs have average \$1.2 million annually
- During those same 8 years, member towns have been assessed the total costs or \$1.2 million for bus and other transportation services
- Member towns should only be assessed the balance of transportation costs after C.71 aid has been deducted.
- The District owe member towns an assessment credit of \$2.4 million, but it cannot return the money because it is being spent to make up for underfunded tuitions

---

# Post Graduate Adult Student Over Assessments

- \$15,000 in Minimum per pupil foundation spending
- \$2,500 in remaining FTE assessments
- Chapter 70 aid \$2.1 million / 425 FTE's = \$4,900
- All told, assessed \$22,400 for each member PG
- Why is tuition collected totaling \$6,000 per PG?
- We are charging NONMEMBER PG's only \$6,000
- Tuition revenue shortfall of \$16,000 each for 35 nonmember PG's or \$560,000 revenue loss on PG's made up by member town through increased assessments
- \$25,520 budgeted expenditures for each student.
- Losing \$19,520 for each nonmember PG totaling \$683,000 annually

---

# Underfunded Nonmember Sections by Expenditures

- Nonmember students occupy 21 vocational Sections
- In FY15 17.5 Nonmembers x \$20,595 = \$360,400 in Nonmember Revenue or a loss of -\$140,000 per section times 21 sections is -\$2,940,000 in total lost revenue.
- In FY17 in today's dollars 17.5 Nonmembers X \$17,250 or a loss of -\$200,000 per section times 21 sections is -\$4,200,000 in Lost Revenue made up through Undisclosed Member Town Over Assessments.

---

# Sustaining Member Enrollment

(Current FY2014 enrollment)

- Currently 439 Member Town Pupils
- 21 Vocational Programs
- Maximum Average Size Vocational Class : 17.5 students
- Today there are 25 Member Pupils for Each Vocational Program
- There is Sufficient Member Town Pupil Enrollment NOW to Sustain Every Vocational Program
- Nonmember Pupils provide no educational advantage
- Mass General Laws do not require Minuteman to enroll one (1) let alone 370 Non-member tuition students
- 370 Tuition Students Do NOT Provide any Financial Advantage

---

# What does this all mean for Sudbury now?

- 20 cents of every assessment dollar paid to Minuteman is used to subsidize 34 nonmember towns sending students to Minuteman
- In FY2015, Sudbury will be paying for the salary and benefits for a Minuteman teacher
- Students from Boston, Medford, Watertown, Waltham will be taught by a teacher that should be teaching at L-S or one of the SPS schools



---

# What does this mean for Sudbury in the future with new capital debt?

- 30 cents of every assessment dollar paid to Minuteman is used to subsidize 34 nonmember towns sending students to Minuteman in a new school building
- In FY2017, Sudbury will be paying for the salary and benefits for two (2) Minuteman teacher
- Students from Boston, Medford, Watertown, Waltham will be taught by two Sudbury teachers that should be teaching at L-S AND one of the SPS schools

---

# What needs to be done?

- Recommend no confidence in the Minuteman FY2015 budget as presented
- Recommend the motion to hold back \$1.00 from the Minuteman FY2015 budget until:
  - Minuteman school committee presents a sustainable financial plan based on right-sizing nonmember enrollment that eliminates over assessments, assessment misstatements, and deficit spending

---

# OPPORTUNITY TO SELF FUND REPAIRS AND RENOVATION

- Minimizing nonmember tuition enrollment would halt subsidies totaling \$2.5 million and soon to be \$3.5 to nonmember towns
- Eliminating waste and correcting unfair assessments would save another \$1 million in assessments
- Stabilizing teacher and staff numbers over 4 to 5 years would reduce variable costs by \$2 million annually
- A renovated school for 500 students would cost less than \$60 million. A sustainable financial plan would secure the 40% MSBA grant, but it would not be necessary