

I. RIPEC Recommendations

Developing a School budget is a complex process that includes making a number of assumptions on State school aid, Federal grants, staffing and enrollment. Timing of intergovernmental revenue can have an impact on budget development. For example, all school districts, including Warwick, begin and complete its annual budget process before the State agrees on school aid distributions. The District builds a budget that includes school aid as proposed by the Governor, who presents his budget in January. However, the School Committee and the City take action on the local budget prior to changes included in the State's Enacted Budget.

One should note that given the lack of a contract, it is difficult to assess the true impact personnel costs have had and will have on the budget. The school district and its teachers are now in their third year of service without an agreement. Regardless of when an agreement is found and the content of the contract when ratified, there will be significant financial implications for the school department, the City and the Warwick taxpayers. As the School District moves forward, there are a number of actions that can be taken to improve the budget process, enhance budget information, maximize potential revenue sources, improve efficiencies, and prepare for the implementation of a teacher contract. The following recommendations focus on these issues.

The following highlights key findings and recommendations from the RIPEC Warwick School District Management Study presented March 22, 2006.

Modernize the School District Budget Document – While the department's public budget document is useful, it has a number of limitations. There are a number of potential changes to the document that would ensure taxpayers and policy makers have a robust picture of the school department's operating budget. The school district should also consider using the budget process and its document as an opportunity to educate others on its activities. It is also an excellent opportunity to make a compelling case for its needs. Some changes to be considered include:

- An introduction narrative (and relevant tables and charts);
- All Funds Budgeting;
- Two years of actual experience;
- Current year enacted budget and a revised spending and revenue plan;
- Proposed funding plan for coming fiscal year;
- Five year forecast; and
- A detailed Personnel Supplement

Develop a Budget Narrative – The budget document is the fundamental policy document for most organizations, and as such, should be viewed as the principle communication tool for policymakers as well as taxpayers. It serves as the central tool for fiscal discipline and control, permits policymakers the opportunity to direct resources to their highest priority, and provides an opportunity to outline the challenges that lie ahead. The current budget document presented by the School Superintendent and subsequently, the School Committee, includes a brief letter from the Superintendent, outlining a few issues in the budget. However, this does not go far enough to take advantage of the opportunity to provide explanations of the budget, its goals, and the major issues dealt with in the budget. An effective narrative should provide summaries of financial information, such as trends in revenues and spending. The narrative is also a good opportunity to discuss future educational challenges that may impact the district.

Implement All Funds Budgeting - A major component of the school district’s budget not represented in the operating budget are the district’s funding sources and related expenditures from Federal and other third party sources. A key issue facing the School District is that while it is often aggressive in pursuing Federal and other non-traditional funding to provide some relief to the general fund, these expenditures may require full or partial support after the alternative funding has ceased to exist or has diminished. Decision-makers need to understand the implications of alternative funding sources, and the potential impact they will have on the operating budget in the future.

Warwick Public Schools							
Expenditures - All Funds							
Fund	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
General Funds	\$111.3	\$116.4	\$126.5	\$132.3	\$134.9	\$138.2	\$141.6
Grants	4.3	4.3	5.1	6.2	6.2	6.2	6.2
Student Lunch	2.1	2.3	2.3	2.5	2.7	2.8	2.9
Total	\$117.7	\$122.9	\$133.9	\$141.1	\$143.8	\$147.2	\$150.7

Source: RIPEC Calculations based on Warwick School Department and RIDE Data

Based on these considerations and given that the School District has nearly \$6.2 million available in Federal Funds annually, all these funds and related staffing should be reflected in its annual operating budget and integrated into its annual spending decisions for the school committee. These funds play a critical role in the overall fiscal health of the school district and support over 4.2 percent of the total school district spending plan. All funds budgeting also permits decision-makers to identify potential shifts in what resource can support ongoing program and administration expenditures, such as indirect cost recovery. This is critical, especially when finances are finite and there is limited flexibility in programs due to laws and regulations. These funds also support nearly 85.0 FTE positions, the majority of which are professional teaching positions. Federal funds support approximately \$4.6 million in personnel costs not reflected in the analysis above – nearly 75.0 percent of all Federal funds.

Clearly the School Department was able to take advantage of Federal funding opportunities to help support general operations or academic programs. The Department should be encouraged to continue pursuing these opportunities when they arise. However, while it is critical to maximize Federal and non-traditional funding sources to relieve general funds from supporting all programs, it is critical to understand the entire spending picture of the school district.

In addition to Federal funding, the school district spends \$2.9 million in school lunch services, and receives other funding (often one-time) through other parties, such as the Champlin Foundation, the State Council on the Arts and others. For example, the School Department received approximately \$220,000 in funding from the Champlin Foundation. As the School Department moves towards all funds budgeting, efforts should be made to adjust prior year actual experience in the budget document as well.

Enhance Internal Budgeting and Financial Management – The school department’s management of financial information and its process for developing and representing its budget provided sufficient information to develop a baseline of spending expectations. However, while there has been improvement in the budget and financial management process in the school district, there are certain areas that could use additional attention. While one can track the budget as it progresses through the budget making process, there is a lack of sufficient documentation to track budget numbers to actual experience as the year progresses. While a budget is a living document, one needs to have consistent benchmarks to compare changes as the year progresses. This would provide the business office, the superintendent and the school committee the kind of information needed to determine how effective their budgeting was compared to actual experience as the year progresses.

While there are tables available, there are no analyses comparing actual experience to originally enacted budgets, reviewing shifts in spending among line items mid-year, nor analyzing the impact Federal and other third party financing have on the general operating budget. The school department provides good explanations to what they remove or add from the budget as funding decisions are made, and that has proven valuable in guiding policymakers through the process. This could be further enhanced by additional explanations of shifts within budget line-items, outlining the rationale as well as indicating what actions will be taken to re-adjust the base for future fiscal years.

An example of a report that may be further developed is the revenue report submitted to the School Committee – these reports generally show collections to date and the amount needed to meet budgeted amounts. While this is helpful, additional information showing what the school department anticipates the actual collections to be would be helpful. Finally, to provide additional information, the budget document should include two years of actual experience (most recent completed year may be preliminary), the enacted and revised budget for the current fiscal year and the proposed funding for the coming fiscal year.

Enhance Personnel Supplement - There is a need to enhance the personnel supplement information. The current supplements provide an overview of the number of FTE positions by professional and classified employees. It provides general data about positions, where the positions are located, salary ranges, total salary cost for those positions and funding source. While this information is helpful and is certainly more detailed than in several other school districts, there are some changes that may make this document more useful as a management tool in the future.

For example, it may be worth modeling the personnel supplement after the State Personnel Supplement, which provides multiple years worth of data by office and department, includes the total personnel expenditure package – including benefits and contracted services (which are currently not included in the Warwick personnel expenditure line, but rather as a purchased services line), as well as summary information regarding funding streams. In addition, the personnel supplement is another opportunity to outline personnel trends, expenditure changes related to current programs versus changes due to financial considerations or new programs, as well as gain a greater understanding of the impact personnel has on the overall operations of the school department.

The school department currently does manage more sophisticated personnel information internally, and therefore should be able to enhance this public document. This would go hand in hand with the all funds budgeting proposed above. The combination of all funds budgeting with improved personnel reporting will provide a tool to manage overall staffing levels.

Consideration should be given to establishing FTE limitations for the school department, and using this management tool to begin managing down the staffing levels in low-priority areas - given the magnitude of the financial impact a teacher contract will have on the school district. In other words, the school department should establish an FTE position cap as well as targets to reach over a period of time. These management tools are central to understanding a complex organization such as the Warwick School Department with an operating budget in excess of \$150.7 million (all funds).

Establish Annual Five-Year Forecast - The school department, in concert with the City Administration, should develop and annually update a five year forecast for the school district. This should include a detailed discussion of the baseline and the assumptions upon which the forecast is based. This should be done with the understanding that a forecast is a financial tool, not a defining document of future spending needs. It provides insight into how decisions today will impact the school district's ability to meet the needs of tomorrow. In addition, it will provide an excellent communication tool with the City Administration. There is no question it will be difficult to translate some of the school district's needs and demands into financial terms. The demands imposed by the No Child Left Behind Act will be increasingly difficult to articulate financially. But a forecast will provide everyone with a benchmark that can be used to discuss future needs, as well as compare performance to forecasted budgets.

Pursue More Aggressive Federal Indirect Cost Recovery – While this forecast assumes Federal indirect cost recoveries will grow at or about the rate of personal income growth, RIPEC would like to take this opportunity to suggest that this revenue effort could be maximized. The School District currently does not aggressively pursue Federal indirect cost recoveries, which permit school districts to allocate a portion of the Federal grant to offset administrative costs associated with the grant. RIPEC believes this has untapped potential for additional funding to support the department that would offset existing general revenue appropriations. One should note that if one does in fact identify funding that can be used for indirect cost recovery, it may mean that some of these funds would have to come from existing uses for program.

Prepare for Teacher Contract – The forecasts discussed in this Study indicate that there is a need to develop a meaningful financial plan that incorporates **both** permanent cost savings measures within the school department to offset some of the expenses associated with the contract and a financing structure that raises sufficient funds to support the balance of the costs of implementing a new contract. Both of these efforts will require difficult choices for both the school department as well as the City's taxpayers.

The FY 2006 budget does not include any expenditure associated with additional costs for contract provisions. The school department ended the FY 2005 fiscal year with a balance of \$2.5 million, of which \$2.3 million are currently set aside to finance a portion of the retro-payment costs associated with a new contract. The following are RIPEC recommendations to begin preparing for a new teacher contract.

- a. RIPEC recommends that the \$2.3 million already in the Audit Reserve for Education Account should remain in said account for the sole purpose of funding any retro-payments to settle the teacher contract. In other words, the \$2.3 million in surplus should not be incorporated into the school district's FY 2006 operating budget - it should remain outside of general operations.
- b. RIPEC recommends that all parties (school district, school committee, City Council and the Mayor) should work cooperatively to contain costs to ensure there is an adequate funding stream to meet the needs of a new contract. In RIPEC's review of the operating budget, it appears that there may be at least \$521,000 in net savings due to turnover and non-personnel spending patterns (see details in Five-Year Forecast discussion). These funds should be identified and removed from the operating budget and placed in reserve as soon as possible to assist in the payment of the retro-payment obligations for the teacher contract.
- c. RIPEC recommends that further efforts, such as refraining from selected purchases of materials and leaving non-essential positions unfilled through the balance of the year, will help further reduce the impact on the FY 2007 funding plan. It is critical that the School Department concentrate on additional cost-savings measures for the remainder of FY 2006 to drive the reserve up, with a goal of reaching \$4.3 million in order to finance the projected retro-payment based on the School Committee's last contract offer.

- d. Should the School Committee and the Teacher Union come to an agreement, the School Committee and the City Council will have to be prepared to implement the provisions of such a contract. Therefore, RIPEC recommends that the School Committee, City Council and the Mayor establish a formal mechanism to coordinate and develop a long-term plan to meet the demands of a teacher contract. Consideration should be given to continuing the work of the Advisory Group established for this Management Study. RIPEC believes there has been some progress and good will established through this process, and as a result, there is a greater understanding of each other's perspective on a wide range of issues.
- e. RIPEC recommends that the Warwick School Department submit a FY 2007 Operating Budget Request that is based on current services. Given negotiations are expected to continue and the school department must develop and present a budget in the coming weeks, it is important to submit a budget that represents existing obligations. Therefore, any costs associated with a new contract should not be integrated into the budget. Rather, these costs should be discussed and outlined in the narrative section of the budget request, and should be analyzed as part of the five-year forecast (See earlier recommendations).

Address Operations Expenditures – Based on findings from the Benchmarking Analysis, Warwick's per pupil expenditures of \$12,383 in FY 2005 are the highest among the peer districts. They are also higher than the State average of \$11,876. This is partially a function of declining enrollment in Warwick. However, it may be also a function of higher expenditures for operations when compared to its peer communities. In Warwick, these expenditures took up 16.6 percent of total expenditures in FY 2005 (based on RIDE In\$ite data). Among its peers, the percentage ranged from 12.0 percent to 16.2 percent in FY 2005. The State average during that time period was 15.3 percent.

In Warwick, the majority of the growth within operations comes from increased expenditures to upkeep facilities. Warwick had the highest per pupil expenditures for facilities, spending \$1,082 per pupil in FY 2005. This outpaced all of the other peer school districts, with Warwick being 20.2 percent higher than the next highest school district. Another growth factor in Warwick was expenditures related to business operations. Warwick's business operation expenditures of \$244 per pupil were the highest among the peers, 76.6 percent higher than the peer average of \$138 per pupil.

Recommendations of the Management Study – Information Technology

RIPEC was asked to review the School District's Information Technology systems as part of this analysis. The evaluation of the Information Systems included funding resources used for technology, policies and procedures supporting technology, hardware and software, staffing, and support. This document outlines recommendations for improvement and includes an environmental scan of the Information Systems implemented in the district.

Evaluate the potential for establishing a unified IT function with the City and the School Department - The City and the School Department should consider combining Information Technology resources. With similar initiatives planned by both entities, a unified plan may drive down costs and provide the City and School Department with a more efficient, cost-effective and robust IT infrastructure that neither entity could afford individually.

The City and the School Department may increase productivity and efficiency by integrating resources. Although the technology usage is different for each entity, there are fundamental technologies that are similar, such as networking, Server Operating System support, and Desktop support. By integrating some of the tasks of the teams, the City and the School Department may utilize additional resources to increase support time and may reduce out-sourced maintenance contracts.

Explore the feasibility of moving toward a unified Financial Management Information System (FMIS) for the City and the School Department - The School Department and the City should work towards a unified Financial Management Information System (FMIS). In developing a strategy to unify the FMIS systems under one program, it is essential that appropriate policies and procedures be put in place to ensure the integrity of the system is maintained.

This initiative could serve as a catalyst for the consolidation of the School Department's Controller function and the City's Treasurer's Office. In fact, this would prove valuable to both entities going forward given much of the current practice of sharing information is essentially manual. In addition, there would be cost savings in licensing, updating and maintaining the system, as well as IT staffing in the future. The unified FMIS system could also lead to a smoother transition to a pooled purchasing and controller function for both the District and the City.

Explore the feasibility of integrating the Wide-Area Network and IP Telephony initiatives - The City and School Department can save money long-term by combining the two WAN networks. It is understood that a plan was in place to run fiber-optic cabling throughout the City to interconnect all buildings with a fast pipe. If the City interconnects to the School Administration Building, services could be centralized and efficiencies could be realized. First, the City would be able to take advantage of the Disaster Recovery solution the School District has in place and leverage each other's services. Also, the cost of Internet Access may be reduced by consolidating. Another area is an initiative that both the City and the school department have explored -

upgrading the existing voice system to IP Telephony. By implementing IP Telephony city-wide, all entities may reduce the overall recurring costs of telecommunications by leveraging each others resources. The total number of Telco lines would be reduced, the number of PBX systems would be reduced, and overall maintenance should decrease.

Recommendations of the Management Study – Central Administration

RIPEC was asked to review the central administrative function of the Warwick School Department. RIPEC focused most of its attention on the operations of the Central Business Office (CBO), and has reviewed similar activities performed by the City to see if there were potential savings while maintaining quality back-office services to the school district and City.

Pursue Central Pooling of Existing Clerical Staff Across Functions - The extensive use of clerical staff in the central office is an area that may present itself with potential efficiencies on a go-forward basis. Given their proximity and similar job duties as described in available job descriptions, there is an opportunity to move towards a central pool of clerk staff to be shared among the different divisions, particularly between the CBO and other divisions within the Central Administrative Office. Therefore, the central administration should pursue a strategy to develop a central clerk pool and develop policies on how work is allocated among the staff. Given this will maximize the skills available throughout the central office and improve productivity, there will be future savings by reducing the number of total clerk positions necessary to perform clerical duties in the near future through an attrition model. As positions become vacant, they should remain unfilled to determine the impact of redistributing the workload among remaining clerical staff.

Consider Consolidating Controller Function with Sister Functions in City Administration - The City's Treasurer's Office is responsible for the overall accounting operations of the City, develops the standard operating procedures for the annual audit, cash management and all fund relationships. Its Comprehensive Annual Financial Report has received recognition by the GFOA (Government Finance Officers Association). It is well versed in preparing and maintaining its financial statements and its overall financial reporting systems for the City.

The School Department maintains a separate accounting system, where it pays its own bills, develops its own payroll, and runs its own checks. The Controller is responsible for the daily maintenance of the School district's accounting system, such as creating new and eliminating old accounts and posting transactions. The School Department's Controller's Office sends over warrants for payroll and accounts payable and the City wires the appropriate funds to the School Department's accounts. In other words, the City funds the School Department's obligations as they are incurred.

Given that both the City and the School Department operate similar functions, there is some duplication of work between the School Department and the City Administration. Therefore, consideration should be given to consolidating the two functions, and both entities would best be served if it were under the City administrative function. This will

permit the kind of synergies to take place to achieve savings, maintain efficient services, and eliminate duplicative activities. Again, the City must take a proactive role in ensuring that it is responsive to the school district's needs on a timely basis. As positions become vacant, they should remain unfilled to determine the impact of redistributing the workload among current remaining staff. The City should also consider conducting a salary survey of the positions to ensure there are no issues of pay equity.

Consider Consolidating Purchasing Function with Sister Function in City Administration - The School Department's purchasing function is responsible for developing and issuing requests for proposals per current bid requirements as outlined in its purchasing manual, monitoring and tracking purchase orders, and ensuring inventories are received. The purchasing function is not necessarily a function that is education-specific. In other words, the function itself is fairly generic regardless of the entity being served. Given that both the City and the School Department operate similar functions, there is some duplication of work between the School Department and the City Administration.

Therefore, consideration should be given to consolidating the two functions, and both entities would best be served if it were under the City administrative function. This will permit the kind of synergies to take place to achieve savings, maintain efficient services, and eliminate duplicative activities. The City must take a proactive role in ensuring that it is responsive to the School District's needs on a timely basis. This would include ensuring that policies are in place to enable the School Committee to maintain its role in monitoring and approving purchases made by the School Department.

The staffing and funding for the positions currently within the school district should be moved to the City. The City should not lay-off any positions that are part of the consolidation. Rather, as positions are vacated, they should remain unfilled to determine the impact of redistributing the workload among current remaining staff.

Explore Options to Consolidate Facilities Management Functions with City Administration - Within the school district's total FY 2005 operations expenditures, facilities accounted for about half. Expenditures increased on average annually by 3.4 percent, from \$11.3 million in FY 2001 to \$12.9 million in FY 2005. Expenditures for facilities accounted for the greatest share of growth in total operations expenditures. In other words, the majority of the growth within total operations in Warwick came from increased expenditures to upkeep facilities. Warwick spends \$1,082 per pupil to support school facilities – the highest per pupil expenditure for facilities among the peer school districts in the benchmarking study. Warwick's spending was 20.2 percent higher than the next highest school district (East Providence at \$900 per pupil).

The review of facilities was beyond the scope of this work, but as other work was performed, data suggested that this may prove to be a valuable analysis given the potential efficiencies that may result from such an action. There are considerable resources allocated to support school facilities, and an initial scan of personnel data shows staffing levels in excess of 150.0 FTE positions.

Monitor Implementation of RIPEC Recommendations – RIPEC recommends that the Warwick School Department develop and present to the School Committee, City Council and Mayor a status report on the implementation of the recommendations outlined in this Management Study, as well as updates on issues raised through the benchmarking exercise. This report should be presented no later than October 1, 2006.