

# Operations Work Group

## March 2017

Budget Development 2017-18  
Focus on Employee Compensation

March 13, 2017

# Budget Development Calendar

<b>October</b>	<b>November</b>	<b>December</b>	<b>January</b>
Introduce Calendar, Budget Goals & Guiding Principles, Enrollment Forecast, Make Case for Operating Referendum	Confirm Goals, Guiding Principles, Revenue and Referendum Update, Intro Strategic Priority Actions	Budget Overview & Focus on Strategic Priority Actions	Update Strategic Priority Actions, preview staffing workbook and allocation process
<b>February</b>	<b>March</b>	<b>April</b>	<b>May-June</b>
Update on state budget proposal, focus on high level staffing plan for 2017-18	Employee compensation plan, focus on employee contribution and health insurance plan options	Update on state budget issues, continue health insurance and compensation issues, preview highlights of 2017-18 budget proposal	Report on budget input from community, staff, parents, etc. Monitor state budget. Track and respond to board budget questions

# 2017-18 Budget Development

## Feedback from Community and Staff

- Budget input received (15 comments) via **MMSD website**:
  - prioritize salaries and benefits for staff
  - concerns about an increase in health insurance premium contributions without accompanying pay raises
- Budget input received via **teacher and parents advisories**:
  - Expand transportation to more students
  - School building maintenance and improvements are needed
  - Improve enrollment interface
  - Need greater focus on pre-K and 4K
  - Elementary classroom equipment, supplies, etc. are strained
  - Need greater focus on reducing class sizes
  - 3<sup>rd</sup> Grade and 9<sup>th</sup> Grade accelerated actions are positive
  - Need to catch students before they fail

# Budget Development Cycle

The budget development process follows a sequence which:

- Begins by establishing budget goals and guiding principles
- Creates a revenue forecast based on current law and projected enrollment
- Funds strategic priority actions
- Develops a positive compensation strategy, including salaries/wages and benefits
- Provides for expected increases, such as utilities and transportation costs
- Identifies budget balancing reductions at the central office level to reduce impact on schools
- Creates a district wide staffing plan



# Thriving Workforce Strategic Framework

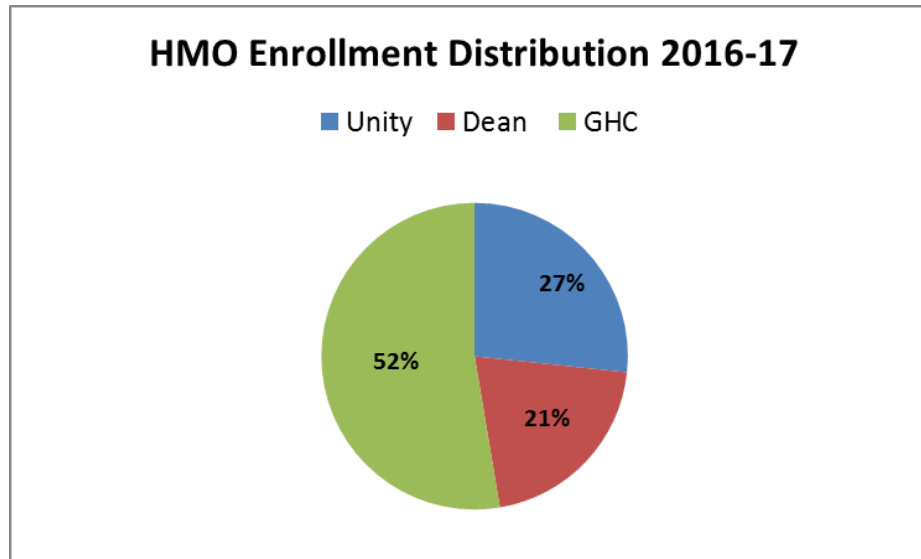
## **Priority: Thriving Workforce**

*“To cultivate a work environment that attracts, develops and retains top talent”*

The strategy for 2017-18 is to reinvest health insurance premium savings to achieve targeted goals and preserve employee compensation.

# Current HMO Enrollment

Health Insurance - 2016-17 for Active Employees Only					
	# Single Plans	Annual Premium	# Family Plans	Annual Premium	Total Premium
Unity	259	\$ 8,148	749	\$ 21,431	\$ 18,162,151
Dean	224	\$ 7,757	557	\$ 20,402	\$ 13,101,482
GHC	494	\$ 6,073	1495	\$ 16,215	\$ 27,241,487
<b>Total</b>	<b>977</b>		<b>2801</b>		<b>58,505,120</b>



Employee Type	EPC %
Administrators	10.00%
BRS	3.00%
Clerical Technical	3.00%
Custodial	3.00%
EA/SEA/BEA	1.25%
Food Service	1.25%
NUP	5.00%
Play & Learn	1.25%
Security	1.25%
Specialist	3.00%
Teacher	3.00%
Trades	3.00%

*Note: EPC increases for non-participation in wellness program*

# MMSD's HMO Based Health Insurance Plan

## Two Key Issues for 2017-18:

### **State Budget - 12% Employee Contribution**

Governor's budget proposal for 2017-19 ties revenue per pupil to a required 12.0% employee premium contribution (EPC); MMSD's current EPC averages 3.5%. The Governor's proposal would increase employee premium contributions by **\$4.5 million**. We have a plan to capture the \$4.5 million and reallocate it to wages and salary.

### **1-HMO Plan**

The existing 3-HMO model provides a wide range of options for health care. However, the choice of plans adds approximately **\$5.5 million per year to the overall plan cost**. A 1-HMO model may become inevitable, based on input from the HMO's, since a 12% EPC will incentivize employee migration to the lowest cost plan and destabilize the 3-HMO model over a few years time. We have an additional option for a 1-HMO plan that captures and reallocates savings to best use.

# Health Insurance Plan Option # 1

## **Continue the 3-HMO model with a required 12% EPC**

If a 12% employee contribution towards health premiums is required for \$200 per pupil aid increase (per Governor's proposal), then make the necessary change:

Step 1: Fund steps, lanes and a portion of base wage per usual. Steps and lane costs are \$4,687,000. Base wage is funded at .38% or \$625,000 in this version of the budget.

Step 2: Capture and reallocate the **\$4.5 million** increase in employee premium contributions and reallocate to wage and salary schedules.

These actions continue the 3-HMO model and the options it offers. It captures the additional premium contributions and reinvests those funds to support employee wages and salaries.



# Health Insurance Plan Option # 2

## A 1-HMO model with a required 12% EPC

If a 12% employee contribution towards health premiums is required for \$200 per pupil aid increase (per Governor's proposal), then make the necessary change:

- Step 1: Fund steps, lanes and a portion of base wage per usual. Steps and lane costs are \$4,687,000. Base wage is funded at .38% or \$625,000 in current version of the budget.
- Step 2: Capture and reallocate **\$4.0 million** from the increase in employee premium contributions and reallocate to wage and salary schedules.
- Step 3: Capture and reallocate an additional **\$5.5 million** from the 1-HMO premium reduction and reallocate those funds to priorities which surfaced during the 2015 compensation study.

# Health Insurance Plan Option # 2

Targeted Action	Why	Cost
Set Beginning Teacher Salary at \$41,096	To attract a diverse, high quality teacher workforce.	\$460,000
Increase teacher pay for summer school to market rate of \$30/hour (from \$16 per hour). Non-MMSD teachers at \$25/hour.	Summer school is a critical intervention for students, many of whom are students of color. This action will improve student access and outcomes by recruiting highly qualified MMSD staff.	\$1,200,000
Establish a \$15 / Hour Minimum Wage (Livable Wage)	To support those who have a significant impact on student success. There are 385 employees who are paid less than \$15 per hour.	\$375,000
Wellness Programming	To grow and expand the wellness program using an incentive-based model, eliminate additional premium contribution.	\$250,000
Salary and Wage Increase – All Employee Groups	Moving from the 3-HMO model to 1-HMO reduces insurance premiums but requires a change in HMO for 48% of staff. This increase in salary/wages allows staff to benefit from the premium savings.	\$2,000,000
Compensation Committee Outcomes	<p>The committee will develop recommendations for specific aspects of the Compensation Study, including:</p> <ul style="list-style-type: none"> <li>• Adjust Salary Schedule for more front-loaded pay so that employees earn more faster</li> <li>• Design coherent professional development tracks to incent specific skill development</li> <li>• Explore development of clearer career paths and related compensation</li> <li>• Explore compensation strategy for high needs areas</li> </ul>	\$1,215,000

# Comparing Options

		Option 1	Option 2
<b>2017-18 Budget Development - Comparing Options</b>	Early Draft	12% EPC	1-HMO & 12% EPC
<b>Budget 2017-18 Draft - (Sources) and Uses:</b>	Amount	Amount	Amount
Salaries/Wages (Step & Lane Advancement)	4,687,000	4,687,000	4,687,000
Salaries/Wages (Base Wage or Other, based on 12% EPC)	625,000	5,125,000	4,625,000
Salaries/Wages and Other Targeted Actions - 1-HMO Savings	-	-	5,500,000
<b>Employee Benefits - Health Insurance Net of Employee Contribution</b>	-	<b>(4,500,000)</b>	<b>(9,500,000)</b>
Employee Benefits - WRS (6.9% on New Salary + 0.01 Rate Adj)	560,000	870,000	1,244,000
Employee Benefits - FICA & All Other Benefits (Excl. Health Ins)	720,000	760,000	800,000

# Next Steps

- Fully develop the 1-HMO model for further board consideration
- If the Board approves the 1-HMO model, a July 1, 2017 effective date would require early approval and a detailed transition plan
- HMO plan rates and all plan details for July 1, 2017 must be finalized
- The Governor's proposed 12% EPC requirement must be monitored and planned for