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Ms. Glenda Rader
Michigan Department of Education
State Aid and School Finance

Via Email: raderg@michigan.gov

January 30, 2012

RE: SERVICE CONSOLIDATION PLAN – STATUS OF IMPLEMENTATION
TRAVERSE CITY AREA PUBLIC SCHOOLS

Dear Glenda,

Traverse City Area Public Schools entered into a Service Consolidation Plan agreement with the State of Michigan in the 2009-10 school year in order to provide flexibility in recording Section 11d State Aid reductions in revenue. This letter is intended to meet the requirements of the State School Aid Act section 388.1611(3) that requires districts that entered into such an agreement provide an update in the form of a status report.

For purposes of providing a comprehensive update, I have included the narrative that I provided last year as well as a Shared Services Summary report that lists the savings realized from our shared services arrangements and talks about the challenges and opportunities encountered with each initiative. We have listed shared service projects that were on our report last year and are on going, as well as initiatives started since our last report. The initiatives started since our last report are highlighted in blue in order to show the incremental progress made since last year. It is my understanding that our attached Shared Services Summary, coupled with the narrative update I provide in the remainder of this letter, meet the requirements of the law as outlined in correspondence received from Carol Wolenberg, Deputy State Superintendent, on January 12, 2012.

As you can see from last year's narrative, TCAPS shared services plan has three basic objectives:

1. Explore additional opportunities to share and/or collaborate services with entities throughout the region, with a specific goal of targeting areas that offer the greatest return on our investment.

2. Join a formal committee established by the ISD whose specific goal is to study this topic from an ISD perspective in order to develop recommendations.
3. Implement Lean Thinking for Schools, a formal, objective process for the review of all services, with the goal to eliminate waste and improve effectiveness and efficiency within our operation.

I would like to briefly report on the status of each of these goals/objectives.

Goal 1

We have been successful in achieving this goal. As you can see from our attached summary, we continue to make great progress on this goal. The shared services in place last year continue to save our district and others in the region in terms of dollars and manpower.

In order to expand opportunities in this area, the executive leaders of Grand Traverse County, The City of Traverse City, and TCAPS convened and participated in meetings that required all entities to work together by department to explore opportunities for shared services. Many of the projects listed as new in our report are a direct result of these meetings. The relationships developed in these meetings continue and all entities continue to explore opportunities to save costs through service consolidation when it makes sense.

Goal 2

We have been moderately successful in achieving this goal. The TBAISD had established a formal committee in prior years and TCAPS has been and continues to be an active participant. The main undertaking for this committee in the previous year has been an in depth study of regional transportation to determine what, if any, savings are available in this area. While the study noted that the savings are potentially material from consolidating into one transportation system, the obstacles in place to achieving these savings are great and would most likely not be realized for many years. As such, the recommendation is to implement small-scale initiatives which would save marginal dollars in the short term, but which have the potential to create greater consolidations and savings over the long haul. The initiatives in place as a result of these meetings are included in our attached summary.

Goal 3

We have been very successful in implementing this goal. Approximately 80 staff members have been trained regarding Lean principles and have obtained a Certificate of Completion in Lean Thinking for Schools. We have incorporated Lean principles into the District's strategic plan. Numerous Lean projects from all areas throughout the district have been implemented and have resulted in savings and efficiencies throughout our system. We have further begun to share these experiences with other districts in the state and have

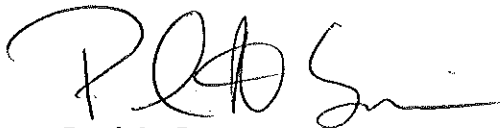
encouraged them to begin incorporating Lean principles into their organizations. We fully believe that "Lean" represents best practice and that school districts and others throughout the state should be encouraged to make these principles an integral part of their operations.

In conclusion, TCAPS has successfully adhered to our Service Consolidation Plan and the plan has paid dividends for our school system. We look forward to continuing this plan into the future and to reporting on the added value, as well as the challenges, encountered in doing so.

Please let me know if there are any questions regarding this plan or if there is any further information you may deem necessary.

Sincerely,

TRAVERSE CITY AREA PUBLIC SCHOOLS

A handwritten signature in black ink, appearing to read 'P. A. Soma', written over a horizontal line.

Paul A. Soma
CFO/COO

PAS/meg

Enclosures, 2

Ms. Glenda Rader
Michigan Department of Education
State Aid and School Finance

Via Email: raderg@michigan.gov

January 28, 2011

RE: SERVICE CONSOLIDATION PLAN – STATUS OF IMPLEMENTATION
TRAVERSE CITY AREA PUBLIC SCHOOLS

Dear Ms. Rader,

In accordance with Section 11d of the State School Aid Act of 2009/10, and in order to increase flexibility in the expenditure of certain otherwise restricted funds, Traverse City Area Public Schools (TCAPS) voluntarily entered into an agreement with the State of Michigan Department of Education (Department) to develop a Service Consolidation Plan. A requirement of this agreement is the submission of a report to the Department that describes the status of the service consolidation plan. This letter is intended to serve that purpose.

The agreement that TCAPS signed and forwarded to the Department in January of 2010 simply formalized a common practice that has been in place at TCAPS for many years. Prior to entering into this agreement, there were a wide range of services that had already been consolidated with other entities, and in-depth study was already underway for a number of others. Examples of services already in place prior to this agreement include, but are not limited to, the following:

- Shared bus maintenance with Bellaire Public Schools;
- Shared fleet maintenance and fuel purchasing with a local non-profit agency, Child and Family Services of Northwestern Michigan;
- Shared fuel purchasing with Bay Area Transportation Authority (BATA);
- Shared "owner's rep" services and shared bidding on major construction projects with the Traverse Bay Area ISD (TBA);
- Shared financial and accounting software with TBA, who has partnered with Macomb ISD for this software;
- Participation in numerous procurement consortiums, including REMC, MSBO bus purchasing program, Oakland Schools Purchasing Co-op, and others;

- TCAPS acts as the fiscal agent and lead district for the Great Lakes Food Consortium, which is made up of approximately 700 schools throughout Michigan;
- TCAPS acts as the lead entity for the shared tax collection fee agreement with Northwest Michigan Community College, TBA and BATA;
- Shared maintenance services with Suttons Bay Schools and TBA; and
- Telephone and Internet consortium with the ISD.

While the above is not an exhaustive list, it does show TCAPS' commitment to working with other entities to find economies of scale and ways to reduce costs. All of the listed service consolidation projects were in place and well established prior to entering into the agreement with the Department.

That being said, TCAPS did not take this agreement lightly. To the contrary, we felt that this was an opportune time to formalize our commitment to expanding upon and enhancing shared service relationships. The TCAPS plan has 3 basic objectives, which are as follows:

1. Explore additional opportunities to share and/or collaborate services with entities throughout the region, with a specific goal of targeting areas that offer the biggest return on our investment (i.e., areas where we could achieve the largest reduction).
2. Join a formal committee established by the ISD whose specific goal is to study this topic from an ISD perspective in order to develop recommendations.
3. Implement Lean Thinking for Schools, a formal, objective process for the review of all services, with the goal to eliminate waste and improve effectiveness and efficiency within our operations.

The remainder of this report will provide a status of each of the above noted goals in which we reflect on successes and challenges encountered. At the conclusion of this report, we will provide a chart showing a comprehensive, but not all inclusive, breakdown of shared services that have already been in place, that are in process or targeted for short term implementation, and those that are targeted for longer term implementation.

Objective 1 – Exploration of additional opportunities

This objective most closely aligns with our understanding of the direct intent of the agreement with the Department. This review focused on TCAPS and what we could do to lower costs through collaborations and shared services. While it is certainly true that further collaborations could be helpful to others, and would therefore provide ancillary benefits, that was not the focus. The reason for this distinction will be clear when it is contrasted to Objective 2, which focuses more on the region as a whole.

An overriding focus of our work in this area was to target high return services. Consolidating services just for the sake of consolidating services achieves nothing. Additionally, focusing on low return projects often has the "opportunity cost" associated with not having time for the projects that make a material difference. One can work on many small projects and spend a great deal of time doing so with little return on the invested time. On the other hand, working toward high return goals often takes longer but, if successful, results in sustained (structural) savings to the district.

With this in mind, much of our efforts in this area were focused on the transportation department. Our district encompasses a large region geographically, and we have the added challenge of large student

population. This combination results in a disproportionately large transportation cost. Among a number of strategies used to reduce costs, the most successful and impactful was the decision to consolidate Center Program Special Education transportation with the ISD. This strategy alone saved our district an estimated \$700,000.

As a result of this consolidation, our district has further worked with the ISD to provide transportation for our non-center special education programs. They have agreed to do this and are at this time working on finalizing modifications to our consortium agreement to allow it. Our targeted implementation date is March 1 of this year. It is expected that this move will save our district \$400,000 annually.

Other initiatives of note under this objective include consulting with one of our neighbor districts, Suttons Bay, relative to their food service program. Our program is a very successful, cost efficient, and effective program that operates in the "black." The same does not hold true for Suttons Bay. Suttons Bay accessed our expertise by having our Food Service manager review their program. This review included multiple visits to Suttons Bay. We are currently reviewing the feasibility of wrapping the Suttons Bay Food Service program under our jurisdiction. If possible and practical, we are looking at formalizing an agreement with Suttons Bay this summer.

While there are certainly other initiatives under this objective, the two noted above represent the most impactful at this time. Of the many lessons learned during these times is that when an initiative is driven by and clearly benefits one organization and does not harm others, it is much more practical to implement. As is noted below under our second objective, when control of a service or process impacts many districts, regardless of the net positive impact, the initiative can be hard to implement. Also, simply sharing services for the sake of sharing services does not automatically benefit an organization. In the case of TCAPS providing food service consulting services to Suttons Bay, TCAPS has yet to realize any direct benefit. In fact in that instance, TCAPS has actually increased its costs, while Suttons Bay has decreased theirs. We do not have a problem being a "good neighbor" but from a practical purpose consolidations must benefit both parties in order to be effective. It is our belief that in the long run this will be financially beneficial to TCAPS and, hence, our desire to continue providing support until a formal arrangement for completely absorbing Suttons Bay food service is completed.

Objective 2 – Join an ISD Committee to explore regional opportunities.

Contrary to Objective 1, this part of our consolidation plan focused on exploring regional service consolidation opportunities. This has not resulted in the type of success found in our work noted above. While this committee is comprised of dedicated, knowledgeable and well-intentioned individuals from various positions and districts across the ISD, the practicalities of "consolidating" or, stated in another way, "eliminating" positions throughout the ISD have proven difficult to overcome. What works for one district does not necessarily work for another district. As a result, much of the work of this committee has been simply theoretical in nature, with no practical means for implementation. Another way to put this is that this group "studies" consolidation of services but without having the authority to act or the ability to speak on behalf of all, it has no way to implement.

This does not mean that, over time, possible consolidation of service opportunities will not come from this group. In fact, one main success has been to garner agreement among all local districts to contract with transportation professionals to study the potential of a regionalized approach to all transportation. Initial meetings with consultants, however, show there is wide ranging expectation and various levels of support for full-scale consolidation. There is more support for small-scale, easy to implement

suggestions than there is for a full-scale consolidation that has the potential to save the region over \$1 million.

The dynamic at play within this group is important to understand. When a group looks at consolidation from a regional perspective, invariably the consolidation impacts different districts in different ways. Sometimes this difference can appear to be material to the districts involved. It is natural and expected that each district will act in its own best interest as opposed to a more utopian concept that each district would voluntarily sacrifice its own interests and defer to the interests of the whole. While it may seem that regional cooperation and consolidation is theoretically possible, reality suggests there are major obstacles to overcome if such consolidation is ever to be implemented in a large-scale impactful manner.

Objective 3 – Implement Lean Thinking for Schools

In addition to exploring ways to share and consolidate support services, TCAPS has begun a formal process for the review of all services, with the goal to eliminate waste by identifying its root cause. This will lead to improved effectiveness and efficiency within our district, and has the potential to impact districts throughout our region.

To accomplish this objective, 22 staff members have begun formal training with the goal to receive professional certification in Lean Thinking for Schools. The Lean process was first developed by Toyota Motor Company and has gained wide scale acceptance and acclaim throughout the manufacturing industry. Lean Thinking has recently been expanded to other industries including hospitals and other service industries and, most recently, schools. The Pawley Institute of Oakland University is conducting this training on site at TCAPS. The intensive course includes 42 hours of classroom instruction and requires 50 hours of project work. The projects are all directly related to the work of TCAPS, and hence we are confident that TCAPS will see a return on this investment in both the short term as well as the long term. More information on Lean Thinking for Schools can be found at <http://www.oakland.edu/leanschools/>.

As part of our desire to collaborate and share services with others in our region, we have invited TBA personnel and the Business Manager from Elk Rapids Public Schools to participate. We are extremely confident that implementing Lean Thinking throughout our region will enhance cooperation among and between districts and further has the potential to overcome some of the obstacles noted as challenges in Objective 2 above.

Conclusion

In conclusion, TCAPS has taken a multifaceted approach to our Service Consolidation plan. The update provided above illustrates many of the lessons we have learned and perhaps can provide some insight to other schools throughout Michigan. Specifically, we have learned the following:

1. Sharing/consolidating services should be done to save resources, not simply for the sake of sharing services. Without a focus on this aspect of sharing services, unintended consequences including increased costs could result.
2. It is easier in theory for districts to collaborate than it is in practice. Often the “self interest” of the districts involved override the “good of the whole” when consideration is given to sharing and consolidating services.

3. There are other approaches to cost savings that have the potential to be equally as valuable or more valuable than strictly focusing on sharing services. In the case of TCAPS, we believe our commitment to Lean Thinking for Schools will pay dividends in both the short and long term, and will in fact give us a way to implement all processes, including our approach to shared services, in the most effective and efficient way possible.

Finally, as noted above, attached please find a matrix that provides a comprehensive but not all-inclusive status report of shared services in which TCAPS participates. If you have any questions regarding TCAPS' service consolidation efforts or the information contained in this report, please feel free to contact me directly (231.933.1734 or somapa@tcaps.net).

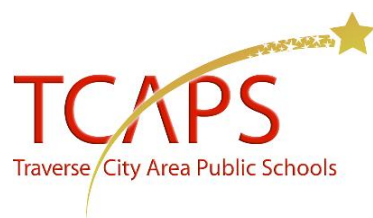
Sincerely,

TRAVERSE CITY AREA PUBLIC SCHOOLS

Paul A. Soma, CPA
Chief Financial Officer and
Executive Director of Operations

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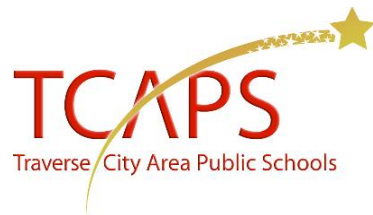
Enclosures, 1



SHARED SERVICES SUMMARY

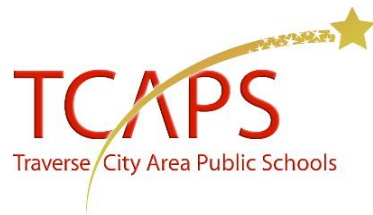
January 2012

Shared Services Description	Current	Targeted Short-term	Targeted Long-term	\$ Savings (approximate annual unless otherwise noted)	Challenges/Opportunities
	(Appropriate box checked)				
Consortium with ISD to purchase MI Virtual licenses	X			\$7,770	Working well.
Property tax collection agreements: TCAPS negotiates on behalf of TBAISD, Northern MI College and BATA (Bay Area Transportation Authority)	X			\$35,000	<i>Challenges:</i> Developing a fair allocation of costs; TCAPS negotiates with 14 taxing authorities so no timesavings for TCAPS; TBAISD, NMC and BATA benefit by not having to negotiate.
TBAISD contracts with TCAPS for curriculum staff development	X			\$293,285	Generally works well; TBAISD must manage resource allocation to be fair and equitable to all constituents.
Shared Time programming	X			\$250,000	<i>Challenges:</i> Savings doesn't account for administrative costs.
Facility rental (Special Education rooms to ISD)	X			\$165,000	Generally works well. <i>Challenges:</i> Similar to any lease/landlord relationship (e.g. who pays for what, what is included/excluded from lease rate, etc.).
Finance and Human Resources software	X			\$70,000	<i>Opportunities:</i> Program designed with schools in mind; as more schools use the software, the product development can be enhanced for school-related issues and changes in reporting requirements. <i>Challenges:</i> Not all schools operate in the same manner; common development of the software can be difficult.

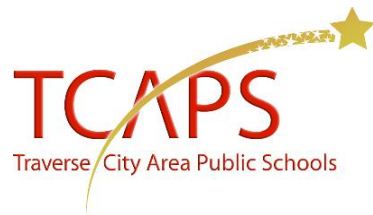


Shared Services Description	Current	Targeted Short-term	Targeted Long-term	\$ Savings (approximate annual unless otherwise noted)	Challenges/Opportunities
	(Appropriate box checked)				
Telephone and Internet Service Consortium with ISD	X			\$14,000	TCAPS benefits by combining with TBAISD for E-Rate purposes.
TCAPS is a board member for the Great Lakes Food Consortium	X			\$50,000	Opportunities: Consortium is comprised of approximately 700 schools in Michigan; the consortium collectively bids food and non-food items that total in excess of \$150,000 annually; substantial saving realized across member schools.
TCAPS operates the Food Service program for Suttons Bay Public Schools	X			(\$20,000) loss for TCAPS; Suttons Bay will save nearly \$30,000	Challenges: Making the program solvent long-term due to lower enrollment than expected at Suttons Bay. Also experiencing participation, a la carte and school layout challenges.
TCAPS' mechanics service Bellaire school buses; expansion possible	X	X	X	\$31,600	Challenges: Distance between our shop and the Bellaire location; not being able to bring buses to our garage for service/repair.
Fuel – shared services with Bay Area Transportation Authority	X	X	X	\$9,000	Opportunities: Expand services to other entities in the area.
Bus seat repair and body work			X	Under review	Opportunities: Currently do not complete seat repairs and body work on-site; exploring opportunities to bring this work in-house and be able to offer those services to others in area.

Shared Services Description	Current	Targeted Short-term	Targeted Long-term	\$ Savings (approximate annual unless otherwise noted)	Challenges/Opportunities
	(Appropriate box checked)				
Boiler and heating equipment service and repair for other school systems in region		X	X	\$10,000-\$20,000	<i>Opportunities:</i> Reduction in labor and overhead costs for other school systems; creates ability to offset costs for TCAPS via billing for services.
Maintenance and custodial services provided at numerous ISD locations	X		X	\$10,000	<i>Opportunities:</i> Expand level and scope of maintenance and custodial services in the future.
Construction Management services for various ISD project	X	X	X	\$50,000 (one-time savings)	Model developed during Oak Park and Traverse Heights projects during the 2006, 2007 and 2008 fiscal years. <i>Opportunities:</i> Expand construction management services; expand possibilities with fiber optic network and security planning.
Consolidation of network data infrastructure and phone network services through construction of our Data Center facility	X		X	Minimally \$20,000-\$30,000	Facility is open and operating with potential partners including TBAISD, NMC, LIAA and other non-profits. <i>Opportunities:</i> Shared network services could be expanded to other entities in the area.
Facilities are shared with wide range of users throughout the community	X	X	X	\$0	<i>Challenges:</i> Not necessarily a cost-saving item for the district, however, the revenue generated offsets the district's costs and provides a valuable resource to the community



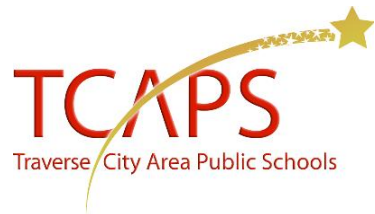
Shared Services Description	Current	Targeted Short-term	Targeted Long-term	\$ Savings (approximate annual unless otherwise noted)	Challenges/Opportunities
	(Appropriate box checked)				
Consolidation of services by constructing a fiber optic infrastructure loop that supports the needs of TCAPS and TBAISD; construction of the fiber optic loop was a joint venture between TCAPS and Traverse City Light & Power	X	X	X	\$200,000 (one-time savings)	<i>Opportunities:</i> Expanded opportunity for further network and security operations; continued consolidation of efforts and planning for future bandwidth expansion in the area.
Joined regional transportation consortium for Special Ed center programs; expanded to include non-center programs	X			\$800,000	Implemented in August 2010; has improved service and reduced cost. Modified original agreement to allow more services. <i>Challenges:</i> To get unanimous approval of modification when not all districts see a direct benefit. Experienced higher than expected cost from regional special ed transportation provider.
Purchasing cards consortium – statewide MSBO program with other districts	X	X	X	\$100,000	Reduction in central office staffing; increased central office process efficiencies; reduction in the amount of Accounts Payable checks being issued for miscellaneous supplies; rebates back to district based on total spend.
Cooperative purchasing agreements (MiDEAL, REMC, HPS, OCSPO, US Communities)	X	X	X	\$10,000-\$20,000	Purchasing agreements allow for increased efficiencies in the procurement process; bidding requirements are fulfilled with increased purchasing leverage due to bulk quantities; prices are driven down for all.



Shared Services Description	Current	Targeted Short-term	Targeted Long-term	\$ Savings (approximate annual unless otherwise noted)	Challenges/Opportunities
	(Appropriate box checked)				
Greenspire (local Charter School) – TCAPS is providing business services, technology services, some Human Resources services (background check and pupil accounting software), and athletic co-op with TCAPS; also utilizing zero-hour at TCAPS	X			\$10,000 - \$15,000	Working well. <i>Challenges:</i> Working through the start-up issues and evaluating the needs of the school.
Support Services – Staff Development	X	X	X	Savings will be realized over time	Included TBAISD and Elk Rapids Public Schools in Lean Thinking for Schools training.
Support Services – Regional Professional Development Day	X			Under review	TCAPS joined with Grand Traverse County and The City of Traverse City to offer a half-day regional employee training program.
TCAPS provides meals to TBAISD for special needs students	X			\$3,000	<i>Opportunities:</i> Lower TCAPS' Food Service program overhead costs by increasing the financial base.
TCAPS provides meals for various daycare operations and Head Start throughout the community	X			\$2,000-\$4,000	<i>Challenges:</i> Providing quality meals to offsite customers from a central kitchen. <i>Opportunities:</i> Able to spread the fixed costs over a larger financial base.

Shared Services Description	Current	Targeted Short-term	Targeted Long-term	\$ Savings (approximate annual unless otherwise noted)	Challenges/Opportunities
	(Appropriate box checked)				
Provide bus routing services for other districts in regions, using TCAPS' program and expertise		X	X	Under review	<i>Opportunities:</i> Due to TCAPS' size we have developed expertise in bus routing using sophisticated software other districts in our region don't have. <i>Challenges:</i> Working with the software company to expand our license agreement to use the software for other schools and determining what to charge for this service.
Feasibility analysis to migrate Voice Over Internet Protocol (VOIP) phone network, including Northwestern Michigan College and TBAISD with TCAPS	X			Under review	<i>Challenges:</i> Compilation of all entities phone feature needs to provide for a northern Michigan wide phone network for NMC, TBAISD and TCAPS.
TCAPS schedules and coordinates lockdown and shelter-in-place drills with the Emergency Management Office and local law enforcement and fire services for schools located in Grand Traverse County	X			\$2,500	Working well; it is important for the safety of all school children in Grand Traverse County that, in an emergency, responders can consistently expect certain coordinated response actions from every school.
Snow day (school closing determinations)	X			\$0	Grand Traverse County Road Commissions shares information on daily weather forecasts with TCAPS (from a service they hire) to assist us in assessing weather conditions as related to potential school closings.

Shared Services Description	Current	Targeted Short-term	Targeted Long-term	\$ Savings (approximate annual unless otherwise noted)	Challenges/Opportunities
	(Appropriate box checked)				
Fiscal agent for Smaller Learning Communities consortium	X			\$50,000	Working well; 2011-2012 is the last year of the 5-year grant.
Great Start Readiness Program	X			\$0	TCAPS pays TBAISD a 4% fee in exchange for services.
Combine resources to challenge property tax appeals		X	X	Potentially material; unknown at this time	<i>Opportunities:</i> Recently, taxing authorities have been deluged with property tax appeals by businesses. Some appeals appear to be based on questionable merit, yet taxing authorities are unable to defend or challenge these appeals due to cost and sheer magnitude of requests. As a result of meeting collaboratively with County and City finance personnel, we are exploring ways to combine resources to challenge questionable appeals and perhaps negate some of the major decline in value we are all experiencing. <i>Challenges:</i> Determining which appeals to challenge and distributing the cost for the appeal among entities that would benefit from the result.
Internal mail delivery was contracted to outside service	X			\$32,500	Working well. <i>Challenges:</i> Reduced the number of days that internal mail is delivered to sites from five to three (service decrease).



Shared Services Description	Current	Targeted Short-term	Targeted Long-term	\$ Savings (approximate annual unless otherwise noted)	Challenges/Opportunities
	(Appropriate box checked)				
Evaluating whether or not to charter a local high school		X		Under review	
Goodwill Industries' use of TCAPS' wide-area network	X	X	X	\$1,800	Opportunities: Other potential partners.
Hosting staff development training (Instructional Rounds)	X			\$10,000 - \$20,000	Opportunities: Increased opportunities for TCAPS and regional school districts to receive quality training.