

The School District of South Orange & Maplewood
Preliminary 2009-2010 Budget
South Orange CBAC Questions

1. **Special Education Costs.** Special Education costs decreased this year, which marks a positive trend, albeit only a slight decrease. The decrease was the result of adding new Special Education classrooms, thus reducing out-of-district transportation costs. Since Special Education transportation has been two-thirds of the District's transportation costs, why did the cost for transporting Special Education students instead increase?

Ans. Transportation is provided based on the need of students both to in-district schools and to out-of-district placements. The addition of special education classes in the district has allowed the district to "stem the flow" of students placed in out-of-district settings by creating capacity for them in district. We work closely with commissions and cooperatives to coordinate transportation so that we share routes and costs with neighboring districts to out-of-district schools wherever possible in order to reduce costs to the district. Bringing a student in-district will obviously reduce the tuition paid to the out of district school, but we may not see a proportional decrease in out-of-district transportation costs if the bus is still transporting other district students to that site. The out-of-district routes are bid each year by the commissions. We need to budget for an increase in the cost of routes to anticipate the possibility of higher bids as transportation companies' costs of operations increase.

2. **Administration Salaries.** The budget includes 13.5% -20% increases in administration salaries. According to presentations given, there is no increase in administration headcount. Since the District has been documented as having among the highest school administration salaries in the State, what's the explanation /justification?

Ans. The proposed budget does include increases to the administrative headcount including three assistant principals at the elementary schools, and a K-5 Supervisor of Curriculum and Instruction and an additional assistant principal at CHS. The district does not pay the highest administrator salaries in the state. The latest Comparative Spending Guide ranks South Orange Maplewood 83 of 105 K-12 districts with more than 3,501 students. District administrator median salaries at \$123,993 are consistent with neighboring districts in Essex County: Millburn, \$123,807; Montclair, \$123,341; Belleville, \$134,210; East Orange, \$129,415, Bloomfield, \$111,537; Livingston, \$118,227; West Orange, \$119,070.

3. **Pension Contributions.** Since the District pays pensions (and social security) only for administrators, does the pension contribution in the budget reflect the full pension contribution for this budget year?

Ans. The employer-share of pension for administrators and teachers (certificated staff) as members of TPAF Pension is paid by NJDOE on behalf of the district for

certificated employees. The employer-share of social security for administrators and teachers (certificated staff) is reimbursed by NJDOE. The District does pay the employer-share of both social security and pension for all non-certificated employees. The Public Employees Retirement System (PERS) contribution for non-certificated employees, previously paid by NJDOE and now by the district, has increased each year as the district has been required to pick up an increasing proportional share from the state. In 2008-09, the district is expected to pay 100% of the PERS contribution. Although the governor has talked about deferring payments for PERS pension payments, guidance has not been provided. We have been advised that the state intends to withhold district state aid in an amount equal to the deferred pension payment. The full pension contribution is reflected in the budget.

4. **Teacher Salaries.** Teachers' salaries (Regular Program) increased from \$29.2 million in 2008-2009 to \$33.1 million in 2009-2010. This increase was explained, at the 2/09/09 BOE meeting, as including nine new teaching position, i.e., kindergarten, ELA, etc. This budget line steadily has increased for the last several years; yet, the NJ Report Card for the last three years shows teachers salaries decreasing from \$59,615 to \$58,122 to \$55,758. This trend was the opposite of what was occurring statewide. How were teacher salaries decreasing, according to the State's data, while the District's budget for teachers continues to increase?

Ans. The median salaries reported in the NJ Report Card that are referenced are those for school years 2004-05, 2005-06 and 2006-07. These covered the time period when a new contract was being negotiated. They do not reflect salary increases that were paid retroactively upon contract settlement. The median salary in 2007-08 was \$67,399 while the state median was \$57,242. The average salary in 2008-09 is \$69,478 and projected to be \$71,418 (considering only cost of increment since the contract is again under negotiation). The report Historic Changes in Staffing distributed on 3/19/09 clearly shows that while non-certificated staffing levels were reduced due to contracting for services, the number of certificated staff has increased from 582.64 in 2004-05 to 626.26 proposed in the 2009-10 budget. The actual cost of teacher salaries varies from year to year for a number of reasons due to the experience levels of the staff, and variables such as amount of payments needed for stipends, loss of prep, substitutes, etc., the costs of which are budgeted within the salary lines.

5. **Staff Development/Professional Development.** While a priority in this year's District Goals, the Instructional Staff Learning Services line was cut from \$430K to \$175K. If this is a priority, why were these funds cut by so much?

Ans. Staff Development remains a high priority in this budget. The increased expenditure levels in the 2008-09 budget are maintained in the 2009-10 budget. They are best reflected in the Improvement of Instruction Services category. The apparent cuts in the Instructional Staff Training line merely reflect a reallocation of certain expenditures to another area where they are more appropriate according to the recently updated NJDOE Chart of Accounts:

6. Textbooks and Supplies. Our District's textbooks and classroom supplies budget is less than other comparable districts and the State's average. While one of the BOE's major goals is the quality of student education, there have complaints, over the years and, today, that there are insufficient textbooks for enrolled students. Does the 2009-2010 budget adequately address this problem?

Ans. The 2009-2010 budget adequately provides for textbook purchases. The new Assistant Superintendent for C&I has developed a five-year replacement schedule to ensure sufficient textbooks are available to deliver the curriculum.

7. Legal Expenses. Before the prior Superintendent, the District did not employ an in-house attorney. Legal costs, on average, were \$0-\$25K annually. But during his tenure, the District's legal costs escalated to \$600K-\$850K annually, including legal fees, judgments and insurance premiums, deductibles for litigation, etc.) Does the District believe it still will continue to incur high legal fees; and that an in-house attorney remains critical?

Ans. In 2002-03, \$386,152 was paid to outside counsel. In-House Counsel was hired beginning in 2003-04. Five years later, in 2007-08, actual expenditures for outside legal services were \$147,117. The savings more than offsets the cost of in-house counsel. One of the main goals of bringing legal services in house, effectuating savings, appears to have been met. In good measure, these savings can be attributed to the convenience of having an attorney on site who can immediately respond to problems and thus minimize litigation exposure. Having an attorney in-house, likewise, makes our outside attorneys more efficient. The in-house counsel can, and does, assist them in preparing litigation matters for the district. We have specifically seen a large reduction in the number of pending cases in special education matters. Despite our best efforts, in today's litigious society, lawsuits are filed and must be defended at significant expense. Although our legal expenses have been brought under control, it would not be prudent to decrease the budget allocations in this area.

8. Capital Reserve Fund Interest. The interest on the Capital Reserve Fund is \$2,000, which has been constant for years. However, this year, this interest is under a \$482,723 deposit to the Capital Reserve Fund. Why does the interest remain constant? Where is interest earned reflected?

Ans. An amount of \$2,000 is estimated for interest earned on the Capital Reserve funds although the actual amount could vary greatly as rates and balances vary. The Capital Reserve is maintained in a separate, interest-earning bank account. The funds are reflected in the annual audit. The interest earned in 2007-08, according to the audit, was \$7,169. The interest is retained in the account as fund balance for the Capital Reserve Fund.

9. ARRA Economic Stimulus Projects. Does the district have any "shovel-ready" projects in its budget or projects for which it might qualify for grants?

Ans. Yes, although there has been no guidance or indication that the school district may be getting any construction funding. We have many projects in various stages of state approval that could be considered "shovel-ready" because we could bid them immediately if funding was available. These include: construct middle school technology studios, convert elementary classrooms for Kindergarten space at Seth Boyden and Tuscan, make lighting upgrades at all elementary schools, and replace roofs at Columbia High School and South Mountain Elementary and completion of the Montrose renovation.

10. BOE Expenses.

- a. \$40K is budgeted for elections. However, for the past two years and continuing into this third year, BOE elections have been uncontested. Why is this amount needed in the budget?

Ans. Elections are established by New Jersey statutes. Under NJ law, the district must reimburse the County Board of Elections and Municipal Clerks for the costs of conducting the elections whether they are contested or not.

- b. Insurance for the BOE has increased to \$114K. Are lawsuits causing this increase in liability insurance?

Ans. The district has not experienced an increase in the number or amount of lawsuits that would cause rates to increase. The rates quoted are estimates. We will be seeking quotes from a number of carriers to get the best price for the district.

- c. \$67K is budgeted for BOE expenses; normally it's \$30K. What's the basis for this increase?

Ans. The amount budgeted for BOE Membership Dues and Fees is \$30,000. This covers the School Boards Association membership. Additional funds are budgeted for the Board members to able to meet the new training requirements, subscriptions to professional reference materials, meeting supplies and such items as are necessary for them to perform their duties.

- 11. Maintenance Costs.** Maintenance costs are a major expense for the District. The original 2008-2009 budget for maintenance was \$12.2 million, but rose to \$13.9 million during the year. The maintenance budget for 2009-2010 is reduced to \$11.9 million, presumably because deferred maintenance now is being performed. District maintenance costs, though, still are much higher than comparable districts. First, what's the anticipated plan to reduce this expense through the deferred maintenance being performed? Second, are past maintenance budget over-runs due to work orders issued to re-do faulty work by contractors or are there other reasons? If so, what were they?

The public was told the District saved money by outsourcing. Yet, maintenance is still millions higher than before outsourcing. And, it's still higher than comparable districts that did not outsource. What's the explanation?

Ans. The primary reason that the budget for maintenance appears to increase during the year is accounted for by encumbrances. Goods and services that were committed during 2007-08 (using 2007-08 funds) but not completed at year end are carried over into the subsequent year. Many projects were completed during the summer of 2008.

The 2009-2010 budget does NOT propose to defer facility maintenance. Deferring maintenance or putting it off to a later time, in previous years resulted in the state of disrepair we found our buildings several years ago. An increased budget for maintenance to restore aging infrastructure over recent years, coupled with major capital improvements, has allowed us to improve the buildings. These investments are beginning to pay off. As a result, our buildings are in better shape and require less maintenance on a regular basis. Investments in mechanical upgrades are expected to result in reduced energy costs. It is through these savings and efficiencies that we are able to reduce the amount of increase in the 2009-10 budget for maintenance and repair of facilities. An appraisal was done by a professional appraiser to determine a valuation for district buildings. The budget for required maintenance represents 1% of the value, a reasonable amount to keep them in a state of good repair.

The district began contracting for some services in 2005-06 and all custodial, security and lunch monitoring services in 2006-07 resulting in a major RIF of 123 non-certificated staff in that year. The on-going savings have been substantial. The contract with TEMCO, awarded after a public bid, provides a 2% increase each year. If the custodians had remained district employees, the costs would have risen at a much higher rate since the employee contract provided increases of 4.57% (2005-06), 4.49% (2006-07), 4.6% (2007-08) and 4.75% (2008-09).

It should be noted that the budget category titled Operation and Maintenance of Plant Services (\$11.8 million) includes expenditures for more than maintenance of facilities. It also includes the cost to maintain district grounds, heating plant, security and fire alarms, vehicles, computers, copiers, telephones, furniture, lockers, and other equipment. It includes custodial, security and lunch monitor contracted services and maintenance supplies and equipment. It includes water, trash removal, multi-peril insurance, electricity and gas. The primary reason spending in this area has been higher than comparable districts in recent years is due to the increased spending to restore aged infrastructure due to years of deferred maintenance. The per pupil spending budgeted for 2009-10 is more in line with comparable districts.

12. Budget Surplus. Surplus should be used to reduce property taxes. It's understood the District does this by adding surplus into the Budgeted Fund Balance – General Fund. It was increased by 81%, from \$1.7 million to \$3.1 million, using part of the \$8.5 million surplus presented by the District's auditor

at the 11/19/08 BOE meeting. (The prior year's increase to this fund was 36.7% from \$1.3 million to \$1.7 million.).

Superintendent Osborne described, at the 2/09/09 BOE meeting, how he wants to spend this year's surplus to initiate a Long-range Technology Plan. However, the amount of the surplus is so large that it may not be permissible for the District to put all of it into the General Fund Balance for this year. The decision was made to put the surplus into the District's budgets for the next two years. However, according to the District's auditor, there still would be unused excess surplus. Should this significant and unique funding decision have been made without advance input from the Board of School Estimate, especially since taxpayers faced historically onerous school budget taxes in the eight years preceding the current Superintendent's tenure?

Ans. Fund balance is an amount of funds held in reserve by a school district that are not appropriated (budgeted) for a specific purpose. These are contingency funds that can be appropriated to cover extraordinary unforeseen unanticipated expenses during the year such as special education out of district placement tuition, repairs due to flooding or roof repair, utility costs due to an unusually cold winter and increase in fuel costs.

NJDOE requires that amount in excess of 2% of the prior year's expenditures must be legally reserved as surplus for appropriation in the budget for the subsequent year. A total of \$3,088,587 was legally reserved for that purpose and is budgeted as revenue in the 2009-10 budget. According to the audit, the net unreserved general fund balance as of June 30, 2008 was \$1,577,808. This is an amount equal to 1.73% of 2007-08 expenditures and \$7,103 more than the amount available on June 30, 2007.