

BOARD OF EDUCATION
The School District of South Orange and Maplewood
525 Academy Street, Maplewood, NJ 07040

Karla Milanette
School Business Administrator and
Board Secretary

(973) 762-5600 x1800
(fax) (973) 378-9310
kmilanet@somds.k12.nj.us

November 20, 2006

MEMORANDUM

TO: Members, Board of Education
Peter P. Horoschak, Superintendent

FROM: Karla Milanette, Business Administrator

SUBJECT: BASELINE DATA FOR 2007-08 SCHOOL BUDGET DEVELOPMENT

The school budget is a planning document. Building the school budget is not done by simply inflating prior year spending by a given percentage. The development process requires the thoughtful review of the current education program, compilation and analysis of a variety of data, and the involvement of a multitude of stakeholders. The following information will provide baseline data for development of the 2007-08 school budget:

Enrollment Projections.

Enrollment is an important element of budget development. It is used to determine appropriate amounts to budget in several areas including staffing levels, facility needs, equipment, textbooks, supplies and materials. The New Jersey Department of Education considers district enrollment in the state aid formula and per pupil cost analyses are used for comparative purposes among districts.

The district enrollments are determined as of October 15 and filed with the NJDOE. It appears from the October 13, 2006 data that enrollment growth through 2001 has reversed as fewer Kindergarten students are entering than the graduating classes they replace. There were 6,100 students on the roll, 121 less than on October 14, 2005. The count of students “on the roll” does not include resident students placed in schools out of the district.

As of Oct 15,	Elementary (K-5)	% Change	Middle (6-8)	% Change	High School (9-12)	% Change	Special Education	% Change	Total Enrolled	% Change
2001	2,874	0%	1,522	-0%	1,855	2.5%	139	32%	6,396	1%
2002	2,806	-2%	1,511	-0.7%	1,877	1.2%	170	22%	6,364	-0.4%
2003	2,753	-2%	1,474	-3%	1,996	6.0%	167	-2%	6,390	0.4%
2004	2,716	-1%	1,450	-2%	2,004	0.4%	130	-22%	6,300	-1.4%
2005	2,716	0%	1,404	-3%	1,975	-1.4%	126	-3%	6,221	-1.3%
2006	2,683	-1.2%	1,361	-3.1%	1,885	-4.6%	171	36%	6,100	-1.9%
2007	2,707	0.9%	1,325	-2.6%	1,823	-3.3%	149	-13%	6,005	-1.6%
2008	2,760	2.0%	1,335	0.8%	1,789	-2.9%	150	0.7%	6,034	0.5%
2009	2,791	1.1%	1,326	-0.7%	1,775	-0.8%	150	0.0%	6,043	0.1%
2010	2,869	2.8%	1,322	-0.3%	1,713	-3.5%	140	-6.7%	6,044	0.0%

Source: District Reports: Sara Weissman, demographer 11/12/06

Special education enrollment continues to grow. In district enrollment increased 36% due to the creation of new classes for special needs students in the district. At the same time, the number of special education students sent to out-of-district schools also increased to an amount equal to 2.9% of the total resident enrollment. The annual Application for State School Aid details all resident students, those on the roll and sent out of district on October 15. The Fall Enrollment Report details a breakdown of in-district students by demographic categories. Copies of the reports submitted to the state in November are provided as **Attachments A and B**.

Enrollment data was also provided to Sara Weissman, a professional demographer, to update district level and building level enrollment projections for future planning. District level projections are provided as **Attachment C**. The building level projections will follow when received. The demographer completed a migration analysis and reported the following:

- The district enrolled 11 fewer students than were enrolled in the fall of 1998. This is the largest drop since 1987.
- Growth through 2001 has reversed. The entering Kindergarten class of 381 is 64 smaller than last year's outgoing senior class of 445 it replaced.
- This reflects a 14.7% decrease in New Jersey births for the period 1990-2004. The baby boom peak births of 1990 are now out of elementary school.
- The one year change, 2005 to 2006, of -121 is the sum of K/12 replacement of -64 and the net migration of -57.
- Twelve of thirteen grades lost enrollment on move-up from last year.
- Notable is a loss of 161 in grades 10-12 and the lowest freshman class intake (+16) in eight years.
- The district's high school enrollment is down 4.6% from a year ago.
- There were four grades of more than 500 students in 2004. Only grade 9 (516) exceeds that number in 2006.

Low-income (at-risk) Students.

The number of students eligible for free or reduced-price lunches is also an important element of budget development. The concentration of free eligible students is used by NJDOE to determine whether the district qualifies for additional state aid (i.e., Demonstrably Effective Program Aid). The number of low-income students is also used to determine qualification for federal Title I funding and a new requirement to provide a breakfast program. The number of eligible students in 2006 is down 7% from 2005. It has remained about 16%-18% of the student population for the past several years. A report that presents the numbers of eligible students by school, by category as a percentage of enrollments and the percent of change from the previous year is provided as **Attachment D**.

Transported Students.

The cost of transporting resident students within the district and to out-of-district schools is a major expenditure in the school budget. The number of students transported as of October 15 is reported to NJDOE in the annual District Report of Transported Resident Students (DRTRS). The New Jersey Department of Education considers the number of transported students in the state aid formula and per pupil cost analyses used for comparative purposes among districts. An efficiency analysis is also performed by NJDOE to determine that buses are fully loaded. The district transports 1,909 students to and from school each day. Of the students transported, 902

are regular students transported to district schools, (569 of the 902 are transported as a courtesy due to the Marshall-Jefferson school pairing and hazardous walking routes), 755 are transported to non-public schools (or paid aid in lieu of transportation) and 252 are special needs students transported to district and out of district schools. A copy of the DRTRS summary is provided as **Attachment E**.

Salaries and Benefits.

Salaries and benefits comprise the largest expenditure, nearly 80%, of the school budget. As of October 15, the district employed 805 members of South Orange and Maplewood Education Association (SOMEA), 28 members of Administrators, Supervisors and Coordinators Association (ASCA) and 26 central office staff (including 10 confidential secretaries). The SOMEA contract expired in 2004-05 and remains under negotiation. Estimates of average salaries for SOMEA members are provided in **Attachment F** but are subject to change pending those negotiations. The 2006-07 school year is the third and final year of the agreement with ASCA. As with SOMEA, estimates of average salaries for ASCA members are also provided in **Attachment F** and likewise subject to change pending those negotiations.

Benefits for all groups include group insurance, social security, unemployment compensation, workmen's compensation, health benefits, tuition reimbursement, and retiree unused sick-day reimbursement. The total benefit package is estimated to be approximately 20% of salaries.

School Facilities.

The aging school facilities require major investments of resources. Funds are budgeted in three categories. Custodial services and routine maintenance are funded in the operating budget and capital improvements are funded primarily by bond proceeds. The NJDOE has established a minimum requirement that 0.2% of building replacement value must be budgeted annually for routine maintenance. For the past few years, the district has established a minimum budget closer to 1% of value each year due to the condition of the buildings. A copy of the Annual Maintenance Budget Amount Worksheet from the QAAR is provided as **Attachment G**. The Long Rang Facilities Plan provides for capital projects according to a schedule that attempts to maintain a level debt service.

The 2006 Comprehensive Annual Financial Report (audit) and Management Discussion and Analysis (MD&A).

This document presents historical financial information prepared by an independent auditing firm. The document will be distributed to the Board of Education separately. Mr. Heard from the auditing firm of Noke and Heard will be available to present the audit at the December 4 Board meeting to answer questions from members of the Board. The unaudited portion of the CAFR includes a Management Discussion and Analysis and statistical section which provide historical data that may be valuable to budget development.

General Fund Free Balance Status.

The amount of general fund free balance is important to determine if surplus funds are available to supplement revenues and reduce taxes. It is also used to identify the amount available for dealing with contingencies. The Board of Education has established a policy that it is prudent to maintain a minimum amount equal to 3% of budgeted appropriations for unforeseen circumstances. The NJDOE requires that amounts exceeding 2% are surplus and must be appropriated to offset taxes.

A report of changes in general fund free balance from 1991-92 to 2004-05 is provided as **Attachment H**. It shows that the net unreserved general fund balance on June 30, 2006 was \$891,747. This is an amount equal to 1.1% of 2005-06 expenditures and below board policy. The amount of unreserved funds dropped below Board policy due to the NJDOE requirement that amounts in excess of 2% must be reserved as surplus. (The amount is less than 2% because the NJDOE includes the final state aid payment of \$774,712 in the calculation of surplus even though receipt was deferred until after June 30 and therefore is not reflected in the fund balance on June 30, 2006.) An amount of \$1,250,623 has been legally reserved to appropriate toward the 2007-08 revenues to reduce taxes. An additional amount may be required to bring the fund balance to 2% of budgeted expenditures for 2007-08 at the time the budget is submitted.

Three-year budget projections.

The school budget is very complex. The number of variables is so great it is very difficult to project future budgets with a great deal of reliability. An analysis will be presented to the Board on November 20 that attempts to estimate the maximum permitted T&E budget (CAP), revenue and expenditures for the school years 2007-08, 2008-09, and 2009-10 given certain assumptions including the estimated impact of S1701 on the state CAP calculation. New legislation could significantly change the outlook. The purpose of the analysis is to present the tax implications of three scenarios. The three scenarios limit the variables to tax impact for the general fund and salaries for illustrative purposes because salaries and benefits are the largest cost drivers of the school budget. It will present the impact of a minimum budget to maintain the current level of programs and services and a budget held to a 4% CAP increase

Budget Priorities and Topics for Analysis.

The reports provided in this document represent the key information needed to build the 2007-08 school budget. Additional data will be collected and compiled as needed to perform various analyses and complete reports to aid in the overall budget development process. They will be provided to the Board of Education as part of those reports. The reports will also be available on-line at www.somdsd.k12.nj.us. A proposed listing of the Budget Priorities and Topics for Analysis will be discussed by the BOE at the November 20 meeting.

The administration is scheduled to present a preliminary 2007-08 school budget to the Board of Education at its public meeting on January 22. The NJDOE has not yet provided the schedule for budget submission. It is anticipated that the Board of Education will approve a 2007-08 school budget for advertising by February 26. The Board of Education will then submit the approved budget to the Board of School Estimate to raise the taxes necessary to fund the budget.

Please contact me if you have any questions about the data provided.