

South Orange – Maplewood School District

2005-06 Budget Kickoff

October 18, 2004

2005-06 Budget

Expected Impact of S1701 on Budget Management and Preparation

S1701 is a major change in the school funding formula intended to limit school spending. It was passed in June by the Legislature in a rushed manner with little discussion and no opportunity for public comment.

[Commissioner Regulations for Implementation of S1701 are not yet available]

The Rules have Changed: S1701

- ✓ Limit on CAP
- ✓ Change in use of CAP adjustments
- ✓ Restrictions on use of Separate Proposal(s)
- ✓ Limits on administrative costs
- ✓ Limits on allowable free balance
- ✓ Restrictions on use of free balance
- ✓ Restrictions on transfers within budget accounts

✓ Limit on CAP

- CAP is the limit on the amount of money that can be raised to fund the school budget.
- Allowable increase reduced from 3% to 2.5% or CPI, whichever is greater
- CPI is predicted to be 3.01%

What it means to SOMSD:

- The maximum permitted net budget for 2005-06 is estimated to be \$81,581,867.
- This amount is \$2,401,789 (3%) more than the current budget.
- The allowable increase is \$3,669,538 less than the 2004-05 budget increase.
- Historically, budgets have grown at a greater rate:

– 2002-03	\$3,434,526	(5%)
– 2003-04	\$4,482,947	(6.5%)
– 2004-05	\$6,071,327	(8%)

Expenditures would have to increase more than the allowed \$2,401,789 in order to maintain the same level of programs and services:

- SOMEA negotiations will begin in December.
- Industry trends for health benefit increases range from 12% to 16%.
- Insurance and fuel are expected to increase in the double digits due to recent hurricane season.
- Building maintenance costs continue to rise until capital projects restore buildings.
- Students continue to require more programs and services.

Hypothetical example of CAP impact:

SOMEA 2004-05 salaries: \$40,000,000

Current statewide average
salary settlement = 4.67%

Assume increase if at 4.67%	\$ 1,868,000
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Health benefits: \$8,000,000

Industry trends range 12% -16%

Assume increase at 14%	<u>\$ 1,120,000</u>
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	\$ 2,988,000
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Allowable budget increase at CAP:	<u>\$ 2,402,789</u>
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Amount over CAP	\$ 585,211
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(before addressing increases of other cost drivers such as fuel and insurance)

- ✓ Change in use of CAP adjustments:
 - Statutory Growth Limitation Adjustments allow increases to CAP for certain cost drivers.
 - Changes in enrollment
 - Capital outlay expenditures
 - PUPIL TRANSPORTATION
 - Incremental increase in special education costs in excess of \$40,000
 - Costs for opening a new school facility

New calculation for the transportation adjustment:

- Prior adjustment provided prorated share of the cost of transporting non-remote riders.
- New calculation is the increase between 04-05 cost and the 05-06 cost adjusted by the CPI.

What it means to SOMSD:

- Use of SGLAs increases spending authority, not the amount of state aid.
- For example, 2004-05 adjustments increased CAP \$710,000.
- It is not likely that significant use of SGLAs will be available in the 2005-06 budget.
- The pupil transportation SGLA no longer allows an adjustment to support transportation for Marshall-Jefferson pairing or Seth Boyden Demonstration School.

✓ Restrictions on Separate Proposal

- Cannot be used to fund any program or service that was part of the previous year's budget.
- Cannot be used to fund any new programs or services that are needed to meet the Core Curriculum Content Standards.
- District must demonstrate that all potential efficiencies in administrative operations are in effect.
- County Superintendent can reject if the district's administrative costs are too high in his/her opinion.

What it means to SOMSD:

- Separate proposals have been used in past budgets to provide a range of non-T&E items that would not fit under the CAP.
- Items totaling \$2,650,331 were funded by separate proposal in 2004-05 budget. Included 26.7 FTEs for programs and services.
- Final decision-making assigned to county-state administrators even if locally supported.

✓ Limits on Administrative Costs

- CAP within a CAP
- Per pupil costs may not exceed the lower of:
 - the 2004-05 costs, adjusted by the CPI, OR
 - the regional administrative “amount”.
- Does not matter if district administrative costs are lower than the regional “amount”.
- The 2005-06 regional administrative “amount” will be determined based upon 2003-04 audits.
- County Superintendent may reject the entire budget if costs are too high in his/her opinion.

Administrative costs include much more than administrator salaries.

General Administration:

- BOE expenses, elections, negotiations, meeting expenses, legal advice, auditing services.
- Salaries and benefits, supplies and materials for Superintendent's Office, community relations, state/federal relations.
- District-wide costs for telephone, communications, postage, legal ads, liability and fidelity insurance.

Administrative costs (cont.)

School Administration:

- Salaries and benefits for principals, assistant principals, other assistants, clerical staff.
- Salaries and benefits for directors of guidance, athletics, and special education
- Supplies, postage, printing, copiers, paper, furniture and lockers, professional subscriptions and memberships, etc.

Administrative costs (cont.)

Central Services

- Salaries and benefits, supplies, postage, furniture, memberships and other expenses of the business office and human resources
- Fiscal services including purchasing, budgeting, financial and property accounting, payroll, funds management, inventory control
- Human resources recruitment, placement, maintaining personnel information
- Strategic planning including conducting and managing programs, research, development and evaluation.

Administrative costs (cont.)

Information Technology

- Salaries and benefits to support administrative networks, maintaining administrative information systems and processing data for administrative and managerial purposes.
- Includes hardware maintenance and repair, licensing, support personnel, etc.

What it means to SOMSD:

- Administrative costs for 2004-05 are \$7,792,585 -- less than 10% of total budget.
- Salaries and benefits make up about \$6 million (80%) of administrative costs.
- \$1,215 per pupil in 2004-05, well below regional average of \$1,489 per pupil.
- Est. max. allowable increase is \$234,557 -- \$1,252 per pupil cost (est.) – still well below regional amount.

What it means to SOMSD:

- Doesn't account for differing student needs.
- Federal/state mandates like NCLB continue to make administrative demands requiring staff and systems for conducting assessments, tracking progress, record-keeping and reporting.
- Administrative staff needed for observations, evaluation, support and professional growth of relatively new teaching staff.
- Loss of local control – state can dictate how revenue is spent.

✓ Limits on Allowable Free Balance

- Amount in excess of 3% of expenditures returned to taxpayers, starting in the current fiscal year.
- Free balance limited to an amount equal to 2% of budgeted expenditures in 2005-06 fiscal year.
- Excess amount used for property tax relief.

What it means to SOMSD:

- Approx. \$2,208,445 was available June 30
- This is equal to 3% of 2003-04 expenditures. \$575,716 was budgeted for tax relief in the current budget to bring the balance to 3%.
- Limited to approx. \$1,631,637 in 2005-06.
- This is equal to 2% of budgeted expenditures.
- Approx. \$576,800 will be budgeted toward reducing taxes in 2005-06 budget to bring the balance to 2%.

What it means to SOMSD:

- Free balance is a contingency fund for unanticipated expenses.
- Board policy seeks to maintain a minimum amount equal to 3% of expenditures to deal with the unexpected without creating fiscal shocks to the district.
- An amount between 3% and 6% is considered prudent fiscal management.

What it means to SOMSD:

- Potential lack of sufficient funds for unanticipated expenses during the school year.
- Further loss of local control.
- Possible reduction in credit rating resulting in higher interest costs at a time when bonding for major capital projects is needed.
- Short-term tax relief may result in a spike in property taxes in 2006-07.

✓ Restrictions on Use of Free Balance

- Transfers from free balance can only be made between April 1 and June 30.
- Use of free balance requires the approval of the Commissioner of Education.

What it means to SOMSD:

- Restricts the ability to pay for emergencies and unanticipated expenses as school year progresses.
- In 2002-03, \$911,000 transferred to cover: unanticipated legal settlements, energy costs and snow removal, insurance, repairs due to frozen pipes, ceiling collapse and compressor control replacement.
- In 2003-04, \$500,000 transferred to cover: energy costs due to severe weather, unanticipated increases in out-of-district tuition, flooding and roof repair.
- Further loss of local control and flexibility.

✓ Restrictions on Transfers

- Transfers within budget accounts must be under 10%.
- Requires 2/3 approval of BOE members for cumulative transfers of more than 10%.
- Also requires County Superintendent and Regional Assistant Commissioner approval for cumulative transfers of more than 10%.
- Additional reporting requirement -- status of transfers reported monthly to the County Superintendent.

What it means to SOMSD:

- Curtails flexibility and restricts the ability to manage adjustments as the year progresses.
- Requires pin-point budgeting 6-15 months in advance.
- The budget should be viewed as a planning document. It is based upon projections and assumptions regarding enrollment, staffing levels, fixed cost increases, student needs, building repairs and other item costs that can fluctuate dramatically.
- Concerns that the County/State administrative staffing may not be adequate for timely review and approval.
- Further loss of local control.

SUMMARY: IMPACT OF S1701

- Does not take into account the additional responsibilities – and costs -- to serve a diverse population and maintain integrated schools.
- Programs and services have already been reduced to contain budget increases in previous budget.
- Pressures district to make drastic reductions in programs and services.
- Likely to affect the wage rates we are able to pay and/or the class size we are able to sustain.
- Loss of local control; final decision-making with state administrators.

SUMMARY: IMACT OF S1701

- Focuses the solution of the problem on local property taxes diverting attention from inadequate funding for federal and state mandates.
- Schools have not received increased state aid for more than 3 years.
- Makes school spending the scapegoat for high property taxes when the real issue is New Jersey's over-reliance on the property tax to fund schools.

Next Steps in Budget Development

- Develop a budget calendar
- Establish budget goals and priorities informed by the strategic planning process
- Coordinate planning with staff budget builders
- Assemble baseline data – enrollment projections, staffing needs and fixed cost assumptions
- Determine maintenance budget
- Agree on items for further analysis and reporting
- Perform research and cost analysis
- Produce three-year projections