

Public Budget Workshops for the 2005-06 Budget:

Session 2:

***Where We've Been,
Where We Are . . .
Where We're Going***

Session Schedule:

CHS Library	January 12, 2005	7:00 PM
CHS Library	January 19, 2005	7:00 PM

Presented by the Board of Education Finance & Facilities Committee

Overview of budget workshops

Last Week:

- Introduction: the challenges we face
- Board-adopted budget goals and priorities for the 2005-06 budget
- Overview of this year's school district budget process
- School district accounting; uses and limitations of district financial statements
- Constraints on budget decision-making

Tonight:

- *Where we've been*: a review of historical and near-term trends
- *Where we are*: a more detailed look at the composition of the budget
- *Where we're going*: a recap of the three-year budget projections

Disclaimer

- This presentation was prepared by the Finance and Facilities Committee of the South Orange-Maplewood Board of Education,
- The contents of this presentation are the responsibility of the Finance and Facilities Committee. More particularly, any specific views expressed herein are not necessarily the views of the entire Board or the Committee, but should be attributed to Mr. Latz, the primary author of this presentation. No one should impute any view contained herein to other members of the Committee or the Board of Education as a whole.

Background material available on the SOMSD district website

- 4 major Budget 101 workshops presented from July through December of 2003
- Several hundred pages of analysis and descriptive material produced from 11/03 to 4/04 as part of the 2004-05 budget process.
- All of that material is on the district's website:
 - Budget 101:
<http://www.somds.k12.nj.us/finance/budget101home.htm>
 - 2004-05 and 2005-06 budget materials:
<http://www.somds.k12.nj.us/finance/financehome.htm>

*Where We've Been:
A Review of Historical and
Near-Term Trends*

During the August 20, 2003 Presentation, We Looked At A Number of Historical Trends

- Educational expenditure nationally since 1950
- Enrollment nationally since 1950
- Increase in total SOMSD expenditure since 1978-79
- Longitudinal view of N.J. Comparative Spending Guide data from 1996-97 to 2002-03, depicting increases in expenditure per pupil in a number of categories and comparing our district's experience with a representative sample of 50+ other districts

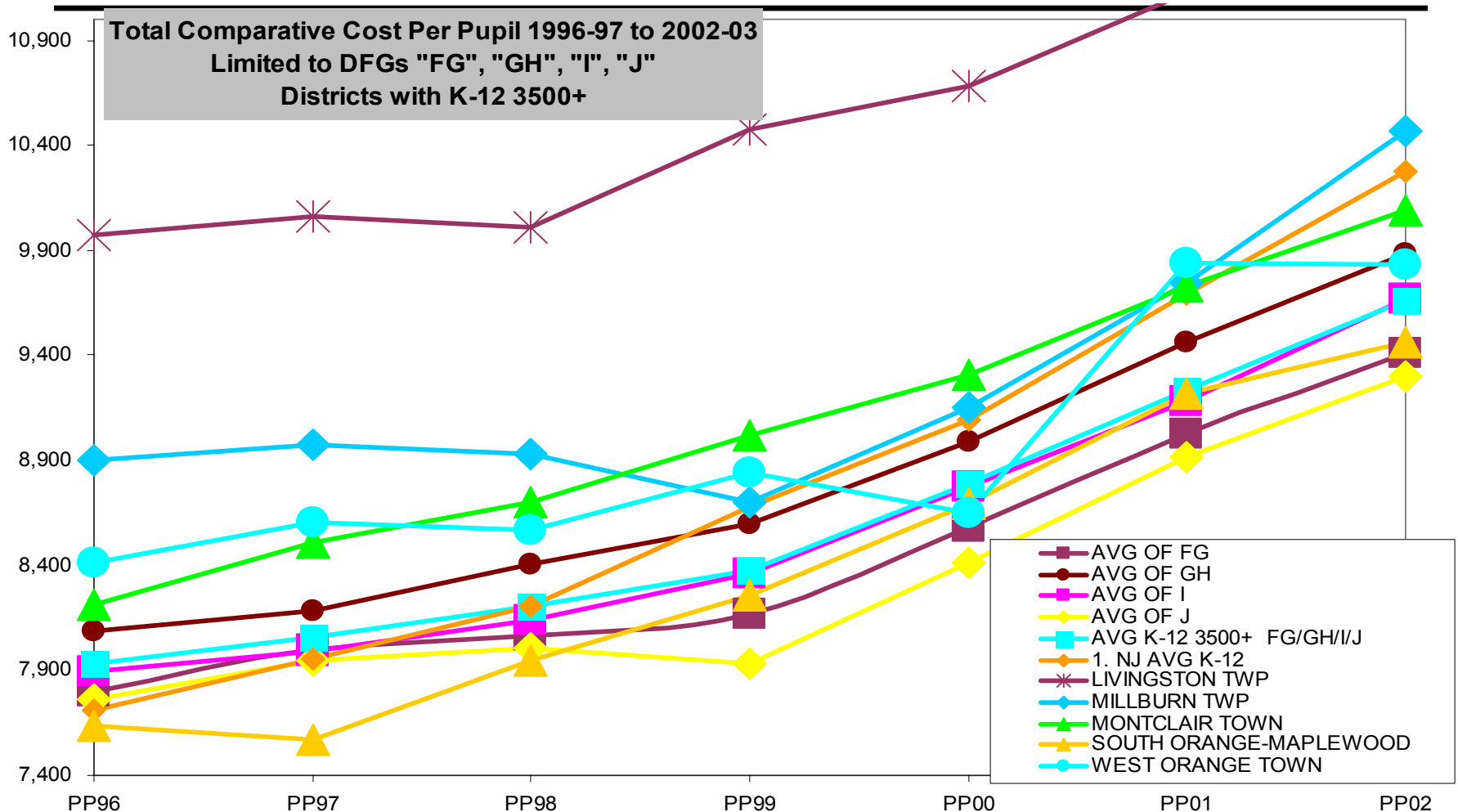
Since 1950, there has been a four-fold increase in real terms in education spending

- Education finance experts study these longer-term trends as a means to understand what trends may be operative today
- Lacking detailed data on the composition of this dramatic rise in spending, experts seek to decompose the overall cost into components where there is more detailed data
- Guthrie, reflecting a consensus among mainstream education finance experts, cites a few key factors in this expenditure growth:
 - 86% inflation-adjusted increase in teachers' salaries between 1949-50 and 1971-72
 - the ratio of students to school employees has dropped by half since 1949-50
 - an expansion of the set of programs and services provided to students, in particular for students with extra needs
 - the drive for education finance equity for students in urban areas

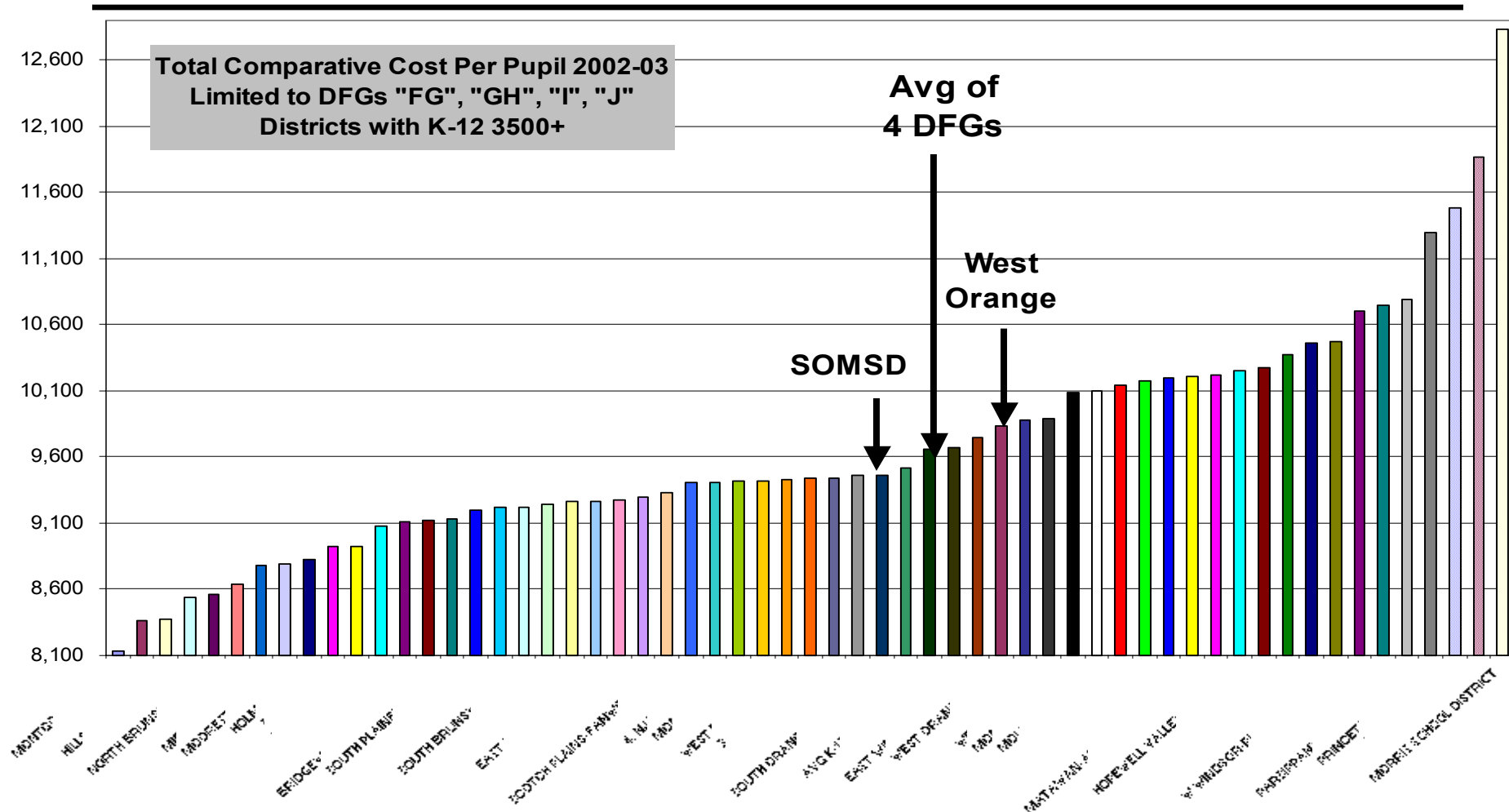
How Does Our District Compare?

- Our district's enrollment and cost trends for a portion of this period mirror the national experience: everyone's costs went up dramatically
- In the period 1996-97 through 2002-03, several different views of our district's spending per pupil demonstrate we are average when compared with a representative sample of like districts (K-12, 3500+ students) in the FG, GH, I and J District Factor Groups
- Year after year, our spending per pupil remains at or near the state average
- Following comparative graphs on slides 9-12 are created from data contained in the N.J. DOE Comparative Spending Guides, 1996-2003

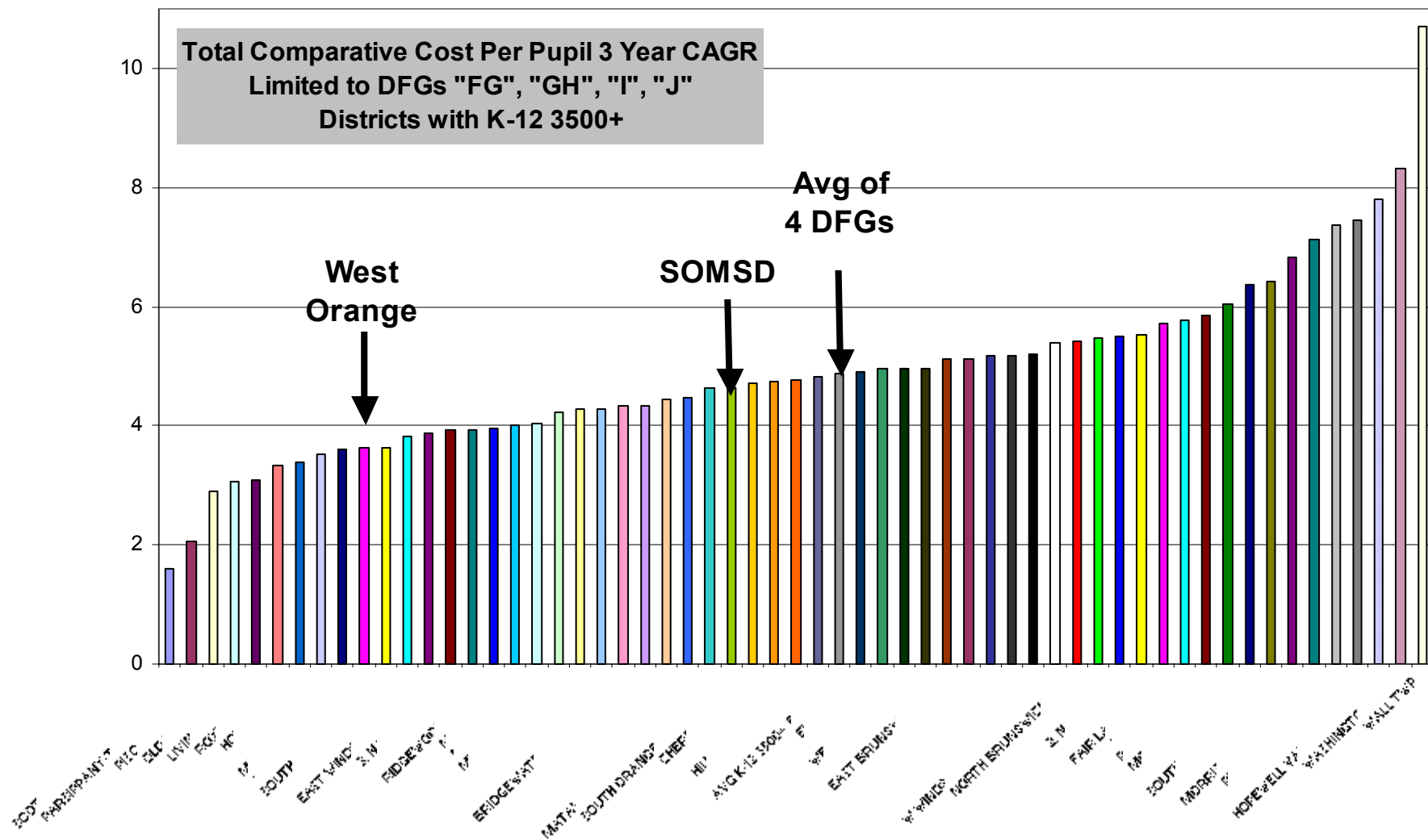
2002-03 SOMSD \$9,464 *comparative* cost per pupil represents increase of 24% since 1996-97, keeping pace with rates of increase over the same period for all NJ districts (\$10,138, +33%), K-12 districts (\$10,273, +33%) and the average of DFG "I" districts (\$9,669, +22%)



In 2002-03, SOMSD cost per pupil was near the median of the entire sample set



For the three-year period ending in 2003, the rate of increase in SOMSD cost per pupil has accelerated to a CAGR of 4.6%. This is comparable to other districts, and to the 4-DFG average



Some have asked why our district has so often in recent years resorted to Separate Proposals

CEIFA Calc	SOMSD	W.Orange	Montclair	Livingston	Millburn
2003-04 net budget	73,628,680	80,701,257	77,853,360	69,063,840	53,960,835
2004-05 MPNB before adj.	75,837,540	83,122,295	80,188,961	71,135,755	55,579,660
SGLA Enrollment	0	2,199,515	1,446,510	1,711,530	1,697,008
SGLA Transportation	239,652	801,531	788,722	0	480,813
SGLA Special Ed	175,876	782,731	134,605	0	44,320
SGLA Capital Outlay	294,608	1,600,244	1,245	0	0
SGLA New School Costs	0	0	0	0	729,572
Banked Cap	0	442,430	0	464,808	0
SGLA Commissioner	0	0	0	0	995,443
Total SGLA/Banked Cap	710,136	5,826,451	2,371,132	2,176,338	3,947,156
2004-05 MPNB	76,547,676	88,948,746	82,560,093	73,312,093	59,526,816
SEPP	2,650,331	0	409,292	0	0
Net Budget 2004-05	79,198,007	88,948,746	82,969,385	73,312,093	59,526,816
Net Inc. 2003-04 to 2004-05	7.56%	10.22%	6.57%	6.15%	10.31%

The preceding table demonstrates that other districts have made more aggressive use of SGLAs to drive their budget CAPs higher

	SOMSD	W.Orange	Montclair	Livingston	Millburn
Per Pupil Spending					
Regular Spending	73,957,262	81,697,612	75,433,087	69,269,631	57,016,424
as a percent of Net Budget	93.38%	91.85%	90.92%	94.49%	95.78%
PP Regular Spending	11,205	11,678	11,402	12,775	12,315
PP Administrative Spending	1,215	1,453	1,089	1,454	1,270

Source for slides 13-14: N.J. DOE

Let's Take A Closer Look At Near-Term Trends in Our Own District

- Enrollment
- Revenue
 - Market Value of Property Tax Base
 - Property Tax Levy
 - State Aid for the General Fund
- Expenditure

Enrollment Has Risen From 4,965 to 6,377 in the Last Eleven Years

*This represents an
increase of 28.4% over
the entire period*

**Source: p. 123, Exhibit J-12,
SOMSD Consolidated Annual
Financial Report for the Fiscal
Year Ended 6/30/04**

Year	Enrollment
1993-94	4,965
1994-95	5,260
1995-96	5,601
1996-97	5,813
1997-98	6,052
1998-99	6,119
1999-00	6,203
2000-01	6,316
2001-02	6,342
2002-03	6,372
2003-04	6,377

The Local Property Tax Base Has Appreciated in Value But Changed Little in Composition

- **As we discussed last time, the SOMSD property tax base is disproportionately residential in comparison to several surrounding districts**
- **The market value of our tax base has increased 74.64%, keeping pace with the 74.29% increase in the General Fund property tax levy and rising substantially faster than the 53.37% increase in the overall local property tax levy over the same period**
- **Unfortunately, market appreciation does not provide a liquid source of income; for those whose personal incomes have not kept pace with the rise in taxes, the unrealized gain in market value is cold comfort**
- **There is also some speculation that there has been a decline in the ratio of personal income to monthly mortgage payments (including escrow) for the typical residential property owner, meaning a decreased ability to bear the overall carrying costs of owning a home**

Estimated Full Cash Valuations Last 10 Years

(from the 6/30/04 CAFR, Exhibit J-4, p. 115)

Year	South Orange	Maplewood	Total
1995	1,043,741,001	1,409,269,937	2,453,010,938
1996	1,056,857,126	1,391,843,829	2,448,700,955
1997	1,019,061,151	1,371,496,149	2,390,557,300
1998	1,008,252,579	1,413,095,306	2,421,347,885
1999	1,050,122,451	1,435,715,115	2,485,837,566
2000	1,130,552,161	1,518,967,900	2,649,520,061
2001	1,258,568,467	1,729,762,419	2,988,330,886
2002	1,436,141,611	2,012,773,873	3,448,915,484
2003	1,587,064,386	2,197,225,563	3,784,289,949
2004	1,801,842,631	2,482,018,922	4,283,861,553
Percent Increase, 10 years	72.63%	76.12%	74.64%

Total Local Tax Levy

(school, county, municipal) Last 10 Years

(from the 6/30/04 CAFR, Exhibit J-3 p. 114)

Year	South Orange	Maplewood	Total
1995	36,035,423	43,875,256	79,910,679
1996	36,794,445	46,655,194	83,449,639
1997	38,097,544	48,149,236	86,246,780
1998	38,649,140	49,354,886	88,004,026
1999	40,538,294	51,996,225	92,534,519
2000	42,308,010	54,043,711	96,351,721
2001	44,826,074	56,686,821	101,512,895
2002	47,157,865	61,613,162	108,771,027
2003	49,893,806	66,756,610	116,650,416
2004	52,574,124	69,986,952	122,561,076
Percent Increase, 10 years	45.90%	59.51%	53.37%

An increasing proportion of General Fund revenue must be derived from local property taxes as state aid increases have been nominal (from History of Free Balance, SOMSD 11/15/04)

Year	Local School Tax for General Fund	Local Tax as % of Total	State Aid	Aid As % of Total	Tuition/ Misc.	Total
1995	39,495,784	88.97%	3,679,943	8.29%	1,218,035	44,393,762
1996	41,552,354	88.40%	4,574,281	9.73%	964,837	47,005,470
1997	43,727,433	88.97%	3,952,583	8.04%	1,164,269	49,147,630
1998	46,408,516	90.02%	4,013,812	7.79%	1,177,619	51,554,208
1999	49,253,260	89.87%	4,703,730	8.58%	991,199	54,807,660
2000	52,126,140	88.96%	5,535,408	9.45%	1,120,619	58,596,210
2001	56,012,410	90.90%	4,193,427	6.81%	1,336,107	61,621,601
2002	58,619,379	91.93%	4,510,119	7.07%	845,001	63,763,866
2003	63,836,172	92.56%	4,782,967	6.94%	345,225	68,964,364
2004	68,836,172	92.29%	5,559,600	7.45%	188,836	74,584,608
% Inc.	74.29%		51.08%		-84.50%	68.01%

And Overall Revenue Must Rise Rapidly To Keep Pace With Well-Understood Increases in Expenditure:

- Enrollment increases played a part in the earlier years
- Healthcare premiums have nearly doubled
- Salary increases have risen steadily (at an average 5% annually for the last seven years)
- Special education costs have soared
- Transportation (primarily for special ed.) has doubled
- Operations and maintenance has grown to deal with an aging physical plant
- Energy, insurance, etc. have experienced double digit increases for the last several years

Budget Category	1994-95	2003-04	% Inc.	10-year CAGR
Instruction – Regular	17,512,629	23,941,290	36.71%	3.18%
Instruction – Special	2,978,110	5,070,379	70.25%	5.47%
Other – Project Ahead and Bi-Lingual	750,355	1,431,059	90.72%	6.67%
Other – Co-curricular and Athletics	523,222	643,933	23.07%	2.10%
Undistributed Instruction (Spec. Ed.)	1,809,510	4,093,480	126.22%	8.51%
Support Services – Students	3,045,875	5,066,927	66.35%	5.22%
Support Services – Instructional Staff	2,465,930	3,415,988	38.53%	3.31%
General Administration	1,255,998	2,393,518	90.57%	6.66%
School Administration	2,254,459	3,480,522	54.38%	4.44%
Operations and Maintenance	4,876,482	9,977,505	104.60%	7.42%
Student Transportation	1,461,939	3,690,238	152.42%	9.70%
Employee Benefits	4,684,510	8,874,325	89.44%	6.60%
Other - Business Support Services	509,790	1,066,574	109.22%	7.66%
Capital Outlay	637,765	480,488	-24.66%	-2.79%
Total General Fund (exc. TPAF)	44,766,574	73,626,226	64.47%	5.10%

A Word of Caution

- The N.J. Department of Education annually revises its rules for expenditure classification in the Chart of Accounts (usually in keeping with national guidelines)
- Large increases in some of the foregoing categories of expenditure may reflect reclassification of additional expenditures into that category – *Business Support Services* is one such example

*Where We Are: A Look at the
Composition of the Budget
(from a Resource-Cost Perspective)*

Understanding key cost drivers in the budget

- **Last year, we looked at the distribution of expenditures between salary and non-salary items to understand what drives the rate of increase in the budget**
- **This year, we will use the same summary categories**
- **Not much has changed, the largest and fastest rising non-salary categories remain:**
 - **Health benefits**
 - **Special Education Out-of-district tuition**
 - **Purchased Maintenance and Property Services/Supplies**
 - **Contracted Transportation (non-salary)**
 - **Insurance**
 - **Energy**
- **Note: following slides not intended to depict what goes into salary total – that will come later as part of the budget process, including the board-requested analysis of administrative costs**

Summary Resource-Cost View of Non-Salary Items in 2004-05 Budget (in descending order)

Category	Amount
Health Benefits	8,093,170
Out-of-district tuition (special ed.)	5,077,209
Purch. Maintenance/Prop. Svcs/Supplies	3,938,097
Transportation (non-salary)	2,901,368
Total Other Benefits	1,818,265
Energy (Heat and Electricity)	1,582,405
Total Supplies (excluding cleaning/maintenance)	1,500,543
Purchased Services – Special Ed.	650,000
Insurance	644,629
Assorted Purchased Services	490,567
Bus. and Tech. Purch. Svcs. (other legal, audit, arch., etc.)	441,804

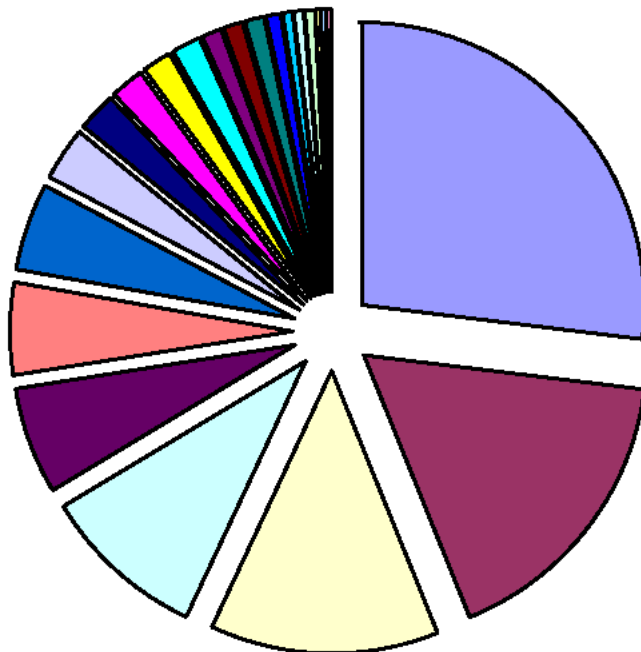
Summary Resource-Cost View of Non-Salary Items (continued)

Category	Amount
Equipment	384,380
Textbooks	341,251
Judgments Against the School District	312,000
Communications / Telephone	286,691
Legal Services	175,000
Misc. Exp. – elections; NJSBA/other dues; BOE exp.	136,631
Tuition Reimbursement	132,475
Miscellaneous/Other Expenditures	118,200
Home Instruction	115,000
School Buses – Regular	45,000
Total	30,094,956

Summary for General Fund, 2004-05 Budget

Item	Amount
All Salary Lines	49,083,122
All Benefit Lines	9,911,435
Total, all other budget lines	20,183,521
Total, General Fund as adopted	79,178,078

Distribution of Non-Salary Items in 2004-05 Budget

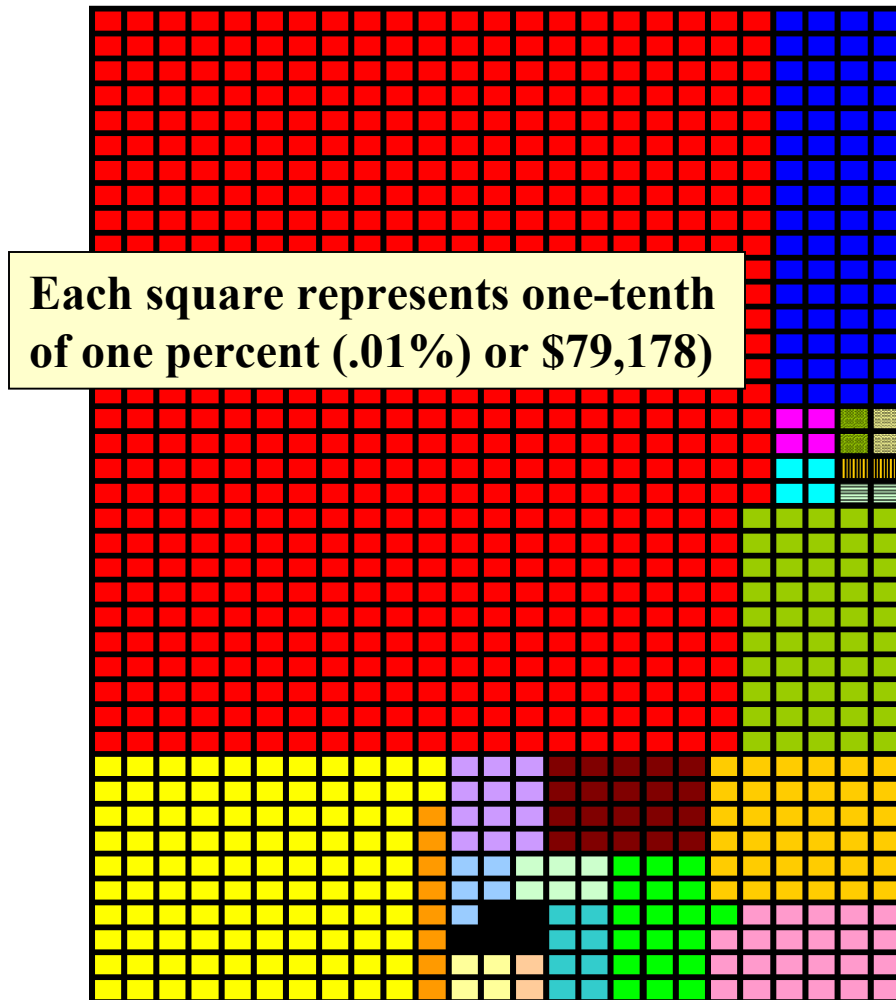


Note: Legend Items sorted in descending order by amount; depicted in clockwise order in piechart

- Health Benefits
- Out-of-district Tuition
- Purch. Maint./ Prop. Svcs, Supplies
- Transportation (non-salary)
- Total Other Benefits
- Energy (heat and electricity)
- Total Supplies (excluding cleaning/maintenance)
- Total Capital Projects
- Purchased Services - Special Ed.
- Insurance
- Assorted Purchased Services
- Business and Tech. Purch. Svcs
- Equipment
- Total Textbooks
- Judgments Against The School District
- Communications/Telephone
- Legal Services 11-0XX-23X-331
- Misc. Exp. -- elections, NJSBA/other dues; BOE exp.
- Tuition Reimbursement
- Miscellaneous/Other Expenditures
- Total Home Instruction
- Lease Purchase Payments - School Buses

Let's Look At the Same Distribution A Different Way

Summary of Distribution of Expense by Object



61.99%		Salaries
10.22%		Health Benefits
6.41%		Out-of-District Tuition
4.97%		Purch. Cleaning, Prop.Svcs., Supplies
3.66%		Transportation (non-salary)
2.30%		Total Other Benefits
2.00%		Energy
1.90%		Total Supplies (excl. cleaning/maint.)
1.15%		Capital Projects
0.82%		Purchased Services - Special Ed.
0.81%		Insurance
0.62%		Assorted Purchased Services
0.56%		Business and Tech. Purchased Svcs
0.49%		Equipment
0.43%		Textbooks
0.39%		Judgments Against the district
0.36%		Communications/Telephone
0.22%		Legal Services
0.17%		Dues, BOE expenses
0.17%		Teachers Tuition Reimbursement
0.15%		Misc./Other Expenditures
0.15%		Home Instruction
0.06%		School Bus Leases (not shown)

100.00%

*Where We're Going:
A Recap of the Three-Year
Budget Projections*

Key Messages from the Administration's Nov. 15 Presentation of Three-Year Projections

- These are *projections, not predictions or forecasts*; the outcomes only hold true as long as the assumptions remain true
- Key cost assumptions are based on best available information and will change as more information becomes available
- The projections for the upcoming 2005-06 budget do not constitute a budget proposal but merely illustrate a range of the possible tax impact given a range of alternative budget objectives
- Crafting budgets in this and subsequent years that remain within the 2.5-3% cap mandated by S-1701 *will require repeated, substantial cuts* (for 2005-06, cap is 3.01%)

Using three scenarios, we decided to vary the cost of the largest budget component: salaries

- Made the possible range of salary increases the key input variable:
 - **Salaries are by far the largest component of budget; possible variation in cost of personnel is the largest element in the rate of budget increase**
 - **Per the recently-signed contract, ASCA salaries will increase by 2.5% in each of 2005-06 and 2006-07. That rate of increase is assumed for ASCA in 2007-08.**
 - **Increases in Central Office salaries are projected to follow ASCA increases.**

The Model Illustrates the Impact of A Range of Staff Salary Increases

	Scenario A	Scenario B	Scenario C
SOMEA	2.5% - 2005-08	3.01% - 2005-08	4.67% - 2005-08
ASCA and central office	2.5% - 2005-08	2.5% - 2005-08	2.5% - 2005-08

- **The 2.5% assumed for SOMEA in Scenario A is based on the ASCA settlement**
- **The 3.01% assumed for SOMEA in Scenario B is based on the overall budget CAP rate**
- **The 4.67% assumed for SOMEA in Scenario C is based on the statewide average for contract settlements (note: this average is for settlements concluded before implementation of S-1701)**

Caveats on Salary Modeling

- All of these rates are assumed to be inclusive of cost of increment
- No intention on the part of the Board should be inferred from these numbers; they are simply used to model the impact of settlements at these levels
- SOMEA's contract expires June 30, 2005. Actual rate of increase for SOMEA for the three years in question will result from collective bargaining.

For Each Different Resource-Cost Scenario, We Varied the Resource Level According to Two Alternative Objectives

1. Preserve the current level of resourcing (what we refer to as a *maintenance budget*)
2. Reduce expenditure to conform to the requirements of S-1701 (and assume a CAP of 3.01% with no SGLAs)

The difference between the two scenarios in each of the three years provides a rough idea of the dollar value of programs and services that must be cut to conform to S-1701

Key Assumptions on Revenue

- State aid likely to remain constant in dollar terms:
 - \$5,003,424 available for General Fund revenue
 - \$519,929 available for Special Revenue Fund
- Miscellaneous revenue to remain constant at approx. \$100,000.
- Per S-1701, \$226,522 of “excess” fund balance already reserved as an offset against taxes for the 2005-06 budget; an estimated \$325,000 will be appropriated from fund balance as part of the 2005-06 budget process, to reduce fund balance to a maximum level equal to 2% of expenditure. No “excess” fund balance will be available to offset taxes for the 2006-07 or 2007-08 budgets.
- Restricted federal funding and state entitlements are not included in this discussion since they are not General Fund revenue.
- Debt service is not included in the projections. Debt service will remain relatively level at \$3 million per year, rising to a maximum of \$3.5 million for a few years.

Key Assumptions on Expenditure

Budget Item	Assumed Annual Increase
Healthcare Premiums	15%
Out-of-district tuition	15%
Legal costs and judgments	10%
General insurance and utilities	20%
Supplies and materials (staggered, multi-year replacement schedule for textbooks and equipment holds increase to this level)	3%

Scenario A: SOMEA salaries increase 2.5%; ASCA/Central Office salaries increase 2.5% ---

	2005-06	2006-07	2007-08
Expenditure necessary to preserve current staffing (maintenance level)	83,487,375	87,907,125	93,034,624
Resulting Tax Increase	6.08%	6.20%	6.01%
Projected spending level under S-1701	81,563,398	84,018,457	86,547,412
Resulting dollar difference from maint. level	(1,923,977)	(3,888,668)	(6,487,212)
Tax Impact	3.54%	3.83%	3.11%

Scenario B: SOMEA salaries increase 3.01%; ASCA/Central Office salaries increase 2.5%

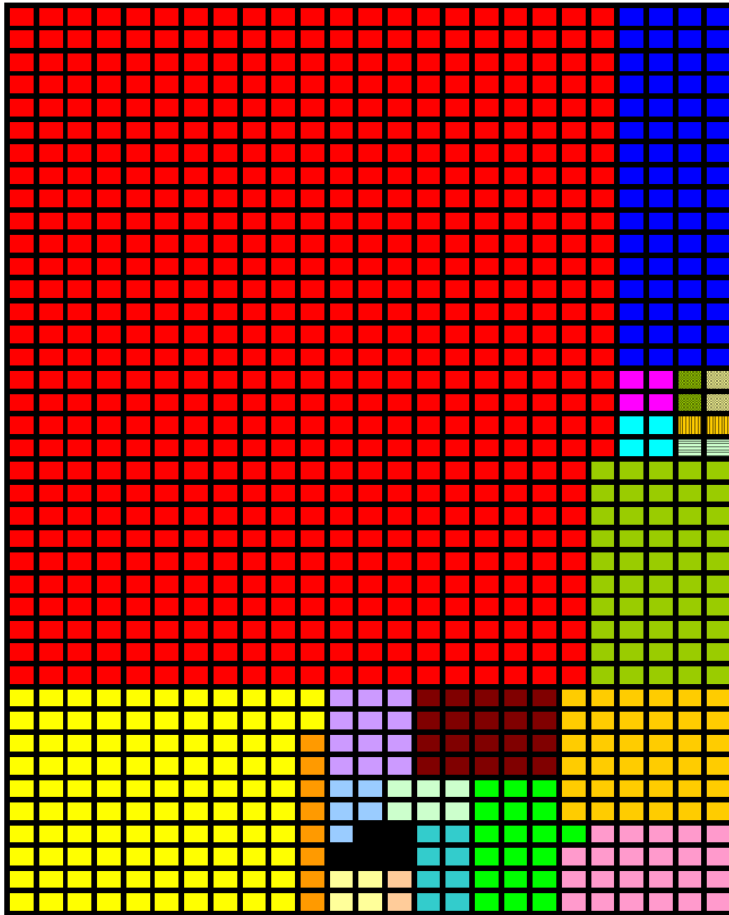
	2005-06	2006-07	2007-08
Expenditure necessary to preserve current staffing (maintenance level)	83,716,970	88,386,516	93,783,072
Resulting Tax Increase	6.38%	6.50%	6.28%
Projected spending level under S-1701	81,563,398	84,018,457	86,547,412
Resulting dollar difference from maint. level	(2,153,572)	(4,368,059)	(7,235,660)
Tax Impact	3.54%	3.83%	3.11%

Scenario C: SOMEA salaries increase 4.67%; ASCA/Central Office salaries increase 2.5%

	2005-06	2006-07	2007-08
Expenditure necessary to preserve current staffing (maintenance level)	84,464,279	90,122,310	96,607,247
Resulting Tax Increase	7.37%	7.65%	7.40%
Projected spending level under S-1701	81,563,398	84,018,457	86,547,412
Resulting dollar difference from maint. level	(2,900,881)	(6,103,853)	(10,059,835)
Tax Impact	3.54%	3.83%	3.11%

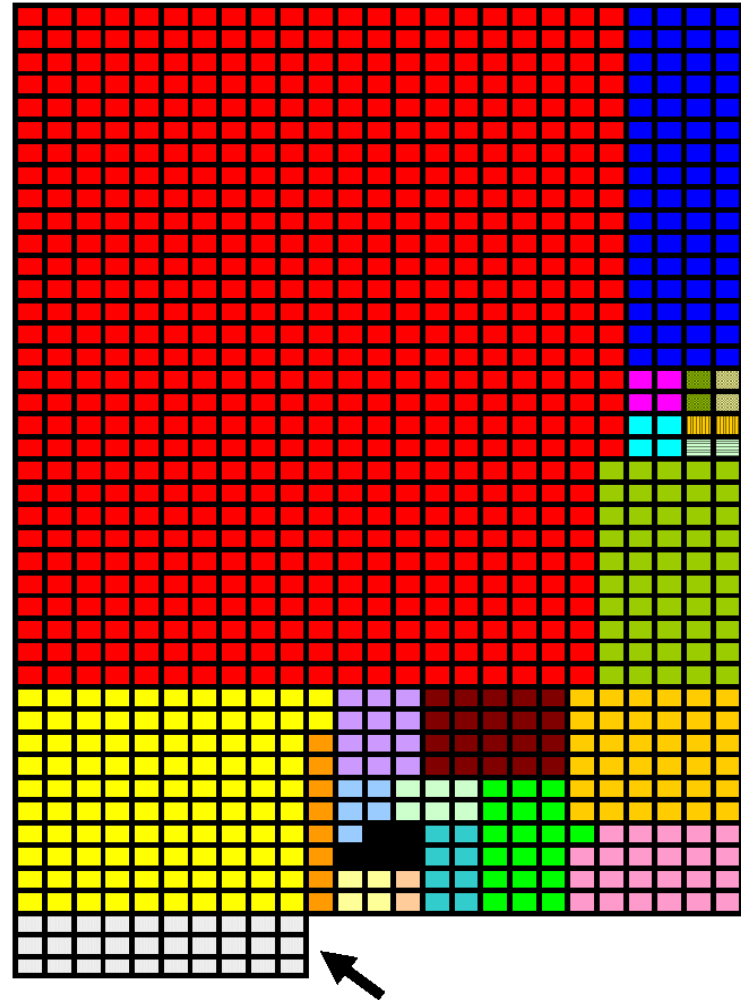
*The Impact of S-1701 In
Light of These Projections*

2004-05 General Fund Budget:
\$79,198,007 times 103.01% =



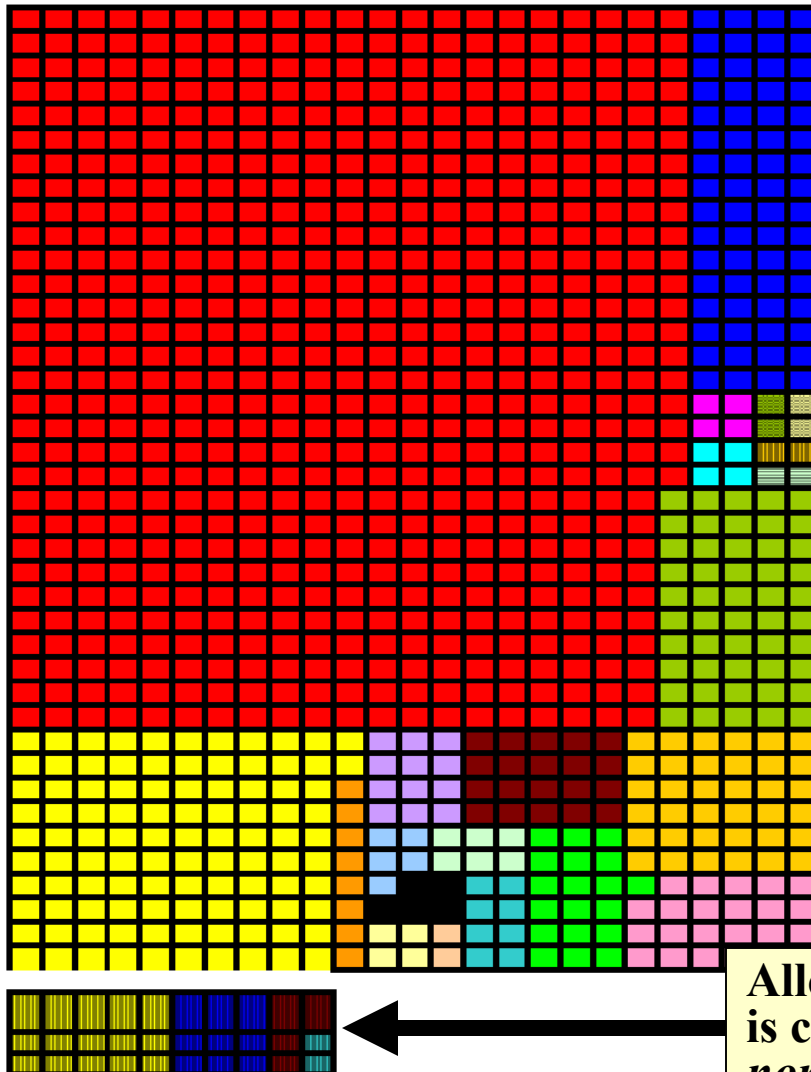
Each square represents one-tenth of one percent (.01%) of 2004-05 budget, equal to \$79,178

2005-06 Budget Allowable Under Cap:
\$81,581,867 (additional \$2,383,860)



Additional 30 squares allowed in 2005-06 budget (3.01%)

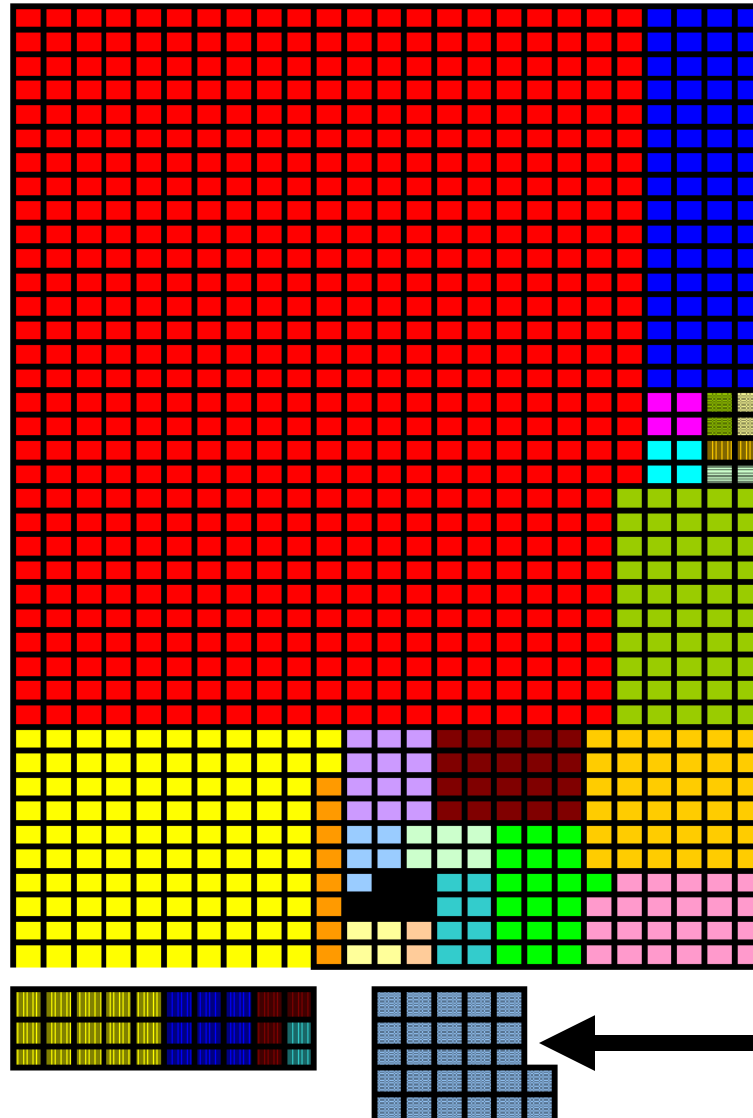
**2005-06 Budget Allowable Under Cap:
\$81,581,867 (additional \$2,383,860)**



2004-05 Dollar Amount	Projected Percentage Increase for this category	Projected Dollar Increase	Resulting Percentage Impact on Overall Budget	# of Squares	
8,093,170	15.00%	1,213,976	1.53%	15.3	Health Benefits
5,077,209	15.00%	761,581	0.96%	9.6	Out-of-District Tuition
					Purch. Cleaning, Prop. Svcs., Supplies
					Transportation (non-salary)
					Total Other Benefits
1,582,405	20.00%	316,481	0.40%	4.0	Energy
					Total Supplies (excl. cleaning/maint.)
					Capital Projects
					Purchased Services - Special Ed.
644,629	20.00%	128,926	0.16%	1.6	Insurance
					Assorted Purchased Services
					Business and Tech. Purchased Svcs
					Equipment
					Textbooks
					Judgments Against the district
					Communications/Telephone
					Legal Services
					Dues, BOE expenses
					Teachers Tuition Reimbursement
					Misc./Other Expenditures
					Home Instruction
					School Bus Leases (not shown)

**Allowable increase of 3.01% (30 squares)
is consumed by *outsized increases in a few
non-discretionary major budget lines*; cuts
in other items become necessary to keep
the budget as a whole in bounds**

2005-06 Budget Allowable Under Cap:
\$81,581,867 (additional \$2,383,860)



Allowable increase of 3.01% (30 squares) is consumed by *outsized increases in a few non-discretionary major budget lines*; cuts in other items become necessary to keep the budget as a whole in bounds

Additional 27 squares represent \$2,135,103, difference between projected CAP amount of \$81,581,867 and the projected cost of a maintenance budget for 2005-06 under Scenario B of the 3-year projections

Summary

- Our spending per pupil and its rate of increase are below or even with comparable districts.
- We understand the historical cost drivers and are attempting to manage them. We are scrutinizing the entire budget for savings and cost management opportunities.
- Understanding near-term opportunities for cost savings awaits delivery of the administration cost analyses in the next few weeks.
- The new reality of budgeting under S-1701 removes the community's discretion to spend at a level that would preserve all programs and services.
- Notwithstanding any legislative amendment that may soften S-1701's impact, we may be forced to make repeated annual cuts in programs and services to stay within state spending guidelines.
- It remains to be seen whether we can do so without harming the quality of our schools.