

Budget Update

March 2, 2015

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As we begin this important Budget Workshop meeting, I want to provide some updates to the Board and the public about new information obtained or developed over the last week, as well as to address some of the questions we received following the preliminary budget presentation, from the Board, and also from the MEA and other constituents. There are copies of the PowerPoint presentation and a handout on Central Services staffing for the public on the table near the entrance.

Revenue Update – State Aid

First, we did receive our notice of State Aid on Thursday, February 26, and our State Aid is the same as last year, dollar for dollar. While it's better than a reduction, of course, it further underscores the problem I discussed last week. The State under Governor Christie imposed a law that generally aimed to cap increases to the school tax levy at 2 percent a year, with certain adjustments defined by law. But there is no law or regulation that would prevent the cost of health care, insurance, energy, out-of-district tuitions, transportation contracts, and many other costs within our budget from rising far more than 2 percent. And the State, once again, is giving us zero percent on their \$7 million piece of the pie. The entire scheme essentially guarantees that every public school district in the State will regularly need to reduce its expenditures in other areas, impacting staffing and programs, because there is no other way to absorb the rising costs that can't be avoided.

Expenditure Update

Second, over the past week we've continued to go line by line through our budget, reviewing and refining our projections and estimates and working particularly within Central Services to identify as many potential cost reductions and efficiencies as possible to reduce the size of the Budget gap.

Health Benefits – Employee Contributions

One area of significant focus has been in our projection of employee contributions to health benefits and the impact of next year's shift of the vast majority of our employees from Tier 3 to Tier 4 under the state law known as Chapter 78. As I indicated last week when responding to a question from Ms. de Koninck, we cannot project the total Chapter 78 contributions with absolute precision even in the current school year, let alone for next school year, because our health insurance "census" is always shifting throughout the course of the year, not only as employees come and go, but also as employees change their plan selection either during an open enrollment period or following a life event, such as the birth of a child, marriage, divorce, a spouse's loss of insurance, or a death in the family. And employee contributions are determined at an individual level, varying based on the employee's salary, plan type, and premium. (Although there is a minimum contribution level equal to 1.5 percent of the employee's salary.) For example, an employee earning \$50,000 with single coverage paid 5 percent of the premium cost in Tier 1, 10 percent of the premium cost in Tier 2, 15 percent of the premium cost in Tier 3, and would pay 20 percent of the premium cost in Tier 4. If she switched to family coverage, however, her premium cost would go up but her contribution percentage would go down – to 3 percent at Tier

1, 6 percent at Tier 2, 9 percent at Tier 3, and 12 percent at Tier 4. Similarly, the percentage contribution will rise as salaries rise.

As I noted last Monday, the district's total medical benefits expenditures were \$11.38 million in 2012-2013 and \$13.65 million in 2013-2014, both years under Horizon. Under Chapter 78, our employees' aggregate contributions to those health care costs rose from \$958,000 in 2012-2013 (when most of our employees were in Tier 1) (8 percent of total costs), to \$1.7 million in 2013-2014 (Tier 2) (13 percent of total costs). And I discussed that in 2014-2015, where our employee medical claims have risen significantly, we anticipate our total costs will hit the cap under our Cigna contract of \$13.27 million. Based on our current year employee insurance census and run rate on employee contributions, we project that our employees' aggregate contributions in the current Tier 3 year will tally \$2.4 million by the end of 2014-2015, or 18 percent of total costs. And for our 2015-2016 projection, we essentially took the current census and moved all employees from Tier 3 to Tier 4, assuming the same number of employees taking benefits and the same level of plan elections, and came up with a total contribution projection of \$2.9 million. Then, since contribution percentages remain the same as premium costs go up, we added 35% to that projection to reflect the projected increase in premium rates, which brought us to \$3.95 million. With our total estimated medical costs projected at \$17.9 million, the employee contributions would be at approximately 22 percent of the total costs, with the district paying 78 percent. Meanwhile, the number of full-time paraprofessionals in the district who are ineligible for benefits under the collective bargaining agreement but who would be eligible for benefits next year under the Affordable Care Act has risen to 119. The projected cost to offer those 119 employees insurance that complies with the Act is \$476,000, of which we would project to receive

\$53,500 back in employee contributions, leaving the additional cost to the district at \$422,500.

There is good news and bad news in our health benefits projections. The good news is that the projected increase in employee contributions absorbs some of the projected increase in total health benefits costs, thereby lowering the projected budget gap that needs to be closed through tax increases or expenditure reductions. As discussed last week, the total projected cost of health benefits is anticipated to rise over \$5.1 million, from \$13.27 million in the current year to \$18.39 million, including the mandated ACA coverage. If we net out the projected employee contributions, the employer share of those costs in the current year is \$10.87 million, rising to \$14.39 million, up about \$3.52 million. So the projected increase in employee contributions would absorb almost \$1.6 million of the projected \$5.1 million increase in total costs.

The bad news, of course, is that those increased employee contributions come at the expense of our employees. I apologize for not having those numbers ready to report last Monday. The budget calendar imposed under state law and regulation, and the dynamic changes in our current year claims experience and its impact on next year's projections, which changed significantly right through the middle of February, left us scrambling to pull together as much information for the February 23 preliminary meeting as possible. But it is important to me always to acknowledge not only the cost to the district and taxpayers of our medical benefits, but also the impact on our employees' take home pay, just as I did last year when we discussed the change from Horizon to Cigna. It is important because the Board and public should understand the impact of Chapter 78 and rising health care costs on our employees, but also because it underscores the fact that the district, the employees

and the taxpayers have an undeniable shared interest in controlling the rising costs of medical insurance and care. And it is also important for us to project these numbers as carefully as possible so as to ensure we are budgeting enough money for health benefits to cover our costs, while also not budgeting too much money for health benefits, and thereby triggering more cuts across the rest of the budget than are needed.

Other Expenditure Reductions

As I stated earlier, we have also continued working over the course of this past week to identify as many potential cost reductions and efficiencies as possible to reduce the size of the Budget gap before looking at potential cuts to staffing and programs. To that end, we budgeted significant reductions in Central Services expenditure accounts, particularly in the Academics Office, where based on principal and teacher feedback, we will be cutting back significantly on the type of in-district professional development that pulls teachers out of the classroom and leaves students with a substitute, while also reducing costs for curriculum writing, new textbook purchases, supplies and materials. Additionally, the Pupil Services Office reduced the scope and projected cost of its Extended School Year program and supplies, and we identified opportunities to realize cost savings in Transportation, as well. As discussed last week, we also cut the per pupil allocations to schools for other-than-salary costs by 10 percent across the board. And where we have employee retirements that have already been formally announced and Board approved, we budgeted “breakage” on the anticipated cost of the replacement hires.

Revised Budget Gap Estimate

Through this process, we have been able to reduce the total projected cost of the 2015-2016 Budget by approximately \$2.7 million before making a single staffing cut, bringing the budget gap we're facing down from \$10.9 million to \$8.2 million. While the \$2.7 million reduction of the budget gap is a very positive development, it still leaves the Board with a very difficult set of decisions to make tonight and Thursday night in order to reach a balanced budget.

Response to Questions

Following last week's preliminary budget presentation, we received questions from Board members, the Montclair Education Association and other constituents, both about the 2015-2016 Budget and about some trends in our expenditures in certain areas over the past few years. While we haven't been able to get to every one of them, I am able to address some of those questions tonight.

Legal Fees

One question we received a few times was about our legal fees, both overall and more specifically with respect to last year's investigation into the public release of a number of our local teacher-generated common assessments. Our legal fees did increase significantly in 2012-2013 and 2013-2014, although even at their peak they were significantly less than one-half of one percent of our total expenditures. In 2011-2012, the district's legal fees totaled \$166,774. In 2012-2013, however, the expenditures came in significantly higher, predominantly due to the negotiation of the 2012-2015 collective bargaining agreement with the Montclair Education Association, which continued throughout the entire 2012-2013 fiscal year, as well as rising legal fees on special education

matters. The total legal fees that year came to \$345,331. In 2013-2014, the district saw a continued increase in legal costs relating to special education, as well as negotiations with the Montclair Head Custodians Association and the Montclair Principals Association, as well as the investigation into the released common assessments. The total legal fees in 2013-2014 were \$448,813, including \$67,911 in fees for the investigation.

This year, we're trending better on our legal fees, having budgeted \$220,000 and expended just \$86,506 through the bills and claims approved at the Board meeting last week. However, we expect that number to rise as we begin negotiations on our next collective bargaining agreement with the MEA. Because it appears at this point that a large portion of those negotiations will take place during the 2015-2016 fiscal year, we have budgeted \$320,000 for legal fees next year.

PARCC-Related Expenditures

Last week, I presented the district's expenditures on technology equipment and supplies and discussed which of those related to the state mandate that we administer the PARCC exam this year on computers. I summarized that \$1 million of capital funding, half from a 2013 bond ordinance and half from the district's Capital Reserve account, was spent on network upgrades and student laptops that, while supporting teaching and learning, were also needed to meet the online PARCC administration mandate. I also referenced \$130,000 in expenditures from our 2014-2015 operating budget. We were asked about payments to Pearson for consultants, speakers or materials relating to PARCC. There were no such expenditures. We did not pay Pearson or any other educational consultants for PARCC preparation support, and we did not

have to pay for materials, beyond the technology supplies already discussed. However, we did pay \$22,500 to Marinus Partners, a technology consulting firm, in 2013-2014 to conduct a PARCC technology readiness assessment. And we have paid around \$23,000 on timesheets to our employees – primarily our technicians and our school technology coordinators, for extra work done over the summer and during the school year to image, deploy and update computers for both teaching and learning and for PARCC. If we add up those costs, the total expenditure is \$1,175,500, \$1 million of which was capital expenditure. As I noted last week, we also have lease payments for some of the laptops purchased with 2014-2015 operating funds, totaling \$96,000 in each of the next three years.

Unbudgeted or Under-budgeted Expenditures

We received a few questions about areas where we either under-budgeted for the 2014-2015 school year, or where we made unbudgeted expenditures of funds. Let me start out by saying that the district has not and will not overspend its total budgeted expenditures. Every year when we pass the Budget, we budget total expenditures equal to our budgeted revenues – a balanced budget. And every year we ultimately spend less than we budgeted. The fund balance hasn't declined because we spent more than we told the Board and the public we were going to spend. We've always spent less than we told the Board and the public we were going to spend. As I said last week, the fund balance declines when we expend more out of fund balance than we generate in new budgetary surplus. But the expenditures out of fund balance were all noted in our annual budget presentations and in the Board's approved budgets.

However, as with any school district, the district can and often must transfer money from one account to another during the course of the year, because we can't overspend any of the account lines that make up the budget. If we incur expenses that are higher than the original budget appropriation for an account line, such as "Purchased Professional Services, OT and PT," then we need to transfer funds from another account line to cover those expenses. That's called an appropriation adjustment, and it's part of our basic budget management. Each month we present the Board with a Report of Appropriation Adjustments, as well as an updated budget where they can see, line by line, how much we budgeted, whether we've adjusted the budget appropriation up or down, how much we've encumbered, and how much remains available in each account line. We also share that information with the public in our Board agendas and Board minutes, available on the district's website.

So where did we make appropriation adjustments this year? Well the lion's share of this year's appropriation adjustments used savings realized in our health benefits account due to the switch from Horizon to Cigna to cover additional costs in the area of special education, including legal judgments and settlements for out-of-district placements, and the cost of special education related services like OT, PT, speech, therapeutic counseling, skilled nursing and evaluations. Altogether, we've increased our appropriations in the area of special education by over \$1 million in the current budget year.

We've also had to increase our appropriation for the cost of substitute teachers and paraprofessionals by nearly \$290,000 this year, and at the request of our principals and with Board approval, we restored subject matter leader stipends at our schools totaling \$110,000. We also added a

part-time Communications Lead at Central Services with a 12-month salary of \$60,000, but that position was ultimately only occupied and paid for five total months.

We also had to increase our budget appropriation for communications/telephone by around \$163,000 to cover the increased cost of our stronger and faster internet service, but we expect to recoup around \$80,000 of that cost through federal E-Rate funding, and hope to reduce the cost of broadband internet service in 2015-2016 thanks to new broadband cooperative pricing that will be made available through the Middlesex Regional Educational Services Commission.

Consultant Costs

We've had inquiries about our trend in expenditures on consultants since Dr. MacCormack came to the district. As we discussed during the budget presentations last year, consultant costs within a school district's budget are generally called "purchased professional services." We have budgeted around \$4.8 million for purchased professional services in 2015-2016, mostly in the areas of special education and facilities maintenance and repairs.

As I've already discussed, we've seen the largest growth in the cost of our purchased professional services in the area of special education. Based on the current year's expenditure trend, which rose from around \$1.7 million in 2013-2014 to over \$2.4 million in 2014-2015, we are budgeting \$2.54 million for special education professional services, including OT, PT, speech, counseling, skilled nursing and evaluations. That's 53 percent of the total amount budgeted for all purchased professional services.

The next highest-cost area of purchased professional services is in the cost of facilities and equipment maintenance and repairs. We've budgeted \$1.35 million in that category, which is essentially in line with what we've expended in that category over the course of the past five budget years, and around 28 percent of the total budgeted spend on purchased professional services. The MEA asked whether many of these services could have been performed at lower cost with district custodial and maintenance staff. I appreciate that idea and will continue to work with the Office of Buildings & Grounds to evaluate it. Around \$600,000 of that \$1.35 million is for our supplemental custodial services contract with Pritchard Industries, which we believe has generally supplemented, rather than supplanted, the great work of our district custodial staff. Much of the balance in this category is for skilled trades like electric, plumbing and HVAC, as well as environmental testing and other services. Again, we believe we have generally tried and will try to maximize the ability and availability of our district team in these areas, and have supplemented with skilled trades where necessary due to the nature of each particular job, but we look forward to working with the MEA to best ensure that we're maximizing our team's strengths and operating as effectively and efficiently as possible.

We budgeted \$132,000 for purchased professional services in the area of technology maintenance and repairs, which is consistent with the past few years, although less than what we spend in 2012-2013. We have not budgeted for technology consultants to serve in an advisory capacity in 2015-2016, and we have not paid technology consultants to serve in an advisory capacity this year. Last year, 2013-2014, when we were without a technology director or supervisor for most of the year and were without a network administrator for a large portion of the year, and

faced several difficult technology issues, we did spend nearly \$270,000 on advisory technology consultants, but that year was clearly an anomaly.

We have also budgeted \$320,000 in purchased professional services for our legal fees, which I've already discussed. And we've budgeted \$99,000 for our auditor and our architect, essentially the same as in the current budget year.

The Academics Office's expenditures on purchased professional services have dropped significantly since 2012-2013, when they reached \$284,000, including the Tripod Survey of school climate. For 2014-2015, the Academics Office is budgeting less than \$94,000 for purchased professional services, including \$38,000 for the Big Picture program at Montclair High School, \$28,000 to provide all of our school libraries with the BELS inter-library loan service, and \$12,500 for IMANI tutoring. That leaves over less than \$15,000 for academic consultants in the traditional sense, including our consultant for the proposed dual-language immersion program.

We also plan to continue the Cops in Schools program with our outstanding MHS School Resource Officer, at a cost of around \$112,000.

The professional service costs for the administration of our various transportation contracts is around \$87,000.

Central Services Staffing

We've also received several questions about the number and cost of Central Services staff, and the changes since 2011-2012, the year prior to Dr. MacCormack's arrival. We have updated a spreadsheet that we developed last year of Central Services staffing totals. This does not track directly to our HR reports, which have assigned school-based resources to Central Services when an employee's work is split between multiple schools, and also employees providing services directly to students like our district bus driver. But it captures those positions that functionally serve as Central Office/Central Services. In total, our staffing increased by 0.5 administrators (as the full-time Supervisor of Professional Development and the part-time Communications Lead, or Assistant to the Superintendent, balance against a reduced "Teacher on Special Assignment" position from 2011-2012 and 2012-2013, and one secretary, the secretary for the Technology Office. The Central Services administrator salaries did increase from \$2.86 million in 2011-2012 to \$3.21 million in 2014-2015, an increase of 12.3% in total base salaries, which is similar to the percentage salary increase a teacher would see over the same three year period through annual step increases and annual negotiated adjustments to the salary guide, depending on her starting point on the guide.

Conclusion

We will try to address additional questions that we've been receiving as we proceed with this Budget process, but that concludes my presentation for tonight. I can try to answer any questions the Board may have about what I've presented, and then we can proceed to the Board's workshop on how to proceed in closing the remaining \$8.2 million budget gap.