

Preliminary Budget Presentation
February 23, 2015
Brian Fleischer, Chief Operations Officer

Good evening. Tonight I am going to be sharing a preliminary presentation of the 2015-2016 school budget. The Board has copies of the PowerPoint presentation, and we've made copies available for the public out in the lobby if you haven't already picked one up. We will also post a copy of my written comments to the district website tonight or tomorrow, including some additional details and explanations that I'll omit from my talk tonight so as not to unduly delay public comment and Board business.

It is important to note that we do not yet have our State Aid information, which is usually released around 2 days after the Governor's Budget Message, scheduled for tomorrow. I will try my best tonight to answer any questions the Board may have about this preliminary presentation, but I may need to jot down some of your questions for further discussion at our subsequent meetings on this Budget.

Budget Calendar (slide)

Once we have that State Aid information later this week, we'll be reviewing the Budget again with the Board Finance Committee. Then a week from tonight, March 2, there will be a Budget Workshop meeting with the full Board, which will be held in public at the George Inness Annex Atrium across the street at 6:30 pm. The Cabinet and our school principals are encouraged to join and participate in that workshop.

If all goes according to plan, the Board will adopt the tentative 2015-2016 Budget at the second public workshop meeting on March 5, after which we will prepare the required submission to the Essex County Superintendent of Schools, which is due on Monday, March 9.

Then at our next public meeting on Monday, March 16, right back here, we will present the budget once again and the Board will adopt the 2015-2016 Budget that will be advertised prior to the required public hearings before the Board of School Estimate, which have been scheduled for March 23 and March 30.

Capsule Summary

As the Board members already know from our work in committees over the past few months, this year's budget discussion will be an incredibly challenging one. And the basic reason for that is a simple one. The costs of what we currently have are going up by an estimated \$6.6 million, driven primarily by a large projected increase in the cost of our employee health benefits, and we're starting off with \$4.3 million less in revenue to pay for it all – creating a \$10.9 million starting deficit. Our charge over the course of these next few weeks, therefore, is also conceptually simple. We need to close the gap through a combination of increased revenues and decreased costs. Conceptually simple, but this isn't just a math problem. It's our school district and our hometown. The choices we will need to make will impact our taxes, our employees, our kids, our community. There's nothing simple or easy about that, and some of the decisions we'll need to make together will be heatbreaking.

So tonight, I'm speaking to you as the Chief Operations Officer for the school district, but I'm also here to engage in this challenging work with you, the Board, with my colleagues on the district's leadership team, including all of our school principals...and with all of you here in the auditorium tonight or watching on Channel 33...as a fellow Montclair community member and taxpayer, a fellow Montclair Public Schools employee, a fellow Montclair Public Schools parent.

General Operating Budget (slide)

So just as we did at the preliminary budget presentation last year, let's begin by clearly defining the scope of the budget, and then discuss how we got to this point.

Now what are we talking about when we talk about the budget?

What we're talking about is the General Operating Budget, which on the revenue side includes predominantly Local Tax Levy and State Aid, along with smaller amounts of Medicaid reimbursement (listed here as Federal Aid) and "miscellaneous revenue" from sources such as facilities rentals, small amounts of tuition payments (from non-resident staff members whose children attend Montclair public schools), interest income....

The General Operating Budget does not include our Capital funds, whether in Capital Reserves or open bond ordinances issued by the Township on behalf of the schools. Those funds are available to support capital projects, including construction work on our buildings and grounds and things like technology upgrades, but are not part of the balance sheet for the Budget.

The General Operating Budget also does not include restricted grant funds, such as federal funding under the Elementary and Secondary Education Act or "No Child Left Behind" Act, and the Individuals with Disabilities in Education Act, or "IDEA". That grant funding is highly restricted with respect to allowable uses, and is required to supplement the educational programs funded in our General Operating Budget. Those funds cannot be used to take the place of our general operating funds.

Fund Balance Summary (slide – Fund Balance spreadsheet)

The General Operating Budget balance sheet can include “fund balance” or “surplus” in two basic categories. School districts may carry over up to two percent of their total budget into the next school year as available fund balance for cash flow purposes. That “unassigned fund balance” can be spent within the budget, ideally for one-time expenditures, or it can be left unassigned to cover unanticipated expenditures. Additionally, the auditors each year calculate the amount of “Excess Fund Balance” – year end fund balance outside of Capital and Maintenance Reserves that exceeds two percent of the total budget, which must by law be budgeted within the *following* school year. For example, we were required to include approximately \$2.26 million of “Excess Fund Balance” from the 2012-2013 school year in the budget for 2014-2015, not 2013-2014. We can then assign additional fund balance from the remaining available surplus. For the 2014-2015 Budget, we added another \$1.5 million to get to \$3.76 million in total budgeted fund balance.

(slide – Fund Balance Trends)

So what’s important to recognize about all of this? That fund balance or surplus can be generated years before it is expended, and that while each year’s budget and expenditures move the needle on the overall fund balance, the fund balance is not a “new surplus” generated in each budget year. If the district underspends its budget by more than its expenditure of fund balance, the fund balance will go up. If the district underspends its budget by less than its expenditure of fund balance, the fund balance will go down.

The 2010-2011 and 2011-2012 school years are when the district materially spent less than it had budgeted, increasing the fund balance first to \$11 million and then to nearly \$14 million.

Then if you look at the 2012-2013 and 2013-2014 school years, and the projected figures for the current school year, you can see the district driving down the fund balance - down by about \$1 million in 2012-2013 and, down by \$3.8 million more in 2013-2014, and finally, a projected drop of around \$4.3 million in the current year, where the Board approved expenditures of fund balance not only within the operating budget, but also out of capital reserves to fund critical capital and infrastructure projects in a year when the Township told us that they would not be issuing bond ordinances to fund such work.

The district's fund balance trends are clearly reflected in the line graph.

Again, note that the fund balance rolls from year to year. We did not "generate" a \$14 million surplus in 2011-2012 and then generate another \$13 million surplus in 2012-2013. We spent down the fund balance from \$14 million to \$13 million, and then in 2013-2014 we spent it down to \$9 million, which is essentially what we projected for the public at this time last year, and this year we anticipate spending it down to around \$4.7 million – a staged decrease as recommended by our auditors, although accelerated over this past year largely due to the expenditures out of Capital Reserves as discussed and approved last year – funds that were already earmarked for capital projects and could not otherwise be spent within the operating budget.

Fund Balance Components (slide – Fund Balance spreadsheet)

Let's focus in on the various components of the district's fund balance.

The circled components of the fund balance which are also summarized in the lower left of the worksheet reflect our budgeted use of fund balance over the past several years. There are two components of budgeted fund balance: the "excess fund balance" calculated each year by the auditors that districts are required by law to include in the budget

two years later, and the voluntarily assignment of additional fund balance that school districts may designate for use in the next year's budget. These two components reflect a portion of the overall fund balance. And based on a snapshot of the overall fund balance taken each year on June 30 and validated by auditors, the law determines how the funds may or must be used.

The “excess fund balance” is a must. Once it has been calculated by the auditors, it must be included in the budget for the following year. It is designated there by rule. We can't leave it unassigned for a rainy day. If you look at the handout, the excess fund balance is reflected at the top. As illustrated by the arrows on the chart, it moves from the year end for which it was calculated into the year in which we were required to include it in the Budget. Ours went as high as \$4.7 million on June 30, 2011, which was designated by law into the 2012-2013 Budget, and declined every year since. We did not have “excess fund balance” on June 30, 2014, which is why there is no “restricted excess surplus” designated for the 2015-2016 Budget.

How we get to the “excess fund balance” calculation is through choices we make about other uses of fund balance. For example, one choice a school district can make at budget time is to assign fund balance to the next year's budget over and above the mandatory excess fund balance amount from the previous June 30. That decision is driven by the district's projection of its year-end fund balance, its budget needs and its capital needs.

You can see on the chart that, as the District's overall fund balance rose, the Board elected to assign higher levels of fund balance to the budgets as revenue to supplement the mandatory excess fund balance.

Another choice a school district can make is to assign fund balance to its Capital Reserve or Maintenance Reserve accounts. These accounts are pretty self explanatory. They're reserved to pay for needed capital projects or maintenance work, and they exist outside of the general operating budget. Historically, Montclair, as a Type I school district, has depended upon significant amounts of debt issued by the Township on behalf of the public schools through bond ordinances, and we've used those bond ordinances to fund our capital projects, including the critical work needed to maintain, improve and extend the useful life of our mostly very old school buildings.

However, the Township warned us that they would be issuing less new debt, and our new auditors in 2012 advised the Board to start designating fund balance for Capital and Maintenance Reserves.

The Capital Reserve account was first seeded with \$1.5 million in June 2012, and then built up to \$2.8 million in June 2013. This past summer, we had no new bond ordinance money for facilities work, and we began to use our Capital Reserve funds to support critical capital projects. I will discuss some of those capital projects with you later in this presentation.

The Maintenance Reserve account was also first seeded in June 2012, at \$500,000, and then built up to \$750,000 in June 2013. In the 2013-2014 budget year, we withdrew \$500,000 into our budget to support the maintenance and upkeep of our facilities – expenditures that historically have also been charged to bond ordinances issued by the Township.

You'll see on the sheet that the June 30 fund balance will also always include some amount for services ordered before June 30 to be paid in the next school year, but those are already specifically obligated on June 30.

The last row on the fund balance chart is the “unassigned fund balance”, which is the 2% allowable rolling balance that school districts are permitted to retain unassigned for cash flow purposes, and in an emergency, to cover unanticipated costs that may arise over the course of the year, such as, say, additional funding for Worker’s Compensation due to higher than expected claim volume.

You’ll see that the district’s unassigned fund balance dropped below the recommended 2% in June 2014, but that we’ve since restored it to that recommended 2% level. In large part, that one year dip was attributable to the change in our health insurance carrier for 2014-2015. When we keep the same carrier from one year to the next, medical services received by our employees in one fiscal year may not be processed and charged to the district until the following fiscal year. Because we changed carriers on July 1, 2014, however, we had to transfer \$1.24 million from our 2013-2014 operating budget as well as an additional \$2.6 million from a separate required health insurance reserve account to Horizon at the end of 2013-2014 to ensure that Horizon could cover the cost of any “run out” claims for medical services our employees received prior to July 1, 2014 that were processed and paid after July 1, 2014. Those “run out” Horizon insurance claims have now all been paid, and Horizon is issuing us a check for around \$2.1 million, which will be restored to our fund balance.

Mechanics of Fund Balance and Budget Surplus

Note that moving fund balance to Capital Reserve or Maintenance Reserve, or simply assigning additional fund balance to the budget, does not reduce the overall fund balance. Only spending reduces the fund balance. More specifically, the only way to reduce the overall fund balance from one year to the next is to spend more of the fund balance each year than you generate in new fund balance.

What these choices to assign or restrict fund balance do, ultimately, is impact the auditors' calculation of "excess fund balance". The auditors subtract our Capital Reserves and Maintenance Reserves, our Excess Surplus from the previous year, the additional fund balance we elected to assign to the budget, and our year-end encumbrances to arrive at the total unassigned fund balance. If that unassigned balance exceeds 2% of the total Budget, the overage is the "excess fund balance".

So we know that moving fund balance doesn't reduce the fund balance. The only way to reduce the overall fund balance from one year to the next is to spend more of the fund balance each year than you generate in new fund balance. And the reverse is also true. If you generate more new fund balance at the end of the year than you spent over the course of that year, the overall fund balance goes up. That's what happened in Montclair when the fund balance jumped from \$7 million in June 2010 to \$10 million in June 2011 and nearly \$14 million in June 2012.

We often hear talk about fund balance and budget surplus as if it's the same thing. It's not. Budget surplus simply occurs when you budget more than you spend. In a school district with a very large budget and very limited ability to go "into the red" – some budget surplus is pretty much guaranteed every year. Every year the district prepares and approves a budget in February and March for the following school year. With an annual budget well in excess of \$100 million a year, we're never going to be able to manage our expenditures to hit the budget exactly, whether you're looking at the budget as a whole or more specifically at the hundreds of different budget line items that make up the budget. Some budget items are very predictable, like a fixed value contract or a full-time employee's salary, and others are far less predictable, like our health benefits claims, our overtime costs, the cost of settlements and judgments against the district in special education...

So what we're doing when we budget for line items that can't be fixed precisely in advance is making an educated guess. We're looking at our current year budgeted costs and our actual expenditures. We're looking at prior year costs. We're speaking with advisers about anticipated increases for costs like health care, insurance or energy. We're discussing where we believe we can reduce costs by implementing efficiencies and more aggressively managing to a lower budget amount.

In making these educated guesses, we can be very conservative and budget with a lot of wiggle room to make sure we're covered for the worst case scenario, or we can be more aggressive by budgeting with little to no wiggle room, and then tightly managing costs to stay within that lower target.

Now keep in mind that the District can and often must transfer money from one account to another during the course of the year, because we can't overspend an account. If we settle a special education placement matter and don't have enough money in that budget line – “Judgments Against District” – to pay the settlement amount, we first have to move additional funds into that account line before we can make the payment. So we may move funds out of our account for out-of-district tuition into our account for Judgments Against District to cover the expenditure. 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 adjusted the budget appropriation up or down, how much we've encumbered, how much we've spent, and how much remains available in each account line.

So the available funds left on the table in any account line on June 30, after accounting for whatever appropriation adjustments have been made

over the course of the year, is the year-end surplus in that line. As I said, you can't have a deficit in any line, because we can't expend funds out of an account line that doesn't have enough money left to cover the expenditure. Add up all those line items with a remaining balance at the end of the year, and that's the total budget surplus. If it's higher than the amount of fund balance you spent that year, your fund balance will go up. If it's lower, your fund balance will go down.

As I confessed to you all last year, budgeting conservatively can help Superintendents and Business Administrators sleep easier. You know that if your costs come in high you've got a cushion, and that you've got those cushions in enough of your line items across the budget that even if you somehow manage to incur expenditures beyond what you budgeted in one line, you can always transfer in more funds from another one of the lines that you built with a cushion.

Budgeting aggressively, or tightly, in all of your line items where costs can't be predicted precisely makes our lives harder. If you can't hold costs down to the amount you budgeted, like if you cut the custodial overtime budget and then get hit with a dozen major snowstorms, or if you cut the budget line for substitute teachers and then see a spike in employee sick days, it's harder to find another account with cushion to cover the overage. That's why the law allows us to carry that 2% unassigned fund balance.

If you refer to the Fund Balance Trends line graph, you see two years where the District's fund balance grew significantly because we spent less of our fund balance than we generated in budget surplus, and then three years where the District's fund balance declined because we spent more of our fund balance than we generated in budget surplus. Why the change? Let's start by just reviewing the numbers behind the changes to

fund balance, before taking a deeper dive to look more specifically at how the fund balance has been used.

Review of Fund Balance Trends (slide – Fund Balance Spreadsheet)

The District didn't reduce the fund balance by moving it around. Yes, the District put over \$5.7 million of fund balance into the budget for 2012-2013, but our predecessors also budgeted a bit more aggressively in the 2012-2013 budget in response to the public's reaction to the record high fund balances, and then Dr. MacCormack and her team managed the budget that they inherited aggressively, leaving less of the budget unspent than was the case in prior years, and decreasing the year end fund balance by a bit more than \$1 million.

In 2013-2014, the first budget that Dr. MacCormack oversaw from its inception, the district put \$4.8 million in fund balance into the budget, which in practical impact was a \$1 million cut to the budget, because it was nearly \$1 million less than the previous year's budgeted fund balance. To absorb that decrease in budgeted fund balance, the district's discretionary accounts were budgeted even more tightly, and savings realized in some account lines were needed to support expenditures in other account lines, so the fund balance decreased by \$3.8 million.

In 2014-2015, the first budget I had the opportunity to work on with Dr. MacCormack and the Board, we put \$3.76 million of fund balance into the budget, again around \$1 million less than the previous year, budgeted our discretionary accounts even more tightly, approved \$2 million in spending out of capital reserves, and we anticipate decreasing the overall fund balance by around \$4.3 million – leaving the total fund balance at approximately \$4.7 million, with a full 2 percent unassigned fund balance and approximately \$750,000 in “excess surplus” that, if untouched, would support the budget in 2016-2017.

Montclair taxpayers were upset, and quite understandably, with how high the district's overall fund balance got – particularly so soon after the District leadership had issued dire warnings in February 2011 of budget shortfalls necessitating major cuts to staff and programs. Because of the cushions built into so many discretionary spending accounts, the district grew the fund balance dramatically through 2011-2012, with money that was essentially borrowed from the taxpayers too soon. I know that this history may color the way some will view tonight's budget presentation, and I understand that. Part of my goal is to provide the Board and the public with as much information as I can tonight to help everyone understand why we're in such a different place going into this year's budget cycle than the district was in 2011.

Under Dr. MacCormack and the Board's leadership, we have invested in our schools, reduced our funding of many discretionary account lines across the budget, generated less new budget surplus each year, and have driven down the overall fund balance each year to where it is now settling at a reasonable level in view of historical norms and the size of our overall budget. This is what the community asked of the Board after the historic spike in our fund balance. At the same time, the fund balance is at a level that does not allow the 2015-2016 Budget to be supplemented with millions of dollars in fund balance.

Recurring Expenditures Funded with Surplus

So let's dive deeper than the numbers. How has the district's fund balance been used in our budgets over the past several years? The district's use of fund balance allowed the district to decrease the Local School Tax Levy by 3.6% in 2011-2012, from \$101.1 million to \$97.5 million, and then to hold that reduced Tax Levy steady at \$97.5 million for 2012-2013 and 2013-2014. Over the course of the three years from 2011-2012 through 2013-2014, however, as the Tax Levy stayed flat, the

costs of operating the district rose more than \$9 million, particularly as a result of increases to salaries and benefits in the contract negotiated between the Board of Education and the Montclair Education Association – a contract that covers the three years from 2012-2013 through the current year. A school district’s primary investment always will be and should be in human capital – in the educators. The district is proud of the contract it negotiated with the MEA and the investment made in ensuring that our teachers’ salaries are among the highest in the State and the County.

But as I mentioned earlier, when fund balance is used on expenditures that will recur in each subsequent budget year, rather than on one time expenses, it will leave the district in a place where new revenues and/or decreased costs are required once fund balance is no longer available to support those recurring expenditures. It’s why we had to use both fund balance and tax levy increases to sustain our existing staffing and programs in 2014-2015, but first let’s go back to 2011-2012.

[slide – 2011-2012]

In the 2011-2012 Budget, the district added a total of \$3.3 million in required and discretionary surplus to the budget, which was essentially used to provide tax relief to Montclair taxpayers of 3.6%, or nearly \$3.6 million. Any new recurring expenditures were balanced out with cuts elsewhere in the budget, so there were no material new recurring expenses that would carry over into the 2012-2013 Budget.

[slide – 2012-2013]

If you switch the slide to 2012-2013, however, you’ll see a different story. Coming off a 3.6% decrease in tax levy the previous year and with no tax levy increase, the district added \$5.7 million in surplus funding to the budget and, in addition to one-time expenses and unanticipated

expenses, used that fund balance to add around \$2.8 million in new, recurring expenses to the budget. The biggest component of that increase in new, recurring expenditures was the MEA salary increase of 2.85%, which was anticipated in the budget and paid out retroactively after the contract was ratified. The cost of that retroactive pay booked to the 2012-2013 school year was \$1.9 million. In addition, the district, without raising taxes, added another \$900,000 or so in new recurring expenses to the budget, including: our Mandarin teachers, who had previously been funded by a grant; additional middle school literacy, math and science teachers/coaches; Student Assistance Counselors in the elementary schools, as well as other new full or part-time staff and recurring programs like IMANI and Sister to Sister.

[slide – 2013-2014]

As the district planned for the 2013-2014 budget, they were looking at around \$2.8 million in new recurring expenses from the 2012-2013 budget, plus an additional \$1.85 million in MEA salary increases (2.7% per the contract), and the restoration of health benefits to paraprofessionals hired before July 2011 at an approximate cost of \$1.5 million, also as negotiated between the Board and the MEA. We elected to use \$4.8 million of surplus funding in the budget, hold the tax levy steady once again, and also add \$270,000 for Elementary School Deans and \$118,000 for a Supervisor of Professional Development to help us implement the State-mandated teacher evaluation process. The total cost of these new and recurring expenditures now was around \$6.5 million, exceeding the \$4.8 million of surplus funding in the budget and thus requiring Dr. MacCormack and her team to identify cuts elsewhere in the budget.

[slide – 2014-2015]

At this time last year, I stood before the Board and explained that we were no longer in a position to sustain our existing staffing and programs with fund balance alone. We had new recurring expenses from the 2013-2014 budget of \$6.5 million, plus an additional \$1.76 million in MEA salary increases (2.5% per the contract), \$93,000 in budgeted salary increases for the Montclair Principals Association and Montclair Head Custodians Association, and additional anticipated increases in the cost of employee benefits other than health care, transportation, energy and special education placements, for a total of approximately \$9 million in new and recurring budgetary costs since 2010-2011, without any tax levy increase and with declining fund balance. We elected to use \$3.76 million of fund balance in the budget to close the gap on the revenue side. And on the expenditures side, we budgeted more aggressively in health benefits (even before we knew we would be switching our health benefits provider from Horizon to Cigna), cut back in account lines for custodial and clerical overtime, summer scheduling and consultant costs, and cut the position of Supervisor of Recruitment and Retention that was approved and budgeted for 2013-2014 but never filled. Those cuts to budgeted expenditures totaled \$2.65 million, but we were still looking at a deficit of \$3.88 million that could not be closed without either an increase in the school tax levy, or staffing and program cuts that would materially impact instruction and services for children.

Unlike prior years, where the district administration largely presented the Board with a single proposed budget to vote up or down, last year we presented the Board of Education, and the public, with three budget options.

Option 1, which the administration recommended, included a four percent increase to the school tax levy, and largely maintained existing staffing levels and programs while covering for the reduction in

budgeted fund balance and higher cost of several non-discretionary budget items like contracted salary increases, energy and insurance. It also covered the addition of 4.5 World Language teachers at the elementary schools, a Universal Design for Learning coach, and a technology secretary.

Option 2 included just a two percent increase to the school tax levy, and would have required approximately \$1 million in staffing cuts (or about 15 positions), and further cuts to non-salary accounts which would impact extra-curricular and athletic activities, facilities repair and maintenance projects, and classroom supplies and materials.

Option 3 included a six percent increase to the school tax levy, and covered everything under the four percent option, plus three additional kindergarten teachers and aides to decrease average kindergarten class size from 24 to 21, three additional core subject teachers at Montclair High School to reduce class sizes there, and a new half-day prekindergarten program for the district's approximately 80 to 100 NCLB Title I four-year-olds.

The Board ultimately approved a proposed budget with a 4.3 percent tax levy increase that included the kindergarten class-size reduction proposal. After two public hearings, the Board of School Estimate ultimately certified a 4.1 percent increase to the tax levy, which included the kindergarten class-size reduction proposal but cut other salary accounts by \$270,000 to reflect anticipated savings in instances where employees had already filed their retirement papers.

So in 2014-2015, the district increased its local tax levy revenues from \$97.5 million to \$101.6 million – the first increase in Montclair's school tax levy since 2010-2011. But that still left the overall tax levy revenue only about \$500,000 higher than the school tax levy in the 2010-2011

Budget. Meanwhile, the overall cost of the operating budget rose around \$10.7 million over the same four-year period, as the district utilized fund balance to support the addition of new and recurring budgetary costs, as I've outlined, and the rising cost of other budgetary items like energy, insurance, transportation contracts, out-of-district tuitions, etc.

And as I noted before, the Board last year approved over \$2 million in fund balance expenditure out of our capital reserve account, because the Township, to reduce its own debt and with awareness of our fund balance, issued no bond ordinances to fund capital projects for the schools – the first time in decades that the school district had no new capital funding from Township bonds. Some of those projects were fully executed in the summer and fall of 2014, and some are scheduled for completion in summer 2015. The approved projects were itemized for the Board and the public in the 2014-2015 Budget Book and included the cafeteria, bathroom and amphitheater renovations at Montclair High School, security systems enhancements and window repairs at all schools, roofing and dormer repairs at Bradford and Edgemont, heating, ventilation and air conditioning work at MHS, Glenfield, Renaissance, Northeast and Watchung, as well as \$500,000 for the purchase of laptops and laptop carts for our teachers to use with our students. Note again that these Capital Reserve funds could only be used for capital expenses and could not be used within the district's operating budget.

[slide – Investment of Fund Balance, 2012-2013 through 2014-2015]

So when people ask, “What happened to the District's fund balance?”, we know the answer to that question. The school district spent the fund balance down from \$14 million to a projected \$4.7 million on June 30, 2015, by investing approximately \$2 million out of Capital Reserves to enhance and maintain our facilities and technology resources, and by investing about \$14.3 million in the 2012-2013, 2013-2014 and 2014-

2015 operating budgets, while generating “new surplus” of about \$7 million over the same three fiscal years. Those investments in our district are reflected in the pie chart.

The 2015-2016 Operating Budget

So let’s get to the 2015-2016 operating budget. The critical factor on the revenue side of the equation, which I’ve already explained, is that we’re starting with our revenue from fund balance down by \$3.76 million. (The projected revenue actually is starting down \$4.3 million, rather than \$3.76 million, because the Adult School of Montclair is no longer part of the school district’s Budget. That lost Adult School revenue of around \$550,000, however, is essentially canceled out by the elimination of the Adult School’s expenditures, which were also part of the school district’s budget.)

Health Benefits (slide)

The critical factor on the expenditure side of the equation is employee health benefits.

The Montclair Board of Education has a medical insurance product known as a “minimum premium plan”. Without getting too far into the weeds, it means that rather than paying regular and predictable insurance premiums, we’re billed for the actual cost of medical claims paid by our insurance carrier, but our liability is capped in two ways. First, the most we can be compelled to pay for any individual employee is \$300,000. Second, the most we can be compelled to pay in any plan year is the total of all of our employees’ premiums. If the cost of paid claims is below the total premium cap, the district realizes a cost savings. If the cost of paid claims exceeds the total premium cap, the insurance carrier absorbs the loss, but may recoup those losses from the district if the claims in the subsequent year are lower than total premiums. Employee

contributions to benefits, in amounts as mandated by state law, are refunded to the health benefits account. Chapter 78 requires a four-tiered phase in of higher employee contributions to benefits with the percentage of premium charged to the employee determined by a State guide based on the employee's salary and plan type.

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). In each of those years, the "minimum premium plan" worked very well for the district, as the total cost of claims held at around 80% of total premiums. That's why, when our benefits advisors with Brown & Brown marketed our insurance plan as they've done every year, two premiere national health care providers, Cigna and Aetna, each independently bid on our plan last spring with a 2% decrease on the total cost of 2013-2014 premiums.

Our incumbent provider, Horizon, on the other hand, offered us a renewal with a 9% increase – nearly \$1.5 million higher than Cigna and Aetna, and further informed the district that 2014-2015 would be the last year they would offer a minimum premium plan. Upon the advice of Brown & Brown, the administration recommended and the Board approved a switch to Cigna, choosing Cigna over Aetna because of Cigna's exceptionally strong provider match of 93%, because Cigna included both medical and prescription costs under the \$300,000 stop-loss protection, and because Cigna demonstrated the strongest long-term commitment to the minimum premium plan product. Contractually, Cigna was obligated to ensure a benefits package equal to or better than what our employees had with Horizon.

Many of our employees were naturally anxious about our change in health care providers, despite the cost savings realized from the switch, not only by the district, but by each employee receiving coverage. Despite the very strong provider match, we realized some folks would need to find new doctors, and we worked with Brown & Brown to address employee concerns about the “equal to or better than” guarantee, including questions raised about Cigna’s “usual and customary” reimbursement rates and claim rejection rates.

Laura Fanuele and Diane Conway from Brown & Brown are here tonight to describe our experience in the current plan year and answer questions from the Board, but before I bring them up, let me hit a few quick points.

While I certainly can’t speak to the experiences of individual employees since the move to Cigna, I can say that collectively, we’ve seen a dramatic increase in both the total medical claims paid on behalf of our employees and in the percentage of total medical services with in-network providers. At that collective level, our employees have found (or stayed with) in-network medical providers, much more so than under Horizon, and have received more medical services and have had more services covered – more claims paid.

While I am thankful that our employees have, on the whole, found network doctors, received in-network care, and had their claims paid, the dramatic overall increase in the amount of medical services our employees have received, which actually began to rise materially in April 2014 while we were still with Horizon, means that our premium rates are projected to jump considerably next year. Where in prior years we’ve been seeing the total cost of paid claims coming in at around 80% of total premiums, this year, through January claims, we’ve spiked to 112%. While the overall cost to us is capped at \$13.3 million in the

current year, well within the amount we budgeted prior to the switch from Horizon, it means that Cigna is essentially taking it on the chin this year. Had we stayed with Horizon, assuming our employees would still have faced the same level of illness and injury and sought the same care, our total premium costs would be higher, but we'd still be trending toward a loss ratio of nearly 102% of that higher total premium, so we'd be looking at a \$14.8 million bill this year - \$1.5 million higher – as well as a dramatic premium increase for 2015-2016, and we'd likely be going into this budget with an equal or higher health benefits cost projection and an even lower projected fund balance.

But the bottom line is this. Because of the dramatic increase in the cost of our employees' medical care, the cost of our medical insurance is projected to rise 35% for 2015-2016, which equates to more than \$4.7 million. Under the Affordable Care Act, we would also in our 2015-2016 plan year need to offer federally-compliant medical insurance to the over 100 full-time paraprofessionals hired after July 1, 2011 who are not eligible for health care under the negotiated MEA agreement, at an additional estimated cost of \$400,000, bringing the total projected increase in the district's cost for medical insurance to more than \$5 million. So when I started this presentation by noting that we've projected a \$6.6 million increase in our total operating costs, sustaining existing staffing and programs, you can see that the overwhelming bulk of that projected increase is medical insurance. Laura Fanuele from Brown & Brown will now present an analysis of our plan experience and try to answer your questions about our medical insurance.

[Brown & Brown presentation and Q&A]

Other Rising Costs (slide)

As I said before turning the podium over to Laura, at our existing staffing levels, the cost of medical insurance for the district is projected to increase over \$5 million. And I noted that our overall budget, to sustain existing staffing and programs, would cost us \$6.6 million more than it's costing us this year. So what other costs did we project to rise? There's very little I can say about projected increases in salaries, other than at the margin, because 1,022 of our 1,088 employees (around 94%) are members of the MEA, and the Board's current contract with the MEA expires at the end of this fiscal year. The total combined contractual increases for the 20 members of the Montclair Principals' Association, which represents our principals and assistant principals, and the 14 members of the Montclair Head Custodians Association is less than \$100,000. I'll speak a bit about the 32 non-represented employees when we talk about the work to close the budget gap.

Another area where we've seen costs rising each year is in the combined cost of our out-of-district tuitions, special education settlements and judgments, and purchased speech, occupational therapy and physical therapy services, also largely for students placed out of district. Over \$1 million of the budgetary savings that we're realizing in 2014-2015 from the change in insurance carriers from Horizon to Cigna has been reallocated to cover increased costs in those areas. While this is an area where we hope to implement strategies and programs to bring more students back into the district, or back to in-state special schools from out-of-state residential programs, those strategies will not change trends overnight, and we had to plan for such rising costs to carry through to the 2015-2016 budget.

As always, our property and liability insurance will go up some – about \$80,000. The same with gas and electric – with a projected cost increase of about \$75,000. And we expect to see increases in the cost of our

transportation contracts, which has been going up every year, and our supplemental custodial services contract, which has to be re-bid this year. All of these projected increases pale in comparison to the medical benefits.

We've created a slide that shows the relative costs of different projected expenditures in the 2015-2016 Budget. As you can see, 83% of our budgetary costs are in salaries and benefits, with the costs of out-of-district tuitions and purchased related services for students with disabilities, and transportation costs, being the next largest components.

Technology Expenditures and PARCC

I'd like to speak a little bit about the cost of technology and the PARCC exam, as I know that's been an area of particular attention and concern for the Board and the community. During the budget hearings last year, I spoke both about our technology needs for PARCC administration, and our technology aims for teaching and learning, and about how our goal was to meet the grossly underfunded PARCC technology mandate in a way that would also best serve teaching and learning in the district. The Board of School Estimates unanimously passed a resolution last spring imploring the New Jersey Department of Education to adequately fund the PARCC technology mandate. This past fall, the Board of Education unanimously passed a resolution urging the New Jersey Department of Education to allow the district to administer the PARCC with a paper and pencil format. Dr. MacCormack has stated publicly on multiple occasions that she believes the State should not be requiring districts to administer the PARCC exam online. I'll add my own voice here, as well. The mandate to administer PARCC online this spring has imposed a significant financial obligation and administrative toll on the district. It has imposed a psychic toll as well. This year, with an amazing new Director of Technology who is first and foremost an educator and who

believes in the power of technology as a tool for educator and student creativity and collaboration, we should have been having a community conversation about technology and education unsullied by the politics of the PARCC exam and the online test administration mandate.

But we have not prioritized investment in technology over educators, and we certainly haven't prioritized investment in *PARCC* over educators, as some have suggested. Beyond my public statement last year calling online PARCC administration a "grossly underfunded" mandate, the Board of School Estimates resolution, the Board of Education resolution and the public statements of the Superintendent against the online PARCC administration mandate, we have also tried our best to both ensure that our technology investments were right for teaching and learning, not just PARCC administration, as well as to limit the impact of PARCC on the operating budget. The vast majority of the technology spending required to administer the PARCC exam was done from capital funding sources outside the budget – a 2013 bond ordinance issued by the Township with funds (\$500,000) earmarked for districtwide technology upgrades, and another \$500,000 in capital reserve funding approved for technology purchases, that was used to upgrade our network infrastructure and capacity, and to purchase the Chromebooks and MacBook Airs on which most students will take the PARCC exam this Spring. Gratifyingly, we've also seen many of our outstanding educators make excellent and creative use of those laptop carts in their classrooms to enhance student learning.

Last spring, in response to surveys and conversations assessing the priorities of our MHS faculty, parents and students, we also spent around \$800,000 from the 2013-2014 operating budget on laptops for all teachers in Grades 6 through 12 and projectors and whiteboards for 93 classrooms at the high school where blackboards and chalk had been the

norm. That investment, which happens to be essentially useless for PARCC administration, was made without any cuts to staffing or programs.

In 2014-2015, the need to prepare for online PARCC administration did tax our operating budget, to the tune of about \$130,000 for additional laptops and carts, mice, keyboards, cables, wireless airports, headsets and headset wipes. But 2014-2015 is the same budget year in which we hired three additional kindergarten teachers and classroom aides to reduce kindergarten class size and 4.5 new world language instructors for our elementary schools. We have not chosen technology for PARCC over educators.

That said, we did use lease-purchase agreements for 14 of the 57 total laptop carts acquired for both teaching and learning and PARCC test administration, 10 out of the Central Services budget, and two each out of the supplies budgets of Glenfield and Mt. Hebron. The 2015-2016 lease payments for those laptop carts total \$96,109. That's essentially the sum and substance of the PARCC-driven technology hit on this 2015-2016 Budget. Like everything else, it's essentially a pittance next to the \$5 million health benefits hit.

Strategic Technology Plan

The members of the Board and our principals have all seen a draft of a two-year strategic technology plan that focuses on supporting teaching and learning with technology resources, curriculum and professional development, and a reorganization of the technology office to facilitate more timely and effective data management and reporting, tech support, and one-to-one instructional technology coaching to help educators engage students across the curriculum using technology tools. The plan also talks about digital literacy and citizenship, and about data security.

And it's not remotely driven by PARCC. In fact, the computer purchases we had prioritized were for K-5 teacher devices and a quality technology lab for Nishuane, both essentially useless for PARCC. I think it's a very strong strategic technology plan, but given the realities of this budget season, we have to slow down and rethink what we can and should do with existing and available resources. On a positive note for the budget, there is a new cooperative pricing contract for broadband internet service available through the Middlesex Regional Educational Services Commission that should allow the district to realize almost \$100,000 in savings there.

Balancing the 2015-2016 Budget

So the extraordinary challenge we face together for this 2015-2016 Budget, as we've already been discussing in committees, is to determine what combination of tax increases and expenditure cuts to choose in order to close the \$10.9 million budget gap. This is the challenge that the Board will confront in its public budget workshop meetings on Monday and Thursday of next week. Tonight, I'd like to lay out for the Board and for the public the parameters of that difficult work.

Revenue Options (slide)

Let's start by discussing the tax levy. 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. As we've all seen, however, when health care and other costs balloon at a much higher rate than 2 percent a year, it becomes impossible to sustain school staffing and programs with a 2% increase to revenue – let alone to just the tax levy portion of revenue, considering that federal and state aid have been essentially flat.

As Montclair taxpayers, we know full well how high the property tax burden in town already is. It's part of the reason why Montclair taxpayers were so furious that the fund balance was driven so high, through taxes collected on behalf of the schools that weren't even being used. But ultimately, that high fund balance was used for four years to cover the rising costs of the district without any new taxes. Beginning with last year, we no longer had the ability to absorb the rising operating costs of the district without new taxes.

However, because there was no increase to the school tax levy for either the 2012-2013 Budget, or the 2013-2014 Budget, the Montclair Board of Education was able to "bank" the value of the taxes that could have been raised, but weren't. Montclair generated "banked cap" of \$2.98 million in 2012-2013, and another \$2.4 million in 2013-2014. Banked cap generated in one budget year can be used to increase the amount of new tax levy that a district may legally raise in a subsequent budget year, but if it isn't used within three years, it expires. For Montclair, we have \$2.98 million in banked cap that expires this year if we don't use it, and \$2.4 million in banked cap that could be used for either the 2015-2016 or the 2016-2017 budget. The bottom line is that the school district is legally permitted to increase school taxes this year by nearly \$7.4 million, or around 7.3 percent, using the banked cap generated in 2012-2013 and 2013-2014. Were the Board of Education and Board of School Estimates to approve that maximum allowable tax levy increase, the budget gap would shrink from \$10.9 million to around \$3.5 million, reducing the expenditure cuts required to balance the budget. However, a 7.3 percent increase would impose a significant burden on Montclair taxpayers. A family with a home valued at the Montclair median of \$504,407 would see their school tax increase by \$623 for the 2015 calendar year. And then going into the 2016-2017 budget, the district would have no available banked cap and would be held at the adjusted 2

percent figure, which would almost certainly compel significant budget cuts going into that next fiscal year.

So now that we know what the legal ceiling is for the tax levy, let's discuss the options underneath that ceiling. Every one percent increase in the tax levy shaves slightly over \$1 million off the \$10.9 million budget gap. And every one percent increase in the tax levy equates to a \$89 school tax increase for a Montclair family with a median home value. So a 3 percent increase in the tax levy shaves the deficit down to \$7.86 million, a 4 percent increase shaves it to \$6.85 million, and a 5 percent increase shaves it to \$5.83 million. Any of these tax levy options would still leave us needing to significantly reduce expenditures to balance the budget.

Also on the revenue side is the possibility of a limited voluntary contribution of fund balance – possible only because after the final settlement with Horizon we can now project a full restoration of the recommended 2 percent unassigned fund balance, plus a potential year-end excess of over \$700,000. Based on that projection, we believe we can responsibly contribute \$300,000 to the 2015-2016 Budget without risking a dip back below the 2 percent unassigned fund balance. It's worth noting that during last year's Budget presentations, we projected \$265,015 in fund balance going into the 2015-2016 Budget, so a contribution of \$300,000 to the Budget from fund balance is essentially what we had projected last year, plus a little bit more.

Expenditure Options

Let's now discuss the options we'll need to consider on the expenditure side. Over the past several weeks, Dr. MacCormack and I have presented the Board with a long list of potential cost reductions to consider, few of which are easy to bear. We also invited the Board

members to suggest additional options for expenditure reductions they wanted us to price out. As we prepare for next week's public budget workshops, it's important for us to give the public a sense of what's on the table, including programmatic and staffing reductions. To clarify, the intent of this presentation tonight is to provide the Board with options, on both the revenue and expenditure side, for closing the budget gap. This is not a list of expenditure items that have already been cut. Nor does it rule out the possibility of budget reductions in areas not mentioned tonight.

Let me also briefly address the letter issued on Friday by the Montclair Principals Association. None of my drafts for this presentation ever intended to suggest that our school principals endorsed any specific proposed cuts to the Budget. Dr. MacCormack and I did meet with each principal back in December to go over their respective budget requests and proposals, and we did share with each principal in those meetings that the 2015-2016 budget would be a very difficult one, particularly due to the loss of budgetary fund balance, and that cuts likely would be required, including to school per pupil allocations for other-than-salary expenditures, as well as to our overall staffing levels. The estimated \$6 million in school-based cuts referenced in the MPA letter appears to have been intended to reflect the approximate value of school-based cuts to staffing and programs that we anticipated would be required were the Board to approve an increase to the tax levy in the range of 4 percent.

In January, as we analyzed our health benefits plan experience with Brown & Brown and discussed the potential cost increase, it became clear that we would likely be facing a far steeper deficit. That information was shared with the Board in mid-January, as well as with our principals at a meeting held on February 4. At that meeting we explained that significant budget cuts would likely be required,

including to school-based personnel. Over the past several weeks, Dr. MacCormack has discussed potential cuts with each principal and has shared their feedback with me as we have continued to review options.

As I've discussed, over the past two budget years, as the amount of budgeted fund balance declined, we've already attempted to realize as many efficiencies as possible in our other-than-salary discretionary account lines. For example, the budget for purchased maintenance services and supplies was cut over 28% over the last two budget years. We will not be able to balance this year's budget without reducing the cost of salaries and benefits, which together comprise 83% of the total operating budget of the district, particularly when a significant portion of the remaining 17% of the budget, including property and liability insurance and energy, is essentially non-discretionary, while other components like transportation are based almost entirely on publicly bid contracts.

Let me start by making a few important points about our discussion of potential staffing reductions. First, the elimination of a position does not necessarily mean that the person currently serving in that position would be laid off. Many position reductions can and will be achieved through natural attrition, as retirements and resignations either cover the reduction directly or otherwise open vacancies for those whose current position may have been eliminated. Second, any reduction in positions that cannot be met through natural attrition alone will result in a "reduction in force" or RIF, as governed by state laws and regulations and our collective bargaining agreements, which account for tenure and seniority. For that reason, we "cost" any proposed staffing reductions at the estimated salary and benefits cost of the "last in" employee for the title in question.

All of that said, although we have an obligation to discuss in public the scope of staffing reductions under consideration for balancing this budget, that obligation is a solemn one. I cannot and will not attempt to minimize the pain and anxiety that reductions and layoffs will cause my fellow school district employees, and I present any and all possible staffing reductions with a heavy heart.

Let's start by discussing Central Services. The State Education Department's Taxpayers' Guide to Educational Spending shows that, as of the 2013-2014 budget year, the most recent available comparative data, Montclair had the lowest per pupil spending in Essex County on administrative costs, the lowest ratio of administrative staff to students, and the lowest ratio of administrative staff to faculty. The district's administrative staffing has been very lean in comparison to our neighbors, and it can only be cut so far before the reduced capacity of Central Services to provide support becomes deeply felt by our school leaders. That said, given the magnitude of the budget gap we're facing, we felt it necessary to put significant Central Services staffing and spending cuts on the table. The district's Chief Talent Officer, Michelle Russell, is a deeply valued member of our leadership team, whose efforts over the past two years have gone far beyond the primary scope of talent development, which is recruitment, retention and professional development. Ms. Russell has also overseen our No Child Left Behind funded programs, and has spearheaded our parent engagement work and our community partnerships, with many great successes and advancements for the district. But the current budget climate will leave us with little opportunity for new recruitment next year, and in discussion with Dr. MacCormack and Ms. Russell, we agreed that it would be difficult to sustain a Talent Development Office independent of the Offices of Human Resources and the Academics Office. We therefore presented the Board with a proposal to close the Talent

Development Office, transfer oversight of our NCLB funded programs, parent engagement and professional development to the Academics Office, and to revise the job description of our current Supervisor of Professional Development to additionally take on oversight of Harassment, Intimidation and Bullying investigation and reporting from Pupil Services, as well as Violence and Vandalism reporting from the Human Resources Office. We believe this reorganization will permit us to reduce the size and cost of Central Services by one Chief position, the Chief Talent Officer, and two secretary positions, one that served the Talent Development Office and one that handled Violence and Vandalism within the Human Resources Office.

Additionally, the position of Special Assistant to the Superintendent, or Communications Lead, which was not included in the initial 2014-2015 budget but was funded this year with savings from retirement breakage, will not be funded for 2015-2016. All of the Chiefs will also forego any payment for achievement of approved merit goals in both the current year and the 2015-2016 school year. We've also worked with the Central Services leads to further trim their offices' already slim other-than-salary budgets as much as possible without crippling operations.

Not surprisingly, given the small size of Central Services, those proposed reductions, though significant, only dent the budget gap. Although we can certainly discuss the possibility of even steeper cuts to Central Services, we've shared with the Board and with our principals that we do not believe we can balance this budget without reducing the cost of salaries, benefits and other-than-salary expenditures at our schools. Conceptually, it might have been easiest to give each of our 11 principals a fixed percentile budget cut and ask each principal to determine what combination of reductions in staffing, programs and supplies to offer up, or to tell each principal to reduce head count by a

fixed number. However, we recognized that the status quo has already left us with some significant school-to-school differences in staff-to-student ratios in many categories. At no point did we intend to cut expenditures by blindly equalizing staff-to-student ratios across all schools; rather, the ratios were used to identify areas for further analysis. Some of the school-to-school disparity is attributable to our magnet system. It is not surprising for example, that Glenfield has more faculty in art, music and drama, while Mt. Hebron has more faculty in technology. But the magnet system doesn't account for why Glenfield's performing arts magnet has math and home economics elective courses that the other middle schools don't have, or why Mt. Hebron's STEM magnet has a dedicated staff member for English Language Arts SAIL classes.

At the elementary school level, we want to continue to ensure that all students, regardless of school, have access to art, music, physical education, world language and technology classes. But in looking at options to present to the Board, we also had to look at the disparities in staff-to-student ratios from school to school in those areas, as well, and analyze whether the existing staffing levels were efficient in terms of fully scheduling teachers in accordance with the collective bargaining agreement. Students at our elementary schools generally move with their homeroom to related arts classes during their homeroom teacher's preparation periods. But the available teaching periods for our related arts teachers at each of our schools comfortably exceed the total prep periods for the homeroom teachers, and as a result many related arts teachers are scheduled for significantly fewer teaching periods than intended under the collective bargaining agreement. This is particularly so at Edgemont School, given its small student population and number of homerooms, but it is also true at our gifted and talented magnets, Hillside and Nishuane, where you expect to find instruction in art,

music, drama and dance, but where we also see related arts staff members who are not being fully scheduled and utilized.

Hillside and Glenfield have also experienced declining enrollment over the past few years without corresponding adjustments in staffing levels. Glenfield, with 684 students, has seven houses, each with an English, math, science, social studies and in-class support teacher. Mt. Hebron, with 647 students, covers its four core subject areas with only five total houses, again resulting in significant disparities in student to faculty ratios. Mt. Hebron also has fewer world language instructors per student than both Glenfield and Renaissance.

Meanwhile, at Montclair High School, the Board and the MEA agreed in the last round of collective bargaining to end the past practice of limiting English teachers to four teaching periods per day, while math, social studies and science teachers taught five periods per day. With English teachers now intended to teach five periods a day like their colleagues in other subject areas, the high school needed fewer total English teachers to cover the same number of English classes on the schedule. However, there were no staffing reductions, nor have we seen any material increase in the number of English courses offered to students.

Accordingly, the high school started the current school year with 23 total English teachers, compared with only 20 science teachers, 18 social studies teachers, and 15 math teachers, with the result being a great many of our English teachers assigned as study hall monitors rather than assigned a fifth class. We likely have the ability to realize staffing efficiencies without any reduction to the number of English courses that the high school is able to offer.

In consultation with our Director of Pupil Services, we also looked closely at the projected enrollments in our self-contained special education classes across our schools, the ratios of included special

education students to resource room teachers, and the ratios of students requiring a shared paraprofessional to paraprofessionals. Through that process, we identified two instances where self-contained classrooms within a school could be merged while still meeting all of the needs and requirements of the students' Individualized Education Programs. And we further identified instances across our schools where, with more effective scheduling, we could meet students' IEP needs while reducing three resource room positions and 17 paraprofessional positions.

We also looked with our principals at curriculum support staffing, ratios and schedules. Curriculum support is intended to support intervention in English Language Arts and/or mathematics to struggling general education students at Tier 3 or higher under our Response to Intervention model. But our districtwide review identified instances where curriculum support teachers were not efficiently scheduled or utilized in view of the number of students requiring such interventions, and through our analysis we identified a potential reduction of four positions across our schools.

We also identified the possibility of reducing at least one full-time equivalent from the 13 secretaries at Montclair High School, as well as reducing a nurse's aide position, which would still leave the high school with 2.8 full-time equivalent school nurses.

In looking at the dramatic projected increase in our health benefits costs, including the potential budget impact of the Affordable Care Act's employer mandates, we also had to assess the possibility of moving to a third-party employment model for our per diem, long-term substitute and paraprofessional staff. This model is already being used in many districts across the State, including the South Orange Maplewood School District, and the rising costs of health care and the Affordable Care Act mandates are pushing a great many other districts toward that model,

while other districts have considered and decided against such a change. It is not a change to be considered lightly or made cavalierly, but our research to date suggests that moving to a third-party staffing model in these areas could save the district \$2.3 million or more, primarily in the cost of medical benefits, while reducing demands on Human Resources and shielding the district against the risk of Affordable Care Act penalties. If the Board elects such an option, we would probably issue two separate Requests for Proposals, one for substitute staffing services, and another for paraprofessional services. In each case, we would anticipate referring the vast majority of our current staff for hire by the third-party to whom we awarded a contract. We do not want to lose our outstanding paraprofessionals, nor do we want any of them to be left without access to medical benefits, but we do need to consider the projected \$2.3 million in cost savings of moving them from our health benefits plan to the health benefits plan of an Educational Services or Jointure Commission, another professional staffing entity, or a subsidized State health insurance exchange. Such a move, while allowing us to continue working with the high-performing paraprofessionals and substitutes in our district who wish to stay in our schools, could significantly reduce the budget deficit we're facing. From a human perspective, the Affordable Care Act, despite its complications, buffers the blow of such a change to our paraprofessionals, as the Act ensures that each would have access to affordable medical insurance from either the third-party employer or from a State health insurance exchange. That said, I do not intend to negate or minimize the myriad potential impacts of such a change on our paraprofessional, per diem and long-term substitute staff members. Just as with any of the discussed potential reductions in the number of staff, I present the possibility of outsourcing existing staff members with a burdened mind and a heavy heart, borne by the necessity of reducing expenditures to balance the

budget while limiting to the greatest extent possible the need for even steeper cuts to staffing and programs. And we remain open to the discussion of alternatives.

In committees, we also talked about each of the non-mandated new and recurring staffing and program costs, such as the addition of Student Assistance Counselors at several of our elementary schools, and increased investments in community programs like IMANI and Sister to Sister, that were added to the Budget in 2012-2013, 2013-2014, and 2014-2015, as supported by fund balance. We can also discuss the ongoing cost of the kindergarten class-size reduction initiative implemented this year. I discussed all of those new and recurring positions and programs when we talked about how the fund balance was invested, so I won't repeat them all again here, but we will want to look at those additions to the Budget in our workshops to determine the value they add to our schools and our ability to afford them moving forward. Again, like almost everything else we'll be discussing on the expenditure side, those new initiatives are highly valued, and we would rather not have to think about cutting them, but in view of the realities of this budget, we just don't have the luxury of avoiding these hard discussions.

In a year where we grapple with reductions to instructional staff and programs, we also cannot avoid a review of our \$1.2 million athletics budget, or of the cost of our student activities that aren't covered by fundraising in our schools' student activity fund accounts. In committees, we examined the total cost and the cost-per-participant of each of our sports, and we discussed options for achieving an estimated 10% cut to the athletics budget. We could budget the 10% cut and then take the rest of the year to determine specifically where to realize those savings, but Mr. Earle and Mr. Gannon are reviewing options across the

athletics budget and will ensure there is opportunity for public input before specific choices are finalized.

We also discussed and can continue to discuss the possibility of a student activity fee at the high school, and have also already begun asking all of our schools and partners to include the cost of custodial and security overtime when budgeting for extra- and co-curricular activities, and will need to look at including the cost of any required stipends or payments for teachers or nurses when budgeting student activity or other school-level discretionary funds for field trips – particularly overnight field trips.

We also looked closely at the per pupil allocations provided to each school to cover the costs of instructional and office supplies, plus textbook replacement and consumables. (The cost of newly-adopted textbooks is borne by the Academics Office in Central Services.) Historically, many of our schools have not fully expended these discretionary funds, or have rushed to expend remaining funds in mid-spring. We also have been funding our elementary schools at \$86.30 per pupil, our middle schools at \$110.90 per pupil, and our high school at \$168.40 per pupil, which does not include the independent \$1.2 million athletics budget. At that funding level, the high school has left up to \$120,000 of its per pupil allocation unexpended at year end, indicating that the high school may be able to get by at the middle school per pupil allocation level. Given the budget gap and the desire to minimize the required staffing reductions at our schools, we also asked each of our elementary and middle school principals to budget his or her per pupil other-than-salary allocations with a 10% reduction.

The Work Ahead

All of that is a lot – too much. None of us relishes the work ahead and none of us is happy about the difficult choices that need to be made about our district’s taxing and spending, about our staffing and programs. I would much prefer to be standing here today presenting the Board and the public with exciting ideas to expand educational programs and increase resources for our students and families, while minimizing the impact on Montclair taxpayers. But instead, we’re forced to take a very hard look at our district model, as constrained by our fiscal and regulatory environment, and to think very carefully about what we can ultimately afford and sustain, not just in 2015-2016, but the year after that, and the year after that, and the year after that.

If I may, I try not to get too political in this job. I’m a public school district employee, not an elected official. But I find it terribly sad and wrong that my biggest challenge as the Chief Operations Officer for our public schools is to find a way to contain the cost of employee health benefits, so that it doesn’t squeeze out the rest of the budget, including the employees themselves. I felt last year that we had taken a strong step in that direction with the switch from Horizon to Cigna, and while we did limit by \$1.5 million our health benefits costs in the current year, it now appears to have been merely a one-year reprieve. It is insane, as we enter contract negotiations with our teachers’ union, that the issue of absorbing the rising cost of health care and health insurance is likely to overwhelm everything else we should be and I’m sure would all prefer to be working on together to best serve the educational needs of Montclair’s kids. In my mind, it makes starkly apparent the superiority of a single-payer government health insurance model, as opposed to one that continues to pit employers against their employees, particularly in the public sector where we’re charged with delivering an essential public good. Health care, like education, should be an essential public good. Until our country figures that out, I look forward to working with the

MEA, MPA and MHCA to explore better and different ways to ensure our employees and their families have access to the health care they need while containing the costs to each individual employee, and to the school district and Montclair taxpayers as a whole.

Montclair is an amazing school district with amazing schools that both serve and are nourished by the vivacity and diversity of our community, its people and its passions, including our district, school and community leaders, our employees, and of course our families and our kids. As a product of this school district and this community, and as a district leader, taxpayer and public school parent, I remain sure that Montclair is the best place my wife and I could have chosen to raise our kids, and my love for this school district remains unshaken. As painful as the tax increases and reductions to staffing and programs on the table are to contemplate, I remain confident that, working together as a community, with a keen eye toward fiscal efficiency and responsibility, we can sustain the excellence and exceptionalism of our schools through this difficult budget cycle and beyond.

Thank you all for listening. Let's get to work.