

Presentation to the Finance Committee of the Keene
Board of Education

Update on Proposed State Budget for 2011 – 2012

Administrative planning to respond to anticipated
expenditure and revenue losses.

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Introduction

This report is the third in a series begun in April to apprise the Finance Committee of the legislature's progress toward finalizing a budget for the next biennium. Some of the material included may be redundant but reflects the slow progress of the bills.

We still have no clear picture of how the legislature and governor will resolve the budget crisis. There continues to be much speculation regarding the impact of proposed budget legislation and the impact of funding reductions on the Keene School District. While the extent of the budget crisis at the state level has become clearer, we still have little indication of how the crisis will impact our budget in Keene.

As reviewed previously, the following concerns remain in flux as we look to consider:

- Building Aid was cut to 40% in the Governor's budget proposal. Both the New Hampshire House and Senate proposals restored building aid to current levels for existing commitments. Our revenue projections for the next school year included significant funds to help cover the cost of bonds on Keene High School and the new middle school.
- Catastrophic Aid for Special Education helps our district absorb the costs of expensive out of district tuition expenses for students whose educational needs cannot be met by our educational programs.
- Adequacy Aid to the Keene School District was about \$10 million for last year. The House level funded Adequacy Aid but changed the formula. The Senate approved keeping the "collar" and will maintain current funding in the next biennium. After 2013, we anticipate that Keene will lose significant funds as donor towns are eliminated and funding becomes more concentrated in the Route 93 corridor. A constitutional amendment continues to work its way through the legislature that could eliminate this important source of funds entirely.
- Vocational and Transportation Aid was reduced from \$10 million to \$6 million. This aid for students from other districts to attend the Cheshire Career Center is in jeopardy. The Senate returns \$3 million to this important funding source to maintain revenues above the threshold with continued access to Perkins (federal) funds.

The Senate has added an additional \$20 million to their proposed budget without increasing revenues. Meanwhile actual revenues are below expectations. The Union Leader reported on June 3, 2011 that "...May revenues were \$100 million, bringing \$4 million more than was expected. So far this fiscal year, the state has seen revenues of \$1.991 billion, compared to the \$2.033 it expected." The Senate has added an additional \$3 million to support Career and Technical Education. Mr. Logan's best estimate is that we will be close to level funding for out of district students at the CCC in 2011-12.

SB 2 (tax cap) has received positive support in the House. This could lead communities to limit budget increases in the future. Some legislators are proposing that the cap limit future budget increases to the inflation rate. Such an initiative will prevent local school districts and communities from maintaining current programs by increasing property taxes. An amended version of the Tax Cap bill (SB2) was approved by the House Municipal and County Government Committee during the week of June 1.

Our attention is now centered upon the work of the conference committees as the legislature attempts to find common ground between Senate and House versions of bills. We continue to fear the possibility that the legislature will fail to approve a budget, and the state government will enact a series of continuing resolutions over the course of next year to keep basic services running. State revenues would be parceled out on a monthly basis with no guarantee that funds will be available in the months ahead. Such a situation would be untenable in terms of proper budget planning. There is also the possibility that the final version of bills will face court challenges further delaying our ability to respond to decreases in revenues or increases in expenditures.

On April 15, the Keene School District notified 40 certified employees that they would not be issued contracts for the 2011-12 school year. This unfortunate decision was based upon the House budget proposal approved in late March. The foremost impact to the Keene budget was the proposed elimination of funds for the state's share of the New Hampshire Retirement fund. For Keene, that decision would result in a \$1,000,000 increase in our expenditure budget. It now appears that employees will be required to assume a greater burden for funding the pension system. The system is now on firmer fiscal grounds thanks to improved investment returns. However, the State may identify those returns as their contribution and download future obligations to local municipalities and school districts.

Unfortunately, the picture is murkier yet on the status of employer contributions to the pension system. Mark Joyce of NHSAA reported on May 31, 2011 that:

The Committee of Conference on SB 3 Retirement Reform continues to meet and will reconvene on Tuesday. To date they have developed a tentative agreement on a number of issues including:

1. For new and non-vested members – AFC will be capped at 85%.
2. New hires will no longer be able to count Special Duty pay for their AFC. They will not pay employee contributions rates on it.
3. House agreed NOT to raise the age for Group I members
4. NEW Group II members that retire at age 50 will NOT be able to collect their pension until Age 52.5.
5. NEW Group I members that retire at age 60 will not be able collect their pension until 65.
6. NEW State employees will no longer be able to collect medical benefits that were originally available after 20 years of service until age 65 now.
7. Once employer rates reach the same level as employee rates, they will get locked in and employer and employee rates will rise and fall at the same level depending on the cost of the System

Difficult issues remain on the table including coverage of part-time workers and return to work rules for retirees. Most importantly the resolution of the retirement downshift is still uncertain. The House and now Senate advocate that the 2 % increase in employee rates together with reforms to the retirement system (taking the special fund money and changes to ages, etc.) offset the reduction of the state's payment of 35% or 25% of the employers share. We do not see convincing evidence that that will be the case for sure.

School districts still face the prospect that they may be totally responsible to pay the full employers share effective July 1 of about 13.95% - for at least a period of time until the rates are reset. As you may recall, the committees have also directed the NHRS to recalculate the rates to show the impact of the increased employees contributions (plus 2%) and the impact of the changes included the reform legislation (not yet a final

product?). It is estimated that this recalculation will not be completed until January 2012 – halfway through the upcoming fiscal year. It is likely that the above changes will have a moderating impact on the overall rate but no one is sure how much lower the rate will be. Therefore, school districts will have to be prepared for the worst while they (we all) hope for a reduced rate. A conservative approach is recommended – where districts still maintain flexibility in expenditures until the final rates are known. If this is not complicated enough.....it is likely that once the law is approved; it will be challenged in court as a violation of the “contract law and other issues” - given the speed of the other court cases – that issue may take years to finalize.

Keene administrators recommended the “pink slip” option to gain time to identify areas for reduction in the 2011-12 budget to cover the retirement costs. They worked hard to make difficult recommendations to close the expenditure gap in a responsible manner. Their prioritized suggestions will hopefully give the Board additional guidance in determining these very difficult options. As of June 1, three affected staff members have notified us of their decision not to return to the Keene School District next year.

There are some possible bright spots in the near future that may serve to alleviate some of the fiscal damage. As noted in earlier reports, the district has not spent any of the federal jobs funds provided during the economic stimulus package. These funds amount to about \$318,000 and could be used to supplant local spending for jobs. John Harper will have the latest surplus projections for the end of this school year. We continue to benefit from lower than anticipated costs for health insurance, special education and debt service. It is unlikely such substantial cost savings will occur in the next budget cycle. These funds will be used to reduce the local tax rate for next year. Sale of the current middle school is on track for a sale next fall. Prospects are also hopeful for a sale of the 34 West Street property.

If needed to resolve lingering budget uncertainties, **HB 650** came out of committee with an “Ought to Pass” recommendation on a 5-0 vote and would place in statute a new provision for school districts to call a special meeting. In response to statutory changes resulting in reductions or increases in distribution of state revenues for education pursuant to RSA 198:41 (adequacy), the governing body of any school district, including those that have adopted RSA 40:13, may call a special meeting of the legislative body to consider a reduction, rescission, or increase of appropriations made at an annual meeting.

Following are a number of options to consider at this time:

Option A

Administrators again recommend the district issue employment contracts to most certified staff not given contract offers on April 15, 2011. Also, that the district fill critical vacancies created by recent retirements. This would leave approximately 8 current employees without contracts for the upcoming school year.

We are concerned that these high quality employees will be drawn to positions in neighboring communities if we do not issue contracts by the end of the school year. Also, on July 1, our employees without contracts will be eligible for unemployment compensation. The school district may be liable to unemployment costs of \$10,000 per person (based upon a full year of benefits eligibility).

We have also made a strong effort to limit spending for the current fiscal year to maximize the surplus available to reduce the tax rate for next year.

Option B

Fill a limited number of critical vacancies and maintain status quo until the legislature and governor reach a consensus on the 2011-12 budget.

Option C

Remain status quo.

Other areas for reductions are noted in the Finance Report Addendum accompanying this paper but are not included in the reduction proposals. They may be a source to offset unanticipated costs or lost revenues. Professional Development costs the Keene School District about \$138,000 and another \$47,000 for substitute teachers. These sums would be dramatically reduced to help absorb decreases in revenues.

Extracurricular and Athletics:

The Keene School District budgets almost \$690,000 for student activities that fall outside normal academic programs. As we reduce our budget, it is time to take a closer look at opportunities to raise revenues to offset some of these costs. A committee has held its first meeting to explore options such as: "pay to play", corporate donations and other fundraising activities.

Caveats:

As noted, heating oil has been extremely volatile this year. Mr. Remillard has proposed using current funds to fill our oil tanks at the end of the school year. This will cost about \$147,000 which will be deducted from our budget surplus. The alternative is to wait until we have signed a contract for next year and risk greater costs in the fall.

Since our April Finance Committee meeting, there are no clear signals of how or when this budget crisis will be resolved. It is unlikely that any resolution will be forthcoming before the end of the school year. As before, issuing contracts to the remaining certified staff will obligate the district to honor their contracts throughout the next school year.

As we reviewed areas for reductions, we made an effort to continue to support initiatives in their first few years of existence. As a result, funds to support the elementary strings and band programs are included in the operating budget. Also, funds to support the new grants management position would continue in the next budget cycle. We anticipate that more federal entitlement grants will be changed to a competitive basis. The role of a grant writer is critical in developing proposal that will help support our programs.

Budget reductions impact future revenues. As you know, AREA and independent tuition formulas are, in part, based upon our educational costs at each level. Currently, more than \$10 million is expected in tuition revenue for next year. As we reduce our operating budgets, there will be a corresponding loss of revenue the following year.

Non-certified Staff: We are required to inform non-certified staff of the employment status for the next school year by the end of classes next month. Paul Cooper is preparing a

reduction in force document to be used in the event staffing reductions will have to be made.

Title II-A has been used for many years as a means of lowering teacher to student ratios in our schools. We have been notified that II-A is being revamped for the 2012-13 school year by the U.S. Department of Education. Class size reduction will no longer be an accepted use for the funds. We currently have three positions funded by Title II-A.

As requested, Mr. Harper has provided the following chart indicating the cost impact of the early retirement requests.

Name	Early Retirement Start Date	Stipend Amount	Budgeted Amount	
	7/1/2011	\$19,628	\$78,200	
	7/1/2011	\$21,024	\$85,738	
	7/1/2011	\$19,207	\$82,026	
	7/1/2011	\$19,165	\$88,348	
	7/1/2011	\$21,579	\$86,215	
	7/1/2011	\$19,214	\$75,868	
	7/1/2011	\$19,655	\$74,794	
	7/1/2011	\$20,664	\$85,049	
	7/1/2011	\$21,243	\$93,718	
	7/1/2011	\$22,032	\$75,868	
		\$203,411	\$825,824	
FICA		\$15,561		
<u>TOTAL COMPENSATION</u>		<u>\$218,972</u>	<u>\$825,824</u>	<u>\$606,852</u>