

**John A. Stayn, Ed. D. prepared this independent report at the request of the Lexington School Committee, and upon the recommendation of the Superintendent, Dr. Paul B. Ash. For additional background, please contact the Superintendent's office.**

September 28, 2005

Dear Dr. Ash,

Thank you for the opportunity to assist the Lexington Public Schools in dealing with the reported budget shortfall for FY'06. As I understood it, your assignment to me was to assess the reasonableness of your recent budget projection methods and results, in particular the projection entitled "Identified Deficit – FY'06" dated September 8, 2005.

Before proceeding to my preliminary findings, I would like to thank Ann Giombetti, Director of Finance and Operations, for her forthrightness in sharing data I requested and for her flexibility in making her busy schedule available to my many questions.

I am pleased to submit the following observations, findings and conclusions regarding the items listed in the September 8th, 2005 projection:

Observations and Findings:

### **PAYROLL**

- ❑ **Central Administration** – The projection is based on actual personnel employed in FY'06. Given the amount of recent turnover in this category, the projected deficit is not at all surprising and was likely unforeseen during last winter's budget deliberations.
- ❑ **Technology** – The projection is based on actual personnel employed following a reorganization that occurred after the budget deliberations. The projected surplus is a direct consequence of a consolidation of positions; the amount is reasonable in this light.
- ❑ **Custodians & Maintenance** – The projection is based on actual costs of FY'05 and on projected FY'06 additions resulting from the collective bargaining agreement as well as from the decision to add a full-time position to the system. It remains unclear if this position was calculated into the approved budget last winter, as the projected deficit is almost exactly the same as the cost of the new position.
- ❑ **Tutors** – The September 8th projection was based on actual costs of FY'05 plus calculated costs for steps and collective bargaining revisions. Given the substantial difference between actual '05 and budgeted '06, i.e., approximately \$336,000, I would strongly argue for relying on actual experience and actual employees as opposed to whatever methodology formed the budgeted number.

The September 8 projected deficit of \$445,000 was reasonable given the data available then. More recent information based on '06 employees on hand, costed out at the new scale, suggests the deficit may be as high as \$511,000.

- ❑ **Aides** – The projection is based on actual '05 experience plus collective bargaining revisions for '06. Given the stability of this workforce, this methodology appears reliable to me. The fact that there is a substantial surplus suggests reviewing this category for possible crossovers with the tutor category.
- ❑ **LEA** – This is the largest segment of the budget and has, in my opinion, been researched very carefully. The projection is based on a complete line-by-line costing of all teachers and other staff associated with this category, based on the new September '05 salary schedule plus the projected cost of February '06 adjustments. All credits for grant offsets have been taken and all positions have been accounted for as of the time before you recommended budget cuts. The only unknown seems to be the value of salary lane changes that usually occur in the middle of the year after teachers submit their “courses taken” reports. In the recent past, this factor was on the order of \$25,000.
- ❑ **LEA Stipends** – The September 8<sup>th</sup> projection was based on actual stipends approved for activities scheduled for '06. The projected surplus appears correct barring any unforeseen addition of stipend positions during the school year.
- ❑ **Custodian Overtime** – the projection for custodian and maintenance overtime has been made at the same level as budgeted. The actual for FY'05 was more than double the level budgeted for FY'06. I understand that part of the reason for adding a full-time custodian was to reduce the need for OT. I also understand you are about to employ a new Director of Facilities, who might be expected to preside over a review of departmental practices such as OT. Based on my experience I would expect to see a fair amount of the new fiscal year go by before any significant changes can be made, hence I would respectfully suggest that the proposed '06 OT budget would not suffice.
- ❑ **Principals/Asst. Principals** – The projection for this category of the budget has been made, line by line, on the basis of actual employees at current rates, including those newly hired this year. The projection accurately incorporates the fact that some assistant principals are part time (in that role) and work ten months rather than year-round.
- ❑ **Secretarial/Clerical** – This projection was made on the basis of FY'05 actuals plus new FY'06 rate changes. Given the stability of this work force, the projections are in good order.
- ❑ **Coaches** – This projection was made on the basis of the cost of individual coaching assignments as well as comparison with FY'05 actuals. Barring changes in coaching arrangements during the year, this projection should prove out well.

- **Nurse Subs, Secretarial/Clerical Subs, Police Details, Crossing Guards** – These categories appear sensibly budgeted and projected, based on experience.
- **Vacation Payout** – Apparently there has been no such line item in the budget before. Given the frequency of turnover in positions eligible for vacation payout (i.e., compensation in lieu of vacation not taken), it is eminently sensible to not only project such a cost but also to account for it separately. The amount so budgeted can be discretionary until a body of experience is built and documented.
- **Medicare** – I had expected that given the number of positions added to the school system for FY'06, one would need a larger increase than that shown from '05 to '06. However, a simple calculation revealed that the stated increase is sufficient to provide for about \$900,000 in new payroll costs, thus the projected budget appears prudent, especially given the position cuts recently announced.
- **Insurances** – I have been given to understand that this line item is a negotiated one between the School Department and the municipal side, hence not subject to change until a new budget, i.e., FY'07, is formulated.

## **EXPENSE**

- **Schools-PPS through Substitutes-Contracted** - These expense categories are considered directly controllable through the purchasing and contracting systems, therefore are prudently projected at budgeted levels for now. As in some previous years, shortfalls in some less controllable categories might lead to spending freezes in controllable ones.
- **Consulting Services Students** – This category entails contracted services related to Special Needs educational plan preparation and implementation. The experience of FY'05 turned out to be at a level \$96,000, or more than 14%, higher than what was budgeted for FY'06. The new Special Needs administration is reportedly reviewing departmental practices and their associated costs, hence the budget projection has been tentatively set at the '05 actual level. Given the general trend toward more cases and more severe needs, it seems unlikely to me that the '05 level will suffice, but at the same time I have no formula to offer a different number. This is definitely an area to watch closely.
- **Special Education Out-of-District Tuition** – The September 8<sup>th</sup> projection was carefully computed on the basis of the then complete list of out-placements – which in turn was significantly longer than the list on which the '06 budget was constructed. The projection also incorporates the approved state Circuit Breaker credit, which came in a little lower than had been expected when the budget was constructed. Because of its itemized character, the projection is good as of September 8<sup>th</sup>, though you should realize that there have been additions to the out-placement list since, possibly for another forty to fifty thousand dollars.

- **Regular & Other Transportation** – The fixed cost per bus per day contract allows for solid projection of costs. On the other hand, the extremely likely requirement to account for fuel cost increases, the option private schools have to run additional school days, and the possible need of an extra bus to relieve overcrowded routes all justify the escalation of the projection. If the extra bus is not needed, this projection could be reduced by about thirty thousand dollars.
- **Special Education Transportation** – With out-of-district placements increasing in number, one would expect the associated transportation costs to increase as well. The fact that the September 8<sup>th</sup> projection is the same as the budgeted amount reflects a decision to “hold” until the September bills come in and give the Special Education Office and the Business Office a direct measure to compare with the budget.
- **Electricity, Heating Oil, Telephone, Water & Sewer, and Natural Gas** – These categories have been projected on the basis of FY’05 actuals plus projected rate or unit increases that have been discussed in the media and/or quoted as likely by the utility companies. Adjustments have been incorporated for the construction status of Fiske School and for full year use of the new as well as the old Harrington. The fluctuations in the oil and gas markets are such as to render almost any projection problematical, so the September 8<sup>th</sup> projection may be the best one can do for now.

#### Conclusions:

Based on my observations and findings, informed by my own experience with school department budget-related activities, I have concluded the following:

- A) The September 8<sup>th</sup> “Identified Deficit – FY’06” projection is in keeping with accepted practice in the field in that it relies on recent real experience, current actual staffing and other significant known cost elements, and reasonable assumptions about near-term cost variability.
- B) I am confident and, in my opinion, you can be confident in the numbers of the projection, with but a few caveats:
  - 1) Tutors (by \$66,000), Consulting Services for Students, Out-of-District Tuition, and Special Education Transportation may well be under-budgeted even in your September 8<sup>th</sup> projection.
  - 2) Custodial Overtime will bear close scrutiny and may be under-budgeted.
  - 3) Pending more fuel adjustment and school calendar information, as well as route decisions, Regular Transportation might be trimmed back a bit.

I look forward to your comments on any of the above, and again thank you for the opportunity to assist in this matter.

Sincerely,

John A. Stayn, Ed.D.