

Report
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Appendix B

CENTRAL REGIONAL SCHOOL DISTRICT

**Financial Impact of the Withdrawal of
the Borough of Seaside Park from the Regional District
or the Dissolution
of the
Regional School District**

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Financial Impact of the Withdrawal of
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The analysis of the financial impact of the withdrawal of the Borough of Seaside Park, a constituent member of the 7-12 regional high school district and the dissolution of the regional school district is based upon a hypothetical "snapshot" of such impact in the 2005-2006 school year. No attempt was made to forecast subsequent school years. This is consistent with the approach used in the preliminary study prepared on the behalf of Seaside Park that also assumed full implementation at the beginning of the 2005-2006 school year. I agree that this approach which does not consider a phase-out offers the best information reflecting the full impact of a withdrawal or dissolution.

The major reason I did not attempt to forecast subsequent school years is the current lack of any stable state school aid formula. Currently, school districts are experiencing the fourth consecutive school year where state school aid was essentially frozen. In light of the State's acknowledged continuing budget concerns regarding the State budget, I feel it is unlikely that the current or next administration and the legislature will make any decisions soon regarding a stable school aid formula. The State budget for fiscal year 2006-2007 in all likelihood will not contain a significant infusion of dollars for statewide state school aid purposes. I feel this is true for the foreseeable future even if major changes are made to the CEIFA formulas. I suggest that a "snapshot" analysis of this sort is reliable regarding the current school aid environment. Also, any changes to the state school aid formulas likely would not change the outcome of this analysis.

This analysis is focused primarily on the financial impact relating to state school aid and the tax levy requirements for the taxpayers of Berkeley Township, Island Heights, Ocean Gate, Seaside Heights, and Seaside Park in the event the Borough of Seaside Park was no longer a constituent member of the 7-12 regional high school district or the regional school district was dissolved beginning in the 2005-2006 school year.

In preparing this analysis I also reviewed the report, "A Preliminary Study To Determine The Feasibility Of Seaside Park's Withdrawal From, Or Dissolution Of, The Central Regional School District," (Preliminary Study) prepared by Dr. Donald E.

Beirteman and James L. Kirtland as a result of the Borough of Seaside Park's continuing concern about paying a disproportionate share of the regional school district's costs. My analysis includes comments concerning their findings.

In order for a withdrawal to occur the municipal governing body of the Borough of Seaside Park or the Seaside Park Board of Education would have to petition the Commissioner within 30 days after the filing of a study report by the county superintendent for permission to submit the question of a withdrawal to the voters. In order for the regional school district to be dissolved a majority of the five boards of education and a majority of the five governing bodies would have to apply to the county superintendent to make an investigation as to the advisability of the dissolution of the regional school district and each of these boards of education and governing bodies would have to petition the Commissioner within 30 days after the filing of the county superintendent's study for permission to submit the question of a withdrawal to the voters.

The Commissioner would present the matter to a board of review for a determination as to whether or not the petition should be granted and an election conducted, and if so, for a determination of the amount of indebtedness, if any, to be assumed by the new Seaside Park K-12 school district and the remaining new Central Regional School District (in the event of a withdrawal) or in the event of a dissolution the amount of indebtedness each of the new school districts would assume. Among other things the board of review would hold a public hearing and would consider the financial condition of the withdrawing and the remaining district. In considering the effect of the proposed withdrawal or dissolution upon the financial condition of the withdrawing and remaining district, the board of review can oppose such a petition if:

1. An excessive debt burden will be imposed upon the remaining new Central Regional School District, or Seaside Park or any of the other constituent districts in the event of a dissolution.
2. An efficient school system cannot be maintained in the new Central Regional School District or the new Seaside Park K-12 district or any of the other constituent districts in the event of a dissolution without excessive costs.
3. Insufficient pupils would be left in the new Central Regional School District or in any of the other constituent districts in the event of a dissolution, to maintain a properly graded school system.
4. Any other reason which it may deem to be sufficient.

The board of review could also approve such a petition and request that the amount of debt that any of the parties would be required to assume be reduced for the reason that:

1. Such amount of indebtedness, together with all other indebtedness of the municipalities or school districts would be excessive.
2. The amount of expenditure for debt service which would be required would be so great that sufficient funds would not be available for the general fund expenses without excessive taxation.
3. Such amount of indebtedness is inequitable in relation to the value of the property to be acquired by the remaining district (Central Regional School District) and would materially impair the credit of the municipalities or such districts and the ability to pay punctually the principal and interest of their debt and to supply such essential educational facilities and public improvements and services as might reasonably be anticipated would be required of them.

The board of review would have to approve any such petition by a recorded vote of at least three of its four members before the matter could be presented to the voters.

Seaside Park's withdrawal from the Central Regional School District would have to be approved by an affirmative vote of a majority of the votes cast within Seaside Park and by an affirmative vote of a majority of the overall votes cast in the entire regional district. For a dissolution to be deemed approved the question of the dissolution would have to receive an affirmative vote in a majority of the individual constituent districts and also receive an affirmative vote of the overall votes cast in the entire regional district. If the question was deemed adopted at an election, the withdrawal of Seaside Park or the dissolution of the regional district would become effective upon a date to be determined by the Commissioner of Education.

The amount of indebtedness to be assumed by the withdrawing district and the effect of such indebtedness upon the borrowing margin of the withdrawing municipality, the withdrawing district, the remaining district (the new Central Regional High School District), and the remaining municipalities (all four remaining) within the regional district must be stated in the notices and advertisements of the required special school election.

The county superintendent would be required to calculate the amount of indebtedness relating to buildings, grounds, furnishings, equipment and additions to be assumed on the basis of the proportion which the replacement cost of the buildings, grounds, furnishings, equipment, and additions that are located in the withdrawing district bears to the replacement cost of the buildings, grounds, furnishings, equipment and additions located in the entire Central Regional School District. Replacement cost is determined according to rules prescribed by the commissioner. In the event of Seaside Park's withdrawal I would expect that 100% of the replacement cost would be allocated to the remaining new Central Regional School District since the buildings, etc. are located in Berkeley Township, resulting in all of this indebtedness being allocated to the remaining new Central Regional School District. As of July 1, 2005 the principal amount of the outstanding bonded indebtedness for the Series 2000 and 2001 school district bonds was

\$9,871,500 and the interest amount on such bonds was \$2,760,722. Currently, there is no authorized but not issued debt. Currently, Seaside Park is responsible for approximately 11.5% of both the principal amount or \$1,135,222.50 and the interest amount or \$317,483.03 or a total of \$1,452,705.50 of the bonded indebtedness. As of July 1, 2005, eleven years remained on the debt service payment schedule for the debt on these two series. In the event of a withdrawal Seaside Park would have no buildings, etc. and this debt would likely become the responsibility of the remaining other four constituent communities of the regional high school district. In the event of a withdrawal, shifting responsibility for this additional debt service over the remaining eleven years would not have created an excessive debt burden for the four remaining constituent communities. In the event of a dissolution responsibility for approximately 26.2% or \$2,586,333 of the principal amount and \$723,309.16 of the interest amount of outstanding bonded indebtedness or a total of \$3,309,642.16 would likely be shifted to Berkeley Township where the buildings, etc. are located. Since this would have been over the remaining eleven years remaining on the debt service payment schedule this also would not have created an excessive debt burden for Berkeley Township. The county superintendent would also calculate the amount of all other indebtedness and unfunded liabilities to be assumed on an equitable basis. Other indebtedness of \$186,639 as of July 1, 2005 is the remaining payments on the capital leases for school buses and computers. Unfunded liabilities of \$224,244 as of July 1, 2004 is the liability for compensated absences (unused vacation, sick leave). Both of these amounts are small and should be a non-issue in the event of a withdrawal or a dissolution. In the event of a dissolution the county superintendent and the board of review are both required to "give due regard to the value of school buildings and grounds being conveyed to the constituent district in which those buildings and grounds are located" when determining the amount of indebtedness to be assumed by each constituent district. Such consideration is unlikely to impact Berkeley Township in the event of a dissolution. Rotated furnishings and equipment would be allocated in "fair proportion" to the withdrawing district or to each of the constituent districts in the event of a dissolution. Other assets (based upon present value) and liabilities would be divided among the parties based upon "the amount of the ratables (equalized valuation) in the respective districts." The discussion in the Preliminary Study concerning other assets is accurate so I will not repeat it here except to say that Seaside Park's most recent current share is approximately 11.5% of such items and that the distribution of the net liquid assets to only those districts not receiving buildings would have a significant negative impact on Berkeley Township.

School Facilities and Budgets

Under the law, the buildings, grounds, furnishings, equipment, and additions thereto of the regional district situated in the withdrawing district become the property of the withdrawing district. In the event Seaside Park withdrew from the regional school, Seaside Park would not gain any school facilities and would either have to construct a new high school facility or enter into a sending and receiving relationship with another district (which might include the Central Regional School District at least temporarily). In the event of a dissolution the two current school facilities would become the property of Berkeley Township. Since the county superintendent is required to calculate the amount of bonded indebtedness to be assumed by each party in a withdrawal on the basis of the proportion which the replacement cost of the buildings, grounds, furnishings, equipment, and additions that are located in the withdrawing district bears to the replacement cost of the buildings, grounds, furnishings, equipment and additions located in the

entire Central Regional School District, all of the bonded indebtedness for the two current school facilities would remain with the regional school district and none of the bonded indebtedness would be allocated to Seaside Park in the event of withdrawal. In the event of a dissolution the bonded indebtedness would be allocated to Berkeley Township. Since the county superintendent would also be required to calculate the amount of all other indebtedness and unfunded liabilities to be assumed by each party on an equitable basis, rotated furnishing and equipment in fair proportion and other assets and liabilities based upon equalized valuations, "at the end of the school year preceding that in which the withdrawal or dissolution becomes effective" it is possible at this time to estimate the impact of these requirements had the withdrawal or dissolution been effective at the beginning of the 2005-2006 school year by using information in the district's June 30, 2004 Comprehensive Annual Financial Report (the June 30, 2005 CAFR is not yet available).

In preparing this analysis I relied upon the 2005-2006 budget information provided to me by Mr. James Cummings concerning a Seaside Park withdrawal on which I agree. The information provided to me by Mr. Cummings indicated that for the 2005-2006 school year the general and special revenue fund school budgets for a 7-12 regional without Seaside Park would have been unchanged due to the small number of Seaside Park students and would be \$30,040,466 and the debt service budget would be \$1,118,327.

Borrowing Margin

As of June 30, 2004 the available school borrowing margin for the Central Regional School District was \$113,622,855. This amount was calculated by statute by multiplying the average equalized valuation over a three year period for the district by 3.5%. In the event of the withdrawal of Seaside Park this available school borrowing margin for the Central Regional School District would have been reduced to \$93,666,595 since this calculation would no longer reflect the equalized valuation for Seaside Park. As of June 30, 2004 Seaside Park's available borrowing margin for the K-6 school district was \$14,254,471 based upon 2.5 % of its average equalized valuation over a three year period. As a K-12 school district the percentage would increase to 4% of the average equalized valuation over a three year period or \$22,807,153.

Under the dissolution scenarios each of the five K-12 districts would have their own borrowing margin based upon 4% of the average equalized valuation over a three year period for each community. Seaside Park's borrowing margin as of June 30, 2004 would have remained the same as in the preceding paragraph. The borrowing margins for the four other K-12 school districts as of June 30, 2003 are listed in the Preliminary Study. Obviously, the borrowing margin changes each time the three year average equalized valuation changes and each time a district's net school debt changes. However, in all five communities the available borrowing margin as a K-12 school district is a higher percentage and the dollar amount would be significantly above the existing current net school debt amounts for each district which means that a dissolution would not hinder these districts' ability to issue future bonds.

Present Tax Levy Per Student

The impetus for the Preliminary Study is Seaside Park's continuing concern about its share of the regional tax levy. My analysis shows that Seaside Park's share (\$2,891,428.77 with 2.56% of the students) of the 2005-2006 regional tax levy of 11.5144541% calculates to a per student (based up 10/15/04 resident enrollment) amount of \$50,727 per student. This compares with an average per student tax levy of \$10,088 for the remaining constituent communities of the regional school district. This contribution ratio of 5:1 compares with a ratio of 4:5 determined in the Preliminary Study and I agree with the finding in the Preliminary Study that the extra contribution exceeds \$2,000,000 (alternative to a per pupil based contribution). So it is clear that Seaside Park's taxpayers contribute significantly more per student than the taxpayers in the other constituent communities. Given the relative wealth of Seaside Park (See Table 7) and the current laws regarding the apportionment and the changing of the apportionment method for regional school district tax levies, it remains to be seen whether this is inequitable and a sufficient justification for withdrawal from the regional school district or justification for the dissolution of the district. The recent decision by the New Jersey Supreme Court regarding the Borough of North Haledon's position as a constituent member of the Passaic County Manchester Regional High School District while possibly causing a number of constituent districts throughout New Jersey to refocus on the possibility of withdrawal was obviously based upon the specific facts in that case in which the racial impact of the proposed withdrawal by North Haledon was the determining factor in the court's decision. The racial impact of a withdrawal or the dissolution of the regional school district appears to be a non-factor in this instance.

Present Tax Burden

While it is clear that Seaside Park taxpayers contribute significantly more per student to the regional school tax levy the question of whether this is inequitable must be examined in light of the real tax rate burden on each constituent community. Examination of the regional school tax rates shows that Seaside Park taxpayers have a lower regional school tax rate per \$100 of assessed valuation than the taxpayers in two of the other four communities, Berkeley Township and Seaside Heights. When the total school tax rates are examined for each community one finds that Seaside Park taxpayers have a total school tax rate per \$100 of assessed valuation that is less than the total school tax rate per \$100 of assessed valuation in each of the other four communities that comprise the regional school district (See Table 12). Seaside Park's total school tax rate per \$100 of assessed valuation of \$.614 is only 81% of Island Heights' total school tax rate per \$100 of assessed valuation of \$.757. Of the other four communities, Island Heights is the community with the lowest total school tax rate per \$100 of assessed valuation.

Experts agree that the best way to compare tax rates and to determine a community's tax burden is to compare "equalized" tax rates which are tax rates based upon a community's equalized valuation rather than a community's assessed valuation. This methodology corrects for the different assessment practices across communities. Examination of the equalized regional school tax rates shows that Seaside Park taxpayers have a lower equalized regional school tax rate per \$100 of equalized valuation than the

taxpayers in all of the other four communities. When the equalized total school tax rates are examined for each community one finds that Seaside Park taxpayers have an equalized total school tax rate per \$100 of equalized valuation that is also less than the total school tax rate per \$100 of equalized valuation in all of the other four communities that comprise the regional school district (See Table 18). Seaside Park's total school tax rate per \$100 of equalized valuation of \$.469 is only 53% of Berkeley Township's equalized total school tax rate per \$100 of equalized valuation of \$.861. Of the other four communities, Berkeley Township is the community with the lowest equalized total school tax rate per \$100 of equalized valuation.

