

From: Education Planning Committee  
To: Lamoine Board of Selectmen  
Subject: Issues with regard to withdrawal from Regional School Unit 24  
Date: 23 September 2013

Based on the order of the Lamoine Board of Selectmen dated 20 June 2013, the Committee has considered the following questions and issues related to the possible withdrawal of certain communities [Ellsworth, Hancock and Lamoine] from RSU 24:

- Exit Costs of to Lamoine per Withdrawal Agreement payable to RSU 24
- Projected school expenditures of Lamoine as a stand-alone entity
- Projected Costs to Lamoine if the community stays in RSU 24
  - Current communities all remain in RSU 24
  - Ellsworth leaves RSU 24
  - Hancock leaves RSU 24
  - Ellsworth and Hancock both leave RSU 24

**Methodology.** The Committee met as a whole 7 times and individual members gathered and analyzed data separately. The Committee relied on historical data from Union 92, RSU 24 as well as other similarly situated communities – Otis, Penobscot, Surry, Blue Hill, Cherryfield and Trenton. Committee members also reviewed the results of efforts undertaken by the Lamoine Withdrawal Committee including their financial analysis. All such financial data, assumptions and projections were discussed extensively with Gordon Donaldson of the Lamoine Withdrawal Committee. The financial pro-forma results presented in this report reflect the independent analysis and determination of the Education Planning Committee and have been shared with Mr. Donaldson. The Committee also reviewed the Withdrawal Agreement and met as a whole with Lamoine Withdrawal Committee members – Brett Jones and Gordon Donaldson.

**Exit Costs to Lamoine per Withdrawal Agreement payable to RSU 24.** The Withdrawal Agreement calls for certain payments to be made to RSU 24 in the event that Lamoine should elect to withdraw. Correspondingly RSU 24 will reimburse Lamoine for certain payments and expenditures made on behalf of other communities and locations in RSU 24. Lamoine will also assume certain indebtedness, and lease and service payments related specifically to Lamoine K-8 School. These payments and obligations will be effective as of the date of Withdrawal – 30 June 2014. Lamoine SAU will also be responsible for certain RSU expenses for a one year period following Withdrawal:

1. Lamoine SAU will assume certain indebtedness – bonds and notes issued on behalf of the Lamoine K-8 School prior to the formation of RSU 24 [Section 7A]
2. Lamoine SAU will assume certain lease and service contract obligations for equipment located at the Lamoine K-8 School, purchased in 2011 by RSU 24 [Section 7B]
3. Lamoine SAU will pay 8.12% of the salary and benefits under contracts to certain administrative staff of RSU24 for the 2014-2015 fiscal year ending 30 June. These amounts will be subject to reconciliation following the audit of RSU 24 financials for this period. This obligation refers only to contracted employees as of the Withdrawal Date [30 June 2014] and will be adjusted for eliminations, transfers and other personnel changes. In the event that the Lamoine SAU

contracts with RSU 24 for administrative services, Lamoine's proportionate share of those administrative salary and benefits related to that person shall be nullified [Section 7C].

4. Current Superintendent's contract terminates on 30 June 2014. In the event that RSU 24 extends her contract through 30 June 2015, Lamoine SAU will pay 8.12% of her salary and benefits for 2014-2015. This obligation extends only to the Superintendent under contract on the date of the Withdrawal Vote [Section 9].
5. Major Capital Projects. For the period 1 July 2009 to 30 June 2014, Lamoine SAU will reimburse RSU 24 91.88% of expenditures made at the Lamoine K-8 School. Correspondingly RSU 24 will reimburse Lamoine SAU 8.12% of expenditures made at all other locations during the same period [Section 12A(1)].
6. Local Only Debt Service. For the period 1 July 2009 to 30 June 2014, Lamoine SAU will reimburse RSU 24 91.88% of debt service paid by RSU 24 for renovation of the Lamoine K-8 School. Correspondingly RSU 24 will reimburse Lamoine SAU 8.12% of debt service paid by RSU 24 for other communities during the same period – the Ellsworth K-8 School and the Peninsula CSD School [Section 12A(2)].
7. Major Technology Expenditures. For the period 1 July 2009 to 30 June 2014, Lamoine SAU will reimburse RSU 24 91.88% of expenditures made at the Lamoine K-8 School. Correspondingly RSU 24 will reimburse Lamoine SAU 8.12% of expenditures made at all other locations during the same period [Section 12B(1)].
8. Major Equipment Expenditures. For the period 1 July 2009 to 30 June 2014, Lamoine SAU will reimburse RSU 24 91.88% of expenditures made at the Lamoine K-8 School. Correspondingly RSU 24 will reimburse Lamoine SAU 8.12% of expenditures made at all other locations during the same period [Section 12B(2)].
9. Summer Payroll and Benefits. Lamoine SAU will pay to RSU 24 liabilities for Summer payroll and benefits for employees at the Lamoine K-8 School, earned prior to 1 July 2014 and normally paid in July and August 2014 [Section 12C5].
10. RSU 24 will pay to Lamoine SAU, 8.12% of its food service balance as of 30 June 2014, subject to final audit of their fiscal year ending 30 June 2014 [Section 12C1].
11. RSU 24 will pay to Lamoine SAU, 8.12% of its unassigned/undesignated fund balance as of 30 June 2014, based on the 2013-2014 RSU 24 Budget, subject to final audit of their fiscal year ending 30 June 2014 [Section 12C1].

#### **Schedule of Payments.**

- Summer Payroll and Benefits [item 9, above] will be **paid by Lamoine SAU in five installments 7 days in advance of the RSU 24 payroll, July and August 2014** [item 9, above].
- Food Service balance [item 11, above] will be paid [prepayments as well as delinquent accounts receivable] **on or before 15 August 2014** [item 10, above]. .
- **1 October 2014** – Fifty percent [50%] of all obligations [items 3 – 8, above] with the exception of unassigned/undesignated Fund Balance [item 11, above] shall be paid to the party to which the obligation is due. Total amount **due from Lamoine SAU** is ~ \$254,305. 50% of this amount is payable on 1 October -- **\$127,153.**
- **31 January 2015** - Remainder of all obligations [items 3 – 8, above] shall be paid to the party to which the obligation is due. Total amount **due from Lamoine SAU** is ~ \$254,305. Remainder payable on 31 January 2015 -- **\$127,153.**
- **31 January 2015** - The unassigned/undesignated Fund Balance [item 11, above] shall be paid to the party to which the obligation is due. Based on the 2013 – 2014 RSU 24 Budget

planned Fund Balance at 30 June 2014 is \$2,381,469. Total amount **due TO Lamoine SAU** is 8.12% of that amount or ~ **\$193,375**.

**Net Exit/Withdrawal Costs to Lamoine SAU**

Projected costs of withdrawal are based on actual costs as of 30 June 2012 and projected Balance Forward as of 30 June 2014 [per accepted RSU 24 Budget]. The reconciliation between Lamoine and RSU 24 may be different, as it will be based on audited expenditures and Balance Forward. For purposes of this analysis, Costs of Withdrawal are reasonably accurate. Actual Balance Forward, however depends upon the ability of RSU 24 to meet Budget and resolution of additional EPS Funds provided by the State to RSU 24 that were not included in the RSU 24 accepted Budget for 2013 – 2014 [Maine’s final budget approved by the legislature added \$512,360 in revenue to RSU 24 for 2013 – 2014. If those amounts are not proportionately refunded to the RSU 24 communities, they should remain in the Balance Forward that is subject to distribution to any departing community.]

Subject to the Schedule of Payments specified above and subject to certain adjustments based on audit of RSU Financials for Fiscal Year 2013 – 2014:

<b>In Year One After RSU:</b>	
Costs of Withdrawal to Lamoine SAU	\$254,305
Balance Forward from RSU 24 paid to Lamoine SAU	<u>(\$193,375)</u>
<b>Total RSU Exit/Withdrawal Costs</b>	<b>\$ 60,930</b>

**Projected school expenditures of Lamoine as a stand-alone entity.** The pro forma presentation of Lamoine SAU annual expenditures [see exhibit 1, following] is based on the 2013 – 2014 RSU 24 approved budget. The RSU 24 budget was presented and individual communities approved their respective appropriations under the reduced EPS State Aid proposed in the Governor’s original budget. Maine’s final budget approved by the legislature added \$512,360 in revenue to RSU 24 for 2013 – 2014. While the amount is large it is 1.4% of and not significant to the overall approved budget that totals \$36,548,456. The overall analysis and conclusions based on the approved budget similarly are not significantly affected.

Modifications of specific line items for stand-alone basis are shaded and explanation as to source or assumptions are noted. Projections include no changes to current Lamoine SAU staff or facilities and assume that certain functions [i.e. part-time Superintendent] and services [i.e. IT services can be secured on a contractual or as-needed basis]. It will be the responsibility of the New Lamoine School Board to ensure that the quality of the educational experience for Lamoine students is ensured and enhanced. Their vision will determine the exact level of annual expenditures for the new Lamoine SAU.

This pro forma projection was then compared with actual revenue and expenditures for Lamoine Consolidated School for 2008-2009, its last year in Union 92.

Total expenditures projected for the pro forma year are \$2,111,191 or \$12,348 per student based on current Lamoine K-12 enrollment of 171. While school expenses are not fully variable, this metric allows us to compare the pro forma for reasonableness with prior history for Lamoine, other similarly situated communities and RSU 24 as a whole. As part of Union 92 in 2008 – 2009, Lamoine’s expenditures were \$2,286,252 or \$11,647 per 198 students enrolled.

Exhibit 2 shows a comparison of the Lamoine pro forma projection with most recent expenditures for six other communities – Otis, Penobscot, Surry, Blue Hill, Cherryfield and Trenton. Comparable analysis across these seven communities is undertaken before application of debt service, which appears in only Lamoine and Trenton. After eliminating Otis based on district size [only 80 students] and Trenton for comparably high expenditures for Special Education, the individual cost per student as well as the average of expenditures per student [pre debt service] is consistent with that of the Lamoine SAU projection. {Penobscot, \$13,301 per 119 students; Surry, \$13,782 per 163 students; Blue Hill, \$13,670 per 343 students; Cherryfield, \$12,481 per 137 students; Lamoine, \$11,987 per 171 students; Average [4 communities], \$13,308 per 191 students).

**Projected Costs to Lamoine if the community stays in RSU 24.** RSU 24 was not forthcoming with consolidating financials for individual communities that are necessary to conduct this analysis. Nor were we able to secure reasonable comparative analysis prepared by the other potential exiting communities, Ellsworth and Hancock. Based on the current RSU 24 allocation methodology, it is however likely that the administrative operating and overhead expenses charged to Lamoine will be negatively affected by the departure of Ellsworth and/or Hancock.

Exhibit 3 shows a comparison of the following alternatives:

- Current communities all remain in RSU 24
- Ellsworth leaves RSU 24
- Hancock leaves RSU 24
- Ellsworth and Hancock both leave RSU 24

Within RSU 24, all communities receive varying amounts of EPS State Aid except for Lamoine, Sorrento and Steuben. For 2012 – 2013, Ellsworth received \$2,958,000 and Hancock was allocated \$231,000. The current allocation methodology for RSU is complicated and convoluted. To varying extents some communities see the method as unfair. Ellsworth believes that they have been particularly disadvantaged. The RSU 24 Board is currently considering alternative allocation methods. For purposes of this analysis we assume that the current method will be applied. Any new allocation methodology will affect Lamoine. Currently Lamoine’s allocation is **8.12%**. Should the new method be a simpler allocation of overall expenses based on community student population, Lamoine’s share would be **6.8%**. Changes to allocations on per student basis are even more dramatic for other communities.

Based on the current RSU 24 allocation methodology Lamoine's share changes as follows under the scenarios listed above [see exhibit 4]:

- |  |                      |
|--|----------------------|
| • Current communities all remain in RSU 24 | Lamoine Share 8.12%  |
| • Ellsworth leaves RSU 24                  | Lamoine Share 11.93% |
| • Hancock leaves RSU 24                    | Lamoine Share 9.23%  |
| • Ellsworth and Hancock both leave RSU 24  | Lamoine Share 14.48% |

With withdrawal of up to three communities, RSU 24 student population reduces from a total of 2,519 to 1,146, by 54.5%. It is hoped that RSU 24 could reduce administrative overhead significantly, if not proportionately. Assuming that the direct local expenses would leave the RSU with the withdrawing communities, any remaining communities will be presented with the problem of absorbing an increasing share of administrative overhead. Currently RSU administrative overhead expenses are \$7,920,000 or 21.67% of the 2013 – 2014 approved budget that totals \$36,548,456. While not precise, exhibit 3 shows the potential magnitude of the effect on Lamoine of the loss of EPS State Aid to RSU 24, should Ellsworth and/or Hancock withdraw from and Lamoine remain in RSU 24. Also noted is the extreme case of increased allocation of RSU administrative overhead should Ellsworth and/or Hancock depart. Following is a relative comparison of per student expenditures under the following alternative scenarios [see exhibit 3]:

- |  |                                 |
|--|---------------------------------|
| • Union 92 [2008-2009]                     | Lamoine per student -- \$10,342 |
| • Current communities all remain in RSU 24 | Lamoine per student -- \$11,988 |
| • Lamoine Withdraws to new stand-alone SAU | Lamoine per student -- \$12,346 |

Lamoine remains in RSU and

- |   |                                 |
|---|---------------------------------|
| • Ellsworth leaves RSU 24                 | Lamoine per student -- \$15,159 |
| • Hancock leaves RSU 24                   | Lamoine per student -- \$12,613 |
| • Ellsworth and Hancock both leave RSU 24 | Lamoine per student -- \$16,449 |

While the financial result of each of these scenarios is by no means precise, the trend and the corresponding affect are substantially negative for Lamoine and all other communities should they remain in RSU if Hancock and particularly Ellsworth should leave.

### **Summary Conclusions.**

- 2013-2014 paid by Lamoine to RSU 24 is \$2,050,000 [\$11,989/student]
- Projected Stand-Alone Expenditures are \$2,111,000 [\$12,346/student]
- 2008 – 2009 paid by Lamoine, as part of Union 92, was \$2,286,000 [\$11,547 per student]
- If Lamoine remains in RSU 24 and Ellsworth and/or Hancock depart, total pro-forma annual Lamoine expenditures could reach from \$2,157,000 to \$2,813,000 [\$12,600 to \$16,400 per student].
- This analysis makes no effort and takes no position on the relative qualitative merits of local control or quality of education available to the students and the Lamoine community.

Respectfully submitted,

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