EXECUTIVE SUMMARY

Background

School districts throughout New Jersey are grappling with the issue of how to maintain high quality educational programs that incorporate the demands of the New Jersey Learning Standards, including robust offerings in science and technology, and offer a breadth of enrichment and co-curricular programs that will allow their students to graduate with the skills and knowledge necessary to succeed in life. Investments in teaching and learning from new labs to professional development and instructional resources are necessary in order to accomplish these goals. However, State aid currently is being reduced to many districts, leading to additional pressures on property taxpayers, and these aid reductions likely will accelerate as the economy enters a downturn. In addition, dwindling revenues and reduced enrollments will result in financial pressures that may prevent the necessary educational investments, hurting students and the community.

The New Jersey Department of Education has long advocated that PK-12 districts are more effective and efficient than other more limited governance structures such as PK-8 elementary districts or limited purpose regional districts. The department has pointed to unified governance of educational policy and continuity of curriculum and instruction as examples of greater operational effectiveness that will flow from the PK-12 structure and to the reduced administrative and governance structures and better operational system-wide coordination as examples of reasons for greater efficiency. A PK-12 district also is best capable of accomplishing certain research-based critical education goals (e.g., technology, enrichment, new programs, etc.).

This same position favoring regionalization recently was adopted by the Legislature. In late 2021, S3488 was passed by both the Senate and Assembly, and signed into law by the Governor on January 18, 2022 (P.L.2021,c.402). The law encourages school regionalization by creating a grant program that provides for the reimbursement of eligible costs associated with conducting feasibility studies that support the creation of meaningful and implementable plans to form or expand regional school districts. As noted by one of the bill's sponsors, "consolidation can reduce the cost of education, deliver property tax savings, increase educational opportunities and improve overall education quality. For school districts to make informed decisions, feasibility studies are essential. The costs associated with these studies should not discourage districts from exploring options that could save taxpayer money in the future."

Feasibility Study
March 2020

In this environment, a feasibility study was done as the first step in exploring the formation of a new All-Purpose PK-12 Regional District involving Atlantic Highlands, Highlands and Sea Bright. Sea Bright currently is educating students in Grade PK-8 in Oceanport pursuant to a 2009 mandatory merger under the Non-operating District Law, and is a current constituent member of the Shore Regional District for grades 9-12. Highlands and Atlantic Highlands currently operate their own distinct PK-6 districts but have formed the Henry Hudson Regional High School District to serve students in Grades 7-12. Shore Regional High School serves students from the constituent municipalities of Monmouth Beach, Oceanport, Sea Bright, and West Long Branch, where the school is located.

The Feasibility Study – which was completed in March 2020 – studied:

1. Sea Bright will withdraw from Shore Regional High School District;

2. Sea Bright will cease to be a party to the statutory non-operating merger with the Oceanport School District;

3. Henry Hudson Regional High School District will be dissolved;

4. Atlantic Highlands and Highlands, the constituent members of Henry Hudson Regional High School District, will join Sea Bright in creating a new All-Purpose PK-12 regional district;

5. There will be a phase-out of currently enrolled Sea Bright students attending Oceanport and Shore Regional, which will receive a contribution from Sea Bright, phased out over five years, based on 100% of the Sea Bright Local Levy excluding debt service in the year prior to implementation.

The Study examined the advantages and disadvantages of the proposal. A demographic analysis is the first step in the review of the proposal in providing contextual information on the communities involved in the proposal as well as current and projected enrollments. In reviewing the demographic data, the trend lines showed declining future enrollments in Sea Bright and slight increases in Highlands. Atlantic Highlands is projected to be stable. These projections, coupled with the small number of Sea Bright students, meant that the new PK-12 regional will not have to make significant building, classroom, staffing or program changes to accommodate the new students from Sea Bright. The Study also reviewed the impact of the proposal on student demographics such as race and ethnicity and concluded that, given the similarity of the communities involved, there will be no negative impact on the racial or ethnic makeup of the schools involved.

In the education area, the Study found that Sea Bright students will have available to them a high quality educational program at both the elementary and secondary level and that Atlantic Highlands and Highlands students will benefit from the additional resources that Sea Bright students will bring along with the inherent advantages of a seamless PK-12 governance structure, which none of the three communities currently have.

The finance section reviewed the budgetary and taxpayer impact of the proposal. The Study indicated that the proposal would have a positive net budgetary savings of approximately $165,000 annually. The estimated net savings are modest because of the commendable degree of shared services, program alignment and partnership that currently exist between Atlantic Highlands, Highlands, and Henry Hudson Regional High School. The additional savings depends on the participation of Sea Bright.

The Study found that State aid implications would be minimal given that none of the districts received wealth-based aid and that the categorical aid provided on a per pupil basis would track existing allocations adjusted for the movement of Sea Bright students. The Study noted that Highlands also received Preschool Expansion Aid to fund the enrollment of additional pre-school students based on a competitive application process.

The Study indicated that the new regional will assume ownership of all of the buildings of Highlands, Atlantic Highlands, Henry Hudson Regional and Sea Bright and assume responsibility for all bonded debt of the constituents. This will benefit Highlands and Atlantic Highlands since Sea Bright does not have any existing debt, but will now share in their existing debt.

In order to move to a fairer and more equitable allocation of cost methodology, the Study recommended that the tax allocation in the newly formed Regional be based 95% on pupil enrollment and 5% equalized valuation, except that during the five-year transition the allocation will be 87.5% pupil enrollment and 12.5% equalized valuation to account for the transitional payments to Shore Regional and Oceanport discussed below.

The Study concluded that the impact on the taxpayers of Atlantic Highlands, Highlands and Sea Bright will be positive for all three communities in both the short and long term. All three districts will see substantial savings following the five-year period where Sea Bright will be making transitional payments to its former receiving districts. The reason for the savings to Atlantic Highlands and Highlands is that Sea Bright will contribute millions of dollars to educate very few children (approximately 3-4 students per grade). It is anticipated that no additional teaching staff will need to be hired to accommodate so few students. As a result, the consultants found that the proposed regionalization would provide more than $1.5 million in savings to Atlantic Highlands and Highlands, as Sea Bright's share of the tax levy is far greater than the added cost in educating such a small number of students. In addition, the consultants recognized that Atlantic Highlands, Highlands, and Sea Bright discussed establishing a transitional circuit breaker fund that will provide Atlantic Highlands and Highlands additional protection against increases to their tax levy. The fund – financed exclusively through annual contributions by Sea Bright – is triggered if either Atlantic Highlands or Highlands experiences an increase of more than 10% in the ratio of its own local levy to the combined levies of all the constituent districts. The fund will continue for ten years.

Sea Bright also will see substantial savings from the proposed regionalization primarily due to the current inequity in the amount it pays to send its small number of students to Shore Regional. As the consultants noted, Sea Bright paid $161,391 for each student it sent to Shore Regional during the 2019-20 school year. Comparatively, the State average for 9-12 school districts was $18,923 per student. While Sea Bright will continue to pay a greater amount than its per pupil cost if a new regional is formed with Atlantic Highlands, Highlands and Sea Bright, the proposed allocation method is far more equitable to its community.

The fiscal impact of the loss of Sea Bright students on the remaining constituent members of Shore Regional will be significant over time, given the heavy reliance on equalized valuations to allocate costs. However, these districts will see large increases in their respective levy even under the status quo scenario given the reduction in Sea Bright students at the high school level over time.

The Study concluded that Shore Regional may be able to account for all or most of the loss of the funding without any diminution of programs and services given the teach-out transitional payments, which should give the district sufficient time to achieve budgetary savings.

Oceanport will have its contribution from Sea Bright slowly reduce over a period of years in direct relation to the phase-out of Sea Bright students, but the district also will have fewer students to educate. The Study postulated that Oceanport may be able to account for all or most of the loss of the funding without any diminution of programs and services through the budgetary savings that will be available (i.e., transportation and instructional savings) due to the loss of Sea Bright students. The transitional payments due to the phase-out will provide the district with the time necessary to make the budgetary adjustments.

The Study concluded by recommending that Highlands, Atlantic Highlands, and Sea Bright continue to pursue the creation of a new regional district and work with local legislators on passing the necessary implementing legislation.

Update to Feasibility Study
December 2021

The consultants issued an update to the Feasibility Study due to the release of data for more current school years. Based upon the updated information, the consultants continue to recommend the formation of a new All-Purpose PK-12 Regional District involving Atlantic Highlands, Highlands and Sea Bright.

The consultants found that the allocation method of 95% enrollment and 5% equalized valuation provides an equitable opportunity for savings across all constituent communities involved in the new All-Purpose Regional (while having the added benefit of correcting Sea Bright's current disproportionate share of the Shore Regional tax levy). When taking the average tax levy over the five-year implementation period (assuming a starting year of 2021-22 and going through 2025-26 school year), Atlantic Highlands would see an average annual savings of $520,000, Highlands would see an average annual savings of $1,077,000, and Sea Bright would see an average annual savings of $2,285,000. This assumes the Sea Bright students can be accommodated with existing staff, which is highly likely given the limited number of students in each grade level.

However, if we assume the same student/teacher ratio in new regional, then Atlantic Highlands would see an average annual savings of $255,000, Highlands would see an average annual savings of $877,000, and Sea Bright would see an average annual savings of $2,246,000.

The consultants also discussed added savings resulting from the new All-Purpose Regional. Two primarily economic principals drive cost reductions associated with unification. The first involves economies of scale in which a larger organization achieves lower prices and reduced costs by leveraging its greater buying power. It also distributes fixed costs over the larger entity, in the case of schools, thereby reducing the cost per pupil. The second financial benefit relates to efficiencies gained by reducing the functions replicated over multiple school districts. The economy and efficiency gains involved in unification will generate economic savings resulting in reduced taxes and better functional performance. The cost of operating a unified district will be lower than the sum of the constituent districts, notwithstanding the commendable level of coordination and shared services already in place in the tri-district configuration. This includes savings resulting from improved operational functionality. Based on review of the audited financials of the three districts, the consultants concluded that a new all-purpose regionalization could result in an overall costs savings of $287,000 due to reductions in administrative staffing (salaries and benefits), and other identified costs.

The consultants also found that Sea Bright's withdrawal from its existing school districts will not have a substantial negative impact on the member communities of the schools where it presently sends its students. Assuming a phase-out of Sea Bright's K-8 students, Oceanport will have a year-to-year reduction in tuition revenue of approximately $75,000 for each of the first four years following Sea Bright's transition to the new regional. When compared to the projected $10.2 million tax levy or the approximately $13.0 million annual budget, the lost tuition clearly is insignificant, as $75,000 amounts to 0.7% of the total tax levy and 0.6% of the annual expenditures. Oceanport also is a constituent member of Shore Regional for grades 9-12. Assuming a phase-out of Sea Bright's 9-12 students, Oceanport's share of the lost Sea Bright tax levy to Shore Regional would be $204,000 per year, which equates to 1.3% of the regional tax levy and 0.96% of its projected expenditures. Similarly, Monmouth Beach would see an increase of $258,000 per year, assuming a phase-out period, which equites to 1.6% of the Shore Regional tax levy and 1.2% of projected expenditures. Finally, West Long Branch, would experience an increase of $233,000 per year, assuming a phase-out period, which equates to 1.4% of the Shore Regional tax levy and 1.1% of projected expenditures. Based on the foregoing, the consultants concluded that there would be no substantial negative financial impact on any of these communities. The consultants further found that Shore Regional may be able to account for all or most of the funding loss without any diminution of programs and services given the phase-out and transitional payments. This transitional period will give the district additional time to achieve budgetary savings available to it due to the loss of Sea Bright students (i.e., transportation and instructional savings) to ameliorate the impact on taxpayers as well as on instruction and operations.

In sum, the consultants found that given "the financial pressures on smaller districts, the all-purpose regional offers opportunities for additional non-instructional financial savings thereby maintaining or expanding the instructional program. The proposed all-purpose regional saves about $300,000 if the new regional can accommodate the Sea Bright Students with existing staff. It improves both economic and logistical efficiencies." As a result, the consultants continue to recommend the formation of a new All-Purpose PK-12 Regional District involving Atlantic Highlands, Highlands and Sea Bright and setting the allocation at 95% enrollment and 5% equalized valuation.