

EXHIBIT 12

GUIDE FOR THE ANALYSIS AND DEVELOPMENT OF SHORT-TERM AND LONG-TERM COST SAVINGS AND TRANSITION COSTS

The Provisions of the Reorganization Law and What These Mean for RSUs

The provisions of the law as amended require that reorganization plans, "address how the school administrative unit will reorganize administrative functions, duties and non-instructional personnel so that the projected expenditures of the reorganized school unit in fiscal year 2008-2009 for system administration, transportation, special education and facilities and maintenance will not have an adverse impact on the instructional program." The previously indicated 'targeted' reductions of 50% in school administration and 5% each in transportation, facilities and maintenance have already been accounted for through reductions in EPS (Essential Programs and Services) allocations which are, in turn, reflected in the reduction in the overall level of GPA (General Purpose Aid to Education) for FY 2009. The 5% reduction in special education that was initially included has been addressed at the State level.

In sum, the State is achieving its 'targeted' savings in school funding by reducing the amount of GPA (General Purpose Aid to Education) by 36.5 million in FY2009. However, as the amount of GPA funding will continue to grow, and is scheduled to be increased by 43 million in FY2009, this reduction, in most instances, will be mitigated. At the local level, this means that while RSUs may not see overall reductions in EPS allocations, they will also not see any substantial increases that would/could be used to offset any increases based on annual changes in the CPI that are normally included in budget preparation documents. Thus, and in accordance with the law, reorganization plans need to account for the net reduction or minimal increase in EPS funding through reductions in areas that will NOT adversely affect the instructional program. Reorganizational savings not achieved will essentially be accounted for by increases in the required or additional local contributions of the municipalities represented in the RSU.

RPC Principles and Assumptions

Toward these ends, the RPC (Reorganization Planning Committee) has identified the following principles and assumptions upon which an administrative structure is being proposed:

- The administrative structure of the new RSU should be of sufficient size and complexity to address a multi-campus instructional program of between 4,000-5,000 students. This size acknowledges the changing demographics between 2004 and 2016 as projected by the National Center for Education Statistics (NCES, 2008-060, December 2007) as provided in the chart below.

RSU Base Enrollment 4421	Enrollment Projection for Maine 2004-2010	Enrollment Projections for Maine 2010-2016	Overall Enrollment Projections for Maine 2004-2010
Percentage	-5.4%	+3.0%	-2.5%
# Change/Total	-239	+126	-111
Enrollment Projection	4182	4308	4310

State enrollment projections as provided in the NESDEC Report present higher and more specific enrollment data for both Falmouth and MSAD51.

School/District	2006-2007	2016-2017	Difference
Falmouth K-12 Enrollment	2,146	1,607	-539
MSAD51 K-12 Enrollment	2,310	2,059	-251
Total	4,456*	3,666	-790

**actual enrollment for 07-08 is 4421. This updated figure is used throughout this document for modeling purposes.*

These estimates suggest a more significant decline in this time period between the communities represented in the RSU. These figures as presented do not distinguish between grade levels. Grade level data is included in the NESDEC Report.

- The new RSU will continue to make improvements in the quality and scope of program offerings to its students consistent with the changing educational needs of society. The administrative structure should be designed to support such improvements.
- Short term and longer term economies of scale savings will be achieved in non-instructional areas.
- Longer term economies of scale savings will be achieved in instructional areas as contracts and commitments expire and/or are renegotiated and as enrollments shift in accordance with projections.

System Administration Costs

The current percentage of system administration costs/total school budgets for Falmouth and for MSAD 51, respectively, are below the 4 percent identified in the law as being associated with higher performing districts. **Table 1** presents this information for 2007-2008 using the 'System Administration Costs' targeted for reduction by the State Department of Education. 'System Administration Costs' include those related to the functioning of the School Board, Superintendent's Office, and Central Services (Business Office). Special Education administration costs are not included.

Table 1
System Administration Costs as a Percentage of Total Budget: 2007-2008

School/School District	2007-2008 Budget	Administration Costs	Percentage
Falmouth	24,281,412	766,670	3.16%
MSAD 51	26,781,723	804,634	3.00%

As noted above, the State is achieving its 'targeted' savings through reductions in the EPS allocations in system administration, transportation, maintenance and facilities. The EPS subsidy for system administration is calculated on a per-pupil basis using an amount set by the State for this purpose. The current per-pupil rate is \$358.

Table 2
2007-08 Administration Budget in Relation to 07-08 EPS Subsidy for Administration

School/School District	Number of Pupils	07-08 Budget Administration Costs	07-08 EPS Subsidy for System Administration (# of pupils x \$358)	Difference
Falmouth	2153	766,670	770,774	(4104)
MSAD51	2268	804,634	811,944	(7310)
Total	4421	1,571,304	1,582,718	(11,414)

Within both school systems, the amount budgeted for 2007-08 is less than the total subsidy received by the State for administration. In each instance, the remaining subsidy is used to support other school expenses, including instruction.

For FY 08-09, the reduction in EPS Subsidy for System Administration will be reduced by 50%; however, this reduction is not simply one-half of \$358. The 50% figure is to be calculated by reducing the administration expenditures for 2005-2006 by 50%, then inflating the amount using a 10-year average increase in the Consumer Price Index. The figure used by the Department of Education in its modeling is a \$204 per pupil subsidy. **Table 3** presents the administration costs in relation to the reduction in subsidy for system administration proposed in the reorganization law. The way in which the per pupil cost is calculated accounts for the actual reduction being less than 50%.

Table 3
2007-08 Administration Budget in Relation to EPS Subsidy for Administration Under
Reorganization

School/School District	Number of Pupils	07-08 Budget Administration Costs	EPS Subsidy for System Administration (# of pupils x \$204)	Difference/Percent of Administration Costs Budget
Falmouth	2153	766,670	439,212	327,458/41.7%
MSAD51	2268	804,634	462,672	341,962/45.5%
<i>Total</i>	<i>4421</i>	<i>1,571,304</i>	<i>901,884</i>	<i>669,420/42.6%</i>

The challenge for reorganization is to identify a system administration structure that meets the savings intentions of the law and simultaneously does not adversely affect educational programming.

- **Model Administration Costs and the EPS Subsidies**

The Maine State Department of Education (MDOE) has developed a series of system administration models for consideration by RPCs as they work through reorganization. Each of the models is tailored to the number of students served by the RSU. **Table 4** presents the total system administration costs for each of the models prepared by the State and one that is added to accommodate the size of the Falmouth/MSAD51 RSU. The system administration costs for Model #4 is at a level consistent with the per pupil calculation of \$195 used in MDOE Model #3, although it should be noted that information from the MDOE suggested that Model #4 costs be calculated at 60% higher than Model #3.

Table 4
Model Budgeting for RSUs
Total System Administration Costs for 2007-2008 and 2008-2009

Budget Year	Model #1 1,500 Students (\$198 per pupil)	Model #2 2,500 Students (\$198 per pupil)	Model #3 3,500 Students (\$195 per pupil)	Model #4 4,500 Students (\$195 per pupil)
2007-2008	\$296,461	\$494,184	\$682,353	\$877,500
2008-2009 (inc of 3%)	\$305,948	\$509,998	\$704,188	\$903,825

The EPS per pupil subsidy differences for each of the models for 2008-2009 is presented in **Table 5**. Within each of the models proposed by the Maine State Department of Education (Models #1, #2, #3) the per pupil subsidy for the System Administration Costs exceeds the model budget; the same holds true for the imputed Model #4.

Table 5
Comparison of Model Costs and EPS per Pupil Subsidy for System Administration
2008-2009

Model	Model 2008-2009 System Administration Costs	Model EPS Subsidy (\$204 per pupil)	Difference
Model #1 1,500 Students	\$305,948	306,000	\$52
Model #2 2,500 Students	\$509,998	\$510,000	\$2
Model #3 3,500 Students	\$704,188	\$714,000	\$9,812
Model #4 4,500 Students	\$903,825	\$918,000	\$14,175

Table 6 distributes the system administration costs using 2007-2008 figures for Models #3 and #4 into 2 categories (System Operating Salaries & Benefits and Other Operating). These categories provide insight into the percentage of system administration costs associated with personnel (approximately 75%) and operating (approximately 25%) as presented in these

models. Table 7 presents the 2008-2009 System Administration Costs model using the 3% increase included in the MDOE models.

Table 6
Model Budgeting for RSUs
Total System Administration Costs for 2007-2008 by Category

Model	2007-2008 Total System Admin. Costs	System Operating Salaries & Benefits	Other Operating
#3 (3,500 Students)	682,353	518,627	163,726
#4 (4,500 Students)	877,500	658,125	219,375

**includes all costs associated with the School Board, including remuneration, legal services, and non-salary costs associated with the Superintendent's office and the Business Office (Central Services).*

Table 7
Model Budgeting for RSUs
Total System Administration Costs for 2008-2009 by Category

Model	2008-2009 Total System Costs	System Operating Salaries & Benefits	Other Operating
#3 (3,500 Students)	704,188	528,141	176,047
#4 (4,500 Students)	903,825	677,869	225,956

**includes all costs associated with the School Board, including remuneration, legal services, and non-salary costs associated with the Superintendent's office and the Business Office (Central Services).*

The MDOE Models (#1, #2, #3) include a specific staffing level for both the Superintendent's Office and the Business Office. Because Model #4 was imputed from the MDOE's financial models, there is no associated staffing pattern for it (i.e., it is purely a financial model to glean potential MDOE cost expectations for RSU administration).

- **System Administration Staffing Levels**

Staffing for MDOE Models

The System Administration Costs are based upon central office staffing patterns that have been proposed as samples by the MDOE. There is no proposed model for RSUs that have more than 3,500 students which will be the case with the Falmouth and MSAD 51 RSU. The staffing pattern for MDOE Model #3 (systems with 3,500 students) includes:

Position	FTE
Superintendent	1.0
Assistant Superintendent	1.0
Business Manager	1.0
Payroll/Bookkeeper	2.0
Administrative Assistant/Secretary	2.0

The salaries and benefits have been included in the system administration costs in the previous tables. The MDOE reports that these models are based upon conversations with existing SAU's with similar student profiles and information from the Maine School Management Association as well as the statewide school data system, MEDMS.

Sample Staffing Model for Proposed Falmouth and MSAD51 RSU—for discussion and modeling purposes only

As no model was proposed by the State for RSUs with student populations between 3,501 and 4,500, the Transition Committee for Falmouth and MSAD51 will need to identify a structure and staffing pattern that will absorb the reductions in the State EPS per pupil subsidy for system administration, transportation, and facilities/maintenance and not negatively affect instructional programming. A number of structural models have been examined by the current RPC. Criteria used for identifying appropriate districts spanned beyond the size of the student body; included were the demographics of the community and the commitment to high student achievement as reflected in normative measures of student performance (e.g., SATs, State exams, etc.). The example that emerged was an administrative model with many similarities to that included in the

NESDEC report (New England School Development Council) prepared in July, 2007. That report described a recommended structural model in a two-school consolidation between Falmouth and MSAD51.

A sub-committee of the RPC developed a sample staffing approach based upon its review of models of high performing districts with student bodies ranging from 3,500-5,000. Both the administrative staffing model in the NESDEC report and the sample developed by the RPC Subcommittee are presented in Table 8. *These examples are NOT intended to be definitive nor considered recommendations from the RPC; they are intended to serve as points of discussion for the RSU Transition Committee whom the RPC believes will be in a better position to make staffing decisions.*

Table 8
Sample Administrative Staffing Models for Falmouth and MSAD#51
From NESDEC Report and RPC Sub-Committee

Position	NESDEC			
	FTE	Estimated Cost	FTE	Estimated Cost
Superintendent	1.0	122,000	1.0	150,000
Secretary/Clerical	4.5	186,627	4.0	165,892
Curriculum Admin.	1.0	83,063	0	0
Business Mgr	1.0	98,586	1.0	100,252
HR Administrator	0	0	1.0	94,796
Financial/HR Clerical	4.0	155,053	4.0	155,053
Fringe Benefits (@24%)		154,879		159,838
<i>Total Personnel Costs</i>	<i>11.5</i>	<i>800,208</i>	<i>11</i>	<i>825,831</i>
<i>Other Operating (estimated from current budgets)</i>		<i>500,000</i>		<i>500,000</i>
Total System Administration Costs		1,300,208		1,325,831

The System Administration Costs associated with the Sample model developed by the RPC subcommittee equates to a per pupil cost of \$299. While substantially less than the current per pupil cost of \$358, this amount falls short of the \$204 per pupil amount that will be used to calculate the EPS subsidy for system administration as displayed in Table 9.

Table 9
Sample Model Administration Budget in Relation to Reduced EPS Subsidy for Administration Under Reorganization

School/School District	Number of Pupils	Sample Model System Administration Costs	EPS Subsidy for System Administration (# of pupils x \$204)	Difference
Model #4 (using actual # of students)	4421	903,825	901,884	(1,941)
Falmouth/MSAD51 RSU	4421	1,325,831	901,884	(423,947)

While it is true that the figure provided by the State, i.e., \$204, cannot be replicated in any of Maine's school administrative units—regardless of size—the fact remains that it is the \$204 figure upon which planning needs to take place. The RSU Transition Committee will need to consider this in the development of a more specific system administration staffing model and budget development.

This same consideration holds true for costs associated with Facilities/Maintenance as well as Transportation Costs. In both of these areas, EPS subsidies will be reduced to achieve the 5% savings indicated in the consolidation legislation.

Calculating the Avoidance of Additional Costs, Cost Savings, and Start Up Costs

- Avoidance of Additional Costs**

EPS Subsidy Reductions: \$986,733

Regardless of efforts to consolidate, beginning in 2008-2009, the EPS subsidies for System Administration, Facilities/Maintenance, and Transportation will be reduced by 50%, 5%, and 5%, respectively. The amounts in the chart that follows have been calculated using 2007-2008 budget figures. The loss of the State subsidy in these areas represent a real 'cost' to each of the schools involved and to the proposed RSU. Consolidation provides the opportunities to achieve the economies of scale needed to reduce overall expenditures by these amounts to reduce the potential of passing these costs on to the community through increases in the additional local share.

Estimated Reductions in 2008-2009 EPS Subsidies for System Administration, Facilities/Maintenance, and Transportation

	Falmouth	MSAD51	Total
System Administration	327,458	341,962	669,420
Facilities/Maintenance	108,170	116,315	224,485
Transportation	46,993	45,835	92,828
Total	482,621	504,112	986,733

Penalty Avoidance (Additional EPS Subsidy Reductions): \$334,710

The penalties associated with not consolidating (or voting against consolidation) will result in additional costs that will either need to be reduced within the existing school budgets, or absorbed by the community in the form of an increase in the 'additional local share'. The amounts are not inconsequential and, given the already imposed decrease in State subsidy through EPS reductions, will potentially affect the quality of educational programming unless absorbed by the community as additional local share. The table below presents an example using the figures from the previous table for each school in the proposed RSU.

**Estimated Additional Penalties for Not Participating in Consolidation
(to begin in 2009-2010)**

	Additional Reduction	Falmouth	MSAD51	Total
System Administration	50%	163,729	170,981	334,710

In addition to these financial penalties which, if added to the uniformly applied reduction in EPS subsidy in 2008-2009, amounts to **\$1,321,443** between Falmouth and MSAD 51 or approximately \$650,000 in reductions for each respective school, those not engaging in consolidation *will not* see their EPS subsidies increasing to the maximum level of 55%. For these schools, the statewide average of 53.86% will be applied. Other penalties with potential financial implications (although perhaps not immediate ones) include: a) Receiving less favorable consideration in approval and funding for school construction and, b) the loss of eligibility for transition adjustments.

- Savings through Consolidation**

System Administration Cost Savings: Potential 10%+ reduction

Even within system administrative structures that already operate at a rate below that identified for higher performing schools, i.e., 3.2 and 3.0 for Falmouth and MSAD51, respectively, it is anticipated that additional savings can be achieved through consolidation. The sample administrative staff model developed by the RPC Subcommittee suggests that these costs might potentially be in the range of \$250,000 over current administrative costs; a savings of between 10-15%.

Table 10
System Administration Cost Savings from Consolidation

	Current System Administration Costs	RPC Model System Administration Costs	Difference Between Current and RPC Model
Falmouth	766,670		
MSAD51	804,634		
Total	1,571,304	1,325,831	245,473

Facilities/Maintenance Savings: potential additional 2% per year
Year 2: \$94,808
Year 3: \$92,612

It is suggested by the RPC Sub-Committee that the savings in Facilities/Maintenance will be achieved through the identification of economies of scale and reduced duplication/redundancies of services. Additional savings may be achieved through intentional collaborations with town/community services, many of which are already taking place. A potential framework for the estimation of savings is contained in Table 11 below. During Year 1, the reduction in the EPS subsidy represents an *avoidance of additional cost* to the communities of the proposed RSU. In this model, the figures in the Current Costs column were used to calculate Years 2 and 3 without regard to any annual increase. The RPC Subcommittee believes that a commitment to timely facilities maintenance and avoidance of a deferred maintenance plan is important.

Table 11
Facilities/Maintenance Cost Savings from Consolidation

	Current Facilities/Maintenance Costs	Year 1 EPS Reduction (avoidance of additional cost)	Year 2 Savings Additional 2%	Year 3 Savings Additional 2%
Falmouth	2,412,045	108,170	46,078	45,156
MSAD51	2,552,832	116,315	48,730	47,756
Total	4,964,877	224,485	94,808	92,612

Transportation Savings: potential additional 2% per year
Year 2: \$46,351
Year 3: \$45,424

As with Facilities/Maintenance, it is suggested that savings will probably begin to accrue after Year 1 where the budgetary measures to be taken will be associated with absorbing the EPS subsidy reduction in a way that avoids passing on the reduction to the community in the form of additional local contributions. The savings in the area of transportation may be achieved through reduced duplication/redundancies as appropriate and reduction in level of service. As with Facilities/Maintenance, the figures in the Current Costs column were used to calculate Years 2 and 3 without regard to any annual increase.

Table 12
Transportation Cost Savings from Consolidation

	Current Transportation Costs	Year 1 EPS Reduction (avoidance of additional cost)	Year 2 Savings Additional 2%	Year 3 Savings Additional 2%
Falmouth	1,263,366	46,993	24,327	23,841
MSAD51	1,147,011	45,835	22,024	21,583
Total	2,410,377	92,828	46,351	45,424

Savings Not Calculable Until Year 3 of the RSU: Instructional Programming

There are several areas in which cost savings are anticipated but, given existing contracts, cannot be calculated at this point in time. It is anticipated that some savings will be achieved through retirements and resignations. In the case of the former, as both Falmouth and MSAD51 have a significant number of instructional personnel with significant tenure, it is anticipated that, as

more senior teachers retire, savings will occur through the hiring of more junior in terms of experience and salary. In addition, regardless of consolidation, a percentage of instructional staff will resign (for a variety of reasons). Both retirements and resignations provide opportunities to rethink instructional needs in ways that will continue to enhance the quality of the educational program and perhaps result in additional cost savings. Until consolidation actually occurs, there is no reasonable way to project programmatic changes or savings. These are concerns that are better addressed by the RSU Transition Committee.

- **Start Up Costs**

RSU Start Up Costs

Any reorganization requires some 'start up' costs. These costs include those related to legal fees, financial audits, and expenses related to ensuring compatibility of systems and physical moving. In addition, given that contracts are currently in place and must be honored by the RSU (according to the legislation), there are interim personnel costs associated with consolidation. Without projecting specific amounts, the RPC Subcommittee has identified a number of areas in which Start Up/Transition Costs might apply. The RSU Transition Committee should be better able to identify specific costs associated with each of these areas.

Legal Costs

- Deeds Property transfers
- Policies
- Personnel Matters
- Incorporation Cost
- Collective Bargaining Cost
- Elections

Independent and Collaborative Audits

- Revenues Services IRS and State
- TAX Exempt Certificates
- Banking
- Finalized Audits

System Office Establishment

- Network (\$35,000)
- Software Licenses/Transfers (\$35,000)
- Hardware (\$25,000)
- Moving Company (\$20,000)

Transitional Salaries

Summary

This document has been prepared to assist the RSU Transition Committee in its calculation of Cost Savings, Cost Avoidance, and Additional Costs associated with consolidation. The models contained within this report, as well as all numbers identified have been presented only for modeling purposes. It is anticipated that the RSU Transition Committee will find this information useful as it sorts through the complexity of the law and comes to understand the nature of school funding and reorganization.