



# **Harrisburg School District Amended Recovery Plan**

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Presentation to the School Board  
January 21, 2014

# Overview

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- In the period since May 2013, there have been a number of changes in financial circumstances facing the Harrisburg School District and several of the requirements of the Act 141 Recovery Plan have been clarified. The CRO will shortly propose a formal amendment of the Recovery Plan for approval by the School Board and the Secretary of Education.
- The purpose of this presentation is to provide the Board with information on the Amended Recovery Plan so that it can consider the Plan and meet its obligations related to building the 2014-15 budget, including setting 2014-15 tax rates.
- The Amended Recovery Plan will:
  - ▣ Revise certain initiatives of the Act 141 Plan to address the current financial circumstances and projections of the District.
  - ▣ Provide clarifying language for aspects of the Act 141 plan.
- Unless changed or amended by this document, all other aspects of the Act 141 plan as presented on April 26, 2013 and approved by the Harrisburg School Board and the Department of Education in May 2013 will remain in effect.



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# Conclusions

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- Act 141 requires the CRO to present a plan for long term financial stability for the District.
- The baseline financial forecast prepared by the CRO's consultants indicates that the District would not be financially stable if current trends continue even given higher than expected reserves.
- The improved estimated fund balance does not provide a solution to the District's financial challenges because the revised baseline forecast shows a continuing structural deficit caused by growing expenditures for such items as benefits and charter schools, while revenue sources are flat or growing only slightly.
- The Board, the Administration and staff of the District must continue to take actions to attain and maintain financial stability.
- There are financial resources to provide for some academic program enhancements and address the pay cut implemented in July 2013; however, these resources are only available if the District successfully implements a number of cost saving and revenue enhancement initiatives.
- Recognizing that longer term forecasts are subject to change based on District actions and external factors, the Amended Plan provides a process for achieving additional goals if there are sufficient financial resources. The Amended Plan proposes a "shared savings" approach to future positive financial results.



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# Revised Baseline Scenario – Five Year Forecast of Finances

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- PFM updated the 2012-13 and 2013-14 financials working with the CRO, CFO and Business Manager
- This resulted in a new baseline scenario to reflect the *status quo* – what do District finances look like through 2017-18 if no changes are made to current revenue and spending?
- Key assumptions of the new baseline scenario:
  - 5% salary cut in July 2013
    - Wages frozen thereafter (do not implement 5% Recovery Plan cut next year)
  - No tax increases for the period from 2014-15 to 2017-18
    - 1% annual assessed value growth assumed
  - No Transitional Loan from the Commonwealth or Transitional Loan repayments
  - Charter enrollment growth based on change in December enrollment from 2012-13 to 2013-14, 13.7% annually

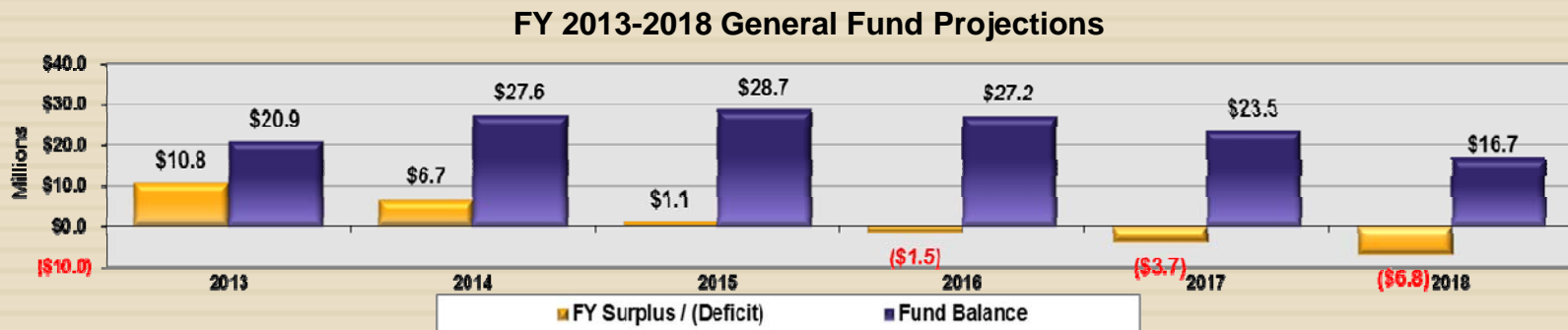


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# Baseline Scenario

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- Conclusion – Even with revised financial results for 2012-13 and 2013-14, the baseline forecast does not meet the requirements of Act 141 for long term fiscal stability
- Positive fund balance retained through the forecast however annual operating shortfall exists from 2016 onward and the shortfall grows
- Assumptions in this baseline forecast:
  - ▣ Charter enrollment growth of 13.7% per year (growth rate from December 2012 to December 2013)
  - ▣ 5% salary cut in July 2013
    - Wages frozen thereafter (do not implement 5% Recovery Plan cut next year)
  - ▣ No tax increases
    - 1% annual growth in assessed value assumed
  - ▣ No Transitional Loan or repayments



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# Amended Recovery Plan - Parameters

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- Act 141 requires the CRO to submit a Recovery Plan that attains long term fiscal stability for the District while improving academic performance.
- The Amended Plan is intended to meet this requirement while attempting to address interests of the District's students, taxpayers and the staff and administration of the District.
- The amendments also address the possibility of changing financial circumstances in the future and outline a way to deal with any future favorable financial results.



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# Amended Recovery Plan – Key Elements

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- The key elements of the Amended Act 141 Plan for Harrisburg are as follows:
  - ▣ Improve financial performance compared to the baseline, reversing the trend of increasing annual shortfalls.
  - ▣ Fund academic enhancements that will help the District’s academic performance and increase its ability to compete with charter schools for students.
  - ▣ Focus the entire District on improving its academic performance so that it can retain and attract students in relation to charter school competition.
  - ▣ Avoid increasing the tax burden on Harrisburg taxpayers.
  - ▣ Restore salary cuts incurred by Harrisburg District staff to the degree such restoration is consistent with the requirement for long term fiscal stability.
  
- The amended plan outlines a series of near term actions and provides for a “shared savings” approach in the longer term should the financial results of the District’s operation be better than the forecast.



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# Amended Recovery Plan - Specifics

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The Amended Recovery Plan contains the following initiatives:

- Restore full day kindergarten in 2014-15
- One-half of 5.0% salary cut for 2013-14 – or 2.5% - restored this year; no increases in salary thereafter
- Property tax increases at Act 1 index for 2016-17 and 2017-18
- District action to improve academic performance reduces charter school enrollment growth to:
  - ▣ 11% in 2014-15
  - ▣ 8% in 2015-16
  - ▣ 5% in 2016-17
  - ▣ 3% in 2017-18
- District share of health care cost growth capped at 5% beginning in 2016-17
- Size of employee health insurance opt-out payments reduced by half beginning in 2016-17



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# Amended Recovery Plan – Specifics, cont'd

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- Eliminate Food Service transfer from the General Fund (phased in from 2014-15 through full elimination of subsidy in 2017-18)
- Optimize ACCESS utilization (2014-15 to 2017-18)
- Increase delinquent tax collection (2014-15 to 2017-18)
- Increase energy efficiency (achieve some savings in 2015-16, all savings by 2017-18)
- Shared savings available for additional enhancements



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# Financial Impact of Amended Plan Initiatives on Long Range Forecast

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Initiative	2013-14	2014-15	2015-16	2016-17	2017-18	Total
<b>Expenditures</b>						
Full Day K	\$0	\$1,125,000	\$1,125,000	\$1,125,000	\$1,125,000	\$4,500,000
Salary Restoration	\$977,068	\$977,068	\$977,068	\$977,068	\$977,068	\$4,885,340
Health Care Cap	\$0	\$0	\$0	(\$742,644)	(\$1,604,369)	(\$2,347,012)
Opt-Out Cap	\$0	\$0	\$0	(\$130,000)	(\$130,000)	(\$260,000)
Charter Enrollment	\$0	(\$127,215)	(\$779,796)	(\$1,729,655)	(\$3,270,043)	(\$5,906,709)
Food Service	\$0	(\$100,000)	(\$200,000)	(\$300,000)	(\$300,000)	(\$900,000)
Energy Efficiency	\$0	\$0	(\$35,000)	(\$282,000)	(\$289,000)	(\$606,000)
<b>Revenues</b>						
Local Taxes	\$0	\$0	\$0	\$898,415	\$2,055,470	\$2,953,885
Delinquent Tax	\$0	\$250,000	\$500,000	\$550,000	\$550,000	\$1,850,000
Access	\$0	\$0	\$250,000	\$300,000	\$350,000	\$900,000

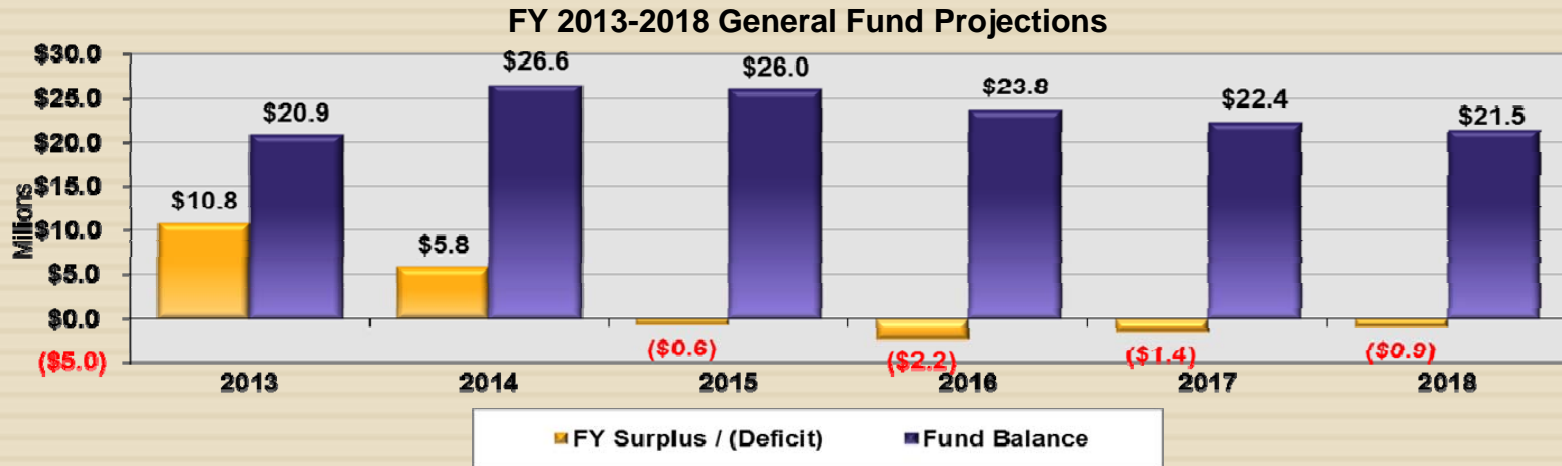


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# Amended Plan Projected Results

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- In contrast to the baseline forecast, which had declining annual results with negative operating balances for 2015-16 and subsequent years, this projection shows near-balance in all years and an improving annual operating trend from 2015-16 to 2017-18.
- The forecast indicates long term fiscal stability as required by Act 141 and also retains adequate reserves to allow the District to operate without dramatic swings in operation from year to year.



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# Need for Flexible Approach

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- The Amended Recovery Plan accomplishes a number of long term goals for the District while maintaining the long term fiscal stability required by Act 141.
- However, there are also a number of other goals put forward by various District constituencies – including immediate full restoration of the 2013 salary reduction and elimination of all future tax increases – that are not included in the Amended Plan. In the view of the CRO and his consultants, these other goals are not achievable within the currently forecast finances of the District.
- Long term forecasts can be changed by District actions and outside forces, resulting in actual financial performance that is better or worse than shown. The CRO, the Board, the Harrisburg community and District staff must be prepared for periodic reassessments of the Recovery Plan based on these changes in circumstances.
- Viewed optimistically, it may be the case that not all of the Plan's revenue increases or expenditure reductions will need to take place, allowing additional District goals to be achieved.
- Recognizing this, the Amended Act 141 Recovery Plan includes a shared savings approach for managing variances in District financial performance from the Amended Plan.



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# Shared Savings Approach

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- To the extent that the District improves academic performance and has better financial results than projected, there will be opportunity to fund programs or activities related to educational enrichment, and also to mitigate the salary and tax initiatives of the Amended Recovery Plan. As additional dollars are available, it is the intention of this Amended Financial Recovery Plan to allocate a portion of these dollars, in to the following:
  - Supporting curriculum, training and technology investments
  - Eliminating tax increases otherwise required in 2016-17 and 2017-18
  - Restoring remaining salary cut and increasing employee salaries (which are otherwise frozen)
  - Eliminating or moderating changes to employee health care provisions
  
- Alternatively, if the District fails to meet its academic and financial goals, no dollars will be available for enhancements. Instead, further cost control efforts will have to be implemented.



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# Shared Savings Approach

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- In order to share savings if results are better than anticipated in this Amended Recovery Plan, the District will assess its financial situation within 30 days of completion of the annual audit of the School District.
- If the District has a positive fund balance, and if there is a positive annual operating result (revenues less expenditures for the year are positive), a sum up to the amount of the positive annual operating result may be allocated as shown on the following slides.



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# Shared Savings Matrix

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Objective	2014-15	2015-16	2016-17	2017-18
Support curriculum, training and technology investments or fund balance	50% (or more if full 50% is not needed for salary restoration)	50% (or more if full 50% is not needed for salary increase)	If tax and benefit goals are met, and funds remain, half may be used for these purposes	If tax and benefit goals are met, and funds remain, half may be used for these purposes
Eliminate tax increases	Not Applicable	Not Applicable	Up to 50% of any available positive operating result	Up to 50% of any available positive operating result



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# Shared Savings Matrix

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Objective	2014-15	2015-16	2016-17	2017-18
Restoring the 2013-14 reductions in employee salaries and benefits and provide for future increases	Up to 50% of any available positive operating result may be used to restore the remaining 2.5% salary reduction from 2013-14	Up to 50% of any available positive operating result may be used for a salary increase of up to 2.5% over 2014-15 baseline salaries	If tax and benefit goals are met, and funds remain, half may be used for a salary increase of up to 2.5% if Plan academic goals are also met	If tax and benefit goals are met, and funds remain, half may be used for a salary increase of up to 2.5% if Plan academic goals are also met
Moderating employee health care changes (capping District health care growth at 5% and reducing size of opt-out benefit by ½)	Not Applicable	Not Applicable	Up to 50% of any available positive operating result may be used to moderate or eliminate the required 5% cap on District spending for employee health care and/or eliminate or moderate the reduction in the opt-out benefit	Up to 50% of any available positive operating result may be used to moderate or eliminate the required 5% cap on District spending for employee health care and/or eliminate or moderate the reduction in the opt-out benefit



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# Shared Savings Conditions

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- Notwithstanding any other provisions of the Amended Plan, no portion of positive annual financial results shall be allocated to objectives other than fund balance if they would cause the District's fund balance to be negative or the undesignated/uncommitted fund balance to drop below 5.0% of annual revenues.
- So that the District's annual financial performance is not overstated, the calculation of a positive annual operating result shall also exclude any revenue from an unfunded debt loan, Commonwealth Transitional Loan under Act 141, or other borrowing that the District uses to eliminate accumulated deficits
- If the District reports or projects to report a negative annual operating result (annual expenditures exceed annual revenues), no shared savings expenditures may be made. Moreover, the District will be required under the Amended Plan to take action to eliminate the deficit, considering all options including tax increases, other revenue enhancements, and expenditure cuts including salary and benefit reductions.



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# Other Provisions

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- The District shall be accountable for attaining the minimum performance improvement benchmarks by year that are outlined on pages 32 and 33 of the Recovery Plan.
- The Recovery Plan defined the new position of CEO and outlined duties and responsibilities for that position as well as the reporting relationship of the CEO to the Harrisburg School Board.
  - The plan is amended to substitute the title CFO (Chief Financial Officer) for CEO.
  - However, there are no changes to the plan in regard to the reporting relationships, responsibilities of the position or span of control of the CFO as discussed on pages 41 and 42 of the Recovery Plan.



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# Timeline

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- This presentation and accompanying material is intended to provide the Board with information on the Amended Recovery Plan so that it can meet its obligations related to building the 2014-15 budget, including setting 2014-15 tax rates.
- The Amended Recovery Plan will be presented to the Secretary of Education upon approval by the Harrisburg School Board.



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