



2011-2012 Budget Discussion

Northwestern Lehigh School
District

March 10, 2011

[Discussion Items]

- Purpose
- Goals
- Revenues
- Expenditures
 - OPEB
 - Bus/Van Replacements
 - Diesel/Heating Oil
 - Capital Reserve Transfer

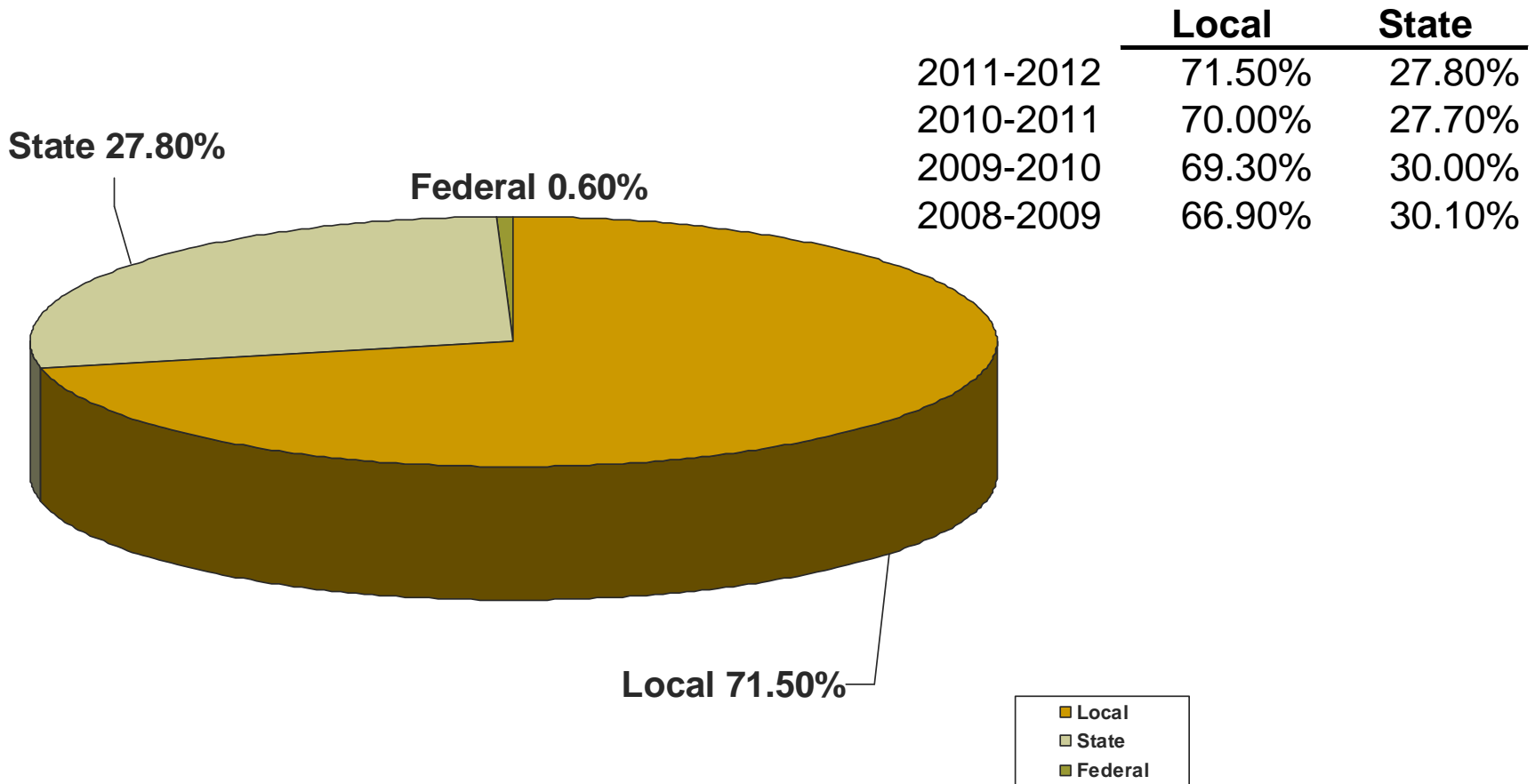
[Purpose of Tonight's Discussion]

- Focus on specific expenditure categories identified by the administration for board input and discussion.

[2011-2012 Budget Goals]

- Preserve instructional programs with some modifications
- Provide appropriate class sizes
- Continue looking for areas to cut-back and do things different without negatively affecting the programs

Revenues- \$35,000,000



NOTE: Graph represents revenue estimates based on January 2011 budget amounts.

Revenues- Local Real Estate Taxes

- Assessed Value Growth
 - Nov 15, 2010 450,745,000
 - Feb 4, 2011 454,226,750
 - INCREASE 3,481,750

- Using 50.66 millage rate (10-11) generates an additional **\$170,000** of real estate tax revenue

- Expected Changes for 2011-2012
 - (-) Reduction due to assessment appeals approx. \$82,000
 - (+) Any additional growth

[Revenues-State Funding]

(Compared to 2010-11)

	Estimated Reduction	
Basic Education Funding	\$ (540,184)	
Accountability Block Grant	(232,733)	
Cyber/Charter Reimbursement	(180,000)	*
SS Reimbursement	(56,401)	*
	\$ (1,009,318)	

Amounts reflect 2011-12 estimated reductions compared to 2010-11. Amounts are based on numbers provided in the Governor's Budget March 8, 2011 and PASBO analysis by school district.

Revenues-State Funding

(Compared to 2011-12 as of January 2011)

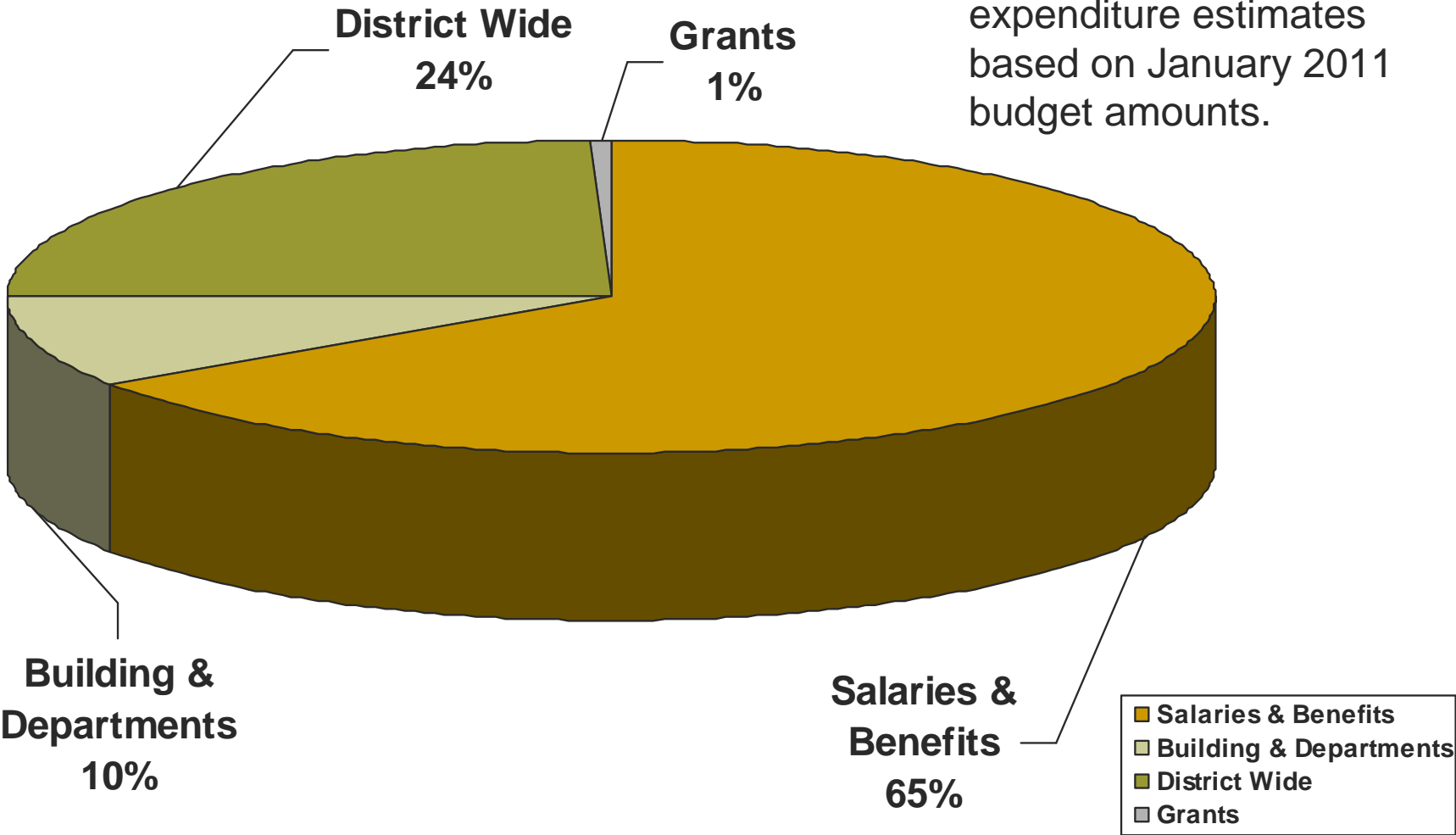
- Some reductions taken into account in the January 2011 budget numbers.
- Additional reductions since January 2011:
 - (\$150,000) Cyber/Charter
 - (232,733) AB Grant
 - (56,401) SS Reimbursement
 - (439,134) Total offset by an increase in BEF
 - 84,523 Increase to BEF
 - (\$354,611) Addtl. Net Decrease**

[Expenditures]

- Estimated 2011-2012 Total Expenditures (based on preliminary numbers discussed January 12, 2011)
\$36,978,201
- Increase from 2010-11
\$46,000 or 0.12%
- Initial 2011-12 Estimated Shortfall (before millage increase)
\$1,700,000 as of Jan 12, 2011
354,611 Addtl state reduction
\$2,054,611 Estimated shortfall

[Expenditures Cont...]

NOTE: Graph represents expenditure estimates based on January 2011 budget amounts.



[Expenditure Discussion Items]

- OPEB
- Bus/Van Replacements
- Diesel/Heating Oil
- Capital Reserve Transfer

GASB 45: Other Post Employment Benefits (OPEB)

- **GASB 45:** An accounting and financial reporting provision requiring districts to measure and report the liabilities associated with other post employment benefits (OPEB)
- OPEB does NOT include PSERS
- OPEB includes:
 - Post-retirement medical*
 - RX*
 - Dental*
 - Vision
 - Life Insurance
 - LTD
 - Long-term Care Insurance

* Items apply to NWLSD

[Purpose of GASB 45]

- Recognize the cost of OPEB benefits in the period when services are received (accrual method of accounting)
- Provide information about the actuarial liabilities for the promised benefits
- Provide information useful in assessing potential demands on future cash flows

[Rating Agency Comments...]

- *Standard & Poor's, the Nation's largest rating agency, issued a report stating: "The new [GASB 45] reporting may reveal cases in which the actuarial funding of post-employment health benefits would seriously strain operations, or, further, may uncover conditions under which employers are unable or unwilling to fulfill these obligations. In such cases, these liabilities may adversely affect the employer's creditworthiness. All Standard & Poor's rated **employers will be monitored closely in terms of their reporting under GASB 45.** Upon implementation of these new standards, we will include the new information as part of our ongoing analytical surveillance of ratings."*
- *Fitch Ratings issued a report stating: "Initially, Fitch's credit focus will be on understanding each issuer's [GASB 45] liability and its plans for addressing it. Fitch also will review an entity's reasoning for developing its plan. **An absence of action taken to fund OPEB liabilities or otherwise manage them will be viewed as a negative rating factor.** Steady progress toward reaching the actuarially determined annual contribution level will be critical to sound credit quality."*

[Our Current OPEB Funding Structure]

- Reserved Fund Balance \$2,141,403
- Funding annual obligation of \$380,000
- Also, funding actual costs for retiree benefits \$294,000 (11-12)
- Total amount allocated for OPEB in budget
 $\$380,000 + \$294,000 = \$674,000$

[Decision Points]

■ Option A

- Continue funding method consistent with prior years
- 2011-12 = \$674,000
- 2012-13 = \$701,000

■ Option B

- Change strategy for funding
- Start utilizing Fund Balance for current retirees \$294,000 which frees up additional funds for other use

[Decision Points Cont...]

■ Option A

○ PROS:

- Responsibly funds OPEB obligation
- Maintains funding stream to provide for benefits

○ CONS:

- Significant amount of funds that could be used for other purposes

■ Option B

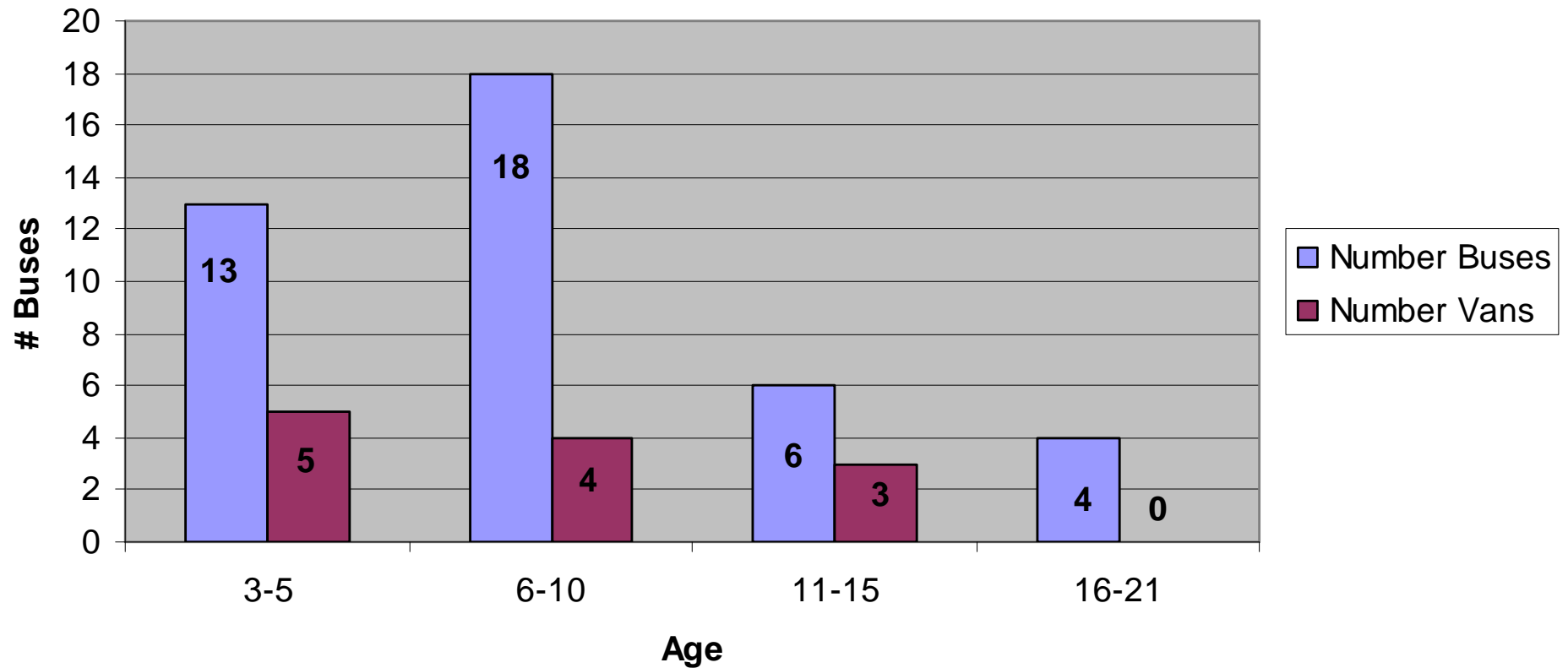
○ PROS:

- Frees up funds for other purposes
- Utilizes Fund Balance Reserves

○ CONS:

- Does not fund obligation as required by GASB 45

[Fleet Age (as of June 30, 2011)]



Note: Currently there are 8 spare buses and 1 spare van. NWLSD replacement plan has been determined using a 15 year age for daily use vehicles in conjunction with mechanic analysis of fleet. In 2010-11 three daily buses are 15 years old.

[Bus/Van Replacement]

- Replacements needed based on mechanic review
 - Bus 14 = 19 years old (spare)
 - Bus 27 = 15 years old (active)
 - Van 100 = 12 years old (active)
 - Van 103 = 12 years old (spare)

- Estimated cost per bus \$90,000 & per van \$25,000

- Total Estimated Cost \$230,000

[Bus/Van Replacement Funding]

	2011-12	2012-13	2013-14	Total
General Fund Transfers	\$ 100,000	\$ 175,000	\$ 200,000	\$ 475,000
Use of Fund Balance	\$ 130,000	\$ 25,000	\$ 20,000	\$ 175,000
	\$ 230,000	\$ 200,000	\$ 220,000	\$ 650,000
	2 buses vans	2 buses van	1 van	2 buses 1 van

Capital Reserve Balance	\$ 290,860
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Note: This scenario assumes 2 bus replacements and does not use any Capital Reserve. Capital Reserve funds would be used in future years when more than 2 buses are needed for replacement.

Diesel/Heating Oil

	Avg Price Diesel	Total Gallons	Avg Price Heating Oil	Total Gallons
2007-08	\$ 2.25	88,919	\$ 2.10	139,692
2008-09 *	\$ 3.36	95,053	\$ 3.21	159,762
2009-10 *	\$ 2.17	72,638	\$ 2.11	147,462
2011-12 Budget	\$ 3.50	85,000	\$ 3.50	179,300

Funding Plan				
Millage	\$ 3.00	\$ 255,000	\$ 3.00	\$ 537,900
Use of Fund Balance	\$ 0.50	\$ 42,500	\$ 0.50	\$ 89,650
		\$ 297,500		\$ 627,550

* Fluctuating rate selected as pricing method through bid process.

Recommendation: Budget \$3.50 per gallon, funding \$3.00 per gallon through millage and \$0.50 per gallon through use of fund balance. This strategy limits the expenditure increase in millage and uses fund balance reserve to mitigate the risk of high market prices.

[Capital Reserve Transfer]

	Capital Reserve
Balance-January 2011	\$ 1,246,409
Estimated Projects 2011-12	(573,900)
Remaining Projects thru 2015	(533,600)
Capital Reserve Balance 2015	\$ 138,909

NOTE: Currently there are \$0 budgeted for a transfer from the General Fund in the 2011-2012 budget. Based on the current Facility Master Plan (FMP) there are sufficient funds to finance all planned projects with a combination of Capital Reserve and General Fund dollars through 2015.