Conestoga Valley School District
Proposed Final Budget Report

2022 – 2023

Conestoga Valley School District
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Conestoga Valley
SCHOOL DISTRICT

MISSION

To educate all students to strive for personal excellence,
while becoming caring and contributing citizens
in a global community.

VISION

To inspire a collaborative learning community
where all individuals have equal opportunities
to achieve their fullest potential.

WE BELIEVE
IN THE FOLLOWING FOUNDATIONS

- Expecting a safe and respectful learning environment
- Sustaining strong school-family relationships
- Delivering a well-rounded educational program
- Cultivating the diverse skills necessary for the 21st Century
- Fostering an appreciation for life-long learning
- Promoting the development of our core character traits
- Investing in mutually beneficial community partnerships

CONESTOGA VALLEY SCHOOL DISTRICT
PROPOSED FINAL BUDGET
2022 – 2023 BUDGET NARRATIVE

In June 2006, the Taxpayer Relief Act, commonly known as Act 1 was signed into law. The Act was designed to control educational expenditures by limiting real estate tax increases. Under the law, a district's millage rate cannot be increased by more than the index as established annually by the Pennsylvania Department of Education and that index for 2022-2023 is 3.4% for Conestoga Valley. Districts may apply for referendum exceptions from this limit due to significant increases in costs in specific areas. The Conestoga Valley School Board chose to apply for the special education exception but has decided not to utilize any amount of the exception.

The District continues to monitor and enforce recommended COVID 19 related safety protocols under its Health and Safety Plan which was re-approved in January 2022. The pandemic not only continues to affect the methods in which students learn but also impacts the economy which is a cause for concern with regards to both the revenues and expenditures of the District.

The School Board approaches its budgeting through a very transparent process, through public meetings and posting updates online, so that residents can understand the diligence and dedication of the Board to both the taxpayers and students of our school community. The District is projecting an increase of $3,521,422 in revenues over the preliminary budget which includes $1,696,221 of revenues as a result of the 3.4% increase. Expenditure requests have decreased from the preliminary budget by $689,771.

The School Board asked the administration to identify potential reductions to minimize the tax increase for the 2022-2023 budget. Administration held meetings with each building department. The intent was to keep budgetary increases as low as possible in light of the economic challenges the residents are facing. The resulting reductions included a variety of items including reductions in supplemental contracts and building/department budget cuts. However, in order to make an impact that would be significant, staffing which is the largest cost driver, needed to be reviewed. From this review, the District continued its' process of equalizing class sizes by moving staff from one building to another and not replacing some staff. In addition, significant reductions were made from proposed staffing. The School Board has attempted to avoid furloughs or layoffs and to rather gain savings through attrition. Such reductions can only be realized through retirements, resignations or through movement of existing staff into those positions.

At the May 16, 2022 Board meeting, the School Board will approve a Proposed Final Budget with a tax increase of 3.4%. For the average single-family residential homeowner, that translates into a tax increase of approximately $105. However, the residential properties that were approved as Homesteads will receive approximately $127.59 off their tax bill as the District expects to receive $898,677 in State Property Tax

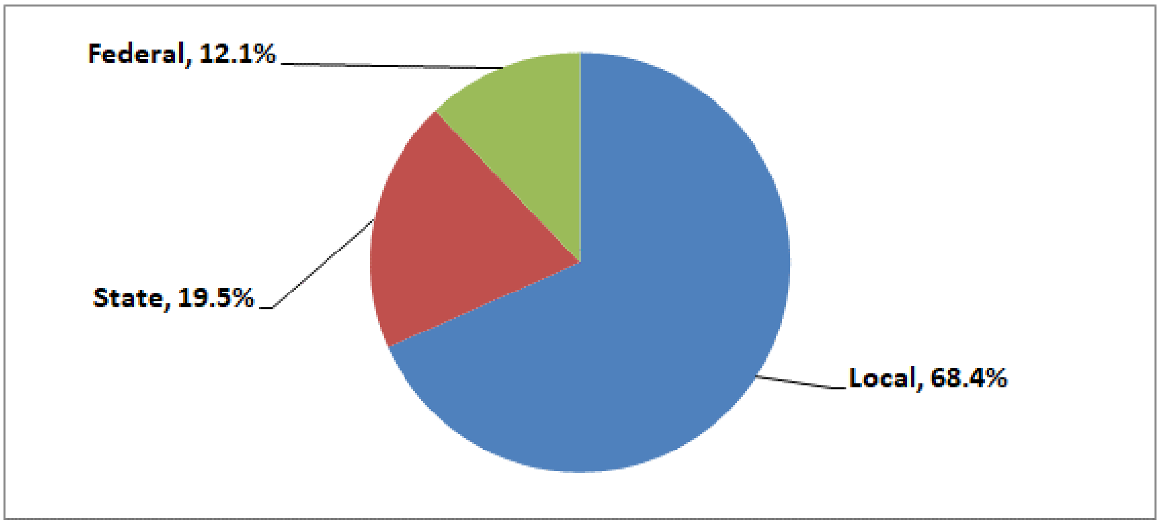
Reduction revenue, a $189,804 increase over the amount received in the previous year. That money goes to reduce the tax burden of residential taxpayers.

Total revenues for the 2022-2023 budget are $88,586,049 which represents a 16.69% increase in revenues over the 2021-2022 budget. The District's revenue budget includes $8,477,108 in federal ESSER revenue intended to assist school districts to offset the anticipated revenue decrease resulting from the financial pressures in the economy and support costs incurred due to the COVID-19. Total expenditures for the 2022-2023 budget are $89,487,770 which represents a 16.96% increase over the 2021-2022 budget. Overall, budgeted expenditures exceed budgeted revenues by $901,721 which will be covered by fund balance resulting in a remaining fund balance which is 18.37% of budgeted expenditures. The School Board has committed approximately $4,697,644 of the fund balance for future pension costs, health savings account, future debt obligations, savings from bond refinancing and COVID-19 related expenditures and has assigned $2,350,000 for future assessment appeals and tax increment financing.

The 2022-2023 proposed state education budget originally included an additional $3,297,106 for Conestoga Valley through the basic and special education subsidies. The amount budgeted for the District in the Proposed Final Budget reflects a similar level of increase in funding was recognized in 2021/2022. The basic education subsidy is based on a formula which recognizes changes in the District's demographics, such as enrollment growth, poverty and English Language Learners. An increase in the amount of basic education subsidy allocated to a school district is impacted by the amount of such subsidy included in the Governor's budget. The special education subsidy is based on a formula that takes into account various factors such as the cost to provide services for students based on the level of need broken into three categories of cost. This formula provides for a more equitable distribution of the subsidy. The actual dollar amount of any increase won't be known until the state calculates the formula factors. The District also receives state subsidy to reimburse 50% of retirement costs incurred to the Pennsylvania School Employee Retirement System (PSERS). As the PSERS retirement rate is increasing in 2022-2023 from 34.94% to 35.26%, the reimbursement subsidy is also increasing by $289,164 from the prior year budget. The District also receives a state subsidy to offset the cost of debt service payments for approved building projects. The subsidy calculation includes the amount of the debt service payment and the district's aid ratio (wealth). The District's 2022-2023 budgeted rental subsidy is decreasing slightly from the 2021-2022 budget as current debt service payments eligible for the subsidy have decreased. The Planning and Construction Program (PlanCon) which provides this reimbursement to districts is based on a specific percentage per project but is currently on a moratorium. As such, there is no Plan Con subsidy projected for future budgets.

The District has been awarded additional federal ESSER funds in the amount of approximately $14,000,000 of which $8,477,108 is included in the 2022-2023 budget. As these are one-time funds, careful planning of the timing and use of the funds is essential. Specific guidelines direct the parameters of how these funds are to be spent. The School Board and Administration communicated with the community members of the District requesting input as to what qualifying expenditures which will support the needs of the educational and safety program. As such, the areas of focus for the spending of these funds is for qualifying facilities improvements, high quality academics and supportive learning environments. The timeline required for these funds to be spent is through September 2024. These funds will be incorporated into future year budgets as the planned use is implemented.

This pie graph shows the percentage of total revenues in the Proposed Final Budget derived from the various sources.



This chart summarizes the increases or decreases in revenue from the 2021/2021 budget as follows:

	2021-2022	2022-2023	INCREASE	PERCENTAGE
DESCRIPTION	BUDGET	BUDGET	(DECREASE)	CHANGE
Local Revenues	$ 56,517,279	$ 60,588,079	$ 4,070,800	7.20%
State Revenues	15,488,866	$ 17,243,352	1,754,486	11.33%
Federal Revenues	3,906,592	$ 10,754,617	6,848,025	175.29%
Other	-	-		
TOTAL REVENUES	$ 75,912,737	$ 88,586,048	$ 12,673,311	16.69%

Several major reasons exist as to why the School Board feels a tax increase is justified. On the revenue side, growth in assessed values during the last several years as a result of assessment appeals and lack of natural market growth in the values continue to be stagnant. Revenue loss due to appeals cannot be made up. The preliminary budget projected a rate of natural growth for 2021-2022, to be about 0.37%. Despite the economic concerns, the real estate tax collection percentages have remained at approximately 98.5%. The Lancaster County Tax Collection Bureau has provided projections on how earned income tax revenue will be impacted. Based upon the current year revenue trends, the earned income revenue budget for 2022-2023 is $6,161,208, approximately $1,254,350 higher than the 2021-2022 budgeted earned income. As a result of higher wages, time will tell if this is sustainable. A combination of the Federal Reserve now raising interest rates in an effort to stave off inflation and the borrowing of additional funds for future projects, has caused interest earnings to increase by $800,000.

On the expenditure side, salary costs are increasing by $1,373,356. 2022-2023 will be the fourth year of a five-year contract that exists between the Conestoga Valley School Board and the Conestoga Valley Education Association. Through this contract the District offers a high-deductible health care plan option to its employees. In this plan the employee assumes responsibility for health expenses up to a $2,000 deductible ($4,000 for a family plan). The District will provide a match of the employees' contributions up to 35% in the fourth and fifth years. Employees will be able to reduce their premium costs by participating in an outcome-based wellness rewards program. The contract also calls for salary increases of 3% in years three, four and five.

Healthcare costs are increasing by $899,111 or 13.9%. This increase includes a proposed cost savings of $265,500 related to a new prescription plan program. Retirement costs are also increasing by $578,327 or 5.6% due to the mandated increase in the PSERS rate from 34.94% of payroll in 2021-2022 to 35.26% in 2022-2023. The retirement rate is established by the Pennsylvania School Employee Retirement System (PSERS) and is expected to increase each year to an estimated rate of 37.30% of payroll in the 2029-2030 fiscal year which has had a tremendous impact on budgets. The School Board established a PSERS Rate Stabilization Fund to offset the significant increase that began taking effect in 2011-12. The remaining amount of the fund balance committed for this Stabilization Fund is $1,790,809.

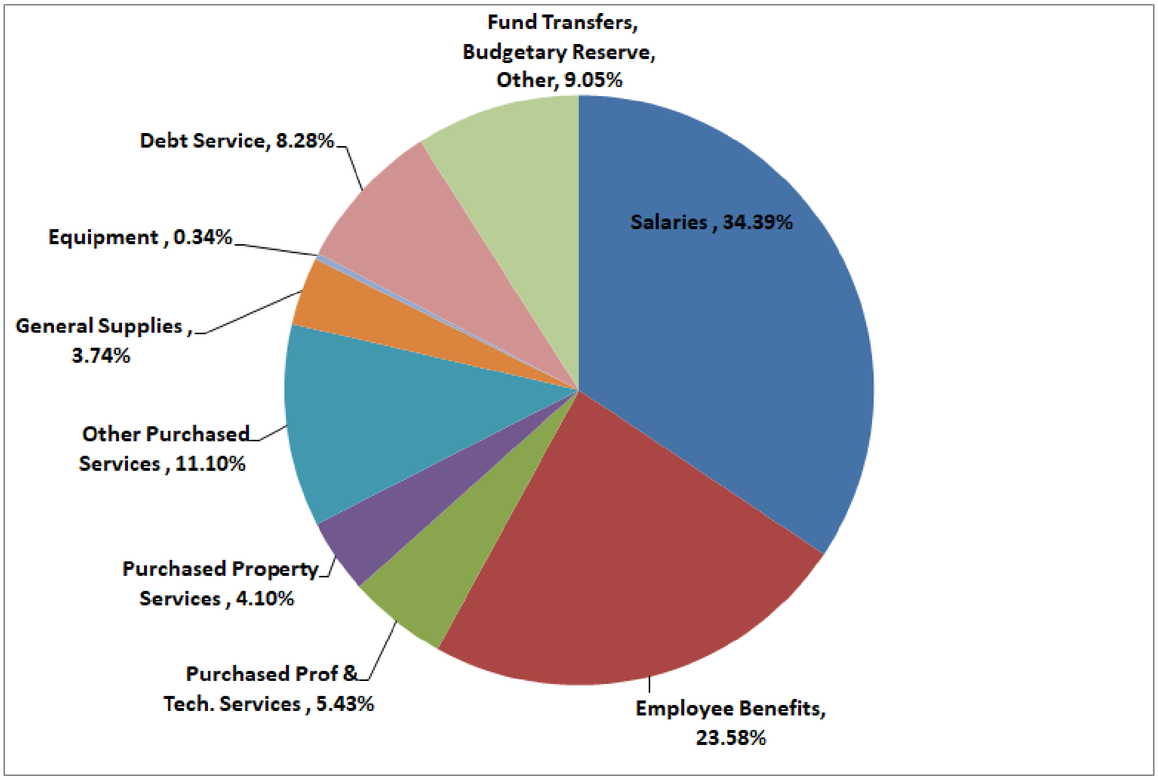
Special education continues to be a financial concern. As with other districts across the Commonwealth, the percentage of special education students compared to the total student population is increasing at a substantial pace. Special education enrollment represented 16.4% of the District's total enrollment in 2020-2021 compared to 12.3% ten years ago. The District has been able to implement various cost saving initiatives over the years including providing the special education services at the District instead of contracting with the local intermediate unit and/or local school districts to provide these services as a way to contain costs. Under the guidance of the Assistant Superintendent for Pupil Services, the District continues its multi-year plan to build capacity in a way that best fits student needs. An added benefit of this plan is that it is expected to result in lower costs.

Costs to support the Conestoga Valley Virtual Academy (CVVA) continue to be high as a result of the pandemic. These costs included not only the cost of technology to support such programs but curriculum and staffing costs. Cyber charter school tuition costs also have increased. Since not as many students have interest in returning to in-person learning during the 2021-2022 school year as an alternative option, the District is still promoting CVVA. The 2022-2023 budget continues to reflect above average cost to support CVVA.

While the District anticipates more students returning from virtual to in-person learning, enrollment in 2022-2023 is projected to be slightly lower than previous years. With only 3,939 projected students, the 2022-2023 budget cost per student (excluding the one time ESSER funds) is $20,599, about $1,346 more than last year, This increase in cost per student is also reflective of the increase in costs to support online or remote.

Finally, rising costs of fuel, food, supplies and utilities continue to provide pressure on district expenditures.

The pie graph below shows the percentage of total expenditures in the Proposed Final Budget used for various functions:



The breakdown of significant increases or decreases from the 2021-2022 budget is as follows:

DESCRIPTION	2021-2022 BUDGET	2022-2023 BUDGET	INCREASE (DECREASE)	PERCENTAGE CHANGE
Salaries	$ 29,400,442	$ 30,773,798	$ 1,373,356	4.67%
Employee Benefits	19,515,383	21,105,402	1,590,019	8.15%
Purch. Prof & Tech. Services	5,040,458	4,855,108	(185,350)	-3.68%
Purch. Property Services	3,612,972	3,668,684	55,712	1.54%
Other Purchased Services	8,693,521	9,935,669	1,242,148	14.29%
General Supplies	3,327,532	3,343,500	15,968	0.48%
Equipment	266,239	303,063	36,824	13.83%
Other	91,003	98,490	7,487	8.23%
Refunds from Prior Yr's Receipts	50,000	50,000	-	0.00%
Fund Transfers-Debt Service	5,696,922	7,406,904	1,709,982	30.02%
Fund Transfers-Other	171,444	171,444	-	0.00%
Budgetary Reserve	646,821	7,775,707	7,128,886	1102.14%
TOTAL EXPENSE	$ 76,512,737	$ 89,487,769	$ 12,975,032	16.96%

In May 2017, the School Board authorized the District to move forward with building a new 6-8 middle school and renovating the remaining buildings. The renovation of Brownstown Elementary School is complete. Construction on the new middle school is planned to be complete in time to open in August 2022. The District issued a forth general obligation bond issue in the amount of $45,560,000 which settles in May 2022. This bond issue is for the purpose of continued renovations to the remaining District buildings. While this necessitates a substantial increase in debt service, as current debt is paid off, the structure and timing of the new bond issues will have minimal impact on the amount of millage needed in the budget. The District expects to approve bids to renovate the existing middle school this summer and the Leola Elementary School in 2023.

The District currently has a long-range plan for capital repairs and equipment replacements. Projects slated for 2022-2023 include dryvit repairs at the High School as well as other rain/leak mitigation needs at the high school and the replacement of several maintenance vehicles. The high school track is being resurfaced and that cost is being funded out of the Capital Reserve Fund.

An important focus of the District is to maintain a healthy fund balance. As a general rule, sound business practice is that reserves in the amount of 3-6 months of operating expenses be set-aside for rainy days. Although under Pennsylvania law, the unassigned fund balance of a school district with the budget size of Conestoga Valley cannot exceed 8% of budgeted expenditures. While Conestoga Valley has an unassigned fund balance at the 8% level, that $6,000,000 would only fund about one month of operating expenses. In projecting future year revenues and expenditures while maintaining a fund balance within this range, the District anticipates that the millage rate will continue to increase. The District has, for the most part, historically kept tax increases at or under inflation. The biggest concern from a management standpoint, is an extremely low index in a year that requires a larger tax increase in order to sustain programs. Another issue is the Act 1 timeline – the District begins the budgetary process in September and must adopt a preliminary budget by early February when all the information necessary to build an accurate budget is not yet available. Even so, the school District has done an excellent job at accurately projecting budgetary needs,

As we plan for the future, Conestoga Valley continues to try to provide the best educational program for the community, while at the same time attempting to keep the tax burden as low as possible. Over the years, there have been many steps taken to reduce costs or increase revenues other than raising taxes. The District will continue to look at efficient and effective ways to bring quality educational services to the community.