Conestoga Valley School District
Proposed Final Budget Report

2020 – 2021

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
2020 – 2021 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 2020-2021 is 2.6% 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.

In March 2020, the World Health Organization declared the CoronaVirus a pandemic. Subsequently, Pennsylvania Governor Tom Wolf declared schools closed until further notice and issued a statewide stay at home order. Conestoga Valley staff immediately began working remotely and, shortly thereafter, providing virtual instruction to all students. The impact that the pandemic is having on the economy is, obviously, cause for concern about the finances of Conestoga Valley School District. The District continues to work through this very difficult and unique budgetary circumstance. The District is planning for an increase of $40,500 in revenues. Expenditure requests have been reduced from the preliminary budget by over $2,575,690. In addition, budgetary increases are being kept as low as possible in light of the economic challenges the residents are facing. The School Board is approaching this task through a very transparent process, through public meetings and posting budgetary updates online, so that residents can understand their diligence and dedication to both the taxpayers and students of our school community.

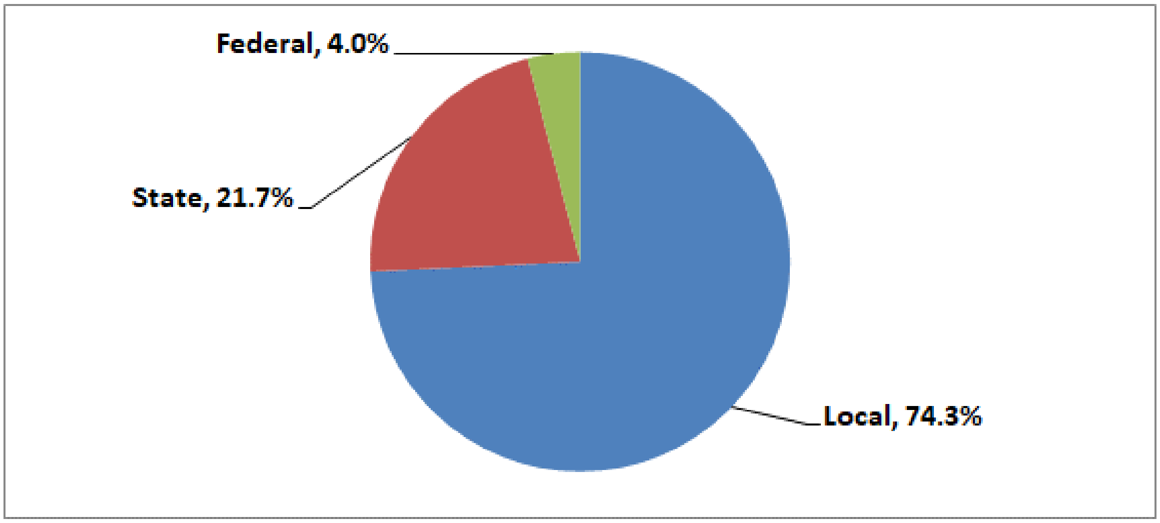
The School Board asked the administration to identify potential reductions to minimize the tax increase for the 2020-2021 budget. Administration held meetings with each building department head. The resulting reductions included a variety of items including maintenance projects that were not absolutely necessary, new and some replacement technology equipment 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 making schedules move efficient. Finally, the School Board has attempted to avoid furloughs or layoffs and to rather gain some economies through attrition. Such savings can only be realized through retirements, resignations or through movement of existing staff into those positions. In this budget most of the retiring/resigning staff were not replaced, instead, those savings were used for the few necessary additional staff. As the shutdown continued and it became apparent that these reductions would not be enough, the administration went back to each building and department in order to garner additional reductions.

At the June 15, 2020 Board meeting, the School Board approved a Proposed Final Budget with a tax increase of 2.60%. For the average single-family residential homeowner, that translates into a tax increase of approximately $76. However, the residential properties that were approved as Homesteads will continue to receive approximately $98 off their tax bill as the District expects to receive $710,016 in State Property Tax Reduction revenue, a $1,364 increase over the amount received in the previous year. That money goes to reduce the tax burden of residential taxpayers.

Total revenues for the 2020-2021 budget are $72,462,172 which represents 0.82% increase revenues over the 2019-2020 budget. The District is budgeted for $1,563,000 in federal CARES Act revenue and state School Safety and Security to assist school districts to offset the anticipated revenue decrease resulting from the financial pressures of the economy and to support additional costs that may be incurred due to the Corona Virus. Total expenditures for the 2020-2021 budget are $73,859,721 which represents a 1.28% increase over the 2019-2020 budget. Overall, budgeted expenditures exceed budgeted revenues by $1,397,549 resulting in a fund balance which is 16.77% of budgeted expenditures. The School Board has committed approximately $4,737,806 of the fund balance for future pension costs, health savings account and future debt obligations and has assigned $1,900,000 for future assessment appeals and tax increment financing.

The 2020-2021 proposed state education budget originally included an additional $247,321 for the basic education subsidy and the Ready to Learn Grant. In considering the impact of the economic crisis caused by the CoronaVirus, the basic education subsidy and Ready to Learn Grant have been adjusted down to the 2019/2020 levels and now does not reflect an increase. 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 projected to increase by $27,000 over the prior year's budget. The special education subsidy is now 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 won't be known until the state calculates the formula factors. The District also receives state subsidy to reimburse 50% of the PSERS retirement costs incurred. As the PSERS retirement rate is increasing in 2020-2021 from 34.29% to 34.51%, the reimbursement subsidy is also increasing by $131,600 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 2020-2021 budgeted rental subsidy is decreasing by $407,100 over the 2019-2020 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 it is being studied for future sustainability. As such, there is no Plan Con subsidy projected for future budgets.

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 2019/2020 budget as follows:

DESCRIPTION	2019-2020 BUDGET	2020-2021 BUDGET	INCREASE (DECREASE)	PERCENTAGE CHANGE
Local Revenues	$ 54,392,247	$ 53,830,092	$ (562,155)	-1.03%
State Revenues	15,504,778	$ 15,704,236	199,458	1.29%
Federal Revenues	1,978,185	$ 2,927,842	949,657	48.01%
Other	-	-		
TOTAL REVENUES	$ 71,875,210	$ 72,462,170	$ 586,960	0.82%

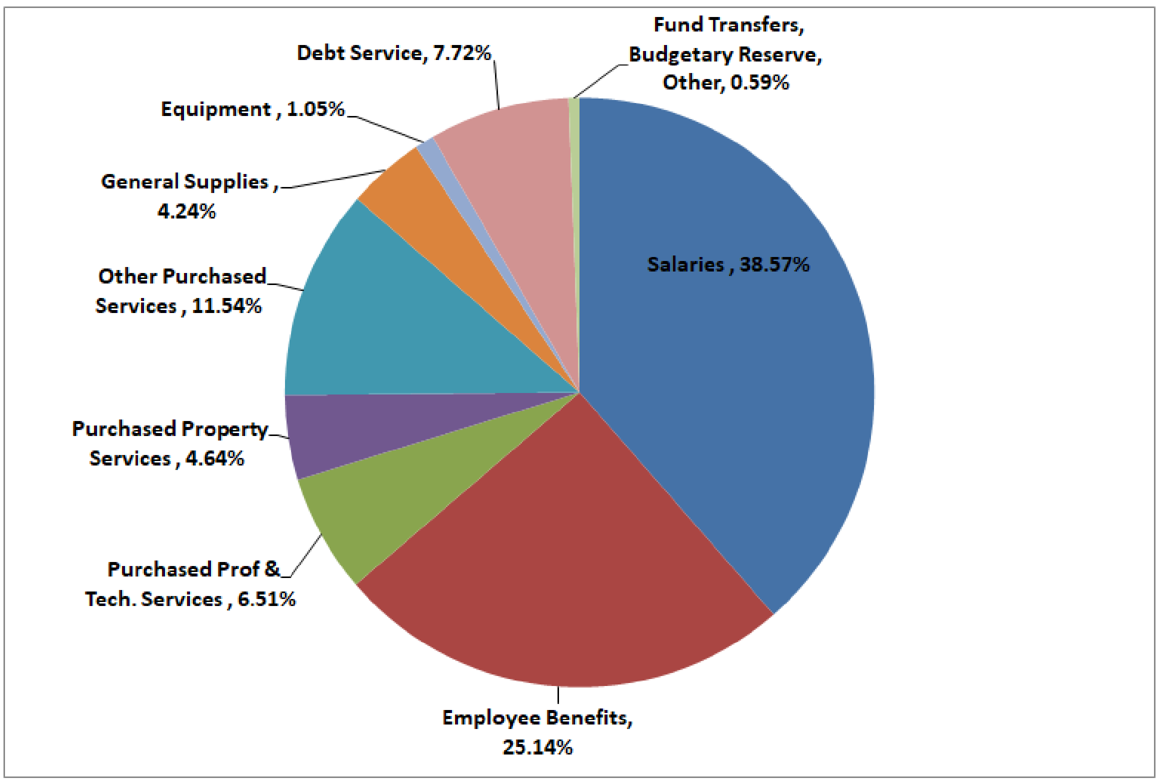
Several major reasons exist as to why the School Board feels a tax increase is justified. On the revenue side, growth in assessed values during the last several years as a result of assessment appeals and lack of natural market growth in the values continue to be stagnant. Revenue loss due to appeals cannot be made up. The preliminary budget projected a rate of natural growth for 2020-2021, to be about 0.36%. However, due to the impact that the CoronaVirus is having on the economy, projected real estate tax growth was set at the values provided by the Lancaster County Assessment Office in April 2020. Furthermore, the real estate tax collection percentage has been decreased from 98.5% to 97.0% as a result of the effect the economic crisis may have on taxpayers' ability to pay the taxes prior to those unpaid taxes being turned over for delinquent collections. On the flip side, delinquent tax receipts may increase. Proposed legislation may change current tax collection laws by extending or eliminating deadlines for payment of taxes in an effort to ease the financial pressures on taxpayers. The Lancaster County Tax Collection Bureau has provided projections on how earned income tax revenue will be impacted. The projections consider the extended deadline for payment of the 2019 earned income taxes to July 2020 as well as the impact of the economic crisis on employees' wages. Therefore, this tax revenue has been decreased by $705,000, approximately 15% of the amount budgeted in 2019/2020. Another impact of the pandemic was on interest earning as the Federal Reserve moved to lower the benchmark interest rate to zero in March. As a result, budgeted interest earnings have been reduced by $470,000.

On the expenditure side, salary costs are increasing by $583,000. 2020-21 will be the second year of a five-year contract that exists between the Conestoga Valley School Board and the Conestoga Valley Education Association. One of the features of the new contract Is that the District will discontinue the offering of low and medium PPO plans, and instead continue to offer only the the high-deductible health care plan option to employees. In this plan the employee assumes responsibility for health expenses up to a $2,000 deductible ($4,000 for a family plan). For existing employees, the District will provide a a match of whatever the employee contributes up to 30% in the second and third years of the contract. This match moves 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 3.1% in the second year and 3% in years three, four and five.

Retirement costs are increasing by $150,000 or 1.5% due to the mandated increase in the PSERS retirement rate from 34.29% of payroll in 2019-2020 to 34.51% in 2020-2021. 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 36.30% of payroll in the 2024-2025 fiscal year which has had a tremendous impact on budgets. It is expected with the current economic conditions that this rate increase more than previously projected. The School Board established a PSERS Rate Stabilization Fund to offset the significant increase that began taking effect in 2011-12. The amount of the fund balance committed for this Stabilization Fund is $2,290,809. The District does receive state subsidy representing 50% of the retirement costs.

Special education continues to be a financial concern. As with 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 now represents 15.3% of the District's total enrollment during 2018-2019 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 who provide the necessary services in order to contain cost increases. For 2020-21, the District is expecting costs to be approximately $750,000 less than last year. Under the guidance of a new Assistant Superintendent for Pupil Services, the District is embarking on a 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 have a positive impact on costs.

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 2019-2020 budget is as follows:

DESCRIPTION	2019-2020 BUDGET	2020-2021 BUDGET	INCREASE (DECREASE)	PERCENTAGE CHANGE
Salaries	$ 28,232,452	$ 28,485,797	$ 253,345	0.90%
Employee Benefits	18,253,059	18,570,449	317,390	1.74%
Purch. Prof & Tech. Services	5,285,902	4,805,465	(480,437)	-9.09%
Purch. Property Services	3,439,382	3,430,695	(8,687)	-0.25%
Other Purchased Services	8,027,450	8,522,906	495,456	6.17%
General Supplies	2,822,005	3,127,991	305,986	10.84%
Equipment	274,040	778,355	504,315	184.03%
Other	61,423	66,147	4,724	7.69%
Refunds from Prior Yr's Receipts	50,000	50,000	-	0.00%
Fund Transfers-Debt Service	5,909,621	5,700,471	(209,150)	-3.54%
Fund Transfers-Other	346,877	171,444	(175,433)	-50.57%
Budgetary Reserve	225,000	150,000	(75,000)	-33.33%
TOTAL EXPENSE	$ 72,927,211	$ 73,859,720	$ 932,509	1.28%

With 4,198 projected students, the 2020-2021 budget cost per student is $17,594, about $345 more than last year.

As you may recall, the School Board authorized the District to move forward with a new 6-8 middle school and renovations to the remaining buildings. With construction at Brownstown Elementary School well underway and bids on the new middle school approved in March, approximately 2/3rds of the costs are now known. Although bids on the new middle school have been opened, construction has been temporarily delayed, with the exception of the site work until the more information is available on the impact of the pandemic and plans can be re-evaluated. The original plan was for a third general obligation bond issue of $40,000,000 (the second of that size) in August 2020 with a “clean-up” issue of $10,000,000 or so in June 2021As current debt is paid off, the structure and timing of the new bond issues will have minimal impact on the existing level of annual debt service payments. However, the District will need to continue to make room in upcoming budgets to phase in the additional debt service that is needed to fund these last two borrowings.

The District currently has a long-range plan for capital repairs and equipment replacements. Projects slated for 2020-2021 include repairing a small portion of the high school roof, dryvit repairs at Leola Elementary and the middle school, addition of sinks to a classroom at the middle school so that it can be used for science classes, stadium bleacher repairs and replacement athletic fencing at the high school.

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. 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 currently, Conestoga Valley has 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 the end of January when 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.