



**Conestoga Valley School District
Proposed Final Budget Report**

2019 – 2020

**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
2019 – 2020 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 2019-2020 is 2.3% for Conestoga Valley. Districts may apply for referendum exceptions from this limit due to significant increases in costs in specific areas. The CV School Board chose to apply for and use the special education exception which increased the millage rate by an additional 0.069% for a total of 2.99%.

The district continued to work through a very difficult budgetary process again this year. The School Board reduced expenditure requests from the preliminary budget by over \$1,911,236. In addition, the Board has kept the budgetary increase 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, hosting public forums and posting budgetary updates to their public agendas online, so that residents can understand their diligence and dedication to both the taxpayers and students of our school community.

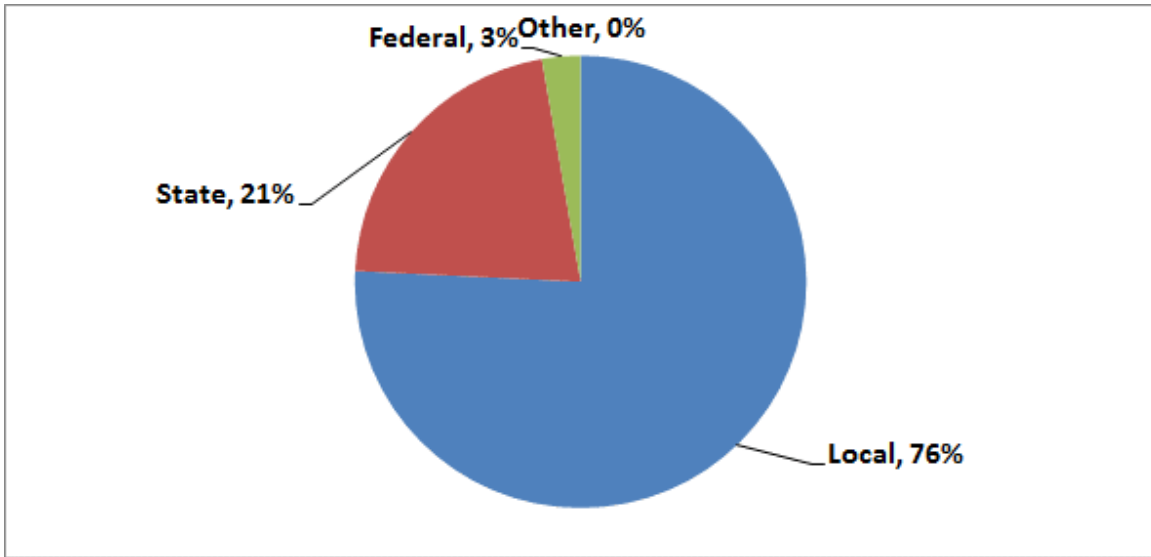
The School Board asked the administration to identify potential reductions to minimize the tax increase for the 2019-2020 budget. Administration held meetings with each building department head. The resulting reductions included a variety of items including maintenance projects that were not high priority, new 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 a process began last year of equalizing class sizes by moving staff from one building to another and making schedules move efficient by utilizing staff more during the contracted day. 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.

At the May 13, 2019 Board meeting, the School Board approved a Proposed Final Budget with a tax increase of 2.99%. For the average single family residential homeowner, that translates into a tax increase of approximately \$85. However, the residential properties that were approved as Homesteads will continue to receive approximately \$97 off their tax bill as the district expects to receive \$708,652 in State Property Tax Reduction revenue, a \$2,184 increase over the amount received in the previous year. That money goes to reduce the tax burden of residential taxpayers.

Total revenues for the 2019-2020 budget are \$71,802,867 which represents a 2.44% increase revenues over the 2018-2019 budget. Total expenditures for the 2019-2020 budget are \$72,558,497 which represents a 2.62% increase over the 2018-2019 budget. Overall, budgeted expenditures exceed budgeted revenues by \$755,630 resulting in a fund balance which is 17.80% of budgeted expenditures. The district has committed approximately \$4,776,809 of the fund balance for future pension costs, tax increment financing and future debt obligations.

The 2019-2020 proposed state education budget includes an additional \$291,466 for the basic education subsidy which now includes the Ready to Learn Block Grant. This subsidy is now based on a formula which recognizes changes in the district's demographics, such as enrollment growth, poverty and English Language Learners. The special education subsidy is also projected to increase 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 know 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 2019-2020 from 33.43% to 34.29%, the reimbursement subsidy is also increasing by \$192,500 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 2018-2019 budgeted rental subsidy is decreasing by \$546,500 over the 2018-2019 budget as our 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 2018/2019 budget as follows:

	2018-2019	2019-2020	INCREASE	PERCENTAGE
DESCRIPTION	BUDGET	BUDGET	(DECREASE)	CHANGE
Local Revenues	\$ 52,703,242	\$ 54,392,247	\$ 1,689,005	3.20%
State Revenues	15,440,554	\$ 15,432,435	(8,119)	-0.05%
Federal Revenues	1,949,933	\$ 1,978,185	28,252	1.45%
Other	-	-		
TOTAL REVENUES	\$ 70,093,729	\$ 71,802,867	\$ 1,709,138	2.44%

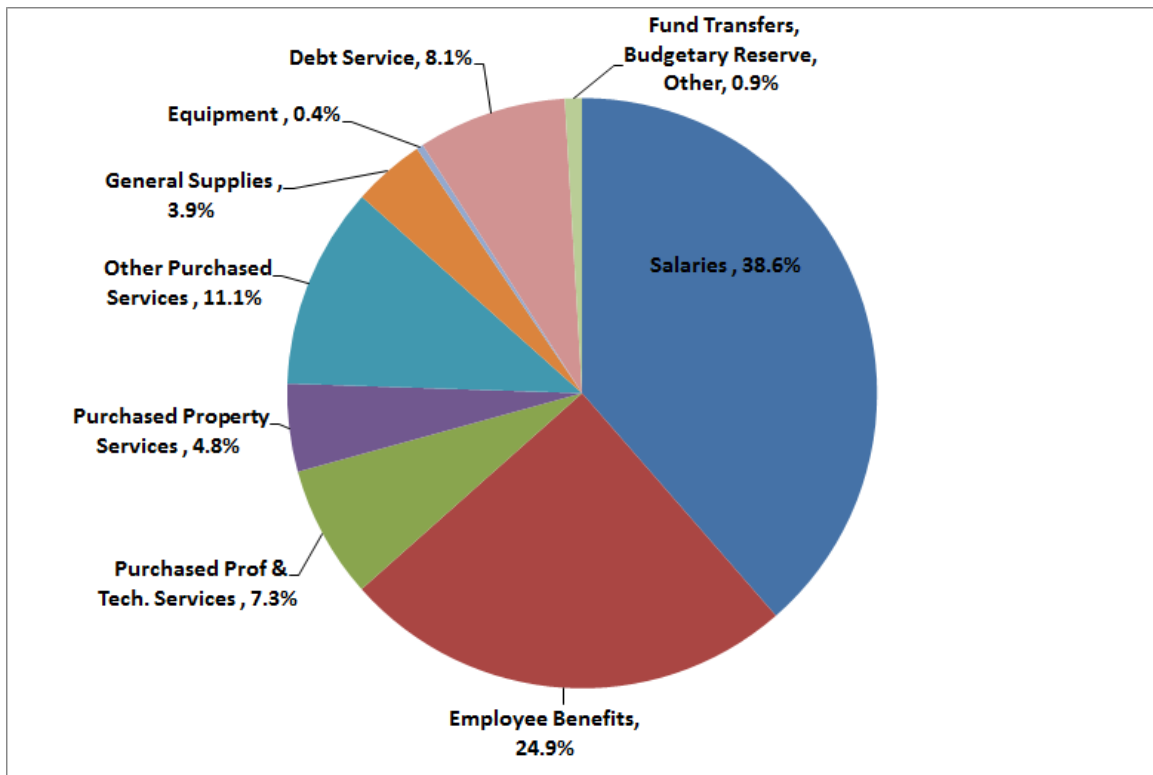
Several major reasons exist as to why the School Board feels a tax increase is justified. On the revenue side, growth in assessed values has been relatively flat during the last several years as a result of assessment appeals and lack of natural market growth in the values. Revenue loss due to appeals cannot be made up. The rate of natural growth for 2019-2020, trended off the last six years, is projected to be about 0.44%.

On the expenditure side, salary costs are increasing by \$430,000. The four year contract with the education association negotiated in the spring of 2015 expires June 30, 2019. The new contract is currently being negotiated. The district contract with SOSL runs for two more years through 2020-2021 to provide food service, custodial, maintenance and instructional aide positions. As such, the district will continue to recognize annual savings in PSERS retirement and healthcare costs from these positions.

Retirement costs are increasing by \$385,000 or 4.4% due to the mandated increase in the PSERS retirement rate from 33.43% of payroll in 2018-2019 to 34.29% in 2019-2020. 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 2023-2024 fiscal year which has had a tremendous impact on budgets. The District 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 \$2,690,809. 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. For Conestoga Valley, special education costs have increased by \$1,603,000 or 15.1% from 2018-2019 to 2019-2020. The district has implemented 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. However, due to the needs of students, almost all of the new staff being added next year is to serve this population.

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 2018-2019 budget is as follows:

	2018-2019	2019-2020	INCREASE	PERCENTAGE
<u>DESCRIPTION</u>	<u>BUDGET</u>	<u>BUDGET</u>	<u>(DECREASE)</u>	<u>CHANGE</u>
Salaries	\$ 27,606,885	\$ 28,036,856	\$ 429,971	1.56%
Employee Benefits	17,336,684	18,051,105	714,421	4.12%
Purch. Prof & Tech. Services	4,497,260	5,268,952	771,692	17.16%
Purch. Property Services	4,900,405	3,489,382	(1,411,023)	-28.79%
Other Purchased Services	7,420,196	8,027,450	607,254	8.18%
General Supplies	1,705,426	2,817,791	1,112,365	65.23%
Equipment	476,382	274,040	(202,342)	-42.47%
Other	49,058	61,423	12,365	25.20%
Authority Obligations	156,495	-	(156,495)	-100.00%
Refunds from Prior Yr's Receipts	50,000	50,000	-	0.00%
Fund Transfers-Debt Service	5,962,651	5,909,621	(53,030)	-0.89%
Fund Transfers-Other	368,777	346,877	(21,900)	-5.94%
Budgetary Reserve	175,000	225,000	50,000	28.57%
TOTAL EXPENSE	\$ 70,705,219	\$ 72,558,497	\$ 1,853,278	2.62%

With 4,228 projected students, the 2019-2020 budget cost per student is \$17,161, about \$672 more than last year.

The School Board authorized the district to move forward with the planning and financing of a new middle school encompassing grades 6 through 8, and completing needed renovations to the remaining buildings. This would allow the current Smoketown Elementary population to move to the existing Gerald G. Huesken Middle School building, as well as alleviate crowding in the remaining elementary schools. While bids have been opened in the renovations to Brownstown Elementary School, there is still an estimated cost which is approximately \$100 million. Bids on the new middle school will not be opened until later this summer. As the district moves further along with the projects, more concrete dollar amounts will be forthcoming. The plan is for the projects to be financed by issuing general obligation bonds; \$10,000,000 was issued in November 2018, \$40,000,000 will be issued in August 2019, \$40,000,000 in August 2020 and the last \$10,000,000 in June 2021. In order to protect against interest rates from being higher in 2019 and 2020 than the current rates at this time, the district has put a cash settle hedge in place for the two \$40,000,000 bond issues. As 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 borrowings.

The school district currently has a long range plan for capital repairs and equipment replacements. Projects slated for 2019-2020 include the repair of exterior wall at the district office, insulation of chiller piping at the high school and Leola, installation of a water softening system at Fritz, LED lighting at selected locations throughout the district, EFIS repairs at Leola and replacement of select exterior doors..

During the budgetary process, an important focus of the District is to maintain a healthy fund balance. As a general rule, the unassigned fund balance should range between 6 – 8% of budgeted expenditures. 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, kept tax increases at or under inflation. The biggest concern under tax reform, from a management standpoint, is an extremely low index in a year that requires a larger tax increase just to sustain programs. Another issue is adopting a preliminary budget in January when the district does not have the information to build an accurate budget. The school district has done an excellent job at accurately projecting tax rate needs, keeping both tax increases and fund balances from significant swings up and down. With the enactment of Act 1, the budgetary process began in September 2018 with continual modifications to current year projections and budget amounts.

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.