Conestoga Valley School District
Proposed Final Budget Report

2018 – 2019

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
2018 – 2019 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 2018-2019 is 2.4% for Conestoga Valley. Since the county underwent property reassessment this year, districts are permitted to use the previous year's Act 1 index which was 2.5% 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 both the PSERS retirement and special education exceptions but chose to use only the special education exception which increased the millage rate by an additional 1.05% for a total of 3.55%.

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 $659,323. 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 share with them the kinds of reductions it would take to minimize the tax increase for the 2018-2019 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 significant, staffing which is the largest cost driver, needed to be reviewed. From this review, the district will be equalizing class sizes resulting in moving staff from one building to another and making schedules move efficient resulting in 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.

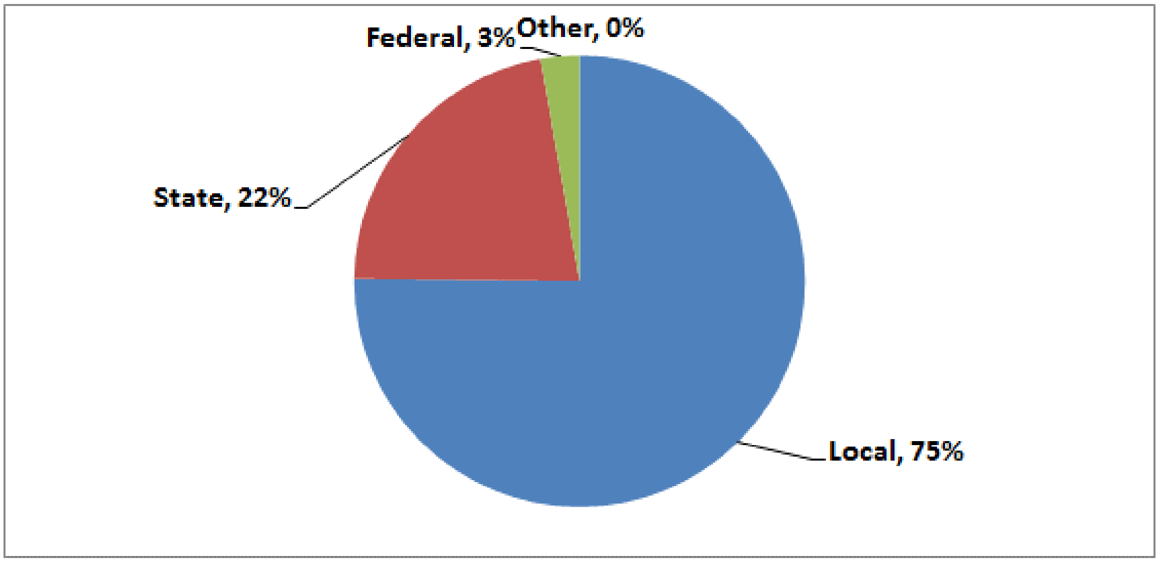
At the May 14, 2018 Board meeting, the School Board approved a Proposed Final Budget with a tax increase of 3.55%. For the average single family residential homeowner, that translates into a tax increase of approximately $97. However, the residential properties that were approved as Homesteads will continue to receive approximately $96 off their tax bill as the district expects to receive $706,468 in State Property Tax Reduction revenue, a $958 decrease over the amount received in the previous year. That money goes to reduce the tax burden of residential taxpayers.

Lancaster County underwent a real estate re-assessment where all property values in the county are revalued to current fair market values. The last re-assessment was performed in 2005. The school districts must then re-balance their millage rates to a revenue neutral millage rate before calculating any millage rate increase under Act 1. As stated previously, because the reassessment was performed during the 2018-2019 budget preparation process, school districts are permitted to use the prior year's Act 1 index when calculating the permitted millage rate increase. As such, the District used the 2017-2018 index of 2.5% instead of the 2018-2019 index of 2.4%. The rebalanced millage rate is 12.9347. Using the 2.5% index, the millage rate increased by .3234 mills to 13.258. The district applied for and is using the special education exception. The use of this exception increases the millage rate by 0.1356 to 13.394, a 3.55% increase over the 2017-2018 millage rate.

Total revenues for the 2018-19 budget are $70,093,729 which represents a 5.07% increase revenues over the 2017-2018 budget. Total expenditures for the 2018-2019 budget are $70,705,219 which represents a 3.44% increase over the 2017-2018 budget. Overall, budgeted expenditures exceed budgeted revenues by $611,491 resulting in a 16.98% fund balance as a percentage of budgeted expenditures. The district has committed approximately $4,568,000 of the fund balance for future pension costs and future debt obligations.

The 2018-2019 proposed state education budget includes an additional $247,400 for the basic education subsidy. 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 also increased over the prior year's budget by $66,000. 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 district also receives state subsidy to reimburse 50% of the PSERS retirement costs incurred. As the PSERS retirement rate is increasing in 2018-2019 from 32.57% to 33.43%, the reimbursement subsidy is also increasing by $255,800 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 increasing by $51,400 over the 2017-2018 budget. The Planning and Construction Program 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 for new projected budgeted.

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 2017/2018 budget as follows:

DESCRIPTION	2017-2018 BUDGET	2018-2019 BUDGET	INCREASE (DECREASE)	PERCENTAGE CHANGE
Local Revenues	$ 50,127,138	$ 52,703,242	$ 2,576,104	5.14%
State Revenues	14,669,636	$ 15,440,554	770,918	5.26%
Federal Revenues	1,916,970	$ 1,949,933	32,963	1.72%
Other	-	-		
TOTAL REVENUES	$ 66,713,744	$ 70,093,729	$ 3,379,985	5.07%

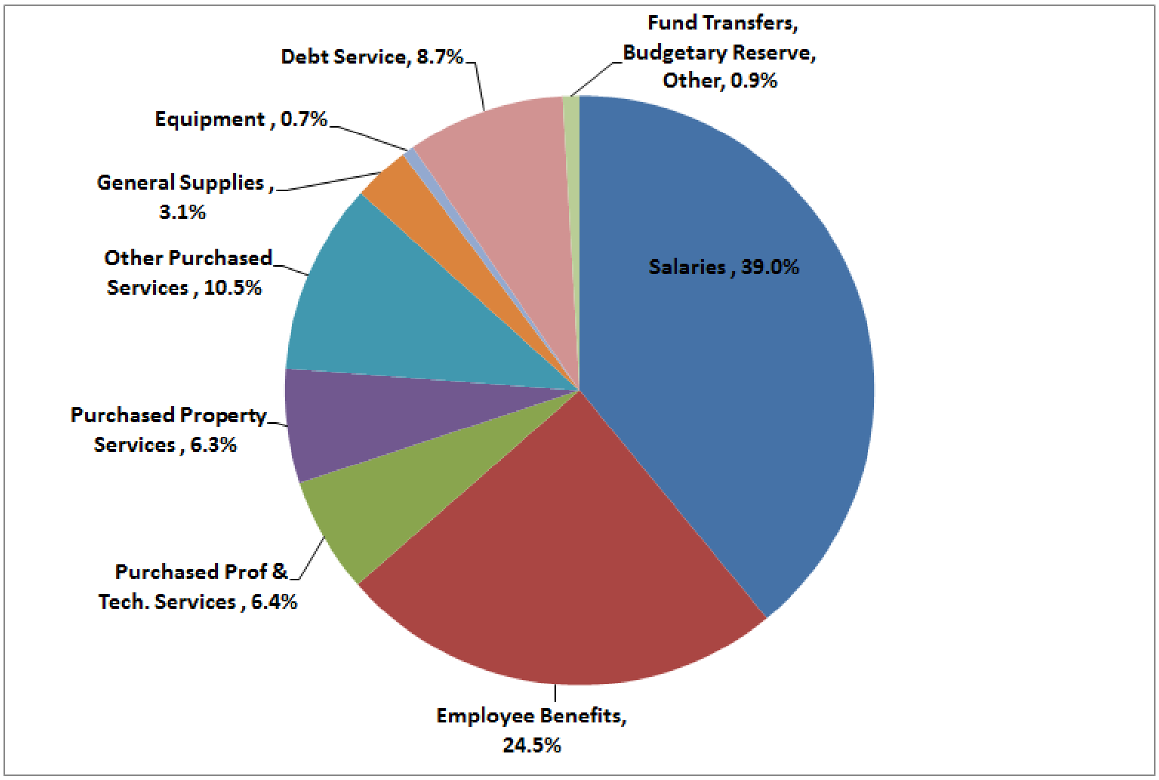
Several major reasons exist as to why the School Board feels a tax increase is justified. On the revenue side, growth in assessed values has been relatively flat during the last several years as a result of assessment appeals and lack of natural market growth in the values. Revenue loss due to appeals 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 $841,000. In the spring of 2015, the School Board and the education association negotiated a four-year contract through 2018 – 2019. The contract provides for salary increases of 2.95% for the first two years and 2.9% for the last two years of the contract. The contract also included changes to the existing health insurance plan by offering a qualified high deductible plan with a health savings account in addition to a low and medium preferred provider plan. These changes have helped restrain healthcare cost increases. This contract will be renegotiated next year. The district also renewed its contract with SOSL for another three 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 $511,500 or 5.9% due to the mandated increase in the PSERS retirement rate from 32.57% of payroll in 2017-2018 to 33.43% in 2018-2019. 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 36.32% of payroll in the 2022-2023 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 $3,190,809. 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 $934,300 or 10.0% from 2017-2018 to 2018-2019. 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, most 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 2017-2018 budget is as follows:

DESCRIPTION	2017-2018 BUDGET	2018-2019 BUDGET	INCREASE (DECREASE)	PERCENTAGE CHANGE
Salaries	$ 26,765,534	$ 27,606,885	$ 841,351	3.14%
Employee Benefits	16,980,828	17,336,684	355,856	2.10%
Purch. Prof & Tech. Services	4,069,006	4,497,260	428,254	10.52%
Purch. Property Services	4,556,167	4,426,405	(129,762)	-2.85%
Other Purchased Services	7,329,313	7,420,196	90,883	1.24%
General Supplies	2,126,253	2,179,426	53,173	2.50%
Equipment	402,914	476,382	73,468	18.23%
Other	47,700	49,058	1,358	2.85%
Authority Obligations	162,947	156,495	(6,452)	-3.96%
Refunds from Prior Yr's Receipts	50,000	50,000	-	0.00%
Fund Transfers-Debt Service	5,292,634	5,962,651	670,017	12.66%
Fund Transfers-Other	344,072	368,777	24,705	7.18%
Budgetary Reserve	225,000	175,000	(50,000)	-22.22%
TOTAL EXPENSE	$ 68,352,368	$ 70,705,219	$ 2,352,851	3.44%

With 4,288 projected students, the 2018-2019 budget cost per student is $16,489, about $510 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. Since no designs have yet been constructed, and the district is still in the preliminary stages of the project, there is only an estimated cost for this move which is approximately $100 million. As the district moves further along with the projects, a more concrete dollar amount will then be determined. The plan is for the projects to be financed by issuing general obligation bonds; $10,000,000 in the spring of 2018, $40,000,000 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 which goes to 2025-2026. Projects slated for 2018-2019 include the replacements of a truck, a mower and a scissor lift, replacement of team room lockers at the high school as well as the refinishing of the Rill gym floors.

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 2017 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.