Conestoga Valley School District
Proposed Final Budget Report

2017 – 2018

Conestoga Valley School District
2110 Horseshoe Road
Lancaster, Pennsylvania 17601

Phone (717)397-2421
Fax (717)397-0442
www.conestogavalley.org

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
2017 – 2018 BUDGET NARRATIVE

In June 2006, the Taxpayer Relief Act, commonly known as Act 1 was signed into law. The Act also 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 2017-2018 is 2.5% for Conestoga Valley. A district 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 the PSERS retirement and special education exceptions which would have increased the millage rate by an additional 1.61%.. However,the district has elected not to use the special education or the PSERS retirement exception.

The district continued to work through a very difficult budgetary process again this year. The School Board reduced expenditure requests by over $2,812,000 to reach the goal of a 2.50% millage rate increase. In addition, the Board has kept our budgetary increase as low as possible in light of the economic challenges our residents are facing. The School Board is approaching this task through a very transparent process, hosting public forums, 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 reach a 2.50% tax increase for the 2017-2018 budget. Those scenarios included a variety of items including maintenance projects that were not high priority, new technology equipment and reductions to planning hours and building/department budgets. Retiring staff in a few areas (such as middle school geography and family consumer science) will not be replaced. Instead, that curriculum will be integrated into other courses. Furthermore, the School Board has tried to avoid increasing class size, especially at the elementary level. Finally, the School Board has attempted to avoid furloughs or layoffs and to rather gain some economies through attrition. The only way such savings can be realized is through retirements or resignations.

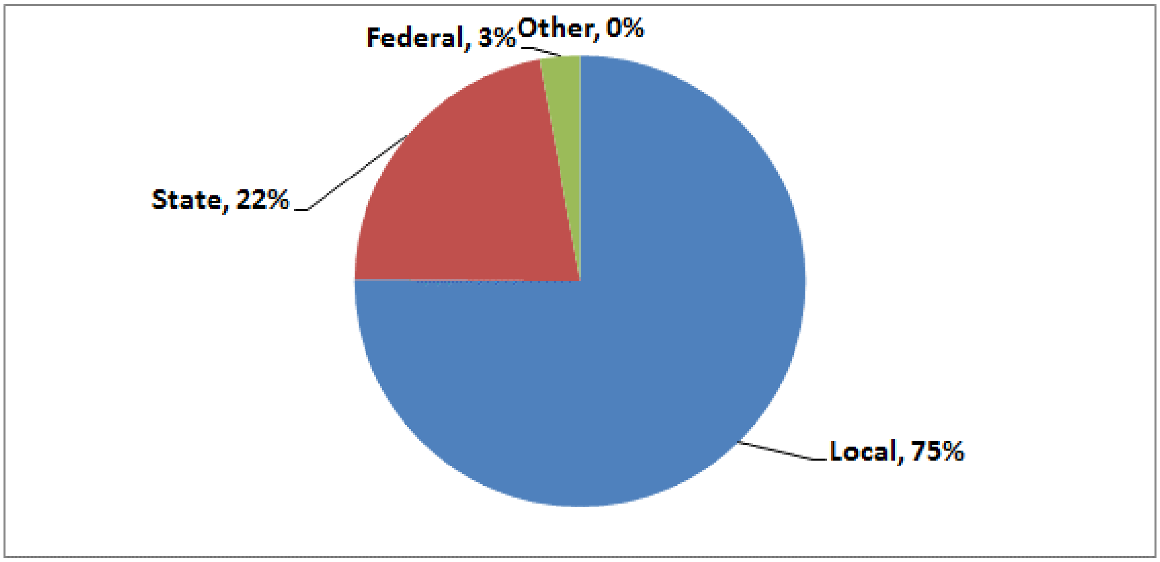
At the May 15, 2017 Board meeting, the School Board approved a Proposed Final Budget with a tax increase of2.50%. For the average single family residential homeowner, that translates into a tax increase of approximately $67. However, the residential properties that were approved as Homesteads will continue to receive approximately $98 off their tax bill as the district expects to receive $707,426 in State Property Tax Reduction revenue, a $6,111 increase over the amount received in the previous year. That money goes to reduce the tax burden of residential taxpayers.

With a 2.50% millage rate increase, the 2017-2018 rate will increase by 0.3981 mills to 16.322 mills. Total revenues for the 2017-18 budget are $66,719,765 which represents a 3.68% increase revenues over the 2016-2017 budget. Total expenditures for the 2017-2018 budget are $68,352,368 which represents a 2.57% increase over the 2016-2017 budget. Overall, budgeted expenditures exceed budgeted revenues by $1,638,626 resulting in a 15.85% fund balance as a percentage of budgeted expenditures. The district has assigned approximately $3,440,809 of the fund balance for future pension costs and for the health savings account.

Tax assessment appeals have had a significant impact on the district's local revenue over the previous years and the impact of these assessments compounds each year. Earned income tax revenue taxes are budgeted to increase by $84,000.

The 2017-2018 proposed state education budget includes an additional $227,600 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 district also receives state subsidy to reimburse 50% of the PSERS retirement costs incurred. As the PSERS retirement rate is increasing in 2017-2018 from 30.03% to 32.57%, the reimbursement subsidy is also increasing by $445,000 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. Effective for 2016-2017, the district's aid ratio has increased. Therefore, the district's 2017-2018 budgeted rental subsidy is increasing by almost $132,900 over the 2016-2017 budget.

The District was awarded a competitive grant beginning in 2012-2013 called the Keystone to Opportunities grant.   The district's proposal for the grant was one of four county proposals and only thirty-eight districts in Pennsylvania were selected for full funding. The grant addresses Early Childhood Education, Elementary English Language Learners, Secondary Response to Instruction and Intervention and Transition Programs. The grant was awarded based on the strength of our program and our ability to analyze our needs and act on them in a way that ensures literacy success for all students. 2016-2017 was the last year of this grant, thus the budgeted federal revenues have decreased for 2017-2018. However, the district is using $339,000 Title I carryover funds in 2017-2018 to fund several staffing position.



The pie graph above 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 2016/2017 projections as follows:

DESCRIPTION	2016-2017 BUDGET	2017-2018 BUDGET	INCREASE (DECREASE)	PERCENTAGE CHANGE
Local Revenues	$ 48,761,424	$ 50,127,138	$ 1,365,714	2.80%
State Revenues	13,211,706	$ 14,669,634	1,457,928	11.04%
Federal Revenues	2,280,305	$ 1,916,970	(363,335)	-15.93%
Other	8,000	-		
TOTAL REVENUES	$ 64,261,435	$ 66,713,742	$ 2,460,307	3.83%

Several major reasons exist as to why the School Board feels a tax increase is justified. On the revenue side, assessed values are flat 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 value dipped below the previous year in two of the last five years, meaning that revenue growth would have been negative except for the tax increase. While the tax base for the other school districts in Lancaster County also fell, they did not (on average) fall below 0. We project the rate of natural growth for 2017-2018, trended off the last six years, to be about 0.55%.

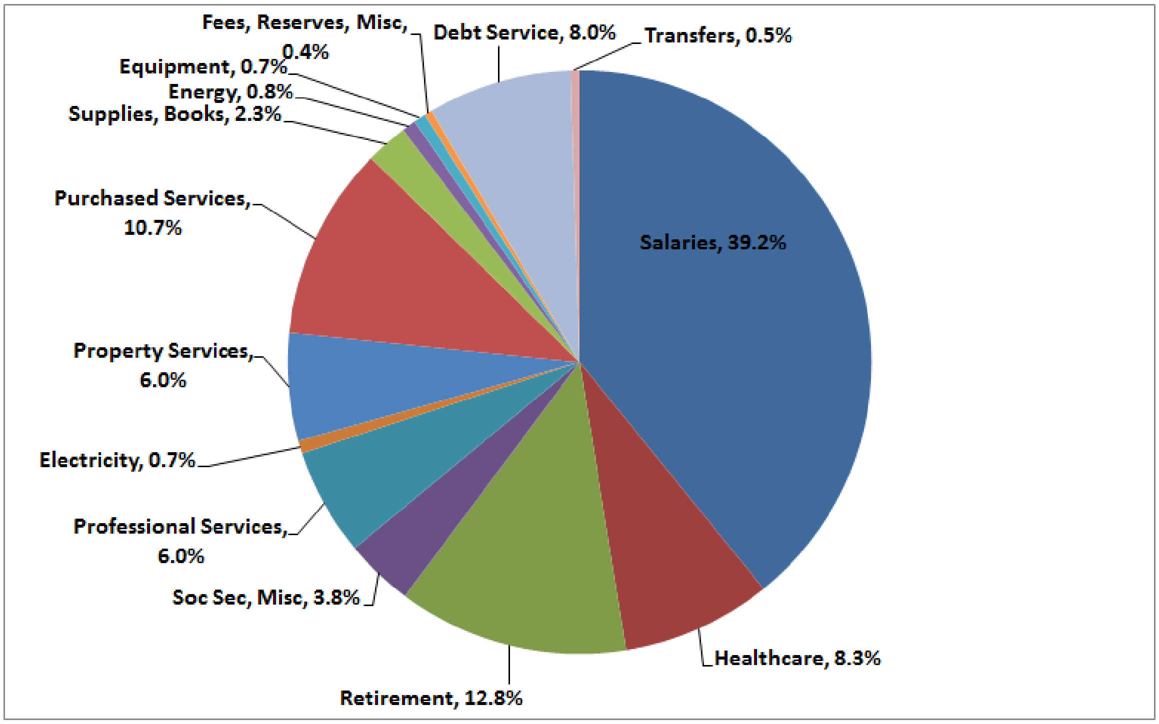
On the expenditure side, salary costs are increasing by $726,000. The school board and the education association negotiated a new four year contract through 2018 – 2019. The contract provides for salary increases of 2.95% for the first two years and 2.9% for the next two years. The contract also includes 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. This change is expected to help restrain healthcare cost increases. The district also contracted with SOSL to provide food service, custodial, maintenance and instructional aide positions. Due to this, the district will recognize annual savings in PSERS retirement and healthcare costs.

Retirement costs are increasing by $889,500 or 11.4% due to the mandated increase in the PSERS retirement rate from 30.03% of payroll in 2016-2017 to 32.57% in 2017-2018. 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 36.40% of payroll in the 2021-2022 fiscal year which has had a tremendous impact on budgets. The District has established a PSERS Rate Stabilization Fund to offset the significant increase that began taking effect in 2011-12. 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 $610,000 or 7.0% from 2016-2017 to 2017-2018. 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.

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

Conestoga Valley 2017-2018 Proposed Final Budget Expenditures



The breakdown of significant increases or decreases from the 2016-2017 budget is as follows:

DESCRIPTION	2016-2017 BUDGET	2017-2018 BUDGET	INCREASE (DECREASE)	PERCENTAGE CHANGE
Salaries	$ 26,039,796	$ 26,765,534	$ 725,738	2.79%
Employee Benefits	15,679,443	16,980,828	1,301,385	8.30%
Purch. Prof & Tech. Services	4,502,037	4,069,006	(433,031)	-9.62%
Purch. Property Services	3,863,265	4,556,167	692,902	17.94%
Other Purchased Services	6,837,685	7,329,313	491,628	7.19%
General Supplies	2,442,134	2,126,253	(315,881)	-12.93%
Equipment	822,945	452,914	(370,031)	-44.96%
Other	52,130	47,700	(4,430)	-8.50%
Authority Obligations	111,388	162,947	51,559	46.29%
Refunds from Prior Yr's Receipts	50,000	50,000	-	0.00%
Fund Transfers-Debt Service	5,298,949	5,292,634	(6,315)	-0.12%
Fund Transfers-Other	723,878	344,072	(379,806)	-52.47%
Budgetary Reserve	175,000	175,000	-	0.00%
TOTAL EXPENSE	$ 66,598,650	$ 68,352,368	$ 1,753,718	2.63%

With 4,278 projected students, the 2017-2018 budget cost per student is $15,979, about $335 more than last year.

The school district currently has a long range plan for capital repair which goes to 2024-2025. Projects slated for 2017-2018 include repairs to the Leola Elementary roof, high school water tanks replacement, Fritz Elementary grease interceptor replacement, replacement of clock systems, resurfacing of tennis courts, replacement of hot water boiler and controls, purchase of maintenance truck and plow, purchase of floor scrubbers and other floor machines. To prevent a large traumatic tax increase in any one year, the district is not planning to do any major renovations or additions until 2019-20 when existing debt drops off.

This year the CV Futures Task Force (a committee of staff, students and parents) met to study the district's facilities needs and provide some preliminary recommendations to the Board.

Although Conestoga Valley has had to increase taxes, the millage rate is still the third lowest tax rate in Lancaster County.

The chart below compares Conestoga Valley to the other districts in the county:

District	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	% Increase
Columbia Borough	20.6600	23.0000	24.3570	25.3700	25.3700	26.0000	27.3700	28.2000	28.2000	29.3400	4.04%
School District of Lancaster	21.4200	22.4700	23.2600	24.2130	24.6972	25.2902	25.9224	26.6793	26.6793	26.6793	0.00%
Cocalico	17.9300	18.9100	19.8400	20.5500	20.8900	21.3200	21.7600	22.3200	22.8200	22.8200	0.00%
Donegal	17.7400	18.7300	19.4500	20.1690	20.5320	20.9837	21.4453	22.0243	22.0243	22.4640	2.00%
Ephrata Area	17.2000	18.0900	18.5200	19.0200	19.0200	19.4100	19.6000	19.6000	19.6000	20.4500	4.34%
Lampeter-Strasburg	16.6000	17.3300	17.8000	18.4620	18.7573	19.0760	19.4384	19.6133	19.8683	20.2458	1.90%
Warwick	16.4000	16.7000	17.4000	17.6600	17.9000	18.5700	19.2100	19.7094	20.1627	20.1627	0.00%
Hempfield	15.9409	16.8814	17.3878	17.9789	18.2660	18.6310	19.0030	19.4590	19.6530	20.1246	2.40%
Elizabethtown Area	15.3394	16.1816	16.5861	17.2700	17.5800	17.8900	17.8900	18.3700	19.1048	19.9000	4.16%
Penn Manor	15.3100	15.9100	15.9100	16.4600	16.6900	16.9700	17.2500	17.6100	18.0100	19.2700	7.00%
Manheim Township	15.2300	15.9000	16.5500	17.0299	17.2680	17.9525	18.2575	18.6409	18.6409	19.0509	2.20%
Pequea Valley	15.0960	15.7430	15.7430	16.3333	16.5619	16.8898	17.3866	17.4735	17.4735	18.1217	3.71%
Manheim Central	15.2400	15.5400	15.8500	16.2500	16.4100	16.6889	16.9726	17.1848	17.3566	17.3566	0.00%
Conestoga Valley	12.3670	12.8490	13.2660	13.7730	14.0480	14.2865	14.5280	14.8330	15.2064	15.9240	4.72%
Eastern Lancaster County	11.7142	12.2142	12.5979	13.0877	13.4470	13.8410	14.1177	14.4141	14.6879	15.0404	2.40%
Solanco	9.0496	9.6378	10.1582	10.5442	10.8500	11.2243	11.5161	11.8040	12.0990	12.4499	2.90%

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 2016 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.