Conestoga Valley School District
Proposed Final Budget Report

2014 – 2015

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
2014 – 2015 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 2014-15 is 2.1% 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 exception and the special education exception which would permit the millage rate increase to be above the 2014-15 index. Had the district accepted the eligible exceptions for the PSERS retirement and special education costs, the exceptions would have permitted the School Board to raise taxes to 4.10%. However, the proposed budget does not include the approved exceptions and holds the millage rate increase at the index of 2.1%.

The district continued to work through a very difficult budgetary process again this year given the current economic times. The School Board reduced expenditure requests by over $950,391 to reach the goal of a 2.1% millage rate increase. (A proposed capital project of $275,000 for roof repairs at the high school was not included in the budget and is not included in the $950,391 as that project is not necessary at this time.) In addition, the Board has kept our budgetary increase as low as possible in light of the economic challenges our residents are facing without jeopardizing our programs for students. 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 2.1% tax increase for the 2014-15 budget. Those scenarios included a variety of items while making the commitment not to cut specific programs, but rather to reduce expenses across the board. As a result, specific programs have not been prioritized or targeted for reduction or elimination. 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 12, 2014 Board meeting, the School Board approved a Proposed Final Budget with a tax increase of 2.1%. For the average single family residential homeowner, that translates into a tax increase of approximately $50. 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 $699,065 in State Property Tax Reduction revenue, a $1,719 increase over the amount received in the previous year. That money goes to reduce the tax burden of residential taxpayers.

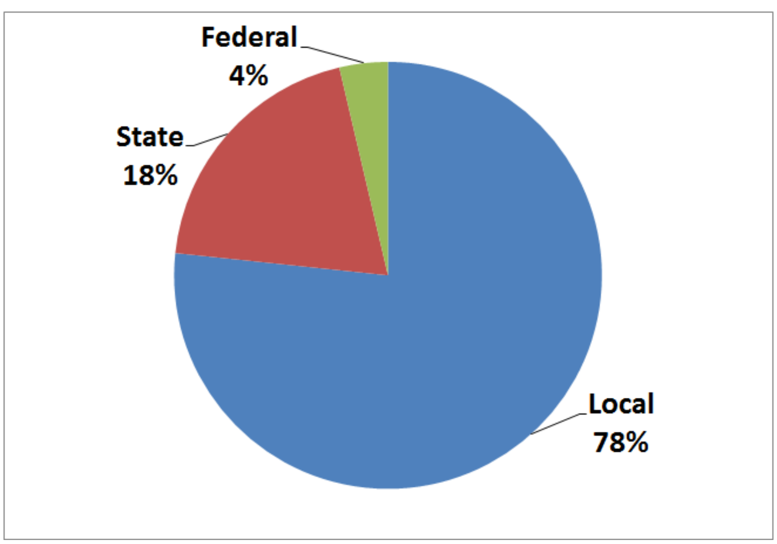
With a 2.1% millage rate increase, the 2014-15 rate will increase by 0.305 mills to 14.833 mills. Total revenues for the 2014-15 budget are $58,965,759 which represents a 4.3% increase revenues over the 2013-14 budget. Total expenditures for the 2014-15 budget are $61,108,960 which represents a 5.6% increase over the 2013-14 budget. Overall, budgeted expenditures exceed budgeted revenues by $2,143,201 resulting in a 19.1% fund balance as a percentage of budgeted expenditures. The district has assigned approximately $4,500,000 of the fund balance for future pension costs.

Tax assessment appeals have had a significant impact on the district's local revenue over the last three years including a reduction in real estate tax revenue in 2014-15 of $498,500. Earned income tax revenue and other real estate related taxes are budgeted to increase by $794,000.

The 2014-15 proposed state education budget includes $410,263 for the district in Ready to Learn block grant money and $19,410 in additional special education funding revenue. Pension reform in the form of tapering the employer rate from 21.4% to 19.15% is also proposed, however, the district's proposed final budget holds the rate at 21.4% which includes a $685,000 increase in the PSERS state subsidy reimbursement.

The District was awarded a competitive grant beginning in 2012-13 called the Keystone to Opportunities grant. However, the district must apply for the grant each year. The amount received in 2013-14 was $849,247 and the anticipated amount for 2014-15 is $802,930. 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.

The pie graph below 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 2013/2014 projections as follows:

DESCRIPTION	2013-14 PROJECTED	2014-15 BUDGET	INCREASE (DECREASE)	PERCENTAGE CHANGE
Local Revenues	$ 44,838,962	$ 45,228,560	$ 389,598	0.87%
State Revenues	10,390,014	11,583,192	1,193,178	11.48%
Federal Revenues	2,371,429	2,154,007	(217,422)	-9.17%
TOTAL EXPENSE	$ 57,600,405	$ 58,965,759	$ 1,365,354	2.37%

Several major reasons exist as to why the School Board feels a tax increase is justified. Salary costs are increasing by $844,124. This increase includes a 3.1% increase in salary costs. Staffing requests were held to a minimum and only address the need to continue the transition to full day kindergarten and to address student enrollment growth.

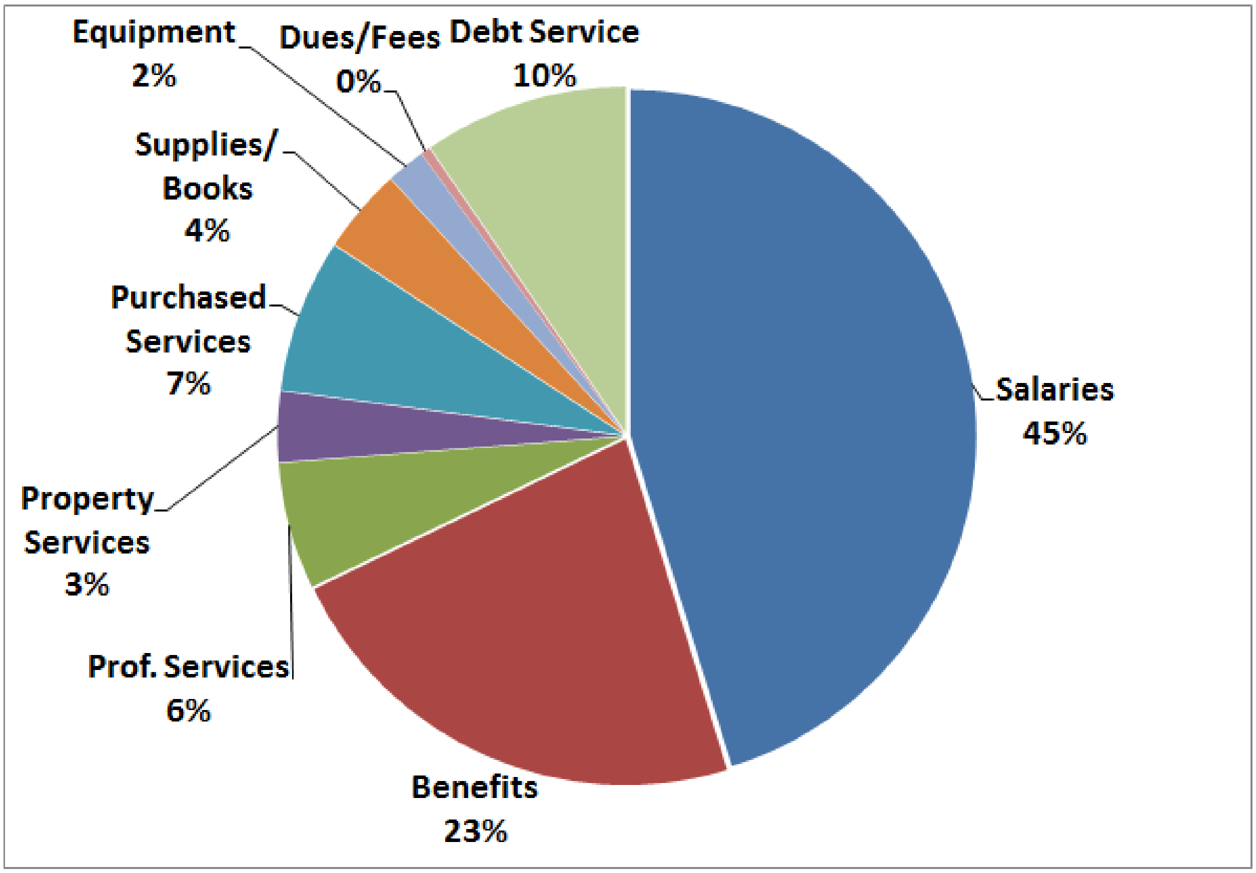
Benefit costs continue to increase;$1,855,000 over 2013-14. Included in that amount is $468,000 in healthcare costs although the district has taken measures over the years to offset healthcare expenses by increasing employee contributions and promoting a robust wellness program. Retirement costs are increasing by $1,335,000 or 29.1% due to the mandated increase in the PSERS retirement rate from 16.93% of payroll in 2013-14 to 21.40% in 2014-15. 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 32.08% of payroll in the 2019-20 fiscal year which will have a tremendous impact on future 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.

The district has budgeted $735,500 in tuition costs for cyber schools. These tuition costs have continued to increase based on enrollment in the cyber schools and also due to a tuition cost calculation based on an individual district's budget. This calculation has been controversial and is being reviewed by the state legislature. If proposed legislation passes correcting the inaccuracy in the calculation, the district could recognized a reduction in such costs of $36,000.

In November 2013, the district issue General Obligation Bonds, Series of 2014 in the amount of $3,605,000. The proceeds of these bonds will be used to finance renovations to the district's athletic stadium. Moody's, one of America's top bond credit rating agencies reviewed the district's financial status and confirmed the existing bond rating of Aa2. As stated in Moody's report, this rating "reflects the district's sound financial management and satisfactory reserve levels, sizable and economically diverse tax base with a large industrial component, and low debt burden with rapid amortization".

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 $487,506 or 7.1% from 2013-14 to 2014-15. The district has implemented various cost saving initiatives over the years and plan to hire a speech language teacher in 2014-15 in lieu of contracting those services at a higher cost.

Conestoga Valley 2014-15 Proposed Final Budget Expenditures



The breakdown of significant increases or decreases from the 2013-14 projections is as follows:

DESCRIPTION	2013-14 PROJECTED	2014-15 BUDGET	INCREASE (DECREASE)	PERCENTAGE CHANGE
Salaries	$ 26,748,973	$ 27,747,347	$ 998,374	3.73%
Employee Benefits	11,798,754	13,754,364	1,955,610	16.57%
Purch. Prof & Tech. Services	3,685,394	3,630,875	(54,519)	-1.48%
Purch. Property Services	1,375,116	2,013,105	637,989	46.40%
Other Purchased Services	4,207,276	4,387,530	180,254	4.28%
General Supplies	2,163,115	2,426,438	263,323	12.17%
Equipment	1,035,293	1,011,382	(23,911)	-2.31%
Other	38,501	46,458	7,957	20.67%
Authority Obligations	112,543	113,000	457	0.41%
Refunds from Prior Yr's Receipts	125,000	50,000	(75,000)	-60.00%
Fund Transfers-Debt Service	5,452,759	5,437,464	(15,295)	-0.28%
Fund Transfers-Other	324,967	315,997	(8,970)	-2.76%
Budgetary Reserve	175,000	175,000	-	0.00%
TOTAL EXPENSE	$ 57,242,691	$ 61,108,960	$ 3,866,269	6.75%

With 4,308 projected students, the 2014-15 budget cost per student is $14,185, about $841 more than last year.

The school district currently has a six year long range plan for capital repair which goes to 2020-21. Projects slated for 2014-15 include repairs to the high school and Fritz Elementary roofs. To prevent a large traumatic tax increase in any one year, the district is not planning to do any major renovations or additions until 2018-19 when existing debt drops off. Consequently, taxpayers should see no increase in taxation related to debt service.

In the past three years, Conestoga Valley School District has tax increases of two percent or less a year. Compared to other districts in the county for the same period of time, Conestoga Valley has the third lowest increase. The chart below compares Conestoga Valley to the other districts in the county:

District	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	% Inc.
Columbia Borough	20.0000	18.7700	18.7700	20.6600	23.0000	24.3570	25.3700	25.3700	26.0000	27.3700	5.01%
School District of Lancaster	19.9500	19.3800	20.4400	21.4200	22.4700	23.2600	24.2130	24.6972	25.2902	25.9224	2.44%
Cocalico	17.9900	16.4200	17.0000	17.9300	18.9100	19.8400	20.5500	20.8900	21.3200	21.7600	2.02%
Donegal	14.9000	13.6100	16.2000	17.7400	18.7300	19.4500	20.1690	20.5320	20.9837	21.4453	2.15%
Ephrata Area	17.2900	15.5300	16.5300	17.2000	18.0900	18.5200	19.0200	19.0200	19.4100	19.6000	0.97%
Lampeter-Strasburg	16.5400	15.0800	15.9600	16.6000	17.3300	17.8000	18.4620	18.7573	19.0760	19.4384	1.86%
Hempfield	15.0900	14.1590	15.1480	15.9409	16.8814	17.3878	17.9789	18.2660	18.6310	19.0030	1.96%
Warwick	17.7000	15.2000	15.8000	16.4000	16.7000	17.4000	17.6600	17.9000	18.5700	19.2100	3.33%
Manheim Township	15.6200	14.1000	14.7300	15.2300	15.9000	16.5500	17.0299	17.2680	17.9525	18.2575	1.67%
Elizabethtown Area	13.5000	12.1340	14.3500	15.3394	16.1816	16.5861	17.2700	17.5800	17.8900	17.8900	0.00%
Penn Manor	15.4000	14.0700	14.7300	15.3100	15.9100	15.9100	16.4600	16.6900	16.9700	17.2500	1.62%
Pequea Valley	14.5000	13.2000	14.6000	15.0960	15.7430	15.7430	16.3333	16.5619	16.8898	17.3866	2.86%
Manheim Central	16.0900	14.5600	15.2400	15.2400	15.5400	15.8500	16.2500	16.4100	16.6889	16.9726	1.67%
Conestoga Valley	12.8600	11.5200	11.9600	12.3670	12.8490	13.2660	13.7730	14.0480	14.2865	14.5280	1.66%
Eastern Lancaster County	12.1500	11.0600	11.1500	11.7142	12.2142	12.5979	13.0877	13.4470	13.8410	14.1177	1.96%
Solanco	8.6000	8.2475	8.6351	9.0496	9.6378	10.1582	10.5442	10.8500	11.2243	11.5161	2.53%

During the budgetary process, an important focus of the District is to maintain a healthy fund balance. As a general rule, the 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 increase for 2015-16 will be about 2.4%. 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 2013 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.