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To: Robert J. O'Donnell

VI-A

From: Randy L. Brown

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Subject: 2013-2014 Budget Update – PSERS Pre-Funding and Fund Balance

The district budget for 2013-2014 contains several significant pieces worth closer review:

- Fund Balance Analysis – General and Capital Reserve Funds
- PSERS Pre-funding
- Debt Service
- Capital Reserve Transfer
- Capital Projects Transfer
- Five Year Budget Projections

An analysis and estimate of the Fund Balance for General Capital Reserve Funds have been prepared. The Fund Balance of the General Fund has an unassigned and assigned portion. The unassigned portion is required to maintain a balance of 5-8% of the General Fund balance for unexpected or unbudgeted expenditures or revenue shortfalls. In 2012-2013, the district will use a portion of the unassigned fund balance to meet a payment for a legal liability. Until 2012-2013, the General Fund has had an assigned fund balance for only PSERS pre-funding. The attached analysis suggests that \$3,000,000 of balance be reassigned by Board designation to the remainder of the legal liability. A schedule also attached shows that the majority of the assigned fund balance for PSERS pre-funding derived from the unassigned fund balance in the General Fund while a smaller portion was raised through tax revenue taken as an exception to the Act 1 Index.

A schedule of the usage and further growth of the PSERS pre-funding attached suggests that the balance may be in excess of \$3 million at the end of 2017-2018, while the PSERS employer contribution rate rises as is predicted. In order to maintain the 5% of budget

balance in the unassigned fund balance, the Capital Reserve Transfer for 2012-2013 may not be completed as budgeted. If the projected increase in fund balance in the General Fund, resulting from revenues higher than expenses, comes true, those dollars would be transferred to the Capital Reserve Fund in 2012-2013 and 2013-2014, along with the budgeted transfer in 2013-2014.

The expenses for Memorial Field are budgeted to be expended from the Capital Reserve Fund in this analysis. Depending upon the amount of deferred maintenance capital project transfer not expended during 2012-2013 or 2013-2014, the general fund may absorb a portion of these expenses.

The 2011-2012 budget for the district included 4.40 mills or \$8.8 million dedicated to Debt Service, Capital Reserve Transfer and Capital Project Transfers. This amount increases to almost 5.4 mills and \$10.7 million in 2012-2013. Several alternatives have been prepared to show how these budgeted dollars may be used to assist in funding the high school project debt service or building balances in the Capital Reserve Fund to assist in financing any district capital projects.

The five year budget projections have again been updated to reflect the revised PSERS pre-funding strategy and additional capital reserve fund transfers resulting from the attritional savings expected from the recently announced retirements at the end of this year. As discussed previously, the 2013-2014 budget and five year projections will be revised to reflect the staffing plan on May 6.

Although the financial picture in the five year projections looks brighter than earlier forecasts, the later years still show budget deficits. Taking into consideration the expenses of the facility renovations on the horizon for the district, there are significant financial decisions to be made. These projections and analyses should aid the decision making process.

State College Area School District
Fund Balance Analysis
FY2013-2014 Budget @ 4.18.2013

General Fund		2011-2012		2012-2013		2013-2014		2014-2015		2015-2016		2016-2017		2017-2018	
		Balance	Activity	Balance	Activity	Balance	Activity	Balance	Activity	Balance	Activity	Balance	Activity	Balance	Activity
Unassigned		10,100,000		6,700,000		6,700,000		6,700,000		6,700,000		6,700,000		6,700,000	
	Legal Liability		-6,000,000												
	Capital Reserve 1(3)		2,600,000												
Total			-3,400,000		0		0		0		0		0		0
Assigned															
	PSERS (2)	11,000,000	-2,484,182	8,515,818	-110,229	8,405,589	-760,568	7,645,021	-1,498,717	6,146,304	-1,674,430	4,471,874	-1,359,404	3,112,470	
	Legal Liability		3,000,000	3,000,000	-800,000	2,200,000	-550,000	1,650,000	-550,000	1,100,000	-550,000	550,000	-550,000	0	
Grand Total		21,100,000		18,215,818		17,305,589		15,995,021		13,946,304		11,721,874		9,812,470	
Capital Reserve															
Assigned		8,900,000		6,429,000		12,624,796		16,388,704		20,227,890		24,143,860		28,138,150 (4)	
	Budgeted Transfr (3)				2,709,714		3,763,908		3,839,186		3,915,970		3,994,290		
	Additional Transfer		529,000		3,486,082										
	Memorial Field (1)		-3,000,000												
Total					6,195,796		3,763,908		3,839,186		3,915,970		3,994,290		

Note: Assumes growth in fund balance after funding of PSERS will be transferred to Capital Reserve.

- (1) Capital Project/Deferred Maintenance Transfer may be used instead of Capital Reserve Fund to fund a portion or all of Memorial Field project.
(2) \$3,000,000 designated to Legal Liability; PSERS pre-funding started with undesignated general fund balance (not PSERS designated tax dollars)
(3) Capital Reserve Transfer in 2012-2013 avoided to maintain Undesignated Fund Balance in General Fund.
(4) Capital Reserve Transfer would be reduced by \$1,000,000 or \$500,000 per year beginning 2014-2015 to fund debt service for High School Project.
(5) Reflects assignment of \$3 million to pay remaining installments due under the legal liability contract through 2018.

State College Area School District
Fund Balance Analysis
FY2013-2014 Budget @ 4.18.2013

Budget Allocated to Debt Service/Capital Reserve/Capital Projects (Deferred Maintenance)

Alternative 1 - Increase Capital Reserve Fund Transfer by \$1,000,000 decrease in debt service (.5 Mill)

	<u>2011-2012</u>	<u>2012-2013</u>	<u>2013-2014</u>	<u>2014-2015</u>	<u>2015-2016</u>	<u>2016-2017</u>	<u>2017-2018</u>
Debt Service	5,910,139	6,100,000	6,350,000	5,350,000	5,350,000	5,350,000	5,350,000
Capital Reserve (1)	1,000,000	2,656,582	2,709,714	3,763,908	3,839,186	3,915,970	3,994,290
Capital Projects	1,893,550	1,975,891	2,015,409	2,055,717	2,096,832	2,138,768	2,181,544
Total	8,803,689	10,732,473	11,075,123	11,169,625	11,286,018	11,404,738	11,525,834
Revenue per Mill	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Mills	4.40	5.37	5.54	5.58	5.64	5.70	5.76

Alternative 2 - Retain \$1,000,000 decrease in debt service to fund High School Project (.5 Mill)

	<u>2011-2012</u>	<u>2012-2013</u>	<u>2013-2014</u>	<u>2014-2015</u>	<u>2015-2016</u>	<u>2016-2017</u>	<u>2017-2018</u>
Debt Service	5,910,139	6,100,000	6,350,000	6,350,000	6,350,000	6,350,000	6,350,000
Capital Reserve (1)	1,000,000	2,656,582	2,709,714	2,763,908	2,839,186	2,915,970	2,994,290
Capital Projects	1,893,550	1,975,891	2,015,409	2,055,717	2,096,832	2,138,768	2,181,544
Total	8,803,689	10,732,473	11,075,123	11,169,625	11,286,018	11,404,738	11,525,834
Revenue per Mill	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Mills	4.40	5.37	5.54	5.58	5.64	5.70	5.76

Alternative 3 - Retain \$1,000,000 decrease in debt service and reduce Capital Reserve and Capital Projects transfers by \$500,000 each to fund High School Project (1 Mill)

	<u>2011-2012</u>	<u>2012-2013</u>	<u>2013-2014</u>	<u>2014-2015</u>	<u>2015-2016</u>	<u>2016-2017</u>	<u>2017-2018</u>
Debt Service	5,910,139	6,100,000	6,350,000	7,350,000	7,350,000	7,350,000	7,350,000
Capital Reserve (1)	1,000,000	2,656,582	2,709,714	2,263,908	2,339,186	2,415,970	2,494,290
Capital Projects	1,893,550	1,975,891	2,015,409	1,555,717	1,596,832	1,638,768	1,681,544
Total	8,803,689	10,732,473	11,075,123	11,169,625	11,286,018	11,404,738	11,525,834
Revenue per Mill	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Mills	4.40	5.37	5.54	5.58	5.64	5.70	5.76

Note: Alternatives include only budgeted transfers to Capital Reserve and Capital Projects Funds; possible additional transfers not included at this time.
(1) Capital Reserve Transfer in 2012-2013 avoided to maintain Undesignated Fund Balance in General Fund.

PSERS Pay forward calculator

Salary Increase Multiplier % 1.90

Year	PSERS Rate July 2012	Salary Total	PSERS requirement (1)	Pay forward fund contribution	Additional revenue needed	PSERS + Fund Contribution (2)	PSERS Fund Balance	"apparent" PSERS rate	% tax increase for PSERS
10-11	5.64%	59,472,381	1,677,121	2,000,000		3,677,121	10,000,000	9.00%	
11-12	8.65%	56,510,531	2,444,080	1,000,000	-200,000	3,477,121	11,000,000	10.42%	-0.24
12-13	12.36%	58,094,934	3,590,267 (3)	-2,484,182	580,949	4,058,070	8,515,818	8.08%	0.71
13-14	16.93%	57,375,083	4,856,801	-110,229	688,501	4,746,571	8,405,588	16.74%	0.84
14-15	21.31%	58,245,794	6,206,089	-760,568	698,950	5,445,521	7,645,020	20.00%	0.85
15-16	25.80%	59,352,464	7,656,468	-1,498,717	712,230	6,157,751	6,146,303	23.27%	0.87
16-17	28.30%	60,480,161	8,557,943	-1,674,430	725,762	6,883,513	4,471,872	25.53%	0.89
17-18	29.15%	61,629,284	8,982,468	-1,359,404	739,551	7,623,064	3,112,468	26.94%	0.90
18-19	30.14%	62,800,240	9,463,996	-1,087,329	753,603	8,376,667	2,025,139	28.41%	0.92
19-20	30.87%	63,993,445	9,877,388	-732,800	767,921	9,144,588	1,292,339	29.72%	0.94

- (1) Reflects requirement net of 50% reimbursement
- (2) Reflects prior year amount increased by a percent of current year salary expense
- (3) Reflects \$515,818 addition to PSERS fund, offset by \$3 million assignment to legal liability

PSERS Pay forward calculator

Reflects Current Recommended Use of Exceptions

Salary Increase Multiplier % 1.90

Year	PSERS Rate July 2012	Salary Total	PSERS requirement (1)	Pay forward fund contribution	Additional revenue needed	PSERS + Fund Contribution (2)	PSERS Fund Balance	"apparent" PSERS rate	% tax increase for PSERS
10-11	5.64%	59,472,381	1,677,121	2,000,000		3,677,121	10,000,000	9.00%	
11-12	8.65%	56,510,531	2,444,080	1,000,000	-200,000	3,477,121	11,000,000	10.42%	-0.24
12-13	12.36%	58,094,934	3,590,267 (3)	-2,484,182	580,949	4,058,070	8,515,818	8.08%	0.71
13-14	16.93%	57,375,083	4,856,801	18,865	817,595	4,875,665	8,534,683	16.96%	1.00
14-15	21.31%	58,245,794	6,206,089	-631,474	698,950	5,574,615	7,903,208	20.23%	0.85
15-16	25.80%	59,352,464	7,656,468	-1,369,623	712,230	6,286,845	6,533,585	23.49%	0.87
16-17	28.30%	60,480,161	8,557,943	-1,545,336	725,762	7,012,606	4,988,249	25.74%	0.89
17-18	29.15%	61,629,284	8,982,468	-1,230,310	739,551	7,752,158	3,757,938	27.15%	0.90
18-19	30.14%	62,800,240	9,463,996	-958,235	753,603	8,505,761	2,799,703	28.61%	0.92
19-20	30.87%	63,993,445	9,877,388	-603,706	767,921	9,273,682	2,195,997	29.93%	0.94

(1) Reflects requirement net of 50% reimbursement

(2) Reflects prior year amount increased by a percent of current year salary expense

(3) Reflects \$515,818 addition to PSERS fund, offset by \$3 million assignment to legal liability

**State College Area School District
General Fund Budget Projections - 4.18.2013**

<i>Assumptions:</i>						
<i>Assessed Value Grow</i>	<i>1.00%</i>	<i>1.00%</i>	<i>1.00%</i>	<i>1.00%</i>	<i>1.00%</i>	<i>1.00%</i>
<i>Exceptions</i>	<i>0.70%</i>	<i>1.00%</i>	<i>0.00%</i>	<i>0.00%</i>	<i>0.00%</i>	<i>0.00%</i>
<i>Act 1 Index</i>	<i>1.70%</i>	<i>1.70%</i>	<i>1.70%</i>	<i>1.70%</i>	<i>1.70%</i>	<i>1.70%</i>

	<u>2012-2013</u>	<u>2013-2014</u>	<u>2014-2015</u>	<u>2015-2016</u>	<u>2016-2017</u>	<u>2017-2018</u>
Revenue	116,393,456	122,218,575	122,964,654	126,724,682	130,008,305	132,771,611
Expenses	<u>116,393,456</u>	<u>122,218,576</u>	<u>123,370,258</u>	<u>128,606,956</u>	<u>133,572,542</u>	<u>138,131,572</u>
Change in Fund Bala	0	0	-405,604	-1,882,274	-3,564,238	-5,359,961
Use of Fund Balance (PSERS)		-110,229	-760,568	-1,498,717	-1,674,430	-1,359,404
Tax Increase	2.40%	2.70%	1.70%	1.70%	1.70%	1.70%

**State College Area School District
Expense Projections - 4.18.2013**

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	Actual	Budget Updated	Budget Updated	Budget Updated	Budget Updated	Budget Updated	Budget Updated
Salaries	56,510,531	58,094,934	57,375,083	58,245,794	59,352,464	60,480,161	61,629,284
Health Insurance	12,774,417	11,400,000	12,661,000	14,143,625	15,861,578	17,794,275	19,968,560
PSERS	4,603,130	7,200,000	9,628,849	12,312,179	15,187,936	16,990,886	17,629,967
Other Benefits	5,655,440	6,008,400	5,758,400	5,858,400	5,958,400	6,058,400	6,158,400
Professional Services	2,531,301	2,636,000	2,506,000	2,506,000	2,506,000	2,506,000	2,506,000
Purchased Property Services	1,911,124	2,011,000	1,851,000	1,851,000	1,851,000	1,851,000	1,851,000
Other Purchased Services	8,973,582	9,519,500	9,899,500	9,899,500	9,899,500	9,899,500	9,899,500
Supplies/Equipment	5,230,570	5,486,000	5,241,000	5,241,000	5,241,000	5,241,000	5,241,000
Minor Capital Projects	1,893,550	1,975,891	2,015,409	2,055,717	2,096,832	2,138,768	2,181,544
Athletics/Fees/Other	1,482,962	2,259,370	2,846,767	2,903,703	2,961,777	3,021,012	3,081,432
Debt Service	5,910,139	6,100,000	6,350,000	5,350,000	5,350,000	5,350,000	5,350,000
Transfer to Capital Reserve	1,000,000	3,186,543	6,195,796	3,763,908	3,839,186	3,915,970	3,994,290
PSERS Pre-funding Strategy	1,000,000	515,818	-110,229	-760,568	-1,498,717	-1,674,430	-1,359,404
Total Expenses and PSERS Pre-funding	109,476,746	116,393,456	122,218,576	123,370,258	128,606,956	133,572,542	138,131,572

***State College Area School District
Budget 2013-2014
4/17/2013***

<u>Year</u>	<u>Act 1 Index</u>	<u>SCASD Real Estate Tax Increase</u>	<u>Exceptions Percentage</u>	<u>Tax Rate in Mills</u>	<u>Exceptions in Mills</u>	<u>Exceptions Dollars</u>	<u>PSERS Set- Aside</u>	<u>Total Fund Balance for PSERS</u>
2004-2005		3.50%						
2005-2006		5.60%						
2006-2007	3.90%	3.80%						
2007-2008	3.40%	-0.50%						
2008-2009	4.40%	3.70%					3,000,000	3,000,000
2009-2010	4.10%	3.30%		34.8500			5,000,000	8,000,000
2010-2011	2.90%	3.00%	0.10%	35.9000	0.0394	80,391	2,000,000	10,000,000
2011-2012	1.40%	2.65%	1.25%	36.8500	0.4474	922,812	1,000,000	11,000,000
2012-2013	1.70%	2.40%	0.70%	37.7300	0.2536	527,879	515,000	11,515,000
2013-2014	1.70%							

Note: In 2011-2012 the district had Special Education and PSERS exceptions available. This schedule assumes the exceptions taken were for PSERS only.