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To: Robert J. O'Donnell
From: Randy L. Brown
Date: February 15, 2013
Subject: Preliminary General Fund Budget – 2013-2014

A revised preliminary general fund budget for 2013-2014 has been provided for your approval. The deadline for submitting an approved preliminary general fund budget for 2013-2014 is February 20, 2013, as found in Act 1 of 2006 (Act 1). The preliminary budget is used primarily as a tool to begin the budget preparation process for the school district as well as the following:

1. Request the use of exceptions to the Act 1 Index from Pa. Department of Education (PDE).
2. Notify PDE and the general public that a referendum is being requested to increase the real estate tax rate in excess of the Act 1 Index. Note: We are not requesting this.

An analysis is attached that shows the district did not use exceptions to exceed the Act 1 Index until 2010-2011. In 2011-2012, the Act 1 Index fell significantly to a low of 1.4% and hasn't recovered to previous levels. Since 2010-2011, exceptions have been requested, approved and used to provide additional tax revenue to the district, however, the attached analysis shows the district has not used all available exceptions. The revenue generated from exceptions, in addition to other resources, have been reserved for funding the Public School Employees Retirement Systems (PSERS) employer contribution expenses.

Because we postponed approval of the preliminary budget on February 11, 2013, we used that time to reflect on the Governor's proposed budget. Through this reflection, we discovered that our funding is not slated to be significantly reduced. Since any increase in funding for the district is tied to reform of the PSERS pension system, we have chosen to not include any proposed increases at this time. With this updated information we refined our proposal from a 3.2% to a 2.9% tax rate increase. This refinement results in a similar, yet attainable, challenge that we experienced in preparing our 2012-2013 budget. That is, we will be required to reduce expenditures by over \$800,000 prior to the start of the 2013-2014 school year. Although challenging, we were able to do so last year without a negative impact on student learning experiences.

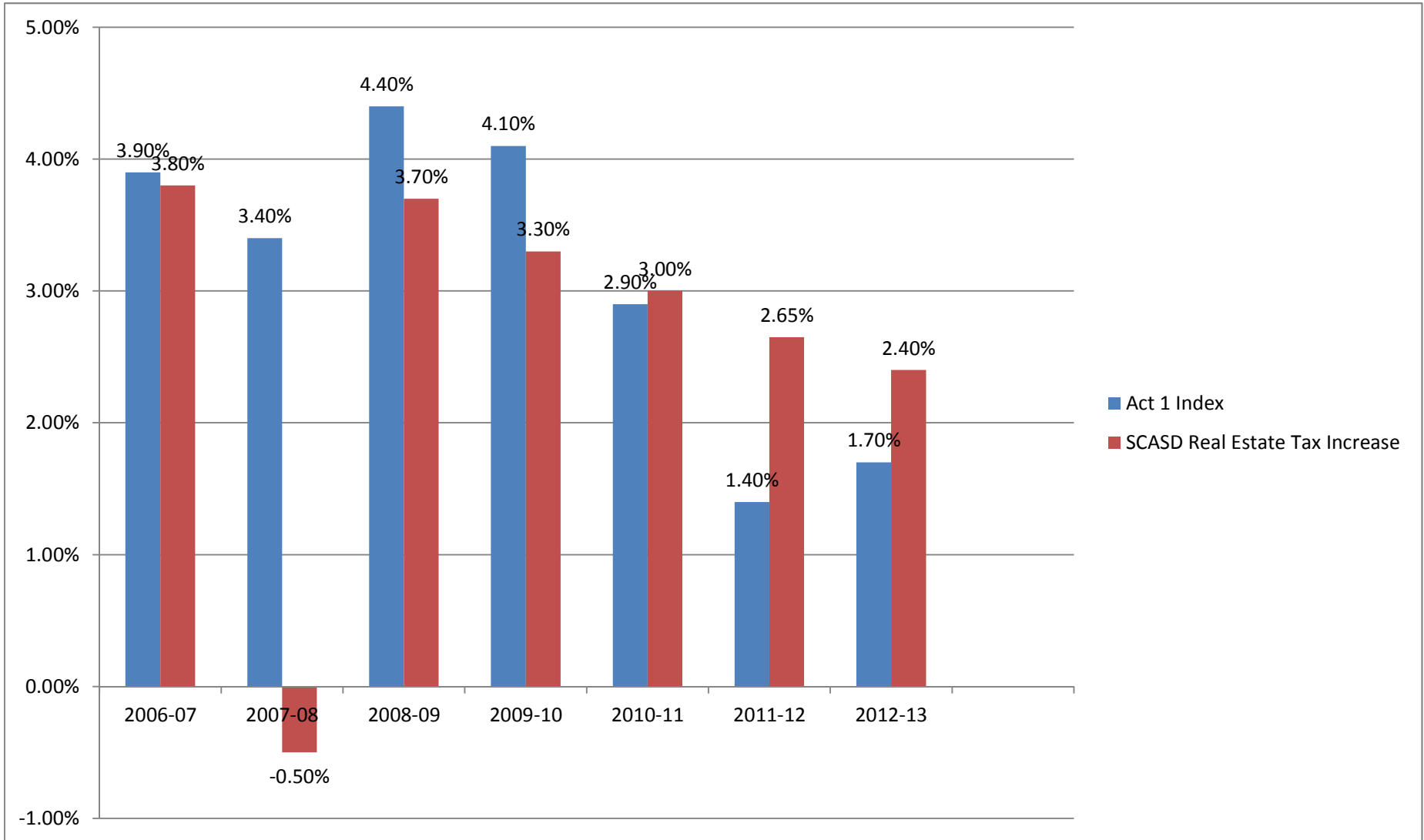
A refined proposed budget in April will incorporate an increased understanding of the Governor's proposal and the results of our retirement incentive program. This refinement will also include receipt of updated assessed values from the real estate tax rolls, confirmed increase in the medical insurance rates for the employee insurance plan, and receipt of additional earned income tax revenue.

The Act 1 exceptions for PSERS employer contribution expenses is proposed to be utilized to fund those expenses in this budget. In recent years, the Board has authorized the accumulation of more than \$1 million in fund balance from revenue generated via PSERS exceptions along with an additional \$9 million assigned to PSERS expenses from general fund balance. The district's PSERS expense less reimbursement continues to outgrow the reserves accumulated from Act 1 exceptions as evidenced in the analysis attached.

The Administration recommends approval of the preliminary budget for the 2013-2014 fiscal year in the amount of \$120,251,095 which includes a 2.9% real estate tax increase. This proposal includes 1.2% of Act 1 Exceptions which will be applied for with PDE. This recommendation will require us to revisit the PSERS pay forward strategy during the next two months.

To help inform our conversations regarding the district's financial situation moving forward, I have attached a summary five year budget projections reflecting a variety of tax rates.

State College Area School District Act 1 Index and Real Estate Tax Increase Analysis

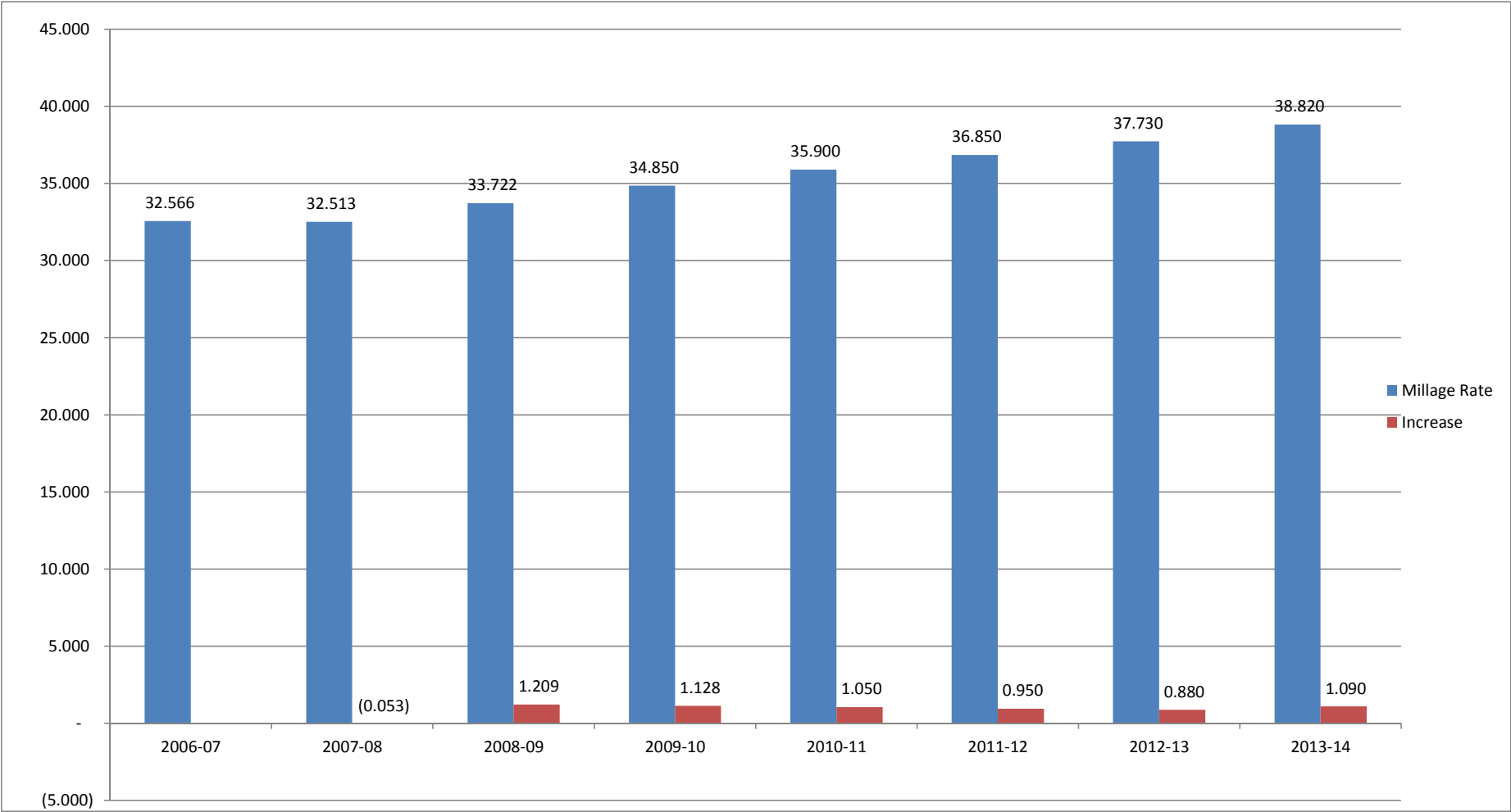


2013-14

Act 1 Index 1.7%

Proposed Real Estate Tax Increase 2.9%

State College Area School District Real Estate Tax Millage History



Revised Preliminary Budget includes 2.9% or 1.09 millage tax increase.

State College Area School District
General Fund Budget Projections Summary - 2.13.2013

	<u>Budget</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>
Tax Increase	2.40%	0.00%	0.00%	0.00%	0.00%	0.00%
Surplus/(Deficit)	\$ 304,429	\$ (3,122,293)	\$ (5,380,663)	\$ (9,165,530)	\$ (13,421,864)	\$ (17,614,072)
Use of Fund Balance	\$ -	\$ -	\$ (1,253,395)	\$ (1,731,374)	\$ (1,518,798)	\$ (1,274,000)
Tax Increase	2.40%	1.70%	1.70%	1.70%	1.70%	1.70%
Surplus/(Deficit)	\$ 304,429	\$ (1,810,481)	\$ (2,708,501)	\$ (5,083,039)	\$ (7,877,583)	\$ (10,555,018)
Use of Fund Balance	\$ -	\$ -	\$ (1,253,395)	\$ (1,731,374)	\$ (1,518,798)	\$ (1,274,000)
Tax Increase	2.40%	2.40%	1.70%	1.70%	1.70%	1.70%
Surplus/(Deficit)	\$ 304,429	\$ (1,270,322)	\$ (2,153,758)	\$ (4,513,318)	\$ (7,292,480)	\$ (9,954,117)
Use of Fund Balance	\$ -	\$ -	\$ (1,253,395)	\$ (1,731,374)	\$ (1,518,798)	\$ (1,274,000)
Tax Increase	2.40%	2.90%	1.70%	1.70%	1.70%	1.70%
Surplus/(Deficit)	\$ 304,429	\$ (884,495)	\$ (1,757,514)	\$ (4,106,375)	\$ (6,874,550)	\$ (9,524,902)
Use of Fund Balance	\$ -	\$ -	\$ (1,253,395)	\$ (1,731,374)	\$ (1,518,798)	\$ (1,274,000)

State College Area School District
Fund Balance Analysis 2.18.2013

Fund Balance Analysis	Ending 2011-2012	Activity	Ending 2012-2013	Activity	Ending 2013-2014	Activity	Ending 2014- 2015	Activity	Ending 2015-2016	Activity	Ending 2016-2017	Activity	Ending 2017-2018
General													
Unassigned	10,000,000		4,000,000		4,000,000		4,000,000		4,000,000		4,000,000		4,000,000
Legal Liability		-6,000,000		-800,000		-550,000		-550,000		-550,000		-550,000	
Reassignment of Fund Balance		2,000,000											
Principal Payment from Capital Reserve				800,000		550,000		550,000		550,000		550,000	
Assigned - PSERS	11,000,000		#####		9,406,605		7,675,231		6,156,433		4,882,433		3,382,433
Usage for PSERS		-340,000		-1,253,395		-1,731,374		-1,518,798		-1,274,000		-1,500,000	
Capital Reserve													
Assigned	9,000,000		9,500,000		11,400,000		14,550,000		17,800,000		21,150,000		24,600,000
Transfer from General Fund		2,600,000		2,700,000		3,700,000		3,800,000		3,900,000		4,000,000	
Memorial Field		-2,100,000											
Principal Payment				-800,000		-550,000		-550,000		-550,000		-550,000	