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V-A

To: Dr. Robert O'Donnell
From: Randy L. Brown
Date: October 4, 2012
Subject: 2013-14 Budget Development

As we continue our budget development process for the 2013-14 fiscal year, the 2011-12 unaudited financial results and updated Five Year Budget Projections are provided for our discussion. Although some years we have difficulty determining a budget one year in advance, the five year budget model is helpful for planning purposes and preparing strategically in making decisions for our district. Fortunately at this time, the 2011-12 unaudited financial results appear to be in a position to grow fund balance for the district, even amid these stressful economic times.

The five year budget model uses a rationale of taking known values along with historical trends and expectations for future costs and revenues to estimate the financial resources and needs of the district. Items serving as constraints are revenue growth on the local, state and federal levels. In reverse order, federal revenue is expected to decline in the future as a result of declining resources and the elimination of the stimulus funds. State revenue budget, with the exception of retirement revenue reimbursement, remains constant through the period. Local revenue reflects essentially no change except real estate tax. Real estate tax, which is subject to an Act 1 of 2006 index, is budgeted at a 1.7% increase with 1% assessed value growth. The Act 1 Index for 2012-13 and 2012-13 is 1.7%. Although exceptions may be available in future years, as they have been available in previous years, no exceptions have been included in these projections due to the uncertainty of the calculation and the requirement of Board approval.

Projections for expenses again reflect pre-determined factors as well as estimates based upon historical values and expectations for the future. Salaries have been projected according to current, ratified contracts. Similarly, health insurance estimates are based upon rate caps in contractual arrangements with our current provider as recommended by our actuarial consultant. The rates used to project PSERS costs were obtained from the PSERS website. All other expenses remain constant or are increased by a 1.7% factor with the exception of PSERS Pre-funding strategy. This strategy, which uses fund balance to offset the significant increases in PSERS expense projected in the coming years, should be looked at more closely once the PSERS rate for 2013-14 is released near the end of the calendar year.

The 2011-12 financial results have not been audited to this point, but are nearly final at this point. Our fund balance is expected to grow by almost \$2 million. This is a result of salary expense decreases due to attrition and eliminated positions. Health insurance rates increased at 15%, while PSERS employer contributions increased by 53%. In the other benefits category, expenses decreased by \$400,000, primarily as a result in lower workers' compensation expense. Utilities, supplies and equipment expenses were significantly lower as well compared to the prior year. Other expenses and transfers were similar to the prior year in total.

After taking into account the additional \$1 million designation of fund balance for the PSERS pre-funding strategy, this designation is \$11 million at the end of 2011-12. Undesignated fund balance in the General Fund is \$8.5 million. Although the undesignated fund balance remains below the 8% maximum recommendation by PDE, administration would recommend an additional designation of \$1 million to the PSERS pre-funding strategy prior to the completion of the financial statements. As the financial records are completed, I will return with an update and for your approval of this recommendation. As a reminder, a designation can be changed by future Board action to be used for support of general or other funds.

The Capital Reserve Fund Balance is \$8.8 million at the end of the 2011-12 fiscal year, after recognizing a \$1 million transfer into the fund. The 2012-13 budget includes an increase in this transfer to \$2.5 million. The reason for this transfer is to grow the capital reserve fund balance to partially fund a K-8 facility plan over 20 years which would include Radio Park, Houserville/Lemont, and Corl Street Elementary schools, Mt. Nittany and Park Forest Middle schools, and the Fairmount building. This plan would not include Panorama, Memorial Field, or Nittany Avenue. The funding for the High School would result from a referendum and not be included in this plan either.

Next Steps in our budget development for 2013-14 include our staff meetings throughout the month of October in all buildings. A schedule for those meetings is available on our website. Staff members have received invitations for these meetings. We will reflect on that time with staff members at future Board meetings. We will also review key budget drivers including the Act 1 Index, constrained revenue sources, and significant expense lines in our budget. A discussion will also occur to include potential areas to refine in our budget to solve any issues remaining, as well as identify any budget analysis reports to be completed for the 2013-14 budgeting process.

State College Area School District

District Update
2013-14 Budget Planning

Five Year Budget Assumptions

– Rationale

- Use to project financial results from operations
- Use known values whenever possible, otherwise estimate based upon history, trends, expectations

– Revenue

- Real Estate Tax increase 1.7% plus 1.0% assessed value growth.
- No growth for all other revenue, except retirement - budgeted at 50% of retirement expense.

– Expenses

- Salary increase 2.0% based upon current contracts.
- Health Insurance estimated at rate caps; based upon previous experience.
- Retirement budgeted at PSERS projections.
- Flat growth for all other expenses.

Five-Year Projections

State College Area School District						
General Fund Budget Projections - 9.24.2012						
	2011-12 Unaudited	2012-13 Budget	2013-14	2014-15	2015-16	2016-17
Revenue	112,463,459	116,574,909	119,217,154	122,760,460	126,369,088	128,988,594
Expenses	<u>110,405,021</u>	<u>116,574,909</u>	<u>119,309,437</u>	<u>124,052,163</u>	<u>129,468,914</u>	<u>133,713,263</u>
Surplus/(Deficit)	2,058,438	0	(92,283)	(1,291,703)	(3,099,826)	(4,724,669)

2011-12 Unaudited Revenue

LOCAL	
CURRENT REAL ESTATE TAX	74,525,877
EARNED INCOME TAX	13,893,058
REALTY TRANSFER TAX	1,500,365
DELINQUENT REAL ESTATE TAX	1,121,701
OTHER	<u>2,769,988</u>
TOTAL LOCAL	93,810,989
STATE	
BASIC ED INSTR SUBSIDY	6,307,886
SPECIAL ED REVENUE-REGULAR	3,221,641
REVENUE FOR RETIREMENT	2,504,183
REVENUE FOR SOCIAL SECURITY	2,056,466
PROPERTY TAX REDUCTION	1,426,724
OTHER	<u>1,810,570</u>
TOTAL STATE	17,327,470
FEDERAL	
TITLE I REVENUE	625,000
OTHER	<u>700,000</u>
TOTAL FEDERAL	1,325,000
TOTAL REVENUE	112,463,459

2011-12 Unaudited Expenses

Salaries	56,509,557
Health Insurance	12,777,521
PSERS	5,083,940
Other Benefits	5,680,383
Services	13,550,809
Supplies/Equipment	5,096,262
Minor Capital Projects	1,893,550
Athletics/Fees/Other	2,070,863
Debt Service	5,691,188
Transfer to Capital Reserve	1,050,948
PSERS Pre-funding Strategy	1,000,000
Total Expenses including PSERS Pre-funding	110,405,021

2011-12 Summary

- Revenue
 - Local increased \$1.4 million
 - Tax increase generated \$2.4 million
 - Other income down \$900,000
 - Sale of Boalsburg occurred in 2010-11
 - State increased \$1 million
 - Additional Basic Ed Subsidy
 - Federal decreased \$1.7 million
 - Stimulus Funds ended in 2010-11

2011-12 Summary

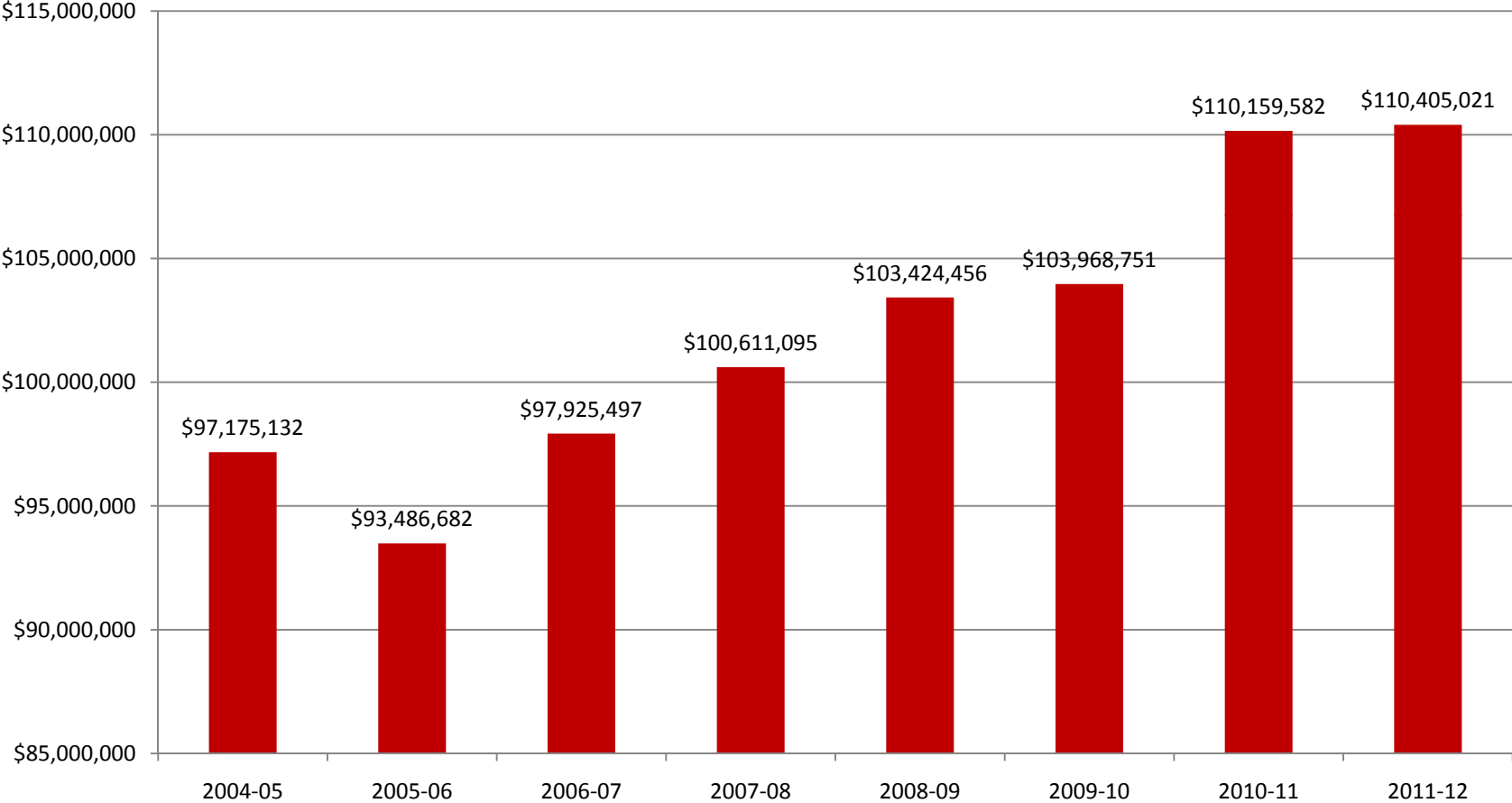
- Expenses
 - Salaries decreased
 - Attrition and eliminated positions
 - Health Insurance
 - 15% rate increase
 - PSERS
 - 53% rate increase
 - Other Benefits decreased
 - Primarily Worker's Comp

2011-12 Summary

- Expenses (continued)
 - Utilities, supplies and equipment
 - Mild winter conditions
 - Managed supplies and equipment expenses

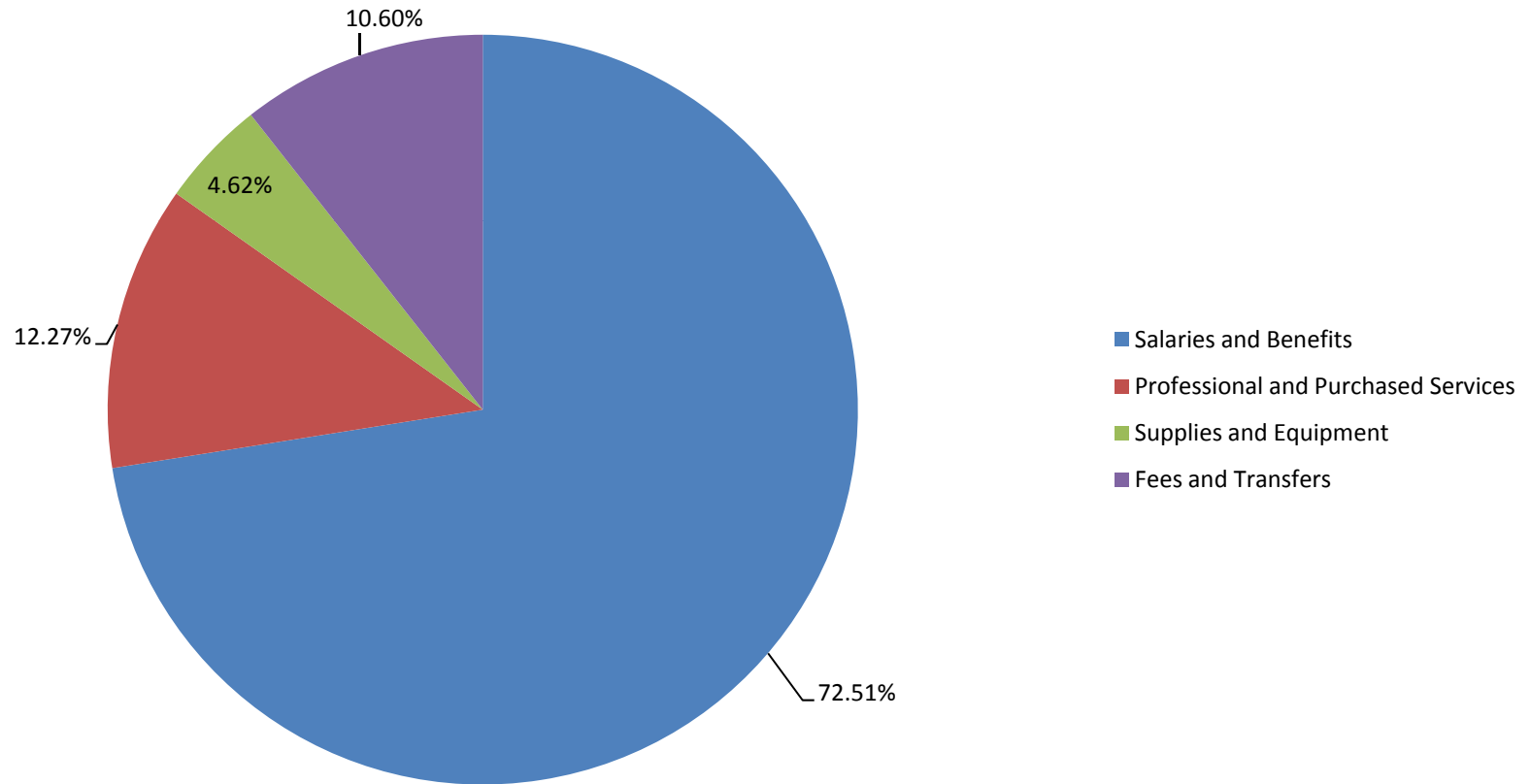
Expense History

2011-12 Unaudited Expenses



2011-12 Expenses by Percentage

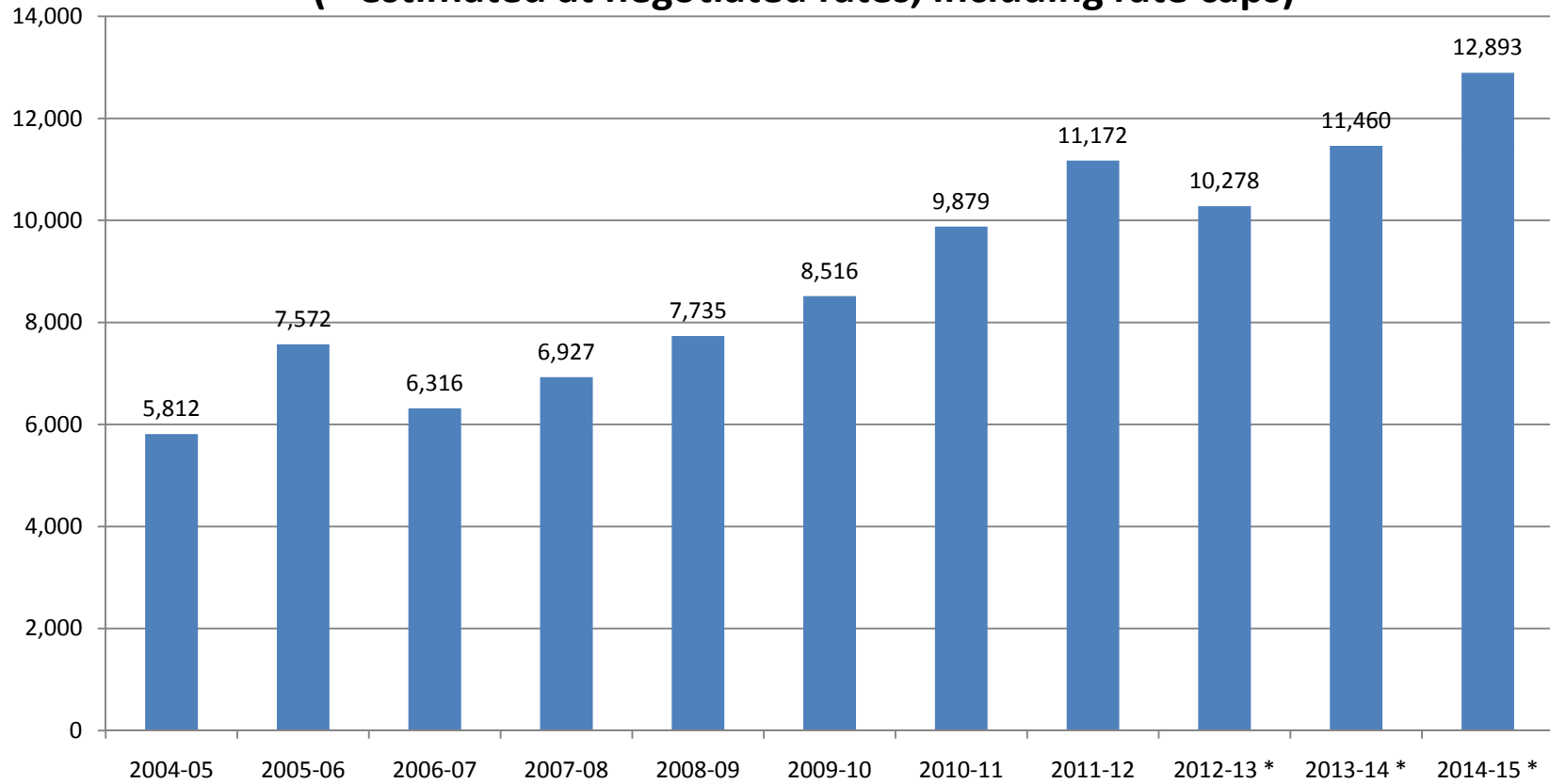
Unaudited



Medical Insurance Expense

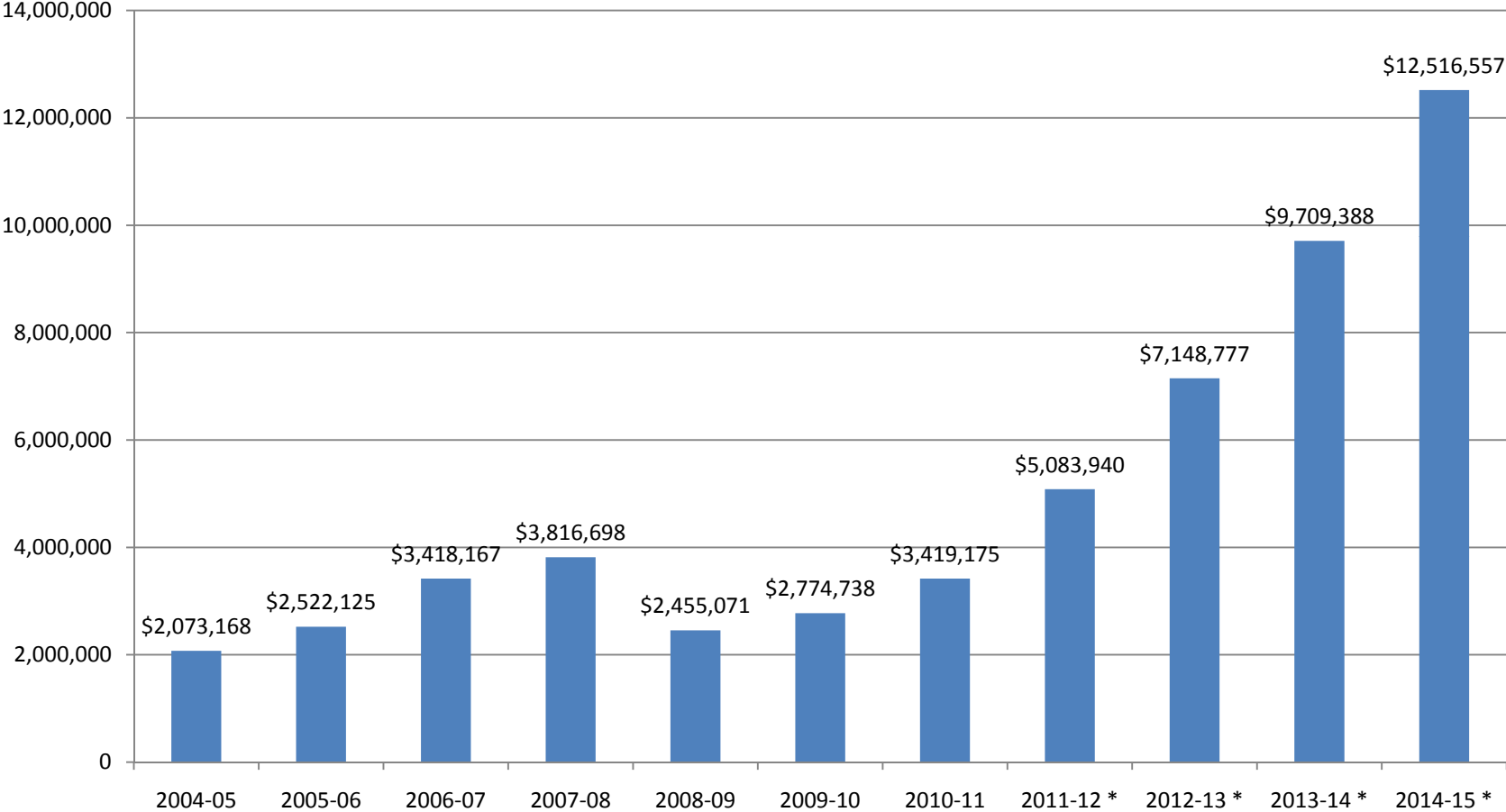
2011-12 Unaudited, 2012-13 and beyond estimated

District Cost Per Employee (* estimated at negotiated rates, including rate caps)

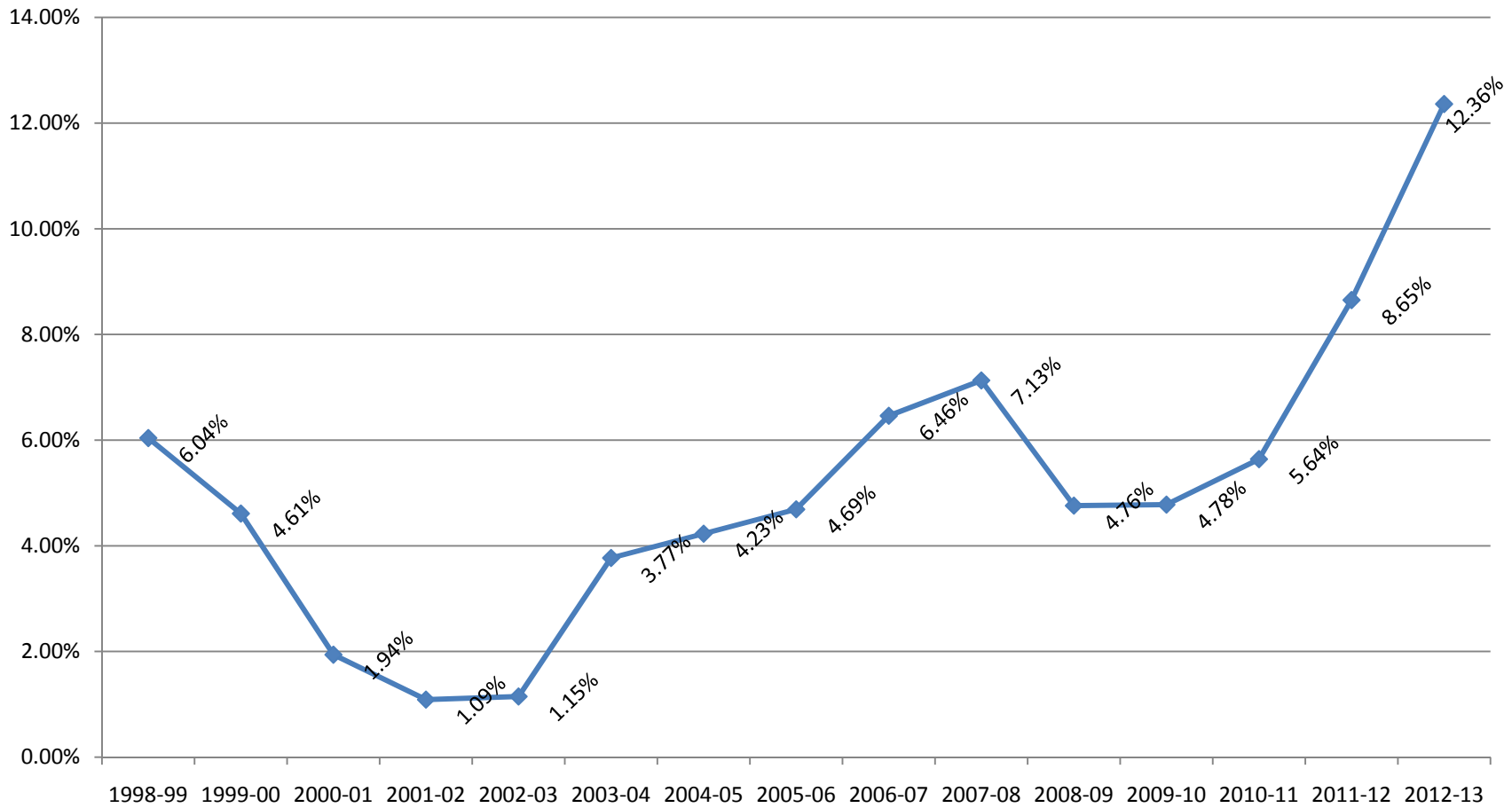


PSERS Expense

*2011-12 Unaudited, 2012-13 thru 2014-15 estimated using PSERS projections

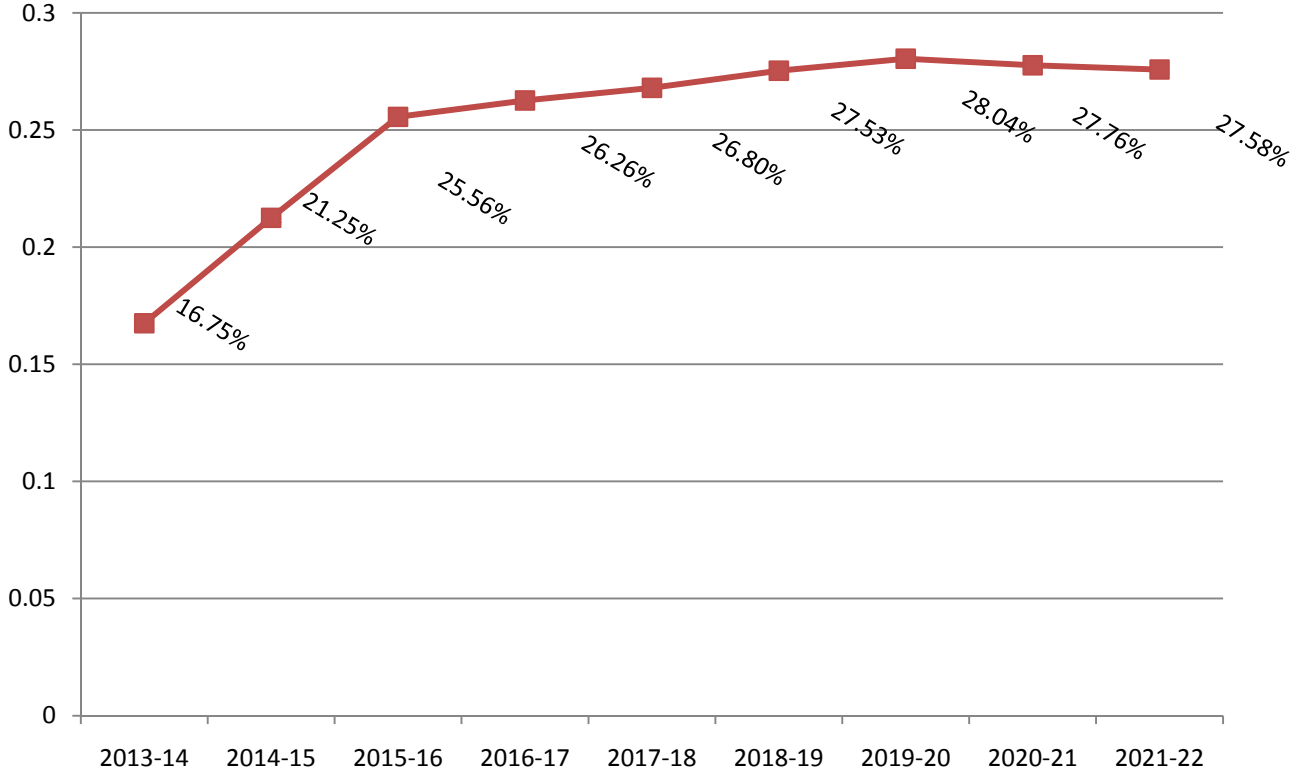


PSERS Rate History



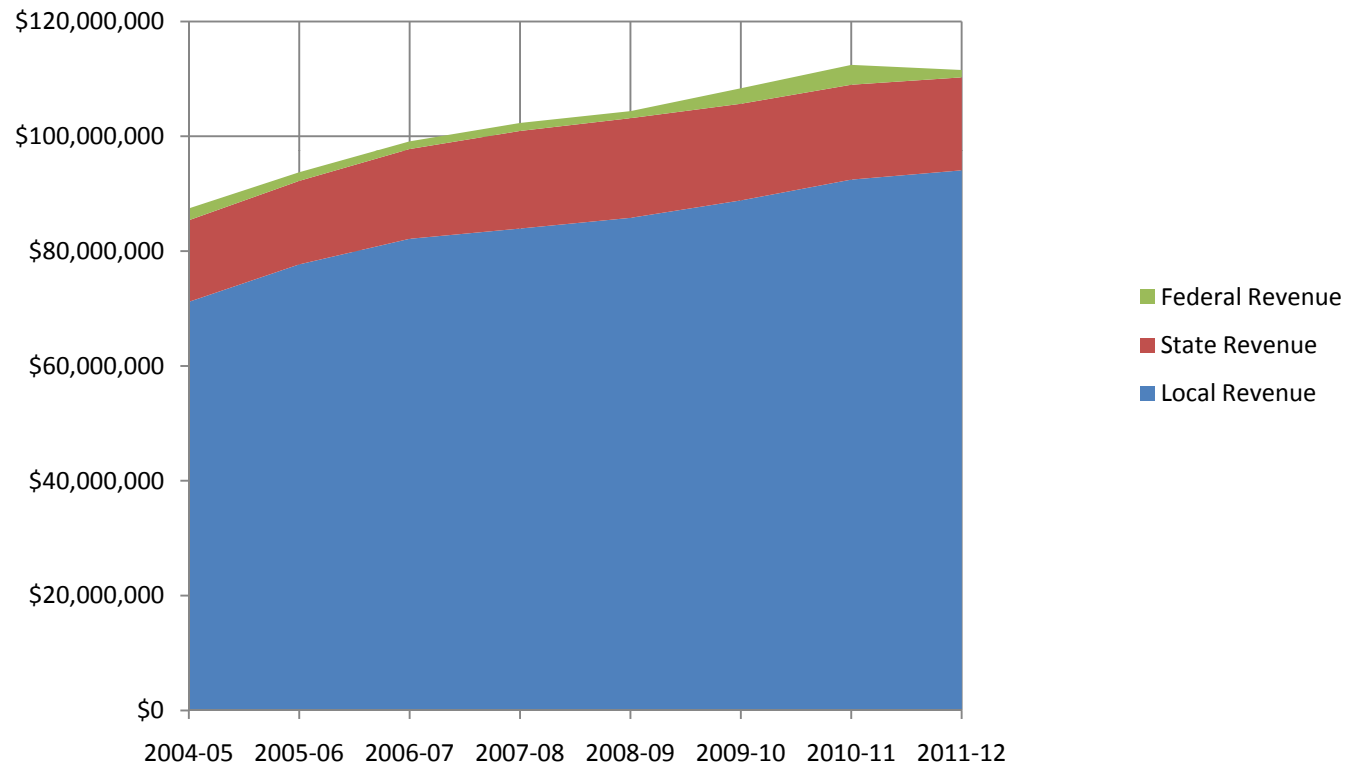
PSEERS Projected Rates

Obtained from psers.org

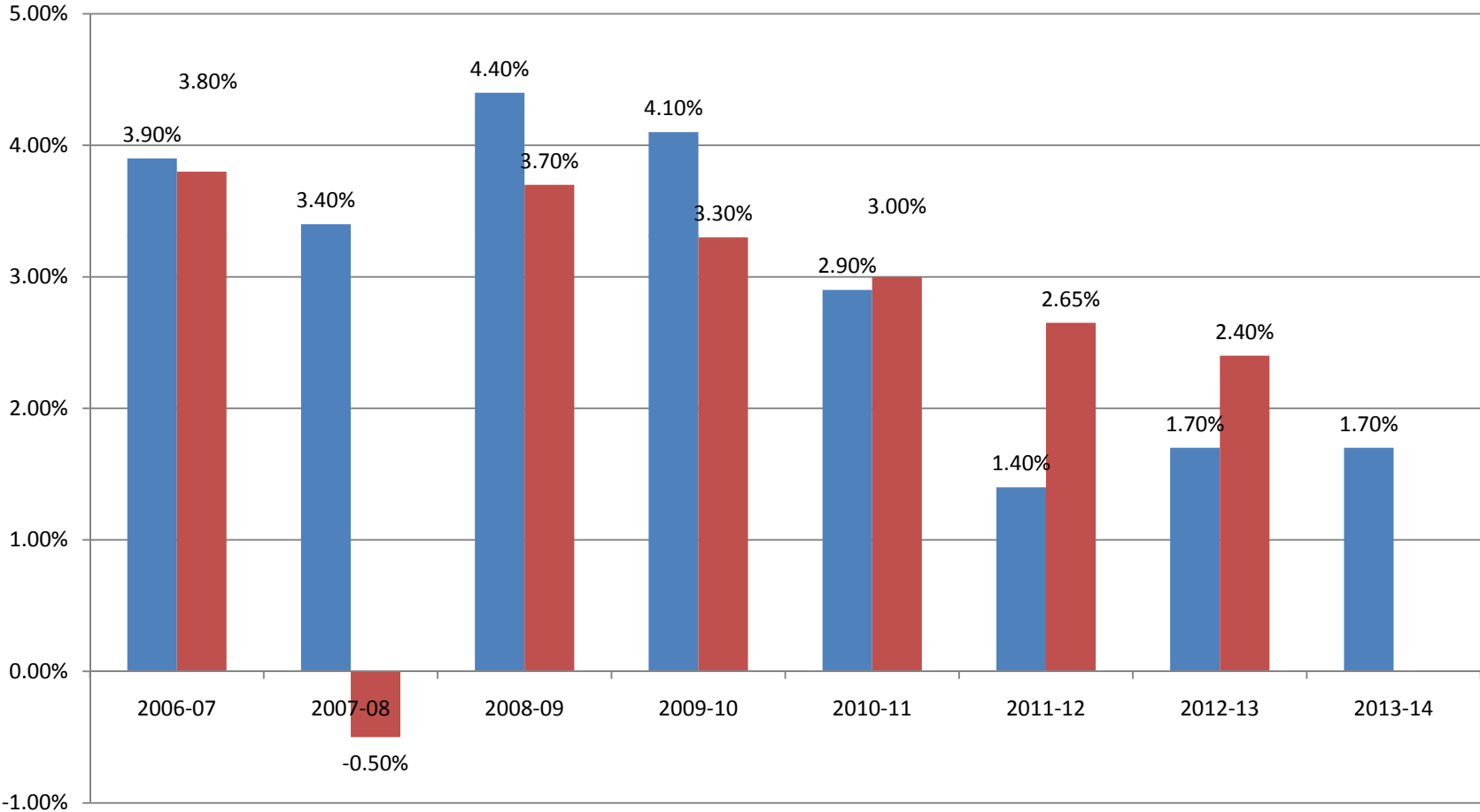


Revenue History by Source

2011-12 Unaudited

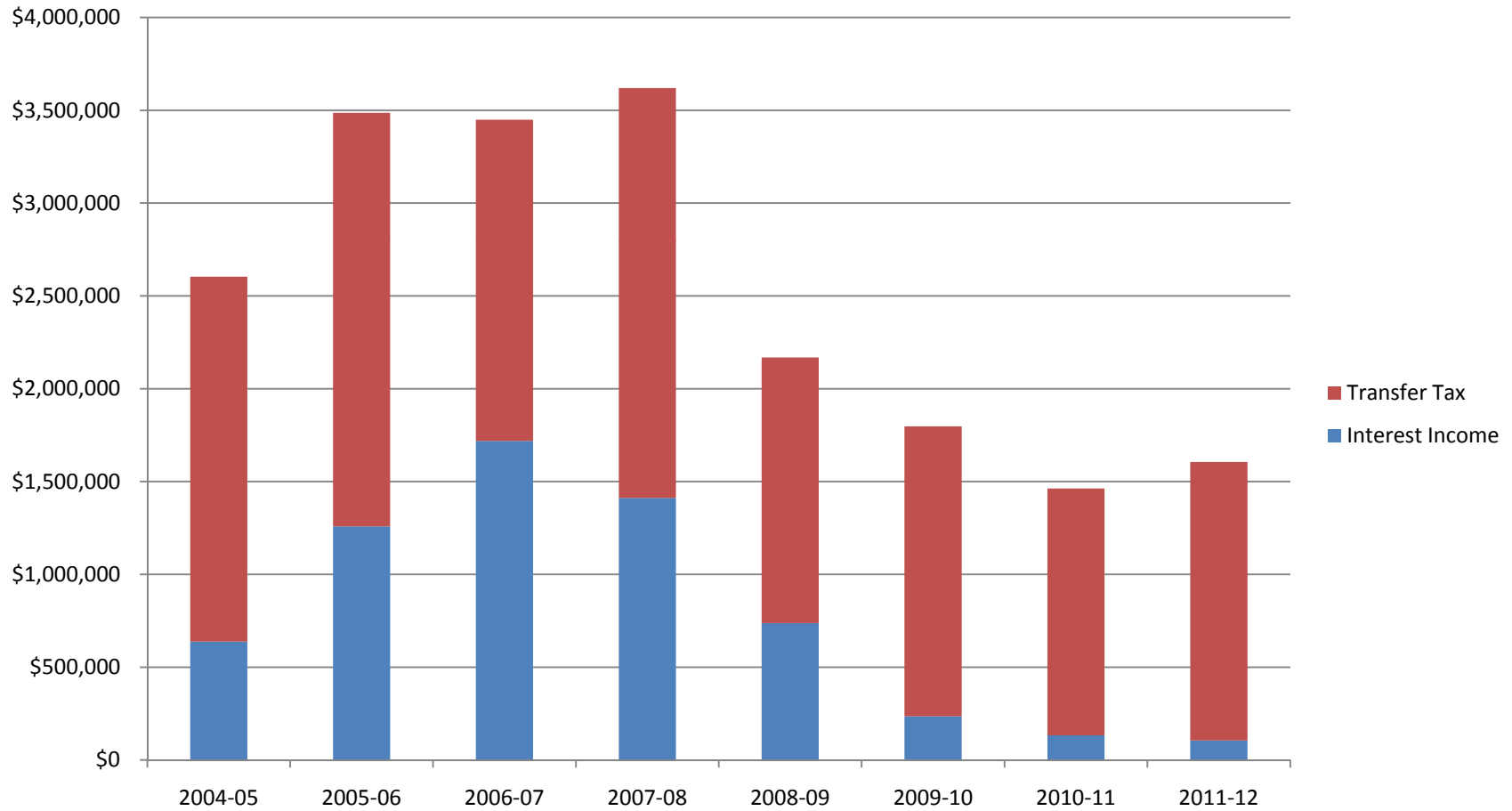


Act 1 Index vs. SCASD Real Estate Tax Increase



Interest Income and Transfer Tax

2011-12 Unaudited



General Fund Balances

Designated: PSERS	\$11,000,000
Undesignated: Revenue shortfalls Expenses from unexpected, catastrophic losses	\$8,500,000

General Fund Balance

- Administrative Recommendation
 - Additional \$1 million designation to PSERS pre-funding strategy prior to completion of financial statements

Capital Reserve Fund Balance

- Must be used for facility/building projects or payment of principal on debt
 - Renovations or New Construction
 - \$8.8 million

Capital Reserve Fund Transfer

- Desire to use Capital Reserve transfer to partially fund K-8 facility plan over 20 years
 - Elementary: Radio Park, Houserville/Lemont, Corl Street
 - Middle: Park Forest, Mt. Nittany
 - Other: Fairmount
 - Does not include Panorama, Memorial Field, or Nittany Avenue
- 2011-12 transfer \$1,000,000
- Beginning 2012-13 budget \$2.5 million

Facilities

- Currently 700,000 sq. ft. facilities > 40 yrs old
 - Equal to 12.5 Ferguson Elementary buildings
- Based upon recent construction
 - Cost \$285/square foot
- Cost estimate to update 700,000 sq. ft. facility
 - \$200,000,000
- Half (or more) of facility costs require referendum (i.e. High School)

Next Steps

- Staff Meetings
 - Throughout October, beginning tomorrow
- Board Meeting – October 22nd
 - 2013-14 Budget Development
 - Review Budget Drivers
 - Look at Act 1 Index and Exceptions
 - Discuss potential areas to refine to solve budget issues
 - Reflect on comments received at Staff Meetings
- Budget 2013-14 on homepage www.scasd.org