



**State College Area School District  
Administrative Offices  
240 Villa Crest Drive  
State College, PA 16801  
814-231-1021**

To: Robert J. O'Donnell  
From: Randy L. Brown and Donna Watson  
Date: January 23, 2017  
Subject: 2017-2018 Budget Development

The preliminary budget for 2017-18 including a proposed real estate tax increase of 1.55%, within the Act 1 Index of 2.5% totaling \$149,978,094 in total revenue was presented to the Board on December 19, 2016.

Following the approval of the Accelerated Opt Out Resolution for the 2017-2018 Fiscal Year in December, the administration continues review and analysis of the proposed budget. As in previous years, reports of budgetary review and analysis will be shared with the Board.

In response to requests from the Board, recent discussions with the Finance and Audit Committee included specific types of analysis and segments of district operations to be included in the development process. This update includes analysis and discussion of the charter school and transportation costs for the district.

## **Charter School Tuition**

Charter schools receive, for each student enrolled, an amount paid by the district of residence. This amount is based upon a statutory funding formula. There is a funding formula for non-special education students and for special education students. [Section 1725-A](#) of the Pennsylvania Public School Code addresses the funding for charter schools.

### *Non-special education students*

The formula allows for deductions from budgeted total expenditures per average daily membership including:

- Nonpublic school programs
- Adult education programs
- Community/junior college programs

- Student transportation services
- Special education programs
- Facilities acquisition, construction and improvement services
- Financing uses including debt service and fund transfers

*Special education students*

The formula includes the same funding as for non-special education students plus an additional amount determined by dividing the district of residence’s total special education expenditure by the estimated Average Daily Membership (ADM).

*{Note: Average daily membership (ADM) is calculated by dividing the aggregate day’s membership for all children on active rolls by the number of the days the school district is in session.}*

As the district’s costs increase, the charter school tuition rate also increases. In addition, enrollments in charter schools from district residents increased significantly. Both of these factors result in higher costs for the district. Table A shows the net change in student enrollment in charter schools. Table B shows the charter school tuition and total district expense budget.

Table A

2006-07	228	
2016-17	344	
10-year Change	116	51%
2010-11	260	
2016-17	344	
5-year Change	84	32%

Table B

2015-16 Actual	\$ 6,200,000	\$ 138,833,619
2016-17 Projected	\$ 6,300,000	\$ 145,739,415
2017-18 Preliminary	\$ 6,500,000	\$ 150,145,254

Charter school tuition expense represents more than 4% of the district’s budget, over which the Board has little to no control. The graph in the presentation materials shows that this one expense has increased by more than 100% in the last decade from less than \$3 million to greater than \$6 million.

The rationale for including this expense in our budget discussion relates to the size, growth and exposure impacting the total budget. The administration continues to improve outreach to the community at large in order to attract families to the school district, not only because we believe the school district provides the best education

option but also to control expenses. The administration will continue internal conversations and with appropriate Board committees to improve these efforts.

## Transportation

The district chooses to provide transportation for students to and from school. In selecting this option, the district must also provide transportation to students attending nonpublic and charter schools located within a ten mile radius of the district borders. Various statistics regarding transportation costs are included in Table C:

Table C

	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u> <u>(1)</u>
<b>Statistics</b>						
Number of bus runs	424	396	400	404	416	420
Number of Students Transported	7,135	7,365	7,848	7,527	7,572	7,502
Public students transported (including charter students)	6,692	6,929	7,320	6,962	7,034	6,944
Nonpublic students	443	436	528	565	538	558
Number of students transported to charter schools	230	321	292	295	284	284
Number of buses						
District owned	48	41	41	42	42	42
Contracted	58	58	59	59	62	63
Buses solely for private and charter schools (2)					16	16

(1) Current year numbers reflect estimates, and these numbers are not calculated until year end.

(2) Information not available for prior years.

As shown below, Table D includes a summary of the state revenue and expenses for district transportation costs. The district receives reimbursement from the state based upon a series of calculations related to number of students assigned to a bus, distance travelled by bus, etc. The total amount of state reimbursement for transportation may vary from year to year, also affecting the amount the district receives.

Table D

	2015-16	Budget 2016-17	Projected 2016-17	Prelim Budget 2017-18	Prelim Budget 2017-18 vs. Projected 2016-17	% Variance
<b>State Revenue</b>	\$ 884,352	\$ 750,000	\$ 800,000	\$ 800,000	\$ -	0.0%
<b>Expense</b>						
Salaries	1,176,469	1,241,675	1,231,650	1,316,057	84,407	6.9%
Health Insurance	520,039	556,298	556,298	611,928	55,630	10.0%
PSERS	300,078	372,650	367,066	425,349	58,283	15.9%
Other Benefits	123,399	135,808	136,582	143,517	6,936	5.1%
Professional Services	6,912	9,532	9,532	9,532	-	0.0%
Purchased Property Services	30,784	35,292	36,819	36,819	-	0.0%
Other Purchased Services	3,232,343	3,208,077	3,283,006	3,317,440	34,435	1.0%
Supplies/Equipment	681,076	563,909	531,783	533,005	1,222	0.2%
Other Expense	392	1,760	1,890	1,890	-	0.0%
	6,071,491	6,125,001	6,154,626	6,395,538	240,912	3.9%

Transportation costs in the preliminary budget compared to 2015-16 are expected to increase by approximately \$324,000 or 5% due primarily to increased employee and contracted labor costs. Transportation services account for approximately 4% of the district's budget, including bus driver's compensation, contracted services, fuel, equipment, and transportation service center costs. The district has made a concerted effort in recent years to develop an equipment replacement cycle. Generally, two to four buses are purchased for the district fleet each year. This concerted effort has been a necessity due to the increasing age of the fleet not being replaced for a number of years.

The administration also manages the number of student runs for operational effectiveness and cost efficiency. Bus routes are reviewed and modified based upon locations of students. An analysis is also completed to weigh the cost of maintaining a bus route by district personnel or contracted carriers. The district's contracted carriers should be commended for their willingness to aid in efficient and appropriate transportation of our students.

## Property Tax Elimination

Property tax elimination is back on the table, and I understand this may result in a serious conversation on the issue in the very near future in Harrisburg.

The Senate is considering whether to move forward with the property tax elimination proposal in early February. Obviously, such a proposal will have devastating consequences for school districts (and others) if it is enacted.

While there is not yet a new bill introduced, we assume that the proposal will be similar to past iterations in which school district property taxes will be eliminated and replaced with a shift to a 4.95% personal income tax (an increase from the current 3.07%) and an increase in the sales tax to 7% as well as an expansion of the items and services to which sales tax would apply (things such as most food purchases, clothing and lots of services currently untaxed).

According to a memo from the legislature, school districts would be prohibited from levying a property tax AFTER June 30, 2017 (with the exception that property taxes in place to pay off debt incurred as of December 31, 2016 would remain until that debt is paid off--however, the bill prohibits a district from incurring any additional debt without a referendum). Dollars are expected to be distributed to districts based on the local revenue they received in 2016-17. Based upon the information available at this point, equity across districts will not be achieved.

Although this has been discussed several times in the future, there is a greater sense of urgency than in the past from our professional organizations including but not limited to PASBO, PSBA, PASA, and PSEA. The business official organization suggests that districts present the preliminary budget showing the reduced local real estate tax revenue with increased state revenue. Because this situation is fluid, we will work on this summary for presentation at the upcoming meeting.

Many questions remain unanswered with the possible legislation:

- How will baseline (debt service) school district property tax grow?
- How will the new replacement revenues grow?
- How will property tax and new replacement revenues both respond to economic conditions?
- The December 30, 2016 may not remain as a firm cutoff date for debt service; however there are no guarantees at this point.
- Discussions regarding the proposed distribution of the replacement funds include:
  - Annual distribution for each district is based on its receipts in the prior year plus a cost of living increase (if applicable). How will the first year distribution be calculated?
    - Cost of living increase is the lesser of percentage increase in (1) state wise weekly wage or (2) sales tax growth
- Additional cons of this proposal.
  - School district's responsible for charter school costs, special education costs, and PSERS costs

## **Next Steps**

Areas being prepared for future analysis include Community Education, including CEEL), Curriculum, Special Education, Student Services, Gifted Services, Athletics, Physical Plant, and Food Service.

**State College Area School District  
General Fund Revenue  
Budget 2017-18**

	<b>Proposed Prelim Budget - 12/19/16</b>	<b>Board Presentation 1/23/17</b>	<b>1/23/17 vs. 12/19/16</b>
<b>LOCAL SERVICES TAX</b>			
CURRENT REAL ESTATE TAX	\$91,869,597	\$5,030,396	(\$86,839,201)
REAL ESTATE TAX-REFERENDUM DEBT	4,945,363	4,945,363	0
EARNED INCOME TAX	17,350,000	17,350,000	0
REALTY TRANSFER TAX	2,082,000	2,082,000	0
DELINQUENT REAL ESTATE TAX	1,100,000	0	(1,100,000)
INTERIM REAL ESTATE TAX	400,000	0	(400,000)
IDEA-B	740,000	740,000	0
PAYMENTS IN LIEU OF TAX	555,011	555,011	0
LOCAL SERVICES TAX	385,000	385,000	0
TUITION	1,150,304	1,150,304	0
MISC LOCAL REVENUE	644,100	644,100	0
PUBLIC UTILITY REALTY TAX	117,190	117,190	0
INTEREST ON INVESTMENTS	150,000	150,000	0
<b>TOTAL LOCAL</b>	<b>121,488,565</b>	<b>33,149,364</b>	<b>(88,339,201)</b>
<b>STATE</b>			
BASIC ED INSTR SUBSIDY	7,543,140	7,543,140	0
SPECIAL ED REVENUE-REGULAR	3,268,768	3,268,768	0
PROPERTY TAX ELIMINATION	0	88,339,201	88,339,201
REV. FOR RETIREMENT	10,532,276	10,532,276	0
REV. FOR SOCIAL SECURITY	2,472,387	2,472,387	0
PROPERTY TAX REDUCTION	1,424,101	1,424,101	0
TRANSPORTATION REVENUE	800,000	800,000	0
BOND REIMBURSEMENTS	632,953	632,953	0
HEALTH SERVICES REVENUE	140,000	140,000	0
READY TO LEARN GRANT	310,013	310,013	0
VOCATIONAL EDUCATION	90,891	90,891	0
TUITION - 1305/1306	130,000	130,000	0
<b>TOTAL STATE</b>	<b>27,344,529</b>	<b>115,683,730</b>	<b>88,339,201</b>
<b>FEDERAL</b>			
TITLE I REVENUE	600,000	600,000	0
TITLE II REVENUE	200,000	200,000	0
ACCESS FUNDS	250,000	250,000	0
OTHER FEDERAL REVENUE	60,000	60,000	0
TITLE III REVENUE	35,000	35,000	0
<b>TOTAL FEDERAL</b>	<b>1,145,000</b>	<b>1,145,000</b>	<b>0</b>
<b>TOTAL REVENUE</b>	<b>\$149,978,094</b>	<b>\$149,978,094</b>	<b>\$0</b>

**12/5 vs. 12/19** - Reflects change in PSERS contribution rate published 12/7/16.

**1/23/17 vs. 12/19/16** - Assumes real estate tax revenue is limited to debt service. This presentation assumes state revenue will increase to offset loss of local revenue, including the preliminary tax increase, however the exact amount of state revenue is not yet known.

State College Area School District  
General Fund Revenue  
Budget 2017-18

**Assumptions:**

<b>Earned Income Tax Growth</b>	<b>2.00%</b>	<b>2.00%</b>
<b>Assessed Value Growth</b>	<b>1.10%</b>	<b>1.10%</b>
<b>Exceptions</b>	<b>0.00%</b>	<b>0.00%</b>
<b>Act 1 Index</b>	<b>2.50%</b>	<b>2.50%</b>
<b>Actual/Projected Total Tax Increase</b>	<b>1.55%</b>	<b>1.55%</b>

	Proposed Prelim Budget 12/5/16	Proposed Prelim Budget - 12/19/16	12/5 vs. 12/19
<b>LOCAL SERVICES TAX</b>			
CURRENT REAL ESTATE TAX	\$91,869,597	\$91,869,597	\$0
REAL ESTATE TAX-REFERENDUM DEBT	4,945,363	4,945,363	0
EARNED INCOME TAX	17,350,000	17,350,000	0
REALTY TRANSFER TAX	2,082,000	2,082,000	0
DELINQUENT REAL ESTATE TAX	1,100,000	1,100,000	0
INTERIM REAL ESTATE TAX	400,000	400,000	0
IDEA-B	740,000	740,000	0
PAYMENTS IN LIEU OF TAX	555,011	555,011	0
LOCAL SERVICES TAX	385,000	385,000	0
TUITION	1,150,304	1,150,304	0
MISC LOCAL REVENUE	644,100	644,100	0
PUBLIC UTILITY REALTY TAX	117,190	117,190	0
INTEREST ON INVESTMENTS	150,000	150,000	0
<b>TOTAL LOCAL</b>	<b>121,488,565</b>	<b>121,488,565</b>	<b>0</b>
<b>STATE</b>			
BASIC ED INSTR SUBSIDY	7,543,140	7,543,140	0
SPECIAL ED REVENUE-REGULR	3,268,768	3,268,768	0
REV. FOR RETIREMENT	10,360,888	10,532,276	171,388
REV. FOR SOCIAL SECURITY	2,472,387	2,472,387	0
PROPERTY TAX REDUCTION	1,424,101	1,424,101	0
TRANSPORTATION REVENUE	800,000	800,000	0
BOND REIMBURSEMENTS	632,953	632,953	0
HEALTH SERVICES REVENUE	140,000	140,000	0
READY TO LEARN GRANT	310,013	310,013	0
VOCATIONAL EDUCATION	90,891	90,891	0
TUITION - 1305/1306	130,000	130,000	0
<b>TOTAL STATE</b>	<b>27,173,141</b>	<b>27,344,529</b>	<b>171,388</b>
<b>FEDERAL</b>			
TITLE I REVENUE	600,000	600,000	0
TITLE II REVENUE	200,000	200,000	0
ACCESS FUNDS	250,000	250,000	0
OTHER FEDERAL REVENUE	60,000	60,000	0
TITLE III REVENUE	35,000	35,000	0
<b>TOTAL FEDERAL</b>	<b>1,145,000</b>	<b>1,145,000</b>	<b>0</b>
<b>TOTAL REVENUE</b>	<b>\$149,806,706</b>	<b>\$149,978,094</b>	<b>\$171,388</b>

12/5 vs. 12/19 - Reflects change in PSERS contribution rate published 12/7/16.

**State College Area School District  
General Fund Expenses and Fund Balance Transfers  
Budget 2017-18**

	<b>Proposed Prelim Budget - 12/5/16</b>	<b>Proposed Prelim Budget - 12/19/16</b>	<b>12/5 vs. 12/19</b>
Salaries	65,956,706	65,956,706	
Health Insurance	14,111,448	14,111,448	
PSERS	20,721,776	21,064,552	342,776
Other Benefits	6,624,604	6,624,604	
Professional Services	3,703,357	3,703,357	
Purchased Property Services	2,049,797	2,049,797	
Other Purchased Services	12,495,121	12,495,121	
Supplies/Equipment	6,073,682	6,073,682	
Minor Capital Projects	2,138,768	2,138,768	
Transfers/contingencies	2,339,964	2,339,964	
Debt Service	5,014,258	5,014,258	
Debt Service - Referendum Debt	5,257,725	5,257,725	
Transfer to Capital Reserve	5,502,000	5,502,000	
Fund Balance Use (PSERS/Legal)	(2,186,728)	(2,186,728)	
<b>Total Expenses and Fund Balance Transfers</b>	<b><u>\$149,802,478</u></b>	<b><u>\$150,145,254</u></b>	342,776

12/5 vs. 12/19 - Reflects change in PSERS contribution rate published 12/7/16.

**State College Area School District  
General Fund Activity  
Budget 2017-18**

**Assumptions:**

<b>Earned Income Tax Growth</b>	<b>2.00%</b>	<b>2.00%</b>
<b>Assessed Value Growth</b>	<b>1.10%</b>	<b>1.10%</b>
<b>Exceptions</b>	<b>0.00%</b>	<b>0.00%</b>
<b>Act 1 Index</b>	<b>2.50%</b>	<b>2.50%</b>
<b>Actual/Projected Total Tax Increase</b>	<b>1.55%</b>	<b>1.55%</b>

	<b>Proposed Prelim Budget 12/5/16</b>	<b>Proposed Prelim Budget - 12/19/16</b>	<b>12/5 vs. 12/19</b>
<b>Beginning Fund Balance</b>	\$11,684,977	\$11,684,977	\$0
<b>Revenue</b>	149,806,706	149,978,094	(171,388)
Local	121,488,565	121,488,565	0
State	27,173,141	27,344,529	(171,388)
Federal	1,145,000	1,145,000	0
<b>Expense</b>	151,989,206	152,331,982	(342,776)
<b>Revenue less expense</b>	(2,182,500)	(2,353,888)	171,388
<b>Use of Assigned Fund Balance</b>	2,186,728	2,186,728	0
<b>Change in Unassigned General Fund Balance</b>	4,228	(167,160)	171,388
<b>Ending Unassigned Fund Balance</b>	<u>\$11,689,205</u>	<u>\$11,517,817</u>	<u>\$171,388</u>

12/5 vs. 12/19 - Reflects change in PSERS contribution rate published 12/7/16.

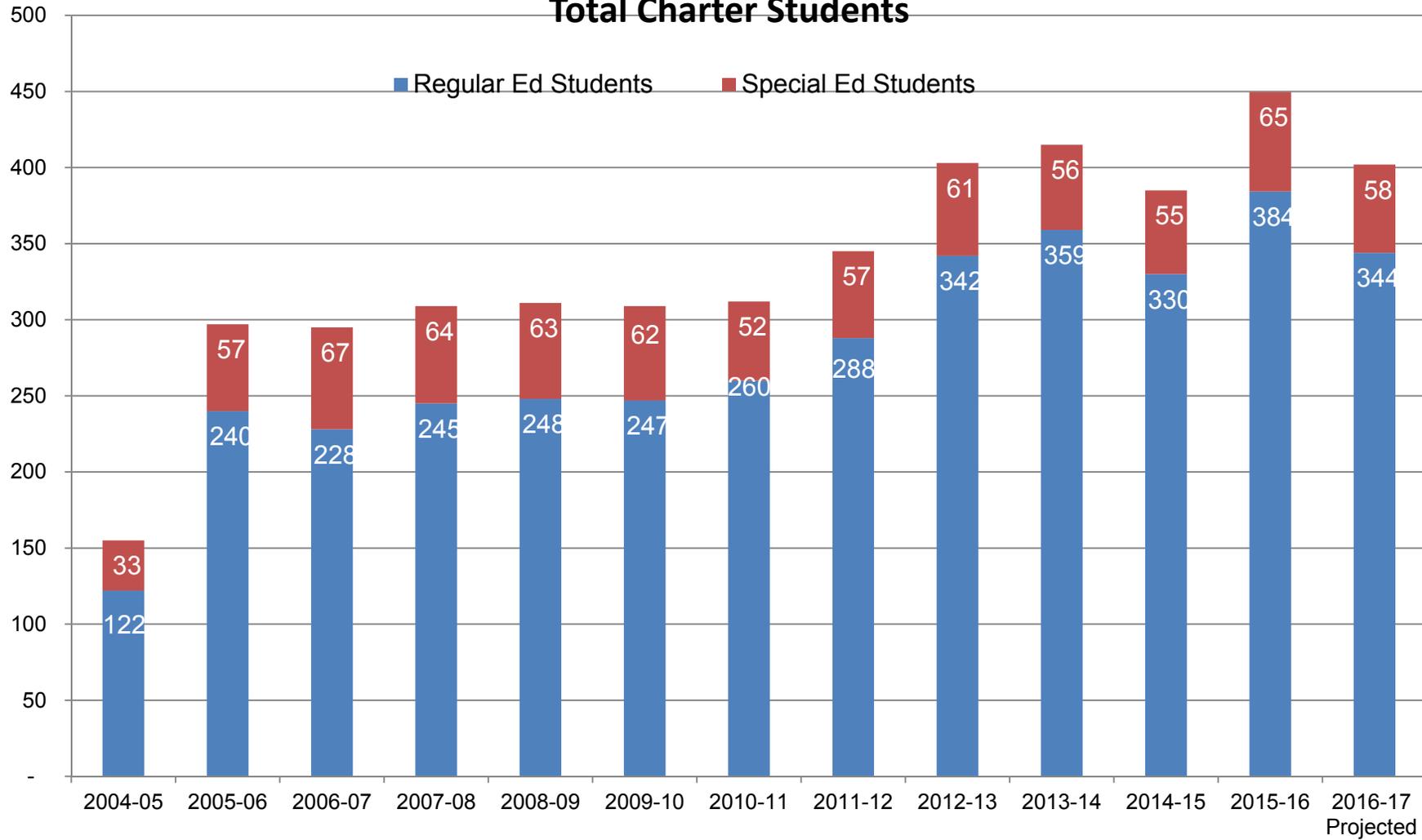
# State College Area School District



# Budget 2017-2018

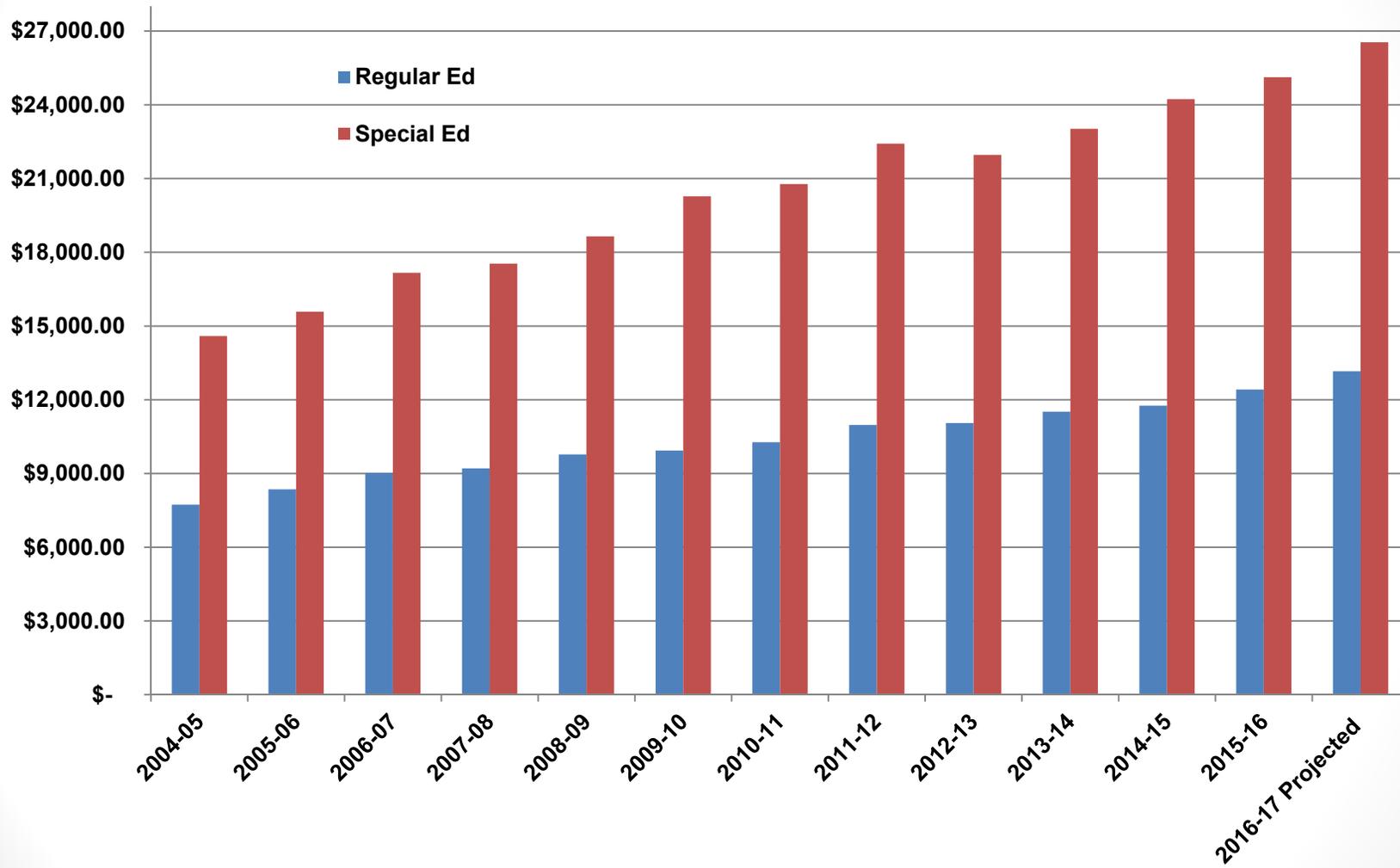
State College  
Area School District  
January 23, 2017

## Total Charter Students

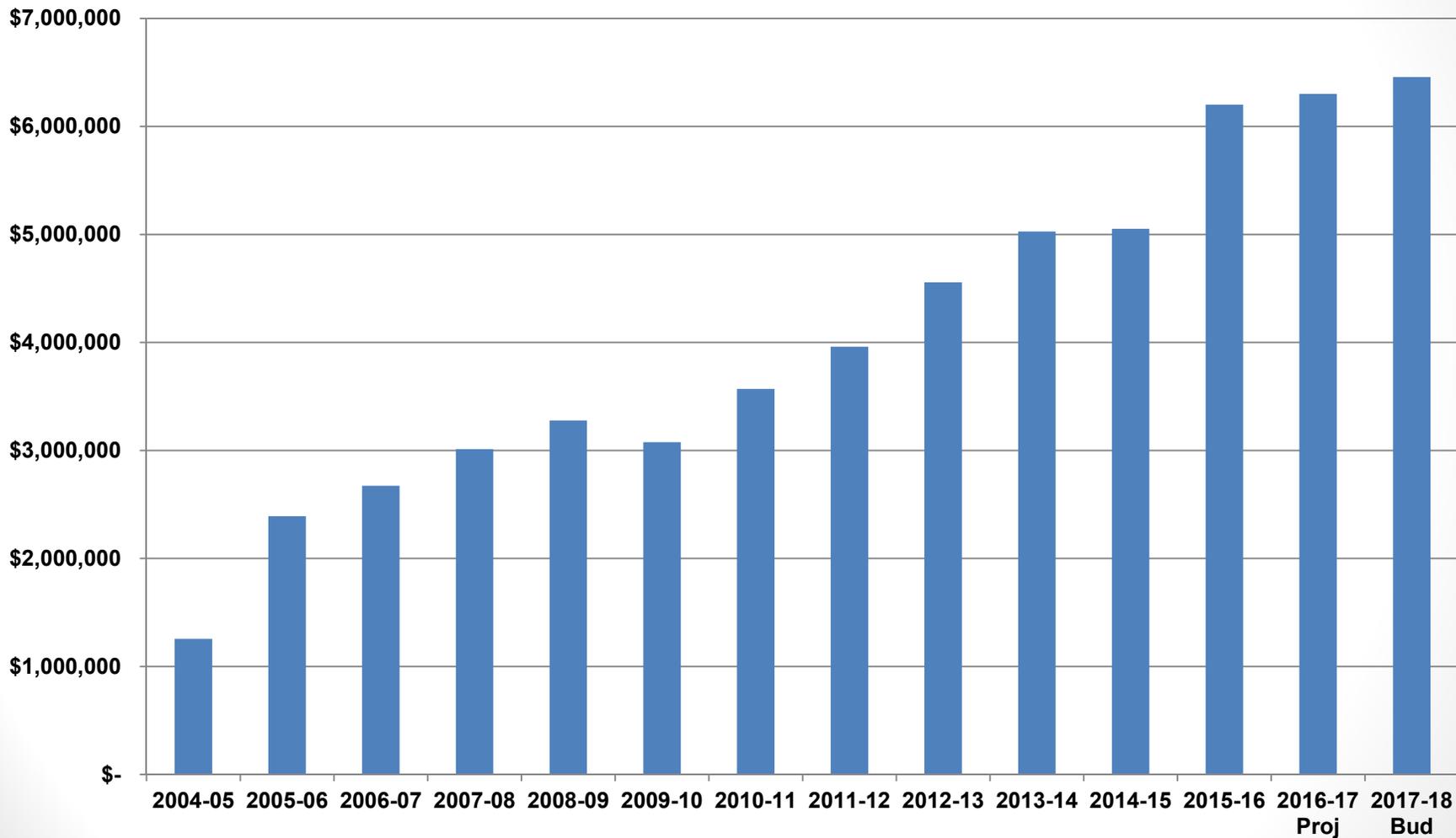


Total	155	297	295	309	311	309	312	345	403	415	385	450	402
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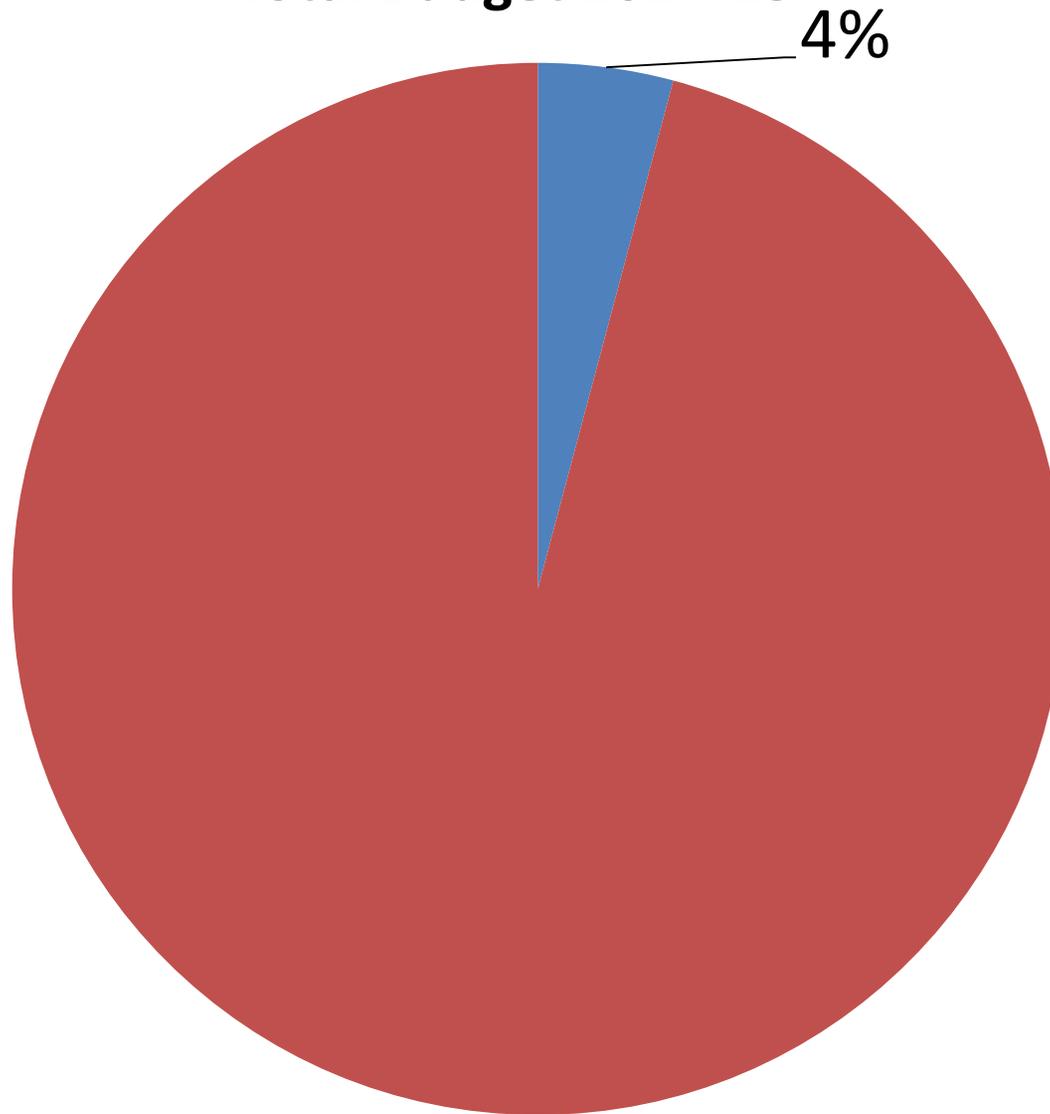
## Charter School Cost Per Student



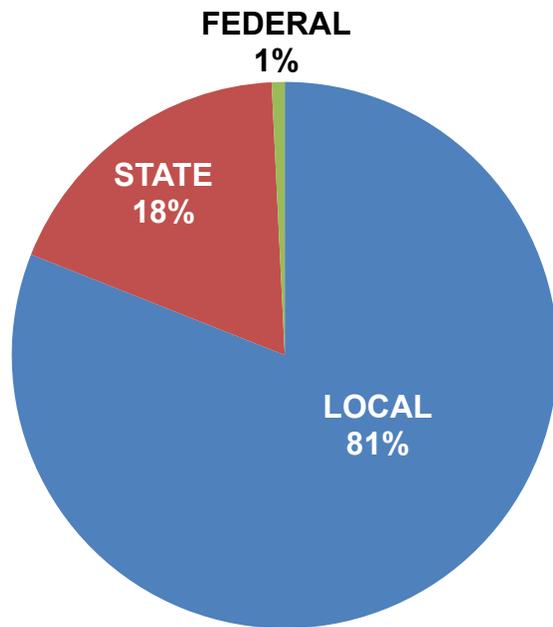
## Charter School Expense



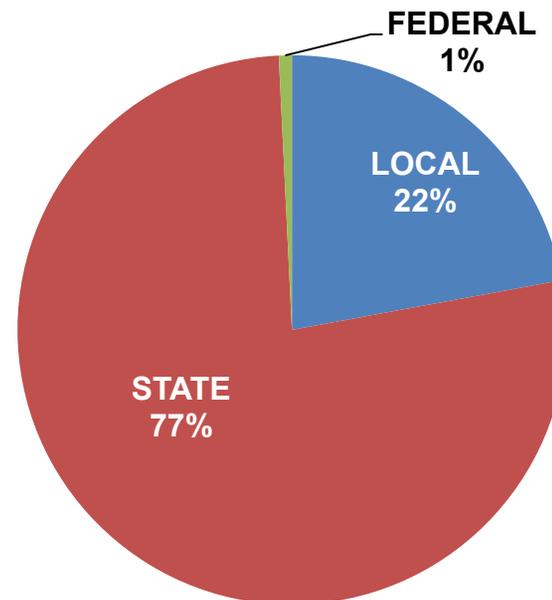
## Charter School Tuition share of Total Budget 2017-18



## Proposed Preliminary Budget



## Property Tax Elimination Impact

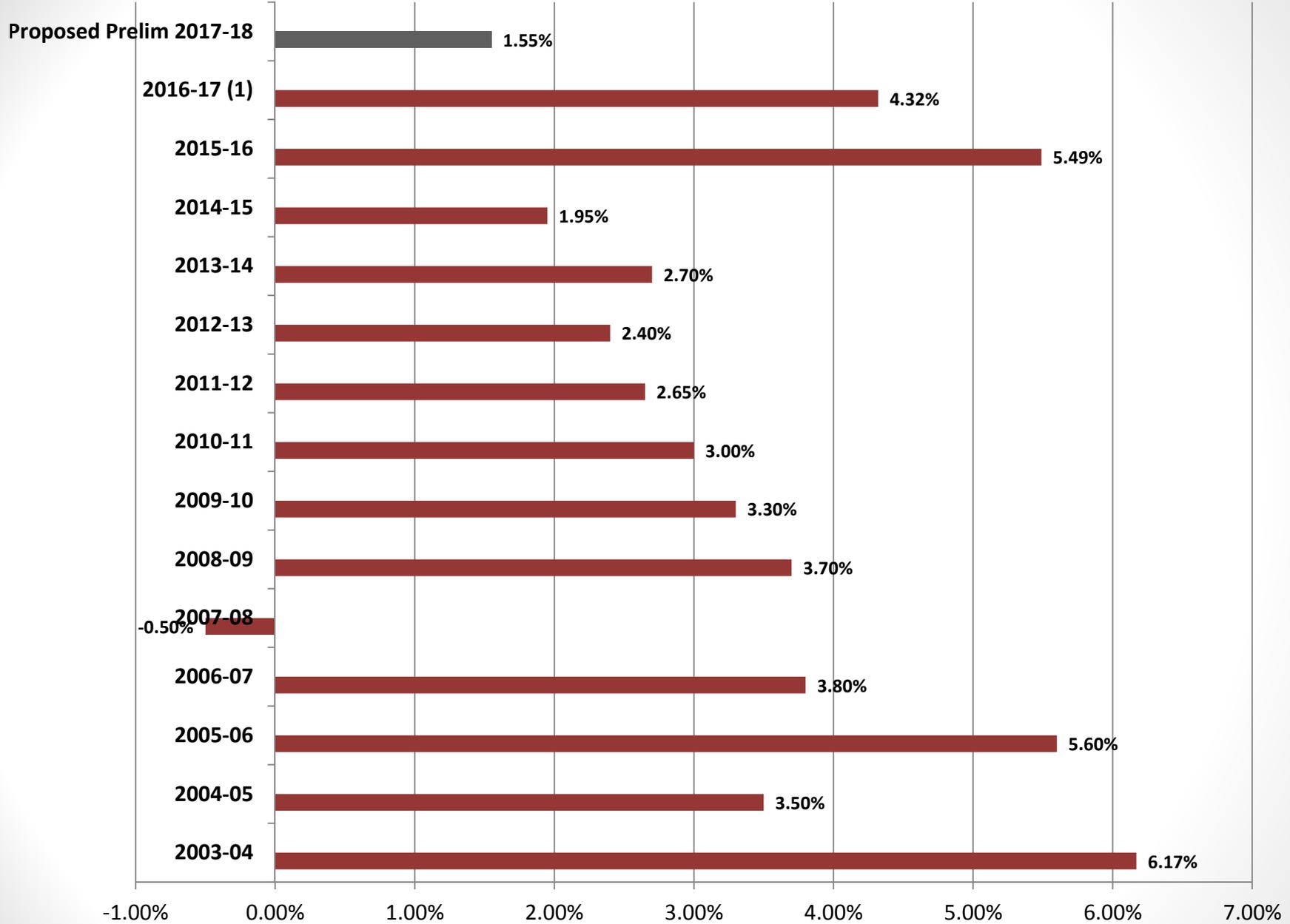


	<b>Proposed Prelim Budget - 12/19/16</b>	<b>Board Presentation 1/23/17</b>	<b>1/23/17 vs. 12/19/16</b>
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SPECIAL ED REVENUE-REGULAR	3,268,768	3,268,768	0
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REV. FOR RETIREMENT	10,532,276	10,532,276	0
REV. FOR SOCIAL SECURITY	2,472,387	2,472,387	0
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ACCESS FUNDS	250,000	250,000	0
OTHER FEDERAL REVENUE	60,000	60,000	0
TITLE III REVENUE	35,000	35,000	0
<b>TOTAL FEDERAL</b>	<b>1,145,000</b>	<b>1,145,000</b>	<b>0</b>
<b>TOTAL REVENUE</b>	<b>\$149,978,094</b>	<b>\$149,978,094</b>	<b>\$0</b>

12/5 vs. 12/19 - Reflects change in PSERS contribution rate published 12/7/16.

1/23/17 vs. 12/19/16 - Assumes real estate tax revenue is limited to debt service. This presentation assumes state revenue will increase to offset loss of local revenue, including the preliminary tax increase, however the exact amount of state revenue is not yet known.

## Real Estate Tax Increase



(1) Act 1 Index 2.4%, exceptions 1.92%

Average since 2006-2007 - 2.98%

5-Year Average increase excluding exceptions- 1.93%

## **Future Areas of Analysis:**

Transportation

Community Education/CEEL

Curriculum

Special Ed

Student Services

Gifted/Learning Enrichment

Title I

Athletics

Physical Plant – Def'd Maintenance

Food Service

# Questions

# State College Area School District

