



STATE COLLEGE AREA SCHOOL DISTRICT
Office of Finance and Operations
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To: Finance and Audit Committee
From: Robert O'Donnell, Randy Brown and Donna Watson
Subject: 2021-2022 Budget Development - Proposed Final Budget
Date: June 2, 2021

Following the direction from the May 24 Board meeting, the administration has prepared several new multi-year projections. The projections illustrate the impact of different tax rate options, changes in revenue and expense growth assumptions on unassigned fund balance. This work is meant to help the Board decide the real estate tax rate to be included in the final budget for the 2021-2022 fiscal year. As a reminder, the final budget must be approved prior to June 30, but the administration is seeking approval at the June 7 Board meeting to facilitate delivery of tax bills on July 1.

After further review and preparation of various scenarios, the administration continues to recommend maintaining the current tax rate for the 2021-2022 fiscal year. This recommendation stems from the negative impact the pandemic has had on the local economy, especially local businesses which have seen major losses in revenue over the last 15 months, along with residents who have experienced job loss or reduced income. It also takes into account the district receiving non-recurring federal, state and local stimulus funding and the potential of the local economy to recover faster than projected generating greater revenue. Like 2019-2020, fund balance will be assigned in 2020-2021 to offset future year revenue shortfalls. Additionally, we have the time and ability to better align revenue and expenses in the projection years without a tax increase in this budget.

The administration recognizes that forgoing a tax increase, even if an economic recovery in 2021-2022 results in revenue higher than projected, will require a combination of easing expense increases and higher than currently projected tax increases in future budgets to help reduce any deficits. The projection scenarios are for illustration purposes only, providing options to resolve the fund balance deficit during the projection period. In any case, the district at this time is not proposing any program changes or staffing reductions in the 2021-2022 budget.

Projection Scenarios

Current Projection: Final budget [presented](#) at the May 24 Board of Directors meeting.

Tax Increase:

- 2021-2022: 0%
- 2022-2023: 1.0%
- Beyond 2022-2023: 2.0%

Version 1: Resolve budget deficit with tax increase only

Tax Increase:

- 2021-2022: 0%
- 2022-2023: 2.9%
- Beyond 2022-2023: 2.9%

All other revenue assumptions: Remain the same as current projection

Expense assumptions: Remain the same as current projection

Analysis: This is not a viable option as increases to the real estate tax rate are limited by the Act 1 Index and therefore may not produce enough revenue to solve the negative fund balance issue.

Version 2: Resolve budget deficit by reducing growth in expenses only

Tax Increase:

- 2021-2022: 0%
- 2022-2023: 1.0%
- Beyond 2022-2023: 2.0%

All other revenue assumptions: Remain the same as current projection

Expense assumptions: Reduce growth in expenses by \$1.4 million annually beginning in 2022-2023

Analysis: Reducing the growth in expenses by itself may resolve the negative fund balance, but is not viable without significantly impacting programs.

Version 3: Increased revenue and one-time reduced growth in expense

Tax Increase:

- 2021-2022: 0%
- 2022-2023: 2.9%
- Beyond 2022-2023: 2.3%

All other revenue assumptions: Return to pre-COVID revenue assumptions in 2021-2022

Expense assumptions: Reduce growth in expenses by \$1 million in 2022-2023 only

Analysis: This combination of increased revenue and reduced growth in expenses does not resolve the deficit fund balance issue.

Version 4: Increased revenue and slowing annual expense growth

Tax Increase:

- 2021-2022: 1%
- 2022-2023: 2.9%
- Beyond 2022-2023: 2.0%

All other revenue assumptions: Return to pre-COVID revenue assumptions in 2021-2022

Expense assumptions: Reduce growth in expenses by \$200,000 annually beginning in 2022-2023

Analysis: A combination of slowing expense increases with higher than projected revenues could resolve the negative fund balance. This has been closely aligned to the administration's thinking during the budget development process, with the exception of the higher tax rates in 2020-2021 and 2021-2022. The belief is that there is time for the economy to respond and the district to reduce the growth in expenses; however, it's uncertain exactly when recovery will occur.

Another item to consider relates to the ratio of revenue to expense. Relying on fund balance to offset expenses in excess of revenue is not a long-term viable option. Although Version 4 potentially resolves the deficit fund balance, expenses remain more than \$4 million higher than revenue annually at the end of the projection period. Therefore, balancing tax increases with slowing the growth of expenses in a deliberate manner to reach a balanced budget is a priority in the next several budgets.

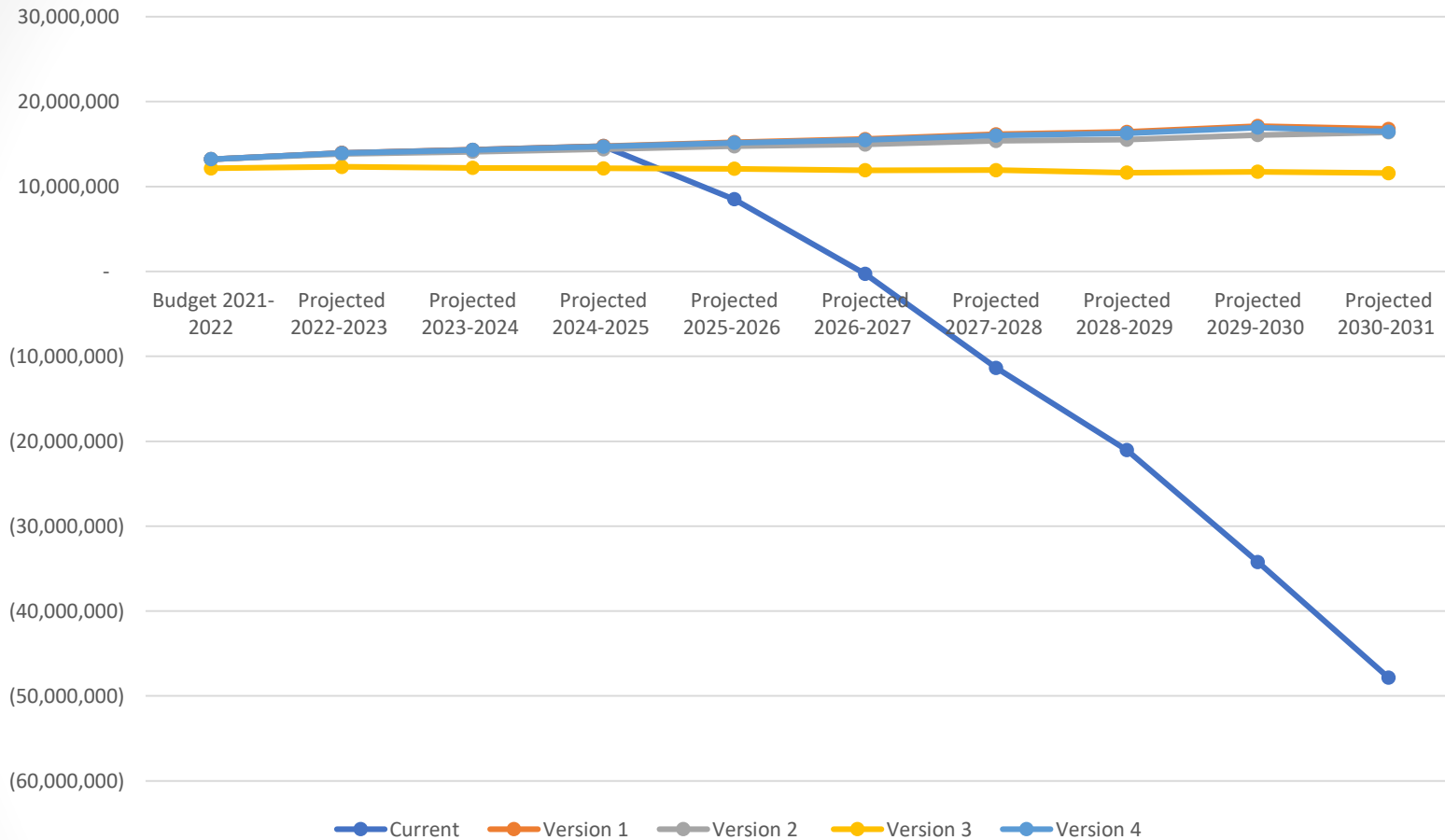
State College Area School District



2021-22 Budget Development

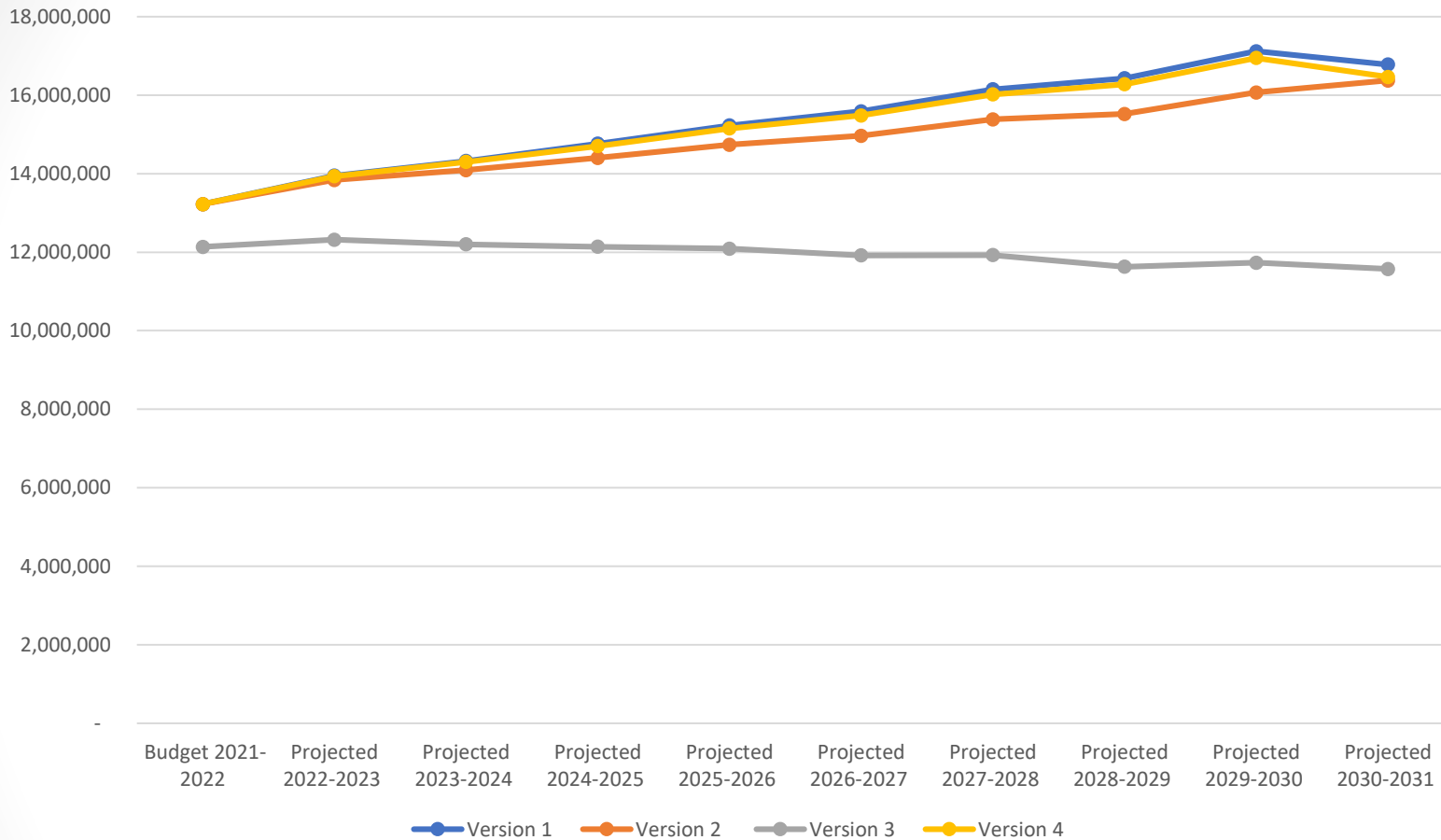
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Unassigned Fund Balance



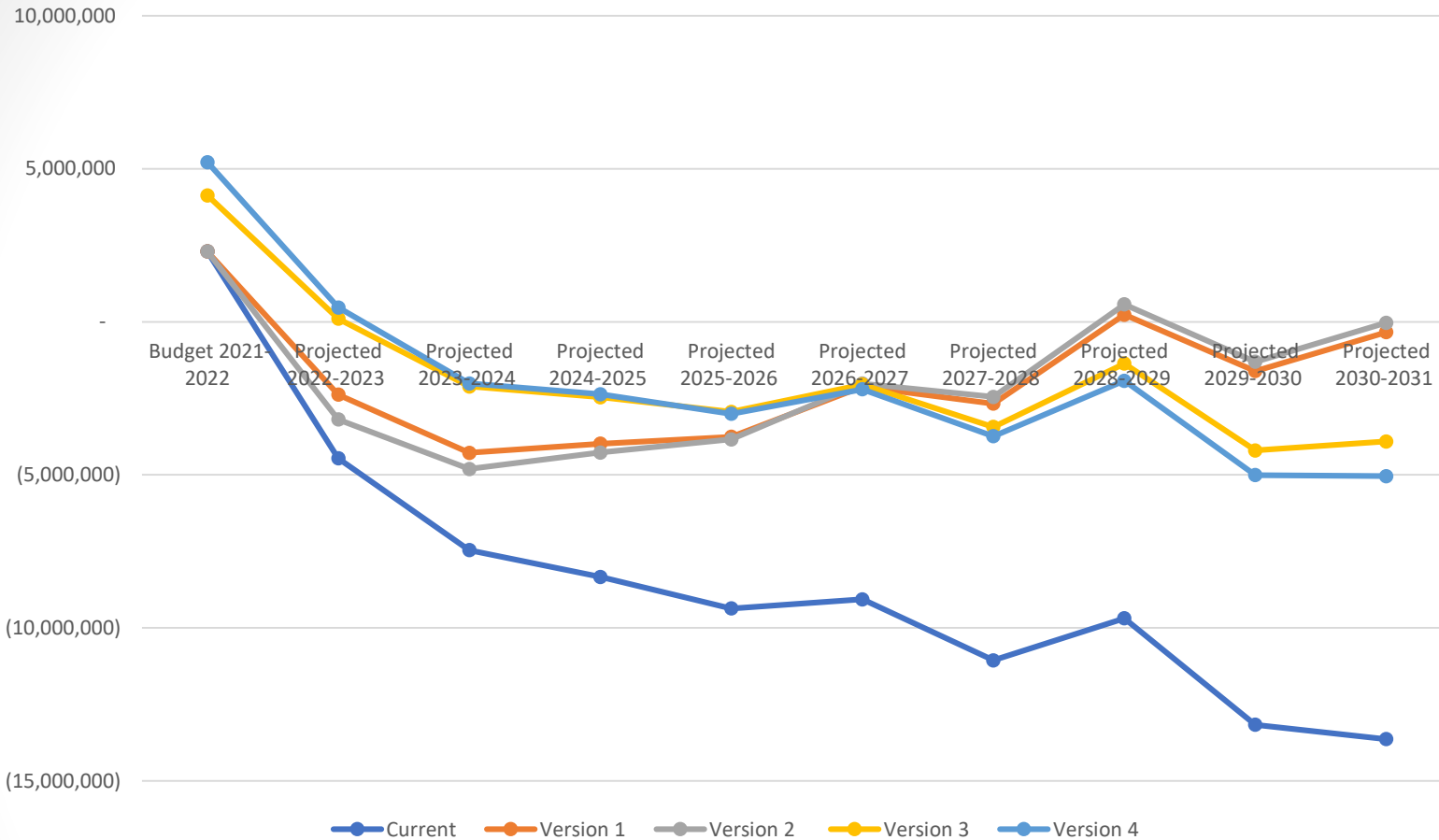
Version 1	Tax Increase 2.9% beginning 2022-23 (projected to exceed Act 1 Index)
Version 2	Expense decr of \$1.4 million annually (<1%) beginning 2022-23
Version 3	Revenue assumptions at pre-COVID levels beginning 2021-22; \$1 million exp reduction in 2022-23; tax increase: 0% in 2021-22, 2.9% in 2022-23, 2.3% all years after.
Version 4	Revenue assumptions at pre-COVID levels beginning 2021-22; \$200,000 (<.11%) expense decr annually beginning 2022-23; tax increase: 1% 2021-22, 2.9% in 2022-23, and 2% all years after.

Unassigned Fund Balance



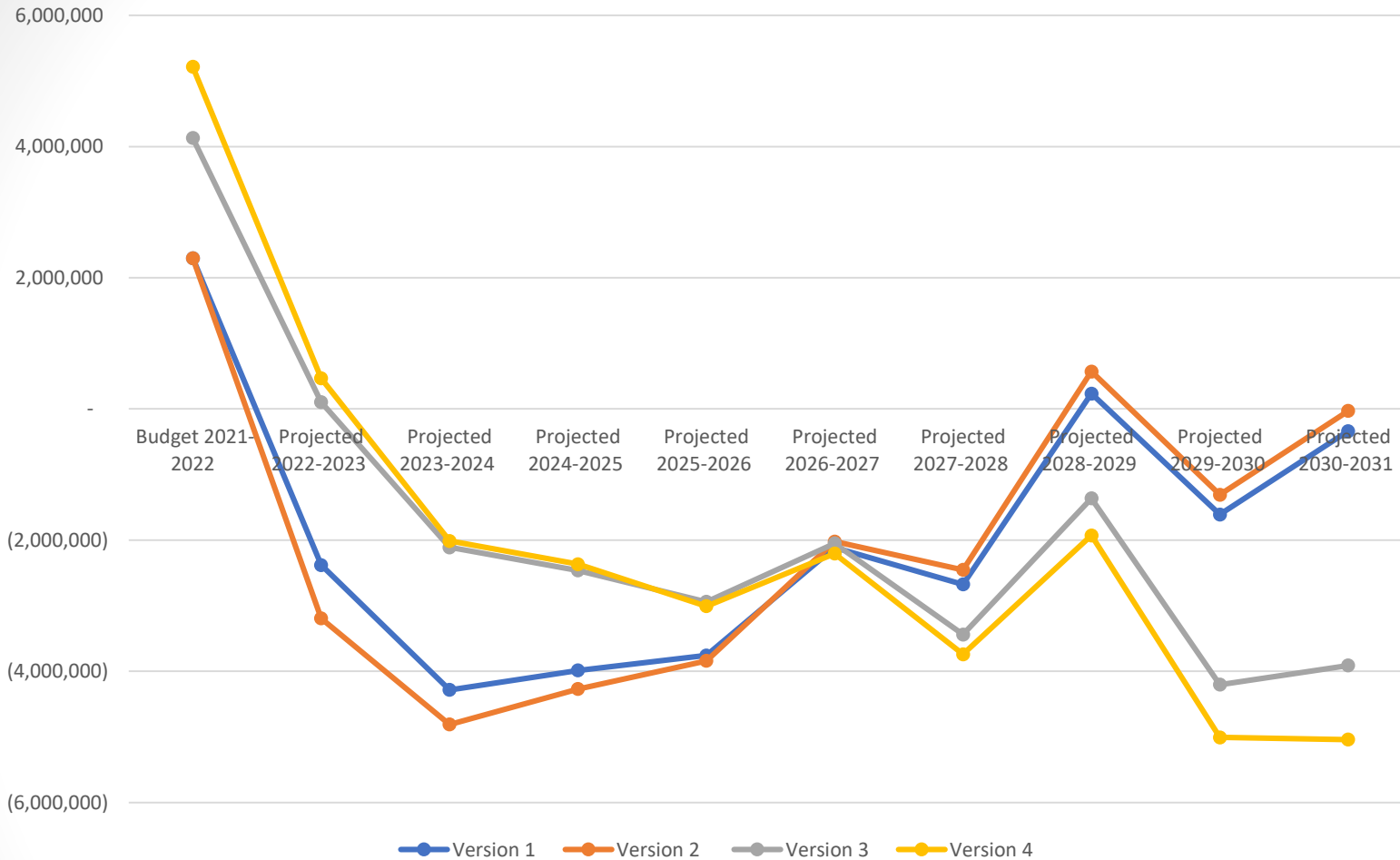
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Revenue Minus Expense



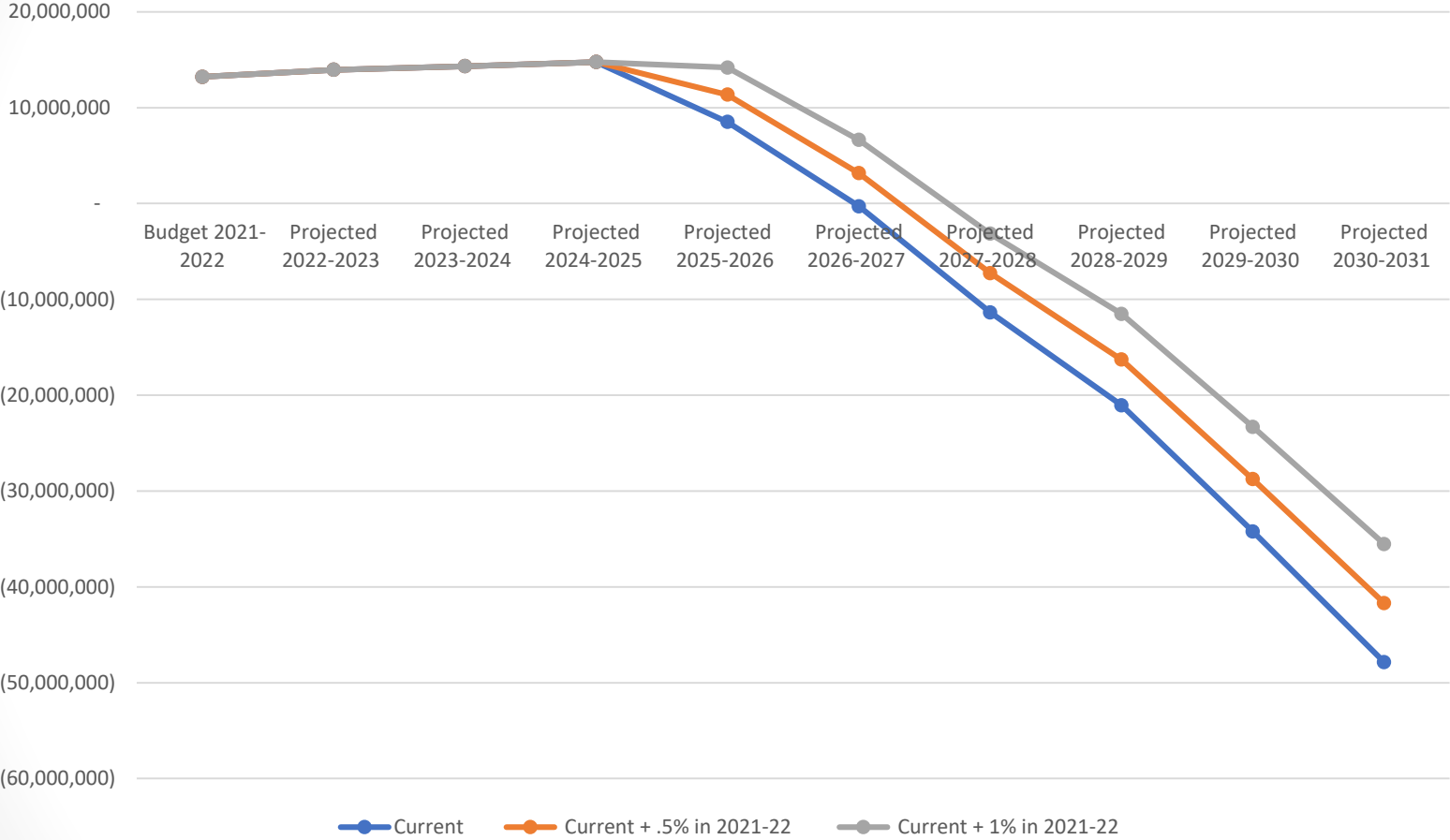
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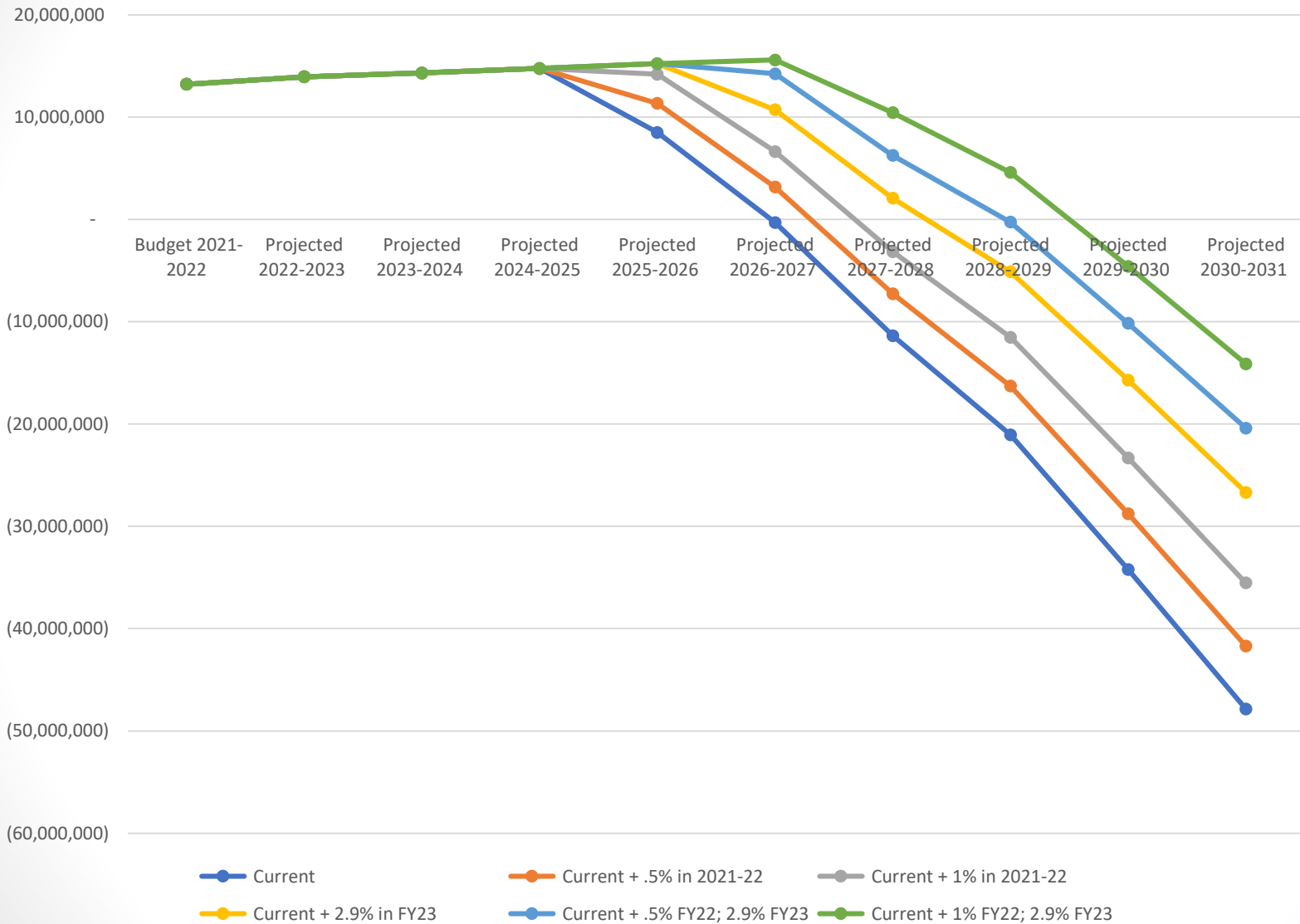


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Unassigned General Fund Balance



Unassigned Fund Balance



Questions

State College Area School District

