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To: Mike Hardy

From: Jeffrey Ammerman

RE: Budget Work Session

Date: March 25, 2011

In advance of Governor Corbett releasing his budget, Charles Zogby, Pennsylvania's Budget Secretary, stated "The day of reckoning has arrived." His words foreshadowed a cut of over \$1 billion to public education statewide. Our share of the reduction was over \$2.6 million from five line items in the State Budget. Coupled with a loss of an additional \$900,000 of direct federal funds, the District has lost nearly \$3.5 million in revenue from state and federal sources from the amount contained in the 2010-11 Budget.

At the same time, our pension costs will begin to soar. Our net share of the increase in 2011-12 is over \$900,000. Health care costs will jump by over \$1.5 million. The Act 1 index is 1.4%. That allows for a tax increase of about \$1 million. This is barely enough to cover the PSERS increase and does not provide any additional money to cover increases in any other expenses or any lost revenue. Even with Act 1 exceptions, should they still be available after the Governor alluded to his desire to limit them in his budget address, the District can only generate an additional \$1.9 million in tax revenue by raising taxes by 4%. The Act 1 index is projected to be no higher for 2012-13, so we have a situation that will persist for a number of years.

The preliminary budget passed in February showed the impact of continuing down the same path the District had followed in the past. There was a multi-million gap between revenue and expenses. Following the release of the state budget, that gap grew even larger. If we continue to do the same things in the same way with the same cost increases, we have a gap of over \$7 million **AFTER** a 1.4% tax increase. Even if we had the taxing authority to raise that amount of money, **which we do not**, it would generate a total tax increase in excess of 11%. In this economy or perhaps more

appropriately in any economy, that is more than we would be willing to ask our community members to pay.

The School District Administrative Team (including central office, building level, and departmental staff) has been working to reduce expenses for a number of months. Last year we were able to go through this process and not have to furlough anyone. We left 18 positions unfilled through attrition. While we will continue to use attrition to aid with the process, this year the budgetary gap is so large that attrition alone will likely not be enough to close it. Furloughs must be considered. We did not make this decision lightly. We know the disruptive effect that furloughs have on the lives of our coworkers who are affected by them. All of these people are dedicated to serving our students either directly in the classroom or indirectly by supporting other District operations. This has not been a pleasant task for any of the people who have worked on it, but it is a necessary task. We can no longer afford business as usual. Unfortunately, the day of reckoning has arrived.

Preliminary Budget and Governor's Budget

The preliminary budget passed in February showed expenses of \$118 million and revenues of \$115.6 million for a gap of \$2.4 million. Quite a number of assumptions were contained in that version of the budget. Included among the assumptions were:

- 4% Real Estate Tax Increase (\$2.9 million)
- 1% Assessed Value Growth (\$700,000)
- 3.5% Salary Growth after "normal" attrition (\$2.1 million)
- 12% Growth in Health Insurance (\$1.2 million)
- \$2 million of PSERS pre-funding maintained in 2011-12
- \$1 million of capital projects moved back to the General Fund from the Capital Fund
- \$1.6 million Loss of State/Federal Revenue
- \$750,000 of one time revenue included in the overall revenue

The Governor's budget proposal would cost the District another \$1.9 million of state funds above the anticipated loss of \$1.6 million for total revenue loss of \$3.5 million. Additionally, the recent change to health care coverage by the Federal government will add approximately \$300,000 more of expense to that line item. **This would increase the gap to \$4.6 million. If no one-time money was used, the gap would grow to just over \$5.3 million and if the real estate tax increase was limited to the Act 1 index of 1.4%, the gap would be around \$7.3 million. If no real estate tax increase was levied, the gap would be around \$8.3 million.**

As we go through the budget process, we will need to review the PSERS pre-funding strategy and also discuss capital project funding and timing, but those items alone will not come close to closing the budgetary gap.

Salary Freeze Estimate

The Governor has called for public school employees to take a salary freeze for a year. The preliminary budget passed in February included an estimate of total salary increase at the historical growth rate of 3.5% after attritional savings due to lower salaried employees replacing higher salaried employees each year. If a salary line item were frozen at the 2010-11 level, it would be \$2,100,000 less than was in the preliminary budget. To show the effect of the projected cost of benefit growth alone, a salary freeze is shown below. There will be additional savings possible from employee turnover, but those numbers are not final at this time. The chart also shows taxing ability if the Act 1 Index remains at 1.4% and no exceptions are available in the future. The estimated health insurance increase has been raised from 12% to 15% going forward. Additional costs are attributed to benefit changes mandated by the Federal health care law.

Salary and Benefit Increases with Salary Frozen at 2010-11 Levels

Year	Annual Net Increase for PSERS	15% Increase in Health Insurance	Sum of Major Benefit Increases	Tax increase at 1.4% and 1% assessed value growth	Revenue Growth minus Expense Growth
11-12	895,172	1,500,000	2,395,172	1,700,000	-695,172
12-13	1,061,716	1,725,000	2,786,716	1,723,800	-1,062,916
13-14	1,335,323	1,983,750	3,319,073	1,747,933	-1,571,140
14-15	1,335,323	2,281,313	3,616,636	1,772,404	-1,844,232
15-16	904,094	2,623,509	3,527,604	1,797,218	-1,730,386

As demonstrated above, if we were limited to the current Act 1 index of 1.4% for the next five years, we will be unable to cover just the projected benefit cost increases in each of the next five years. This would not allow for growth in any other expenses. In 2011-12, we also have to overcome an additional loss of \$3.5 million of federal and state revenue as well as other cost related items.

Cost Reduction Items

A copy of items that came from the Cost Control Task Force is attached. These items reviewed both personnel and non-personnel areas. Some areas for Board discussion that may take place this evening include class size at the elementary level. Currently a Board guideline sets K-2 enrollment at 20-23 and 3-5 enrollment at 23-25. If that guideline were changed, it would impact staffing at the K-5 level.

Another item that was recommended for investigation last year, but was not implemented, was the idea of a participation fee for extra curricular activities. Some Board guidance about the desire to revisit this issue will be needed.

In addition to the forthcoming information that impacts the number of positions, administration is moving forward with a 5% reduction to all discretionary line items not related to personnel. This will allow for a reduction of non-salary related items by about \$500,000. This can be considered a starting point for non-salary related items. As we go through the budget process, this cut may be increased.

PSERS Pre-funding

The District has embarked on a pre-funding of the jump in the PSERS rate. This occurred when there was a very large jump scheduled for 2012-13. Last year, changes were made to the schedule of increases. The original scheduled jump and the jump as it is now projected from the revised schedule is below.

	Net Increase-Old PSERS Rate	Net Increase-Current PSERS Rate	Difference
11-12	1,582,358	985,210	-597,148
12-13	6,049,266	1,230,526	-4,818,740
13-14	1,272,144	1,616,754	344,610
14-15	885,660	1,725,158	839,498
15-16	284,775	1,327,005	1,042,230
16-17	217,546	625,035	407,489
17-18	161,623	620,462	458,839
18-19	115,196	699,634	584,438
19-20	84,080	659,583	575,503

The big jump in 2012-13 is now spread out over a much longer time frame. Our original plan was to build in a managed structural deficit when there was the more than \$6 million jump in 2012-13. The PSERS fund will have approximately \$8 million in it by the end of 2010-11. The fund grew faster than was planned because the State changed the PSERS contribution rate for 2010-11 after the District had to submit its budget. The preliminary budget for 2011-12 contains \$2 million of additional pre-funding, the same amount as was planned for 2010-11 before the rate drop.

Since the rate of increase is smaller, we will want to review our funding strategy for this item. We need not make the decision about this item on Monday night. It is being introduced as an item for further consideration based upon changes in the timing of funding these obligations.

The District also has an undesignated fund balance that is projected to be another \$8 million by the end of 2010-11. This is within the guidelines from PDE of less than 8% of the size of our budget. This amount is used to provide liquidity and flexibility in future decisions. While the size of the fund balance is larger than the budgetary gap, simply using this amount of money to fill the gap will cause the District to start 2012-13 at a large deficit that it would be unable to close in future years.

If \$7 million of fund balance was used this year, we would start next year with a \$7 million gap between revenue and expenses before any increase in expenses.

Capital Projects

In 2010-11, the District moved \$1 million of minor capital projects into the Capital Reserve Fund. The 2011-12 preliminary budget assumed these expenses were reincorporated into the General Fund. There is still more than \$5 million remaining in the Capital Reserve Fund and one time money from the sale of Boalsburg will generate \$750,000. A discussion about how best to fund the “minor” capital projects in 2011-12 will consider whether to continue to fund some of these items from the Capital Reserve Fund.

Summary

The District’s revenue dictates the District’s expenses. The range of recurring revenue available is between **\$110 million with no tax increase**, about **\$111 million with a 1.4% tax increase**, and just under **\$113 million with a 4% tax increase**. Expenses must be adjusted accordingly. The preliminary budget showed **\$118 million of expenses, including \$2 million of PSERS pre-funding, for operational expenses of \$116 million**. Implicit in that number was an assumed historical salary increase of 3.5%. All labor agreements will have expired on June 30, 2011 so the actual increase number is not currently determined. The big moving pieces to be determined will be salary levels, staffing levels, PSERS pre-funding level, capital project funding, taxation level and other revenue generating/cost saving measures.

Timeline

This is an extraordinary budget year and we need to take extraordinary steps to communicate with and listen to our community. The months of April and May will be dedicated to spreading the word and gathering feedback. Details of the how, where, and when will be provided in the near future. A proposed final budget must be passed by May 30 with a final budget in place by June 30.

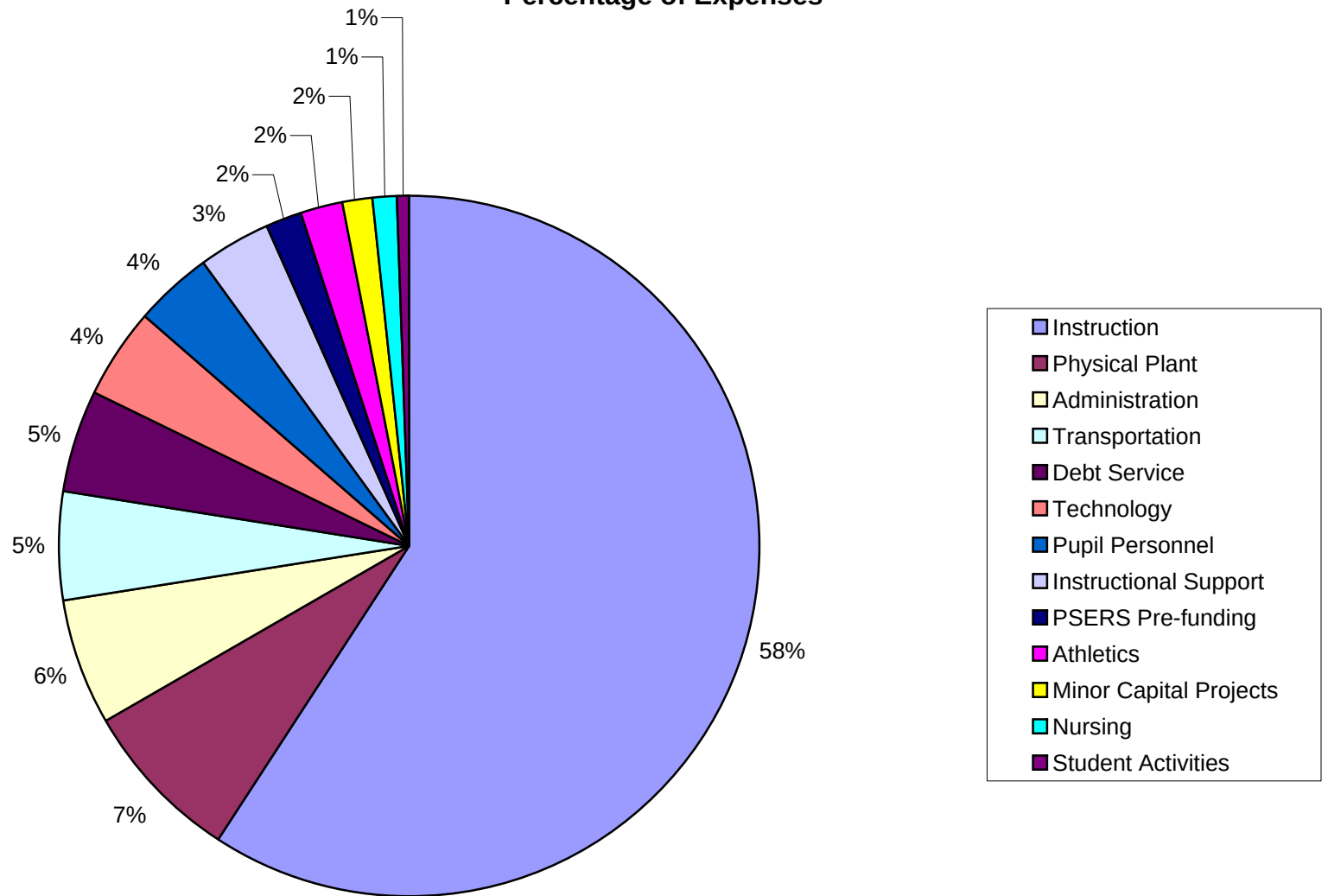
11-12 General Fund Budget	5% Sal Decrease from Prelim Budget	2010-11 Salary Level	3.5% Increase over 2010-11 Salary Level
Salaries	58,503,375	59,500,000	61,582,500
Health Insurance	13,444,000	13,444,000	13,444,000
Pension Costs	5,060,542	5,146,750	5,326,886
Social Security	4,475,508	4,551,750	4,711,061
Dental Insurance	850,000	850,000	850,000
Workers Compensation	600,000	600,000	600,000
Tuition Reimbursement	300,000	300,000	300,000
Other Benefits	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>
Total Benefits	24,930,050	25,092,500	25,431,948
 Everything Else	 29,300,000	 29,300,000	 29,300,000
PSERS Prefunding	<u>2,000,000</u>	<u>2,000,000</u>	<u>2,000,000</u>
Total Expenses	114,733,425	115,892,500	118,314,448
 Real Estate Tax (1.4% inc, 1% growth)	 76,000,000	 76,000,000	 76,000,000
Other Local	<u>17,230,000</u>	<u>17,230,000</u>	<u>17,230,000</u>
Total Local Revenue	93,230,000	93,230,000	93,230,000
 State Share of PSERS	 2,530,271	 2,573,375	 2,663,443
Other State Revenue	<u>13,804,100</u>	<u>13,817,780</u>	<u>13,846,580</u>
Total State Revenue	16,334,371	16,391,155	16,510,023
 Federal Revenue	 <u>1,300,000</u>	 <u>1,300,000</u>	 <u>1,300,000</u>
Total Revenue	110,864,371	110,921,155	111,040,023
 Revenue-Expense	 -3,869,054	 -4,971,345	 -7,274,424
Exceptions if available	<u>1,900,000</u>	<u>1,900,000</u>	<u>1,900,000</u>
Gap remaining	-1,969,054	-3,071,345	-5,374,424

Per Board Guidance
for Salary Reduction

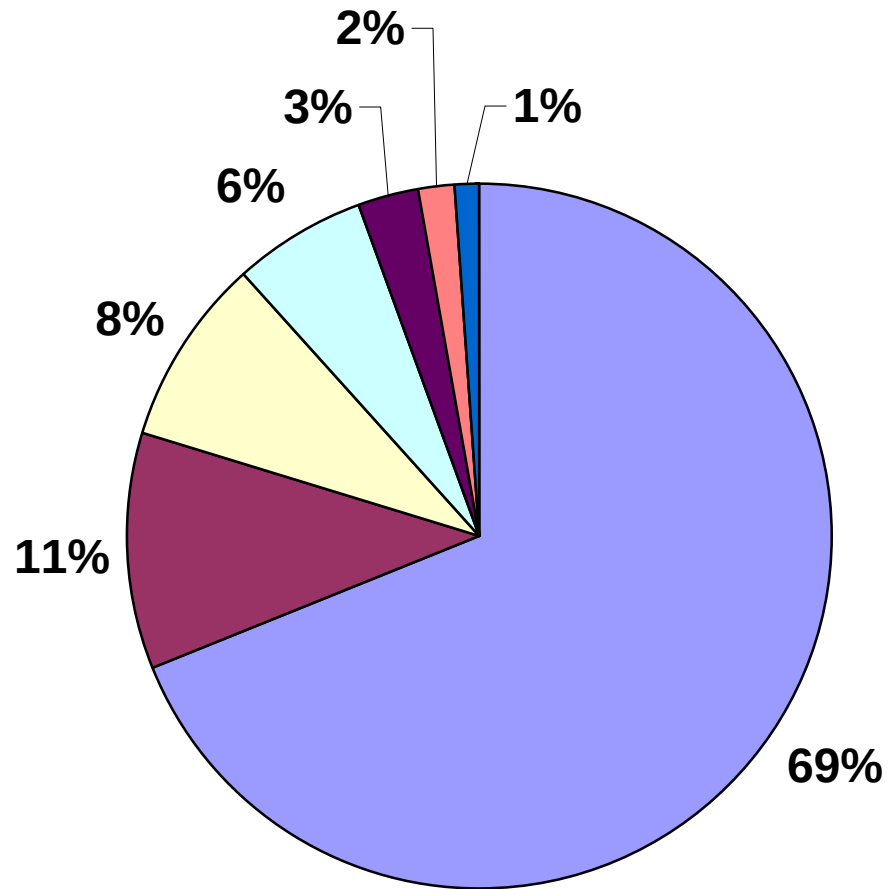
Salaries Frozen at
2010-11 Level

At Historical Growth
in Salaries

Percentage of Expenses



Percentage of Salary by Position



-  **Teachers**
-  **Clerical/Paraprofessionals**
-  **Physical Plant/Bus Drivers/Supervisors**
-  **Administrators**
-  **Substitutes/Others**
-  **Extra Curricular/Athletics**
-  **Tech Specialist/Managers**

Cost Control Suggestions 2011-12

Strategies grouped by category and sorted by savings and complexity estimate:

1=High Savings, Low Complexity

2=High Savings, High Complexity

3=Low Savings, Low Complexity

4=Low Savings, High Complexity

?=More details needed

PERSONNEL

Attritional savings from staff turnover	1
Constraints on hiring budget for new staff	2
Increased employee contributions and deductibles for benefits	2
Reduce In-service during the school day that requires a substitute	2
Have administrators share buildings	2
Offer early retirement incentive of paid health ins to 65	3
Flexible scheduling of custodians for after school activities	3
Mandatory direct deposit	3
Electronic pay stubs	3
Consortium purchasing of health insurance	4
Use existing staff who have free periods to cover 1 class absence	4
Have administration covers classes	4
Incentive for not enrolling in health insurance benefits	?
Wellness program to decrease absenteeism	?
Moratorium on overtime	?
Minimize sick leave usage report to via phone to imm. supervisor	1 or 3
Reduce level of service for noncore function (in-house)	1 or 3
Outsourcing noncore function	2 or 4
Equitable contracts	2 or 4

TECHNOLOGY

Use open source software	1
Lease technology equipment	3

MISCELLANEOUS

Increase class size guidelines	2
Charge for activities or athletics	2
Use website for student/staff forms	3
Reduce mailings	3
Eliminate duplicate files replace with electronic versions	3
Reduce phones/cell phones	3
Donated drivers education car	3
Local purchases of supplies when cost is lower	3
Adopt a school by community members	?
Community group fundraisers for supplies, field trips	?

FACILITIES

Consider building size when upgrading current buildings	2
Centralized building use for after school activities	3
Energy savings and contracts for purchasing utilities	3

2011-12 District Budget Overview

March 28, 2011

Act 1 Index

- Act 1 Index : 1.4%
- 1.4% tax increase = \$1,000,000
- Average increase to homeowner=\$35
- 1% assessed value growth= \$700,000
- \$1,700,000 of increased real estate tax at index

Exceptions

- \$1.9 million additional with Act 1 exceptions
- 4% tax increase with exceptions
- \$100 tax increase to average homeowner
- \$3.6 million maximum growth of real estate tax

Index and Budget History

Year	ACT 1 Index	SCASD Real Estate Tax Increase	State Basic Education Funding Increase
2010-11	2.9%	3.0%	2.0%
2009-10	4.1%	3.3%	2.0%
2008-09	4.4%	3.7%	3.0%
2007-08	3.4%	-0.5%	2.1%
2006-07	3.9%	3.8%	3.4%

2011-12 Revenue

- State decrease: \$2,600,000
 - Charter school reduction: \$ 850,000
 - Social security reduction: \$ 900,000
 - ABG reduction: \$ 350,000
 - Basic Education reduction: \$ 500,000
- Direct federal decrease: \$ 900,000
- State/Federal decrease \$3,500,000

More to come

- Governor has hinted he may try to eliminate exceptions
- Act 1 Index 2012-13 likely less than 1.4%
- Systemic and ongoing financial challenges

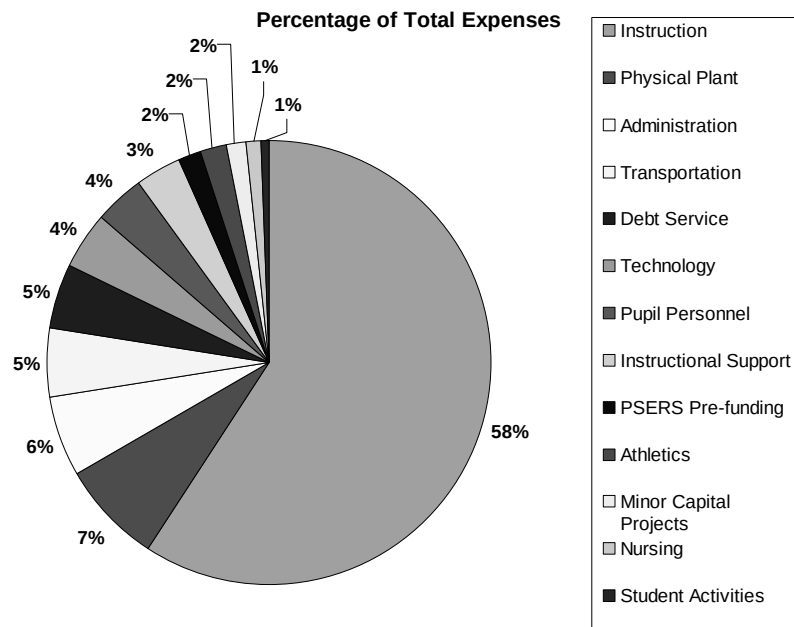
% Tax Increase		Total Real Estate Revenue	Additional real estate revenue	Tax Increase to Average Homeowner
4.0%	All Exceptions	\$75,499,837	\$3,642,810	\$100
2.7%	PSERS Exception	\$74,534,837	\$2,677,810	\$68
1.4%	No Exceptions	\$73,612,163	\$1,755,136	\$35
0.0%	1% assessment growth	\$72,581,777	\$724,750	\$0
Current Real Estate Revenue		\$71,857,027		

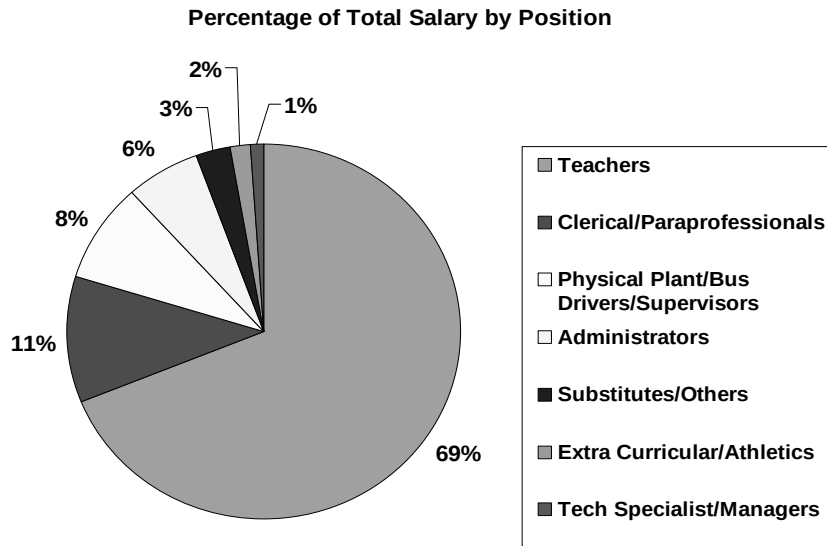
Budget Timeline

- Proposed final budget: by May 30, 2011
- Final budget: by June 30, 2011
- Discussions of cuts continuing through June
- Community meetings: To be scheduled

Guidelines for Prioritization

- Steps to be taken:
 - Zero-based review of positions
 - Administrative restructuring
 - Fee schedules
 - Capital project funding
 - Program review
- Outside classroom first
- Inside the classroom too





Budget Items

- Cut funding for non-salary items by 5%
- Class Size
- Determine if participant fee discussion will be reintroduced
- PSERS pre-funding
- Capital Project Funding
- Staff reduction

Preliminary Budget Assumptions

- Net 3.5% salary increase
- Maintained \$2 million of PSERS pre-funding
- Move \$1 million capital expense back to General Fund
- State/Federal Revenue Decrease \$1.7 million (before additional PSERS revenue)
- Included \$750,000 of one time revenue
- 4% Real Estate Tax Increase
- Gap of \$2.4 million

Revised Numbers

- Additional \$1.9 million reduction in state funding in Governor's Budget
- \$300,000 greater health insurance increase
- \$4.6 million gap if Governor's budget passes
- \$5.3 million gap with no one time money
- \$7.3 million gap with a 1.4% tax increase
- \$8.3 million gap with no tax increase

Salary Freeze

- Governor suggested a 1 year salary freeze
- \$2.1 million less than 3.5% increase in preliminary budget
- Further savings possible if coupled with attrition

Staff Reductions

- Consider staff reductions
- Outside of classroom first
- Must consider classroom too
- Majority of expense in classroom
- Use voluntary turnover where possible
- Furloughs needed to close gap

Potential Furloughs

- District-wide review
- At all levels
- Salary reduction target of \$3 million
- Some are contingent upon PDE approval
- Details to come at next meeting

Other Items

- Discuss PSERS pre-funding going forward with new increase timeline
- Funding of minor capital projects
- Participant fees
- Class size
- Taxation level
- Fund Balance
- Future Years

PSEERS Pre-funding

- Over \$6 million jump in 12-13 delayed
- Consider new funding strategy
- May impact the level for 2011-12
- Currently maintained at \$2 million
- Discuss whether to maintain or decrease

Minor Capital Projects

- \$1 million to Capital Reserve in 10-11
- Reincorporated into General Fund for 11-12
- \$5 million remains in Capital Reserve
- Discuss keeping in Capital Reserve for another year
- Upcoming debt issuance another option

Participation Fees

- Fees for extracurricular activities were not implemented last year
- Discuss whether to revisit this issue for 11-12
- Discuss the level of fee

Class Size

- Elementary guidelines in Board Policy
 - 20-23 K-2
 - 23-25 3-5
 - 24-27 6
 - No guidelines for 7-12
- Discuss desire to consider changes
- Policy change would be needed

Taxation Level

- Proposed Final Budget due by end of May
- Each 1% tax increase generates more than \$700,000
- Taxation level ultimately decides expense level
- Board guidance sought in the near future

Fund Balance

- Structural deficit hard to close
- Delaying, not avoiding, hard decisions
- If \$3 million of fund balance used this year, next year start with \$3 million deficit
- Better used for one time expenses

Future Years

- Act 1 Index could be lower in 2012-13
- Facing more difficult decisions ahead
- Employee benefits alone growing more than Act 1 index tax increase level
- Other expenses grow too
- Will more state/federal revenue go away in future years?

Costs of Major Benefits Only

Year	Annual Net Increase for PSERS	15% Increase in Health Insurance	Sum of Major Benefit Increases	Tax increase at 1.4% and 1% assessed value growth	Difference
11-12	895,172	1,500,000	2,395,172	1,700,000	695,172
12-13	1,061,716	1,725,000	2,786,716	1,723,800	1,062,916
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14-15	1,335,323	2,281,313	3,616,636	1,772,404	1,844,232
15-16	904,094	2,623,509	3,527,604	1,797,218	1,730,386

Summary

- Loss of state/federal revenue in excess of \$3 million
- Benefit increases in excess of \$2 million
- Act 1 index tax increase only generates \$1 million
- Challenging economy leads to challenging decisions
- Full details at next meeting