

State College Area School District

**2011-12 Preliminary
General Fund Budget**

Agenda Item VI-C

January 10, 2011

Introduction

The District has two options as it relates to an initial budget for 2011-12. The District can adopt a resolution limiting real estate tax increases to no more than the Act 1 limit of 1.4%. If this route is chosen, that resolution must be adopted by January 27, 2011. The District can instead prepare a preliminary budget which would need to be adopted by February 16, 2011. To maintain flexibility, a preliminary budget has been prepared for this evening. At this point there are many unknowns that will become clearer as June approaches. With an Act 1 index of 1.4% and a significant jump in the PSERS rate, it may be necessary to have some taxing flexibility above the index, if needed. It is not possible to apply for exceptions after the preliminary budget process. Final budgetary decisions need not be made in February. Many items will become clearer as time moves along.

The preliminary budget must be prepared on PDE Form 2028 and presented for public inspection at least 20 days prior to adoption. The form was just released on January 5th. The preliminary budget itself on Form 2028 will be distributed separately from this document to allow time for it to be fully and completely reviewed. The goal would be to adopt a preliminary budget at the February 14, 2011 Board meeting. While the exception system is not currently available at this time, it would appear the maximum tax increase available with exceptions is around 4.0%.

To begin to develop the 2011-12 preliminary budget with so many unknowns, it is best to start with the adopted 2010-11 budget and make some conservative assumptions about what may happen in 2011-12. Most of these assumptions can be replaced with actual numbers when they become available. Final adoption of the official budget is not required until June 30, 2011, which allows for a great deal of time to make adjustments and have discussions about changes that may need to occur.

Revenue Items

Total budgeted revenue in 2010-11 was \$112.8 million. Included in that amount was approximately \$800,000 of money from the state that will not be received because the PSERS rate was lowered after the adoption of the District's budget. Since the state pays half of the cost of PSERS, the lower rate will mean lower revenue; it will also mean lower expenses in 2010-11. Investment income will likely not hit its target as short term interest rates have fallen to very low levels. An estimated decrease of \$300,000 is anticipated here. Revised budgeted revenue for 2010-11 is \$111.7 million.

Federal stimulus money is set to go away in 2011-12. This will cause a loss of about \$700,000 in direct District money. Additionally, the State's Basic Education Funding contains another \$700,000 of stimulus funding. It is not clear what the new Governor will propose as it relates to Basic Education Funding, but a conservative estimate would assume the District's appropriation would decrease by \$700,000. In total the loss of Federal Stimulus could lead to a \$1.4 million decrease in revenue over the 2010-11 budgeted amounts.

On the positive side, the District will receive a one-time payment of \$750,000 from the sale of Boalsburg Elementary. The District will at some point also receive a one-time payment from the Federal Edujobs funds. That amount remains very unclear at this time, however, a very rough estimate for budgeting purposes would be \$250,000. The PSERS rate is set to climb in 2011-12, which will generate approximately \$1 million more state revenue. PSERS expense will grow as well. Finally, it appears we are on track for about 1% growth in assessed value, which should generate approximately \$700,000 of revenue. Adding up the positives, without considering any change in tax rates, an increase in revenue of \$2.7 million is estimated.

Total estimated revenue assuming no growth in other revenue sources than what is listed above and a conservative view of state funding would be as follows:

2010-11 Revised Budgeted Revenue	\$ 111.7 million
2011-12 Federal Stimulus Losses	-\$ 1.4 million
2011-12 Revenue Growth	<u>+\$ 2.7 million</u>
2011-12 Revenue Before Tax Changes	\$ 113.0 million

The final piece of the revenue puzzle will then be determined by the 2011-12 tax rate. The Act 1 index is 1.4%. An increase in real estate millage by that amount will generate approximately \$1 million in additional revenue. The maximum amount the District could raise real estate taxes without going to referendum appears to be 4.0%. Going to that level of increase would generate approximately \$2.9 million of additional revenue. Without going to referendum or using fund balance, the District cannot have expenses which are greater than \$115.9 million if all of the assumptions about revenue hold. As time goes on, the reality of those assumptions will become clearer.

Expenses

Total budgeted expenses for 2010-11 are \$113.7 million. Included within that number was a one-time expense for a tax appeal settlement of \$650,000. Also included in those expenses was a PSERS rate of 8.22%, which was later lowered by the State to 5.64%. This lowered PSERS expense by approximately \$1.6 million. The budget additionally contains \$2 million of pre-funding for the PSERS rate jump that will come in future years. Additional expense of \$300,000 was needed to fund smaller class sizes after the budget was approved. Additionally, in 2010-11, \$1 million of "minor" capital projects were moved from the General Fund to the Capital Reserve Fund. In order to simplify true operating expenses for 2010-11 and carry them forward to 2011-12, the following chart may prove helpful:

2010-11 General Fund Total Expenses	113,700,000
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Less:

One time tax appeal settlement	-650,000
PSERS due to lower rate	-1,600,000
PSERS pre-funding	-2,000,000

Plus:

Additional staffing for class sizes	300,000
Reincorporating "minor" capital projects into the General Fund	<u>1,000,000</u>

2010-11 Adjusted Operating Expenses	110,750,000
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As the District moves into 2011-12, all of its agreements with employee groups will have expired. In order to have a starting place for a preliminary budget, a snapshot of increases that have occurred in the most recent past will be used. Since salary and benefits are by far the largest category of expenses within the budget, assumptions about this line item will have the most impact.

In the recent past, after accounting for salary savings from salary differentials due to staff turnover, salary growth on average has been around 3.5%. Using that as a base, the chart on the following page shows the impact of salary and benefit changes both in 2011-12 and into the future.

Year	PSERS Rate	Salary Total at 3.5% Growth	Gross Increase in PSERS	Salary Increase at 3.5% Growth	12% Increase in Health Insurance	Sum of Salary and Major Benefit Increases
10-11	5.64%	59,479,881				
11-12	8.65%	61,561,677	1,970,420	2,081,796	1,200,000	5,252,216
12-13	12.22%	63,716,336	2,461,051	2,154,659	1,344,000	5,959,710
13-14	16.71%	65,946,407	3,233,508	2,230,072	1,505,280	6,968,860
14-15	21.20%	68,254,532	3,450,316	2,308,124	1,685,914	7,444,354
15-16	24.24%	70,643,440	2,654,009	2,388,909	1,888,223	6,931,141
16-17	25.13%	73,115,961	1,250,071	2,472,520	2,114,810	5,837,401
17-18	25.92%	75,675,019	1,240,924	2,559,059	2,368,587	6,168,570
18-19	26.83%	78,323,645	1,399,269	2,648,626	2,652,818	6,700,712
19-20	27.55%	81,064,972	1,319,166	2,741,328	2,971,156	7,031,649

For 2011-12, the impact of salary and benefit changes with these assumptions would be around \$5,250,000. Note that the PSERS change is shown as a gross change because the state's share of revenue was accounted for in the revenue discussion above. Adding this amount to the adjusted operating expenses above generates a sum of \$116,000,000. To reiterate, the \$116,000,000 contains no increase in any other expense items besides salary and benefits. It also does not contain any PSERS rate jump pre-funding. If the \$2 million level of PSERS pre-funding from 2010-11 were to be added back, the new total would be \$118,000,000.

While at this time we are only considering the 2011-12 preliminary budget, a review of the longer term picture indicates additional challenges as the District would have difficulty in generating the additional revenue needed to cover the costs of existing salary and benefits even with exceptions unless there is a return to more substantial assessed value growth. There are no Act 1 exceptions available for health insurance or salary increases, only PSERS rate increases above the Act 1 index.

In the preliminary budget, debt service and facilities funding will be held constant from the amount in the 2010-11 budget. This will be a source of discussion as we consider our options on Memorial Field and more broadly about funding of facilities in general. There is the potential that debt service will be lower in 2011-12 than in 2010-11 and that will become clearer when we issue a debt refunding and new debt to finish the elementary projects later this Spring.

Summarized Picture of 2011-12 Preliminary Budget

Revenue estimate with a tax increase at the Act 1 Index (1.4%)	114,000,000
Revenue estimate with a tax increase with all exceptions (4.0%)	115,900,000
Expense estimate with only increases in salary (3.5% salary increase) and benefits and removal of any PSERS pre-funding	116,000,000
Expense estimate with only increases in salary (3.5% salary increase) and benefits and maintaining PSERS pre-funding	118,000,000

The prepared preliminary budget includes maintenance of the PSERS pre-funding and a tax increase including all exceptions. As it is presented, it would require a \$2.1 million use of fund balance with expenses of \$118 million and revenues of \$115.9 million. This starts to delineate the decisions that will be facing the District as it moves toward adoption of the final budget in June. The District will need to prioritize its current expenditures in a way that will limit growth as much as possible while also keeping a long term view of future costs that impact the budget.

To reiterate, this preliminary budget was assembled with many conservative assumptions. The final adopted budget will differ from this one as more information allows those assumptions to be refined. It is clear, however, that both for this year and for the coming years, the District will need to consider ways to reduce growth in expenses.

Cost Reductions

Last year the District went through an extensive cost control exercise. The Board provided guidance last year on ways to control spending. The guidance from last year and Cost Control strategies from last year are included again for review. An initial meeting of the Cost Control Task Force was held earlier this year and the District will continue the Cost Control process as it moves toward final budget adoption in June.

The chart below will be updated in the coming weeks to represent the 2011-12 budget, but for now it represents major functional areas of expense for the District contained in the adopted 2010-11 budget. As we consider cost reductions and the concentric circles model, this should help with understanding the impact of reductions within each area.

Major Budget Categories from 2010-11 (Rounded)

Category	Amount	%
Instruction	66,400,000	59%
Physical Plant (day to day)	8,500,000	8%
Debt Service	5,800,000	5%
Transportation	5,700,000	5%
Administration	5,700,000	5%
Technology	4,900,000	4%
Guidance/Student Services	4,000,000	4%
Library/Curriculum/Staff Dev	3,900,000	3%
PSERS Pre-funding	2,000,000	2%
Athletics	1,900,000	2%
Nursing/Medical Services	1,600,000	1%
Business Functions	1,000,000	1%
Physical Plant (capital projects)	900,000	1%
Student Activities	700,000	1%
Total	113,000,000	

Board Guidance from 2010-11

1. Prepare a list of programs that should be reduced or eliminated because they lack student interest and/or educational viability in the 21st century.
2. All positions held by retiring and resigning employees will be subject to zero-based review. Possible restoration of these positions will be considered by the board on a case-by-case basis, with justification provided by the Superintendent.
3. The Superintendent will prepare an administrative/organizational review with the goals of improving the quality and efficiency of educational delivery.
4. Prepare a fee schedule that reflects reasonable cost sharing by parents. Opportunities for public comment will be provided.
5. Prepare draft policies and procedures that distinguish between renovation and capital improvement, with the goal of identifying odest projects that would be funded more appropriately through bond proceeds rather than the general operating budget.
6. If these and ongoing cost control efforts fail to close the projected budget gap, an across-the-board budget reduction may be implemented in FY 12.

2010-11 Cost Control Strategies

Discussed and accepted for 2010-11

Reduce electricity budget due to lower cost estimate and cooperative purchasing
Reduce administrative salary increases from 4% to 1.5%
Reduce dental insurance budget based on self funded historical savings
Restructure administrative team
Renegotiate contract terms with bus contractors
Increase fees for building use
Restructure late bus run
Decrease coach bus transportation based upon travel distance
Reduce elementary supply budget due to parent provided supplies
Reduce HS operations budget outside of the classroom
Reduce LE Operations budget outside of the classroom
Reduce tech maintenance contracts
Charge a \$50 fee for Driver Education
Reductions to Community Education budget
Replace MS Office at elementary/middle levels with open source and free software
Eliminate unit planning meetings
Replace VLN with existing virtual education program in use at High School
Reduce telephone operations budget because of VOIP lower costs
Increase student parking fees by \$10/semester
Decreased paper use
Eliminate 18.25 positions through attrition
Reduce debt service increase due to lower interest rates
Move "minor" capital projects to Capital Reserve fund
Savings from Copier RFP
Liability and Workers Compensation Insurance Savings
Fewer field trips

Not Recommended for 2010-11

Increased class size at elementary schools
Fees for student activities/sports
Major cuts to academic programs
Increase walking distance to state maximums for bus transportation
Cuts to classroom supplies, equipment, technology
Reduction in the number of student activities

Continuing strategies for 2011-12

Attritional savings from employee turnover
Further energy savings
Expansion of open source and free software
Technology plan review for potential equipment savings