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To: Mike Hardy

VI-C

From: Jeffrey Ammerman

RE: 2011-12 Preliminary Budget

Date: December 2, 2010

Attached is a Powerpoint presentation regarding the state of the 2011-12 Preliminary Budget. At this point in time, a great deal of uncertainty still remains about some significant portions of the budget. In addition to the presentation, supplemental documents will be provided prior to the end of the weekend.

2011-12 District Budget Overview

December 6, 2010

Act 1 Index

- The Act 1 Index for SCASD in 2010-11 is 1.4%
- This is the percentage that the property tax rate can be raised without applying for exceptions
- A 1.4% tax increase would generate approximately \$1,000,000 of additional tax revenue and cost the average home owner approximately \$35.
- A 1% assessed value growth would increase tax revenue by an additional \$700,000

Act 1 Index

- Applicable exceptions available for real estate tax increases above the Act 1 Index for SCASD
 - Special Education Expenditures above the index
 - Debt Service Exception
 - Retirement Rate Increases above the index
 - Maintenance of certain revenue sources at index amount
 - Maintenance of expenses per ADM at index amount

Exceptions

- It appears the District will qualify for two Act 1 exceptions, one for the PSERS rate increase, one for special education expenses growth greater than 1.4%. Each allows for just over \$900,000 of additional revenue (\$1.8 million in total).
- Total Board taxation authority with the Act 1 Index and Exceptions is approximately a 4% real estate tax increase.

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%

Other Issues

- Health insurance costs are capped at a 12% maximum increase through 2011-12. Even with the cap, that could generate an additional \$1.2 million in expense.
- All salary agreements have expired or will expire by June 30, 2011.
- Pension reform has been signed into law; funding strategy may need to be revised

Revenue Outlook

- Each 1% of assessed value growth generates about \$700,000 of additional tax revenue; through November, assessed value growth was about .5% over June 2010
- Interest income is running behind budget and will remain low until interest rates rise.
- EIT growth in 2011-12 will depend on economy and salary decisions by major employers
- Direct District federal stimulus money of \$700,000 will go away after 2010-11 budget year
- State funding could possibly decrease by \$700,000 if Federal stimulus funding used for Basic Education Funding is not replaced by State Funds.

% 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 Summary

- Maximum additional real estate tax revenue under Board control of \$3.6 million with 4% tax increase
- Potential loss of stimulus funds of \$1.4 million
- \$2.2 million to cover all increased expenses at a 4% tax increase
- Health insurance increase will likely consume \$1.2 million of increased expenses

Budget Summary

- \$1 million to cover remaining expense increases with a 4% tax increase
- A 1.4% tax increase (at the Act 1 limit without exceptions) leaves a \$1 million shortfall before remaining expense increases
- Debt service has not been finalized, but there may be some savings in this area after final bonds for elementary projects are issued.

Revenue Summary

- One time revenue from sale of Boalsburg provides \$750,000 will provide some additional funds that will not recur
- One time revenue from Federal Edujobs program is also supposed to be forthcoming. Details have been hard to determine on that program.

Revenue Estimate

- District revenues are estimated between \$113,000,000 with no tax increase and 1% assessed value growth and \$116,000,000 with a 4% tax increase and 1% assessed value growth.
- Expenses will need to be adjusted accordingly
- Adopted budget in 2010-11 had expenses of \$113,600,000. This included a one time provision of \$600,000 for a tax appeal settlement and \$2 million of PSERS pre-funding.

Items of Discussion through June

- Cost reductions/revenue enhancements
- Funding structure of “minor” capital improvements. \$1 million of these types of projects were funded from the Capital Reserve Fund in 2010-11.
- Remaining debt issuance and impact
- Review of PSERS pre-funding strategy

Courses of Action

- Approve a resolution limiting tax increases to the Act 1 index and resume “normal” budget schedule (maximum of 1.4% tax increase).
- Prepare a preliminary budget which is balanced by allowable exceptions under Act 1 and submit those exceptions to PDE for approval (appears to be a maximum tax increase of about 4.0%)
- Prepare a preliminary budget which is balanced only by a tax increase above the Act 1 index and allowable exceptions that is taken to a referendum vote in the primary election (tax increase in excess of 4.0%)

Budget Decision Timeline

- By January 27, 2011, a resolution adopting a tax increase limit of 1.4% must be passed or a preliminary budget must be prepared.
- If preliminary budget option is selected, preliminary budget must be adopted by February 16, 2011.
- Preliminary budget must show all exceptions that are needed to make budget balance.
- Changes can be made to final budget adopted in June, but there can be no additional exceptions pursued after preliminary budget adoption.

Budget Timeline

- After the February decision, District must adopt a proposed final budget by May 30, 2011 and a final budget by June 30, 2011. Final budget can vary from the preliminary budget adopted in February.
- Last year, District adopted a preliminary budget including all exceptions and reduced the budget throughout the Spring
- Methodology provides maximum flexibility as some cost and revenue items become clearer

Guidelines for Prioritization

- District will need to take the approach that a prioritization of expenditures will take place in all areas.
- Last year's guidance included:
 - All positions held by retiring and resigning employees will be subject to zero-based review.
 - Preparation of procedures that distinguish between renovation and capital improvement, with the goal of identifying projects that would be funded more appropriately through bond proceeds.

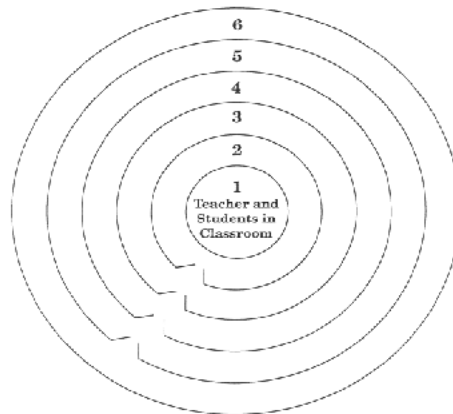
Guidelines for Prioritization

- Preparation of an administrative/organizational review with the goals of improving the quality and efficiency of educational delivery.
- Preparation of a fee schedule that reflects reasonable cost sharing by parents.
- Preparation of a list of programs that should be reduced or eliminated because they lack student interest and/or educational viability in the 21st century.

Guidelines for Prioritization

- Board and administration members have been learning about concentric circles model
- Model is presented on the next page
- Methodology for Budget Reduction

Concentric Circles for Expenditures



- 2 = School-Based Instructional Support
- 3 = School-Based Operations Support
- 4 = District-Level Instructional Support
- 5 = District-Level Operations Support
- 6 = Other District Programs

Concentric Circles

- Six Circles
 - At Center is Circle #1
 - Educational Mission of District
 - Succeeding Circles move farther away from Core Mission # 2 & 3 School-level Support
 - Instruction, Operations
 - #4 ,5 & 6 District-level Support
 - Instruction, Operations, Other

Methodology

- Looking for budget reductions start at outside circle #6. Find all feasible reductions here.
- Then move one circle at a time toward center
- Look to make cuts away from center
- Look hardest and first to outer circles for cuts
- Some necessary activities in all circles. Can't eliminate all expenditures in circles 6 and 5 before going to circle 4

Prioritization discussion

- Using the concentric circles approach coupled with Board guidance to establish budgetary priorities
- Recognize that salary and benefits compromise more than 70% of District expenses
- Use attrition and hiring strategies that can create long term budgetary savings while preserving the excellence of the core mission of the District.