

General

What is the current West Chester Area School District budget?

The West Chester Area School District's budget for 2010-11 is \$203,076,641, which included a 2.8% tax increase over the previous year.

What is the projected expenditure budget for 2011-12?

The projected expenditure budget for 2011-12 as of March 2011 was \$205,029,200. This is an increase of \$1,952,600 or 1% over the current year budget.

Why are the school district's costs going up?

While costs in certain areas have increased, the district's budget gap is being caused to a much greater degree by the poor economy – specifically the collapse of the real estate market. Revenue from real estate sources has dropped dramatically, far more than the percentage of cost increases. A school district is subject to the same economic forces that any organization faces; salaries, health care, property insurance, energy, and building maintenance and equipment costs are all rising.

In addition, school districts are subject to other costs that are unique to education. Pennsylvania school districts are mandated by the state to provide free public education to their residents for their children ages kindergarten until graduation from high school or the end of the school term in which a student reaches the age of twenty-one (21) years, whichever occurs first.

As individual's household budgets are inflating beyond their direct control - gas and food prices, for instance – so too are the operating costs for the school district. Given the extraordinary pressures and unfunded government mandates school districts face, we are quite proud of the fact that we are able to keep our projected expenditure growth low.

What is the maximum allowed tax increase under Act 1 for the WCASD?

Act 1 caps the maximum allowed tax increase for all Pennsylvania school districts. The Act 1 increase for 2011-12 is 1.4%.

How is the Act 1 index determined?

The index is the average of two economic indicators known as the Statewide Average Weekly Wage (SAWW) and the Employment Cost Index for Elementary and Secondary Schools (ECI). The Pennsylvania Department of Labor and Industry reports the SAWW by tracking compensation paid by employers. The US Department of Labor, Bureau of Labor Statistics, reports the ECI by tracking the employer labor costs for specific sectors. The Pennsylvania Department of Education is responsible for reporting the index to school districts by September 30 of each year. This then serves as the basis for the school district's preparation of its annual budget.

What are the exceptions that would allow a school district to increase its budget higher than the Act 1 index without going to voter referendum?

There are several exceptions. These exceptions, which first must be approved by the Chester County Court of Common Pleas or the state Department of Education, include:

- Emergency or disaster
- State or federal court or administrative orders that must be implemented
- Principal or interest payments on the School District's grandfathered debt (incurred prior to June 27, 2006)
- Costs related to responding to conditions posing immediate threat of serious injury or harm

- Special education cost increases which exceed 10 percent over the previous year
- Laws such as the federal No Child Left Behind act which require School Districts to develop a school-improvement plan
- Certain per-student revenues or expenses which must be maintained
- Health-care costs associated with collective bargaining agreements grandfathered at January 1, 2006
- District share of pension payments to PSERS when the Districts portion increases more than the Act 1 index

Is the District considering using Act 1 exceptions in order to raise taxes above the 1.4% index?

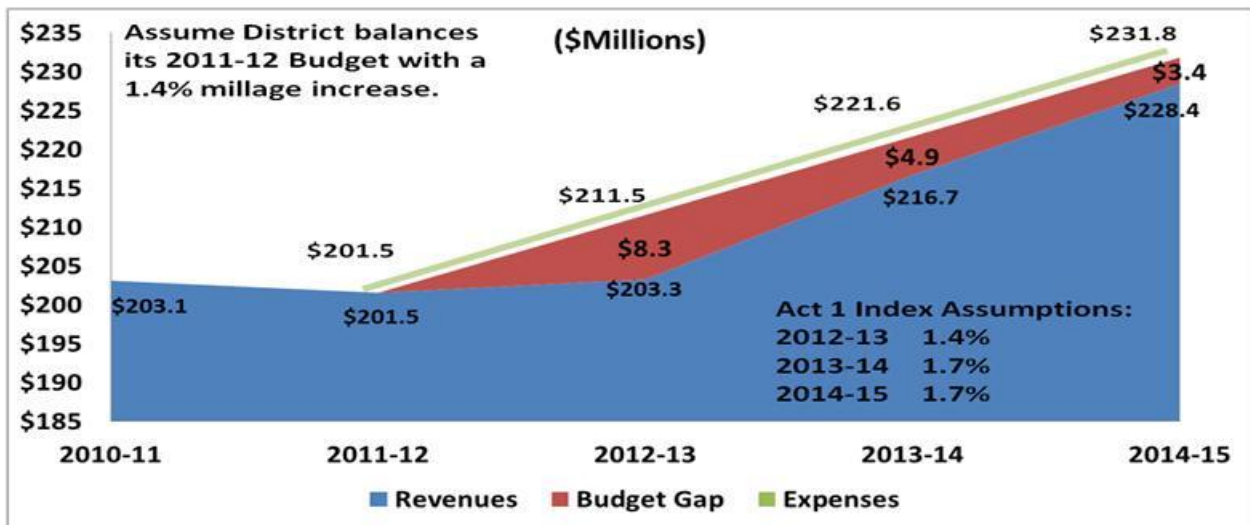
No exceptions will factor into the 2011-12 budget. In January 2011, the WCASD School Board adopted a resolution that the District would not take advantage of the PDE exceptions, which effectively capped the tax increase at the limit of 1.4%.

How much does the District need to reduce its 2011-12 tax levy to be within the Index?

After taking a \$1.0 million reduction for the 2011-12 transportation changes the March forecast model shows a projected shortfall for the 2011-12 budget at approximately \$3.9 million.

Has the District forecasted budgets for years after 2011-12?

The District has focused its efforts on future years in addition to the 2011-12 budget. As evidenced by the chart below, the projected shortfall for 2011-12 approximates \$8.3 million and the following years reflect shortfalls as well.



What are the major factors affecting the 2011-12 budget?

There are many factors affecting the 2011-12 budget including:

Revenues:

- Historically low local real estate tax revenues (transfer and interim) as a result of the slump in the real estate market
- Reductions in taxable values due to assessment appeals
- Lower Earned Income tax revenues
- Minimal investment income due to low interest rates
- Reduction in State funding

Expenses:

- Salary increases for staff assuming a 1.4% increase for all employees
- Increase in the employer rate for Retirement (PSERS) of 53.4%
- Inflationary increases in health insurance costs of 9.4%
- Special Education cost increases
- Charter/Private school cost increases
- Debt service cost increases

What is a mill?

A mill is a unit of currency used that is equivalent to 1/1000 of a United States dollar (1/10 of one cent or \$.001). A mill levy is the number of dollars a taxpayer must pay for every \$1,000 of assessed value. One mill equals \$8,270,657 for 2010-11 and is projected to drop to \$8,220,657 for the 2011-12 budget.

How does a millage rate and assessment come together in the form of a tax bill?

A school tax bill is calculated by multiplying the millage rate by the assessed value of the property. For example, a property in Chester County assessed at \$189,950 would have received an annual school tax bill in 2010-11 of \$3,487 or .01836 (millage) multiplied by \$189,950. A house assessed at \$300,000 would have received a tax bill in 2010-11 of \$5,508.

How are assessments prepared?

The state of Pennsylvania has a constitutional requirement for uniformity of taxation. Counties are the governmental unit responsible for assessments. They typically meet the uniformity requirements by adopting a "base year" market value.

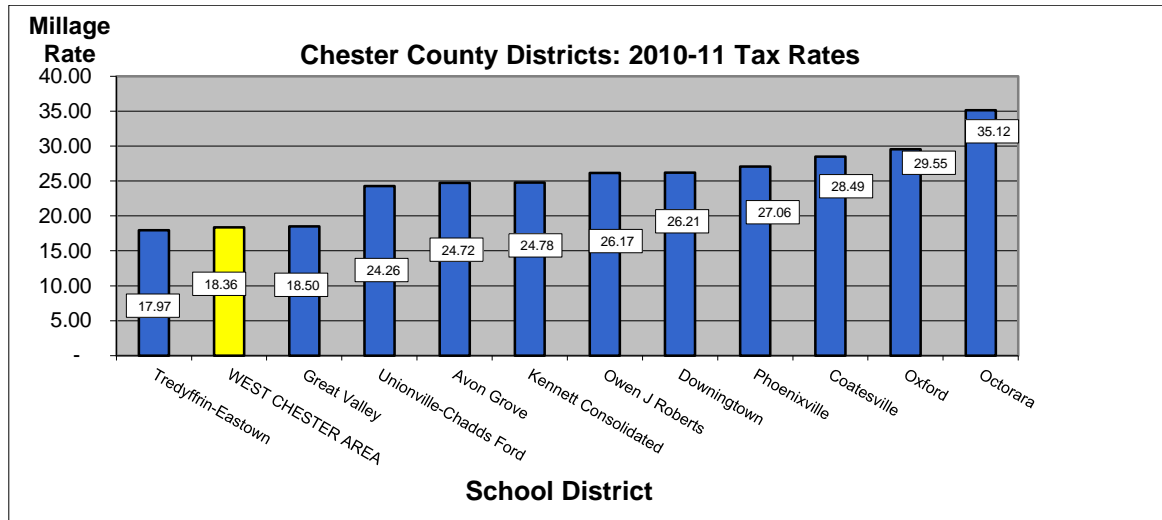
What affect do assessment appeals have on the revenue budget?

The assessed value of property remains unchanged from year to year unless the property significantly changes in value. Each year, the State determines an updated "common level" ratio (CLR) that indicates the difference between assessed values and current market values for properties sold within each county. Unlike other states, when you buy an existing home in Pennsylvania, the assessment is not adjusted based upon the sale price. If a taxpayer (residential or commercial) believes his property is over-assessed, he has the right to appeal that assessment in an attempt to have the overall taxes reduced.

The West Chester Area School District has seen a drastic increase in the number of assessment appeals over the past few years. Many of these appeals have been granted resulting in a reduction in overall taxable assessments which results in lower than anticipated real estate tax revenue. In the 2009-10 year, the District had \$150 million in appeals in which their assessments were lowered by \$40 million. The District had over \$330 million in assessment appeals in the current year resulting in a reduction of assessment by \$68 million.

What is the West Chester Area School District's current millage rate?

The current millage rate in Chester County is 18.36 per mill and 14.25 in Delaware County. The following chart compares the 2010-11 millage rates for the Chester County Districts.



What would a 1.4% increase in taxes equate to for an average homeowner in the District?

A 1.4% tax increase for residents of WCASD would equal an annual increase in taxes for :

- Chester County Residents \$49.00 (assumes an average assessed value of \$189,950 times .01862)
- Delaware County Residents \$45.00 (assumes an average assessed value of \$225,000 times .01445)

When will the 2011-12 budget be finalized?

In accordance with state code, the District must adopt a budget no later than June 30th of any given year. The WCASD school board will adopt the 2011-12 at a special meeting held in June.

Why is it so difficult to reduce a school district's budget?

Educating students is both labor intensive and highly regulated. Employee compensation and benefits accounts for over 63% of the district's operating budget and the majority of the employees work under collective bargaining agreements. In addition, 11.8% is directly associated with debt service and 22% is associated with contractual obligations (such as special education placements and services, charter school and other alternative school tuitions, transportation, and utilities).

What is a fund balance? Does the West Chester Area School District have one?

Fund balance is a measure of net financial assets, which is similar but not identical with equity or accumulated savings. The fund balance is equal to financial assets less financial liabilities.

It is important to recognize that there is often a portion of the fund balance for a school district that is reserved and can only be used for specific purposes because of legal or accounting commitments. The unreserved portion of the fund balance can be used for any future district spending. Good financial practices suggest that districts maintain an adequate unreserved fund balance to cover cash flow needs, district emergencies or other contingencies. The state restricts the unreserved fund balance for all school districts to less than 8% of projected annual expenditures.

As of March 2011, The West Chester Area School District is projecting a fund balance of \$12.7 million at the end of June 2011 (or 6.4% of projected annual expenditures).

Can the District utilize some of the fund balance to offset an increase in taxes?

The District’s current fund balance is approximately \$12,700,000, or 6.4% of total expenditures. The District is using approximately \$2.5 million to balance the 2011-12 budget. The estimated ending fund balance at June 30, 2012 is \$10,251,000 or 5% of total expenditures. The state mandates that school districts maintain a fund balance that does not exceed 8% of total expenditures. To address regular cash flow fluctuations and ensure financial stability, the Board adopted a fund balance policy. This policy states that when the general fund unreserved, undesignated fund balance is projected to decrease below 5% of the general fund expenditures, the District is required to initiate an action plan to ensure that the year-end general fund balance meets a 5%-8% goal.

Revenues

Where does funding for the West Chester Area School District come from?

Like all school districts in Pennsylvania, the West Chester Area School District receives revenue from three primary sources: local, state, and federal revenues.

The individual revenue breakdowns include:

- Local - 82%
- State - 16%
- Federal - 2%

The following chart compares the 2008-09 WCASD state subsidies as a percentage of overall costs to the state wide average. In addition the chart compares the WCASD cost per student and state/federal and local share to the state average. The 2008-09 is the most recent data available from PDE’s website.

2008-09 Total State Subsidies		
Reimbursement Rate (Subsidy as a Percent of Total Expenses)	WCASD	State Avg
	16%	39%
Largest Student Subsidy Categories (2008-09)	WCASD	State Avg
Regular Instruction Subsidy % of Instruction Exp.	13%	60%
Special Ed Subsidy % of Special Ed Exp.	20%	34%
Transportation Subsidy % of Transportation Exp.	24%	38%
2008-09 State/Federal/Local Share \$	WCASD	State Avg
Total Cost per Student	\$ 15,153	\$ 13,145
Total State Subsidy per Student	\$ 2,406	\$ 5,132
Total Federal Subsidy per Student	\$ 251	\$ 476
Local Cost per Student	\$ 12,496	\$ 7,537

What are the sources of the District's local revenue?

The Districts main source of local revenue is property taxes related to residential and commercial properties. In addition, local revenues are generated through real estate transfer tax, earned income tax, investment earnings, tuitions and other miscellaneous revenues.

Earned income tax collections, real estate transfer taxes and investment earnings are directly related to the economy and cannot be relied upon to produce a consistent revenue stream.

What affect does the overall economy have on the revenue budget?

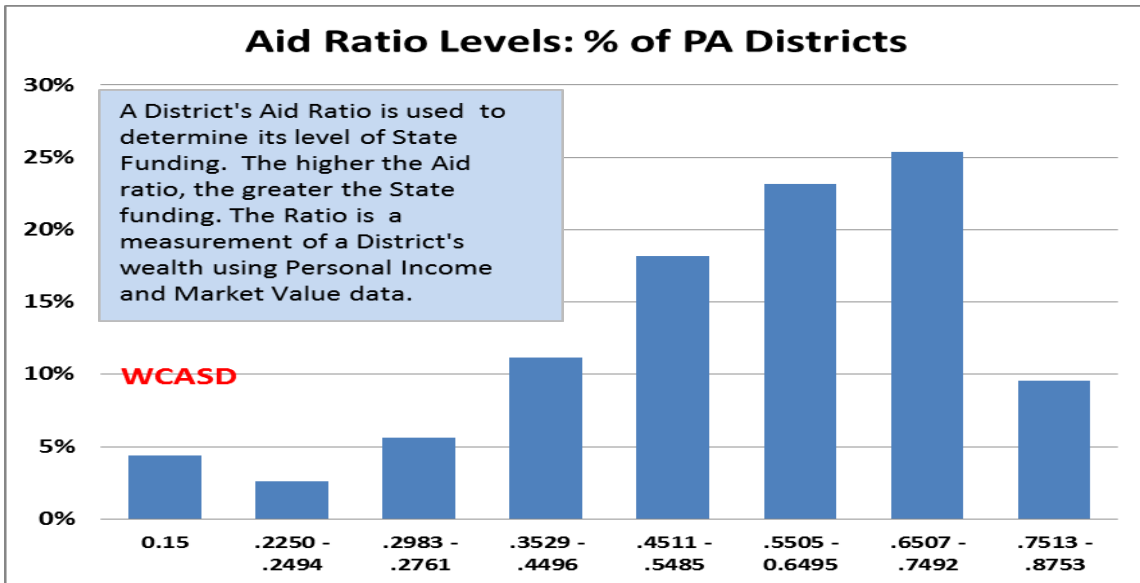
The Districts main source of local revenue is property taxes related to residential and commercial properties. Other local revenue streams include real estate transfer tax, earned income tax, investment earnings, tuitions and other miscellaneous revenues. Collections in earned income taxes, real estate transfer taxes and investment earnings are directly related to the economy and the District has seen a drastic reduction in these revenues over the past few years.

What are the sources of the District's state revenue?

The largest source of state subsidy is the basic education subsidy. In addition, the District receives subsidy for special education, transportation, property tax reduction, as well as reimbursement subsidies for social security and retirement benefits for our staff. The state reimbursement for 25% of our charter school tuitions was eliminated in the Governor's 2011-12 proposed State Budget.

Why is state funding to WCASD so low as compared to other District's state funding?

Many of the state subsidies received by the district are determined, at least in part, by a formula called the Market Value Personal Income Aid Ration (MV/PI AR). This ratio, used to allocate funding, is based on the relative wealth of the district as compared to other districts within the state. The MV/PI AR for WCASD is .15, which is the lowest aid ratio assigned to districts within the state. More than 95% of the 501 school districts in the state have aid ratios greater than West Chester's. Consequently, the district receives less state funding than many neighboring districts.



Expenses

What is the breakdown by category of expenditures?

The largest component of any school district budget is staffing. Approximately 63% of the WCASD 2010-11 budget relates to salaries and benefits for our 1500+ employees. The other components of the 2010-11 budget include educational supplies and services (14%), debt service (12%), student transportation (7%) and facility costs (5%).

How do student transportation costs affect the Budget?

The Transportation Department is responsible for transporting 17,000 students to 16 public schools and 150 non-public and charter schools over 750 square miles each day. The District is mandated by the state to provide this service to both our public and non-public students. Last year, the transportation committee of the community task force identified over \$1.0 million in savings by implementing various initiatives. These initiatives include: bus stop consolidations, a two tiered bell schedule for our elementary schools, a bell schedule change for Fugett Middle School and increased use of transfer points for out of District students. These changes are being implemented in the 2011-12 school year and the savings has been recognized in the preliminary budget figures.

What is a charter school and what is their projected impact on WCASD in 2011-12?

A Charter school is an independent public school created and designed by citizens from the local community. In Pennsylvania, Charter Schools are possible due to a 1997 revision to the public school code known as Act 22 (the "charter school law"). Charter schools are tuition free for parents. A Charter School receives the tuitions from the public school district where its students reside. In 2011-12, the WCASD projects charter school enrollment to be approximately 600 students at an annual cost of \$7,280,600 at a projected tuition rate of \$10,392 for a regular education student and \$22,307 for a child identified as special education by the charter school. The tuition rates are the same for bricks & mortar charter schools and cyber charter schools.

What are mandated expenditures and what are their projected costs for 2010-2011?

A mandated expenditure is an expense that is required by either a state or federal law. Often times, school districts don't have sufficient funds to cover these mandates. These are called unfunded or underfunded mandates. In order to pay for these requirements, school districts are forced to either reduce academic and student programs or raise property taxes. Examples of state mandates and their anticipated expenditures for 2011-12 are:

Special Education – The burden of educating students with exceptionalities is falling more and more on the local taxpayer. In 1975 the Federal government passed the Individuals with Disabilities Education Act (IDEA) which mandated a free, appropriate public education in the least restrictive environment along with assuring that public school districts would be funded for their costs beyond the cost of a regular student's education. Although the IDEA mandate has been rigorously enforced, the funding commitment was never achieved. It is estimated that in 2011-12, the West Chester Area School District will spend \$32 million on special education students, excluding the cost of facilities. The District will receive subsidies from the state and federal governments in the amount of \$7.0 million.

Charter School Tuitions – In Pennsylvania, school districts are statutorily required to pay the tuition of any student who attends a charter school, including charter cyber schools. These payments are roughly based on a formula consisting of the average per student expenditures of the student's resident school. The resident district must pay more than double the regular tuition rate for any student identified as special education by the charter school. In the 2011-12 year, the West Chester Area School District will spend \$7.3

million on charter school tuitions. The state reimbursement subsidy has been eliminated in 2011-12 resulting in a loss of revenue of \$1,581,000.

Pension Contributions – School Districts are required to pay for 50% of the expenses of the State mandated Pennsylvania School Employees Retirement System’s (PSERS) defined pension benefits for all school employees. The costs are based on an annual percentage of each school district’s wages and the percentage is set each year by the PSERS board of directors. In the 2011-12 year, our District’s cost for its pension contributions into the PSERS system will be \$7.9 million, and the State will reimburse the District \$3.9 million.

Student transportation – Since 1972, school districts have been required to transport pupils to nonpublic schools located within ten miles of the district’s borders. Although we bus 11,800 public school students who attend 16 schools within 75 square miles, the District buses an additional 4,700 nonpublic and charter school students to 134 schools across 750 square miles each day. The cost of nonpublic transportation averages \$815 per student compared to \$144 per public school student. For the 2011-12 year, the total cost of nonpublic transportation is projected to be \$4.4 million. The State’s subsidy to school districts for nonpublic busing is one of the largest cost sharing percentages of any mandate. For example, our District will receive \$2.2 million (51%) in subsidies for its \$4.4 million in nonpublic school transportation costs in 2011-12. If transportation for nonpublic schools was no longer mandated, local tax payers would save \$2.2 million. If transportation was limited to nonpublic schools within our District’s boundaries, the savings would approximate \$1.0 million.

School nursing services – Chapter 14 of the PA School Code requires schools districts to hire school nurses that are specially certified to work in schools rather than RNs and LPNs. The cost of the District’s certified nurses is \$.5 million more each year than the cost of RNs and LPNs.

Prevailing wage – The Prevailing Wage Act of 1961 requires school districts to pay prevailing wages to those who work on construction projects rather than the occupation wage paid by the private sector which adds over 25% to the costs of our construction projects according to the a report by the Associated Builders and Contractors Inc. If the District was exempt from the prevailing wage mandate, our annual costs for debt service used to fund our construction projects would be reduced by \$6.3 million.

How much debt service is being phased in for the 2011-12 school year?

The 2011-12 budget includes an increase of \$979,656 in interest and principal payments related to debt. Of that amount, \$444,105 is for debt service associated with various District capital projects as well as architect fees related to the elementary program. The remaining increase relates to existing projects completed within the last few years.

One of the goals of the elementary school facility construction program was to grow the level of debt service at a rate that would not negatively impact the growth allowed in other expense categories in the District’s budget given the restraints of the Act 1 index. For this reason, one of the fiscal parameters of the elementary school capital program was to limit the annual growth in debt service to 2%.

How do the West Chester School District’s costs compare to other Districts in the County?

Comparing individual school districts’ spending per student is a reasonable comparison of a school district’s level of expenditures. For example, during the 2008-09 year (most current year of available information from PDE), the West Chester Area School District’s cost per student was \$15,153. The average cost per student for all 12 districts in the County was \$15,097.76. The highest cost per student for a district in Chester County was \$18,559 and the lowest was \$11,261. A district’s cost per student could reflect many factors including but not limited to the student/teacher ratio, the average teacher salary and the general cost of living in the area.

Governor's Proposed Budget

What impact does the Governor's proposed budget have on WCASD?

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The Governor's proposed budget will have significant decreases in state funding to the WCASD. In fact, the total state funding for WCASD is expected to decline back to the 2003-04 funding levels. The proposed state budget eliminates both the Charter School Reimbursement subsidy and the Accountability Grant funding, used to fund the extended day kindergarten program. In addition, the proposed state budget reduces the funding for Social Security subsidy and Special Education. The total proposed reduction in funding including the loss of the one-time stimulus funding approximates \$4.4 million.

The table below illustrates the Governor's proposed reduction in state funding in addition to the \$1.1 million state funding loss for the Basic Education Subsidy and Charter School Subsidy reductions assumed by the District in its 2011-12 planning.

Funding Source	WCASD Reduction	Funding Allocation	Impact of the Reduction for 2011-12 Year
Accountability Block Grants	\$344,000	Extended Day Kindergarten classes for 75 children	Extended day Kindergarten will not be offered in fall, 2011
Charter School Funding	\$1,581,000	Paid 25% of charter school tuition. WCASD paid 75% of tuitions for 590 children attending one of 17 charter schools.	WCASD will have to pay 100% of charter school tuition. <u>Reductions will have to come from other programs in order to pay tuitions.</u> Pennsylvania law mandates that school districts must pay full tuition of any student who chooses to attend a charter school.
Special Education Subsidy	\$260,000	Paid 20% of our special education program costs. WCASD pays 75%, and the Federal government pays 5%.	<u>Reductions will have to come from other programs in order to pay for special education program expenses.</u> Special Ed programs are mandated by federal law to be implemented and paid in full by the district.
School Employees Social Security Reimbursement	\$1,200,000	Paid 3.82% for school district costs toward Social Security payments. WCASD paid 3.82% and employees paid 7.65%.	<u>Reductions will have to come from other programs to pay for social security payments.</u> Employee contributions are mandated by federal law. School district will now have to pay 5.35% and the state will pay 2.3%. This cut only targets a small number of school districts.
TOTAL	\$3,385,000		

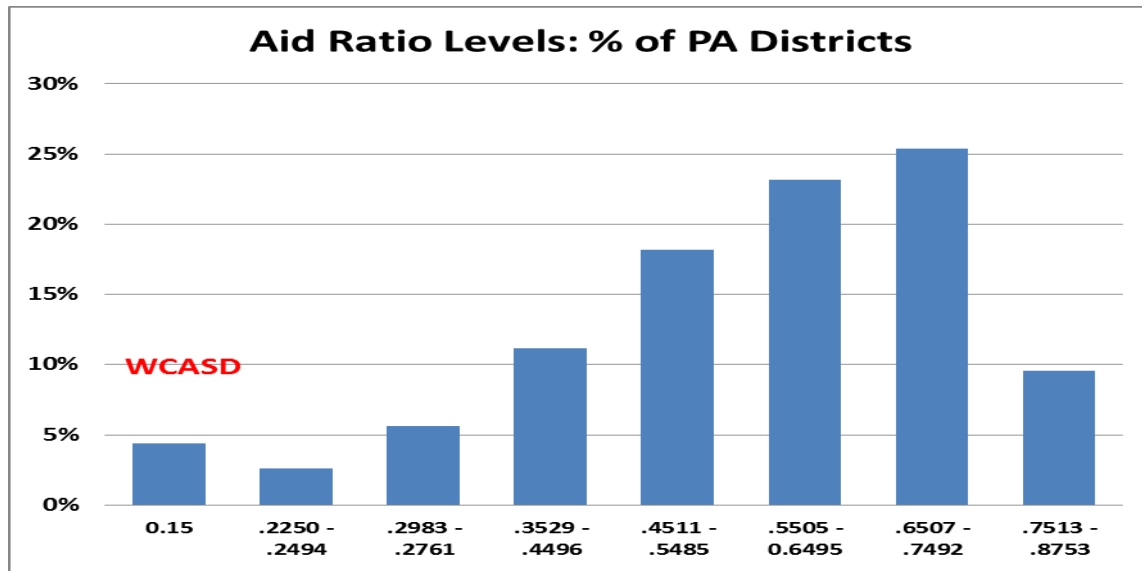
The Governor's proposed budget eliminates funding to WCASD for Charter Schools. Are the Charter School tuitions paid by the District expected to decrease?

No, in fact Charter School Tuitions are expected to increase. In the 2010-11 school year, tuitions paid by the District to Charter schools, including cyber charter schools is projected to be \$6,873,000 for 594 students. The 2011-12 estimated tuition expense is \$7,280,000.

What is the School Employees Social Security Reimbursement Subsidy?

The state reimburses school districts, intermediate units and vocational schools for a portion of their social security and Medicare payroll taxes. The history of this reimbursement has been that the “state share” is the greater of the District’s Aid ratio or 50% whichever is greater for employees hired after June 30, 1994. For employees hired prior to that date the reimbursement was 50%.

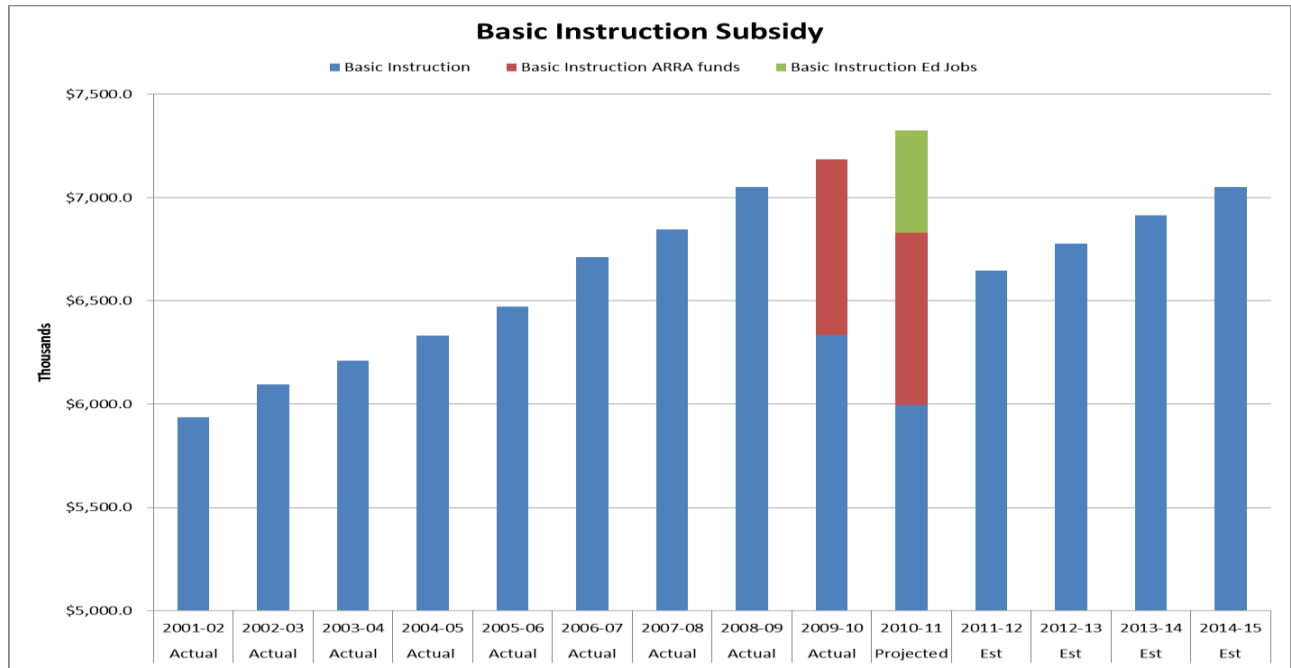
The Governor’s proposed budget removes the language of “the greater of the District’s Aid ratio or 50%” and replaces it with simply reimbursement is based on the District’s aid ratio for employees hired after June 30, 1994. The WCASD has the lowest aid ratio of .15. As indicated in the chart below, less than 5% of the Districts across the state have an aid ratio of .15



Did the District anticipate reductions in state funding for 2011-12?

Yes, recognizing that the state used one-time federal stimulus money to balance the 2010-11 Basic Education allocations, the District reduced state funding projections by \$1.1 million for 2011-12. This projection brought our anticipated state funding down to the 2006-07 funding level. What was not anticipated was the elimination of the accountability grants, charter school reimbursement or the change in formula to the social security reimbursement.

The chart below illustrates the history of our Basic Education funding. You can see that in 2009-10 and 2010-11, the state used one-time federal stimulus money, highlighted in red, to balance the shortfall in the state funding of Basic Education.



The following chart shows the history of total state funding color-coded by category. With the elimination of the accountability grants, charter school reimbursement and the change in formula to the social security reimbursement, the District's total 2011-12 proposed state funding level is equal to the level received in 2003-04.

