

State College Area School District



2025-26 Budget Development

**State College
Area School District
November 26, 2024**

Today's Purpose

- Discuss the options regarding a tax increase within the Act 1 Index
- Analyze areas of the budget development process
- Preview materials to be shared at the December 2nd board meeting.

2025-26 Proposed Preliminary Budget

- Board decision points
 - Proposed Preliminary Budget
or
 - Accelerated Budget Opt Out Resolution
 - Deadline: January 30th
 - Scheduled: January 13th meeting

What is the Accelerated Budget Opt Out Resolution

- Maintains any real estate tax rate increase would be within the Act 1 index – 4% for FY 2025-2026
- Comply with budget adoption rules in School Code
- Not eligible to use any of the Act 1 referendum exceptions

What is the Act 1 Index?

Amount by which school districts can raise real estate tax rates in a given year.

Calculated by averaging the percent increase in the Pennsylvania statewide average weekly wage and the Federal employment cost index for elementary/secondary schools.

What is a referendum exception?

Allows for the tax rate to be set higher than the index for certain expenses:

- School construction debt service
- Special education expenditures
- Retirement contributions

Since Act 1 of 2006

Referendum Exceptions used for:

- State High referendum debt in 2015-16 and 2016-17
- Retirement contributions in 2010-11 through 2013-14

Rate within index, all other years

Resolution

- Used frequently
- Still follows the preliminary budget process, which allows for Board discussion of budget development and public input

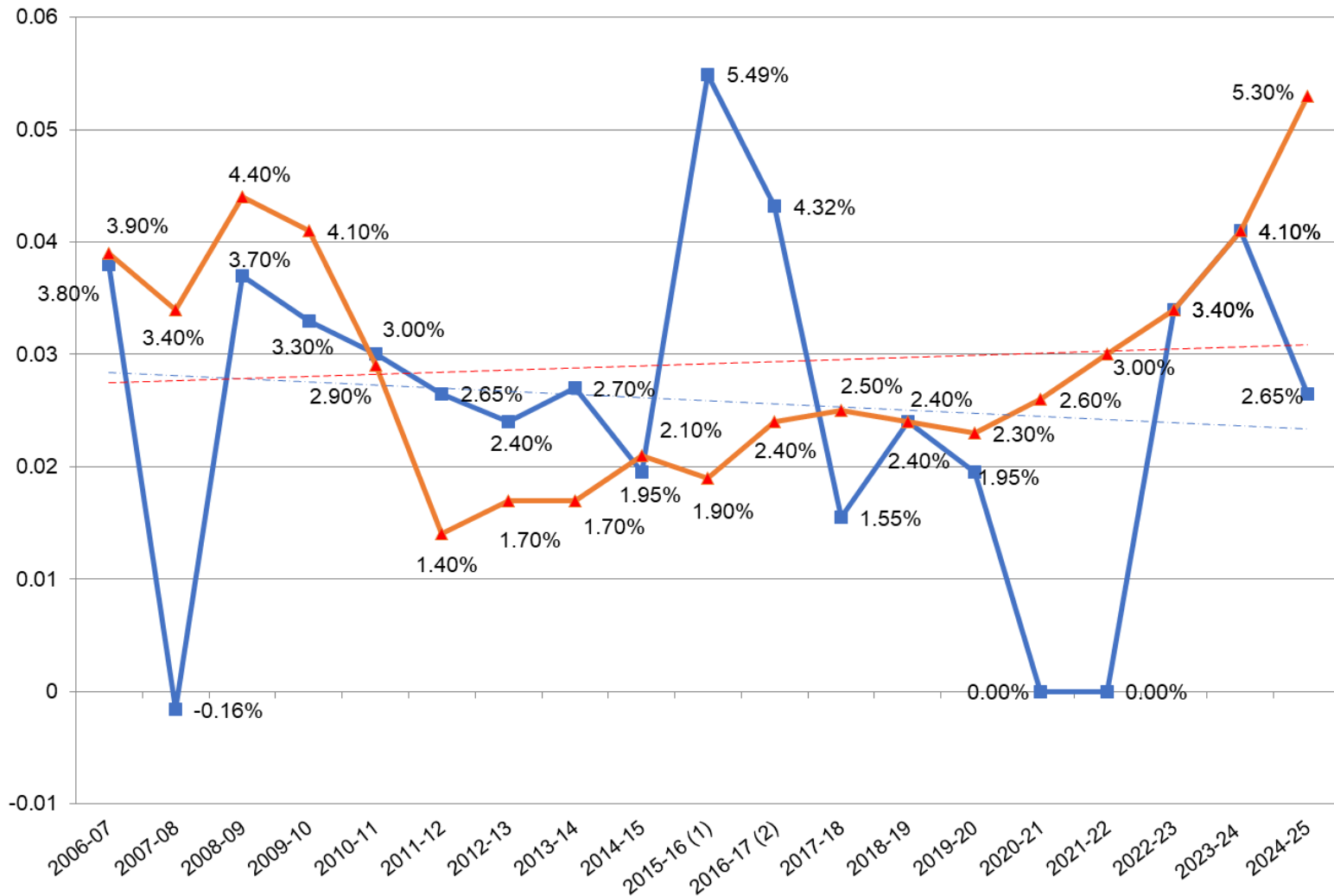
Why approve the Resolution?

- Provides notice to community of intent to maintain tax rate within the index
 - Will not apply for exceptions
- Does not set tax rate
 - Tax rate approved with final budget
- Allows Board to consider administrative recommendations during budget development process
- Reminder: State budget approval deadline June 30

Proposed Preliminary Budget

- Three options for the Proposed Preliminary Budget are presented:
 - 0%, 2% (midpoint), and 4% (Act 1 index)
 - Impacts the level of use of committed fund balance and projected negative shortfalls in the multiyear projection
- Prior three years tax rate increases:
 - 2022-23 3.40% (followed two years of 0% tax increase)
 - 2023-24 4.10%
 - 2024-25 2.65%
 - Note the cliff on slide 13

Real Estate Tax Increase vs. Act 1 Index

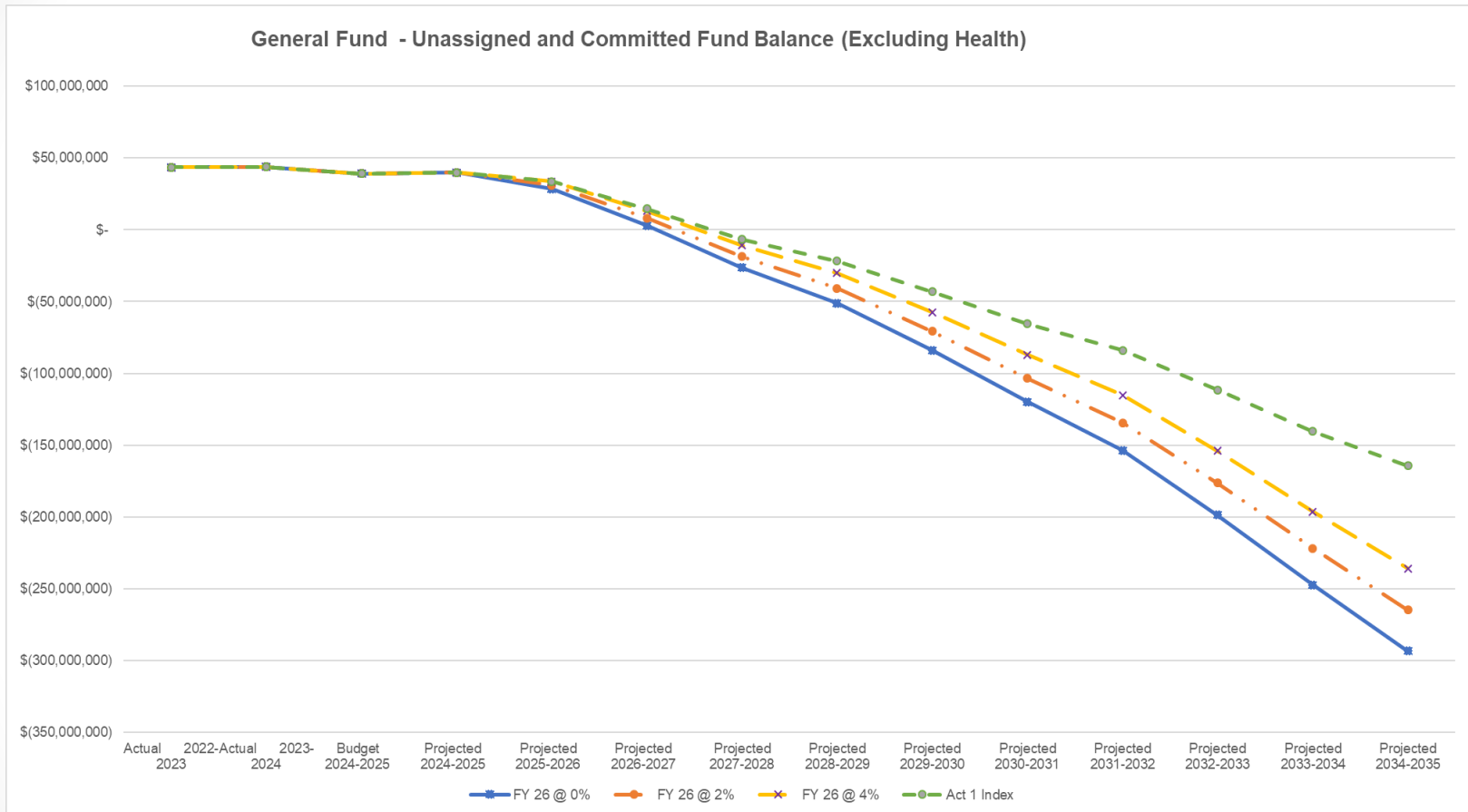


5 - Year avg (FY 2021-2025 Actual) = 2.03%

10 - Year Avg (FY 2016-2025 Actual) = 2.26%

Real Estate Act 1 Index Trendline (Real Estate) Trendline (Act 1 Index)

Multi-year Fund Balance Projection



Real Estate Tax Increases set at 2% for FY 2027 and beyond except for Act 1 Index (which is at the assumed rate of growth in the Act 1 Index in Projection Master – 3%)

Other Local Revenue Major Assumptions

- Real estate tax – other assumptions
 - Assessed value growth 0.9% (Down from 1.2%)
 - Collection percentage 97.2%
- Earned income growth 3.0%
- Other Key Areas of Analysis:
 - Real Estate Appeals (reason for decrease in Assessed Value Growth)
 - Transfer Tax
 - Interim Real Estate Tax
 - EIT Collections
 - Interest Rate Projections for Investment Income



State College Area School District

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To: Curtis Johnson
From: Joe Viglione and Randy Brown
Date: November 18, 2024
Subject: 2025-26 Budget Development – Opt-Out Resolution

The purpose of this memo is to prepare for the upcoming budget development process. The Fiscal Year (FY) 2025-26 Budget Development calendar was presented to the Finance and Audit Committee on November 4, 2024.

The Board will be required to take one of two future actions:

1. Adopt an Opt-Out resolution
2. Approve a preliminary budget

Both of these Board actions have required advertising requirements in order to inform the district residents giving the community notice of the intent.

The FY 2025-26 proposed budget is still under development at this time. The FY 2025-26 proposed budget included in the budget revenue projections attached consist of:

	0% Tax Increase	2% Tax Increase	4% Tax Increase
Revenue	\$199,892,865	\$202,418,597	\$204,944,080

The only difference between these proposals is the real estate tax rate. As you would expect, the 4% rate increase, equal to the Act 1 Index, generates more revenue which, given the same budgeted expenses, would result in a higher ending fund balance.

Based upon discussion to date, the administration requests the Board to adopt the opt out resolution at the latest on January 13, 2025 prior to the January 30, 2025 deadline. The next discussion regarding budget development is scheduled to occur with the Finance Committee on December 2, 2024.

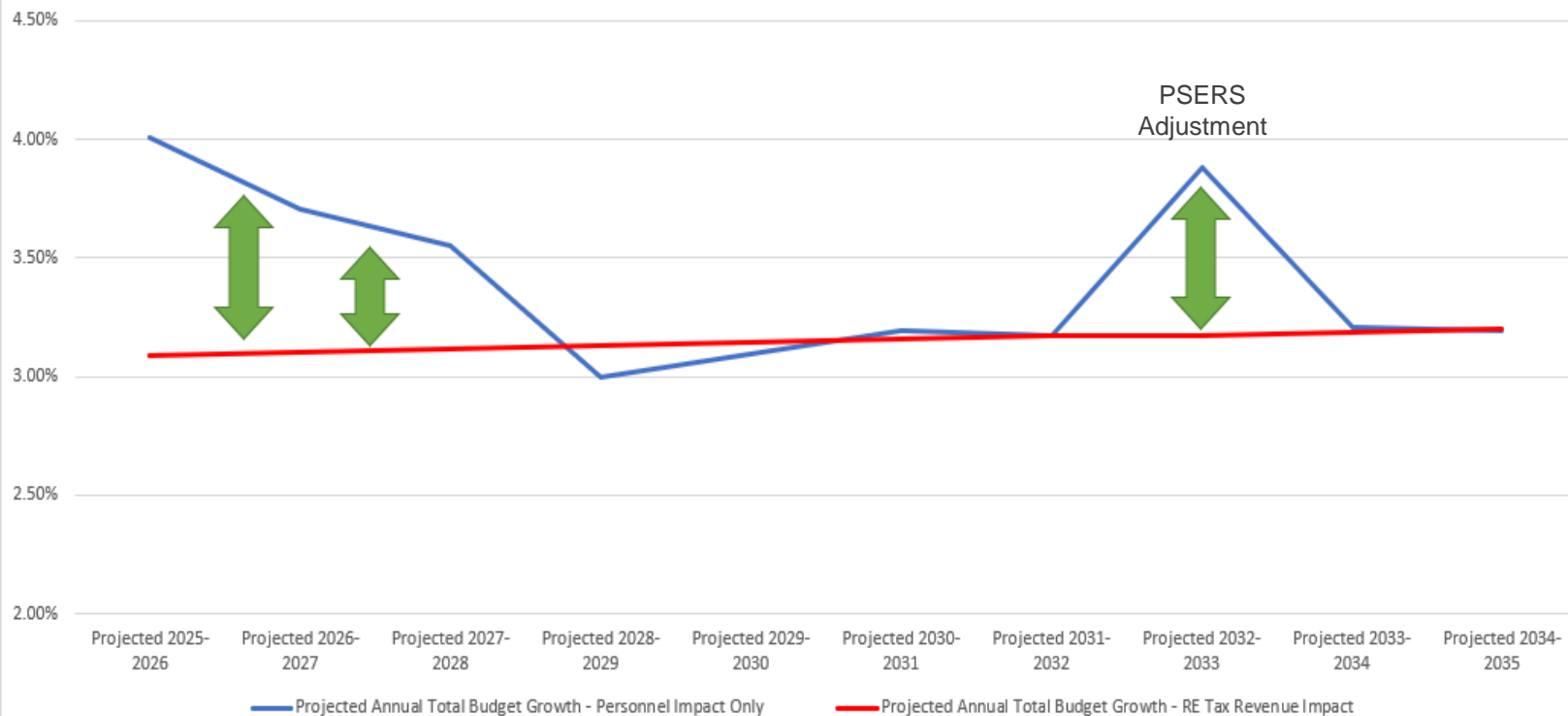
Tax Increase Options – FY 2025-26

	0% Tax Increase	2% Tax Increase	4% Tax Increase
Beginning Fund Balance	\$12,902,135	\$12,902,135	\$12,902,135 ^a
Revenue	199,892,865	202,418,597	204,944,080
Local	157,687,720	160,213,452	162,738,935
State	40,730,145	40,730,145	40,730,145
Federal	1,475,000	1,475,000	1,475,000
Expense (including capital reserve transfer)	214,722,328	214,722,328	214,722,328
Revenue less expense	(14,829,463)	(12,303,731)	(9,778,248) ^b
Funding (Use) of Committed Fund Bal (Health Insurance)	(3,547,500)	(3,547,500)	(3,547,500) ^c
Funding (Use) of Committed Fund Bal (Debt Service)	(2,984,000)	(2,984,000)	(2,984,000) ^d
Change in Assigned Fund Balance	(6,531,500)	(6,531,500)	(6,531,500) ^{e (c+d)}
Change in Unassigned General Fund Balance	(8,297,963)	(5,772,231)	(3,246,748) ^{f (b-e)}
Ending Unassigned Fund Balance	<u>\$4,604,172</u>	<u>\$7,129,904</u>	<u>\$9,655,387^(a+f)</u>
Unassigned Fund Balance Percentage	2.14%	3.32%	4.5%

Expense Assumptions

- Factors in an increase for health insurance due to actual 2023-2024 expenses being much higher than budgeted.
- Includes a \$3.5M Contingency (based on actuarial assumptions) to protect the District in the case of a high claims year like 2023-24 that will allow the District to utilize Committed Fund Balance to offset those costs.
- Anticipates the utilization of \$3M of Committed Fund Balance to fund 2025-2026 Debt Service Obligations.
- Does not anticipate a transfer to the Capital Reserve Fund due to a declining “General Fund” fund balance.
- Growth in Personnel costs (largest category of expenses at 79% of the FY 2025-26 Budget) continues to outpace real estate tax revenue growth (assessed value growth + Act 1 Index rate).

Projected Gap Between Real Estate Tax Revenue and Personnel Costs



Fund Balance Assumptions

- Unrestricted Fund Balance – must maintain under 8% state maximum
 - Due to increasing operating costs there does not seem to be a path for a transfer to be made from the General Fund to the Capital Reserve in 2025-2026 and beyond.
- Committed Fund Balance:
 - Health Insurance – funded at 6 months of estimated health insurance expense
 - Debt Service:
 - Begin utilizing in 2024-2025
 - Will reassess how to utilize best in conjunction with the planned borrowings for MNE and PFMS.

Items for Focus

2025-2026 Budget

- Compensation and Benefits, especially
 - Health Insurance costs
 - Ability to fill vacant positions – District-wide
- Mount Nittany Elementary School Renovation
- Construction of Park Forest Middle School
- Impacts associated with District-wide Facilities Master Plan outcomes
- Interest Rate Environment for both Deposits and Debt Issuance

Multi-year Projections

- Declining fund balance
 - Expenses are anticipated to grow faster than revenues
 - Onboarding of additional debt to fund projects
 - Mt Nittany Elementary School renovation
 - Park Forest Middle School construction
- Constrained Revenues
 - Lower anticipated growth in Real Estate Taxes
 - Unclear direction of State Funding
 - Uncertainty surrounding Federal Funding

Attachment A

Opt Out Resolution
(Prior Year's Resolution)

STATE COLLEGE AREA SCHOOL DISTRICT

(Centre County, Pennsylvania)

Accelerated Budget Opt Out Resolution Certifying Tax Rate Within Inflation Index
(and No Need to Comply with Act 1 Accelerated Budget Procedures)

Background. Act I § 311(a), 53 P.S. § 6926.311(a), requires an accelerated budget adoption timeline and procedure unless a school district, no later than 110 days before the primary election, adopts a resolution containing the certifications incorporated in this resolution. The deadline this year is January 4, 2024. After adoption of a resolution containing such certifications, § 311(d) authorizes a school district to comply with pre-Act I budget adoption rules as set forth in School Code § 687, 24 P.S. § 6-687. The School Board has reviewed the school district preliminary budget or has other information sufficient to make a determination that the budget for the next fiscal year can be funded based on maintaining current tax rates or increasing taxes by an amount less than or equal to the Act I index. In lieu of the Act I budget adoption timeline and procedure, the School Board wishes to make the required certifications and comply with pre-Act I budget adoption rules.

RESOLVED, that the Board of School Directors of State College Area School District, makes the following unconditional certifications:

1. The school district's various tax levies and other revenue sources will be sufficient to balance the school district final budget for the next fiscal year (2024-2025) based on maintaining current tax rates or increasing tax rates by an amount less than or equal to the Act 1 index applicable to the school district as calculated by the Pennsylvania Department of Education. This conclusion is based on the school district preliminary budget or other information available to the School Board.
2. The applicable index for the next fiscal year is 5.3%, and the School Board will not for the next fiscal year increase the rate of its real estate tax, or any other tax for the support of public education, by an amount that exceeds the applicable index.
3. The School Board has to date and in the future will comply with the rules set forth in School Code § 687 for adoption of the school district proposed and final budgets for the next fiscal year.
4. The School Board understands that the school district will not be eligible to use Act 1 referendum exceptions for the next fiscal year.

Duly adopted by the State College Area School District (Centre County, Pennsylvania) in lawful session assembled on this 18th day of December, 2023.

Attest:

STATE COLLEGE AREA SCHOOL DISTRICT


Secretary


President, Board of School Directors

Per Act 1 §§ 311 (d)(2)(ii) and (iii), the school district must, within 5 days after adoption of this resolution submit to PDE: (1) on a PDE prescribed form, information on any proposed tax increase - Real Estate Tax Rate Report; and (2) a copy of this resolution.

Next Steps

- 12/2/2024 Finance Committee of the Whole
- 12/16/2024 Board Meeting
- 1/13/2025 Finance Committee of the Whole
 - Approval of the Opt Out Resolution
- 1/27/2025 Board Meeting

Questions

State College Area School District

