

State College Area School District



2025-26 Budget Development

**State College
Area School District
December 2, 2024**

2025-26 Proposed Preliminary Budget

- Board decision points
 - Proposed Preliminary Budget presented to the Finance Committee on November 26, 2024
 - 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

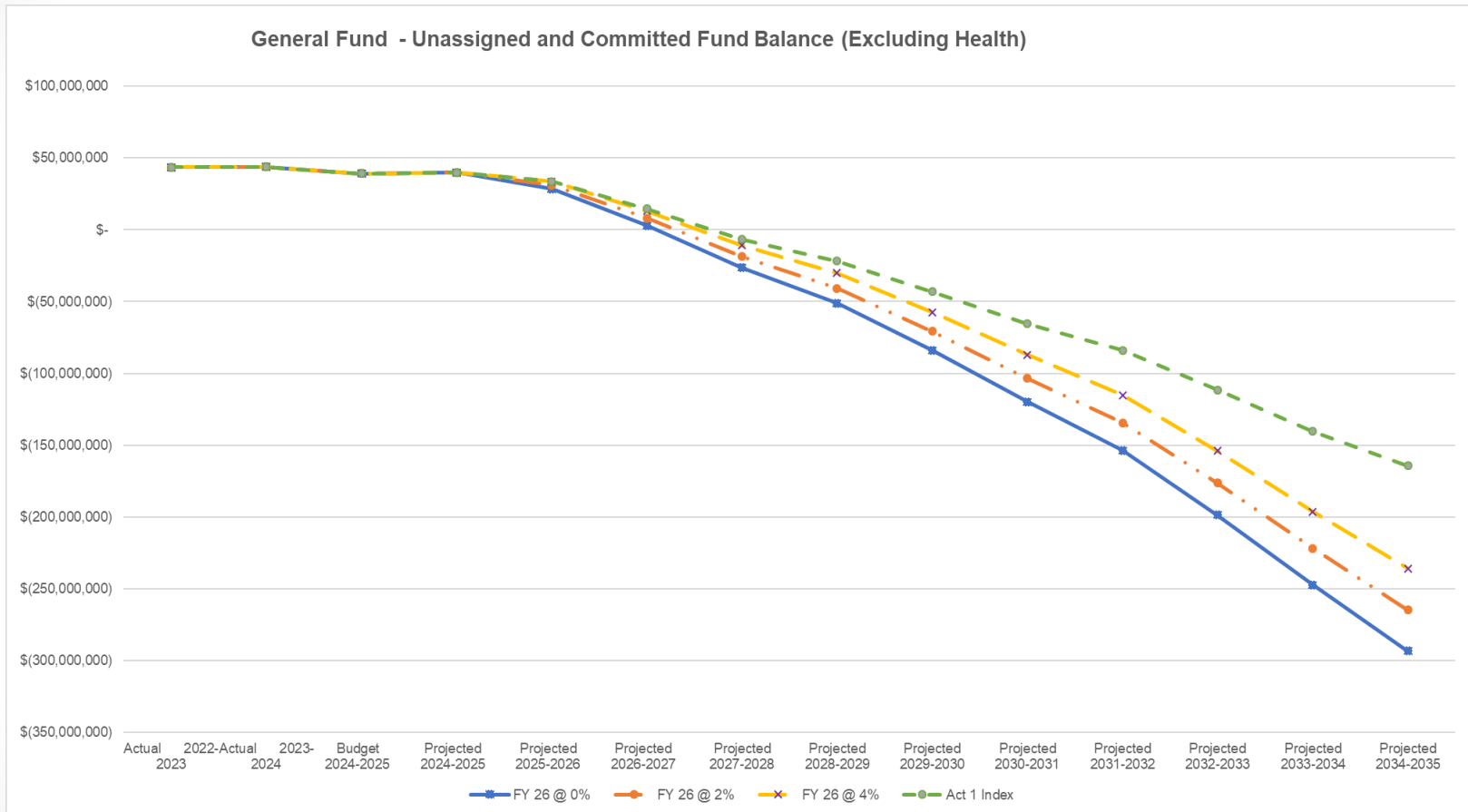
Why approve the Resolution?

- 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%
 - Average increase of 2% over past 8 years

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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Finance and Operations Officer/Open Records Officer

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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).

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

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

