



## State College Area School District

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To: Board of Directors  
From: Curtis Johnson, Randy Brown and Joe Viglione  
Subject: 2025-2026 Budget Development - Proposed Final Budget  
Date: April 17, 2025

### **Action**

The 2025-2026 proposed final budget is presented for approval by the Board of Directors, as required by Act 1 of 2006.

### **Summary**

The proposed final budget is presented as the budget development process nears culmination as outlined in the [2025-2026 Budget Calendar](#), adapted from the required by Act 1 process. The Accelerated Budget Opt Out Resolution, certifying the tax rate within the inflation index (Act 1) of 4% for the 2025-2026 Fiscal Year, was approved on January 13, 2025. The real estate tax rate included in the proposed final budget reflects a 4% increase, equal to the Act 1 Index. The proposed budget includes revenue of \$207,523,588 with expenses of \$211,522,675. The final unassigned fund balance is projected at \$12,929,223.

### **Revenue**

The proposed final budget has been developed in response to current and projected economic conditions. The real estate tax rate is 52.9597 mills (an increase from 50.9228 mills). The collection percentage and assessed value growth return to more normal averages of 97.2% and 0.9%. Earned income tax revenue is budgeted at 3% growth, which is comparable to the historical average. State subsidies are primarily maintained at current year projected levels. Federal revenue remained level.

### **Expense**

The budget includes new recurring costs personnel costs associated with the hiring of one of each of the following:

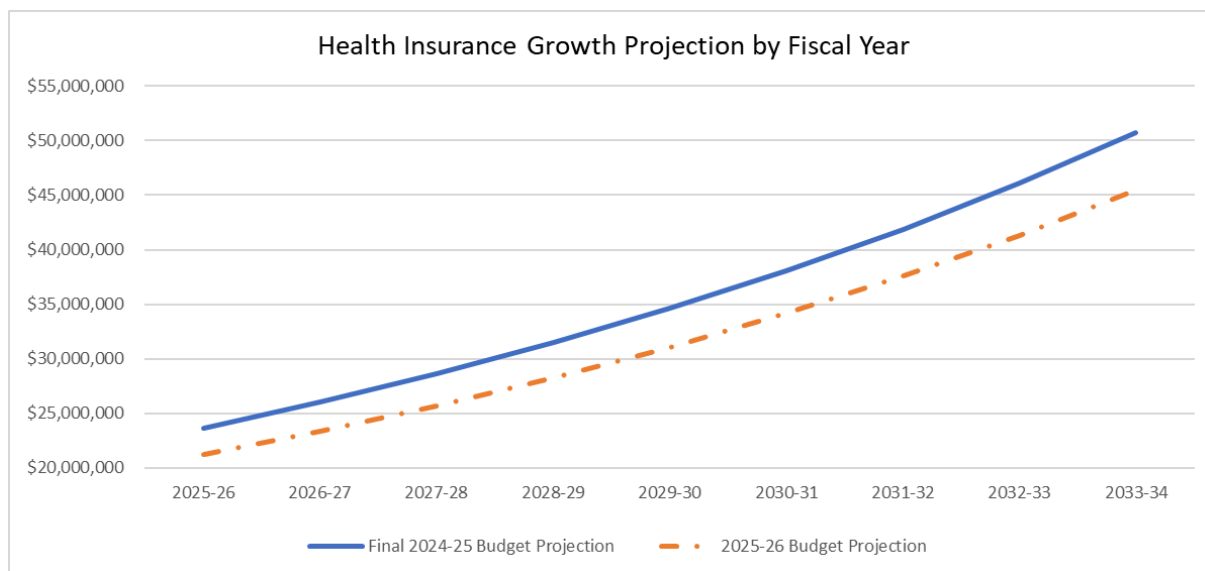
- Special Education Teacher
- Business Education Teacher
- School Psychologist
- Student Activities and Athletic Manager
- Clerical Position for the Special Education Department
- Custodial Position for the Physical Plant Department

Other recurring costs include an increase in the substitute teacher employee rate, additional investment in security at extracurricular events, increased charter school costs, and a significant increase in utility rates. It is important to note that the anticipated reduction in the PPA electricity rate is not included in the 2025-2026 budget, the impact will begin in fiscal year 2026-2027.

## Future Year Budget Projections

As discussed during the budget development process, beginning in 2025-26, expenses are projected to outpace revenues throughout the remainder of the projection period. However, recently, we have received some good news associated with health insurance. Previously, Administration had reported and built its budget assumptions on health insurance resetting at the higher amount and that typical experience would be two good years (of claims experience) followed by a bad year (of claims experience). This philosophy had its roots in past experience as well as advice from our consulting actuaries.

However, fast forward 12 months later, it appears the volume of claims in 2023-2024 was high enough that it will exceed 2024-2025 claims. This, in conversation with our consulting actuaries as well as the assessment of various trends from the last 3.75 years, has led Administration to determine that the growth plane for 2025-2026 and beyond should be modified. While the projections for 2025-2026 and beyond are not as low as they were projected to be two years ago, they are substantially lower than they have been shown in recent projections for 2024-2025, 2025-2026, and beyond.



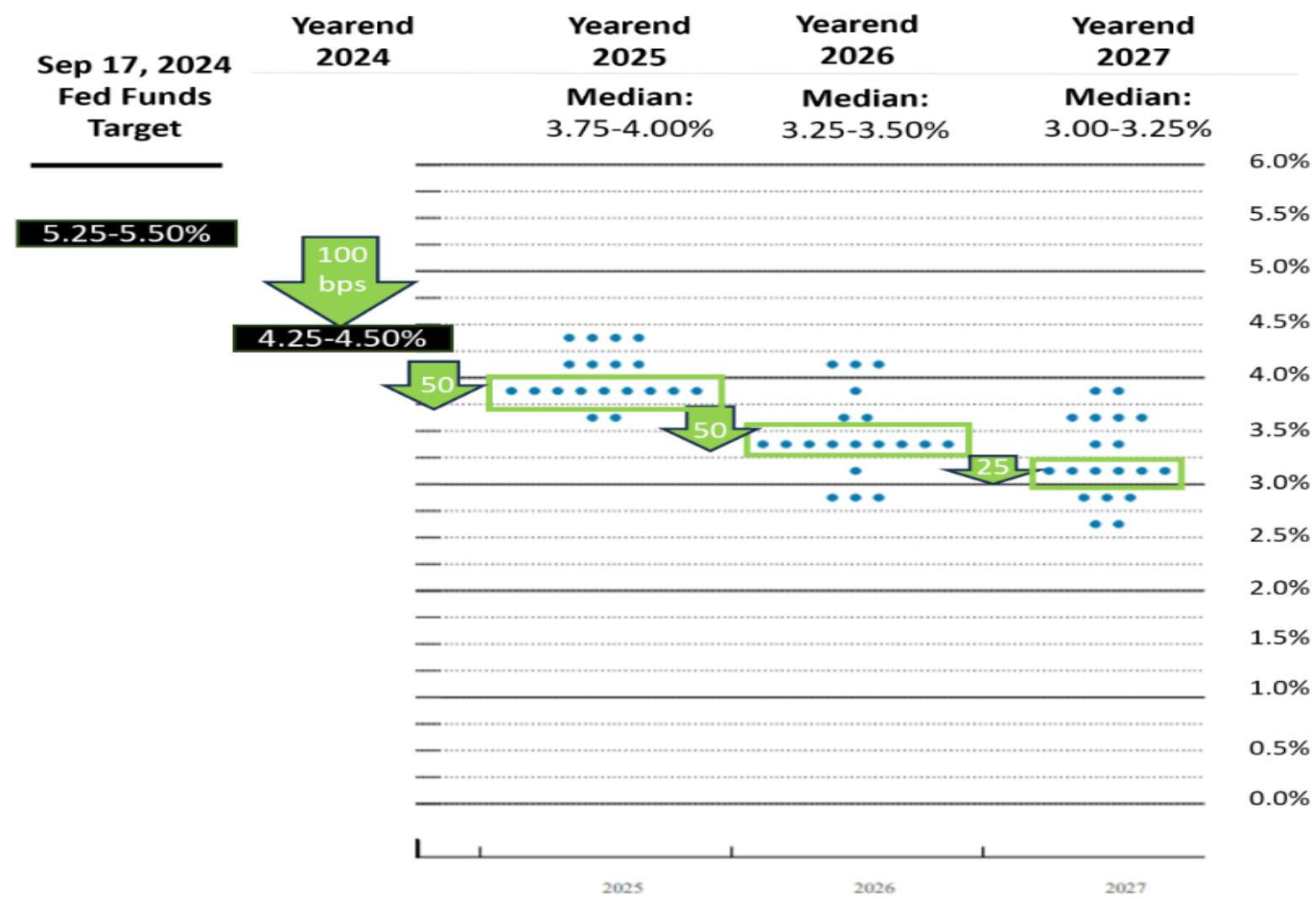
## Capital/Debt Budgeting:

The District has projects currently underway (Mount Nittany Elementary School addition) as well as planned in the near future (Park Forest Middle School construction). In addition, the results of the District-wide Master Facility Plan will need to be incorporated into the capital plan in the near future.

To fund these projects will likely require the utilization of Capital Reserve funds as well as a future borrowing. Over the past year the Administration and its financial advisor have discussed numerous times the likelihood of borrowing(s) to finance construction projects, however a recommendation to borrow has been delayed to this point.

This delay has proven valuable as the Fed Funds target rate has decreased by 1% since September 2024 and projections include a reduction of another 1% by the end of 2026 based upon the most recent release. While there are factors that could influence borrowing rates independent of the Fed Funds Rate, this rate will typically influence both borrowing and deposit rates.

Figure 1: March 2025 Fed Dot Plot Showing Projected Target Range of Fed Funds Rate



Source: March 19, 2025 FOMC *Summary of Economic Projections* and Bondsavvy calculations.

**Presentation Change:**

Due to the variable nature of the self-insured health insurance plan Administration is recommending adjusting the nature in which health insurance is reported. Beginning with the 2025-2026 fiscal year, health insurance claims and administrative costs will no longer be captured in the General Fund, rather they will be reported as expenditures in an Internal Service Fund. The General Fund will report in its expenditures the premiums paid by the District on behalf of its employees to the Internal Service Fund. In addition, the Committed Fund Balance for Health Insurance in the General Fund is recommended to be transferred to the Internal Service Fund where the plan would be to maintain a 3-6 month balance to protect against a bad claims year. By taking these steps the variable nature of health insurance claims will be captured in an Internal Service Fund which will take the ramifications associated with the variable nature of claims out of the General Fund.

**What's to Come:**

This update is to prepare the Board for the final steps of the budget development process including:

- Updated revenue projections
- Updated expense projections
- Full Time Equivalent staffing analysis for 2024-25 and 2025-26
- Departmental budget analysis for 2024-25 and 2025-26
- Expense budget analysis for 2024-25 and 2025-26
- Requested budget related information
- Fund balance analysis
- Supplemental tax rebate
- Updated timeline
- Updated multi-year projections

A CAC for the finance committee meeting was held on April 9 and provided an additional opportunity for stakeholders to review updated information.

**Conclusion**

Although the multi-year projections have improved from the prior budget cycle, Administration will continue to work throughout 2025-2026 monitoring the financial trajectory of the District with recommendations coming in the new year.

**Next Steps**

The budget hearing and budget development at the regular board meeting will be held on May 19. The final budget will be presented for approval on June 2.