Conestoga Valley School District
Proposed Final Budget Report

2026/2027

Conestoga Valley School District
502 Mount Sidney Road
Lancaster, Pennsylvania 17602

Phone (717)397-2421
Fax (717)397-0442
www.conestogavalley.org

Conestoga Valley
SCHOOL DISTRICT

MISSION

To educate all students to strive for personal excellence,
while becoming caring and contributing citizens
in a global community.

VISION

To inspire a collaborative learning community
where all individuals have equal opportunities
to achieve their fullest potential.

WE BELIEVE
IN THE FOLLOWING FOUNDATIONS

- Expecting a safe and respectful learning environment
- Sustaining strong school-family relationships
- Delivering a well-rounded educational program
- Cultivating the diverse skills necessary for the 21st Century
- Fostering an appreciation for life-long learning
- Promoting the development of our core character traits
- Investing in mutually beneficial community partnerships

CONESTOGA VALLEY SCHOOL DISTRICT
PROPOSED FINAL BUDGET
2026 – 2027 BUDGET NARRATIVE

In June 2006, the Taxpayer Relief Act, commonly known as Act 1, was signed into law. The Act was designed to control educational expenditures by limiting real estate tax increases. Under the law, a district's millage rate cannot be increased by more than the index as established annually by the Pennsylvania Department of Education and that index for 2026/2027 is 3.50% for Conestoga Valley. Districts may apply for referendum exceptions from this limit due to significant increases in costs in specific areas. The Conestoga Valley School District did qualify for the Special Education exception for the 2026/2027 budget. However, Conestoga Valley receives Ready to Learn state subsidy and therefore, per the current legislation, may not apply for any exceptions.

The district continued to work through a very difficult budgetary process again this year. The School Board and administration reduced expenditure requests from the preliminary budget by over 4,285,696. The School Board, through a very transparent process, discusses the impact of tax rate adjustments on the residents while balancing the educational needs for a continued successful education program. All budget updates are presented to the School Board are available online through public agendas for members of the community to view.

The School Board asked the administration to identify potential reductions to minimize the tax increase for the 2026/2027 budget. Administration held meetings with each building department. The intent was to keep budgetary increases as low as possible considering the economic challenges the residents are facing. The resulting reductions included a variety of items including reductions in supplemental contracts, healthcare costs savings initiatives, and building/department budget cuts. However, to make an impact that would be significant, staffing, which is the largest cost driver, needed to be reviewed. From this review, the District continued its' process of equalizing class sizes by moving staff from one building to another and not replacing some staff through vacancy management. The School Board has attempted to avoid furloughs or layoffs and to gain savings through attrition. Such reductions can only be realized through retirements, resignations or through movement of existing staff into those positions.

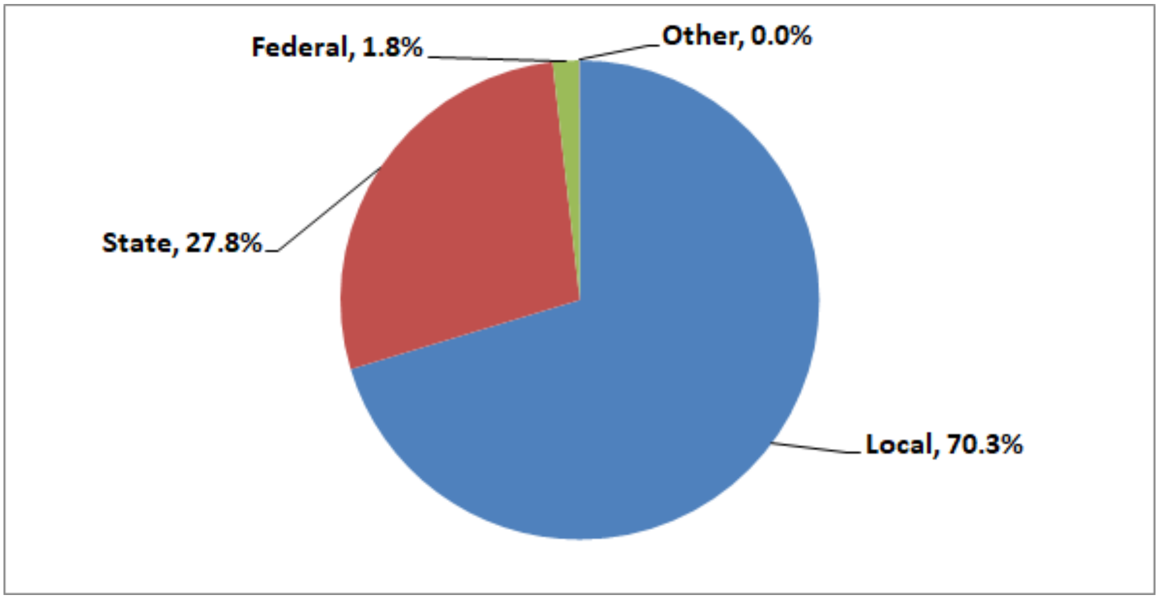
At the May 11, 2026, Board meeting, the School Board approved a Proposed Final Budget with a tax increase of 3.50%. For the average single-family residential homeowner, that translates into a tax increase of approximately $122. However, the residential properties that were approved as Homesteads will receive approximately $184 off their tax bill as the District expects to receive $1,238,932 in State Property Tax Reduction revenue, a $6,512 increase over the amount received in the previous year. That money goes to reduce the tax burden of residential taxpayers.

Total revenues for the 2026/2027 budget are $98,865,718 which represents a 5.36% increase in revenues over the 2025/2026 budget. Total expenditures for the 2026/2027 budget are $100,029,350 which represents a 5.25% increase over the 2025/2026 budget. Overall, budgeted expenditures exceed budgeted revenues by $1,163,632 which will be covered by planned use of fund balance resulting in a remaining fund balance which is 11.24% of budgeted expenditures. The School Board has committed approximately $2,919,320 of the fund balance for future pension costs, health savings account, future debt obligations and has assigned approximately $2,800,000 for real estate tax assessment appeals and stabilization of inflationary factors.

The 2026/2027 proposed state education budget includes an additional $138,773 and $13,980 for Conestoga Valley through the basic and special education subsidies. In addition, the proposed state education budget also includes an adequacy investment which results in an additional $2,132,305 to be allocated to the District. This investment will further assist student achieve academic performance goals, support early childhood programs and provide additional resources for the while reducing the tax burden for the residents of the District. The basic education subsidy is based on a formula which recognizes changes in the District's demographics, such as enrollment growth, poverty, and English Language Learners. An increase in the amount of basic education subsidy allocated to a school district is impacted by the amount of such subsidy included in the Governor's budget. The special education subsidy is based on a formula that considers various factors such as the cost to provide services for students based on the level of need broken into three categories of cost. This formula provides for a more equitable distribution of the subsidy. The actual dollar amount of any increase will not be known until the state calculates the formula factors.

The District also receives state subsidy to reimburse 50% of retirement costs incurred to the Pennsylvania School Employee Retirement System (PSERS). As the PSERS retirement rate is increasing in 2026/2027 from 34.00% to 33.59%, the reimbursement subsidy will increase by approximately $198,190 because of the increase in salary costs in the 2026/2027 budget. The District also receives a state subsidy to offset the cost of debt service payments for approved building projects. The subsidy calculation includes the amount of the debt service payment and the district's aid ratio (wealth). The District's 2026/2027 budgeted rental subsidy is increasing slightly from the 2025/2026 budget as current debt service payments eligible for the subsidy have increased. The Planning and Construction Program (PlanCon) which provides this reimbursement to districts is based on a specific percentage per project but is currently on a moratorium.

This pie graph shows the percentage of total revenues in the Proposed Final Budget derived from the various sources.



This chart summarizes the increases or decreases in revenue from the 2025/2026 budget as follows:

DESCRIPTION	2025-2026 BUDGET	2026-2027 BUDGET	INCREASE (DECREASE)	PERCENTAGE CHANGE
Local Revenues	$ 66,977,929	$ 69,573,533	$ 2,595,604	3.88%
State Revenues	25,058,668	$ 27,530,526	2,471,858	9.86%
Federal Revenues	1,799,493	$ 1,761,659	(37,834)	-2.10%
Other	$ -	$ -	$ -	0.00%
TOTAL REVENUES	$ 93,836,090	$ 98,865,718	$ 5,029,628	5.36%

Several major reasons exist as to why the School Board feels a tax increase is justified. On the revenue side, growth in assessed values during the last several years has been minimal because of assessment appeals and lack of natural market growth. Revenue loss due to appeals cannot be made up. The proposed final budget projects a rate of natural growth for 2026/2027, to be about 0.54%. However, there are some housing developments and apartment complexes under construction along with commercial and retail expansions. These construction projects will support growth in the District but the exact timing of when that growth is recognized is currently unknown. Despite previous economic concerns, the real estate tax collection percentages have remained at approximately 98.5%. The Lancaster County Tax Collection Bureau has provided projections on how earned income tax revenue will be impacted. Based upon the current revenue trends, the earned income revenue budget for 2026/2027 is $6,466,300, approximately $183,000 higher than the 2025/2026 budgeted earned income. A combination of the Federal Reserve having made interest rate cuts to stabilize inflation has caused interest earnings to decrease by approximately $377,796 over the 2025/2026 budget.

On the expenditure side, salary costs are increasing by $1,630,308. New staffing requests were approved only if required by law due to caseloads. When feasible, the District has reduced personnel costs through vacancy management. The five-year contract with the education association negotiated in the spring of 2024 will not expire until June 30, 2029. Through this contract the District offers a high-deductible health care plan option to its employees. In this plan the employee assumes responsibility for health expenses up to a $2,000 deductible ($4,000 for a family plan). The District will provide a match of the employees' contributions of up to 50%. Employees will be able to reduce their premium costs by participating in an outcome-based wellness rewards program. The contract also calls for salary increases of approximately 4% each year.

Healthcare costs have been increasing at a high rate primarily due to the high cost of prescription medicines along with an increase in usage of these medications. In addition, the costs related to providing medical services has increased significantly. Retirement costs are increasing by $396,381 or 3.2%. As mentioned previously, the mandated PSESRS rate is decreasing from 34.00% in 2025/2026 to 33.59% in 2026/2027. The increase in salaries and staffing is resulting in an overall increase in the PSERS expense. The retirement rate is established by the Pennsylvania School Employee Retirement System (PSERS) and is expected to increase each year to an estimated rate of 37.48% of payroll in the 2033/2034 fiscal year which has had a tremendous impact on budgets. The School Board established a PSERS Rate Stabilization Fund to offset the significant increase that began taking effect in 2011/2012. The remaining amount of the fund balance committed for this Stabilization Fund is $963,262.

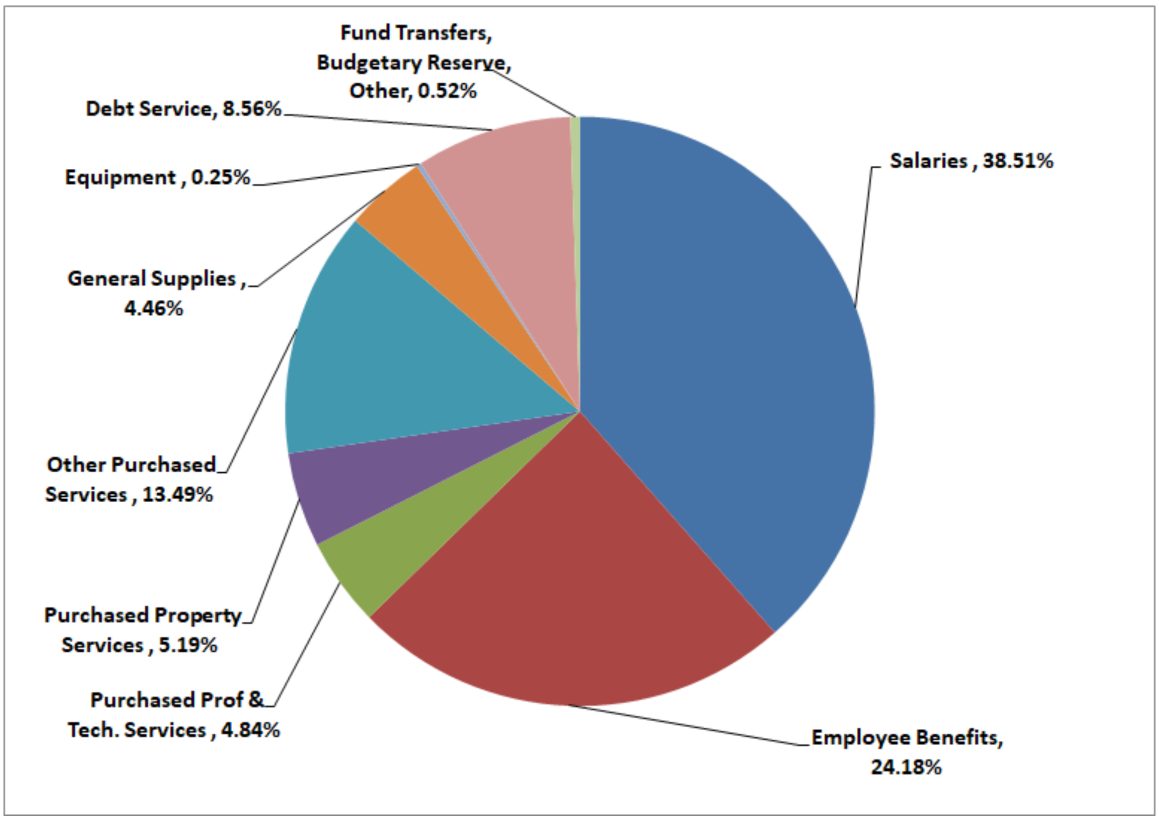
Special education continues to be a financial concern. As with other districts across the Commonwealth, the percentage of special education students compared to the total student population is increasing at a substantial pace. Special education enrollment represented 19.9% of the District's total enrollment in 2024/2025 compared to 15.60% ten years ago. The District has been able to implement various cost saving initiatives over the years including providing the special education services at the District instead of contracting with the local intermediate unit and/or local school districts to provide these services to contain costs. Under the guidance of the Assistant to the Superintendent for Pupil Services and the Director of Special Education, the District continues its multi-year plan to build capacity in a way that best fits student needs. An added benefit of this plan is that it is expected to result in lower costs.

Costs to support the Conestoga Valley Virtual Academy (CVVA) include not only the cost of technology to support such programs but curriculum and staffing costs. Cyber charter school tuition costs also have increased since the pandemic and the District continues to be in contact with those families to share information about CVVA. The District continues to vigorously promote CVVA and the 2026/2027 budget continues to reflect that support.

With 3,714 projected students, the 2026/2027 budget cost per student is $26,933, $1,232 more than last year. This increase in cost per student is also reflective of the increase in costs to support online or remote.

Finally, rising costs of fuel, food, supplies, and utilities continue to put pressure on district expenditures.

The pie graph below shows the percentage of total expenditures in the Proposed Final Budget used for various functions:



The breakdown of significant increases or decreases from the 2025/2026 budget is as follows:

DESCRIPTION	2025-2026 BUDGET	2026-2027 BUDGET	INCREASE (DECREASE)	PERCENTAGE CHANGE
Salaries	$ 36,887,874	$ 38,518,174	$ 1,630,300	4.42%
Employee Benefits	22,868,474	24,184,558	1,316,084	5.76%
Purch. Prof & Tech. Services	4,437,886	4,842,370	404,484	9.11%
Purch. Property Services	5,007,014	5,192,201	185,187	3.70%
Other Purchased Services	12,715,449	13,498,425	782,976	6.16%
General Supplies	4,325,604	4,460,264	134,660	3.11%
Equipment	388,227	253,556	(134,671)	-34.69%
Other	143,032	81,954	(61,078)	-42.70%
Refunds from Prior Yr's Receipts	50,000	50,000	-	0.00%
Budgetary Reserve	50,000	198,232	148,232	296.46%
Fund Transfers-Other	170,000	190,000	20,000	11.76%
Fund Transfers-Debt Service	7,997,180	8,559,616	562,436	7.03%
TOTAL EXPENSE	$ 95,040,740	$ 100,029,350	$ 4,988,610	5.25%

The District issued a fourth general obligation bond issue in the amount of $45,560,000 which settled in May 2022. This bond issue is for the purpose of continued renovations to the remaining District buildings. While this necessitates a substantial increase in debt service, as current debt is paid off, the structure and timing of new bond issues will have minimal impact on the amount of millage needed in the budget. In November 2023, the District approved bids to renovate Leola Elementary School. Those renovations began in June 2024 and are now complete. The District issued a fifth general obligation bond in July 2025 for $14,995,000 to assist with the renovations of Fritz Elementary. Bid were approved in February 2026 and the renovations are currently underway. The District will apply for the Redevelopment Assistance Capital Program (RACP) grant which is administered by the Commonwealth Office of the Budget. The timeframe for submitting the application for the grant will be after mid-2026.

The District currently has a long-range plan for capital repairs and equipment replacements. Projects slated for 2026/2027 include the high school roof restoration, replacement of two chillers at the high school, replacement of the Annex building automation system for HVAC controls. To mitigate the cost of these projects, the District has applied for the Public School Facility Improvement Grant. Grant awards will be known in the fall.

An important focus of the District is to maintain a healthy fund balance. As a rule, sound business practice is that reserves in the amount of 3-6 months of operating expenses be set aside for rainy days. Although under Pennsylvania law, the unassigned fund balance of a school district with the budget size of Conestoga Valley cannot exceed 8% of budgeted expenditures. While Conestoga Valley has an unassigned fund balance at the 6.5% level, that $6,523,163 would only fund about one month of operating expenses. In projecting the future year revenues and expenditures while maintaining a fund balance within this range, the District anticipates that the millage rate will continue to increase. The District has, for the most part, historically kept tax increases at or under inflation. The biggest concern from a management standpoint, is an extremely low index in a year that requires a larger tax increase to sustain programs. Another issue is the Act 1 timeline – the District begins the budgetary process in September and must adopt a preliminary budget by early February when all the information necessary to build an accurate budget is not yet available. Even so, the school District has done an excellent job at accurately projecting budgetary needs,

As we plan, Conestoga Valley continues to try to provide the best educational program for the community, while at the same time attempting to keep the tax burden as low as possible. Over the years, there have been many steps taken to reduce costs or increase revenues other than raising taxes. The District will continue to look at efficient and effective ways to bring quality educational services to the community.