

District Budget Overview

Coatesville Area School District

January 9, 2018

Types of Funds/Budgets

- District Budget normally refers to the General Fund Budget
 - General Fund Budget most flexible of all budget types
 - This Budget must be filed annually with the state on form PDE-2028
 - Appropriation may not exceed available funds

Other types of Funds/Budgets

- Capital Reserve Fund
 - May only be used for capital improvements even if money was originally transferred from General Fund
 - May be used for Debt Service Payments
 - Transfers from General Fund to Capital Reserve Fund can be compared to exchanging cash (unlimited use) for gift cards (specific type of expenditure)
- Capital Fund from Bond Proceeds
 - May only be used for expenditures within the bond resolution
 - Resolution may be modified by Board action to include other types of expenditures not anticipated when Bonds were issued
 - May be used for Debt Service payments but only for the original source of the funds

CASD Capital Funds

- As of now the District has just under \$1 million in Capital Reserve Funds and about \$5.4 million in Capital Project Funds
- These funds are restricted for capital type projects and cannot be used for day to day operations on things like salary and benefits
- There is a provision to use some of these funds to pay ongoing debt service
- Will discuss this option later in the presentation

Act 1

- Passed in 2006
- Limits School District tax increases to an index comprised of the average increase of the Statewide Average Weekly Wage (SAWW) and the Federal Employment Cost Index for Education.
- Necessitates “early” budget decisions because of the potential for a question on the primary election ballot allowing for tax increases above the index with voter approval or applying for exceptions

Act 1

- Provides for Tax Relief for approved Homesteads and Farmsteads
- Amount of relief will vary yearly based upon eligible properties and gambling revenue
- Application process to be approved through the County Assessment Office
- Mailing took place in December to those properties not previously approved
- Deadline to file by March 1
- Only available for primary residences

Act 1 Index

- The Act 1 Index for CASD in 2018-19 is 3.0%
- This is the percentage that the property tax rate can be raised without applying for exceptions
- Exceptions available for real estate tax increases above the Act 1 Index
 - Special Education Expenditures above the index
 - Retirement Rate Increases above the index

Courses of Action

- Three courses of action under Act 1
 - Approve a resolution limiting tax increases to the Act 1 index and resume “normal” budget schedule
 - Prepare a preliminary budget which is balanced by allowable exceptions under Act 1 and submit those exceptions to PDE for approval
 - Prepare a preliminary budget which is balanced only by a tax increase above the Act 1 index and allowable exceptions that is approved by a referendum vote in the primary election

Key Act 1 Deadlines for 2018-19 Budget

- **January 25, 2018**

Deadline to make 2018-2019 proposed preliminary budget available for inspection **or** adopt resolution indicating that it will not raise the rate of any tax by more than its index.

- **February 14, 2018**

Deadline to adopt 2018-2019 preliminary budget

- **June 30, 2018**

State Deadline to adopt 2018-2019 final budget

- **May 31, 2018**

CASD Deadline to adopt 2018-2019 final budget per Board resolution

Preliminary Budget is Just That

- There are plenty of unknowns right now
- The real purpose of a preliminary budget is to provide a “first look” at finances of District and to allow for application for exceptions
- Applying for exceptions does not commit the District to using them
- However, if they are not applied for, the decision cannot be reversed at a later date

Preliminary Budget

- General philosophy is better to have the exceptions and ultimately not need them, than the reverse
- Exceptions also cannot be carried forward if not used in a particular year
- Use or lose if it is ultimately determined they are needed

Major Items Needing More Clarity

- Charter School enrollments and tuition rates
- Medical benefits cost
- New special education placements
- Proposed staffing
- State revenues

Other Key Variables

- Charter School Tuition is unavoidable and somewhat unpredictable
- Charter tuition rate is not finalized for the 2018-19 FY until May or June of 2019
- Enrollment varies throughout the year
- Special Education placements have similar characteristics

Decision Variables

- Cannot change any tax rate except real estate tax rate
- All other revenue changes based upon “natural” fluctuations, state formula, or state legislation
- The only revenue decision available to the Board is the real estate tax millage decision
- Expenditure decisions to some extent are in District’s control
- Charter Tuition however is not under District’s control

Recent Budget History

- Driven almost exclusively by special education placements and charter school tuition
- District has had two consecutive years of overspending the budgeted expenditure levels, primarily because of charter school, charter school special education and special education placement
- Budgeted expenses in 15-16 were \$149 million, actual expenses were \$159 million
- Budgeted expenses in 16-17 were \$153 million, actual expenses were \$170 million

	All Special Education Costs excluding Special Education Charter Tuition	Special Education Charter Tuition	Regular Education Charter Tuition	Other	Total Expenses
10-11	\$20,974,794	\$5,022,356	\$13,376,921	\$106,351,668	\$145,725,739
11-12	\$19,665,732	\$5,629,076	\$14,089,052	\$99,927,360	\$139,311,220
12-13	\$18,635,097	\$5,680,010	\$14,474,954	\$98,783,914	\$137,573,975
13-14	\$20,554,372	\$5,111,956	\$12,854,556	\$98,651,441	\$137,172,325
14-15	\$22,800,985	\$6,745,371	\$14,569,049	\$102,331,622	\$146,447,026
15-16	\$25,523,059	\$7,602,847	\$18,690,674	\$106,866,965	\$158,683,546
16-17	\$26,297,140	\$11,868,672	\$22,119,902	\$109,844,828	\$170,130,542
Change 10-11 to 16- 17	\$5,322,346	\$6,846,316	\$8,742,981	\$3,493,160	\$24,404,803

Coatesville Area SD Budget History by Major Area

	Salaries	Benefits Except Pension Cost	Pension Benefit Costs	Purchased Professional and Technical Services	Charter Tuition	Supplies and Equipment	Debt Service	Other	Total
10-11	\$55,179,041	\$21,409,036	\$3,153,886	\$11,909,354	\$18,399,277	\$4,362,791	\$14,110,679	\$17,201,675	\$145,725,739
11-12	\$49,130,624	\$20,190,033	\$4,221,996	\$12,444,491	\$19,718,128	\$2,712,118	\$15,379,573	\$15,514,257	\$139,311,220
12-13	\$47,095,920	\$18,287,025	\$5,731,443	\$11,357,829	\$20,154,963	\$2,589,634	\$16,627,864	\$15,729,297	\$137,573,975
13-14	\$47,399,375	\$18,968,392	\$7,913,455	\$13,573,446	\$17,966,512	\$2,890,201	\$13,244,695	\$15,216,250	\$137,172,325
14-15	\$47,925,049	\$20,020,804	\$10,120,506	\$14,777,666	\$21,314,420	\$2,734,057	\$13,416,890	\$16,137,635	\$146,447,026
15-16	\$47,331,282	\$17,832,532	\$12,126,113	\$18,117,401	\$26,293,521	\$3,210,216	\$15,149,622	\$18,622,858	\$158,683,546
16-17	\$46,708,366	\$15,049,098	\$13,863,628	\$19,041,626	\$33,988,574	\$3,719,731	\$15,153,960	\$22,605,559	\$170,130,542
Change 10-11 to 16-17	-\$8,470,675	-\$6,359,938	\$10,709,742	\$7,132,272	\$15,589,297	-\$643,060	\$1,043,281	\$5,403,884	\$24,404,803

History of Recent PSERS Rates	Rate	CASD PSERS Expense	CASD PSERS Revenue	CASD Net PSERS Expense
	%			
10-11	5.64	\$3,153,886	\$1,571,160	\$1,582,726
11-12	8.65	\$4,221,996	\$2,141,921	\$2,080,075
12-13	12.36	\$5,731,443	\$2,937,817	\$2,793,625
13-14	16.93	\$7,913,455	\$4,052,047	\$3,861,408
14-15	21.4	\$10,120,506	\$5,282,062	\$4,838,444
15-16	25.84	\$12,126,113	\$6,415,841	\$5,710,272
16-17	30.03	\$13,863,269	\$7,901,929	\$5,961,340
Change 10-11 to 16-17		\$10,709,383	\$6,330,769	\$4,378,614

Expense analysis

- The major other item that increased besides charter tuition and special education placements was PSERS costs
- Salary cost is significantly lower than it was in 2010-11
- Difficult fiscally responsible decisions in the last few years that included Outsourcing and position elimination helped to save some money in these areas
- Challenge is most of the costs that are driving the budget have limited District control

Fund Balance Impact

- A number of one time items in revenue helped to mitigate impact on fund balance until 2016-17
- A 2013-2014 Borrowing for PSERS costs gave the fund balance a one time increase of \$5 million.
- A filing not completed by prior administration for money owed from many past PLANCON funds generated almost \$4 million of one time funds in 2015-16

Fund Balance Impact

- Because of Charter School, Charter School Special Education, Out of School Special Ed placements, it is inevitable the 2017-18 Budget will be overspent as well
- As a result, the General Fund Balance will become negative
- Not a final number but an estimate based on Charter Tuition budget vs. actuals is the fund balance will be negative \$7 million by June 30, 2018

Charter Tuition Budget

	Budgeted Charter Tuition	Actual Charter Tuition	Difference
2014-15	\$21,307,270	\$21,314,420	-\$7,150
2015-16	\$21,943,258	\$26,293,521	-\$4,350,263
2016-17	\$23,200,536	\$33,988,574	-\$10,788,038
2017-18 (projected)	\$27,234,385	\$39,837,598	-\$12,603,213

Fund Balance Impact

Coatesville Area School District-Fund Balance History	
	General Fund
2012-13	-\$1,368,211
2013-14	\$8,009,557
2014-15	\$11,223,004
2015-16	\$12,016,651
2016-17 Estimated	\$2,830,159
2017-18	Will be negative

Charter Tuition and the Flawed Formula Used to Calculate It

- Estimating Charter Tuition Costs is difficult
- Students come and go and there is no perfect way of estimating that from one year to the next
- The tuition rates are not finally determined until May or June of the Fiscal Year for which the budget is passed
- That is, we will not know the Charter Tuition rates for 2018-19 until May of 2019

Charter Tuition and the Flawed Formula Used to Calculate It

- Since $\text{Total Expense} = \text{Price (charter tuition rates)} * \text{Quantity (\# of charter students)}$, that number is very difficult to predict accurately
- The formula itself, especially for Charter School Special Education Tuition is seriously flawed
- The state had an opportunity to correct this a number of years ago when a new Special Education formula was passed, but it chose not to do that.

Charter Tuition Rates

	Regular Ed Charter Tuition Rate	Special Ed Charter Tuition Rate
2014-15	\$9,693.62	\$26,838.46
2015-16	\$10,167.77	\$29,562.12
2016-17	\$11,167.43	\$33,512.19
2017-18		
(projected)	\$11,374.00	\$36,196.00
2018-19		
(projected)	\$12,000.00	\$39,000.00

Charter Tuition and the Flawed Formula Used to Calculate It

- The charter tuition rates are based on District expenses per student
- While not perfect, the Regular Ed Rate is at least somewhat logical in that it counts all of our students in the denominator
- The Special Ed rate does not use an actual count of our special education students
- It is assumed all District have 16% of their students in special education

Charter Tuition and the Flawed Formula Used to Calculate It

- CASD has more than 20% of its students in special education
- We are dividing all of our special education costs by far less students than we have in special education because of the arbitrary assumption at the state level that all Districts have 16% of their students in special education
- If our actual count was used, the Special Education Rate would be significantly lower and our costs for Charter School would have been almost \$2 million lower in the most recent year

Charter Tuition and the Flawed Formula Used to Calculate It

- Finally, the state used to reimburse all Districts close to 30% of their Charter School Costs
- Budgets got tight in 2011-12 and the state decided to pay 0% of Charter School Costs from that point forward
- A direct shift of expenses from the state to the local taxpayers
- For 2016-17 alone, the District would have received \$9 million from the state had they not stopped paying their share in 2011-12
- Cumulatively, about \$40 million that we did not receive because the state decided to walk away from paying their share since 2011-12

What happens now?

- As a result of Charter School, Charter School Special Ed and Special Ed placements, the District had a significantly out of balance budget for 2016-17 and is still out of balance in 17-18
- Will be a difficult exercise to close that gap in one year
- Discussions about a borrowing to potentially give the District some time to make changes have just started
- A borrowing of this sort would require court approval

What Happens Now

- Another, perhaps preferable option, is the sale and lease back of some District buildings
- This provides upfront cash with a payback overtime
- Working with our financial professionals on this item
- Cost cutting measures including but not limited to furloughs and potential acceleration of the master facilities plan of consolidations must be considered

2018-19 Preliminary Budget

- Will use best estimates for charter tuition based upon current enrollments and projected tuition rates based on recent history
- That will be a significant increase over prior year's budget
- It will be necessary to apply for all possible Act 1 exceptions
- Other items such as selling assets and/or selling and leasing back assets need to be discussed

2018-19 Preliminary Budget

- Additional cost savings methods will be needed
- A combination of cost savings, revenue growth, and financing techniques will be considered
- Have the ability to shift some debt service out of the general fund into either of the capital funds
- Will also factor this into the mix

Preliminary Budget is the start

- A preliminary budget with conservative estimate of revenue and a significant increase over 17-18 for charter tuition has been prepared
- Currently in negotiations with multiple unions, so it is unclear where salary and benefit numbers will end
- Will spend the spring sorting out discretionary budget items, currently shown as constant from last year, but that may change

Budget Challenges Outside of Charter Tuition

- Debt service is scheduled to jump by over \$1 million in 2018-19
- Ongoing tax appeals may erase any assessed value growth
- State Budget is not even announced yet, but seems unlikely there will be a large increase there
- PSEERS rate increases again, although much smaller than past years (\$250,000 net impact)

State and Federal Revenue Assumptions

- For now, any line item that is not formula driven (PSERS, FICA) was assumed to be flat
- The hope is that will not be the case
- More clarity should develop as we move toward a final budget

Net of where we are

- As it stands now, with all of the assumptions incorporated, it would take nearly \$114 million of real estate tax revenue to balance the 2018-19 budget
- That would be the equivalent of a 20% tax increase
- Could only be approved at that level with a referendum
- Even that would only bring the budget back into structural balance
- Will still have a negative ending fund balance in 18-19
- Two step approach of erasing the structural deficit and eventually restoring the fund balance to zero over time

Net of where we are now

- The most taxes could be raised without referendum would be a 3% tax increase, coupled with exceptions
- Estimated exceptions are around \$5.3 million
- Tax rate increase at the index leaves an approximate \$17.6 million shortfall of revenue
- Increasing taxes with available exceptions still leaves a \$12.3 million gap

Net of where we are now

- Budget currently includes a \$2.4 million budgetary reserve line item
- Those funds have been needed (and more) in the past few years to cover the unexpected increase in charter tuition
- As a significantly higher number for charter tuition has been included, that number may be able to be scaled back
- Would essentially leave a \$10 million gap after all exceptions

Use of Capital Funds

- While not an ideal solution, the District does have the ability to shift more than \$2 million of its debt service to Capital Funds
- This would make the gap smaller
- Not shown on the preliminary budget as prepared
- Likely a needed option

Millage Rates

- Current: 34.9138
- Act 1 Index Increase: 35.9612 (3% increase)
- With all exceptions: 37.8641 (8.4% increase)
- To balance budget with all assumptions as stated above, before cost containment, debt service changes, any additional state/federal revenues and any sales/leaseback transactions:
41.9783 (20.2% increase)

Final Budget

- The Final Budget is the budget that sets actual tax rates and expenditure levels
- Preliminary Budget is a way to determine if exceptions may be needed
- They definitely need to be applied for
- Will spend the time between January and May trying to determine the best solution to the District's financial situation
- Final Budget may look significantly different from the Preliminary Budget

Final Budget

- Hope for growth in state and/or federal revenue
- Will have a better handle on health care costs as time moves along
- The Board will have difficult decisions to make with respect to staffing, programs, sale of assets, borrowing, etc.
- Referendum is an option, but outside of 2 building project referenda, they have all failed

Next Steps

- Continue budget discussions throughout the next few months
- Approve the Preliminary Budget at or before the February 13th Board meeting
- Apply for exceptions
- Work on cost containment solutions

Next Steps

- To overcome the negative fund balance before the end of the year, an unfunded borrowing with court approval or a sale/leaseback of building will be needed
- Recommendation is to discuss in further details the sales/leaseback option in the very near future
- Can solve the negative fund balance situation and may allow a more gradual approach

Next Steps

- A Preliminary Budget with all of the assumptions has been prepared on the official form to comply with School Code
- A zero starting fund balance is shown, which assumes a financing transaction to make that happen
- Without that transaction facing at least a \$7 million negative fund balance

Next Steps

- Budget will be made available for public inspection
- As it is, to bring it into balance, an unrealistic tax increase of over 20% is included
- A long road ahead

Wrap-up

- Discussion and Questions