

District Budget Update

Coatesville Area School District

January 23, 2018

Key Act 1 Deadlines for 2018-19 Budget

- **February 14, 2018**

Deadline to adopt 2018-2019 preliminary budget

- **February 13, 2018**

Proposed date to adopt CASD 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

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

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
- 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

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 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 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	Capital Reserve	Capital Projects
2012-13	-\$1,368,211	\$105,804	\$44,417,685
2013-14	\$8,009,557	\$94,808	\$20,075,339
2014-15	\$11,223,004	\$90,229	\$8,443,968
2015-16	\$12,016,651	\$90,341	\$7,231,625
2016-17 Preliminary	\$2,830,159	\$1,093,153	\$5,406,634
2017-18 Estimated Without Changes	-\$7,000,000	\$935,306	\$5,407,524

State Charter Tuition Funding

- 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 will occur at the end of this presentation

2018-19 Preliminary Budget

- A significant increase over prior year's budget
- It will be necessary to apply for all possible Act 1 exceptions
- Cost cutting measures including but not limited to furloughs must be considered
- Potential changes to the timeline of Facilities Master Plan

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 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 (8.45% 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 (20.23% increase)

Real Estate Tax History

2017 Median Residential Assessment

107,366

Fiscal Year	Mills	% Increase	Act 1 Index	Median Tax Bill	\$ increase
2018-2019 to balance budget with status quo	41.9783	20.23%		\$4,507	\$646
2018-2019 with estimated exceptions	37.8641	8.45%		\$4,065	\$317
2018-2019 at index	35.9612	3.00%	3.00%	\$3,861	\$112
2017-2018	34.9138	4.35%	3.20%	\$3,749	\$156
2016-2017	33.4598	2.10%	3.10%	\$3,592	\$74
2015-2016	32.7716	2.40%	3.40%	\$3,519	\$82
2014-2015	32.0036	2.60%	2.60%	\$3,436	\$87
2013-2014	31.1926	3.60%	2.10%	\$3,349	\$116
2012-2013	30.1090	2.10%	2.10%	\$3,233	\$66
2011-2012	29.4900	3.51%	1.70%	\$3,166	\$107
2010-2011	28.4900			\$3,059	

Next Steps

- Continue budget discussions throughout the next few months
- Approve the Preliminary Budget at the February 13th Board meeting
- Apply for exceptions
- A more than 20% tax increase is not possible
- Must work on cost containment solutions

Borrowing Discussion

- Options include annual Tax Revenue Anticipation Notes, Borrowing for Unfunded Costs with Court Approval, or Sale/Leaseback of a building
- This provides upfront cash with a payback overtime
- Sales/Leaseback transaction requires the forming of a Coatesville Authority
- 5 members will be appointed to the Authority by School Board

Borrowing Option

- Still determining the necessary amount of borrowing and how to phase it
- Motion on tonight's meeting to start the process
- Our financial professionals are here to provide an overview of the process and answer any questions you may have