**Plum Borough**

**School District**

**Facilities and Financial Review**



**Visitation Conducted**

**November 9 – 10, 2017**

**Pennsylvania Association of School Business Officials**

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**INTRODUCTION**

Under the direction of the Pennsylvania Association of School Business Officials (PASBO), a team of four school business officials, recognized as experts in the field of school district business operations, was assembled to conduct a facilities and financial review for the Plum Borough School District. This review was at the request of the School District. The following individuals comprised the Study Team:

**Wayne McCullough, DBA, PRSBA**

Dr. McCullough is the Director of Leadership and Development for PASBO. Prior to his current position with PASBO, Dr. McCullough was the Chief Financial & Operations Officer and Board Secretary at the Southern York County School District. As Chief Financial & Operations Officer, he was responsible for all business functions, human resources, technology, operations and maintenance, food service, student transportation, public relations and marketing, safety and security, and community education programs. Southern York County School District was awarded PASBO’s Gold Award of Excellence in School Facilities in 2010 and again in 2013.

Dr. McCullough has served as President, Vice-President, and a Director on PASBO’s Board, Chair of PASBO’s Facilities Committee, and Chair of PASBO’s Materials Management (Purchasing) Committee. Dr. McCullough is the author of the “Elements of Facilities Management” and co-author of the “Elements of Student Transportation.” He received PASBO’s 2003 Award of Achievement in recognition of the outstanding practice: “A Guidance Document for Planning, Design, and Construction of Major Projects Using the Design Team Concept and the 2013 Award of Achievement for the program, “Cooperative Services Agreement between Two Non-Profit Organizations.” Dr. McCullough was named the 2013 recipient of PASBO’s prestigious Gary Reeser Memorial Award, for the outstanding school business official in Pennsylvania.

## Dr. McCullough serves as an adjunct professor for Wilkes University’s Master of Business Leadership program – developing curriculum and teaching courses related to facilities management, student transportation, technology, and purchasing.

**Richard Fantauzzi, PRSBA**

Richard Fantauzzi is Director of Finance & Operations for Elizabeth Forward School District in Elizabeth, PA, which is just south of Pittsburgh. Mr. Fantauzzi began his career in school business in July 2000 as Business Manager for Monessen City School District. Prior to school business he was Chief Financial Officer for Westmoreland County Children & Youth Services.

Mr. Fantauzzi earned a Bachelor's Degree in Accounting from Robert Morris College and holds a Master's Degree in School Business Leadership from Wilkes University. Mr. Fantauzzi is a 17-year member and past-President of PASBO. He continues to serve PASBO on the Accounting Committee and the Partnership Task Force.

Mr. Fantauzzi has held several positions in civic and faith-based organizations, and professional associations; as he is committed to improving opportunities for children.

**Craig Boltz, PRSBO**

Craig Boltz recently retired as the Director of Buildings and Grounds at the Lebanon School District. Mr. Boltz has thirty three years of experience as a facilities director having worked for three Pennsylvania public school districts.

His active membership in PASBO includes having been elected to the PASBO Board of Directors in 2008, serving as chair of the Facilities Committee for five years, and serving the Lancaster/Lebanon Plant Managers Group as president for three terms and secretary for three terms.

Mr. Boltz received PASBO’s 1995 Award of Achievement in recognition of the outstanding practice: “Your Maintenance Department as Clerk of the Works.” He served on the document review team for the “Planning Guide for Maintaining School Facilities,” published by ASBO in 2003. In addition Mr. Boltz was named the 2007 recipient of PASBO’s prestigious Gary Reeser Memorial Award, for the outstanding school business official of the year. Under his leadership, Lebanon School District was awarded PASBO’s Gold Award of Excellence in School Facilities in 2013. Mr. Boltz has been a speaker at numerous workshops and seminars, including PASBO’s School Operations Academy.

**Mark Brooks, PRSBA**

Mark Brooks is the Facility Supervisor for Montgomery County Intermediate Unit. Mr. Brooks has over 30 years of experience in the field of telecommunications, public works, and school facilities. Prior to this position Mr. Brooks was employed as the Director of Maintenance for Pequea Valley School District. Mr. Brooks has a bachelor’s degree in business administration, master’s degree in management and an MBA, and is currently completing a business administration doctoral program.

Mr. Brooks is active in PASBO, including membership on the following statewide committee: Material Management, Green, and Education. He has also served on the Mandate Waiver Special Task Force and as the Lancaster/Lebanon Plant Managers Group vice president and president. He is currently the secretary of the Delaware Valley School Facility Managers. Mr. Brooks has been a speaker at numerous workshops and seminars including the PASBO Elements of Purchasing Series.

## SECTION 1: FACILITIES REVIEW

***Estimated Savings Related to Closing School Building***

The PASBO Study Team reviewed and evaluated financial information and estimated savings related to the possible closing of a school building.

Based on information provided: (a) 2016-17 Annual Financial Report, (b) June 5, 2015 PlanCon data, and (c) building square footage provided by the District, the estimated savings to close Regency Park is approximately $1.4 million per year.

|  |  |  |
| --- | --- | --- |
| **Regency Park Elementary School** | |  |
|  | **PBSD Estimate** | ***PASBO***  ***Estimate*** |
| Gas | $15,439.00 | 11,658.11 |
| Electric | $17,535.00 | 49,740.46 |
| Water | $3,381.00 | 4,297.65 |
| Sewage | $2,880.00 | 3,521.49 |
| Supplies | $23,678.21 | 3,926.29 |
| Travel | $500.00 | 50.51 |
| Backflow | $120.00 | 120.00 |
| Inspections | $485.29 | 485.29 |
| Lawn Care | $2,100.00 | 0.00 |
| Snowplow | $3,966.15 | 3,966.15 |
| Garbage | $2,955.69 | 2,955.69 |
| Teachers (4) Retirees | $593,820.00 | 593,820.00 |
| Teachers (9) Furlough | $524,277.00 | 524,277.00 |
| Clerical Support (1 Retiree) | $81,224.00 | 81,224.00 |
| Custodial (2.25 Retiree) | $165,705.00 | 165,705.00 |
|  | $1,438,066.33 | **$1,445,747.64** |
|  | Savings estimates based upon 2016-17 AFR | |
|  |
|  |

The process to close a building should begin as soon as possible in order for the permit the financial impacts to be included in the annual school district budget.

***School District Enrollment Projections***

Objective: Evaluate School District enrollment projections and the enrollment capacity of buildings to determine the feasibility of closing a building.

Comments: Student enrollment projections are a key factor in budget development. They determine or influence many of the financial estimates that go into the budget, particularly in the instructional area. Most types of personnel requirements are derived directly or indirectly from estimates of the number of students to be served. In addition, the need for facilities such as classrooms, are calculated using projected enrollments as are the level of support services. The table below was compiled from Pennsylvania Information Management System data published by PDE on December 30, 2016. The cohort survival methodology, which tracks students as they move from grade to grade, is used to make enrollment projections.

It should be noted that the DAVIS report historical enrollment projection is significantly different that the enrollment published by the PA Department of Education website dated 12/30/16. PDE projections for the 2017-18 school year are nearly 60 pupils fewer when compared to actual numbers.

***District Enrollment by Grade – Historical Data***



**District Elementary School Enrollment by Building** (Current grades served by elementary schools: K-6)



The graph below shows Enrollment from October 2012 to October 2017. Enrollment has declined by nearly 300 pupils in this sixty (60) month period.

***Projected Enrollment Using Cohort Survival Method***

The PASBO Study Team used the Cohort Survival Method to project District-wide enrollment. The chart below suggests enrollment will decline until the 2019-2020 school year. The cohort survival methodology, which tracks students as they move from grade to grade, is based on a weighted mathematical formula and can be used for short term projections.

***Pennsylvania Department of Education Enrollment Projections***

The chart below shows enrollment projections as projected by the PA Department of Education, Division of Data Quality, dated December 30, 2016

***Building Capacities***

The chart below shows the capacity of each building in terms of the number of full time equivalent students. The source of this data is from a PlanCon document dated June 5, 2015.

|  |  |  |
| --- | --- | --- |
| **Building** | **Square Feet** | **Capacity FTE** |
| Plum Senior High School (9-12) | 295,404 | 1,607 |
| A.E. Oblock Junior High (7-8) | 121,073 | 883 |
| Holiday Park Elementary School (K-6) | 74,271 | 700 |
| Pivik Elementary School (K-6) | 74,271 | 700 |
| Center Elementary School (K-6) | 71,504 | 525 |
| Regency Park Elementary School (K-6) | 52,622 | 350 |
| **Total** | **689,145** | **4,765** |

The chart below shows the capacity of each building, including the total, if the School District closes Regency Park Elementary School. This information indicates that the School District has enough overall building capacity for close Regency Elementary School.

|  |  |  |
| --- | --- | --- |
| **Building** | **Square Feet** | **Capacity FTE** |
| Plum Senior High School (9-12) | 295,404 | 1,607 |
| A.E. Oblock Junior High (7-8) | 121,073 | 883 |
| Holiday Park Elementary School (K-6) | 74,271 | 700 |
| Pivik Elementary School (K-6) | 74,271 | 700 |
| Center Elementary School (K-6) | 71,504 | 525 |
| **Total** | **636,523** | **4,415** |

**Recommendation:** The existing grade structure should be fine, however the Administration and Board should consider the pros and cons of restructuring grade levels per building.

Option1: Close Regency Park Elementary School. While building space for special programs may be limited, this option can be accomplished on a short timeline.

Option 2: Close Regency Park Elementary School and add space at Center Elementary School using existing funds in the Capital Fund. This option should be considered as a long-term solution and provide adequate space for special programs.

Option 3: Close Regency Park Elementary School and move 8h grade to the High School School or 6th to the Junior High.

Option 4: Close Regency Park Elementary School and consider reducing kindergarten to a half day program. This option impacts the instructional program, but provides additional classroom space.

***Facilities Capital Improvement Plan***

Regency Park Elementary School is in need of updates, most significantly the mechanical systems and finishes. A long-range capital plan, including funding of the plan, is necessary to maintain existing buildings.

**Recommendation:** In order to provide stability to long range facility planning and to provide cost effective maintenance to the District’s buildings and grounds, the District should consider setting aside an amount of money to be spent each year on capital repairs and improvements in order to avoid the steady decline in the condition of district facilities. A reliable funding stream is essential to the long range facility planning process. A recommended amount would be 1 – 2% annually of the general fund.

***Work Order System***

Each piece of equipment should be inventoried on the work order system, and assign a preventative maintenance schedule. Interviews with the maintenance leadership revealed that equipment information in the system is incomplete. The system can be utilized to expand the preventive maintenance program, which can be assigned to either in-house staff of contracted labor to complete. This method will provide for a record of when and what type of preventive maintenance was completed. Additionally, it will allow for budgeting of preventive maintenance.

***Statistic Data***

The following benchmarking data is designed to provide PBSD with a valuable management tool. This section of the report analyzes base data provided by the PBSD and compares that data to standard custodial and maintenance staffing levels of other Pennsylvania school districts and school districts in the same region of the state. The PASBO Study Team recommends that the benchmarks should not be considered absolutes, but rather a means of general comparison to other school districts.

It is important to note that the benchmarking data representing other school districts is the median. The median represents the number that is midway in the range of values – that point at which an equal number of school districts fall above and below. The data represents 2013-2014 data from Pennsylvania school districts and school districts in region 1 (Beaver, Allegheny, Westmoreland, Washington, Greene, and Fayette Counties).

It should be understood that the information contained in this section of the report is strictly quantitative and does not address the quality of buildings and ground cleanliness and maintenance.



**Overall Facilities Expenditures as a % Overall Budget**

**Facilities Expenditures per Student**

**Square Feet per Custodial FTE**

**Square Feet per Maintenance FTE**

***Recommended Staffing Levels***

Additional information is needed. PASBO will provide at a later date.

**SECTION 2: FINANCIAL REVIEW**

***Review of District’s Financial Plan***

The Study Team reviewed the “Plan for Balanced Budget” as presented by the Director of Business Affairs. The assumptions stated in the Plan are considered reasonable projections.

It is the recommendation of the Study Team that the School District approve a balance budget, without borrowing, for the 2018-2019 fiscal year. This will require two important elements:

(1) A local real estate tax increase to the Act 1 limit, including exemptions, and

(2) Closing Regency Park Elementary School.

**Understanding the desire not to raise taxes for home owners on fixed income, the Board could consider a tax rebate program for senior citizens and others on fixed income.** Others have modeled a program similar to the State’s rebate program.

As an example, qualifications could include: 65 years or older, widow or widower (50 or older), or permanently disabled; and own and occupy your home in the Plum Borough School District; and total eligible annual household income is $25,000 or less, which excludes one-half of Social Security benefits, supplemental Social Security income, and Tier 1 Railroad Retirement benefits; and the 2018-19 tax bill must be paid by December 31, 2018.

Again, as an example, homeowners could receive:

|  |  |
| --- | --- |
| **Income** | **Maximum Rebate** |
| $0 to $8,000 | $500 |
| $8,001 to $15,000 | $400 |
| $15,001 to $18,000 | $300 |
| $18,001 to $25,000 | $200 |

***Recommendations for Improving District-Wide Efficiencies/Revenue***

1. It is the opinion of the Study Team that the contract for Facilities Supervision is higher than services can be provided in-house.

2. Close elementary school as previously mentioned.

3. Consider renegotiating payment in lieu of taxes agreement for Longwood property.

4. Approximately 75% of the operating budget is typically salaries and benefits for employees. Staff levels in all areas must be consider as part of the balanced budget strategy.

5. Board should consider adopting a fund balance policy for purposes of future financial health and guidance of the District.

Sample Language as provided by the PA School Board Association:

**Purpose**

The Board recognizes that the maintenance of a fund balance is essential to the preservation of the financial integrity of the school district and is fiscally advantageous for both the district and the taxpayer. This policy establishes goals and provides guidance concerning the desired level of the year-end fund balance to be maintained by the district.

**Definitions**

**Fund Balance** is a measurement of available financial resources. Fund balance is the difference between total assets and total liabilities in each fund.

GASB Statement 54 distinguishes fund balance between amounts that are considered nonspendable, such as fund balance associated with inventories, and other amounts that are classified based on the relative strength of the constraints that control the purposes for which specific amounts can be spent. Beginning with the most binding constraints, fund balance amounts shall be reported in the following classifications:

**Non-spendable** – amounts that cannot be spent because they are in a non-spendable form (e.g., inventory) or legally or contractually required to be maintained intact (e.g., principal of a permanent fund).

**Restricted** – amounts limited by external parties, or legislation (e.g., debt covenants and grants).

**Committed** – amounts limited by Board policy or Board action (e.g., future anticipated costs). Action must be taken by the Board to commit fund balance for the designated purpose prior to the end of the fiscal year.

**Assigned**– amounts that are intended for a particular purpose. Generally balances in special revenue funds or capital project funds will be designated as assigned.

**Unassigned**–amounts available for consumption or not restricted in any manner.

**Authority**

An official Board resolution shall be required to establish, modify or rescind a commitment of fund balance.

**Guidelines**

The school district will strive to maintain an unassigned general fund balance of not less than five percent (5%) and not more than eight percent (8%) of the budgeted expenditures for that fiscal year.

The total fund balance, consisting of several portions including committed, assigned and unassigned, may exceed eight percent (8%).

If the unassigned portion of the fund balance falls below the threshold of five percent (5%), the Board will pursue variations of increasing revenues and decreasing expenditures, or a combination of both until five percent (5%) is attained. If the assigned and unassigned portions of the fund balance exceeds eight percent (8%) of budgeted expenditures, the Board may utilize a portion of the fund balance by appropriating excess funds for nonrecurring expenditures only. The goal shall be to use any excess fund balance for nonrecurring expenditures; not for normal operating costs.

**Use of Fund Balance**

The restricted fund balance shall be reduced to the extent that the underlying reason for the restriction has been eliminated.

If the district experiences an excess of expenditures over revenues for a given fiscal year, the fund balance shall be consumed in the following order:

1. Restricted fund balance to the extent that expenditures related to the restriction contributed to the excess of expenditures over revenues.
2. Committed fund balance to the extent that expenditures related to the commitment contributed to the excess of expenditures over revenues. If a plan for periodic use of committed fund balance is reviewed and approved by the Board, the committed fund balance will not be reduced by more than the amount designated in the plan.
3. Assigned fund balance to the extent that expenditures related to the assignment contributed to the excess of expenditures and revenues.
4. Unassigned fund balance for any remaining excess of expenditures over revenues.

**Delegation of Responsibility**

The responsibility for designating funds to specific classifications shall be as follows:

1. Non-spendable – shall be determined by the Business Manager.
2. Restricted – shall be determined by the Business Manager.
3. Committed – shall be assigned by the Board.
4. Assigned – shall be assigned by the Board

The Superintendent or designee shall be responsible for the enforcement of this policy.

***Debt Service***

The Study Team reviewed the School District’s debt service materials provided by District for the purpose of making recommendations for improving revenue and/or restructure of debt.

**The PASBO Study Team does not recommending restructure of existing debt.**

Below is a chart showing the total debt service in terms of annual expenses and total local debt service in terms of annual expenses. The local debt service shows the impact to the School District’s annual budget.

The local debt service increases from an annual expense of $4,655,042 fiscal year 2017-2018 to $7,403,543 in fiscal year 2018-2019.

|  |  |
| --- | --- |
| **Total Debt Service Requirements** | |
| Year Ended: | Total Debt |
| 6/30/2018 | 5,152,284 |
| 6/30/2019 | 8,290,457 |
| 6/30/2020 | 8,290,226 |
| 6/30/2021 | 8,290,803 |
| 6/30/2022 | 8,287,366 |
| 6/30/2023 | 8,180,169 |
| 6/30/2024 | 8,178,794 |
| 6/30/2025 | 8,182,394 |
| 6/30/2026 | 8,180,202 |
| 6/30/2027 | 8,177,994 |
| 6/30/2028 | 8,200,428 |
| 6/30/2029 | 8,253,363 |
| 6/30/2030 | 8,256,359 |
| 6/30/2031 | 8,142,709 |
| 6/30/2032 | 7,876,887 |
| 6/30/2033 | 7,383,637 |
| 6/30/2034 | 7,465,555 |
| 6/30/2035 | 7,088,172 |
| 6/30/2036 | 6,323,285 |
| 6/30/2037 | 6,325,363 |
| 6/30/2038 | 6,323,240 |
| 6/30/2039 | 6,326,070 |
| 6/30/2040 | 3,214,156 |
| **Total** | **170,389,910** |
|  |  |
|  |  |
| **Local Effort Requirements** | |
| Year Ended: | Total Local |
| 6/30/2018 | 4,655,042 |
| 6/30/2019 | 7,403,543 |
| 6/30/2020 | 7,402,624 |
| 6/30/2021 | 7,402,757 |
| 6/30/2022 | 7,400,131 |
| 6/30/2023 | 7,397,460 |
| 6/30/2024 | 7,397,382 |
| 6/30/2025 | 7,400,097 |
| 6/30/2026 | 7,398,961 |
| 6/30/2027 | 7,396,610 |
| 6/30/2028 | 7,396,222 |
| 6/30/2029 | 7,395,906 |
| 6/30/2030 | 7,399,321 |
| 6/30/2031 | 7,376,853 |
| 6/30/2032 | 6,818,426 |
| 6/30/2033 | 6,271,636 |
| 6/30/2034 | 6,288,993 |
| 6/30/2035 | 6,018,766 |
| 6/30/2036 | 5,418,231 |
| 6/30/2037 | 5,649,383 |
| 6/30/2038 | 5,708,305 |
| 6/30/2039 | 6,326,070 |
| 6/30/2040 | 3,214,156 |
| **Total** | **152,536,876** |

***School District’s Budget***

The Study Team reviewed the budget information provided by the Director of Business Affairs and believes budget assumption are accurate.

***PA Auditor General Report***

The Auditor General reported a finding that the Plum Borough School District has “Persistent Operational Deficits.” The following points were noted: (a) the of fund balance in lieu of raising property taxes or decreasing educational services will be unsustainable in the future, (b) the debt service was considered excessive being over 10% of the total expenditure, “the District should be very wary of taking on more debt,” and (c) the District should develop a long range financial plan, implement a business model to monitor operational expenses

***Legal Requirement for a Balanced Budget***

The Public School Code *[24 PS 6-687(b)]*is quite clear on this requirement. It states:

*The board of school directors, after making such revisions and changes therein as appear advisable, shall adopt the budget and the necessary appropriation measures required to be put into effect. The total amount of such budget shall not exceed the amount of funds, including the proposed annual levy and State appropriation, available for school purposes in that district.*

This does not mean current revenue must equal current expenditures, although that is ideal. A balanced budget often includes fund balance, transfers from other funds, and other financing sources including borrowing for allowed purposes.

**It is extremely important for the Board of Education and the District Administration to work hand-in-hand to balance the District’s Budget.**

**The Study Team reviewed the “Plan for Balanced Budget” as presented by the Director of Business Affairs. The assumptions stated in the Plan are considered reasonable projections.**

***Projecting and Budgeting for Revenues and Expenses***

**It is the observation of the Study Team that the Director of Business Operations has accurately projected revenues and expenses for the 2018-2019 proposed budget.**

##### ***Budgeting for Revenues***

In practice, it is likely that revenue information will be requested, both formally and informally, well in advance of expense information. “How does the budget look?” usually means, “How does the revenue side of the budget look?” A carefully developed revenue budget with a small margin of error is important for two reasons.

1. Estimated revenues that are **understated** could result in some decisions detrimental to the program because expenditure budgets are usually sized (i.e. cut in many cases) to fit into the reported revenue framework.
2. Revenue estimates that are **overstated** will result in a deficit and will drain fund balance. This will have a detrimental effect on future budgets. When revenue estimates are overstated, it is likely that programs and buildings will expand their budget requests to consume any additional projected revenue.

The art, then, is to get the revenue estimates within the smallest margin of error possible. With diligence throughout the process, a 1%-2% margin of error (less in good business operations) in revenue projection is a reasonable expectation, barring extraordinary circumstances.

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| --- | --- | --- |
| **Projecting and Estimating Revenue** | | |
| **Major Revenue Category** | **Current Year Projections**  **(Projected Actual)** | **Next Year Estimates**  **(Budget)** |
| Revenues from Local Sources (Taxes) | Collection experience projected to year end | Tax base and tax rate estimates |
| Revenue from State Sources (Subsidies) | State budget amounts | Prior year levels and estimate of state commitment with constant modification. In ideal circumstances, this amount will be known with some certainty prior to local budget adoption on June 30. |
| Revenue from Federal Sources (Grants) | Federal grant announcements | Prior year levels and estimates of federal commitment; federal year end in 9/30 and accurate federal grant information will not be known |
| Note: There are two separate estimating processes: (1) current year projected actual and (2) next year’s budget estimate. **Usually by November of the current year, the current year projected actual will be known with almost certainty.** | | |

##### ***Local Revenue***

There are three major categories of revenue is school district accounting and terminology: local, state, and federal. And every Pennsylvania school district receives these categories in different proportions depending on its unique wealth profile. The wealthier a school district, the less state subsidy it is deemed to need and the greater it must rely on “local revenue,” the primary component of which is board-levied tax.

Conversely, the state finance system recognizes that poor school districts cannot generate the same proportion of revenue through local taxation as wealthy school districts and receive proportionately greater state financial assistance.

The concept of “wealth profile” is critical to understanding the Pennsylvania School Finance System and will be discussed later in this unit.

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| --- | --- |
| **Major Categories of “Local” Revenue** | |
| Taxes levied by the school district | Includes: real estate tax; per capita tax; occupation tax; wage tax; realty transfer tax; various nuisance taxes |
| Earnings on Investments | School districts are permitted to earn interest on their cash by using a very limited range of conservative investments. |
| Other Local Revenue | Rentals of school facilities; tuition charged to other school districts (and non-district students); contributions from individuals or organizations. |

##### ***State Revenue***

The chart below is intended to provide an understanding of the current subsidy system and applying that knowledge to current year budget preparation.

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| --- | --- | --- |
| **Major Revenue Classifications – State Subsidy System** | | |
| **Classification Designation** | **Funding Target** | **Subsidy Example** |
| 7100 – Basic Instructional Subsidies | For basic instruction and operations | Basic Education Subsidy; I.U. General Operating Subsidy; Tuition for Orphans |
| 7200 – Subsidies for Specific Educational Programs | For specific educational programs beyond basic programming | Homebound Instruction; Vocational Education; Special Education |
| 7300 – Subsidies for Non-Education Programs | For non-educational programs | Pupil Transportation; Debt; Health |
| 7800 – Subsidies for State-paid Benefits | For state share of LEA employee benefits | State Share of LEA payments to PSERS; State Share of LEA payments for FICA |

##### ***Appropriations and Entitlements***

To understand the flow of subsidies to schools and the legislation that creates them, it is important to have an understanding of this pair of terms:

***Appropriation*** *– authorization granted by the legislative body for expenditures for specific purposes. An appropriation is usually limited to the time covered by the approved budget.*

***Entitlement*** *– an automatic requirement to pay (or receive) an amount specified by formula. Entitlement expenditures are sometimes called “budgetary uncontrollable” at the state level because the level of payment is dependent upon a formula fixed in original legislation rather than annual appropriations.*

“Entitlement subsidies” are due to a school district whether or not money is available in a current state budget to pay them. For example, transportation is an entitlement subsidy. It is due because of the operation of the formula in the Public School Code that defines it and the operating characteristics of a LEA’s transportation system. When the Commonwealth budget is adopted, an estimate is made of the amount of transportation subsidy payments that will be required for that year. These estimates are funded by a budget appropriation for the transportation subsidy category. Occasionally, the estimate is low and there are insufficient funds to make final payments, but that year’s shortfall is made up in the subsequent year’s budget, because it is state obligation fixed in law and **must be paid**. Entitlement subsidies are easy to budget for because of their certainty.

“Appropriation subsidies” are determined annually by the state legislature and vary each year influenced by politics of the time and money available in the state budget. Appropriation subsidies are very difficult to budget for at the school district level because of their uncertainty.

***7100 – Basic Instruction Subsidies –*** Historically, the BIS (Basic Instructional Subsidy) or ESBE (Equalized Subsidy for Basis Education) calculation was complex, but it gave some guidance for current and future budgeting purposes. In recent years the legislature has departed from this established formula method, and it has changed the methodology annually as a part of a purely political process. The term ESBE was deleted from the Public School Code subsidy section in the mid 90’s. Regardless of the effect this uncertainty has on programs, it makes budgeting easier, although not necessarily more equitable. Realistically, under the current political system, there is no real way of calculating a BIS or ESBE subsidy formula from year to year. Most school entity CFO’s usually wait until budget release to determine how the subsidy was calculated. Historically this amount proposed by the Governor will change as a part of the State budget process, but not dramatically. It is unlikely that a LEA will know the exact amount of BIS or ESBE subsidy until after its own budget is adopted. The basic instructional subsidy is the classic definition of an appropriation subsidy.

***7200 – Subsidy for Specific Educational Programs*** –Principal subsidies in this classification include vocational education and special education. Vocational education subsidy is collected if a school district is either served by an area vocational technical school or provides qualified vocational coursework as part of its curricular offerings. The amount of subsidy received by a local school entity for vocational education is small.

The Special Education subsidy is controversial because it has converted from an “entitlement subsidy” to an “allocation subsidy.” In the transition, state funding has been inadequate to cover the cost of programs driven by state mandates to provide service for some school districts.

***7300 – Subsidies For Non-Educational Programs –*** Subsidies under this function include reimbursements for pupil transportation, school construction reimbursements and reimbursement for medical and dental services provided by the school entity.

Pupil transportation is one of the most complex subsidy calculations, and is an entitlement based on pupils transported and miles traveled, among other factors. The revenue received for a given year uses the operating data of the immediate prior year as a basis. With a comprehensive understanding of the formula it is possible to calculate, with accuracy, projected transportation subsidy using the exact data of the immediate prior year. An easier method of projecting and budgeting this amount is to use the most recent actual data available as a basis and increasing it by an inflation factor. Most non-educational program subsidies are entitlement subsidies.

***7800 – Subsidy for State Paid Benefits –*** Each school district receives a subsidy representing the State’s share of Social Security Tax, Medicare Tax and Pennsylvania State Employees Retirement System (PSERS) payments. At one time the Commonwealth paid exactly one half of this expense, which made the calculation relatively easy. Now the Commonwealth pays a different share based on employees hired before or after July 1, 1996 and considers a school district’s relative wealth. This is, by definition an entitlement subsidy and it can be calculated with a degree of certainty as a function of the expenditures budget.

***Budgeting for State Subsidies –*** Combining the understanding of state revenue classification, the nature of entitlements and appropriations, and the state and local budget adoption timetables, the chart below summarizes the budget preparation implications.

|  |  |  |
| --- | --- | --- |
| **Budgeting for Specific State Subsidies (Major Categories)** | | |
| **Category** | **Nature** | **Budget Implications** |
| 7100 – Basic Instructional Subsidies | Appropriation | A major revenue source for most school districts; subject to state politics of budget adoption; amount not known until very late in most budget years; a major planning problem |
| 7200 – Subsidies for Specific Educational Programs | Appropriation | Also a significant revenue source and also a subject of the state-level politics of budget adoption; also a major planning problem |
| 7300 – Subsidies for Non-Education Programs | Entitlement | Although complex calculations are involved, the amount of state subsidy can be calculated in advance; not a planning problem |
| 7800 – Subsidies for State-paid Benefits | Entitlement | Calculations comparatively simple; subsidy can be calculated in advance; not a planning problem. |

##### ***Federal Revenue***

The third revenue category originates from the federal government. Most federal revenue comes to school districts in the form of grants for specific programs – “Restricted” for a designated purpose. The most significant grant programs are: IDEA (Individual with Disabilities Act), NCLB (No Child Left Behind), and Vocational Education funding. (Also significant in this category is Child Nutrition Program funding, which is accounted for in the Food Service [Cafeteria] Fund and is not a part of the General Fund budget)

Statewide, federal funding accounts for about 10% of the state revenue dollar, but this proportion varies from district-to-district as a part of its unique wealth profile – poor school districts receiving more proportionate federal dollars than wealthy districts.

From a budget planning perspective this category presents a challenge because the federal fiscal year begins on October 1 and its exact amount is never known by the school district budgeting deadline.

***Budgeting Expenditures***

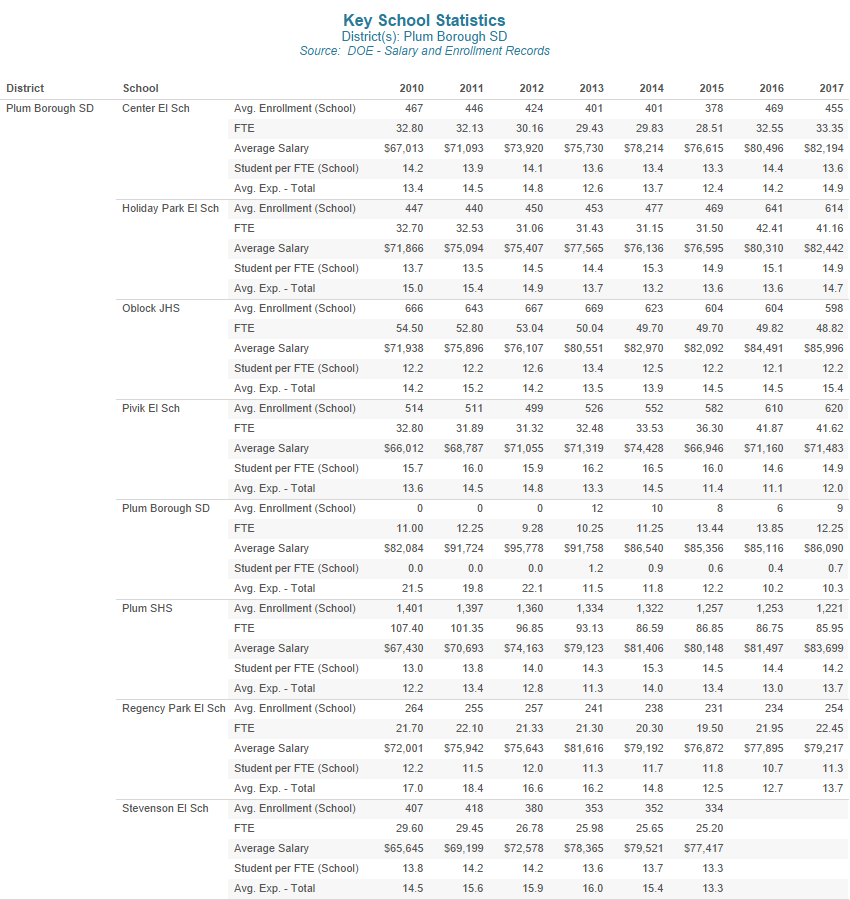
Estimating and projecting (budgeting) expenditures is a matter of: (1) understanding the behavior of each category (their predictability and forces that drive them) and (2) identifying the degree to which the board can exercise control over that behavior.

On analysis, it can be seen that most expenditures are very predictable and with careful analysis, ending balances can be accurately predicted forward to year end (within a percentage point or two) and using that projected actual as a basis, they can be reasonably budgeted for. (Note: The numerical references come from the Pennsylvania School District Chart of Accounts.)

|  |  |
| --- | --- |
| **Summary of Major Expenditure Categories (Objects)** | |
| Account Grouping | Comments and Issues |
| 100 – Salaries  200 – Benefits | Upwards of 75% of the operating budget is typically in this combined grouping; defines the nature of the expenditure budget; when the staff is place in the fall and contracts are known this category can be projected to year end with a high degree of accuracy for the current year. There we be salary changes and staff changes, but historical trends are usually valid. This information combined with strategic planning information for new staff allows for accurate budgeting into the new year; most time and attention should be paid to analyzing these expense accounts; they drive the entire budget |
| 300 – Professional Services | Generally a small percentage of budget; non-discretionary; predictable based on history |
| 400 – Property Services | Mostly maintenance related expenditures; major cost driver, but predictable based on history and budgetary control |
| 500 – Contracted Services | Includes transportation expenditures; major cost; generally known to a high degree of accuracy when transportation needs are determined in the fall |
| 600 – Supplies and Books | In a site based system, under control of site leader (i.e. principal); often considered discretionary |
| 700 – Equipment | Large items – new and replacement; under strict budget control |
| 800 – Other Fees  900 – Other Uses | Mostly interest on debt and debt principal and transfers to other funds; this expenditure usually follows a debt schedule |

**Fund Balance**

The District’s fund balance represents approximately 2.8% of their current budget. It is recommended the District’s finance plan includes plans to increase and maintain this amount to minimum of 5.0%.

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**APPENDIX A**

**LAWS AND REGULATIONS**

**22 Pa. Code § 349.28**

**Closing of school buildings**

(a) Notification. Any school district which closes a school building to educational use shall notify the Department prior to such closing. The notification shall include the reason or reasons for such closing and shall describe how the closing contributes to the orderly development of attendance areas.

(b) Approval. When Department approval is a prerequisite for the closing of a school building, such approval will be based upon its conformance to a long-range attendance area plan.

(c) Reimbursement. When a school district closes a school building upon which it is receiving school building reimbursement, the Department may-upon receipt of justification-authorize the continuation of reimbursement payments thereon. In the absence of such Department authorization, reimbursement shall cease following the amortization payment which next fall’s due. Should the building be reopened for use as a public school, reimbursement shall be reinstated for amortization payments which fall due following such reopening.

**Article V, 24 PS § 5-524**

**Closing school or department; notice to, and suspending employees; other employment**

The board of school directors of any school district, including merged or union districts, and any boards of school directors establishing any joint school or department, shall not close any school or department during the school term, unless such action shall advance the orderly development of attendance areas within an approved administrative unit and has been approved by the Department of Public Instruction. In the event a school board shall determine prior to the beginning of the next school term to close any school or department, sixty (60) days' notice, in writing, prior to the closing of any school or department, shall be given to all temporary professional and professional employees affected thereby, unless such action shall advance the orderly development of attendance area within an approved administrative unit and has been approved by the Department of Public Instruction. Upon failure to give written notice of intention to close any school or department, the school district shall pay such employees their salaries until the end of the school year during which such schools or departments were closed.

Temporary professional or professional employees, whose positions are abolished as a result of the action of the board of school directors in closing a school or department, or reassigning pupils in its effort to consummate partially or wholly the orderly development of approved administrative and attendance areas, may not be suspended until the end of the school year if such action is taken during the school year or later than sixty (60) days prior to the opening of the next school term.

The payment of salary to any temporary professional or professional employee shall be discontinued immediately, if such employee obtains other employment which, in the judgment of the board of school directors, could not have been obtained or held if such school or department had not been closed: Provided, however, That if the salary in the new position is less than the salary the professional employee would have received had he remained in the employment of the school district, the school district shall be liable for the difference.

**Article VII, 24 PS § 7-780**

Public hearing prior to closing school

In the event of a permanent closing of a public school or substantially all of a school's facilities, the board of school directors shall hold a public hearing on the question not less than three months prior to the decision of the board relating to the closing of the school. Notice of the hearing shall be given in a newspaper of general circulation in the school district at least fifteen (15) days prior to the date of such hearings.

**Article XIII, 24 PS § 13-1311**

**Closing schools**

The board of school directors of any school district may, on account of the small number of pupils in attendance, or the condition of the then existing school building, or for the purpose of better graduation and classification, or other reasons, close any one or more of the public schools in its district. Upon such school or schools being closed, the pupils who belong to the same shall be assigned to other schools, or upon cause shown, be permitted to attend schools in other districts.

Whenever the average term attendance of pupils regularly enrolled at any one-room school in any school district of the fourth class or in any district of the third class, which is located wholly within the boundary lines of a township, it ten (10), or less than ten (10), the board of school directors shall close such school. If the board of school directors does not deem it feasible to close such school, it may present its petition to the Department of Public Instruction, showing the reasons why such school should not be closed. Thereupon the department shall consider such petition, and shall make such order as may seem just in the premises. If any school has been closed because the average term attendance of pupils enrolled was ten (10), or less than ten (10), and has been reopened upon order of the department, and the average term attendance is twelve (12), or more, after such reopening, such school shall be considered re-established.

**22 Pa. Code § 4.41(c)**

**Scheduling**

(c) A school district shall obtain approval of the Department prior to establishing a new school or changing school organization.