



Budget Workshop April 16, 2018

Preparing for the Future  
Righting our Past

# External Financial Opinions



- The Pennsylvania Department of the Auditor General issued a finding on the “Persistent Operational Deficits”
  - It was highlighted that use of fund balance in lieu of raising property taxes or decreasing educational services will be unsustainable in the future.
  - The recommendations were to develop a long range financial plan, implement a business model to monitor operational expenses.
- S&P Global Ratings Lowered its long term rating 3 notches from A to BBB in 2016
  - It was highlighted that the negative fund balance of **(\$454,000)** was low and the expenditures continue to outpace static revenue, “we have concerns about the district’s ability to cut costs and increase revenues sufficiently to restore structural balance.”
  - The recommendation from S&P was to perform long term financial planning and develop formal debt and reserve policies.

# External Financial Opinions



Updates from S&P with 2016 Bonds:

The District's financial position remains weak in our opinion. Finances continued to decline in fiscal 2016 with an operating deficit of **\$4.4 million**. This drew the available fund balance down to a negative **\$4.9 million**, or a negative 7.9% of general fund expenditures.

Recently, the Pennsylvania Association of School Business Officials (PASBO) was contracted to provide a study on District's finances and made the following recommendation:

"It is the recommendation of the PASBO Study Team that the District approve a balanced budget, without borrowing, for the 2018-2019 fiscal year.

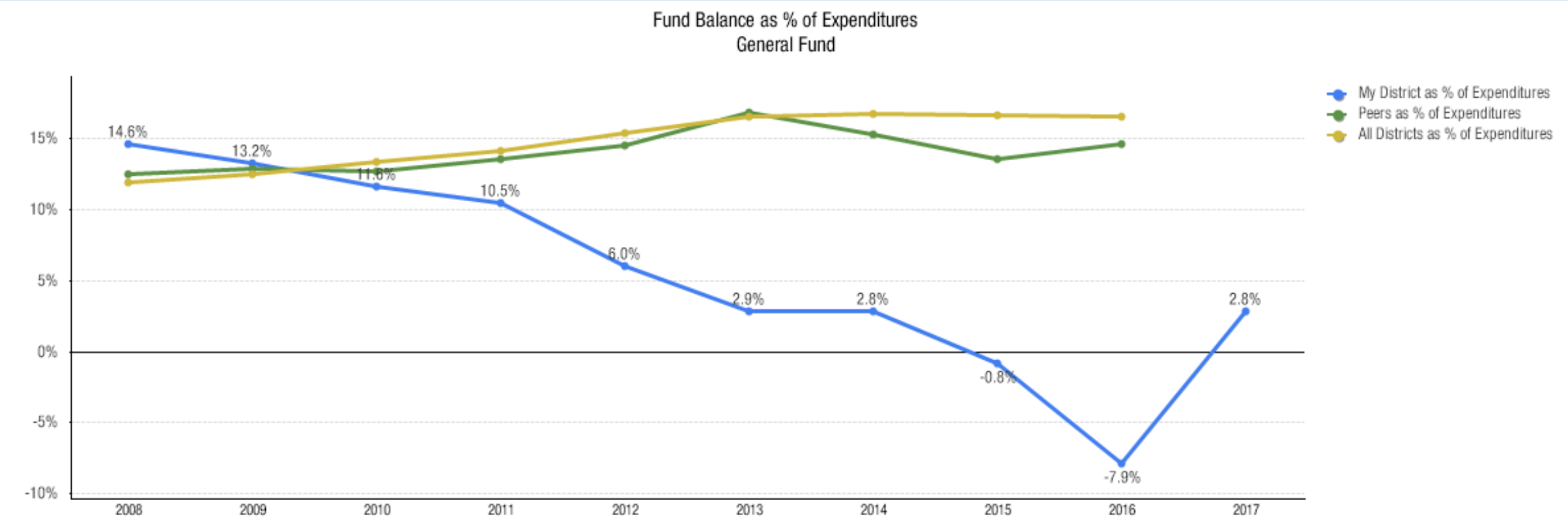
This will require two important elements:

- (1) A local real estate tax increase to the Act 1 limit, including exemptions
- (2) Closing Regency Park Elementary School."



# PBSD Financial History Summary

- The District has operated on annual operating deficits or cleared out savings account for the past 5 years to balance annual budgets.
- As of 2015-16, the District had a negative **\$4.9 million** deficit, the *5<sup>th</sup> worst out of the 500 Pennsylvania public schools*.



# Financial History Summary (cont.)



The District has taken out multiple anticipation loans over the past several years just to be able to meet payroll obligations.

The 2016-17 budget passed in June 2016 used borrowed money over \$5,000,000 to balance the budget.

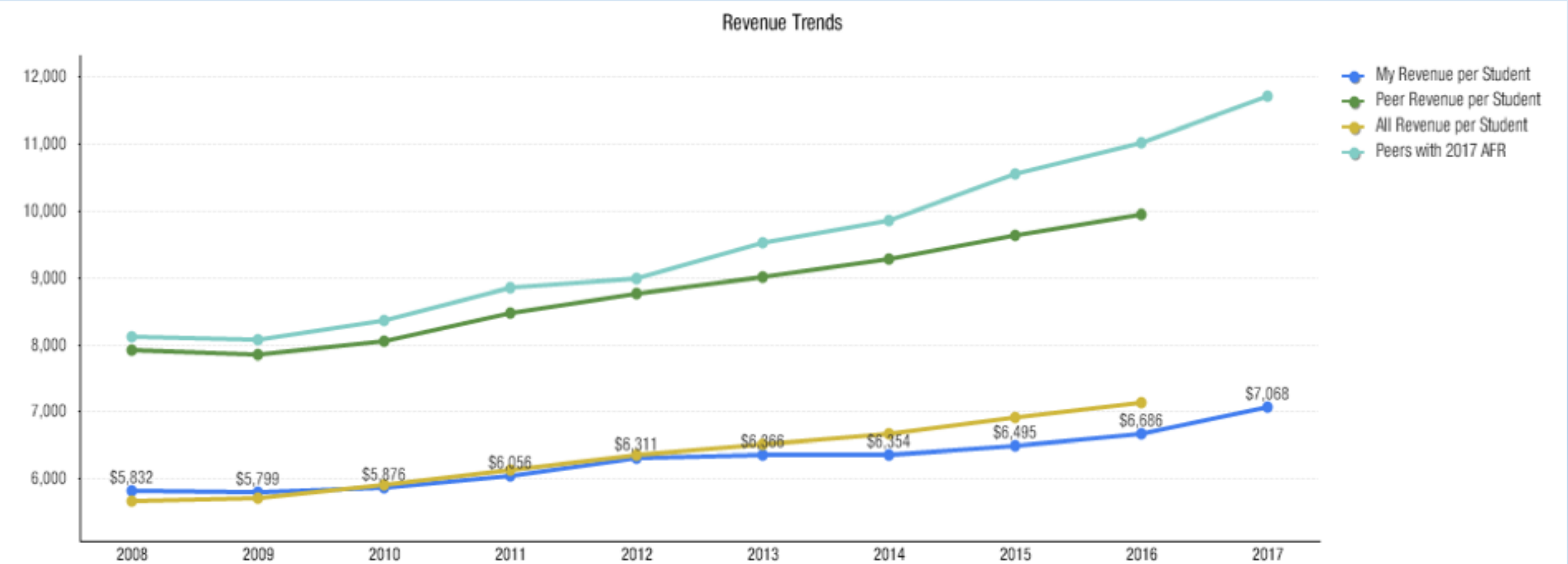
The 2017-18 budget passed in June 2017 borrowed an additional \$5+ million to balance the budget.

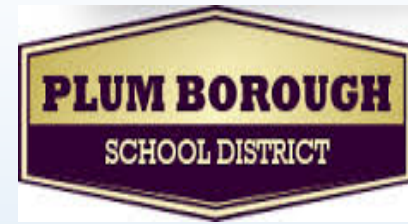


# How did we get where we are?

## The lack of increasing local and state revenues

- Real Estate Taxes
- \$3,266 less than the average district in Allegheny County

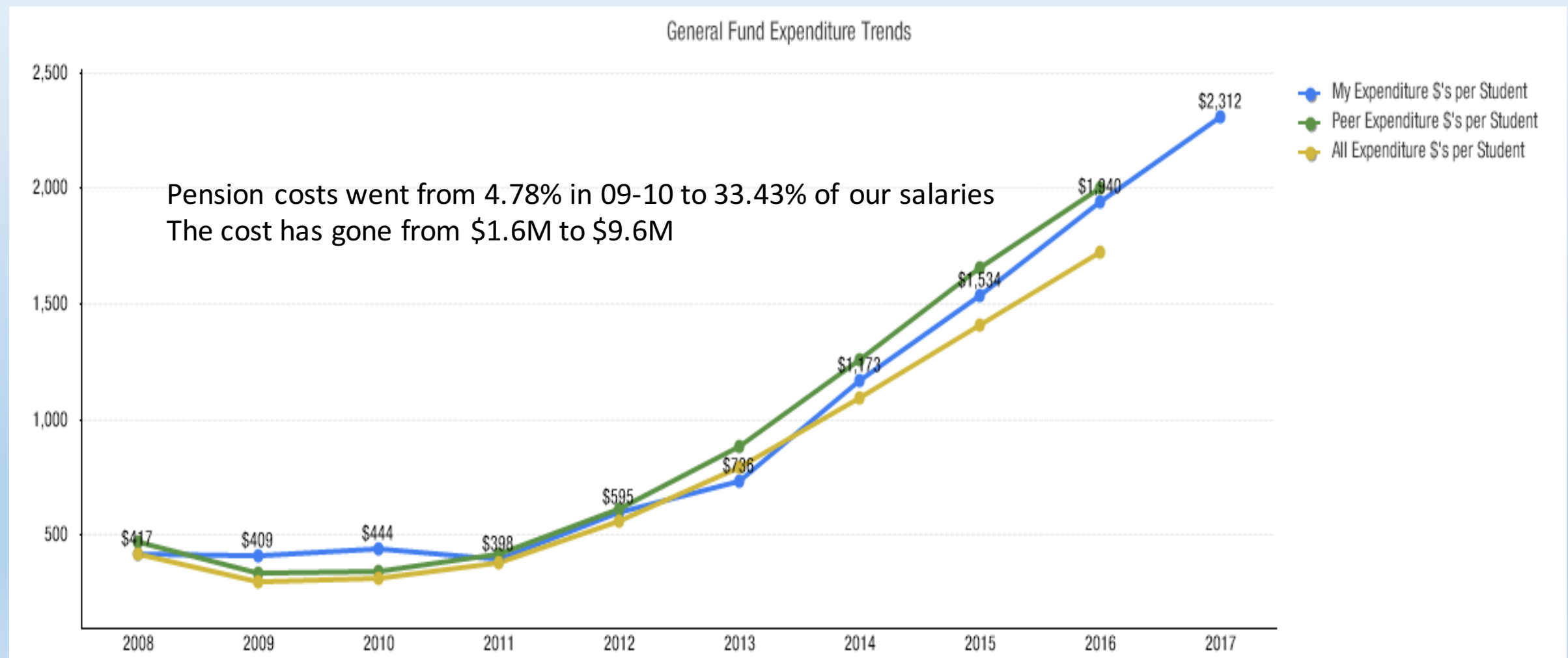




# State Basic Education Funding Less PSERS Obligation

Plum Borough School District	2017	2016	2015	2014	2013	2012	2011	2010
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual
Basic Ed	12,872,966	12,694,838	12,539,170	12,539,214	12,260,418	12,260,785	10,510,505	11,084,302
ARRA						14,552	1,615,513	2,150,638
Ed Jobs						13,355	861,332	
Ready to Learn	618,345	618,345	478,693					
ABG (Block Grant)				221,738	221,738	221,738	564,380	601,852
EAP (Tutoring)								
Dual Enrollment					-2,309	2,309	86,366	5,870
Charter Reimburse (promise of 30% annually)							127,703	136,693
Additional Grants (CFF)								61,000
<b>TOTAL</b>	<b>13,491,311</b>	<b>13,313,183</b>	<b>13,017,863</b>	<b>12,760,952</b>	<b>12,479,847</b>	<b>12,512,739</b>	<b>13,765,799</b>	<b>14,040,355</b>

# Pension Expenses



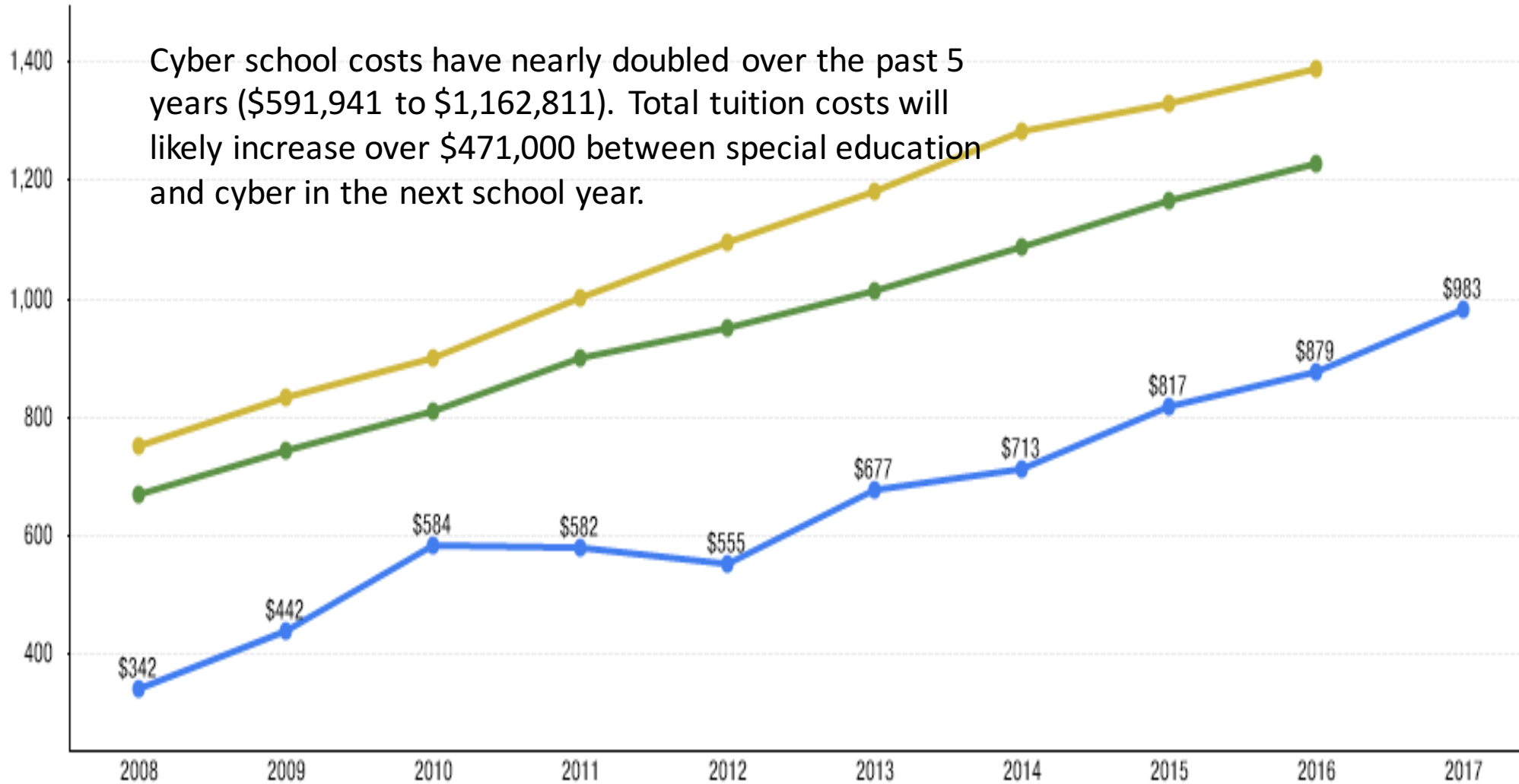


# Outside Tuition Per Student

General Fund Expenditure Trends

Cyber school costs have nearly doubled over the past 5 years (\$591,941 to \$1,162,811). Total tuition costs will likely increase over \$471,000 between special education and cyber in the next school year.

- My Expenditure \$'s per Student
- Peer Expenditure \$'s per Student
- All Expenditure \$'s per Student



# Preliminary Budget Situation



The PBSB deficit with no action(s) for next year is **\$5.2 million**

- **No more borrowing to balance budget**

- Pennsylvania Auditor General: The debt service was considered excessive being over 10% of the total expenditure, “the District should be very wary of taking on more debt.”
- This was prior to the additional borrowing in the past 2 years.
- Standard and Poors: “The overall net debt of 11.2% was considered high and amortization is slow, “there is a one-in-three chance the rating could lower.”

- **Requirement to pass balanced budget**

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

# Budget Solutions



- Implementing PASBO recommendations to reduce annual structural deficit:
  - Closing a building and restructuring staff closes the gap \$1.8 max
  - Raising taxes a maximum of \$1.2 million
- Executing the PASBO recommendations alone forces the District to use the entire fund balance:
  - A hole still exists in subsequent years (increasing costs, no fund balance)
  - No money set aside for needed capital projects and computer replacement

# PBSD Current Fund Balance



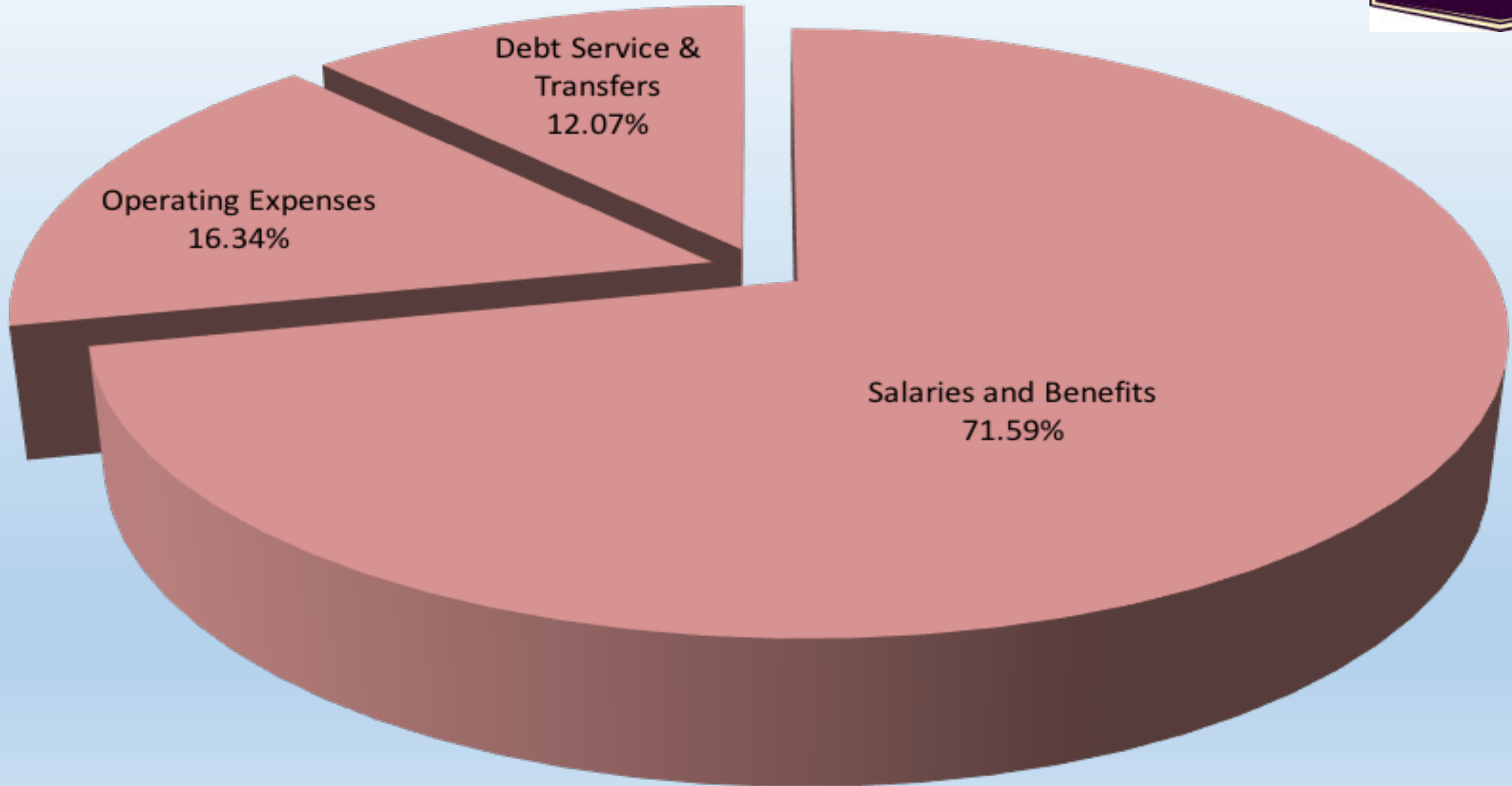
- After the closing of Regency and other budget updates, the deficit for 2018-19 is **(\$3,475,746)**.
- The fund balance is \$1,965,845 that can be used to balance budget.
- A gap of **(\$1,509,901)** still remains to balance the budget.

# The PBSO Reality



- We need to take additional action to reduce annual structural deficit
  - Closing a building and restructuring staff is a start- but still not enough.
  - A tax raise alone does not solve the financial problem.
  - Commit to no additional borrowing to balance budget.
  - Alignment of finances to strategy (Funding what is needed, not wanted).
  - 85% of schools are in similar situation, difference is money available in general fund.
  - PBSO must continue to build long term budget forecasts to look toward the future.

# PBSD Expenses





# Identified and Potential Staff Reductions

- **PBSD Retirees**
- **13 Total retirees** **\$1,452,357**
  - 8 Teachers
  - 2 Para educators
  - 2 facilities,
  - 1 administrative assistant
- **Potential PBSD furloughs of professional staff**
  - 26 furloughs **\$1,224,591**
  - Total staffing reductions **\$2,676,948**
  
  - Average teacher retirement **\$144,940**
  - Average furlough **\$50,077**
  - At least 8 professionals eligible to retiree **\$ 1,200,000**

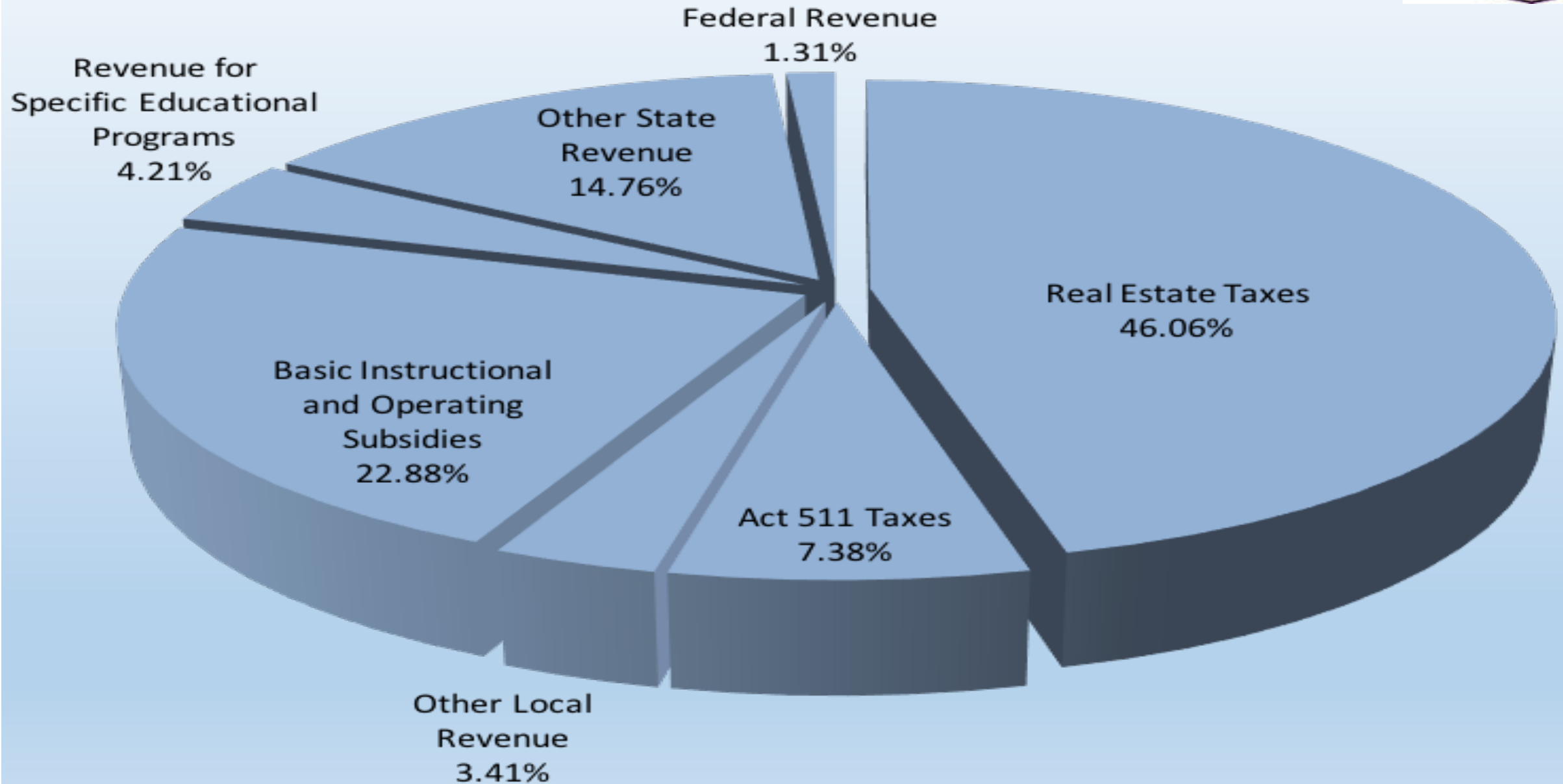
# Additional Expense Discussion Items



- Pay increases (\$59,661)
- Cyber charter recruitment
- Centralized purchasing
- Technology upgrades (Not in budget)
- Textbooks (\$250,000)
- Contingency Fund (\$360,000)
- Buses (Not in Budget)



# PBSD Revenues

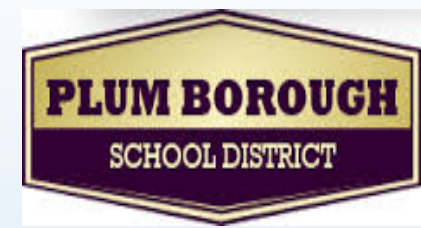




# Real Estate Impact

No Tax Increase		
Tax Year Version 2	Budgeted Real Estate and Interim	Additional Revenue with Tax Increases (3 Years)
2018	26,666,407	
2019	26,951,860	
2020	27,010,182	
	80,628,449	
Tax to Index (Assume 3.2% per year)		
Tax Year Version 2	Budgeted Real Estate and Interim	Additional Revenue with Tax Increases (3 Years)
2018	27,691,262	1,188,094
2019	28,864,209	2,328,391
2020	29,983,617	3,415,037
	86,539,088	6,931,522
Tax to Index With Exemptions		
Tax Year Version 2	Budgeted Real Estate and Interim	Additional Revenue with Tax Increases (3 Years)
2018	28,000,010	308,749
2019	29,185,079	320,870
2020	30,652,217	668,599
	87,837,306	1,298,218
<b>Total Additional Revenue</b>		<b>8,229,740</b>

# Real Estate Tax Scenarios of Actual Properties



<b><i>PBSD Actual Tax Scenarios</i></b>	<b><i>2007-08</i></b>	<b><i>2017-18</i></b>
Millage	0.0222	0.020243
Tax Credit	0	212
Assessed Value 1	\$46,200.00	\$50,000.00
RE Tax Paid	\$1,025.64	\$800.15
Assessed Value 2	\$92,200.00	\$100,000.00
RE Tax Paid	\$2,046.84	\$1,812.30
Assessed Value 3	\$182,200.00	\$200,000.00
RE Tax Paid	\$4,044.84	\$3,836.60
Assessed Value 4	\$100,700.00	\$118,600.00
RE Tax Paid	\$2,235.54	\$2,188.82



# Potential Senior Citizen Rebate Program

From the PASBO Report:

*“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.”*

## 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.

<b>Income</b>	<b>Maximum Rebate</b>
\$0 to \$8,000	\$500
\$8,001 to \$15,000	\$400
\$15,001 to \$18,000	\$300
\$18,001 to \$25,000	\$200



# Other PBSB Revenue Discussion Items

- Rental of Facility (\$25,000)
- Chinese program (\$110,000)
- Tuition - Out of District
- Student Activity fee

# PBSD Strategic Considerations and Financial Plan



- Need to focus on balancing budget for next 2 years
- Expecting relief by 2020-21
- Continue to build long term financial plan aligned
- Major factors to consider
  - Contracts
  - Real estate assessments
  - Bond payment schedule
  - PSERS obligations
  - Healthcare increases

# Projection A

	(Projected) 2019	(Projected) 2020	(Projected) 2021
<b>REVENUES VS. EXPENDITURES</b>			
<i>Total Revenues</i>	63,404,099	65,482,986	67,617,828
<i>Total Expenditures</i>	64,732,430	66,020,109	67,058,631
<i>Operating Balance</i>	(1,328,331)	(537,123)	559,197
<i>Capital Project Transfers</i>			
<i>Net Bond Proceeds PSERS Buses</i>			
<i>Op. Balance Post Initiatives</i>	(1,328,331)	(537,123)	559,197
<i>Adequacy Target</i>			
<b>GENERAL FUND BALANCE</b>			
Beginning of the Year	1,965,845	637,514	100,392
End of the Year	637,514	100,392	659,589
As a % of Expenditures	0.98%	0.15%	0.98%
<b>Capital Project Funds</b>			
<b>Total Fund Balance</b>	637,514	100,392	659,589
<b>As a % of Expenditures</b>	0.98%	0.15%	0.98%

# Projection B



	<i>(Projected)</i> 2019	<i>(Projected)</i> 2020	<i>(Projected)</i> 2021
<b>REVENUES VS. EXPENDITURES</b>			
<i>Total Revenues</i>	62,051,012	62,770,904	63,547,003
<i>Total Expenditures</i>	64,732,430	66,020,109	67,058,631
<i>Operating Balance</i>	(2,681,418)	(3,249,205)	(3,511,628)
<i>Capital Project Transfers</i>			
<i>Net Bond Proceeds PSERS Buses</i>			
<i>Op. Balance Post Initiatives</i>	(2,681,418)	(3,249,205)	(3,511,628)
<i>Adequacy Target</i>			
<b>GENERAL FUND BALANCE</b>			
<i>Beginning of the Year</i>	1,965,845	(715,573)	(3,964,777)
<i>End of the Year</i>	(715,573)	(3,964,777)	(7,476,405)
<i>As a % of Expenditures</i>	(1.11%)	(6.01%)	(11.15%)
<i>Capital Project Funds</i>			
<i>Total Fund Balance</i>	(715,573)	(3,964,777)	(7,476,405)
<i>As a % of Expenditures</i>	(1.11%)	(6.01%)	(11.15%)