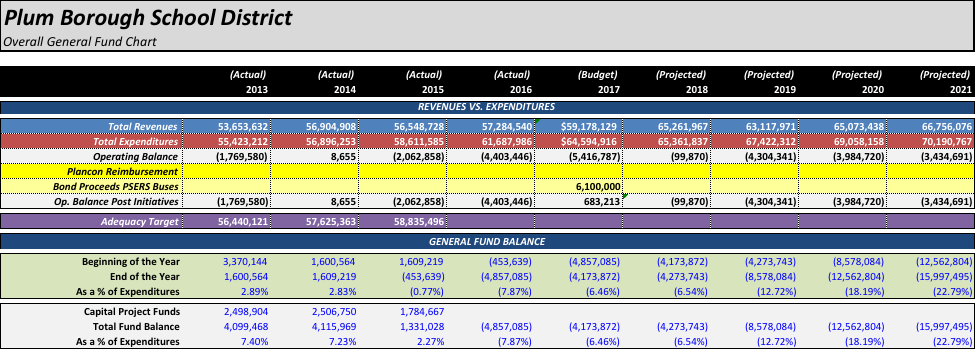


The Plum Borough School District is in a very difficult financial position. The 2016-17 budget passed in June 2016 uses a bond issue to recover pension obligations in the amount over $5,000,000 to balance the budget. Recently, Standard and Poors downgraded its long term rating of the Plum Borough School District from “A” down three notches to “BBB” negative. The rating downgrade was due to the negative fund balance at fiscal end year of 2015. The negative fund balance continued to decline by another $4.4 million at fiscal end 2016. S&P also had concerns regarding the debt service payment and the total of $128 million in total direct debt. The negative outlook reflects an opinion that the rating will likely continue to decline unless the District takes steps to close the gap by cutting costs and increasing revenue. A recommendation from S&P was to perform long term financial planning and develop formal debt and reserve policies.

Below, the financial model forecasts a five-year future outlook that anticipates future revenue and expenditures. Chart 1 illustrates the declining fund balance and future anticipated outlook.

Chart 1

****

**Local Revenues**

At the local level, the assessed value since the county wide reassessment in 2013 has shown an up and down but overall slight increase in property value. Chart 2 illustrates the changes in assessed value and tax collection:

Chart 2

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Tax Year | Assessed Value | Homestead Value | Net Taxable | Milage Rate | Gross Revenues | Longwood Payment | Discount Allowance | Actual Collection |
| Actual |  |  |  |  |  |  |  |  |
| 2014 | 1,547,171,865 | 88,187,980 | 1,437,861,405 | 0.018758 | 26,971,404 | 498,400 | 539,428 | 25,305,986 |
| 2015 | 1,535,418,442 | 88,142,800 | 1,424,511,932 | 0.018758 | 26,720,995 | 505,520 | 534,420 | 25,259,326 |
| 2016 | 1,545,679,394 | 88,159,600 | 1,434,435,474 | 0.018758 | 26,907,141 | 512,640 | 538,143 | 25,530,493 |
|  |  |  |  |  |  |  |  |  |
| Budget |  |  |  |  |  |  |  |  |
| 2017 | 1,556,270,294 | 85,325,460 | 1,447,539,894 | 0.019377 | 28,049,001 | 519,760 | 560,980 |  |

In reviewing the most recent 2015 state posted annual financial reports of the Plum Borough School District against County and State averages, the local revenue is much lower than County averages by almost $8 million ($39,179,156 compared to $31,412,552) despite having over 500 less students that Plum on average (Chart 3).

Chart 3

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Revenue |  |  | PBSD |  | Allegheny County (Avg.) |  | PA (Average) |  |
|  | 6000 | Local Sources | $31,412,552 | 56.27% | $39,179,156 | 63.02% | $31,773,212 | 59.44% |
|  | 7000 | State Sources | $23,326,487 | 41.78% | $20,632,808 | 33.19% | $20,044,820 | 37.50% |
|  | 8000 | Federal Sources | $1,086,690 | 1.95% | $2,361,012 | 3.80% | $1,638,987 | 3.07% |
|  |  | Total Revenue | $55,825,728 |  | $62,172,976 |  | $53,457,018 |  |
|  |  |  |  |  |  |  |  |  |
|  |  | Other Revenue | $723,000 |  | $2,959,766 |  | $2,839,515 |  |
|  |  | All Revenue | $56,548,728 |  | $65,132,741 |  | $56,296,533 |  |
|  |  |  |  |  |  |  |  |  |
| # of Students |  |  | 4012 |  | 3449 |  | 3454 |  |

A need exists to generate additional local revenue for real estate through the Act 1 index and perhaps beyond that with Act 1 exceptions. Chart 4 shows the impact of raising the real estate taxes, assuming the Act 1 index stayed flat, to the index resulting in an addition $5.5 million in additional revenue over the next 3 years. For a 10-year period, the tax rate for real estate has remained flat, the 16-17 school year was the first year for a tax increase during this period.

Chart 4

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Tax Year | Assessed Value | Homestead Value | Longwood Value | Net Taxable | Milage Rate | Gross Revenues | Longwood Payment | Discount Allowance | Budgeted Real Estate and Interim |
| No Tax Increase, $30,000 Interim Budget | | |  |  |  |  |  |  |  |
| Forecast | .01 Increase |  |  |  |  |  |  |  |  |
| 2018 | 1,557,826,564.29 | 85,325,437 | 23,725,550 | 1,448,775,577 | 0.019377 | 28,072,924 | 526,880 | 561,458 | 26,386,045 |
| 2019 | 1,559,384,390.86 | 85,325,437 | 23,844,177 | 1,450,214,776 | 0.019377 | 28,100,812 | 534,093 | 562,016 | 26,418,515 |
| 2020 | 1,560,943,775.25 | 85,325,437 | 23,963,398 | 1,451,654,940 | 0.019377 | 28,128,718 | 541,405 | 562,574 | 26,451,095 |
|  |  |  |  |  |  |  |  |  | 79,255,655 |
| Tax to Index (Assume 3.3%), $30,000 Interim Budget | | | |  |  |  |  |  |  |
| Forecast | .01 Increase |  |  |  |  |  |  |  |  |
| 2018 | 1,557,826,564.29 | 82,599,649 | 23,725,550 | 1,451,501,366 | 0.020016 | 29,053,891 | 526,880 | 581,078 | 27,289,712 |
| 2019 | 1,559,384,390.86 | 79,960,938 | 23,844,177 | 1,455,579,276 | 0.020677 | 30,096,989 | 534,093 | 601,940 | 28,257,394 |
| 2020 | 1,560,943,775.25 | 77,406,523 | 23,963,398 | 1,459,573,854 | 0.021359 | 31,175,511 | 541,405 | 623,510 | 29,257,801 |
|  |  |  |  |  |  |  |  |  | 84,804,907 |

**State Funding**

At the state level, basic education funding has still not hit the levels it once was in 2010. The state promised that during the Federal ARRA and ED Jobs funding years that they would make up the difference once these federal programs ended. The state level[[1]](#footnote-1) year to year are illustrated in Chart 5 below:

Chart 5

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Plum Borough School District | **2,017** | **2,016** | **2,015** | **2,014** | **2,013** | **2,012** | **2,011** | **2,010** |
|  | **Budget** | **Estimated** | **Actual** | **Actual** | **Actual** | **Actual** | **Actual** | **Actual** |
| Basic Ed | 12,683,535 | 12,082,620 | 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 | 520,904 | 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 |
| TOTAL | 13,301,880 | 12,603,524 | 13,017,863 | 12,760,952 | 12,479,847 | 12,512,739 | 13,765,799 | 14,040,355 |

Recently, Pennsylvania joined 47 other states in the nation when the legislature passed a formula for funding public education. It adopted the formula created in 2015 by the bi-partisan Basic Education Funding Commission. The Commission’s formula was based upon a number of factors that include student enrollment, to equitably distribute state education dollars. Although the Commission provided a

guide for how to distribute state funds, it did not provide an answer to another crucial question: how much actual state funding do all Pennsylvania schools need to properly educate their students?

Pilcop created a report using the Commission’s own formula to answer that question. It concludes that in order for districts to have adequate funding to enable their students to meet state standards, the state must provide school districts with between $3.188 and $4.280 billion in additional funding. This range was created using two scenarios. The lower estimate of $3.2 billion is based very conservatively on the median basic education cost among school districts in Pennsylvania. The higher estimate of $4.3 billion is based on basic education cost per student in the median district among the subset of school districts with average or better performances on all three of last year’s PSSA exams. Given the difficulty of students in a majority of the state’s districts to score proficient with current funding, it is apparent that the $3.2 billion increase should be the minimum target for state funding increases. Under this formula at $4.3 billion in additional funds needed for adequacy, the Plum Borough School District would receive an additional $4 million dollars in state funding over the next 8 years.

**Federal Funds**

The amount of federal funds received by the District are considerably lower that state and county averages. Title funds are driven by the free and reduced lunch rate as well as E-Rate reimbursement. The District will need to ensure that all eligible students receive these services.

**Expenses**

In reviewing the expenditures, a comparison was performed by object (Chart 6) and function (Chart 7) to determine trends against averages (Chart 6).

Chart 6

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Plum Borough School District | | | | | | | | |
| For The Year Ended June 30, 2015 | | | | | | | | |
|  |  |  |  |  |  |  |  |  |
| Expenses by Object | | | PBSD |  | Allegheny County (Avg) |  | PA (Average) |  |
|  | 100 | Salaries | $27,940,849.81 | 47.67% | $26,351,091 | 41.04% | $22,089,742 | 40.33% |
|  | 200 | Employee Benefits | $6,089,182.08 | 10.39% | $6,143,641 | 9.57% | $5,536,274 | 10.11% |
|  | 220 | Social Security | $2,115,485.61 | 3.61% | $1,967,561 | 3.06% | $1,656,451 | 3.02% |
|  | 230 | PSERS | $5,924,370.04 | 10.11% | $5,572,800 | 8.68% | $4,652,557 | 8.49% |
|  |  |  |  |  |  |  |  |  |
|  |  | Employee Costs | $42,069,887.54 | 71.78% | $40,035,094 | 62.35% | $33,935,024 | 61.96% |
|  |  |  |  |  |  |  |  |  |
|  | 300 | Purchased Professional and Technical | $2,027,143.53 | 3.46% | $3,563,356 | 5.55% | $3,013,791 | 5.50% |
|  | 400 | Purchased Property Services | $1,336,329.39 | 2.28% | $1,399,265 | 2.18% | $1,146,427 | 2.09% |
|  | 500 | Other Purchased Services | $3,940,997.19 | 6.72% | $7,885,072 | 12.28% | $7,308,593 | 13.34% |
|  | 600 | Supplies | $1,697,283.24 | 2.90% | $1,932,375 | 3.01% | $1,661,956 | 3.03% |
|  | 700 | Property | $241,196.56 | 0.41% | $697,985 | 1.09% | $530,682 | 0.97% |
|  | 800 | Other Objects | $4,238,948.22 | 7.23% | $2,544,014 | 3.96% | $1,777,260 | 3.24% |
|  | 900 | Other Use of Funds | $3,060,000.00 | 5.22% | $6,149,268 | 9.58% | $5,399,450 | 9.86% |
|  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
|  |  | Total Expenses | $58,611,785.67 |  | $64,206,428.31 |  | $54,773,182.52 |  |

Chart 7

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Plum Borough School District | | | | | | | | | | | | | | | |
| For The Year Ended June 30, 2015 | | | | | | | | | | | | | | | |
| Expenses | |  | | PBSD | |  | | Allegheny County (Avg.) | |  | | PA (Average) | |  | |
|  | Instruction | | | |  | |  | |  | |  | |  | |  |
|  | 1100 | | Regular Programs | | $27,658,096 | | 47.19% | | $25,848,784 | | 40.26% | | $22,112,814 | | 40.37% |
|  | 1200 | | Special Programs | | $5,957,067 | | 10.16% | | $7,980,794 | | 12.43% | | $7,712,337 | | 14.08% |
|  | 1300 | | Vocational Programs | | $646,659 | | 1.10% | | $1,087,726 | | 1.69% | | $1,248,901 | | 2.28% |
|  | 1400 | | Other Instr. Programs | | $98,798 | | 0.17% | | $456,300 | | 0.71% | | $519,282 | | 0.95% |
|  | 1500 | | NonPublic | |  | | 0.00% | | $72,159 | | 0.11% | | $33,537 | | 0.06% |
|  | 1600 | | Adult Education | |  | | 0.00% | | $68,777 | | 0.11% | | $66,929 | | 0.12% |
|  | 1700 | | Community College | |  | | 0.00% | | $23 | | 0.00% | | $51,085 | | 0.09% |
|  | 1800 | | Pre Kindergarden | |  | | 0.00% | | $524,793 | | 0.82% | | $275,798 | | 0.50% |
|  |  | |  | |  | | 58.62% | |  | | 56.13% | |  | | 58.46% |
|  |  | |  | |  | |  | |  | |  | |  | |  |
|  | Support | | | |  | |  | |  | |  | |  | |  |
|  | 2100 | | Pupil Personnel | | $1,405,308 | | 2.40% | | $1,759,711 | | 2.74% | | $1,560,392 | | 2.85% |
|  | 2200 | | Instructional Staff | | $721,798 | | 1.23% | | $1,735,707 | | 2.70% | | $1,424,303 | | 2.60% |
|  | 2300 | | Administrative | | $3,177,890 | | 5.42% | | $3,647,736 | | 5.68% | | $2,904,520 | | 5.30% |
|  | 2400 | | Pupil Health | | $737,688 | | 1.26% | | $684,482 | | 1.07% | | $576,287 | | 1.05% |
|  | 2500 | | Business | | $370,303 | | 0.63% | | $748,366 | | 1.17% | | $618,664 | | 1.13% |
|  | 2600 | | Maintenance | | $4,660,583 | | 7.95% | | $5,334,943 | | 8.31% | | $4,239,658 | | 7.74% |
|  | 2700 | | Transportation | | $2,881,137 | | 4.92% | | $3,401,808 | | 5.30% | | $2,761,781 | | 5.04% |
|  | 2800 | | Central and Other | | $637,062 | | 1.09% | | $1,080,979 | | 1.68% | | $843,834 | | 1.54% |
|  | 2900 | | Other Support | | $1,181,351 | | 2.02% | | $106,151 | | 0.17% | | $74,035 | | 0.14% |
|  |  | |  | |  | | 26.91% | |  | | 28.81% | |  | | 27.39% |
|  |  | |  | |  | |  | |  | |  | |  | |  |
|  | Operation of Non Institution | | | |  | |  | |  | |  | |  | |  |
|  | 3200 | | Student Activities | | $915,772 | | 1.56% | | $1,113,575 | | 1.73% | | $845,377 | | 1.54% |
|  | 3300 | | Community Service | | $254,728 | | 0.43% | | $104,888 | | 0.16% | | $103,585 | | 0.19% |
|  | 3400 | | Awards | |  | |  | |  | |  | | $14,937 | |  |
|  |  | |  | |  | |  | |  | |  | |  | |  |
|  | Facilities Acquisition, Const. and Improvement | | | | | |  | |  | |  | |  | |  |
|  | 4000 | | Building Improvements | | $144,607 | | 0.25% | | $258,353 | | 0.40% | | $111,913 | | 0.20% |
|  |  | |  | |  | |  | |  | |  | |  | |  |
|  | Other Financing Uses | | | |  | |  | |  | |  | |  | |  |
|  | 5000 | | Other Financing (Debt Service) | | $7,162,937 | | 12.22% | | $8,405,795 | | 13.09% | | $6,926,798 | | 12.65% |
|  |  | | Total Expenses | | $58,611,785 | |  | | $64,206,428 | |  | | $54,773,183 | |  |
|  |  | |  | |  | |  | |  | |  | |  | |  |
|  |  | | # of Students | | 4012 | |  | | 3449 | |  | | 3454 | |  |
|  |  | |  | |  | |  | |  | |  | |  | |  |
|  |  | | Overall Cost Per Student | | $14,609 | |  | | $18,616 | |  | | $15,858 | |  |

In reviewing the data, the most interesting fact to point out is that the District spends less money than both the county and state on a per pupil basis. Instructional cost is higher than state and county averages which seem to be driven by salaries that exceed state and county averages.

**Increasing Expenses (Large Items)**

**PSERS**

In addition to the reduction in revenues, expenditures in pension have seriously increased over the past five years. In 2009, the employers’ percent of employee salary that went towards retirement was 4.76%, the rate for the 2017-18 school year will be 32.57%. The cost for funding district pension increased over $8 million annually from 2011 to the current anticipated cost. See chart 8:

Chart 8:

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| ***Recent History of PSERS Costs Against Salary Costs*** | | | | | | | | | |
|  |  | (Actual) | (Actual) | (Actual) | (Actual) | (Actual) | (Budget) | (Projected) | (Projected) |
|  |  | 6/30/11 | 6/30/12 | 6/30/13 | 6/30/14 | 6/30/15 | 6/30/16 | 6/30/17 | 6/30/18 |
| EXPENDITURES | |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |
| 100 | Personnel Services - Salaries | 28,645,831 | 27,471,758 | 28,117,725 | 27,874,289 | 27,928,294 | 28,942,275 | 29,277,637 | 29,831,513 |
|  |  |  |  |  |  |  |  |  |  |
|  | PSERS Contribut  ion Rates | 0.0564 | 0.0865 | 0.1236 | 0.1693 | 0.214 | 0.2584 | 0.3003 | 0.3257 |
|  |  |  |  |  |  |  |  |  |  |
| 230 | District Contribut  ton | 1,636,763 | 2,403,249 | 2,936,027 | 4,660,779 | 5,924,369 | 7,403,911 | 8,792,074 | 9,661,017 |

**Charter and Cyber**

Charter and Cyber school tuition cost is another drastically increasing cost amounting to over $1.1 million in tuition fees for the 2015-16 school-year. Chart 9 shows the almost doubling in cost over the past 6 years.

Chart 9:

|  |  |
| --- | --- |
| **History of Charter and Cyber Cyber Tuition** | |
| 2015-16 | $1,122,932 |
| 2014-15 | $1,065,176 |
| 2013-14 | $1,044,853 |
| 2012-13 | $901,114 |
| 2011-12 | $593,390 |
| 2010-11 | $591,941 |

**Debt Service**

The debt service payment for the next five years is shown in Chart 10 below:

Chart 10

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| ***Year*** | ***Principal*** | ***Interest*** | ***Total*** | ***State Reimburse*** | ***Net Debt Service*** |
|  |  |  |  |  |  |
| 2017 | 3,200,000 | 3,751,235 | 6,951,235 | 844,550 | 6,106,686 |
| 2018 | 3,745,000 | 3,959,505 | 7,704,505 | 737,307 | 6,967,198 |
| 2019 | 3,895,000 | 4,020,985 | 7,915,985 | 738,400 | 7,177,585 |
| 2020 | 4,030,000 | 3,888,946 | 7,918,946 | 738,991 | 7,179,955 |
| 2021 | 4,160,000 | 3,747,849 | 7,907,849 | 737,923 | 7,169,926 |

The debt service payment will increase through 2019 then flatten off. The payments consist of 11 bond issues with reimbursement on 6 bonds currently.

**Strategic Action**

**According to PASBO, 83% of PA schools will use fund balance to balance their budgets for the 2016-17 school year.**

Despite the need for assistance from the state for pension reform and additional need for state revenue, the District administration and school board will continue to make some very difficult decisions to increase revenues and decrease expenses. At the early outset of the 17-18 school year budget preparations, the district is looking at over a $5 million deficit. Unfortunately, the District can no longer rely on fund balance or debt service to address the imbalance of the budget.

Revenue Action

* Raise taxes to the Act 1 Index
* Obtain approval for referendum through PDE for pension obligations
* Driving state revenue through the understanding of state funding formulas that include Child Accounting, this will become much more important as the fair funding formula is implemented at the state level
* Review transportation revenue
* Maximize the free and reduced lunch rates to increase dollars through Federal funds and E-Rate
* Renegotiate payments in lieu of taxes
* Explore building use rental options
* Execution of a Chinese exchange program, where students from China pay tuition to attend the District and offer educational services at a reduced tuition rate to students of other school districts
* Sale of buildings no longer in current operation

Expenditure Action

* Renegotiations with employee units
* Renegotiations with vendors to ensure that the District is maximizing service for a fair market cost
* Development of a District cyber school designed to recruit resident students back who attend other tuition based cyber and charter schools

1. The funds listed in the Chart 1 represent educational funds; not special education, transportation, vocational, retirement funds, etc. Transportation and special education funds have remained relatively flat across the same years as Chart 1. Retirement has increased significantly this year due to the increase prescribed by the Act 120. Retirement reimbursement funds are prescribed by law. The 15-16 school year is based on the audit confirmations from the state. [↑](#footnote-ref-1)