

# Business Manager Discussion Notes for Public Budget Hearing – May 15, 2017

Good evening.

This budget hearing is an opportunity for citizens and taxpayers to voice concerns and provide input regarding the budget that is being prepared for final adoption on June 12. It is important to remember that changes can still be made before the final adoption.

There are generally two significant issues that would drive out changes at this point. First is the continued updating of our budget estimates, both to reduce costs and to ensure that our programs and required costs are properly funded. Secondly, there is the possibility of further changes in state or federal funding.

A long list of discussions on the budget have taken place beginning last fall. There have been a number of public budget workshops and meetings with the Board and various administrators in our attempt to continue our important programs in a prudent, cost-effective manner. A proposed budget was adopted May 1<sup>st</sup> that does much to accomplish that goal. Since then, the Board and Administration have continued to work on the budget, and we are preparing a budget newsletter mailed to all residents of the District later this month.

Throughout the process, we have provided many updates on our District web site, and the Board members have received detailed budget handbooks for their review. A summary of that handbook has been made available to the public, both on paper and on the District web site.

If you wish to review any of our budget information, it remains available on our web site's main page, or under the District tab, then under Business Services.

The state's budget does not require approval until after our scheduled approval date. The Governor's budget proposal continues his desire for some increases in funding, though it also includes a \$50,000,000 reduction in student transportation subsidy. There are efforts to complete next year's state budget before June 30, but we are not able to place much confidence in that occurring as we contemplate our own budget. Lengthy delays could require significant reliance upon our fund balance, which was instrumental in our success in maintaining our programs throughout state budget delays in recent years.

Here is a summary of the Proposed Budget.

Our expenses next year are expected to increase by \$2,971,061 to \$64,225,463. This is a 4.85% increase. It is due primarily to the mandated PSERS retirement system, special education services, current and future facility needs, health care costs, charter school tuition, and payroll.

Gross payroll costs are helped because of a higher retirement rate than normal this year, for the second year in a row. Note, however, that contract negotiations with our teachers are ongoing and the actual costs are not yet known.

We will explain the impact of those items shortly, in a separate document. These items

alone account for more than 5 times the \$703,254 that can be raised through the Act 1 Index, and are more than the overall budget increase – meaning that all other costs together go down, by nearly \$800,000.

Overall, our revenues are expected to be \$60,427,592, which includes the use of \$611,691 from the District's set-aside for reducing the impact of the mandated PSERS retirement system increases. This is still \$3,797,871 short of having a balanced budget. To balance that shortfall, the Board-approved Proposed Budget utilizes a significant portion of the existing unassigned General Fund balance.

Information we have received from the county assessment office indicates our tax base is holding fairly steady. There are fewer appeals outstanding and some home construction is occurring, but other properties are being removed from the tax rolls. One encouraging note is that we are able to increase our projection of the collection rate for current real estate taxes from 94.75% to 94.9%. While seemingly minute, this accounts for \$45,579 in additional revenue without a change in tax rates.

Slots money – from taxes on gaming revenues – accounts for about \$1.1 million of the state funding, which is to be distributed to all qualified homestead and farmstead owners through reductions in their upcoming tax bills. This is expected to be nearly identical to the past six years and results in an estimated credit of \$170 for each qualified homestead/farmstead. It's important to remember the slots funds do not support education – they do, however, reduce schools' reliance on the real estate tax.

There is a projected real estate tax increase of 2.5% or 0.2638 mills. This is equal to the allowable Act 1 index and continues our tradition of keeping increases at or below that index whenever possible – in 10 of the 12 years under Act 1. It also places us lowest in the county for tax rate increases over the past 5 years – less than half the county average, and results in the 2<sup>nd</sup> lowest overall tax rate.

The phasing in of funding for our facility improvement projects since 1993 has saved our taxpayers millions of dollars and has minimized large fluctuations in our related needs. As we look to the long term future, there will be significant facility needs in maintaining our environmental systems, particularly at the High School and Lincoln Elementary, along with several roofing systems and other needs. Though these needs are not projected for several years, it is important to maintain our practice of building the funding for them gradually over time to minimize the costs to taxpayers. We also recognize a need to fund shorter term, less costly needs on a regular, annual basis, rather than relying on what may be left over at the end of a fiscal year. Thus, we have included \$1,244,200 in the budget to cover the estimated 5-year average annual need for the mid-level projects. We have also included an additional \$300,000 for the 2<sup>nd</sup> year of graduated funding for the future large needs. This funding will be set aside specifically for those needs and is expected to increase by \$300,000 for three (3) more years to meet those needs in a cost-efficient manner. Since the recent facility improvements were funded gradually over time, there are no increases in our current debt service requirements and all our existing debt is scheduled to be paid off completely in 2027 – just 10 years from now. In fact, those costs have decreased from last year due to refinancings that have occurred in the past year.

Important things to remember in this budget are the growing impact of Act 1, uncertain state funding for instruction, and, though we are closer to seeing light at the end of a very long tunnel, more retirement system increases in the coming years.

This budget cannot be considered only within the short term. Long term impacts must be reviewed so that reductions today don't cost more tomorrow. It gets more difficult each year, but we must not balance this budget on the shoulders of our future taxpayers.

Since the state budget is not yet approved, we can't guarantee our estimated subsidies will be received as budgeted.

Managing our general fund balance for the long term remains a very high priority, and though we are planning to use a significant portion of it to help balance this budget, we are cautious about using too much. These are non-recurring funds and once they're used, they don't return. For anyone following the state budget discussions over the past year, and our budget discussions over the past several months, it is clear that this is a very important issue, with a variety of views to reconcile.

I'll offer a reminder that the final budget adoption is planned for the public Board meeting of Monday, June 12th at 7:00 p.m. That meeting will be held here in the Boardroom. If you wish to review any of this information in more detail, please visit our web site or contact us. We will be glad to arrange a meeting with you.

Thank you.