

BUDGET BRIEFING FROM SUPERINTENDENT
Dated May 18, 2015

2015-16 Proposed Final Budget Overview

Preparing the 2015-16 School District budget has been challenging. Significant cost increases from state and federal mandates, such as employee pensions and special education, continue to impact the budget. Also, federal revenues have decreased sharply over the past several years.

At the same time, proposed increases to state education funding have not been approved. Moreover, no fix to the state pension problem, impacted by the recession of 2008, has been made.

Cost increases have also been realized in collective bargaining agreements. However, each of the three unions in the District (teachers, support staff, and bus drivers), as well as non-represented employees, have negotiated wage concessions and freezes during the past three years.

The District, however, must continue to innovate and respond to a changing learning environment. Therefore, this budget provides the resources necessary to continue the District's investment in initiatives that leverage technology to enhance 21st century learning. It also funds staffing levels that maintain manageable class sizes for effective instruction and academic support.

If approved as presented on May 18, the 2015-16 budget will be on display until its final passage scheduled on June 22. The Board will also review the proposed final budget at the committee meeting on June 8. Changes may be made before final budget adoption.

Budget planning, projections, and discussions have been on the Board agenda at the following meetings and community forum:

January 12 and 26
February 9 and 23
March 9 and 24
March 25 (PTA/Superintendent Open Mike)
April 13 and 27
May 4 and 18

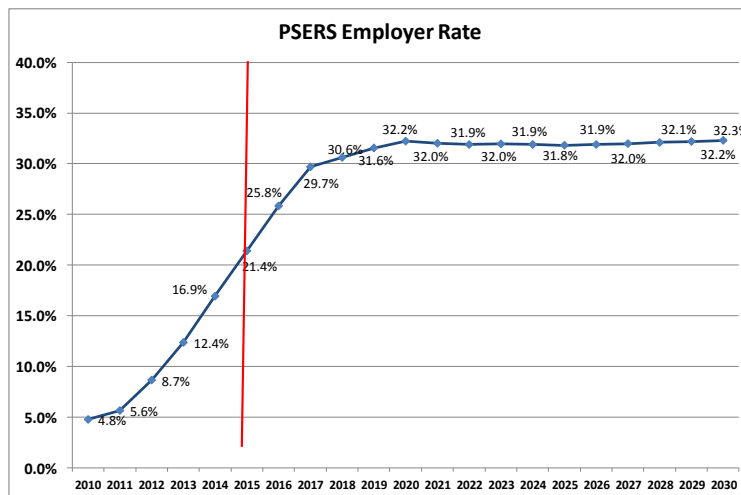
From a local perspective, our community has taken a responsible approach to adequately fund our exceptional school district. However, unless significant steps are taken to increase state/federal funding to USC and address the pension crisis, the 2016-17 budget will most likely result in further staffing and program reductions.

Millage Rate

The proposed millage rate for 2015-16 is 23.0355, which is an increase of .8398 mills. For the homeowner, this increase would represent \$84 dollars a year for every \$100,000 of assessed value.

Pension Costs

The District is projecting an increase to its state-mandated pension costs of approximately \$1.8 million for 2015-16. The state reimburses the District for half of this cost. The result is a net cost increase of about \$900,000 for 2015-16. This is in addition to the net increase of over \$700,000 in 2013-14. Longer term, the state-mandated pension cost increases are significant for all school districts as well as the state government. The state-mandated employer rates are as follows:



From 2009-10 through 2015-16 budget, the District's state mandated payments are expected to increase by over \$7 million or 460% as reflected below. In addition, the PSERS payment in 2015-16 represents 4.06 mills and the \$1.7 million increase in 2015-16 represents .83 mills.

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	Budget 2015-16	Cost/Mill
PSERS Employer Mandated Rate	4.78%	5.64%	8.65%	12.36%	16.93%	21.40%	25.84%	
PSERS Employer Payment	\$1,500,172	\$1,761,483	\$2,760,840	\$3,806,954	\$5,149,820	\$6,779,701	\$8,529,035	4.06
Annual \$ Change		\$261,312	\$999,356	\$1,046,114	\$1,342,866	\$1,629,881	\$1,749,334	0.83
Annual % Change		17.4%	56.7%	37.9%	35.3%	31.6%	25.8%	

Federal and State Revenue

The post-recession funding shortfalls from the state and federal sources continue. Federal revenues provided to the District are projected to decrease by \$100,000 primarily due to federal budget cuts to Medicare programs that affect our special education funding and the continued reduction to federal reimbursements associated with the Build America Bonds. This is in addition to the reduction of over \$450,000 in previous years.

The 2015-16 state revenues for the District can best be described as “up in the air.” Governor Wolf has proposed a state budget that increases education funding. However, his budget proposal is tied to significant changes in the state tax structure. Sources are pessimistic that we will see a final state budget before we are required to vote on a District budget by June 30. Moreover, pension reform continues as dialog in Harrisburg. As in past years, the burden of funding our District’s schools falls primarily (over 75%) to the local taxpayer.

Fund Balance

The District's Total Fund Balance was \$5,039,252 as of June 30, 2014, including an Assigned Fund Balance for PSERS of \$400,000 and an Unassigned Fund Balance of \$3,139,761. The 2015-16 Proposed Final Budget is projected to maintain an Unassigned Fund Balance of \$2,802,087 or 3.9% of the budget. This balance provides security to the District in the event of an emergency and maintains our credit rating with investors, thus saving the District money. Presently, the 2015-16 budget results in a \$338,118 deficit that could be offset by the \$310,000 of contingency in the budget, comprised of \$60,000 for special education and \$250,000 for general expenses. The administration will be working on reducing the use of the fund balance before the final budget adoption on June 22.

Debt Restructuring and Capital Projects Review

On April 2, 2013, the District sold \$11,365,000 of new bonds to refinance \$9,860,000 of the 2007 bonds in a favorable bond market. Approximately \$975,000 of the savings received at closing was placed into the Capital Reserve Fund to be used toward the cost of the following various capital projects over the three year period ending in May 2016:

	Amount Deposited from Bond Proceeds *	Balance Remaining
As of May 2013	\$975,000	\$975,000
<i>Capital Expenditures</i>		
2013-14	\$366,426	\$608,574
2014-15 (estimated at June 30)	\$274,407	\$334,167
2015-16 Proposed	\$451,875	(\$117,708)
<i>* Bond Proceeds to be used by May 2016</i>		

Some of the key projects funded with the bond proceeds include school buses, data room enhancements, security enhancements, asphalt repair, paving, carpet replacement, basic maintenance of mechanicals, FAB Lab build-out, and bleacher upgrades.

In addition, the District installed a new High School track that was necessary to continue our track and field program and provide a convenient walking/running facility for community use.

The District has asked architect Dave McLean to review future capital needs for our facilities. Fortunately, our academic facilities are in excellent condition. However, some of our recreational and administrative facilities are in need of repair and renovations. The Board will be looking at the priority of our facility needs and the funding alternatives, including private sector sources.

Interest Revenue

Low interest rates have resulted in lower debt service payments (as an expenditure). However, the District's interest income has decreased significantly due to low rates. Specifically, annual revenue from interest income has decreased from approximately \$990,000 in 2006-07 to \$17,000 in 2013-14, a reduction of nearly \$963,000 annually.

Healthcare

District healthcare increases have been relatively low in recent years compared to those locally, or at the region, or state level (0% in 2011, 4.75% in 2012, 7% in 2013-14, 5.75% in 2014-15). However, the 2.75% increase for 2015-16, as determined by the Allegheny County Schools Health Insurance Consortium, represents approximately a \$200,000 increase.

Special Education

The demands and costs for special education increase each year due to state and federal regulations. However, state reimbursement has remained relatively flat for the past four years and federal funding is being significantly reduced.

	Actual 2011-12	Actual 2012-13	Actual 2013-14	Budget 2014-15	Budget 2015-16
<i>Special Education Revenues</i>					
Special Ed Regular Programs	\$1,808,267	\$1,812,330	\$1,871,683	\$1,751,309	\$1,803,848
IDEA Part B	\$647,785	\$666,020	\$618,658	\$670,107	\$670,107
Access	\$732,529	\$383,626	\$425,287	\$300,000	\$200,000
Total Special Ed Funding	\$3,188,581	\$2,861,976	\$2,915,628	\$2,721,416	\$2,673,955
<i>Special Education Expenses</i>					
1200 Special ED	\$7,320,168	\$7,356,488	\$7,869,729	\$8,489,915	\$8,933,717
Transportation	\$578,879	\$660,584	\$695,539	\$700,000	\$700,000
Special Education Expenses	\$7,899,047	\$8,017,072	\$8,565,268	\$9,189,915	\$9,633,717
Variance	(\$4,710,466)	(\$5,155,096)	(\$5,649,640)	(\$6,468,499)	(\$6,959,762)

Technology and STEAM (Science, Technology, Engineering, Arts, and Mathematics)

Effective use of instructional technology has the capacity to enhance classroom instruction. The 2015-16 budget includes several technology investments: approximately \$750,000 to expand the 1:1 Learning Initiative to grades 5, 6, & 8; the replacement of 270 computers; and a continued commitment to funding the High School Innovation Hub.

Private funding is also being used to advance these initiatives.

<i>As of May 18</i>		
iPads - Grades, 5,6,7	\$255,092	1200 ipads & cases - \$748,898 (includes 1.49% estimated interest, financed for 3 years)
MS/HS Teacher Laptops (they are 6 years old)	\$70,812	\$299,750 (includes 1.9% interest, financed over 5 years) 230 MacBooks plus 20 MacBooks & cases
Administrator Laptops (they are 6 years old)		
HS Fab Lab/Innovation Hub		20 desktop computers - \$38,292 (incl. 1.9% interest financed over 5 years) Increased enrollment in various courses.
Total	\$325,904	

Private Advancement Funding Review

The District's initiative to cultivate alternative funding has resulted in well over \$850,000 since the Advancement Office's inception in May 2011. Funds have been generated from private donations, grants, the Gala events, signage at the High School stadium and gyms, Educational Improvement Tax Credit programs, in-kind donations, and other fundraising sources.

Security Enhancements

Prior to 2013, the focus of our security personnel costs targeted coverage at the High School. Since then, the District has increased spending on security to cover the entire District with personnel, training and equipment. Security remains a high priority in the 2015-16 budget.

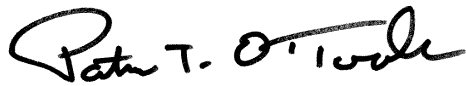
Staffing Cuts

The proposed 2015-16 budget has a reduction of two teachers, by not replacing two retiring staff members. The cuts are possible through low kindergarten enrollment and staff restructuring. The District leadership works hard to identify staff reductions that minimize the impact of student programs. Administrators will continue to review staffing before final passage.

The Future Projections

Because of the continued impact of the pension crisis and the reduction of state/federal funding (see above), the 2016-17 budget may look much different in terms of the degree to which the District can continue to fund our exceptional programs, maintain present class sizes, and deliver the present level of services.

As Superintendent, I encourage our residents to communicate with our state and federal representatives to ask for their support in improving education funding. In the past, our USC state/federal representatives have supported public education at USC. However, they need our assistance in convincing the majority of our representatives of the importance of funding public schools and reducing onerous mandates such as pension costs. Quality education should be a local, state, and national priority.

A handwritten signature in black ink that reads "Patrick T. O'Toole". The signature is written in a cursive, flowing style.

Patrick T. O'Toole, Ed.D.
Superintendent of Schools