

# 2012-13 USC Budget FAQs

## June 26, 2012

### 1. Why does the 2012-13 final budget reflect a positive outcome?

The District is faced with a significant PSERS pension fund obligation (see #3 below) that is controlled by the state. In addition, state revenues for instruction have been reduced. As a result, our projections for the budget shortfall over the next three years, even with the 1.618 mill tax increase in 2012-13 and no other real estate tax increases beyond 2012-13, are:

2013-14: \$2,074,038  
 2014-15: \$3,963,322  
 2015-16: \$5,810,466

The positive budget outcome in 2012-13 will be assigned to a reserve fund to pay for these projected deficits in the coming years in order to minimize future staffing and program reductions as well as future tax increases. Providing for, or adding to, such a PSERS reserve is not unusual for school districts, especially in more recent years with significant increases in the employer contribution rate.

### 2. What steps has the District taken to reduce expenditures and increase revenue?

The District has taken several steps:

1. The District cut seven teaching positions and three support staff positions in 2011-12. Seven additional teaching positions and three additional support staff positions have been cut from the 2012-13 budget.
2. The administrative staff has been restructured, including the elimination of two central office positions. Total salary costs for the administration in 2012-13 are only \$30,000 above the costs in 2006-07.
3. The District re-negotiated the collective bargaining agreement with the union representing the teachers, resulting in savings over the two year period of over \$3.7 million. The District re-negotiated a collective bargaining agreement with the bus drivers that has saved the District \$23,000 per year.
4. The District has reduced expenditure requests in technology, supplies, field trips, and capital projects by over \$500,000 over the past 2 years.
5. The District instituted a Registration Fee for Athletics for the 2011-12 school year that collected approximately \$85,000. The District is reviewing registration fees for other activities.
6. The District instituted an Advancement Office to attract non-tax revenue. Thus far, through this effort, the District has been awarded over \$102,000 in grant funding and over \$70,000 in private and corporate contributions.

Expense Reductions		Estimated Savings
1	Reduction of 7 teaching and 3 support positions in 2011-12 and 7 teaching and 2 support positions in 2012-13	\$2,000,000
2	Administrative staff restructuring	\$100,000
3	Re-negotiated collective bargaining agreement with teachers	\$3,700,000
4	Renegotiated collective bargaining agreement with bus drivers	\$20,000
5	Reduced expenditures in technology, capital and field trips	\$500,000
<b>Total Expense Reductions</b>		<b>\$6,320,000</b>
<b>Revenue Enhancements</b>		
6	Sports Registration Fee	\$84,000
7	Advancement Office Grants and Contributions	\$170,000
<b>Total Revenue Enhancements</b>		<b>\$254,000</b>
<b>GRAND TOTAL IMPACT TO BUDGET</b>		<b>\$6,574,000</b>

### 3. What are the primary cost increases in the 2012-13 budget?

The primary cost factors in the budget are:

- Increase in the employer contributions to the Pennsylvania State Employees Retirement System (PSERS) - \$1,046,114 (.62 mills)

The District is required by law to contribute a percentage of its payroll to the pension fund. Changes to the fund can only be made by the state legislature. The PSERS Board sets the rate each year. The District's contribution has gone from \$1,500,172 (4.78%) in 2009-10 to a projected \$3,806,954 (12.36%) in 2012-13. The employer contribution rate is projected to increase to 25.56% by 2015-16. For more information, see "2012-2013 Employer Contribution Rate" located at the end of this document.

- Increase in Debt Service payments - \$2,072,383 (1.22 mills)

The District committed to raising taxes .4 mills per year for four years in order to pay for the debt incurred by the Middle Schools Construction Project. This cost represents refinancing efforts to phase-in the additional debt service associated with the project until the 1.6 mills are fully implemented (see below).

- Increase in Health Care costs - \$297,576 (.18 mills)

Health care costs have also increased by 4.75% for an increase of \$297,576, net of the attritional staff reductions, to a projected annual expense of \$6,492,991. USCS D belongs to the Allegheny County Schools Health Insurance Consortium (ACSHIC), which provides health care for school employees. Annual premiums are set by ACSHIC.

	2009-10	2010-11	Budget 2011-12	Final Budget 2012-13	Cost/Mill
<b>PSERS Employer Contribution Rate</b>	<b>4.78%</b>	<b>5.64%</b>	<b>8.65%</b>	<b>12.36%</b>	
PSERS Employer Contribution	\$1,500,172	\$1,761,483	\$2,760,840	\$3,806,954	<b>2.25</b>
<i>Annual \$ Change</i>		\$261,312	\$999,356	\$1,046,114	<b>0.62</b>
<i>Annual % Change</i>		17.4%	56.7%	37.9%	
Debt Service	\$5,715,319	\$8,080,713	\$4,612,810	\$6,685,193	<b>3.95</b>
<i>Annual \$ Change</i>		\$2,365,394	(\$3,467,903)	\$2,072,383	<b>1.22</b>
<i>Annual % Change</i>		41.4%	-42.9%	44.9%	
Healthcare	\$6,358,182	\$6,324,620	\$6,195,415	\$6,492,991	<b>3.84</b>
<i>Annual \$ Change</i>		(\$33,561)	(\$129,205)	\$297,576	<b>0.18</b>
<i>Annual % Change</i>		-0.5%	-2.0%	4.8%	
<b>Total</b>	<b>\$13,573,672</b>	<b>\$16,166,817</b>	<b>\$13,569,065</b>	<b>\$16,985,138</b>	<b>10.04</b>
<i>Annual \$ Change</i>		\$2,593,145	(\$2,597,752)	\$3,416,073	<b>2.02</b>
<i>Annual % Change</i>		19.1%	-16.1%	25.2%	

### 4. What is the impact of the renegotiated teachers' contract on the budget?

In April 2012, the Upper St. Clair Education Association agreed to renegotiate its collective bargaining agreement with the District. The new agreement will save the District approximately \$3.7 million (2.3 mills) over the next two years.

Under the agreement, the teachers will use the 2009-10 salary schedule for the 2012-13 and 2013-14 school years. The 2010-11 schedule will apply for the 2014-15 school year, and the 2011-12 schedule will apply for the 2015-16 school year.

In return for wage concessions, the District has agreed to a “no furlough” provision for the 2012-13 and 2013-14 school years.

## **5. What is the impact of the middle schools renovations on the budget?**

At the Act 34 Hearing on March 16, 2009, the District committed to increasing debt by \$60 million resulting in incremental debt service payments of over \$2.1 million annually, net of the 35% rebate from the IRS, to pay for additions and renovations that were needed at Boyce and Ft. Couch. In addition, these bond proceeds were used to secure a new transportation facility, improve playing fields, and replace several buses.

The Board decided to phase-in the millage increase of 1.6 mills required to pay for the new debt instead of a one-time tax increase. The tax commitment of 1.6 mills is to be phased in at .4 mills per year for four years (2010-11, 2011-12, 2012-13, and 2013-14). The renovated schools bring value to the School District as exceptional environments for student learning and activities in the 21<sup>st</sup> century. The HVAC systems are more efficient and reliable than in the past. Both buildings are LEED Certification eligible. A new transportation facility was needed to replace an inadequate building and overcrowded site.

## **6. What is the impact of state and federal funding on USCSD’s budget?**

State funding is comprised of a variety of revenues including the Basic Education Funding (BEF), Special Education subsidy, a 50% reimbursement of employer payments to PSERS, 50% reimbursement of the employer’s social security and Medicare payments, proceeds from state gaming revenues, and transportation and debt service subsidies.

The BEF is money that is not earmarked for any special purpose. In the past, USCSD’s state Basic Subsidy of \$3.9 million had increased approximately \$78,000 or the 2% minimum annually. In 2011-12 and 2012-13 the Basic Education Subsidy (BEF) is \$3,900,420 and \$3,970,422, respectively.

Federal subsidies provides funding for primarily Special Education purposes and in 2009-10 and 2010-11, federal stimulus funds were received and applied to defray expenses in Special Education outside placement, utility and teacher benefit costs. The District received stimulus funds of \$857,800 in 2009-10 and over \$1,127,500 in 2010-11. A portion of the federal stimulus funds was used to supplant state funding in the BEF. In addition, a 35% rebate from the IRS is received. This rebate relates to the \$53 million of bonds issued as Build America Bonds, a new bond instrument as a result of the federal stimulus program, in conjunction with the Middle Schools Construction Project. The bonds were issued at an attractive average yield of 3.90% over a weighted average maturity of 23.61 years, resulting in a net present value savings of over \$9.7 million over the life of the bonds as compared to a similar issue in the traditional tax-exempt market at that time.

It is difficult to compare the state or federal funding separately on a year-to-year basis due to the interdependency of the two funding sources during the timeframe denoted below:

	2009-10	2010-11	Budget 2011-12	Final Budget 2012-13
<b>State Revenues</b>				
BEF	\$3,507,054	\$3,325,506	\$3,967,089	\$3,970,422
Special Education Subsidy	\$1,853,107	\$1,845,192	\$1,751,309	\$1,751,309
PSERS Reimbursement	\$746,391	\$855,946	\$1,380,420	\$1,903,477
FICA Reimbursement	\$1,150,864	\$1,175,919	\$1,221,338	\$1,241,576
Act 1 - from Gaming Revenues	\$1,388,435	\$1,385,722	\$1,389,336	\$1,387,178
PA Accountability Grants	\$215,823	\$281,901	\$79,515	\$0
Transportation Subsidy	\$754,423	\$844,425	\$800,000	\$881,605
Debt Service Subsidy	\$625,809	\$873,479	\$454,718	\$545,433
All Others	\$238,679	\$145,401	\$162,000	\$162,000
<b>Total State Revenues</b>	<b>\$10,480,586</b>	<b>\$10,733,492</b>	<b>\$11,205,726</b>	<b>\$11,843,000</b>
<i>Annual \$ Change</i>		\$252,906	\$472,234	\$637,274
<i>Annual % Change</i>		2.4%	4.4%	5.7%
<b>Federal Revenues</b>				
Stimulus Funding - used to fund Special Education Outside Placements	\$386,383	\$395,021	\$0	\$0
Stimulus Funding - used to fund Utility Expenses	\$471,376	\$459,969	\$0	\$0
Stimulus Funding - used to fund Teachers' Benefits	\$0	\$272,525	\$0	\$0
Special Education Funding - IDEA	\$652,288	\$660,168	\$652,279	\$668,586
Special Education Funding - ACCESS	\$528,725	\$709,232	\$625,000	\$640,625
IRS Rebate	\$349,679	\$1,701,143	\$1,134,096	\$1,134,096
All Others	\$188,599	\$217,600	\$182,506	\$172,385
<b>Total Federal Revenues</b>	<b>\$2,577,050</b>	<b>\$4,415,658</b>	<b>\$2,593,881</b>	<b>\$2,615,692</b>
<i>Annual \$ Change</i>		\$1,838,608	(\$1,821,778)	\$21,811
<i>Annual % Change</i>		71.3%	-41.3%	0.8%
<b>TOTAL STATE &amp; FEDERAL REVENUES</b>	<b>\$13,057,636</b>	<b>\$15,149,150</b>	<b>\$13,799,606</b>	<b>\$14,458,692</b>
<i>Annual \$ Change</i>		\$2,091,515	(\$1,349,544)	\$659,086
<i>Annual % Change</i>		16.0%	-8.9%	4.8%

## 7. What is the status of the state Accountability Block Grant?

The Block Grant was state revenue earmarked for Academic Performance of Student Subgroups to provide instruction for targeted groups of students at basic or below basic PSSA levels. In the past, the District received \$79,515. For 2012-13, funding for the Block Grant was not included in the budget since state funding had been eliminated, however funding for this program may be reinstated at similar levels to 2011-12.

## 8. What factors contribute to the increase in state funding to the District reflected in the budget?

The state reimburses the District for 50% of its payments to the PSERS retirement fund. Therefore, as the District's expenditures to PSERS have increased, so have the state reimbursements. In fact, these state reimbursements have increased over 120% over the past 3 years.

In addition, the state provides funding for special education programs. This funding has been fairly consistent at \$1.7 million. The state also reimburses the District a portion of our debt service payments. This reimbursement amount has been as high as \$873,000 in 2010-11. Due to the refinancing efforts, this reimbursement will be lower for 2011-12 and 2012-13.

As a result, the budget shows an increase in state funding. However, the BEF for basic education programs has been reduced (see #6 and #7) when the federal stimulus dollars are also considered.

## 9. What is a "mill?"

Tax "millage" is the tax rate applied to the assessed property value. One "mill" is equal to \$1 per \$1,000 of assessed property Value.

The 2012 Median Homestead Value in USC is \$183,900. (One mill of property taxes on such a property = \$183.90.)

The total taxable assessed property values in Upper St. Clair are over \$1.69 billion, thus one mill in USC is equal to \$1.69 million.

**10. What is the current school millage in USC?**

The millage in USC for 2011 school taxes is 24.10 mills. The 2012-13 Final Budget, passed by the School Board on June 25, 2012, includes an increase of 1.618 mills for a total of 25.718 mills.

**11. How does USC’s millage compare with other school districts?**

As of July 2011, USC’s millage was ranked 20th out of 42 districts in Allegheny County. See attached chart.

**12. How will the recent Allegheny County property reassessments impact my school taxes?**

Overall, the 2013 assessments for our community increased by about 21%, however school districts are not permitted to realize any windfall and are required to decrease the millage rate accordingly in order to equal the real estate tax revenue that we would have realized without the higher reassessments.

The chart below is a summary of the 2012 as compared to the 2013 assessments and the potential impact to millage, however the pertinent millage impact will be determined prior to adoption of the final 2013-14 budget in June 2013:

<b>As of June 26, 2012</b>	<b>2012 Total</b>	<b>2013 Total</b>	<b>\$ CHANGE</b>	<b>% Change</b>
Assessed taxable values	\$1,692,292,670	\$2,054,727,832	\$362,435,162	21.4%
Millage in 2012-13/Proforma 2013-14	25.718	21.182	-4.536	-17.6%
<b>Real Estate Revenues</b>	<b>\$43,522,383</b>	<b>\$43,522,383</b>	<b>\$0</b>	<b>0.0%</b>

## School District Budget Information - Real Estate Tax Revenue

2011-2012					2010-2011			
District		2011-12 General Fund Budget	Millage	Value of 1 mill Budgeted	Millage Variance -vs- Prior Year	2010-11 General Fund Budget	Millage	Value of 1 mill Budgeted
Wilkinsburg	1	\$26,200,641	35.00	\$264,046	0	\$29,738,248	35	\$264,000
Northgate	2	\$18,717,707	28.60	\$365,000	1	\$20,055,647	27.6	\$365,051
Brentwood	3	\$18,868,505	28.27	\$337,942	0	\$18,911,582	28.27	\$338,298
South Fayette	4	\$35,007,807	27.83	\$850,092	2.953	\$32,941,172	24.88	\$834,847
East Allegheny	5	\$29,851,989	27.54	\$471,516	0	\$30,867,038	27.54	\$470,000
Deer Lakes	6	\$31,416,952	26.69	\$667,400	0.44	\$34,898,555	26.25	\$662,190
Mount Lebanon	7	\$78,347,833	26.63	\$2,084,015	0	\$79,362,440	26.63	\$2,075,382
Highlands	8	\$35,260,717	26.41	\$612,000	2	\$38,809,365	24.41	\$640,000
South Park	9	\$27,296,913	25.99	\$589,343	0	\$28,035,687	25.99	\$585,655
Cornell	10	\$11,235,102	25.96	\$263,000	1.845	\$11,296,533	24.11	\$255,000
Clairton City	11	\$12,943,201	25.79	\$100,000	0	\$14,357,956	25.79	\$100,000
Woodland Hills	12	\$82,193,268	25.65	\$1,454,901	0	\$90,036,533	25.65	\$1,468,431
Shaler Area	13	\$69,094,321	25.63	\$1,550,000	0	\$71,380,445	25.63	\$1,555,000
Elizabeth Forward	14	\$35,481,437	25.01	\$646,000	1.2518	\$36,596,885	23.76	\$721,382
Sto-Rox	15	\$22,270,155	25.00	\$240,000	0	\$24,082,663	25	\$270,000
Bethel Park	16	\$71,527,879	24.97	\$1,900,000	0.41	\$71,549,605	24.56	\$1,993,904
Penn Hills	17	\$70,740,593	24.81	\$1,487,000	0	\$76,143,900	24.81	\$1,536,000
Riverview	18	\$17,119,143	24.79	\$420,799	0.7364	\$17,246,076	24.05	\$418,000
Steel Valley	19	\$24,467,184	24.16	\$630,000	0.09	\$27,570,375	24.07	\$646,102
Upper St. Clair	20	\$59,395,594	24.10	\$1,685,628	0.33	\$58,341,887	23.77	\$1,626,204
Allegheny Valley	21	\$19,340,994	23.46	\$550,000	0	\$20,641,355	23.46	\$550,000
Baldwin-Whitehall	22	\$60,095,403	23.40	\$1,445,658	0	\$62,717,595	23.40	\$1,505,000
Carlynton	23	\$23,395,132	23.15	\$558,000	-1	\$23,994,404	24.15	\$562,095
West Mifflin	24	\$42,031,879	22.99	\$925,200	0	\$45,274,075	22.992	\$960,000
Plum Borough	25	\$53,506,859	22.20	\$1,135,611	0	\$55,816,164	22.2	\$1,136,948
Keystone Oaks	26	\$33,908,159	22.03	\$940,265	0	\$35,723,817	22.03	\$980,000
West Allegheny	27	\$52,765,097	22.00	\$1,518,676	0	\$51,851,427	22.0	\$1,453,806
Pine-Richland	28	\$63,900,266	21.91	\$1,862,336	0	\$62,889,320	21.9084	\$1,838,908
Fox Chapel	29	\$79,656,744	21.56	\$2,634,364	0.2976	\$82,723,932	21.26	\$2,697,363
Hampton	30	\$41,565,500	21.35	\$1,231,000	0.47	\$41,784,489	20.88	\$1,240,000
Moon Area	31	\$57,629,109	21.30	\$1,770,850	0	\$59,766,464	21.3	\$1,746,900
Duquesne City	32	\$14,779,445	21.10	\$91,461	0	\$15,454,848	21.1	\$93,000
West Jefferson Hills	33	\$37,345,590	21.08	\$1,000,000	0	\$37,497,972	21.08	\$970,825
Gateway	34	\$64,248,000	21.02	\$2,069,728	0	\$65,601,000	21.02	\$2,071,003
Quaker Valley	35	\$39,877,245	20.95	\$1,320,779	0.25	\$39,511,493	20.7	\$1,345,872
North Hills	36	\$66,676,812	20.91	\$2,054,689	1	\$75,141,831	19.91	\$2,053,692
North Allegheny	37	\$120,159,253	20.26	\$3,979,369	0.52	\$121,460,369	19.74	\$4,048,986
Avonworth	38	\$22,184,381	20.00	\$716,000	0	\$22,373,733	20	\$681,000
Chartiers Valley	39	\$49,842,276	19.88	\$1,667,027	0	\$49,964,650	19.88	\$1,626,235
Montour	40	\$54,064,767	18.90	\$1,883,606	0	\$55,750,599	18.9	\$1,960,968
South Allegheny	41	\$20,111,561	18.49	\$273,500	0.38	\$21,548,035	18.11	\$272,000
McKeesport	42	\$57,118,699	17.05	\$729,513	0.34	\$60,027,601	16.71	\$738,314

7/14/2011

# 2012-2013 Employer Contribution Rate

## Defined Benefit Vs. Defined Contribution

- The Public School Employees' Retirement System (PSERS) is a defined benefit plan and therefore the amount of a member's pension benefit is not tied to the investment performance of the Fund. The member's pension benefit is based on a fixed formula that is defined by the Legislature in the Retirement Code. A defined benefit plan differs from most pension plans in the private sector, which are typically defined contribution plans, like a 401K plan or Individual Retirement Account (IRA). In a defined contribution plan, the member's pension benefit will fluctuate up and down with investment performance.

## Who bears investment performance risk?

- In a defined benefit plan, the members do not benefit when the investment performance of the fund is good. The Commonwealth and school employers benefit as "employer" contributors to the System through a reduced employer contribution rate to the System.
- Likewise, PSERS' members do not bear the investment risk of a down market. Investment risk is borne by the Commonwealth and school employers through the employer contribution rate, which will rise when there is investment loss at the System during a down market.
- Effective July 1, 2011 new members will bear some of the investment risk via the shared risk provisions of Act 120.

## Funding Sources for the System

**PSERS is funded through three sources: contributions from employees (members), the employer contribution rate which is contributions from employers (generally school districts) and the Commonwealth, and investment returns from the System.**

### **Employee (Member) Contributions**

- Employee (Member) contributions range from 5.25% to 10.30% of payroll depending on the class of membership of the employee and when they joined PSERS. Employees are expected to contribute an average of 7.40% of their salary to help fund their retirement benefit in fiscal year 2012/2013.
- Employee (member) contributions of approximately \$1.1 billion are expected in fiscal year 2012/2013.

### **Employer (School District and Commonwealth) Contributions**

- Both the employer and the Commonwealth are responsible for paying a portion of the employer contribution rate. Employers are divided into two groups: school entities and non-school entities. School entities are responsible for paying 100 percent of the employer share of contributions to PSERS. The Commonwealth reimburses school entities for one-half the payment for employees hired on or before June 30, 1994. School entities are reimbursed by the Commonwealth based on a statutory formula for employees hired after June 30, 1994, but not less than one-half of the payment. Non-school entities and the Commonwealth each contribute one-half of the total employer rate. Total employer contributions for FY 2012/2013 are estimated at \$1.8 billion.

- The employer contribution rate setting methodology is set forth in statute. The chart below shows the employer contribution rate history over the past 15 years.

<b>HISTORY OF EMPLOYER CONTRIBUTION RATES</b>				
<b>Fiscal Year</b>	<b>Employer Normal Cost %</b>	<b>Preliminary Employer Pension Rate %</b>	<b>Health Care Contributions %</b>	<b>Total Employer Contribution %</b>
98/99	6.33	5.89	0.15	6.04
99/00	6.40	4.36	0.25	4.61
00/01	6.29	1.64	0.30	1.94
01/02	5.63	0.00	1.09	1.09
02/03	7.20	0.18	0.97	1.15
03/04	7.25	2.98	0.79	3.77
04/05	7.48	4.00	0.23	4.23
05/06	7.61	4.00	0.69	4.69
06/07	6.62	5.72	0.74	6.46
07/08	6.68	6.44	0.69	7.13
08/09	6.68	4.00	0.76	4.76
09/10	7.35	4.00	0.78	4.78
10/11	8.08	5.00	0.64	5.64
11/12	8.12	8.00	0.65	8.65
12/13	8.66	11.50	0.86	12.36

- The chart below shows the 10-year projected employer contribution rates using the June 30, 2011 valuation.

<b>10-YEAR PROJECTED EMPLOYER CONTRIBUTION RATES</b> <sup>*</sup>		
<b>(Presumes an 7.5% rate of return)</b>		
<b>Fiscal Year Ending June</b>	<b>Total Employer Contribution Rate %</b>	<b>Projected Total Employer Contribution (thousands) \$</b>
12/13	12.36	1,767,109
13/14	16.75	2,470,057
14/15	21.25	3,216,734
15/16	25.56	3,975,362
16/17	26.26	4,201,181
17/18	26.80	4,414,922
18/19	27.53	4,673,234
19/20	28.04	4,906,946
20/21	27.76	5,010,534
21/22	27.58	5,136,895

**Investment Returns**

- PSERS actual rate of return for fiscal year ended June 30, 2011 was 20.37% and the plan net assets increased from \$45.8 billion at June 30, 2010 to \$51.4 billion at June 30, 2011.

**About the Pennsylvania Public School Employees' Retirement System**

PSERS is the 16<sup>th</sup> largest state-sponsored defined benefit pension fund in the nation. As of September 30, 2011 PSERS had net assets of \$47.7 billion and a membership of more than 279,000 active members and over 194,000 annuitants and beneficiaries receiving benefits. For more information visit PSERS' website at [www.psers.state.pa.us](http://www.psers.state.pa.us)

<sup>\*</sup> The projection of contribution rates is based on the assumption that there are no changes in demographics or economic assumptions, no changes in benefit provisions, and no actuarial gains or losses other than gains or losses on the actuarial value of assets that result from recognizing currently deferred gains or losses on the market value of assets. Those assumptions may vary from actual experience and as a result projected employer contribution rates will increase or decrease.