In the next two months, the District must pass a proposed final budget and a final budget. Since our passage of the preliminary budget, there have been many changes. Most recently, we were able to save money in both the short and long term by refinancing debt. We also realized savings by soliciting RFP's for health insurance.

With Act 1 taxation limits and restricted exceptions available, we must consider both immediate and longer term needs when passing annual budgets. There is no longer an Act 1 exception available for building construction or renovation. The District is currently in the midst of considering the following facilities projects:

- Upgrades to State College Area High School
- Upgrades to Memorial Field
- Preparation for upgrades to additional elementary schools
- Repurposing of other district facilities

In excess of $100 million was estimated for these projects in the Master plan.

With that as background, the administration is recommending the following changes for the upcoming proposed final budget. First, some of the savings from the debt refinancing and health insurance savings will be given back to the community through a lower real estate tax increase. The preliminary budget contained a 3.3% tax increase. As we made additional changes after passage of that budget, a 2.7% tax increase was proposed. At this time, we are proposing lowering the tax increase even further to 2.4%.

After passage of the preliminary budget, a number of strategies were considered to reduce expenses. It appears that we will be able to achieve the attritional savings of $600,000. We should also be able to hold the line on most other expenses that are not related to salary and benefits. There was a proposed $400,000 cut to equipment and supplies in the most recent iteration of the budget. The bulk of that reduction was in classroom technology expenses. At this time, we would like to revise that cut to $300,000 instead and restore $100,000 of classroom technology.

Finally, in recognition that the District must continue to find ways to pay for facilities upgrades within its taxation authority, we are recommending increasing the contribution to the Capital Reserve fund from the $1 million that was contained in the preliminary budget to $2.5 million. This increase will allow for two things to occur. In the short to medium term, it will allow for some of the backlog of facilities expenses in the five year capital plan to be addressed. In the longer term, it will lessen the need for future borrowing and allow a more orderly phase-in of debt service needed to complete Phase II of the Master Plan.

A revised five year budget projection is attached. As with any projection, a number of assumptions need to be made. There are still some items that are unclear even as it relates to the 2012-13 budget, so these numbers can be thought of as reasonable estimates, not firm predictions.

For revenue, the following assumptions were made:

1% annual assessed value growth

Only other revenue growth is due to a real estate tax increase and the state share of PSERS

For expenses, the following assumptions were made:

0% increase in most expenses

Health Insurance per Health America RFP through 14-15 w 12.5% increase thereafter

No new debt service

4% growth in minor capital projects

1.7% salary growth

$300,000 decrease in supplies/equipment in 12-13 remaining at that level for the remaining time period

$600,000 in attrition in 2012-13

4 instructional coaches added in 12-13

Unchanged PSERS pre-funding levels

Transfer to Capital Reserve remaining dollars (with a 2.4% annual tax increase)

No spending from Capital Reserve Fund

These assumptions allow us to see what happens at various taxation levels and the amount of money that could be accumulated for Capital Projects. Additionally, the goal would be to build a sustainable stream of capital spending for the future. The method employed to do that in these assumptions is to consider an annual tax increase of 2.4% through 2016-17. Initially, money would be transferred to the Capital Reserve Fund and no expenses would take place in 2012-13. This would allow for the commitment toward facilities spending to jump from just under $8.6 million in 2011-12 to just under $11 million in 2012-13. As time moves forward and other expenses begin to consume what the General Fund can contribute to the Capital Reserve Fund, spending from that fund would begin to occur to allow for the $11 million commitment to be maintained through 2016-17.

The numbers and methodology are provided for illustrative purposes. The timing and amounts could vary depending upon needs. A 2.4% annual tax increase may not be possible or desirable. Some lesser money could be provider for a shorter period of time with a 1.7% annual tax increase. There would be no opportunity to proceed with any additional capital funding with no annual tax increase.

To reiterate, this is a model to begin to allow us to consider how to phase-in some additional funds for facilities upgrades in the coming years. This is not to advocate for an annual tax increase of 2.4%. As was mentioned before, there are quite a number of assumptions built in going forward. The point to take away is that as we consider our priorities and reflect upon next steps in our budget analysis reports for the long term, we know that we will have to consider additional efficiencies in other areas. As we are able to achieve these efficiencies, we would be able to afford additional capital spending even below the 2.4% tax increases that are used in this model.

We are at the beginning of the capital project funding process right now. For 2012-13, it is recommended that a 2.4% tax increase coupled with a $1.6 million increase in transfers to the Capital Reserve Fund take place. As we go into 2013-14, we will need to consider priorities for sustaining this model that may not require a 2.4% tax increase. Our goal is to fit all of our needs, including facilities upgrades, into the Act 1 tax increase framework.

Expense Projections

	2011-12 Budget	2012-13 Budget	2013-14 Budget	2014-15 Budget	2015-16 Budget	2016-17 Budget
Salaries	57,284,171	57,838,002	58,821,248	59,821,209	60,838,170	61,872,419
Health Insurance	**12,500,000**	**11,875,000**	**13,240,625**	**14,895,703**	**16,757,666**	**18,852,374**
PSERS	**4,955,081**	**7,148,777**	**9,852,559**	**12,712,007**	**15,550,236**	**16,247,697**
Other Benefits	6,940,845	6,940,845	6,940,845	6,940,845	6,940,845	6,940,845
Professional Services	2,180,809	2,180,809	2,180,809	2,180,809	2,180,809	2,180,809
Purchased Property Services	2,030,681	2,030,681	2,030,681	2,030,681	2,030,681	2,030,681
Other Purchased Services	8,973,342	8,973,342	8,973,342	8,973,342	8,973,342	8,973,342
Supplies/Equipment	5,730,677	5,430,677	5,430,677	5,430,677	5,430,677	5,430,677
Minor Capital Projects	**1,899,895**	**1,975,891**	**2,054,926**	**2,137,123**	**2,222,608**	**2,311,513**
Athletics/Fees/Other	2,669,485	2,669,485	2,669,485	2,669,485	2,669,485	2,669,485
Debt Service	**5,700,000**	**6,339,000**	**6,335,000**	**5,362,000**	**5,362,000**	**5,344,000**
Transfer to Capital Reserve	**1,000,000**	**2,656,582**	**2,366,563**	**2,792,454**	**1,691,955**	**831,204**
PSERS Pre-funding Strategy	**1,000,000**	**515,818**	**-346,353**	**-1,253,395**	**-1,731,374**	**-1,518,798**
Total Expenses and PSERS Pre-funding	**112,864,986**	**116,574,909**	**120,550,407**	**124,692,941**	**128,917,100**	**132,166,248**
Growth in Expenses		**3,709,923**	**3,975,499**	**4,142,533**	**4,224,160**	**3,249,147**

Assumptions: 0% increase in most expenses, Healthcare per HealthAmerica Terms through 14-15 w 12.5% increase thereafter no new debt service, 4% growth in minor capital projects, 1.7% salary growth, $300,000 decrease in supplies/equipment in 12-13 $600,000 in attrition in 2012-13, 4 instructional coaches added in 12-13

GENERAL FUND BUDGET PROJECTIONS

	2012-13	2013-14	2014-15	2015-16	2016-17
Revenue with 2.4% Annual Tax Increase	116,574,909	120,550,407	124,692,941	128,917,100	132,166,247
Expenses	116,574,909	120,550,407	124,692,941	128,917,100	132,166,248
Surplus/(Deficit)	0	0	0	0	0
Revenue with 1.7% Annual Tax Increase	116,052,516	119,473,755	123,028,699	126,630,415	129,220,677
Expenses	116,574,909	120,550,407	124,692,941	128,917,100	132,166,248
Surplus/(Deficit)	(522,393)	(1,076,652)	(1,664,241)	(2,286,685)	(2,945,571)
Revenue with No Annual Tax Increase	114,783,847	116,889,477	119,080,477	121,268,480	122,393,788
Expenses	116,574,909	120,550,407	124,692,941	128,917,100	132,166,248
Surplus/(Deficit)	(1,791,061)	(3,660,931)	(5,612,464)	(7,648,621)	(9,772,460)

Capital Reserve Fund at 2.4% Tax Increase

	Beginning Balance	Transfers-In from General Fund	Capital Reserve Expenses	Ending Balance
2012-13	8,831,944	2,656,582	0	11,488,526
2013-14	11,488,526	2,366,563	214,983	13,640,106
2014-15	13,640,106	2,792,454	679,895	15,752,664
2015-16	15,752,664	1,691,955	1,694,909	15,749,710
2016-17	15,749,710	831,204	2,484,756	14,096,158

Total Capital Project and Debt Service Expenses

	Debt Service	Capital Reserve Transfer	Minor Capital Projects	Total General Fund Capital Expenses	Capital Reserve Expenses	Total Capital Expenses
2011-12	5,700,000	1,000,000	1,899,895	8,599,895	0	8,599,895
2012-13	6,339,000	2,656,582	1,975,891	10,971,473	0	10,971,473
2013-14	6,335,000	2,366,563	2,054,926	10,756,489	214,983	10,971,473
2014-15	5,362,000	2,792,454	2,137,123	10,291,577	679,895	10,971,473
2015-16	5,362,000	1,691,955	2,222,608	9,276,563	1,694,909	10,971,473
2016-17	5,344,000	831,204	2,311,513	8,486,717	2,484,756	10,971,473