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VI-A2

To: Board of School Directors

From: Robert J. O'Donnell
 Donna Watson

Date: April 3, 2014

Subject: PSERS Pay Forward Strategy Update

The attached PSERS pay forward strategy has been updated to reflect December 2013 published projected employer contribution rates and updated projected salaries. Below is a comparison of projected PSERS rates published in 2012 compared to the most recently published rates. The graph on page 4 compares rate projections published in 2011, 2012 and 2013.

	2012 Rates	2013 Rates	Increase
2014-15	21.31%	21.40%	0.09%
2015-16	25.80%	25.84%	0.04%
2016-17	28.30%	29.27%	0.97%
2017-18	29.15%	30.25%	1.10%
2018-19	30.14%	31.28%	1.14%
2019-20	30.87%	32.08%	1.21%

The projected PSERS pay forward strategy calculates the difference between the net projected PSERS expense calculated based on published projected employer contribution rates, and projected expense assuming an increase in PSERS expense of 1.2% of salaries annually. The difference between these two calculations is the amount in column F which represents the proposed addition to, or draw from, the PSERS fund balance. The goal of this projected strategy is to ease the burden of large fluctuations in PSERS expense. Published PSERS rate changes after the 2019-20 year project more modest increases and include rate decreases. The projected fund balance of \$8,572,225 at the end of the 2013-14 year reflects the designation included in the budget resolution adopted by the board as part of the 2013-14 budget.

The “apparent” PSERS rate (column H) in the attached analysis reflects the published PSERS projected rate adjusted for the impact of the pay forward contribution amount. The percentage tax increase for PSERS (column I) represents the percentage tax increase required to cover the increase in PSERS calculated based on the 1.2% of salary methodology. In prior years exceptions were taken to increase taxes above the Act 1 index to cover the PSERS net expense increase. The district has elected not to request use of exceptions in the upcoming budget year. Requests to utilize exceptions can only include PSERS expense increases in the upcoming budget year.

Please note that in prior presentations of the PSERS pay forward strategy total projected salary expense has been used to calculate PSERS expense. The attached analysis reflects only salaries estimated to qualify for a PSERS contribution.

The net impact of the increase in PSERS updated employer contribution rates and the updated projected salaries is a decrease in the projected PSERS fund balance, however the projected balance remains positive at \$1,603,081 as of June 30, 2020.

The revised PSERS fund balance projection will be incorporated into our next budget presentation. We will also invite our financial advisor, Michael Vind, to attend the next board meeting to discuss the potential impact of the assigned fund balance on our bond rating.

State College Area School District
 FY2014-2015 Budget @ 3.28.2014

PSERS Pay forward calculator

Salary Increase
 Multiplier %

1.90

	A	B	C	D	E	F	G	H	I
Year	PSERS Rate December 2013	PSERS Qualifying Salary (1)	PSERS Net Expense (2)	PSERS + Fund Contribution (3)	Additional Revenue Needed	Actual/Projected Pay Forward Fund Contribution	PSERS Fund Balance	"Apparent" PSERS rate	% Tax Incr for PSERS + Fund Contrib
10-11	5.64%	59,472,381	1,677,121	3,677,121		2,000,000	10,000,000	9.00%	
11-12	8.65%	56,510,531	2,444,080	3,477,121	-200,000	1,000,000	11,000,000	10.42%	-0.24
12-13	12.36%	56,622,953	3,499,299	4,156,597	679,475	-2,484,182 (4)	8,515,818	13.27%	0.63
13-14	16.93%	56,213,166	4,758,445	4,831,155	674,558	56,407 (5)	8,572,225	17.03%	0.82
14-15	21.40%	57,153,458	6,115,420	5,516,996	685,841	-598,424	7,973,801	20.35%	0.84
15-16	25.84%	57,662,539	7,450,000	6,208,947	691,950	-1,241,053	6,732,748	23.69%	0.84
16-17	29.27%	58,763,239	8,600,000	6,914,105	705,159	-1,685,895	5,046,853	26.40%	0.86
17-18	30.25%	59,834,711	9,050,000	7,632,122	718,017	-1,417,878	3,628,975	27.88%	0.88
18-19	31.28%	61,061,381	9,550,000	8,364,859	732,737	-1,185,141	2,443,833	29.34%	0.89
19-20	32.08%	62,032,419	9,950,000	9,109,248	744,389	-840,752	1,603,078	30.72%	0.91

(1) Reflects salaries that qualify for PSERS from 2012-13 forward.

(2) Reflects requirement net of 50% reimbursement

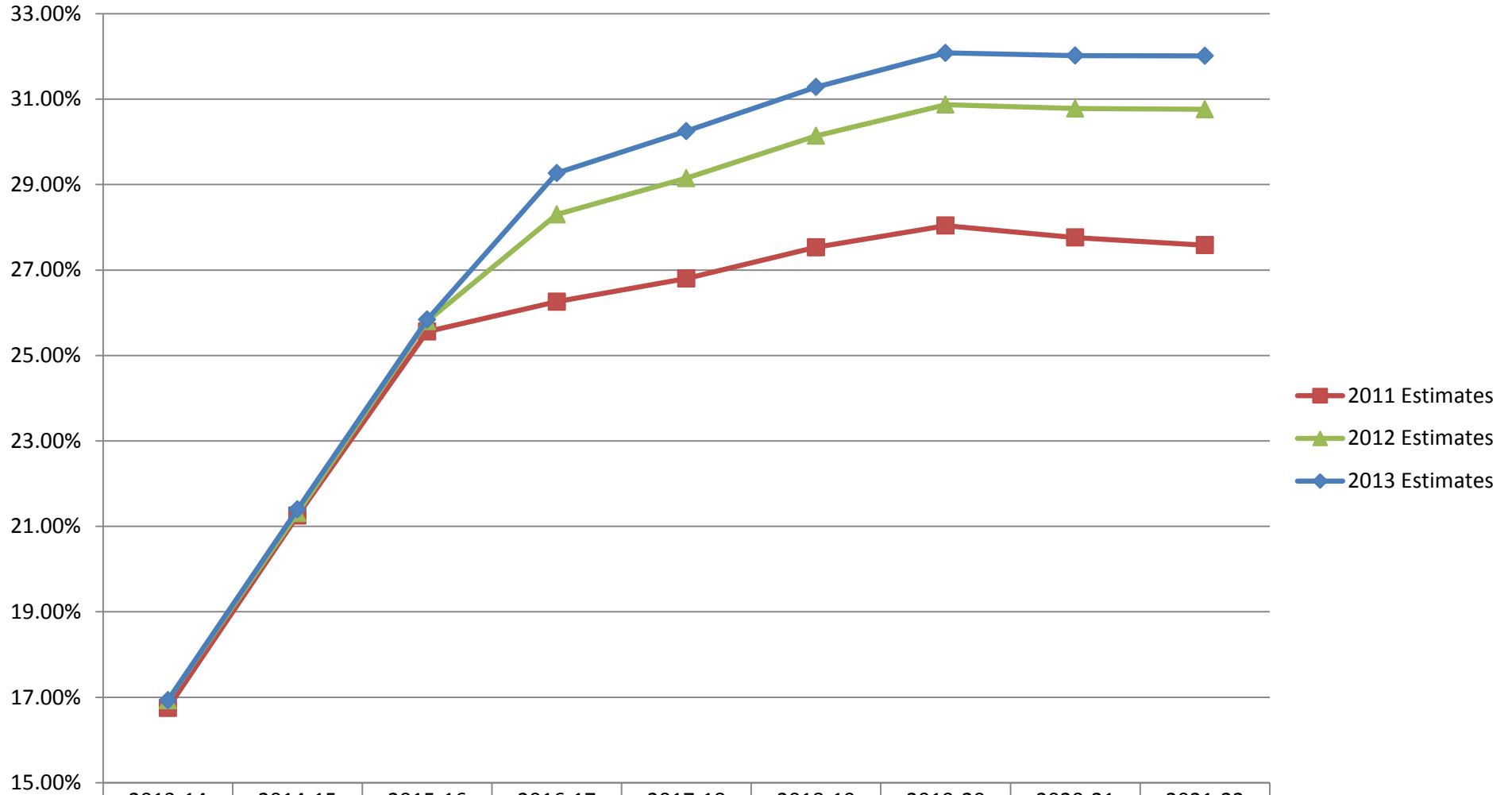
(3) Reflects prior year amount increased by 1.2% percent of current year salary expense.

(4) Reflects budgeted \$515,818 addition to PSERS fund, offset by \$3 million assignment to legal liability.

(5) Reflects contribution based on 2013-14 budget resolution.

Note: PSERS rates after 2019-20 are projected to increase by < .3%, or decrease.

Projected Employer PSERS Rates



	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
2011 Estimates	16.75%	21.25%	25.56%	26.26%	26.80%	27.53%	28.04%	27.76%	27.58%
2012 Estimates	16.93%	21.31%	25.80%	28.30%	29.15%	30.14%	30.87%	30.78%	30.76%
2013 Estimates	16.93%	21.40%	25.84%	29.27%	30.25%	31.28%	32.08%	32.02%	32.01%