

Manheim Township School District

2020/21 Proposed Final Budget

May 14, 2020

Agenda

- 19/20 Budget Impacts
- State Budget
- CARES Act
- Property Tax Legislation
- 2020/21 Budget
- Fund Balance
- Tax Scenarios
- Concerns Regarding Future Budgets
- Next Steps

2019/20 Budget Impacts

- Act 13 of 2020
 - Employee Compensation
 - Act states that “no employee should receive any more or any less compensation than the employee would have otherwise been entitled to receive had the pandemic not occurred”
 - Districts are NOT saving any salary or benefit dollars during the closure
 - Transportation
 - Allows districts to re-negotiate their transportation contract, to continue to pay contractors (focus on personnel and fixed costs)
 - A district must pay it’s contractor in order to receive transportation subsidy payments in 2020/21 at the normal rate.
 - We are currently re-negotiating with Brightbill
 - Any savings will be used towards the 20/21 & 21/22 contract (reduces future budget pressure)
 - June Board agenda item

Other 2019/20 Savings & Revenue Losses

- Medical insurance due to delayed utilization by employees
 - Any savings will be put toward 20/21 additional claims (when utilization picks back up)
- Minimal utility savings due to reduced usage (we still need to maintain our facilities)
- Substitute costs
 - ~\$500k; however, all offset by anticipated revenue losses
- Revenue losses
 - Earned income taxes, interest earnings, rentals
 - ~\$645k

**Districts are NOT saving significant money this year due to the shut down;
any savings will be put towards the 2020/21 budget**

State Budget

- Timeline for budget may be stretching into June
 - Possible two-part budget (5 month/7 month)
- Revenue challenges
- Complexity due to building a budget around federal stimulus funds (CARES Act funds)
 - These funds could replace some reductions in state funding; if this happens or to what extent are still unknowns
- Still no assurances about the level of state or federal funding for school districts
- Our 2020/21 budget includes an increase per the Governor's budget of \$333k (basic education and special education subsidies)
 - Allocation amounts provided by PDE are per the Governor's budget
 - It is possible that if the state cannot fund this, CARES Act funds could back-fill
 - Removal of these funds from our budget is likely, which increases our deficit

CARES Act Federal Funding

- PA was approved for \$523.8 million to help schools respond to COVID-19 impacts
- One-time, emergency aid funding
- Allocations are based on the same formula used for Title I, Part A
 - \$465,295 for MTSD; these funds are NOT in our current 2020/21 budget
- School districts are required to submit grants for these funds
- Will likely require school districts to indicate their CARES-Act eligible use of the funds
- Many questions
 - What strings are attached?
 - Will the state use these funds to plug in whatever it cannot pay and leave district's net \$0 (similar to what they did in 2008 with ARRA funds)?
 - Will we be required to use these funds for new items only (not assisting with the budget deficit)?
 - Push to let districts use these funds to make up for lost revenue and no strings

Property Tax Legislation

- Property Tax Freeze Bills (HB 1776 and HB 2431)
 - Currently, there are two bills sitting on the House floor
 - There continues to be opposition within the House to both bills
 - Situation is very political and tenuous
- Taxpayer Flexibility Bill (HB 2460)
 - Extends the real estate discount period by one month (from Aug. 31 to Sept. 30)
 - Eliminates the penalty period through Dec 31.
 - \$113k budget impact to MTSD (increases deficit)
 - If this passes, there is a possibility that the freeze bills will go away
 - MTSD school board sets taxpayer discount/face/penalty deadlines in June

2020/21 Proposed Final Budget Assumptions

- Updates to occur between the Proposed Final Budget and the Final Budget (approval in June):
 - Real estate assessment is as of April 2020
 - IU budget for special education students was not yet received; once received, budget will be updated.
 - Continued fine-tuning of revenue and expenditure projections.
- Proposed Final Budget includes a 0% tax increase.
- \$570k remains in the 2020/21 budget for ipads for the future refresh of ipads (delayed one year).
- \$310k remains in the budget for the one-time debt refunding savings (to be transferred to the Capital Reserve fund to save for future capital projects)
- \$400k remains in the budget for unanticipated expenditures or loss of revenue (budgetary reserve)

2020/21 Revenue Projection Update

- Pennsylvania Association of School Business Officials (PASBO) put out two local revenue* loss scenarios for each school district in PA
 - Assumption 1 (A1) = Worse Case
 - Assumption 2 (A2) = Best Case
- Total local revenue loss for MTSD:
 - A1 = (\$4,471,584)
 - A2 = (\$3,834,380)
- Revenue loss projection presented in April = \$4,065,009 (projection was in line with PASBO's projection)

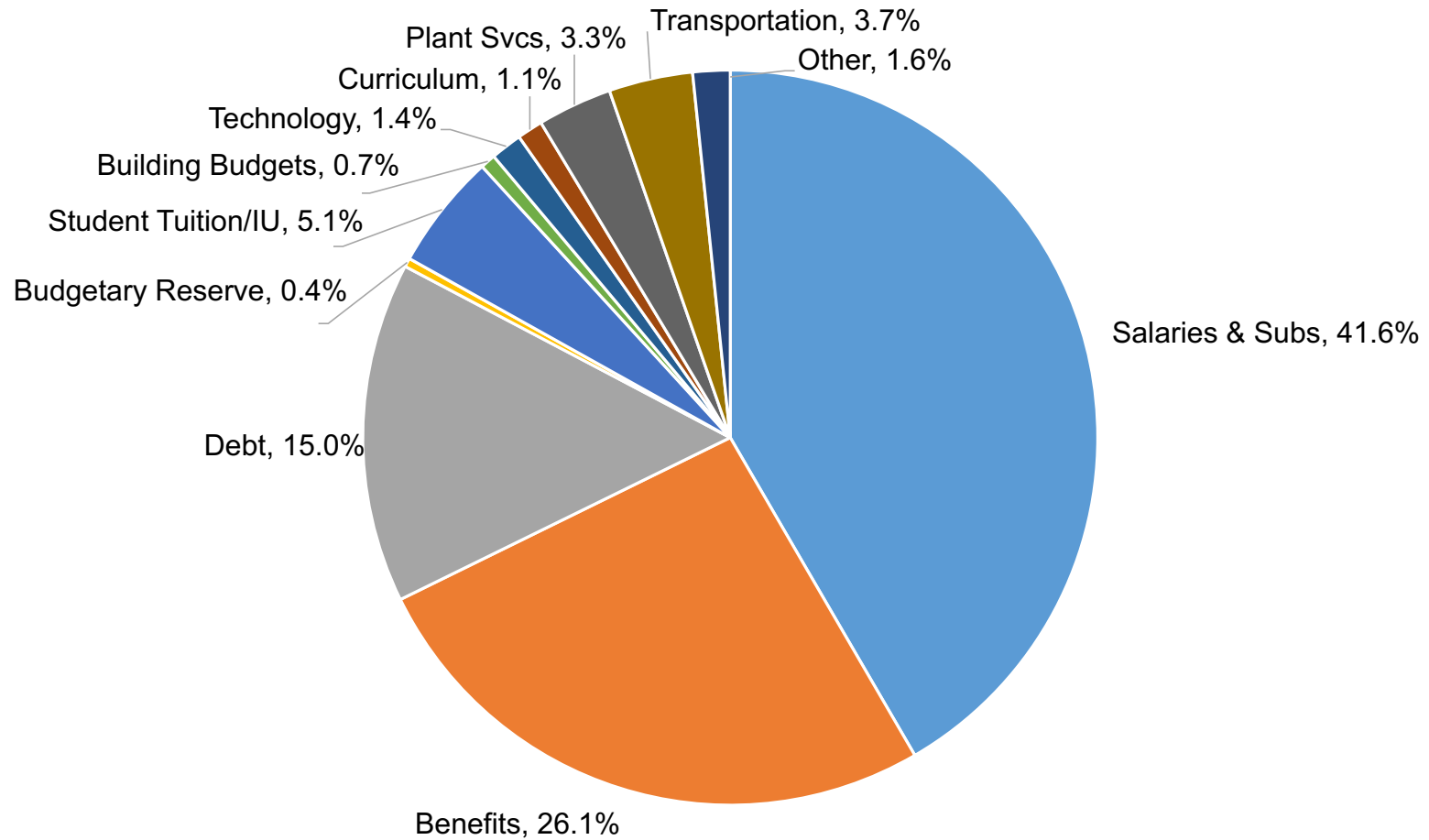
* Local revenue to include real estate taxes, earned income taxes, and investment earnings

PASBO's Revenue Projections

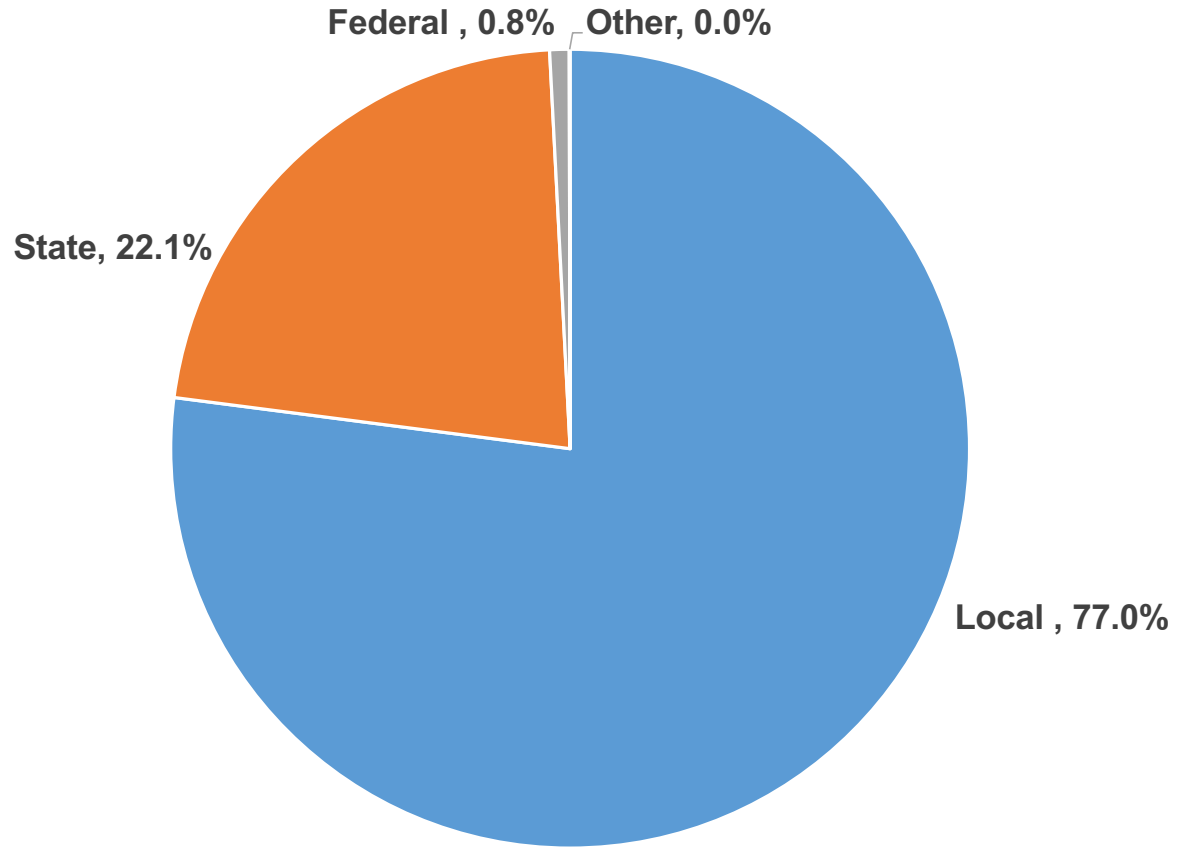
Local Revenue Item	A1	A2	Middle
Real Estate Tax	-2.3%	-2.0%	-2.1%
EIT	-17.5%	-15.0%	-16.3%
Transfer Tax	-40.0%	-28.0%	-34.0%
Inv. Earnings	80.0%	80.0%	80.0%

Local Revenue Item	2020/21 Adj Total (based on PASBO)	\$ Change	% Change	\$ Change from April
Real Estate Tax	\$64,211,409	-\$1,377,364	-2.1%	\$262,355
EIT	\$6,860,300	-\$1,346,150	-16.4%	\$295,140
Transfer Tax	\$1,056,000	-\$544,000	-34.0%	-\$384,000
Investment Earnings	\$156,000	-\$624,000	-80.0%	\$0
Total	\$72,283,709	-\$3,891,514	-5.1%	\$173,495

Components of the 2020/21 Expenditure Budget



Components of the 2020/21 Revenue Budget



2020/21 Expenditure Reductions

- Salary freeze for all Administration, Specialists, and Support Staff
- Modified hiring freeze
- Use savings from 2019/20 budget to purchase items budgeted to 2020/21
- Delay any non-essential building and grounds maintenance
- Delay the purchase of all non-essential equipment
- Use savings from the 2019/20 transportation contract to pay for 2020/21 costs

2020/21 Proposed Final Budget (as of 5/9/2020)

Expenditures	\$103,404,565
Revenues*	\$98,498,732
Budget Deficit	(\$4,905,833)

*0% Tax Increase

Fund Balance

- Should be used only for:
 - One-time expenditures
 - To phase in millage for a known upcoming increase in expenditures (e.g., PSERS)
 - To save for unanticipated one-time losses (i.e. a spike in medical claims)
- Unassigned fund balance
 - Not restricted for a specific purpose
 - Commonly used to meet cash flow needs when school districts have little income (June – August)
 - Important indicator of the financial condition of a school district
- Committed/Restricted fund balance
 - Can only be spent on specific purposes as determined by the School Board

Fund Balance

- Recommendations from Government Finance Officers Association (GFOA):
 - *“It is critical that governments maintain adequate levels of fund balance to mitigate current and future risk (e.g., revenue shortfalls and unanticipated expenditures) and to ensure stable tax rates”*
 - At a minimum, that governments, regardless of size, maintain unreserved budgetary fund balance in their general fund of no less than two months of regular general fund operating expenditures (approximately 16.7% or \$17M for MTSD).
 - If funds are used, Governments should seek to replenish their fund balances within one to three years of use.

Anticipated MTSD Fund Balance as of 6/30/20

Committed to, reported in:

PSERS Expenses	1,331,913	
Medical Expenses	3,000,000	
Future Capital Expenses	1,143,464	*
Technology	830,000	
Transportation (from 19/20 savings)	590,000	

Nonspendable:

Prepays	40,000	
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Unassigned, reported in:

General Fund	8,153,628	8.00%
Estimated Total Fund Balance 6/30/20	15,089,005	14.8%

- Actual fund balance will be updated based on actual 2019/20 revenue & expenditures.
- The School Board will need to approve estimated fund balance categories in June.
- * Over the past few years, the amount committed to “future capital expenses” has been transferred from the general fund to the capital reserve fund. It is recommended that this transfer NOT occur; instead, it is recommended that this amount be designated again and potentially transferred during the 2020/21 fiscal year (with Board approval).

Fund Balance - MTSD

Fund Balance as of 6/30/20 - Anticipated

<u>Type</u>	<u>Amount</u>	<u>% of budget</u>
Committed	\$6,935,377	6.8%
Unassigned	\$8,153,628	8.0%
<u>Total 6/30/20</u>	<u>\$15,089,005</u>	<u>14.8%</u>

*Fund Balance as of 6/30/21 - Budgeted

<u>Type</u>	<u>Amount</u>	<u>% of budget</u>
Committed	TBD	TBD
Unassigned	TBD	TBD
<u>Total 6/30/21</u>	<u>\$10,183,172</u>	<u>9.8%</u>

*The Board will need to determine in June 2021 what fund balance category to take dollars from to balance the 20/21 budget. The PDE-2028 for the proposed final budget indicates that 6% of fund balance will be unassigned.

Tax Scenarios

Budget Deficit (at 0% tax Increase)	(\$4,905,833)
Budget Deficit (at 1.0% tax Increase)	(\$4,253,611)
Budget Deficit (at 1.5% tax Increase)	(\$3,927,501)
Budget Deficit (at 2.0% tax Increase)	(\$3,601,390)
Budget Deficit (at 2.6% tax Increase)	(\$3,210,057)
Budget Deficit (at 3.08% tax Increase)	(\$2,896,990)

Tax Impact to Median Household (\$222,200)

<u>Millage Rate</u>	<u>Annual</u>	<u>Monthly</u>
15.3103	\$ -	\$ -
15.4634	\$ 34.02	\$2.83
15.5400	\$ 51.03	\$4.25
15.6165	\$ 68.04	\$5.67
15.7084	\$ 88.45	\$7.37
15.7819	\$104.78	\$8.73

Concerns Regarding Future Budgets

- Significant fund balance use in 2020/21 and possible future reliance of fund balance
- Inability to build fund balance back up
- Impact to Act 1 Index
 - Lagging, based on the 3-year avg. of PA average weekly wage and the Federal cost index for schools
- Sustained loss of local revenue and investment earnings
- Impact to PSERS due to stock market loss

Next Steps

- May/June: make any final revisions to Final Budget
- June Board Meeting:
 - Approval of the Budget Resolution to include:
 - The real estate / interim tax rate
 - Taxpayer tax payment deadlines
 - Approval of the budgeted expenditure & revenue totals
 - Approval of the Commitment of Fund Balances Resolution
 - Approval of any transfers from the General Fund to the Capital Reserve Fund
 - Approval of the Homestead/Farmstead Resolution
 - Approval of renegotiated Brightbill contract
 - Approval of the food service budget and meal prices

Questions?

