SALISBURY TOWNSHIP SCHOOL DISTRICT

Operations Subcommittee Meeting
Administration Building, Monday, May 5, 2014

Committee Members Present: Mr. Gatanis, Vice-Chair

Other Board Members Present: Mr. DeFrank, Mrs. Frick, Mr. Giordano, Mr. Mantz, Dr. Spedaliere, Mrs. Ziegler

Administrators Present: Mr. Brackett, Mr. Bruchak, Mr. Roth, Mr. Smith, Dr. Ziegenfuss

I. Call to Order

The meeting was called to order by Mr. Gatanis at 7:06 p.m.

II. Bond Refunding/Refinancing

Mr. Zach Williard and Mr. Hall, Public Financial Management, stated that there are two main financing topics this evening. Mr. Williard presented charts that showed the ten year Municipal Market Data (MMD) that shows we are coming off the lowest interest rates but still remain historically low. Mr. Williard reviewed the district's debt summary. The call date for GOB 2009 is 4/1/15 and for 5/15/15 for GOB 2010 which means that these bonds can be refinanced. These transactions could be refinanced sooner but it would require money to be placed into an escrow account until the actual bond's call date. There will be time to save money in the next six to eight months.

The district is considering issuing up to $12 million of new money bonds to finance a number of capital projects in the near future. The borrowing can be based on different amounts depending on the board's decision of the need of the projects. The current IRS tax law states that the district can only borrow $10 million of Bank Qualified bonds per calendar year.

Bond series 2009 has an outstanding balance of $8,630,000 and Series of 2010 outstanding balance is $8,275,000.

The two options that were presented were to borrow $5 million now. This would have one BQ bond issue consisting of $5 million of new money bonds along with a $5 million partial advance refunding of the Series of 2009. The current refunding of the remaining $3,960,000 outstanding of the 2009 bonds would be done in 2015. Issue the remaining $7 million as one series of BQ new money bonds in 2015 and the current refunding of the Series of 2010 with one BQ bond issue be done in 2015.

The other option would be to borrow $10 million now. This would be an issuance of $10 million of BQ new money bonds. The current refunding of the Series 2009 with one BQ bond issue would be done in 2015. The issue of the remaining $2 million as a one series of BQ new money bonds could be done in 2015. In 2015, the current refunding of the Series of 2010 could be done with one BQ bond issue.

II. Bond Refunding/Refinancing (continued)

It was noted that the presentation had a millage impact error due to the recent county reassessment and will be corrected in order to move forward. Mr. Williard reviewed a summary of the refunding and new money options. New charts with corrected value of a mill will be done by PFM and forwarded to the board.

PFM, bond counselor and underwriters would be available to present a parameters resolution at the May meeting for board approval. This resolution authorizes PFM to proceed with the refinancing and borrowing of new money process. This gives the flexibility to price the bond issues without waiting for scheduled board meeting dates in order to achieve a financial savings.

The board decided to place the approval of the parameter resolution for the refinancing and borrowing new money on the May agenda.

III. District Capital Improvement Priorities

Mr. Brackett presented a list of district capital improvement priorities with updated costs from D'Huy Engineering, Inc. The top thirteen capital projects were presented. HST roof is the main priority for the district. The warranty expires 2016 for this 20 year old roof. There are some leaks that are able to be controlled at this time.

The second priority project is the HST and MS exterior door and framing replacement. There is too much money being spent annually to keep the buildings secured. The doors and framing are original to the building.

The third project is the HVAC with chiller at HST which is close to 25 years on the current system and has exceeded the life expectancy. The control system had been changed out in the building to extend the HVAC/chiller system.

The top three priority projects carry a cost of about $7,228,650.

Mr. Brackett reviewed the remaining 10 items on the Capital Improvement Priorities list. Mr. Brackett stated that he worked on the priority list with D'Huy Engineering, Inc. and from the input of the building principals and their concerns. All items on the priority list have a safety/security or health issue.

Mr. Roth stated that there is now an opportunity for refinancing to save the district money and there is substantial work in the district that may require borrowing. The offset of the savings is compared to the need for borrowing. PFM was contacted to present these figures and Mr. Brackett went through the Capital Improvement Plan to identify the top priorities.

III. District Capital Improvement Priorities (continued)

It is not being recommending to the board to borrow $12 million to complete the entire list.

It is being recommended passing a parameter resolution for the refunding at the May meeting. No decision needs to be made tonight regarding the amount of borrowing. This may be the best time to borrow new money with having such a low rate locked in and then decide how to disperse the funds on projects.

Mr. Roth stated that the district wants our program to be top knot and not necessarily our buildings but still show the pride that we have in our facilities. Image and first impressions are important with new families moving into the district before seeing the curriculum that the district has to offer.
The state currently owes the district approximately $300,000 of PlanCon funding from the reimbursable high school projects. It was suggested to call the state representatives to tell them to release the funds for projects that have been completed and have followed state required actions and have not received the money.

A parameter resolution can be done for refinance and borrowing of new money without agreeing to the borrowing at this time but some flexibility. The full scenario of the refinancing/borrowing will be built in the 5 year projections and the budget impact for the next couple of years with the updated mill information will be presented to the board. There will be further discussion of the borrowing and priority list at the June Operations meeting

IV. TL2020

Mr. Bruchak stated that the administration was made aware of an opportunity to change over the existing computers and expand the 1:1 plan in the district. Some of the money will be spent out of the 2013-14 budget for the servers and iPads to prepare for the summer changeover of all the equipment.

The buildings budgets will be reduced $60,000 across the four building and $30,000 from the transportation budget this year through budget transfers to the project.

The 2014-15 Ready to Learn grant of $104,000 will be used to purchase iPads/laptops or apply directly to the lease.

Our existing equipment of $239,000 still has one lease payment due in August. Mr. Smith received a quote of $511,000 for the purchase of the existing equipment.

The goal was to change the 2014-15 budget and still keep the budget neutral. There will be $60,000 taken out of the building budgets for next year and upcoming years to apply to the technology lease. There is also $104,000 which was in the budget that will be moved out of curriculum and placed in technology. There will be a $12,000 annual increase starting in 2016 built into the technology budget.

IV. TL2020 (continued)

The budget has grown by $547,000. Revenues anticipated from being an Apple Service Provider in the amount of $36,000 has been built into the budget. The projective revenues come in at $44,000 so $36,000 in revenue is being conservative. The amount to finance this project is $1,541.00. It is four annual payment of $396,000 with an extra payment up front of $376,000 to replace the computers.

Currently the lease payment is $269,000. The computers go off warranty next year. There is a one dollar buyback on the computers which the district is planning to do. The plan is to expand the 1:1 through the elementary level. Grades K-1 will have iPad mini. Grades 2-5 will have MacBook Pro. The computers in the elementary level will remain in the building and the children will not be taking them home. More information on the curriculum and feedback from the staff will be presented at the next Curriculum meeting.

The advantage of staying with Apple versus PC units is that Apple's value of hardware maintains its value and the district is able to be an Apple Service Provider to generate revenue. The lease payment is not based on enrollment.

A curriculum presentation of the TL2020 program will be presented at the curriculum meeting next week before seeking board approval.

Mr. Roth thanked Mr. Smith, Dr. Ziegenfuss, and Mr. Bruchak for the work that was done to present this proposal to the board this evening.

V. Fuel Bid

Mr. Brackett stated that fuel bids came in for 2014-2015. The district has preordered 2,500 gallons of 87 Octane at $3.195/gallon for a total budgeted $7,987.50 and 25,000 gallons of diesel at $3.0695 for a total budgeted $76,737.50. The additional costs from last year are $239.75 for 87 Octane and $1,317.50 for diesel.

VI. 2014-15 Budget Update

Mr. Bruchak stated that tonight's presentation shows the development of the 2014-2015 budget, the timeline to pass the final 2014-15 budget, the unfunded and underfunded mandates, historical staffing/enrollment changes, reassessment impact, budget updates, five year budget projection based on actual and budget data of the district, and unresolved factors that affect the budget.

The 2014-15 budget supports and sustains a high quality educational program for all STSD learners. It supports the long range financial goals of STSD by aligning our programs and operations to reliable sources of revenue. We are being responsible financial stewards of taxpayers' dollars by maintaining budget practices that promote sustainability. It meets all contractual and mandated obligations. It establishes a final budget that complies with Act 1 index and exceptions limitations and maintains adequate financial resources to ensure future sustainability.

VI. 2014-15 Budget Update (continued)

There are issues facing school districts' budgets. Districts have to live within the Act 1 index with diminishing exceptions and without effective mandate relief. The 2014-15 index rate is 2.1%. Without additional reform of the PSERS retirement system, the STSD retirement contributions will grow from 16.93% to 21.40% next year and up to 32.30% in future years. The implementation of the federal healthcare legislation will create additional burdens in healthcare costs.

Changes from the preliminary budget include reduced expenditures without changing any educational programs or reduction in staff. Increased revenue stream are assumed where possible. Unfunded and underfunded state mandates are absorbed.

The proposed final budget will be on the May 14th agenda for adoption. There will be another public presentation of the budget at the June 2 Operations meetings. The June 18 board agenda will include a motion to adopt the final budget.

Unfunded and underfunded mandates were reviewed. The cost for transportation for 2013-14 is $2,373,110 of which $1,868,024 is covered by local effort and the district is reimbursed $497,448 by the state. Special education is costing the district $5,163,947 for 2013-14 of which state and federal funds are only reimbursing the district $1,066,012. Charter school tuition continues to grow and the cost of $671,452 for 2013-14 is completely covered by the local taxpayers with no reimbursement from the state. The expected expenses in these three areas for 2014-15 to be covered by local effort are $7,133,293.

The total special education expenses have increase by 1 million dollars from 2009-10 to present but the amount that the district is reimbursed by the state and federal government has decreased by about $400,000. This means that local taxpayers have to make up a $1.4 million deficit in special education. Salisbury excels in providing services for special needs students which increases our costs because people appreciate coming to the district for an education for their child. Taxes are not being raised to provide laptops to our students but because the state has not been providing the funds that they have in the past.

The underfunded PSERS mandate impact to the district greatly. The total employer rate of 16.93% in 2013-14 costs the district about $2,175,336 and is expected to increase to 31.26% for 2018-19 with an impact of $4,733,018; this is prior to 50% reimbursed from PDE.

The 10 year millage history was reviewed. Salisbury is currently at 16.9203 mills. Over the last 10 years taxes have gone up about $1,000.

Maintaining fund balance preserves financial integrity of the school district. It is fiscally advantageous for both the district and tax payers. This is the only "rainy day fund" for emergencies, no unallocated funds in Capital Improvement. It increases bond rating when refinancing or issuing new debt and keeps the cost of issuing bonds lower.

VI. 2014-15 Budget Update (continued)

At this time, 92% of the revenue has been collected. Last year's revenues came in above budget as this year's is expected. It is expected to cut into fund balance to budget this year's budget which is how the budget was approved. The projected unassigned fund balance should be about $2.2 million at the end of the year. The total fund balance is about $5 million.

Health insurance will increase by 15%. PSERS increases from 16.93% to 21.40%. Charter school tuition is increasing 20.17% to $806,886.

The current tax millage rate is 16.9203. The total potential increase is 0.9199. The total increase allowed is 5.43%. Salisbury is ranked countywide as 3 out of 9. The tax on the average residence allowed is $3,652. The average home tax increase allowed is $188.32. The proposed final budget is $32,738,035 and the proposed final budget deficit is $1,044,979.

The Act 1 index before exceptions is a .3553 mills increase which would generate about $454,395 in revenues. The PSERS exception is a .2064 mills increase which is $264,004 in revenue and Special Education exception of 0.3571 mills would give a $457,625 increase in revenues. The 2014-15 proposed final budget expenditure without contingency is $33,285,585. The revenue before any tax increase is $32,240,606. The maximum potential increase is 5.430% which would be a total tax increase of $188.32 to the average residential taxpayer. The use of Index and PSERS would be a 3.320% increase and a $115.00 increase to the average residential taxpayer. A 2.1% increase which would be the Use of Index only is an $82.83 tax increase but leaves a difference of $590,584 that would need to come out of fund balance.

All assumptions are driven by the proposed final Budget for 2014-15 of $33,435,585 that includes $150,000 of contingency. The flat tax millage rate is 16.9203. The budget does reflect the numbers from the Governor's budget. Federal revenues were decreased by 5%.

Salary increases were based on the available contract and agreements that are in place. Health insurance increases assume a 12%. PSERS is 21.4% for the 2014-15 year using the most recent amortization schedule. PSERS increases to a projected rate of 31.26% until the 2019 budget year. Transportation reflects a 3% increase for both Paragon and IU transportation as well as fuel. Charter schools and out of district tuition increases 2%. The budget assumes same staffing and student number, the same programs and services and the contract with KidsPeace continues.

The state revenues are based on the Governor's Proposed 2014-15 budget. The PSERS exception is based on the latest projected increases. The Special Education exception is the increase in expenses from the 2011-12 year and the 2012-13 year which is taken from the AFR of each year. Federals funds are reduced by 5%.

State revenues assumes no increase in each area of Basic Education Funding, Special Education funding and Transportation. It continues to assume 50% of expense for Social Security and PSERS will be reimbursed. All other areas are flat funded or eliminated.

VI. 2014-15 Budget Update (continued)

The 5 year financial projections were reviewed showing the impact of no tax increase as well as three other percentage tax increases.

There were three options of tax increase shown to consider. A 2.5% tax increase generates total revenue of $32,781,592. This leaves a deficit of $503,993 which would need to be absorbed by fund balance. The current millage rate is 16.9203 with a millage increase of 0.4230 leaving the new millage rate of 17.3433. The impact to the average homeowner would be $86.54.

A 3.0% tax increase generates total revenue of $32,889,789. This leaves a deficit of $395,796 which would need to be absorbed by fund balance. The current millage rate is 16.9203 with a millage increase of 0.5076 leaving the new millage rate of 17.4279. The impact to the average homeowner would be $103.85.

A 3.5% tax increase generates total revenue of $32,997,986. This leaves a deficit of $287,599 which would need to be absorbed by fund balance. The current millage rate is 16.9203 with a millage increase of 0.5922 leaving the new millage rate of 17.5125. The impact to the average homeowner would be $121.15.

The unresolved factors influencing the final budget are local, state and federal revenues, retirements, tax assessment appeals, KidsPeace contract, charter school enrollments, and budget reduction actions.

There will be a motion on the May board agenda to approve the Proposed Final Budget.

VII. Student Activity Account – Business Club

Mr. Bruchak stated that the high school requested that a new student activity account be set up. The funds from the profit of selling spirit wear items will be given to the Lehigh County Humane Society. A motion will be on the May agenda for formal board approval.

VIII. Other

None.

IX. Citizens' comments

Mrs. Debbie Miller, 1701 Crownwood Street, Allentown, PA 18103, has talked to a few new families moving into the community. The feedback that she has gotten is that they are looking at the curriculum, specifically at the middle and high schools. Salisbury is falling low on languages. The concern at the elementary level is the class sizes. They are looking at tax bills and comparing districts. She expressed disappointed about not hearing about the curricular programs at this meeting. The programs are being discussed at the Curriculum/Technology meetings.

IX. Citizens' comments (continued)

Mr. DeBona, 3525 Country Club Road, Allentown, PA 18103, stated that the refinancing is money out there so do the refinancing as soon as possible. The savings could be lost if it's not done now. It is a good approach to lock in rates.

As far as technology, he agrees with the discussion of expending the program and bringing in the servers first to make for an easier transition. Speaking for his wife who currently has 13 personal computers in her classroom, she doesn't mind not having 1:1 because it builds time management and collaboration into all exercises.

The district is in a transition year in terms of millage. One mill now equals 2.8 mills from the old budgets.

Fund balance is there for emergency or one time payments. Operating expenses should not be used for fund balance.

Debbie Galbraith, Salisbury Press, stated that in the past more details of the budget was presented. More detail of the line item increases or decreases helps her communicate to the community the reasons for the increases. More information will be given at the May 14 board meeting.

The buildings will not be losing anything with bringing the 1:1 program into the elementary schools over what they are currently providing.

X. Next meeting

The next meeting will be a held on June 2, 2014.

XI. Adjournment

Mr. Gatanis adjourned the meeting at 10:50 p.m.

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Robert P. Bruchak
Business Administrator/Board Secretary