



Wednesday, March 25, 2015
Education Center, Edgeboro Room

Agenda

6:00 p.m.

Budget Workshop

1. Courtesy of the Floor (15 minutes allowed)
2. Presentation of Budget Information
3. Board of School Directors Discussion
4. Courtesy of the Floor (15 minutes allowed)

**BUDGET WORKSHOP
MINUTES
Wednesday, March 25, 2015**

President Faccinnetto called the Budget Workshop to order at 6:04 p.m. in the Edgeboro Room at the Education Center. Eight (8) Board members were present: President Michael Faccinnetto, Director Michele Cann, Director Eugene McKeon, Director Craig Neiman, Director Rogelio Ortiz, Director Shannon Patrick, Director Angela Sinkler and Director Sudantha Vidanage. One (1) Board member was absent: Director Basilio Bonilla. Also present were Dr. Joseph J. Roy, Superintendent of Schools; Stacy Gober, Chief Financial Officer/Board Secretary; Dr. Jack Silva, Assistant Superintendent for Curriculum; Russell Giordano, Director of Human Resources; Mark Stein, Director of Facilities and Operations; Mrs. Claire Hogan, Director of Special Education; and Nicholas Takacs, Chief Technology Officer.

Courtesy of the Floor

None

Presentation of Bethlehem Area School District 2015-16 Budget Information

Dr. Roy stated that the 2015-16 Preliminary Budget was approved by the Board in February. This evening the Administration will provide an update as well as an update regarding the Governor's Budget. There will be another Budget Workshop at the end of April. The common themes throughout this budget process are controlled growth of local expenditures, lack of adequate State funding, charter school funding reform, and PSERS reform. In the current year (2014-15), the expenditures grew by one quarter of one percent when taking out PSERS and charter school costs. For the 2015-16 budget, those expenditures minus PSERS and charter schools costs are 1.7% which is less than 2% growth in expenditures. The Administration has worked very hard to control the growth of expenditures which includes energy costs, facilities, transportation, educational, salaries and healthcare. The lack of the adequate State funding is in regards to the funding formula when you account for student poverty, English Language Learners and special education.

Dr. Silva recapped the District's budget goals which includes maintaining neighborhood schools, full day Kindergarten, targeted class size, transportation services, diverse curricular offerings, well maintained facilities, professional development opportunities, co-curricular activities, eliminating variable rate debt, up-to-date technology and additional supports for struggling students. The 2015-16 budget goals include maintaining the current programming in support of the Roadmap 2.0 to Educational Excellence; sustainable budgeting by aligning programs to reliable revenue sources; assure adequate financial resources; sustain mandated programs, contracts and agreements; and multi-year financial goals to address cyclical needs such as buses, facilities, and uniforms.

Mrs. Gober stated that the 2015-16 Preliminary Budget in the beginning shows an initial deficit of \$11,661,497 which is due to increases in charter schools costs of \$721,218, PSERS costs of \$4,678,070 and \$6,262,209 for the rest of the budget. Since February there have been changes to the 2015-16 Budget showing a total net reduction of \$(2,881,765). The reductions include BAVTS tuition of (\$56,013); NCC tuition of (\$101,705); CIU 20 Budget of \$5,701; IDEA revenue of (\$123,777); retirees of (\$317,467); salaries and benefit corrections of \$343,373; BEA contract benefits of \$135,065; administrative reductions of (\$235,328); staffing reductions of (\$718,807); Liberty High School allocation of (\$6,670); utilities of (\$89,000); technology of (\$416,808); maintenance projects of (\$728,000); special education of \$161,266; and additional State subsidy of (\$733,595).

Dr. Roy further clarified the administrative and staffing reductions. The administrative reduction is due to an upcoming retirement with that position being blended into another current position. In regards to staffing reductions, the Administration is halfway through the secondary schools with the anticipation of somewhere between eight (8) to 10 positions and some may come from the elementary.

Director Neiman asked for clarification that the staffing reductions include teachers and are separate from the retirements. Dr. Roy responded yes. Director Neiman then asked that it is the anticipation of attrition for teachers wither higher teacher salaries for retirements and a lower salary for new teacher coming in and that is the difference. Dr. Roy responded yes and that between now and April the Administration will continue to look at other supervisory and operational staff areas.

Mrs. Gober stated that the 2015-16 amended budget expenditure summary shows the BASD costs to be \$198,944,760 which is a 1.70% increase that includes BASD's instruction, support services, non-instructional services, facilities and debt service. The interesting point here is that it is below this year's Index of 2.3%. When you add in the PSERS and charter school costs, the total expenditures is \$245,123,908 which is a 3.64% increase. Changes in revenue and expenditures since February show an increase in revenue of \$712,338, and a decrease in

expenditure of (\$2,169,427). To date, the revenue is expected to be \$236,344,176, and expenditures are expected to be \$245,123,908 showing a deficit of (\$8,779,732). When you add in the expected Act 1 plus estimated Exceptions of \$8,430,725, the deficit is reduced to (\$349,007). The budget cost drivers include PSERS, salaries, technology, charter schools, student tuition, healthcare, and general operations with a net deficit remaining of \$8,779,732. The pension obligation is rising at a rate of about 5% per year on the total payroll, and the District did reduce that through the salary reductions that were considered and is declining, but it is still the largest piece to deal with. When you consider all of the mandated obligations that the District has and are driving the overall costs in the budget, the Administration is now reducing the overall general operating costs by \$1,515,323, and the Administration will continue to work to get that magic number for adoption in June.

If you look at the 2015-16 Preliminary Budget Report in another way, the District began with the total expense of \$245,123,908, and if you take out the salaries and benefits which are the largest line item in the District's budget and you take out the charter schools costs, that leaves the District with a budget of about \$65,924,337 that can be looked at for other things the District does besides people and charter schools. If you back out the mandatory debt service and the tuition for students attending the community college, Vo-Tech, and the IU, along with the utilities that leaves \$21,000,114 remaining that the Administration can look to for further reductions to further close that deficit/gap in funding as it stands today.

When looking at how did the District get to that mandatory tax increase, the Administration is estimating the Act 1 Index for 2015-16 at 2.3% would levy \$3,888,995 in additional revenue if the District went to the Index. The Preliminary Estimated Exceptions which were filed and have not received final approval could be \$2,879,214 for special education, and \$1,662,516 for retirement contributions. That would give the District another \$4,541,730 with a total estimated increase under Act 1 provisions of \$8,430,725.

In reviewing the new money that is tentative in the Governor's budget for the District, it includes Basic Education Funding (BEF) of \$28,117,183 which is an increase of \$313,852; Ready To Learn (RTL) grant of \$1,399,034 which was not included in the January Preliminary numbers as this was a one-time grant for the 2014-15 fiscal year; Accountability Block Grant (ABG) of \$1,061,082 which is an increase of \$395,643 and this was restored to the same level that it had been in 2010-11 before it had been reduced; Education Assistance Program (EAP) of \$750,330 which was not included in the January Preliminary numbers and is restored at the 2010-11 level for tutoring funds; and charter school reimbursement of \$1,658,176 which was also not included in the January Preliminary numbers, and this is a formula that is about 10% of the 2013-14 charter school expenses for Districts with the BASD's amount of about \$100,000 shy of the subsidy that the District received in 2010-11 when that line item had been removed from the State budget as a revenue/subsidy source. The State has bundled all of those components together into the Governor's proposal showing as the basic education subsidy for each school district. In addition, there is a possible increase in special education funding of \$917,661 which has been flat for many years and is being distributed using the new mandated formula for special education that applies a weighted value to higher costs student categories based on the exceptionality and the cost to educate those students. The potential increase totals \$5,434,696 that would be new money from the Governor's proposal compared to what the initial January Preliminary Budget did include and which is subject to enactment by the legislature.

In reviewing where this money is coming from in the Governor's budget, the proposed sources of increased education funding includes a reform to the cyber and charter school funding formula that would come back to the District in terms of tuition savings. The Governor has looked to reduce the cyber tuition by about half and fixed that price which is a reduction in the District's tuition expense. The Governor is also looking to implement a natural gas tax and apply those dollars to support the BEF formula. The Governor is also looking to liquor modernization to change the way they are implemented and managed and those dollars would be used to fund a pension bond that would reduce the obligation to school districts for pension relief. The Governor is also proposing to increase the personal income tax and sales tax and those revenues would be used to fund additional property tax relief for all residential homesteads within the Commonwealth.

Dr. Roy stated that the money in the Governor's Budget was outlined in a letter to the Districts from the PA Department of Education of how the Districts are to spend the money. For Bethlehem, there are a lot of initiatives that would qualify. The Governor's list of programs that they would like to see include early childhood i.e., full-day kindergarten; additional instructional time by extending school day; summer learning programs; professional development, curriculum and classroom materials; smaller elementary class sizes; academic and other enrichment programs; community partnerships and wrap around programs for support to students and families; dual enrollment; interventions for struggling students; college and career counseling for middle and high school students; STEM education; alternative programs; and hybrid/innovative learning options. The District already has small elementary class sizes. Dual enrollment is not something the District is paying for. All the others items the District is doing and using the funds for.

Dr. Silva stated that these items require clear benchmarks for student performance and progress for the Districts which include: increase in students reading on grade level by third grade; increase in graduates on track for career success; improved graduation and dropout rates; improved student attendance and truancy rates; closing the achievement gap; successful program completion for English Language Learners (ELL); college/training/apprenticeship matriculation rates, retention and completion rates; and employment rates and wages. All of these are already embedded into the Roadmap.

Mrs. Gober stated that there are two items included in the Governor's budget that are not direct subsidy issues. The first is the change in formula to fund cyber charter school. The proposal is to reduce the tuition for cyber students to a flat \$5,950 per student. Following a review of how much it costs the IU cyber programs that are across the Commonwealth, a benchmark determined that tuition amount and would be adjusted annually based on the Act 1 Index going forward. If using that as a tuition cost per student, it is projected that the District would be able to reduce \$913,138 from the charter school costs, and that would be another budget cut if that would be enacted. The second item was property tax relief for all homeowners using the current formula for generating another \$3.8 billion to reduce homestead property taxes so that at minimum senior citizens would have a 50% homestead reduction. In some cases depending upon the wealth or the individual economics of a particular school district, some school districts are looking to cut all property taxes for their senior citizens. To put a framework on this is that it would vary by homeowner and vary based on the homestead for each district. The proposal that was calculated for Bethlehem would be the homestead property tax allocation of \$31,139,364. Currently, the District receives \$4,743,763 which is a 5.15% reduction in the property tax paid by the average homestead. If the District had that \$31 million, it would almost be a 33.98% reduction in the net tax bill for the average homestead in Bethlehem. It is material as it is more than six times the rebate that the District is receiving currently for the average homestead. Based on that proposal, there have been discussions in the past should the District consider putting in our own local homestead/property tax rebate for senior citizens. If the Governor is going to implement a statewide homestead program that is going to be funded at a substantially larger dollar amount than it is today for 2016-17, it would be the Administration's recommendation to wait and allow that statewide property tax reform to come to pass. If the District would look to match the property tax rebates that are already received by senior citizens that is \$1 million in additional expense. If the District gave a flat \$250 amount which is the lowest amount that the State provides in terms of a rebate category, that would be \$690,000 that would have to be added into the budget and that would be funded through reductions in other instructional programs. Knowing that additional reductions are needed, the Administration's recommendation to wait and allow that statewide property tax reform to come to pass. This property tax relief is for the 2016-17 fiscal year in the Governor's proposal.

There are four (4) options for the Board to consider with the information received from the Governor's budget proposal. The first option is consider all of the Governor's plan with additional State revenue of \$5,434,696 leaving a remaining deficit of \$3,345,036 that would need to be closed through reductions for a 0% to 2.3% (Index) tax increase to close the remaining gap. The day after the Governor's budget the District received a letter from Senate representatives encouraging the District to take a conservative approach to the State revenue estimates and advised against adjusting the District's Preliminary Budget to reflect the Governor's education proposal. Now there is conflicting direction that the District needs to reconcile what is the right answer. The second option considering the Senate leadership advice where there would be no additional State revenue leaving the remaining deficit at \$8,779,732 which requires additional reductions and/or more State revenue to close remaining gap. The third option is to consider the maximum increase that would be allowable under Act 1 of \$8,430,725 in local taxes with a remaining deficit of \$349,007 in additional cuts, which would have to be discussed internally or estimate State revenue of some amount to cover. Those three (3) options are what the Administration was considering, but then on March 27, the District received a letter from the PA Department of Education (PDE) stating that in recent memory, no Legislature has ever reduced a Governor's BEF proposal. PDE is telling Districts to put all of that money in because it never happened before that the legislature did not fund the BEF subsidy. We are aware that there are new taxes that are required to fund that plan. It is not going to be an easy conversation in Harrisburg to raise sales tax and personal income tax and many other items. All of the new revenue to fund the BEF proposal is controversial. So a fourth option is consider a compromise plan assuming additional State revenue of \$2,000,000 and a 3.5% tax increase of \$5,646,907 leaving a remaining deficit of \$1,132,825 which requires additional reductions to close remaining gap. The Administration believes that option four (4) is the most likely one, and as the District receives more information from Harrisburg, the Administration will continue to have a better reading of what is coming from the State and when.

Director Cann asked when Harrisburg will have a decision. Mrs. Gober responded that it has been as late as December for a budget approval that she recalls and will that be repeated again. It is not going to be an easy conversation for them to raise additional taxes in order to fund educational programs that are necessary. The legislature has that challenge, and we have to wait and see how that plays out. Director Cann wanted to verify that the District has to approve a budget by a certain date, but the State does not. Mrs. Gober responded that the State has

a requirement to approve a budget by June 30, and when it is not approved by then come July 1 there is no authorization for any State spending and no subsidy to school districts. When that happens, the Districts are then relying solely on property tax collections and the fund balance to pay the bills until they receive the revenue from the State.

Director Vidanage stated that recently he heard the majority leader of the State Senate speak about the budget and that the Districts may receive a lot more relief from PSERS. He stated that unless they clean up the pension situation, the Senate will not pass the budget unless they come to a compromise. Dr. Roy responded that may be right and that would be lumped in but it is not revenue, but it would be relief and State related. It is the three (3) variables which are the State revenue or relief from costs from PSERS, local tax increase and cutting. These options were developed as a middle ground. The tax increase is on the high end and can probably be between 3 to 3.5%.

Mrs. Gober continued with the presentation stating that the PSERS funding rate for 2015-16 is 25.84% which is an increase of 20.8% since 2010. This is not a problem that will go away until 2034-35. The District has jumped from \$11.5 million to \$25 million in four (4) years. It is a huge amount of the budget. When you look at where the District is in terms of that curve, even if they did the pension bond and restructured the way that the pension obligation is structured for existing employees, it is already at the top of that curve. Anything that they do is going to potentially shorten that curve, but we are already up there and have done the lion's share. Is there some relief the District can get back, and that is probably the proposal in Harrisburg but the District is not sure how much of that will generate in one year's time. It will probably flatten that curve over a longer period and will see a lower slope.

The other large expense that the District has is the charter school impact which is 7.9% of the budget and consumes all but 9.7% of the tax levy that goes to charter schools. The curve continues to climb but the District is growing at a lower pace than in prior years at 9% per year and in past years it was growing at 16%-19%. If you look at controlling the tuition dollar amount in addition to slowing the growth of the enrollment, the curve could be cut down which is the \$913,138 that the District could save in cyber tuition if the Governor's proposal would be enacted. If the cyber charter school tuition proposal would be enacted, the District could look at revising option 4 to include the \$913,138 in tuition reduction with the assumed additional state revenue of \$2 million and a 3.5% tax increase with a remaining deficit of \$219,687. Charter school enrollment history shows that 1,452 BASD students attend charter schools and 216 BASD students attend cyber charter schools. For the 2015-16 school year, the estimate numbers include 1,584 for charter schools and 236 for cyber schools. There are some capacity limitations on the existing brick and mortar charter schools. There are also some gains that the District is making on students leaving because of the District's own cyber program and informing them that the District can provide those kind of flexible learning options within the District with no need to leave toward an outside cyber option. The cost of school choice shows that BASD has 13,545 students and charter schools have 1,820 students. When you add the BASD expenditures with the PSERS costs, the total BASD programs is \$224,051,844. When you net that against the total revenue available before any tax increase of \$236,344,176 this is an excess revenue of \$12,292,332 over BASD costs of internal costs of operations. When you add in the charter school tuition of (\$21,072,064), there is a deficit of (\$8,779,732) that the District is looking to continue to finance either through additional tax increases, budgetary reductions on the BASD program side for students, or a combination. This will ultimately impact BASD students within the District's schools by reductions to finance outside tuition programs for charter school students.

Dr. Roy wanted to reinforce the cost of school choice. Two (2) years in a row, the District would not need to consider a tax increase if the District did not have to pay charter school tuition. The Bethlehem taxpayers are paying for a network of charters that are costing the District that additional money. Clearly the Governor has a different outlook on this, and hopefully some of the costs of school choice can be adjusted. This is how charter school choice undermines public education financially.

Director Cann stated it is stunning of the lack of information and transparency that taxpayers do not realize. It makes it look as though the District is the one raising taxes whereas if the charter schools had to be responsible for their own costs, they would be the one raising the taxes and not the District.

President Faccinnetto agreed and this discussion happens every spring and is something charter schools never had a tough discussion about budgets and building a \$28 million school for 600 students on the Southside with no gym but a rooftop venue. The Nitschmann bids were opened yesterday and hoping that the District can build a bare bones building while there is money being wasted on Third Street for a charter school. There is a charter school in the industrial park that is paying over \$20/square foot for rent when the District scrapes by and put off projects, bus renewals, etc. for 1,820 charter school students. As quoted last week, the charter school is not a change in the way of education, it is just a change in governance. Charter schools do not outperform the public schools.

Mrs. Gober continued with the presentation. If all the charter school students would be brought back to the District of that \$21 million that is spent that is 8.6% of the District's budget, those 1,668 students at 25 per class the District would need 67 teachers plus instructional materials for a total of \$5,820,960 and the District would save \$15,251,105 or 6.36 mills or 12.5% additional taxes for "free" charter schools. This does not contemplate the savings in transportation costs to the various charter schools that they attend currently. When looking at where the charter school money is going, the lion share of the enrollment is to Lehigh Valley Academy, which had a student increase of 112. The other large financial contributions go to Lehigh Valley Dual Language Charter School and Lehigh Charter High School for the Performing Arts.

Director Sinkler asked what is the District going to do to market the District and get students back to public schools. Dr. Roy responded that the District will be starting with full-day Kindergarten and is a strategy to get students to return. Mrs. Gober also responded that the District does not have excess marketing budgets that are available. We need to look at how can we get the message out effectively without adding staff and time and adding dollars to it. President Faccinetto also stated that the Foundation is helping the District out. Previously the District did have a public relations office, but due to budget cuts, that was cut from the budget a few years ago.

Dr. Silva continued with the presentation stating that the ongoing investments for the 2015-16 school year include Project Lead the Way; full day kindergarten; wireless infrastructure; online and blended learning; and remediation services for struggling students. Tentative shelf items include after school elementary programs at \$181,743 which used to be grant funded; after school middle school programs at \$275,791; school bus cycle at \$300,000; expanded computer upgrades at \$263,036; alternative education programming at \$300,000; staffing restoration at \$235,328; maintenance projects at \$728,000; and technology at \$679,844 totaling \$2,963,742.

Director Vidanage stated that a few weeks ago he asked about Bring Your Own Device (BYOD), Aruba and Google. He is aware there is a line item for computer upgrades. How much does it cost the District to let the students bring their own device as compared to updating the computers, and has the Administration looked into this? Dr. Silva responded that the first step is having a network that is capable of handling that amount of traffic, but the District is not there yet. The infrastructure upgrade will lay the foundation for being able to move forward in that direction. The type of technology that is selected and number of devices selected should be a function of what the work the students are doing that requires that technology application. It all depends upon the capacity of the network to be able to handle different devices, and what the learning tasks are. Director Vidanage asked if there is way to expedite the network enhancement project? Mr. Takacs responded that as discussed previously at committee meetings, the wireless component is to be completed by the end of the summer. BYOD is on the docket. The first step is to get those 8,000 devices managed both from the wireless prospective and support prospective. The support challenge for BYOD drives that support cost up.

Dr. Roy stated that the pending items for consideration include monitor tax assessments; monitor reverse appeals; additional retirements; collective bargaining agreements; reduce federal programs to grant allocation; fund balance; and staffing reductions/higher class sizes. In regards to staffing reductions/higher class sizes means reduce amount of co-teaching; reduce student elective courses at the high schools; reduce guidance counselors to student ratio; and reduce technology integration specialists. The current class size guidelines are 23 students per class for kindergarten through grade 3; 26 students per class for grades 4 and 5; and 28 students per class for grades 6 through 12.

Mrs. Gober stated that the 2014-15 millage rate in Northampton County shows the District at the bottom 4 out of 10 at 50.99. The Lehigh Valley equalized millage rates shows the District at 18.40 which is under the PA average of 18.50 and the Lehigh Valley average of 20.70. The key discussion questions to the Board includes tolerance for cuts to BASD programs; tolerance for tax increase Index plus Exceptions; risk tolerance for additional State revenue; use of fund balance; and capital planning.

In closing, Dr. Roy stated that he would like to see where the Board stands on the budget in regards to the tolerance of cuts, tolerance for tax increase Index plus Exceptions, and risk tolerance for additional State revenue. For the options presented tonight, what is the Board leaning towards. As stated previously, the Administration's comfort zone is between a 3 to 3.5% tax increase. The more cuts the Administration can find, the closer it gets to 3%, and when we receive more information from the State on the revenue and if it increases more than the \$2 million that we anticipate in option 4, then the tax percentage goes down. The Administration is looking to see what the playing field is for the next five (5) weeks until the next Budget Workshop. The Administration will continue budget and program refinement to reach targeted tentative budget for April 29, 2015 Budget Workshop with Tentative Final Budget adoption at the May 11, 2015 Special Board Meeting, and Final Budget adoption at the June 15, 2015 Special Board Meeting.

Board Discussion

President Faccinnetto stated that it is his feeling to wait and see what the State does with the senior citizen tax rebate in 2016-17. The Board also needs to consider the other classes of taxpayers. He is not in favor of giving a discount to one group and not the other. There are a lot of other people that are hurting and on fixed incomes. The District benefits everyone, benefits property values and the good of the community. He prefers option four (4) assuming the \$2 million from State.

Director Vidanage had a question regarding the District's debt service. Every year the Board discusses about reducing the District's debt service and cost. What other options does the District have to bring it down to about 5% from 8%? Mrs. Gober responded that of the bonds that are eligible to be refunded they are not at a point right now where it is cost effective. The amount of cost to service the escrow until they get to their call date is more expensive than the savings that would be generated on the revenue side. They are not mature enough or close enough to the call date to do that. Those that are, the District is using as part of that restructuring that the District will take advantage in order to try to push the cost of the Nitschmann borrowing out to 2021 when the TIF money comes into the District. During this interim period for the next four (4) to five (5) years, the District does not have a material increase in the debt service line item on an annual basis in order to make sure that the Nitschmann project is complete. Director Vidanage asked if the Nitschmann Middle School bond issuance could be two (2) to three (3) years rather than eight (8) years. Dr. Roy responded that this can be discussed at the Board Finance Meeting during the presentation by PFM in April.

Director Neiman stated that he appreciates all the details that the Administration does to present the budget. He believes the District is spending prudently. He would like to keep class size where it is and look on the operations side for cuts. He also prefers option four (4) assuming the \$2 million from the State. He would also have a hard time with the senior citizen discount. There are many areas in the community that are under stress. This would be a burden on other taxpayers and more cuts from the school in order to fund the senior citizen discount. He would not be supportive of the senior citizen discount.

Director McKeon stated that he has a concern with the overall tax increase as the Exceptions are now mounting to almost 50% above. He feels that the fund balance should be utilized. He would like the Administration to provide an update on what has been used from the fund balance for the past few years.

Director Cann stated that she is okay with option 4 also. Students should not suffer for Harrisburg's mismanagement. She also had a question about the fund balance and what is it currently. Mrs. Gober responded that is 5% to 8% per Board policy. Right now the District is at \$18.7 million, which is around 7 to 8% range. Dr. Roy also stated that the 2015-16 budget includes pulling \$2 million from the fund balance. At the April Board Finance Meeting, the Administration can review the fund balance in more detail.

President Faccinnetto stated that with no more Board discussion, he is assuming the Board majority is leaning towards option four (4) with the 3% to 3.5% tax increase. No more discussion followed.

Courtesy of the Floor

None

President Faccinnetto adjourned the Budget Workshop adjourned at 7:55 p.m.

Attest,

Stacy Gober
Board Secretary

SMG:dln