



Wednesday, April 29, 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, April 29, 2015**

President Faccinetto called the Budget Workshop to order at 6:04 p.m. in the Edgeboro Room at the Education Center. Seven (7) Board members were present: President Michael Faccinetto, Director Eugene McKeon, Director Craig Neiman, Director Rogelio Ortiz, Director Shannon Patrick, Director Angela Sinkler and Director Sudantha Vidanage. Two (2) Board members were absent: Director Basilio Bonilla and Director Michele Cann. 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; Nicholas Takacs, Chief Technology Officer; and Dr. Dean Donaher, Director of Student Services.

Courtesy of the Floor

Roy Roth (4323 Chetwin Terrace, Easton) – Mr. Roth stated that as he read about the 3.5% tax increase, the part he liked was extending the school day, but is it going to produce anything. The big question is why are we doing all of this testing which causes a loss in instruction time. With this increase, are we going to be able to recover that instruction time, and how much longer are we going to keep testing to prove what. He sees the changes that are happening, but he does not see a positive. He fails to see where this is accomplishing anything. Dr. Roy responded that while he agrees that there is too much testing and too much time lost to testing, those tests are mandated by the State and Federal government. We have talked to the State about cutting back, and do we need to test every grade every year. This is a Federal mandate, and the State and Districts have to follow that mandate. BASD has fewer school days overall, and adding 15 minutes per day gives the District the equivalent of six (6) additional days of instructional time over the year and will have a cumulative impact on instructional time.

Presentation of Bethlehem Area School District 2015-16 Budget Information

Dr. Roy stated that as mentioned in previous meetings, 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. The District's budget goals include 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, additional supports for struggling students, and maintaining the current programming in support of the Roadmap 2.0 to Educational Excellence.

The 2015-16 Preliminary Budget in the beginning had an initial deficit of \$11,661,497 that 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. At the March Budget Workshop, the following changes to the 2015-16 Budget were presented with a total net reduction of (\$2,881,765). The changes included 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).

Mrs. Gober stated that since the March Budget Workshop, additional changes to the 2015-16 Budget have been made with a total net reduction of (\$4,016,656). The changes include a reduction in the partial hospitalization tuition of (\$164,308) due to a decline in student enrollment due to additional remedial efforts by the District. A reduction in cyber charter school tuition of (\$212,314) as there has been a decline due to the District offering a blended learning program. A number of staffing realignments and reallocations are planned in the Information Technology (IT) Department and includes a reduction of (\$85,225). The Administration continues to review and make various salary and benefit corrections and includes a reduction of (\$92,589). In regards to administrative adjustments, this is an add back to the budget of \$195,269. As per the discussion last month, the Administration had estimated some changes and after revisiting it, the Administration is recommending not to go as far as what was estimated last month. However, this is still a net savings on the administrative compliment of \$40,000 net reduction overall in administrative costs. Dr. Roy continued with the changes stating that the after hours/weekend monitoring reduction of (\$150,000) is for personnel who travel around in the District's security vehicles. They do building checks and play roles in alarming and de-alarming buildings. The Administration has been considering this for the last few years and are proposing eliminating those four (4) positions but keep some of that money to make up for the loss. Mr. Stein is currently working on this change. At both high schools, there is custodial coverage overnight, and at the remaining building there is a custodian on till 10:00 p.m. The biggest focus is weekends when custodians are not on duty. The buildings most highly used on the weekends are the high schools. If there is an outside lease or

athletic event, there is a custodian on duty. So, it is mainly weekend times when coaches want to have practices and to make sure the alarms are not set off. If there is a day when there is no lease or event, and a person is needed to check a building that would be the money that we have kept aside for overtime or call out. The Administration is looking at current personnel, staggering some shifts, and other ways to achieve the coverage provided by the security personnel.

Dr. Roy reviewed the staffing reductions in detail, which include five (5) elementary teachers where the Administration projected 12 full day Kindergarten teachers and feels that seven (7) are needed at this time. Five (5) secondary teachers due to course enrollment at the middle and high schools. The Administration does not anticipate to furlough any teachers to accomplish this with the different needs around the District. Another reduction is one (1) supervisor of maintenance operations due to a pending retirement and the position is not going to be filled. In addition, one (1) educational programs/student services due to Dr. Donaher's retirement and combining two (2) positions into one (1) position. The four (4) after hour/weekend personnel which were just reviewed. As Mrs. Gober mentioned, two (2) technology support which may be three (3). The final reductions are two (2) clerical supports which are currently vacant and propose not to fill.

Going back to the slide on changes since March, Mrs. Gober stated that the District's child care program is a self-sustaining program who utilizes the classrooms in the District, and the Administration has proposed developing a formula to provide a square footage charge for utilities, cleaning, and maintenance with a reduction to the District's budget of (\$300,000). This has been done in the past on an arbitrary basis on years when there was a surplus to the child care program and it would be contributed to the general fund for these expenditures. The Administration is recommending that it be done a more methodical calculated basis. Another reduction is for real estate growth of (\$1,390,627). In a recent letter from the County, the District is beginning to see some of the increases for the LERTA properties. In addition, there are three (3) reverse appeals that are going to be settled soon and are projecting that those will be in the July duplicate for billing at the higher rate. The Administration has reviewed the Governor's proposal, and last month the Board reviewed several scenarios of what the District might receive from Harrisburg and when that would happen. At this point, the Administration is estimating to increase the State revenue by one-third of what the Governor has proposed as additional revenue or (\$1,500,000) for basic education and special education funding. Dr. Roy stated that if the Governor's proposal came through in full, the District would receive \$4.5 million additional dollars, and potentially \$900,000 in savings on cyber costs. It is hard to estimate how much the District will receive from the State. The danger of counting on \$4.5 million and not getting that, and on the other hand, if we go to low we are reducing programs and positions or increasing taxes more than necessary. The messages from Harrisburg vary.

President Faccinetto stated that is a prime example of why PA needs a Basic Education Funding Commission to come through and push for a formula for Districts to have as we are 60 days out to finalizing a budget and have no idea what we will be getting from Harrisburg. The Districts are raising taxes and cutting programs based on guessing numbers, and Harrisburg has not even started the budget process. It is ridiculous that Districts cannot have solid budget numbers prior to Boards voting on their budgets.

Director McKeon asked Mrs. Gober if Harrisburg does not approve a budget till September will the District be okay until then or will the District need to get a TRAN. Mrs. Gober responded that as of now she feels the District would be okay as the tax revenue will be coming in. The discount period is the end of August, and the first installment payment is mid-August. The District is covering six (6) to eight (8) weeks and is fortunate to have a fund balance to cover the cash flow needs over the summer.

Mrs. Gober continued the presentation on the changes from March stating that the amount of revenue from TIF is being adjusted as the parcel on the Southside grows and there is more development there, and the District's contribution back to the Redevelopment Authority has continued to grow. Based on the calculation for the current year, the Administration feels that it is reasonable to adjust the payment by (\$74,000). The District is in receipt of the proceeds from the Monocacy sale, and recommends allowing that to fall to the fund balance in the current year, and then use those dollars next year to pay for one-time expenditures to include a portion of the wireless project and to generate another school bus lease. The wireless project is a \$2 million upgrade and a vast majority is expected to be covered by the E-Rate grant, and if we don't receive it, then we will not do the upgrade. The \$367,350 had to be paid locally and can be used from the Monocacy proceeds to pay for that one-time expense. As the Administration worked on the budget and got it below a 3% tax increase, they went back to the shelf items and feels that the bus lease is a critical piece. With \$150,000 the District can lease approximately six (6) to eight (8) buses.

Director Neiman asked is it the District's choice to lease buses rather than buy. Mrs. Gober responded that leases have been done for the last three (3) years. The District does not have the capital dollars to be able to outlay to purchase the vehicles. The only way we can fit it into the budget within the Act 1 Index and the PSERS pinch is to lease and spread those costs. They are a capital lease so at the end of lease period, the District does own the vehicles.

Director Vidanage asked about the sale of the cell tower. Dr. Roy responded that the sale is not complete and not included in the budget. The price that was discussed and agreed to is being reviewed legally and how to make that work. That would be a one-time revenue, and there might be capital projects that can be looked at.

Mrs. Gober stated that the last two (2) items on the changes in March include a program change to the LV Muhlenberg of (\$11,548). This is an in-patient program that is operated at the Muhlenberg campus, and the District provides a teacher to support the students' learning while they were in that program from any District. Due to changes from the Department of Education and other school districts, the students are not there for a long-term placement and are there for less than three (3) weeks, there is resistance in paying the tuition to support that program because many districts feel that can be covered under their homebound program. The last change is in federal programs adjustments of (\$13,963) based on staffing changes and indications of what the District feels the grant allocations will be.

In regards to the fund balance and as discussed previously, the fund balance has been rebuilt to a very healthy level from a number of years ago. The District has consciously been using those dollars to offset the tax increase and primarily to reduce the local burden and phase in the impact to the increases in pension costs. The District is within the Board policy guidelines of five (5) to eight (8) percent, and it is a healthy position to be at. As mentioned previously, for situations where the State's budget is not approved by June 30 or for some length of time, in order to support the District's operations it is good to have a healthy fund balance to fall back on.

The 2015-16 budget expenditure summary shows the BASD costs to be \$198,815,250 which is a 1.63% 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 \$244,760,303 which is a 3.49% increase.

The Administration is estimating the Act 1 Index for 2015-16 at 2.3% would levy \$3,400,361 in additional revenue if the District went to the Index. The Preliminary Estimated Exceptions which were filed 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 \$7,942,091.

Changes in revenue and expenditures since the March Budget Workshop shows that the revenue is expected to be \$239,996,239, and expenditures are expected to be \$244,760,303 showing a deficit of (\$4,764,064). This is \$6 million less when the budget process began in January. When you add in the expected Act 1 plus estimated Exceptions of \$7,942,091, it put the District below the maximum allowable under Act 1 of \$3,178,027 that we can tax as revenue going forward.

The budget cost drivers include PSERS, salaries, technology, charter schools, student tuition, healthcare, and general operations with a net deficit remaining of \$4,764,064, and where we began the budget process in January at \$11,661,497.

As discussed at previously, 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.

As reviewed last month, the new money that is tentative in the Governor's budget for the District 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; Accountability Block Grant (ABG) of \$1,061,082 which is an increase of \$395,643; Education Assistance Program (EAP) of \$750,330 which was not included in the January Preliminary numbers; and charter school reimbursement of \$1,658,176 which was also not included in the January Preliminary numbers. 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. 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.

The option the Board selected last month at the March Budget Workshop for budget balancing included a 3.5% tax increase and now has been reduced to a 2.9% tax increase. As stated previously, the preliminary deficit in February was \$11,661,497, and to date the Administration has been able to find reductions totaling (\$5,397,433). If we anticipate the State revenue increase of (\$1,500,000) and a 2.9% tax increase of (\$4,764,064), the District's remaining deficit would be zero.

The impact on the average taxpayer would be less than \$100 per the average median homestead. There is also the homestead rebate that is available to offset that tax to homeowners. The Administration is continuing to look at how the assessment varies and likely change when we receive the final assessments from both Lehigh and Northampton County. The District is required to utilize a model that is developed by PDE to balance the assessment between both counties so that the taxes are equitable and universal between the two (2) counties. Lehigh County has a 100% market to assessed value ratio since their reassessment, whereas Northampton County has not reassessed for some time, and they are at 50% of market value.

Dr. Roy stated that the Administration is pleased that last month the District was at a 3.5% tax increase and now we are under 3% at 2.9%. In addition, 83% of the property owners are in Northampton County and it is not an equal split. The important piece to remember is that within this reasonable increase, the District has held down the expenditures and is accomplishing a lot of positive things.

Dr. Silva reviewed the ongoing investments of the District which include full day Kindergarten, Project Lead the Way; college and career pathways; service learning projects; community schools; Leader in Me; arts and music; AP course offerings; online and blended learning; wireless infrastructure; school bus cycle; increased instructional time of 15 minutes per day which is equivalent of six (6) school days for the school year; improved staffing efficiencies; and the new Nitschmann Middle School project.

Dr. Roy reviewed the key discussion questions to consider that 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. The remaining timeline for the 2015-16 budget includes a tentative final budget adoption at a Special Board Meeting on May 11, 2015, and final budget adoption at a Special Board Meeting on June 15, 2015. In closing, he would like to recommend that we stick with a 2.9% tax increase, but we may need to adjust the amount of State revenue we will receive. There is no magic solution to what the right number is from Harrisburg. It would not be less than \$1.5 million, but if we went to \$1.7 or up to \$2 million that permits the District to maintain the tax increase at 2.9%. Based as of what he has heard as of today, he is more confident with \$1.5 million to \$2 million and are still safe. It is unlikely that we will get less than that. So if we had the leeway to come back to the Board with a final budget of somewhere between that \$1.5 and \$2 million, then we will be able to maintain everything that is in that budget and that 2.9% tax increase.

Board Discussion

Director Neiman asked if it was more or less than the \$1.5 or \$2 million, we may be looking at a higher tax increase, or if it is more than the \$1.5, we will keep it at a 2.9% tax increase and do something else with that additional funds. Dr. Roy responded that the District will be approving a budget before we know what we will get from the State. If in the end the District receives less than \$1.5 million, then we will have to use more fund balance and that is the risk. If it is more than anticipated, then that would be money that could go towards the fund balance and we are not going to expend it because it was unanticipated and that would be revenue that goes in the fund balance that would help for the next year. You cannot spend more than you budget under the law.

Director Vidanage had a question regarding the 15 minutes extra of instructional time and how is it going to be extended out. Dr. Silva responded that the Administration is currently looking at that and will be using it for instructional purposes. At the high school level, they will look at the right balance of the total number of minutes and number periods. At the middle and elementary there is a little bit more leeway to focus on instruction. Director Vidanage stated that in regards to the wireless upgrade, how certain are we to upgrade the wireless infrastructure. Mr. Takacs also responded that in PA, the District is number two (2) in terms of the size of the project. The District was up front and got the application in. The Category 2 funding just closed on April 26. The District passed through the Federal E-Rate audit and basically within the next two (2) weeks we should receive information.

Director McKeon thanked the Administration for getting the percentage down to 2.9% and is not impacting a majority of the programs.

Director Vidanage stated that we have these ongoing discussions about families on fixed incomes. Can the Administration go back and see what the impact would be on the lower income scale on fixed income on their houses. Mrs. Gober responded that she has no way to know whether any individual household is on a fixed income or not. As in the past, we could look at a lower assessed home versus a very high end home to see what it looks like

in between. What we did here this evening was the median home. Director Vidanage stated that the census has data based on this. Dr. Roy asked what the purpose of this is and how is that helpful to the Board. Director Vidanage responded that the Board can respond and deflect all of the criticism about not caring about the people who are on fixed income. Dr. Roy responded that he would not prefer to direct Mrs. Gober to do that unless it is the will of the Board because he believes it would not solve the problem. President Faccinnetto stated that he understands what Director Vidanage is saying. We have a good product and a good final budget than we had in January, and we stand behind the product that we are putting out and give our support to the budget. Any tax increase is going to hurt people, and there are about 2,000 households that receive senior rebate from the State. We can give all the data in the world and people just do not care. Dr. Roy also reiterated that if the State was doing their job, we might not even have to raise taxes this year. If everything the Governor proposed, the District would be at \$6 million and would be talking a zero percent tax increase. The school boards get stuck doing the dirty work to make the District run that the State legislature avoids making.

President Faccinnetto stated that he supports a 2.9% tax increase. BASD is the sixth largest district in PA, and if the State is going to increase revenue to Districts, we must get \$1 million to \$1.5 million. He polled the Board to get their feeling on a 2.9% tax increase. All seven Board members are fine with the Administration's recommendation.

Director Ortiz wanted to thank the Administration for the hard work they did for the 2015-16 budget, the full-day Kindergarten component, Project Lead the Way, and the wireless infrastructure.

Mrs. Gober provided an update on the Nitschmann bond. Today they priced and sold those bonds and it was a very positive transaction. All of the professionals came together for the benefit of the District. The estimates that were projected were conservative and received very attractive pricing. The bonds were sold at a premium meaning that people paid more than 100% of the face value in order to buy the District's bonds. There was about \$3 million in additional proceeds that will be available in the first issue and then will be offset in the second borrowing in 2016. The net yield on the entire transaction was 3.93%. There were several institutional buyers of the bonds, and the two (2) lead buyers that took a large chunk of the bonds usually do not work with the PA District schools, and they saw BASD as credit worthy to be in their portfolio and bought a significant portion of the bonds and that is a testament to all the work that we have done over the last number of years in order to make BASD a good investment.

Courtesy of the Floor

None

President Faccinnetto adjourned the Budget Workshop adjourned at 7:20 p.m.

Attest,

Stacy Gober
Board Secretary

SMG:dln