



Budget Workshop Wednesday, March 30, 2016 Minutes

President Faccinetto called the Budget Workshop to order at 6:04 p.m. in the Edgeboro Room at the Education Center.

Members present (7): Directors Dr. Karen Beck Pooley; Dr. Dean Donaher; Eugene McKeon; Craig Neiman; Angela Sinkler; Thomas Thomasik and President Michael Faccinetto

Member(s) absent (2): Directors Rogelio Ortiz and Shannon Patrick

Others present: Dr. Joseph Roy, Superintendent of Schools; Stacy Gober, Chief Financial Officer; Dr. Jack Silva, Assistant Superintendent for Education; Mark Stein, Chief of Facilities and Operations; Russell Giordano, Chief Human Resources Officer; Nicholas Takacs, Chief Technology Officer; Claire Hogan, Director of Special Education; Vivian Robledo-Shorey, Director of Student Services and Minority Affairs; and Jason Parrish, Financial Operations Supervisor.

1. Courtesy of the Floor (30 minutes allowed)

None

2. Presentation of Budget Information

2.01 2016-2017 Budget Presentation

Dr. Roy stated that the Board approved a Preliminary Budget at the January Regular Board Meeting. The Administration will share information about changes at the State level and work that the Administration has been doing internally. The common themes throughout this budget process are controlled growth of local expenditures, lack of adequate State funding, charter school funding reform, PSERS reform and PlanCon Reform which is new on the list. PlanCon is really a contract between the State and the District as there is a process that has to be followed and a commitment from the State to reimburse the Districts for the approved amount, and is all of a sudden in question at the State level and adds up to \$1.8 million for the current school year, and \$1.6 million for the 2016-17 school year. The 2016-17 budget goals include maintaining the Roadmap 3.0 to Educational Excellence.

The 2016-17 Preliminary Budget began with an initial deficit of \$15,241,326 which is due to increases in charter schools costs of \$5,134,050, PSERS costs of \$5,355,806 and \$4,751,470 for the rest of the budget. When cutting the budget, the PSERS and the charter school costs are two items that cannot be cut.

Dr. Silva stated that the ongoing investments in the 2016-17 Preliminary Budget included the Nitschmann Middle School project, Project Lead the Way, Equity in Education, Literacy Program, middle school math and science, technology upgrades, online and hybrid learning, afterschool programs, summer programs, coding, makerspaces, digital portfolios, facility improvements and professional development.

The ongoing investments remaining in March include the Nitschmann Middle School project, Project Lead the Way, Reading by Grade 3, middle school math and science, online and hybrid learning, with reduced professional development and reduced Equity in Education. Equity in Education was reduced as the Administration saw the draft recommendations from the action teams, and there are a number of items that can be done that will not cost money, such as changes in procedures, etc. Items moved to shelf since January include afterschool programs, coding/computer science, makerspaces, digital portfolios, facilities improvement and expanded technology improvements in terms of not adding as many Chrome books as originally anticipated.

Mrs. Gober stated that since January there have been changes to the 2016-17 Budget showing a total net reduction of (\$3,562,573). The reductions include Bethlehem Vo-Tech, Northampton Community College, and Colonial Intermediate Unit 20 tuition (\$96,532); transportation (\$95,831); real estate tax (\$582,382); resource officers (\$135,600); retirees to date (\$946,554); retiree benefits \$165,294; natural gas (\$100,000); construction projects (\$425,000); fund balance for cameras and truck (\$200,000); professional extra duty (\$472,760); professional development consulting and instructional programs (\$452,675); technology upgrades (\$215,483); and miscellaneous revenue (\$5,050).

The 2016-17 amended budget expenditure summary shows the BASD costs to be \$207,149,119 and includes BASD's instruction, support services, non-instructional services, and debt service/transfer and is 79% of the budget. When you add in the PSERS and charter school costs, the total expenditures is \$263,205,342 with a reduction of \$3,022,217 since January or -1.23%.

In regards to the State funding impact that was discussed back in January, the Governor has allowed the budget to pass by default. He refused to sign it, but he also did not veto the budget. As of this past weekend, there is an education budget and it is including an additional \$150 million education line item for basic education funding (BEF). However, the Governor did veto the fiscal code that authorizes the distribution of those funds. So it remains to be seen what additional revenue the District will receive in the current year, and when the District will receive those dollars. Essentially, the assumption remains the same that

the District is planning to receive \$30,630,883 that would have been projected to be funded if Senate Bill 1073 would have been passed back in December, and the District is hoping to receive that over that two (2) year period between 2015-16 and 2016-17. The District is projecting to receive \$1.8 million for \$29 million in the current year and is unknown whether that will come to pass because it is unknown whether the new BEF formula will be the vehicle for distribution or whether it will be some restoration budget which is what the Governor's administration is looking for as they are trying to restore the lost funds to school districts that have been most severely impacted by the former Governor. Depending upon how those dollars are going to be distributed is going to depend on what the current year number is that will then have an impact on the subsequent next year's numbers. So, the District is hoping to receive \$2,702,941 over two (2) years. Dr. Roy want to emphasize that the 2015-16 BEF estimated increase of \$1.8 million is in the current budget. Over a year later from the time that number was put into the budget, the District still does not know what the increase will be from the State. For the 2016-17 budget, the Administration is being conservative. He wanted to emphasize that he supports the Governor's efforts to increase education spend, but the legislature's inability to function and do their basic job of passing a budget and support public education will have an direct impact on the students and taxpayers of the District. The State cannot pass a budget and cannot support public education appropriately. The impacts are felt right in this District by the Board, parents, students, and taxpayers. This has got to end in Harrisburg.

Mrs. Gober stated that the District is fortunate considering all that has gone on this year in Harrisburg as the District has not seen a dramatic impact in the delivery of services. The District has not had to go out and borrow additional funds which is an additional taxpayer expense. The District has been able to continue operating as normal utilizing the fund balance and the local tax receipts that are collected and the local revenue. It has not had a terrible impact as it has in other places within the State. It is a very large problem for a lot of reasons. This District is fortunate, but it needs to come to an end.

The other state funding impact that is coming more apparent and having an impact on the budget is the PlanCon reimbursement. As stated earlier, in the 2015-16 State Budget there is no revenue in the PlanCon line item as it was eliminated. The intent was that back in the original proposal there was to be a debt borrowing that would essentially make whole all of the commitments to all Districts for all construction projects to date. Those dollars would have been the capital borrowing, and the District would have been made whole and then there would be some small line item that would be determined by a commission on funding future projects and would have been a much smaller allocation. The concern is without the lack of a State budget and a lack of a fiscal plan, the bond rating of the Commonwealth has been degraded several times. That has made it financially impractical for them to be able to issue bonds because the cost of that borrowing is dramatically higher than it would have been in their original thought process last spring. So, the State budget has been adopted with no line item for the ongoing commitment that the State has to all Districts for their construction projects. Additionally, the language that would have authorized the borrowing and the commission to determine how to move forward with the PlanCon process was included in that fiscal code that was vetoed. So, even if the Commonwealth was able to secure appropriate interest rates to do a borrowing, we are getting late in the year to conclude one (1) of those transactions as there needs to be 60 days to issue bonds, and it is the end of March and they have 90 days. If that can come together and something can be done with that fiscal code that will allow a borrowing to move forward will really put the 2015-16 revenue in question which is \$1,847,403 expected for the District. There is allocation proposed for the 2016-17 State budget to restore that line item, but if there is a borrowing, then that line item is likely unnecessary or will go to repay the bonded debt and will not come in the fashion that the District was anticipating. The whole process has been thrown up in the air in terms of not having any final conclusion that allows Districts to plan revenue moving forward. The anticipated revenue from PlanCon for the 2016-17 District budget is estimated to be \$1,596,600. So, while it is clear that the State owes us these dollars, it is very unclear on how and when the District will be made whole for this piece. Dr. Roy stated that it also reinforces the importance of Districts to have a fund balance because when the State does not follow through on its commitment to PlanCon funding, there is a hole in the budget and then you have to go to the fund balance.

Mrs. Gober stated that the changes in revenue and expenditures since January show an increase in revenue of \$540,356, and a decrease in expenditure of (\$3,022,217). To date, the revenue is expected to be \$251,526,589, and expenditures are expected to be \$263,205,342 showing a deficit of (\$11,678,753). When you add in the approved Act 1 plus estimated Exceptions of \$7,077,500, the deficit is reduced to (\$4,601,253) to date. The budget cost drivers have been amended with the reductions reviewed this evening which includes PSERS, charter schools, salaries, healthcare, student tuition and general operations. If you look at the 2016-17 Preliminary Budget Report in another way, the District began with the total expense of \$263,205,342, 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 \$68,660,062 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 NCC, Vo-Tech, and the IU, along with the utilities that leaves \$23,117,805 remaining that the Administration can look to for further reductions to further close that deficit/gap in funding as it stands today.

The PSERS funding rate for 2016-17 is 30.03% of payroll which is an increase of 16.22%. This is not a problem that will go away until 2034-35. We are getting closer to the top of the climb.

When looking at the cost of charter schools and school choice, BASD has 13,545 students and charter schools have 2,068 students. When you add the BASD expenditures with the PSERS costs, the total BASD programs is \$237,211,541. When you net that against the total revenue available before any tax increase of \$251,526,589 this is an excess revenue over BASD costs of \$14,315,048. However, when you add in the charter school tuition of (\$25,993,801), there is a deficit of (\$11,678,753) 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 stated that there is a cost to school choice, and some of this could be fixed at the State level by doing some funding fixes to how charters are funded and would alleviate some of the issues. If all the charter school students would be brought back to the District of that \$25 million that is spent that is 9.9% of the District's budget. Those 2,068 students at 25 per class the District would need 82 teachers plus instructional materials for a total of \$6,970,000 and the District would save \$19,023,801 or 4.94 mills or 12.9% additional taxes for "free" charter schools. This does not contemplate the savings in transportation costs to the various charter schools that they attend currently. The biggest cost item driving the financial challenge of the District is the way charter schools are funded, and the State could fix this by addressing these issues.

President Faccinetto stated that we hear a lot about charter schools of how they can educate students for less costs because they only get 75% of the money. What are some of those items that come out that we deduct that they only get 75% of the money? It is not that we are paying less because they do a better job for less money. We are paying less because we incur expenses on their behalf, and that has nothing to do with the operation of their school. Mrs. Gober responded that there are

facility costs, transportation costs, and Federal programs are removed. They do not operate athletic or extracurricular programs. The District's debt service is not considered. There are some deductions because they have the opportunity to receive those programs independently on their own, or they simply do not offer them.

Mrs. Gober stated that when looking at where the charter school money is going, the lion share of the enrollment is to Lehigh Valley Academy, Lehigh Valley Dual Language Charter School and Lehigh Charter High School for the Performing Arts. The remaining schools are out of the District or are cyber schools. This year, we are sending 1,880 students to charter schools, and this is financing a school district within our District as many Districts in the Commonwealth are at or below that level.

President Faccinnetto stated that the charter school tuition cost is approximately \$10,000 for a regular education student. There are about 225 cyber school students on this list that the District is paying for at a total of \$2.25 million and out of all of those cyber schools, most of them do not get to 40 of a SPP score. The District offers a cyber program which comes with a BASD diploma. The PA Cyber Charter School is failing when it comes to academic performance. This is something that can be reasonable State reform and is the easiest fix but will never get traction because there is a strong lobby behind the charter movement. We continue to fund these schools that do not come close to the District's academic performance and a program that matches what they do. Mrs. Gober responded that it is a self-fulfilling formula that is used to calculate the tuition that is being sent to fund each of these charter school students. As the cost of charter school tuition rises, the District's general budget rises and it is the entire budget. They are getting increases on their own increases. They are also getting increases on the District's retirement rate. They are getting increases on the District's overall budget including their own costs. It is this self-perpetuating formula that is really churning very large dollars to the detriment of the overall programs that are operated in this District.

Mrs. Gober stated the Act 1 Index for 2016-17 is 2.9% and would levy \$4,379,180 in additional revenue if the District went to the Index. The Preliminary Estimated Exceptions which were filed and received final approval is \$1,249,382 for special education, and \$1,448,938 for retirement contributions. That would give the District another \$2,698,320 with a total estimated increase under Act 1 provisions of \$7,077,500.

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.

Dr. Roy stated that when looking at staffing reductions/higher class sizes you look at co-teaching, student elective courses, guidance counselors, technology integration specialists, reading specialists, coaches/activity advisors, administration, support staff. 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 2015-16 millage rate in Northampton County shows the District in the middle at 52.51. 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; use of fund balance; and risk tolerance for additional State revenue.

Dr. Roy discussed budget balancing options. The Administration's target to be funded from the Preliminary Budget with the excess in expenditures over revenue is \$15,241,326. There are three (3) continuum's that the District has which include cuts, draw from the fund balance, and increase revenue through the millage. In regards to cuts, the Administration presented cuts and adjustments of \$3,562,573. The Administration is prepared to recommend to cut up to \$5 million which is another \$1.5 million. The Administration is going to continue to work to identify that \$1.5 million and will most likely come through some staffing adjustments primarily. So, if we go to \$5 million, we still have \$10 million to close. In regards to the fund balance, the Preliminary Budget already included the \$2.2 million from the fund balance. The District has been able to build in about \$2 million a year into the fund balance each year, and we sometimes did not have to tap it as there was excess revenues at the end of the year. So, how much more do we need to tap into the fund balance? In regards to millage, the Act 1 Index is \$4,379,180 which is a 2.9% permissible increase without exceptions, and the exceptions that the District is eligible to take would generate a total of \$7,077,500. So, the three (3) continuums need to add up to the \$15,241,326. The Administration is asking the Board to agree to stop at \$5 million in cuts, and then discuss what is the appropriate amount to take from the fund balance, and what is the appropriate amount from the millage.

3. Board of School Directors Discussion

President Faccinnetto stated that looking at the budget balancing options, if we go to \$5 million in cuts and we tax to the max which is another \$7 million that gets us to \$12 million and that would cause us to take \$3 million out of fund balance. None of the scenarios are good and certainly we do not want to tax to the max if we do not have to.

We have worked so hard to build a fund balance, and we have no idea what is coming next year or three (3) years with the current Governor and legislature. The political gridlock is here for quite some time. He is not interested in cutting more than \$5 million and maybe \$3 million from the fund balance. He is not interested in raising class sizes and cutting back on things that we spent the past six (6) years digging out of a hole and move in the right direction, and then get rid of it all because of political gridlock. We have to assume that the District will get close to the \$7 million in new millage. The \$5 million in cuts is not good, but he does not want to go higher. We will not know if the \$1.8 in PlanCon money will come to the District. There are too many variables, and we do not have choice and it will not sit well in the community.

Director McKeon stated that he agrees with President Faccinnetto. The District has gone as far as they can. At the IU meeting last week, they received an update from a Saucon Valley Board member on what is happening in Harrisburg which is not good in regards to PlanCon and that there is discussion to get rid of all exceptions and that will be another burden for the District. He hates to take money from the fund balance, but the District is at a point that there is nowhere else to turn.

Director Neiman stated he got frustrated when looking at the cuts and of all of the operational efficiencies the

District has worked on the last several years. He was also thinking about the teachers' contract and their flexibility and willingness to meet us there, and then to have a list of cuts that reference co-teaching, guidance counselors and reading specialists which touch the most at risk students. He cannot get behind cutting those programs unless the Administration comes back and says there is some other way to reach these students. He agrees with what President Faccinetto and Director McKeon stated, and he does not know where else to go and cut.

Director Thomasik asked if you would straight line last year's budget to this budget, what is the increase for this year versus last year. Mrs. Gober responded that the Administration does not build a budget that way. We start at the base and build it from the ground up and determine whether we are going to maintain each item/program. Mr. Thomasik stated that what has been said by the Board members is they do not want to really cut, but the reality is that we have to. If you straight lined everything from last year to this year which includes Vo-Tech, NCC, and CIU 20, and if all four (4) entities straight lined their budgets, how much more money would you have to cut beyond that if it was just a straight line? Mrs. Gober responded that if you straight line it out of the gate, PSERS is up 16% and you would have to offset that from somewhere. Mr. Faccinetto also responded that PSERS and charter schools are additional \$10 million, and there was originally about \$4 million in some new programs. He believes that it is around \$11 million if we take the current year's budget and make it the upcoming year's budget. Dr. Roy responded that there are no new positions in this budget and have taken some out and may take more out. When you look at the salaries from 2015-16 to 2016-17 it is a \$3.5 million increase. If we were going to flat line the budget, then that would be \$3.5 million that would have to cut. For retirements, you also have to look at that amount and make cuts from there. We would have to cut a lot of people and programs to keep the budget straight line. In regards to the increases from Vo-Tech, NCC, and CIU 20, there increases are due to the same reasons of salary and PSERS. For Vo-Tech, the District's share also went up due to the enrollment numbers increasing.

Director Donaher spoke about the fund balance and how far can the District go until it affects the bond rating, and do we have a line item for increasing the fund balance? Dr. Roy responded that we have not done a line item for a few years. The District has been fortunate that we had surpluses and did not have to draw on that fund balance. Mrs. Gober stated that the capital purchases for the trucks and cameras of \$200,000 stated earlier in the presentation will be spent. The \$2.2 million fund balance is the offset to the budgetary reserve. So, provided the District has accounted appropriately for everything and there is no other natural disasters that occur that would require us to spend for something not planned, that \$2 million is the offset of the budgetary reserve. If we do not use budgetary reserve, we do not use that \$2 million fund balance. In addition, if the District does not get PlanCon funding of \$1.5 million, then there is a hole in the revenue that is going to get paid for out of fund balance. In terms of bond rating, they have no problem with this \$2.2 million for budgetary reserve. It is more aligned to one-time revenue for one-time expense it is planned reduction and has been done strategically with thought and purpose, and is generally not a concern. The District has a Board Policy that states we have need to stay within the 5 to 8% of the undesignated fund balance to the District's expenditures provided that we are staying within our own imposed parameters and staying within the policy. Bond ratings would like us to have 20% and the State does not allow us to have 20%. The Administration has been cautious about using the fund balance in the past, and luckily helped us this year without a State budget. Dr. Roy stated we can go back and look at one time only costs to use for fund balance, such as curriculum materials and professional development.

Director Thomasik if you would take \$5 million out of each of those three (3) continuums, you would have the \$15 million. Dr. Roy agreed. Director Thomasik stated then everyone would share equally.

Director Beck Pooley also agrees with what was said and that the District needs to maintain what is offered in the District. If we continue to cut, then we will lose more students to charter schools. She agrees to going to \$5 million in cuts, but would like to know what those additional cuts are and are they a little bit painful or a lot bit painful. Dr. Roy responded that the additional cuts would be discussed at the April workshop. Director Beck Pooley stated that the District is put in a position because there is so much increase in the budget that we do not have control over that we are not trying to overly burden the taxpayers. She is also concerned with the fund balance and \$5 million, but agrees to one-time expenses.

President Faccinetto stated that what he hears from the Board this evening is that they can tolerate cuts up to \$5 million pending the list in April, and a tolerance of \$3 to \$3.5 million from the fund balance. The millage is farther to the right than where it sits now, and if new money shows up or find new sources of State revenue, we would use that to adjust the millage down to the left as much as possible, but in the dire situation that we are currently in, it is going to be closer to the \$7 million than the \$4 million at this point. All Board members agreed.

President Faccinetto stated that the Administration will continue budget and program refinement to reach targeted tentative budget for April 25, 2016 Budget Workshop with Tentative Final Budget adoption at the May 9, 2016 Special Board Meeting, and Final Budget adoption at the June 13, 2016 Special Board Meeting.

In closing, President Faccinetto reviewed two (2) items discussed last week at the Board Meeting with regards to the PSBA EdPAC, 10 for 10 Campaign and the PSBA Advocacy Forum Day on Monday, April 4 in Harrisburg. The District's fund balance helped us get through this year without a State budget. As Board members, we need to speak up and tell the taxpayers what is going on in Harrisburg. He also suggested possibly forming a Lehigh Valley legislative group with the local school districts in the Lehigh Valley so that there is one (1) voice. It happens in Montgomery County and other places, and when they call, the legislators listen. It was phone calls that made the Governor not sign that budget and not veto it. It was phone calls to Democratic legislators saying to please encourage the Governor to sign or not sign the budget and let it go into law. PlanCon is another item we need to work on and get Harrisburg to work on.

4. Courtesy of the Floor

None

President Faccinetto adjourned the Budget Workshop adjourned at 7:35 p.m.

Attest,



Stacy Gober
Board Secretary