

CASH FLOW/BUDGET UPDATE

March 10, 2016

1

| QUAKERTOWN COMMUNITY SCHOOL DISTRICT | | | |
|--|----------------------------|--------------------|----------------------|
| 2016-17 | | | |
| FINANCING THE BUDGET-PRELIMINARY BUDGET | | | |
| Approved January 14, 2016 | | | |
| | UNASSIGNED GENERAL FUND | COMMITTED PSERS | COMMITTED CAPITAL |
| REVENUES | 99,111,741 | | |
| EXPENDITURES | 107,854,942 | | |
| Budgetary Reserve | 800,000 | | |
| TOTAL - Expenditures | 108,654,942 | 0 | 0 |
| (Shortfall) Surplus | (8,743,201) | 0 | 0 |
| Fund Balance - July 1, 2016 | 8,326,443 | 2,010,331 | 3,250,000 |
| PSERS TRANSFER | 1,005,464 | (1,005,464) | |
| CAPITAL TRANSFER | 2,000,000 | | (2,000,000) |
| Fund Balance - June 30, 2017 | 4,823,683 | 1,006,467 | 1,250,000 |
| 4.47% | | | |
| Use of Fund Balance | 6,508,324 | | |
| Needed from Taxation | 2,234,877 | | |
| Value of a Mill | 385,722 | | |
| Millage Increase | 5.79 | | |
| Current Millage Rate | 149.73 | | |
| New Millage Rate | 155.52 | | |
| Percent Increase | 3.87% | | |
| Real Estate Increase - Average Taxpayer | \$152 | | |

Part I – Where we are and how we got there

This is the Preliminary Budget that the Board approved in January.

This Budget includes using \$2 million of the Capital Fund for capital projects. According to the recent Schradergroup engineering study, the district has approximately \$65 million in maintenance needs. This \$2 million represents the first “installment” of the funds needs to address the \$4.8 million in immediate (rated “Poor”) needs.

Historically, continuing work on the expenditure budget reduces the Preliminary Budget by approximately \$4 million dollars by the time the Final Budget is voted on in June.

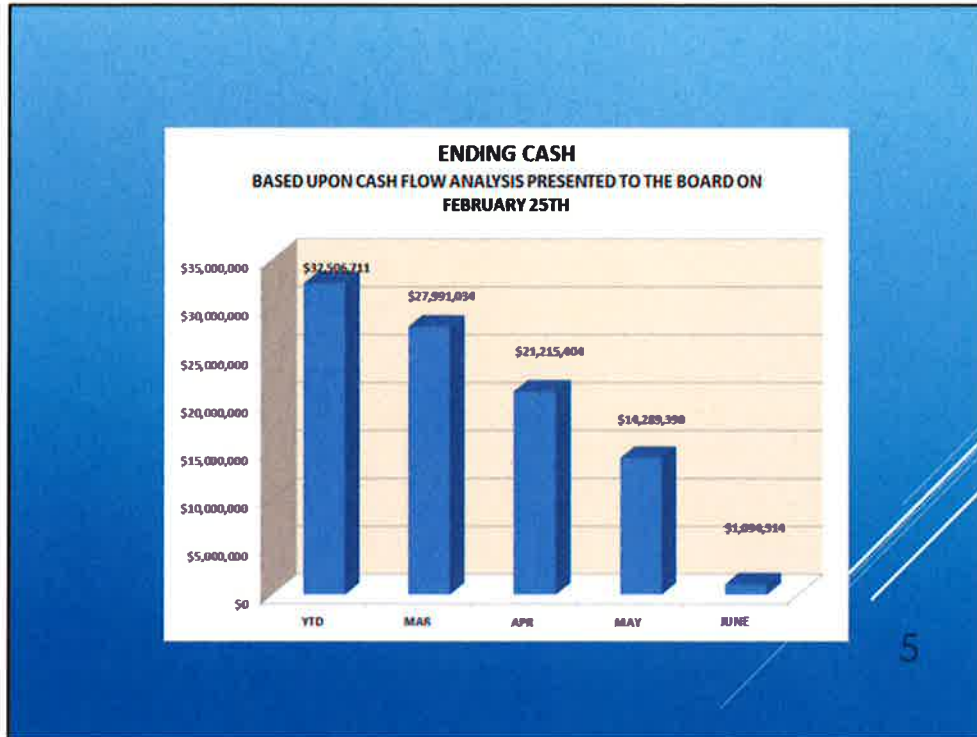
This year, the situation is complicated by the lack of a state budget.

| QUAKERTOWN COMMUNITY SCHOOL DISTRICT 2016-17 FINANCING THE BUDGET-PRELIMINARY BUDGET - Revised Approved January 14, 2016 | | | |
|---|----------------------------|--------------------|----------------------|
| | UNASSIGNED GENERAL FUND | COMMITTED PSERS | COMMITTED CAPITAL |
| REVENUES | 99,111,741 | | |
| EXPENDITURES | 105,854,942 | | 2,000,000 |
| Budgetary Reserve | 800,000 | | |
| TOTAL - Expenditures | 106,654,942 | 0 | 2,000,000 |
| (Shortfall) Surplus | (6,743,201) | 0 | 0 |
| <i>Fund Balance - July 1, 2016</i> | 8,326,443 | 2,010,931 | 3,250,000 |
| PSERS TRANSFER | 1,005,464 | (1,005,464) | |
| CAPITAL TRANSFER | | | (2,000,000) |
| <i>Fund Balance - June 30, 2017</i> 4.56% | 4,823,583 | 1,005,467 | 1,250,000 |
| Use of Fund Balance | 4,508,324 | | |
| Needed from Taxation | 2,234,877 | | |
| Value of a Mill | 385,722 | | |
| Millage Increase | 5.79 | | |
| Current Millage Rate | 149.73 | | |
| New Millage Rate | 155.52 | | |
| Percent Increase | 3.87% | | |
| Real Estate Increase - Average Taxpayer | \$152 | | |

This revision of the Preliminary Budget pulls out the \$2 million of the capital projects and funding.

| SHORTFALL ANALYSIS | |
|--|----------------------|
| BRIEFED TO THE BOARD ON FEBRUARY 25TH | |
| 2015-16 ESTIMATE | |
| 2015-16 EXPENDITURE ESTIMATES(approved) | \$99,569,390 |
| 2015-16 REVENUE ESTIMATE | (\$97,087,935) |
| PLANNED USE OF FUND BALANCE | <u>(\$2,481,455)</u> |
| | (\$99,569,390) |
| STATE REVENUE SHORT | (\$14,175,518) |
| BEGINNING FUND BALANCE | <u>\$13,587,374</u> |
| FUND BALANCE LEFTOVER FOR 2016-17 | (\$588,144) |
| 2016-17 PRELIMINARY BUDGET | |
| to balance at ACT 1 Index with exceptions we need from Fund Balance | \$8,508,324 |
| to balance at ACT 1 without exceptions Index we need from Fund Balance | \$7,358,459 |

This is the shortfall analysis presented to the Finance Committee on February 25th, showing the \$14 million dollar problem we knew about at the time.



This cash flow chart, presented to the Finance Committee on February 25th, shows that we would nearly exhaust our available cash by June 30th.

Motion was passed to withhold District PSERS contributions and all other District payments to the state until all state funding is received, and

- ✓ Board directed the Administration to come back to the March 10, 2016 Board meeting with a draft plan to conserve an additional \$5 million in cash by June 30

SUMMARY OF FEBRUARY 25, 2016 BOARD MEETING

6

As a result of the cash flow information presented on February 25th, the Board took the following actions.

1. Froze payments to the state/PSEERS (~\$5 million)
2. Froze payments to charter schools (~\$796K)
3. Curtailed all spending, including hiring for vacant positions, pending the March 10th Board meeting (~\$2 million for remainder of the year)
4. Reviewed implications for 2015-16 Superintendent/District goals

IMMEDIATE ACTIONS TAKEN

7

| 2015-16 STATE REVENUE ANALYSIS (UPDATED WITH NEW INFORMATION RECEIVED AFTER THE FEBRUARY 25TH BOARD MEETING) | | | | |
|--|------------------|------------------|-----------------------------|-------------------|
| | BUDGETED REVENUE | REVENUE RECEIVED | REVENUE TO BE REC'D | REMAINING REVENUE |
| BASIC INSTRUCTIONAL SUBSIDY | \$9,317,940.00 | -\$3,838,113.00 | | \$5,479,827.00 |
| CHILDREN IN PRIVATE HOMES | \$150,000.00 | \$0.00 | \$150,000.00 | |
| SPECIAL EDUCATION SUBSIDY | \$2,596,320.00 | -\$1,488,408.00 | \$1,107,912.00 | |
| TRANSPORTATION | \$1,396,496.00 | -\$646,099.00 | \$750,397.00 | |
| PLANCON REIMBURSEMENT | \$900,000.00 | \$0.00 | | \$900,000.00 |
| MEDICAL AND DENTAL SERVICES | \$112,000.00 | \$0.00 | \$112,000.00 | |
| STATE PROPERTY TAX REDUCTION | \$2,068,427.00 | -\$2,068,427.00 | \$0.00 | |
| EXTRA GRANTS | \$0.00 | \$0.00 | \$0.00 | |
| ACCOUNTABILITY GRANT | \$195,000.00 | -\$499,677.00 | \$0.00 | |
| SOCIAL SECURITY SUBSIDY | \$1,628,599.00 | -\$653,964.24 | \$974,634.76 | |
| RETIREMENT SUBSIDY | \$5,596,144.00 | -\$515,189.77 | \$5,080,954.23 | |
| | \$23,960,926.00 | -\$9,709,878.01 | \$8,175,897.99 | \$6,379,827.00 |
| | | | TOTAL SUBSIDIES OUTSTANDING | \$14,555,724.99 |

8

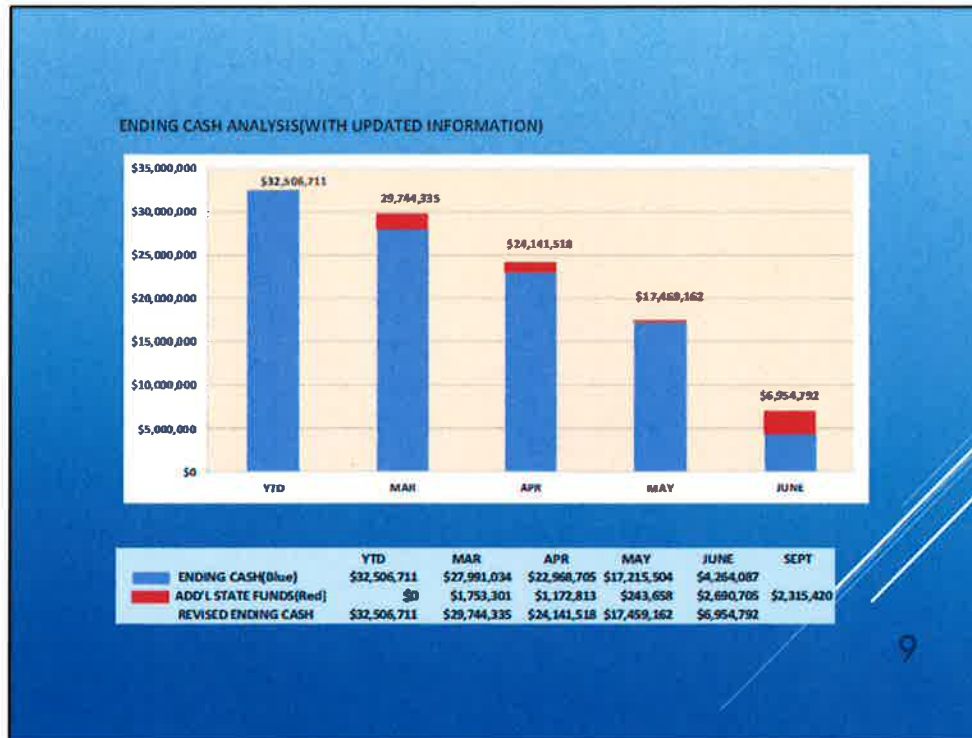
After news stories about the cash flow problem were published, we received a call from the state notifying us we would receive additional payments for non-subsidy line items.

The “Revenue to Be Received” column in this chart summarizes the individual state budget line items that **have** been fully funded.

We expect to receive this additional state revenue between now and June 30th.

Notice that two items remain unfunded – the Basic Instructional Subsidy, and Plancon Reimbursement.

This new information dramatically changes our state revenue shortfall from \$14,175,158 to \$6,379,827. While this is still a very big problem, it is a smaller very big problem than two weeks ago.



This is the revised cash flow chart, showing that with the additional state funding, we will have \$6.9 million in cash at the end of the 2015-16 fiscal year, up from the \$1.1 million expected in the February 25th analysis.

| CASH FLOW ANALYSIS-ASSUMING NOT ALL STATE BUDGET APPROVED | | | | | | | |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | 2015-16 | | | | | | |
| | YTD | MAR | APR | MAY | JUNE | JULY/AUG/ SEPT | TOTAL |
| BEGINNING CASH | | \$32,506,711 | \$29,744,385 | \$24,141,518 | \$17,459,163 | \$6,954,792 | |
| LOCAL REVENUES | \$62,443,563 | \$2,797,724 | \$2,797,724 | \$1,460,226 | \$1,460,226 | \$1,477,076 | \$72,436,539 |
| STATE REVENUES | \$9,709,878 | | | | | | \$9,709,878 |
| FEDERAL REVENUES | \$292,013 | \$68,247 | \$68,247 | \$68,247 | \$68,247 | \$200,000 | \$765,000 |
| OTHER | \$1,000 | | | | | | \$1,000 |
| TOTAL REVENUES | \$72,446,454 | \$2,865,971 | \$2,865,971 | \$1,528,473 | \$1,528,473 | \$1,677,076 | \$82,912,417 |
| SALARIES | \$21,583,505 | \$3,284,000 | \$4,800,000 | \$3,360,000 | \$8,571,261 | \$200,000 | \$41,598,766 |
| BENEFITS | \$11,826,166 | \$1,969,612 | \$2,475,653 | \$1,994,981 | \$3,801,260 | | \$22,067,672 |
| PROFESSIONAL SERV | \$3,769,142 | \$604,030 | \$688,276 | \$1,151,276 | \$588,276 | | \$6,701,000 |
| PURCH PROPERTY SERV | \$1,505,397 | \$80,118 | \$84,082 | \$197,867 | \$82,118 | | \$1,959,582 |
| OTHER PURCH SERV | \$8,651,619 | \$598,756 | \$598,456 | \$598,456 | \$825,502 | | \$11,272,789 |
| SUPPLIES | \$2,570,628 | \$339,968 | \$339,968 | \$339,968 | \$339,968 | | \$3,930,500 |
| EQUIPMENT | \$2,040,851 | \$19,778 | \$269,778 | \$318,020 | \$19,778 | | \$2,668,205 |
| OTHER OBJECTS | \$3,251,798 | \$82,636 | \$82,638 | \$91,168 | \$82,636 | | \$3,590,874 |
| OTHER FINANCING SER | \$4,169,000 | \$402,750 | \$402,750 | \$402,750 | \$402,750 | | \$5,780,000 |
| TOTAL EXPENDITURES | \$59,368,106 | \$7,381,648 | \$9,641,681 | \$8,454,486 | \$14,723,549 | \$200,000 | \$99,569,390 |
| ADD'L STATE FUNDS | | \$1,751,801 | \$1,172,813 | \$241,659 | \$2,690,205 | \$2,315,420 | \$4,175,898 |
| ENDING CASH | \$32,506,711 | \$29,744,385 | \$24,141,518 | \$17,459,163 | \$6,954,792 | \$10,247,288 | |

This spreadsheet contains the detail for the chart shown in the previous slide.

| | |
|--------------------------------------|---------------------|
| FUND BALANCE JULY 1, 2015 | \$15,812,811 |
| PROJECTED REVENUES | \$97,468,142 |
| STATE REVENUE SHORTFALL | -\$6,379,827 |
| PROJECTED EXPENDITURES | -\$99,569,390 |
| | <u>-\$8,481,075</u> |
| FUND BALANCE JUNE 30, 2016 | \$7,331,736 |
| UNASSIGNED | \$2,070,805 |
| COMMITTED-PSERS | \$2,010,931 |
| COMMITTED-CAPITAL | \$3,250,000 |
| EST FUND BALANCE JUNE 30 2016 | \$7,331,736 |

QCSD began the current fiscal year with almost \$16 million dollars in the fund balance.

This total includes the general fund balance, the PSERS fund balance account, and the designated capital reserve fund balance.

If the state budget situation in Harrisburg remains status quo for the remainder of the fiscal year, our fund balance will drop to \$7.3 million dollars going into 2016-17 because we will have to pay our 2015-16 bills out of our savings account.

| SHORTFALL ANALYSIS | | |
|---|--------------|---------------|
| 2015-16 ESTIMATE | | |
| 2015-16 EXPENDITURE ESTIMATES | | 99,569,390 |
| 2015-16 REVENUE ESTIMATE | (97,468,142) | |
| STATE REVENUE SHORTFALL | 6,379,827 | (91,088,315) |
| USE OF FUND BALANCE | | (8,481,075) |
| BEGINNING FUND BALANCE | | 15,812,811 |
| FUND BALANCE LEFTOVER FOR 2016-17 | | 7,331,736 |
| UNASSIGNED | 2,070,806 | |
| COMMITTED-PSERS | 2,010,931 | |
| COMMITTED-CAPITAL | 1,250,000 | |
| 2016-17 BUDGET (ACT 1 INDEX PLUS EXCEPTIONS) | | |
| 2016-17 EXPENDITURE BUDGET | | 107,854,942 |
| 2016-17 REVENUE BUDGET | (99,111,741) | |
| 2016-17 ACT 1 TAX INCREASE | (1,384,742) | |
| 2016-17 EXCEPTIONS TAX INCREASE | (850,135) | (101,346,618) |
| USE OF FUND BALANCE | | (6,508,324) |
| BEGINNING FUND BALANCE | | 7,331,736 |
| FUND BALANCE LEFTOVER FOR 2017-18 | | 823,412 |
| UNASSIGNED | (1,432,052) | |
| COMMITTED-PSERS | 1,009,464 | |
| COMMITTED-CAPITAL | 1,250,000 | |

12

This final chart updates the information shared at the February 25th Board meeting with the new revenue information we received.

Again, we expect to carry forward approximately \$7.3 million in fund balance to 2016-17.

However, the impact on 2016-17 is profound. Based on the current Preliminary Budget, and assuming a “normal” level of state funding for 2016-17, we will still nearly exhaust our fund balance by June 30, 2017 (down to \$823K).

Guidelines recommend a district fund balance of 8.5% (1/12th) of expenditures – or approximately \$8.5 million dollars. Our fund balance will be less than 1% of expenditures.

This puts the district at risk for not having any funds available for emergencies, will negatively affect our bond rating, thereby increasing our cost of borrowing to finish the high school and future projects, and creates a deeper hole going forward that will be impossible to fill in 2017-18 without substantial program reductions.

No matter what, all these calculations require a tax increase for 2016-17 of Index plus Exceptions.



NOW WHAT?

13

We need responsible governance instead of political posturing.

Districts need their state funding NOW.

In the absence of a solution from Harrisburg, here is how we recommend proceeding.

In the short term:

- ▶ Maintain the educational program (i.e., no furloughs this year)
- ▶ Complete Superintendent/District goals for 2015-16
- ▶ Control expenses this year to come in approximately \$4 million under budget
 - ▶ Cancel field trips
 - ▶ Cancel transportation for non-mandated activities
 - ▶ Freeze non-essential professional development (fees and travel costs, reduction in sub costs)
 - ▶ Freeze non-essential hiring
 - ▶ Freeze all non-essential spending on supplies and other building allocation categories

In the longer term*:

- ▶ Create a "Budget B" for 2016-17 that:
 - ▶ Minimizes the impact on the core educational program (REALITY = significant program changes may be required)
 - ▶ Minimizes the impact on staff (REALITY = furloughs will be required)
 - ▶ Restores a healthy fund balance (REALITY = this will take multiple years)
 - ▶ Meets facilities maintenance needs

15

* Planning assumption is that the loss of state revenue is a one time problem.

Timeline

- ▶ Present a revised "Budget A" and a "Budget B" for review at the April 14th Board Meeting
- ▶ Vote on program curtailment and furlough application motions at the April 28th Board Meeting
 - ▶ NOTE: Approvals must be obtained from PDE in advance. PDE approval does not obligate the district to actually furlough anyone