Dear Quakertown Community Taxpayers,

As you know, every year, the School District needs to submit a balanced budget. This year, an option is on the table to close Milford Middle School, with the potential to close Tohickon Valley Elementary School next year. For some, it is a welcome reduction of expenses with an eye towards long-term stability for the district. For others who hold Milford Middle School in a special place in their heart, or are looking forward to sending their kids there, it is a tragic mistake. There is a lot of misinformation and Fake News out in the blogosphere. This document is an attempt to bring some clarity and present the facts as we see them.

-- Jon Kern, QCSD School Director, Communications Committee Head, Milford Region

“The majority of the board has read and approves of the basic message in this informational flyer.”

The Budget Gap Explained

Is it a real crisis, or is it a manufactured crisis?
We have a $6.4 million budget shortfall because the expenses increased from last year by more than we expect revenues to increase. It is as real as the last few years’ budget gap.

In the following pages, we will look over various options to close the budget gap:

- Spend our savings account (a.k.a., "Fund Balance") – but stay fiscally healthy
- Raise revenue (taxes) – but minimize the impact on our fixed-income residents.
- Cut expenses – but minimize the impact on students & teachers
- Some combination of the above options

A Structural Problem Needs Permanent Solutions
Unfortunately, this budget gap is not due to a few, one-time, expenses. The gap is due to "structural" expenses increasing year after year: Salaries, PSERS, interest payments on our borrowing, Special Education, healthcare, to name a few of the culprits.

It means that we need to find ways to balance our budget permanently. We need to reduce expenses that occur year after year so that we can achieve a more balanced, long-term financial outlook. While one-time savings are good, they do not solve the recurring problem.

Why not dip into our savings account?
We could probably last a couple years with this strategy, leaving the district bankrupt, and ruining our "credit rating" along the way. Akin to paying a mortgage or other loan out of savings because you do not have enough income to cover the recurring expense.

Of course, how soon we forget that just last year about this time, we were one month away from being bankrupt because Harrisburg did not release our tax monies to us! Had we already depleted the savings account, we could not have weathered that political storm.

What about raising taxes?
We would need to raise taxes by ~11%. Now, raising taxes would add a permanent boost in the revenue side of the equation. But at what cost to the elderly? To our property values?
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The Impact of the PSERS (Retirement)

There is a lot of misinformation out there. Some wrongly deem PSERS a “scapegoat” and a “manufactured crisis.”

I will present some facts, which tend to be rather stubborn things.

As an employer, QCSD must pay a percent of employee salaries into the retirement fund. For the average QCSD teacher salary of $90,335, QCSD’s contribution to PSERS went from $7,814 per teacher in 2012 to a projected $34,327 per teacher in 2017 budget. An ~440% increase!

Every year, we keep having to come up with another $1.5MM – $2MM, and this year’s initial estimate was $3.3MM! We simply cannot choose to ignore this expense. It is totally out of our control as you can see by the surprise jump that occurred in December!

So why not cut out the fat from the rest of the budget?
Looking at the chart, the "rest" of the budget is small. We are limited by contracts and state regulations for the major parts of our expenses. We can fiddle with ~20% of the budget items – which is how Dr. Harner’s team squeezed the budget the last few years. There’s very little left to cut in the discretionary budget items.

What about cancelling the new Athletic Fields and Dance Studio?
At first glance, these add up to ~$4 million. However, some folks confuse an immediate operating expense (like salary, or postage), with a capital expense (benefiting the future) that is funded by long-term borrowing. The yearly cost for the Fields and Dance Studio is on the order of $180,000. Hardly enough to put a dent in the budget gap. Both of these facilities should end up being a net positive for the district – something we always consider.

What about cutting other major expenses?
Our hands are tied by contracts and state regulations for the major parts of our expenses. All of our employee union contracts limit total compensation increases to the Act 1 index

Unless the employee unions and admin come forth with an offer to renegotiate, maybe lowering and freezing pay, as was done in Souderton, our hands are tied.

What about cutting Sports, Music, Art, Languages and non-core curriculum?
In total, those represent about 10% of our budget. So it might be tempting to axe these non-academic expenses, as some in our community have called for.

We value well-rounded students. These non-core and extra-curricular activities are shown to provide far-reaching values. They make healthier and better students on balance, teaching valuable lessons in terms of working for the group, and learning how to manage time. All are valuable lessons in moving to the work place or to college. This supports our core mission.

The Population – Exploding or Declining?
The budget options take the actual and projected decline in enrollment into account. However, we also accounted for projected new development: St. Luke’s & Milford Village on Rt. 663, and LV Health Network on Rt. 309.

The potential for new growth in the district is not “right around the corner” by any stretch of the imagination. By
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the time (10+ years) these future planned ventures impact QCSD’s population (and tax base), we will have had ample time to anticipate and plan.

Can’t we take a “wait and see” approach?

It would be easy to ignore the challenge and kick the can down the road. Our Business Administrator, Mr. Riegel, has pointed out the negative impact this would have on our credit rating, and how it would serve to compound next year’s budget gap, making it even worse.

Operating More Efficiently

Teachers and administrators have worked hard over the years to emphasize student readiness for career and college alike. We have challenged ourselves to find ways to balance the budget without jeopardizing our students’ education, and this budget is no exception.

We do not want to eliminate or cut core programs, music, art, language, or sports. So we looked at how “efficiently” were we using our current buildings?

Turns out, we have excess capacity in our buildings. Add to that, the declining enrollment and the lack of near-term growth, it becomes prudent to consider consolidating our students and teachers into the available space. This will also reduce long-term operational costs (building and duplicate admin staff) without negatively impacting class size.

We are not alone

The PA School Board Association “2017 State of Education” Report shows:

- 86% Consider budget pressure the top challenge
- 85% Consider PSERS to be the top budget pressure

The top 5 ways schools will balance budgets:

- 75% spend savings
- 73% Raise local taxes
- 48% Reduce staff
- 44% Increase class size
- 28% cut programs and services

The Impact of Closing Milford on our Students & Staff

There is no escaping the “gravity” of the closing of a school as beloved as Milford. It is not being done on a whim, nor without a great deal of other alternatives being debated.

If the Board votes to proceed with closing Milford, what will happen?

Culture

We have every reason to believe the compassion of the teachers and parents, and the fantastic culture of the Milford Middle School will be fostered in their new location. In addition, there is every reason to believe that the “mixing” of the two middle school communities may very well exceed either of the individual communities through a synergistic effect.

The extra-curricular activities (music, theater, sports) will still be maintained for all students.

Teachers

Our goal is to preserve our most precious asset: our teachers. Yet, employee salary and benefits are indeed the biggest portion of our budget (60+%). So it is a logical (but not easy) place to look to cut expenses, as any business would do under such circumstances.

Many government bodies use a concept called “Reduction in Force” or RIF when budgets tighten. The idea is to allow folks to retire and simply not fill their positions. This takes the cost of a full-time employee (plus benefits) out of the expenses, permanently. It encourages teachers at the top of the pay scale to retire, and make opportunities available to new grads.
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We cannot initiate RIFs unless we **cut entire “programs”** or **close schools**. Every effort is being made to retain teachers, and minimize any “demotions” or furloughs.

**A Compromising Solution**

Over the next two years, we can move to a more “right-sized” budget and move away from continual budget shortfalls by closing schools to operate more efficiently.

1. Raise Taxes by 2.9% (The ACT 1 maximum)
2. Make the Cyber program more cost-effective
3. Reduce our head count (chiefly through retirement) and lower operating expenses
   a. Close Milford in 2017
   b. Close Tohickon in 2018

Hopefully, we will have a chance to get a 0% tax increase within a couple of years!

Show your citizenship! The 18th of July is our Milford Closing special meeting, 7:00 pm at the District Services Center, 100 Commerce Drive. The hearing to consider a 2018 closing of Tohickon Valley is on 3rd August, 7:00 pm. The Elementary Reassignment Committee will start meeting on 31st July to help determine what options we have.