Approval of the budget is one of the most important policy decisions that a School Board makes.

Tonight, you will receive a presentation on the 2019-20 preliminary budget. Unlike last year, the Board will not be taking any formal action on the preliminary budget, due to opting out of Act I exceptions.

The Administration will be providing monthly Finance Committee updates on how the budget is evolving as new information becomes available.

We ask that as you review the information in the presentation including the detailed attachments, that you send questions, concerns, input, etc. in the next few weeks. The Administration will take all input and address it at the following Finance Committee meeting in detail.
Topics to be covered

- Budget Terminology
- Budget Timeline
- Budget Priorities
- 2018/19 Estimated Revenues/Expenditures/Fund Balance
- 2019/20 Primary Cost Drivers
- Staffing Requests
- Supporting Data
- Preliminary Budget – Act I (2.7%)
- Impact on Average Taxpayer
- 5 Year Projection
- Attachments (will be posted on website)
- Questions
Quakertown develops the preliminary budget through site based budgeting. Each department/building is provided their budget information from the prior year, asked to project expenditures for the current year, and build their budget for next year. The Business department fills in the gaps and is solely responsible for developing the revenue budget.

The information is then compiled in the business office and reviewed by the Superintendent and his Cabinet. Most of the budget requests are included in the preliminary budget due to the level of unknowns. As the District progresses through the budget cycle, and additional information becomes available, some items may be cut or added. These items are reviewed on a monthly basis with the Cabinet team and the School Board Finance Committee.

Building a preliminary budget is difficult. Due to the timing requirements, the preliminary budget is developed without knowing what the state revenue will be, what the final healthcare costs will be, tax assessment levels, number of retirements, and more.

The Administration uses prior year data to project both revenues and expenditures for the following year.
Information on this slide is intended to better educate the public on how their tax bill is calculated based on State requirements.
Although the Board will not be taking any action, and a preliminary budget is not required, the District feels it is best practice to develop and present one. It is also important to keep the public up to date on how the District's finances are developing and projecting out into the future.
As stated earlier, the Board will be receiving detailed monthly updates on the development of the budget. Updates will include the 2019/20 budget and also the projected budgets for the next 5 years.

### BUDGET CALENDAR

- January 24, 2019 – Preliminary Budget Presentation – Finance Committee
- February 28, 2019 – Preliminary Budget Presentation – Regular Board Meeting
- March 14, 2019 – Update on Preliminary Budget – Finance Committee
- April 25, 2019 – Presentation of and Board vote adopting proposed final budget
- May 9, 2019 – Update on Proposed Final Budget – Finance Committee
- June 6, 2019 – Board vote to adopt final 2019/20 budget
- June 30, 2019 – Deadline for tax collectors to send tax bills
2018/19 is the first year that a full capital projects budget was funded, at $1 million. Best practice is to fund capital projects at approximately 1% of total district budget.

Continuing to fund capital projects is an initiative of the Board to proactively address building needs. Being proactive will reduce long term costs by taking care of our building needs annually.

The Renovation/addition project for NES is continuing to move forward on timeline. The Board will receive a presentation in February from PFM the District’s financial advisor on the second round of borrowing (issuing bonds) to pay for the project.

Another priority is to increase staffing levels. We will dive deeper into those requests in an upcoming slide.

Safety and security is also a priority moving forward. We have set aside $30k (in addition to any grant monies we may
receive) to fund security initiatives. This may include hiring a consultant to do a district wide security assessment.

The administration has also reallocated in the 19/20 budget money for a safety and security officer. This is still a work in progress and will be explored further in the next few months. The money allocated is converting an unfilled administrative position to a safety and security role.
The largest increase from the 2018-19 budget to the 2019-20 budget is staff salaries. The proposed new positions are accounted for in this line item. Also accounted for is the three teacher retirements that the District is already aware of. As staff retire, this line item will continue to be adjusted.

Benefit increases is the second largest line item increase. Benefits include medical, prescription, dental, PSERS, Social Security, etc. The increase is largely due to a high first look (cost estimate) for medical and prescription and the increase in PSERS contribution. The PSERS increase is largely due to the increase to the salary line item and less so for the actual increase to the PSERS rate (33.43% in 18/19 and 34.29% in 19/20).

IU special education services and other professional services are still being developed. The IU services is primarily the cost of the autistic support program run by the BCIU. Quakertown pays a “tuition” to the BCIU for each student placed in this program. A detailed attachment is provided for 2018-19 rates.
The Administration is proposing adding 5 teacher positions and 5 aide positions into the budget for next year. The figures outlined above are fully loaded figures, meaning they include salaries and benefits.

The majority of the positions are to support both special education and the Academy, which is a program the district started last school year.

There are two teaching positions being proposed to meet program needs. The Mandarin teacher would be placed at the Middle School level while the current Mandarin teacher would be placed at the secondary level. This position is needed in order to continue growing the program as it is not possible for the current teacher to do grades 7-12.
The technology department has submitted a request to add another tech associate to meet the needs of the growing 1:1 device needs.

The Superintendent is also requesting a conversion of two teacher on special assignment positions (TOSA) to administrative positions. This does not require adding staffing, however, it does require adding to the salaries as the positions convert from 187 days per year to 260 days per year.
Since 2014/15, the district staffing levels have reduced by 10 FTE’s (full time equivalency).

This reduction is true only if the new positions for 2019/20 are approved.
The District is comprised of two unions and two meet and discuss groups. All groups have contractual agreements that dictate their annual salary increase.

The teacher salary increase is a bit more complicated since it is based on a column and row structure (steps and educational levels). The base schedule is increasing 0.75% for teachers however, after factoring in step movement and column movement for staffing changing education levels, the average increase is 2.9%.
The District received the first cost estimate from the Bucks and Montgomery County Healthcare consortium for medical and prescription healthcare coverage. Although we had a modest increase in medical, the prescription drug coverage increased over 22%. This is due to a few reasons, one the national market for prescription drugs is increases, and two, the number of staff taking prescription drugs including specialty drugs.

The district is self insured meaning we pay the claims not premiums. Premiums are set each year for budgeting purposes only. For example, if an employee has a surgery that costs $50,000, the district acts as the insurance carrier and pays the $50,000. If we have a lot of claims in a year, the budget for next year will reflect that like any other insurance carrier. Example, you get in a car accident, you insurance carrier raises your rate the following year.
Enrollment is projected to continue declining, specifically at the elementary level. This is due in large part because the live birth rates are declining each year. Although there are some new developments going up in the district (which have been factored in) enrollment trend is going down.

Although enrollment is expected to decline, the administration does not recommend reducing staff. Staff will be reallocated to meet the overall staffing needs of the district.
State Legislators have enacted a new pension system starting July 1, 2019 for anyone new to the profession. Although the new model will be more of a defined contribution plan (401k style) there is no immediate financial relief for districts. For the new hires entered into the 401k style plan, the District will still be required to contribute to the old pension plan to fund the unfunded liability.

Eventually the new pension plan will reduce district costs but not until sometime in the 2030s.
Visual to highlight the upward trend for PSERS.

Although the District pays 34.29% of staff salaries to PSERS, the state gives half of that back in subsidy. The subsidy portion is reflected in the revenue projections.
The District has over 9,000 budget codes. This is a summary of each object. A more detailed version is attached for review.
2019/20 FINANCING OF THE BUDGET AT 2.7% TAX INCREASE

Estimated 2019/20 revenues without a tax increase is $110,398,845.
Total revenues at a 2.7% tax increase is $1,974,785.

Total projected expenditures for 2019/20 is $114,844,995.

Total Shortfall (deficit) at this point is $3,470,785, which is funded by use of fund balance.
A tax increase is an increase to the millage rate, not to the tax bill. The example above is intended to highlight how a tax increase impacts tax payers. The formula is provided above as an example for informational purposes.

The average tax bill will increase by $106 if the Board approves a tax increase of 2.7%. 
This slide highlights the evolution of projected to actual expenditures from the preliminary budget to actually spent. As stated before, with so many unknowns at the time the preliminary budget is developed, it is always the highest figure in the evolution. Actual expenditures typically come in lower primarily due to staff attrition (retirements and resignations after the budget is finalized) and savings from staff on unpaid leave. Good fiscal management rounds out the reason for the reduction.

The gap between preliminary and actual budget is trending smaller which we expect to continue in 2019/20. What this means is that the final budget is being developed with little to not “fat” in it. Projections and assumptions become very important as a budget gets tighter and tighter. A 1% margin of error equates to over a $1 million swing. If the margin of error is 1% on both revenue and expenditure that can result in a $2 million swing.
Although not finalized, the revenue from the sale of Milford Middle School and Tohickon Valley Elementary School is included and highlighted in red. The estimated operational balance for 2018/19 is a surplus of $144k, money being put back into fund balance. That increases to $2.144 million with the sale of the schools. Fund balance is projected to be $18 million at the conclusion of this year.

PFM, the Districts financial advisor will be presenting in February a list of options for how the revenue from the sale of the school can be spent (there are legal restrictions to consider).

The shortfall or deficit for the 2019/20 budget is projected at just under $2.5 million. This means that projected revenues will not cover projected expenditures. To fund the difference the district must plan to use fund balance.

The shortfall for next year includes $400k for constructing Ronal Reagan Blvd., which is a decision the District currently has not say in. So, in reality, the operational shortfall is just over $2 million which is a positive for this point in the budgeting cycle. The Administration expects the projected deficit to come down with a target point of a $1 million deficit. As stated earlier, we typically spend less than what is budgeted.
This slide highlights the impact of the 2019/20 preliminary budget on the 5 year projection. The deficit for each of the next 5 years is projected to be in the low $2 million range. However, that is expected to be closer to $1 million as we continue through the budget cycle.
The long range projection last year indicated an annual deficit of $1 million. However, the new projection indicates double that. This is due in large part to the new staffing recommendations, a lower Act I index, high first look medical costs, and finally, it is comparing apples to oranges. Comparing a preliminary budget to a final budget is not appropriate for long range planning. We know the preliminary budget is almost always higher than the final budget which means the long range projection is going to be inflated.
We ask that any questions you have regarding detail or things that need clarification be emailed to Zach Schoch, zschoch@qcsd.org so that it can be addressed in the next months Finance Committee meeting.