

# **MINUTES**

## **Council Rock School District Finance Committee Thursday, July 25, 2013, at 7:30 p.m.**

**The Chancellor Center, Historic Classroom 1**

### **I. Fund balances and their sizing relative to uncertainty**

Dr. Foster, the Chairperson of the Finance Committee explained that over the past year there has been considerable discussion concerning the appropriate level of fund balance and reserves the district should maintain from year to year. Currently the district maintains these reserves in numerous accounts based on the intended use of these funds.

During the debate of 2013-2014 budget it was suggested that the Finance Committee discuss our current fund balance structure and policy. The following presentation is an introduction to discussion.

Mr. Reinhart presented information on the following points:

- Historical Perspective on Transfers to/from Fund Balance
  - Allows an estimate of reasonable unreserved fund balance
  - Identifies fundamental changes in district finances
    - ACT1 limitations – a new driver for fund balance
    - PSERS crisis – a new driver
    - (capital projects – response to aging infrastructure)
  - Targeting the “Right” Fund Balance
    - Legal Constraints on Generating Revenues
- Developing the Financial Facts of the District
  - List of Financial Risks Associated with the School District
    - Growing Need to Take on More Risks
  - Estimates of Future Costs

Mr. Reinhart reviewed the following table summarizing total revenues, expenditures and changes in fund balance for the years ending June 30, 1996 through June 30, 2012.

Year	Beginning Fund Balance	Revenues	Expenditures	Increase (Decrease) In Fund Balance	Change In Fund Balance As % of Revenues	Ending Fund Balance
1995-1996	\$ 6,621,010	\$ 105,929,810	\$ 101,684,422	\$ 4,245,388	4.01%	\$ 10,866,398
1996-1997	10,866,398	106,815,187	108,131,741	(1,316,554)	-1.23%	9,549,844
1997-1998	9,549,844	111,044,940	110,463,540	581,400	0.52%	10,131,244
1998-1999	10,214,429	117,801,793	114,836,944	2,964,849	2.52%	13,179,278
1999-2000	13,179,278	121,639,593	120,851,360	788,233	0.65%	13,967,511
2000-2001	13,967,511	124,625,404	126,487,242	(1,861,838)	-1.49%	12,105,673
2001-2002	12,105,673	126,920,884	132,112,647	(5,191,763)	-4.09%	6,913,910
2002-2003	6,913,910	139,536,392	141,685,351	(2,148,959)	-1.54%	4,764,951
2003-2004	4,764,951	152,896,579	151,533,173	1,363,406	0.89%	6,128,357
2004-2005	6,128,357	162,372,244	160,478,730	1,893,514	1.17%	8,021,871
2005-2006	8,021,871	170,349,474	169,951,057	398,417	0.23%	8,420,288
2006-2007	8,420,288	179,137,471	176,837,554	2,299,917	1.28%	10,720,205
2007-2008	10,720,205	186,278,026	182,934,476	3,343,550	1.79%	14,063,755
2008-2009	14,063,755	188,314,236	185,267,253	3,046,983	1.62%	17,110,738
2009-2010	17,110,738	199,755,443	190,489,455	9,265,988	4.64%	26,376,726
2010-2011	26,376,726	195,837,757	194,277,845	1,559,912	0.80%	27,936,638
2011-2012	27,936,638	195,576,225	194,083,327	1,492,898	0.76%	29,429,536

He spent time explaining the three highlighted years ending June 30, 2001 through June 30, 2003 and the year ending June 30, 2010. The three year period indicates the only time over the years analyzed that the fund balance fell. This resulted in a three period of high real estate tax increases. (See table below) He further explained that at the time of these increases the Board of School Directors had considerably more authority to raise taxes to strength the District financial position. Since the enactment of Act 1 of 2006 the Board's authority to raise taxes is limited to annual index based on external factors. He cautioned that the District must be very careful in the manner our reserves are managed. Should fund balances begin to fall due to insufficient recurring revenues the Board may not have the authority to increase taxes to the level to strengthen the District's financial position.

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Year	Increase (Decrease) In Fund Balance	Change In Fund Balance As % of Revenues	Fund Balance as a % of Revenues	Real Estate Millage Rate	% Change In Tax Rate
1995-1996	\$ 4,245,388	4.01%	10.26%	272.76	
1996-1997	(1,316,554)	-1.23%	8.94%	272.76	0.00%
1997-1998	581,400	0.52%	9.12%	281.00	3.02%
1998-1999	2,964,849	2.52%	11.19%	290.25	3.29%
1999-2000	788,233	0.65%	11.48%	290.25	0.00%
2000-2001	(1,861,838)	-1.49%	9.71%	290.25	0.00%
2001-2002	(5,191,763)	-4.09%	5.45%	290.25	0.00%
2002-2003	(2,148,959)	-1.54%	3.41%	326.25	12.40%
2003-2004	1,363,406	0.89%	4.01%	353.10	8.23%
2004-2005	1,893,514	1.17%	4.94%	372.54	5.51%
2005-2006	398,417	0.23%	4.94%	94.28	1.23%
2006-2007	2,299,917	1.28%	5.98%	97.60	3.52%
2007-2008	3,343,550	1.79%	7.55%	101.46	3.95%
2008-2009	3,046,983	1.62%	9.09%	105.41	3.89%
2009-2010	9,265,988	4.64%	13.20%	107.96	2.42%
2010-2011	1,559,912	0.80%	14.27%	110.68	2.52%
2011-2012	1,492,898	0.76%	15.05%	110.68	0.00%

The second year ending he discussed was June 30, 2010. This year was highlight because the fund balance grew by almost \$9.3 million. That increase was caused by sale of District owned land and the District's planning for the impending increase in the PSERS employer retirement contributions. The District used \$4.1 million of the proceeds from the sale of the real estate to establish a Revenue Stabilization fund balance and added \$3.6 million to the PSERS Stabilization fund balance. These were two initiatives to strengthen the District financial position.

Mr. Reinhart introduced the concept of budget uncertainty that causes variances against projected outcomes each year. Based on the analysis provided, historically fund balance has deviated by 1.7% of total revenues each year. He explained that with a \$205 million budget could be a \$3.5 million variance in expected fund balance each year.

Mr. Reinhart explained the legal constraints of the size of Pennsylvania School District fund balance. He explained the following:

- State Law limits a school district's unreserved fund balance to be no greater than 8% (comparable to CRSD budget changes in 2002-2005 years)
- Council Rock School District Board Policy requires all Unreserved Fund Balance greater than 5% to be transferred to the Capital Reserve Fund to fund Capital Needs (current high priority project estimate is \$30MM – NMS, asbestos removal, transfer out of LSAC)
- Neither State Law or Board Policy Addresses Sizing of Committed Fund Balances:
  - PSERS Liability
  - Self-Insurance Activities
  - Revenue Stabilization
  - Capital Projects

He further explained the following specific issues that must be understood and considered as the “Right” Fund Balance is determined for Council Rock School District:

- Committed Funds Balances are used to address known or unknown future events.
  - Provide time to respond to large cost escalation – PSERS
  - Capital Needs – Newtown Middle School, Urgent Repairs/Replacements – MW structure, Sol Feinstone Entrance
  - Contingencies – Self Insurance Activities
    - Healthcare, Workmen's Compensation and Unemployment Compensation, Insurance Deductibles
- Fund balance sizing critical given legal constraints
  - Revenue side: Act 1
  - Cost side: state seniority rules, limits on layoffs for economic reasons, multi-year contracts (e.g. LSAC, employment, benefits)
- Fund balance sizing critical given district goals, e.g.
  - Optimal use of tax dollars
  - Reducing operating costs (self-insurance, interest rates)
  - Maintaining safe, stable, innovating educational program for the district's children
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He suggests the following tasks to be completed as we search for the “Right” fund balance strategy:

- Develop Financial Plan Based on our Risk Management Activities
  - List of Financial Risks Associated with the School District
  - Identify cases where increased risk is used to decrease operating costs (e.g. higher deductibles, use of self-insurance)
- Estimates of 3 to 5 Year Future Costs
  - Business Office to Prepare a Listing of Future Cost Drivers

- Operational (includes facilities use/enrollment studies)
- Capital (includes projects judged as essential – e.g. Maureen Welsh repairs, Sol Feinstone entrance, Middle School Renovations)
- Board and administration to Review and Set Plan for Existing Fund Balance Use and Fund Balance Policies.

After considerable discussion the Committee asked Mr. Reinhart to provide a financial projection of the future PSERS employer contributions including various options in the use of fund balance to fund the increasing costs.

Next Meeting Thursday August 21, 2013