

# Financial Review Wilkes-Barre Area School District

March 29, 2016



Two Logan Square, Suite 1600

Philadelphia, PA 19103

[www.pfm.com](http://www.pfm.com)

---

# Table of Contents

- Project Approach
- Financial Situation
- Peer District Comparison
- Capital Plan Options
- Educational Approach
- Recommended Next Steps



# Project Approach

# Project Approach

- An independent review of the District's current and future financial situation
  - What are financial threats and opportunities?
  - What does this mean beyond the current school/budget year?
  - What is the health of the District's operating budget?
- An understanding of the District's capital options
  - What do different school construction alternatives cost?
  - What can the District afford?
  - Are there alternative financial options?
  - What is the impact of capital spending on the District's finances?
- A focus on educational outcomes
  - What is the best building alignment for educating District students?
- Recommended next steps
  - What should the District be doing to address its current and future challenges?



# Financial Situation

# WBASD Multiyear Budget Projection Assumptions

- The following projections were prepared by WBASD to illustrate that the current operations of the District are not sustainable. The projections include the following assumptions:
  - 2.7% increase in real estate taxes each year
  - Basic Education and Special Education funding based on the Governor's 2015-16 proposed budget
  - No raises in the out years for the Administrators Association Act 93 Plan and the Secretaries and Associated Educational Support Personnel Association contracts
  - An estimated salary increase of \$1.25 million to account for the final year of the Custodial/Maintenance/Cafeteria and Wilkes-Barre Area Educational Association contracts
  - The following pension contribution rates (calculated as payroll expense x rates):
    - 2015-16: 25.84%
    - 2016-17: 29.69%
    - 2017-18: 30.62%
    - 2018-19: 31.56%
    - 2019-20: 32.23%
    - 2020-21: 32.02%
  - No additional debt service other than the Mackin project

# Multiyear Projection Provided by WBASD

Revenue	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
<b>Local Revenue</b>						
Real Estate Taxes	\$ 42,440,100	\$ 43,585,983	\$ 44,762,804	\$ 45,971,400	\$ 47,212,628	\$ 48,487,369
All Other Local Sources	\$ 16,117,000	\$ 16,117,000	\$ 16,117,000	\$ 16,117,000	\$ 16,117,000	\$ 16,117,000
<b>Total Local Revenue</b>	\$ 58,557,100	\$ 59,702,983	\$ 60,879,804	\$ 62,088,400	\$ 63,329,628	\$ 64,604,369
<b>State Revenue</b>						
Basic Ed. Funding/RTL/ABG	\$ 26,251,368	\$ 26,251,368	\$ 26,251,368	\$ 26,251,368	\$ 26,251,368	\$ 26,251,368
Special Education	\$ 4,897,088	\$ 4,897,088	\$ 4,897,088	\$ 4,897,088	\$ 4,897,088	\$ 4,897,088
Social Security Reimb	\$ 2,210,250	\$ 2,232,872	\$ 2,232,872	\$ 2,232,872	\$ 2,232,872	\$ 2,232,872
Retirement Reimb	\$ 7,416,600	\$ 8,665,878	\$ 8,937,325	\$ 9,211,691	\$ 9,407,250	\$ 9,345,955
All Other State Sources	\$ 4,643,212	\$ 4,643,212	\$ 4,643,212	\$ 4,643,212	\$ 4,643,212	\$ 4,643,212
<b>Total State Revenue</b>	\$ 45,418,518	\$ 46,690,418	\$ 46,961,865	\$ 47,236,231	\$ 47,431,790	\$ 47,370,495
<b>Federal Revenue</b>						
All Federal Sources	\$ 4,828,500	\$ 4,828,500	\$ 4,828,500	\$ 4,828,500	\$ 4,828,500	\$ 4,828,500
<b>Total Federal Revenue</b>	\$ 4,828,500	\$ 4,828,500	\$ 4,828,500	\$ 4,828,500	\$ 4,828,500	\$ 4,828,500
<b>Total Revenue</b>	\$ 108,804,118	\$ 111,221,901	\$ 112,670,169	\$ 114,153,131	\$ 115,589,918	\$ 116,803,364
<b>Expenditures</b>						
Salaries	\$ 51,818,850	\$ 53,068,850	\$ 53,068,850	\$ 53,068,850	\$ 53,068,850	\$ 53,068,850
Social Security	\$ 3,947,775	\$ 4,059,767	\$ 4,059,767	\$ 4,059,767	\$ 4,059,767	\$ 4,059,767
Retirement	\$ 13,235,200	\$ 15,756,142	\$ 16,249,682	\$ 16,748,529	\$ 17,104,090	\$ 16,992,646
Insurance	\$ 14,138,630	\$ 14,138,630	\$ 14,138,630	\$ 14,138,630	\$ 14,138,630	\$ 14,138,630
<b>Total Benefits</b>	\$ 31,321,605	\$ 33,954,539	\$ 34,448,079	\$ 34,946,926	\$ 35,302,487	\$ 35,191,043
Purchased Professional & Technical Services	\$ 4,275,300	\$ 4,275,300	\$ 4,275,300	\$ 4,275,300	\$ 4,275,300	\$ 4,275,300
Purchased Property Services	\$ 2,579,700	\$ 2,579,700	\$ 2,579,700	\$ 2,579,700	\$ 2,579,700	\$ 2,579,700
Other Purchased Services	\$ 18,106,900	\$ 18,106,900	\$ 18,106,900	\$ 18,106,900	\$ 18,106,900	\$ 18,106,900
Supplies	\$ 2,991,300	\$ 2,991,300	\$ 2,991,300	\$ 2,991,300	\$ 2,991,300	\$ 2,991,300
Property	\$ 40,000	\$ 40,000	\$ 40,000	\$ 40,000	\$ 40,000	\$ 40,000
Other	\$ 513,000	\$ 513,000	\$ 513,000	\$ 513,000	\$ 513,000	\$ 513,000
Debt Service	\$ 2,903,600	\$ 3,832,588	\$ 3,592,708	\$ 3,562,500	\$ 3,551,625	\$ 3,553,875
Fund Transfers	\$ 49,000	\$ 49,000	\$ 49,000	\$ 49,000	\$ 49,000	\$ 49,000
<b>Total Expenditures</b>	\$ 114,599,255	\$ 119,411,177	\$ 119,664,837	\$ 120,133,476	\$ 120,478,162	\$ 120,368,968
Deficit	\$ (5,795,137)	\$ (8,189,276)	\$ (6,994,668)	\$ (5,980,345)	\$ (4,888,244)	\$ (3,565,604)
Beginning Fund Balance 7-1	\$ 6,012,248	\$ 217,111	\$ (7,972,165)	\$ (14,966,833)	\$ (20,947,178)	\$ (25,835,422)
Ending Fund Balance 6-30	\$ 217,111	\$ (7,972,165)	\$ (14,966,833)	\$ (20,947,178)	\$ (25,835,422)	\$ (29,401,026)

# WBASD Multiyear Deficit Projection

- WBASD's optimistic multiyear projection forecasts that by 2020-21 the District will have a \$29.4 million dollar negative fund balance, without adding any additional debt service to address the physical condition of its high schools or other buildings
- The projected operating deficit must be addressed in concert with the short-term imperative for additional capital for 9-12 educational facilities and possibly for other building needs

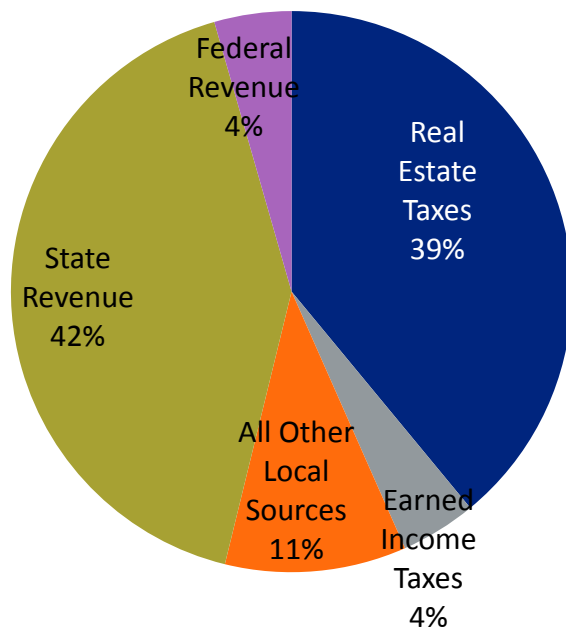
	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
Deficit	(\$5,795,137)	(\$8,189,276)	(\$6,994,668)	(\$5,980,345)	(\$4,888,244)	(\$3,565,604)
Beginning Fund Balance (7/1)	\$6,012,248	\$217,111	(\$7,972,165)	(\$14,966,833)	(\$20,947,178)	(\$25,835,422)
Ending Fund Balance (6/30)	\$217,111	(\$7,972,165)	(\$14,966,833)	(\$20,947,178)	(\$25,835,422)	(\$29,401,026)



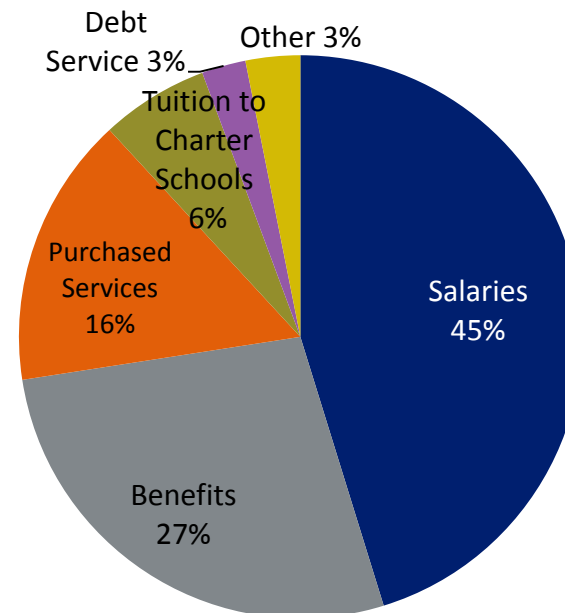
# Overview of Budgeted Revenues & Expenditures

- 81 percent of WBASD's revenues are from the Commonwealth and from local real estate taxes
- 72 percent of WBASD's expenditures are driven by staffing costs

**Major Revenue Sources  
2015-2016 Budget**



**Major Expenditures  
2015-2016 Budget**



# Alternative Multiyear Financial Projection

- The remainder of this section will illustrate the possible financial impact of different, generally more conservative revenue and expenditure assumptions than those included in the WBASD financial projection
- The goal of this alternative projection is to consider possible revenue and expenditure results and their impact on the District's overall finances prior to the assumption of additional spending for the high schools

# Alternative Revenues – State Aid

- WBASD assumed no growth in State Aid through 2020-21, except for retirement reimbursement
- Two potential State Aid scenarios:
  - Historical funding growth of approximately 2.0 percent per year
  - 4.0 percent growth per year possible based on new funding system

State Aid	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
2% growth	\$45,418,518	\$47,397,548	\$49,030,127	\$50,476,217	\$51,867,607	\$52,772,854

State Aid	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
4% growth	\$45,418,518	\$48,113,382	\$50,504,744	\$52,754,571	\$54,996,744	\$56,801,997

# Alternative Revenues – Property Tax

- Increasing property tax rates is possible but state law imposes limits (see next page)
- WBASD assumed property tax growth at expected Act 1 index figure of 2.7 percent per year
- In order to help illustrate the possible range of tax impacts later in this presentation, the alternative projection assumes no tax increase

Property Tax	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
0% growth after 2015-16	\$42,440,100	\$42,440,100	\$42,440,100	\$42,440,100	\$42,440,100	\$42,440,100

- There is possible marginal positive real estate tax impact from:
  - County recommendations to pursue more assessors, increase current collections
  - Reverse appeals by the School District and the County
  - Validating eligibility for tax exemptionsThese impacts are not included in the District's or alternative projections

# Impact of Act 1 on Ability to Raise Taxes

- Act 1 limits the ability of the District to raise real estate taxes
  - Limit is determined by an annual index – % increase – set by the Commonwealth
  - The % increase in millage rate cannot exceed annual index
  - WBASD gets slightly higher adjusted index based on relatively low taxable value
  - If a greater increase is needed District can:
    - Pursue a limited group of exceptions
    - Put the tax increase to a public referendum in a primary election
- WBASD's Act 1 index is assumed to increase 3.4 percent in 2016-2017 and 2.7 percent from 2017-2018 through 2020-2021 (see next page)
- Act 1 specifically provides for an exemption from the limit to millage increase for “electoral debt”
  - Electoral debt is funded by a millage rate approved by a public referendum to fund a specific building project
  - The millage approved by electoral debt is excluded from the calculation of the % increase in millage going forward
  - Once electoral debt is paid off the related millage must be eliminated from the District's taxes

# Projection of Act 1 Index Millage Limits

- Five year history of Act 1 index increases for Wilkes Barre Area School District

	<u>Base Index</u>	<u>WBASD Adjusted Index</u>
2016-17	2.4%	3.4%
2015-16	1.9%	2.7%
2014-15	2.1%	2.9%
2013-14	1.7%	2.4%
<u>2012-13</u>	<u>1.7%</u>	<u>2.4%</u>
Average	1.96%	2.76%

- Projection of Act 1 index millage rate limits after 2016-17 based on five year average index

Budget Year	Index	Maximum Millage Increase	Total Mills	Estimated Additional Collected Revenue
2015-16	2.70%	0.4385	16.2995	\$1,227,800
2016-17	3.40%	0.5541	16.8537	\$1,551,480
2017-18	2.76%	0.4652	17.3188	\$1,302,560
2018-19	2.76%	0.4780	17.7968	\$1,338,400
2019-20	2.76%	0.4912	18.2880	\$1,375,360
2020-21	2.76%	0.5047	18.7927	\$1,413,160

- Assumes no reassessment
- Assumes value of mill continues at a constant amount of \$2.8 million

# Alternative Revenues – Local Options

- Given budget pressures, the District may wish to revisit local revenue options previously tried, or try new ones
- Payments in Lieu of Taxes (PILOTs):
  - PILOT from Mohegan Sun expiring, in renegotiation
  - City of Wilkes-Barre has received significant PILOT payments
  - Recent County Financial Plan estimated that if Luzerne phased in contributions of 10 percent of the property tax value of the largest medical-related facilities and educational institutions, receipts would ultimately reach \$200,000 per year
- Option to shift from OPT/EIT to all EIT previously rejected by voters but could offer some growth in revenue
- Potential revenue from audit of Wilkes-Barre City/Township Business Privilege Tax (BPT)
- Revenue from these options is not included in projections

# Alternative Revenues – Federal

- WBASD assumed flat Federal revenues
- Substantial increases in Federal aid don't seem likely
- Generally Federal revenues are directly offset by program expenses, so no net gain to District

Federal Revenues	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
0% growth	\$4,828,500	\$4,828,500	\$4,828,500	\$4,828,500	\$4,828,500	\$4,828,500



# Baseline Revenue Projection from WBASD

- Baseline revenues: District's projection

Baseline Revenues	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
Local Revenue	\$58,557,100	\$59,702,983	\$60,879,804	\$62,088,400	\$63,329,628	\$64,604,369
State Revenue	\$45,418,518	\$46,690,418	\$46,961,865	\$47,236,231	\$47,431,790	\$47,370,495
Federal Revenue	\$4,828,500	\$4,828,500	\$4,828,500	\$4,828,500	\$4,828,500	\$4,828,500
<b>Total Revenue</b>	<b>\$108,804,118</b>	<b>\$111,221,901</b>	<b>\$112,670,169</b>	<b>\$114,153,131</b>	<b>\$115,589,918</b>	<b>\$116,803,364</b>

# Alternative Baseline Revenue Projection (PFM)

Revenues - Scenario 1	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
Local Revenue	\$58,557,100	\$58,557,100	\$58,557,100	\$58,557,100	\$58,557,100	\$58,557,100
State Revenue	\$45,418,518	\$47,397,548	\$49,030,127	\$50,476,217	\$51,867,607	\$52,772,854
Federal Revenue	\$4,828,500	\$4,828,500	\$4,828,500	\$4,828,500	\$4,828,500	\$4,828,500
<b>Total Revenue</b>	<b>\$108,804,118</b>	<b>\$110,783,148</b>	<b>\$112,415,727</b>	<b>\$113,861,817</b>	<b>\$115,253,207</b>	<b>\$116,158,454</b>

Revenues - Scenario 2	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
Local Revenue	\$58,557,100	\$58,557,100	\$58,557,100	\$58,557,100	\$58,557,100	\$58,557,100
State Revenue	\$45,418,518	\$48,113,382	\$50,504,744	\$52,754,571	\$54,996,744	\$56,801,997
Federal Revenue	\$4,828,500	\$4,828,500	\$4,828,500	\$4,828,500	\$4,828,500	\$4,828,500
<b>Total Revenue</b>	<b>\$108,804,118</b>	<b>\$111,498,982</b>	<b>\$113,890,344</b>	<b>\$116,140,171</b>	<b>\$118,382,344</b>	<b>\$120,187,597</b>

## Revenue Assumptions – Scenario 1

- No real estate tax millage increase, no assessment change
- State revenue increases at average rate of 2%
- Federal revenue remains flat at 2015-16 levels

## Revenue Assumptions – Scenario 2

- No real estate tax millage increase, no assessment change
- State revenue increases at average rate of 4%
- Federal revenue remains flat at 2015-16 levels

# Alternative Expenditure Assumptions – Personnel and Benefits

- Revised projection of \$1.0 million annual increase in salaries and growth in related benefits (after \$1.25 million in 2017-2018 from salary/benefit increases in the last year of existing custodial/maintenance/cafeteria employee and teacher contracts)
- Adjusted PSERS (pension contribution) rates from 2016-17 through 2020-21 to match projections from the Commonwealth
- Assumed a 6.0 percent increase in health care costs, per local experience

Personnel Expenditures	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
Salaries	\$51,818,850	\$53,068,850	\$54,068,850	\$55,068,850	\$56,068,850	\$57,068,850
Social Security	\$3,947,775	\$4,043,400	\$4,119,592	\$4,195,783	\$4,271,975	\$4,348,166
Retirement	\$13,235,200	\$15,756,685	\$17,128,112	\$18,144,596	\$18,959,095	\$18,907,904
Insurance*	\$14,138,630	\$14,961,383	\$15,833,502	\$16,757,948	\$17,737,860	\$18,776,568
<b>Total</b>	<b>\$83,140,455</b>	<b>\$87,830,319</b>	<b>\$91,150,056</b>	<b>\$94,137,177</b>	<b>\$97,037,780</b>	<b>\$99,101,489</b>

\*Includes health insurance, retiree health insurance, life insurance, unemployment, and workers compensation. Assumes a 6.0 percent annual increase in health insurance and retiree health insurance and a level amount of \$426,072 for life insurance, unemployment, and workers compensation, based on an average those costs from 2012-13 through 2014-15. Average percent increase overall approximately 5.8 percent.

# Alternative Expenditure Assumptions – Debt Service

- The District’s existing debt service will be completely paid off by 2022
- The District also has a low debt service burden compared to its peers
- However, significant new borrowing for rehabilitation/new construction is needed

WBASD Current Debt Service Projection*	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
No add'l construction	\$2,903,600	\$3,832,588	\$3,592,708	\$3,562,500	\$3,551,625	\$3,553,875

\*Does not include repayment of \$9.5 million in temporary borrowing for renovations to Mackin; assumes long-term repayment of this amount will be included as part of a larger borrowing

# Alternative Expenditures Assumptions – Other

- Other Expenditures?
  - Enhanced costs for temporary/modular
  - Transportation costs with new school configuration
  - Information technology strategy
  - Charter school dynamic/cost model
  - Enrollment trends

# Baseline Expenditure Projection from WBASD

- Baseline expenditures: District's projection

Baseline Exp.	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
Salaries	\$51,818,850	\$53,068,850	\$53,068,850	\$53,068,850	\$53,068,850	\$53,068,850
Benefits	\$31,321,605	\$33,954,539	\$34,448,079	\$34,946,926	\$35,302,487	\$35,191,043
Purchased Services	\$24,961,900	\$24,961,900	\$24,961,900	\$24,961,900	\$24,961,900	\$24,961,900
Other	\$3,593,300	\$3,593,300	\$3,593,300	\$3,593,300	\$3,593,300	\$3,593,300
Debt Service	\$2,903,600	\$3,832,588	\$3,592,708	\$3,562,500	\$3,551,625	\$3,553,875
<b>Total</b>	<b>\$114,599,255</b>	<b>\$119,411,177</b>	<b>\$119,664,837</b>	<b>\$120,133,476</b>	<b>\$120,478,162</b>	<b>\$120,368,968</b>

# Alternative Baseline Expenditure Projection (PFM)

Expenditures	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
Salaries*	\$51,818,850	\$53,068,850	\$54,068,850	\$55,068,850	\$56,068,850	\$57,068,850
Benefits*	\$31,321,605	\$34,761,469	\$37,081,208	\$39,068,327	\$40,968,930	\$42,032,639
Purchased Services (incl. charter school tuition)	\$24,961,900	\$25,461,138	\$25,970,361	\$26,489,768	\$27,019,563	\$27,559,955
Other**	\$3,593,300	\$3,664,186	\$3,736,490	\$3,810,240	\$3,885,464	\$3,962,194
Debt Service	\$2,903,600	\$3,832,588	\$3,592,708	\$3,562,500	\$3,551,625	\$3,553,875
<b>Total Expenditures</b>	<b>\$114,599,255</b>	<b>\$120,788,231</b>	<b>\$124,449,614</b>	<b>\$127,999,685</b>	<b>\$131,494,433</b>	<b>\$134,177,512</b>

#### Expenditure Assumptions

- Salaries and related benefits increase by \$1.0 million per year
- Health care costs increase at 6% per year
- Other expenses increase at current inflation rate 2%
- Current WBASD debt service

\*Includes additional \$1.25 million in salaries starting in 2016-2017 estimated by WBASD for the final year of the Custodial/Maintenance/Cafeteria and The Wilkes-Barre Area Educational Association contracts

\*\*0% growth estimated for Fund Transfers

# Alternative Expenditure Assumptions – Other Savings Options

- What Budget Savings Options Exist?
  - District's projected list of budget savings of \$3,571,638 has efficiencies from operating two rather than three high schools, including savings in:
    - Personnel
    - Athletics
    - Building operational costs
    - Transportation – partially offset by less reimbursement
  - Early retirement offer for staff
    - May also extend the offer to custodial maintenance and secretarial staff
  - Return special education students to the District from IU, possibly other out-of-district placements
    - Review charges by out-of-district providers
  - Other marginal savings across operational areas
    - Energy savings, copier contract, procurement consortia, competitive contracting
    - Many of these ideas may already have been implemented; compare costs with peer districts
- These savings are feasible – will they be approved and successfully implemented?



# Deficit Projections – Based on Alternative Assumptions

- WBASD must address an existing and growing structural deficit and projected negative fund balance; tax impact is significant if no other changes are made

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
Alternative Revenue Assumptions	\$108,804,118	\$110,783,148	\$112,415,727	\$113,861,817	\$115,253,207	\$116,158,454
Alternative Expense Assumptions*	\$114,599,255	\$120,788,231	\$124,449,614	\$127,999,685	\$131,494,433	\$134,177,512
Alternative Deficit Projection	(\$5,795,137)	(\$10,005,082)	(\$12,033,887)	(\$14,137,868)	(\$16,241,226)	(\$18,019,058)
Deficit as a % of Expenses*	5.1%	8.3%	9.7%	11.0%	12.4%	13.4%
Alternative Projected Ending Fund Balance	\$217,111	(\$9,787,971)	(\$21,821,859)	(\$35,959,727)	(\$52,200,953)	(\$70,220,010)
New Mills Needed to Eliminate Deficit	NA	3.84	0.78	0.81	0.81	0.68
Annual % Millage Increase	NA	23.6%	3.9%	3.9%	3.7%	3.0%
Total Mills	16.2995	20.1420	20.9212	21.7293	22.5371	23.2199

\*Expenditures projected based on 2% growth (Scenario 1)

# Financial Options

- WBASD must address an existing and growing structural deficit and projected negative fund balance; the tax impact is significant if no other changes are made
- Although this alternative projection is more conservative than the WBASD baseline projection, there are still potential threats
  - Size and timing of state aid
  - Actual salary and health care cost growth
  - Availability of federal aid
  - Charter tuition trend
- District's capital choices will add additional expenditures and require additional revenue beyond what is projected here



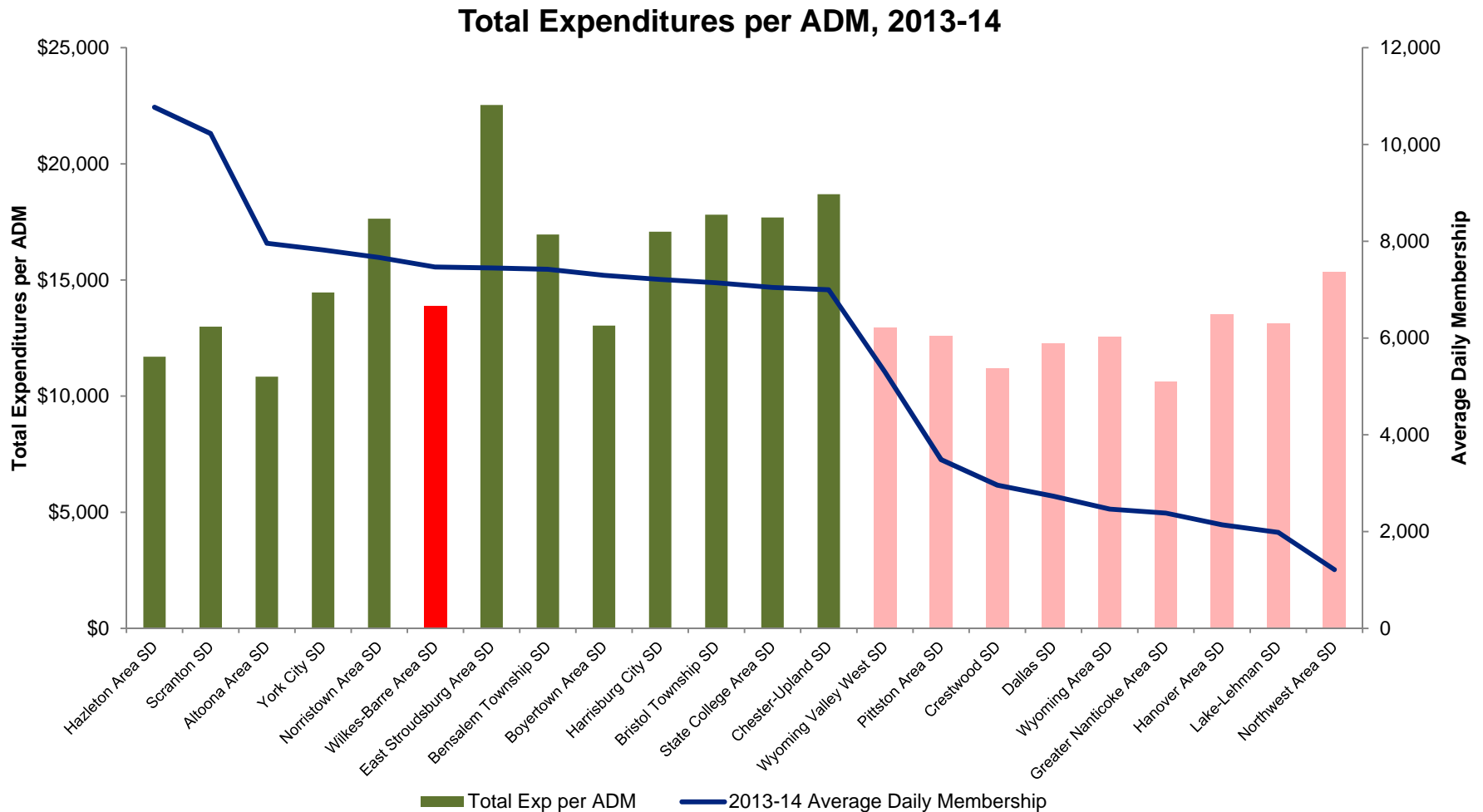
# Peer District Comparison

# Operations – Potential Savings

- Each school district in Pennsylvania has a slightly different structure and a different expenditure pattern
- However, comparing costs and other information to that of peer districts can provide ideas about where a district might look for savings, and where it is already competitive
- The following charts compare WBASD to other districts – both regional peers and those farther away that have similar enrollment – on a variety of measures
- The bar charts provide two views of expenditures per average daily membership (ADM): data by district and data by district ranked from high to low (line graph shows ADM read on the right vertical axis)
- The charts appear to indicate that while the WBASD has expenditures similar to districts statewide with similar enrollment, it is more expensive overall than most regional peers, and specifically in the area of instructional costs

# Comparison of Total Expenditures per Average Daily Membership (ADM)

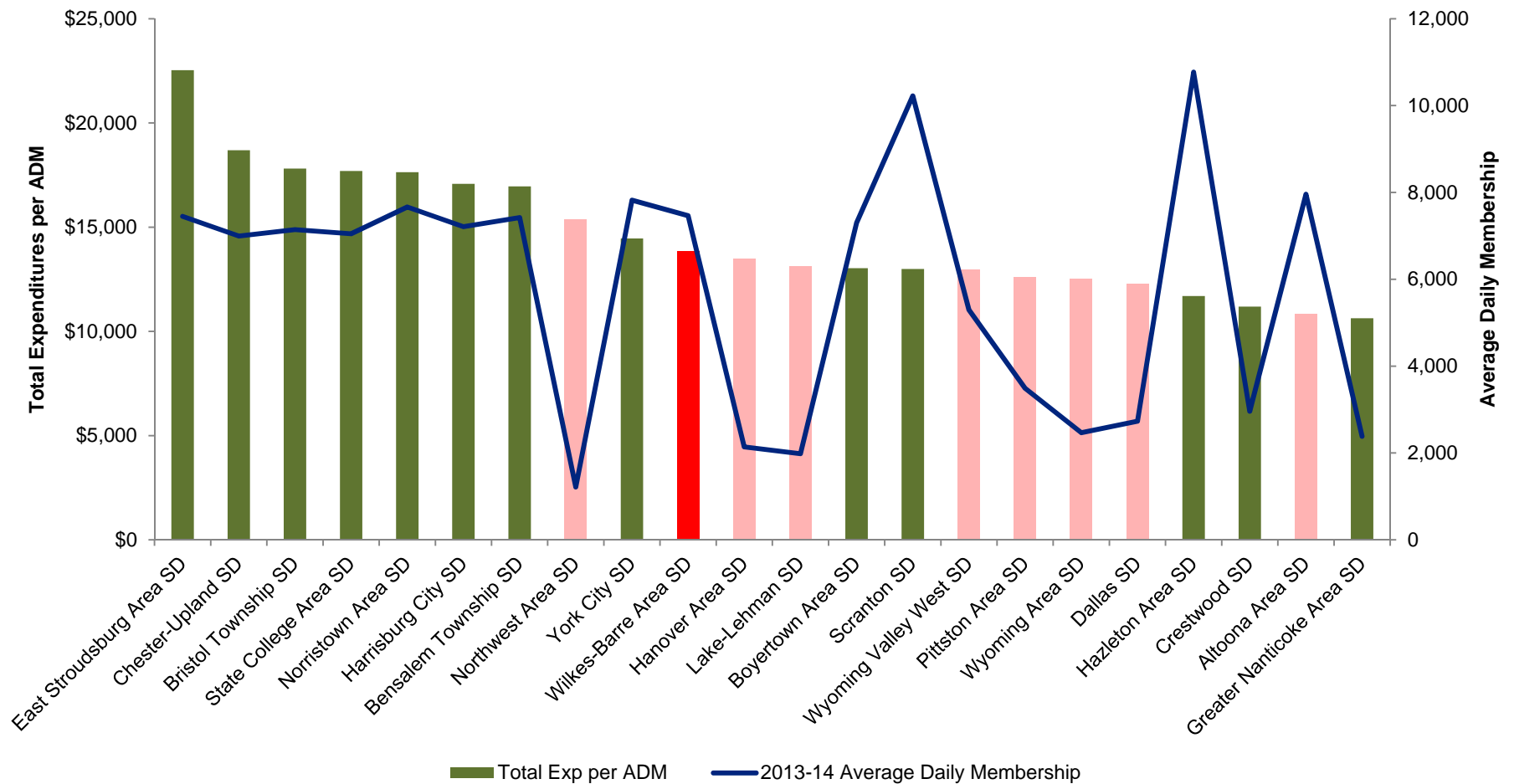
- In general, WBASD's total expenditures are slightly **lower** than similar sized districts



# Comparison of Total Expenditures per ADM

- In general, WBASD's total expenditures are slightly **higher** than regional peers

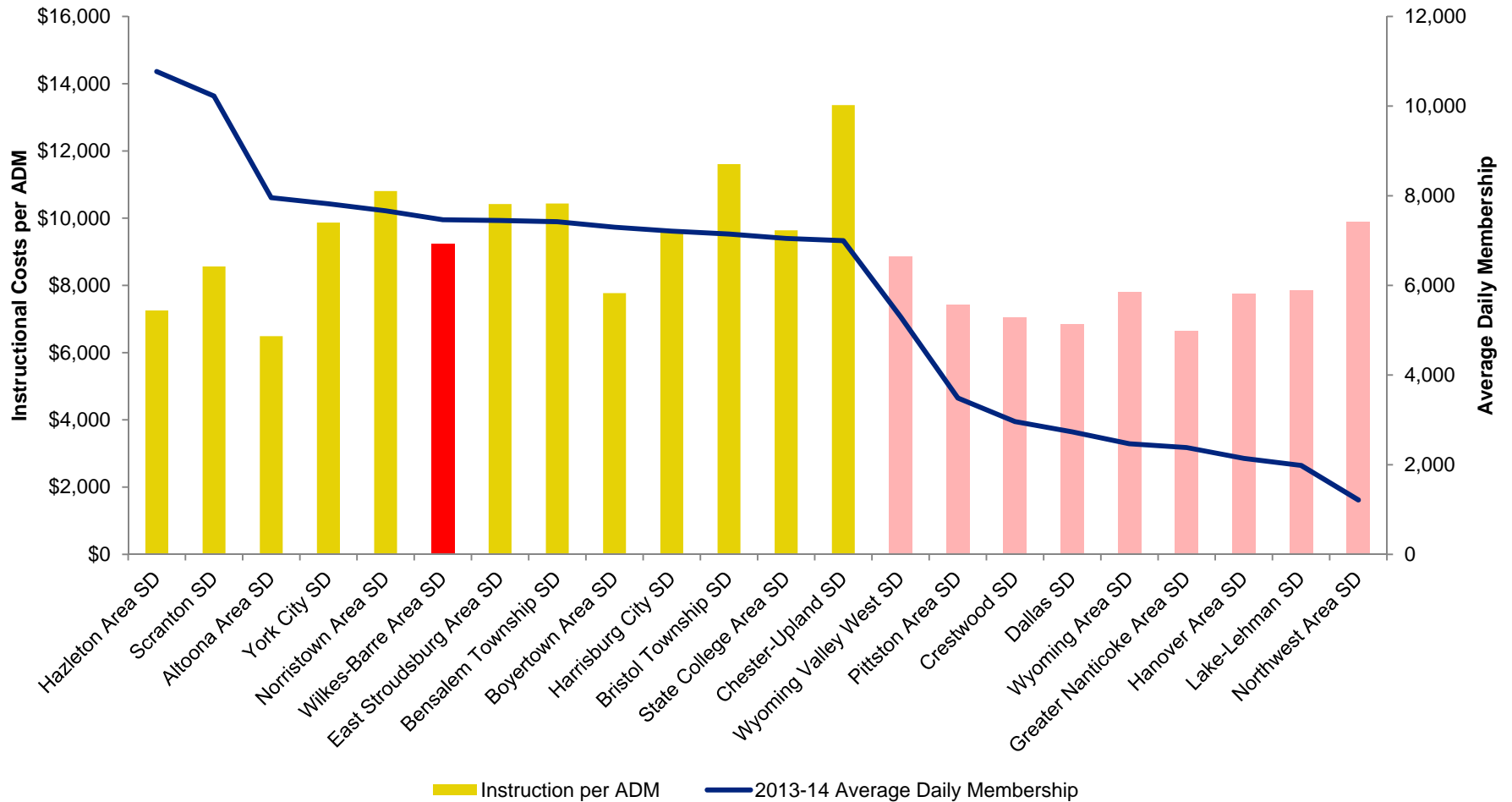
Total Expenditures per ADM (rank order), 2013-14



# Comparison of Instructional Expenditures per ADM

- WBASD's instructional expenditures are slightly **lower** than similar sized districts

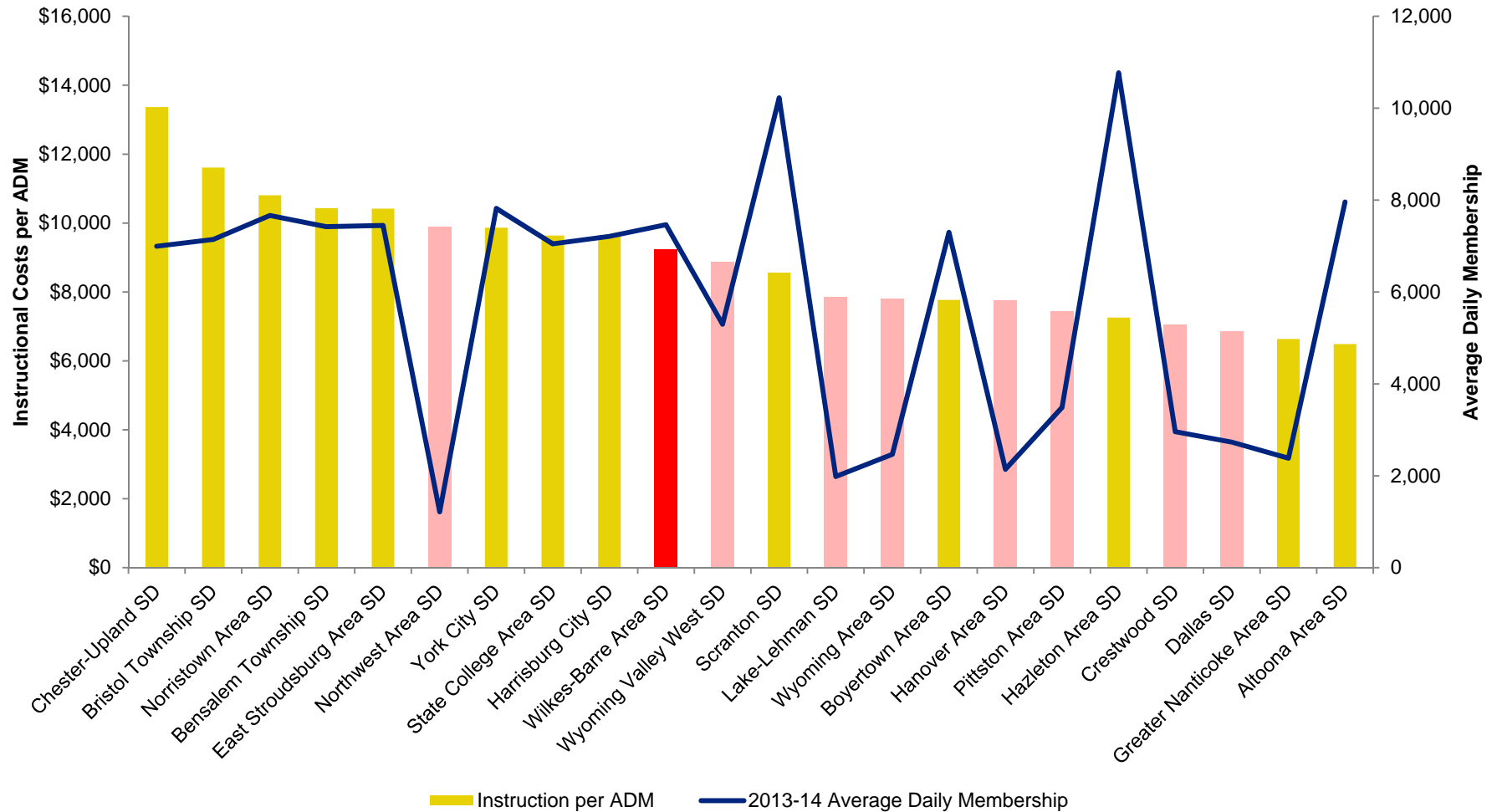
Instructional Costs per ADM, 2013-14



# Comparison of Instructional Expenditures per ADM

- WBASD's instructional expenditures are slightly **higher** than regional peers

Instructional Costs per ADM (rank order), 2013-14

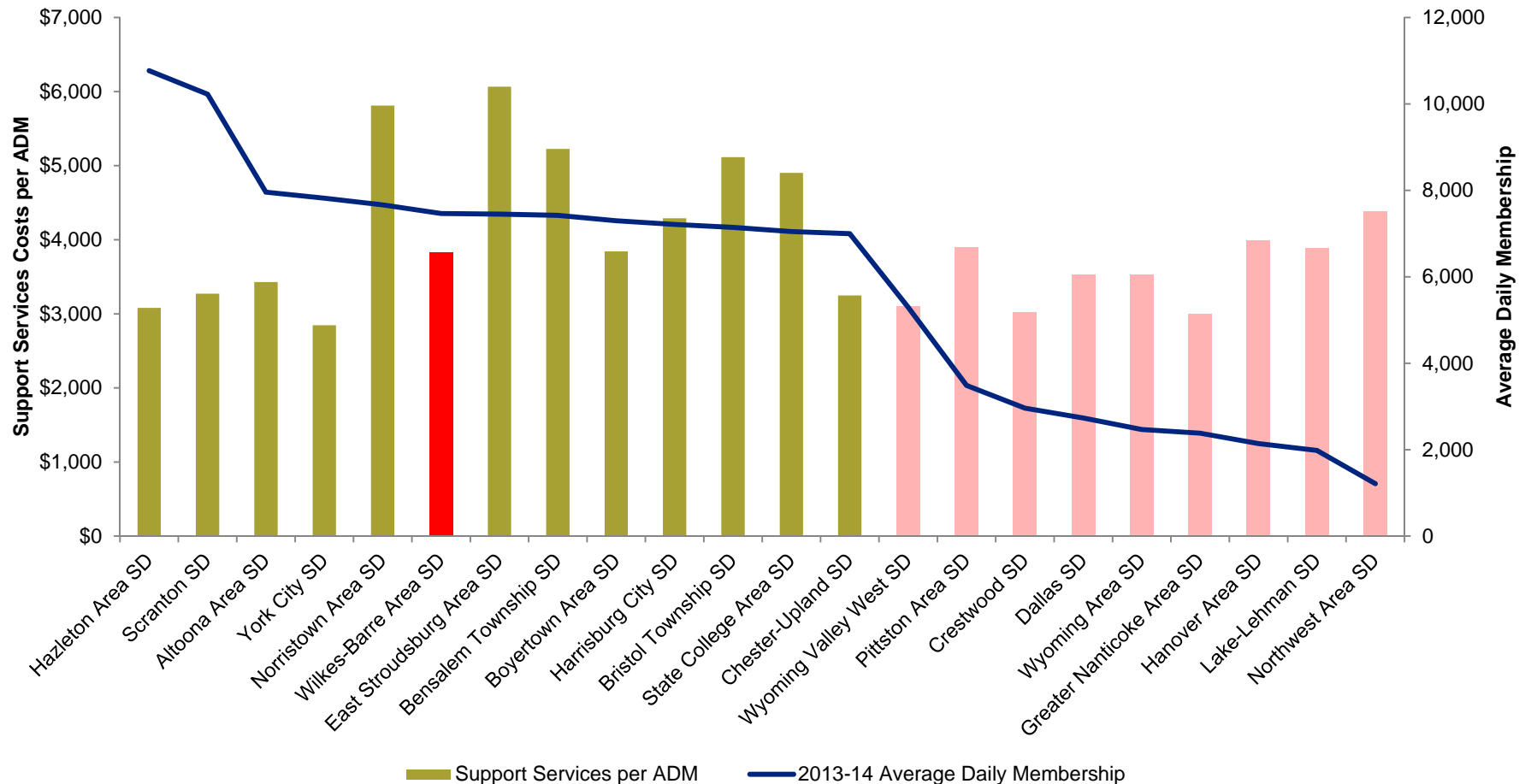




# Comparison of Support Service Expenditures per ADM

- WBASD's support services\* expenditures are slightly **lower** than similar sized districts

Support Services Costs per ADM, 2013-14

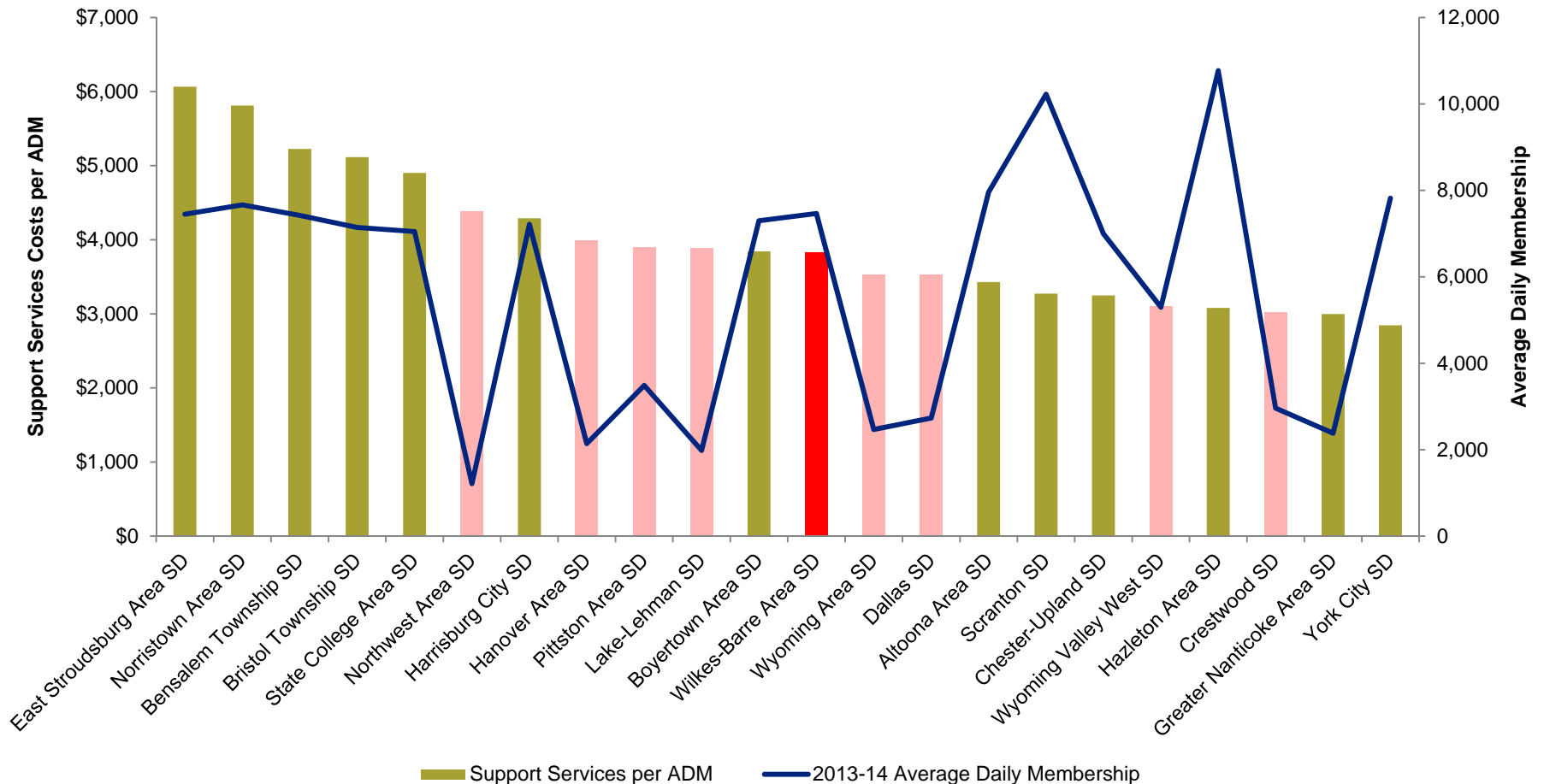


\*Support Services Expenditures include Instructional Support, Administration, Operations and Maintenance, Transportation, Business Services, and Other Non-Instructional Services

# Comparison of Support Service Expenditures per ADM

- WBASD's support services\* expenditures are **in line** with regional peers

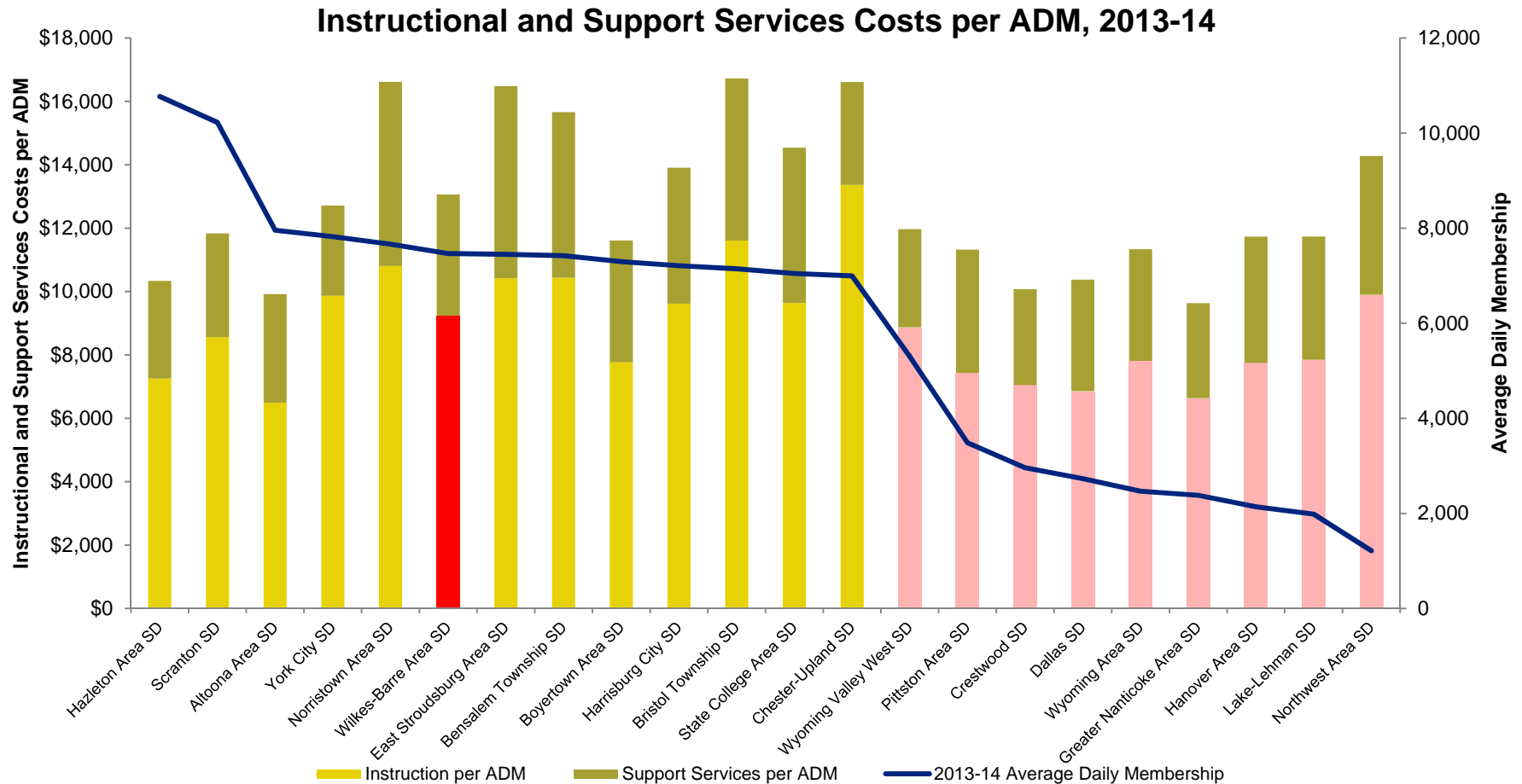
Support Services Costs per ADM (rank order), 2013-14



\*Support Services Expenditures include Instructional Support, Administration, Operations and Maintenance, Transportation, Business Services, and Other Non-Instructional Services

# Comparison of Instruction and Support Service Expenditures per ADM

- Looking at the combination of instructional expenditures and support services costs, in general, WBASD's costs are slightly **lower** than similar sized districts

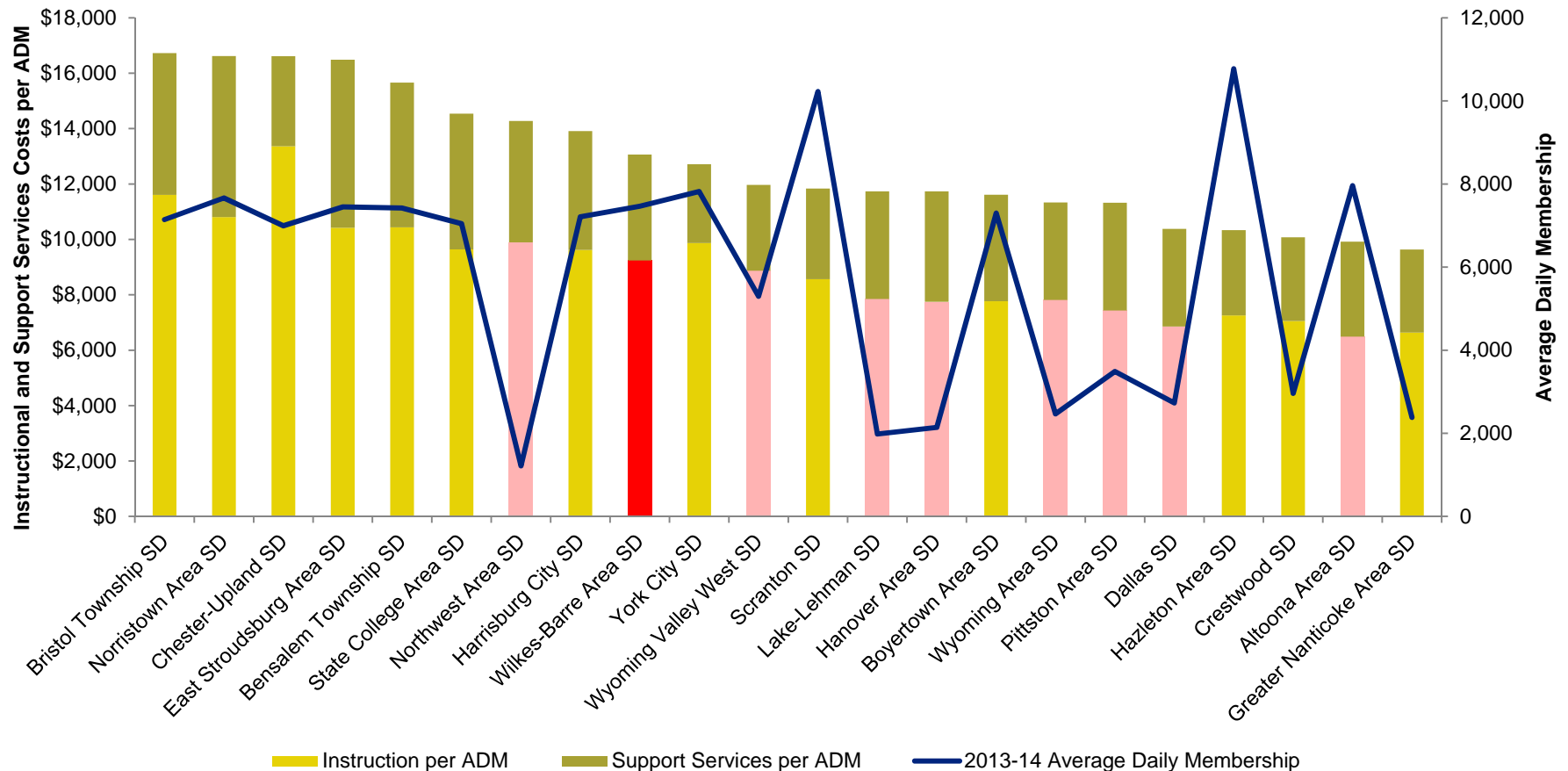


\*Support Service Expenditures include Instructional Support, Administration, Operations and Maintenance, Transportation, Business Services, and Other Non-Instructional Services

# Comparison of Instruction and Support Service Expenditures per ADM

- Looking at the combination of instructional expenditures and support services costs, in general, WBASD's costs are slightly higher than regional peers

Instructional and Support Services Costs per ADM, (rank order) 2013-14

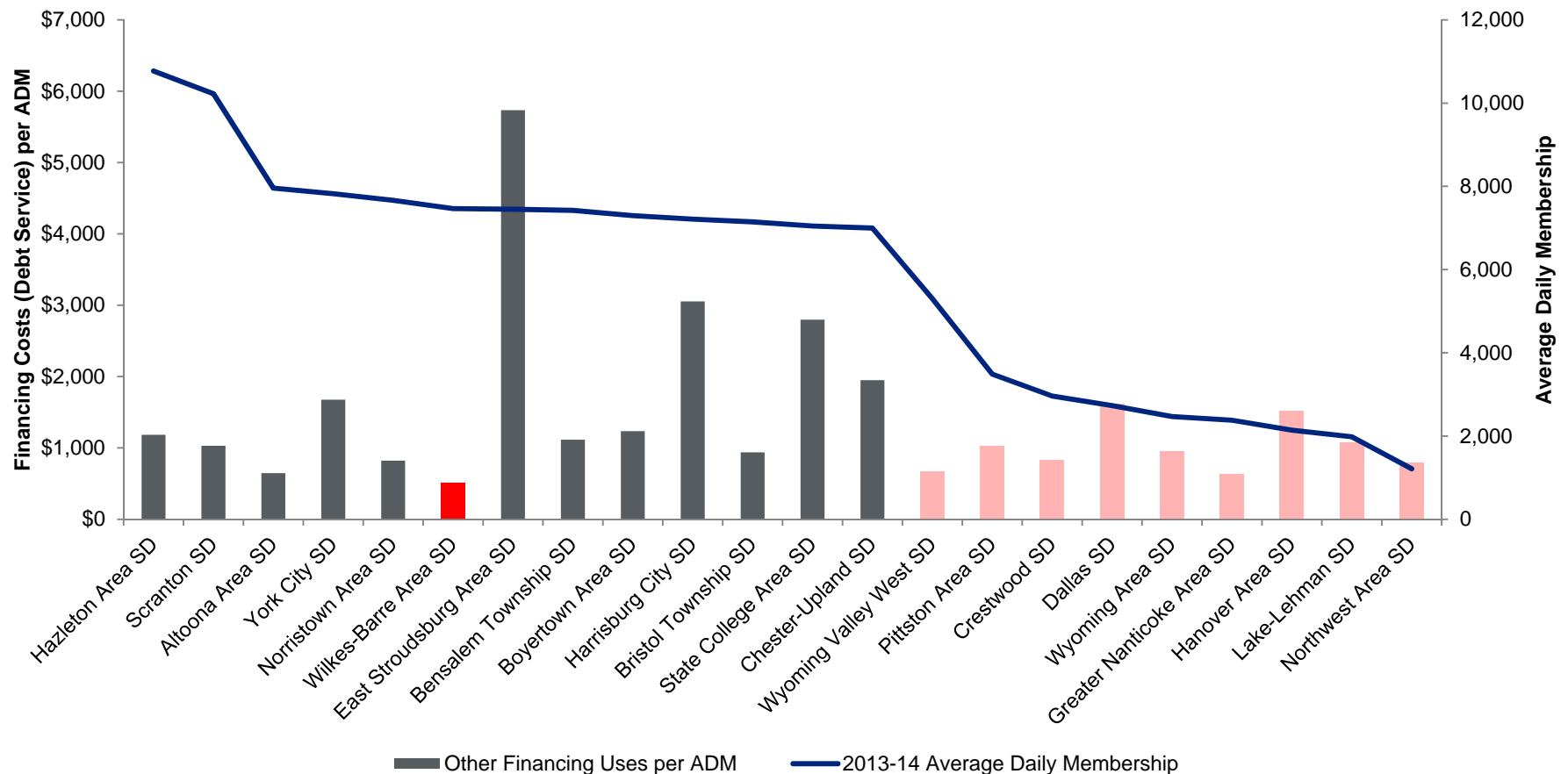


\*Support Service Expenditures include Instructional Support, Administration, Operations and Maintenance, Transportation, Business Services, and Other Non-Instructional Services

# Comparison of Financing Expenditures per ADM

- WBASD's debt service is lower than debt service expenditures for both regional peers and all other comparison districts

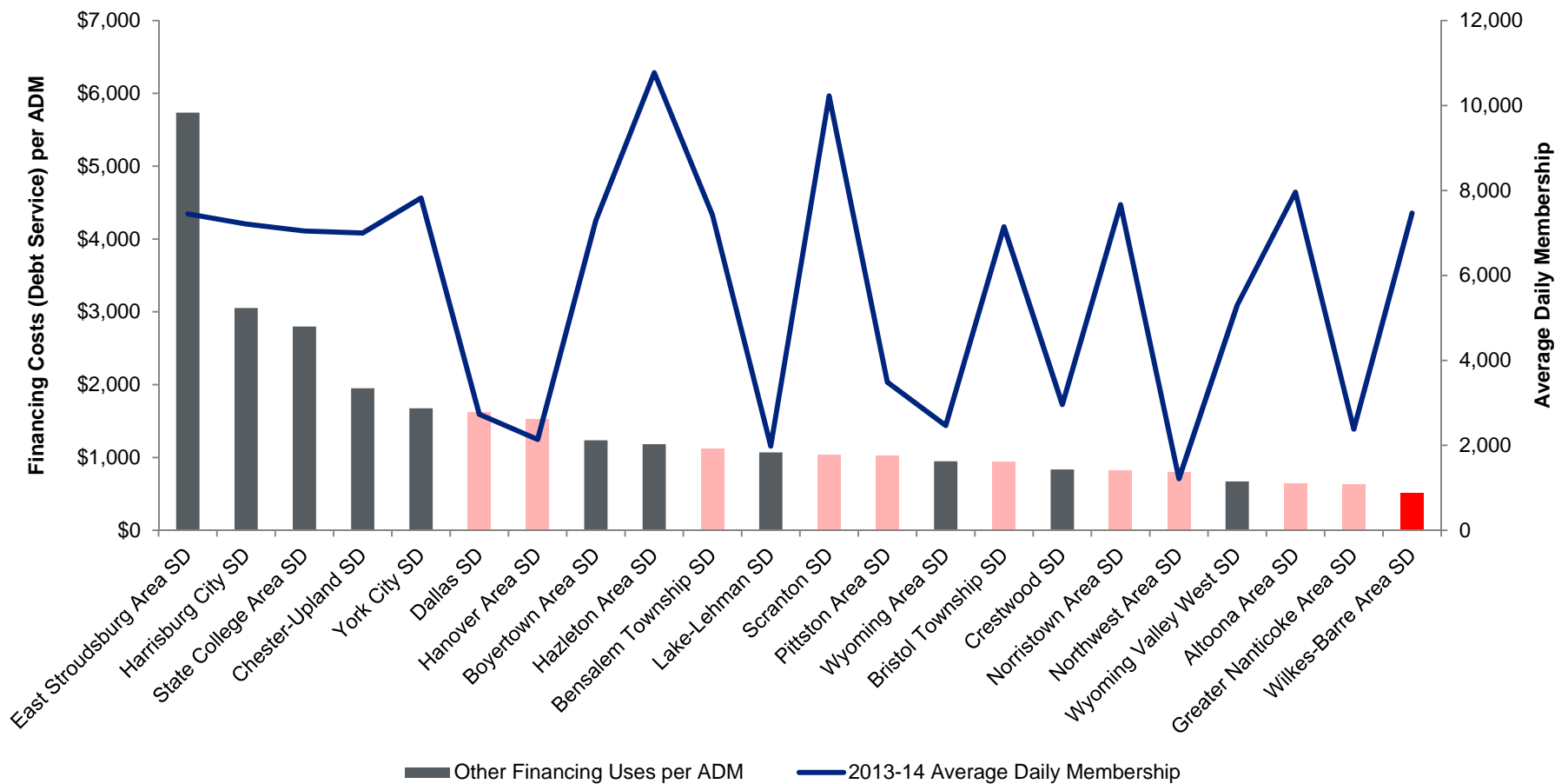
Financing Costs (Debt Service) per ADM, 2013-14



# Comparison of Financing Expenditures per ADM

- WBASD's debt service is lower than debt service expenditures for both regional peers and all other comparison districts

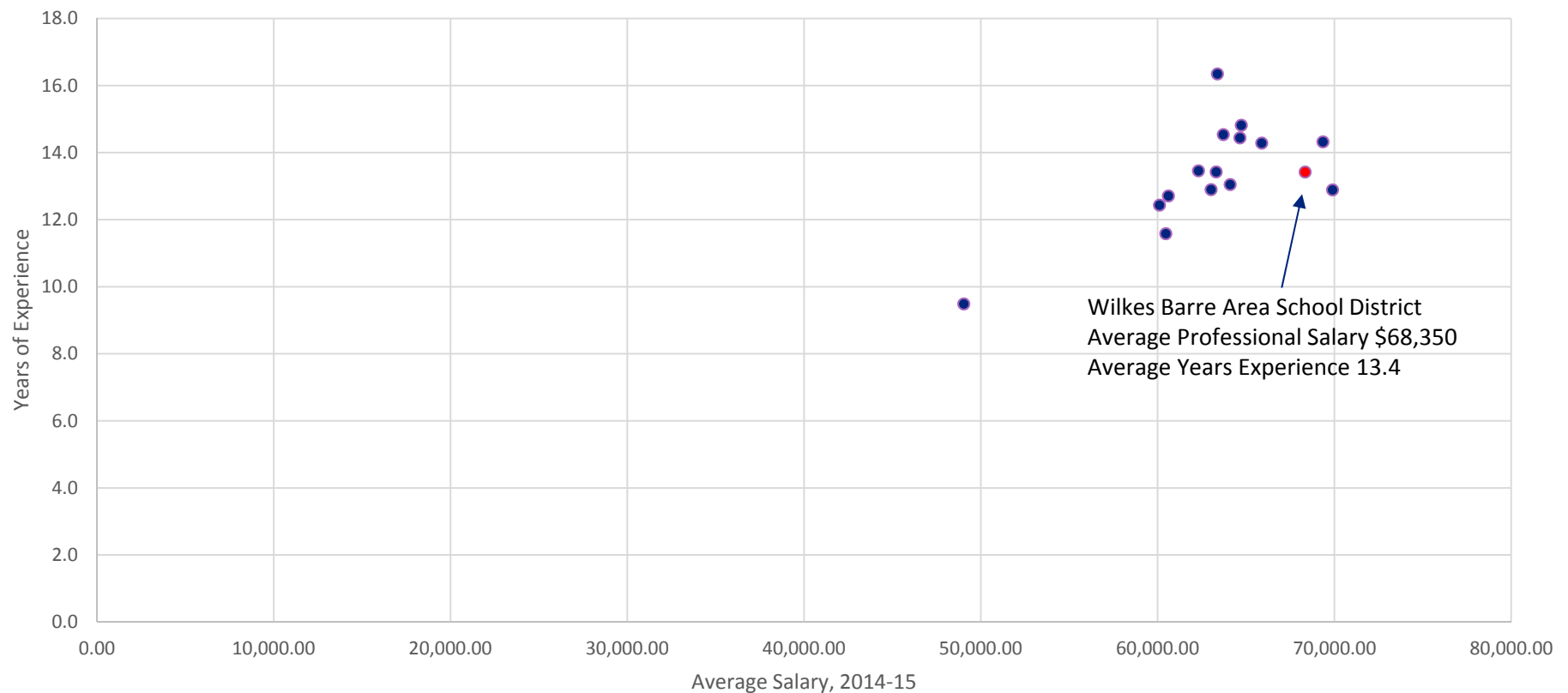
Financing Costs (Debt Service) per ADM (rank order), 2013-14



# Relationship Between Average Professional Salary and Years of Experience, Luzerne County Schools

- WBASD's average professional salary relative to years of experience is generally higher than average salaries in regional peer districts for comparable years experience

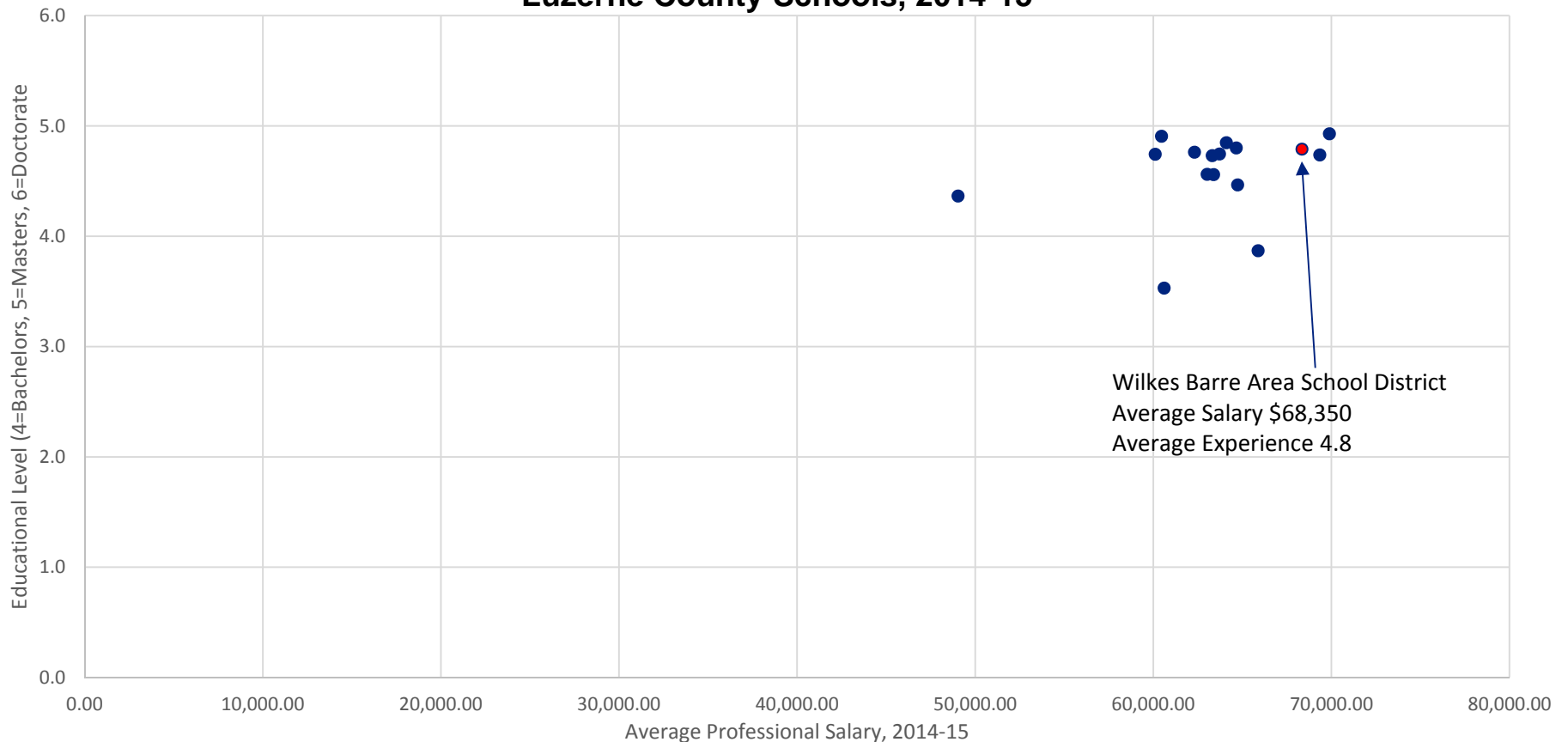
**Relationship Between Average Professional Salary and Years of Experience  
Luzerne County Schools, 2014-15**



# Relationship Between Average Professional Salaries and Education Level, Luzerne County School Districts

- Compared to regional peer districts, in general, WBASD average salaries are higher despite having a lesser concentration of staff with masters degrees or doctoral degrees

**Relationship Between Average Professional Salaries and Education Level  
Luzerne County Schools, 2014-15**

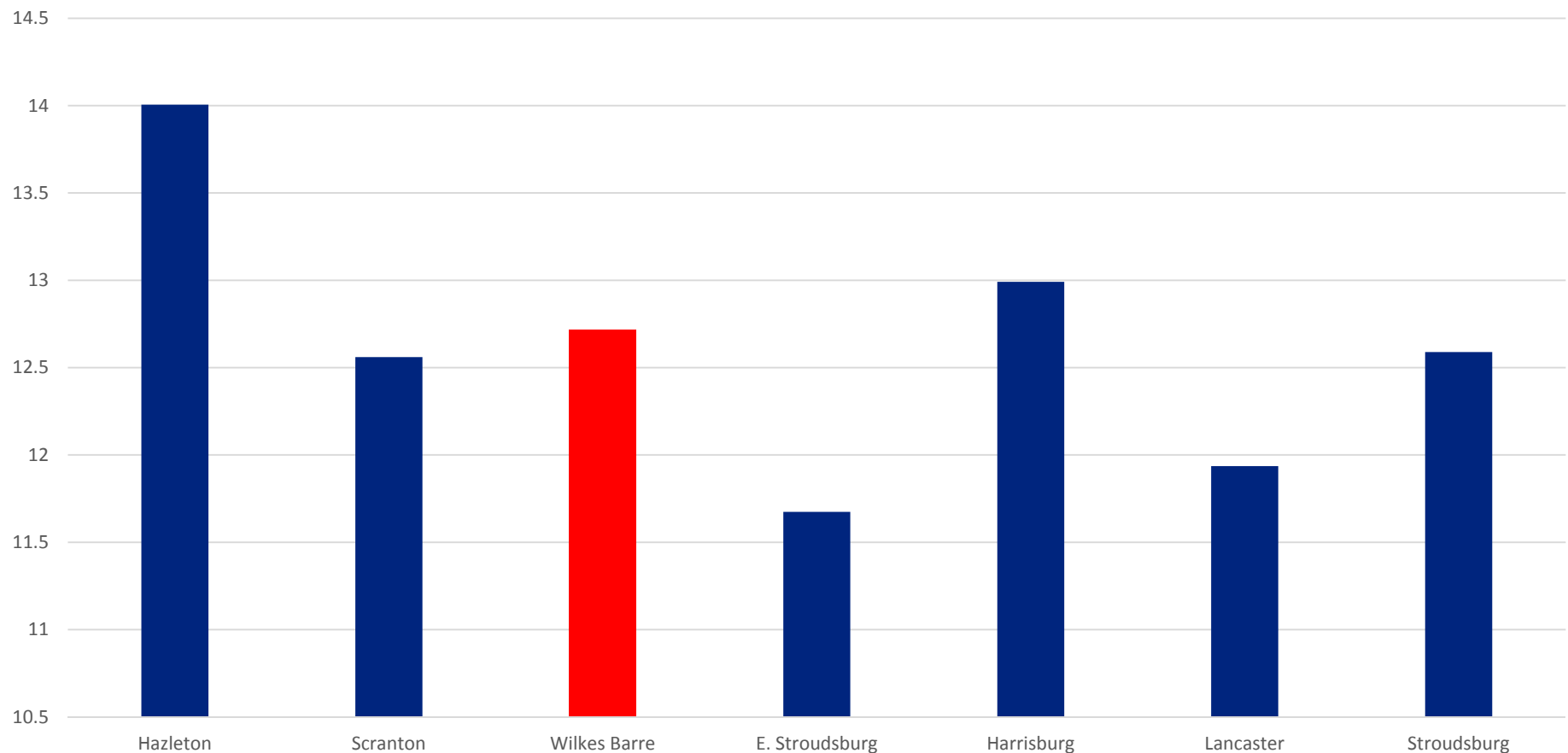




# Professional Staffing Ratio Average Daily Membership (ADM)/Professional Staff

- WBASD's professional staffing ratio relative to ADM is in line with comparable districts

**Professional Staffing Ratio  
Average Daily Membership/Professional Staff**



# Special Education Enrollment Comparisons

- WBASD's special education enrollment is higher than many of its peers but still in line with comparable districts

	Special Education %	Autism	Emotional Disturbance	Hearing Impairment	Intellectual Disability	Multiple Disabilities	Other Health Impairment	Specific Learning Disability	Speech or Language Impairment
State	15.6	9.9	8.5	1.0	6.6	1.1	13.2	43.3	15.4
Pittsburgh	17.6	10.9	12.9	1.1	13.5	1.1	11.5	30.4	16.8
Reading	17.1	9.8	9.3	0.8	7.9	1.4	16.9	48.5	4.4
Bristol Township	18.7	10.0	9.5	1.6	4.3	1.9	15.0	40.0	16.6
Coatesville Area	18.9	9.4	10.7	-	4.3	1.7	17.0	42.4	13.3
Oxford Area	15.3	7.8	7.3	-	3.2	-	13.5	55.2	11.3
Carlisle Area	15.3	15.7	9.5	-	6.6	-	12.0	27.8	26.9
Harrisburg	18.9	7.6	13.1	-	10.9	1.1	4.6	55.1	6.2
Chester-Upland	23.5	8.4	13.6	-	11.6	-	4.8	56.0	2.4
Southeast DELCO	19.5	10.3	17.5	-	5.9	1.7	9.7	40.8	12.7
William Penn	17.7	11.0	13.9	-	8.8	-	10.5	40.4	13.4
Erie	17.6	8.4	16.0	1.0	12.7	1.6	9.8	35.5	14.0
Chambersburg	11.7	12.1	9.0	1.2	8.5	3.2	8.8	36.8	19.3
Lancaster	18.0	7.3	6.9	0.8	8.6	1.5	11.5	40.9	22.0
Allentown	14.3	11.1	9.6	1.6	5.9	1.7	14.3	45.3	9.0
Wilkes-Barre	18.6	8.2	12.3	-	7.2	1.6	11.6	46.3	11.5
Hazleton	11.0	5.9	7.6	1.0	12.3	2.2	20.2	33.3	16.6
East Stroudsburg	17.4	8.6	7.9	-	5.9	1.8	20.7	43.0	10.9
Pleasant Valley	15.8	11.0	6.3	-	5.6	1.4	18.0	38.7	18.0
Pocono Mountain	21.3	7.9	5.9	-	4.6	0.8	16.4	49.7	13.8
Stroudsburg Area	14.8	15.3	5.7	-	3.8	-	23.6	34.7	14.1
Bethlehem Area	17.3	8.3	3.9	0.8	4.4	1.3	16.0	52.9	11.9
Philadelphia	13.8	11.8	9.8	1.6	12.8	0.8	9.6	45.5	6.7
York	20.9	3.3	14.4	2.5	10.5	0.9	-	55.2	11.9

Source: PennData; Note: Instances of traumatic brain injury and visual impairment not shown in table so percentages do not add up to 100%



# Capital Plan Options

# Current District Configuration

- Current District configuration
  - Four K-6 buildings
    - Dodson Elementary
    - Flood Elementary
    - Heights-Murray Elementary
    - Kistler Elementary
  - One K-8 elementary school/middle school
    - Solomon-Plains Elementary
  - Two 7-12 junior-senior high schools
    - G.A.R. Jr./Sr. High School
    - Meyers Jr./Sr. High School
  - One 9-12 high school
    - Coughlin High School
- The current structure creates a delivery system that is not unified for students in grades 7-8, which affects curriculum and staffing

# Future District Configuration

- The current District educational configuration is driven by the available buildings, rather than academic priorities
- The need for significant physical work on the high schools creates an opportunity to revise the grade configuration to optimize academic performance

# Need to Update/Replace High Schools

- The District has invested substantial time and funds in a detailed analysis of the three current high school buildings
- In particular, a unique partnership of four of Luzerne County's most prominent school architectural and engineering firms collaborated on an thorough review of the current condition of the three high schools, the cost of rehabilitating them, and the potential cost of multiple other high school configurations
- While there has been much public comment and debate on the different options, the work of the four firms provides a reliable range of costs for new or rehabilitated high school buildings
- This analysis focuses on the financial choices forced on the District by the likely cost of any high school option

# Capital Needs – High Schools (Option 1)

High School	Grades	Enrollment*	Capital Costs for Renovations*
Coughlin High School	9-12	961	\$83,200,000
Meyers Jr./Sr. High School	7-12	893	\$113,500,000
G.A.R. Jr./Sr. High School	7-12	828	\$39,000,000
<b>Total</b>			<b>\$235,700,000</b>

\*Enrollment and capital costs from WBASD Feasibility Study, December 2014

# Financial Comparison of Feasibility Study Options

Option	Option Description	Low Range (\$000)	High Range (\$000)
Option 2	2 New High Schools at New Sites	\$166,493	\$175,432
Option 3	1 Consolidated High School	\$141,498	\$147,650
Option 4	2 New Neighborhood High Schools at Existing Sites	\$156,067	\$156,067
Option 5	Retain 3 High Schools at Existing Sites	\$152,694	\$152,694



# Additional Potential Capital Costs

- In addition to construction and possibly acquisition costs for new high school(s), the 2014 Feasibility Study (section 6.4) identified \$67.5 million in capital costs necessary to renovate existing schools/District buildings to comply with code:

Solomon-Plains K-8	\$ 4,300,000
Flood Elementary	\$12,700,000
Dodson Elementary	\$ 8,800,000
Kistler Elementary	\$25,000,000
Murray Elementary	\$17,300,000
Mackin School	\$ 9,242,000
Administration Building	\$ 4,540,000
Maintenance Building	\$ 4,300,000
<u>Former Plains Junior High</u>	<u>\$11,316,000</u>
Total	\$67,498,000

# The Challenge

- How can the District assume the debt service for approximately \$100-150 million in necessary capital borrowing for high school(s), and also address the structural annual operating structural deficit?
- How should other long-term capital needs be addressed?
- Can the need to address the high school buildings be used as an opportunity to better configure all buildings to meet student needs and educational goals?

# Financing Options

- Laws and regulations governing school construction and finance vary nationally
- Pennsylvania laws and regulations are restrictive – including requirements for competitive bidding, multiple contractors, prevailing wage
- Options like lease-leaseback, public private partnerships (P3), and design-build (DB) are untested in the construction of public schools *in Pennsylvania*
  - Legal challenges, delays and related expenses could be anticipated if “non-traditional” financing is used, simply due to lack of precedent and challenge to the *status quo*
- Research indicates that the value created by alternative finance and construction methods results more from expediting projects than lowering costs
- Waiving state reimbursement through the PLANCON process may give the best chance to expand construction options, but savings from an alternative approach would have to exceed the amount of the lost state reimbursement
- Many alternative approaches to school construction merely shift how construction funds are repaid (i.e. an annual lease payment rather than debt service), but do not substantially change the total amount paid over the life of the project
- There is no free lunch – the District will have to fund the full cost of high school repair/construction in one form or another, possibly less some PlanCon (estimated at 25% of debt service cost)
  - Tax exempt bond rates remain at historic lows
  - Various grants may be available to help offset some construction costs based on factors like energy efficiency in design and construction
    - For example: High Performance Building Projects have received \$2 million in state grants

# WBASD Debt Overview/ PFM Debt Projection Assumptions

- As of December 11, 2014:
  - Borrowing limit = \$220,313,728
  - Debt outstanding = \$22,425,000
  - Borrowing capacity = \$197,888,728
- Debt estimates based on:
  - \$100 million in borrowing
  - \$150 million in borrowing
- Borrowing assumptions:
  - PlanCon Reimbursement
  - December 10, 2015 MMD scale + 175 bps
  - 25 percent PE (state reimbursement factor)
  - \$9.5 million line of credit (Mackin) is refinanced/permanently financed as a component of 2017 borrowing
  - Financing is completed in three steps; costs of issuance are a component of project cost
  - 1 mill = \$2,800,000
  - Totals shown are for local effort after capitalizing interest

# Debt Service Projections

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
WBASD Existing Debt Service Projection	\$2,903,600	\$3,832,588	\$3,592,708	\$3,562,500	\$3,551,625	\$3,553,875
Revised Debt Service (PFM projection w/ \$100 million new money)	\$2,682,662	\$3,553,169	\$4,414,256	\$5,337,573	\$6,196,844	6,186,968
Revised Debt Service (PFM projection w/ \$150 million new money)	\$2,682,662	\$3,553,169	\$5,217,388	\$6,972,958	\$8,909,057	\$8,913,970

All scenarios assume PLANCON reimbursement

# Debt Service Impact on Fund Balance

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Cumulative Fund Balance (WBASD Projection from p. 7)*	\$217,111	(\$7,972,165)	(\$14,966,833)	(\$20,947,178)	(\$25,835,422)	(\$29,401,026)
Alternative Cumulative Fund Balance (PFM Projection from p. 27)*	\$217,111	(\$9,787,971)	(\$21,821,859)	(\$35,959,727)	(\$52,200,953)	(\$70,220,010)
Alternative Cumulative Fund Balance with \$100 million Additional Debt Service**	\$438,049	(\$9,287,614)	(\$22,143,050)	(\$38,055,991)	(\$56,942,436)	(\$77,594,586)
Alternative Cumulative Fund Balance with \$150 million Additional Debt Service**	\$438,049	(\$9,287,614)	(\$22,946,182)	(\$40,494,508)	(\$62,093,166)	(\$85,472,318)

\*Does not include debt service for additional construction

\*\*Based on Alternative Projected Fund Balance and PFM Debt Service Projections

All scenarios assume PLANCON reimbursement



# Educational Approach

# Educational Approach

- The District's educational goals should drive building configuration
  - The current system in WBASD offers a variety of configurations in several schools and leads to a number of challenges that could be minimized through a standard delivery system across the District
- Research shows that students perform better and achieve at higher levels when they are exposed to a well-planned and well-orchestrated configuration of schools with a consistent continuum from kindergarten through grade 12
  - The best way to improve academic achievement in urban schools is a consistent delivery system with a standards-aligned curriculum
  - Every effort should be made to minimize student transitions and assure continuity throughout the system



# District Configuration Recommendations

- The following initiatives could help eliminate a significant number of these challenges:
  - K-8 Model
  - Small Learning Communities (SLCs)
  - Block Scheduling
- One practical model for WBASD is a series of K-8 schools feeding into high school(s) divided into thematic smaller schools (small learning communities, or SLCs)

# District Configuration Recommendations

- K-8 Model
  - A growing body of research shows K-8 schools to be effective in improving student achievement in the middle grades, particularly in urban settings
  - Achievement in urban U.S. schools begins to drop in middle school and many educators view the urban middle school as an environment in which little is expected of students, either academically or behaviorally

# Benefits/Challenges of K-8 Schools

- Benefits
  - Students in K-8 schools typically show higher self-esteem, less victimization by other students, greater levels of participation in extracurricular activities and healthy adolescent development
  - Typically, parent involvement is greater because parents remain connected to one school longer
  - By eliminating the transition from elementary to middle school, students do not have to become acquainted with a new building and the pecking order does not have to be re-established
  - Frequently, there is a significant decrease in behavior issues with students in the 7<sup>th</sup> and 8<sup>th</sup> grades
- Challenges
  - The need for physical adaptations in the building. Example: establishing a computer lab for older students
  - Adding lockers for older students
  - Modifying bathrooms to accommodate older students

# Other Potential Benefits of the K-8 Model

- Financial/Staffing Perspective
  - It is easier to fill vacancies in the middle grades of a K-8 school than in a middle school
  - There may be an opportunity to reduce staff
  - Busing routes could be minimized
  - To some degree there would be a need to re-define attendance zones in order to even out the population in each school
- Academic Perspective
  - The District can develop a unified K-8 curriculum that will assure all students that funnel into the high school(s) will have the same preparation
    - This is of particular benefit to transient students who move school to school within the District
  - Professional development will be less fragmented as there can be a better understanding of individual students and more continuity of instruction from grade level to grade level

# Small Learning Communities (SLCs)

- Small Learning Communities (SLCs)
  - This concept, sometimes referred to as schools-within-a-school, offers the small personalized school option within a large building - the notion of breaking large high schools into smaller units has found favor as a way to increase personalization, relevance and rigor of coursework, and teacher collaboration
  - In recent years SLCs have been seen nationwide as one of the best practices - SLCs can include academies, schools-within-a-school, or career pathways, reflecting District preferences and providing more options for students
  - Some districts have made SLCs thematic based on the skills that local businesses feel students need to compete in the local and world-wide job markets
  - SLCs have been closely linked to higher graduation rates, higher attendance, lower behavior issues and the development of more positive relationships between students and staff
  - The SLC concept is particularly beneficial in urban settings and has been endorsed and sometimes funded by the Bill and Melinda Gates Foundation

# Small Learning Communities (SLCs) Continued

- How SLCs work:
  - Students at the K-8 or middle school level are exposed to the small learning community concept throughout their final year at those levels. This gives them an opportunity to think about their options and make a selection prior to their first year at the high school
  - Each SLC is based on a theme. Examples include: Health Care, Technology, Arts and Humanities, S.T.E.M. etc. The number of themes is at the District's discretion
  - Each SLC functions somewhat like a small school. Each has an SLC Facilitator, Secretary, Guidance Counselor, etc.
  - The building is divided so that the students co-mingle as little as possible except for lunch and possibly physical education
  - Each SLC offers the standard core courses of English, Science, Mathematics and Social Studies. The remainder of their day is focused on specialized classes devoted to the chosen theme
  - The periods can be block scheduled, standard scheduled or set up on a rotation at the discretion of each SLC provided they satisfy the number of instructional hours as determined by the Department of Education

# Benefits/Challenges of SLCs

- **Benefits**
  - Academic benefits: Smaller class sizes and interdisciplinary methods allow greater contact between student and teacher and students can be grouped based on areas of interest as opposed to just grade levels. In addition, because teachers in smaller schools tend to be more aware of student performance, student accountability is increased
  - Social Benefits: There is a greater sense of belonging. SLCs have been shown to enhance students' self-perceptions, both socially and academically
  - Attendance and graduation benefits: Attendance rates in the smaller schools are higher on average as are the graduation rates. Students come to school and graduate because they are studying subjects and pathways that they are interested in and have chosen
  - Safety and discipline benefits: There are fewer discipline issues due to stronger parental support and adult connections
  - Financial benefits: SLCs are more cost-effective because more students graduate on time
- **Challenges**
  - The selection process of which SLCs to offer
  - Without a focus and investment on teaching and learning, structural changes can actually inhibit teachers' motivation and ability to improve their instruction
  - Unless there is effective community outreach, students cannot make the needed connections to further explore their areas of interest

# Block Scheduling

- WBASD should work with the teachers to revisit block scheduling
  - A block schedule is a system for scheduling the high school day, typically replacing a more traditional schedule of six or seven 45 minute daily periods with longer class periods that meet fewer times each day and week
    - A typical block schedule class might last 90-120 minutes and meet every other day instead of daily
    - Another model enables students to take four 90 minute classes every day and finish a course in one semester rather than a full year
  - School by school variations in block-scheduling are numerous and can build in alternatives for more electives, enrichment and remedial classes



# Benefits/Challenges of Block Scheduling

- Benefits

- Ability to focus attention: Students and teachers are able to focus on fewer subjects and explore them in greater depth. Instructional time is not fragmented by frequent transitions between classes and fewer distinct classes means less time spent on classroom management activities. With a standard block program, teachers have only three to four classes in a semester, greatly reducing the number of students with whom they meet regularly. The flexibility of block scheduling can also help struggling students in math or reading every day for extended periods
- More course offerings: Students take more courses in a standard block plan because they enroll in eight classes per year instead of six or seven. This allows opportunity for internships or early entry into college
- Stronger interpersonal relationships: Teachers get to know students more personally. This extensive personal interaction between teacher and student, frequently touted as the highest motivation for student learning, is strengthened through block scheduling
- Achievement levels increase : Typically there are fewer failed classes, a higher number of students on the honor roll, an increase in grade point averages and fewer failing marks
- Teacher collaboration: There are longer time periods in which they can exchange ideas and strategies, hold meetings with each other, and work on staff development
- Improvement in discipline : There tends to be a decrease in the number and types of discipline issues. Decreasing the number of periods reduces the opportunities for disruption. There are less transitions and the student teacher relationship becomes stronger
- Additional funding unnecessary: Generally, block scheduling can be established in a school without spending any new money. Block scheduling should though be accompanied by the appropriate level of staff development

- Challenges

- Students may have trouble focusing for longer periods of time
- Students could end up with a half to full yearlong gap between courses
- Block scheduling often requires significant changes in the way lessons are structured and taught
- Professional development will be needed to train teachers in the ways to structure lessons for longer time periods and to help them feel more confident with the new format



# Recommended Next Steps

# Base Decisions on Educational Goals

- Configure schools to maximize student success
  - Consider a Districtwide K-8 model
  - Implement Small Learning Communities (SLCs) at the end of middle school and in high school
  - Revisit block scheduling
  - Allow education to drive structure/location of high school(s)
- Determine net costs (or cost savings) of the desired academic approach
  - Reasonable estimates produced relatively quickly are more valuable than perfect calculations available many months from now
  - Figures can be refined during the process
  - Estimated comparative operating cost figures for different school configurations are needed

# Draft a Financial Plan and Establish an Operational Savings Goal

- District Board should approve a comprehensive multi-year financial plan that takes into account operating and capital costs, and shows how the District will balance its budget through at least SY2020-21
- Dollars saved on operations provide additional resources for the capital costs related to desired educational options
- Multi-year financial plan should include consensus on areas where operational savings or revenue enhancements are acceptable and the District can successfully implement the necessary spending changes in a timely manner while meeting academic goals
- Quantify the acceptable and achievable savings/revenues and incorporate those figures into the financial projection
- This process will yield a remaining financial gap, consisting of the difference between the District's financial means and its aspiration for operating and capital spending

# Resolving the Gap

- The resulting gap can be filled by increasing taxes to pay the full cost of the desired approach, making additional operating cost changes, scaling back the amount of funds borrowed for school renovation/construction, or a combination of these options
- The District must have a balanced budget in the short- and long-term, and must offer a robust, effective academic program for ALL students – the question of how to achieve balance is one of community preference
- The Board should decide how much they are willing to spend, and how to fund the spending – less costly facilities, more taxes to fund more expensive facilities, modified operations or a combination
- Whatever options are chosen must also fit within the multi-year financial plan (i.e. the plan must be balanced through SY2020-21)



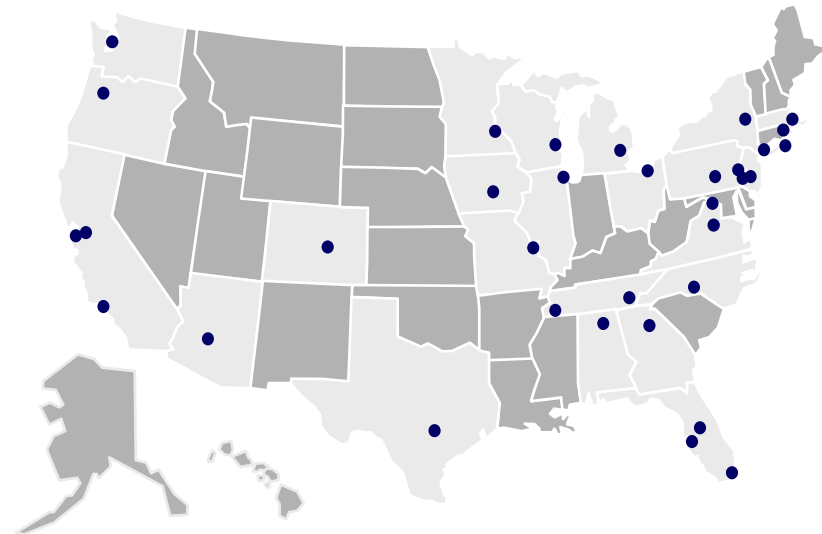
# Appendix

# PFM

- PFM was founded in 1975 on the principle of providing sound, independent financial advice to state and local government agencies. Today the PFM Group includes Public Financial Management, Inc. the nation's leading financial advisory firm, and PFM Asset Management, LLC, an SEC-registered investment advisor.
- PFM has supported Pennsylvania's Department of Education on a number of school finance issues, including:
  - Act 141 Recovery Support for the Chester Upland School District, Duquesne City School District, Harrisburg School District, and York City School District
  - Budget, finance, and facility evaluations for Pennsylvania cyber charter applications



PFM has 500 professionals in over 35 locations nationwide



# The PFM Team

**Dean Kaplan**  
Managing Director

- Head of PFM's K-12 consulting practice, lead on PFM projects for Pennsylvania Department of Education, Broward County (Florida) Schools, Minneapolis Public Schools
- Former budget director for City/County of Philadelphia
- B.A. Haverford College, M.P.A. Harvard University

**David Sallack**  
Managing Director

- Extensive schools consulting experience
- Expert witness in federal court on school district funding
- Former Director of Finance, Pennsylvania Department of Education, former Executive Director, Pennsylvania Association of School Business Officials
- B.A., M.P.A., Pennsylvania State University

**Robert Schoch**  
Subcontractor

- Extensive schools consulting experience in best practices/quality management
- Former Business Administrator of Lancaster, Reading, Penn Manor, Council Rock, and North Penn School Districts
- Founding Member of the Pennsylvania Association of School Business Administrators benchmarking committee
- B.A., Bard College, Masters in Planning, Cornell University, Masters of Education, Pennsylvania State University, Ph.D. in progress, Educational Leadership, Pennsylvania State University

**Drue Miles**  
Subcontractor

- Former Acting Superintendent of the Reading School District
- Former Assistant Superintendent of the Lancaster School District
- Participated in Pennsylvania Department of Education's Distinguished Educator Program
- B.S., York College, M.A., Millersville State University, M.A., Southern Connecticut State University, Ph.D. studies, Widener University