

SALISBURY TOWNSHIP SCHOOL DISTRICT

Building, Grounds, Transportation & Finance Subcommittee Meeting Administration Building, Monday, December 11, 2006

Board Members Present: Mrs. Feinberg, Mr. Gatanis, Mr. Giordano, Mrs. Heffelfinger,
Mr. Mantz, Mrs. Miller, Mr. Pauloski, Mr. Reinsmith, Mrs. Ziegler

Board Members Absent: None

Also Present: Mrs. Famularo, Dr. Wright

I. Call to Order

The meeting was called to order by Mr. Reinsmith at 7:14 p.m.

II. Budget

Dr. Wright welcomed Leza Raffel and Jodi Authur who are representatives of Communication Solution Group. The Communication Solution Group is providing the district with some communication documents on the district's budget to distribute to the public informing them of the changes due to Act 1. Since Act 1 will cause a significant change in how we deal with the budget, it was Mr. Giordano's suggestion that we look into their services to inform our community of the new budget process. Dr. Wright noted that she would like to send a newsletter out about two weeks before the January 20, 2007 budget meeting in hopes to persuade community members to attend the meeting.

Dr. Wright stated that Act 1 has moved the timelines up for budget preparation and the first budget meeting with the board wasn't done until January or February of last year and another meeting in April to lay out the preliminary budget with final budget adoption in June 2006. This year, a preliminary budget needs to be approved in February 2007 with a final budget adopted in June 2007. There are many numbers from the state and insurance carriers that are not available until after March or April. Now, projections need to be made earlier with a greater time in between projected numbers and actual numbers. Mrs. Famularo will show a five year projection with real numbers for the 2007-2008 school year as best as can be determined. All of the budget meetings with the administrators have not been completed therefore; the numbers in the budget are still very preliminary and need discussion and review with the administrators and supervisors. The meetings with administrative staff will be complete by the end of December.

When the preliminary budget is submitted in January, if we are over the 3.4% increase which is allowable by Act 1, the district needs to file for exceptions with the state of Pennsylvania. The exception requested on the preliminary budget is the maximum we can ask for once we file the paperwork with the Department of Education. If there is an unexpected event that would increase our budget and we did not request it in the preliminary budget, there is no option to request additional money. We need to ask for the maximum of exceptions, review revenues and expenditures, and make appropriate modifications for the final budget approval.

II. Budget (continued)

After seeing the figures in the presentation that Mrs. Famularo prepared, Dr. Wright stated that she would like to discuss with the board a budget strategy that is different than what was done in the past.

Mrs. Famularo presented a PowerPoint presentation to the board based on the 2007-2008 Budget Forecast.

The review of the overall projection for the 2007-2008 and future years is based on known conditions using the current status quo in terms of programs and staffing.

Salisbury faces many challenges due to being a small district with no economies of scale which are seen in larger district. Our tax base is level as seen in the five year history and projection. Since our tax base doesn't grow, the district is funding it more with our current property tax rate. Our plant is aging, which is being reviewed in the capital improvement plan to develop a strategy with our facilities going forward. There are certain safety and security issues that are imperative with our schools as with all schools due to recent events in schools outside of this area. There are uncontrollable costs which include health insurance, CLIU contracted services, charter schools and retirement contributions. Salisbury has a large taxpayer appeal in process which could impact the district greatly. Mrs. Famularo does not have this in the projections but the district could take a loss of .8 mills in the local tax base revenue if the appeal is successful. Another challenge that is hitting all school districts is Act 1, referendum and the processes.

Mr. Reinsmith asked if LCTI would be considered an uncontrollable cost. Mrs. Famularo stated that LCTI would be an uncontrollable cost along with LCCC as student participation is the basis for tuition payments.

Mrs. Famularo handed out a report that showed four years of audited history, current budget, budget projections for the 2007-2008 through 2011-2012, and a history and projection of the millage based on the currently known budget requests. In a five year budget, you are dealing with general trend and the most accurate projection is of the next year, the 2007-2008 fiscal year.

The revenue assumptions are as follows. The local revenues, other than Real Estate Taxes and Interest, follow average historical trends. The projected average interest rate for the 2007-2008 at 4.5% and remain flat through 2012 in terms of projections. The basic education and special education subsidies from the state will rise between one and two percent, which is the minimum amount of increase the district could receive. Assuming that the installment payments will have a minimal impact of the district's budget is based on other districts. There will be a decline in federal revenues.

II. Budget (continued)

As for the expenditure assumptions, salaries will increase by 4.25% annually. The health insurance will increase by 2% for the 2007-2008 and 10% annually thereafter. The retirement rates are based on PSERS actuarial projection of 7.15% for 2007-2008. This rate is reevaluated on an annual basis by PSERS based on market performance. The district does receive a 50% retirement subsidy from the state. The charter schools will remain flat for the 2007-2008, and then increase 10% annually thereafter. The energy costs increase 10% annually for electricity and 5% annually for oil and gas. No additional debt. All other expense projections assume a 3% annual increase. Staffing includes salary and benefits payments for positions currently paid from other sources. IDEA has decreased their funding for some special education teacher positions, these positions will be put the district's general budget. CLIU contracted services increase 10% annually. All staffing remains at current levels plus staffing requests yet to be verified. All programs remain the same.

The budget projections for 2007-2008 are based on the assumptions listed above and result in an estimated millage increase of 2.412 mills, a 5.93% increase. According to the Act 1 index, the allowable millage increase is 3.4% or 1.383 mills. The projected increase exceeds the index by 1.029 mills or \$432,301.

The exceptions for which the district qualifies to apply are special education and retirement. By the rules of Act 1, the budget can be increased by an additional 1.156 mills over the 1.383 mills allowable based on these exceptions. The exceptions will need to be submitted to PDE for approval. After applying and being approved for the use of the exceptions, the district does not need to actually use them but the exceptions cannot be applied for at a later date. The exceptions cannot be applied for if the budget doesn't support the need.

The inclusion of the increased millage increase available from the allowable exceptions along with the base allowable millage increase per the Act 1 index means our current preliminary budget projection would not require a back-end referendum vote for public approval.

The preliminary budget needs to be available for public inspection by January 25, 2007. The deadline to give public notice of intent to adopt the 2007-2008 preliminary budget is February 4, 2007. Adoption of the 2007-2008 preliminary budget needs to be made by February 17, 2007. The preliminary budget with proposed tax rate increase needs to be submitted to PDE by February 19, 2007. PDE will notify school districts after receiving our submitted preliminary budget whether the 2007-2008 proposed tax rates are equal to or less than their index by March 1, 2007. By March 21, 2007, PDE will issue ruling on the school district's petition for referendum exception. The proposed final budget needs to be available for public inspection by June 10, 2007. The deadline to offer public notice of intent to adopt the 2007-2008 final budget is June 20, 2007 and the final budget needs to be adopted by June 30, 2007.

II. Budget (continued)

Dr. Wright stated that our district's property tax increase index is the minimum allowable by Act 1. The floor is 3.4% and there are other districts that are in the four and five percents allowable increase range because of their aid ratio and other factors. It is very possible that some other school districts may be able to stay within their index because their index is higher than ours.

Mr. Mantz questioned the date that the petition for exceptions needs to be filed by. Mrs. Famularo stated that it is around February 19. It is being proposed that the preliminary budget be approved on February 14, 2007 based on the January budget meeting. Advertisement for the intent to approve the budget will February 4 and January 24 is when the budget will be on public display. A meeting date to review the final budget needs to be set in April. By then many current estimates will become known items. Mrs. Famularo stated that June 13, 2007 is scheduled as being the final budget adoption date so that the bills will be ready for a July 1 mailing.

Dr. Wright suggested another meeting in April. In the past the preliminary budget and final budgets were almost identical due to the timing of budget preparation and the certainty of numbers that went into them. That will not be the case under Act 1. Since the 2007-2008 preliminary budget is based on so much uncertainty. She anticipates that the final budget will be considerably lower than the preliminary budget once the budget is reviewed at the building level and some of the final cost numbers become known.

Dr. Wright is trying to be proactive and help the residents understand how this budget will be different than in the past. Our taxpayers are accustomed to a preliminary and final budget being close to the same numbers. She is concerned that having a higher preliminary budget millage will worry taxpayers unnecessarily. This millage will possibly be lowered as the district moves through the budget process. The final budget can't be higher than the preliminary budget under Act 1 parameters.

Dr. Wright asked for the board's opinion on this strategy since they are the ones that will be receiving the questions from the public. Another strategy piece is that we could take the exceptions to the max and budget additional money for capital reserve transfer for building projects. Mrs. Famularo stated that the Pennsylvania Association of School Business Officials has been tracking the budget process of school districts that are currently operating under Act 50 and Act 72 referendum requirements. Most districts apply for the maximum exceptions available to them in their preliminary budgets. The final budgets of these districts indicate that in the final budget about one-third of the amount of approved exceptions is actually utilized.

Mr. Giordano questioned if taxpayers could appeal taxes after the preliminary budget and the answer was, yes. He feels that factor should be pointed out to our legislators. Mrs. Miller agreed to talk to the legislators about the need to address this issue given Act 1. Dr. Wright agreed to address the legislators along with Mrs. Miller.

II. Budget (continued)

Mr. Pauloski questioned the Lehigh Valley Hospital's new medical office building and parking deck, what revenue is being assumed that the district will collect during the next fiscal year. Mrs. Famularo stated that number is already included in the tax base.

Mr. Giordano asked if it would be possible to get the County Assessment Office to provide a presentation to the board to explain the process they use to ensure that new taxpayers are identified by them and that taxes are collected in a timely manner relative to the taxpayer occupying a property in the district. Dr. Wright indicated she would check with the county to see if this type of presentation would be agreeable by their office. The board members were asked to email their questions to Mrs. Famularo so that she could present them to the County Assessment representative, if they agree to a presentation.

Dr. Wright asked the board for feedback regarding the budget process and where they stand on the exceptions so she knows which direction to go before the January budget meeting. Mr. Giordano stated that D'Huy is doing the Capital Improvement study of the district and we know that there are going to be some recommendations that are considerably expensive. He stated that capital reserve has to fund itself because fund balance it going to be needed for other needs. He agreed more money needs to be added to capital reserve.

Mr. Mantz agreed to put more money into the capital reserve.

Mr. Pauloski does not favor increasing the budget by \$50,000 because it is too easy to spend money frivolously. However, given the timeframe and new requirements of Act 1, it is only prudent at this time to increase the preliminary budget to the maximum allowed and hope that it does not need to be spent.

Mr. Reinsmith stated that given the situation, especially this first round, we should take advantage of the room that has been given and adjust the final budget downward as can be justified.

All other board members agreed with Mr. Mantz, Mr. Pauloski, and Mr. Reinsmith.

Mr. Giordano asked for clarification as to whether the installment payment option will be in effect due to Act 1 beginning July 1, 2007. Mrs. Famularo stated that was correct and that the board will need to adopt a resolution by June that will set up some parameters. Mrs. Famularo is consulting with other Business Managers in Lehigh County to arrive at a recommendation consensus of due dates to alleviate some confusion. Dr. Wright stated there are some choices of the installment plans and they are trying to get a consensus in the county so that it does cause less confusion when the tax bills are being printed.

Dr. Wright stated that she will be as conservative as circumstances permit in the final budget. That budget will present only those expenditures that are necessary.

II. Budget (continued)

Mrs. Miller commented that there is a significant difference in how the board and the public view the budget and questioned how we communicate this to the public. Dr. Wright stated that she wants as many taxpayers as possible to attend the January 20th meeting. She wished that there would be more in the audience tonight to have heard why the process is being done this way. This is the information that she will try to disseminate to the public.

III. Water Heater – High School

Mrs. Famularo stated that D'Huy Engineering has prepared a report to address the high school's domestic water heating system that needs to be replaced. There are two water heaters at the high school, one has failed and is isolated at this point while the other one is being utilized.

The three options obtained from D'Huy would provide the school with an amount of domestic hot water, equal to or greater than that which the school currently is being provided if both units were operable.

Option 1 would be to remove the existing failed water heater and replace in kind with a new gas fired unit. Also provide an alternate to replace both units with new gas/oil combination PVI water heaters. Base Bid is \$40,505; Alternative 1A, relined; \$42,380; Alternative 1B, replace with new PVI alternate; \$81,010; Alternative 1C, replace with new PVI gas/oil units; \$86,000.

Option 2 would be to remove the existing failed water heater and replace with new combination boiler/tank gas fired system on common skid. Base bid is \$43,950; Alternative 2A, \$45,825; Alternative 2B, \$84,455; Alternative 2C, \$67,100.

Option 3 would be to remove the existing failed water heater and replace with new instantaneous gas fired tankless unit. Base bid is \$31,685; Alternative 3A, \$33,560; Alternative 3B, \$72,200; Alternative 3C, \$61,880.

Mrs. Famularo asked the board for a recommendation on the options presented so that D'Huy can proceed with the design and bid of the project. The second water heater is the same age as the first, and may soon develop problems. There are funds in the General Obligation Bond Fund 2003 that could be applied to the project. These estimates do not include D'Huy's fees which could range from 6.75% to 7.5% depending on the complexity of the project.

The board agreed to have D'Huy proceed with bidding out the project with Option 3C for two tankless water heating systems. There will be three alternates in the specs: One alternate deduct for one water heating system, one alternate for the repair of the second water heater, and one alternate for the costs of a rush order. This will give the district the opportunity to replace the current water heating system and then evaluate the second tank. If that tank is repairable, then the alternate for the deduct on the second system and the alternate for the repair of the

III. Water Heater – High School (continued)

second tank will be utilized. If the second tank is beyond repair, the district can then replace it without preparing another bid.

Mr. Gatani suggested that these units be inspected periodically. This inspection would be done by the manufacturer service representative and not done in-house. Dr. Wright stated that there are additional items that also need to be inspected. This would be a cost that would need to be budgeted.

IV. Other

Dr. Wright asked the board for an April date for the final budget presentation prior to approval. After further discussion it was decided to see if April 14 or April 21, 2007 was better for all board members from 8:00 a.m. to 12:00 p.m.

V. Citizen's Comments

None

VI. Adjournment

The meeting was adjourned at 9:15 p.m.

Susan H. Famularo
Business Administrator