

CENTRAL BUCKS SCHOOL DISTRICT
Finance Committee Minutes
February 15, 2017

Committee Members Present

Glenn Schloeffel, Chairperson
Beth Darcy, Member

Other Board Members and Administrators Present

Sharon Collopy

Mr. Kopicki, Superintendent

Dr. Davidheiser, Assistant Secondary Superintendent

Dave Matyas, Business Administrator
Susan Vincent, Director of Finance

Committee Members Absent

Paul Faulkner, Member
Jerel Wohl, Member

The Finance Committee meeting was called to order at 6:05 p.m. by Glenn Schloeffel, Chairperson

PUBLIC COMMENT

One member of the press was present. There was no public comment.

Review of Minutes

The January 18, 2017 Finance Committee meeting minutes were accepted.

INFORMATION/ DISCUSSION/ACTION ITEMS

Review of Financial Information Items - The Finance Information reports were reviewed, beginning with the treasurer's report and investment report. Balances of the capital reserve accounts were noted with not much change over the prior month.

The Payroll, FICA/Medicare and Retirement Report, along with the Fringe Benefit Report were reviewed and it was noted that healthcare claims appear to be increasing compared to last school year. The increase in claims may reduce the projected amount of fund balance remaining from 2016-17 general fund budget operations. The health care consortium will be holding a meeting at the end of February to update school districts on the projected percent increase in health care costs that will impact the 2017-18 budget. Chances are that the percent increase for health care costs for the 2017-18 budget will be greater than the 6% growth currently used in the budget development process.

The Projected Tax Collection report was reviewed with some discussion on the current EIT tax collections looking positive as well as real estate transfer taxes. It was noted that a Buckingham Township nursery was sold to Toll Brothers.

Budget Out Look - The status of the current year budget was reviewed with expense areas color coded that may need budget transfers in the future to cover areas of the budget that may be overspent in the near future. The budget report also compared expenditures at the function and major object level to the 2017-18 budget in its current phase of development.

Zero Based Budgeting Tool – The committee reviewed a new budget tool that administration developed to provide more detail in the budget development process for costs centers such as schools, curricular areas, and departments such as operations. The tool will help implement a zero based budget philosophy compared to the budget allocation method used in past years.

The committee also reviewed a new budget initiative spreadsheet that will be used to document major recommended changes to a budget for things such as new curriculum, staffing, or perhaps a change in sports proposal. The initiative spreadsheet will help document the total projected cost of a proposal and facilitate the school board review of the financial impact of that proposal.

Review of Capital Funds – Long range financial planning for capital projects is needed if the district wants to avoid costs associated with future borrowing. The district has approximately \$700M worth of physical assets in the form of schools, stadiums, and athletic fields and is in the process of conducting a feasibility study to help project future capital costs to maintain those assets. Additionally, the district is currently developing a strategic plan for technology usage.

Administration reviewed the multi-year budget plans for capital funds and reviewed that the Long Term Capital fund could grow to \$40M or \$50M by the year 2023 assuming no expenditures were made from the fund over time. The Long Term Capital fund would start to receive less dollars starting in 2018-19 in an effort to reduce general fund expenses and minimize tax increases. The Long Term Capital fund should have enough assets for major building renovations in future years and can be adjusted as needed to accommodate the findings of the feasibility study.

Summary of Capital Funds
Budgeted Transfers in from The General Fund

Capital expenses create a need for a long term financial plan due to their expense, complexity, or length of process.

Future reductions to Long Term Capital are helping to balance out-year budgets

Description	Current Year 2016-17	Budget Year 2017-18	Forecast 1 2018-19	Forecast 2 2019-20	Forecast 3 2020-21	Forecast 4 2021-22
Short Term Capital	\$12,000,000	\$11,000,000	\$11,000,000	\$10,000,000	\$10,000,000	\$10,000,000
Long Term Capital	\$7,000,000	\$8,000,000	\$5,300,000	\$3,600,000	\$1,900,000	\$900,000
Technology Capital	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000
Transportation Capital	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000
Total	\$22,000,000	\$22,000,000	\$19,300,000	\$16,600,000	\$14,900,000	\$13,900,000

18Budgeting2017-18 BudgetPresentations 2017-02-15 February Finance Committee 10

Budget To-Do Lists – A summary of budget tasks to be completed over the next few months was reviewed with the committee. Salary and benefit projections will be refreshed in March and will be used as a major component to develop a five-year budget forecast. The committee reminded administration to keep the concept of a real estate millage reduction in the forefront of budget plans as local revenues continue in a positive trend.

Line Item Review of Benefit Costs – A detailed report by function and major object as reviewed with the committee. The benefit review included life insurance (included as teacher and administrator benefits), and FICA/Medicare generally 7.65% of salary. State retirement expenses have been increasing yearly with the cost being 32.57% of wages for 2017-18. Typically, 99.7 of wages are subject to retirement contributions. The school district is self-insured for unemployment and worker’s compensation. Workers compensation has been running at almost three times normal expenditure levels during 2016-17 due to slips, trips, and falls, as well as incidents in special education classrooms.

Health insurance is currently budgeted for as a 6% increase in the 2017-18 budget, but due to the higher trend in the average coverage plan utilization during 2016-17, the forecast amounts for future year budgets may need to be increased. A review of health consortium expenses will occur in late February and will provide guidance for 2017-18 budgeting. No major budget changes are anticipated for dental insurance or disability insurance. Prescription insurances are trending at budgeted levels for 2016-17 and are anticipated to increase by 6% for the 2017-18 budget year.

ADJOURNMENT

The meeting adjourned at 7:30p.m.

EXECUTIVE SESSION

An executive session of the Finance Committee was held from 7:35 to 7:45 to discuss teacher contract negotiations.

Minutes submitted by Dave Matyas, Business Administrator and Administrative Liaison to the Finance Committee.

Central Bucks School District

Finance Committee

Board Room of the Education Services Center – 16 Welden Drive
 Wednesday February 15th 2017, 6:00pm Projected time – 1 Hour and 30 Minutes

Glenn Schloeffel, Chairperson
 Beth Darcy, Member
 Dave Matyas, Business Administrator

Paul Faulkner, Member
 Jerel Wohl, Member
 Susan Vincent, Director of Finance

Agenda

1) Call to Order	Chairperson	Start Time
2) Public Comment	Chairperson	
3) Approval of Prior Meeting Minutes	Chairperson/Committee	Pages 1 -3
4) Information / Discussion / Action Items		
a. Review of Finance Information Items	10 minutes Susan Vincent	
b. Budget Update	10 minutes Susan Vincent/Dave Matyas	Handout
c. Zero Based Budgeting Tools	15 minutes Dave Matyas	Pages 4 - 7
d. Review of Capital Funds Budget	15 minutes Dave Matyas	Pages 8 - 16
e. Manning Table - Full Time Equivalency (FTE) Review	5 minutes Dave Matyas	
f. Budget To-Do List	5 minutes Susan Vincent	Handout
g. Budget Line Item review of Benefits	15 minutes Susan Vincent	Handout
h. ~ Executive Session of the Finance Committee – Topic Negotiations	10 minutes Dave Matyas	
5) Adjournment	Chairperson	End Time
6) Next Meeting Date: March 15, 2017		

Information Items

* Treasurers Report	Pages 17 - 21
* Investment Report	Pages 22 - 27
Board Budget Reports	Handout
Other Funds Report	Page 28
Payroll Expense Projections	Page 29
Benefit Expense Projections	Page 30
Tax Collection Projections	Page 31
Pennsylvania Casino Revenue Trends	Pages 32 – 41

* This item(s) may be on the public board agenda. ~ This item(s) may require an executive session.

Please note: Public comment should be limited to three minutes

CENTRAL BUCKS SCHOOL DISTRICT
Finance Committee Minutes
January 18, 2017

Committee Members Present

Glenn Schloeffel, Chairperson
Beth Darcy, Member
Paul Faulkner, Member

Dave Matyas, Business Administrator
Susan Vincent, Director of Finance

Committee Members Absent

Jerel Wohl, Member

Other Board Members and Administrators Present

Sharon Collopy
Karen Smith
Dennis Weldon
Mr. Kopicki, Superintendent
Dr. Bolton, Assistant Elementary Superintendent

The Finance Committee meeting was called to order at 6:00 p.m. by Glenn Schloeffel, Chairperson

PUBLIC COMMENT

Two members of the press were present as well as representatives of the real estate tax collectors group and other citizens.

Members of the tax collectors group spoke regarding the process they undertake to account for real estate tax bills, their office hours, customer service, their rate of pay, and the number of additional tax bills they process due to growth of real estate in the community.

Review of Minutes

The December 13, 2016 Finance Committee meeting minutes were accepted.

INFORMATION/ DISCUSSION/ACTION ITEMS

2015-16 Audit Review – Ed Furman, partner with Maillie LLP the school district audit firm, gave the committee an overview of the 2015-16 audit. The auditors expressed a clean opinion for the audit which covered the general fund, capital fund, food service fund, and fiduciary trust fund. Maillie also conducted an audit of federal programs in accordance with federal guidelines.

Mr. Furman then covered the methodology used to review financial data which includes a full download of all general ledger transactions that are then used for statistical sampling as well as the search process for possible theft or inconsistent accounting practices.

Finance Committee members asked several questions regarding fund balance, other post-employment benefit liabilities, and fixed assets. The committee asked for a detailed report on miscellaneous revenue items, the fixed asset variation as noted in the management discussion and analysis, and a further explanation of note N in the financial statements.

The full audit report is located on the district website under the financial section of the School Board page. The committee directed administration to place the audit report on the Board agenda for consideration.

Setting Real Estate Tax Collector Compensation – The committee voiced their viewpoints on compensation amounts for the next four-year election cycle with some members favoring no increase and other members favoring some type of percentage increase. Administration added a paragraph to the tax collector resolution discussing the general timing of payment reminder notices and that the district would reimburse tax collectors for the supply costs of sending out the reminder notices. The committee directed administration to place this item on the Board agenda for consideration.

Review of Financial Information Items - The Finance Information reports were reviewed, beginning with the Summary of Capital Reserve Account Activity and Fund Balance Status Report. Balances of the reserve accounts were noted and a review of the fund balance information included on the report was reviewed, noting that the fund balance amounts agree with the fund balances in the audit report for the year ending June 30, 2016. The Payroll, FICA/Medicare and Retirement Report, along with the Fringe Benefit Report were reviewed and it was noted that there were no significant changes in projections to date, but as the year progresses and more data is available the projected expenses will become more predictable. It was noted that healthcare expense projections are not real strong due to a delay in actual claims expenses to date, resulting from how health claims are being processed due to a new stop loss classification and that updated information will be available in the February/March timeframe. The projected Prescription Drug expense was also commented on with regard to the possibility the encumbrance amount may be slightly high, but is being reflected as such due to prior year trends. The Projected Tax Collection report was reviewed with some discussion on the current collection rate of Real Estate taxes being slightly up and the EIT tax collections looking very positive as well.

Budget Outlook - Administration reviewed two five-year budget scenarios with the committee. One scenario assumed a one mill real estate tax reduction from 124.1 mills to 123.1 mills. The other scenario assumed no tax increase meaning the millage rate would remain at 124.1 mills for the 2017-18 fiscal year through 2021-22

While it is early in the budget development cycle, the one mill reduction currently shows revenues exceeding expenses for 2017-18 by about \$800k with expenses exceeding revenues over the remaining four years of the projection ranging from -\$181k through -\$3.4M assuming the millage rate remained at 123.1 mills over the five-year period.

The second scenario maintained the current millage rate of 124.1 mills for fiscal years 2017-18 through 2021-22. In this scenario revenues exceeded expenses through 2020-21 with fiscal year 2021-22 turning negative at -\$1.6M

During the December Finance Committee Meeting, the committee asked for a report of payroll full time equivalencies (FTE) as of the first payroll in October for the past seven years. By employment category, the report shows the history of employment growth and reductions along with student enrollment trends. Several questions were asked surrounding the information and the methodology used for the FTE report; where full time and part-time employees are treated the same, in essence not a true FTE evaluation.

During the December Finance Committee Meeting, the committee also asked for a report of the history of real estate tax collections. Over the past eight years, the real estate tax collection rate has averaged 97.45%. If all real estate owners paid their tax bill taking advantage of the 2% discount period, the tax collection rate would be 98%.

The resolution to adopt the preliminary budget at the January 24th board meeting was reviewed with the committee. References in the resolution that the district would submit Act 1 retirement exceptions to the Pennsylvania Department of Education (PDE) were removed as the district will not be seeking a tax increase. The business office will continue to estimate what the retirement exceptions will be to preserve the history of Act 1 allowed real estate tax increases compared with actual CBSD tax increases.

A preview of the January 24th budget presentation was given with a summary of some of the highlights as follows:

- The employer's contribution rate into the state retirement system increased by about .5% since the December budget presentation which will result in a budget increase of about \$800,000. The new retirement contribution rate of 32.57% includes costs of 24% due to past unfunded liabilities for payments below the actuarial recommended amount. Had past contributions been made at the appropriate amount, the current employer contribution rate would be about 8.5%
- The preliminary budget amount as of January 24th is \$327,958,865
- State subsidies are finally equaling amounts received by CBSD prior to the great recession.
- Principal and interest payments on debt for 2017-18 will be approximately \$15M or 4.7% of the total budget

An overview of draft legislation to eliminate real estate property taxes in Pennsylvania was reviewed. Some of the highlights presented were:

- Eliminates all school property taxes except amounts needed for debt payments.
- Implementation is projected to be July 1, 2017
- The state would increase the personal income tax from 3.07% to 4.95%
- The sales tax would increase from 6 to 7% and expand the types of items subject to taxation
- Under the tax shift, school districts would receive the same amount of money as they received from real estate tax collections
- To issue debt, the local community must approve it via a referendum vote
- The tax shift would eliminate most real estate taxes on businesses and be shifted to individuals
- Real estate tax write-offs on federal taxes would be significantly reduced.
- Recessions will have a comparatively larger impact on school district finances compared to reliance on real estate taxes
- The state Independent Fiscal Office (IFO) estimates that a \$14B tax shift will need to take place across Pennsylvania

Audit Request for Proposal - The current engagement with Maillie LLP for audit services will conclude with the audit for the current year 2016-17. The committee asked administration to develop a request for proposal at the appropriate time and exclude Maillie from submitting a proposal so that a new audit firm can have a fresh look at district financials.

ADJOURNMENT

The meeting adjourned at 8:45p.m.

Minutes submitted by Dave Matyas, Business Administrator and Administrative Liaison to the Finance Committee.

Zero Based Budgeting Tools

Timeline for Setting up ZBB in Schools, Departments, and Cost Centers

- ◆ December Finance Committee Meeting discussion about moving toward ZBB
- ◆ December to mid-January develop ZBB tools with feedback from Assistant Superintendents, Principals, and Athletic Directors.
- ◆ Mid-January Training on ZBB concepts and how to use the ZBB Excel tool for schools and athletics.
- ◆ February develop ZBB spreadsheets for other areas, curriculum, special ed., operations, transportation, etc.
- ◆ Building, department, and curricular budgets due back to the business office March 20th



Microsoft Excel
Worksheet

Budget initiative Communication Tool

Budget Initiative Form

- ◆ We revised our budget forms to provide greater detail when adding something new to the budget.



Microsoft Excel
Worksheet

Capital Funds (fund 3)

Review of Current Budget Projections

Short Term Capital Funds

Budgeted Transfers from The General Fund to Short Term Capital

Capital expenses create a need for a long term financial plan due to their expense, complexity, or length of process.

The Short Term Capital Fund is for projects that will typically be completed within 12 months.

Description	Current Year 2016-17	Budget Year 2017-18	Forecast 1 2018-19	Forecast 2 2019-20	Forecast 3 2020-21	Forecast 4 2021-22
Short Term Capital	\$12,000,000	\$11,000,000	\$11,000,000	\$10,000,000	\$10,000,000	\$10,000,000

Long Term Capital Funds

Budgeted Transfers from The General Fund to Long Term Capital

Capital expenses create a need for a long term financial plan due to their expense, complexity, or length of process.

The Long Term Capital Fund is for projects that may take multiple years to complete and may require years to build up the necessary funding.

Future Potential Large Projects: Athletic Fields, Feasibility Study Items, Maintaining \$700M in School Assets

Description	Current Year 2016-17	Budget Year 2017-18	Forecast 1 2018-19	Forecast 2 2019-20	Forecast 3 2020-21	Forecast 4 2021-22
Long Term Capital	\$7,000,000	\$8,000,000	\$5,300,000	\$3,600,000	\$1,900,000	\$900,000

Current Starting Balance = \$16,037,834.

We could potentially have about \$43M to 50M for major projects by 2021-22.

Perhaps place back payments from the state for PLANCON in Long Term Capital? (see PLANCON side)

Technology Capital Funds

Budgeted Transfers from The General Fund to Technology Capital

Capital expenses create a need for a long term financial plan due to their expense, complexity, or length of process.

Replacement and addition to: Desk Top Computers, Laptops, iPads, Network Wiring, Network Switches, Network Drives, Phone Systems

Description	Current Year 2016-17	Budget Year 2017-18	Forecast 1 2018-19	Forecast 2 2019-20	Forecast 3 2020-21	Forecast 4 2021-22
Technology Capital	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000

Technology may need some additional funding over the next two years as we continue to improve our wireless access in our buildings.

We could move some funds from Long Term Capital into Technology Capital if needed.

Transportation Capital Funds

Budgeted Transfers from The General Fund to Transportation Capital

Capital expenses create a need for a long term financial plan due to their expense, complexity, or length of process.

Replacement and addition to: 76 to 24 passenger buses long with mini vans

Description	Current Year 2016-17	Budget Year 2017-18	Forecast 1 2018-19	Forecast 2 2019-20	Forecast 3 2020-21	Forecast 4 2021-22
Transportation Capital	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000

We are seeing a need to add small buses for special education and vans for an increasing homeless population.

Summary of Capital Funds

Budgeted Transfers in from The General Fund

Capital expenses create a need for a long term financial plan due to their expense, complexity, or length of process.

Future reductions to Long Term Capital are helping to balance out-year budgets

Description	Current Year 2016-17	Budget Year 2017-18	Forecast 1 2018-19	Forecast 2 2019-20	Forecast 3 2020-21	Forecast 4 2021-22
Short Term Capital	\$12,000,000	\$11,000,000	\$11,000,000	\$10,000,000	\$10,000,000	\$10,000,000
Long Term Capital	\$7,000,000	\$8,000,000	\$5,300,000	\$3,600,000	\$1,900,000	\$900,000
Technology Capital	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000
Transportation Capital	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000
Total	\$22,000,000	\$22,000,000	\$19,300,000	\$16,600,000	\$14,900,000	\$13,900,000

Continuing to Define What Should be in the Operations Budget of the General Fund and what Should be Budgeted for in Capital Funds

2017 Projects	Project Manager	Budget	Bid Result	Difference	Schedule	Design Professional
Design is Underway - Ready to Bid Soon						
CB West Auditorium Finishes & Systems	John	\$2,300,000			Nov 2016	GKO
ESC - HVAC Upgrades	Ken/Bill	\$750,000				LVE
CB East - H2O System	Mike/John	\$235,000				
Authorization to Move Forward with Design - September 2016 - Operations Committee						
WMF - Renovations	Ken	\$3,500,000	***			GKO
Holicong Phase V	John	\$1,900,000			Summer	KCBA
Paving - Barclay, Linden, Lenape, ASC, Jamison	Ken	\$1,000,000			Summer	
Security Cameras - Schools	Mike/Ken	\$450,000				
CB South Tennis Courts	Ken	\$240,000				
Kutz - Bathroom Upgrades	Ken	\$115,000				
Remaining Projects						
Unami - HVAC Upgrades	Ken	\$500,000			Summer	GKO
Cold Spring & Jamison - Window/Waterproofing		\$160,000				
Buckingham Cafeteria Tables	Use Food Service or Food Service Capital	\$125,000			Summer	
Equipment & Vehicle Replacement	Use general fund	\$125,000				CBSD
Cooling Tower Walls - Grove-MC-PR		\$120,000				
Crack Fill & Seal Coating & Line Stripping/Curbs	Bill	\$100,000			Summer	
Tohickon Storage Building	Mike	\$95,000				GKO
CBE - Air Cooled Chiller for Pool	John	\$80,000				
CB South Flashing Lights - Folly Road	Ken	\$50,000				Warrington
		BUDGET ESTIMATE	BID RESULTS	NET DIFFERENCE		
Total		\$11,845,000	\$0	(\$11,845,000)		
Adjustments		-\$250,000				
Adjusted Total		\$11,595,000				

Items Moved From Capital Fund Expenses into the General Fund

Items Coded to Capital Fund 3 - Change to General Fund 1

Expenditures

Scissor Lifts	\$25,000
Vehicles	\$61,000
Custodial Equipment	\$45,000
Water Pump	\$9,000
Stadium Safety Netting	\$9,000
Auditorium Sound	\$8,000
Water Heater	\$13,000
UPS - Network Operation center (NOC)	\$61,000
Grounds Roller	\$32,000
Fire Alarm Panel	\$12,000
Painting	\$50,000
Flooring	\$73,000
Concrete Repairs	\$26,000
Playground Surfacing - Gaga Pits	\$65,000
Stage Rigging - Inspection & PM	\$15,000
Cooling Tower Repairs	\$16,000
Grounds Fertilization	\$100,000
Gym Floors	\$56,000
Asphalt Repairs	\$140,000
Total	\$816,000

PLANCON – State Reimbursement for Construction Expenses

- ◇ Total received this year for past construction expenses that the state deferred reimbursement.
 - ◇ \$6,276,000 received as of January 2017
 - ◇ \$ 370,000 anticipate receiving by June 30th
 - ◇ \$ 6,646,000 This will add to the fund balance of our general fund for 2016-17
- ◇ Probably should place the funds in the Long Term Capital Account as a place holder.
 - ◇ The PLANCON subsidies can be moved to other capital funds at any time with Board action.
- ◇ Should we create a Board agenda item to transfer the state PLANCON subsidies from the general fund into the capital fund?



CENTRAL BUCKS SCHOOL DISTRICT

LEADING THE WAY

The Central Bucks Schools will provide all students with the academic and problem-solving skills essential for personal development, responsible citizenship, and life-long learning.

To: Sharon Reiner
From: Brett Haskin
Date: February 1, 2017

Board Agenda Information:

General Fund Disbursements, January 2017

Checks	\$4,066,537.96
Electronic Payments	\$7,292,244.57
Transfers to Payroll	\$7,817,286.45
TOTAL	<u>\$19,176,068.98</u>

Other Disbursements, January 2017

Capital Fund Checks & Electronic Payments	\$488,739.11
Food Service Checks & Electronic Payments	\$646,604.45
TOTAL	<u>\$1,135,343.56</u>

Grand total of all Funds \$20,311,412.54

**The Central Bucks School District
General Fund
Treasurer's Report
1/31/2017**

Beginning Cash Balance		\$21,643,028.88
Receipts		
Local General Funds Receipts		
Local Collectors	590,205.38	
County of Bucks	554,760.60	
EIT	1,144,724.60	
Interest Earnings	8,759.68	
Facility Use Fees	22,283.75	
Tuition, Community School	359,793.31	
Contributions	56,565.17	
Miscellaneous	117,092.13	
Total Local General Funds Receipts	\$2,854,184.62	
State General Fund Receipts		
State Subsidy- Other	1,068,701.00	
Total State General Fund Receipts	\$1,068,701.00	
Federal General Fund Receipts		
Title 2	18,412.80	
IDEA	134,415.66	
Other Federal Subsidies	41,961.13	
Total Federal General Fund Receipts	\$194,789.59	
Other Receipts		
Investments Matured	735,000.00	
Offsets to Expenditures	101,589.22	
Total Other Receipts	\$836,589.22	
Total Receipts		\$4,954,264.43
Total Beginning Cash Balance and Receipts (carried to next page)		\$26,597,293.31

**The Central Bucks School District
General Fund
Treasurer's Report Continued
1/31/2017**

Total Beginning Cash Balance and Receipts (from previous page)		\$26,597,293.31
Disbursements		
* Checks (see detail below)		\$4,066,537.96
Electronic Payments:		
Employee Payroll Taxes/WH	1,575,265.39	
Employer Payroll Taxes	447,660.01	
PSERS Retire	978,117.21	
403B/457PMT	196,266.70	
Health Benefit Payments	2,773,387.01	
** Transfer to PSDLAF Account	250,000.00	
Investments Placed	980,000.00	
Transfer to Other Funds	<u>91,548.25</u>	
Electronic Payments Total:		\$7,292,244.57
Transfer to Payroll		\$7,817,286.45
Total Disbursements		\$19,176,068.98
Ending Cash Balance		
	1/31/2017	\$7,421,224.33

*** Check Detail:** Check Registers provided for Board Approvals

01/03/2017 Check Run- Board Approved 01/10/2017	\$655,598.15
01/05/2017 Check Run- Board Approved 01/24/2017	\$3,500.00
01/13/2017 Check Run- Board Approved 01/24/2017	\$2,159,724.18
01/31/2017 Check Run- Board to Approve 02/14/2017	<u>\$96,583.01</u>
Total Check Runs-	\$2,915,405.34
Less Voided Checks	<u>(\$29,532.33)</u>
January Check Disbursements	\$2,885,873.01
Add Prior Month A/P Funded This Month	\$1,463,247.95
Less This Month A/P To Be Funded Next Month	<u>\$282,583.00</u>
Checks Funded This Month	<u>\$4,066,537.96</u>

**PSDLAF account is funded to cover credit card purchases.

**The Central Bucks School District
Capital Fund
Treasurer's Report Continued
1/31/2017**

Beginning Cash Balance		\$101,675.14
Receipts		
Interest Earnings	\$97.14	
Cash Transfers from Reserve Accounts	\$420,593.57	
Total Receipts		\$420,690.71
Disbursements		
* Checks (see detail below)	\$488,739.11	
Electronic Payment	\$0.00	
Total Disbursements		\$488,739.11
Ending Cash Balance		\$33,626.74

*** Check Detail:** Check Registers provided for Board Approvals

1/09/17 Check Run-	Board to Approve 1/24/17	\$271,308.20
1/26/17 Check Run-	Board to Approve 2/14/17	\$149,284.37
Total Check Runs		<u>\$420,592.57</u>
Less Voided Checks		<u>\$0.00</u>
January Check Disbursements		<u>\$420,592.57</u>
Add Prior Month A/P Funded This Month		\$90,753.64
Less This Month A/P To Be Funded Next Month		<u>\$22,607.10</u>
Checks Funded This Month		<u><u>\$488,739.11</u></u>

**The Central Bucks School District
Food Service
Treasurer's Report Continued
1/31/2017**

Beginning Cash Balance		\$490,318.70
Receipts		
Interest Earnings	\$170.15	
Student Lunch Account Deposits	\$360,380.29	
Subsidies	\$79,221.85	
Total Receipts		\$439,772.29
Disbursements		
* Checks (see detail below)	\$197,419.99	
Electronic Payments (Aramark)	\$449,184.46	
Total Disbursements		\$646,604.45
Ending Cash Balance		\$283,486.54

* **Check Detail:** Check Registers provided for Board Approvals

1/11/17 Check Run-	Board to Approve 1/24/17	\$197,465.79
Total Check Runs		\$197,465.79
Voided Checks		\$0.00
January Check Disbursements		\$197,465.79
Add Prior Month A/P Funded This Month		\$110.76
Less This Month A/P To Be Funded Next Month		\$156.56
Checks Funded This Month		\$197,419.99

**Central Bucks School District
Ratification of Investments for the Month of
1/31/17**

Ratifying action is requested on the following investments which were made during the above timeframe.

General Fund-Term Investments

<u>Category</u>	<u>Purchase Date</u>	<u>Principal</u>	<u>Maturity Date</u>	<u>Rate</u>	<u>Term Yield</u>	<u>Bank Name</u>
MBS	1/5/2017	\$245,000.00	1/29/2018	1.05%	\$2,741.65	Shinhan Bank
MBS	1/11/2017	\$245,000.00	1/11/2018	1.00%	\$2,450.00	Discover Bank
MBS	1/17/2017	\$245,000.00	1/17/2018	1.15%	\$2,817.50	Infinity Federal Credit Union
MBS	1/20/2017	\$245,000.00	1/19/2018	1.05%	\$2,565.45	Safra National Bank
TOTALS		\$980,000.00			\$10,574.60	

Long-term Capital - Liquid Investments

Investment funds that are accessible as needed on short notice

<u>Account Type</u>	<u>Placement Date</u>	<u>Amount Placed</u>	<u>Rate</u>	<u>Daily Yield</u>	<u>Bank Name</u>
Full Flex	1/30/2017	\$16,074,000.00	0.71%	\$312.67	PSDLAF
		\$16,074,000.00		\$312.67	

**Central Bucks School District
Investment Portfolio
Summary Totals by Bank
January 31, 2017**

Bank Name	Principal Amount
BB&T Bank	6,072
Firsttrust Bank	45,103,912
MBS	2,205,000
PLGIT	16,296,501
PSDLAF	37,152,833
Quakertown National Bank	3,559,399
Santander	31,572,748
TD Bank	27,303,219
Univest Bank & Trust	47,259,879
William Penn Bank	248,000
Total	210,707,561

**Central Bucks School District
Investment Portfolio
General Fund- Bank Balances
January 31, 2017**

<u>Purchase Date</u>	<u>Bank Name</u>	<u>Maturity Date</u>	<u>Rate of Interest</u>	<u>Principal Amount</u>
<u>GENERAL FUND BANK ACCOUNTS</u>				
1/31/17	TD Bank	2/1/17	0.40%	7,421,224
1/31/17	TD Bank Municiple Choice	2/1/17	* 0.55%	8,800,000
1/31/17	PLGIT	2/1/17	0.43%	5,529
1/31/17	PSDLAF MAX Acct	2/1/17	0.41%	697
1/31/17	PSDLAF MAX Acct-Healthcare	2/1/17	0.41%	248,830
1/31/17	PSDLAF MAX Acct	2/1/17	0.41%	274,449
Total General Fund Bank Accounts				16,750,729
<u>GENERAL FUND CDs</u>				
Individual Bank CDs:				
8/22/16	Univest Bank & Trust	2/22/17	0.75%	20,000,000
8/24/16	Univest Bank & Trust	2/24/17	0.75%	20,000,000
8/19/16	William Penn Bank	8/19/17	0.75%	248,000
PLGIT CDs :				
8/22/16	Cit Bank	8/22/17	1.00%	247,000
PSDLAF CD's:				
6/14/16	Western Alliance Bank	6/14/17	0.80%	191,000
Multi Bank Securities CDs:				
8/29/16	Commonwealth Business Bank	8/29/17	0.75%	245,000
8/31/16	BankUnited National Association	8/31/17	0.75%	245,000
9/1/16	Ally Bank	9/1/17	0.75%	245,000
12/14/16	BMW Bank of North America	12/14/17	1.00%	245,000
12/21/16	Enerbank USA	12/21/17	1.00%	245,000
1/11/17	Discover Bank	1/11/18	1.00%	245,000
1/17/17	Infinity Federal Credit Union	1/17/18	1.15%	245,000
1/20/17	Safra National Bank	1/19/18	1.05%	245,000
1/5/17	Shinham Bank	1/29/18	1.05%	245,000
Total General Fund CDs				42,891,000
<u>GENERAL FUND MONEY MARKET ACCOUNTS</u>				
1/31/17	Santander	2/1/17	0.45%	31,567,200
1/31/17	BB&T Bank	2/1/17	0.25%	6,072
1/31/17	PSDLAF Full Flex-Healthcare	2/1/17	0.50%	696,000
1/31/17	PLGIT I-Class	2/1/17	0.58%	16,043,972
1/31/17	Univest Bank & Trust	2/1/17	0.45%	7,259,879
1/31/17	Firstrust Bank	2/1/17	0.45%	45,103,912
1/31/17	Quakertown National Bank	2/1/17	0.30%	7,343
1/31/17	Quakertown National Bank-Post Employment	2/1/17	0.55%	3,552,056
1/31/17	TD Bank- Healthcare	2/1/17	0.40%	1,587,094
1/31/17	TD Bank- Post Employment	2/1/17	0.40%	5,818,811
Total General Fund Money Market Accounts				111,642,339
Total General Fund				171,284,068

* Interest earnings credited to offset fees

**Central Bucks School District
Investment Portfolio
Capital Fund- Bank Balances
January 31, 2017**

<u>Purchase Date</u>	<u>Bank Name</u>	<u>Maturity Date</u>	<u>Rate of Interest</u>	<u>Principal Amount</u>
<u>Fund 3 Operations Account</u>				
1/31/17	TD Bank Fund 3 Operations Acct	2/1/17	0.40%	33,626
		Total Fund 3 Operations Account		33,626
<u>Short Term Capital Reserve</u>				
1/31/17	TD Bank	2/1/17	0.40%	1,865,524
		Total Short Term Capital Reserve		1,865,524
<u>Capital Café Equip Reserve</u>				
1/31/17	TD Bank Capital Proj- Bldg Cafeteria/Equip	2/1/17	0.40%	560,465
		Capital Café Equip Reserve		560,465
<u>Technology Capital Reserve</u>				
1/31/17	TD Bank	2/1/17	0.40%	112,361
		Total Technology Reserve		112,361
<u>Transportation Capital Reserve</u>				
1/31/17	TD Bank	2/1/17	0.40%	727,221
		Total Transportation Reserve		727,221
<u>Long Term Capital Reserve</u>				
1/31/17	PSDLAF MAX Acct	2/1/17	0.41%	894
1/31/17	PSDLAF Full Flex	2/1/17	0.71%	16,074,000
1/31/17	Santander	2/1/17	0.45%	5,547
		Total Long Term Capital Reserve		16,080,441
		Total Capital Fund		19,379,638

**Central Bucks School District
Investment Portfolio
Debt Service Fund- Bank Balances
January 31, 2017**

<u>Purchase Date</u>	<u>Bank Name</u>	<u>Maturity Date</u>	<u>Rate of Interest</u>	<u>Principal Amount</u>
<u>Debt Service Reserve</u>				
1/31/17	PSDLAF MAX Acct	2/1/17	0.41%	11,963
1/31/17	PSDLAF Full Flex Acct	2/1/17	0.50%	19,655,000
1/31/17	TD Bank	2/1/17	0.40%	93,406
Total Debt Service Reserve				19,760,369

**Central Bucks School District
Investment Portfolio
Food Service Fund- Bank Balances
January 31, 2017**

<u>Purchase Date</u>	<u>Bank Name</u>	<u>Maturity Date</u>	<u>Rate of Interest</u>	<u>Principal Amount</u>
<u>Fund 5 Operations Account</u>				
1/31/17	TD Bank Fund 5 Operations Acct	2/1/17	0.40%	<u>283,487</u>
			Total Food Service Fund	283,487
			Grand Total- All Funds	<u>210,707,561</u>
			Weighted Average Rate of Return	0.54%

Summary of Capital Reserve Account Activity & Fund Balance Status

Fund 3 - Summary of Capital Reserve Account Commitments & Balances

	Beginning Balance 7/1/2016	Transfers from General Fund	Interest Earnings	Expenditures	Commitments	Balance 1/31/2017	Target Amount	% of Target	Comments
Short term Capital	\$299,754.19	\$12,000,000.00	\$10,814.09	\$10,445,044.28	\$322,148.45	\$1,543,375.55			
Café Equipment Capital	\$709,952.00		\$2,046.44	\$151,533.03	\$0.00	\$560,465.41			
Technology	\$599.00	\$2,086,639.00	\$774.28	\$1,975,651.10	\$73,140.46	\$39,220.72			
Transportation	\$639,347.00	\$1,000,000.00	\$3,232.00	\$915,358.00	\$394,582.50	\$332,638.50			
Long Term Capital	\$16,037,834.41		\$42,606.59			\$16,080,441.00	\$42,000,000.00	38%	
Totals	\$17,687,486.60	\$15,086,639.00	\$59,473.40	\$13,487,586.41	\$789,871.41	\$18,656,141.18	\$42,000,000.00	38%	

Capital Reserve Account Expenditure Detail:

Capital Reserve Account Expenditure Detail:		Comments
<u>Short Term Capital</u>		
Unami	\$946,516.10	
Holicong	\$4,062,603.20	
Misc. Projects	\$5,435,924.98	
Total	\$10,445,044.28	
<u>Technology</u>		
		* \$1,578,246.50 of the total expenditures occurred in 15-16 and was temporarily funded from Long Term Capital

Fund 4 - Debt Service Fund Balance Projections

	Beginning Balance 7/1/2016	Transfers from General Fund	Interest Earnings	Expenditures	Commitments	Balance	Target Amount	% of Target	Comments
Debt Service	\$19,655,650.00		\$104,719.00			\$19,760,369.00	\$30,000,000.00		No future transfers budgeted for the debt service fund. Additional \$10.3M needed for the potential \$30M debt defeasance is available in the general fund balance from the following sources: 1. OPEB Reserve of \$9.3M, considered unnecessary by the auditors. 2. \$1M of the 2015-16 positive budget variance is available.

Fund Balances: Non-spendable, Unassigned & Assigned - General Fund 1

Fund Balance 7/01/2016	
Unassigned:	\$ 13,997,592.00 4.4% of 16-17 Budget
Assigned:	
Budgetary Reserve	\$ 4,639,065.00 From 15-16
Post Employment Reserve	\$ 9,346,223.00 as noted above - could use for debt defeasance
Health Care Reserve	\$ 2,518,369.00
Total Assigned:	\$ 16,503,657.00
Non-spendable	\$ 4,521,870.00 Prepaid Healthcare exp with Bucks Montco consortium
TOTAL FUND BALANCE	\$ 35,023,119.00

Fund Balance Food Service - Fund 5

Fund Balance 7/01/2016	
Unassigned:	\$ 991,296.27

M:Rziccardi,Finance,CapitalProjectsSV

**Payroll,
FICA, Medicare
and Retirement Projection
January 31, 2017**

	Adjusted Budget	Projected Expense	Positive (Negative) Variance
PAYROLL	152,134,017	151,833,609	300,408
FICA_MED	11,290,300	10,752,288	538,012
RETIREMENT	<u>45,013,913</u>	<u>45,108,862</u>	<u>(94,949)</u>
TOTAL	208,438,230	207,694,759	743,471
			0.36% Of Budget

Updated projection based on history and current payroll trends - based on expense to date as of 1/31/17, expect to be very close to budget; no change to projected amounts at this time.

	Orig Bdg	100
Original Budgeted Amounts		151,514,017
Adjust Budget for positions added subsequent to budget passing		
1. New Assistant Principal at Butler		99,000.00
2. New PCA - various locations -		250,000.00
3. Additional ELL Teachers - 1.5 FTE		75,000.00
4. New Teaching positions - these are primarily in the special education area		360,000.00
5. IT Secretary - 1.0		40,000.00
6. Community School Program Growth - new positions		59,500.00
7. HR payroll - director contract + clerical Growth		<u>18,000.00</u>
Est cost of new positions		901,500
Estimated additions to payroll lines		152,415,517
Adjusted Payroll Budget		152,134,017
Additional cost should be absorbed within budget by turnover etc.		(281,500)

**Central Bucks School District - Fringe Benefits Report
31-Jan-17**

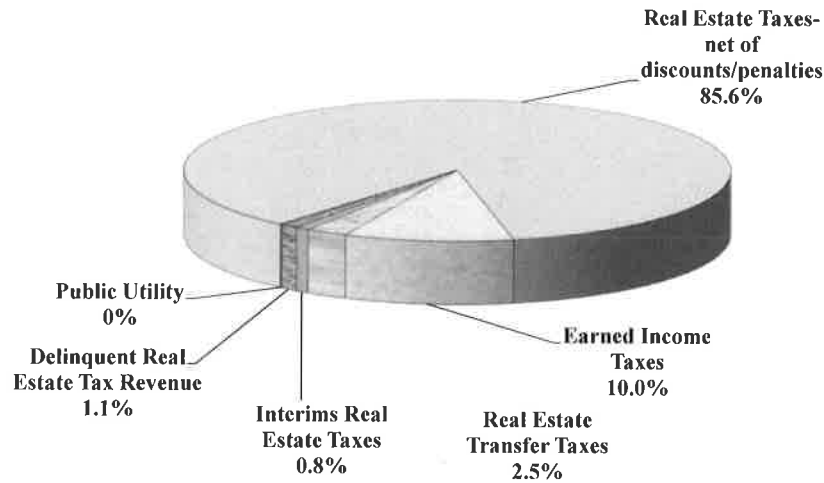
	2017-18 Proposed Budget	2016-17 Adjusted Budget	Encumbered	Spent Payments (Net of less copays)	Balance	% Committed	2015-16 Actuals	2016-17 Budget Increase over 15-16 Actual	% increase 2016-17 Budget to 15-16 Actual
271 Healthcare	20,789,921	20,184,389	9,888,528	8,360,347	1,935,514	90%	16,574,742	3,609,647	21.78%
Self Insured: Spent based on paid claims; encumbered = expected claims based on trends; less empl prem cost share	3.00%	As of February 10th no additional reporting had been received from the Consortium. Expect an update at their meeting scheduled for later in February, so will update in March.				18,164,361			
272 Dental coverage	1,357,559	1,318,018	483,985	748,280	85,753	93%	1,166,300	151,718	13.01%
Self Insured: Curr Yr = 99,000 per month w/qtrly reconciliations	3.00%								
213 Life insurance	239,359	234,666	91,080	122,846	20,740	91%	207,680	26,986	12.99%
Premium based; adjusted monthly based on salary report	2.00%								
274 Disability coverage	260,701	255,589	80,000	51,859	123,730	52%	225,464	30,125	13.36%
Self Insured: Expense = paid to date; encumbered = expected claims based on experience	2.00%			Decreased 1617 projected exp as actual is down - if continues will be under budget & significantly under the 1516 exp					
276 Prescription drugs	7,166,767	6,635,895	2,662,260	3,695,393	278,242	96%	6,232,368	403,527	6.47%
Self Insured: Spent based on submitted claims; encumbered = expected claims based on experience & trends	8.00%			FTD exp is up about 2.6%; if continues will be at 6.4 to 6.5M					
250 Unemployment comp	45,951	45,496	26,229	17,877	1,390	97%	48,980	(3,484)	-7.11%
Self Insured: Spent based on submitted claims; encumbered = expected claims based on experience & trends	1.00%			Should be under budget; expense is trending under the 1516 amount.					
260 Workers comp	1,340,747	1,308,046	490,500	962,690	(145,144)	111%	1,207,874	100,172	8.29%
Self Insured: Based on estimated premium provided by SDIC and adjusted based on prior yr experience	2.50%			Expense is trending higher than 1516 to date; will likely exceed budget					
240 / 290 Miscellaneous/Tuition	519,751	509,560	202,500	283,512	23,548	95%	507,579	1,981	0.39%
Expenses incurred over course of the year	2.00%								
Totals	31,720,756	30,491,659	13,925,082	14,242,804	2,323,773	92.38%	26,170,987	4,320,672	16.5% *
	\$ 1,229,097	or 4.03%*		28,167,886		7.62%	7.63%	% Incrs in exps. 1617 to 1516 based on projections	
	Total 1718 budget	incrs over 1617				+ Var			

Note: Healthcare and prescription expenses are a significant portion of the fringe expense. The projected expense for these lines is based on actual claims to date. Because of a change in process, not all health claims information is available. Will have better information in the February/March timeframe.

* % increase in 1718 budget is significantly lower than the % the 1617 budget increased due to:

1. The projected increase in health care expenses has been decreased based on prior year actuals; this may require a budget transfer if a bad experience year occurs
2. The increase in Dental Ins., Life Ins., Disability Ins., PA UC and Workers Comp Ins. has been pulled back, as have had positive budget variances on these line in prior years.
3. As Prescription Drug exps. have been increased to a higher expense level over the past couple of years, we expect the line to level off and increase at a slower rate.
4. It may be determined that the 1718 budget amounts will need to be adjusted as current year data is updated.

**Central Bucks School District
Projected Tax Collections
31-Jan-17**



Revenues	2016-2017	Estimated	Variance	% Actual to Budget	2015-2016	2017-2018
	Budget	Actual	Positive/(Negative)		Actual	Preliminary Budget
1 Real Estate Taxes-net of discounts/penalties	\$212,302,642	\$212,950,272	\$647,630	100.3%	210,702,760	214,705,324
2 Earned Income Taxes	23,875,000	\$24,850,000	\$975,000	104.1%	23,942,867	25,347,000
3 Real Estate Transfer Taxes	4,900,000	6,147,900	1,247,900	25.47%	5,344,465	4,900,000
4 Interims Real Estate Taxes	1,850,000	2,000,000	150,000	8.11%	1,602,641	1,850,000
5 Delinquent Real Estate Tax Revenue	2,550,000	2,700,000	150,000	5.88%	2,689,277	2,550,000
6 Public Utility	242,000	269,762	27,762	11.47%	274,496	242,000
Total	\$245,719,642	\$248,917,934	\$3,198,292	1.30%	244,556,506	249,594,324
			1.302%			

- 1 At this point collections are coming from the County and nothing has been reported since the Liens were filed.
- 2 The EIT revenue jumped by 11% in 2013-14, but some of the spike was due to delinquent collections so it was uncertain if that level of revenue would continue. In 2016-17 budget amount was increased by 6.7% to bump it up to the continued higher level. Collections continue to be strong in this year, indicating this may be another "spike" year. Per Keystone Collections, the EIT revenue collections are strong county wide. Based on this, upped the projection for this year and increased the 2017-2018 budget amount as well to reflect additional 2% growth.
- 3 Real Estate Transfer taxes have increased at about 16.5% over the past 2 years. Collections are running behind last year's to date at this time. The projection for this year may be slightly high, but will wait to see how the next few months go. Will revise 1718 budget once there is a better projection for this year.
- 4 Interim Tax billings are up about 30% over last year at this time, but collection rates are below prior years. Projected 1617 revenue is based on collection rate keeping pace with the 1516 collections. Still too early to predict where interims will come in, so propose holding at current projection. No update to this revenue line at this time.
- 5 Expect collections of Delinquent Taxes in 1617 to be close to last year; current to date is lagging by about 28%, but will wait and see. No update of information at this time.
- 6 Final - 100% collected - line was decreased too much, will move back to the \$270,000 range for 1718

Based upon this report, school districts may not receive as much property tax rebate funds from casinos as last year.

Pennsylvania Gaming Trends

SUMMARY

Following three consecutive years of decline, Pennsylvania gaming revenues exhibited positive growth in fiscal year (FY) 2015-16 (3.9 percent). Revenue gains were realized across all gaming types: slots (2.2 percent), table games (6.7 percent), pari-mutuel (1.8 percent) and the lottery (5.7 percent).

However, revenues through the first seven months of FY 2016-17 suggest a reversal of those trends. Two of the largest revenue sources, slots and lottery profits, are projected to contract by 2.4 percent and 3.0 percent, respectively, for the fiscal year. For slots, the decline has been widespread: ten casinos exhibited flat or negative growth and only two casinos recorded positive gains. For lottery, instant ticket (0.6 percent) and multi-state lotto sales (-17.4 percent) drive much of the weakness.

Due to a temporary rate increase, table games tax revenues are projected to grow by 15.8 percent (4.3 percent base growth), while pari-mutuel is projected to grow modestly (2.5 percent). The gains in pari-mutuel and table games revenues (\$19 million) are insufficient to offset the forecasted decline in slots revenues and lottery profits (-\$66 million).

If these projections hold, then total gaming revenues will fall below their peak in FY 2015-16. Some have attributed the decline in gaming revenues to market

maturity or competition from other states. Other factors may include tepid economic and demographic growth or the lack of wage gains. Although the exact cause remains unclear, the deceleration of gaming revenue growth has implications for taxpayers and policymakers because gaming revenues are an integral part of state finances.

For example, the lack of growth in slots revenue results in the inability of property tax relief to keep pace with the underlying property tax base and taxes levied by school districts. Modest growth of lottery profits implies that other funds may be required to support the needs of an elderly population that will expand dramatically over the next decade. For recent budgets, the Lottery Fund has also been used to support long-term care and home and community-based services. It is unclear whether that level of support can be maintained.

This research brief contains current and historical trends for casino gaming, pari-mutuel gaming and the lottery. The brief also presents casino gaming revenues, tax rates and effective tax rates for adjacent states, which likely influence trends for Pennsylvania. The final section displays how revenues from the three types of gaming were used in the state budget for the most recent year of actual data, FY 2015-16.

Gaming Tax Revenues and Lottery Net Profits

Fiscal Year	Slot Machines		Table Games		Pari-Mutuel		Lottery Profits		Total	
	Amount	Growth	Amount	Growth	Amount	Growth	Amount	Growth	Amount	Growth
2008-09	\$1,001	25.6%	n.a.	n.a.	\$14	34.2%	\$910	-1.9%	\$1,925	10.9%
2009-10	1,231	23.0	n.a.	n.a.	13	-5.2	916	0.7	2,160	12.2
2010-11	1,329	7.9	\$81	n.a.	10	-21.8	961	4.9	2,382	10.3
2011-12	1,390	4.6	107	32.0%	13	25.3	1,061	10.4	2,572	8.0
2012-13	1,354	-2.6	103	-4.2	11	-11.8	1,067	0.6	2,535	-1.4
2013-14	1,289	-4.8	105	2.3	10	-11.2	1,081	1.3	2,486	-2.0
2014-15	1,296	0.6	112	6.5	9	-12.4	1,061	-1.9	2,478	-0.3
2015-16	1,325	2.2	120	6.7	9	1.8	1,121	5.7	2,575	3.9
2016-17	1,293	-2.4	139	15.8	9	2.5	1,087	-3.0	2,528	-1.8

Note: Dollar amounts are in millions. Projections by the IFO for FY 2016-17 are based on data through January 2017.

CASINO GAMING

Pennsylvania and all adjacent states offer slots or table game play at commercial casinos. The current number of casinos and the year gaming was legalized in these states are as follows: New Jersey (7 casinos, 1976), Delaware (3 casinos, 1994), West Virginia (5 casinos, 1994), New York (9 casinos, 2001), Pennsylvania (12 casinos, 2004), Maryland (6 casinos, 2008) and Ohio (11 casinos, 2009). Two states offer additional game types besides slots and table games: New Jersey (internet gaming) and Delaware (internet gaming and limited sports betting). Revenue from internet and sports gaming, as well as gaming-related fees, are excluded from tabulations in this section.

Gross Gaming Revenues

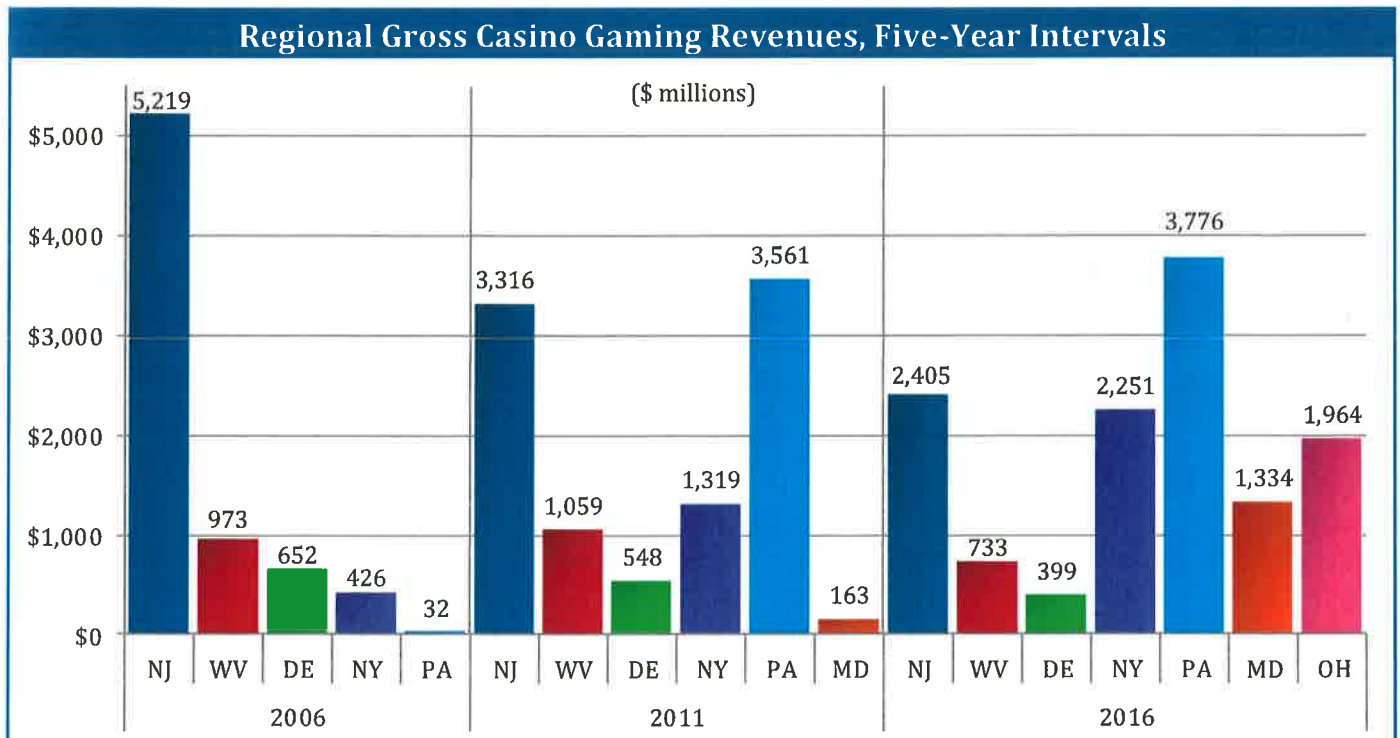
Gross revenues provide useful insight into gaming activity across states because, unlike tax revenues, they are unaffected by differences in the tax structure. In this report, gross gaming revenues represent wagers (including promotional play) less payouts. Promotional play has been steadily rising in recent years, thereby increasing gross revenues. In 2006, promotional play was not offered in most states, and it does not appear in the data in the figure below until 2011. For Pennsylvania, promotional play was \$537

million in 2011 and \$563 million in 2016, which is roughly 15 percent of gross revenues.

In 2006, New Jersey reached its peak level of gross gaming revenues (\$5.2 billion) and dominated the regional gaming market (71 percent of regional gross revenues). While New York and Pennsylvania ramped up casino operations, a total of five casinos closed in New Jersey (four in 2014 and one in 2016), leading to a drop in New Jersey's regional share to 19 percent by 2016.

West Virginia and Delaware faced similar contractions, and their combined shares were more than cut in half from 2006 (22 percent) to 2016 (9 percent). While New Jersey, Delaware and West Virginia's relative shares declined, New York's share grew considerably. In 2006, New York comprised 6 percent of regional revenues and grew to 18 percent in 2016, nearly equal to New Jersey. New York's share will continue to grow due to the recent authorization of table games and three potential casino licenses.

Pennsylvania took the lead in the regional gaming market for the first time in 2011 (36 percent of gross revenues), surpassing New Jersey. Pennsylvania's regional share fell to 29 percent in 2016, likely due to



Ohio's (2012) and Maryland's (2010) entrance into the regional gaming market.

Looking forward, Maryland's share (10 percent in 2016) will likely expand due to the opening of the National Harbor casino in December 2016. Ohio's share (15 percent) will likely stabilize, as its eleven casinos are fully phased in. Although Pennsylvania has three casino licenses available, it is unclear when those licenses will be issued. As casino gaming in the region expands, along with the types of games offered (e.g., online and fantasy gaming), there will be more competition for the same regional consumer base.

Effective Tax Rates

The table below displays basic information on the tax structure for Pennsylvania and adjacent states. The table also shows effective tax rates (ETR), which are computed as tax collections divided by gross gaming revenues for calendar year 2016.

The operation and tax structure of casino gaming vary widely across states. Some states operate gaming machines through the state lottery, such as Delaware, Maryland, New York, Ohio and West Virginia. For those states, the state lottery retains a portion of gross gaming revenues as opposed to levying an explicit tax.

Gaming tax rates may differ by the casino facility location (e.g., Maryland, New York and Ohio) or the game type. For Pennsylvania, the tax rates for casino games vary based on the type of game. Gross revenue from slot machines is taxed at a maximum rate of 55.0 percent. The table games tax rate varies based on the

length of time that a casino has offered table games. The tax rate is 16.0 percent of gross revenues for the first two years a casino offers table games and 14.0 percent thereafter.¹ For most casinos, the lower tax rate became effective during FY 2012-13. Recent legislation temporarily raised the tax rate to 16.0 percent for FY 2016-17 through FY 2018-19.

The taxation of promotional play also differs across states. Some states tax a portion of promotional play (Maryland, Delaware, New Jersey, New York and West Virginia). For example, New Jersey taxes the first \$90 million in promotional play as part of gross revenues, but anything above that amount is not subject to tax. Promotional play in Pennsylvania and Ohio is exempt from tax. An April 2014 Pennsylvania Supreme Court decision expanded the deductibility of promotional play from traditional "free play" to include other prizes awarded to patrons as a result of playing a slot machine or table game. The result of this decision is a further erosion of the Pennsylvania tax base.²

Due to the different tax rates and structures, states with high statutory tax rates may not have high average ETRs. For example, Pennsylvania's ETR is lower than its slots tax rate, due to the lower table games tax rate and its exemption of promotional play. A comparison of tax rates and ETR reveals that:

- West Virginia has the highest ETR and table games tax rate and fourth highest slot machine tax rate.
- New Jersey has the lowest slots and table games tax rates, as well as the lowest ETR.

Regional Tax Rates and Effective Tax Rates, CY 2016

State	Slot Machine Tax	Table Games Tax	Treatment of Promotional Play	Effective Tax Rate
West Virginia	53.5%	35%	Roughly 2-3% of amount played is tax free	41.3%
New York	37-45%	10%	Up to 15% of a facility's net win is tax free	40.9%
Delaware	59.5%	33.9%	20% of prior year's revenues is tax free	38.8%
Pennsylvania	55% (max)	14%	Not taxed	38.0%
Maryland	67%	20%	20% of prior year's revenues is tax free	36.1%
Ohio	33%	33%	Not taxed	28.7%
New Jersey	9.25%	9.25%	Promo play exceeding \$90 million is tax free	8.6%

Note: Maryland's slot tax rate was reduced for two of its facilities in the last three weeks of December 2016. Pennsylvania's table games tax rate was increased to 16.0 percent in July 2016.

Tax Revenues

The table below displays regional gaming tax revenues. The distribution of tax revenues across states can be very different than the distribution of gross revenues because states may levy low tax rates (e.g., New Jersey at 9.25 percent), whereas others levy higher tax rates (e.g., Maryland at 67.0 percent).

After reaching its peak in 2012, Pennsylvania gaming tax revenues declined in the subsequent two years, despite two new Category 3 casino openings (Valley Forge, 2012 and Nemaquin, 2013). The largest annual decline was recorded in 2013 (-3.9 percent), and it can be decomposed as follows; 10 casinos comprised 5.4 percentage points of the decline, while Nemaquin and Valley Forge comprised a 1.5 percentage point increase, as operations ramped up in those casinos. That same trend was observed in 2014.

Tax revenues grew moderately in 2015 (2.4 percent). However, much of that growth was due to two casinos; the Sands and Parx contributed 1.8 percentage points of the increase, whereas the other casinos were mostly flat (a combined contribution of 0.6 percentage points). For 2016, revenues were flat for nearly all casinos (0.6 percent): six casinos were slightly negative, contributing a 1.2 percentage point decline,

while the remaining six casinos were slightly positive, contributing a 1.7 percentage point gain. Two primary factors may have restrained the growth of tax revenues: the maturation of the gaming market and increased competition from surrounding states.

Similar to other markets, the market for recreational gaming will progress through various stages. Revenues will expand quickly at first, but the market will eventually mature as demand for recreational gaming stabilizes or possibly declines. The three states with the longest history of gaming (New Jersey, West Virginia and Delaware) have exhibited negative or flat tax revenue growth in recent years. For New Jersey, the large decline in 2015 was due to casino closures. Similar to Pennsylvania, New York exhibited a decline in 2014 and moderate growth in 2015, but grew at a faster rate in 2016 due to casino expansions.

More recent entrants to the gaming market, Maryland and Ohio, have experienced much different trends. For the first few years, Maryland (2012 to 2015) and Ohio (2014 to 2015) experienced strong growth as operations ramped up. For Ohio, the growth rate stabilized in 2016, as all casinos were fully operational. For Maryland, a new casino opening and a slots tax rate reduction at the end of 2016 could lead to further growth rate swings in the near term.

Regional Casino Gaming Tax Revenue

<u>Annual Tax Revenues (\$ millions)</u>								
CY	Delaware	Maryland	New Jersey	New York	Ohio	Pennsylvania	West Virginia	Total
2011	\$228	\$90	\$278	\$594	\$0	\$1,456	\$413	\$3,058
2012	216	218	255	823	138	1,487	400	3,537
2013	179	369	242	878	357	1,430	337	3,790
2014	163	416	235	864	487	1,395	310	3,870
2015	157	453	205	888	548	1,428	311	3,991
2016	155	481	206	920	565	1,436	303	4,065
<u>Annual Growth Rate</u>								
CY	Delaware	Maryland	New Jersey	New York	Ohio	Pennsylvania	West Virginia	Total
2012	-5.2%	143.7%	-8.1%	38.6%	n.a.	2.1%	-3.0%	15.7%
2013	-17.2	68.9	-5.2	6.7	n.a.	-3.9	-15.7	7.1
2014	-8.8	12.8	-2.8	-1.5	36.5%	-2.4	-8.2	2.1
2015	-3.6	8.9	-12.8	2.8	12.6	2.4	0.3	3.1
2016	-1.7	6.3	0.5	3.5	3.0	0.6	-2.5	1.9

PARI-MUTUEL GAMING

Pennsylvania has a long history of both harness (since 1959) and thoroughbred (1967) horse racing. All Pennsylvania racetracks are either attached to or part of a Category 1 casino. These facilities are commonly referred to as “racinos.” The Commonwealth authorized seven racinos, and six are currently in operation.

Racetrack operators are responsible for receiving wagers and remitting taxes. Pari-mutuel wagers can be placed at any facility that offers live racing, an off-track wagering facility (OTW) or via a phone/internet betting service. Wagers on Pennsylvania races can also be placed at facilities located outside the state.

The tax rate on wagers is 1.5 percent for licensed racing corporations that conduct at least 100 race days, or two licensed corporations that conduct racing at the same facility for at least 175 combined race days. The tax rate on wagers is 2.0 percent for licensed racing corporations conducting less than the minimum number of race days.

In addition to wagering taxes, there are taxes imposed on exotic pools, breakage and admission. An additional 1.0 percent tax is levied on exotic pools, which are bets that involve two or more horses (e.g., exacta, daily double, quinella and other). A 25 percent tax is levied on the breakage, which is “the odd cents of redistributions to be made on all contributions to pari-mutuel pools exceeding a sum equal to the next lowest multiple of ten.”³ The Racing Act also imposes a 5 percent tax on the admission price of tickets sold at

each meeting held by the racing association. Data suggest that the effective tax rate on all taxable pari-mutuel gaming is 2.25 percent.

Other licenses and fees collected on racing activities include occupational license fees and colors registration fees. These fees are levied on the licensing of jockeys and other persons participating in horse racing meets. Licenses and fees comprise a small portion of the revenues attributable to horse racing.

Pari-mutuel tax and fee revenues have not changed appreciably during the past decade. When racinos were created in FY 2006-07 and slots gaming was combined with thoroughbred and harness racing, tax revenues increased for a brief period of time. The opening of newer racetracks (Harrah’s and Presque Isle) likely contributed to that outcome. Since that time, tax revenues have declined.

The decline reflects a reduction in wagers placed at locations within Pennsylvania. From FY 2008-09 to FY 2015-16, taxable wagers declined at an average rate of 8.7 percent per annum. The table does not reflect wagers on Pennsylvania races that are placed at locations outside the state.

Out-of-state wagers on Pennsylvania races, which are shown in the table but not included in the tax base, have also declined in recent years. From FY 2012-13 to FY 2015-16, out-of-state wagers contracted by an average of 3.5 percent per annum. In prior years (FY 2008-09 to FY 2012-13), out-of-state wagers grew by 2.4 percent per annum.

Pari-Mutuel Wagers and Revenues

<u>Fiscal Year</u>	<u>In-State Wagers (T)</u>	<u>Out-of-State Wagers (E)</u>	<u>Total</u>	<u>Growth</u>	<u>Tax Revenue</u>	<u>Licenses and Fees</u>	<u>Total</u>	<u>Growth</u>
2008-09	\$123.1	\$631.8	\$754.8	11.6%	\$13.9	\$0.8	\$14.7	30.5%
2009-10	114.6	650.7	765.3	3.0	13.2	0.6	13.9	-5.7
2010-11	99.1	613.0	712.1	-5.8	10.3	0.7	11.0	-20.7
2011-12	98.6	638.2	736.8	4.1	12.9	0.6	13.6	23.4
2012-13	93.3	695.9	789.3	9.0	11.4	0.6	12.0	-11.3
2013-14	80.7	681.3	762.0	-2.1	10.1	0.7	10.8	-10.0
2014-15	79.3	680.7	760.0	-0.1	8.9	0.7	9.6	-11.8
2015-16	64.8	625.7	690.5	-9.1	9.0	0.6	9.7	1.2

Notes: Dollar amounts are in millions. (T) represents taxable, (E) represents exempt wagers made on Pennsylvania races.

LOTTERY

The Pennsylvania Lottery was established in 1971 and offers the following games: instant tickets, numbers games (Pick 2, Pick 3, Pick 4, Pick 5 and Wild Ball), in-state lotto (Cash 5, Match 6 and Treasure Hunt), multi-state lotto (Powerball, Mega Millions and Cash 4 Life) and Raffle.

Since FY 2009-10, which represents a recent low for the lottery (-0.7 percent growth from the prior year), total sales have grown at a rate of 5.1 percent per annum. Two game types were the main drivers of this growth: instant tickets (8.1 percent per annum) and multi-state lotto (5.8 percent per annum).

Instant ticket sales now comprise more than two-thirds of total lottery sales. These sales have grown, in part, due to players shifting to higher-priced tickets. In FY 2010-11, the \$20 and over category comprised 20.8 percent of instant ticket sales, and the average sales price was \$3.91. In FY 2015-16, the \$20 and over category comprised 29.5 percent, and the average sales price was \$5.15. Due to higher relative prize payouts, the shift to higher-priced tickets produces smaller profit margins.

Although FY 2015-16 multi-state lotto sales grew by more than 30 percent over the prior year, these games comprised the same relative share of total sales as FY 2009-10 (12 percent). Multi-state sales are dependent on the size of the jackpot, and years with a higher number of large jackpots or an especially large jackpot may produce double digit growth (FYs 2012-13 and 2015-16). Due to a change in the Powerball game rules (October 2015), the odds of winning a jackpot

decreased, which contributed to the largest historical payout of \$1.6 billion during FY 2015-16. Conversely, a lack of large jackpots may trigger a sizeable decline in sales (FY 2014-15).

While instant tickets and multi-state lotto games have been a source of growth, in-state lotto and numbers games have declined from FY 2009-10 to FY 2015-16 (-0.9 percent and -2.6 percent per annum, respectively). For in-state lotto games, the growth in Treasure Hunt (6.9 percent per annum) and Match 6 (1.3 percent) is outweighed by the decline in Cash 5 (4.5 percent) because it comprises more than half of this category. Similarly, for numbers games, the growth in Pick 5 (4.9 percent per annum) is outweighed by declines in Pick 3 (-4.5 percent) and Pick 4 (-1.9 percent), which comprise more than 90 percent of this category. Pick 2 games were added in FY 2014-15, but comprise only one percent of total sales of numbers games.

Lottery sales are not subject to tax. Instead, a lottery agency retains any net profits from sales after the deduction of advertising, prizes and operating costs. Since FY 2009-10, net profits have increased at an average rate of 3.4 percent per annum, considerably slower than total sales (5.1 percent). Profit growth lags sales growth, as consumers shift from games with higher profit margins (numbers games) to games with lower profit margins (instant tickets). A declining profit margin does not imply that a lottery operates inefficiently. It simply reflects a changing mix of games in response to an evolving marketplace.

Lottery Sales and Net Profits

Fiscal Year	Instant Tickets	Numbers Games	All Other In-State	Multi-State	Total Sales	Net Profits	Profit Margin
2009-10	\$1,749	\$682	\$280	\$354	\$3,066	\$916	29.87%
2010-11	1,922	674	271	340	3,208	961	29.95
2011-12	2,135	646	271	429	3,481	1,061	30.48
2012-13	2,305	631	279	485	3,700	1,067	28.85
2013-14	2,445	611	296	447	3,800	1,081	28.46
2014-15	2,592	597	250	381	3,820	1,061	27.77
2015-16	2,793	581	265	496	4,135	1,121	27.12
AAGR	8.1%	-2.6%	-0.9%	5.8%	5.1%	3.4%	

Note: Dollar amounts are in millions. AAGR is the average annual growth rate. Profit margin is equal to net profits divided by total sales.

USE OF GAMING REVENUES

This section describes how lottery profits, casino and pari-mutuel gaming tax revenues were used to support certain expenditures in FY 2015-16. The flow chart that accompanies the text (see page 9) displays the revenue source, the funds into which revenues were deposited and their ultimate use.

The tax revenue and net profit figures (green shading) in the flow chart represent cash flows generated during the fiscal year. All tax revenues or net profits are deposited into various funds (red) or are distributed to their final end use (blue). However, amounts deposited into the various funds may differ from the distributions made from those funds. Those differences occur because (1) distributions may include other miscellaneous revenues or fees deposited into the fund from other sources, (2) the funds may distribute prior year remaining balances and (3) the funds may retain some of the revenues they receive during the fiscal year. For FY 2015-16, gaming revenues totaled \$2.57 billion, and distributions totaled \$2.55 billion.

Pari-Mutuel

For FY 2015-16, the Commonwealth collected \$9 million in pari-mutuel gaming revenues, which were deposited into the State Racing Fund administered by the Department of Agriculture. The State Racing Fund also received a transfer (\$6 million) from the Pennsylvania Race Horse Development Fund, which is supported by slot machine tax revenues. Hence, the total deposit was \$15 million.

Due to the deposit of other fees and miscellaneous revenues, approximately \$16 million was disbursed from the State Racing Fund as follows:

- Administrative expenses (\$0.2 million). (The monies were not expended during the fiscal year.)
- State Racing Commission (\$11 million).
- Equine toxicology and research laboratory (\$3 million).
- Administration of Pennsylvania fairs (\$0.2 million).
- Refunds for the advance deposit of the wagering tax (\$2 million).

Casino Gaming

For FY 2015-16, the Commonwealth collected \$1.44 billion in tax revenues from table games and slot machines. These tax revenues were distributed as follows:

- Table games state tax revenues were deposited into the General Fund. Collections totaled \$103 million.
- The local share assessment is 2.0 percent of GTR from table games and 4.0 percent of GTR from slot machines. (The 4.0 percent from slot machines is currently subject to a \$10 million minimum for certain facilities.) Collections totaled \$161 million.
- The Pennsylvania Race Horse Development Fund (PRHDF) receives a maximum of 12.0 percent of GTR from slot machines. Collections totaled \$249 million.
- The Pennsylvania Gaming Economic Development and Tourism Fund receives 5.0 percent of GTR from slot machines. Collections totaled \$119 million.
- The State Gaming Fund receives 34.0 percent of GTR from slot machines. Collections totaled \$812 million.

The local share assessment monies are typically distributed to the local governments where the gaming facilities reside. Revenues generally support spending for local economic development, education or other local spending.

The monies from the PRHDF support the race horse industry and other agricultural programs. (As noted in the prior subsection, the State Racing Fund received a transfer of \$6 million from the PRHDF.) In FY 2015-16, distributions from the PRHDF for purses and health and pension benefits for horsemen's organizations totaled \$184 million. Other distributions to the Department of Agriculture totaled \$52 million. Those funds were distributed as follows: the Breeding, Sire Stakes and Standardbred Funds (\$34 million), the Farm Show Products Fund (\$5 million), the Animal Health and Diagnostics Commission (\$5 million), veterinary labs (\$5 million) and Pennsylvania fairs (\$3 million).

The \$119 million distribution to the Pennsylvania Gaming Economic Development and Tourism Fund financed economic development in Allegheny and

Philadelphia counties, as well as water and sewer projects and flood control projects approved by the Commonwealth Financing Authority.

The monies from the State Gaming Fund were distributed as follows:

- The Compulsive and Problem Gambling Treatment Fund receives the greater of \$2 million or 0.002 multiplied by the slots GTR. The transfer was \$5 million. An additional \$3 million was transferred and earmarked for drug and alcohol treatment programs. The total disbursement was \$8 million.
- Other distributions (\$41 million) include:
 - ◆ The Department of Conservation and Natural Resources, the Pennsylvania Fish and Boat Commission and the Pennsylvania Game Commission receive payments in lieu of taxes. The total transfer was \$9 million.
 - ◆ The Pennsylvania Emergency Management Agency receives \$30 million annually for volunteer fire and ambulance company grants.
 - ◆ Grants made available to local law enforcement agencies totaled \$2 million.

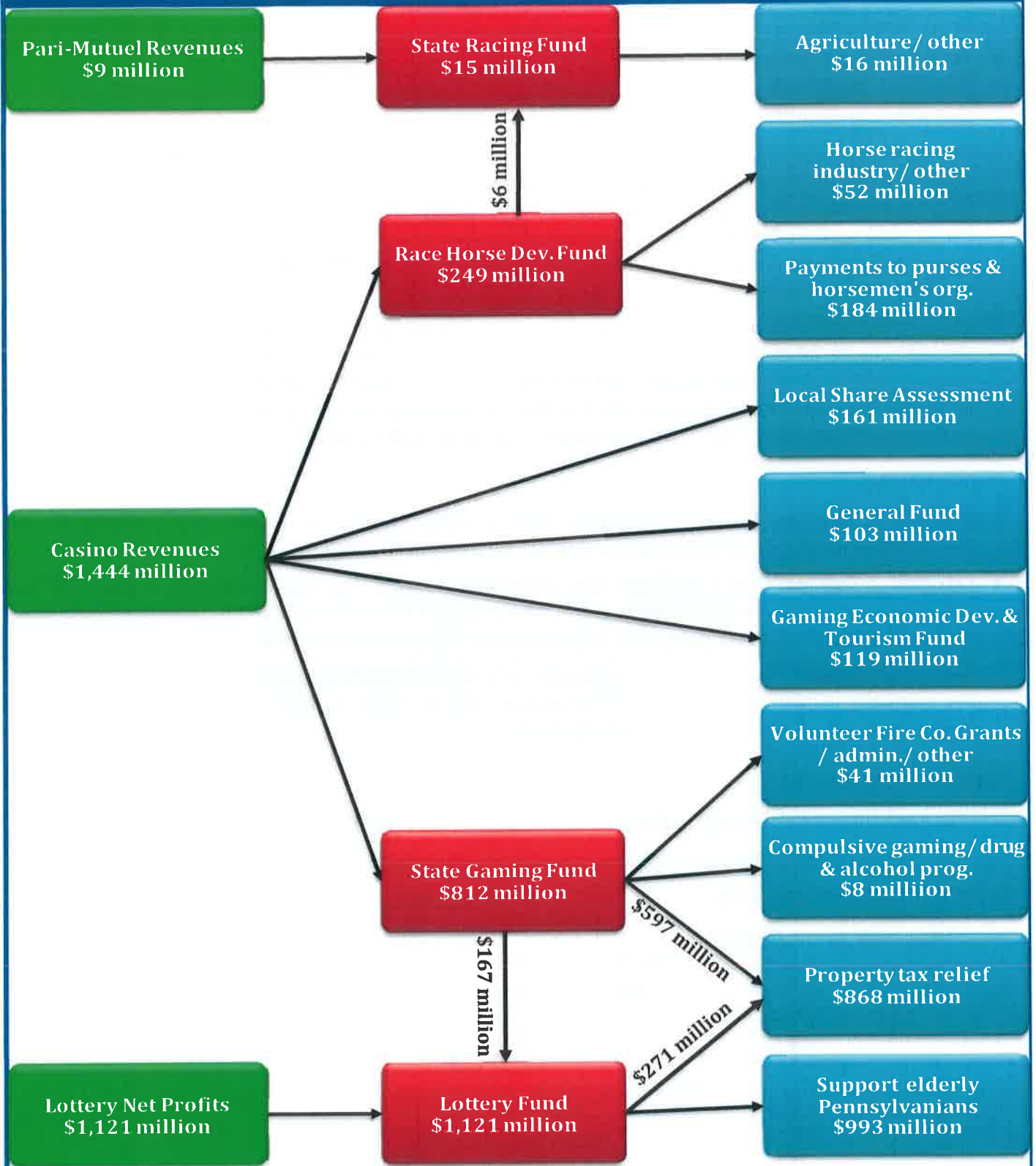
The remaining balance of \$764 million was available for property tax relief. This amount was combined with other gaming revenues collected through October 15, 2016 (for a total of \$766 million) and distributed in FY 2016-17. The amount reflects general property tax relief and Sterling Act reimbursements (\$618 million), as well as a transfer to the Lottery Fund (\$148 million) for the expanded Property Tax Rent Rebate Program.⁴

Lottery Fund

In FY 2015-16, Lottery net profits totaled \$1.12 billion. These revenues are net of all administrative and operational expenses. The net profits were deposited into the Lottery Fund and distributed to the following funds and departments:

- The Department of Aging received \$528 million. The funds were distributed as follows:
 - ◆ Administrative and other expenses (\$8 million).
 - ◆ Caregiver support (\$11 million).
 - ◆ PENNCARE (\$317 million).
 - ◆ Pre-Admission Assessment (\$16 million).
 - ◆ Alzheimer's Outreach (\$0.2 million).
 - ◆ Pharmaceutical Assistance Fund (\$175 million).
 - ◆ Grants to Senior Citizens (\$0.6 million).
- The Department of Human Services received \$308 million. The funds were distributed as follows:
 - ◆ Long-Term Care (\$184 million).
 - ◆ Home and Community Services (\$121 million).
 - ◆ Transportation Services (\$3 million).
- Property tax relief and rent rebates for senior citizens (\$271 million).
- The Department of Transportation received \$157 million. The funds were distributed as follows:
 - ◆ Transfers to the Public Transportation Trust Fund (\$96 million).
 - ◆ Shared Rides (\$61 million).

Overview of Gaming Revenues and Distributions for FY 2015-16



Amounts deposited into the funds may differ from the distributions made from those funds because (1) distributions may include other miscellaneous revenues or fees deposited into the fund from other sources, (2) the funds may distribute prior year remaining balances and (3) the funds may retain some of the revenues they receive during the fiscal year. Excludes fees.

Endnotes

1. Gross Terminal Revenue from fully automated electronic table games is subject to an additional 34.0 percent tax (i.e., a total of 48.0 or 50.0 percent).
2. For 2016, refunds reduced gross revenues by \$96.0 million and tax revenues by \$45.3 million. The effective tax rate with refunds is 37.8%.
3. The act of December 17, 1981 (P.L. 435, No. 135), known as the "Race Horse Industry Reform Act." Act 7 of 2016 repealed the Race Horse Industry Reform Act and replaced it with a new article (XXVIII-D Race Horse Industry Reform) in The Administrative Code of 1929. Changes resulting from Act 7 include an increase in the tax on breakage from 25 percent to 37.5 percent, elimination of the admissions tax and creation of various new fees related to horse racing. These changes have a limited impact on FY 2015-16, but will impact future year revenues to a greater extent.
4. The remaining balance of \$764 million and the indicated distributions are consistent with revenues received through June 30, 2016. Revenues received through October 15, 2016 resulted in distributions of \$766 million, including \$148 million to the Lottery Fund for the expanded Property Tax Rent Rebate Program, \$21.5 million in Sterling Act reimbursements and \$618 million in general property tax relief. These distributions are consistent with the Budget Secretary's certification issued on April 15, 2016.

Definitions

- **Category 1 Casinos:** These casinos also have a valid harness or thoroughbred racing license. Pennsylvania authorized seven facilities, and six are currently in operation.
- **Category 2 Casinos:** These facilities are stand-alone casinos. Five casino licenses of this type were authorized: two casinos in Philadelphia, one in Pittsburgh and two in revenue or tourism-enhanced locations (Mount Airy and Sands Bethlehem). Four of these casinos are currently in operation.
- **Category 3 Casinos:** These casinos must be part of a "well-established resort hotel" and have limitations on the maximum number of casino games that may be offered. Three of these casinos are authorized under Pennsylvania law, and two are currently in operation.

Data Sources

- The Pennsylvania Lottery and the Pennsylvania Gaming Control Board
- Pennsylvania state accounting system
- American Gaming Association
- Various state gaming authorities

Independent Fiscal Office



Rachel Carson State Office Building, 2nd Floor
400 Market Street
Harrisburg, PA 17105
E-mail: contact@ifo.state.pa.us
Website: www.ifo.state.pa.us

Staff Acknowledgements: Lauren Mondschein