



Central Bucks School District
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CENTRAL BUCKS SCHOOL DISTRICT

Budget for the 2013-2014 School Year

Financial Information for the General Fund.

Executive Summary



Central Bucks School District

Doylestown, Pennsylvania

Annual Budget Fiscal Year 2013-2014 Board of School Directors

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Paul B. Faulkner	(2013)	Vice President, Meet and Discuss, Finance, Operations
James R. Duffy	(2015)	HR Committee Chair, Finance Committee
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R. Tyler Tomlinson	(2015)	Operations Committee Chair, Finance Committee, IU#22 Board Alternate
Kelly E. Unger	(2015)	Curriculum Committee, M.B.I.T Board
Jerel P. Wohl	(2013)	Finance Committee Chair, Curriculum Committee
Susan B. Vincent		Treasurer (non voting)
Sharon L Reiner		Secretary (non voting)

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Introductory Section

Executive Summary

Introduction

The budget process begins each year in August by developing budget guidelines for administrators. Initial budget requests from the teaching staff are submitted, compiled, and reviewed by building administrators in November. Budget requests are reviewed to assure that they are within allocated limits and meet district goals. The business office develops salary and benefit projections as well as a budget for expenses that cannot be directly attributed to instruction.

A draft budget is presented to the School Board in December. At this time, trends are reviewed in the state economy and in the local area as well. After discussion, the preliminary budget is approved by the School Board in January. The Governor presents the Executive Budget for Pennsylvania in February. This budget is reviewed to see how it affects Central Bucks and it is included into the budget process. In March and April the budget is reviewed and current year expenses are reviewed to determine if the current year's budget was close to actual expenses. Then, at the end of April the proposed final budget is presented to the School Board and posted for public review. Pennsylvania law requires each school board to adopt a proposed final budget then place the budget on public display for 20 days. During this time, the public has a chance to review the document, provide comment back to the School Board, and ask questions at subsequent board meetings prior to final adoption. A budget must be adopted in final form prior to July 1 of each year. The fiscal year runs from July 1 to June 30 of each year. The 2013-14 final budget was approved by the School Board in May. This year, for the first time since 1993, the Central Bucks General Fund Budget has no real estate millage increase. The rate remains at 122.8 mills for the 2013-14 school year.

This document attempts to frame the budget in quantitative terms as well as provide graphical and narrative formats to make the information contained in this report as understandable as possible. Comments for improving the budget report can be directed to Susan Vincent, Director of Finance or Dave Matyas, Business Administrator at (267) 893-2000.

Many thanks to the faculty, administrators, and business office staff, for their input and hard work in developing this budget. Special thanks to our school board members who spent many hours sifting through the financial details, personnel restructurings, and long term planning, to help us arrive at a bottom line budget.

Summary of the General Fund Budget

The table below compares the 2012-13 budget to the 2013-14 budget. Due to its size and importance, most of the graphs and analysis will concentrate on the General Fund Budget.

Fund Name	Budget 2012-13	Budget 2013-14	% Change
General Fund	\$ 287,238,850	\$ 290,683,982	1.20%

District Goals for 2013-14

District-Wide Goals - General

For the 2013-14 school year, enhancing the curriculum by making it more rigorous and relevant to the life long needs of students will continue to be a major school district goal. For 2013-14 the district will maintain the 10 minute extended length of middle school core instructional periods started in 2012-13. This change has the impact of giving middle school students the equivalent of 3.75 years of instructional time within core subject areas during their three year enrollment in middle school. The core subject areas are Math, English, Science, Reading, and Social studies.

Elementary School Goals

Phase one of a new science curriculum was started in 2009-10 and is now fully implemented. The science curriculum helps students find many ways to solve problems and to see solutions from many different angles. The new science curriculum ties in to the Everyday Math curriculum which helps to show students how the two disciplines are related. Integration of the science curriculum will also help the district meet the federal No Child Left Behind legislative requirements

The district is continuing to implement a new language arts curriculum (Being a Writer) and a new elementary social studies curriculum (History Alive) in an on-going effort to improve instruction and student learning. In addition, the second phase-in of the new elementary reading curriculum was completed in 2012-13. We will continue to support building level and district-wide staff development programs for all teachers in all subject areas. The new curriculums will help the district meet No Child Left Behind goals which require 100% student proficiency by June of 2014.

Secondary Schools Goals

In secondary schools for 2012-2013, technology became even more of an integral tool for instruction, learning, and communication. The Technology Scope and Sequence K-9 was written to document the integration of technology in all content areas. Websites for all secondary schools were standardized using SchoolWires with individual teacher websites planned to follow. Secondary schools began using an online parent newsletter through smore.com. BlackBoard was embraced by many high school teachers who used this as a tool for communication and instruction. BYOD (Bring Your Own Device) moved seamlessly into the high schools. The number and use of Smartboards increased dramatically at the middle school level with teachers using this tool as a way of engaging students in meaningful instruction in all content areas. We completed the administration of the first year of the state-mandated Keystone Exams in Algebra, Biology and Literature in middle and high schools with successful preliminary results thus far. We monitored changes in the instructional day at the middle level with students having longer class periods and fewer courses at one time.

Looking ahead to 2013-2014, middle school teachers and administrators revised the ninth grade transition assessment this year with full implementation to begin in September 2013. All teachers and administrators are prepared this year for Educator Effectiveness, a teacher evaluation system developed by the Pennsylvania Department of Education and being implemented in 2013-14. A continuing goal for 2013-2014 will be discussions on consistent grading practices in the secondary schools and teaching students to be resilient learners and individuals. We will also work toward promoting STEM (science, technology, engineering and math) instruction in middle and high school courses.

Information Technology Goals

The IT Department's most visible accomplishment of the 2012-13 school year was overseeing a major overhaul of the district's website. The new website is more organized and visually appealing, and allows for more efficient updating via a user-friendly interface for those responsible for maintaining content on the site. The website is also designed with a "responsive design" capable of adjusting to large desktop monitors, tablets, and smartphones to present information tailored to the device it is being viewed on.

The IT Department also coordinated (with additional help being provided by the Facilities Department) a significant expansion of the district's wireless networking capabilities which has allowed the district to also expand its ability to support a Bring Your Own Device initiative for both students and staff. Wireless network access is now available in every library in the district, throughout large portions of all three high schools, in core curriculum areas of the middle schools, and in the upper grade areas of all elementary schools. Expanding wireless access throughout the district is an on-going process and the IT department will continue to pursue opportunities for additional access.

A "less than routine" task the IT Department accomplishes on a routine basis during the summer months is to replace approximately 1/5 or about 2,500 district computers throughout the district. This regular replacement cycle ensures that no equipment becomes obsolete and students have appropriate resources to support their learning.

In order to support the teaching and learning objective of the district, the IT Department supported, piloted, tested, integrated, and helped evaluate a number of systems that help promote extended learning opportunities beyond the classroom. Most noteworthy of these was Blackboard.com, which provides a virtual learning platform for students at the secondary level.

Less visible, but equally important, are the many infrastructure related projects the IT staff completes throughout the year. This year the IT Department coordinated a major upgrade to the district's financial management system, developed a number of electronic forms/systems to promote efficient operations, and completed numerous updates or upgrades to a large number of servers, systems, and networking components.

In the 2013-14 school year, the IT Department plans to leverage and extend many of the existing goals of the department, including; supporting teaching and learning with technology, improving operational efficiency, expanding wireless access, and providing learning opportunities beyond the classroom.

Student Services Goals

Student Services for 2012-13, continued to maintain the focus on insuring quality services for all students with special needs. As the state has placed more emphasis on “life after high school” we as a district have examined our programs and services that support post-secondary transition. All our secondary teachers have been trained in the best practices which address student and family post-secondary goals in education, employment and independent living. Technology continues to an integral tool for instruction, communication and independence for students with special needs. We have increased the number of students who have access to technology either through the use of Smartboards in the classroom, iPads for classroom and individual use and assistive technology to support communication. We revised our Bullying Policy and administrative guidelines as well as the prevention and intervention strategies in place across the district. Our goal has been to provide students with the skills and resources necessary to respond to acts of bullying and most importantly continue to foster the positive school climates in our schools.

Looking forward to 2013-2014, we will be involved in the implementation of Teacher Effectiveness evaluations for our special education teachers. We will continue our work in the review and revision of our instructional programs with an emphasis on instruction, assessment and progress monitoring in writing elementary through secondary. We also will be continuing our work on reviewing programs and insuring that we have quality options for our students.

School Facilities Goals

Security for students, faculty, and, staff continues to be in the forefront of planning and implementation. As schools are renovated, entrances are redesigned to route all visitors through the main office. Other solutions such as networked based video cameras and magnetic door locks are being employed as well. Discussions with community members, the local police forces, and Home Land Security continues the dialog and development of system wide approaches to security. Some of the most useful security and emergency measures were achieved through continued use of mock drills. Mock drills help identify areas of emergency and security plans that work and others that need to be refined or deleted.

Completed Capital Projects during 2012-13 included phase 2 of CB East High School renovations, Unami Middle School science room renovations, and Pine Run Elementary School classroom renovations.

The district continues to look for additional ways to recycle materials. During 2012-13 the district recycled 351 tons of paper; 8,300 cubic yards of cardboard, cans, and plastics; 100 tons of “e-scrap” (computer monitors, old PCs, TVs); and 1,000 pounds of rechargeable batteries.

The district is also committed to energy efficiency. Since 2009 – CBSD has reduced over 18,000,000 kwh of electrical consumption and saved \$5,400,000 in utility costs (electricity, natural gas, and heating oil). The district has also received \$795,000 in PECO ACT 129 rebates and \$840,000 in demand response revenue from PECO.

Future Capital Projects

- CB East Phase III & IV Renovations – To be completed September 2014
- Unami – Renovate 10 Classrooms
- Holicong – Phase I - Renovate Boiler Room and Locker Rooms
- Pine Run – Site Improvements including parking lot repaving

- o Potential for CB East Stadium Construction dependent upon the outcome of engineering and architectural analysis.

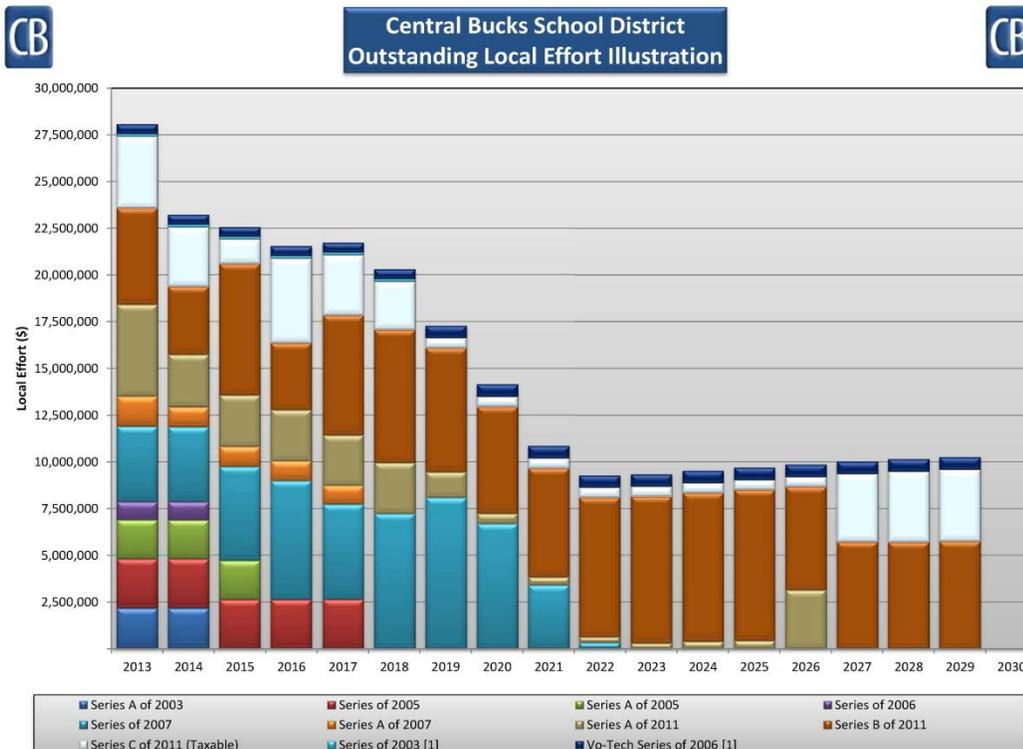
School Facilities Historical Goals

In 2008 the district borrowed \$96 million dollars to renovate secondary schools and to convert \$20 million in variable interest rate debt to fixed interest rate debt. This resulted in the renovations at Lenape Middle School, \$16 million, and Tamanend Middle School, \$16 million. Renovations at East High School (estimated at \$33 million) began in August 2011 and should be completed by September 2014.

Construction of the East High School proposed stadium has some momentum after many years of legal issues holding up construction. The Bucks County Court of Common Pleas found in favor of the district with respect to construction zoning issues. Neighbors subsequently appealed the zoning of the construction project to the Commonwealth Court. An opinion from the Commonwealth Court was also favorable to the school district. Neighbors of the proposed stadium site had an opportunity to appeal the zoning rulings to the Pennsylvania Supreme Court, but that window of opportunity has lapsed as of April 2012. In May of 2013, the school board voted to award contracts for engineering analysis and stadium design. Cost estimates, specifications, and drawings should be available in December of 2013 to start the construction bidding process. If the school board awards construction contracts, stadium construction should take about 12 months.

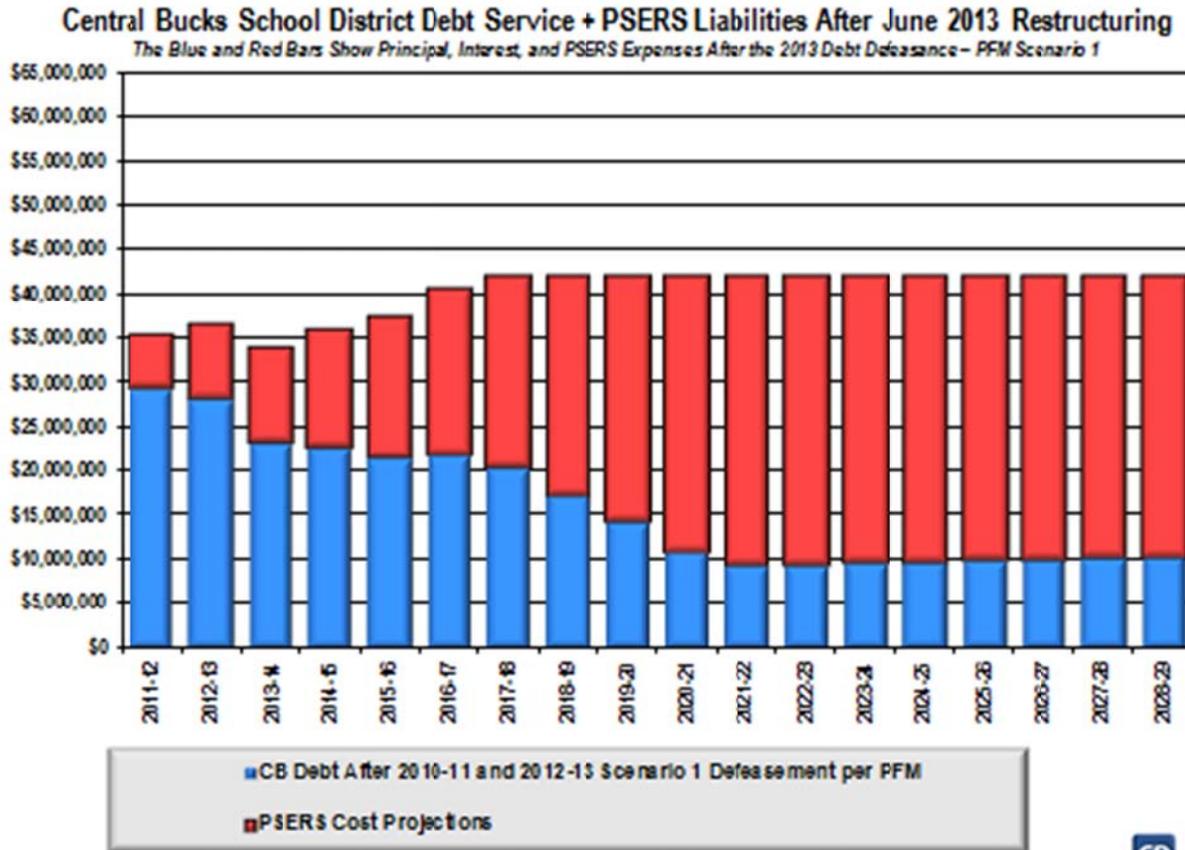
Financial Goals

The 2012-13 school year was a busy year for the school district business office. During the year the department implemented a new financial accounting software system, developed a budget with no real estate tax increase, and paid down \$73M in outstanding long term debt. The reduction in future debt payments will help the school district pay for the escalating costs of the state retirement system contributions without major tax increases. Prior to the debt restructuring in 2011 and debt prepayment



in 2013, the school district had principal and interest payments on outstanding debt of \$29M per year. The graph shows the new principal and interest payments moving forward. Again, the debt reduction will help the district afford higher state retirement system expenses in future years.

If we consider future projected payments into the state retirement system as if it were debt, the resulting graph shows an increase in costs which further illustrates the escalation of state retirement system payments in the future. In the graph below, the blue portion of each year represents principal and interest payments while the red portion represents projected retirement payments. As you can see even with declining debt, the state retirement system will increase expenses through 2017-18.



© June 2013 Restructuring

During 2007-08 Moody’s rating agency upgraded Central Bucks School District’s financial creditworthiness from a AA2 to AA1 which is one step below AAA rating. This helped to reduce the district borrowing cost on the 2008 bond issue particularly since the bond issue was not insured by a third party. In March of 2011, the district refinanced \$170M in outstanding debt saving the district interest costs of \$1,500,000 per year on average and reducing yearly principal payments by \$1M in the near term to \$8M in 2025.

In June of 2013, the district paid off about \$73M in long term debt which will save the district about \$24M in interest expenses over the next 16 years or about \$1.5M per year. Paying off this debt early will also result in reduced principal payments of \$1M in 2013-14 to \$7M in fiscal year 2024-25. The interesting thing about the debt prepayment is that it may actually lower the district’s credit rating since the rating agencies prefer organizations to have extra cash on hand and are less interested in reducing outstanding debt. For the school district, it is more important to realize the budgetary savings each year than to preserve a credit rating since it is not anticipated that the district will need to borrow money for construction in the near future. Paying off debt in 2013 combined with a similar effort in 2011 will go a long way towards defusing the future financial liabilities associated with the state pension crisis – at least from the Central Bucks School District perspective. Paying off debt will

eliminate the need for yearly maximum real estate tax increases to meet mandated state pension payments through fiscal year 2020-21.

The Board of School Directors is committed to the concept of not borrowing money in the near term to maintain district facilities. CBSD maintains 27 separate buildings, consequently at least one building will be under some form of construction each year. To maintain the \$750M investment the community has in its facilities, the board has developed a long term capital plan that will be used for major renovations of district buildings. Facility planning calls for deposits into the Long Term Capital Fund starting in 2014-15 to provide consistent funding for school maintenance and renovation.

For 2013-14, the district will continue to implement school district initiated real estate tax assessed value appeals for commercial properties. The assessed value of real estate is an amount taxable by the school district and municipalities by applying a taxing millage rate to determine the amount of taxes owed. The school district is comparing the assessed value of a property to the market value of properties to determine if the two numbers are in the proper proportion. The district has identified several properties that have an assessed value that is too low compared to the market value.

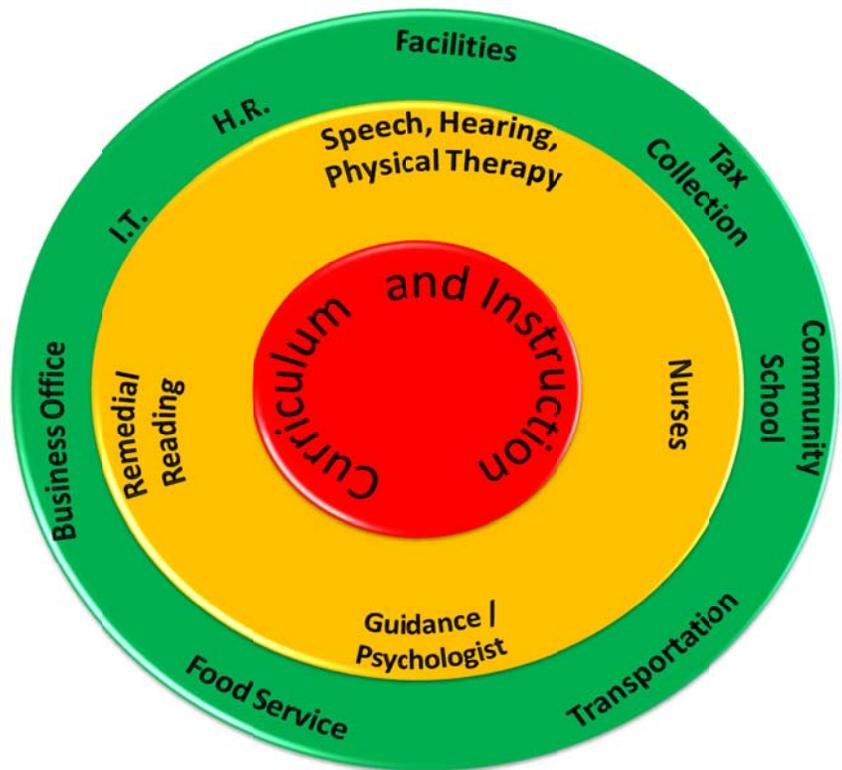
During fiscal year 2009-10 the district initiated an energy conservation and efficiency project. The cost for the project was \$15 million. CBSD is partnering with Johnson Controls Inc. to replace out dated heating boilers, replace old lighting with more efficient units, adding insulation, and unifying all building environmental controls under one system. In addition occupancy sensors are being placed in classrooms to lower lighting levels if natural light is available, turning off lights automatically, and adjusting fresh air exchange rates based on classroom usage. This project was completed in December of 2011 but additional refinements are ongoing to further reduce energy consumption. The energy efficiency project will annually save the district in excess of \$1M per year in utility expenses. As the district continues with routine replacement of heating and air conditioning equipment, savings are expected to increase. The district is also implementing some common sense efficiency items such as working four 10-hour day work weeks in the summer so that the air conditioning can be turned off three days per week instead of two. The district is also partnering with Amerex Incorporated in an effort to reduce the cost of purchasing natural gas and electricity and moderating the impact that fuel price changes have on the budget.

One recurring goal has been met with respect to budgeted use of fund balance or rainy day funds. The economic downturn of late 2008 and its related impact created a significant downward trend on local tax revenues. To combat the reduction in revenues, expenses continue to be cut from each year's budget. Five years ago, the district expected to use \$4.5M from fund balance reserves to help bring revenues in line with expenses. After years of expenditure reductions, the district is starting to catch up with the reductions in revenues. Therefore in 2013-14, \$490k in fund balance reserves will be budgeted for use as revenue to reduce the real estate tax millage impact on the local community. The past six years of budget cutting have brought expenses more in line with reduced revenues and has improved the district's long term financial picture. By actively managing expenses during the 2013-14 fiscal year, the district may not need to draw down any money from the rainy day fund.

Other District Goals for 2013-14

- **Continue to emphasize rigor and reliance in our curriculum**
- **Implement the mandated k-12 teacher evaluation system**
- **Implement the Pennsylvania Common Core Standards**

- Utilize security systems and coordinate response efforts with local communities
- Develop \$7 million in recurring funding for capital accounts to maintain district facilities that are worth approximately \$750 million.
- Fund mandated increased contributions to the state retirement system. Continue to prepare for a large retirement rate increases in fiscal year 2013-14 through 2028-29.
- Implement school district initiated assessment appeals for commercial properties.
- Work with state legislators to secure more funding.
- Work with state legislators to repeal burdensome mandates.
- Continue reducing costs that do not impact the core instructional program.



Economic Overview

National and Local

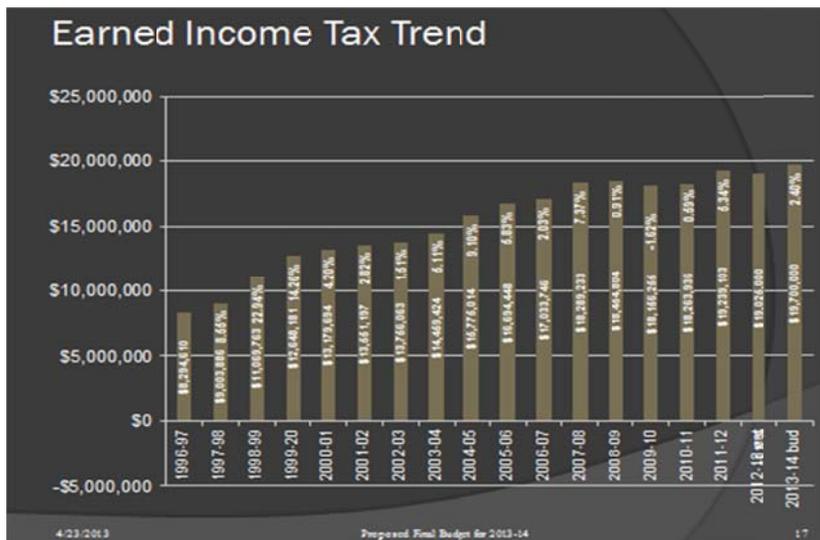
Fiscal 2012-13 in Review:

In the last 12 months, the local economy has slowly improved. The country’s Gross Domestic Product (GDP) index has remained positive for 15 quarters since the “great recession of 2008 and 2009” with an average growth rate of 2.1%. The problem on a national level continues to be high unemployment with the index hovering around 7.5%. One year ago, the unemployment index was around 8%. The economic recovery continues to be painfully slow. The major market that is impacting school districts around the country is the real estate industry. Most school districts in Pennsylvania depend heavily on local real estate taxes to fund education programs. Until the unemployment index starts returning to the 5 to 6% range, the economy will feel depressed on a local level. A high unemployment rate also tends to depress the real estate market which directly impacts 75% of the revenue Central Bucks receives.

While the stock market has been rising during 2012 and 2013, the increase can be attributed to increasing corporate profits through efficiency gains and staff reductions as a cost cutting measure. The future of employee related expenses is murky with the enactment of national health care. Health care along with large federal deficits, proposals for higher federal income tax rates, and the fiscal stress of some European countries creates an environment of business uncertainty that may be holding back the hiring process. The debate also continues about how to cut the federal deficit with the focus on the largest consumers of federal dollars, Medicare, military spending, Medicaid, and social security. All of these issues have a psychological impact on business hiring and consumer spending, particularly home purchases. The economy will need to pick up more steam before businesses will be forced to start the hiring process in response to greater demand for products and services.

On a brighter note, foreclosures on homes seem to have stabilized with foreclosures during 2012 dropping 3% compared to 2011. Mortgage interest rates are hovering around the 4% range for 30 year mortgages at the mid point of 2013. Hopefully, the housing market will continue to recover with price stability and demand for new construction. The sales center for the Carriage Hill housing development on Route 313 states that new housing units are selling at a slow but consistent pace which hopefully will signal an expansion of the local housing market.

The Impact of the Global Recession on Central Bucks Revenues:

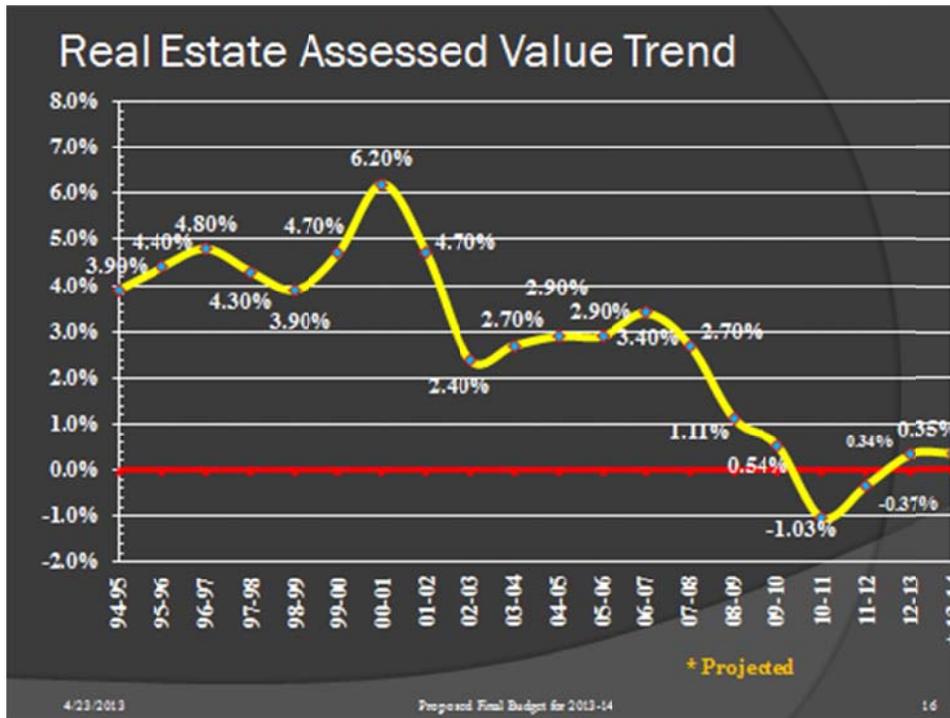


These significant global events had a major impact on our local economy and school district finances. The global recession created significant downward pressure on projected district revenues. Since the school district must develop a balanced budget, major reductions to budgeted expenditures had to occur to keep revenues and expenses in line with each other.

The Federal Reserve’s policy to push interest rates lower to spur investment in real estate and infrastructure lowered the interest rate earning projections on school district investments.

The unemployment rate has caused concerns and has created a difficult budget environment to project Earned income Tax revenues.

The housing market, which played a major part in creating the economic crisis, is also playing a key role in revenue projections for real estate taxes. Local real estate taxes account for 75% of all revenue received by Central Bucks School District. It's no wonder that an economic recession lead by the decline of the real estate and financing markets has caused reductions to revenues that the school district has not seen in a long time – if ever. But the good news is that the downward trend of assessed values (taxable value) has stopped and the district is projecting that 2012-13 and 2013-14 will show positive growth.

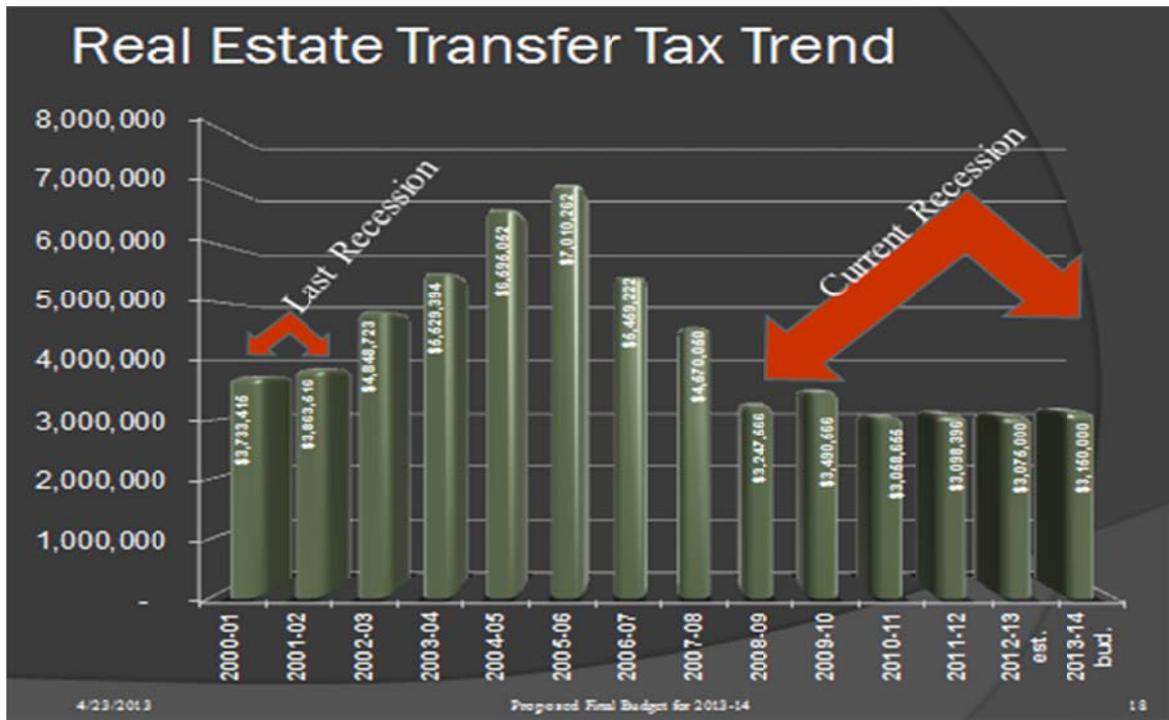


The taxable assessed value of real estate is being appealed by owners as the market value of property declines. This causes a reduction in real estate tax revenue collected by the school district and puts upward pressure to increase the mills of real estate taxes to maintain tax income. Over the past two years, home owner initiated assessment appeals have declined but they are active enough to hold back meaningful revenue growth.

School districts rely on real estate taxes because they have historically been a steady source of funding – even during recessions. Public school districts need steady sources of revenue because they cannot turn students away during economic downturns. Public schools must educate students regardless of the financial climate. During a bad economic climate, school districts must find areas to reduce expenses and find non-tax revenues in order to maintain a quality education product.

Teachers cannot be laid off for economic reasons in Pennsylvania. This places additional financial burdens on all public schools throughout the state during severe economic downturns.

The school district receives a real estate transfer tax equal to ½% of the sales amount of real estate. With the decline in the real estate market and the number of existing homes sales down from historic averages, revenues from transfer taxes are projected to remain low for the budget year.



With concerns in the job market, new home construction is limited and therefore is not providing the growth in taxable real estate assessments and transfer taxes that the district has seen in the recent past.



Less construction also reduces projected interim real estate tax revenue. Interim taxes are revenues collected from properties that complete construction after the start of the school district fiscal year. Therefore interim taxes are calculated on a fraction of the property value for the year.

General Fund Overview

2013-14 Budget Snapshot

- Total Revenues = \$290,193,982
- Total Expenses = \$290,683,982
- Use of Budgetary Reserves (\$490,000)
- Millage Increase Needed = 0.0 Mills
- This Represents a 0 % Real Estate Tax Increase
- Tax Increase on a 40,000 Assessed Home = \$0
- The new Millage Rate is 2012-13 mills of 122.8 + 0 mills = 122.8 mills for fy 2013-14

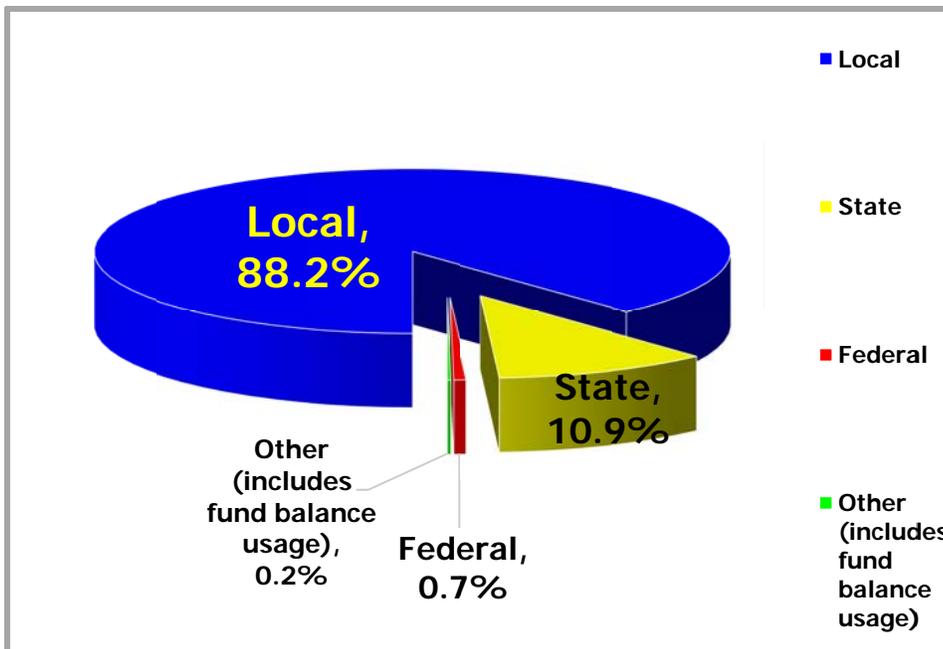
The 2013-14 General Fund budget of \$290,683,982 does not require a real estate tax millage increase. The expenditure budget is increasing by \$3.4 million over 2012-13 levels or approximately 1.2%. Revenues have also increased and are within \$490,000 of expenses. Since revenues and expenses are close to being in balance the school board decided not to increase taxes for the 2013-14 fiscal year.

2013-14 is the first year since 1992-93 that the district has had no real estate millage increase. After 1992-93 the district experienced tremendous student enrollment growth causing the need for many new schools and expansions of existing schools along with staffing levels.

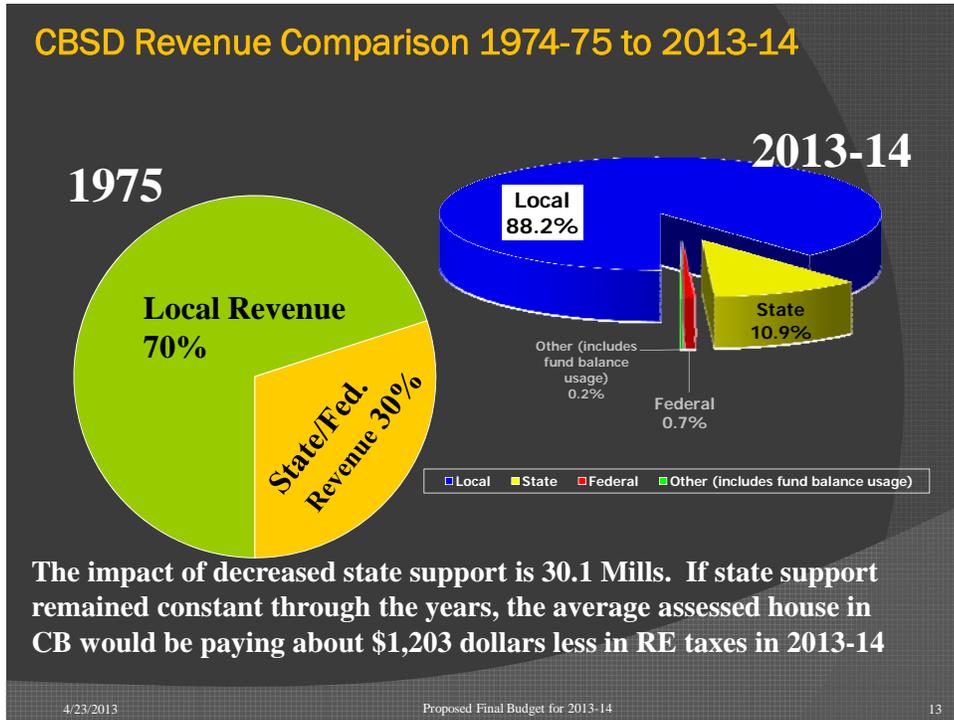
General Fund Revenue Components

School district revenues have four major components, local, state, federal, and other sources of

revenue. As you can see from the graph on the left, local revenue (real estate taxes, earned income taxes, investment income) makes up the majority of the Central Bucks School District revenue budget.



In 1975, state and federal revenues accounted for 30% of total revenue. In 2013-14 they will account for less than 11% when we perform an “apples to apples” comparison of revenue accounting between 1975 and 2013. In 1975 there were no casino and no gambling pass through revenues to reduce property taxes. In 1975, the state sent social security and retirement reimbursement directly to the social security administration and PSERS instead of using school districts as a pass through agency as they do now.



Currently Pennsylvania school districts must account for gambling, social security, and PSERS revenue as state subsidy. In 1975 this was not the case so these items were removed from current state revenue in this comparison to show the decline of state support for Central Bucks education over the years.

As an example, between 2008-09 and 2009-10 Central Bucks School District lost \$1,900,000 in transportation subsidies

due to the increase in market value of property in the district as compared to the entire state. In the eyes of the state, this makes the Central Bucks community look wealthier and therefore reduces state subsidies.

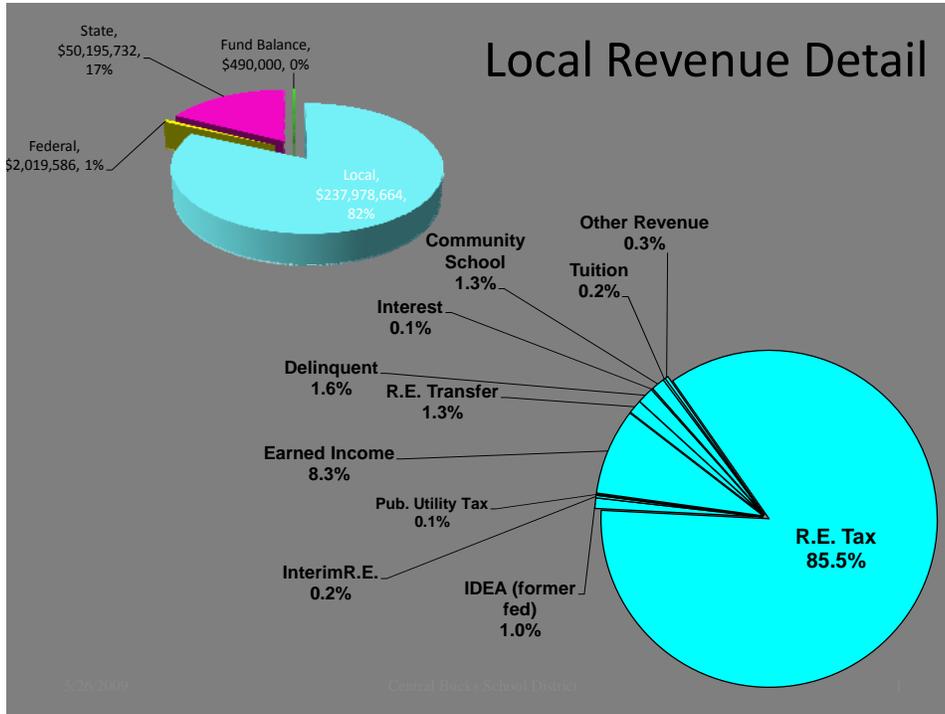
In 2011, the district lost \$450,000 in the Accountability Block Grant which helped fund extended day kindergarten. Charter school reimbursement of \$150,000 was eliminated as well as State basic instructional subsidy of \$500,000. These are just recent example of the erosion of state support over the years. Declining state revenues means that local taxpayers must shoulder an increasing share of education expenses. For 2013-14 the governor has increased basic education funding by \$90M state-wide after the \$900M state-wide basic subsidy cut that was made in 2011.

Federal education support had also declined slightly in recent years (factoring out the temporary stimulus program). This combined with the additional requirements created as a result of No Child Left Behind (NCLB) legislation puts an even greater burden on local taxpayers.

The general fund expenditure budget for 2013-14 increased by \$3.45 million dollars over the prior year. Most of that increase is due to expenses associated with the state retirement system. Historically the state reimburses school districts for at least 50% of retirement expenses. That changed in 2012-13 as the state will freeze retirement reimbursement based on the 2011-12 gross payroll. This action will help reduce the state’s share of retirement expenses and push a larger and larger burden on to local tax payers in the future. [the same scenario is happening with Social Security Revenue]

To plug the deficit between revenues and expenses, \$490,000 from a district savings account “rainy day funds” will be used to balance the budget. This is the other/fund balance revenue category in the revenue pie charts. With prudent management of expenses during the year, it may not be necessary to use “rainy day funds” to balance the 2013-14 budget.

Local Revenues



Local revenues consist mainly of real estate taxes, public utility taxes, earned income taxes, and interest earnings. As you can see, real estate related taxes and Earned Income Taxes together account for 97% of local revenues.

Revenue from Local Sources

This revenue category is the amount of money produced within the boundaries of Central Bucks School District and available for its use during the budget year. Money collected by another organization that is working as an agent for CBSD such as the collection of earned income taxes is considered local revenue. (The following paragraphs are prefaced with the state accounting numerical code for the given functional area)

6111 Real estate taxes on homes and businesses. Many, many homeowners appealed the assessed value of their homes from 2008 -09 through 2012-13 due to declining market value. In the future, CBSD expects to continue receiving assessment appeals at a diminishing rate from residential and commercial property owners. These appeals will create a drag on taxable assessed value growth. For 2013-14 taxable assessed values are expected to increase slightly which is a welcome change from the recent years of declining assessed values. All told, the district expects to collect at least \$6,000,000 less per year in real estate taxes since the tax payer initiated assessment appeal process started in 2008.

In past years, the growth in real estate assessed values would generate between \$3 - \$5 million in additional revenues without any tax increase. A real estate tax collection rate of 97.1% will be used in projecting the 2013-14 real estate tax revenues. There will be no increase in the real estate millage rate for 2013-14. The millage rate remains at 122.8 mills. A mill is expressed as a decimal of .001. A typical house in Central Bucks School District has a taxable assessed value of \$40,000 = \$40,000 x .1228 millage rate = \$4,912 which is the real estate tax bill for the typical home in Central Bucks School District.

6112 For 2012-13, collected interim real estate taxes are projected to be \$135,000 below the budgeted amount. Even though actual revenues fell below estimates, there are signs that the local housing economy is improving. As of June 2013 there seems to be a six month backlog of unsold houses in the area down from a 9 month backlog three years ago. The slow housing market is due to the sub-prime mortgage failures, foreclosures on homes, and persistent unemployment. But, favorable mortgage interest rates and lower housing prices are helping reduce the backlog of housing inventory. Interest rates on a 30 year fixed interest rate mortgage are around 4%, which are near historic lows. For fiscal year 2013-14 this revenue line is expected to be \$120,000 below the current budget amount of \$694,400 with hopes that the economy will accelerate its growth pattern in the second half of 2013 due to favorable mortgage rates and home prices.

6151 Earned Income Taxes (EIT) are projected to increase above 2012-13 budget estimates by approximately \$1,300,000 or 7%. The 7% growth is a result of under budgeting for Earned Income Taxes in 2012-13. As of June, the economy is slowly improving with unemployment hovering around 7.5% compared to 8% a year ago. The consumer confidence index is improving and housing sales are improving. Keystone Associates anticipates stable growth in the near future. Keystone Associates acts as an agent on behalf of the District to collect a one half of one percent EIT from residents of CBSD.

6153 School districts in Pennsylvania receive one half of one percent of a transfer tax on real estate sold within its borders. We are expecting a slight upward change over the 2012-13 budget year. A 4 percent mortgage interest rate may attract new buyers into the housing market. Projections are for increasing revenues of \$100,000 from this line item of the budget. Low interest rates are only one factor when deciding to purchase a new home. The main factor most people consider is the possibility of steady income, maintaining a job, and of course a school district to educate their children. The market value of property declined in 2007, 2008, 2009, 2010, 2011, but increased in 2012, and so far in 2013. Plans for new housing developments have been on hold for the most part, causing student enrollment growth projections to decline by approximately 300 for 2013-14. In the past, any excess funds from this revenue source have traditionally been transferred to capital reserves as higher real estate transfer taxes tend to be a precursor of increasing enrollment and increasing demands for capital. Falling taxes may also signal declining enrollment.

6510 For 2013-14, projected interest earnings should continue to be depressed unless the federal reserve bank reduces its quantitative easing program during the year. Short term interest earnings on investments held steady throughout 2012-13. It is anticipated that the Federal Reserve Board will continue to fix the Federal Funds rate at low interest rates through the middle of 2015 maintaining expectations of lower earnings from investments. In 2013-14 investment income will decrease by 47% over budgeted 2012-13 levels due to overestimating 2012-13 investment returns.

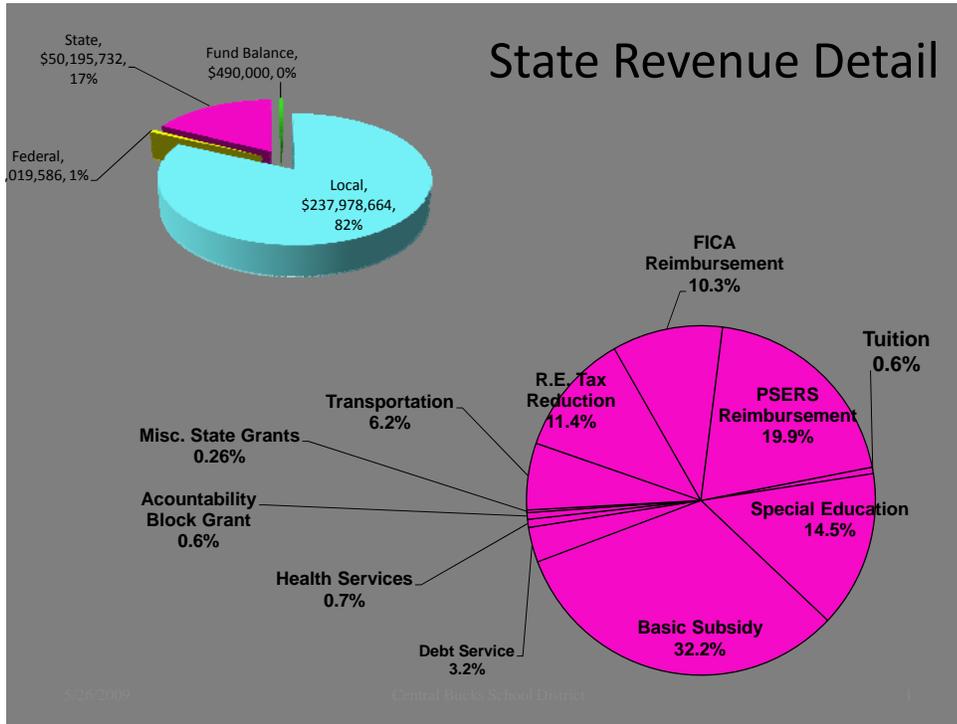
6980 Community service revenues are projected to be flat. Enrollment may decline in our after school child care programs as student enrollment declines. Child care fees for 2013-14 have been



increased so that they are more closely aligned to the market rates of other child care providers. Adult evening school courses have been eliminated since the programs have traditionally run at a break even position or at a slight loss over time. The summer kids camp was also eliminated. Although the camp was slightly profitable, it was decided to cancel the program as a part of the energy efficiency program to control summer air conditioning expenses and facilitate routine summer maintenance.

More revenues are also expected from the academic summer school courses which are run as a consortium of Central Bucks, Council Rock, Centennial, and New Hope school districts in an effort to control costs. The aquatics program continues to expand enrollment and should be in a position to generate more revenues in the future.

State Revenue



The budget anticipates 2.9% increase in basic instructional subsidy compared to revised state estimates. In 2012-13 the governor reduced basic instruction subsidies by \$900M state-wide. In 2013-14 the governor is restoring 10% (\$90M) of what was cut.

When comparing 2012-13 to 2013-14 total state revenues, it looks like the district is receiving a 5% increase in state subsidies. The district is receiving an increase in

state retirement reimbursement of \$1.8M due to the employer cost share increase. But, we must remember that the retirement revenue is a pass-through revenue. A pass-through revenue is received from the state and then the school district must forward it on to the PSERS retirement system. The school district is simply acting as a “middleman”. Pass-through revenues cannot be used to buy textbooks or pay utilities. They must be used for the stated purpose – to pay PSERS. The accounting and understanding of state revenues would be much simpler if the state would send the money directly to PSERS as it did prior to the 1990’s. The same holds true for the state social security reimbursement and the gambling rebate for real estate taxes.

The budget anticipates 0% increase in special education subsidy. 2013-14 will be the sixth year in a row that the state has not increased special education subsidies. Transportation reimbursement is expected to increase 2% over revised state estimates due to the transportation formula that factors in fuel inflation.

The governor’s budget reduced the Accountability Block Grant Revenue by \$550,000 and eliminated charter school reimbursement of \$150,000 in his 2011-12 budget. No growth is anticipated in the accountability block grant for 2013-14.

The state revenue estimates are based upon the governor’s budget as presented in February and updated in May 2013. The state legislature may modify some of the governor’s recommendation prior to the budget passage in late June. State subsidy support continues to be below the rate of inflation. This places an ever growing burden on local taxpayers.

Revenue from State Sources

This is revenue produced and collected within the Commonwealth of Pennsylvania. State revenues are distributed to the school districts, vocational-technical schools, and intermediate units through funding mechanisms that are loosely based on the student enrollment, and relative wealth of the local geographic area. The allocation of state subsidies in the recent past and in the foreseeable future is based upon how much money is allocated to the public education line item at the state budget level, not upon the individual needs of a school system.

7110 Basic state instructional subsidy is the primary funding source school districts receive from the state. In 2007-08 a Costing Out Study was conducted by the state to determine the spending levels of each school district in the Commonwealth. The study uses the 2014 No Child Left Behind (NCLB) standards to determine if schools are spending enough money per student to meet NCLB benchmarks. The Costing Out Study considers many factors such as cost of living in a geographic area, non-English speaking students, poverty level, size of a school district, real estate and income wealth factors, and the number of students with disabilities. The study revealed that Central Bucks School district is spending \$2,000 less per child than is needed to meet federal standards. This is significant considering that many school districts in southeastern Pennsylvania are spending near or above Costing Out Study targets. Since Central Bucks is significantly below the Costing Out Study target, more state education revenue should be earmarked for our district but, likely will not be funded due to the current economy.

7270 State subsidies for special education are projected not to increase over 2012-13 levels. Again, this is the sixth year in a row that no state increase was given for special education.

7310 Transportation revenue are expected to increase by 2% for 2013-14. This is a small increase but much needed to help offset past state cuts in this area. State transportation subsidies are based on the age of a bus, the number of miles driven, the school district aide ratio, and the market value of real estate in the district, and the inflationary cost of fuel. These numbers fluctuate each year making transportation subsidies difficult to project. For 2007-08 the district was projecting a 4.4% increase in revenues due mainly from the increase in student enrollment and the associated growth in the bus fleet mileage expenses, and the large increase in fuel prices. But, in March of 2008 the district was notified by the state that it would lose \$933,000 in transportation subsidies for 2007-08 and over \$1,000,000 in 2008-09, and additional reduction of \$75,000 in 2009-10, and \$75,000 in 2010-11 due to the increase in the real estate market values compared to the entire state. These decreases in state transportation revenue are recurring and are not just a one year reduction. The real estate market values makes the school district appear wealthy and significantly reduces the ability of the district to recover excess transportation costs from the state as has been done in the past. Excess transportation costs are calculated by the state as items that exceed the typical state transportation cost formula. Central Bucks expenses typically exceed the formula because no provision exists to compensate for the cost of living in specific geographic areas.

7320 Authority rental reimbursement is a state subsidy that partially reimburses an educational agency for school construction expenses. In 2012-13 and moving forward, this revenue line should remain unchanged as the state has placed a moratorium on funding additional construction

projects. This will impact construction reimbursement on the following projects: Pine Run Elementary, Linden Elementary, Lenape MS, Tamanend MS, Unami MS, and East HS. Hopefully the moratorium will only last a couple more years. The district has enough fund balance to cover the lost cash flow from the state. It is not anticipated that the district will need to stop the construction projects as a result of the state funding moratorium. On a brighter note, the accelerated pay off of bond principal should provide a one-time state reimbursement of debt service costs of \$2.3M in 2013-14. The state will see interest savings as a result of the accelerated principal payment and will reimburse the district for its share of the present value savings.

CBSD pays for approximately 50% of outstanding debt for Middle Bucks Institute of Technology (MBIT). The recent bond issued by MBIT has reached the point where it is level funded by all sending school districts (Centennial, Council Rock, New Hope-Solebury, and CBSD) and the school districts should see only minor fluctuations due to percentage changes of market values or enrollment from each sending school district.

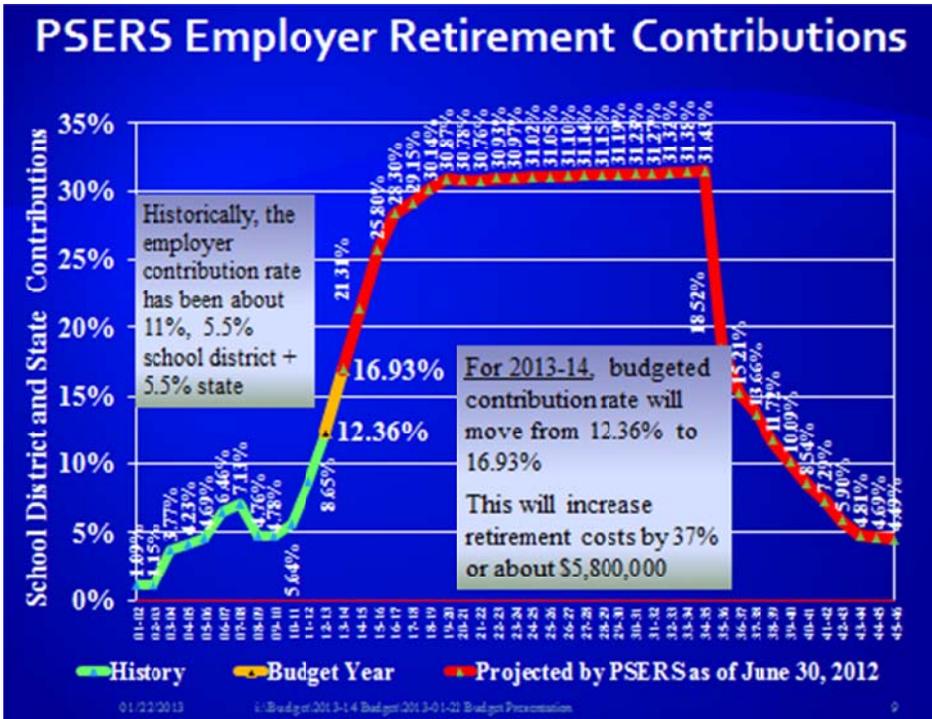
In 2008, CBSD borrowed approximately \$96 million to renovate CB High School East, Lenape Middle School, Tamanend Middle School, Warwick Elementary, enhance district security, and fund various roofing projects. The district also used approximately \$20 million of the 2008 bond fund to retire variable rate debt. The decision was made to convert variable rate debt to fixed rate debt due to the surge in short term interest rates because of the credit crisis of bond insurers in 2008-09.

The district receives state reimbursement of less than six cents for each dollar spent on construction. The district also pays a 6% sales tax on construction materials, which then negates most state construction aid.

In March of 2011, the district refinanced \$170M in outstanding debt saving the district interest costs of \$1,500,000 per year on average and reducing principal payments by \$1M in the near term to \$8M in 2025.

In June of 2013, the district paid off about \$73M in long term debt which will save the district about \$24M in interest expenses over the next 16 years or about \$1.5M per year. Paying off this debt early will also result in reduced principal payments of \$1M in 2013-14 to \$7M in fiscal year 2024-25.

7820 Revenue for retirement payments is a reimbursement for approximately 50% of the cost of contributions to the state retirement system. The state retirement system was actuarially fully funded at the turn of the century. Currently, the Pennsylvania School Employees Retirement System (PSERS) is 69% funded. Governor Corbett is recommending a change to the state retirement subsidy to decouple it from the inflationary aspects of past formulas. Starting in 2012-13 the retirement subsidy will be based on the gross payroll of the 2011-12 fiscal year. Any retirement expense increases associated with wage increases or increases in the number of staff will not be covered by state reimbursement. Again, this places more burden on local tax payers.



The employer contribution rate to the state retirement system had been declining until 2002. The recent stock market losses as well as the market loss from the early 2000's caused an increase in the employer's share of retirement contributions. CBSD is trying to budget for PSERS contribution levels above what is required in an effort to help minimize tax increases in the near future as a result of the retirement funding spike.

The budgetary impact of following the revised legislator PSERS funding

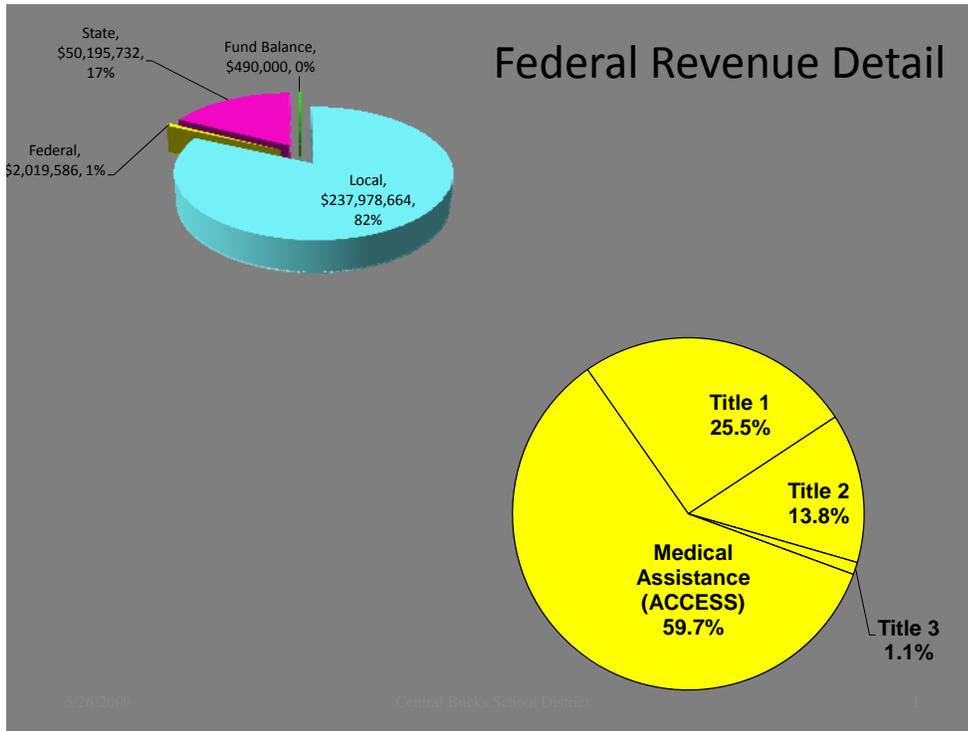
calculation could have a devastating impact on future budgets if school districts are not prepared or if the state itself is not prepared. The legislative "fresh start" increases the employer contribution at a slower pace than actuaries recommend which results in a higher contribution peak.

In 2003, the state legislature increased the amortization period for recognizing retirement fund gains and losses in an effort to reduce the long term employer's share of retirement funding expenses. As an example, prior to the 2003 legislation the employer retirement contribution was projected to increase to approximately 20% in 2006-07. The change in the amortization period moved the extremely large increase in the retirement fund rate out to the 2012-13 fiscal year.

The legislature's 2010 "fresh start" again re-amortized pension liabilities to keep employer contributions lower and increase the contributions at a slower pace. For the past 10 years, the state has been underfunding pension programs which has led to the large future contributions in order to keep the pension systems solvent. Hopefully the stock market will climb and increase the retirement fund earnings from investments. Higher fund earnings will reduce future year employer contributions. The school district must prepare for the large increase in the retirement contribution rate by adding \$1.5 million dollars per year to the general fund budget to pay for this liability. All school districts in Pennsylvania as well as the state government itself must address this problem.

It should be noted that school boards never have had any input into the workings of the retirement system. Everything is controlled from Harrisburg, even the amount school district must contribute into the system.

Federal Revenue



Federal sources of revenue include Title 1 which focuses on improving the reading skills of disadvantaged children. Title 2 focuses on teacher training in math and science skills. Title 3 funds are used to educate students with limited English proficiency and immigrant students.

Drug Free Schools grants were discontinued after 2009-10 and were used to educate students on the dangers of drug usage. The district continues its drug free

curriculum as a component of health classes, but special assemblies, speakers, and healthy choice promotions, have been eliminated.

And finally ACCESS is a reimbursement to school districts for medical related services provided to eligible students who have special needs.

Revenue From Federal Sources

Over the years, federal revenue sources have steadily declined with no increases seen for the large enrollment growth the district experienced. Estimates for 2013-14 show an increase in Title 1 of \$98,000, a decrease in Title 2 of \$15,000, Title 3 decrease of \$6,000, and a decrease in ACCESS program funding of \$164,000.

Federal Stimulus Funding History

For 2010-11 the school district received \$1,250,000 in federal stimulus subsidies. This one-time stimulus payment had to be used to enhance special education services to students. It could not be used as a replacement for local funding of special education. The district purchased textbooks and other instructional materials for our special education program. We also hired additional teachers to enhance the program as required by the stimulus guidelines.

This concerns the school board and administration since hiring teachers is a long term financial commitment and the stimulus funding is short term. School districts also cannot layoff teachers for economic reasons once they are hired. As you can see, stimulus subsidies come with strings attached



and can have the unintended (or maybe intended) consequence of pushing more special education costs to the local community once the stimulus funding is eliminated.

The 2009-10 Basic Instruction Stimulus of \$940,569 is federal funding that flows through state governments. This stimulus line item was eliminated from the 2010-11 budget causing these expenses to be paid for with local taxes.

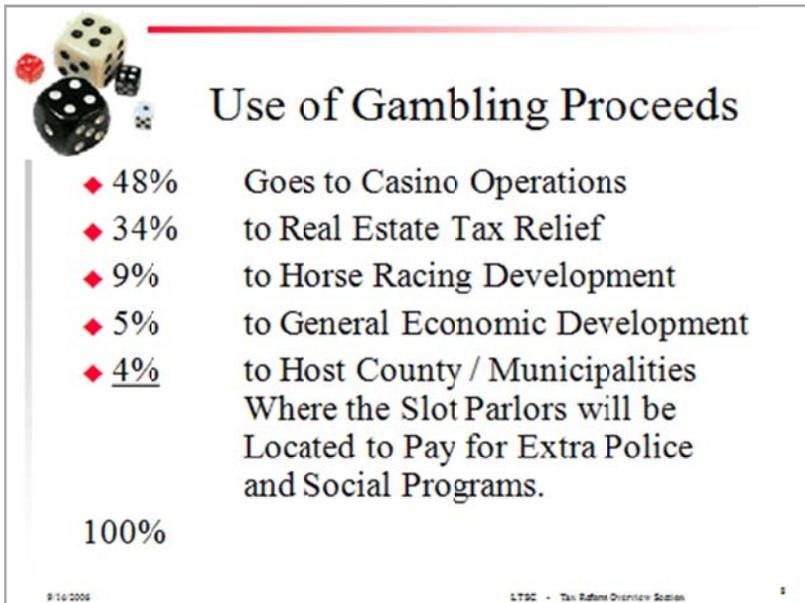
After 2010-11 all stimulus funding stopped, which created the funding cliff that the district was concerned about. Stimulus funding was about hiring new people which is a long term commitment without long term funding. This is one reason why the district must reduce staff to keep expenses in line with revenues.

Tax Reform - Act 1 of 2006

During the 2006-07 fiscal year, a tremendous amount of time and energy was spent by the school board and district administration analyzing the complexities of Act 1. Preparation of the district budget, tax collection procedures, and preparing the community for the impact Act 1 could have on individual households was the primary focus of the school board.

Act 1 is legislation past by the Pennsylvania Legislature in June of 2006. The law establishes a formula that school districts can use to reduce real estate property taxes for eligible home owners.

Reductions in real estate taxes are funded by two separate revenue streams. Thirty-four percent of future casino slot machine revenues would be made available by the state for residential property tax



reduction. Also, if the communities that make up a school district vote to participate in the plan to shift some of the tax burden from residential real estate to wage taxes, the school district would be required to raise the earned income tax by 1%. A 1% increase in the earned income tax would produce enough revenue to reduce real estate taxes on residential property by \$972 (this option was voted down by the Central Bucks Community in May 2007).

In 2006, estimates received from the state legislature shows that a qualified Central Bucks home owner would receive a real estate tax

discount of about \$211 to \$370 per year dependent upon casino gambling profits. To achieve a \$370 per home real estate tax discount, casinos across the state must generate approximately 3 billion dollars per year from gambling operations. Estimates for 2013-14 show eligible homeowners receiving a \$190 gambling rebate. The rebate is also likely to fluctuate from year to year because there will be changes in the number of eligible homeowners to share in the rebate distribution.

Act 1 does not provide any extra revenues to school districts nor does it solve the education funding inequities that exist. Under Act 1, school districts act as a “middle man” collecting gambling proceeds from the state to pass through to home owners as discounts on their real estate tax bill.

Act 1 provides real estate tax discounts only to home owners. Commercial properties are not eligible for a discount. Apartment tenants are not eligible for discounts since apartments are considered commercial property under Act 1.

Act 1 also places constraints on school districts budgets. The constraints are on the budget development timeline which are accelerated to conform to election schedules. A budget cycle based upon the election schedule is needed if a school district budget increase exceeds a state inflation index. If a budget does exceed the inflation index, a referendum vote by the local community is required to pass the budget.

There are some exceptions which allow budgets to exceed the inflation index. In general they are:

- Community poverty
- Large increases in the contribution to the state retirement plan
- Large percent increase in special education expenses
- Authority to make preexisting debt payments

Summary

The budget outlook for 2013-14 departs from the trend of prior years. Local revenues are improving by \$1.8M without a real estate tax increase. This is due to real estate assessed values improving slightly and improving Earned Income Tax revenue. It is hard to analyze the reasons why Earned Income Taxes are increasing. It could be that the unemployment rate is dropping, workers are getting higher wages, or companies may be awarding employee bonuses again – it is likely to be a combination of all three scenarios.

State revenues are increasing by almost 5% due mainly to mandated employer share increases into the school retirement system (PSERS). Subsidies received from the state for the employer share of retirement expenses are considered pass-through funds. The state sends a PSERS contribution to school districts who turn around and forward them to PSERS.

In response to the lost revenues over the years, expenses were reduced to help balance the budget.



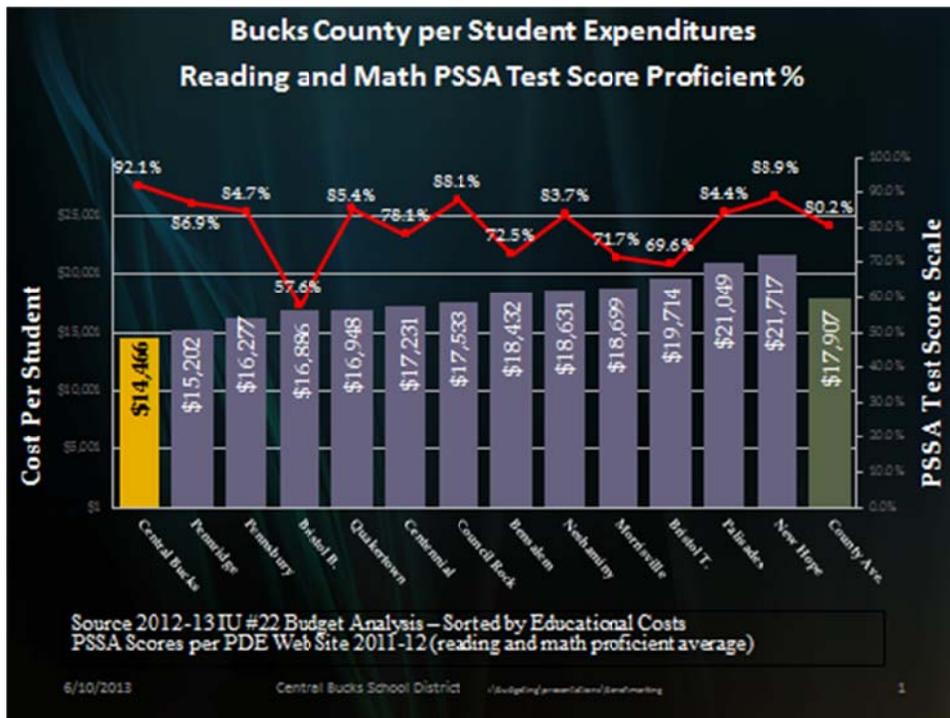
Since the more than 70% of expenses in a school district are personnel related, 7 positions were eliminated during 2008-09, 70 positions in 2009-10, 27 in 2010-11, 126 positions in 2011-12, 58 positions in 2012-13, and 14 positions in 2013-14.

With staffing and other non-personnel budget cuts, an additional \$490,000 in expenditure reductions is needed to balance the budget. Instead of making further personnel

reductions that would hurt the education program, it was decided to use fund balance savings or rainy-day money to balance revenues with expenses. With good budget management throughout 2013-14, the district may not need to tap the rainy day fund at all.

The district is very proud of the academic achievements of our students as well as the countless hours they give back to the community on the form of volunteer work. For 2012-13, News Week magazine recognized all three high schools as being among the top 1,000 high school in the nation. Student scores on the state standardized test continue to be the best in the county.

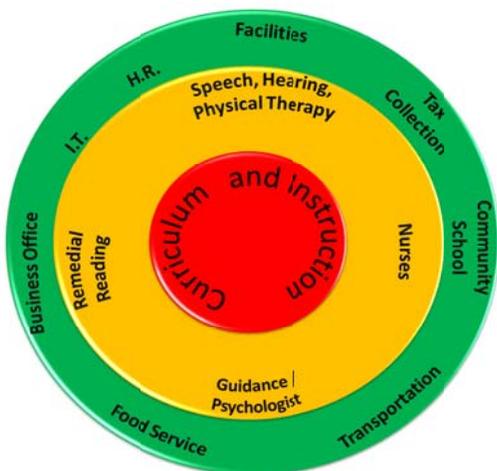
The district is also very proud that through the economic recession, the financial health is still solid and academic achievement is one of the highest performing school districts in the state of Pennsylvania. Central Bucks is consistently rated among the top ten academic school districts in the state. To this point, our students have the highest test scores on Bucks County and the lowest cost of education in the county. This is a very difficult combination to achieve but one that the district is committed to - excellence with value to our community.



The line graph is an average of the state standardized test scores for reading and math for each Bucks County school district. The bar graph shows the cost of education per student by dividing the general fund budget by student enrollment.

Excellence and value do not happen by accident. The district thanks parents for placing high values on education and working with their children on homework assignments.

The teaching staff and curriculum development staff do a wonderful job of finding teaching strategies, text books, and technologies to help students grasp new concepts and apply them to problem solving scenarios. Students must learn how to teach themselves new concepts over time and apply new knowledge to contemporary issues. In a world where change continues at an ever increasing pace, students cannot be fact based but must be able to learn and adapt to an employment environment where they may have several different careers in their lifetime.



Throughout the budget process, the district is committed to protecting the programs and curriculum that makes up the academic core. The focus on cost reductions are the outer layers of services that have less of an impact on academic achievement. Our goal is to reduce costs in a measured manner to maintain a quality education product.

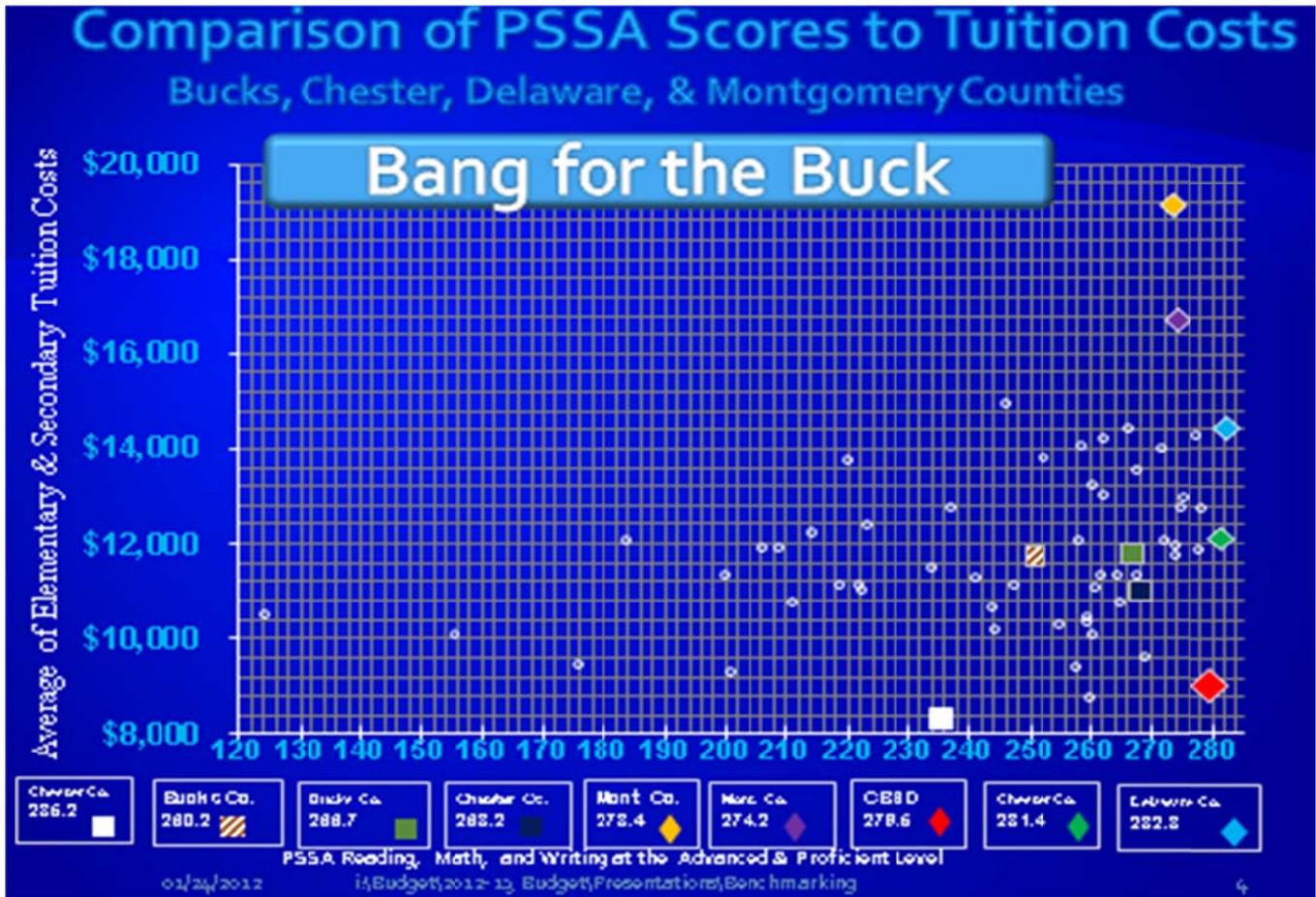
In a broader analysis, the graph below looks at the average elementary and secondary tuition costs per school district as calculated by the Pennsylvania Department of Education

(PDE). The tuition cost is then compared to the combined percentages of students in each school district that score proficient or above in the Pennsylvania standardized test scores for reading math and writing.

The best position on the graph is the bottom right side corner. This section of the graph represents low cost and high test score achievement. This is the area where Central Bucks is positioned as referenced with the red diamond.



Test scores for selected school districts are located in the boxes below the graph axis. For example the Central Bucks score is 279.5.





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