



Financial Condition Analysis

Allentown School District

March 22, 2018

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Project Approach



Project Approach – Long-Term Projections

- PFM has prepared a multi-year financial condition assessment of the Allentown School District to understand the District's current and future financial position and to assist the Superintendent and Board in financial decision-making
- As part of the analysis, PFM developed a baseline budget projection over a multi-year period to identify the District's financial challenges beyond the current budget year
- Data analysis was supplemented by multiple interviews with District staff from the Business Office and other offices in the District that have an impact on day-to-day operations, revenues, and expenditures
- Following the delivery of PFM's baseline projections to the District, the administration has begun the process of developing a corrective action plan for the structural deficit identified during the initial financial condition assessment
 - PFM has provided analytical support as the District develops the budget for the 2018-19 school year
 - The District administration has started the process of conducting data analysis, and reviewing operations to identify potential efficiencies to close the budget gap
- PFM's baseline projections will vary from the latest estimated figures prepared by the District because there have been a number of changes in the District's financial position since the February presentation
 - The Business Office has begun to estimate several key budget drivers for the 2017-18 school year, which will inform the projected budget gap for next year
 - The District administration has started to develop a list of initiatives to increase revenues or reduce expenditure growth for 2018-19, which will directly impact the baseline budget projections



Review of 2016-17



2016-17 Year-End Deficit

Summary

- For 2016-17, three different versions of the Allentown School District budget have been or will be widely reviewed:
 - The adopted 2016-17 budget approved by the School Board in June 2016, with a \$15.2 million year-end deficit (“Adopted Budget”)
 - An updated budget projection released during the 2016-17 school year showing a \$3.6 million year-end deficit (“Updated Budget”)
 - The final annual figures for 2016-17 filed with the Department of Education in February 2018 (“Final AFR”), showing a \$14.0 million year-end deficit

| (\$ Millions) | 2016-17 | 2016-17 | 2016-17 | Variance | Variance |
|----------------------------|-----------------|----------------|-----------------|-------------------|---------------|
| | Adopted Budget | Updated Budget | Final AFR | Adopted > Updated | Adopted > AFR |
| Revenues | \$273.9 | \$284.4 | \$285.4 | \$10.5 | \$11.5 |
| Expenditures | \$289.0 | \$288.0 | \$299.4 | (\$1.0) | \$10.4 |
| Surplus / (Deficit) | (\$15.2) | (\$3.6) | (\$14.0) | \$11.5 | \$1.1 |



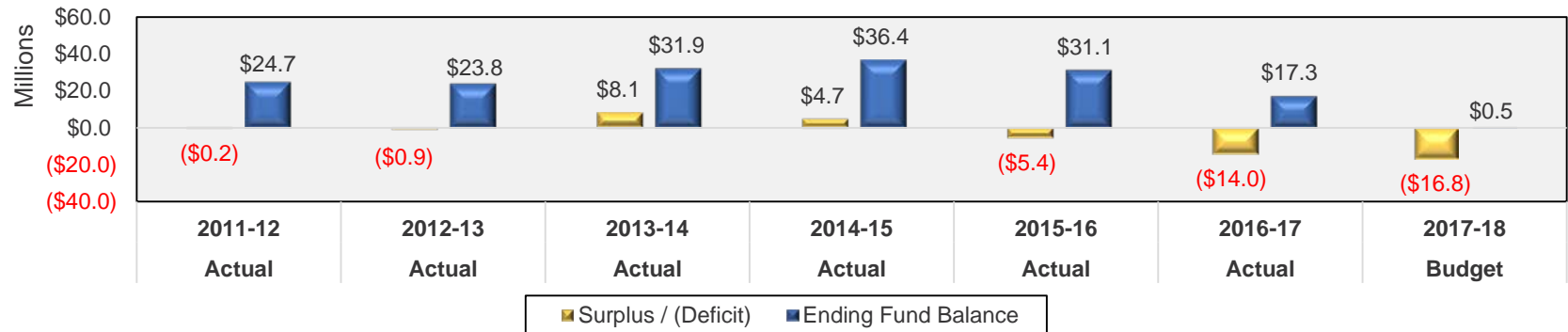
2016-17 Year-End Deficit

Impact on Fund Balance

- The District had an unbalanced budget in 2016-17 for the second consecutive year. Based on the Final AFR, this will reduce its fund balance to \$17.3 million
- Depending on the final 2017-18 revenues and expenditures, the District may nearly exhaust its remaining fund balance by the end of this year

General Fund Financial Results

2011-12 to 2017-18





2016-17 Year-End Deficit

Widely Varying Estimates and Results

- In addition to the fluctuation in the ending deficit number, there were major variations between expected and actual revenues and expenditures in the different versions of the 2016-17 budget

| (\$ Millions) | 2016-17 Adopted Budget | 2016-17 Updated Budget | 2016-17 Final AFR | Variance Adopted > Updated | Variance Adopted > AFR | Notes |
|---|------------------------------|------------------------------|-------------------------|----------------------------------|------------------------------|---|
| Revenues | | | | | | |
| 6000 – Local Sources | \$95.9 | \$98.7 | \$98.5 | \$2.8 | \$2.6 | Driven by higher real estate and earned income taxes |
| 7000 – State Sources | \$161.9 | \$169.4 | \$170.0 | \$7.5 | \$8.1 | Driven by higher Basic Education Funding and retirement reimbursement |
| 8000 / 9000 – Federal Sources / Other Sources | \$16.0 | \$16.3 | \$16.8 | \$0.2 | \$0.8 | Difference in AFR due to federal reimbursement for debt service interest |
| Total Revenues | \$273.9 | \$284.4 | \$285.4 | \$10.5 | \$11.5 | — |
| Expenditures | | | | | | |
| 100 – Salaries | \$102.6 | \$108.6 | \$109.1 | \$5.9 | \$6.5 | Driven by increase in staffing |
| 200 – Employee Benefits | \$74.1 | \$73.5 | \$73.6 | (\$0.6) | (\$0.4) | Increase in retirement contributions offset by savings in healthcare and other benefits |
| 300 – Purchased Professional Services | \$12.4 | \$13.8 | \$15.0 | \$1.4 | \$2.7 | |
| 400 – Property Services | \$7.2 | \$8.2 | \$8.2 | \$1.0 | \$1.0 | |
| 500 – Other Purchased Services | \$65.6 | \$58.7 | \$63.1 | (\$6.9) | (\$2.6) | Driven by charter school tuition |
| 600 – Supplies | \$6.5 | \$6.2 | \$7.3 | (\$0.2) | \$0.9 | |
| 700 – Property | \$0.6 | \$0.8 | \$4.6 | \$0.2 | \$3.9 | Driven by unplanned capital expenditures |
| 800 / 900 – Other Objects / Other Uses | \$20.1 | \$18.2 | \$18.6 | (\$1.8) | (\$1.5) | Driven by budgeted contingency |
| Total Expenditures | \$289.0 | \$288.0 | \$299.4 | (\$1.0) | \$10.4 | — |
| Surplus / (Deficit) | (\$15.2) | (\$3.6) | (\$14.0) | \$11.5 | \$1.1 | — |



2016-17 Year-End Deficit

Widely Varying Estimates and Results

- The Board and Superintendent are rightly concerned about the changing projections for 2016-17
 - The 2016-17 updated budget projection used for planning purposes since the spring of 2017 was approximately \$10 million too optimistic, leading the Board to pass a 2017-18 budget without accurate information
 - The updated budget did not include about \$4.0 million in unbudgeted Board-approved spending related to land/building costs for new schools, which was eventually attributed to 2016-17.
 - This apparently occurred because it was assumed that these operating costs would be reimbursed by proceeds from a bond issue before the end of the 2016-17 fiscal year
 - The updated budget reduced spending by over 10%, more than \$7.0 million, in the accounting category that includes charter tuition.
 - While this category can be volatile, accurate estimates should have been available in the spring of 2017 since most of the year's tuition bills would have been in hand. It is reported that the updated budget reflected regularly-revised projections.
 - Growth in charter school tuition rates and late reporting of out-of-district tuition could account for some of the variance



2016-17 Year-End Deficit

Widely Varying Estimates and Results

- ◆ While the 2016-17 budget and final results had similar totals, major budget categories were significantly different
 - The District experienced an increase in actual revenues over budget:
 - Increased real estate and earned income tax receipts
 - Higher state reimbursement for employee benefit costs due to reconciliation of prior year payments, and for basic education subsidy
 - Increased federal revenues
 - The District's actual expenditures also increased over budget:
 - Salaries exceeded budget by almost \$6.5 million, more than 6 percent
 - Purchased professional/technical/property services were over budget by almost \$3.5 million, which is more than 17 percent
 - Almost \$4.0 million in unbudgeted land/building costs



What Can Be Done to Avoid Variances in the Future?

- ◆ Structural budget issues and weakness in monitoring, forecasting and reporting appear to be the major reasons that prior year gaps were not addressed
- ◆ In order to address many of these shortcomings, the District's Business Manager has identified a range of solutions to improve the District's ability to manage and in turn monitor and forecast its financial position
 - Many of these initiatives will take time to implement, and the District will need to prioritize the order in which initiatives will be implemented to maximize staff capacity and minimize disruption to critical operations
 - Others are already underway, including improved reimbursements for PSERS
- ◆ Over time, the District's financial reporting will improve, and a more accurate picture of the District's financial condition will emerge
- ◆ This is frustrating now, as there remain areas of uncertainty and the District lacks important trend data that would help projects revenues and expenditures for the future
 - Existing data provides sufficient information to make necessary short-term budget decisions given the size of expected gaps
 - Finance staff should be focused on the most critical issues in priority order, given the many steps needed to gain control of the District's budget



Can the Board Be Assured That There Will Not Be Future Variances?

- While District budgeting is improving, and the analysis here will also provide tools to better manage and oversee the budget, some items need further work and other categories will always see variation because they are not within the District's control
- For example:
 - Charter school expenditures are driven by enrollment and the tuition rate, the latter of which is largely a result of overall District spending – when District spending increases, charter tuition rates rise the next year
 - Aggressive charter enrollment efforts and increased District expenditures mean charter tuition is increasing at an unpredictable rate
 - The lack of a position control system makes it difficult for the District to understand and project the cost of filled versus authorized positions
 - Collective bargaining must be undertaken in the context of strong overarching financial parameters, with District bargaining positions carefully established with full costing so that District negotiators understand what is and isn't affordable, and the District's financial position can be explained to the bargaining unit
 - Health benefit spending is increasing precipitously without a complete understanding of the underlying reasons for the rapid growth or how to control it
 - Spending on the new elementary school and middle school are not included in the baseline projections, and the District does not yet have a plan to fund all of the other significant capital needs identified in the draft feasibility study



Budget Projections



Quantifying and Closing the Gap

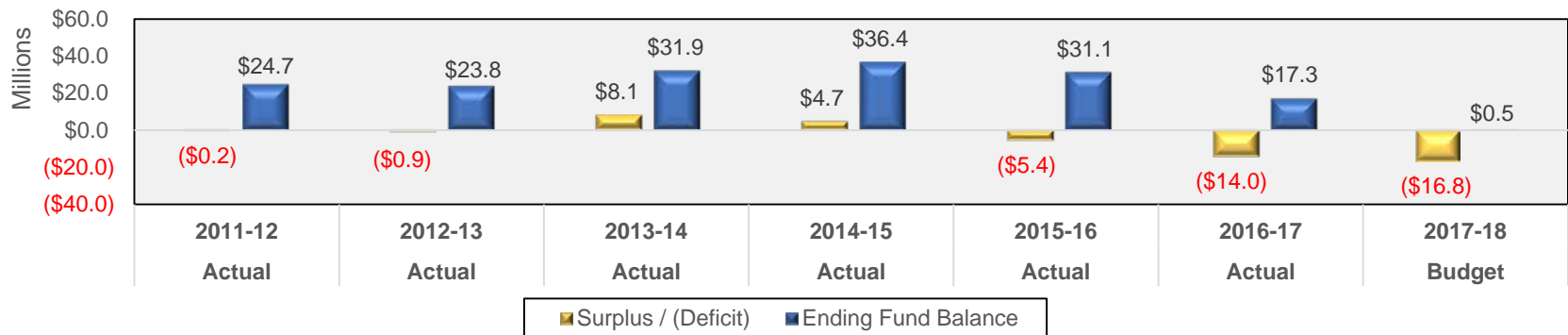
- PFM's financial analysis for school districts starts with the development of a baseline budget projection
 - These projections are made on a *status quo* basis, assuming no change in the District's current operations or initiatives to control costs and improve revenues
 - In most cases, this process identifies a gap between revenues and expenditures resulting in projected deficits in future years, since many Pennsylvania school district cost categories grow more quickly than revenues if no action is taken
- The *status quo* projection is important to highlight the sources of financial stress in the District's operating budget
- PFM's February analysis found that the Allentown School District has a structural deficit due to the growing imbalance in revenues and expenditures that has been present since the 2015-16 school year
 - The sources of the budgetary gap will be discussed in further detail in this presentation



Historical Results

- Beginning in 2015-16, the District needed to use budgetary reserves to cover negative annual operating results due to an imbalance between revenues and expenditures
- Under the adopted 2017-18 budget, the District projects a deficit of approximately \$16.8 million, or 5.5 percent of the District's \$305.9 million total budgeted expenditures
- Starting the projections with the budgetary gap will result in a significant portion of the deficit remaining in each of the projected years if there are no adjustments to revenues or expenditures
- As noted earlier, the purpose of the baseline budget projection is to highlight these financial trends, identify key drivers of the shortfalls, and to quantify initiatives to close the budgetary gap

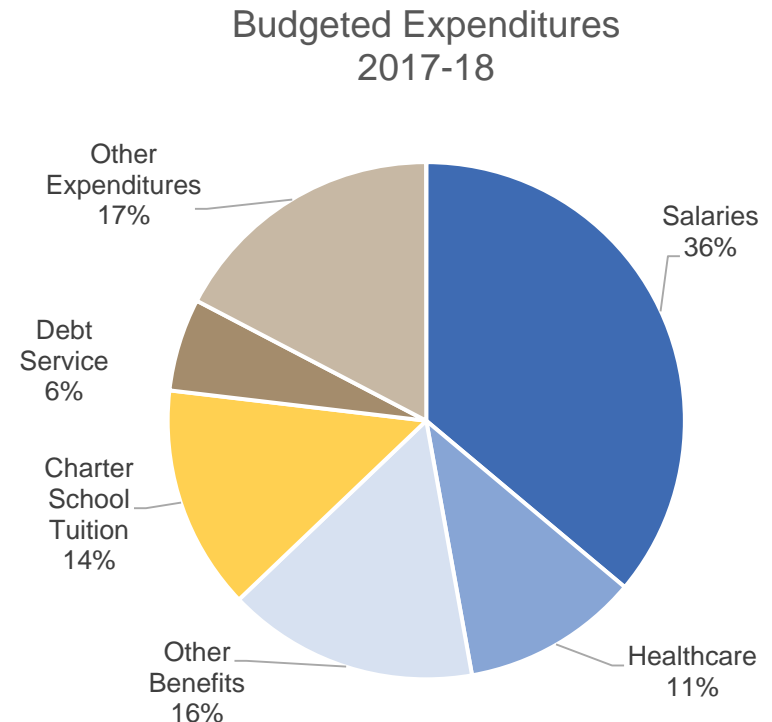
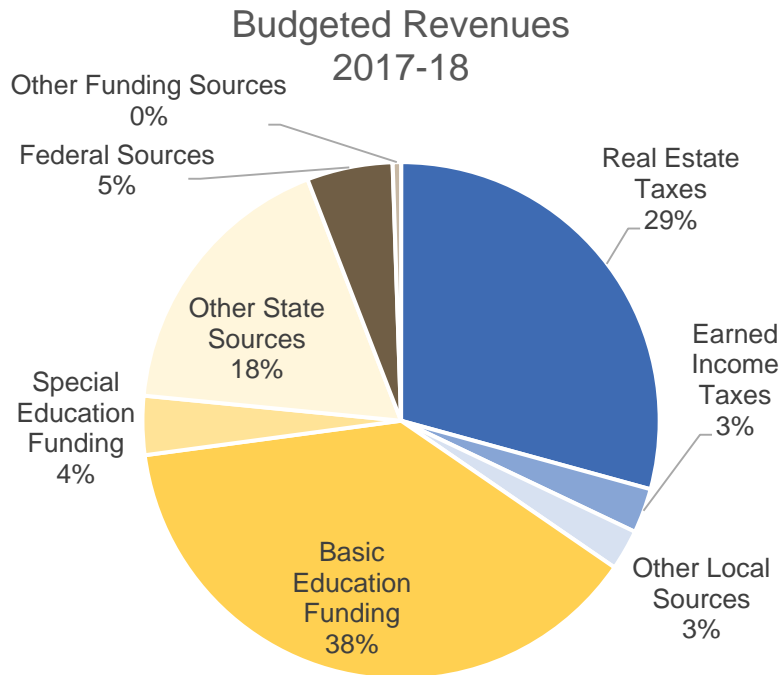
General Fund Financial Results 2011-12 to 2017-18





Starting Year: 2017-18 Budget

- The charts below shows the major categories of District revenues and expenditures
 - Local sources account for 35 percent of revenue, while the state sources provide 60 percent
 - Salaries, employee benefits, charter school tuition and existing debt service make up 83 percent of District spending

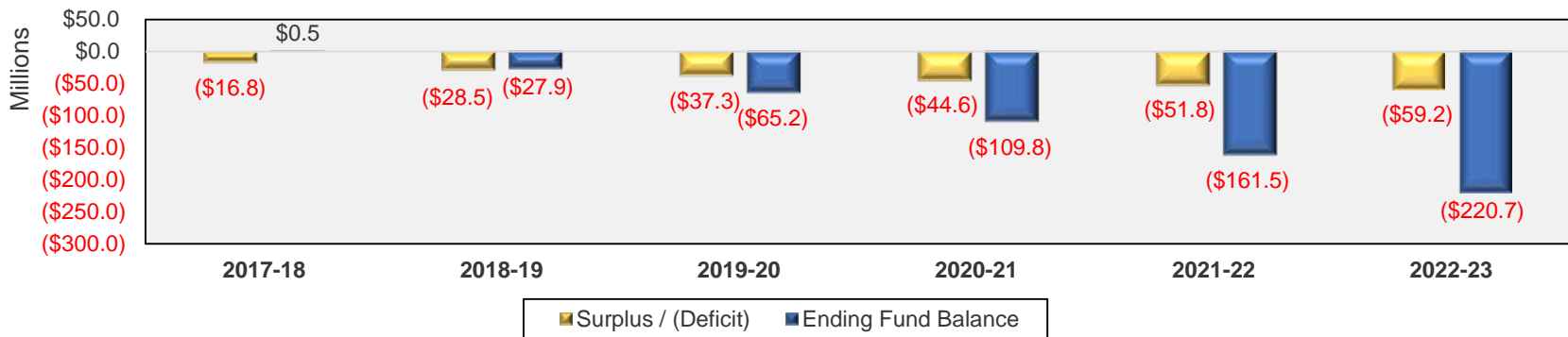




Baseline Budget Projections

- The chart and table below show the District's baseline financial projections beginning with the current year budget
- This is a *status quo* projection, assuming no corrective action is taken
- Major drivers behind the revenue and expenditure totals will be described in the following portion of this report

ASD General Fund Budget Projections 2017-18 to 2022-23



| | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 |
|----------------------------|-----------------------|-----------------------|-----------------------|------------------------|------------------------|------------------------|
| | Budget | Projected | Projected | Projected | Projected | Projected |
| Total Revenues | \$289,161,530 | \$294,455,330 | \$300,970,743 | \$305,386,637 | \$310,165,113 | \$315,212,495 |
| Total Expenditures | \$305,924,808 | \$322,924,883 | \$338,236,502 | \$349,950,951 | \$361,938,451 | \$374,388,328 |
| Surplus / (Deficit) | (\$16,763,278) | (\$28,469,553) | (\$37,265,760) | (\$44,564,315) | (\$51,773,338) | (\$59,175,833) |
| Ending Fund Balance | \$539,768 | (\$27,929,785) | (\$65,195,544) | (\$109,759,859) | (\$161,533,196) | (\$220,709,029) |



Major Budget Drivers



Revenues

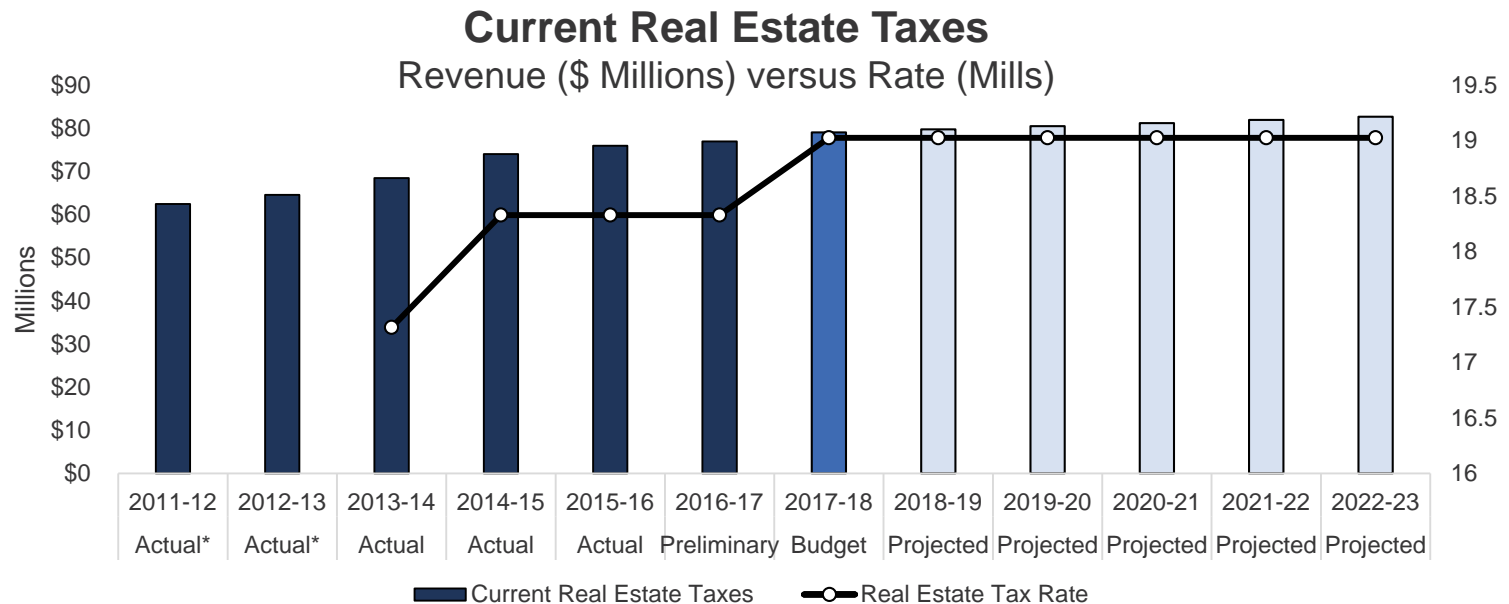


Current Real Estate Taxes

Baseline Projections

Major Assumptions:

- No increase in the real estate tax millage rate
- Growth of 0.9 percent based on the historical change in taxable assessed value
- A tax increase to the Act 1 Index level would yield approximately \$3.3 million per year



| 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 |
|---------|---------|---------|---------|---------|---------|---------|-----------|-----------|-----------|-----------|-----------|
| Actual | Actual | Actual | Actual | Actual | Prelim. | Budget | Projected | Projected | Projected | Projected | Projected |
| \$62.4 | \$64.6 | \$68.4 | \$74.0 | \$75.9 | \$76.9 | \$79.1 | \$79.8 | \$80.5 | \$81.2 | \$81.9 | \$82.7 |

Note: Lehigh County conducted a re-valuation of property values in 2013. Millage rates are not shown for 2011-12 and 2012-13 due to the District's reduction in the millage rate from the re-valuation.



Current Real Estate Taxes

Impact of Neighborhood Improvement Zone (NIZ) Development

- ◆ Development in the Neighborhood Improvement Zone has been a major contributor to growth in taxable assessed value for the Allentown School District
- ◆ Based on information provided to PFM, the NIZ has generated almost \$2.6 million in additional real estate tax revenues for the District through development that was completed between 2014 and 2017
- ◆ Accounting for projects currently under construction, and planned projects to be completed within the timeframe of PFM's 5-year baseline projection period, the NIZ will contribute an estimated additional \$2.8 million in real estate taxes
- ◆ PFM is in the process of reviewing this detailed assessment data, and its potential impact on the 5-year baseline projections



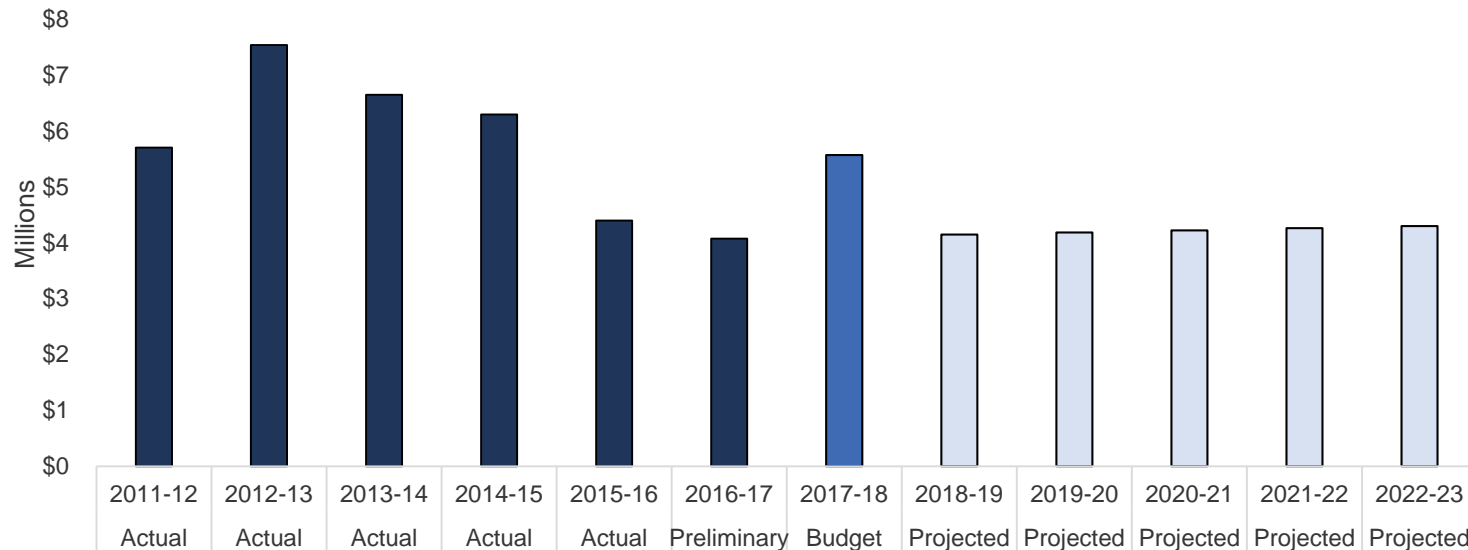
Delinquent Real Estate Taxes

Baseline Projections

Major Assumptions:

- Baseline revenue reduced based on year-to-date tax receipts for tax year 2017 (data provided by the District)
- Growth of 0.9 percent based on the historical change in taxable assessed value

Delinquent Real Estate Taxes (\$ Millions)



| 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 |
|---------|---------|---------|---------|---------|---------|---------|-----------|-----------|-----------|-----------|-----------|
| Actual | Actual | Actual | Actual | Actual | Prelim. | Budget | Projected | Projected | Projected | Projected | Projected |
| \$5.7 | \$7.5 | \$6.7 | \$6.3 | \$4.4 | \$4.1 | \$5.6 | \$4.1 | \$4.2 | \$4.2 | \$4.3 | \$4.3 |



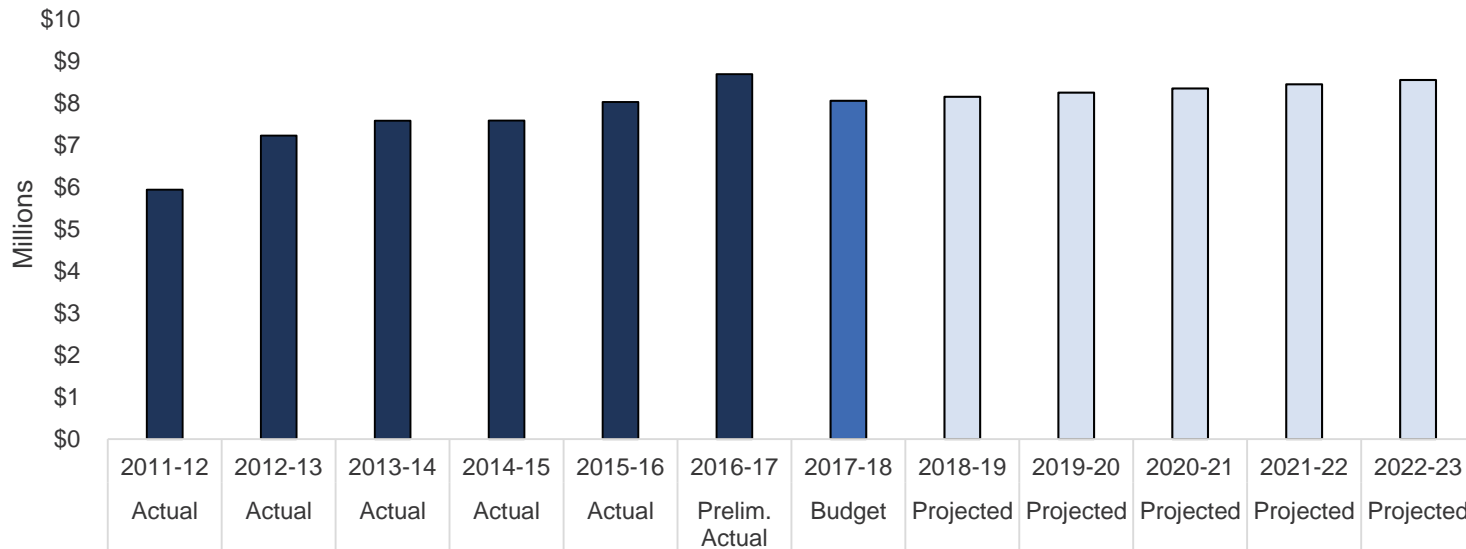
Earned Income Taxes

Baseline Projections

Major Assumptions:

- 2017-18 budgeted amount as starting value; higher figure in 2016-17 is attributed to one-time collections of prior-year delinquencies
- Historical growth of 1.2 percent based on personal income reported to the Pennsylvania Department of Education

Earned Income Taxes (\$ Millions)



| 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 |
|---------|---------|---------|---------|---------|---------|---------|-----------|-----------|-----------|-----------|-----------|
| Actual | Actual | Actual | Actual | Actual | Prelim. | Budget | Projected | Projected | Projected | Projected | Projected |
| \$6.0 | \$7.2 | \$7.6 | \$7.6 | \$8.0 | \$8.7 | \$8.1 | \$8.2 | \$8.3 | \$8.4 | \$8.5 | \$8.6 |



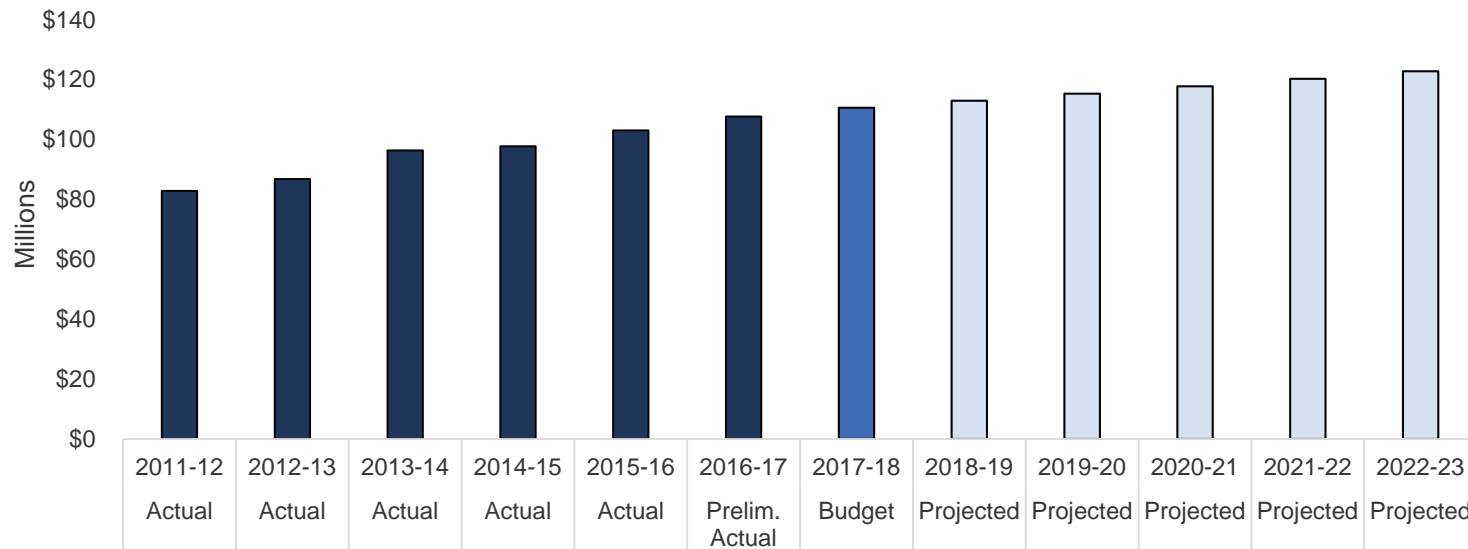
Commonwealth Basic Education Funding

Baseline Projections

Major Assumptions:

- 2017-18 budgeted amount as starting value, which is approximately \$120,000 higher than the November 2017 estimated allocation published by PDE
- Historical growth of 2.1 percent based on increase in Statewide allocation for all school districts

Basic Education Funding (\$ Millions)



| 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 |
|---------|---------|---------|---------|---------|---------|---------|-----------|-----------|-----------|-----------|-----------|
| Actual | Actual | Actual | Actual | Actual | Prelim. | Budget | Projected | Projected | Projected | Projected | Projected |
| \$82.9 | \$86.8 | \$96.4 | \$97.8 | \$103.1 | \$107.7 | \$110.6 | \$113.0 | \$115.4 | \$117.8 | \$120.3 | \$122.8 |

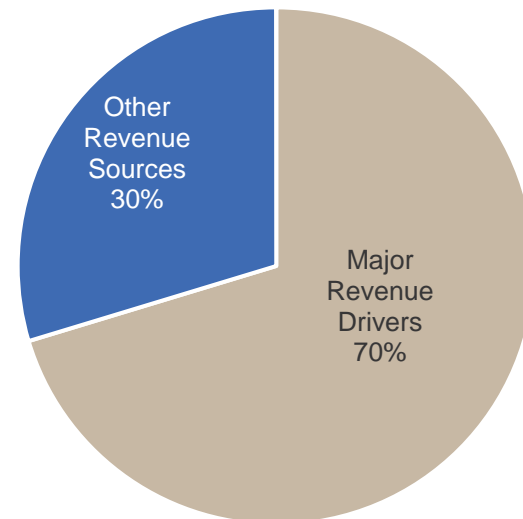


Other Revenue Sources

2017-18 Budget

- Balancing the District's budget over the projection period will require a number of smaller initiatives in addition to focusing on the large revenue drivers
- As shown in the chart to the right, the major revenue drivers account for approximately 70 percent of the District's 2017-18 budget
 - Special Education Funding (4 percent of total budget) is outside of the District's control
 - PlanCon (1 percent of total budget) is relatively well-managed, and does not have significant outstanding amounts ready to draw down for short-term increases in revenue
 - Other revenue sources, such as State reimbursement for Social Security costs (2 percent of total budget), are typically formula-driven with little District control
- Within the remaining 23 percent of the District's total budgeted revenues, the District has a number of opportunities to marginally increase the available resources for educational programs

Budgeted Revenues
2017-18





Expenditures



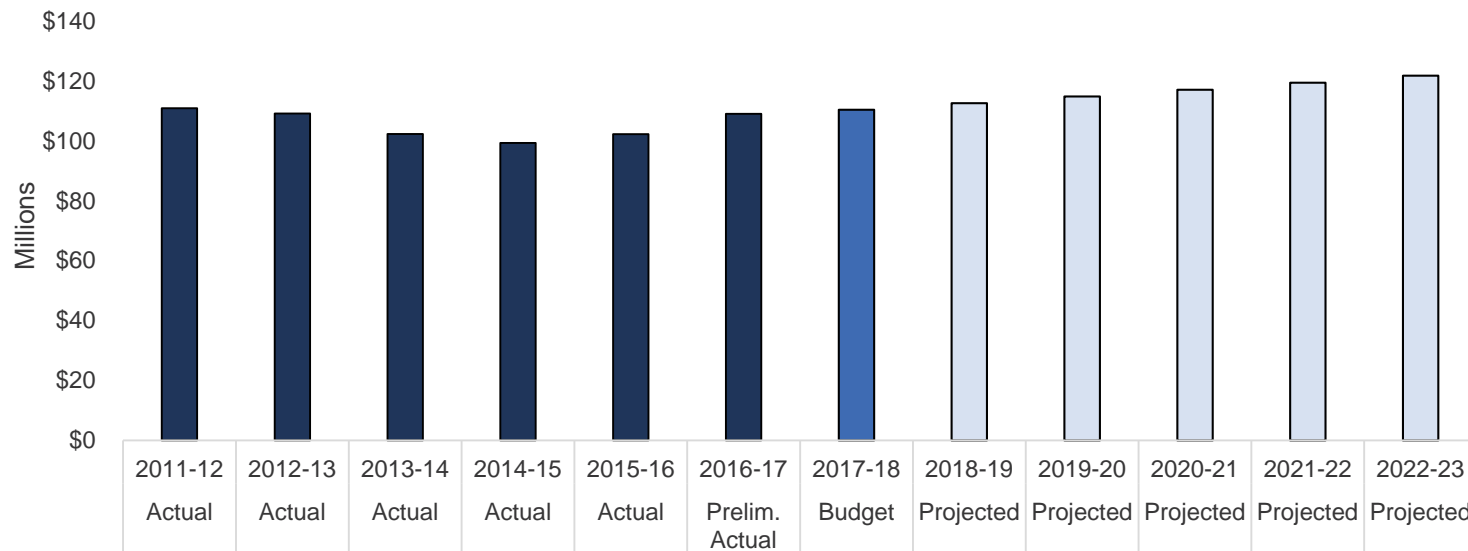
Salaries

Baseline Projections

Major Assumptions:

- No changes in staffing levels based on the 2017-18 budgeted amount
- Average annual salary cost growth of approximately 2.0 percent based on analysis of District payroll reports

Total Salaries (\$ Millions)



| 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 |
|---------|---------|---------|---------|---------|---------|---------|-----------|-----------|-----------|-----------|-----------|
| Actual | Actual | Actual | Actual | Actual | Prelim. | Budget | Projected | Projected | Projected | Projected | Projected |
| \$110.9 | \$109.2 | \$102.3 | \$99.4 | \$102.3 | \$109.1 | \$110.4 | \$112.6 | \$114.9 | \$117.1 | \$119.5 | \$121.8 |



PSERS Contributions

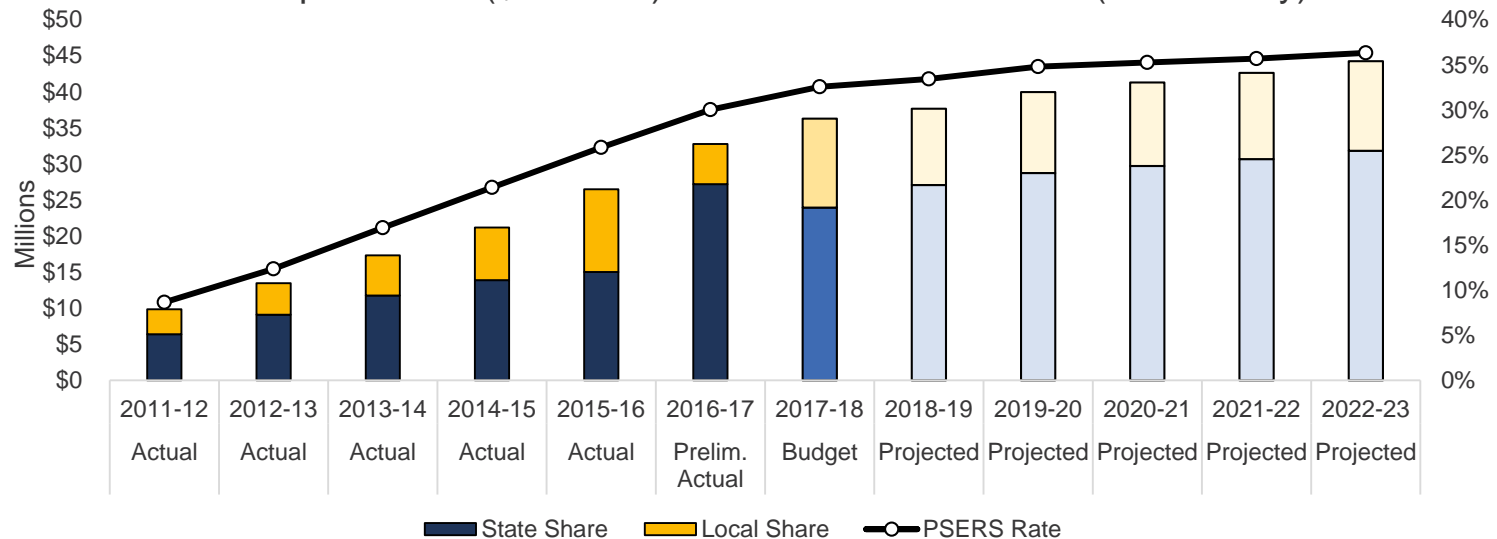
Baseline Projections

Major Assumptions:

- Contribution rates published annually by the PSERS Board of Trustees
- Projected growth in total salaries

ASD PSERS Contributions

Total Expenditures (\$ Millions) versus Contribution Rate (% of Salary)



| | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 |
|---------------------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | Actual | Actual | Actual | Actual | Actual | Prelim. | Budget | Projected | Projected | Projected | Projected | Projected |
| Local Share | \$3.5 | \$4.4 | \$5.6 | \$7.3 | \$11.5 | \$5.6 | \$12.3 | \$12.8 | \$13.6 | \$14.0 | \$14.5 | \$15.0 |
| State Share | \$6.4 | \$9.1 | \$11.8 | \$13.9 | \$15.0 | \$27.2 | \$24.0 | \$24.9 | \$26.4 | \$27.3 | \$28.1 | \$29.2 |
| Total Expenditures | \$9.9 | \$13.5 | \$17.3 | \$21.2 | \$26.5 | \$32.8 | \$36.3 | \$37.7 | \$40.0 | \$41.3 | \$42.6 | \$44.2 |



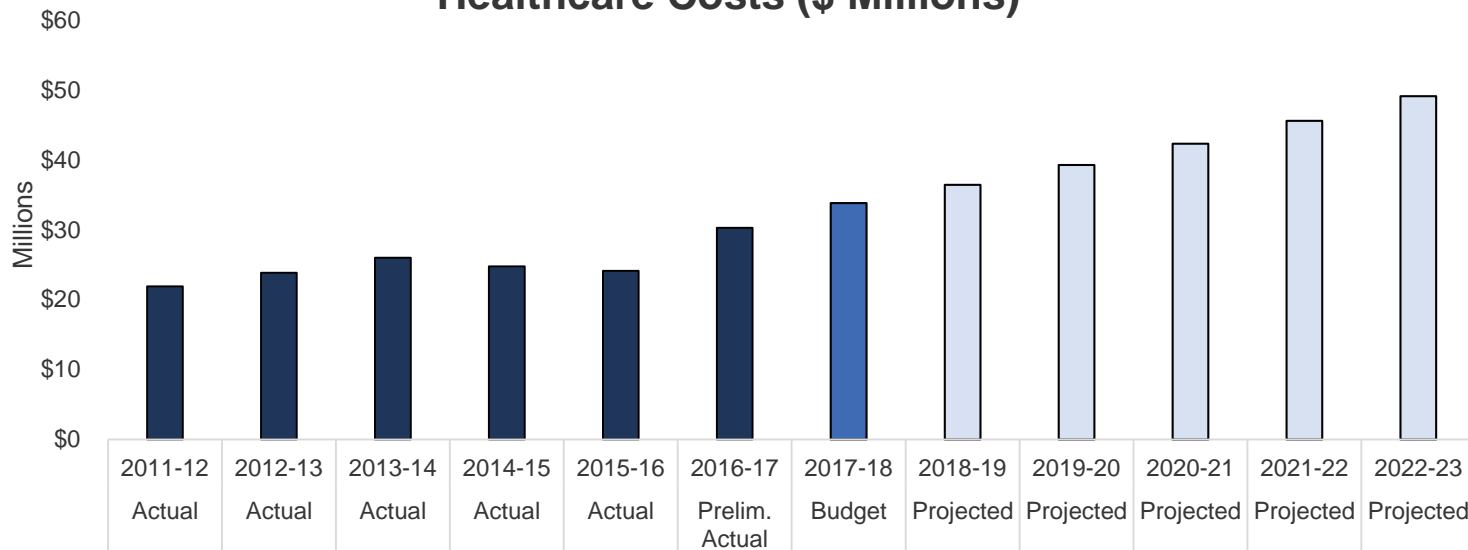
Healthcare

Baseline Projections

Major Assumptions:

- 2017-18 budgeted amount as starting value
- Growth of 7.8 percent per year based on national trends for healthcare costs
- Concern about rapid ASD health care cost growth from 2015-16 to 2016-17

Healthcare Costs (\$ Millions)



| 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 |
|---------|---------|---------|---------|---------|---------|---------|-----------|-----------|-----------|-----------|-----------|
| Actual | Actual | Actual | Actual | Actual | Prelim. | Budget | Projected | Projected | Projected | Projected | Projected |
| \$21.9 | \$23.9 | \$26.0 | \$24.8 | \$24.1 | \$30.3 | \$33.8 | \$36.5 | \$39.3 | \$42.3 | \$45.6 | \$49.2 |

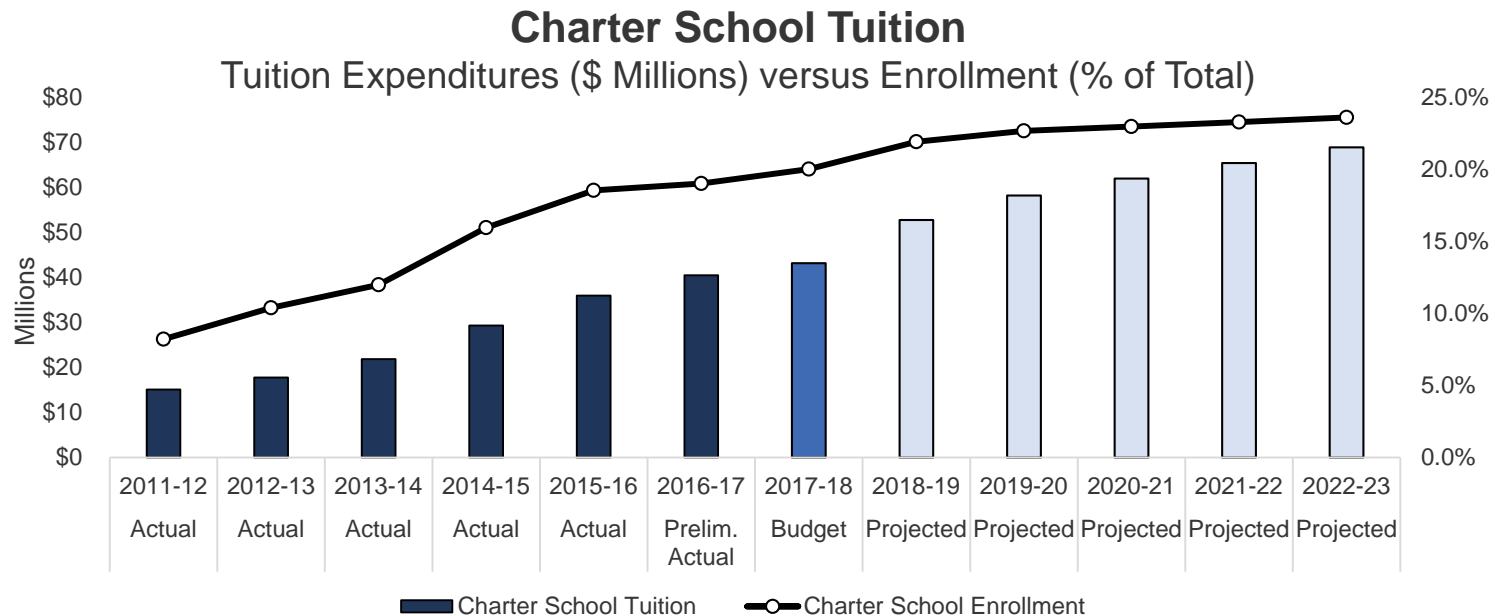


Charter School Tuition

Baseline Projections

Major Assumptions:

- Growth based on known enrollment caps at brick & mortar charter schools and long-term trends
- Baseline projection shows an increase of 330 students in the first year, declining to an annual increase of 80 students by the out years



| 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 |
|---------|---------|---------|---------|---------|----------------|---------|-----------|-----------|-----------|-----------|-----------|
| Actual | Actual | Actual | Actual | Actual | Prelim. Actual | Budget | Projected | Projected | Projected | Projected | Projected |
| \$15.1 | \$17.8 | \$21.8 | \$29.3 | \$35.9 | \$40.4 | \$43.1 | \$52.7 | \$58.1 | \$61.9 | \$65.3 | \$68.8 |



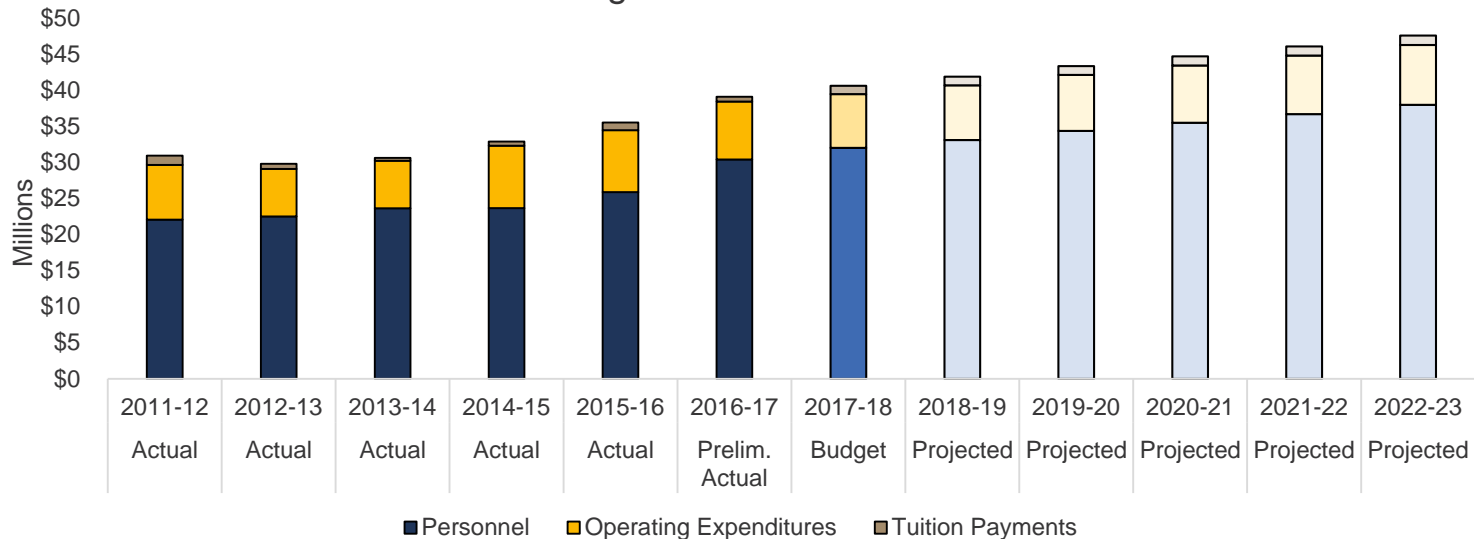
Special Education

Baseline Projections

Major Assumptions:

- Personnel costs are grown at rates described in the “Salaries” slide
- Tuition payments for out-of-district placements receive an inflationary increase of 2.2 percent

Special Education Costs (\$ Millions)
Excluding Charter School Tuition



| | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 |
|--------------------|---------|---------|---------|---------|---------|---------|---------|-----------|-----------|-----------|-----------|-----------|
| | Actual | Actual | Actual | Actual | Actual | Prelim. | Budget | Projected | Projected | Projected | Projected | Projected |
| Total Expenditures | \$31.0 | \$29.8 | \$30.7 | \$32.9 | \$35.5 | \$39.1 | \$40.6 | \$41.9 | \$43.4 | \$44.7 | \$46.1 | \$47.6 |



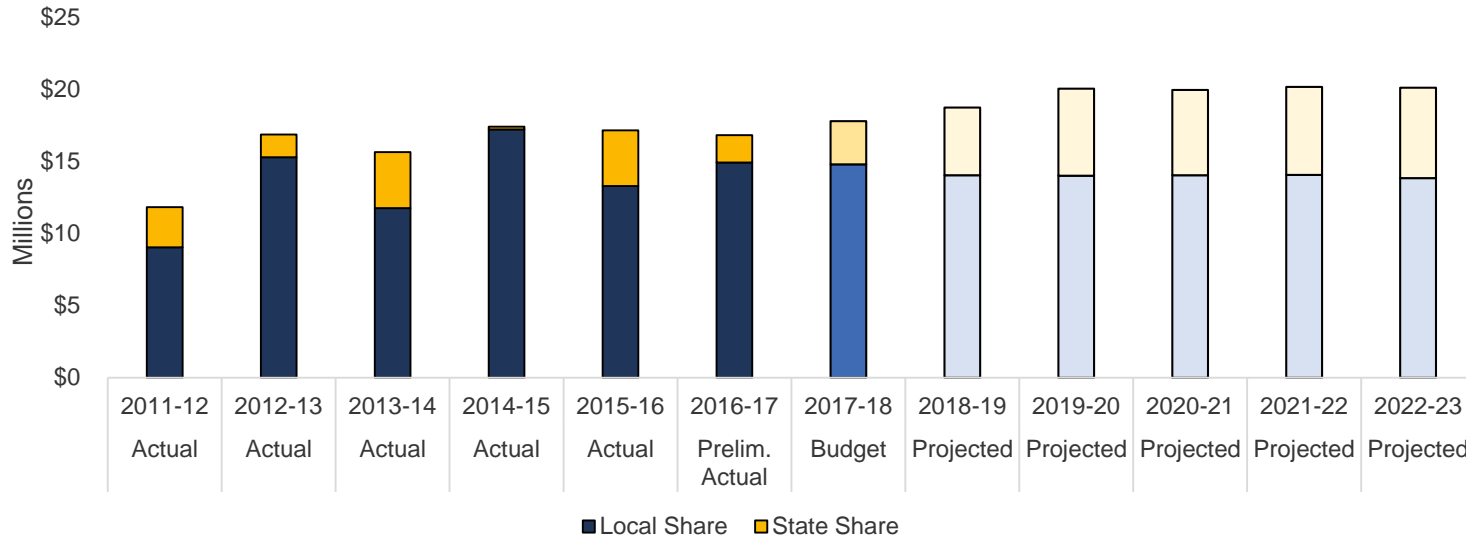
Debt Service

Baseline Projections

Major Assumptions:

- Debt service schedule based on estimates prepared by PFM Financial Advisors, LLC as of June 30, 2017
- Does not include additional debt issued for new capital projects, or potential savings of approximately \$1.8 million from the refunding of bonds now callable

Debt Service Payments (\$ Millions)



| | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 |
|--------------------|---------|---------|---------|---------|---------|---------|---------|-----------|-----------|-----------|-----------|-----------|
| | Actual | Actual | Actual | Actual | Actual | Prelim. | Budget | Projected | Projected | Projected | Projected | Projected |
| Total Expenditures | \$11.8 | \$16.9 | \$15.6 | \$17.4 | \$17.2 | \$16.8 | \$17.8 | \$18.7 | \$20.0 | \$19.9 | \$20.2 | \$20.1 |



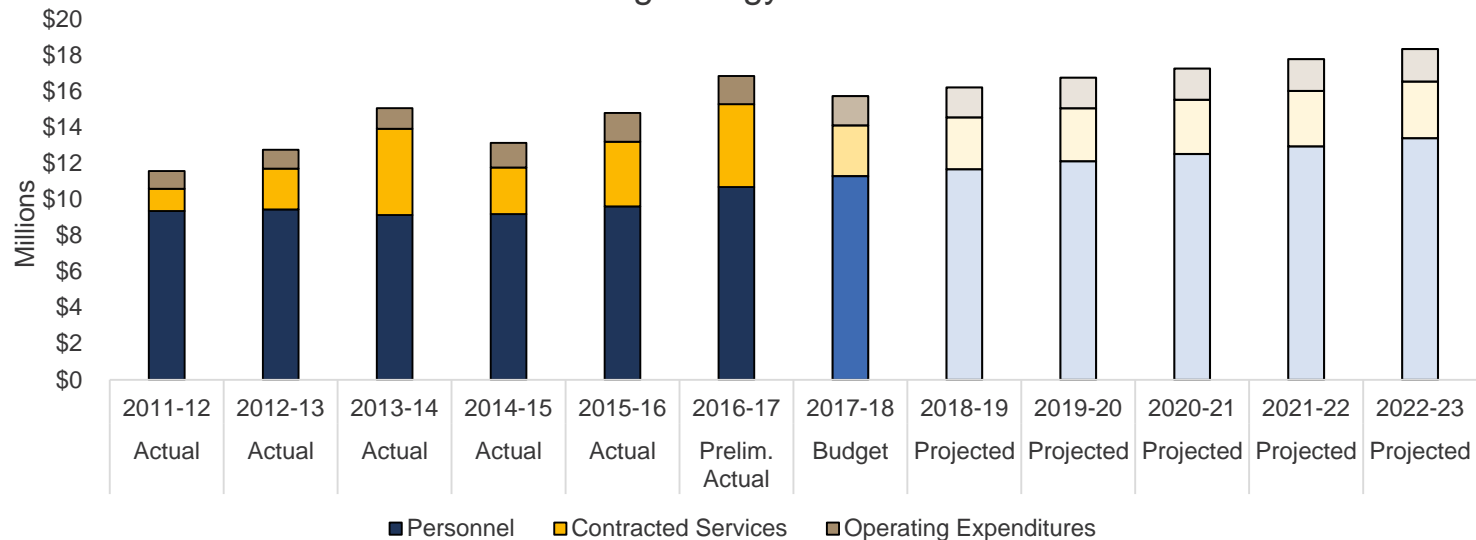
Maintenance

Baseline Projections

Major Assumptions:

- Personnel costs are grown at rates described in the “Salaries” slide
- Contracted services and operating expenditures receive an inflationary increase of 2.2 percent

Maintenance Costs (\$ Millions) Excluding Energy and Utilities



| | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 |
|--------------------|---------|---------|---------|---------|---------|---------|---------|-----------|-----------|-----------|-----------|-----------|
| | Actual | Actual | Actual | Actual | Actual | Prelim. | Budget | Projected | Projected | Projected | Projected | Projected |
| Total Expenditures | \$11.6 | \$12.8 | \$15.1 | \$13.1 | \$14.8 | \$16.9 | \$15.7 | \$16.2 | \$16.8 | \$17.3 | \$17.8 | \$18.3 |



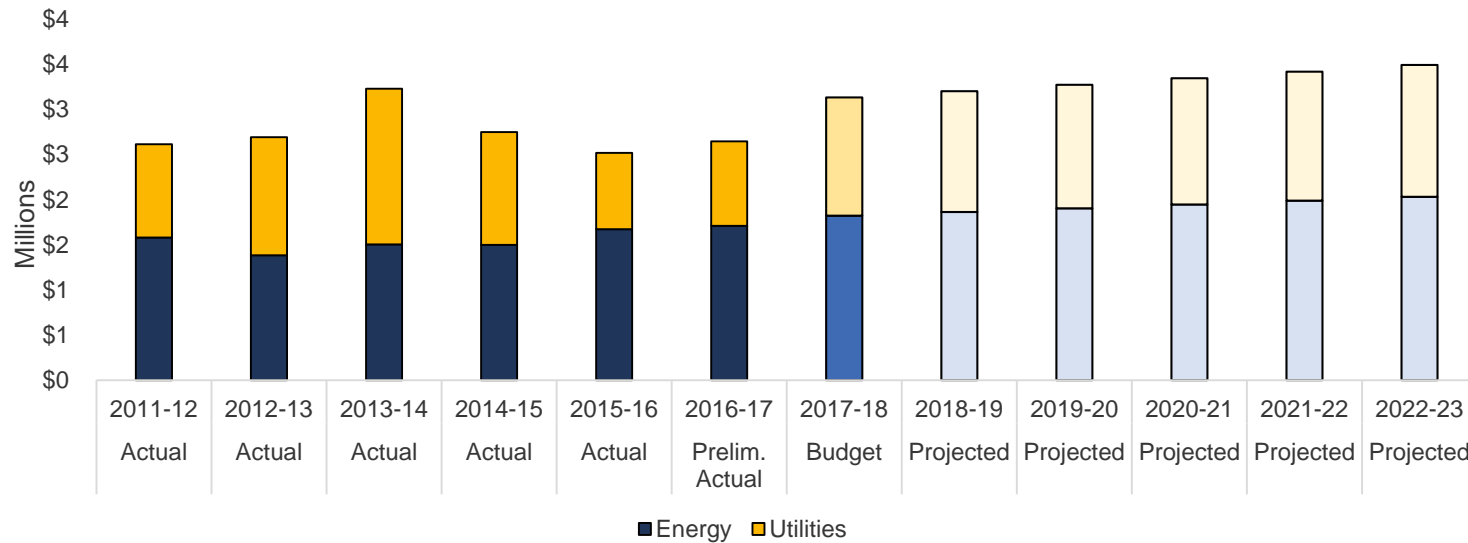
Energy and Utilities

Baseline Projections

Major Assumptions:

- Energy and utilities costs receive an inflationary increase of 2.2 percent

Energy and Utilities Costs (\$ Millions)



| | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 |
|--------------------|---------|---------|---------|---------|---------|---------|---------|-----------|-----------|-----------|-----------|-----------|
| | Actual | Actual | Actual | Actual | Actual | Prelim. | Budget | Projected | Projected | Projected | Projected | Projected |
| Total Expenditures | \$2.6 | \$2.7 | \$3.2 | \$2.8 | \$2.5 | \$2.6 | \$3.1 | \$3.2 | \$3.3 | \$3.3 | \$3.4 | \$3.5 |

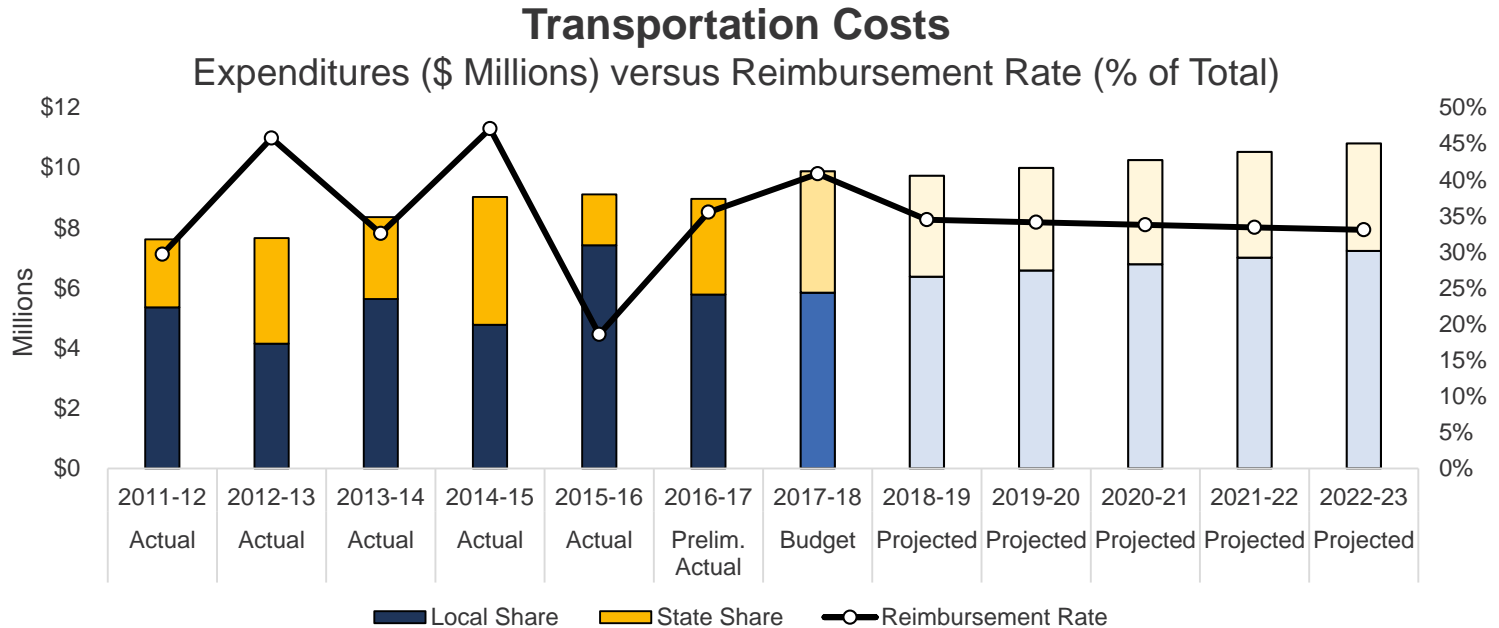


Transportation

Baseline Projections

Major Assumptions:

- Adjusted starting value for projections based on PFM's review of increased number of routes for 2017-18
- Assumes no additional routes after 2017-18 and inflationary increases in costs of 2.75 percent based on the current contract



| | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 |
|--------------------|---------|---------|---------|---------|---------|---------|---------|-----------|-----------|-----------|-----------|-----------|
| | Actual | Actual | Actual | Actual | Actual | Prelim. | Budget | Projected | Projected | Projected | Projected | Projected |
| Total Expenditures | \$7.6 | \$7.7 | \$8.4 | \$9.0 | \$9.1 | \$9.0 | \$9.9 | \$9.7 | \$10.0 | \$10.3 | \$10.5 | \$10.8 |



Future Budget Scenario



Budget Scenario Initiative List

- The table below summarizes the initiatives included in the budget scenario:

Revenues

| | |
|---|--|
| 1 | Increase the millage rate to the Act 1 Index |
| 2 | Increase delinquent real estate tax collections |
| 3 | Increase growth rate for basic education funding allocations |
| 4 | Increase PILOT revenues |
| 5 | Improve Transportation Subsidy reimbursement |
| 6 | Pursue one-time payments for retirement reimbursement |
| 7 | Increase Medicaid ACCESS revenues |

Expenditures

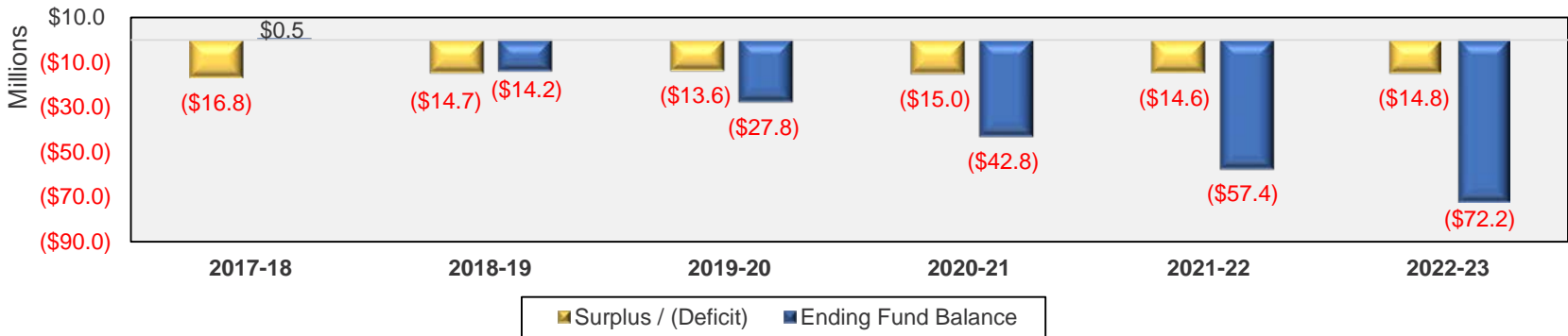
| | |
|----|--|
| 8 | Remove unfilled positions |
| 9 | Salary freeze beginning in 2018-19 |
| 10 | Reduce healthcare expenditure growth rate |
| 11 | Flat charter school enrollment |
| 12 | Reduce IU and out-of-district placement tuition payments to the historical average |
| 13 | Issue new debt for capital projects |
| 14 | Reduce maintenance costs due to capital investments |
| 15 | Reduce utilities costs due to capital investments |
| 16 | Reduce expenditures for contracted transportation services |



Budget Scenario Projections

- The chart and table below show the District's financial projections under an alternative scenario
- This is a budget scenario projection that adds the financial impact of the initiatives described on the prior page to the baseline

ASD General Fund Budget Projections 2017-18 to 2022-23



| | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 |
|----------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | Budget | Projected | Projected | Projected | Projected | Projected |
| Total Revenues | \$289,161,530 | \$299,787,954 | \$311,218,503 | \$320,357,318 | \$329,982,549 | \$340,121,174 |
| Total Expenditures | \$305,924,808 | \$314,519,871 | \$324,815,895 | \$335,398,963 | \$344,576,056 | \$354,909,114 |
| Surplus / (Deficit) | (\$16,763,278) | (\$14,731,917) | (\$13,597,392) | (\$15,041,645) | (\$14,593,507) | (\$14,787,939) |
| Ending Fund Balance | \$539,768 | (\$14,192,149) | (\$27,789,541) | (\$42,831,186) | (\$57,424,693) | (\$72,212,633) |



Budget Scenario Conclusions

- ◆ Initiatives included in the alternative budget scenario are intended to highlight the potential financial impact of the various options available to the District to address the long-term structural deficit
- ◆ Under PFM's scenario projections, the District continues to show an annual shortfall in the range of \$13 to \$15 million per year in each of the projected years
- ◆ Even with fairly aggressive assumptions for some of the District's major budget drivers (for example, no growth in charter school enrollment after October 2017), the District's expenditures remain higher than recurring revenues
- ◆ However, adoption of these initiatives also stabilizes the recurring budget gap, compared to the baseline scenario which had rapidly-increasing annual shortfalls
- ◆ These results indicate that the District should continue to explore options to reduce the structural imbalance as the Board and the Administration develop the budget for the 2018-19 school year



2018-19 Budget Development

- ◆ Given the size of the District's structural deficit for the current 2017-18 school year, the District will be required to make tough choices to close the budget gap
- ◆ Developing a recommended budget for the 2018-19 school year will require a significant effort to identify additional revenue sources, and potential expenditure reductions to close the estimated budgetary gap for the current school year
- ◆ Potential areas of focus include analyzing District operational data to begin costing the financial impact of initiatives, preparing estimates of key revenues and expenditures items, and updating multi-year financial projections to incorporate new estimates
- ◆ The following section reviews the baseline figures for key budget drivers where changes may be needed in order to balance the budget in the short- and long-term

