Board workshop on the financial status of Colonial pending the referendum and State budget cuts

April 27, 2017
AGENDA

- Review current local financial position
  - Cash balance
  - Why can’t we cut our way to stability?
  - Budget growth
- State Budget proposal
  - Overview of proposal
  - Impact of cuts
  - Match tax
- Overview of referendum request
  - Still requesting $0.38 increase over 2 years
  - What has changed?
- How it all collides
- Questions and Discussion
Colonial needs over $8 million in start-up funds to allow us to operate before our tax receipts come in.

- Projected year end balance on June 30, 2017 is $10 million
- With no cuts and no additional revenue, Colonial’s year end balance on June 30, 2018 will be less than $2 million.
  - This may trigger a Financial Recovery Team under state law.
- With $4.5 million in cuts and no additional revenue, the year end balance on 6/30/18 will be $6.5 million. Still not sufficient to meet obligations. Additional cuts of over $4 million would be needed for the FY 2019 budget.

- Colonial will need additional revenue to sustain continued operations. We cannot cut our way to financial stability.
WHY CAN’T WE CUT OUR WAY OUT?

FY 2017 BUDGET TOTALING $157 MILLION

State restricted funds, $83,136,823, 53%

State discretionary funds, $8,858,183, 5%

Federal funds, $7,504,677, 5%

Local funds, $57,565,058, 37%
LOCAL & DISCRETIONARY FUNDS BREAKDOWN

FUNDS TOTALING $66.5 MILLION

Debt Service Tax Receipts, 4,542,038, 7%

Tuition Receipts (excl. Leach), 6,494,030, 10%

John G. Leach (tuition revenue), 3,050,000, 5%

Match Tax Receipts, 712,927, 1%

Technology Maintenance Match, 436,956, 0%

Cafeteria, 6,455,000, 10%

Operating funds, 43,527,160, 67%
Local Salaries & benefits, $35,051,431, 81%

Discretionary spending, $8,475,729, 19%
BUDGET GROWTH SINCE 2013

- The Colonial Operating budget has grown 11% over the last 4 years. This is an average of 2.75% annually.

- Over the same period, the number of units (teaching positions) earned increased by 15%. This has increased the demand on our budget for the local share of positions. The local salary budget has increased by 20% since the last referendum.
  - During this time, Colonial has only added one additional administrative position.

- Non-personnel budgets have experienced decreases over this same timeframe to minimize budget growth.
  - Principals’ budgets have decreased by over 20% while many schools have seen increases in the needs of their students and size of their populations.
  - Many of these budgets are already running leaner than before the 2013 referendum.

- Despite that virtually all budget growth has been in personnel, our planned cuts in preparation for a referendum defeat include almost $1 million in programmatic cuts.
Approximately 120 staff cuts in all categories including district office. This is roughly 10% of the total staff.

- Cut Middle School, Freshman and JV sports
- Eliminate Band and Choral festivals and curricular programs (STEAM Showcase, Math 24, Student leadership)
- Eliminate Teacher of the Year and Retirement dinners
- Eliminate School Resource Officer
- Suspend technology replacements
- Issue School supply lists to parents
- Reduce maintenance and custodial budgets
- Continue limitations on use of contracted substitutes for teachers and paras
LET'S MOVE TO THE STATE SIDE
Delaware’s State budget has been balanced over the past several years through a combination of short term or one time measures.

For the Fiscal year starting July 1, 2017, Delaware is facing a revenue shortfall of $396 million.

Most of the one time or short term solutions are no longer available or viable.

Gov. Carney has held many ‘Budget reset’ meetings around the State to outline the severity of the problem.

His solution proposes a ‘Shared Sacrifice’ approach that includes both cuts to State agencies and programs as well as tax increases and other revenue enhancements.
Released on March 23rd, Carney has presented his recommendations for balancing Delaware’s budget for FY 2018.

The General Assembly (GA) began the process of reviewing his proposal on Monday. Delaware must pass a budget by June 30th to continue operating into July.

GA must still approve all of the cuts and revenue enhancements that were proposed.

Colonial will be impacted by cuts and other changes to the Education budget but also through changes in employee healthcare and pension systems.
BUDGET PROPOSAL SPECIFICS

Additions

- Unit growth is fully funded costing over $25 million.
  - This is the cost of new teachers statewide that are needed to keep pace with student growth. (State funding provides ~65% of the cost; local districts must provide the remaining 35%, which Colonial does not currently have)

- Funding for step increases in K-12 and at Del-Tech costing $11.3 million.
  - These are the increases teachers and other groups receive for additional years of experience.

- Addressing growth in STARS early education program costing $4.7 million.

- Opportunity grants for schools with low income and ELL populations costing $1 million.

Cuts/Cost shifts

- Changes to the State health insurance plans (shift costs to employees) will save $10 million.

- Reducing funds for school operations will save $15 million.

- Reduce Division II Energy funds to save $488,300.

- Reduce Educational Sustainment fund by $21.97 million and allow districts to raise local funds to offset the decrease.

- Decrease Transportation formula funding by 5% to save $3.5 million.
IMPACT TO COLONIAL

Numbers represent how much each cut is estimated to cost Colonial

- Health Insurance plan changes: $165,000
  - Increase employee contribution by 3% (covered under district paid stipend)
  - Eliminate the ‘double state share’ benefit for spouses both employed by the State.

- School Operations: $1.13 million
  - Plan would allow districts to choose where to make this cut to allow ‘flexibility’.

- Division II Energy: $35k

- Transportation: $246,300

- Educational Sustainment: $1.83 million
  - Districts would be able to recover these funds through a match tax.

Total estimated impact: $3.4 million
Carney’s proposal includes a $15 million cut in ‘school operations’. This cut will be implemented flexibly; meaning that we will have discretion over which state funding lines we decrease. The exact guidelines for this process have not yet been released.

Possible cuts:

- State Professional Development funds will reduced or eliminated.
- Technology Block grant will be reduced or eliminated
- Reduce contract for behavior interventionists.
- Reduce funding for Drivers Education.
- Reduce funding for Career and Technical programs at secondary schools.
- If the State allows unfilled positions to be ‘cashed in’ and counted as part of the state cut, we will utilize this to the extent possible.
IMPACT OF OTHER STATE CUTS

- Administrators, Specialists and Secretaries will see the stipend provided by the district for health insurance decrease.
  - This change will save money in the short run but offers the larger benefit of long term cost avoidance by limiting the amount of cost the district must absorb if the State makes changes in the future that shift more cost to the employees.

- Div II Energy cut: Colonial is already in the process of completing a district wide energy efficiency project. The savings from that project should allow us to absorb that cut with minimal impact.

- Transportation: Districts have asked the State to consider changing some of the regulations around student transportation to allow us to better manage a cut in this area. Nothing has been formally proposed to date. Without flexibility in this area, this cut will impact local funds since we will need to pick up the costs.
**MATCH TAX PROPOSAL**

- Governor Carney has proposed a cut to education of almost $22 million but wants to allow districts to recover those funds by raising local property taxes.

- He points to the low amount of property taxes paid by Delaware residents in comparison to both our neighboring states and nationwide. Delaware has among the lowest property taxes across the country.

- While the details have not been released officially, the method discussed to allow this would be language in the budget allowing for a match tax.

- Allowing districts to recover those funds is a recognition that a cut of that size would be very detrimental to public education. Most districts cannot absorb a cut of that size without major impacts to staff and programming.

- The match tax would be implemented through a vote by each school board when the tax warrant is approved in July.
Educational Sustainment cut: $1,828,018.51

- Ed Sustainment is used to cover the local portion of salaries for approximately 50 positions.
  - These funds originated as a discretionary block grant after several programmatic lines were cut and never restored (LEP, Discipline, Reading and Math Specialists, Extra Time, Tax Relief)
  - These notifications (for teachers) must be made by May 15th to comply with State law.
  - These 50 positions are in addition to the 120 that must be eliminated if the June referendum is also defeated.

- If Colonial was approved to recover that full amount in the form of a match tax, the impact to our tax rate would be 6.35 cents.
  - The impact to the average household (assessed value of 63,000) is estimated to be an additional $40 annually.
GETTING TO JUNE

- The General Assembly and Governor are well aware of the time constraints that exist for school districts in preparing for the next fiscal year.
  - May 15th RIF deadline
  - July tax warrant deadline

- Districts continue to have conversations with OMB, the Governor’s office and the Legislature and are pushing for decisions as soon as possible.

- Any updates will be shared with the Board as soon as possible.
THE JUNE 6\textsuperscript{TH} REFERENDUM DETAILS
THE NEW ASK

- Our requested increase on June 6th is still 38 cents raised over two years.
  - $0.27 in year 1 and $0.11 in year 2.

- Colonial’s local cash position has not changed since the original request was compiled in August 2016.
  - The majority of the funds needed are supporting current operations.

- The situation surrounding the State budget has deteriorated since last summer. State cuts were not considered as part of the original request.

- We feel it is fiscally irresponsible to expand new programs at a time when the State budget is so uncertain.
### Use of Funds

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<thead>
<tr>
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<th>February 28th referendum</th>
<th>June 6th referendum</th>
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<tbody>
<tr>
<td>Supporting current class size and programs</td>
<td>22.24 Cents $ 6,384,000</td>
<td>22.24 Cents $ 6,384,000</td>
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<tr>
<td>Investing in new staff and student growth</td>
<td>9.09 Cents $ 2,619,309</td>
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<tr>
<td>Operating cost increases</td>
<td>0.64 Cents $ 183,000</td>
<td>0.64 Cents $ 183,000</td>
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<td>Curriculum</td>
<td>0.50 Cents $ 145,000</td>
<td>0 Cents $ 0</td>
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<tr>
<td>Technology</td>
<td>1.50 Cents $ 431,207</td>
<td>0 Cents $ 0</td>
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<td>MS Redesign</td>
<td>0.25 Cents $ 71,868</td>
<td>0 Cents $ 0</td>
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<tr>
<td>Wellness</td>
<td>0.70 Cents $ 201,230</td>
<td>0 Cents $ 0</td>
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<tr>
<td>Early Childhood</td>
<td>3.09 Cents $ 888,285</td>
<td>0 Cents $ 0</td>
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<tr>
<td>Minimize impact of State cuts</td>
<td>0 Cents $ 0</td>
<td>6.03 Cents $ 1,737,589</td>
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<td><strong>TOTAL</strong></td>
<td><strong>38.00 Cents $ 10,923,898</strong></td>
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The outcome of the referendum will have a large impact in determining a decision on authorizing a match tax.

- Should the referendum be successful, our financial position will be strengthened but we will still be facing over $3 million in State cuts.
  - We will not be able to restore all jobs.

- If the referendum is defeated, authorizing the match tax will allow some positions to be restored but we will still be operating with a 10% staff reduction.

- Timing of the State budget (finalized in late June) will mean that there is little time to consider the decision before a vote is needed for the tax warrant.

- Long term considerations of continued community support when raising taxes without a vote.
DISCUSSION AND QUESTIONS