



Financial Improvement Plan Erie Public Schools

Erie High School

Erie, PA

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Introduction

Introduction and Overview:
Financial Recovery for School Districts

Honorable Pedro A. Rivera
Secretary, Pennsylvania Department of Education

Erie Public Schools - Financial Improvement Plan

Charles Zogby
Financial Administrator, Erie Public Schools



Background

School District Financial Recovery, required PDE to:

- 1) establish an Early Warning System to identify school districts facing financial distress; and
- 2) Identify districts for Financial Watch Status and offered technical assistance.

- EPS identified for Financial Watch Status in September 2016

Act 55 of 2017 required districts identified for Financial Watch and receiving Educational Access Funding to be placed under the supervision of a Financial Administrator.

- EPS receipt of \$14 million in March 2018 triggered appointment of a Financial Administrator.



▶ Act 55 of 2017

Act 55 directs the Financial Administrator to develop a Financial Improvement Plan, in consultation with the Secretary of Education, that must include:

- Performance goals, benchmarks and timetables to improve the financial performance and ensure fiscal solvency of the school district;
- Cash Flow analysis;
- Projections of revenues and expenditures for the current year and next five years;
- Ten hours of annual training in school finance and policy for members of the board of school directors; and
- Facility maintenance and improvement.



▶ Act 55 of 2017

- Act 55 also directs the Financial Administrator to review policies and procedures, and may require changes to be included in the Plan regarding:
 - Accounting and automation procedures;
 - Permanent staffing levels;
 - Performance goals for administrative staff;
 - Changes in school district policy;
 - Sale, lease or disposition of school district assets;
 - Consolidation of existing school buildings, non-instructional programs or other school district services; and
 - Greater use of intermediate unit programs.



Financial Improvement Plan Criteria

Any proposed solution to improve the District's financial performance and better ensure its long-term fiscal solvency must meet the following criteria:

1. Actions the District itself can take (no extraordinary infusion of state funds);
2. Include revenue and expenditure options, or some combination of both;
3. Revenue/expenditure options must be able to be accomplished with a reasonable degree of certainty; and
4. The savings generated by any option cannot be speculative.



Financial Improvement Plan - Process

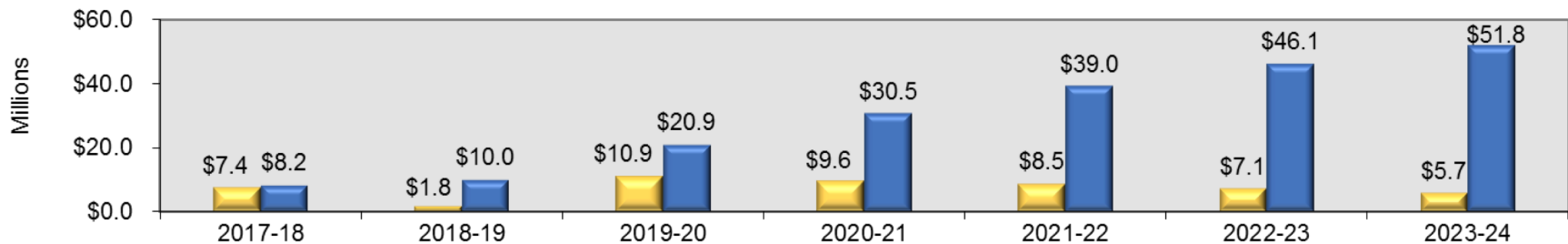
1. Develop baseline financial projections
 - Start with District's Fiscal Year 2018-19 Budget and project revenues and expenditures forward for the next 5 years to better understand short- and long-term financial situation.
 - Planning assumptions based on historical trends and District's own experience.
2. Factor in potential salary increases.
3. Project tax increases needed to pay for salary increases.
4. Consider revenue and expenditure options to lessen the reliance on tax increases.
5. Consider Education and Facilities Improvement Plans.
6. Determine mix of options best likely to improve the District's performance and ensure its long-term fiscal solvency.



Financial Improvement Plan – Set Baseline

Step 1: Develop Baseline Financial Projections

- Starting with Fiscal Year 2018-19 Budget, revenues and expenditures were projected forward for the next 5 years to better understand the District's short- and long-term financial situation.
- Projections, which show the cost to maintain current operations absent any salary increases or program changes, leaves the District with yearly surpluses and a rising fund balance.



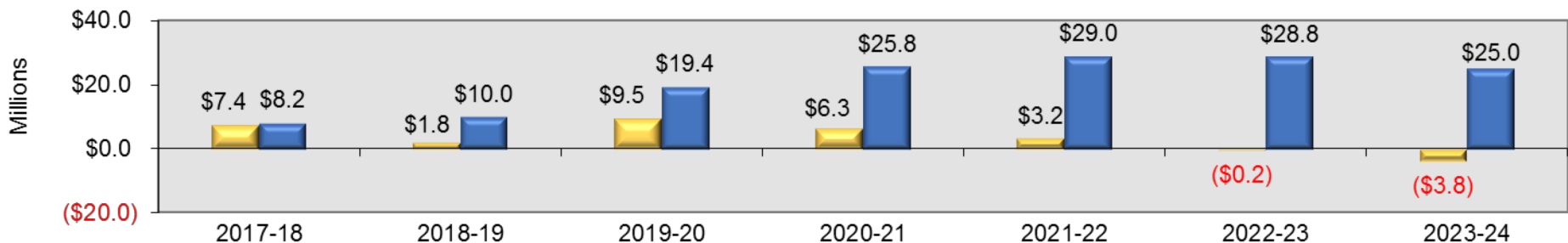
■ Surplus/Deficit ■ Year-End Fund Balance



Financial Improvement Plan – Salary Increases

Step 2: Factor in salary increases

- Though subject to negotiations, a 2% salary increase effective with the start of FY 2019-20 is a “tipping point” for District financially.
- District can expect growing operating deficits in future years that will rapidly exhaust its available fund balance.
- Without any changes, the District will be right back in the same place it was before \$14 million in extraordinary state funding.



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Financial Improvement Plan – Tax Increases

Step 3: Calculate tax increase needed to pay for salary increases

- Tax increases are the most certain option to balance the budget.
- PFM calculated the District would have to raise taxes by 1.56% a year every year for the next 5 years, beginning in FY 2019-20, to balance its budget and close the budget gaps created by a 2% salary increase.
- The yearly tax increases would only pay for salary increases:
 - Allows for no additional funds for any new investments in either the education program or facilities improvements.



Financial Improvement Plan – Savings Options

Step 4: Consider revenue and expenditure options to reduce needed tax increases.

Other Tax-Exempt Properties:

- District identified approximately 20 properties currently tax-exempt but unlikely to qualify for such status under the relevant legal tests.
- District established convertible PILOTs to return properties to the tax rolls and generate new revenues.

Pursue PILOT's for Other Tax-Exempt Properties						
	2019-20	2020-21	2021-22	2022-23	2023-24	Cumulative
	Projected	Projected	Projected	Projected	Projected	Impact
Real Estate Taxes	\$0	\$0	\$205,574	\$284,868	\$285,182	\$775,624
Payments in Lieu of Taxes	\$69,426	\$74,154	(\$26,003)	(\$66,299)	(\$66,299)	(\$15,021)
Total Impact	\$69,426	\$74,154	\$179,571	\$218,569	\$218,883	\$760,603
Annual Tax Impact of Initiative	(0.15%)	(0.01%)	(0.23%)	(0.09%)	(0.00%)	(0.48%)



Financial Improvement Plan – Savings Options

Outsource Custodial Functions and Operations:

- District has a staff of 63 employees to clean and maintain schools and other facilities, 2.4 million total square feet.
- Wage data comparisons suggests District rates are 30% to 67% higher than comparable jobs in the private sector.
- Outsourcing custodial functions and operations has the potential to generate significant savings to reduce needed tax increases.
- Plan requires District to solicit bids to gauge potential savings.

Outsource Custodial Services (In \$ Millions)						
	2019-20	2020-21	2021-22	2022-23	2023-24	Cumulative
	Projected	Projected	Projected	Projected	Projected	Impact
Salaries	\$0.00	(\$2.29)	(\$2.33)	(\$2.38)	(\$2.43)	(\$9.43)
Net Benefits	\$0.00	(\$1.48)	(\$1.57)	(\$1.67)	(\$1.78)	(\$6.50)
One-time Unemployment Costs	\$0.00	\$0.56	\$0.00	\$0.00	\$0.00	\$0.56
Contracted Services	\$0.00	\$3.06	\$3.17	\$3.29	\$3.41	\$12.93
Charter School Tuition	\$0.00	\$0.00	(\$0.16)	(\$0.32)	(\$0.38)	(\$0.87)
Total Impact	\$0.00	(\$0.15)	(\$0.90)	(\$1.09)	(\$1.17)	(\$3.31)
Annual Tax Impact of Initiative	0.00%	(0.33%)	(1.65%)	(0.42%)	(0.19%)	(2.59%)



Financial Improvement Plan – Savings Options

Stationary Steam Engineers:

- City ordinance requires licensed engineers to operate steam boilers.
- Board resolution requires licensed engineers in ALL school buildings, though only 6 of 16 buildings utilize steam boilers.
- Immediately aligning District policy with City ordinance would save about \$160K a year in overtime.
- Bulk of engineers' duties are actually custodial supervision which could be outsourced with custodial functions and operations.

Outsource Stationary Steam Engineers (In \$ Millions)						
	2019-20	2020-21	2021-22	2022-23	2023-24	Cumulative
	Projected	Projected	Projected	Projected	Projected	Impact
Salaries	(\$0.14)	(\$0.14)	(\$1.21)	(\$1.23)	(\$1.26)	(\$3.98)
Net Benefits	(\$0.02)	(\$0.02)	(\$0.60)	(\$0.64)	(\$0.68)	(\$1.96)
One-time Unemployment Costs	\$0.00	\$0.00	\$0.31	\$0.00	\$0.00	\$0.31
Contracted Services	\$0.00	\$0.00	\$1.56	\$1.61	\$1.66	\$4.83
Charter School Tuition	\$0.00	(\$0.04)	(\$0.05)	(\$0.07)	(\$0.15)	(\$0.31)
Total Impact	(\$0.16)	(\$0.20)	\$0.01	(\$0.34)	(\$0.43)	(\$1.11)
Annual Tax Impact of Initiative	(0.34%)	(0.09%)	0.46%	(0.77%)	(0.20%)	(0.94%)



Financial Improvement Plan – Savings Options

Increased Health Care Payments for Retirees

- District currently pays for healthcare coverage for retirees until they are Medicare eligible for all retirees hired prior to July 1, 2016.
- EPS is only school district in Erie County that pays all retiree health care costs to age 65.
- Increased cost-sharing for new retirees could generate savings.
- Employees already retired would not be impacted.
- Subject to negotiations so too speculative to include in Plan.

Increase Retiree Payments for Health Benefits						
	2019-20	2020-21	2021-22	2022-23	2023-24	Cumulative
	Projected	Projected	Projected	Projected	Projected	Impact
Retiree Healthcare Costs	(\$25,920)	(\$57,240)	(\$89,640)	(\$122,040)	(\$154,440)	(\$449,280)
Annual Tax Impact of Initiative	(0.06%)	(0.07%)	(0.07%)	(0.07%)	(0.07%)	(0.34%)



Financial Improvement Plan – Savings Options

Increased Employee Contributions for Medical Benefits

- Expenditures for employee medical insurance benefits are projected to grow by \$7.8 million, 36%, over the next 5 years, making medical insurance costs the single fastest growing line-item in the District’s budget on a percentage basis.
- Subject to negotiations so too speculative to include in Plan, but modest plan benefit changes could generate significant savings.

Increased Deductible Savings						
	2019-20	2020-21	2021-22	2022-23	2023-24	Cumulative
	Projected	Projected	Projected	Projected	Projected	Impact
Active Employee Healthcare Savings	(\$186,264)	(\$226,923)	(\$260,054)	(\$276,958)	(\$294,960)	(\$1,245,159)
Annual Tax Impact of Initiative	(0.41%)	(0.09%)	(0.07%)	(0.04%)	(0.04%)	(0.65%)

Increased Prescription Drug Copays						
	2019-20	2020-21	2021-22	2022-23	2023-24	Cumulative
	Projected	Projected	Projected	Projected	Projected	Impact
Increased Copays	(\$223,989)	(\$272,883)	(\$312,723)	(\$333,050)	(\$354,699)	(\$1,497,344)
Tax Impact of Initiative	(0.49%)	(0.11%)	(0.09%)	(0.04%)	(0.05%)	(0.78%)



Financial Improvement Plan – Savings Options

School Consolidations and Closures

- Over 1,750 available seats throughout the system even after the 2012 and 2017 closures and consolidations.
- Potential to generate budget savings by closing an elementary school and consolidating three middle schools into two.
- Financial risk is that additional closures could spark students and families to enroll in charter schools at a time when the District's priority should be to curb the flow of students to charters.

Close One Elementary School and One Middle School (In \$ Millions)						
	2019-20	2020-21	2021-22	2022-23	2023-24	Cumulative
	Projected	Projected	Projected	Projected	Projected	Impact
Salaries	\$0.00	\$0.00	(\$3.65)	(\$3.72)	(\$3.80)	(\$11.17)
Net Benefits	\$0.00	\$0.00	(\$2.08)	(\$3.02)	(\$2.17)	(\$7.27)
One-time Unemployment Costs	\$0.00	\$0.00	\$0.00	\$0.97	\$0.00	\$0.97
Contracted Services	\$0.00	\$0.00	(\$0.50)	(\$0.51)	(\$0.53)	(\$1.54)
Utilities Costs	\$0.00	\$0.00	(\$0.23)	(\$0.24)	(\$0.24)	(\$0.72)
Charter School Tuition	\$0.00	\$0.00	\$1.41	\$0.40	(\$0.04)	\$1.77
Total Impact	\$0.00	\$0.00	(\$5.06)	(\$6.12)	(\$6.78)	(\$17.96)
Annual Tax Impact of Initiative	0.00%	0.00%	(11.15%)	(2.35%)	(1.44%)	(14.94%)



Financial Improvement Plan – Savings Options

Charter School Enrollment Stabilization

- Charter school tuition payments are projected to reach \$35.4 million, an increase of \$8.7 million. At 32.5%, the increase is the second fastest growing line-item in the budget after medical insurance costs.
- Increase is driven by assumption based on historical experience of 60 students a year leaving the District to attend charters.
- Curbing future charter school enrollment growth is the single biggest lever the District has to positively impact future budgets.
- District’s efforts should focus on:
 - Emphasizing school quality and the EPS’ successes.
 - Encouraging students and families to remain in EPS.
 - Advocating for needed reforms to stabilize charter costs.

Charter School Stabilization: Reduce Annual Enrollment Growth from 60 to 30 (In \$ Millions)						
	2019-20	2020-21	2021-22	2022-23	2023-24	Cumulative
	Projected	Projected	Projected	Projected	Projected	Impact
Charter School Tuition	(\$0.36)	(\$0.83)	(\$1.34)	(\$1.89)	(\$2.49)	(\$6.91)
Annual Tax Impact of Initiative	(0.79%)	(1.04%)	(1.14%)	(1.21%)	(1.31%)	(5.49%)



Financial Improvement Plan - New Investments

EPS Education Plan

- Driven by its new strategic plan, District's focus is on accelerating learning, growth and success for every student, without exception.
- Strategic plan sets high goals and measures for student success backed by efforts to strengthen teacher instructional effectiveness and provide needed supports to schools and parents to help students achieve.
- Plan has already produced new efforts to boost student success:
 - Created region's only Afrocentric academic program with a focus on the African-American experience through Eagle's Nest Program of Academic Distinction.
 - New career pathway programs that lead students directly into jobs in health sciences, early childhood development, maritime studies, and aviation.
 - Accelerated Learning Academy
 - K-12 Cyber Choice Academy, K-5 addition.



Financial Improvement Plan - New Investments

EPS Education Plan

- Even with expanded opportunities, new investments are essential to improving current levels of student achievement.
- Aligned with key actions from its strategic plan, District’s education plan proposes:
 - 1) Update and replace curriculum across all grades and subject areas over 5 years with a priority on English Language Arts and math; and
 - 2) Hire 13 new elementary and middle school “interventionists” to provide students additional academic support to reach grade level standards.

Erie Public Schools Education Plan (In \$ Millions)						
	2019-20	2020-21	2021-22	2022-23	2023-24	Cumulative
	Projected	Projected	Projected	Projected	Projected	Impact
Salaries	\$0.75	\$0.77	\$0.78	\$0.80	\$0.81	\$3.91
Net Benefits	\$0.38	\$0.40	\$0.43	\$0.45	\$0.48	\$2.14
Curriculum Cycle	\$1.25	\$1.60	\$1.31	\$1.70	\$1.38	\$7.24
Charter School Tuition	\$0.00	\$0.50	\$0.70	\$0.71	\$0.81	\$2.72
Total Impact	\$2.38	\$3.27	\$3.22	\$3.66	\$3.48	\$16.00
Annual Tax Impact of Initiative	5.25%	1.96%	(0.11%)	0.97%	(0.39%)	7.67%



Financial Improvement Plan - New Investments

EPS Facilities Improvement Plan

- With an average age of 75 years, deferred maintenance and recent financial struggles have left most schools in fair/poor condition and core building systems (roofs, HVAC, plumbing and electrical) in critical condition.
- District’s proposed 3-year, \$80.8 million plan focuses on “no frills” improvements to maintain the operational integrity of core systems and keep schools “warm, safe and dry.”
- Includes safety and security upgrades for every school.

General Fund Impact of Erie Public Schools Facilities Improvement Plan (In \$ Millions)								
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	Cumulative
	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Impact
Additional Debt Service	\$0.00	\$0.00	\$0.00	\$3.05	\$3.08	\$3.11	\$3.14	\$12.40
Annual Tax Impact of Initiative	0.00%	0.00%	0.00%	6.73%	0.07%	0.06%	0.07%	6.93%
Fund Balance Transferred to Capital Projects Fund	\$15.00	\$11.17	\$8.81	\$3.61	\$2.94	\$1.36	\$0.02	\$42.91
Total Impact	\$15.00	\$11.17	\$8.81	\$6.66	\$6.02	\$4.48	\$3.16	\$55.31



Financial Improvement Plan – Budget Scenarios

Step 5: Determine best mix of options best likely to improve the District’s long-term financial performance.

- Scenario 1: Pay for 2% salary increase with tax increase and make no new investments in education or facilities, no savings measures.
 - Requires 1.56% yearly tax increase

- Scenario 2: Pay for 2% salary increase but minimize tax increase with savings from other tax-exempts, and outsourcing custodial services and steam engineer duties, but no new investments in education program or facilities improvement plans.
 - Requires 0.81% yearly tax increase

	Scenario 1	Scenario 2	Scenario 3	Scenario 4a	Scenario 4b	Scenario 5-Plan Scenario
Final Year (2023-24) Deficit	(\$3,759,858)	(\$1,939,953)	(\$10,383,408)	(\$8,563,502)	(\$7,641,069)	(\$6,073,435)
Tax Increase to Balance (One-Year)	8.29%	4.28%	22.89%	18.88%	16.84%	13.39%
Required Annual Tax Increase	1.56%	0.81%	4.09%	3.40%	3.06%	2.46%



Financial Improvement Plan – Budget Scenarios

- Scenario 3: Pay for 2% salary increase, and Education and Facilities Improvement Plans through tax increases only, no savings options.
 - Requires 4.09% yearly tax increase (above Act 1 Index of 3.5%)
- Scenario 4a: Pay for 2% salary increase and Education and Facilities Improvement Plans through tax increases and savings options (other tax-exempts, custodial outsourcing, steam engineers).
 - Requires 3.4% yearly tax increase
- Scenario 4b: Pay for 2% salary increase and Education and Facilities Improvement Plans through tax increases and savings options (other tax-exempts, charter school enrollment stabilization, but no outsourcing of custodial services and steam engineer duties).
 - Requires 3.06% yearly tax increase



Financial Improvement Plan – Plan Scenario

- Scenario 5: Pay for 2% salary increase, and Education and Facilities Improvement Plans through tax increases and all viable savings options.
 - Includes savings from other tax-exempts, outsourcing of custodial services and steam engineers, and charter school enrollment stabilization.
 - Requires 2.46% yearly tax increase.
- Scenario 5 was determined to be the option best likely to improve the District's performance and better ensure its long-term fiscal solvency. This scenario serves as the foundation of the approved Financial Improvement Plan.



Financial Improvement Plan – Policy Changes

1. Responsible Contracting with the District
2. Budget Development and Approval Process
3. Budget and Enrollment Reporting
4. Timely Data Submission for State and Federal Revenues
5. Student Exit Interviews
6. Contracting Policy



Financial Improvement Plan – Other Components

- Annual Training for Board Members
 - Law requires 10 hours per year
- Cash Flow Analysis
- Sale of School District Assets
 - District recently approved sale of Wayne. Burton, Irving and Roosevelt remain up for sale.
- Greater Use of Intermediate Programs
 - Early Intervention and Education Leading to Employment and Career Training (ELECT) programs identified.
- Performance Goals for Administrative Staff
 - Applies to Superintendent and Assistant Superintendent for Academics



Financial Improvement Plan – Exit Criteria

- Law states District can be removed from Financial Watch Status provided it has “demonstrated the ability to maintain a structurally balanced budget.”
 - Determination to be made by Financial Administrator in consultation with Secretary.
- Targeting December 2021
 - If the District can continue to maintain a balanced budget with tax increases within the Act 1 Index limits, it would be eligible to be removed from Financial Watch.



Financial Improvement Plan – Learn More

To obtain a copy of this PowerPoint presentation and the Erie Public Schools' Financial Improvement Plan please visit the EPS' website at www.eriesd.org.

For more information on Financial Recovery for School Districts please visit PDE's website at <https://www.education.pa.gov/Teachers%20-%20Administrators/School%20Finances/Pages/Financial-Recovery-for-School-Districts.aspx>.

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