

2014-15
Spring Cove
Preliminary Budget

January 13, 2014

Preliminary Budget

- Preliminary Budget option was created by Act 1
- Purpose is to provide an opportunity to go to referendum, if necessary
- Many unknowns in January
- Not a final budget
- Time to consider the big picture
- Use of conservative estimates because of unknowns
- Recommend maintaining flexibility until final budget adoption in June

Board Must Act on One Option

- Approve a resolution limiting tax increases to the Act 1 index
- Prepare a preliminary budget which is balanced by allowable exceptions under Act 1
- Prepare a preliminary budget which is balanced only by a tax increase above the Act 1 index and allowable exceptions that is taken to a referendum vote in the primary election

Budget Decision Timeline

- By January 30, 2014, Board must pass a resolution adopting a tax increase limit of 2.8% or prepare a preliminary budget.
- If preliminary budget option is selected, Board must adopt a preliminary budget by February 19, 2014.
- Preliminary budget must show all exceptions that are needed to make budget balance.
- Changes can be made to final budget adopted in June, but there can be no additional exceptions pursued after preliminary budget adoption.

Budget Timeline

- After the February decision, District must adopt a proposed final budget by May 30, 2014 and a final budget by June 30, 2014. The Final budget may vary from the preliminary budget adopted in February.
- Adopting a preliminary budget including all exceptions and reducing the budget throughout the Spring is the suggested course of action
- Methodology provides maximum flexibility as some cost and revenue items become clearer
- Preliminary budget has been prepared for initial consideration

Act 1 Index

- The Act 1 Index for Spring Cove SD in 2014-15 is 2.8%
- A 2.8% tax increase would generate approximately \$237,000 of additional tax revenue and cost the average home owner approximately \$35.
- Millage increase at 2.8% is 3.16 mills
- Assessed value growth would increase tax revenue by an additional \$110,000

Exceptions to the Index

- Applicable exceptions available for real estate tax increases above the Act 1 Index for Spring Cove (Estimated at this point as the official system is not yet available)
 - Debt Service Exception of approximately \$200,000, which equates to 2.66 mills
 - Pension Exception of approximately \$141,000, which equates to 1.87 mills
 - Total millage increase available to the District with index and exceptions is 7.69 mills (6.8% increase) and would cost the average homeowner \$84 more
 - Total new revenue of \$690,000 at maximum increase

Referendum

- If a tax increase over 6.8% is to be considered, a referendum question must be placed on the ballot for the spring primary
- Voters will vote yes or no
- Referendum may be needed in certain Districts, but Spring Cove will likely not need to proceed with an increase greater than 6.8%
- Referendum not recommended

Budget Summary

- Many assumptions in a preliminary budget
- Assume only revenue growth from the state is in formula driven items (PSERS and Social Security reimbursement)
- Assume decreases to Federal Revenue
- Assume only growth in local revenue is from property tax changes
- Assumptions will be changed at final budget adoption in June as more information is available

Budget Summary

- Account for increases for salary and benefits based on agreements and relevant benefit rates
- Estimated salary increases of \$240,000
- Estimated pension cost increase of \$482,000
- Estimated health insurance increase of \$77,000
- Debt service will increase by \$233,000 in 2014-15 and then level off going forward
- Estimated expense increases of \$1,032,000 with other costs held constant

Budgeted Expenses

2013-14 Final Budget:	\$22,548,274
2014-15 Projected Increase:	<u>\$ 1,032,000</u>
2014-15 Preliminary Budget:	\$23,580,274

2013-14 Final Budget included \$660,000 of Budgetary Reserve. Discussion of how that may fit into the budgeting process will occur after revenue changes.

State and Federal Revenue

- Increase State Revenue by its share of PSERS, Social Security, and Debt Service only
- Increase of \$330,000
- Holding other state revenue constant at least until Governor's Budget address
- Reduce Federal Revenue by \$75,000 due to Title II and Medical Access changes (more information to come)

Range of Local Revenue Increases

% Tax Increase		Additional Revenue	Cost to Average Homeowner
0.0	Assessed Value Growth Only	\$110,418	\$0
2.8	Act 1 Index Tax Increase	\$348,282	\$35
6.8	All Exceptions	\$689,583	\$84

Net Changes

- Est. Expenditure Increase: \$1,032,000
- Less State/Fed Revenue Changes: (255,000)
- Additional Local Rev. Needed \$ 777,000
- Maximum Revenue with Exceptions \$ 689,583
- Difference \$ 87,417
 - This would initially imply that even with the maximum tax increase with exceptions the budget would still be approximately \$87,000 out of balance

Budgetary Reserve

- The District has consistently budgeted \$660,000 of budgetary reserve
- Budgetary reserve is set aside for unplanned expenses
- In the past five years, the District has not had to expend all Budgetary Reserve money
- District has fund balance to cover some unexpected expenses that are one time in nature

Budgetary Reserve

- If Budgetary Reserve is no longer fully funded from tax increases, additional budgetary flexibility is available

Recommended Action

- Approve Resolution Authorizing Proposed Preliminary Budget Display and Advertising and Authorizing Referendum Exception at 1/20/2014 Meeting
- Approve Preliminary Budget with all exceptions at 2/18/2014 Meeting
- Spend the Spring reducing the budget as more items become known
- Consider reducing the amount of Budgetary Reserve in Final June Budget