

# Scranton School District Financial Analysis

September 5, 2017

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# Project Approach

# Project Approach

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- An independent review of the District's current and future financial situation
  - What are the financial threats and opportunities?
  - What does this mean beyond the current school/budget year?
  - What is the health of the District's operating budget?
- An understanding of the causes of the District's current financial position
  - What are the major drivers of the District's budget?
  - What steps have been taken in the past to address financial difficulties?
- Potential next steps
  - What are the District's options to address its current and future challenges?
  - How can the District prioritize its academic goals given persistent financial pressures?

# Financial Projections

# “Going Concern”

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- Scranton School District received a “going concern” note in the financial statements for fiscal years 2014 and 2015; this type of audit opinion is rare in the public sector
  - Official statements for debt issued in March 2017 note that the District is uncertain whether or not the disclosure will need to be included in the 2016 audited financial statements
  - Preliminary financial data provided by the District show an increased annual deficit in 2016
  - Delivery of the 2016 audited financial statements is expected to occur in fall 2017
- PFM’s review of the information provided by the District, and the resulting multi-year financial projections support the conclusion that the District faces **severe financial challenges** that require **immediate action**
- Absent corrective action, the Scranton School District will continue to face financial pressure that will threaten the District’s ability to continue to operate and educate students

**The School District’s ability to continue as a going concern is dependent on its success to refinance current debt and to fund expenditures with available revenue. The School District’s ability to continue as a going concern is also dependent upon the School District implementing a strategic plan to control expenditures.**

Source: Scranton School District Financial Statements and Supplementary Information for the Year Ended December 31, 2015, p. 56.

# Projection Methodology

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- Expenditures and revenues were projected over a 5-year period to identify trends and illustrate the District's bottom line financial condition if no corrective action is taken
- Detailed financial data was reviewed for fiscal years 2011 to 2016 to identify recent trends
- Major budget categories were reviewed in detail for fiscal year 2017 to develop the baseline for the financial projections:
  - Salaries and wages
  - Healthcare expenditures
  - Transportation expenditures
  - Charter school tuition
  - Debt service payments
- Adjustments were made to the data provided for 2017 to estimate the District's year end financial results given the available information on developments during the current fiscal year

# Baseline Budget Projections

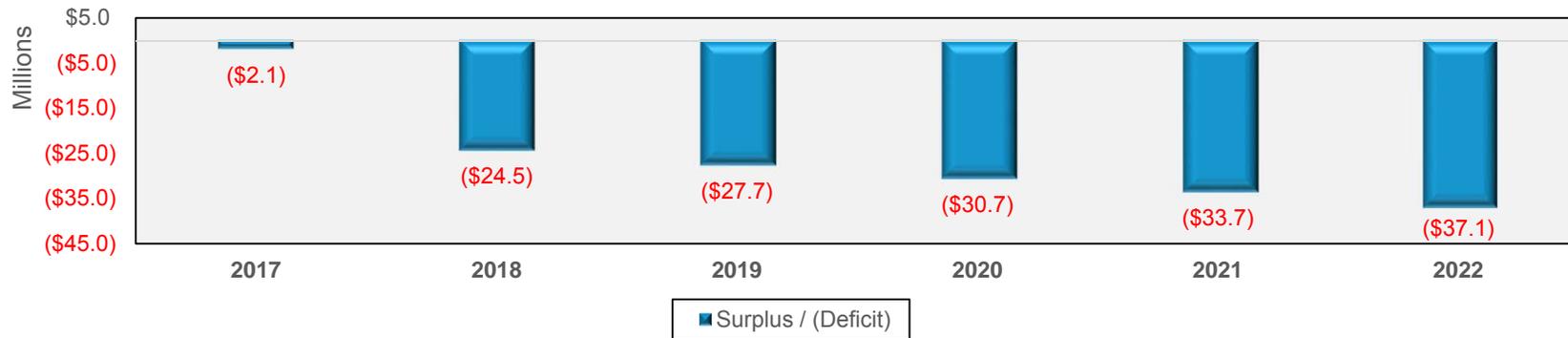
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- Major assumptions used in the baseline budget projections include:
  - No increases in real estate taxes
  - Historical growth continues for State subsidies for basic education and special education
  - Inflationary increases provided for salaries and wages
  - Historical trends continue for increases in charter tuition rates and increases in cyber charter school enrollment
  - No adjustments to debt service for new projects or the refunding or scooping out of existing debt
- This yields a multi-year baseline budget projection if no corrective action is taken
- This preliminary financial projection shows a substantial **deficit in each year of the analysis**
  - Increased debt service costs from the recent scoop transaction are responsible for the majority of the increase between 2017 and 2018
  - Without the one-time payment for prior year PlanCon subsidies, the District's projected shortfall would be much larger in 2017
  - With no changes made to current trends in revenues or expenditures, the deficit grows from nearly 14 percent of total expenditures in 2018 to 19 percent in 2022

# Baseline Budget Projections

- The chart and table below project the District's future General Fund annual financial results, without any corrective action\*

**General Fund Budget Projections**  
FY2017 to FY2022



	2017	2018	2019	2020	2021	2022
Total Revenues	\$152,811,240	\$147,507,402	\$150,516,118	\$153,345,911	\$155,986,730	\$158,773,588
Total Expenditures	\$154,897,935	\$171,959,688	\$178,215,032	\$184,036,223	\$189,649,489	\$195,880,893
<b>Surplus / (Deficit)</b>	<b>(\$2,086,695)</b>	<b>(\$24,452,286)</b>	<b>(\$27,698,914)</b>	<b>(\$30,690,312)</b>	<b>(\$33,662,759)</b>	<b>(\$37,107,305)</b>

\*These projections include the recent receipt of \$4.9 MM one-time retroactive PlanCon funding to the District, as well as \$1.8 million in savings due to the teachers' retirement incentive.

# District Fund Balance

- According to the District's most recent annual financial report, 2015 ended with a fund balance of \$14.1 million

	2011	2012	2013	2014	2015
	Actual	Actual	Actual	Actual	Actual
<b>Fund Balance:</b>					
Restricted for Debt Service	0	0	0	0	31,656,705
Restricted for Healthcare Benefits	0	0	0	0	6,584,550
Assigned	0	0	0	0	0
Unassigned	0	(4,911,013)	(9,611,964)	(18,931,213)	(24,174,839)
<b>Total Fund Balance</b>	<b>1,003,749</b>	<b>(4,911,013)</b>	<b>(9,611,964)</b>	<b>(18,931,213)</b>	<b>14,066,416</b>

- But it also had a very large negative unassigned fund balance of \$24.2 million
- The District did have restricted funds for debt service and a healthcare benefits fund
  - However, these restricted sources are not available to the District for general operating uses
- As seen on the previous page, the District is projected to continue operating at an annual deficit, which will make the negative unassigned fund balance larger each year

# District's Financial Situation is Dire

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- The projected annual deficits are significant and threaten educational quality
  - As the annual shortfalls grow, they will put pressure on the District's ability to make payroll and pay its other bills
  - Based on experiences elsewhere, quality vendors will rapidly stop serving the District if invoices are not paid timely
- **There are no simple solutions**
  - The budget gap is large: even if the District could completely eliminate spending for debt service, utilities and charter tuition next year, it would still have a significant negative financial result in 2018
  - A property tax increase at the adjusted Act 1 index level would eliminate just six percent of the projected shortfall in 2018, and have an even smaller impact in subsequent years
  - The District's strategy of using long-term borrowing to fill annual shortfalls will soon become too costly to continue if it remains possible at all, and will merely push a larger and larger problem into the future

# School District Finances

# School Configuration

- The District operates 16 schools:
  - 11 Elementary Schools
  - 3 Intermediate Schools, and
  - 2 High Schools
- In addition, the District also operates programs serving other student populations:
  - Alternative Education for Disruptive Youth (AEDY) program
  - Center-based program for special education students with autism and emotional disturbance
  - Cyber academy (new in 2017-18)

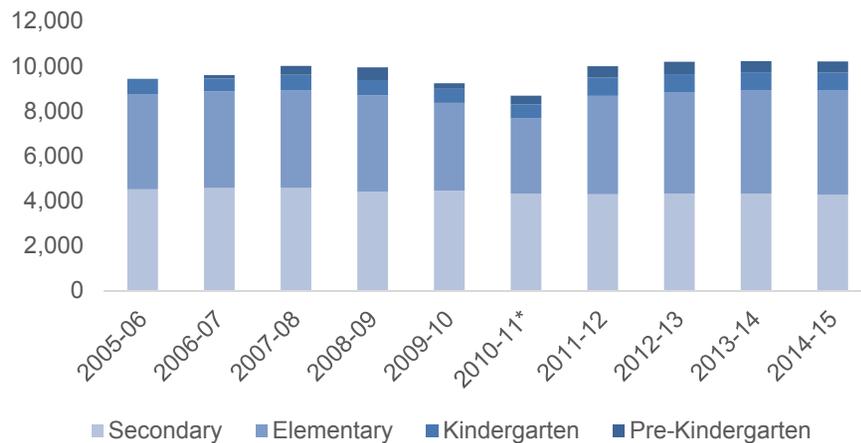
School	Type (Grades)	2016-17
Bancroft Elementary School	Elementary (Pk-5)	252
Charles Sumner Elementary School	Elementary (Pk-5)	323
Frances Willard Elementary School	Elementary (Pk-5)	526
Isaac Tripp Elementary School	Elementary (Pk-5)	786
John Adams Elementary School	Elementary (Pk-5)	308
John F Kennedy Elementary School	Elementary (Pk-5)	429
Mc Nichols Education Plaza	Elementary (Pk-5)	496
Neil Armstrong Elementary School	Elementary (Pk-5)	600
Robert Morris Elementary School	Elementary (Pk-5)	314
Whittier Elementary School	Elementary (Pk-5)	700
William Prescott Elementary School	Elementary (Pk-5)	340
Northeast Intermediate	Intermediate (6-8)	813
South Scranton Intermediate	Intermediate (6-8)	561
West Scranton Intermediate	Intermediate (6-8)	722
Scranton High School	High School (9-12)	1,716
West Scranton High School	High School (9-12)	879
Lincoln-Jackson Academy	AEDY	63
Monticello	Special Education	102
Cyber Academy	Cyber	100
<b>Total:</b>		<b>10,030</b>

Source: March 31, 2017 enrollment data provided by the Scranton School District.

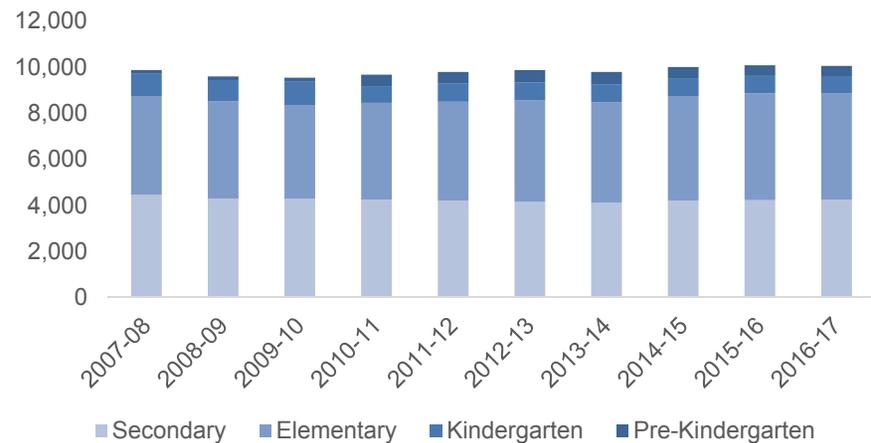
# Enrollment Trends

- As measured both by Average Daily Membership (ADM) and October 1st enrollment count, the number of students in the District has remained relatively stable over the past several years
- The District's 2016 enrollment study prepared by Davis Demographics projected nearly flat enrollment over the next ten years, with pockets of growth in grades 6-8 and 9-12

Average Daily Membership (ADM)  
SY 2005-06 to SY 2014-15



October 1 Enrollment  
SY 2007-08 to SY 2016-17



Sources: Average Daily Membership and October 1st enrollment count data from the Pennsylvania Department of Education.

\*Enrollment decline in 2010-11 appears to be the result of a reporting error related to elementary ADM rather than a change in the number of students enrolled in the District.

# October 1<sup>st</sup> Enrollment Count

- Overall, enrollment in District-operated schools has increased since the 2007-08 school year
  - Reductions in enrollment at the kindergarten and secondary levels were offset by increases in the pre-kindergarten and elementary levels
- After declining in 2008-09 and 2009-10, enrollment in elementary grades has increased almost every school year, though the last three years have been relatively stable
  - The current “bubble” class in grades 3 to 5 will begin to transition to the intermediate schools next year, which may place pressure on staffing and classroom capacity

## October 1 Enrollment Count Scranton School District

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	Increase (#)	Increase (%)
Pre-Kindergarten	162	160	179	496	515	534	533	483	459	445	283	174.7%
Kindergarten	993	927	1,031	728	784	774	785	772	758	736	(257)	(25.9%)
Elementary	4,265	4,221	4,059	4,204	4,292	4,423	4,370	4,557	4,643	4,636	371	8.7%
Secondary	4,457	4,297	4,279	4,251	4,207	4,150	4,107	4,197	4,224	4,241	(216)	(4.8%)
<b>Total Enrollment</b>	<b>9,877</b>	<b>9,605</b>	<b>9,548</b>	<b>9,679</b>	<b>9,798</b>	<b>9,881</b>	<b>9,795</b>	<b>10,009</b>	<b>10,084</b>	<b>10,058</b>	<b>181</b>	<b>1.8%</b>

Source: October 1<sup>st</sup> enrollment count data from the Pennsylvania Department of Education.

# Special Education Enrollment

- Similar to many other urban school districts, Scranton School District has a higher percentage of special education students compared to the average across the Commonwealth
- Special education enrollment has remained fairly stable as a percentage of overall District enrollment in the last few years
- However, the number of special education students has increased along with total enrollment
  - Between the 2007-08 school year and the 2015-16 school year, the District saw the number of special education students increase by 57, to 18.9 percent of enrollment

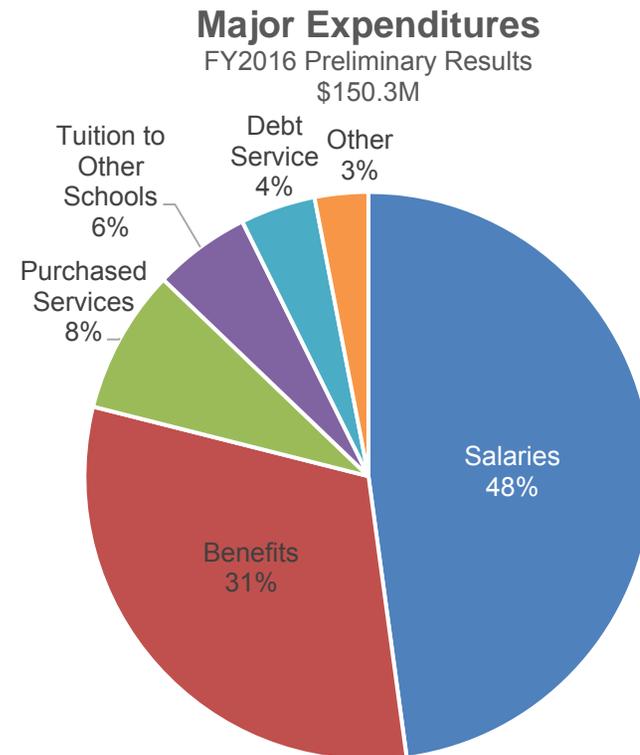
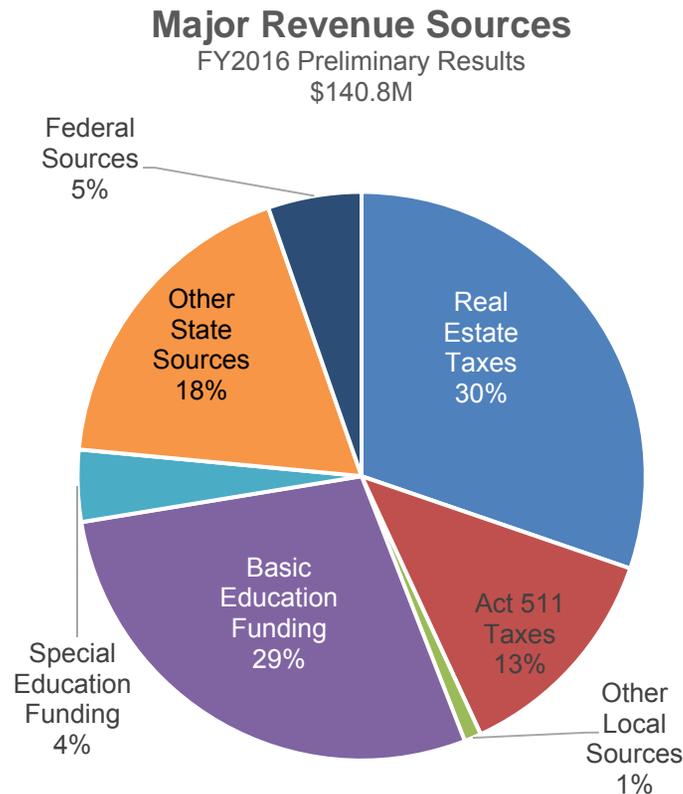
## Special Education Enrollment

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Scranton SD	17.4%	18.5%	17.8%	18.1%	17.9%	18.9%	18.9%	19.0%	18.9%
Commonwealth	15.0%	15.2%	15.1%	15.2%	15.1%	15.3%	15.4%	15.6%	15.9%
<b>Percentage Difference</b>	<b>2.4%</b>	<b>3.3%</b>	<b>2.7%</b>	<b>2.9%</b>	<b>2.8%</b>	<b>3.6%</b>	<b>3.5%</b>	<b>3.4%</b>	<b>3.0%</b>

Source: December 1<sup>st</sup> special education enrollment data from the Pennsylvania Department of Education Bureau of Special Education.

# Overview of Revenues & Expenditures

- Over 50 percent of the District's revenues are from state sources, with an additional 44 percent from local sources
- 79 percent of the District's expenditures are driven by salaries and benefits



Source: Detailed preliminary financial data for Fiscal Year 2016 provided by the Scranton School District.

# Growth in Major Budget Categories

- Over the past several years, Scranton School District's expenditures have grown faster than revenues
- Expenditures for employee benefits increased rapidly between FY2011 and FY2016, led by retirement and healthcare spending
  - Some of the increase was offset by increases in state reimbursement for PSERS contributions
- Tuition payments increased significantly over the same time period
  - Total tuition increased from \$4.9 million in FY2011 to \$8.3 million in FY2016 (an annualized 11 percent increase over those years)
  - However, tuition expenditures remain below 6 percent of total expenditures

5-Year	
CAGR	
<b>Total Revenues</b>	<b>3.2%</b>
Current Real Estate Taxes	3.3%
Basic Education Funding	3.4%
Special Education Funding	1.6%
PSERS Reimbursement	39.4%

<b>Total Expenditures</b>	<b>4.7%</b>
Salaries	2.0%
Group Insurance	7.3%
PSERS Contributions	36.4%
Tuition Payments	11.0%

Source: Detailed financial data for Fiscal Years 2011 to 2016 provided by the Scranton School District.

# Staffing Levels

- Total staffing levels have increased between the 2012-13 school year and the 2016-17 school year
  - Reductions in staffing levels for maintenance employees were offset by increases in every other employee group
  - The number of teachers has declined slightly since the peak in the 2014-15 school year
  - The number of paraprofessionals has remained high since the 2014-15 school year, most likely due to programs for special education students
- More modest growth in expenditures for total salaries suggests that increases in staffing levels were partially offset by savings due to retirements and other turnover

## Employee Count by Group

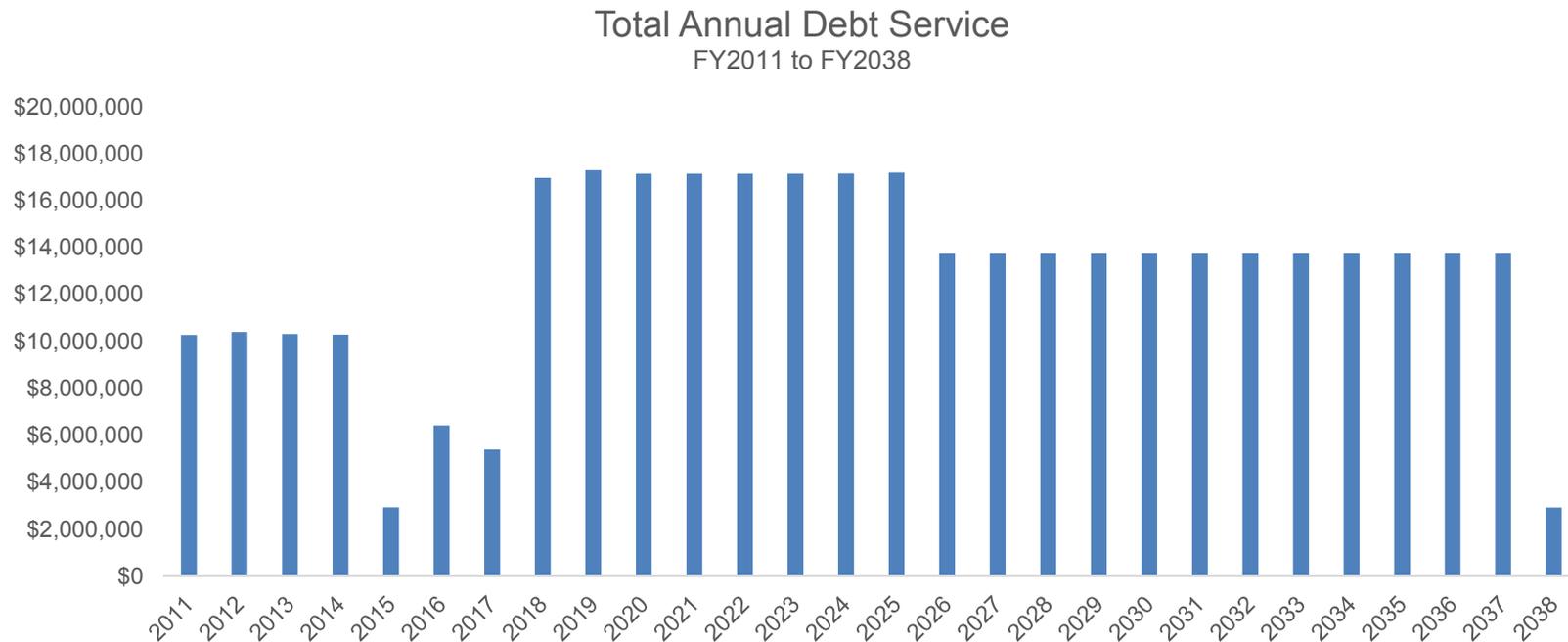
Scranton School District

	2012-13	2013-14	2014-15	2015-16	2016-17	Increase (#)	Increase (%)
Teachers	749	773	800	776	783	34	4.5%
Paraprofessionals	110	117	136	125	130	20	18.2%
Maintenance Employees	134	135	134	137	122	(12)	(9.0%)
Clerical Employees	115	113	114	124	128	13	11.3%
Act 93 Administrators	31	31	32	31	33	2	6.5%
Other Employees	52	58	72	66	67	15	28.8%
<b>Total Employees</b>	<b>1,191</b>	<b>1,227</b>	<b>1,288</b>	<b>1,259</b>	<b>1,263</b>	<b>72</b>	<b>6.0%</b>

Source: Employee count by group provided by the Scranton School District.

# Debt Service Payments

- Between FY2015 to FY2017, the Scranton School District repeatedly used long-term financing to provide short-term budgetary relief
- The graph below projects the District's annual debt service through FY2038 assuming no new debt is issued after FY2017
- Beginning in FY2018, annual debt service payments will grow by over \$10 million compared to FY2017, which will increase the District's structural deficit



Source: Schedule of debt service payments prepared by PFM Financial Advisors, LLC.

# Addressing the Deficit

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- As noted in the financial projections, the Scranton School District will need to develop a coordinated plan of action to address the estimated deficit in the current fiscal year and each of the projected years
- Although the deferred debt service payments have provided some short-term flexibility, the District has likely exhausted its ability to use debt financing to close short-term budgetary gaps
  - Should the District pursue additional scoop debt issuance, market access will not be assured and borrowing rates will increase
  - It will continue to rely on an intercept of State aid, which could affect cash flow
- Furthermore, the District did not use the period of short-term relief afforded by borrowing to address the underlying causes of the deficit
- Beginning on page 37, this draft report presents some significant areas the District could explore in building its plan to close the financial gap
  - Phase 2 of this report will also attach costs to those options, showing various financial impact scenarios

# Peer District Comparison

# Peer District Comparison

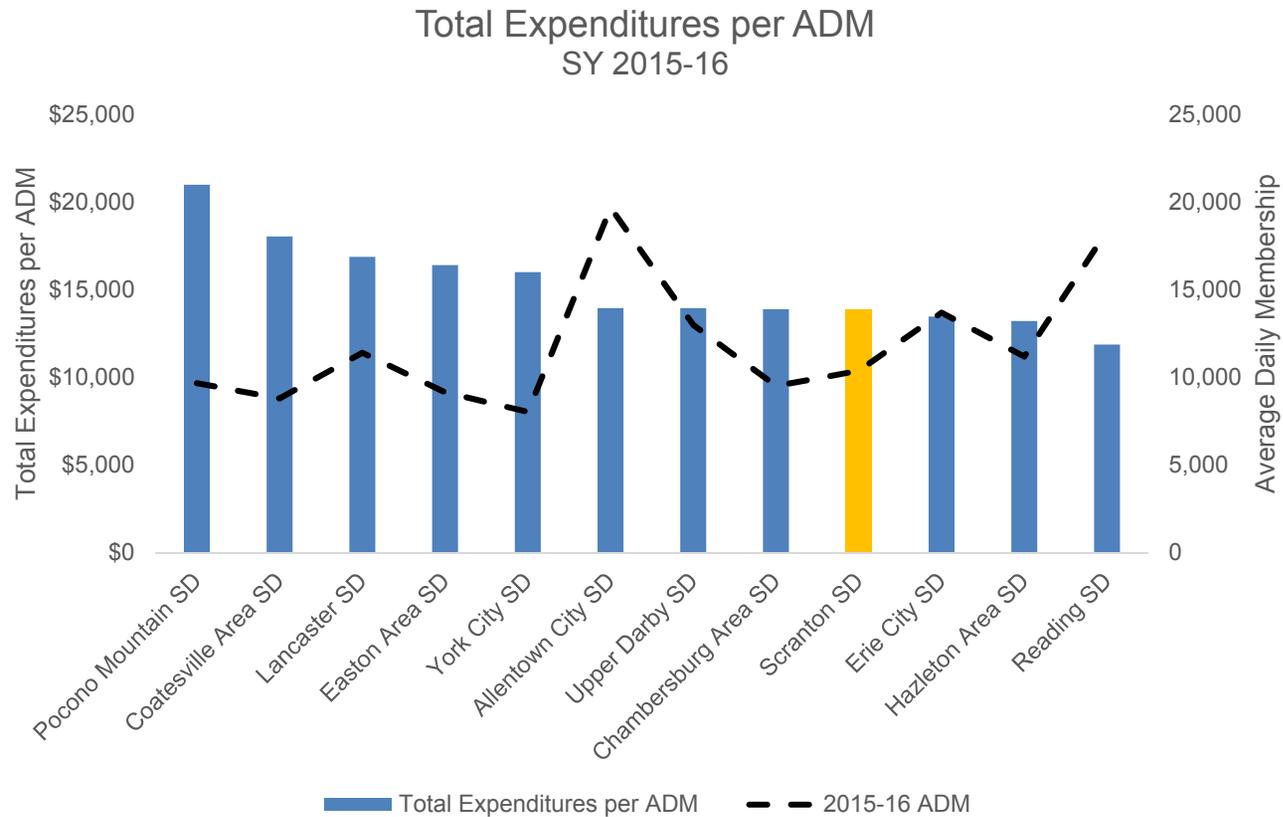
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- Each school district in Pennsylvania has a slightly different structure and a different expenditure pattern
- However, comparing costs and other information to that of peer districts can provide ideas about where a district might look for savings, and where it is already competitive
- The following charts compare Scranton to other districts on a variety of measures based on 2015-16 school year data and average daily membership (ADM)
- Comparison groups:
  - **Similarly-sized school districts** – those with ADM over 8,000 and a market value / personal income (MV/PI) aid ratio above 0.6000\*
  - Regional peers in **Lackawanna County**
- The bar charts provide expenditures per ADM: data by district ranked from high to low (the overlay line graph shows ADM read on the right vertical axis)

\* Philadelphia School District and Pittsburgh School District were excluded due to significant differences in total enrollment.

# Total Expenditures Per ADM

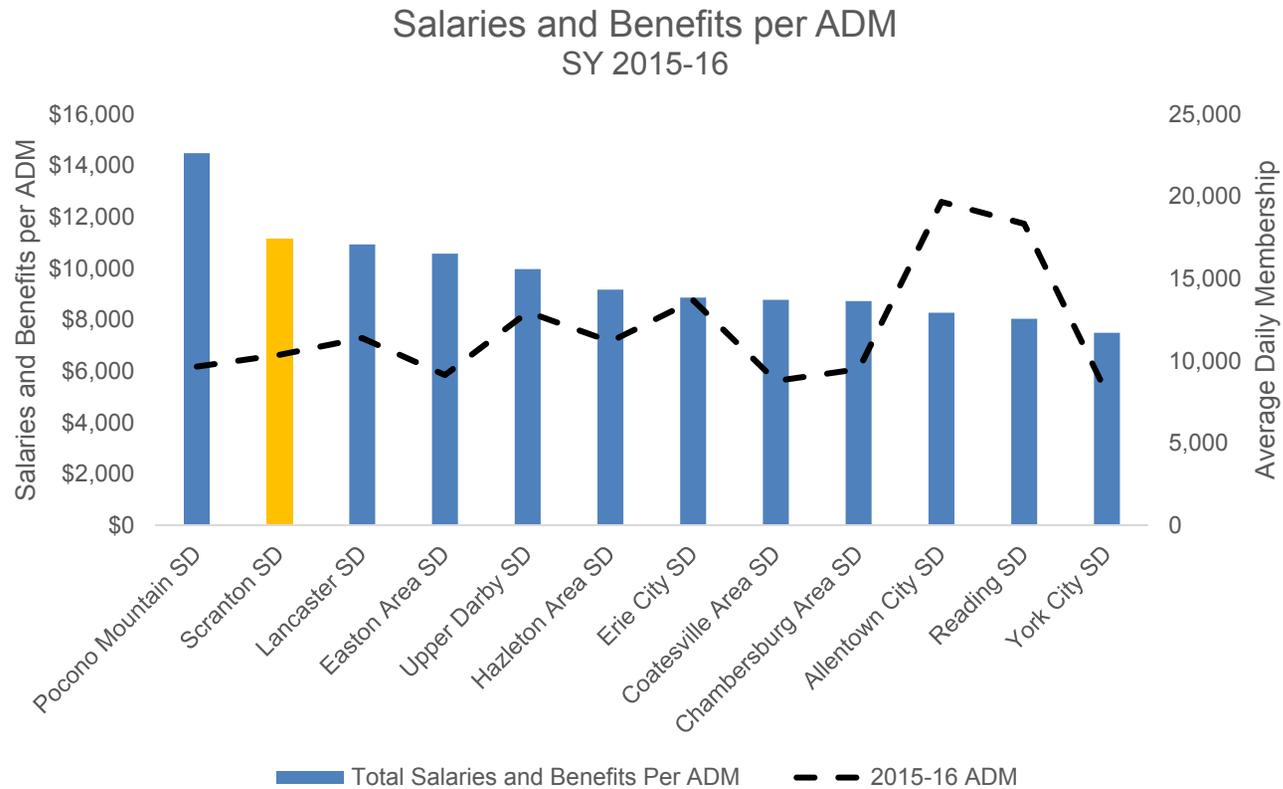
- In general, Scranton's total expenditures are **lower** than **similarly-sized school districts**



Source: Annual Financial Report data for the 2015-16 school year from the Pennsylvania Department of Education.

# Salaries and Benefits Per ADM

- Scranton is **higher** than most **similarly-sized school districts** in terms of total salaries and benefits per ADM

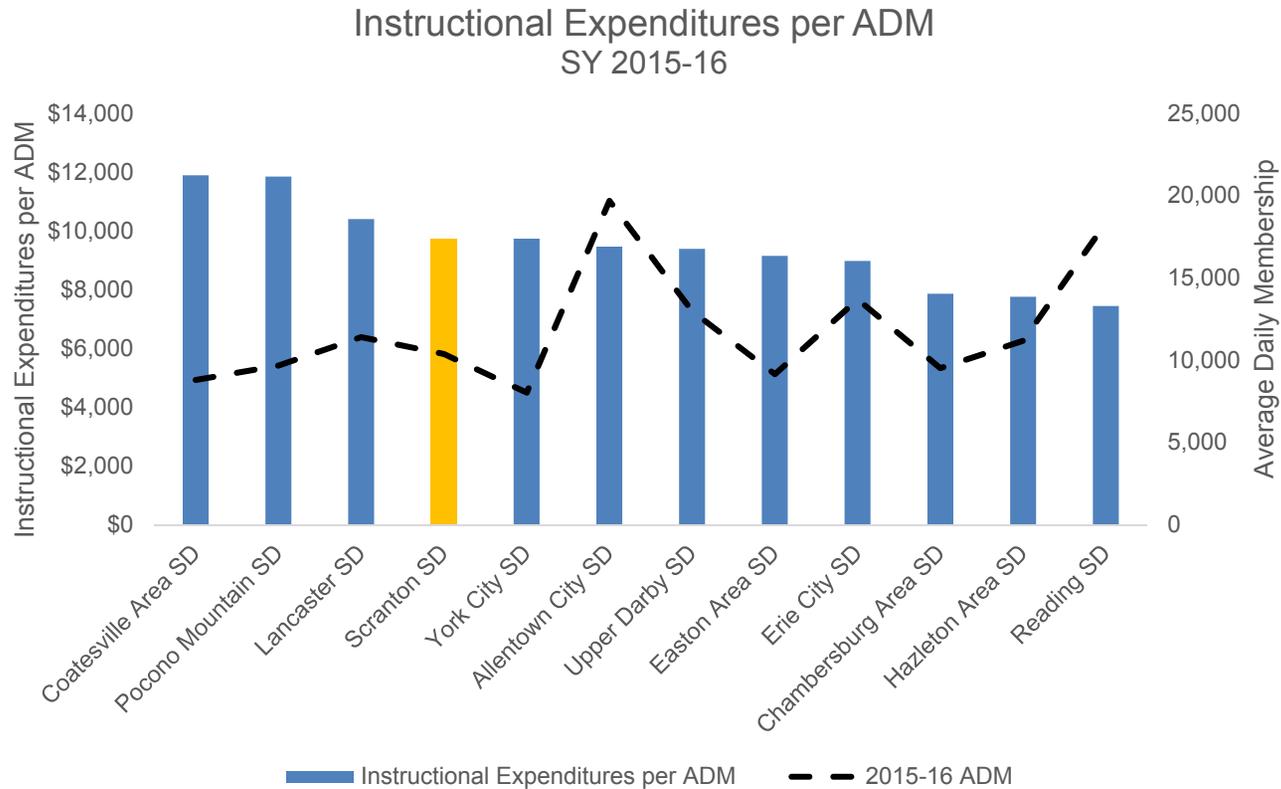


\*Salaries and benefits includes all expenditures in the 100-level and 200-level objects

Source: Annual Financial Report data for the 2015-16 school year from the Pennsylvania Department of Education.

# Instructional Expenditures Per ADM

- Scranton's instructional expenditures\* are **higher** than most **similarly-sized school districts**

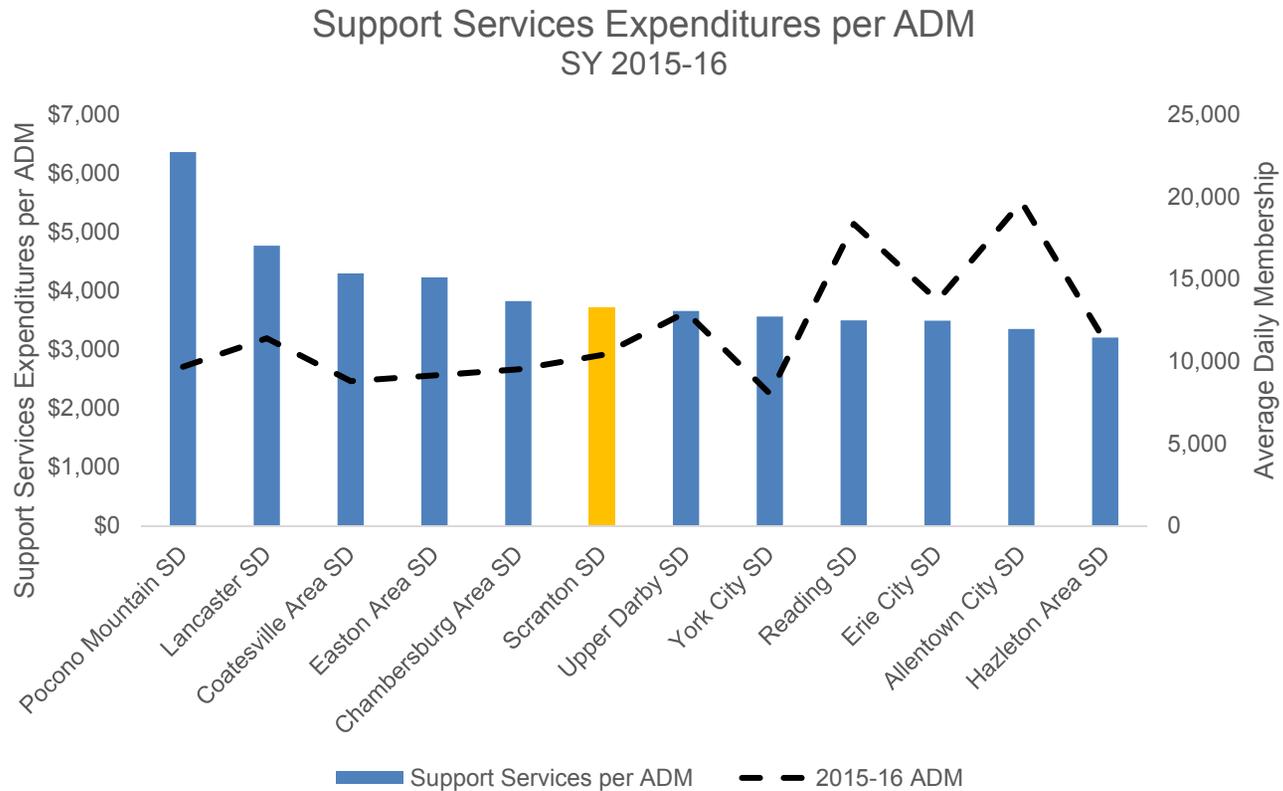


\*Instructional Expenditures include Regular Education, Special Education, and other educational programs.

Source: Annual Financial Report data for the 2015-16 school year from the Pennsylvania Department of Education.

# Support Service Expenditures Per ADM

- Scranton's support services expenditures\* are **in line** with **similarly-sized school districts**

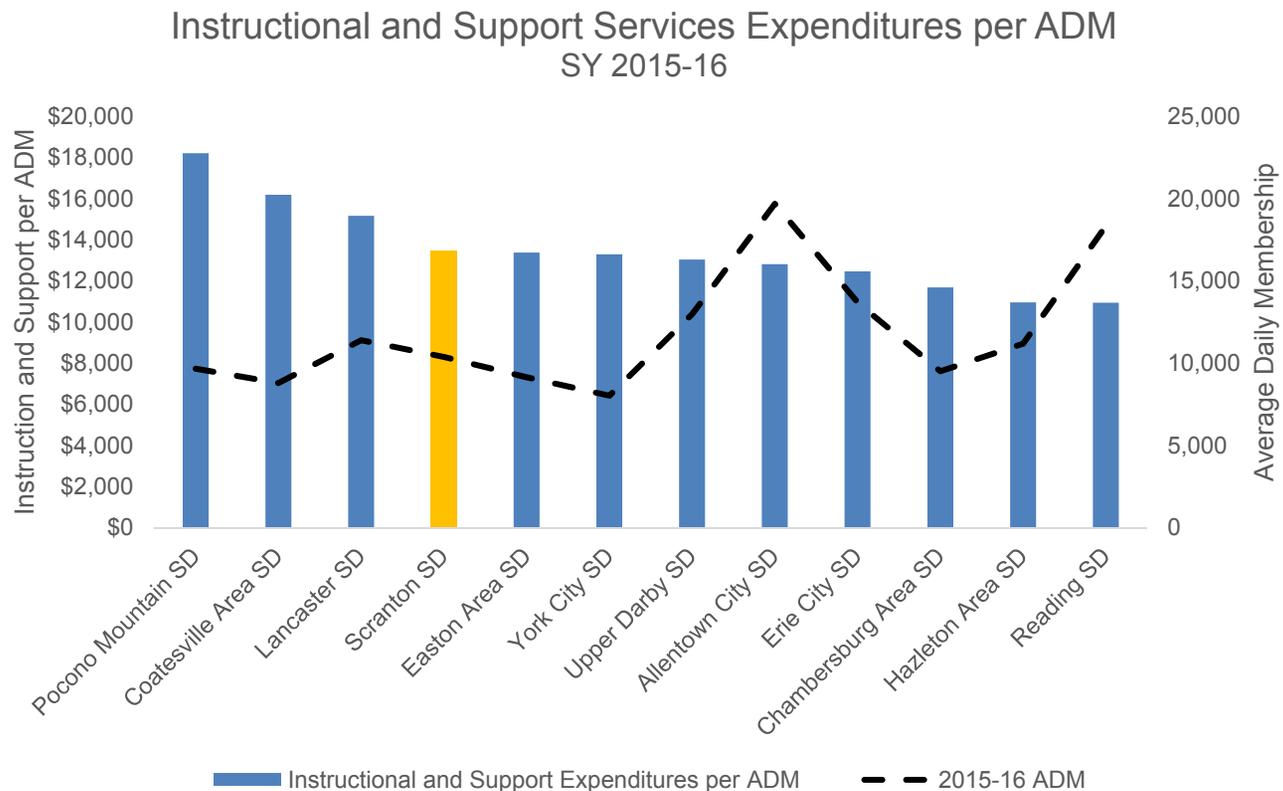


\*Support Services expenditures include Instructional Support, Administration, Operations and Maintenance, Transportation, Business Services, and Other Non-Instructional Services

Source: Annual Financial Report data for the 2015-16 school year from the Pennsylvania Department of Education.

# Instructional and Support Service Expenditures Per ADM

- Looking at the combination of instructional expenditures and support services\* costs, in general, Scranton's costs are relatively **in line** with **similarly-sized school districts**

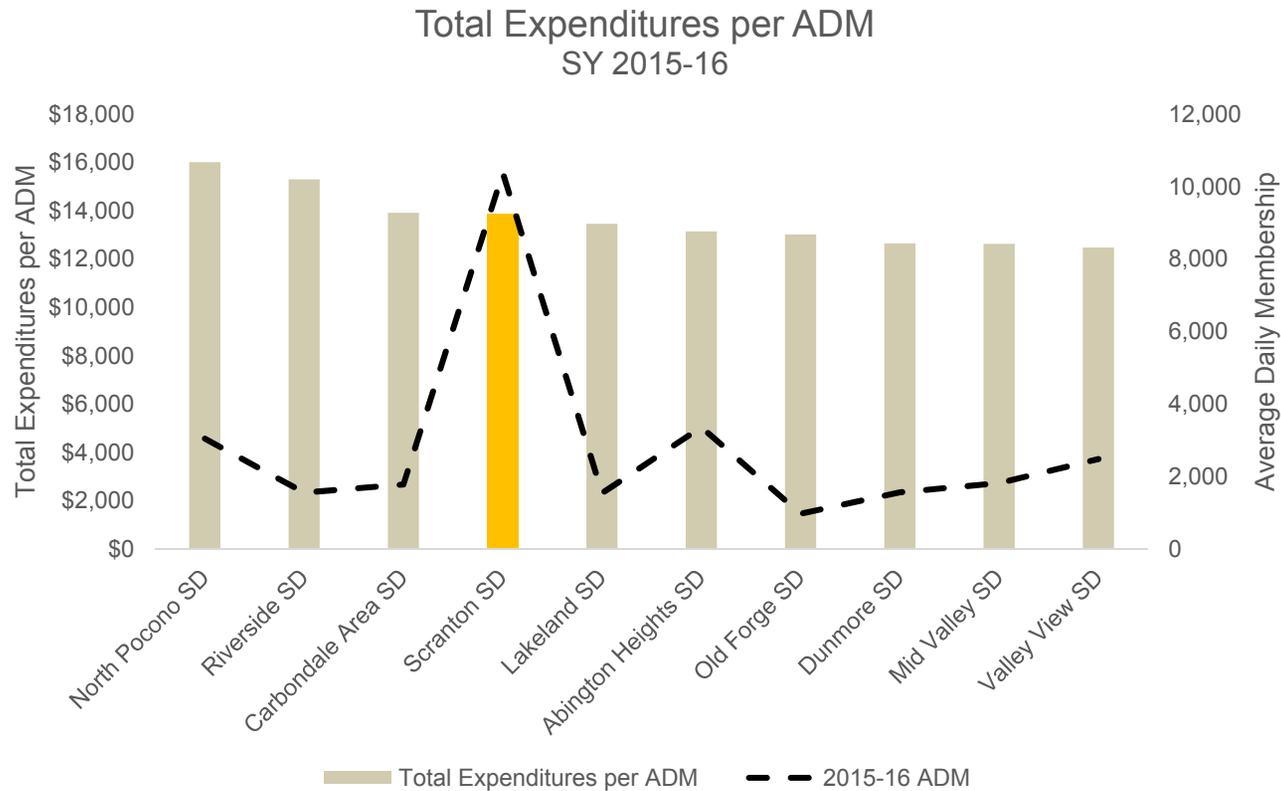


\*Support Services Expenditures include Instructional Support, Administration, Operations and Maintenance, Transportation, Business Services, and Other Non-Instructional Services

Source: Annual Financial Report data for the 2015-16 school year from the Pennsylvania Department of Education.

# Total Expenditures Per ADM

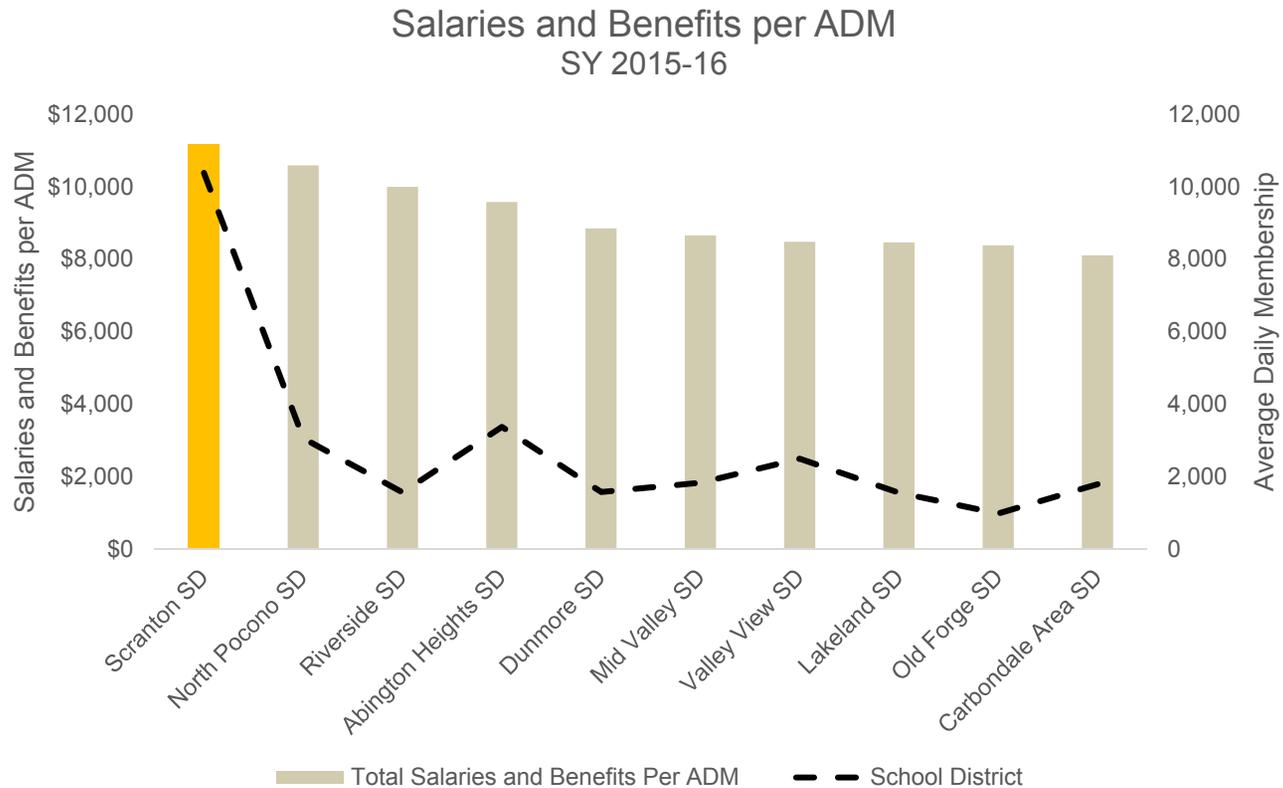
- Scranton's total expenditures are **in line** with other school districts in **Lackawanna County**



Source: Annual Financial Report data for the 2015-16 school year from the Pennsylvania Department of Education.

# Salaries and Benefits Per ADM

- Scranton is **higher** than all other school districts in **Lackawanna County** in terms of total salaries and benefits per ADM

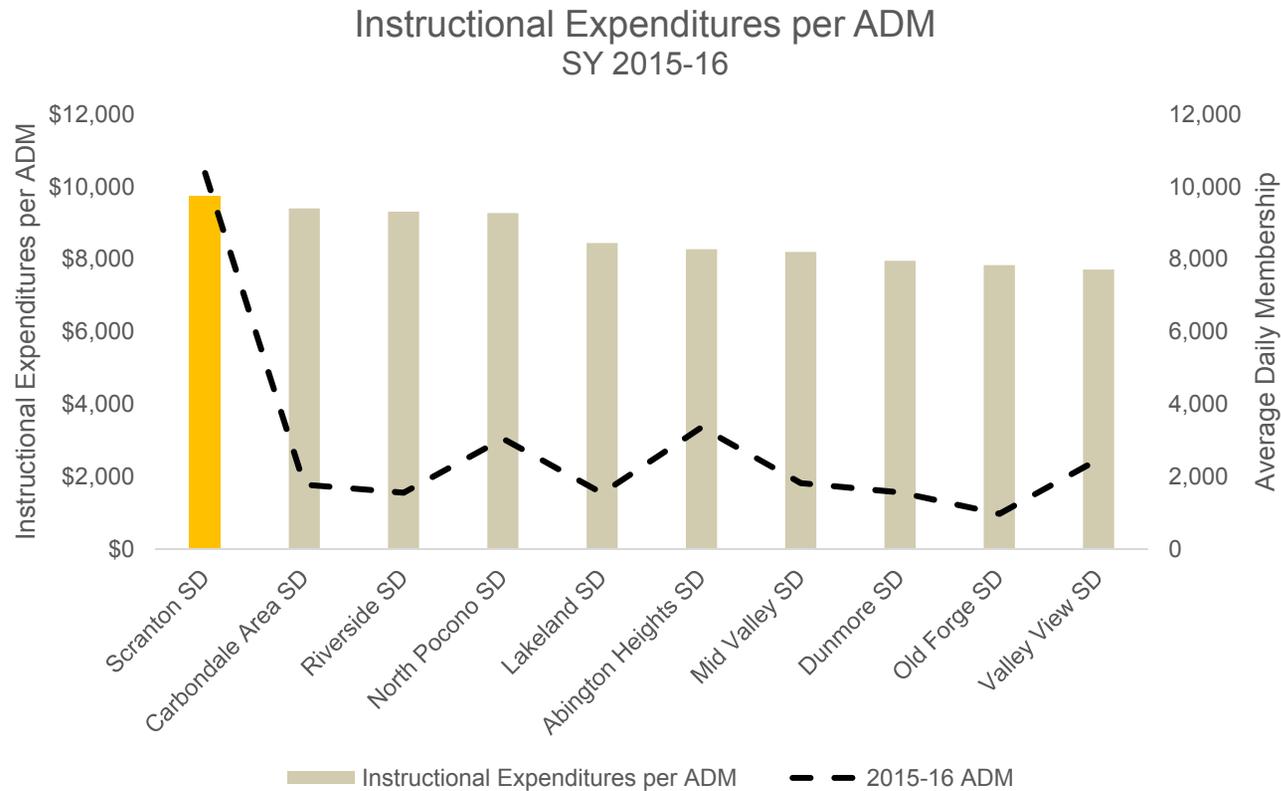


\*Salaries and benefits includes all expenditures in the 100-level and 200-level objects

Source: Annual Financial Report data for the 2015-16 school year from the Pennsylvania Department of Education.

# Instructional Expenditures Per ADM

- Scranton's instructional expenditures\* are **high** relative to other school districts in **Lackawanna County**

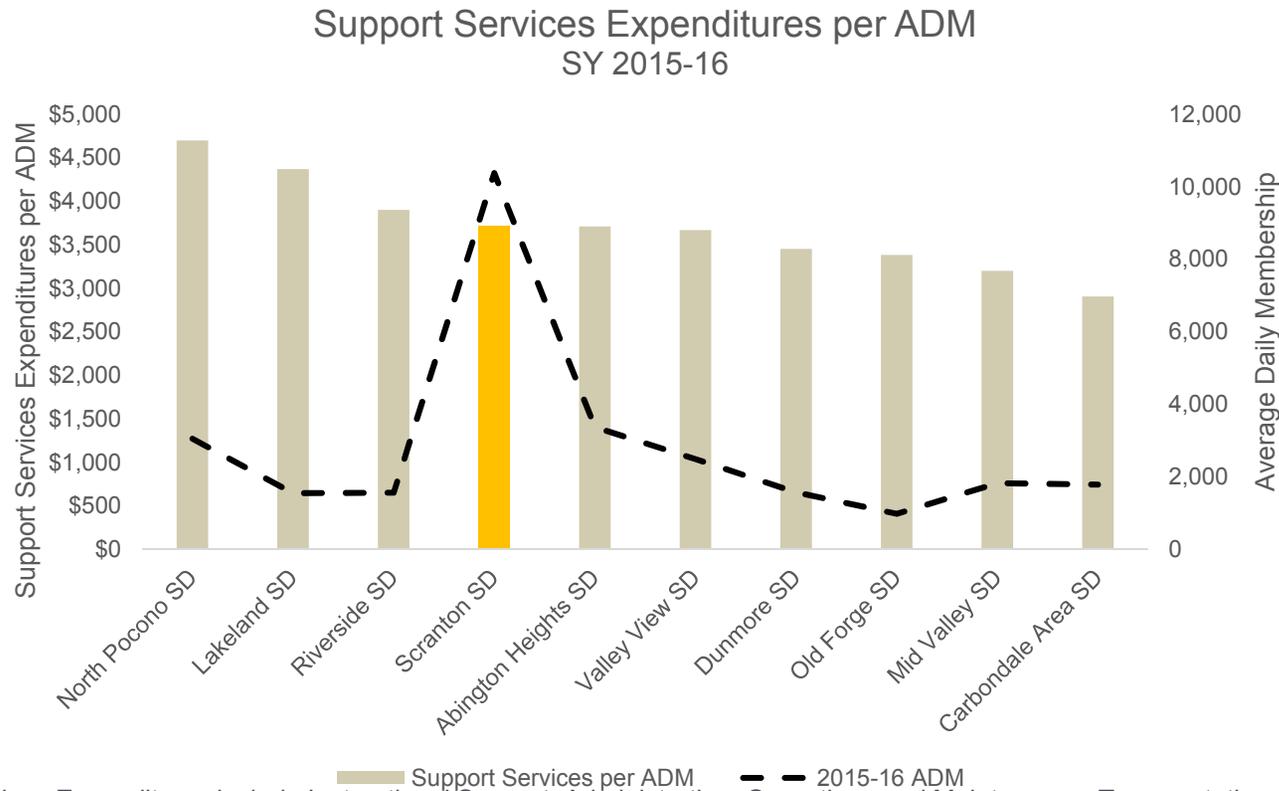


\*Instructional Expenditures include Regular Education, Special Education, and other educational programs.

Source: Annual Financial Report data for the 2015-16 school year from the Pennsylvania Department of Education.

# Support Service Expenditures Per ADM

- Scranton's support services expenditures\* are **in line** with school districts in **Lackawanna County**

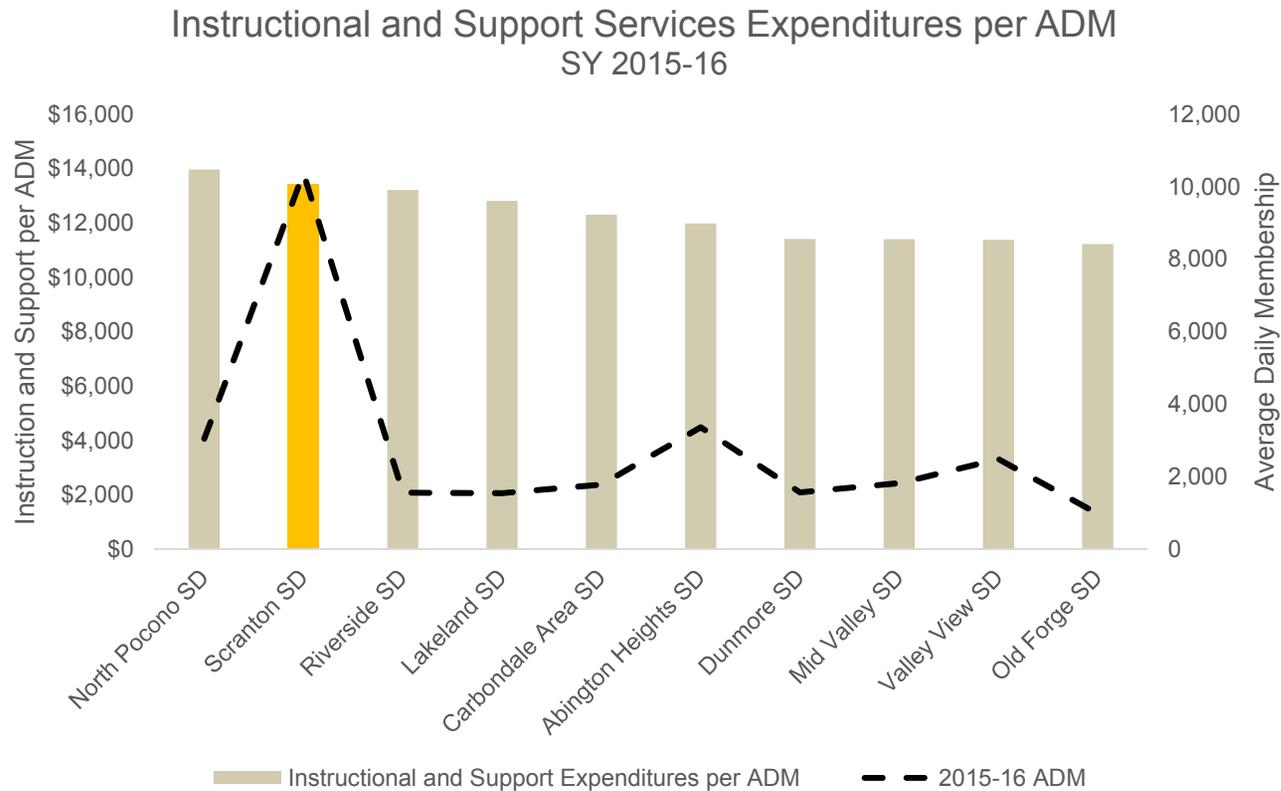


\*Support Services Expenditures include Instructional Support, Administration, Operations and Maintenance, Transportation, Business Services, and Other Non-Instructional Services

Source: Annual Financial Report data for the 2015-16 school year from the Pennsylvania Department of Education.

# Instructional and Support Service Expenditures Per ADM

- Looking at the combination of instructional expenditures and support services\* costs, in general, Scranton's costs are **higher** than other school districts in **Lackawanna County**



\*Support Services Expenditures include Instructional Support, Administration, Operations and Maintenance, Transportation, Business Services, and Other Non-Instructional Services

Source: Annual Financial Report data for the 2015-16 school year from the Pennsylvania Department of Education.

# Special Education Enrollment Comparison

- Scranton ranks **above** most **similarly sized school districts** in terms of percentage of special education students as a percentage of total enrollment
- Scranton ranks **below or at the mid point** of most **similarly sized school districts** in most categories of special education enrollment with the exception of students with emotional disturbances and hearing impairments

District	Special Education	Autism	Emotional Disturbance	Hearing Impairment	Intellectual Disability	Multiple Disabilities	Other Health Impairment	Specific Learning Disability	Speech or Language Impairment
<b>State Average</b>	15.9%	10.3%	8.5%	1.0%	6.5%	1.1%	14.1%	42.6%	15.0%
Allentown City SD	15.6%	12.2%	9.0%	1.7%	5.8%	1.9%	15.8%	45.1%	7.4%
Chambersburg Area SD	11.9%	13.0%	7.9%	1.5%	8.2%	2.7%	10.0%	36.0%	20.3%
Coatesville Area SD	20.0%	9.6%	11.6%	—	4.3%	1.7%	17.8%	40.3%	13.2%
Easton Area SD	15.3%	8.1%	3.9%	—	4.7%	1.4%	14.5%	57.0%	9.4%
Erie City SD	17.9%	9.3%	14.2%	0.9%	13.4%	1.8%	11.9%	35.0%	12.6%
Hazleton Area SD	11.3%	6.0%	8.0%	0.9%	11.5%	1.9%	20.1%	34.7%	15.7%
Lancaster SD	17.2%	7.3%	6.9%	0.9%	9.4%	1.3%	11.7%	40.8%	21.3%
Pocono Mountain SD	21.7%	7.9%	6.1%	—	4.8%	0.6%	17.2%	49.8%	12.7%
Reading SD	17.2%	11.6%	9.4%	0.7%	7.6%	1.3%	17.9%	46.3%	4.4%
Upper Darby SD	16.6%	12.3%	10.8%	1.0%	6.9%	1.0%	11.6%	47.0%	8.8%
York City SD	22.3%	5.6%	12.8%	2.4%	10.7%	1.2%	4.5%	52.6%	9.1%
<b>Scranton SD</b>	18.9%	9.5%	12.3%	1.0%	6.9%	0.8%	15.9%	39.0%	13.4%
<b>Median (Excluding Scranton)</b>	16.9%	9.5%	8.8%	1.0%	7.3%	1.4%	14.3%	43.9%	12.7%
<b>Percentage Point Difference</b>	2.0%	0.1%	3.6%	0.0%	(0.4%)	(0.6%)	1.6%	(4.9%)	0.8%
<b>Scranton Rank</b>	4 of 13	7 of 13	3 of 13	4 of 10	7 of 13	12 of 13	5 of 13	10 of 13	5 of 13

Note: Categories without reported percentages may be withheld due to low sample size in order to protect the identity of the students.

Source: December 1<sup>st</sup> special education enrollment data for the 2015-16 school year from the Pennsylvania Department of Education Bureau of Special Education

# Special Education Enrollment Comparison

- Scranton ranks **above** most other school districts in **Lackawanna County** in the number of special education students as a percentage of total enrollment
- Scranton also ranks **above** most other school districts in **Lackawanna County** in most categories of special education enrollment with the exception of students with specific learning disabilities and speech or language impairment

District	Special Education %	Autism	Emotional Disturbance	Hearing Impairment	Intellectual Disability	Multiple Disabilities	Other Health Impairment	Specific Learning Disability	Speech or Language Impairment
<b>State Average</b>	<b>15.9%</b>	<b>10.3%</b>	<b>8.5%</b>	<b>1.0%</b>	<b>6.5%</b>	<b>1.1%</b>	<b>14.1%</b>	<b>42.6%</b>	<b>15.0%</b>
Abington Heights SD	12.0%	10.1%	4.1%		7.1%		11.6%	55.9%	8.6%
Carbondale Area SD	20.2%	10.2%	13.6%		4.6%		12.4%	44.6%	13.0%
Dunmore SD	16.1%	7.6%	7.2%				17.5%	41.0%	20.7%
Lakeland SD	16.6%		7.7%		7.7%		13.3%	48.4%	15.7%
Mid-Valley SD	16.8%	9.2%	9.9%		4.9%		16.8%	41.1%	13.8%
North Pocono SD	15.4%	7.1%	5.2%		4.5%		15.2%	49.1%	16.7%
Old Forge SD	14.0%		19.3%		8.9%		15.6%	33.3%	13.3%
Riverside SD	24.3%	5.9%	8.2%		4.9%		8.5%	51.3%	19.6%
Valley View SD	14.3%	5.8%	7.2%		6.6%		15.2%	44.3%	18.0%
<b>Scranton SD</b>	<b>18.9%</b>	<b>9.5%</b>	<b>12.3%</b>	<b>1.0%</b>	<b>6.9%</b>	<b>0.8%</b>	<b>15.9%</b>	<b>39.0%</b>	<b>13.4%</b>
<b>Median (Excluding Scranton)</b>	<b>16.0%</b>	<b>8.4%</b>	<b>8.0%</b>	<b>1.0%</b>	<b>6.5%</b>	<b>1.1%</b>	<b>14.7%</b>	<b>44.5%</b>	<b>15.4%</b>
<b>Percentage Point Difference</b>	<b>2.9%</b>	<b>1.1%</b>	<b>4.4%</b>	<b>0.0%</b>	<b>0.4%</b>	<b>(0.3%)</b>	<b>1.3%</b>	<b>(5.5%)</b>	<b>(2.0%)</b>
<b>Scranton Rank</b>	<b>3 of 11</b>	<b>4 of 9</b>	<b>3 of 11</b>	<b>N/A</b>	<b>4 of 10</b>	<b>N/A</b>	<b>3 of 11</b>	<b>10 of 11</b>	<b>8 of 11</b>

Note: Categories without reported percentages may be withheld due to low sample size in order to protect the identity of the students.

Source: December 1<sup>st</sup> special education enrollment data for the 2015-16 school year from the Pennsylvania Department of Education Bureau of Special Education

# Potential Areas of Budget Improvement

# Areas for Exploration

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- This section of the Phase 1 report presents some significant areas the District could explore in building its plan to close the financial gap
  - A future portion of this project will focus on the detailed costing of different options the District has to control expenditures and grow revenues, and will show how those options might affect the District's deficit now and in the future
  - The level of detail in that costing will depend on the degree of data available from the District and other sources
- The options in this section are based on the project team's review of District finances. These are not recommendations, but rather a preliminary list of potential initiatives that the School Board could undertake to address the District's deficit
- In some cases, items included in the list may require several months or longer to fully implement, and require changes to collective bargaining agreements, organizational restructuring, or other approvals that may make implementation complex

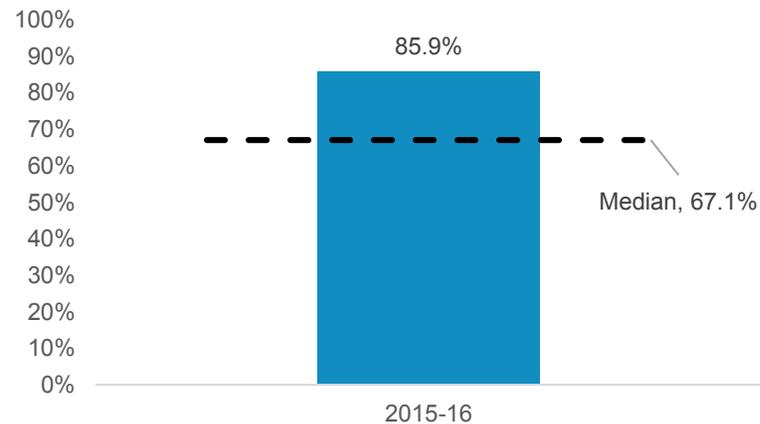
# Workforce

# Workforce

## Overview

- As described earlier, salaries and benefits are approximately 79 percent of projected FY2016 expenditures, and almost 86 percent of projected revenues
- When examined as a proportion of available revenues, salaries and benefits in Scranton School District are nearly 19 percentage points higher than the median school district in the Commonwealth
  - Costs shown in the peer school district comparison include other costs in addition to salaries and benefits (ex. tuition, supplies, and equipment)
- Personnel costs account for a significant proportion of available resources for the District
  - Rising cost of retirement contributions for PSERS and healthcare benefits have increased overall financial pressures
  - Addressing the District's long-term financial challenges will require an examination of staffing costs

SY 2015-16 Salaries and Benefits  
As a Percent of Total Revenue\*



\*Total Revenue includes all revenues from State, Local, and Federal Sources. Other Financing Sources have been excluded from the calculation.

Source: Annual Financial Report data for the School Year 2015-16 from the Pennsylvania Department of Education.

# Workforce

## 1. Staffing Levels

- In addressing workforce costs, the District will need to prioritize the assignment of staff to program areas and the number of staff that can be afforded given fiscal constraints
- Despite persistent annual deficits beginning in FY2012, the District has added employees in all categories except maintenance from 2012-13 to 2016-17

### Employee Count by Group

Scranton School District

	2012-13	2013-14	2014-15	2015-16	2016-17	Change (#)	Change (%)
Teachers	749	773	800	776	783	34	4.5%
Paraprofessionals	110	117	136	125	130	20	18.2%
Maintenance Employees	134	135	134	137	122	(12)	(9.0%)
Clerical Employees	115	113	114	124	128	13	11.3%
Act 93 Administrators	31	31	32	31	33	2	6.5%
Other Employees	52	58	72	66	67	15	28.8%
<b>Total Employees</b>	<b>1,191</b>	<b>1,227</b>	<b>1,288</b>	<b>1,259</b>	<b>1,263</b>	<b>72</b>	<b>6.0%</b>

Source: Employee count by group provided by the Scranton School District.

# Workforce

## 1. Staffing Levels (Academic Programs)

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- In some cases, the District may be able to reduce staffing levels through retirements, attrition, or re-structuring academic programs in order to achieve the savings necessary to close projected deficits
  - However, the District cannot entirely eliminate its deficit through reductions to academic programs alone without harming academic performance
  - In order to meet the needs of students, the District may need to make some strategic investments in additional staff or reorganize existing staff to ensure it is providing a strong academic program with fewer employees
- Some options may include the following:
  - Move to six teaching periods at the secondary level
    - Some positions may be shifted to establish instructional coaches in each building to support professional development and the implementation of academic programs
  - Eliminate underutilized academic programs like home economics and shop class
  - Use SAS model curriculum
  - Offer certain programs at only one high school

# Workforce

## 1. Staffing Levels (*Academic Programs continued*)

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- In addition to the suggestions listed on the previous page, the District could explore implementing the following programs with available resources to ensure a strong academic program:
  - Implement block scheduling at the high schools
  - Continue to expand the in-house cyber school program
    - District just announced its enhanced program scheduled to start in Fall 2017
  - Create a English Language Learner (ELL) Coordinator position
    - Position would most likely be part-time given financial constraints, and would assist teachers in developing effective instructional strategies for the District's ELL students

# Workforce

## 1. Staffing Levels (Special Education)

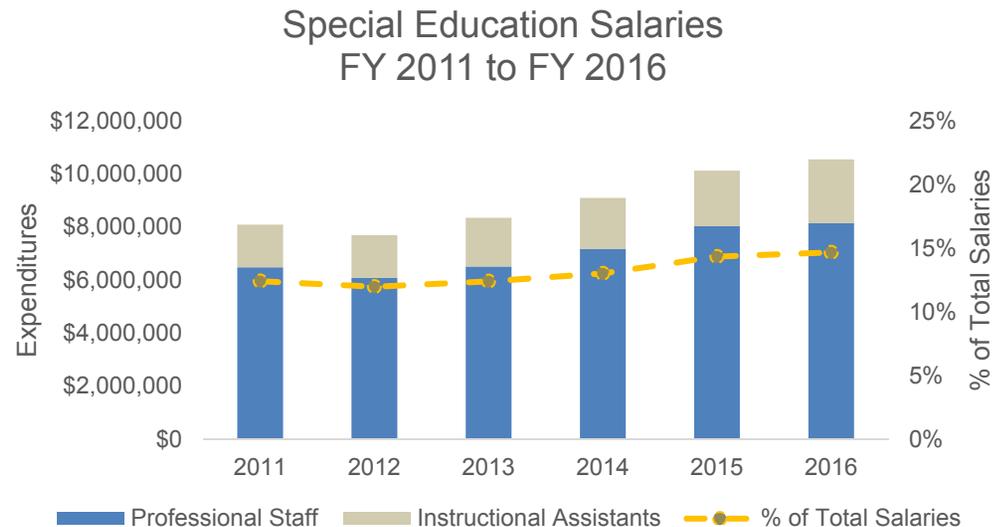
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- Prior to the 2016-17 school year, the District was operating the special education program in designated centers across the District
  - Supervisors were divided between elementary and secondary education
- As the Special Education supervisors were not located at individual schools, they faced challenges supporting teachers in completing paperwork and developing classroom strategies, particularly new or less experienced teachers
- In 2016, the District hired a new Director of Special Education and shifted the service delivery model from regional centers to locating services within each building
  - Student Support teams were established at each of the elementary buildings to coordinate support for students
  - Special Education Supervisors now rotate between all District schools throughout the week
  - Classroom coaches provide individual support to teachers
- The District also has a special education center-based program at Monticello which serves students with autism and emotional disturbance

# Workforce

## 1. Staffing Levels (Special Education)

- Between FY2011 and FY2016, total salaries for special education staff have increased by \$2.5 million, or a compound annual growth rate of 5.5 percent
  - According to conversations with District staff, some of the growth in salaries and staffing could be attributed to required services for students with exceptionalities
  - District administrators reported that a large number of students had moved to the District with existing IEPs that required high levels of service
  - Settlement of special education lawsuits has required increased staffing to meet the terms of the agreements



Source: Detailed financial data for Fiscal Years 2011 to 2016 provided by the Scranton School District.

# Workforce

## 1. Staffing Levels (Special Education continued)

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- As mentioned previously, the District recently adopted a new Special Education Plan, which restructured the staffing and service delivery model for special education programs
  - The District should review the structure of the special education program to ensure student needs are met in the most cost effective way
  - Although the District has reduced out-of-district tuition expenditures through the establishment of the in-house Monticello special education program, there will be a limit in terms of space and available staff to accommodate more children within the District
- Expenditures could continue to rise for special education staffing, particularly if the District's special education plan requires additional staff to accommodate recent changes in service delivery
  - Some savings have been achieved due to reductions in tuition costs for students attending programs outside of the district
  - However, continued reduction in tuition payments by bringing students back to the District may be cost prohibitive and require additional staffing costs

# Workforce

## 1. Staffing Levels (Special Education continued)

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- Options that the District may pursue include:
  - Review policies and procedures for identification of students
    - District aims to implement an MTSS initiative in the coming school year which should reduce the over-identification rate in subsequent years
  - Complete a full evaluation of the 2016 Special Education Plan and program
    - District administrative staff reported that some positions were added to accommodate the special education plan
  - Improve systems to track the number of paraprofessional positions
    - Continue efforts to reduce the assignment of paraprofessionals on a 1 to 1 ratio given the restrictions of existing IEPs
  - Continue to use coaches to provide support and professional development for special education teachers
  - Consider contracting with an attorney who specializes in special education case work to help reduce litigation costs
  - As appropriate, continue to move special education students from vans to regular buses to reduce transportation costs

# Workforce

## 2. Compensation Levels

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- Salaries are the single largest element of District spending, and some related benefit costs (pension, Social Security) also correspond with salary levels
- Therefore, it is unlikely that the District's long-term financial gap can be filled without addressing the level of total spending and growth rate for salary costs
- Providing fair and competitive pay is critical to retaining excellent teachers, and the District should aim to maintain manageable class sizes
- Options other financially-challenged school districts have taken to manage growth in salaries:
  - Single or multi-year wage freezes with allowance for wage growth and step movement under specified conditions as financial and other goals are met
  - Changes to wage and step patterns
  - Extending the length of the teaching day at the secondary level
  - Reducing or eliminating teacher extra duty pay
  - Reducing or eliminating teacher duty during passing time pay
  - Health insurance cost containment (see following pages)

# Workforce

## 2. Compensation Levels (continued)

- Due to the timeline of the initial analysis, PFM was unable to complete a detailed comparison of current salary levels relative to regional comparable jurisdictions
  - The District should conduct a comparison of current compensation levels and benefits to regional peers to ensure total compensation packages are reasonable and competitive given available resources
  - One area to review is the structure of current salary schedules
  - The District’s pay structures for most bargaining units include jump steps with large increases:

Bargaining Unit (Example)	Year of Step	\$ Amount	% Change
Teachers (Master’s)	15 to 16 (final year)	\$20,860	35.7%
Paraprofessionals	16 to 17 (final year)	\$5,543	23.5%
Act 93 (High School Principals - M)	3 to 4 (final year)	\$6,695	6.4%
SEIU (Unit II – 200 Day Employees)	6 to 7 (below mid point)	\$3,850	14.8%

Source: Collective bargaining agreements provided by the Scranton School District.

- If the District transitions to a July 1 – June 30 fiscal year, the District should consider adjusting the date of all collective bargaining agreements to align with the new calendar cycle

# Workforce

## 3. Administrators

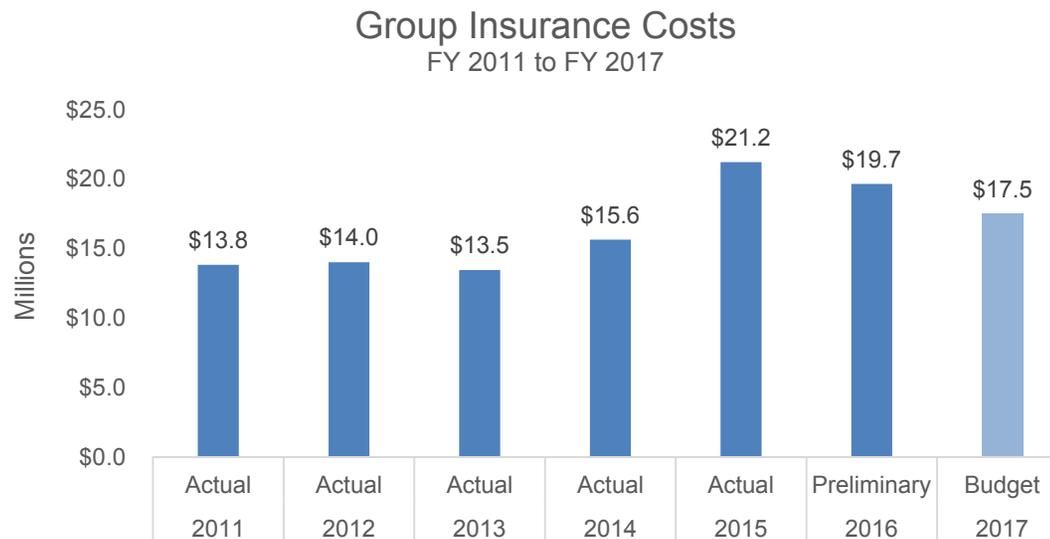
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- Some of the District's Administrative staff are Act 93 employees covered by a collective bargaining agreement with the District
- In recent years, Act 93 employees received the following salary increases:
  - January 1, 2016 – December 31, 2016: 0.0% with no step increases
  - January 1, 2017 – December 31, 2017: 1.0% and step increases
- According to data provided by the District, there are approximately 33 Act 93 employees in 2016-17
  - However, the Act 93 group does not include over 60 non-represented administrators, which includes positions such as the Superintendent and Business Manager, as well as confidential secretarial staff, IT support and behavioral techs
  - Some of these types of positions are non-represented in other Districts. Given the current circumstances, the District should complete a comprehensive review of the titles, salaries and roles of employees in this group

# Workforce

## 4. Healthcare Costs

- Total spending on group insurance , which includes expenditures for health insurance and prescription coverage, remained relatively flat between 2011 and 2013
- Expenditures significantly increased in 2014 and 2015, and remain at elevated levels
- Estimates provided by the District in April indicated that expenditures for 2017 could be nearly as high as expenditures in 2015, which means they would significantly exceed the budgeted amount for 2017
- PFM is working with the District's third party administrator to review recent spending trends to determine if the projections used in the budget should be adjusted for this year or future years



Source: Detailed financial data for Fiscal Years 2011 to 2017 provided by the Scranton School District.

# Workforce

## 4. Healthcare Costs (continued)

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- In recent years, the District has taken steps to reduce the growth in health care expenditures, including:
  - Increasing deductible limits, premiums, and co-pays for all staff
  - Reducing administrative rates from \$70 per person to \$43 per person
  - Moving to mandatory generic drug prescriptions
    - Occurred in 2015, realizing \$250,000 in annual savings
  - Increasing use of drug rebates
    - The District has realized \$58,000 in rebates in 2017 to date
  - Instituting a self-imposed cap on dental claims of \$5,000
    - Estimated savings of \$135,000 in 2016
  - Using the District's self-insurance policy for dental claims above \$5,000
    - Estimated savings of \$135,000 in 2016
  - Restricting a portion of fund balance for use related to health care benefits

# Workforce

## 4. Healthcare Costs (continued)

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- However, there are additional options the District could explore in an effort to reduce health care expenditures:
  - Consider adopting Reference-Based Reimbursement (RBR)
    - RBR sets a maximum cap paid by the employer for specific procedures
    - Implementing RBR is estimated to generate \$4.8 million in savings according to the District's healthcare consultant
    - Program was proposed and rejected during recent contract negotiations
  - Utilize a District-wide discount card to incentivize employees to receive services from a specific provider
    - Healthcare consultant estimates that the District would save approximately \$800,000 per year
  - Eliminate spousal coverage
    - Estimated that the District could realize a savings of almost \$4 million based on 2016 enrollment
  - Mandate step-generic prescription drug coverage
    - Estimated savings at \$500,000 when proposed in 2017
  - Increase deductibles to higher amounts
    - District could save an additional 3 to 8 percent annually based upon the deductible amounts
  - Eliminate payments to employees for opting out of health insurance coverage

# Workforce

## 5. Workers' Compensation

---

- Between 2015 and 2016, workers' compensation costs increased by nearly \$1 million
  - Increased expenditures are largely due to the settlement of claims
  - Analysis of year-to-date expenditures for 2017 indicate that expenditures will remain at the elevated level for the current fiscal year
- The District could take a variety of steps to address increases in workers compensation costs:
  - Analyze claims to determine patterns causing high workers' compensation costs, and take steps to address those causes, including workplace safety training as appropriate
  - Consider retaining a temporary safety officer to address this issue and broader issues of workplace safety
  - Reduce workers compensation liability by considering one-time lump sum buy out of claims
    - Calculate lump sum to produce greater return than cost of financing
  - Review recommendations of prior workers' compensation evaluator to determine whether they have been implemented and whether they were successful

# Workforce

## 6. Retirement Incentives

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- In 2017 and previous fiscal years, the District has used retirement incentives to achieve savings
  - In FY2016, the District spent approximately \$2.0 million in retirement incentives
  - Incentive approved in March 2017 is estimated to generate savings of approximately \$1.8 million in FY2018 based on projections from the District
    - Savings are net of teachers that will need to be replaced to maintain the current structure of academic programs
    - PFM's preliminary review indicates that the District will achieve short-term savings from this iteration of the retirement incentive
- Re-structure the existing retirement incentive program
  - Develop a targeted policy for early retirement that identifies teachers in positions that would not need to be immediately replaced
  - Current teachers contract does not include a sunset provision for the retirement incentive offered in addition to payment for unused sick and personal leave

# Workforce

## 7. Professional Development

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- The District should evaluate the structure of the professional development program to align offerings with academic goals, and to ensure cost effectiveness
  - Currently, professional development is primarily delivered by the Scranton Federation of Teachers through the Educational Research & Dissemination (ER&D) program
- Some options to explore may include:
  - Plan and structure a District-wide professional development program
    - Detailed plan would coordinate training offered in summer sessions, on Act 80 days, and on scheduled in-service days
    - Opportunities would be provided to enable vertical planning within subject areas, and horizontal planning across grade-levels

# Workforce

## 7. Professional Development (continued)

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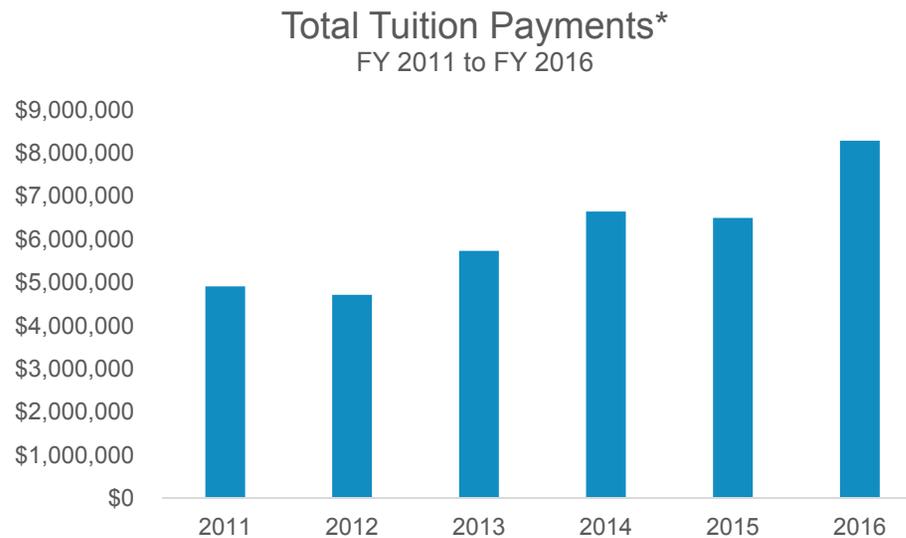
- The District may also consider the following:
  - Increase opportunities for professional development outside of the ER&D program, or expand offerings within the ER&D program
    - District administration identified a need to offer additional support for teachers with special education students in the classroom
    - Programs could be targeted for topics such as differentiated instruction, co-teaching strategies, and interventions for ELL students
  - Move ER&D to after school hours and pay only the teacher, not participants
  - Hold leadership academies for principals in the summer months

# Tuition Payments

# Tuition Payments

## Overview

- Tuition payments have increased by \$3.38 million between FY2011 to FY2016, a compound annual growth rate of 11 percent
  - Over the same time period, tuition payments increased from 4.1 percent of total expenditures in FY2011 to 5.5 percent of total expenditures in FY2016
- District administration should monitor the growth in expenditures to ensure that they do not become a significant financial strain, and the administration should design programs to meet the needs of students attending charter schools



\*Total Tuition Payments includes payments to charter schools, vocational schools, and students placed in programs outside of the District.

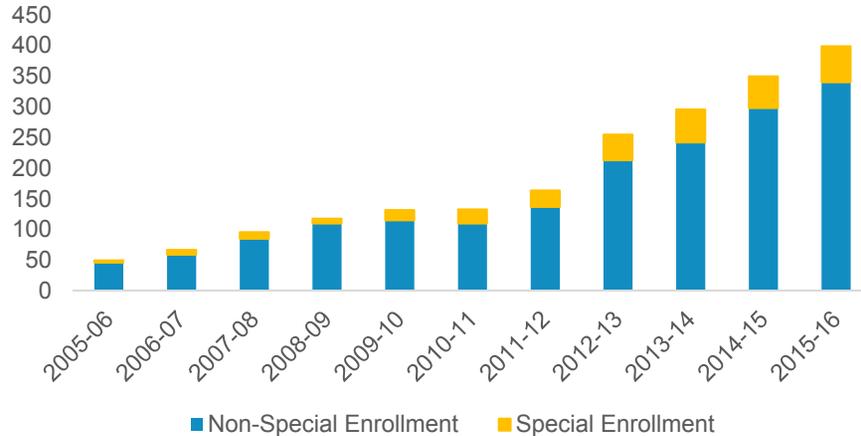
Source: Detailed financial data for Fiscal Years 2011 to 2016 provided by the Scranton School District.

# Tuition Payments

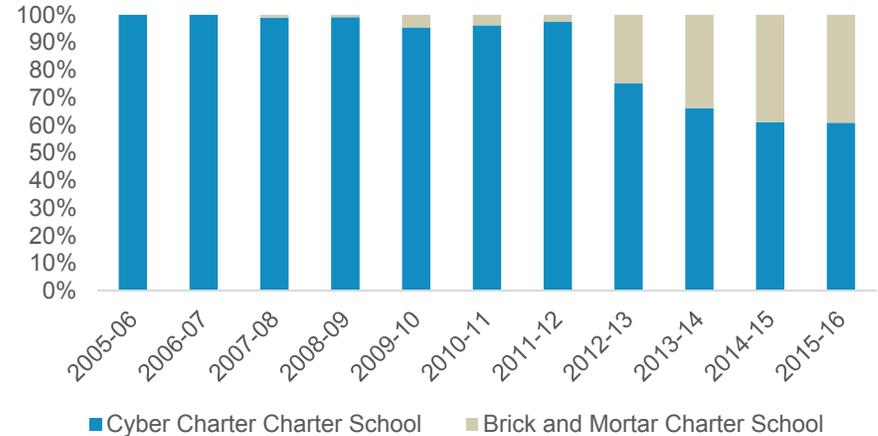
## 1. Charter School Tuition

- Charter school enrollment increased rapidly beginning in 2012-13 due to the establishment of the Howard Gardner Multiple Intelligence Charter School
  - Howard Gardner is a K-8 School, so the enrollment portion of this cost driver should reach a plateau around 2016-17
- While Howard Gardner maintains a physical presence in the City of Scranton, students enrolled in cyber charter schools account for more than 60 percent of the total charter school population

Charter School Oct. 1 Enrollment  
SY 2005-06 to SY 2015-16



Percent of Total Charter School Enrollment  
SY 2005-06 to SY 2015-16



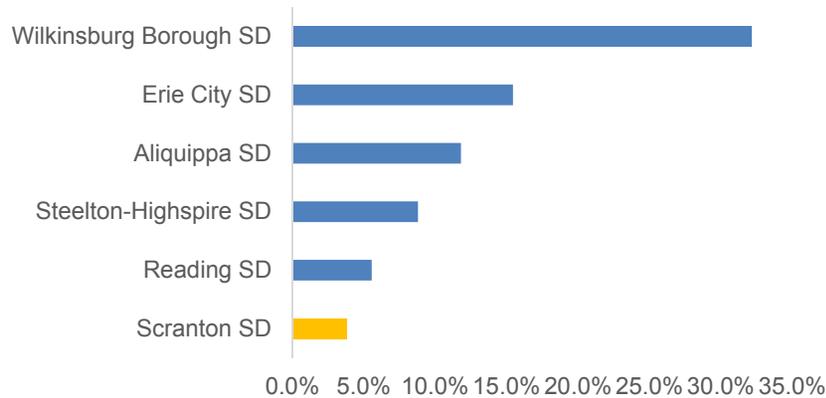
Source: October 1<sup>st</sup> enrollment count data for charter schools from the Pennsylvania Department of Education.

# Tuition Payments

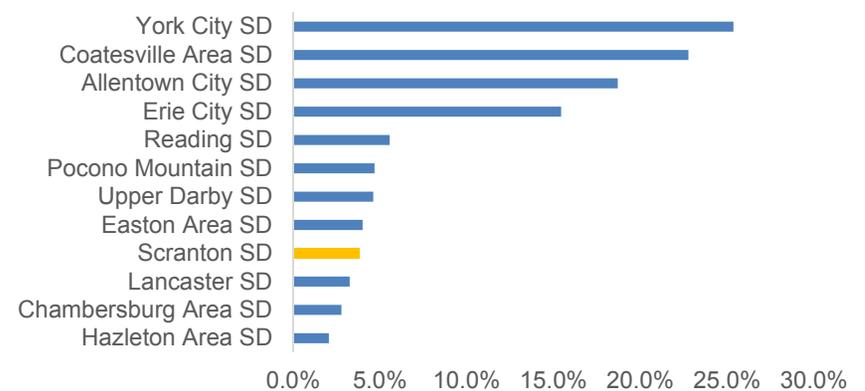
## 1. Charter School Tuition (continued)

- Compared to school districts similar in size, tax base and financial condition as Scranton, the charter school population is relatively low as a percent of total enrollment
- Charter school choice in these similar districts appears to be largely driven by the number of brick and mortar charter schools in close proximity to the school district
- Nevertheless, experience in other districts indicates that to manage its finances and provide academic options, Scranton should develop internal programs to fully compete with charters

Watch Status School Districts  
Percent Charter School Enrollment<sup>2</sup>



ADM Over 8K + MV/PI Over 0.6.000<sup>1</sup>  
Percent Charter School Enrollment<sup>2</sup>



1 Philadelphia School District and Pittsburgh School District are excluded due to significant differences in total enrollment.

2 Total enrollment is approximated using students enrolled in District-operated schools and charter schools as of the 2015-16 school year.

Source: October 1<sup>st</sup> enrollment count data for charter schools and school districts from the Pennsylvania Department of Education.

# Tuition Payments

## *1. Charter School Tuition (continued)*

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- The District has experienced rapid growth in the number of students enrolled in charter schools
  - Growth in brick and mortar charter school enrollment will be limited due to the grade limitations at Howard Gardner, unless that school expands to offer grades 9-12
  - Enrollment in cyber charter schools more than doubled between the 2008-09 and 2015-16 school years, growing from 117 students to 243 students
- Should historic growth trends in cyber charter enrollment and tuition rates continue, District spending on charter tuition payments will be an added source of financial strain
  - Under the baseline budget projections, charter school tuition payments are expected to grow from \$4.8 million in FY2016 to \$7.8 million in FY2022
  - This amount is equivalent to a 8.9011 mill property tax increase over a 6 year period, or approximately a 1.5 mill increase per year
  - Projected increases in District expenditures will drive charter tuition rates higher even if enrollment is held constant

# Tuition Payments

## *1. Charter School Tuition (continued)*

---

- Options to control the growth in charter tuition payments may include:
  - Continue to develop programs to compete with offerings at charter schools
    - Currently the District is working on an expanded cyber school program (launching in Fall 2017) and a dual language program
  - Conduct a parent survey to identify gaps in services that are currently offered by charter schools or other educational alternatives, and determine if the District can fill those gaps
  - Make sure that parents and students are aware of current alternatives and opportunities in District schools, and areas of strong District performance
  - Develop a multi-year plan and budget for building the program, including recruiting students, hiring staff, establishing and consistently reviewing the program, and purchasing necessary technology
  - Reductions in District spending, or the growth in District spending, which fuel charter school tuition rate growth

# Tuition Payments

## *2. Tuition to Other Providers*

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- According to District Annual Financial Report (AFR) data submitted to the Pennsylvania Department of Education, tuition to payments to providers (excluding charter schools and vocational schools) decreased between the 2014-15 and 2015-16 school years
  - Tuition payments dropped from \$1.8 million in 2014-15 to \$1.3 million in 2015-16; this may be related to the initial stages of the District’s revised approach to special education
  - Estimates provided by the former Director of Special Education indicated that further reductions could be expected in the 2016-17 school year; however, the extent of the possible reductions was not clear from available information
- Options to control the growth in special education tuition payments may include:
  - Evaluate the cost effectiveness of providing services with District personnel
    - The District should review the qualifications of existing staff and availability of space and equipment in buildings to identify opportunities to offer services for special education students in District classrooms
  - Improve systems to monitor out-of-district special education tuition payments
    - Regular reports should be prepared collaboratively by staff from the Business Office, the Child Accounting Office, and the Special Education Office to monitor and manage the number and cost of special education students enrolled in programs outside of the district, including charter schools

# Facilities Management

# Facilities Management

## *Overview*

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- Under the current configuration, the District operates 17 buildings:
  - 11 Elementary Schools
  - 3 Intermediate Schools
  - 2 High Schools
  - 1 Administration Building
- In addition, the District rents building space for the Whittier Annex and the Electric City Academy, which houses the Monticello and Lincoln-Jackson Academy programs

# Facilities Management

## *1. Capital Planning and Building Utilization*

---

- During interviews with District administration, staff noted that the District did not have a multi-year capital plan, and that classroom utilization was uneven across the District's schools
- A capital plan can improve the District's financial management of assets:
  - Allow the Board and administration to develop a structured approach for making necessary decisions to fund repair, replacement and new construction projects in the District
  - Should be linked to the school's operating budget and should support the District's strategic plan
  - Approach capital needs on a planned basis to avoid extraordinary expenses and disruption
- Options to improve the management of capital assets may include:
  - Develop a Five-Year Capital Plan
    - Plan should include a schedule for maintenance and repair of all buildings and other assets
  - Assess current and future capacity of elementary schools and high schools compared to enrollment
    - Consider maximizing building utilization through redistricting
    - Evaluate course offerings and course enrollment at the high schools

# Facilities Management

## 2. Building Maintenance

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- In recent years, the District has taken steps to control its spending on maintenance
  - Between FY2011 and FY2016, expenditures increased from \$13.4 million to \$14.5 million, a compound annual growth rate of approximately 1.6 percent
- Most efforts to reduce growth in maintenance spending are focused on personnel:
  - Reducing staff and eliminating positions
  - Contracting out positions
  - Reducing the number of staff assigned to the night shift
- Options to control expenditures further may include:
  - Bid specific maintenance functions out through attrition
  - Eliminate contract language that requires maintenance staff to be present when school or facilities are open
  - Establish an automated system for managing building maintenance issues
  - Eliminate any non-District use of facilities, or provide it only at fully-loaded cost to the District (including security, insurance, utilities and other overhead)

# Administration and Finance

# Administration and Finance

## Overview

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- During PFM's interviews with District administration and the review of data provided, staff identified a number of areas to improve the operations of the District
- When evaluated in total, these recommendations will not directly contribute significant immediate savings as the District attempts to close the structural deficit
  - However, many of these recommendations will improve the administration's ability to plan and structure programs, increase efficiency of current operations, and evaluate important financial decisions
  - Also, requested information was often unavailable or required special analysis, implying that administrative and financial operations are conducted without all necessary inputs to make the most informed decisions for financial stability and academic quality
  - Non-standard approaches in reporting often make analysis and comparison difficult
    - For example, real estate tax collection data is often shown on a gross basis without adjustments for the property tax reduction allocation from the State

# Administration and Finance

## 1. Business Office

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- In the Business Office, a number of steps could help improve the management and finances of the District:
  - Upgrade the financial/HR business management operating system
    - Allow for easier data collection and analysis
    - Improve the accuracy and timeliness of financial projections and planning
  - Improve position control and management
    - District does not currently have a reliable way of monitoring and reporting staff complement
    - Revise sick leave policy to help address staff absenteeism rate and costs of substitute teachers
  - Develop multi-year plans for capital and technology
    - Potential savings could be generated by implementing a technology inventory system and reducing unplanned maintenance and emergency repairs
  - Implement performance metrics and comprehensive monthly financial reporting
    - Require compliance with monthly comprehensive line item budgets
    - Adjust spending during the year if revenues do not meet expectations or expenditure contingencies occur
    - Consider an annual target budgeting process that creates a reserve for contingencies at the start of the year

# Administration and Finance

## *1. Business Office continued*

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- Other items that the Business Office could consider:
  - Establish more regular communication/coordination between CFO and Federal Programs Coordinator (currently once per month)
    - Identify long-term funding sources for expiring federal programs at the outset , or plan to allow the programs and positions to lapse when funding lapses
    - Ensure that the annual budget includes all known or potential District share of federal program costs
  - Assign the Business Office responsibility to oversee child accounting, management of records for students enrolled in charter schools and placements outside of the District, and management of federal programs, including ACCESS reimbursement
  - Establish a mechanism for the Cabinet to fully evaluate the costs of academic policy changes before implementation, and require that a funding source be identified for any changes resulting in additional costs
  - Establish labor-management committees tasked with presenting detailed, multi-year revenue enhancement and expenditure control initiatives to the Board prior to the presentation of the draft 2018 budget

# Administration and Finance

## 1. Business Office (Calendar Year vs. Fiscal Year)

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- The Scranton School District's fiscal year is a calendar year rather than July-to-June fiscal year used by most Pennsylvania school districts and the Commonwealth
- During PFM's interviews with District administration, several staff members noted that budgeting on a calendar year presents challenges to administrators:
  - Many Commonwealth reporting requirements and almost all funding follows the July-to-June fiscal year, which may increase the administrative burden on staff; federal funding is on yet another cycle
  - It may be more difficult to plan for needs in the next school year during the budget development process
  - The District currently does not have robust methodology for translating all July-to-June items into its calendar year budget
- There are some financial management benefits from the adoption of a new fiscal year cycle:
  - Clear, concise reporting can inform administrators of available resources through out the fiscal year
  - School Board can adopt an amended budget to make course corrections mid-year
- However, the amount of direct savings achieved due to the transition is likely to be limited, and there may be statutory or administrative obstacles to making the shift

# Administration and Finance

## 2. Procurement

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- According to interviews with the District administration, the District does not currently have a centralized process for procurement
  - This can lead to duplicative, incorrect, or unnecessarily expensive purchases
  - District lacks a centralized inventory of supplies
  - Staff raised concerns about inferior goods during interviews with the project team
- Options to improve purchasing processes may include:
  - Establish and enforce procurement guidelines and policy, and quality assurance for goods received
  - Approve a formal policy to re-bid all contracts after a specified amount of time
  - Buy and install an electronic purchasing system and maximize use of multi-jurisdictional purchasing vehicles
  - Update peg board purchasing system
  - Perform annual fixed asset inventory to determine inventory and need

# Administration and Finance

## 3. Transportation

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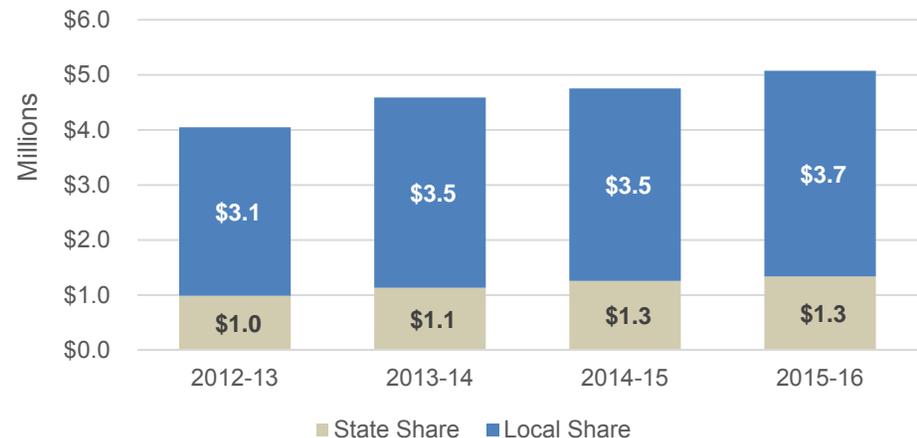
- Scranton School District contracts with two providers for the majority of transportation services
  - Total expenditures on contracted transportation services ranged between \$3.9 million and \$5.0 million from FY2011 to FY2016
  - Net spending has been approximately \$3.5 million annually in recent years, after adjusting for state subsidy
  - DeNaples Transportation and Red Top Transportation provide most contracted vehicles
  - Northeast Intermediate Unit and various smaller vendors provide supplementary transportation
- In June 2015 and March 2016, respectively, the Board approved lengthy contract extensions with DeNaples and Red Top without seeking a competitive bid for transportation services
  - Red Top – approved in June 2015 and extended to 2019-20
  - DeNaples – approved in March 2016 and extended to the 2021-22 school year
  - Both contract extensions were approved contingent on cost savings terms agreed with each vendor
    - Savings were to be achieved by reducing the number of vehicles, and reducing the daily rate
    - Net spending for 2017 was projected to drop to \$2.4 million
- Due to the timeline of initial analysis, PFM was unable to compare contract terms to regional comparable jurisdictions
  - The District should conduct a comparison of contract structure and total costs to regional peers to ensure that contract terms are reasonable and consistent with regional norms, and to ensure that budgeted savings are achieved

# Administration and Finance

## 3. Transportation

- In recent years, the percentage of transportation costs covered by local sources has remained relatively flat
- According to conversations with the District administration, several initiatives have been pursued to control costs:
  - Approach DeNaples and Red Top for some savings by adjusting contract terms
  - Adjust bell times at intermediate schools to increase vehicle usage
  - Move some special education students from transportation by van to school buses
- However, net costs incurred by the District remain high, and the District could continue to pursue schedule and contract changes to achieve additional savings where possible

Share of Transportation Costs  
Payable School Year 2012-13 to 2015-16



Source: Summary of Pupil Transportation Subsidy reports provided by the Pennsylvania Department of Education.

# Administration and Finance

## 3. Transportation

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- Improvements in transportation efficiency should focus on the strategies below:
  - Improve utilization of current vehicles by increasing the number of students and strategic use of time available
  - Improve assignment of vehicles to runs and routes
  - Consolidate number of vehicles traveling outside of the District
  - Evaluate contracts for bus and van transportation for students
  - Reopen and or rebid all other contracts requesting a 10 percent savings based on a three year average of cost of goods or service
  - Reopen Red Top transportation contract to include dual runs
- These improvements should provide some cost savings and increase the District's reimbursement rate for transportation services
- As noted earlier, a comprehensive review of regional costs, local services and schedules, and ultimate re-bidding of transportation contracts should also be considered

# Administration and Finance

## 4. Shared Services and Other Recommendations

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- Other opportunities for shared services or savings within the District may include:
  - Share vehicle maintenance responsibility and/or fuel contract with City of Scranton
  - Joint purchasing with other school districts in Lackawanna County, or the City of Scranton
    - Opportunities may include supplies, diesel gas, transportation, information technology support, and software licenses
  - Consider opportunities to share administrative services with other school districts in Lackawanna County, or the City of Scranton
  - Eliminate copiers with rental fees and use existing print shop at one of Scranton's intermediate schools; conduct an inexpensive copier analysis
  - Explore the purchase of utilities through a consortium, or use a reverse auction

# Debt Service

# Debt Service

## *Overview*

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- As noted on page 20, the District has repeatedly engaged in “scoop” debt transactions that defer debt service currently due into future years.
  - This process of “kicking the can down the road” cannot be part of a long-term recovery strategy
- The District is currently considering conducting two transactions to generate savings
  - Bonds issued in 2007 may be refunded to lower debt service payments
  - The District also needs to complete a mandatory reissue of 2014 floating rate bonds, which must be done by next spring
  - Completing the transactions concurrently will reduce the costs of issuance
- In order to complete these transactions, the District will need to complete its 2016 audit by the end of September 2017 and conclude a state aid intercept agreement with the Commonwealth
  - Entering into an intercept agreement with the Commonwealth may be dependent on the resolution of FY2017-18 state budget
- There is potential for additional one-time revenue from state PlanCon reimbursement if the District is able to submit the required documentation

# Debt Service

## 1. Complete Forms for PlanCon Reimbursement

- The District is in the process of completing the various Commonwealth forms for PlanCon reimbursement related to debt issuance in prior years
  - Series 2007 – In process of completing PlanCon Part J
  - Issuances from 2015 to 2017 – Refunded several prior year debt issuances; District is in the process of collecting documentation for PlanCon Part K so that state reimbursement can resume
- The District should continue to pursue outstanding reimbursement for prior year PlanCon debt service payments
  - » The District recently received \$4.9 million in prior year reimbursement (one-time, included in baseline projections)
  - » The District estimates other PlanCon reimbursement in process would generate an annual benefit to the District of \$400,000 if approved (not included in baseline projections)
  - » There is potential for additional one-time prior year reimbursements (not included in baseline projections)

# Revenues

# Revenues

## Overview

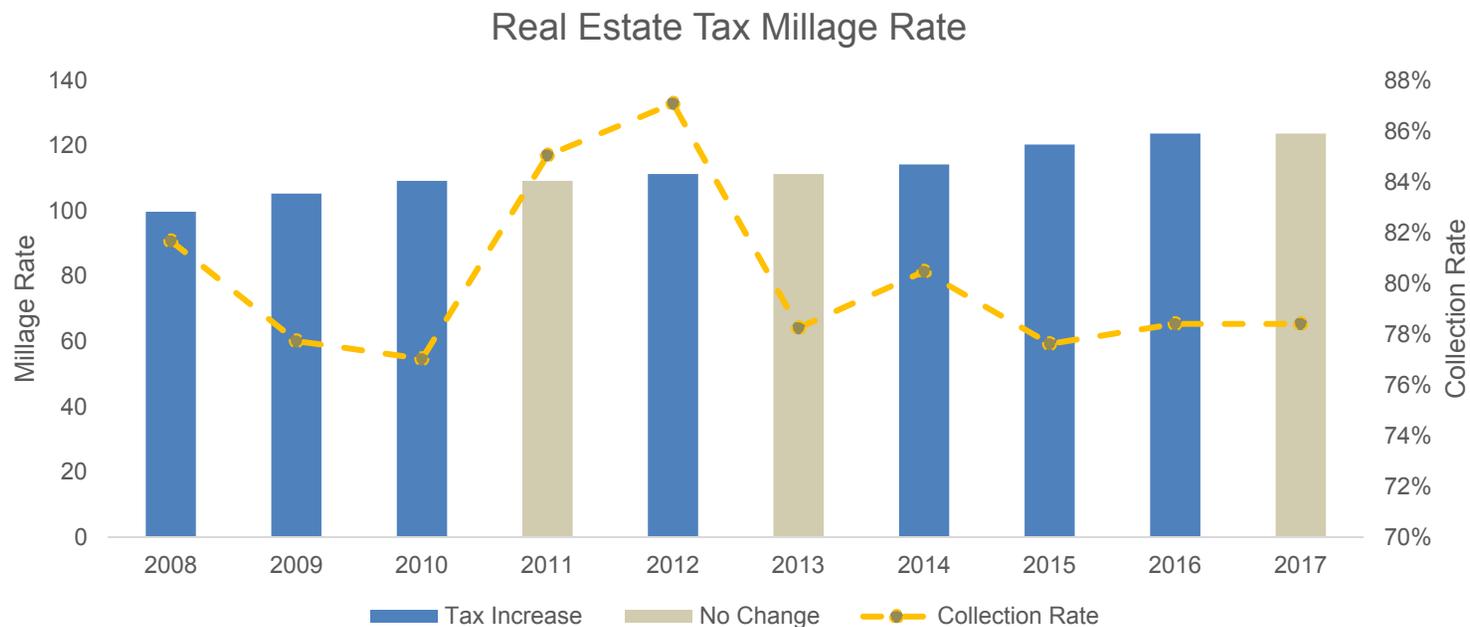
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- In most cases, school districts have limited options to increase revenues to support programs
  - State subsidies are mostly driven by formulas, though there are some areas where the District can improve the efficiency of services for increased reimbursement (ex. transportation services)
- Real estate taxes are the District's primary source of revenue
  - Enhancement efforts can focus on increasing the millage rate, improving the collection rate, and reviewing assessments and exemptions
- Other options outlined in the following pages will identify additional resources that can be used to close the District's budgetary gap
- Given the District's difficult financial situation, it should prioritize those options that will generate the most funding most quickly
  - However, all revenue sources should be explored

# Revenues

## Overview (Real Estate Taxes)

- Scranton School District has steadily increased the real estate tax millage rate over the past 10 years
  - Between 2008 and 2017, the District increased the rate by 27.59 mills to the current 123.77 mills
- The graph below shows that the tax increases do not appear to have had an impact on real estate collection rates, which have remained consistently low in recent years
- The proposed County property tax reassessment will also have an impact on these revenues



Source: Official statements for the Series A/B/C/D of 2017 from the Electronic Municipal Market Access service provided by the Municipal Securities Rulemaking Board.

# Revenues

## Overview (Act 511 Taxes)

- As shown in the table below, the District’s Act 511 taxes have shown steady growth since the 2011 fiscal year
  - Growth has been largely concentrated in the Earned Income Tax and Business Privilege Tax, which account for over 4.6 percent of District revenues in FY2016
- However, the largest increase in Earned Income Tax collections took place in FY2012 and FY2013, which suggests that the growth was mostly due to the change in the method of collection of real estate taxes under Act 32 of 2008
  - Between FY2013 and FY2016, the compound annual growth rate for Earned Income Taxes was 0.9 percent
- Future growth in Act 511 taxes will be largely determined by economic trends rather than specific initiatives targeted by the District

### Act 511 Tax Revenues

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	5-Year
	Actual	Actual	Actual	Actual	Actual	Preliminary	CAGR
Occupational Tax Flat Rate	181,224	166,972	174,529	175,993	176,675	173,964	(0.8%)
Earned Income Taxes	8,760,840	9,602,034	10,429,310	9,106,782	10,265,094	10,711,630	4.1%
Real Estate Transfer Taxes	837,277	799,010	403,504	482,782	539,588	694,640	(3.7%)
Business Privilege Taxes	3,887,838	4,419,083	4,860,813	4,781,798	5,117,728	5,402,150	6.8%
Mercantile Taxes	905,034	696,085	995,588	979,404	1,048,209	1,106,464	4.1%
<b>Total Act 511 Tax Revenues</b>	<b>14,572,212</b>	<b>15,683,183</b>	<b>16,863,744</b>	<b>15,526,758</b>	<b>17,147,294</b>	<b>18,088,848</b>	<b>4.4%</b>

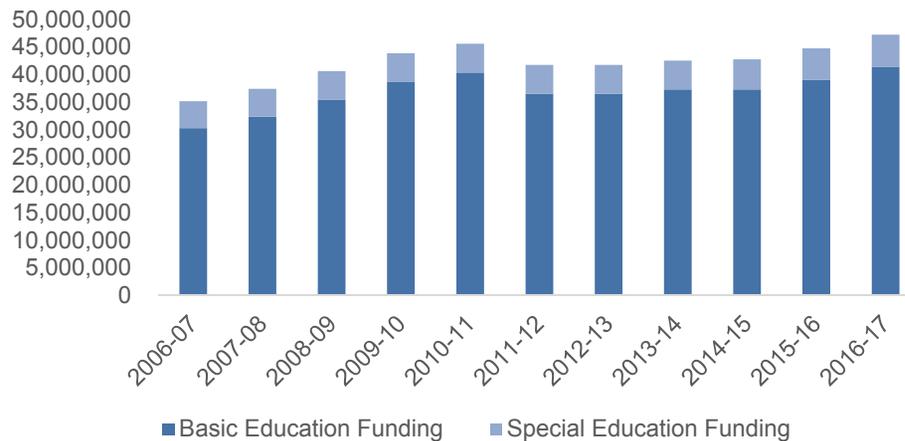
Source: Detailed financial data for Fiscal Years 2011 to 2016 provided by the Scranton School District.

# Revenues

## Overview (State Aid)

- Between 2006-07 and 2016-17, total state aid from Basic Education Funding and Special Education Funding for Scranton increased by \$12.0 million
- In addition, major state subsidies rose much faster for Scranton SD compared to growth in the total allocation for all Pennsylvania school districts during the same period

State Subsidy Trends  
SY 2006-07 to 2016-17



### 10-Year Compound Annual Growth Rate

	Scranton School District	Total Statewide Allocation	Difference
Basic Education Funding	3.2%	2.1%	1.0%
Special Education Funding	1.9%	1.0%	0.9%

Source: Annual Financial Report data and 2016-17 subsidy allocations from the Pennsylvania Department of Education.

# Revenues

## 1. Increase the Millage Rate to the Act 1 Index

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- If cost savings are not sufficient to close the District's budgetary gap, then the District could consider annually raising the property tax millage rate to the maximum permitted by the Act 1 Index
  - Using the 2017-18 Adjusted Act 1 Index, PFM estimates that a real estate tax millage increase would generate approximately \$1.5 million in FY2018
  - Assuming the 5-year average Adjusted Act 1 Index, further increases in the millage rate are expected to generate between \$1.4 million and \$1.5 million per year
- For taxpayers in Scranton, a millage rate increase to the full adjusted Act 1 Index would result in an increased tax burden of approximately \$83 in FY2018 assuming the following:
  - 2015 median home value of \$103,700 as estimated by the U.S. Census American Community Survey
  - 2016 ratio of assessed value to market value published by the Pennsylvania State Tax Equalization Board
  - No application of property tax relief for homesteads

# Revenues

## 2. Increase Real Estate Tax Collection Rate

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- In addition to increasing the real estate tax millage rate, the District could also attempt to increase the collection rate for current real estate taxes
- As shown on page 83, the District's current real estate tax collection rate has remained relatively low in recent years
- Efforts to increase the real estate tax collection rate will increase revenues in the short-term
  - However, over time the increased collection rate will be partially offset by lower collections from delinquent real estate taxes
  - PFM's preliminary estimates show a 1.0 percent increase in the real estate tax collection rate would result in an immediate gain of approximately \$400,000
    - In turn, delinquent real estate tax collections would decline by approximately \$100,000 in the three subsequent fiscal years due to the acceleration of revenue collection to the current year

# Revenues

## 3. Other Revenue Enhancement Options

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- Additional options to increase revenues to close the budgetary gap include:
  - Increase fees for usage of facilities or reduce outside group usage of facilities
  - Improve ACCESS reimbursement
    - District received approximately \$100,000 in FY2016, and the District could conceivably increase revenues to approximately \$200,000
    - Director of Special Education noted that the District is improving administration of special education services to increase reimbursement
  - Explore additional grant opportunities
  - Partner with the Chamber of Commerce to create a 501(c)3 to fund key enrichment activities and support the District's competitive position
  - Pursue payment-in-lieu-of-taxes (PILOT) agreements with non-profit organizations

# Next Steps

# Next Steps

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- This Phase 1 report outlines initial possibilities for steps the District can take to improve its financial situation
- The next phase of the report will include costing of particular initiatives to identify potential savings or additional revenues
  - This stage may require additional information from the District
  - Data availability, as well as the degree of detail available, will determine the level of analysis
  - Input from School Board, District staff, and the public is also welcome and would be valuable to the analysis

