

**EAST STROUDSBURG AREA SCHOOL DISTRICT
BOARD OF EDUCATION
FINANCE COMMITTEE MEETING
January 12, 2015**

**Carl T. Secor Administration Building – Board Room
5:00 P.M.**

Minutes

- I. The Chairman, Robert Gress, called the Finance Committee meeting to order at 5:01 p.m. and led those present in the Pledge of Allegiance. Secretary, Patricia Rosado called the roll.
- II. Board Committee members present were: Ronald Bradley (arrived at 5:10 p.m.), Robert Gress and Gary Summers.

Board member present was: Robert C. Huffman

School Personnel Present: Jeffrey Bader, Fred Mill, Sharon Laverdure, Thomas Lesniewski and Patricia Rosado.

Community Members Present: Larry Dymond and Judy Summers

III. APPROVAL OF AGENDA AND MINUTES

Motion was made by Gary Summers to approve the agenda for January 12, 2015 and with members of the Committee reserving the right to add to the agenda and take further action in the best interest of the District. Motion was seconded by Robert Gress and carried unanimously, 2-0.

Motion was made by Gary Summers to approve the minutes of the November 10, 2014 meeting. Motion was seconded by Robert Gress and carried unanimously, 2-0.

IV. ITEMS FOR DISCUSSION:

- a. Financial Audit FY Ending 6-30-14 – Maillie, LLP
Mr. Jeff Bader said he spoke to Maillie and they decided not to come tonight due to the inclement weather. However, they will be present at the Regular School Board meeting on Monday, January 26, 2015 to make their presentation and answer any questions. Mr. Bader asked that any questions the Board members have may be forwarded to him before the meeting takes place.
- b. Request for additional audit fee – Maillie, LLP
Mr. Bader said that the auditors were having a difficult time confirming the beginning balances from the prior year's audit and had to spend additional time to restate these figures for the current audit. They are requesting an additional \$5,000 to cover this unanticipated work. Maillie will speak about this bill at the next Finance Committee meeting.

Mr. Summers asked if he should forward any questions he may have on the audit report to Mr. Bader. Mr. Bader said he should and he will answer it or forward them to the auditors. Mr. Gress asked if the Board members will have to approve the audit report in January. Mr. Bader said the

audit report will go for Board approval at the February Board meeting. Mr. Gress asked Mr. Bader to provide the list of auditors who submitted a request for proposal when Maillie was chosen as one of the lowest price.

Mrs. Laverdure said that when Mr. Bader began at the district, he noted there was an issue with the figure that was being carried in audit for fixed assets.

Mr. Bader said that there's a finding in this audit report about restating initial balances to tie out with what the District carries on its fixed asset inventory. Mr. Bader said he had Tom McIntyre go back several years to see where the deviation occurred and why. He was unable to do so, although the problem has existed through many audits and several different auditors. The decision was made to reconcile the fixed asset inventory and the audit report by restating the initial balances in the audit report.

Mr. Summers said this would explain why there have been readjustments. Mr. Bader said the readjustment is so we can state the correct value. Mrs. Laverdure said, as Superintendent, she had concerns so she asked Mr. Bader to articulate where the problem was. She asked if Mr. Bader has a plan to fix the concern. Mr. Bader said he does. Next year, the Business Office will be completing the depreciation schedules rather than sending the information to an outside company and paying a fee. He also suggested that it may be time to bring in an outside appraisal firm to re-inventory all of the fixed assets to make sure that everything is properly recorded and valued. This has not been done since 2003 so they are due.

c. Purchase Vans for Contract Drivers

Mr. Sutjak was not able to come to the meeting tonight to discuss the purchase of vans for contract drivers. This item will be tabled until the next Finance Committee meeting.

d. 5 YR Budget Projection

Mr. Bader presented five-year budget projections. He began with outlining the district's revenue, which is comprised of Federal, State and Local income. The chart assumes that there is no increase in assessed value and that property taxes do not increase, resulting in no anticipated increases in local revenue. State subsidies for education are also assumed to be level funded over the five year period. Although the Gov. Wolfe campaigned on providing more funding for public education, the current State budget deficit and the opposition party control of the Legislature, may make it difficult to deliver on that promise. The increase in State funding is assumed to only be the State's required contributions for PSERS and Social Security. The projection for the 2015/16 school year Revenue is 144.1 million dollars and at the 2020/21 year Revenue is projected to be about 150 million dollars which is a 6 million dollar increase.

Mr. Summers asked if the model allows for changing some of the underlying assumptions such as the assessed value to see the impact. Mr. Bader said that is correct.

Mr. Bader also explained the five-year expenditure projections. The two largest components are wages and benefits. Together they represent 70% of expenditures. Mr. Bader included a 3% per year increase for wages. On the benefit side, he included an 8% per year increase in health insurance costs, which represents the District's experience in recent years and is below the national trend. He also included the projected increases in PSERS and Social Security to cover the wage increases. All other benefits are assumed to stay constant over the 5 years.

Mr. Summers asked if we can adjust the chart if we restructure healthcare and be able to see the immediate impact. Mr. Bader said he created the chart to be able to adjust the model to allow the change.

Mr. Summers asked what would the other category contain. Mr. Bader said the Blue Section is the debt service and the Other, Yellow Section, is all other expenses. It is a very conservative estimate as it assumes these Other costs, such as special ed, charter schools, and utilities do not increase over the five year period. Mr. Gress asked if the MCTI increase is reflected in this item. Mr. Bader said it is not.

Mr. Bader also presented a line graph showing the anticipated revenues and expenditures from 2015/16 through 2020/21 on the same graph. The revenues remain relatively flat while expenses are projected to increase exponentially. The anticipated 2015/16 deficit of \$11M is projected to grow to \$34M in 2020/21. Mr. Bader then presented several scenarios for trying to eliminate these deficits by increasing revenues. The first looked at an increase in State funding. The District currently receives approximately \$1,700 per student in Basic Education funding, which is about one-half of the State-wide average. To bring the District to the State-wide average would require a doubling of our Basic Ed Subsidy. The graph looked at what would happen if the District's Basic Ed subsidy increased from \$13M to \$26M. The result is that this would cover the deficit for the next 2-3 years, but without an increase in State funding, the deficit would return growing to \$21M in 2020/21. Mr. Summers asked what is the assumption on student numbers. Mr. Bader said he placed level enrollment.

A second scenario was to look at increasing taxes to fund the deficit. It assumed that the District raised taxes to the Index every year using the current 2.6% Index as the assumption. This would generate about 3 million dollars each year. The result would be that the gap between revenues and expenses would narrow, but it would not be eliminated. The deficit would grow from approximately \$9M in 2015/16 to \$16M in 2020/21. Even with an extreme assumption, we cannot tax our way out of this. Mr. Summers asked what happens if we look at both an increase in taxes and an increase in State funding. Mr. Bader said we can but it still won't get us there.

Mr. Bader said that the Board has already approved using the fund balance allocation for PSERS to help balance the budget. The third scenario presented a look at the impact of doing so on the projected deficits. The PSERS allocation from the Fund Balance represents about 2 million dollars a year. Using the PSERS allocation from the fund balance would narrow the deficit for a few years, but would not eliminate it,

The fourth scenario Mr. Bader presented was to look using all of the District's fund balance, currently \$44M. If we use up every dollar of the fund balance it would cover the projected deficits for about 2 ½ years until the 2017/18 school year; therefore, the district would still need to fill the deficit with no fund balance available.

The District cannot fund its way out of the problem. The only way to tackle the deficit is to reduce the growth in expenditures.

Mr. Summers thanked Mr. Bader for acting upon his request to do a five-year budget projection.

Mr. Gress asked about the revenue in the past five years. Mr. Bader said that in the past two years there has been a slight increase. Mr. Gress said that we can use this five-year projection to show the Representatives. We can plug in any scenario to show them the lack of funding. Mr. Gress

doesn't believe the State will give us more but it does not hurt to show them the changes by plugging in the numbers as they come in.

Mrs. Laverdure asked how can any school district across the State of Pennsylvania survive the next five years with lack of funding and increase in expenditures. Mr. Bader said, unfortunately, they will have to make reductions. We cannot turn the numbers around in a year or two. We will need to make adjustments over several years period.

Mr. Summers said that the district does not control the revenue side; therefore we must focus on the expense side.

Mr. Gress suggested plugging in the money that we lost due to reassessments. It would be about 10 million dollars. This would add up to more over time. The State may need to look at bond issues for PSERs situation.

Mr. Bader asked the Board members to let him know if they would like any other assumptions to be added to the five-year projection.

Mrs. Laverdure suggested sharing this information with the legislators.

Mr. Summers questioned if we are purchasing the vans for contract drivers. Mr. Gress said that currently we reimburse contract drivers; therefore, we need to look to make sure we are not losing money by buying the vans. Mr. Bader said Mr. Sutjak is prepared to answer all their questions.

Mr. Bader said that he would like to present the five-year projection information to the whole Board. The committee Board members agreed.

Mrs. Laverdure said that the district lost funds from the Federal Government dealing with ACCESS funds and questioned how much funds. Mr. Bader said that they lost about \$300,000 to \$400,000 and the funds keep declining. At one time, the district received from \$800,000 to \$900,000 of funds in claims paid and the same amount of students is still being serviced. Mr. Summer said that the problem stems from Harrisburg.

Mr. Bader said that one of the problems with ACCESS is the amount of data that districts must provide. We had an enormous report due within a short period of time; therefore, they needed 7-8 people to work on it. Mr. Summers questioned if anyone looks at the report. Mr. Bader said supposedly the State does.

e. 2015-16 Budget

Mr. Bader said that he did not make any changes to the previous budget analysis. If the Board does not want to raise taxes, then the Board will need to approve the Act I resolution at this month's Regular Board meeting. This does not mean they cannot raise taxes but they cannot raise it above the index, unless we file an extension. The Committee Board members suggested that we continue to do as we did last year; no tax increase.

Mr. Summers said in the Program of Studies that was recently approved by the Board for the 2015/16 school year, about 15 new classes were added. Mrs. Laverdure said it may be in lieu of ones that were canceled. Mr. Summers said he did not see any classes that were removed. He suggested that the district look at these new classes to make sure that we have the funds for them

and to see if they are really needed. Dr. Lesniewski said he would look into this matter and get back to Mr. Summers.

f. Scholarships

Mr. Bader said that the funding for scholarships is declining rapidly. We are not receiving new contributions to the scholarship funds and the rate of interest we can earn on the current funds is not enough to support the amount of the scholarships. Over time the district will provide fewer funds for students who graduate.

Mrs. Laverdure asked if he is speaking about the Smithfield Scholarship. Mr. Bader said he is speaking about all of them. Mrs. Laverdure suggested speaking to the person who began the scholarship. She suggested keeping an eye on them.

Mr. Gress said that some scholarships hurt the student because colleges don't give the student more assistance since they have a scholarship. Mr. Gress suggested reviewing the scholarships. He asked if the Board is required to place funds in the scholarship funds. Mr. Bader said the district does not place funds in them. He suggested speaking to the Ed Foundation (Foundation). Mrs. Laverdure said the Foundation is having some issues with who is handling certain responsibilities.

Mr. Bradley asked if the district has reached out to other foundations. Mr. Bader said there is no specific department or person who handle scholarships. Mrs. Laverdure said that the district encourages students to reach out depending on their specific needs. They can also look at grants. Mr. Bradley said that this is something the district should do for them. He said there are organizations that help such as the Ford Foundation. Mrs. Laverdure said that students should work with their guidance counselors. Mr. Bradley asked if it is up to the student to reach out. Mr. Gress said that the Guidance Department assists students with scholarships.

g. Senior Citizens Tax Rebate proof of income

Mr. Bader said that the district needs household income information for the Senior Citizen Tax rebates but it is very difficult to ascertain. It becomes time consuming; therefore, he spoke to Mr. Chris Brown in order for him to review the Senior Citizen Tax Resolution. According to the resolution, individuals are supposed to provide income tax but not household income. We need to let senior citizens know what documents they need. There may be a couple of options: if they submit PA 1000 State Form for tax rebate, they are supposed to submit to the State all documents. Another way is for them to submit tax rebate after State submits their reimbursement. We can then see it has been verified in order for us to submit their rebate in line with the June 30th deadline. If the district waits for the State to process then we can push our deadline six months from July to December. We will need to update our resolution to reflect this change. This change will make it easier and speed up our process.

Mr. Summers asked if the senior citizen submits all their paperwork, they will still get their rebate but just six months later. Mr. Bader said this process becomes very complicated especially if they have different forms. This way it would simplify it. Mr. Summers ask if this would not change the amount of the rebate but just change the process of the submission by making it easier to deal with. Mr. Bader said this is correct. Mrs. Laverdure asked if the State changes its process would we have to change ours. Mr. Bader said we would need to make the change, too. Mr. Gress asked what is household. Mr. Bader said it is total income. Mr. Gress asked how do we communicate this change to the people. Mr. Summers said they would first have to revise the resolution. Mr. Bader said the Mr. Brown has the resolution ready with the changes for the

January Board agenda. Mrs. Laverdure asked if we have an updated mailing list to inform the Senior Citizens of this change. Mr. Bader said they have the past two year's information. Mrs. Laverdure said they should also reach out the community through other means. Mr. Gress suggested printing a press release and submitting this change to the Representatives. Mr. Bader said some Senior Citizens go to the Legislators' office for help with their paperwork. Often they come back with the wrong information.

h. Appointment of Deputy Tax Collector for Porter Township

Mr. Bader said that last month the Board approved the appointment of the Deputy Tax Collector for Lehman Township. We now have Porter Townships' that needs approval. This is all due to a new law that requires the Tax Collector to appoint a Deputy Tax Collector.

i. IU Joint Purchasing Board Fuel Bid 2015-16

Mr. Bader said that the IU Fuel bids came in less for the 15/16 school year than the current 2014/15 school year. He would like to bring the results for Board approval in the January Board agenda. Mr. Summers asked since fuel prices have dramatically dropped, is there any way for them to reopen the bids for us to get a better price, although the vendors can do the same when the prices increase. Mr. Bader said that this is a fixed price; therefore, if prices go up we still pay the same price. Mr. Bader said since the rates are currently low, we are also trying to lock in rates for natural gas for next school year. Normally, we wait until the spring or summer but we are working on it now to lock in a low rate.

j. Berkheimer Proposal for Act 80 Verification Report

Mr. Bader said that in February, school districts have to verify addresses. This task is very cumbersome because someone has to review each address to verify that they belong in the East Stroudsburg School District. If we find addresses that are not part of our district, then we have to send it to the correct school district. It takes a lot of hours to do this verification but Berkheimer can complete it electronically for \$745, which is less than what is spent in overtime for this project to be completed.

k. Recommendations from Property & Facilities

Mr. Bader presented the following recommendations from the Property & Facilities Committee for Board approval.

- i. JTL HVAC/Lighting – Wind Gap Electric Pay App #2 - \$20,700.00
- ii. JTL HVAC/Lighting – Wind Gap Electric Pay App #3 - \$35,730.00
- iii. JTL HVAC/Lighting – Myco Mechanical Pay App #6 - \$11,367.00
- iv. JTL HVAC/Lighting – Myco Mechanical Pay App #7 – \$380,943.90

Mr. Bradley asked what has been paid out to Myco Mechanical and Wind Gap Electric. Mr. Gress said that the totals are in the attached forms. Mr. Summers said any additions and payments have been Board approved.

Mr. Bradley asked if there have been any more issues with the H.S. North track. Mr. Bader said there have not been any more issues.

l. LERTA Update

Mr. Gress said he has no updates on LERTA at this time.

m. Meeting with Legislators

Mr. Gress suggested scheduling a meeting with the legislators and especially invite Senator John Blake and Rep. David Parker. Mr. Summers suggested preparing a powerful presentation to give to them. Mr. Bader asked if they are available to meet now or are they tied up with the State Appropriations Committee. Mr. Gress said that they are tied up mostly around Thursdays and Fridays; therefore, we should schedule a meeting with them on a Saturday or Sunday. Mrs. Laverdure suggested a Saturday morning and will advertise the meeting for the public to be made aware. She suggested inviting Senator Mario Scavello, too. Mr. Gress suggested inviting all legislators who work with our district.

V. PUBLIC PARTICIPATION – LIMITED TO ITEMS OF DISCUSSION

A. Mr. Larry Dymond had questions/comments as follows:

1. Is the air handler unit that Myco Mechanical charging to fix a refurbished unit? Mrs. Laverdure said they spoke about this at the Property/Facilities Committee meeting. Myco will be replacing a section of it. Mr. Bradley said he believes it's the valves that won't open and close correctly; therefore have to be replaced. Mr. Dymond asked if they have new equipment or refurbished equipment. Mr. Gress said they do not have this information but can ask Mr. Eppley to speak to Mr. Dymond to answer his questions.
2. Regarding the five year projection, did Mr. Bader use the past 3 years of percentages for salary increase. Mr. Gress said they spoke about salaries, healthcare and PSERs scenarios. Mr. Dymond said the bottom line is that there are a lot of supposedly scenarios. Mr. Bader said that all expenses are not supposedly because they remain constant. Mr. Dymond asked if Mr. Bader consulted with someone or did he just use methodology. Mr. Bader said that he used 3% wage increase going forward. We can't go back over ten years because the numbers are all over the place. Mr. Dymond asked is someone supplied Mr. Bader with number or did he just base it on years of experience. Mr. Bader said that he looked at the average over the years. Special Education funding is flat lined and we continue to have a huge deficit. He does not believe the revenues will increase. Mr. Summers said that if we break it down this way, we can have a better way to look at it. It helps us see what we are responsible for. The largest expense is the payroll; therefore, we need to check the head count to see that it is correct. All expense can be reviewed. Mr. Dymond said he agrees that we should set up the budget numbers but he is skeptical of all other volatility.
3. Mr. Dymond said that the State put out a different classification tax. Mrs. Laverdure asked where? Mr. Bader said that it is uncommon for the first year since the projection is high. Mr. Dymond said that the past years it shows it going down. Mr. Gress said that gas prices going down helps the economy because people tend to spend the money elsewhere.
4. Mr. Dymond asked if the district is obligated to buy a certain amount of fuel oil on the IU bid contract. Mr. Bader said that we have a 90% requirement and 10% fluctuates. [Note: the fuel contract for fixed price bids is actually a 100% requirement that is spread over the whole county not each school district.] If we use less we are at not at a loss since we are part of a consortium. Mr. Gress asked how much does the district pay for diesel. Mr. Bader said about \$3.077/gal.

VI. ADVISORY RECOMMENDATIONS FOR CONSIDERATION BY THE BOARD OF EDUCATION

RECOMMENDATION BY THE COMMITTEE:

Motion was made by Gary Summers to recommend that the Board consider for approval the following items: Motion was seconded by Ronald Bradley and carried unanimously, 3-0.

1. Resolution that the District will not seek exceptions to the Act 1 Index and will not raise taxes in an amount that exceeds the Act 1 Index (2.6%) for the 2015-16 tax year
2. Senior Citizen Tax Rebate Revised Resolution to include proof of income
3. Appointment of Deputy Tax Collector for Porter Township
4. IU Joint Purchasing Board Fuel Bids for 2015-2016
5. Berkheimer Onesource Proposal for Act 80 Verification Report
6. Recommendations from Property & Facilities
 - i. JTL HVAC/Lighting – Wind Gap Electric Pay App #2 - \$20,700.00
 - ii. JTL HVAC/Lighting – Wind Gap Electric Pay App #3 - \$35,730.00
 - iii. JTL HVAC/Lighting – Myco Mechanical Pay App #6 - \$11,367.00
 - iv. JTL HVAC/Lighting – Myco Mechanical Pay App #7 – \$380,943.90

VII. NEXT MEETING –

RECOMMENDATION BY THE COMMITTEE:

Motion was made by Gary Summers to approve the dates and times of the 2015 Finance Committee Meetings as follows: Motion was seconded by Ronald Bradley and carried unanimously, 3-0.

February	09,	2015	-- 5:30 PM – Carl T. Secor Administration Center – Board Room
March	09,	2015	-- 5:30 PM – Carl T. Secor Administration Center – Board Room
April	13,	2015	-- 5:00 PM – Carl T. Secor Administration Center – Board Room
May	11,	2015	-- 5:30 PM – Carl T. Secor Administration Center – Board Room
June	08,	2015	-- 5:30 PM – Carl T. Secor Administration Center – Board Room
July	13,	2015	-- 5:30 PM – Carl T. Secor Administration Center – Board Room
August	10,	2015	-- 5:30 PM – Carl T. Secor Administration Center – Board Room
September	14,	2015	-- 5:00 PM – Carl T. Secor Administration Center – Board Room
October	12,	2015	-- 5:30 PM – Carl T. Secor Administration Center – Board Room
November	09,	2015	-- 5:30 PM – Carl T. Secor Administration Center – Board Room

VIII. ADJOURNMENT - 6:22 p.m.

Respectfully submitted,

Patricia L. Rosado,
Board Secretary