



# Sto-Rox School District Financial Recovery Plan

March 10, 2022

# Financial Recovery Status

- The Sto-Rox School District was placed in financial watch in March 2020 by the Pennsylvania Department of Education (PDE)
- On July 12, 2021, the District was placed in moderate financial recovery under Pennsylvania's Act 141 by the Pennsylvania Department of Education, and John Zahorchak was appointed as the District's Chief Recovery Officer (CRO)
- These actions resulted from ongoing financial challenges faced by Sto-Rox School District, including:
  - Multiple years of negative total fund balance
  - Consecutive annual deficits of three percent or more of total expenditures
  - Moody's Investors Service's downgrade of the District's credit rating to Caa1\* in December 2021
- This Recovery Plan outlines a multi-year strategy to improve the District's finances and operations, and invest funds in academic programs, buildings, and supports for students and staff to improve outcomes for District children

Moody's rating scale has 20 levels of creditworthiness: 10 investment grades and 10 non-investment grades. Investment grades range from Aaa to Baa3. The Caa1 rating is 5 notches below the lowest investment grade rating



# Structural Challenges

- The District's recurring deficits and negative fund balance have been exacerbated by structural challenges, including growing expenditures and flat local revenues
- These challenges have had a negative impact on students in the District
- The District has implemented various one-time or unsustainable solutions to close impending deficits:
  - Increasing the millage rate twice over the past 8 years
  - Advances in state education funding to improve cash flow
  - Debt refunding in 2018-19
  - Wage freezes for SREA staff from 2013-14 to 2016-17
  - Open vacancies and staff reductions
- To achieve financial recovery, the District will instead need to identify sustainable long-term solutions:
  - Adopting balanced annual budgets with revenues that are equal to or greater than annual expenditures
  - Generating and maintaining positive fund balance

# Recovery Plan Development and Consideration

- As part of the development of this Recovery Plan, the CRO has met with the District's administration, union leaders, staff, and key stakeholders in the community, including members of an Advisory Board of local experts, peers, and residents, including parents
  - This work was supported by a District diagnostic conducted by Mass Insight conducted in Fall 2021
- As required under Act 141 of 2012, which governs the financial recovery process, the CRO has prepared the Recovery Plan for consideration by the School Board
  - The Plan will be released tomorrow and must be posted on the District's website immediately. Copies will be provided to the Board and Advisory Committee
  - Within 30 days of receiving the Plan, the School Board is required to hold a public vote to approve or reject the Recovery Plan
  - If the Plan is approved, it is then sent to the Secretary of Education for review; if he approves, the CRO will work as a partner with the District to implement the initiatives outlined in the Plan
  - If the Plan is rejected, then the Secretary may petition the Allegheny County Court of Common Pleas to appoint a Receiver to implement the Plan
- Once the Recovery Plan is adopted by the Board, it will be the document that guides actions to stabilize the District's finances and improve student outcomes

# Structure of Recovery Plan

- The Recovery Plan is designed to provide a path for the District to achieve financial stability, preserve and strengthen academic programs, and generate resources to invest in student success
  - After describing the current status and challenges in the Introduction, the Plan includes five chapters, each focusing on an area for District improvement

Chapter	Key Strategies
Focus on Instruction	<ul style="list-style-type: none"><li>• Improve college and career readiness</li><li>• Improve instructional leadership across the District</li><li>• Improve professional development and coaching for instructional staff</li><li>• Provide appropriate supports to special education students</li><li>• Develop a strategy to recover students from charter schools</li></ul>
Culture & Climate	<ul style="list-style-type: none"><li>• Establish a common vision and values for the District</li><li>• Clarify roles and responsibilities</li><li>• Improve District-wide communication</li><li>• Expand community partnerships</li><li>• Engage staff for Recovery Plan support</li></ul>

# Structure of Recovery Plan (cont.)

Chapter	Key Strategies
Talent Management	<ul style="list-style-type: none"> <li>• Assign Human Resources Office responsibilities</li> <li>• Negotiate affordable collective bargaining agreements that align with District goals</li> <li>• Improve staff attendance</li> <li>• Strengthen staff evaluations</li> <li>• Establish policies and procedures that support District talent</li> </ul>
Resource Management	<ul style="list-style-type: none"> <li>• Maximize District revenues</li> <li>• Stabilize expenditures and prioritize opportunities for long-term savings</li> <li>• Establish financial policies and procedures</li> <li>• Strategically invest in the District's facilities</li> <li>• Apply windfall revenues based on District priorities</li> </ul>
School Safety	<ul style="list-style-type: none"> <li>• Develop a district-wide safety plan</li> <li>• Review the number and responsibilities of security personnel in District buildings</li> <li>• Improve relationships with local police departments and township officials</li> <li>• Engage with the Pennsylvania Department of Education (PDE) and other partners on technical assistance, training, and support</li> </ul>

# Budget & Financial Projections

# Multi-Year Budget Projections

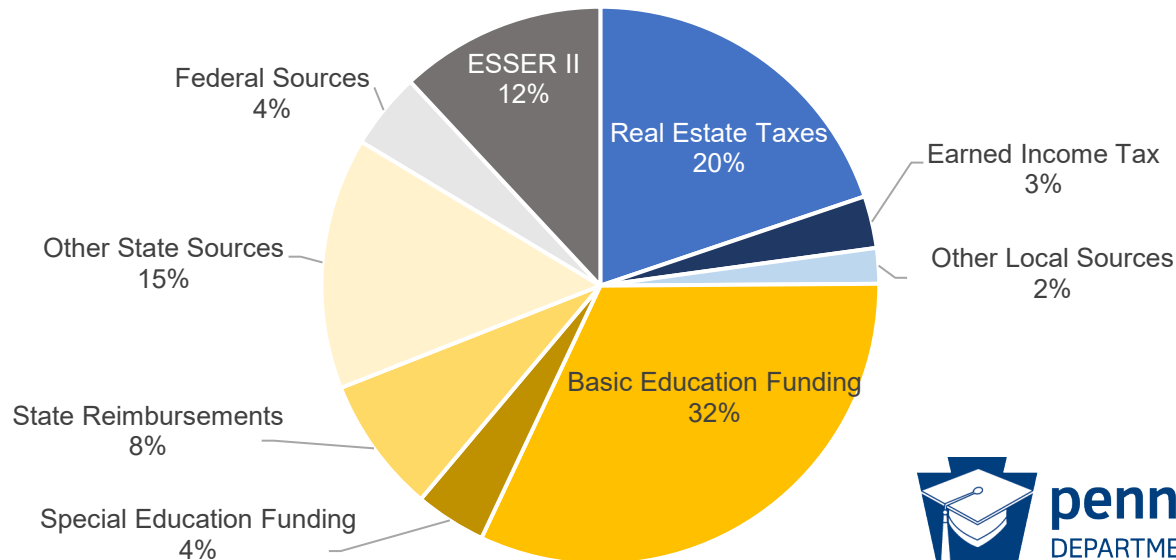
- The Recovery Plan includes three scenarios to highlight the District's financial condition over the next five years under different assumptions for revenues and expenditures:
  - **Adjusted Baseline:** The adjusted baseline is a *status quo* multi-year financial projection, which assumes that historical and current trends continue, and no corrective action is taken
  - **Adjusted Baseline & ESSER Funds:** Unlike the adjusted baseline, this scenario includes the impact of one-time federal ARP ESSER pandemic funds on the District's financial position
  - **Recovery Plan Scenario:** The Recovery Plan scenario includes the financial impact of all initiatives outlined in the chapters of the Recovery Plan
- Given the magnitude and complexity of the financial challenges facing the District, the Adjusted Baseline Projection is an important reference point for understanding the District's current financial position, as well as for planning and decision-making
- All three scenarios included in the Recovery Plan show the District ending with a negative fund balance and annual operating deficits
  - However, the Recovery Plan Scenario shows decreasing deficits, reflecting positive trends in the District's long-term finances



# Sto-Rox School District's 2021-22 Adjusted Revenues\*

- All of the projections start with the District's 2021-22 budget, including several adjustments to account for known changes since its adoption
- Local sources account for almost 25 percent of District revenue, while state sources provide approximately 59 percent
- The 2021-22 budget includes the use of over \$4.2 million in one-time federal ESSER pandemic funds for continuity of operations
  - Without ESSER funds, the portion of the budget covered by state sources would be much larger

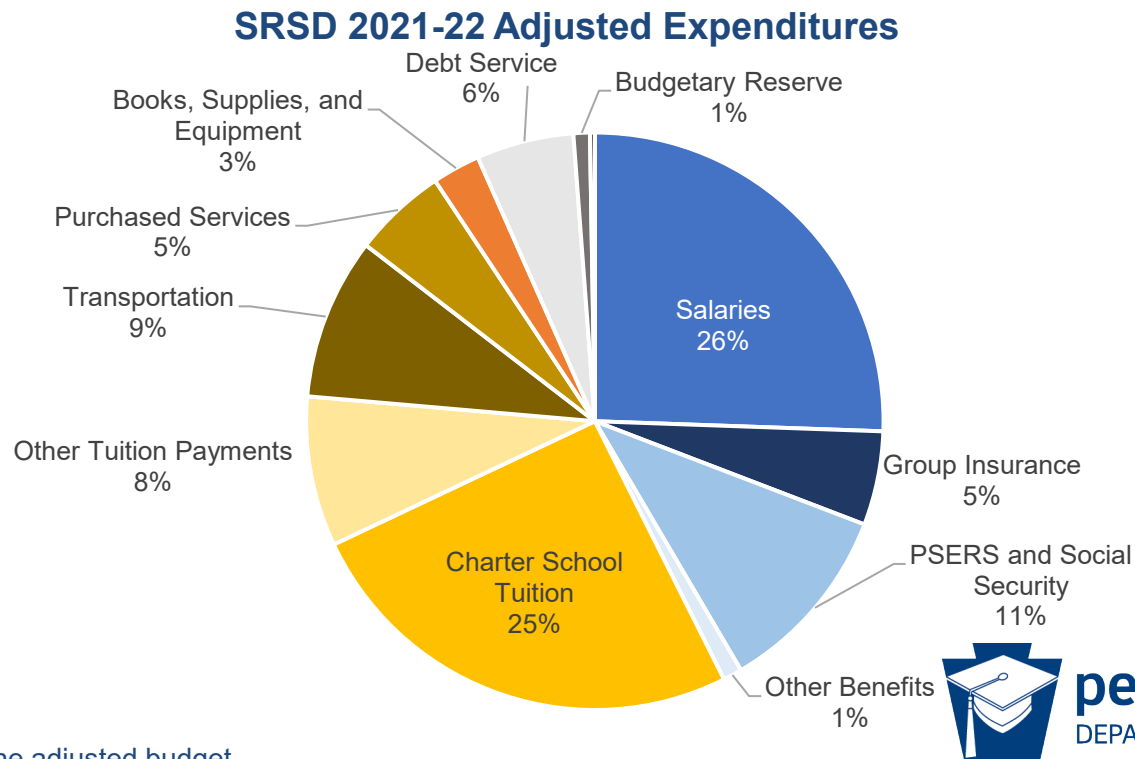
**SRSB 2021-22 Adjusted Revenues**



\* Data is based on the adjusted budget provided by the District in September 2021, and includes additional adjustments

# Sto-Rox School District's 2021-22 Adjusted Expenditures\*

- Personnel costs, including employee salaries and benefits, make up almost 43 percent of District spending
- Charter tuition is the second-largest category of spending at 25 percent
- Combined, personnel, charter tuition, and other tuition comprise over 76 percent of the District's budget



\* The budget is based on the adjusted budget provided by the District in September 2021, and includes additional adjustments



# Major Baseline Revenue Assumptions

The adjusted baseline financial projections include a variety of assumptions, including:

- **Local Sources:**

- Current real estate taxes are held flat, with no change in assessed value and budgeted collection rates, and no millage rate increases
- Earned income taxes are adjusted in 2021-22 based on current-year collection trends, and then grown by inflation
- The District's IDEA Pass-Through is increased based on the District's ARP award, and then decreased to its base allocation for the remainder of the allocation

- **State Sources:**

- Basic Education Funding and Special Education Funding grow based on the District's share of statewide formula-based funding and assumes annual increases in formula funding
- Funding for the 2021-22 Level Up Initiative is assumed to remain flat over the five years
- Reimbursement for Social Security and PSERS based on changes in salaries and projected PSERS rates published by the Commonwealth

- **Federal Revenues:**

- ESSER II funds are included for the 2021-22 year and removed afterward
- Current baseline projections do not include the use of additional ESSER funds

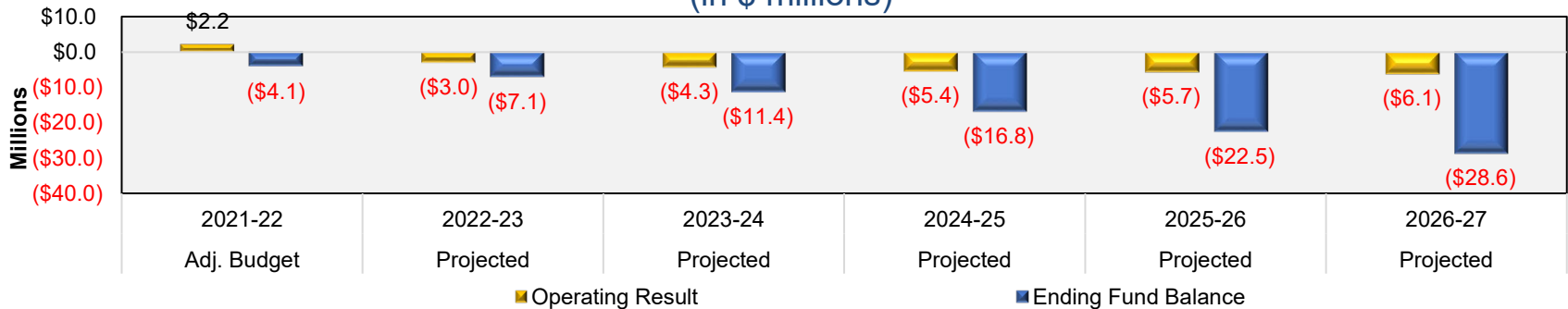
# Major Baseline Expenditure Assumptions

- **Salaries:** Salaries grow based on increases included in current collective bargaining agreements and held flat following the expiration of current contracts; assumes the reduction of one custodial vacancy from current headcount
- **Benefits:** Health insurance costs are grown at 3.3 percent based on historical trends reported by the Allegheny County Schools Health Insurance Consortium (ACSHIC); dental and vision insurance are grown by inflation and other insurance are held flat; other benefits grow proportionately to salaries
- **Charter School Tuition:** Charter school enrollment increases based on historical trends for brick and mortar and cyber charter schools; these trends add 20 students annually; future rates are re-calculated each year based on the PDE-363 formula
- **Other Tuition:** Based on past trends, tuition costs for other agencies are grown on a per student basis; the baseline assumes 6 additional students per year
- **Transportation:** District transportation costs are grown by 3 percent based on terms in the current transportation contract
- **Debt Service:** Debt service payments reflect the District's current debt schedule
- **Other Non-Personnel Expenditures:** 2.55 percent inflationary rate for all other non-personnel related expenditures (except for the Other Objects and Other Use of Funds categories) based on recent reports from the Federal Reserve, with 3-year replacement cycles for supplies and technology

# Adjusted Baseline Projections

- The adjusted baseline represents the District's status quo projections using the assumptions described on the previous slides
- This is a *status quo* projection that assumes no corrective action is taken
- With current trends, the District is projected to end with a negative fund balance of \$28.6 million in 2026-27, with annual operating deficits increasing to \$6.1 million by 2026-27

## SRSB Adjusted Baseline Projections (in \$ millions)



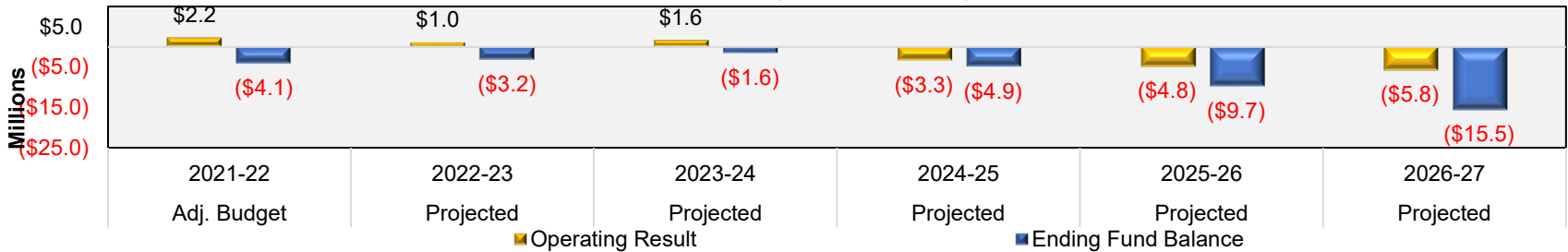
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
	Budget	Projected	Projected	Projected	Projected	Projected
Total Revenues	\$34,798,879	\$29,275,143	\$29,454,942	\$29,771,776	\$30,229,843	\$30,664,774
Total Expenditures	\$32,635,511	\$32,238,977	\$33,763,822	\$35,180,092	\$35,895,610	\$36,783,979
<b>Net Operating Result</b>	<b>\$2,163,369</b>	<b>(\$2,963,834)</b>	<b>(\$4,308,880)</b>	<b>(\$5,408,316)</b>	<b>(\$5,665,767)</b>	<b>(\$6,119,205)</b>
<b>Ending Fund Balance</b>	<b>(\$4,143,535)</b>	<b>(\$7,107,368)</b>	<b>(\$11,416,248)</b>	<b>(\$16,824,564)</b>	<b>(\$22,490,332)</b>	<b>(\$28,609,537)</b>

# Adjusted Baseline & ESSER Funds

- The Adjusted Baseline & ESSER projection reflects that the District was allocated \$14.2 million in federal ESSER pandemic funds that the District is able to use through September 2024
- \$5.7 million of this amount was already applied to 2020-21 and 2021-22. This scenario assumes the District uses the remaining ARP ESSER allocation of \$8.5 million in 2022-23 and 2023-24
- While one-time ESSER funding provides financial relief, it only delays projected deficits, with the annual operating result reaching negative \$5.8 million in 2026-27 and an ending negative fund balance of \$15.5 million

## SRSD Adjusted Baseline Projections w/ ESSER

(in \$ millions)



	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
	Budget	Projected	Projected	Projected	Projected	Projected
Total Revenues	\$34,798,879	\$33,228,360	\$33,985,291	\$29,771,776	\$30,229,843	\$30,664,774
Total Expenditures	\$32,635,511	\$32,238,977	\$32,425,179	\$33,066,672	\$35,058,894	\$36,441,083
<b>Net Operating Result</b>	<b>\$2,163,369</b>	<b>\$989,383</b>	<b>\$1,560,112</b>	<b>(\$3,294,896)</b>	<b>(\$4,829,052)</b>	<b>(\$5,776,308)</b>
<b>Ending Fund Balance</b>	<b>(\$4,143,535)</b>	<b>(\$3,154,152)</b>	<b>(\$1,594,040)</b>	<b>(\$4,888,936)</b>	<b>(\$9,717,988)</b>	<b>(\$15,494,296)</b>

# Recovery Plan Initiatives

# Recovery Plan Initiatives

- All of the initiatives of the Recovery Plan are required in order to meet the goals set for the District’s improvement
  - Achieve financial stability
  - Preserve and strengthen academic programs
  - Generate resources to invest in student success
- This table shows the initiatives with the largest financial impact to the District over the five-year period of the Recovery Plan

Initiative	Total Impact
Increase real estate tax (RET) to Act 1 Index	\$6,543,982
Charter Recovery	(\$5,176,435)
Charter Tuition Rates	(\$1,836,006)
Transportation savings	(\$1,300,000)
Increase RET collection rate	\$704,803
Curbing out-placement costs	(\$316,989)
Increase Medicaid revenues	\$160,000
Establish PILOT agreements	\$81,000
<b>Total Impact</b>	<b>\$16,119,216</b>



# Improving Education for Students

- The Recovery Plan also has numerous initiatives to improve education for students in the District
- This table lists some of the Recovery Plan initiatives with direct and indirect student and community impact

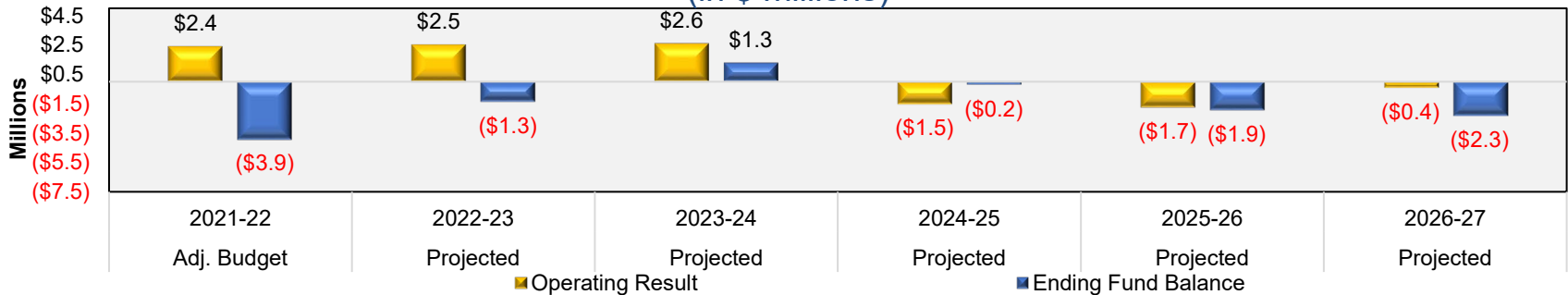
Initiatives
Improve college and career readiness of all students
Provide appropriate supports to special education students
Establish a common vision and values for the District
Improve District-wide communication
Expand community partnerships
Strategically invest in District facilities
Develop and implement a District-wide safety plan
Improve instructional leadership across the District

# Recovery Plan Projections

- The Recovery Plan Scenario reflects the impact of all Recovery Plan initiatives
- The initiatives reduce the operating deficits and long-term shortfalls, but a financial gap exists after the expiration of ESSER funds after 2023-24
- The District is still expected to see an annual operating deficit of \$0.4 million and negative fund balance of \$2.3 million by 2026-27 but the gap will be smaller and closing

## SRSB Recovery Plan Projections

(in \$ millions)



	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
	Budget	Projected	Projected	Projected	Projected	Projected
Total Revenues	\$34,798,879	\$34,755,565	\$35,100,931	\$31,486,898	\$32,580,881	\$33,918,757
Total Expenditures	\$32,369,164	\$32,213,338	\$32,482,257	\$32,967,929	\$34,296,815	\$34,300,632
<b>Net Operating Result</b>	<b>\$2,429,715</b>	<b>\$2,542,227</b>	<b>\$2,618,674</b>	<b>(\$1,481,031)</b>	<b>(\$1,715,934)</b>	<b>(\$381,875)</b>
<b>Ending Fund Balance</b>	<b>(\$3,877,188)</b>	<b>(\$1,334,962)</b>	<b>\$1,283,713</b>	<b>(\$197,318)</b>	<b>(\$1,913,253)</b>	<b>(\$2,295,128)</b>

# Real Estate Tax Increases

- Revenue from real estate taxes makes up over 20 percent of district revenue each year
- The Recovery Plan requires the District to increase real estate taxes to the Act 1 Index each year in order to help to stabilize the long-term financial picture of the District
- In order for the District to have the resources for necessary investments, the District and community must capitalize on the compounding nature of real estate taxes

## SRSD Real Estate Tax Impact by Household

	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
SRSD Assessed Value	\$338,570,855	\$338,570,855	\$338,570,855	\$338,570,855	\$338,570,855	\$338,570,855
Millage Rate	25.000	26.325	27.720	29.189	30.736	32.365
RET per \$10,000 Assessed Value	\$250.00	\$263.25	\$277.20	\$291.89	\$307.36	\$323.65
Estimated Annual Increase		\$13.25	\$13.95	\$14.69	\$15.47	\$16.29

- If other revenue growth or cost savings are greater than expected, then the District may increase taxes at a lower rate than as outlined in the Recovery Plan

# Charter Recovery is Crucial for Financial Stability

- The District's charter enrollment has been growing steadily and surpassed 600 students in FY2021-22
- In 2021-22, the District's charter tuition costs are expected to be 25 percent of its annual budget, and growing charter tuition further restricts available resources for the District

## SRSD Charter Enrollment \*

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Brick and Mortar Charters	461	474	473	503	500	525
Cyber Charters	81	38	40	64	76	85
<b>Total Enrollment</b>	<b>542</b>	<b>512</b>	<b>513</b>	<b>567</b>	<b>576</b>	<b>610</b>

- The Plan aims for the District to **decrease its charter enrollment to 500 students by 2026-27**
- To attract and retain students, the District will need to develop a charter recovery strategy
  - The strategy may include investments into its academic programs, marketing efforts, and engagement with the community, but will require the support of all community members and District stakeholders

\* Historical charter enrollment was provided by the District

# Achieving Structural Balance

- While the Recovery Plan scenario includes increased revenues and cost-saving solutions, the District is not projected to achieve a structural balance or reach an operating surplus after the expiration of ESSER funds
  - Despite the District’s financial situation and projected annual deficits, the Plan recognizes that the District will need to make investments in staff, programs, and supports, in addition to expanding resources and implementing cost-saving solutions
- Stabilizing the District’s finances will require difficult decisions and significant changes from the current ways of operating
- Structural financial health cannot come from quick fixes or one-time solutions; instead, the District must implement sustainable, long-term solutions to address deeply-rooted systemic challenges
- The District must constantly look for ways to improve its revenues and control costs to continue to support its students, staff, and community
- There are no simple or quick solutions that will resolve all of the District’s challenges, and avoiding or postponing action can increase the size and difficulty of decisions in future years

## Assessing Progress

- The Recovery Plan includes academic goals to improve student achievement as well as financial and operational goals to improve the management of the District
- The Sto-Rox School District will remain in financial recovery until the Department of Education terminates the District's status
- The Recovery Plan outlines the exit criteria that the Secretary of Education will review in making that determination
- The CRO will regularly update the Department on the District's progress towards the implementation of various initiatives and in meeting the academic, financial, and operational goals of the Plan
- In addition, the Plan will be amended as needed to reflect significant changes in the District's progress and to put strategies in place to address any new challenges

## Contact/Mission

For more information on the Sto-Rox School District Recovery Plan, please visit the District's website at

<https://www.srsd.k12.pa.us/>

*The mission of the Department of Education is to ensure that every learner has access to a world-class education system that academically prepares children and adults to succeed as productive citizens. Further, the Department seeks to establish a culture that is committed to improving opportunities throughout the commonwealth by ensuring that technical support, resources, and optimal learning environments are available for all students, whether children or adults.*