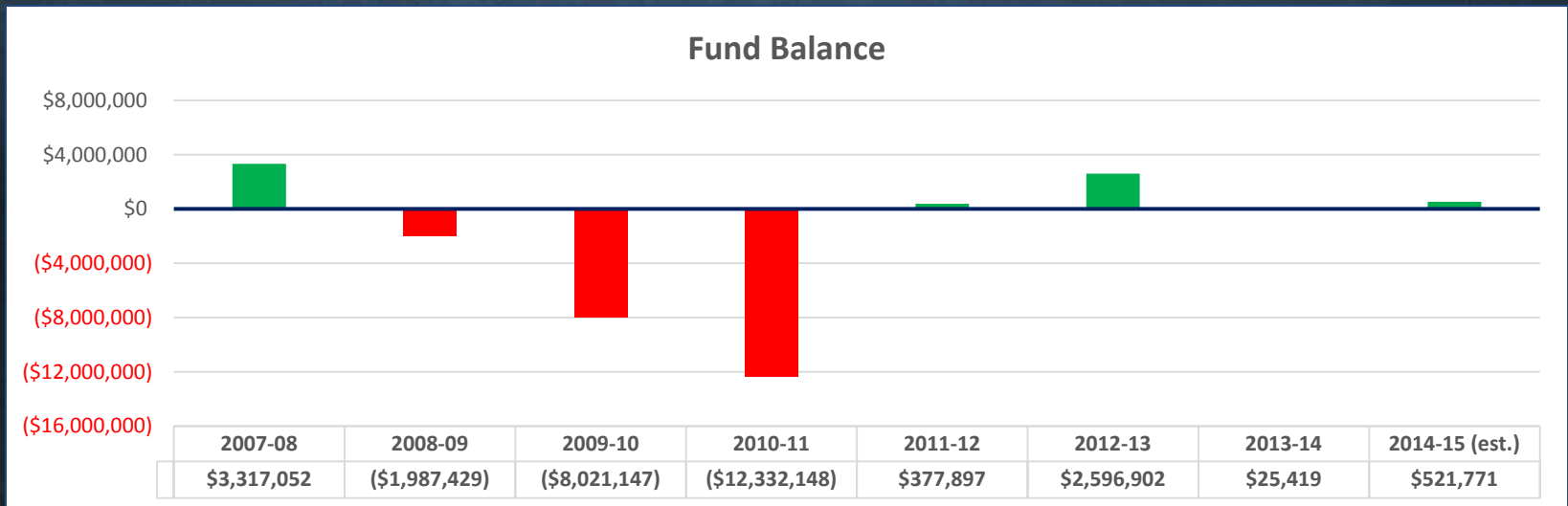
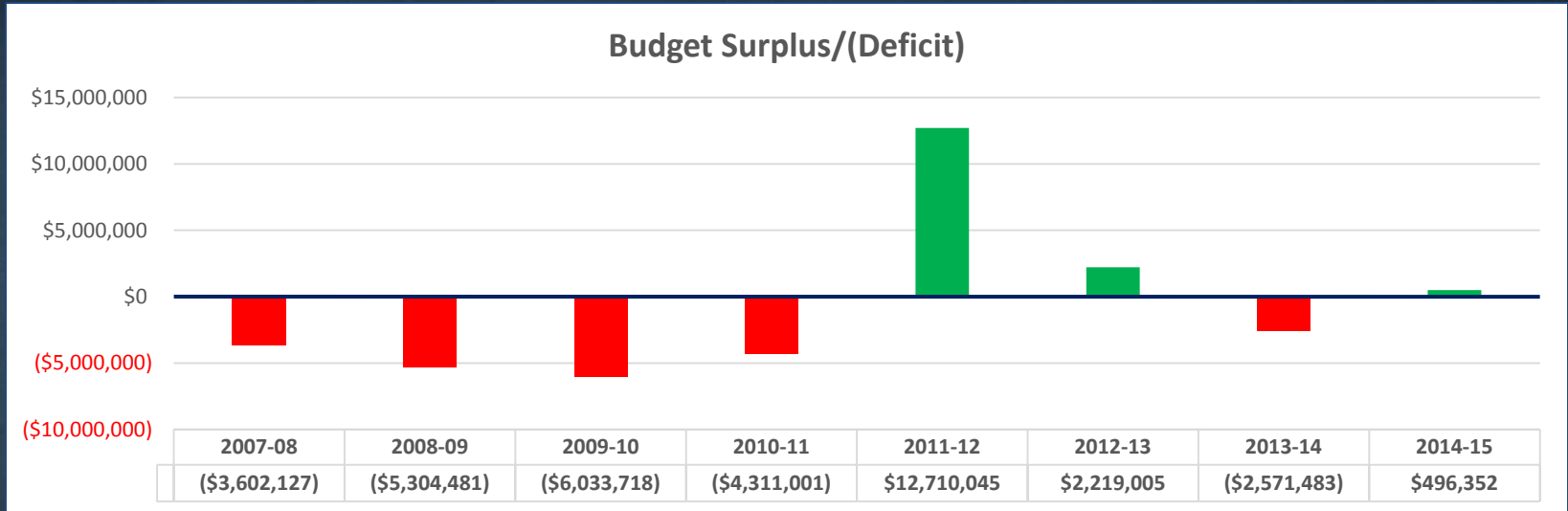




State Funding Analysis



EPS has a history of financial troubles



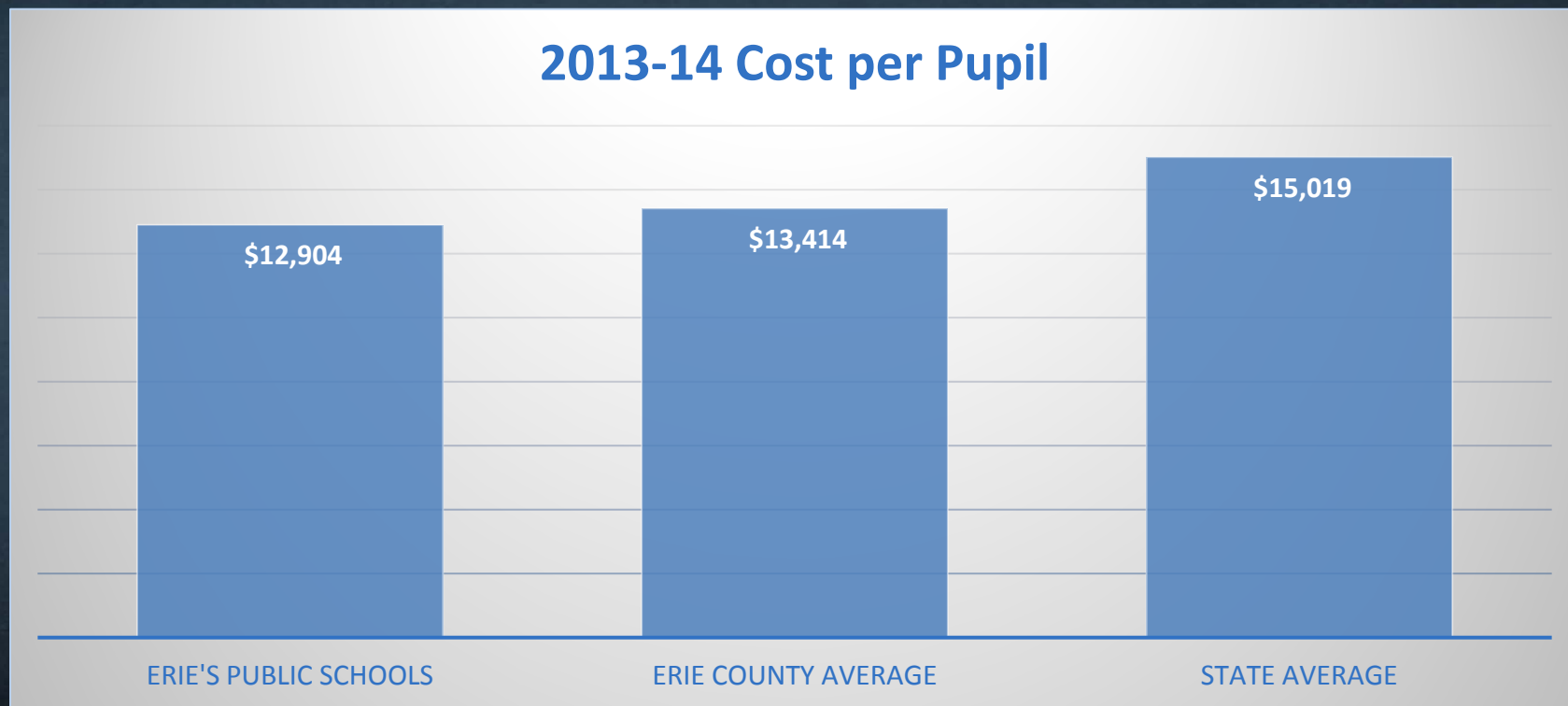
EPS has made significant budget cuts over the last five years

- Three buildings were closed
- More than 200 full-time positions were eliminated
- Central administration was cut in half
- Employees have had little to no wage increases
- Excluding pension costs, per pupil spending is less than it was in 2008-09

Year	Per Pupil Cost (Excluding PSERS)
2008-09	\$12,050
2009-10	\$12,422
2010-11	\$12,488
2011-12	\$11,490
2012-13	\$11,121
2013-14	\$11,916



EPS spends less than 80% of PA school districts on a per pupil basis



EPS spends less per pupil than 80% of PA school districts

Budget increase needed to spend at county average - **\$6.9 million**

Budget increase needed to spend at state average - **\$28.7 million**

EPS will be faced with another multi million dollar deficit in 2016-17 (Worst Case Scenario)

	ACTUAL	PROJECTED				
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
REVENUES						
Current Real Estate Taxes	\$38,598,849	\$38,600,000	\$ 38,600,000	\$ 38,600,000	\$ 38,600,000	\$ 38,600,000
Delinquent Real Estate Taxes	7,674,690	6,100,000	6,100,000	6,100,000	6,100,000	6,100,000
Earned Income Taxes	6,707,527	6,770,000	6,830,000	6,900,000	6,970,000	7,040,000
Other Taxes	942,961	950,000	940,000	940,000	940,000	940,000
Private Contributions & Donations	3,672,070	2,370,000	158,000	158,000	158,000	158,000
Other Local Revenue	2,293,407	2,160,000	2,090,000	2,090,000	2,090,000	2,090,000
State Subsidies	99,766,027	103,310,000	107,084,000	109,934,000	112,364,000	114,654,000
Federal Subsidies	18,472,808	17,340,000	17,340,000	17,340,000	17,340,000	17,340,000
Other Revenue Sources	2,335,719	2,600,000	0	0	0	0
Total Revenues	180,464,058	180,200,000	179,142,000	182,062,000	184,562,000	186,922,000
EXPENDITURES						
Salaries	74,687,289	73,690,000	73,690,000	73,690,000	73,690,000	73,690,000
Group Insurance	21,087,069	21,430,000	22,500,000	23,620,000	24,800,000	26,000,000
Payroll Taxes	5,509,994	5,440,000	5,440,000	5,440,000	5,440,000	5,440,000
Retirement	15,690,675	18,980,000	21,800,000	23,300,000	24,200,000	24,900,000
Other Employee Benefits	384,797	390,000	390,000	390,000	390,000	390,000
Purchased Services	14,763,000	14,770,000	14,770,000	14,770,000	14,770,000	14,770,000
Utilities	2,087,351	2,110,000	2,110,000	2,110,000	2,110,000	2,110,000
Insurance	867,290	870,000	870,000	870,000	870,000	870,000
Charter Tuition	20,682,543	22,200,000	22,640,000	23,100,000	23,560,000	24,030,000
Other Tuition	5,480,756	5,500,000	5,610,000	5,720,000	5,840,000	5,950,000
Travel	394,873	395,000	395,000	395,000	395,000	395,000
Supplies	4,579,358	4,600,000	4,600,000	4,600,000	4,600,000	4,600,000
Equipment & Capital Expenditures	2,436,766	2,300,000	2,300,000	2,300,000	2,300,000	2,300,000
Debt Service	10,636,115	10,200,000	10,200,000	10,200,000	10,200,000	10,200,000
Fund Transfers & Other Expenditures	679,830	680,000	680,000	680,000	680,000	680,000
Total Expenses	179,967,706	183,555,000	187,995,000	191,185,000	193,845,000	196,325,000
Surplus / (Deficit)	<u>\$ 496,352</u>	<u>\$(3,355,000)</u>	<u>\$ (8,853,000)</u>	<u>\$ (9,123,000)</u>	<u>\$(9,283,000)</u>	<u>\$(9,403,000)</u>
Fund Balance	<u>\$ 521,771</u>	<u>\$(2,833,229)</u>	<u>\$ (11,686,229)</u>	<u>\$(20,809,229)</u>	<u>\$(30,092,229)</u>	<u>\$(39,495,229)</u>

**EPS would need
to eliminate
125 full-time
positions to cut
\$8.9 million**



- 2015-16 state subsidies are based on the enacted budget with \$150 million basic education & RTL increase distributed using emergency funding formula
- State subsidies from 2016-17 to 2019-20 include a 2% annual increase in Basic Ed. Fund distributed using the BEFC formula

EPS will be faced with another multi million dollar deficit in 2016-17 (Best Case Scenario)

	ACTUAL	PROJECTED				
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
REVENUES						
Current Real Estate Taxes	\$38,598,849	\$38,600,000	\$ 38,600,000	\$ 38,600,000	\$ 38,600,000	\$ 38,600,000
Delinquent Real Estate Taxes	7,674,690	6,100,000	6,100,000	6,100,000	6,100,000	6,100,000
Earned Income Taxes	6,707,527	6,770,000	6,830,000	6,900,000	6,970,000	7,040,000
Other Taxes	942,961	950,000	940,000	940,000	940,000	940,000
Private Contributions & Donations	3,672,070	2,370,000	158,000	158,000	158,000	158,000
Other Local Revenue	2,293,407	2,160,000	2,090,000	2,090,000	2,090,000	2,090,000
State Subsidies	99,766,027	106,990,262	112,894,262	115,744,262	118,174,262	120,464,262
Federal Subsidies	18,472,808	17,340,000	17,340,000	17,340,000	17,340,000	17,340,000
Other Revenue Sources	2,335,719	2,600,000	0	0	0	0
Total Revenues	180,464,058	183,880,262	184,952,262	187,872,262	190,372,262	192,732,262
EXPENDITURES						
Salaries	74,687,289	73,690,000	73,690,000	73,690,000	73,690,000	73,690,000
Group Insurance	21,087,069	21,430,000	22,500,000	23,620,000	24,800,000	26,000,000
Payroll Taxes	5,509,994	5,440,000	5,440,000	5,440,000	5,440,000	5,440,000
Retirement	15,690,675	18,980,000	21,800,000	23,300,000	24,200,000	24,900,000
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Purchased Services	14,763,000	14,770,000	14,770,000	14,770,000	14,770,000	14,770,000
Utilities	2,087,351	2,110,000	2,110,000	2,110,000	2,110,000	2,110,000
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Travel	394,873	395,000	395,000	395,000	395,000	395,000
Supplies	4,579,358	4,600,000	4,600,000	4,600,000	4,600,000	4,600,000
Equipment & Capital Expenditures	2,436,766	2,300,000	2,300,000	2,300,000	2,300,000	2,300,000
Debt Service	10,636,115	10,200,000	10,200,000	10,200,000	10,200,000	10,200,000
Fund Transfers & Other Expenditures	679,830	680,000	680,000	680,000	680,000	680,000
Total Expenses	179,967,706	183,555,000	187,995,000	191,185,000	193,845,000	196,325,000
Surplus / (Deficit)	\$ 496,352	\$ 325,262	\$ (3,042,738)	\$ (3,312,738)	\$ (3,472,738)	\$ (3,592,738)
Fund Balance	\$ 521,771	\$ 847,033	\$ (2,195,705)	\$ (5,508,443)	\$ (8,981,181)	\$ (12,573,919)

**EPS would need
to eliminate 42
full-time
positions to cut
\$3 million**

- 2015-16 & 2016-17 state subsidies are based on Governor Wolf's proposed allocations



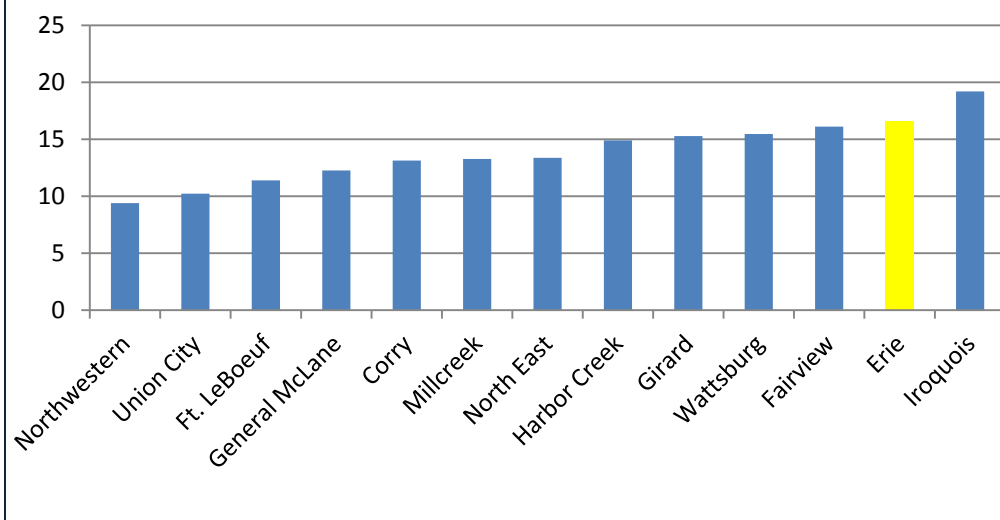
Any further cuts will hurt our students...

An Education Law Center study in 2011 found that:

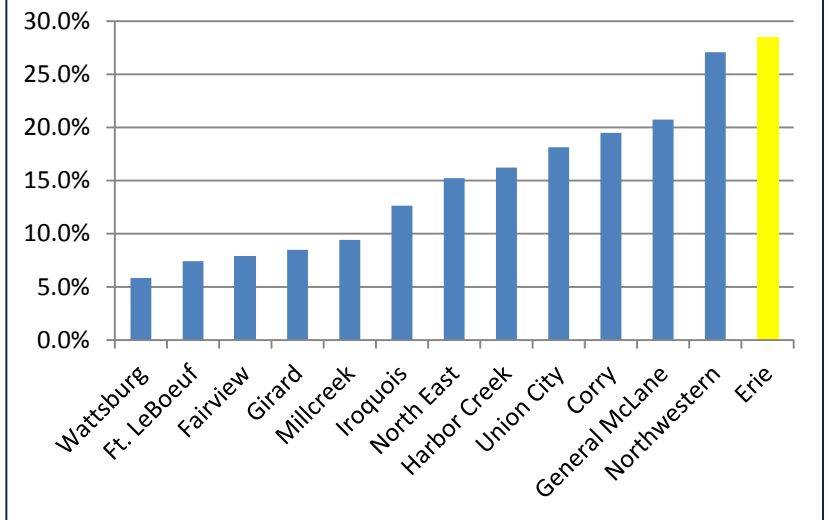
- As state education funding increased by 40% (2003-2010), test scores in the lowest achieving districts increased by 50%.
- Conversely, as state funding was cut since 2011, state test scores dropped.

Raising real estate taxes is not a viable solution

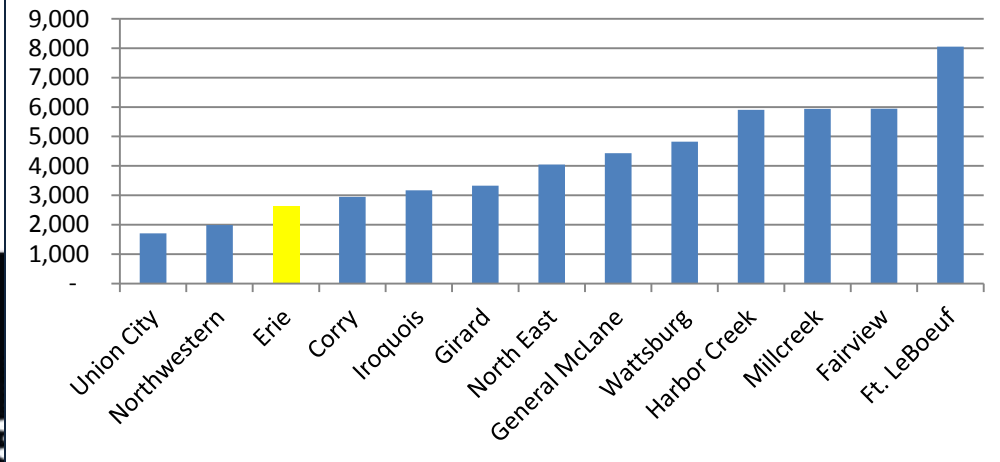
2014-15 Erie County School Real Estate Tax Rates



2015 Percent of Tax Exempt Properties



2013-14 Current Real Estate Tax & Payments in Lieu of Tax Revenue per Pupil (ADM)



	%	Amount
Worst case tax increase needed to balance 16-17 budget	22.9%	\$8,853,000
Best case tax increase needed to balance 16-17 budget	7.9%	\$3,042,000
Tax increase allowed (with exceptions)	5.0%	\$1,948,200
Tax increase allowed (without exceptions)	3.7%	\$1,428,200

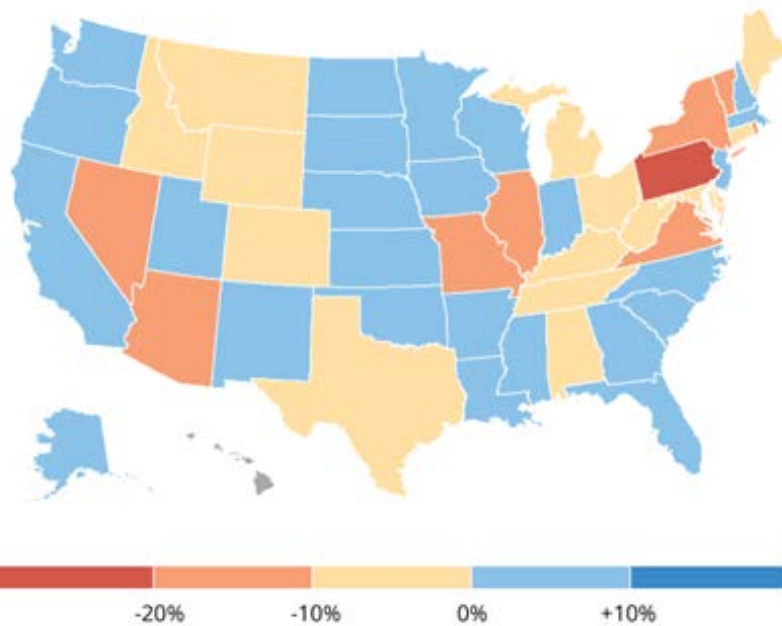
EPS has a high real estate tax rate and a low cost per pupil. Why does the district continue to struggle financially?

How does EPS compare with the other 500 PA school districts?

DATA POINT	RANK
Median Household Income - \$33,007	485 th (bottom 3%)
Economically Disadvantaged – 80.1%	12 th (top 3%)
English Language Learners– 9.2%	11 th (top 3%)
Charter Enrollment – 16.9%	11 th (top 3%)
Special Education Students -16.9%	133 th (top 27%)
State & Local Revenue per Pupil (ADM) – \$11,143	484th (bottom 4%)
State, Local, Federal Revenue per Pupil (ADM) – \$12,398	441th (bottom 12%)

Pennsylvania's school funding formula is broken

Percent difference in per pupil state and local funding between high- and low-poverty districts, 2011-12



Source: National Center for Education Statistics

THE HUFFINGTON POST

National Study Finds Pennsylvania's Education Funding Gap among Nation's Worst; Calls Disparity "Devastatingly Large"

April 1, 2015

school funding formula study school funding

Campaign for Fair Education Funding: Study Provides More Evidence Pennsylvania Must Enact a Full and Fair School Funding Formula

The Campaign for Fair Education Funding said today that a new study of the nation's growing funding inequalities between wealthy and low-income school districts, which found that Pennsylvania has one of the worst funding gaps in the nation, offers yet one more reason why state lawmakers need to enact a sustainable and fair basic education funding formula.

A research report by the Education Trust, an independent national education policy organization, found that when adjusting for the additional needs of low-income students, the highest poverty districts in Pennsylvania receive \$2,491, or 17%, less per student than districts with the lowest poverty.

The report, *Funding Gaps 2015*, placed the state as second worst in the nation. Even when not factoring in the additional needs of poor students, the report found that Pennsylvania had the third worst funding gap of all the states. The report called the disparity 'devastatingly large.'

The report also found that Pennsylvania's share for funding public education, at 38% of the total, ties for 4th from the bottom among all states. (The findings are based on 2012 data.)

"Every child deserves access to a quality education and that will only happen if we close this funding gap and if we properly fund public education," said Dr. Joan Duvall-Flynn, Education Committee Chair for the Pennsylvania NAACP.

"Public education is a shared responsibility and the state has to do more to help give all students a fair chance," Duvall-Flynn added.

PA NAACP is one of 54 organizations who have joined the *Campaign for Fair Education Funding*. The campaign's member organizations include educators, labor, business groups, faith-based organizations, child advocates, charter schools, traditional public schools and representatives from rural, urban and growing school districts.

The Campaign has proposed a funding formula designed to boost student outcomes in all parts of the state by helping to close funding shortfalls, improve equity, and ensure accountability and efficiency.

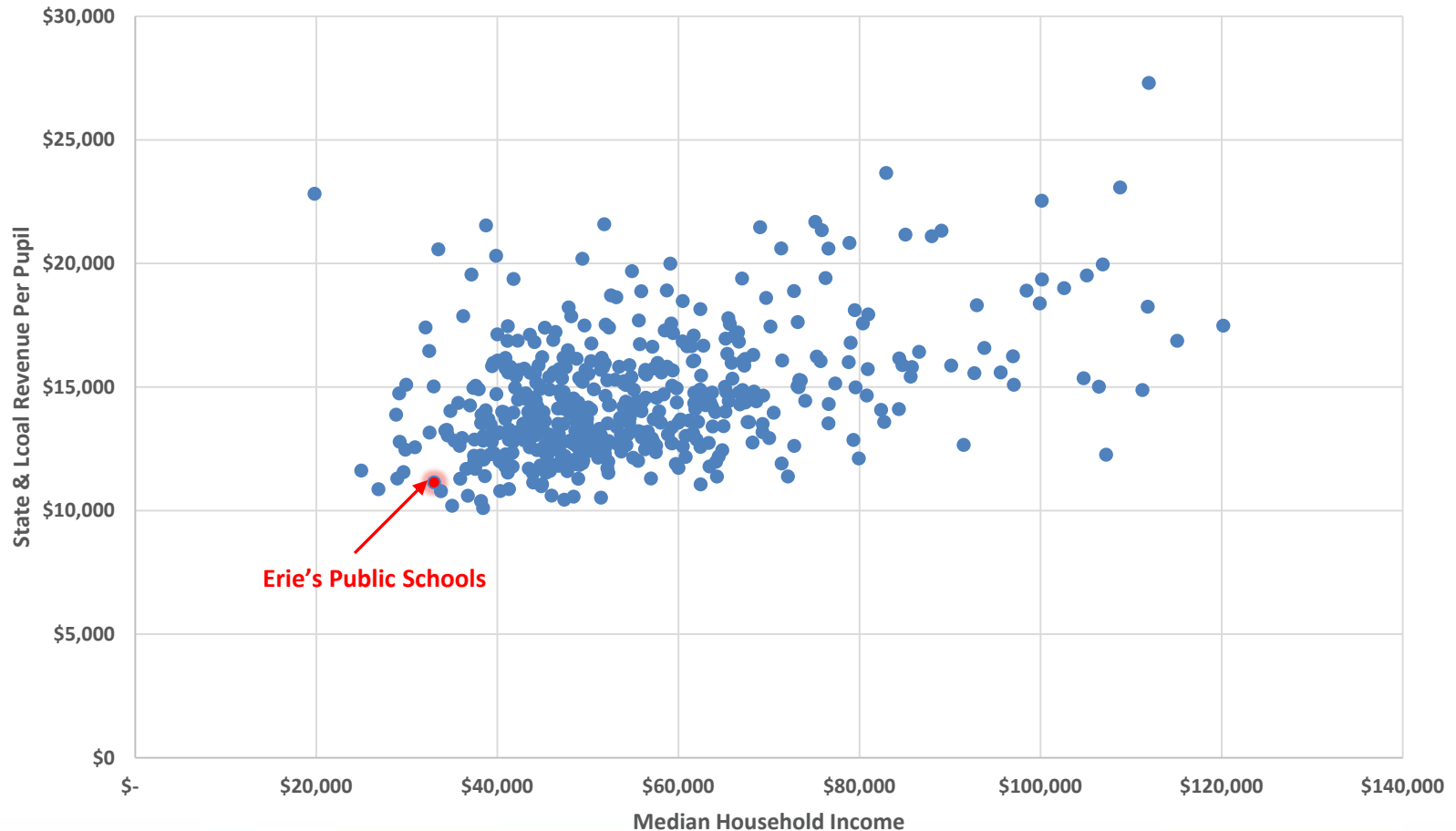
Patrick Dowd, Executive Director of Pittsburgh-based Allies for Children and a campaign member, also called for state action and noted that the campaign looks forward to the Basic Education Funding Commission's final recommendations.

"The fact that such a broad group of diverse interests has come together to support a formula is a great step forward," Dowd said. "We are working to draw attention to the need for a formula that puts students first and we continue to add new member organizations daily."

"This new study comes on the heels of another recently released national study that showed Pennsylvania at the bottom of all states in school funding fairness," Dowd said. "The time has come for Pennsylvania to address this challenge and give every single student a fair shot."

EPS's funding is inequitable

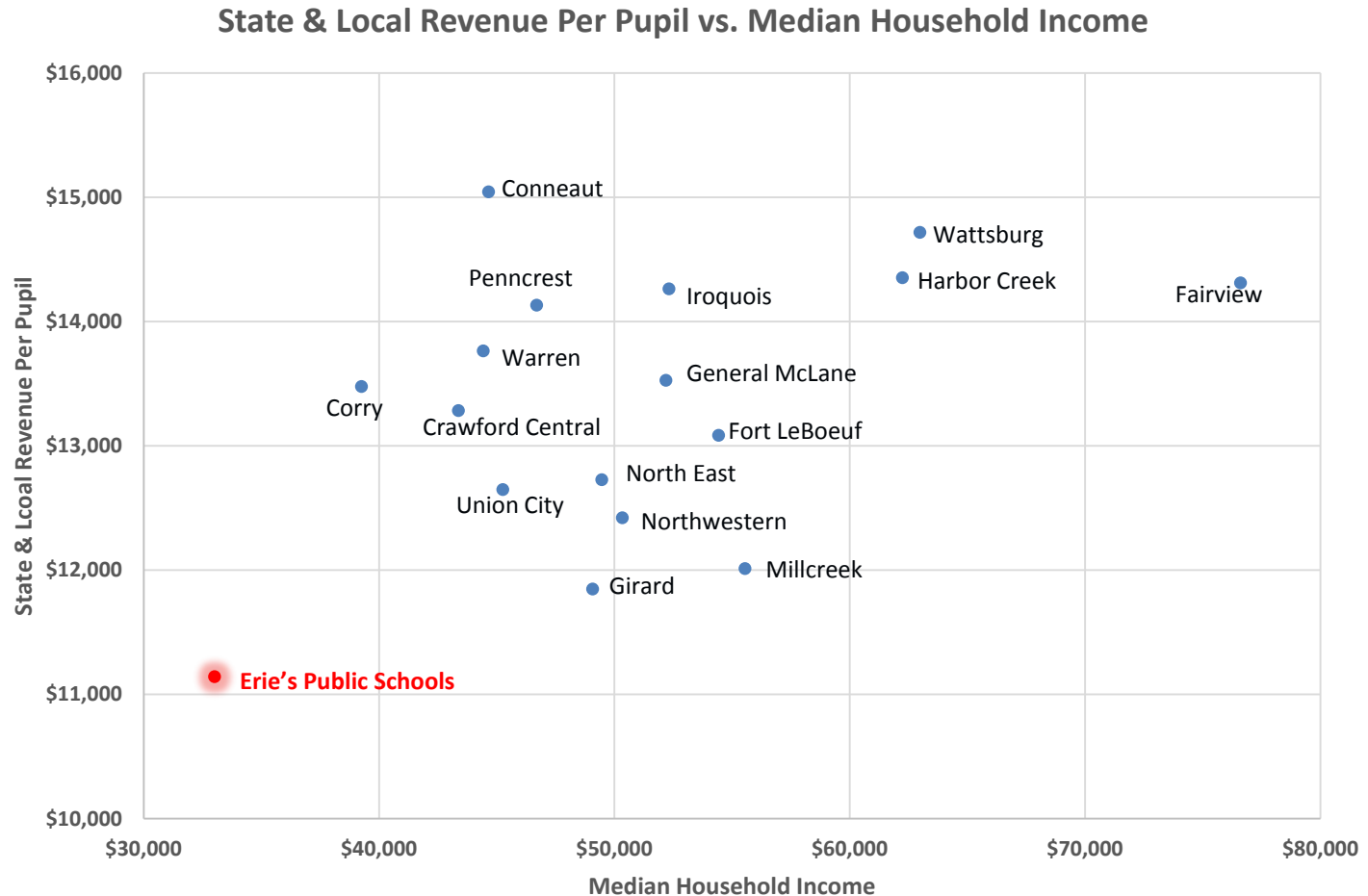
State & Local Revenue Per Pupil vs. Median Household Income



A \$100 increase in EPS's per pupil funding would increase annual revenues by \$1,357,600



Due to inadequate funding, EPS students do not have the same opportunities as students attending surrounding districts



A \$1,000 increase in EPS's per pupil funding would increase annual revenues by \$13,576,000

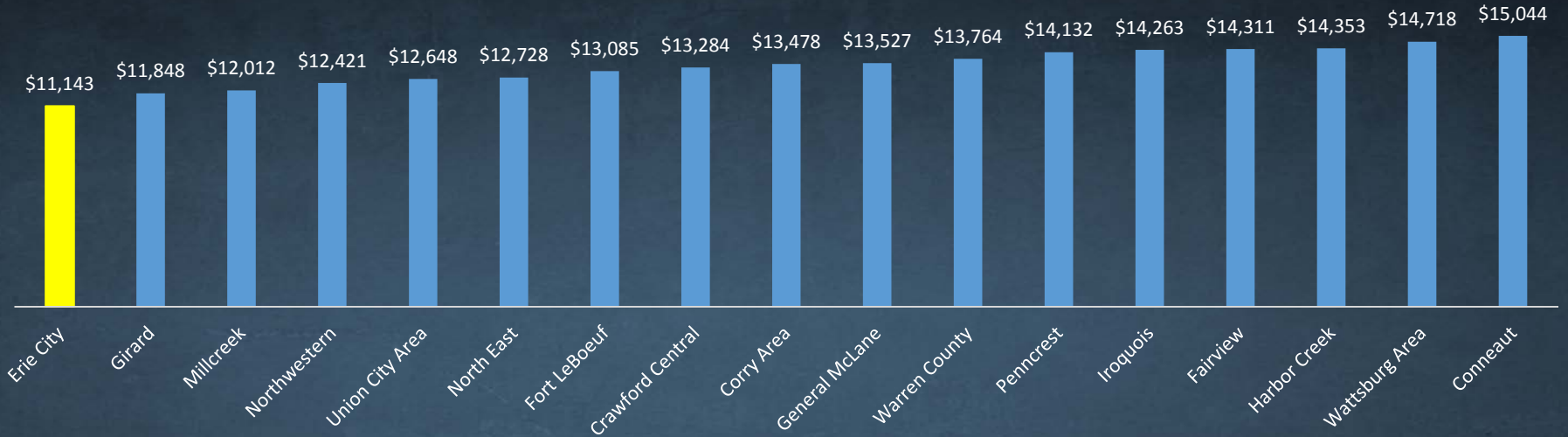
EPS's 2013-14 state and local revenue per pupil (ADM) is the lowest in IU #5

School District	2013-14 State & Local Revenue per Pupil (ADM)	Fast Facts					
		2014-15 Median Household Income	2014-15 Economically Disadvantaged	2014-15 Special Education	2014-15 English Language Learner	2014-15 Charter	2013-14 Average Daily Membership
Conneaut	\$15,044	\$44,652	51.1%	16.4%	0.1%	6.0%	2,293.32
Wattsburg Area	\$14,718	\$62,979	32.5%	20.8%	0.1%	3.0%	1,441.27
Harbor Creek	\$14,353	\$62,236	32.7%	14.5%	0.1%	2.0%	2,063.98
Fairview	\$14,311	\$76,602	18.9%	10.0%	0.7%	0.7%	1,581.95
Iroquois	\$14,263	\$52,317	60.8%	17.7%	0.4%	2.4%	1,220.26
Penncrest	\$14,132	\$46,695	39.1%	16.4%	0.3%	3.6%	3,257.28
Warren County	\$13,764	\$44,426	47.5%	17.4%	0.1%	7.4%	4,855.85
General McLane	\$13,527	\$52,188	33.6%	14.5%	0.3%	1.9%	2,189.29
Corry Area	\$13,478	\$39,252	61.5%	21.7%	0.1%	2.1%	2,146.12
Crawford Central	\$13,284	\$43,371	51.8%	16.8%	0.2%	3.0%	3,953.76
Fort LeBoeuf	\$13,085	\$54,426	47.0%	16.0%	0.6%	1.6%	2,149.55
North East	\$12,728	\$49,462	50.2%	11.1%	0.1%	2.0%	1,699.87
Union City Area	\$12,648	\$45,257	59.1%	13.6%	0.0%	2.4%	1,283.32
Northwestern	\$12,421	\$50,336	57.4%	18.0%	0.1%	2.3%	1,509.21
Millcreek	\$12,012	\$55,547	38.1%	13.6%	1.2%	1.8%	7,211.88
Girard	\$11,848	\$49,073	52.5%	16.1%	0.2%	3.4%	1,865.61
Erie City	\$11,143	\$33,049	80.1%	16.9%	9.2%	14.4%	13,576.84
AVERAGE	\$13,339	\$50,696	47.9%	16.0%	0.8%	3.5%	3,194.08

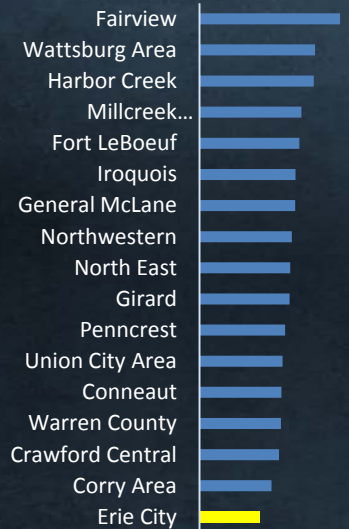
To meet the IU #5 per pupil average, revenues at EPS must increase by **\$29,814,741** annually

To meet Conneaut's per pupil funding, EPS's revenues would need to increase \$52,963,253 annually

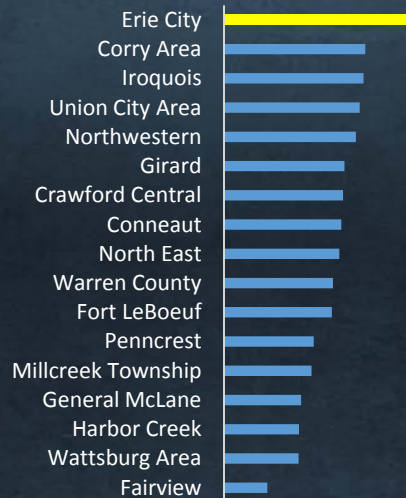
2013-14 State & Local Revenue per ADM



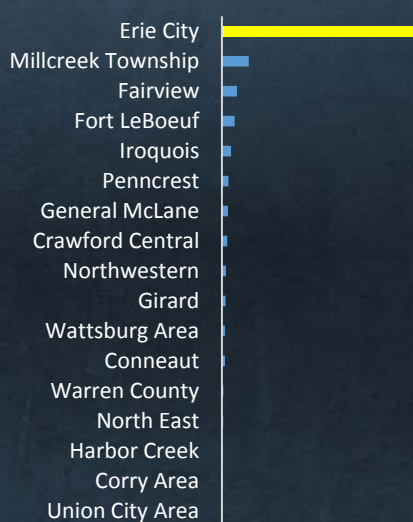
2014-15 Median Household Income



2014-15 Economically Disadvantaged



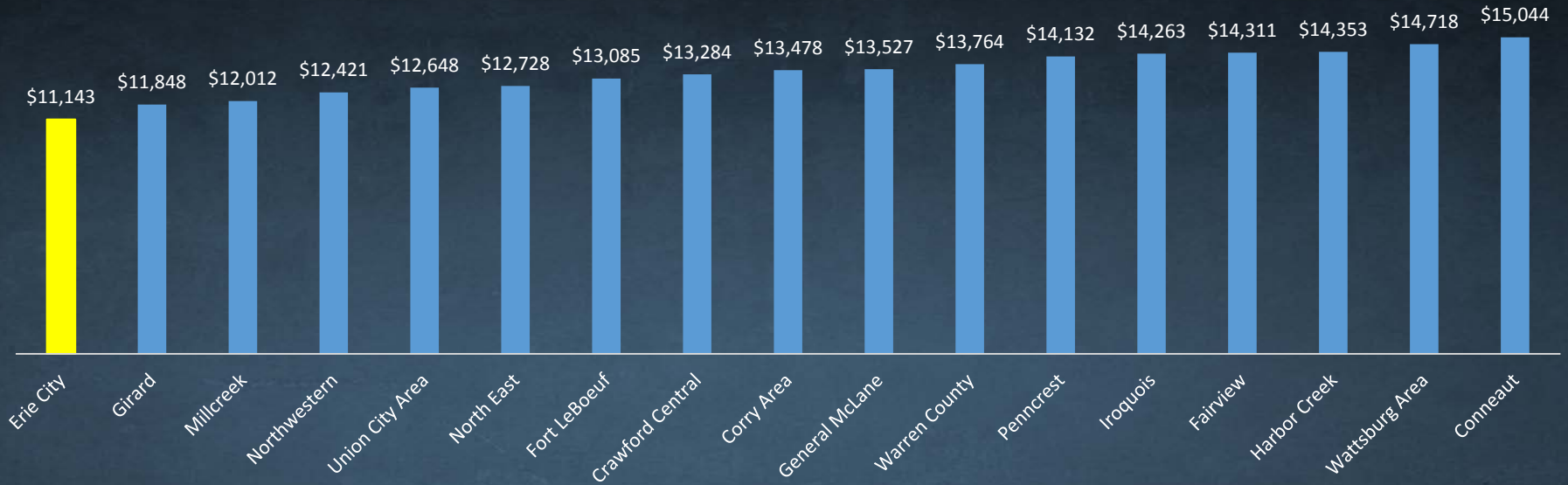
2014-15 English Language Learner



2014-15 Charter Enrollment

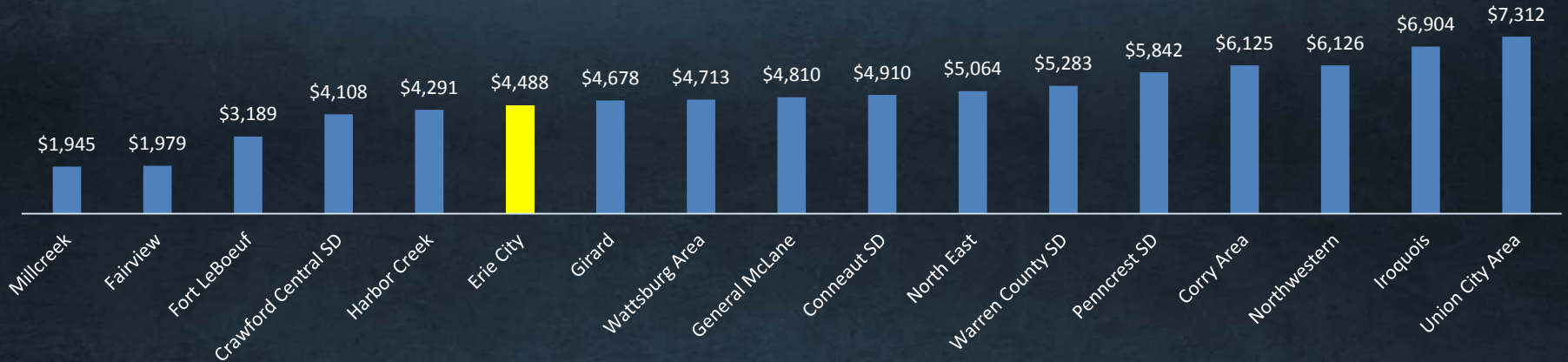


2013-14 State & Local Revenue per ADM



To meet Union City's per pupil Basic. Ed. & RTL funding, EPS's revenues would need to increase \$38,340,996 annually

2015-16 Basic Education and Ready to Learn (RTL) Funding per ADM



EPS's 2015-16 Basic Ed. & Ready to Learn (RTL) Allocation is below statewide peer average

(Over 7,000 ADM's and median household income below \$40,000)

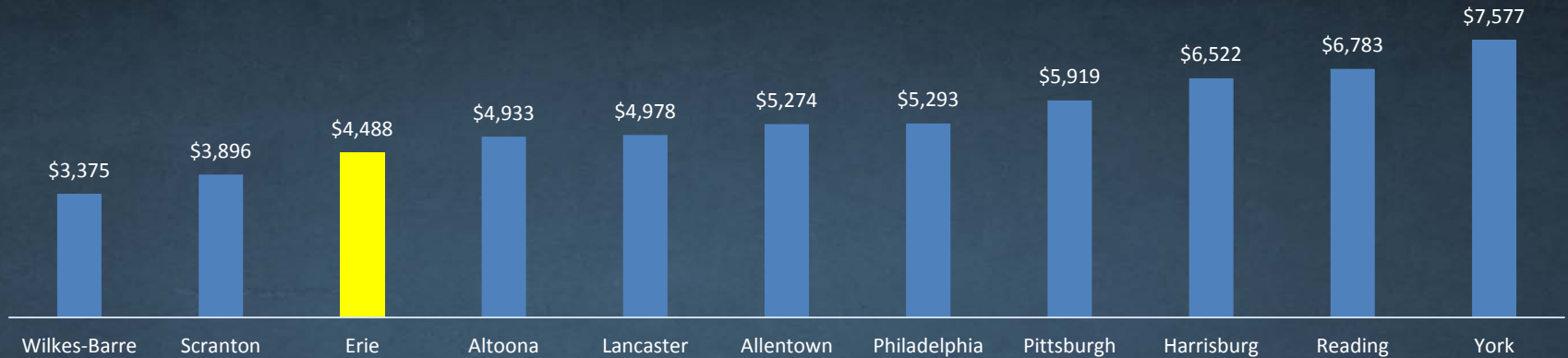
School District	County	Fast Facts						
		Basic Ed & RTL Allocation per Pupil (ADM)	2014-15 Median Household Income	2014-15 Economically Disadvantaged	2014-15 Special Education	2014-15 English Language Learner	2014-15 Charter Enrollment	2013-14 Average Daily Membership
York City	York	\$7,577	\$28,819	74.5%	22.0%	23.1%	27.4%	7,820.62
Reading	Berks	\$6,783	\$26,867	100.0%	16.3%	17.9%	6.0%	18,256.80
Harrisburg	Dauphin	\$6,522	\$32,476	97.2%	17.3%	12.2%	11.3%	7,210.90
Pittsburgh	Allegheny	\$5,919	\$39,864	68.4%	15.8%	3.1%	12.6%	27,530.96
Philadelphia	Philadelphia	\$5,293	\$37,460	86.8%	13.3%	9.8%	34.3%	203,229.20
Allentown	Lehigh	\$5,274	\$36,578	74.3%	14.6%	11.6%	12.7%	19,535.45
Lancaster	Lancaster	\$4,978	\$36,980	87.7%	17.1%	15.9%	3.0%	11,398.76
Altoona	Blair	\$4,933	\$38,198	63.3%	19.2%	0.2%	2.4%	7,958.03
Erie	Erie	\$4,488	\$33,007	80.1%	16.9%	9.2%	14.4%	13,576.84
Scranton	Lackawanna	\$3,896	\$37,551	75.0%	16.8%	7.9%	3.3%	10,224.27
Wilkes-Barre	Luzerne	\$3,375	\$37,474	67.7%	17.1%	6.7%	7.2%	7,465.32
AVERAGE		\$5,367	\$35,025	79.6%	16.9%	10.7%	12.2%	30,382.47
AVG. EXCLUDING PHILLY		\$5,375	\$34,781	78.8%	17.3%	10.8%	10.0%	13,097.79

To meet the peer per pupil average, Basic Ed. & RTL allocations to EPS must increase by **\$11,934,042** annually

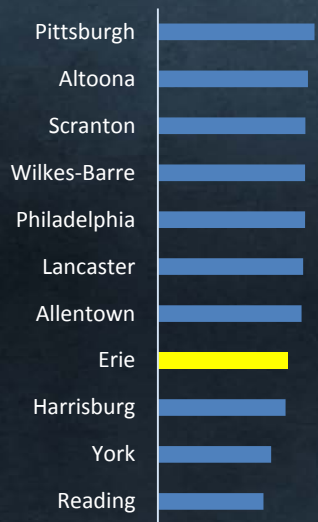


To meet Pittsburgh's per pupil funding, EPS's revenues would need to increase \$19,428,458 annually

2015-16 BEF & RTL Allocation per ADM



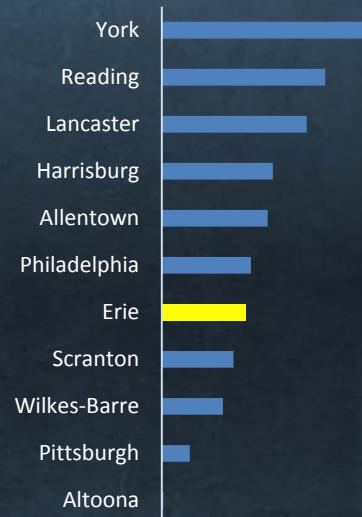
2014-15 Median Household Income



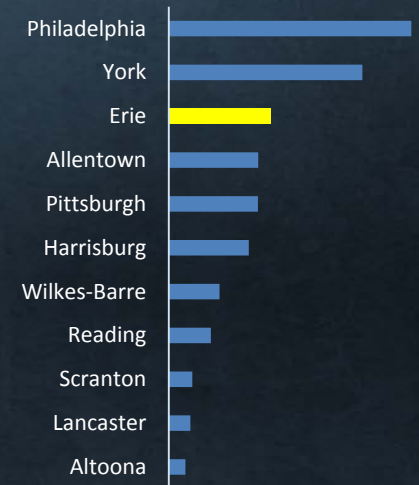
2014-15 Economically Disadvantaged



2014-15 English Language Learner

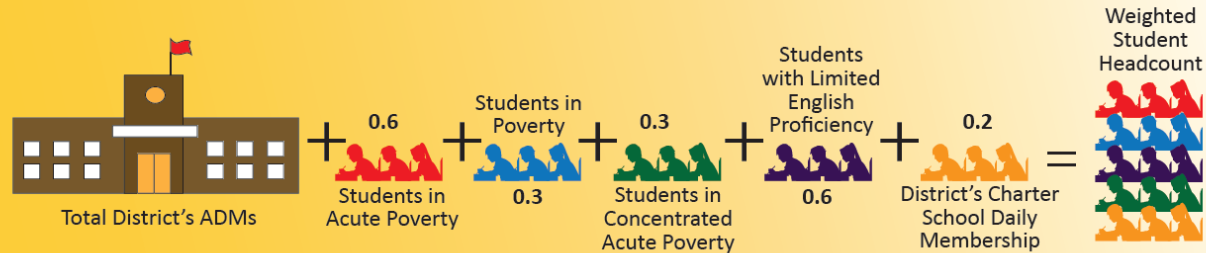


2014-15 Charter Enrollment

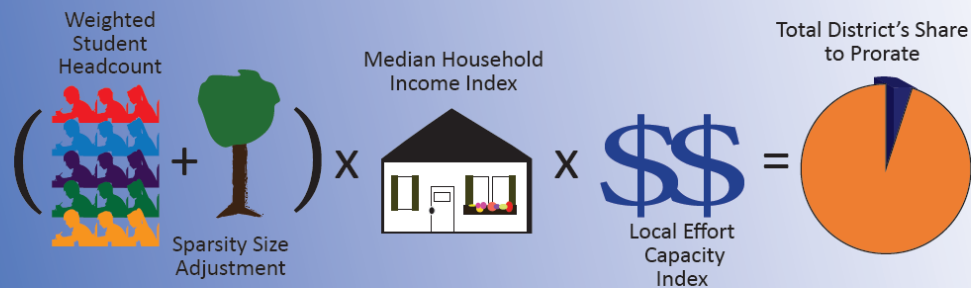


Full implementation of the BEFC (Fair Funding) formula would correct Erie's inadequate funding issue

STEP 1: Weighted Student Count



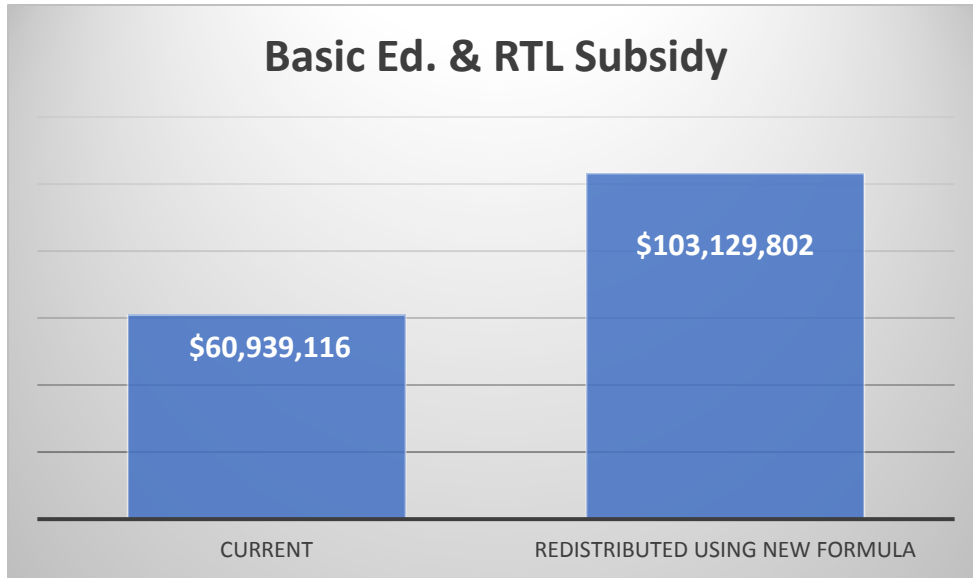
STEP 2: District Adjustments



Funding is distributed based on a school district's proportionate share of available dollars.



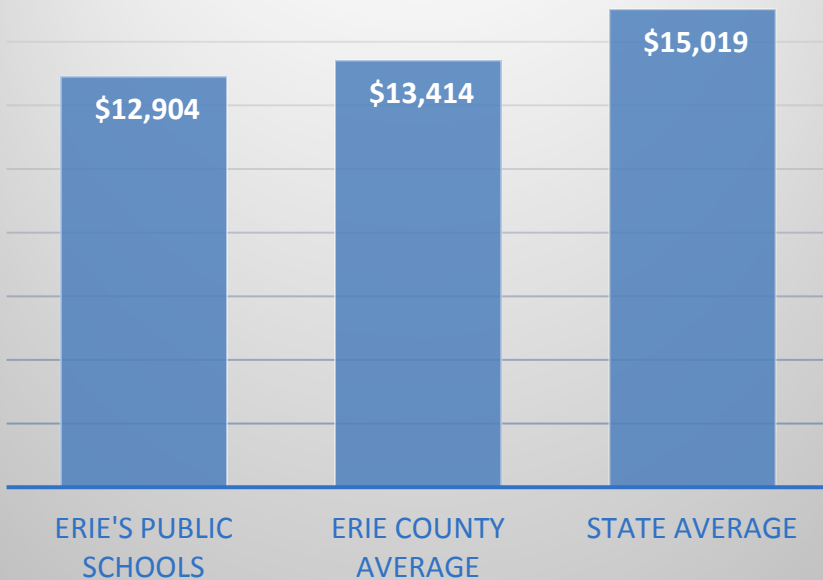
Full implementation of the Fair Funding Formula would correct Erie's inadequate funding issue



If all Basic Ed. and RTL funds were reallocated using the BEFC formula, Erie would receive a **\$43,768,672** annual increase in state funding

Full implementation of the BEFC formula would allow EPS to spend slightly more than the state average

2013-14 Cost per Pupil



Increase in subsidy	\$43,768,672
Less structural deficit	<u>\$(9,403,000)</u>
Balance Remaining	<u><u>\$34,365,672</u></u>
New funding per pupil	\$ 2,531
Current cost per pupil	<u>\$ 12,904</u>
New cost per pupil	<u><u>\$ 15,435</u></u>

EPS spends less per pupil than 80% of PA school districts

Budget increase needed to spend at county average - **\$6.9 million**

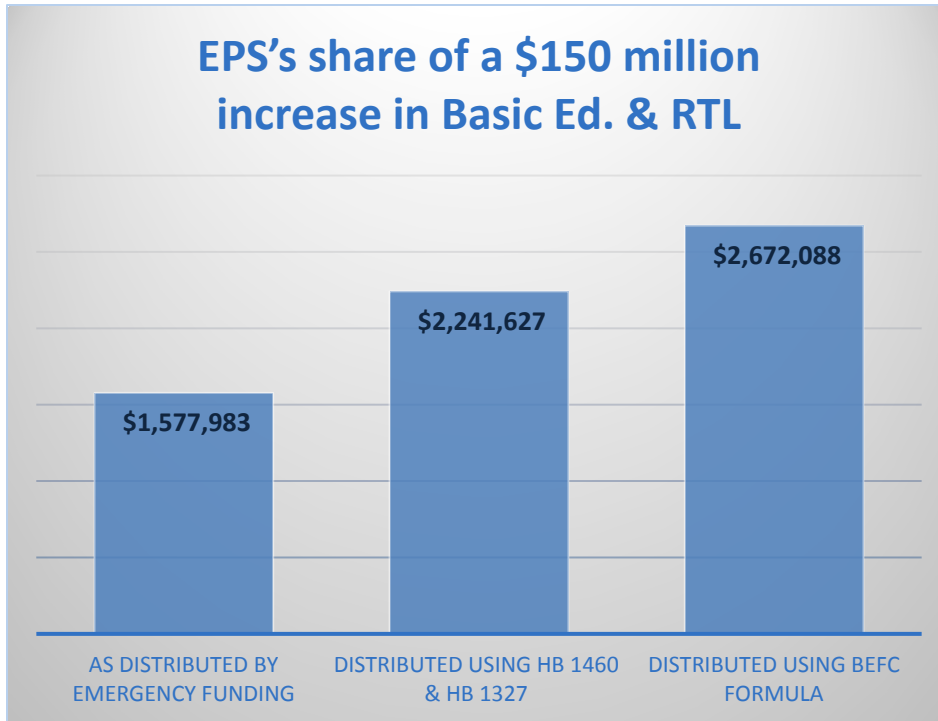
Budget increase needed to spend at state average - **\$28.7 million**

How would Erie's Public Schools benefit from full implementation of the Fair Funding Formula?

- Eliminate our structural deficit
- Reduce local property taxes
- Provide our teachers and staff with fair and stable compensation
- Implement Optimization Plan to right-size and renovate schools
- Provide adequate academic support for literacy and math
- Enhance our student support services (MH, BH, ELL, AEP, etc.)
- Fully restore related arts, including world languages
- Expand Pre-K to every elementary school
- Upgrade technology and textbooks
- Restore libraries in every school, including staff and materials
- Expand access to athletics and extra-curricular activities

These additional resources would simply provide our students with the same educational opportunities as their peers in other districts

Distributing new funds only using the Fair Funding Formula or a hybrid will be too little, too late



If all Basic Ed. and RTL funds were reallocated using the BEFC formula, Erie would receive a **\$43,768,672** increase in state funding



Absent significant reform to school funding, EPS will become a Financial Recovery district

The Erie School District could expect a declaration of financial distress in the short-term without significant reform to the Commonwealth's basic education funding formula. The formula currently requires the District's subsidy of the charter and cyber school systems at levels which are not sustainable for the District. Further, this report does not consider the negative financial impact of those items beyond the scope of this report, which are set forth on pages 12-14.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "James A. Schaffner", written over a horizontal line.

James A. Schaffner, CPA/ABV, CFF, CVA

Director of Forensic Investigations

A handwritten signature in black ink, appearing to read "Sherry L. Ziesenheim", written over a horizontal line.

Sherry L. Ziesenheim, CPA, CVA, CFF, MA

Excerpt from conclusion of *"Erie City School District, Financial Distress: Concerns Regarding Charter/Cyber School Expenditures"* prepared by Schaffner, Knight, Minnaugh Company, CPA's

Does EPS need to go into Financial Recovery or Watch status before Harrisburg will help?

School District	County	Fast Facts							
		2015-16 Basic Ed & RTL Allocation per Pupil (ADM)	2013-14 Expenditures per Pupil (ADM)	2014-15 Median Household Income	2014-15 Economically Disadvantaged	2014-15 Special Education	2014-15 English Language Learner	2014-15 Charter Enrollment	2013-14 Average Daily Membership
Duquesne City	Allegheny	\$14,277	\$23,713	\$19,811	80.6%	22.6%	0.0%	32.5%	800.93
Chester-Upland	Delaware	\$10,870	\$18,693	\$29,933	82.1%	19.8%	3.1%	53.8%	6,995.93
Wilkinsburg	Allegheny	\$8,509	\$23,395	\$33,483	74.8%	21.2%	0.5%	26.7%	1,265.20
York City	York	\$7,577	\$14,461	\$28,819	74.5%	22.0%	23.1%	27.4%	7,820.62
Reading	Berks	\$6,783	\$11,120	\$26,867	100.0%	16.3%	17.9%	6.0%	18,256.80
Aliquippa	Beaver	\$6,559	\$15,937	\$34,816	97.2%	15.7%	0.1%	10.5%	1,304.28
Harrisburg City	Dauphin	\$6,522	\$17,080	\$32,476	97.2%	17.3%	12.2%	11.3%	7,210.90
Steelton-Highspire	Dauphin	\$5,525	\$13,219	\$45,611	71.8%	16.5%	2.9%	6.7%	1,468.34
AVERAGE		\$8,328	\$17,202	\$31,477	84.8%	18.9%	7.5%	21.9%	5,640.37
Erie	Erie	\$4,488	\$12,904	\$33,049	80.1%	16.9%	9.2%	14.4%	13,576.84

To meet the lowest Recovery/Watch per pupil allocation, Basic Ed. & RTL allocations to EPS must increase by **\$14,079,183** annually

- Chester-Upland received a \$12 million basic education enhancement in 2015-16
- Wilkinsburg received a \$3 million basic education enhancement in 2015-16
- EPS's 2015-16 increase was less than the state average

- EPS has been chronically underfunded by the state
- Full implementation of the BEFC formula would correct the inadequate funding issue
- Distributing new funds only using the BEFC formula is too little, too late for EPS – Financial Recovery is inevitable
- A basic education enhancement of \$12 million would fix EPS's structural deficit and provide funds to address the most pressing infrastructure needs
- Helping EPS now would be less costly for the state than the Financial Recovery process

References:

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