Financial Improvement Plan

Erie County, PA

Prepared by the

Financial Administrator

Charles B. Zogby

January 31, 2019

With the Assistance of

Public Financial Management
1735 Market St.
42nd Floor
Philadelphia, PA 19103
215-567-6100
www.pfm.com

Table of Contents

Introduction

Act 141 of 2012 amended the Public School Code of 1949 to add Article VI-A, School District Financial Recovery. The law directed the Pennsylvania Department of Education (PDE) to establish an Early Warning System to identify school districts facing financial distress. PDE was required to establish guidelines for the operation of the Early Warning System, including a description of the variables that would be used to identify school districts for what the law defines as Financial Watch Status. Once identified, PDE is to offer the districts technical assistance to help correct their financial problems and avoid a declaration of what the law further defines as Financial Recovery Status.

Building on the provisions of School District Financial Recovery, Act 86 of 2016 added Section 694-A. This addition required PDE to identify for Financial Watch Status any school district that received $2 million or more in Educational Access Program funding in any fiscal year.

On September 16, 2016, the Erie City School District (Erie Public Schools or District) received $2 million in Educational Access Program funding. It later received a second payment of $2 million in December 2016. On September 20, 2016, PDE officially notified Erie Public Schools it had been identified for Financial Watch Status and offered to provide technical assistance. PDE also notified the District of the requirement that it was to develop a plan to improve its finances and submit that plan within 180 days to the Secretary of Education (Secretary) for approval.

Erie Public Schools submitted its financial improvement plan – the Erie City School District Financial Recovery Plan -- to the Secretary on December 6, 2016. The District later submitted a revised plan on January 12, 2017. The Secretary, in a letter dated February 28, 2017, notified the District that he was disapproving the plan for failing to meet the requirements of the law, citing several deficiencies. The Secretary gave the District 60 days to submit a revised plan.

Act 55 of 2017 made moot the need for a revised plan. Signed into law on November 6, 2017, Act 55 amended Section 694-A to require PDE to identify for Financial Watch Status any school district that received $4 million or more in Educational Access Program funding in any fiscal year beginning with Fiscal Year 2017-18. Act 55 also added Section 695-A requiring a school district identified for Financial Watch Status and receiving Educational Access Program funding to be placed under the supervision of a Financial Administrator. The statute directs the Financial Administrator to develop a Financial Improvement Plan to improve the financial performance and ensure fiscal solvency of the school district.

On March 14, 2018, Erie Public Schools received $14 million in Educational Access Program funding, triggering Section 695-A and putting the District under the supervision of a Financial Administrator. On March 26, 2018, Charles B. Zogby was appointed Financial Administrator for Erie Public Schools.

Statutory Direction for Financial Improvement Plan

Section 695-A of Act 55 directs the Financial Administrator to develop a Financial Improvement Plan in consultation with the Secretary that must include:

(1) Performance goals, benchmarks and timetables to improve the financial performance and ensure fiscal solvency of the school district;
(2) Cash flow analysis;
(3) Projections of revenues and expenditures for the current year and next five years, both assuming the continuation of present operations and as impacted by measures included in the plan;
(4) Annual training for members of the board of school directors, to include no less than 10 hours in school finance and policy provided by a Statewide organization specializing in school finance and administration and approved by the financial administrator; and
(5) Facility maintenance and improvement.

The Act also directs the Financial Administrator to review existing school policies and procedures and may require changes to be included in the Financial Improvement Plan regarding:

(1) Accounting and automation procedures;
(2) Permanent staffing levels;
(3) Performance goals that administrative staff must meet for contract renewal;
(4) Changes in school district policy;
(5) Sale, lease, conveyance, assignment or disposition of school district assets;
(6) Consolidation of existing school buildings, existing non-instructional programs or other school district services; and
(7) Greater use of intermediate unit programs.

The complete text of Section 695-A of Act 55 of 2017 can be found in Appendix A.

Overview of Erie Public Schools

Erie's Public Schools serves the City of Erie in Erie County, Pennsylvania. Erie is the state's fourth-largest city and the largest in Northwestern Pennsylvania with an estimated population of 97,369 according to the most recently available U.S. Census data. The City is also the seat of government for Erie County which comprises a total land area of 19.3 square miles. Erie Public Schools is governed by a nine-member elected School Board of Directors (Board), one of whom is selected to lead the Board as President. The Superintendent and the Assistant Superintendent for Academics are appointed by the Board.

For School Year 2017-18, the District's October 1st Enrollment Report to PDE reported 11,020 enrollments. These students attended one of the District's 16 elementary, middle and high schools, including its non-traditional cyber and credit recovery academies. The 2017-18 report represented a decline of 367 enrollments from the 11,387 reported the previous October and of 1380 from the 12,400 reported a decade ago. The most recent data available, School Year 2016-17, also showed the District's student population was roughly 41 percent White, 37 percent African-American, and 14 percent Hispanic, with the balance comprised of Asian-American students or other ethnic groups.

In addition to the students enrolled in District schools and programs, Erie Public Schools supports students who reside in the District but attend one of four brick and mortar charter schools located in the District or a cyber charter school. Total charter and cyber charter school enrollment for School Year 2017-18 were 2,367 students, an increase of 175 from the previous school year and a 933-student increase, 65 percent, from School Year 2011-12.

The District operates on a fiscal year that runs from July 1st to June 30th. Based on its Fiscal Year 2017-18 Budget, total revenues were projected to be $211.8 million and total expenditures were projected to be $204.4 million, with $8.2 million year-end unassigned fund balance. In this same year, Erie Public Schools employed 1,292 staff members, approximately two-thirds of whom are classified as professional employees serving in direct instructional roles and another third comprising administrative, support, custodial and maintenance personnel.

Historical Financial Background

Fiscal Years 2005-2010

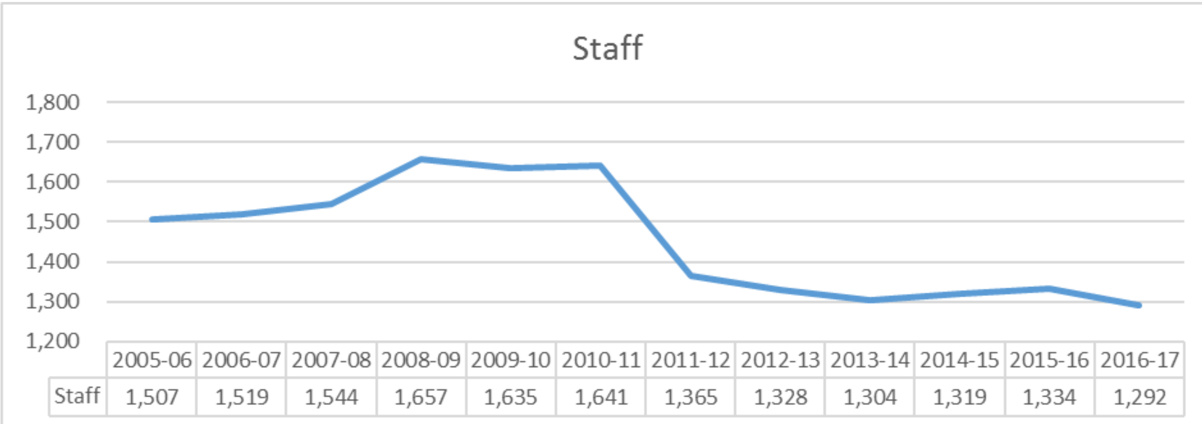
Erie Public Schools receipt of $18 million in Educational Access Program funding since 2016, its identification for Financial Watch Status, the appointment of a Financial Administrator and development of a Financial Improvement Plan did not all take place in a vacuum. These events were years in the making, the culmination of various decisions by successive Boards and administrators, the seeds of which can be traced back as far as 2005. The path that led the District to this point is worth recounting here in some detail as this more recent financial history provides important background and context for the Financial Improvement Plan.

In June 2010, just weeks after a superintendent transition, state auditors issued a preliminary report on the Erie Public Schools' audit for the Fiscal Years 2008-2010. Two of the report's most damning findings were, one, that from 2005 until 2010 the District had added 190 staff during a period of static or declining student enrollment (see the charts below) and, two, that during the most immediate past two years, the District had overspent its budget by more than $10 million.

The auditors found the District had used a significant percentage of its short-term, non-recurring Federal stimulus monies received through the American Recovery and Reinvestment Act of 2009 to add staff, many of whom were retained even after these Federal stimulus funds were exhausted. The report also highlighted inaccurate revenue projections used by the District to balance its budgets, typified by the Fiscal Year 2009-10 Budget, which included more than $7 million dollars in anticipated revenues from the Federal "Race to the Top" and "I3" grant programs that never materialized.

Compounding these errors, the District negotiated a 5-year teacher contract in the wake of the Great Recession of 2008 that guaranteed annual salary increases of 4 percent through Fiscal Year 2013-14. The contract meant another roughly $2 million a year in additional expenses for the 5-year term but left unidentified were any revenues or program cost reductions to pay for them.

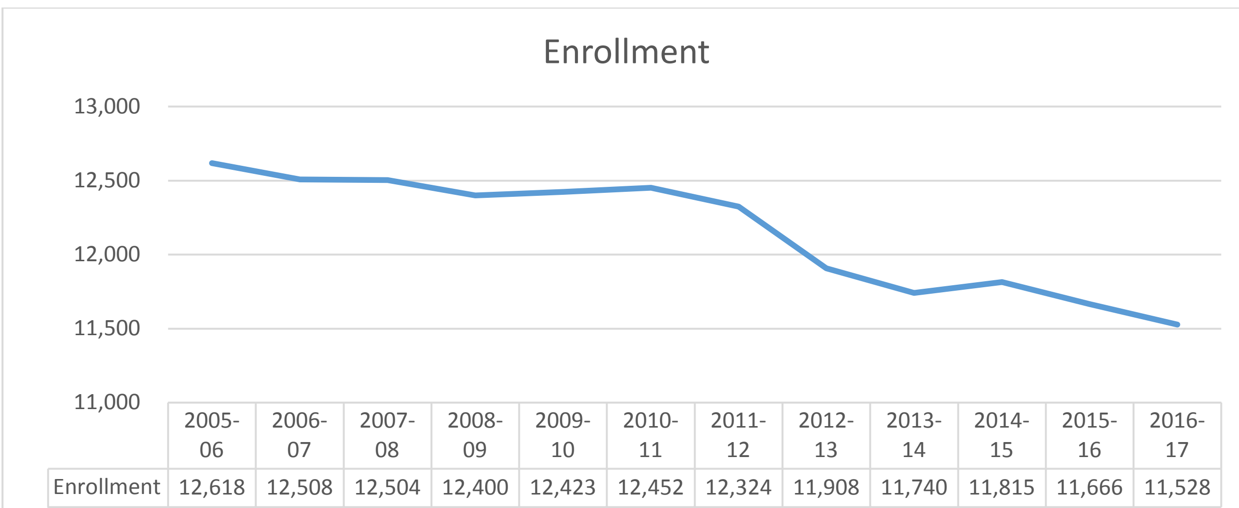
Erie Public Schools Staffing 2005-2017



	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Staff	1,507	1,519	1,544	1,657	1,635	1,641	1,365	1,328	1,304	1,319	1,334	1,292

(Source: Erie Public Schools)

Erie Public Schools Total LEA Enrollment 2005-2017



	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Enrollment	12,618	12,508	12,504	12,400	12,423	12,452	12,324	11,908	11,740	11,815	11,666	11,528

(Source: Erie Public Schools)

The District's financial problems were further exacerbated by a reluctance on the part of the Board and District Administration to raise taxes. The District's failure to increase taxes, coupled with its unrestrained spending habits, the loss of temporary federal stimulus funds, and overreliance on speculative revenues, combined with rising costs for pensions and charter school enrollment growth that were occurring at the same time, produced a budget deficit of roughly $26 million as the District began the process of developing its Fiscal Year 2011-12 Budget.

Fiscal Year 2011-12

Prior to 2010, the District's typical budget process was to present a proposed budget in January and then delay the adoption of a final budget until the state budget process was far enough along to provide greater visibility into the District's likely allocations from Basic Education Funding and other key state General Fund education line-items. This process usually allowed enough time for a single Board meeting one month before the statutory deadline of June 30th to

adopt a final budget. Occasionally, the Board would call upon District administrators in a Board study session to present highlights of their work and justify various departmental budgets.
The extreme shortfall the District faced heading into Fiscal Year 2011-12, however, forced major changes in its budget development process, requiring more than a dozen Board meetings before a final budget was produced. The process also entailed numerous public information sessions and meetings with the editorial board of the local newspaper, the Erie Times-News, to educate the public and deepen their understanding of the District's financial crisis.

Ultimately, the $26 million budget deficit was closed through a combination of broad expenditure reductions, a tax increase, and a lease-leaseback financing arrangement to avert a bond issue for unfunded debt. The District eliminated roughly 270 administrative, instructional and non-instructional positions; re-bid expired service contracts; and obtained salary freezes from administrators, non-bargaining unit employees, and two non-instructional unions. It also raised real estate taxes by 0.96 mills, a 5.4 percent increase, requiring an Act 1 exemption for 2.8 percent of the increase. The District's medical insurance benefits were also restructured by increasing contributions, raising deductibles, and precluding spouses with access to other medical insurance coverage from participating in the District's group plan.

Fiscal Year 2012-13

Despite its efforts the previous year, the District began its planning for the Fiscal Year 2012-13 Budget facing a $14 million deficit. One response was to undertake an optimization study hoping to produce budget savings through a right-sizing of District facilities. The study identified over 7,200 empty seats in the District's 21 schools and produced a plan that would have reduced the number of schools to as few as 12.

Lacking however the ability to fund the needed renovations and expansions to its remaining schools to fully implement the plan, which its consultant estimated carried a total project cost of between $312 million and $353 million, the District opted instead for partial implementation. It closed three elementary schools (Burton, Glenwood, and Irving) and was able to sell the most commercially viable of the three (Glenwood) to generate a one-time revenue increase of $1.2 million. These steps, combined with other expenditure reductions such as the elimination of 37 staff positions and generating $791,000 in savings through a voluntary, one-year agreement with the Erie Education Association (EEA) to contribute an additional $1,040 per insured member to their annual health insurance premium share, helped to produce a balanced budget for the year.

Fiscal Year 2013-14

Another significant deficit faced the District as it began Fiscal Year 2013-14 budget planning, this time nearly $10 million. The District continued to reduce staff, cutting 24 positions, and increased real estate taxes by 7.1 percent. A settlement with the Northwest Tri-County Intermediate Unit (IU 5) also provided approximately $1.3 million in one-time revenues.

Fiscal Year 2014-15

The District began the Fiscal Year 2014-15 budget planning facing a $6.8 million deficit, though adjustments in state support brought the shortfall down to around $4 million. An early retirement incentive program was put in place that generated more than $900,000 in savings. Additional departmental cuts yielded another roughly $136,000. The remaining gap was closed primarily using one-time fixes, including a $1 million transfer from the District's Health Insurance Trust Fund to its General Fund and a $750,000 renegotiation of health insurance benefits with the District's employee groups, except for its teachers and secretaries' unions. Grant funding was then utilized to close the remainder of the shortfall.

Fiscal Year 2015-16

The budget planning process for Fiscal Year 2015-16 began yet again in deficit, this time around $5 million. Despite its efforts, the District ended the fiscal year with a loss of $1.26 million along with a negative fund balance of $4.78 million.

It was during the second half of the fiscal year that PDE initially engaged Public Financial Management (PFM), a Philadelphia-based financial consulting firm, to work with District to review its finances and help identify areas of potential expenditure savings or revenue enhancement. In June of 2016, near the very end of the fiscal year, PFM produced a report to PDE on the District's finances which verified the District's negative financial position. Based on the baseline budget projections at the time, PFM forecasted a deficit of $9 million for Fiscal Year 2017-18, growing to nearly $15 million by Fiscal Year 2021-22.

Fiscal Year 2016-17

Heading into Fiscal Year 2016-17, the District's planning deficit was an estimated $8.9 million. The District's budget for the year funded 1,292 positions, cutting 42 positions. The personnel cuts included the elimination of 10 administrator/supervisors, 20 professional and instructional staff, and 12 support staff, including custodial and maintenance personnel. The District also offered an early retirement incentive.

The District ended the year with a surplus of just over $4.7 million and a negative fund balance of $67,050 due in part to the $4 million it received in Educational Access Funding. It was the receipt of these funds that led to the District's identification for Financial Watch Status and triggered the requirement it develop a plan to improve its finances and submit it to the Secretary within 180 days for approval.

Fiscal Year 2017-18

Fiscal Year 2017-18 planning began with the District again facing an operating deficit projected to reach $9.5 million. It closed the fiscal year, however, not in deficit but with a surplus of $22.4 million, due primarily to $14 million in additional Educational Access Funding the District received from the Commonwealth. The District transferred $15 million of the surplus to a Capital Projects Fund for future facilities improvements, leaving a $7.4 million surplus and a final unassigned fund balance of $8.1 million.

Notwithstanding the extraordinary state aid, the District, as it had in previous years, continued its efforts to generate budget savings. It took a significant step at the end of the school year when in June 2017 it launched a major consolidation and reconfiguration of its schools in time for the reopening of schools for School Year 2017-18. The changes included:

- o High Schools: The number of high schools were reduced from four to two. Central Career and Technical School was changed to Erie High School and students at Central were merged with students from Strong Vincent High School and East High School into a newly created Erie High School. Minor changes to Northwest Pennsylvania Collegiate Academy were made by adding students from a newly created Performing Arts Magnet Program.

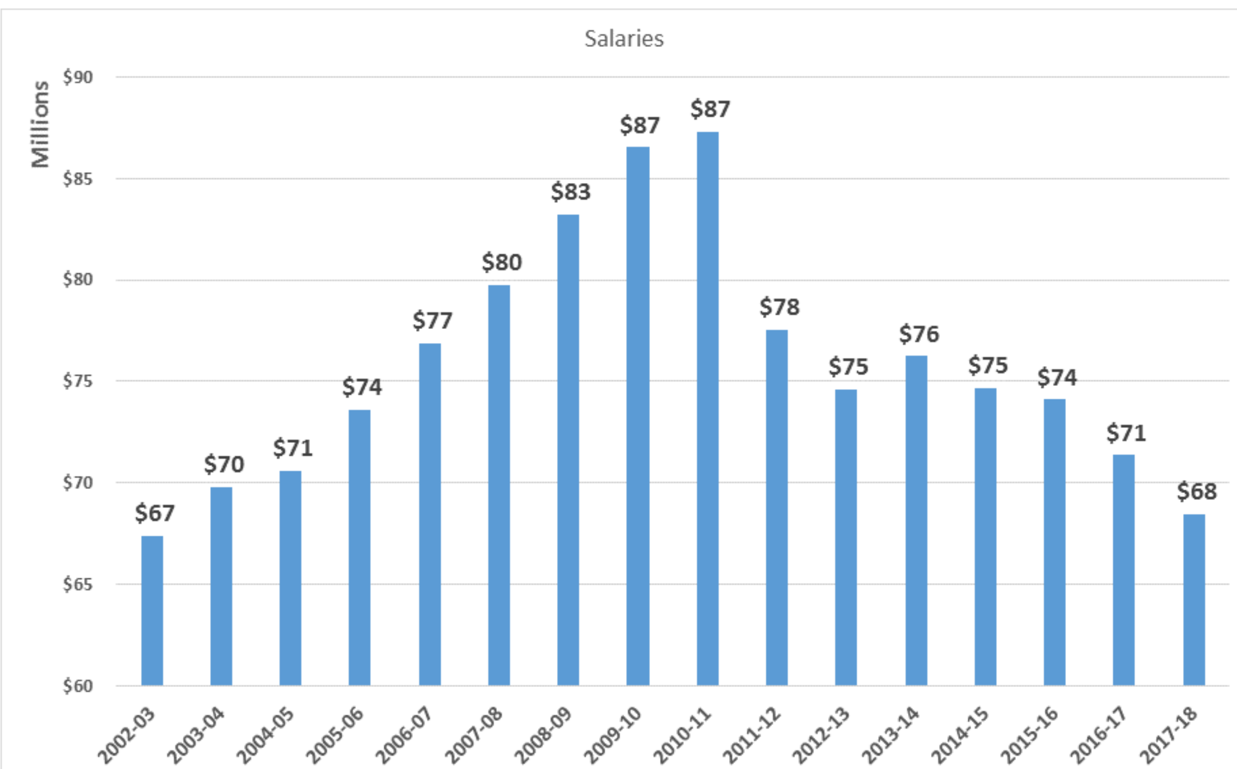
- Middle Schools: The former high schools Strong Vincent and East were transformed into middle schools and a consistent 6-8 grade pattern was instituted for the middle school grades.
- Elementary Schools: A consistent K-5 grade level pattern was instituted across all elementary school buildings. Formerly K-8 schools Connell, Diehl, Harding and Pfeiffer-Burleigh were reconfigured to K-5 elementary schools, while Edison, Grover Cleveland, Jefferson, Lincoln, McKinley, and Perry remained K-5 elementary schools. Two schools, Emerson-Gridley, formerly a K-5 school, along with Wayne, formerly a K-8 school, were closed in the process.

Along with these steps, the District also sold its former central kitchen building for $115,000. Taken together, the consolidations and closures produced $4.6 million in savings, including the elimination of 64 positions.

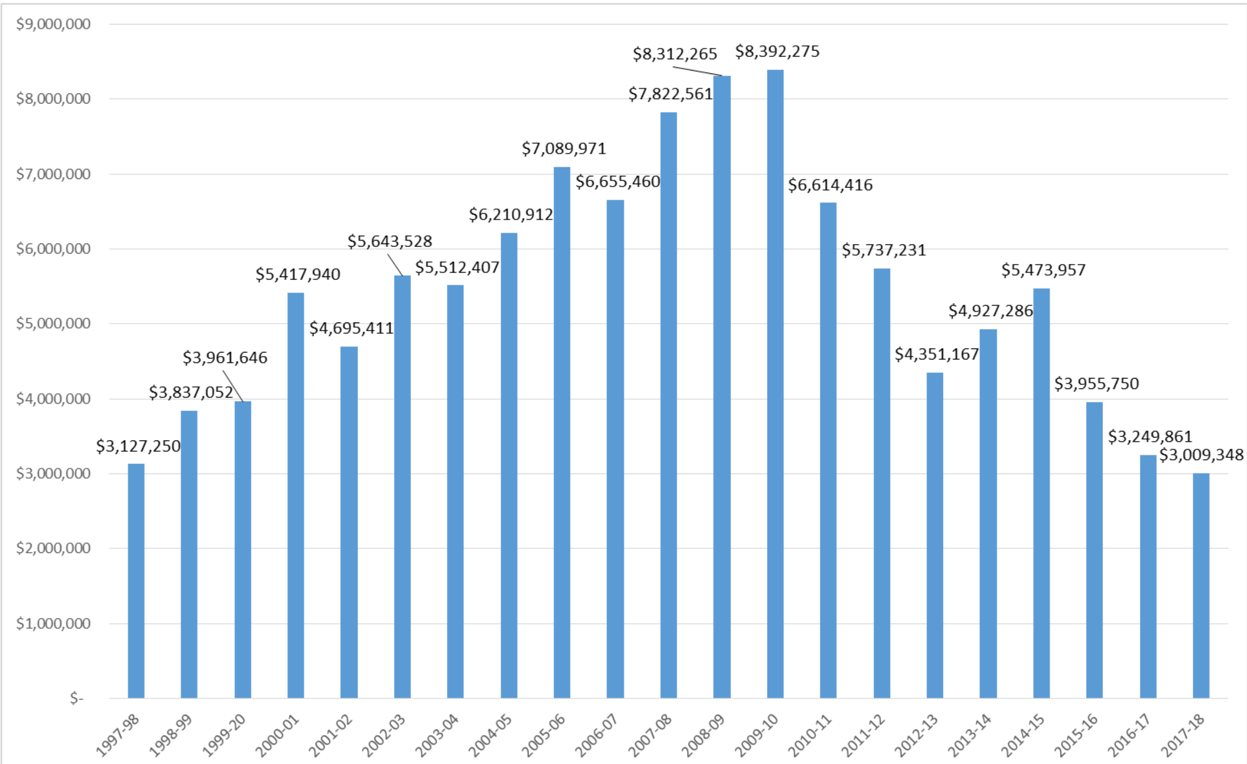
Most obvious from this review is that seven years of efforts to balance budgets and maintain fiscal solvency – a mixture of tax increases, eliminating positions, cutting programs, closing schools, reducing benefits, restructuring debt, negotiating givebacks, using one-time fixes, and the list goes on – worked a historic reset in the District's finances.

Evidence that this is so can be seen in the two charts below tracking the District's costs for salaries and supplies. At $68.4 million for Fiscal Year 2017-18, salary costs are currently at a level the District has not seen since Fiscal Year 2003-04. Supply costs at $3.0 million are lower today than they were in Fiscal Year 1997-98. It is in the wake of this reset that this Financial Improvement Plan is being developed.

Erie Public Schools Salaries 2002-2018



Erie Public Schools Supply Costs 1997-2018



Preliminary Baseline Financial Projections

The first step in the development of a Financial Improvement Plan for Erie Public Schools was to generate Preliminary Baseline Financial Projections (Preliminary Projections) to better understand the District's short- and long-term financial situation. The Preliminary Projections were generated using a budget model developed specifically for the District by PFM, which is under contract with PDE to provide technical assistance to the Financial Administrator and the District.

The budget adopted by the District for Fiscal Year 2018-19 was selected as the base year for planning purposes. Using the budget model, the base year revenues and expenditures were then adjusted every year for the next five years using a set of assumptions drawn from a variety of data sources, including the District's own experience and historical trends. The assumptions and supporting data went through multiple reviews by the Financial Administrator, PFM, the District, and PDE staff to ensure accuracy and confidence in the projections.

It is important to emphasize that these Preliminary Projections are just a starting point for analysis. That they do not account, for example, for any salary increases beyond those already negotiated and in place limits their long-term value. What they do provide though is insight into the District's "cost-to-carry," that is to say the cost to the District to maintain current operations without any changes in personnel, programs or policies. These projections can also be helpful in identifying underlying trends impacting the budget. Additionally, once the Preliminary Projections are finalized, they allow future policy or program changes to be examined in isolation to assess their impact on the budget.

Fiscal Year 2018-19 Budget

The District's Fiscal Year 2018-19 Budget serves as the starting point for analysis. That budget is projected to be exactly in balance with total revenues of just over $200.5 million to support total expenditures of just over $200.5 million. The 2018-19 Budget also maintains a year-end unallocated, unassigned fund balance of $7.9 million.

Included in the revenue mix is approximately $205,000 in additional local real estate tax revenues projected to be generated by a 0.5 percent increase (0.0835 mills) in the District's millage rate to 16.7899 mills from 16.7064 mills. The revenues also include $79.3 million in state Basic Education Funding (BEF). The District's BEF allocation includes the $14 million in Educational Access Program funding it received in Fiscal Year 2017-18. Under the state's new BEF funding formula, the $14 million is considered part of the District's base funding and will remain in the base and a part of the District's BEF allocation in future years.

On the expenditure side, the budget reflects $250,000 in savings from the elimination of before-school care and another $180,000 in savings from the reopening of the Emerson-Gridley School and the consolidation of the District's alternative education programs and Science Materials Center at the school.

Assumptions

Starting with the Fiscal Year 2018-19 revenues and expenditures, the PFM model was used to adjust these amounts over the next five fiscal years, through Fiscal Year 2023-24. Beginning with local revenue sources, the projections assume no increase in the real estate tax rate beyond the one-half of one percent (0.5 percent) increase adopted as part of the Fiscal Year 2018-19 Budget. The projections also assume future changes in the District's real estate tax base due to the expiration of exonerations under the Local Economic Revitalization Tax Assistance Act (LERTA), and the continuation of long-term trends for the decline in taxable assessed value. In addition, adjustments were made to delinquent real estate tax collections to account for the District's transition to a 12-month tax collection cycle. Real estate taxes account for nearly 80 percent of local revenues and approximately 22 percent of total revenues.

Earned income taxes, which largely track overall economic growth, were assumed to grow by 1.3 percent a year, reflecting the average annual growth rate in total adjusted personal income for the previous ten years.

For state revenue sources, the projections assume the District's BEF allocation will grow by approximately 2.4 percent a year. BEF is the District's largest source of revenues, representing 39.6 percent of total revenues. Going forward, the state's utilization of the new BEF formula is expected to drive a larger share of any new state dollars allocated to BEF to the District. Special Education Funding is expected to grow by 1.2 percent a year. Other major state sources of revenue -- transportation subsidies and state reimbursements for employee Social Security and pension benefits – are projected to grow in line with changes in expenditures and applicable rates.

Finally, all federal revenue sources were held level through the projection period, except for the District's School Improvement Grant, the final payments for which will be received in Fiscal Year 2018-19.
Moving to the expenditure side of the budget, the projections assume no salary increase for any group of District employees after the final year of any negotiated wage increase currently in place nor any reduction in staff headcount. Salaries are the single largest expenditure item in the District's budget, accounting for 35.6 percent of total expenditures. The chart below lists the groups with which the District has agreements and the salary increases provided for by those agreements. The shaded areas indicate the years in which each agreement is in effect.

Erie Public Schools: Current Employee Contracts

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
EEA	2.33%	2.20%	0.00%	0.00%	0.00%	0.00%	0.00%
EESPA	2.00%	2.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Local 95	0.00%	TBD	TBD	TBD	0.00%	0.00%	0.00%
Local 1968	2.00%	TBD	TBD	0.00%	0.00%	0.00%	0.00%
Act 93	2.00%	2.20%	TBD	TBD	TBD	TBD	TBD

Local 1968 and Local 95 both have wage reopener provisions in their current contracts to negotiate wage increases each year after the 2016-17 School Year. Salary increases for these agreements are assumed to be zero. The District's 5-year agreement with Act 93 administrators, which became effective on July 1, 2018 and will run through to June 30, 2023, provides for Act 93 administrators to receive the same percentage salary increase as is ultimately negotiated with District's professional instructional staff represented by the EEA.

Coupled with salaries and wages are employee benefits, the second largest expenditure category, accounting for 27 percent of total expenditures. The employee benefits expenditures cover several employment-related benefits costs. The most significant are medical insurance and pension costs, specifically District contributions to the Pennsylvania School Employees Retirement System (PSERS), which together account for 85 percent of all employee benefit costs. Medical insurance costs are projected to grow at 6.5 percent a year, in keeping with the District's historical growth rate which has trended slightly below national cost trends for similar types of health care plans. Growth rates for PSERS contributions are based on PSERS' projected rates applied to the District's payroll.

The last major expenditure area to highlight is Tuition Payments to Charter Schools, which reflects payments made by the District to support resident students who attend a charter or cyber charter school. The number of students enrolled in charter or cyber charter schools, the distribution of those enrollments between regular and special education students, and yearly tuition rates paid to charter and cyber charter schools all impact future expenditures levels.

The baseline projections assume charter and cyber charter school enrollments will continue to grow on pace with historical trends, which equates to an outflow of 60 students per year. Based on past enrollments, roughly 80 percent of the students attending charter schools are regular education students while the remaining 20 percent are students with special needs. The projections assume this same distribution going forward. Finally, charter and cyber charter school tuition rates, which are calculated according to state law, based on the District's prior year budgeted expenditures, and vary for regular and special education students, are projected to grow each year as the District's prior year budgeted expenditures grow.

Charter School Tuition and Enrollment Projections							
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
	Estimated	**Projected**	**Projected**	**Projected**	**Projected**	**Projected**	**Projected**
RE Tuition Rate	$9,142	$8,952	$9,266	$9,530	$9,727	$9,930	$10,135
SE Tuition Rate	$18,450	$19,489	$20,244	$20,925	$21,484	$22,038	$22,616
RE Enrollment (Est.)	1,936	2,072	2,121	2,170	2,220	2,269	2,318
SE Enrollment (Est.)	431	428	439	450	460	471	482
Total Enrollment	**2,367**	**2,500**	**2,560**	**2,620**	**2,680**	**2,740**	**2,800**

The planning assumptions used to generate the Preliminary Projections can be found in Appendix B. A detailed presentation of the Preliminary Projections is set out in in Appendix C.

Observations on Preliminary Baseline Financial Projections

The Preliminary Projections provide an important starting point for analysis and allow us to draw several observations of note. Turning first to the revenue side, total revenues from all sources over the projection period increase by $10.45 million, or about 5.2 percent, to $210.9 million from $200.5 million. On a year-over-year basis, revenues grow by roughly 1 percent a year through the projection period.

The overall increase in revenues masks a shift in the underlying sources. The increase in total revenues, for example, is driven largely by a nearly $12.8 million (10 percent) increase in revenues from state sources. The bulk of the state funding increase comes in Basic Education Funding by $10 million (12.7 percent) and State Reimbursement of Employee Benefits by $1.96 million (9.9 percent).

In contrast to the increase in total state revenues, the projections show a decline in total local revenues of just under $1.0 million (1.7 percent), driven largely by a decline of $1.8 million (4 percent) in real estate taxes. While this decline is, in part, a function of the completion in Fiscal Year 2018-19 of the District's transition to a 12-month collection cycle and holding real estate taxes level during the projection period, the data shows that even absent these changes the District is seeing an average yearly decline of 0.4 percent in the assessed values leading to lower real estate tax collections. The decline in real estate taxes is only somewhat offset by an increase in Act 511 taxes, primarily earned income taxes, of $442,000 (5.7 percent), leading to the overall decline in local revenues.

Federal revenues account for the balance of the decline, dropping by $1.3 million (8.2 percent) due to the completion of the District's School Improvement Grant which ends after the 2018-19 School Year.

The net result of these shifts is that by the end of the projection period state revenues account for 66.2 percent of total revenues, up from 63.7 percent in Fiscal Year 2018-19, while local revenues as a percentage of total revenues declines to 26.7 percent from 28.3 percent. Federal revenues fall to 7 percent from 8 percent of the total over the period.

A snapshot of the revenue trends underlying the Preliminary Projections can be found in Appendix D.

On the expenditure side, total expenditures are projected to increase by nearly $7.8 million, or 3.9 percent, over the period to $208.4 million from $200.5 million. At first glance, the overall 3.9 percent expenditure growth appears favorable compared to the 5.2 percent revenue growth over the projection period, but the year-to-year trend tells a different story. District expenditures are growing by about 2 percent a year, roughly double the 1 percent growth in revenues, and that is before factoring in any additional increases in salaries and wages beyond Fiscal Year 2018-19.

Employee salaries and benefits costs comprise the bulk of the District's total expenditures. Salaries and wages are the single largest expenditure, employee benefits the second largest. Salaries and wages decrease slightly over the projection period, though this is again largely a function of the planning assumptions of no salary increases or change in complement. While an increase in salaries and wages is likely during the projection period, the planning assumption of zero recognizes future increases are subject to negotiations and allows any salary increases to be viewed in isolation in terms of their impact on the projections.

Employee benefits, comprising several individual employee-related benefits, increase by $10.2 million (18.8 percent) over the projection period. This bulk of this increase is driven primarily by an increase in medical insurance costs which are expected to grow by $8.9 million. At 40.2 percent, the increase in medical insurance costs represents the single fastest growing individual line item in the District's budget. Rising pension costs are also a major contributor, with District contributions to PSERS growing by $1.8 million (7.4 percent). By the end of the projection period, employee salaries, wages and benefits combined are expected to account for 64.9 percent of total expenditures, up from 62.6 percent at the beginning of the period.

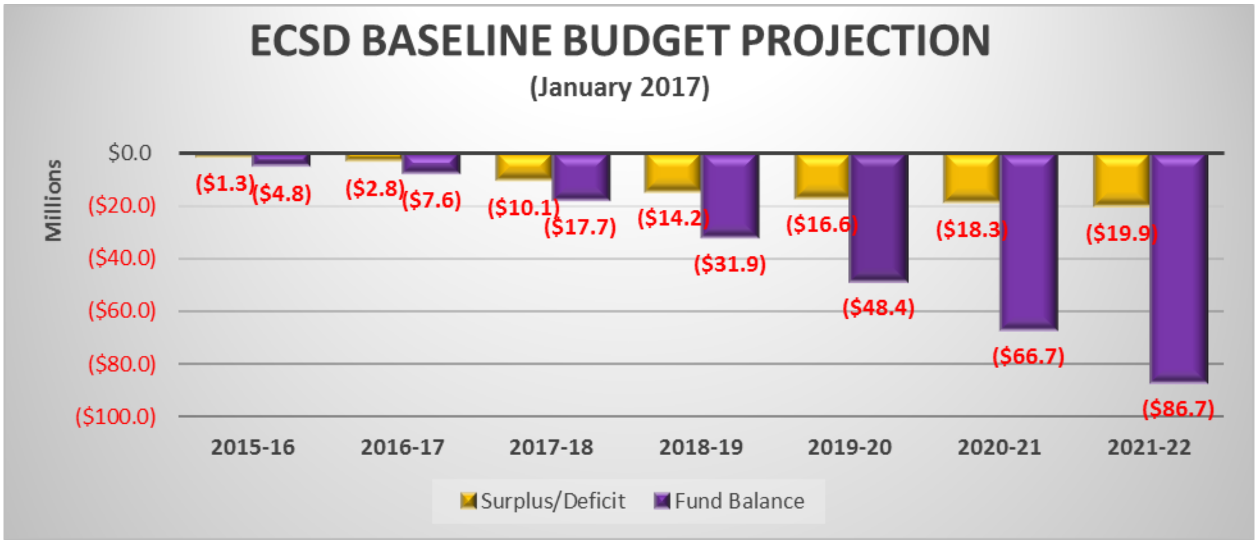
The final area of expenditure growth to highlight is Tuition to Charter Schools. With the District's budgeted expenditures growing along with charter school enrollments, tuition payments to charter schools through the period grow as well. Tuition rates for regular education students are projected to rise from an estimated $8,952 for Fiscal Year 2018-19 to $10,135 for Fiscal Year 2023-24, while rates for special education students are expected to rise from $19,489 to $22,616 over that same time.

The increase in charter school enrollments combined with the increases in the District's budgeted expenditures results in a $7.5 million increase in tuition payments to charter schools over the projection period. At 27.9 percent, the increase in charter tuition payments represents the second largest cost increase on a percentage basis in the District's budget over the projection period.

A snapshot of the expenditure trends underlying the Preliminary Projections can be found in Appendix D.

Taken on their face, the results of the Preliminary Projections depict a relatively stable financial picture for the District over the next five years. The projected budgets for the current fiscal year as well as the following five are not only in balance but generate modest, albeit declining, surpluses each year such that by the end of the projection period in Fiscal Year 2023-24 the District's fund balance is expected to total $35.9 million.

Mindful again of the limits of these projections, it is still worth reflecting here on the rather dramatic contrast they provide compared to the projections the District presented in the revised Financial Recovery Plan that was submitted to PDE back in January 2017. Those projections forecast an operating deficit of -$10.1 million beginning in Fiscal Year 2017-18 that climbed to -$19.9 million by Fiscal Year 2021-22, as well as a negative fund balance of -$17.7 million rising to -$86.7 million over that same time frame.



The infusion of the state Educational Access Program funding is the primary reason for the dramatic swing in these projections, though the District's ongoing budget balancing efforts helped contribute to the improved picture. But while the extraordinary state funding alleviated the immediate budget crisis the District faced, it did not solve all its financial challenges. What the extraordinary state infusion did do was to buy the District time and an opportunity to put itself back on a path towards fiscal solvency.

Updated Preliminary Baseline Financial Projections

Following the District's adoption of its Fiscal Year 2018-19 Budget and after the Preliminary Projections had been finalized, four budget-related developments took place that impacted on the projections: 1) Payments in Lieu of Taxes (PILOT) agreements; 2) Investment Income; 3) Copier Consolidation Initiative; and 4) Transportation Services Changes. Each of these developments and their impact on the Preliminary Projections are discussed in greater detail below.

In addition to these developments, new and updated information regarding special education, transportation, charter school tuition rates, and PSERS contributions rates was also identified. All these various changes were incorporated into the Preliminary Projections to generate Updated Preliminary Baseline Financial Projections (Updated Projections).

Payments In Lieu Of Taxes (PILOT) Agreements

About 30 percent of the assessed value of property in the City of Erie is exempt from real estate taxes, the result of the City being the seat of government for Erie County as well as the home to two large non-profit hospitals, two major universities, and a sizeable number of non-profit social services agencies. This fact adds a special dimension to the challenge facing the District considering real estate taxes generate 80 percent of its local revenues and 22 percent of total revenues.

To compensate for lost real estate tax revenues because of a property's tax-exempt status, the District has been able to establish agreements with certain property owners providing for payments in lieu of taxes, commonly known as PILOTs. PILOTs are voluntary payments by the non-profits that contribute towards public services but are typically less than what the entities would pay in property taxes if their properties were fully taxable. The District currently has in place PILOT agreements with twelve non-profit entities that yield just over $1.4 million per year in revenues. In fact, a November 2016 study by the Lincoln Institute of Land Policy, measuring the combined revenue for the county, city and school district, listed Erie, PA as one of the top ten cities in the U.S. that receives the most PILOT-derived revenue. A list of the District's PILOT agreements as of June 30, 2018 can be found in Appendix E.

Along with its efforts to generate revenue from tax-exempt entities through PILOTs, a District priority for the past year-plus has been to ensure that properties determined to be tax-exempt truly merit the exemption. To that end, the District undertook a complete review of all properties within its boundaries currently designated as tax-exempt to determine whether they legally warranted that status.

These efforts began to pay off when the District reached what was been termed a "precedent-setting deal" with the Housing and Neighborhood Development Service (HANDS), a private, non-profit which operates homes and apartments for low- and moderate-income residents in the City of Erie, covering twelve HANDS properties that had previously been classified as tax-exempt.

Under the agreement, approved by the Board on June 20, 2018, HANDS will make PILOT payments for two years beginning in Fiscal Year 2018-19 equal to half the amount the agency would have paid were its properties fully taxable. When the two-year agreement expires, HANDS' properties will become fully taxable. While the HANDS' payments will be split with Erie County and the City of Erie, the District will be the major beneficiary, receiving 49.5 percent of the total. The financial impact of these agreements is set out below.

HANDS Properties Transition to Taxable Status							
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	Cumulative
	Projected	Projected	Projected	Projected	Projected	Projected	Impact
Real Estate Taxes	$0	$0	$67,811	$68,506	$69,201	$69,201	$274,719
Payments in Lieu of Taxes	$33,182	$34,040	$0	$0	$0	$0	$67,222
Total Impact	**$33,182**	**$34,040**	**$67,811**	**$68,506**	**$69,201**	**$69,201**	**$341,942**

Investment Income

The infusion of Educational Access Program funding has stabilized the District's finances to the degree that it is now having to prudently manage a nearly $8 million fund balance. On May 16, 2018, the Board updated the District's investment policy, setting as its investment objective the goal of providing the highest investment return with the maximum security, safety and preservation of principal while meeting daily cash flow needs. On June 20, 2018, the Board approved a 2018-19 Investment Plan and Management Agreement with PNC Bank authorizing investments in U.S. Treasury Bills, commonly known as T-Bills, and similar type securities, as best meeting its investment objective.

Specifically, the District has invested its fund balance in a laddered T-Bill portfolio that staggers the maturity of the securities in 3-month increments. The staggered maturities allow the District to maintain liquidity while maximizing return. Additional cash flow during the year will be invested in securities offering daily liquidity with slightly lower returns for those periods where the District requires the cash be available before a 3-month maturity (for example, when real estate taxes are in the height of collections, but funds will be needed to meet debt obligations in one month). The financial impact of the income generated from the investment of the District's fund balance is set out below.

Investment Income (In $ Millions)							
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	Cumulative
	Projected	Projected	Projected	Projected	Projected	Projected	Impact
Interest Revenue	$0.2	$0.2	$0.2	$0.2	$0.2	$0.2	$1.2

Copier Consolidation Initiative

Over the course of the 2017-18 school year, with the aid of an outside consultant, the District undertook a district-wide assessment of its printer and copying services. Wanting to leverage its buying power (it prints more than 25 million copies per year), the District looked to move to a single vendor for all its print services rather than the five it had relied on, with goals of achieving efficiencies and budget savings.

At its June 20, 2018 meeting, the Board approved a $2 million, five-year contract with ComDoc Inc. to provide copying services throughout the District beginning in Fiscal Year 2018-19. The financial impact of the copier consolidation initiative is set out below.

Copier Contract Savings (In $ Millions)							
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	Cumulative
	Projected	Projected	Projected	Projected	Projected	Projected	Impact
Copier Contract Costs	$0.0	($0.1)	($0.1)	($0.1)	($0.1)	($0.1)	($0.5)

Transportation Service Changes

In late May 2018, the District was notified by the Erie Metropolitan Transit Authority (EMTA) that it was no longer interested in providing transportation services to the District. A long-time service provider to the District, EMTA was nearing completion of a $1.16 million contract to provide service for approximately 3600 students – 1,400 that attend District schools and another 2,200 that attend non-public or charter schools. Though one of several transportation providers utilized by the District, EMTA provides the bulk of the District's transportation services.

EMTA initially notified the District of its intent to end service completely after the 2017-18 school year, but eventually postponed any withdrawal. Under the terms of the contract for School Year 2019-20, the District will pay EMTA $1.23 million to transport at least 2600 students during the year, a roughly $68,000 increase over the prior school year. This equates to a rate of $2.70 per student per day compared to $2.40 per student per day rate the District paid the previous school year. As part of the agreement, the District also agreed to take over certain routes from EMTA. The financial impact of these transportation service changes is set out below.

Transportation Service Changes (In $ Millions)							
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	Cumulative
	Projected	Projected	Projected	Projected	Projected	Projected	Impact
Salaries	($0.1)	($0.1)	($0.1)	($0.1)	($0.1)	($0.1)	($0.3)
Net Benefits	($0.0)	($0.0)	($0.0)	($0.0)	($0.0)	($0.0)	($0.0)
Additional Equipment C	$0.5	$0.0	$0.0	$0.0	$0.0	$0.0	$0.5
Lease Savings	$0.0	($0.1)	($0.1)	($0.1)	($0.1)	($0.1)	($0.4)
Total Impact	**$0.5**	**($0.1)**	**($0.1)**	**($0.1)**	**($0.1)**	**($0.1)**	**$0.2**

New and Updated Information

In addition to the four developments above, the Updated Projections also reflect new and updated information from the Preliminary Projections. The changes made due to this information include:

1. 2017-18 AFR submitted to PDE:
    a. The District provided the financial results that were submitted in the Annual Financial Report (AFR) to PDE.

2. Adjustments to 2018-19 Budget to reflect impact of 2017-18:
    a. Following the reporting of its AFR, the District provided adjustments to major line items to reflect savings and actual revenues and expenditures.

3. Transportation:
    a. The purchase of 8 buses rather than the 4 reflected in the 2018-19 budget;
    b. A reduction in the number of bus drivers hired from 10 to 7;
    c. An adjustment in the costs and projections related to the District's contract with EMTA for transportation services, agreed to on August 15, 2018, to match the final agreement;
    d. A reduction in costs for contracted transportation providers to reflect estimated amounts for the 2018-19 school year;
    e. Ongoing savings from the end of a lease payment after 2018-19; and
    f. A recalculation of the state Transportation Subsidy to reflect the cost changes and to account for statewide allocation trends.

4. Special Education:
    a. The District's receipt in Fiscal Year 2017-18 of state reimbursement for extraordinary special education costs; and
    b. Funding adjustments to reflect revised Act 16 counts used to determine Fiscal Year 2017-18 calculations and estimates for Fiscal Year 2018-19.

5. Charter Schools:
    a. Charter school tuition rates for Fiscal Year 2018-19.

Compared to the Preliminary Projections, the Updated Projections show a modest improvement in the District's financial picture. The District ends the projection period with revenues of about $211.7 million, up over $715,000 compared to the earlier projections. A slightly larger change occurs on the expenditure side, where the District would end the period with expenditures of about $206 million, down nearly $2.4 million compared to the Preliminary Projections. As a result, the Updated Projections leave the District looking at modest yearly operating surpluses and a projected fund balance of $51.8 million, up $15.9 million from the $35.9 million.

A more detailed presentation of the Updated Projections can be found in Appendix F.

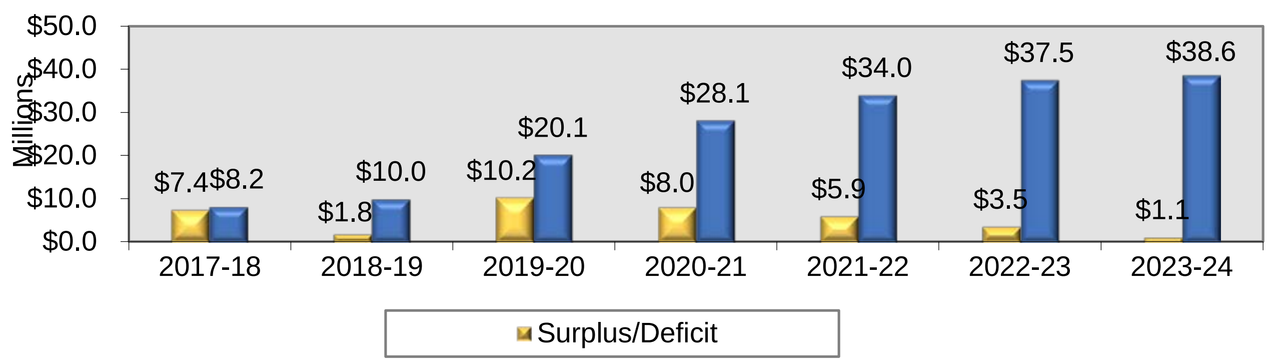
Salary Increases

With Updated Projections in hand, we assess next the impact of salary increases on the projections. Again, up to this point, neither the Preliminary nor Updated Projections has assumed any salary increase for any group of District employees after the final year of any negotiated wage increase that is in place. With salaries accounting for nearly 36 percent of the District's total expenditures, the single largest expenditure item in the budget, one would expect any increase, even modest ones, to have a significant impact on the projections. To size the impact of salary increases on the District's budget, PFM was asked to model scenarios that provided for a 1 and 2 percent salary increase.
Any increase in salaries will have a ripple effect on other line items in the budget. Expenditures for District contributions to Social Security and PSERS, for example, are both based, in part, on the District's total payroll so that as total payroll increases, contributions to both systems will increase as well. For Social Security, the District pays half of the payroll tax, 6.2 percent, up to $128,400 of each employee's yearly salary. For PSERS, the District's yearly contributions are determined by applying PSERS' contribution rates to the District's total covered payroll. For Fiscal Year 2018-19 the contribution rate is 33.43 percent and expected to rise to 36.30 percent by Fiscal Year 2023-24.

Rising salaries and wages, coupled with increased benefit payments, increases the District's total expenditures. As total expenditures rise in any one fiscal year, the District can expect increased tuition payments to charter schools the following fiscal year as the tuition payments are based on the District's prior year's total budgeted expenditures. By PFM's calculations, every $1 million increase in the District budgeted expenditures means an additional $184,000 in tuition payments to charter schools. For the District, the only offset to these added expenditures is a modest increase in revenues from the state reimbursement of employee benefits.

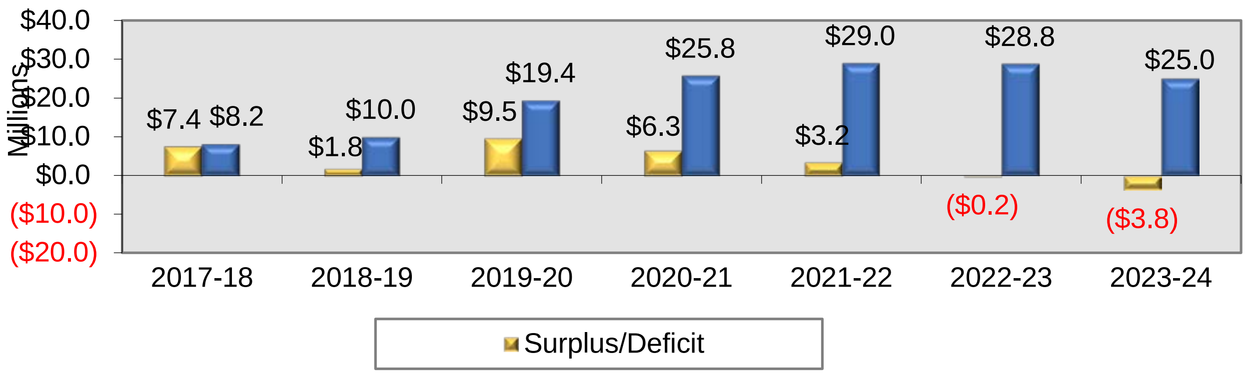
The impact of a 1 percent salary increase is an additional $5.7 million in expenditures by the end of the projection period, offset by just over $1.0 million in added revenues. As the chart below shows, in this scenario the District can expect to end each fiscal year with modest, though declining surpluses while still ending the period with a $38.6 million fund balance, $13.2 million less than was projected in the Updated Projections. A detailed presentation of the impact of a 1 percent salary increase on the Updated Projections can be found in Appendix G.

Year-End Surplus/Deficit and Fund Balance: One Percent Salary Increase



The impact of a 2 percent salary increase generates more challenging and likely more realistic results. In this scenario, the District can expect $11.7 million a year in added expenditures by the end of the projection period offset by $2.2 million in increased revenues from state reimbursements. The District would face a small operating deficit of about $232,000 beginning in Fiscal Year 2022-23 that balloons to nearly $3.8 million in Fiscal Year 2023-24, while its fund balance would drop by more than half to $25 million from the nearly $52 million forecast in the Updated Projections. A detailed presentation of the impact of a 2 percent salary increase on the Updated Projections can be found in Appendix H.

Year-End Surplus/Deficit and Fund Balance: Two Percent Salary Increase



As this second scenario suggests, a 2 percent salary increase likely marks a tipping point financially for the District. Any increase in this range and the District can expect growing operating deficits at the back end of the projection period (and beyond) that would rapidly exhaust its available fund balance. It demonstrates as well that the District's current budgetary status quo is untenable and that its long-term budget challenges did not simply vanish with the $14 million in Educational Access Funding.

Further evidence, if any was needed, can be also found in the example below. It shows that even if the District were to raise taxes to the Act 1 Index (3.5 percent) every year for the next five years, it would not generate enough revenues to cover the cost of a 2 percent salary increase. The reality for the District is that absent any changes, at some point in the near future it will be right back in the same place that it was before the extraordinary infusion of state funds.

Annual Increases to the Act 1 Index (In $ Millions)						
	2019-20 Projected	2020-21 Projected	2021-22 Projected	2022-23 Projected	2023-24 Projected	Cumulative Impact
Real Estate Taxes	$1.6	$3.3	$4.9	$6.7	$8.5	$25.0
Payments in Lieu of Taxes	$0.0	$0.1	$0.2	$0.2	$0.3	$0.9
Total Impact	**$1.6**	**$3.3**	**$5.1**	**$6.9**	**$8.8**	**$25.9**
Difference (Act 1 - Salaries)	**$0.1**	**($0.2)**	**($0.5)**	**($0.9)**	**($1.3)**	**($2.9)**

2% Salary Increase (In $ Millions)						
	2019-20 Projected	2020-21 Projected	2021-22 Projected	2022-23 Projected	2023-24 Projected	Cumulative Impact
Salaries	$1.4	$2.8	$4.2	$5.7	$7.2	$21.4
Net Benefits	$0.2	$0.4	$0.6	$0.8	$1.0	$3.0
Charter School Tuition	$0.0	$0.4	$0.8	$1.3	$1.9	$4.4
Total Impact	**$1.6**	**$3.5**	**$5.7**	**$7.9**	**$10.1**	**$28.8**

The challenge for the District as well as the Financial Improvement Plan then is how to close these gaps and balance the budget through the projection period in the face of the financial realities to come. At a high level, the District has basically three options available -- it can generate additional revenues, cut its expenditures, or embrace some combination of both.
Before examining the District's options, it is important to make note that the focus here is exclusively on revenue and expenditure options that are within the District's span of control. More directly stated, the challenge of closing any future budget gaps rests entirely with Erie Pubic Schools.

The projections to this point already account for increases in state support and a continuation of federal programs and dollars. Any additional extraordinary state support is assumed not to be an option to help balance future budgets. Nor can the District expect to close any gaps based on revenue increases or expenditure cuts considered to be uncertain or speculative. In short, the District must be able to balance its budget based on actions that it can take to either raise additional revenues or reduce expenditures, and it must be able to accomplish these actions and any accompanying savings with a reasonable degree of certainty.

Finally, as a way of framing the discussion around the District's potential options, consideration will first be given to the level of tax increases necessary to pay for any salary increases absent any other potential savings options. Following that discussion, the focus will turn to potential revenue and expenditure options that could work to reduce the level of future tax increases.

Tax Increases

Special Session Act 1 of 2006, later modified by Act 25 of 2011, is the state law that governs local school district taxation. Act 1 established an index that is used to determine the maximum percentage tax increase a school district can levy without exception or voter approval. Under Act 1, PDE is charged with calculating a base index each year that is determined by averaging the percent increases in the Pennsylvania statewide average weekly wage and the Federal employment cost index for elementary/secondary schools. Act 1 then allows for this base index to be adjusted upward for school districts with a market value/personal income aid ratio (MV/PI AR) greater than 0.4000. For these districts, the base index is multiplied by the sum of 0.75 and their MV/PI AR to arrive at an adjusted percentage that represents the maximum percentage tax increase they can impose for that fiscal year.

For Erie Public Schools, the adjusted Act 1 Index for Fiscal Year 2019-20 is 3.5 percent, a slight drop from the 3.7 percent Act 1 limit for Fiscal Year 2018-19. The District's percentage was arrived at, as the statute directs, by multiplying the PDE-calculated base index of 2.3 percent by the sum of 0.75 and the District's MV/PI AR of 0.7787 (2.3 x (0.75 + 0.7787)). The 3.5 percent is the maximum percentage tax increase the District can impose for the fiscal year without obtaining voter approval or applying and qualifying for one of the specific exceptions provided for in Act 1.

A more recent history of the District's adjusted Act 1 Index is set out below. For planning purposes, 3.5 percent is assumed to be the District's adjusted Act 1 Index for the balance of the projection period.

Erie Public Schools Adjusted Act 1 Index

Fiscal Year	Base Index	EPS Adjusted Index
2014-15	2.1%	3.2%
2015-16	1.9%	2.9%
2016-17	2.4%	3.7%
2017-18	2.5%	3.8%
2018-19	2.4%	3.7%
2019-20	2.3%	3.5%
Average	**2.3%**	**3.5%**

For districts seeking to increase tax rates above the maximum allowed by the Index, Act 1 requires they seek either voter approval or apply and receive approval from PDE for a referendum exception. Act 1 sets out four referendum exceptions based on costs associated with:

1. School Construction-Grandfathered Indebtedness
2. School Construction-Electoral Indebtedness
3. Special Education Expenditures
4. Retirement Contributions to the Public School Employees' Retirement System (PSERS)

In each of these four instances, a district can receive an exception only to the extent that the growth in its costs for any one of these activities in a single fiscal year exceeds the district's Act 1 Index and then only to the extent that a tax increase is needed to address those additional costs.

Given the limits established by Act 1 and assuming a 2 percent salary increase, PFM was requested to generate a budget scenario that identified the level of tax increase necessary each year for the District to maintain a balanced budget through the projection period. PFM was also requested to assume a uniform level of tax increases every year during the period so to avoid any conflict with Act 1's taxing limits as well as the law's voter approval process. Finally, it was assumed the District would not qualify for any Act 1 exceptions as the cost increases in any single year for any of the allowable areas would not exceed the Index.

The need for these parameters is illustrated by a simple example. Assuming a 2 percent salary increase, PFM was asked to determine the level of tax increases necessary were the District to wait until Fiscal Year 2023-24 to close the projected $3.8 million deficit. By PFM's calculations, the District would be required to raise taxes by 8.29 percent, nearly 2.5 times the District's Act 1 Index and impermissible under the law absent voter approval, which would have to be considered highly unlikely. More to the point, that the District knows today that these budget gaps will materialize down the road, prudent financial planning requires addressing the challenge now rather than later.

With this guidance then, PFM determined that the District would need to raise taxes 1.56 percent a year beginning in Fiscal Year 2019-20 through the projection period to erase the budget gaps created by a 2 percent salary increase.

While tax increases offer the District the most certain option to balance its budget and are a likely component of any final Financial Improvement Plan, they are not the only option available to the District. Several years of budget cutting has substantially reduced the District's options to generate new revenues or reduce expenditures – alternatives to raising taxes – but it did not eliminate them entirely. What follows are the potential revenue and expenditure balancing options that could, in addition to tax increases, assist the District in meeting its future budget challenges and ensure its fiscal solvency through the projection period.

Revenue and Expenditure Balancing Options

Other Tax-Exempt Properties

The District's initiative to re-examine the status of properties currently designated as exempt from real estate taxes along with its precedent-setting deal with HANDS has created an opportunity for new revenue generation. In addition to the HANDS' properties, the District has identified some twenty other properties as currently tax-exempt but unlikely to qualify for that designation under the relevant legal tests for tax-exempt status. The total taxable value of these other tax-exempt properties is $14.8 million.

During the summer of 2018, the District contacted the owners of these properties and notified them of the District's determination that their properties are unlikely tax-exempt. The District offered each owner an agreement on par with HANDS, namely, that the District would refrain from immediately challenging the properties' tax-exempt status in exchange for the owners agreeing to pay fifty percent of their tax bill for a certain duration, after which they would agree that their parcel would convert to full taxable status. The District indicated it would need an agreement in place before August 1, 2018 for an owner to avoid an exemption hearing. Of the 15 properties identified in this effort, the District was able to establish convertible PILOTs for eight and filed tax exemption appeals against the remaining seven properties.

During this process, the District also identified three properties that are currently subject to PILOT agreements but were determined to not warrant tax-exempt status. These three properties have a total assessed value of $6.6 million. The agreements covering these properties can be cancelled in 2020 and 2021, after which the District will move to have the properties subject to full taxable status. The revenue and tax impact of this initiative is set out in the chart below.

Pursue PILOTs for Other Tax-Exempt Properties (In $ Millions)						
	2019-20 Projected	2020-21 Projected	2021-22 Projected	2022-23 Projected	2023-24 Projected	Cumulative Impact
Real Estate Taxes	$0.0	$0.0	$0.2	$0.3	$0.3	$0.8
Payments in Lieu of Taxes	$0.1	$0.1	($0.0)	($0.1)	($0.1)	($0.0)
Total Impact	**$0.1**	**$0.1**	**$0.2**	**$0.2**	**$0.2**	**$0.8**
Annual Tax Impact of Initiative	**(0.15%)**	**(0.01%)**	**(0.23%)**	**(0.09%)**	**(0.00%)**	**(0.48%)**

Outsourcing Custodial Functions and Operations

Next to its core instructional role of education, custodial functions and operations represent one of the largest areas of service delivery for the District. With 16 schools (including Emerson-Gridley), the Administration, Service Center, and Culinary Center buildings, two athletic facilities, and three vacant school buildings – together comprising over 2.4 million total square feet – the job of cleaning and maintaining the District's facilities is a huge and important undertaking. Today that responsibility falls largely to a staff of 63 employees who are members of the Painters & Allied Trades Local #1968.

The salary and benefits (health insurance, retirement and social security) costs for the custodial staff totals approximately $4.4 million a year. Over the past five years, the District has also spent $104,000 in overtime cost, an average of $20,779 a year. The District's agreement with Local #1968 provides for two tiers of hourly wage rates for custodial staff based on their date of employment. For Fiscal Year 2017-18, Tier 1 custodians hired before July 1, 1991 earn $19.29 per hour while those hired after the July 1st date, Tier 2, earn $14.98 per hour. Three of the District's custodians are considered Tier 1, the rest Tier 2. A comparison of these rates with available market wage data suggests the potential for savings by outsourcing the District's custodial services.

The U.S. Department of Labor's Bureau of Labor Statistics (BLS) provides occupational employment and wage data for a variety of occupations specific to the Erie, PA Metropolitan Statistical Area (MSA). The BLS Occupational Employment Statistics for the Erie, PA MSA from May 2017 (https://www.bls.gov/oes/current/oes_21500.htm#37-0000), the most recent data available, shows a mean hourly wage for janitors and cleaners (occupational code 37-2011) to be $11.57 per hour. Comparing the BLS data to the District's hourly rates finds Tier 1 custodians earn $7.72 an hour, or 66.7 percent, more than the mean hourly wage, while Tier 2 custodians earn $3.41 an hour more than the mean hourly wage, or 29.5 percent.

The wage differential between "in-house" and "contracted" staff is likely to produce significant first year savings for the District in moving to contracted services, close to $700,000 by PFM's estimate before accounting for one-time unemployment compensation costs, and these savings are expected to grow larger over time. This is a result of two factors.

First, the District is likely to experience lower cost growth from outsourcing going forward when compared to the cost growth for its own in-house staff. This is due mainly to lower projected cost growth in benefits for contracted services, primarily in medical and retirement costs, and the gap between the two is expected to grow over time. Even after accounting for a small loss in state reimbursements, the savings from lower future cost growth would more than outweigh the reimbursement loss to produce additional net savings for the District each year.

A second factor contributing to the savings is the compounding effect outsourcing has on tuition payments to charter schools. As we have seen, charter school tuition payments grow with the District's prior year budgeted expenditures, but the opposite is true as well. So as the District's budgeted expenditures decline in any one year through outsourcing, so to do its tuition payments to charter schools the following year. The revenue and tax impact of this initiative is set out in the chart below.

Outsource Custodial Services (In $ Millions)

	2019-20 Projected	2020-21 Projected	2021-22 Projected	2022-23 Projected	2023-24 Projected	Cumulative Impact
Salaries	$0.0	($2.3)	($2.3)	($2.4)	($2.4)	($9.4)
Net Benefits	$0.0	($1.5)	($1.6)	($1.7)	($1.8)	($6.5)
One-time Unemployment Costs	$0.0	$0.6	$0.0	$0.0	$0.0	$0.6
Contracted Services	$0.0	$3.1	$3.2	$3.3	$3.4	$12.9
Charter School Tuition	$0.0	$0.0	($0.2)	($0.3)	($0.4)	($0.9)
Total Impact	**$0.0**	**($0.2)**	**($0.9)**	**($1.1)**	**($1.2)**	**($3.3)**
Annual Tax Impact of Initiative	**0.00%**	**(0.33%)**	**(1.65%)**	**(0.42%)**	**(0.19%)**	**(2.59%)**

Stationary Steam Engineers

An ordinance adopted by the City of Erie makes it unlawful for any person or building owner(s) to operate or cause to be operated any steam boiler or steam-driven machinery without having a "duly qualified, licensed person in charge of such operation" (Codified Ordinances of Erie, Title One, Article 319, Stationary Steam Engineers). The ordinance provides for three classes of licensure -- Class 1, Chief Stationary Engineer, Class 2, Stationary Engineer, and Class 3, Water Tender -- and establishes the qualifications, terms and conditions under which personnel in each licensed class can operate steam boilers and steam-driven machinery. The City's ordinance applies to all steam boilers above a certain size within the City limits, except those in private dwellings.

As written, the City ordinance applies to six (Emerson-Gridley, Edison, Grover Cleveland, Wilson, Collegiate, and Erie High) of the District's sixteen school buildings that utilize steam boilers. To meet the requirements of the City ordinance, the District must employee qualified and licensed building engineers (sometimes referred to as "firemen") in each of these six buildings.

Following the adoption of the City ordinance, the Board adopted a resolution on May 8, 1996 "for the safety of the students [and] employees" to require a "qualified licensed engineer/fireman" to operate "*all boilers and boiler related equipment* [emphasis added] in the city school buildings" and further required such licensed personnel to be "on duty when the boilers are in operation and the building is being occupied by school children." The full text of the City ordinance as well as the Board resolution can be found in Appendix I.

As can be seen by the plain wording of the resolution, the Board went beyond the requirements of the City ordinance, extending the requirement for a licensed stationary engineer to cover all school buildings, even those without steam boilers. In January 2018, the Board amended this policy to allow the District to employ unlicensed personnel in cases where licensed engineers were not available to operate non-steam boilers.

The record of the Board discussion on the adoption of the May 1996 resolution is not very extensive. Other than highly generalized references to “safety” there does not appear anywhere in the record any reason or rationale for the Board to have gone beyond the requirements of the City ordinance in requiring licensed engineers in school buildings with non-steam boilers.

On the issue of safety, one presumes that if public safety, particularly the safety of school-age children, were at risk from the operation of non-steam boilers unsupervised by licensed engineers, the City would have extended its requirement for licensed engineers to include buildings with non-steam boilers. That the City did not do so strongly suggests that there is no risk and, by extension, no added safety value to the District by the Board’s extension of the City’s policy to encompass school buildings with non-steam boilers. The Board’s own January 2018 amendment to the policy to allow for unlicensed personnel to operate non-steam boilers in cases where licensed engineers are not available also undercuts the notion of safety being the primary driver behind the District policy. Discussions with professional engineers with expert knowledge of steam and non-steam boilers adds further weight to the view that there are no safety concerns in the operation of non-steam boilers such that they would require licensed personnel to tend them.

If the safety gains from the policy are hard to discern, the added costs to the District are more easily quantifiable. The District currently employs 12 engineers and/or firemen holding some class of licensure in the ten school buildings without steam boilers to meet the requirements of the Board policy. The hourly rate for these positions ranges from $20.87 to $27.25 per hour. Notwithstanding the licensed nature of their positions, the bulk of the duties (80 to 90 percent) these engineers and firemen perform are unrelated to building boiler operations but are more supervisory in nature, overseeing and directing school building custodial staff.

BLS data from May 2017 (the most recent available) for first-line supervisors of housekeeping and janitorial workers (occupational code 37-1011), positions more comparable to the actual roles these engineers and firemen are filling, shows a mean hourly wage of $17.77 for the Erie, PA MSA. In comparing the District’s hourly rate to these BLS rates, the District is paying anywhere from 15 to 35 percent above the mean market rate were the steam engineer positions more appropriately classed based on the actual duties being performed.

In addition to the hourly wage differential, the District also bears additional costs from overtime as the policy requires a licensed engineer/fireman “on duty when the boilers are in operation and the building is being occupied by school children.” Over the past five years, the District has spent nearly $923,000 in overtime for engineers and firemen attributable non-steam boiler buildings, an average of $184,576 per year. Even with the smaller building footprint that resulted from the 2017 consolidation, the District has averaged just over $140,000 a year in overtime costs over the past two years.

Lacking any compelling safety rationale that would require engineers be maintained in school buildings without steam boilers, changing the District’s current policy to bring it in line with the City’s ordinance would generate immediate savings from the elimination of overtime in the ten buildings without steam boilers. Over the longer-term, the custodial supervision duties the engineers currently perform could be outsourced as part of the larger custodial outsourcing initiative addressed above. This would allow the engineer/firemen positions to be eliminated beginning in Fiscal Year 2021-22 when the District’s current contract with Local 95 of the International Union of Operating Engineers covering these positions expires. The revenue and tax impact of this initiative is set out in the chart below.

Outsource Stationary Steam Engineers (In $ Millions)						
	2019-20 Projected	2020-21 Projected	2021-22 Projected	2022-23 Projected	2023-24 Projected	Cumulative Impact
Salaries	($0.1)	($0.1)	($1.2)	($1.2)	($1.3)	($4.0)
Net Benefits	($0.0)	($0.0)	($0.6)	($0.6)	($0.7)	($2.0)
One-time Unemployment Costs	$0.0	$0.0	$0.3	$0.0	$0.0	$0.3
Contracted Services	$0.0	$0.0	$1.6	$1.6	$1.7	$4.8
Charter School Tuition	$0.0	($0.0)	($0.0)	($0.1)	($0.1)	($0.3)
Total Impact	**($0.2)**	**($0.2)**	**$0.0**	**($0.3)**	**($0.4)**	**($1.1)**
Annual Tax Impact of Initiative	**(0.34%)**	**(0.09%)**	**0.46%**	**(0.77%)**	**(0.20%)**	**(0.94%)**

Increased Health Care Payments for Retirees Hired Prior To 7/1/16

The District currently pays for healthcare coverage for retirees until they are Medicare eligible for all retirees hired prior to July 1, 2016. Erie Public Schools is the only school district in Erie County to offer this type of benefit. Many surrounding districts provide retiree health care to age 65, but employees are charged for coverage at the COBRA rate. COBRA refers to the Consolidated Omnibus Budget Reconciliation Act, federal law that provides for continued health care coverage once employees no longer work for a company by paying a similar premium. By contrast, the District pays all retiree health care costs to age 65.

The initiative on retiree health care would increase cost-sharing for new retirees who receive health benefits beginning in 2019-20. Employees already retired and receiving this benefit would not be impacted by this initiative. The projected savings from the initiative are set out below.

Increase Retiree Payments for Health Benefits (In $ Millions)						
	2019-20 Projected	2020-21 Projected	2021-22 Projected	2022-23 Projected	2023-24 Projected	Cumulative Impact
Retiree Healthcare Costs	($25,920)	($57,240)	($89,640)	($122,040)	($154,440)	($449,280)
Tax Impact of Initiative	**(0.06%)**	**(0.07%)**	**(0.07%)**	**(0.07%)**	**(0.07%)**	**(0.34%)**

Increased Employee Contributions for Medical Benefits

As was seen above in the review of both the Preliminary and Updated Projections, expenditures for employee medical insurance benefits are expected to grow by $8.8 million over the projection period, rising from $21.85 million in Fiscal Year 2018-19 to $30.66 million by Fiscal Year 2023-24. This expected growth, a 40.2 percent jump, makes medical insurance costs not only the single fastest growing individual line item on a percentage basis in the entire District budget but an easy to understand target for cost control going forward.

A comparison of medical insurance benefits provided by Erie Public Schools with those of surrounding school districts offers some added perspective to this discussion. While the details of medical insurance coverage may vary in ways large and small across districts, for this analysis attention is focused on the total annual deductible and contributions for the employee coverage obtained, whether single or family. Doing so allows us to compare what is essentially the total out-of-pocket costs in a given year to the employee for the specific type of coverage they purchased.

For Erie Public Schools, the total annual out-of-pockets costs – deductible and contributions – for employees is $960 whether they purchase single or family coverage. Roughly 64 percent of Erie Public School employees purchase family coverage and 36 percent purchase single coverage. Comparing these amounts to 22 other surrounding school districts, including the Northwest Tri-County Intermediate Unit 5 and the Erie County Technical School, finds Erie Public Schools ranked 16th in terms of the highest out-of-pocket costs for family coverage and 7th highest in terms of out-of-pocket costs for single coverage. (Note: a breakdown of the percentages of employees purchasing either single or family coverage from other school districts was not available for comparison purposes.) A chart comparing medical benefits for Erie Public Schools with surrounding school districts can be found in Appendix J.

When it comes to benefits as it does with salaries, the case is often made that Erie Public Schools is in competition with neighboring school districts for teaching talent and that it must be competitive in that market to attract and retain quality teachers. While this is no doubt true, it is also the case that there are limits to what the District can afford. Given that its third largest expenditure item is also its fastest growing cost center, making some progress in this area to control costs should be a District imperative.

As the two scenarios below demonstrate, "some" progress has the potential to produce large savings to help hold costs down. Introducing a $100 per year deductible for in-network and a $200 per year deductible for out-of-network coverage, for example, would generate over $186,000 in first year savings which would climb to nearly $300,000 by the end of the projection period. The revenue and tax impact of this initiative is set out in the chart below.

Increased Deductible Savings (In $ Millions)						
	2019-20	2020-21	2021-22	2022-23	2023-24	Cumulative
	Projected	Projected	Projected	Projected	Projected	Impact
Increased Employee Deductible	($186,264)	($226,923)	($260,054)	($276,958)	($294,960)	($1,245,159)
Tax Impact of Initiative	**(0.41%)**	**(0.09%)**	**(0.07%)**	**(0.04%)**	**(0.04%)**	**(0.65%)**

Likewise, small increases in co-pays for prescription drugs, such as a $2 increase (from $8 to $10) in co-pays for generic drugs and a $20 increase (from $20 to $40) in co-pays for brand-name drugs, would generate nearly $224,000 in first year savings, rising to over $350,000. The revenue and tax impact of this initiative is set out in the chart below.

Increased Prescription Drug Copays						
	2019-20	2020-21	2021-22	2022-23	2023-24	Cumulative
	Projected	Projected	Projected	Projected	Projected	Impact
Increased Copays	($223,989)	($272,883)	($312,723)	($333,050)	($354,699)	($1,497,344)
Tax Impact of Initiative	**(0.49%)**	**(0.11%)**	**(0.09%)**	**(0.04%)**	**(0.05%)**	**(0.78%)**

Though the savings potential is sizeable, the certainty of these initiatives and or any others like them are speculative as they are the subject to negotiations. An outline of the potential medical and prescription drug benefit changes the District could pursue can be found in Appendix J.

School Consolidation and Closures

As noted above, the District's more recent history has seen it go through two consolidations and reconfigurations. The first, in 2012, closed three elementary schools and the second, in 2017, reduced the number of high schools to two from four, transformed two former high schools into new middle schools, and closed two elementary schools while also instituting consistent grade level patterns across all its middle (grades 6-8) and elementary schools (grades K-5).

Notwithstanding the 2017 and 2012 efforts, a snapshot of the District's current school buildings, capacity and enrollments set out below shows over 4,500 available seats remain throughout the District's now 15 schools and the entire system operating at only 71 percent of capacity. (The recently reopened Emerson Gridley School which houses the District's Cyber Choice and Accelerated Learning Academies was not included in the snapshot). Ten of the District's schools are operating at capacity utilization levels below 80 percent.

Elementary Schools					
Building	**Grade Configuration**	**Capacity**	**Current Enrollment**	**Seats Available**	**Capacity Utilization**
Cleveland	PreK-5	827	613	214	74%
Connell	PreK-5	775	607	168	78%
Diehl	PreK-5	550	467	83	85%
Edison	PreK-5	625	510	115	82%
Harding	PreK-5	825	659	166	80%
Jefferson	PreK-5	600	514	86	86%
Lincoln	PreK-5	555	392	163	71%
McKinley	PreK-5	775	528	247	68%
Perry	PreK-5	600	462	138	77%
Pfeiffer-Burleigh	PreK-5	900	644	256	72%
Total		**7,032**	**5,396**		**77%**
Middle Schools					
East	6-8	1,318	740	578	56%
Wilson	6-8	978	778	200	80%
Strong Vincent	6-8	1,267	823	444	65%
Total		**3,563**	**2,341**	**1,222**	**66%**
High Schools					
Collegiate Academy	9-12	1,529	897	632	59%
Erie High	9-12	3,448	2,383	1,065	69%
Total		**4,977**	**3,280**	**1,697**	**66%**
Grand Total		**15,572**	**11,017**	**4,555**	**71%**

On their face, these numbers point to the potential for additional budget savings from further school consolidations and closures. A cursory review suggests the most likely near-term options would be for District to close another elementary school (Lincoln and Edison appear to be prime candidates for consideration) and consolidate its three middle schools into two (likely eliminating Wilson Middle School). Lincoln's candidacy for closure is more obvious given its capacity, coupled with the price tag the building will require to address its facility needs. Edison is a candidate if only for the fact that the condition of the buildings is among the most challenging in the District, requiring a total renovation were its needs to be addressed, costs that could be avoided were the school to be closed.

The chart below outlines the potential savings that could be realized from the closure of both an elementary and middle school. Having closed schools in the recent past, the District knows well the savings generated by these closures are very real. Notwithstanding the ability to generate sizeable savings from these closures, the District would be wise to move cautiously on any consolidations and closures, at least in the near term. Though by most accounts the District did a remarkable job in executing its Summer 2017 reconfiguration, even the casual observer can see that it is still working through issues attendant to that move. While there little is in the way of hard data, there is anecdotal evidence to suggest that the 2017 reconfiguration led some families to opt their children out of District schools and enroll them in charter schools.

Given the enormous pressure charter tuition costs place on the District's budget and the outsized role (negative as well as positive) they potentially have on future budgets, the District should avoid the disruptions additional consolidations and closures are certain to generate, disruptions that could well spark an exodus of students to charter schools at precisely the time when the District's priority needs to be checking the outflow.

Avoiding further consolidations and closures, however, only makes sense so long as the District's efforts to stabilize the outflow of students to charter schools are successful. In the near term, these efforts should be made a priority and given a chance to work. The more successful the District's efforts, the less likely the need for additional school closures. If the District's charter stabilization strategy is not successful, however, and the flight of students to charter schools continues, further school closures will almost certainly become necessary, a "Plan B" budget option should the District's "Plan A" fail. The revenue and tax impact of this initiative is set out in the chart below.

Close One Elementary School and One Middle School (In $ Millions)

	2019-20 Projected	2020-21 Projected	2021-22 Projected	2022-23 Projected	2023-24 Projected	Cumulative Impact
Salaries	$0.0	$0.0	($3.6)	($3.7)	($3.8)	($11.2)
Net Benefits	$0.0	$0.0	($2.1)	($3.0)	($2.2)	($7.3)
One-time Unemployment Costs	$0.0	$0.0	$0.0	$1.0	$0.0	$1.0
Contracted Services	$0.0	$0.0	($0.5)	($0.5)	($0.5)	($1.5)
Utilities Costs	$0.0	$0.0	($0.2)	($0.2)	($0.2)	($0.7)
Charter School Tuition	$0.0	$0.0	$1.4	$0.4	($0.0)	$1.8
Total Impact	**$0.0**	**$0.0**	**($5.1)**	**($6.1)**	**($6.8)**	**($18.0)**
Annual Tax Impact of Initiative	**0.00%**	**0.00%**	**(11.15%)**	**(2.35%)**	**(1.44%)**	**(14.94%)**

Charter School Enrollment Stabilization

In the current year budget, the District is projected to spend $26.7 million – 13.4 percent of its total expenditures -- in tuition payments to charter schools to support an estimated 2,384 regular and special education students who live in the District but chose to attend a brick and mortar charter or cyber charter school. Next to the Salaries for Professional and Instructional Staff line item, Tuition to Charter Schools represents the second largest expenditure line item in the District's budget, surpassing even costs for employee medical insurance and PSERS contributions.

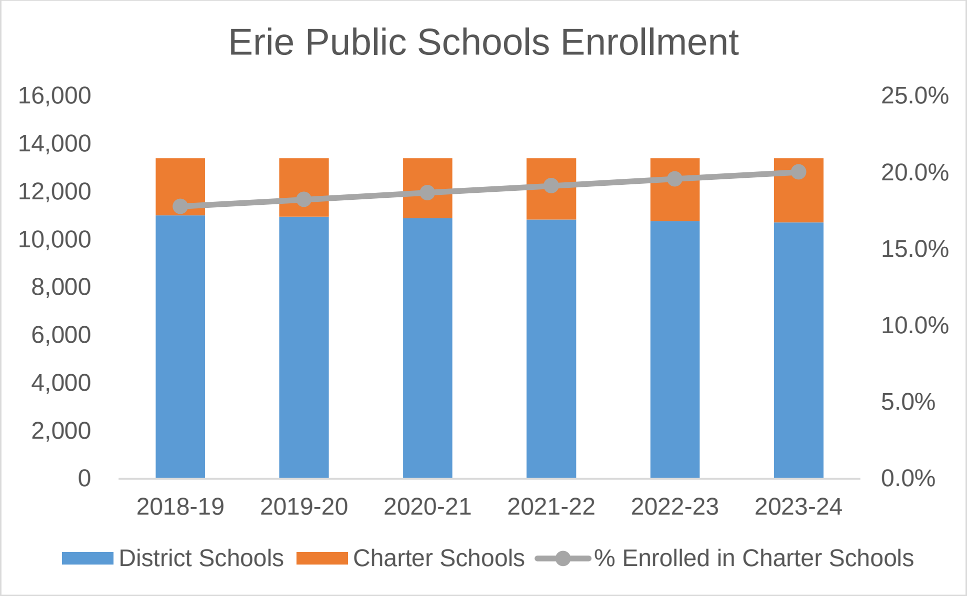
Looking forward, as the Updated Projections do, charter school tuition payments are expected to reach $35.4 million by the end of the projection period, a nearly $8.7 million jump. This would represent a 32.5 percent increase, making charter school tuition payments the second fastest growing line item in the District's budget after medical insurance costs.

The increase in tuition costs is driven by the assumption -- consistent with the District's historical experience -- of an additional 60 students a year, 300 in total over the projection period, leaving a District school to enroll in a charter or cyber charter school. The chart and graph below provide a glimpse of what the future holds if these assumptions come to pass. By School Year 2023-24, 20 percent of the District's total enrollments will be in charter schools, 1 of every 5 students.

Erie Public Schools: District and Charter School Enrollments

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
	Projected	**Projected**	**Projected**	**Projected**	**Projected**	**Projected**
District Schools	11,017	10,957	10,897	10,837	10,777	10,717
Charter Schools	2,384	2,444	2,504	2,564	2,624	2,684
Total	**13,401**	**13,401**	**13,401**	**13,401**	**13,401**	**13,401**

Erie Public Schools: Percentage of Students Enrolled in Charter Schools



As sobering a snapshot as this may appear, future expenditure growth will only compound the pressures charter school tuition costs place on the District's budget as increases in spending in any one year translate into higher charter tuition costs the next. In the 2 percent salary increase scenario, for example, charter tuition payments increase another $1.9 million over the Updated Projections rising to $37.3 million by Fiscal Year 2023-24. At this level, charter payments would consume just over 17 percent of the District's total expenditures and mark a 39.7 percent increase over the current year's budget.

Of course, all of these numbers are projections, though not unreasonable ones given the District's historical experience with charter school enrollments. The District's history, however, does not have to define its future. For what is abundantly clear is that of all the revenue and expenditure balancing options at its disposal, curbing future charter school enrollment growth is the District's single biggest lever to positively impact its future budgets and better ensure its fiscal solvency going forward.

The District starts at this task with a host of positives on which to build and, despite some obvious challenges, some great success stories to tell. First among them is what must be considered its “crown jewel,” Northwest Pennsylvania Collegiate Academy, consistently recognized as the top high school in northwestern Pennsylvania and annually ranked by *U.S. News* as one of the top 5 schools in Pennsylvania and top 1 percent nationally.

Lesser known but equally compelling are success stories like the District’s pathway programs that connect students to careers. A shining example is its outstanding Nursing Assistant program that has produced a 100 percent pass rate on the state nursing assistant exam over the last several years and helped graduates go from school directly into jobs. As significant is the promising growth elementary and middle school students are demonstrating in literacy and math, with more, not fewer, students showing academic gains.

As indispensible to the District’s strategy as great success stories is having better quality information to better understand the needs and interests of parents and students. This is particularly so when it comes to parents and students who are making the choice to leave a District school and attend a charter or cyber charter school. There is lots of conjecture as to why students leave but little in the way of fact. The student exit interviews the District has begun conducting are a step in the right direction. These interview forms collect baseline student information but also ask students their reason(s) for leaving school and, in the case of students withdrawing to attend a charter or cyber charter school, their reason(s) for making that choice.

A final element to the District’s strategy must be to focus on steps it can take to keep students from deciding to leave in the first place. Keep in mind, the District’s challenge vis-à-vis these financial projections is to stem the outflow of students to charter schools. That means focusing on what it can do to see that charter school enrollments grow by less than 60 students a year, 300 over the projection period.

There is every reason to believe a well-executed charter school enrollment stabilization strategy can be successful in helping the District curb future enrollment growth. As of January 15, 2019, roughly midway through the school year, the District’s charter school enrollments stood at 2,322, up just 6 students from the 2,316 charter enrollments on this same date exactly one year ago. While one year does not make a trend, this news can only be considered encouraging particularly as it has come about with little focused effort by the District. A more concerted and systematic effort may well be able to replicate these results in future years. Only time will tell.

To measure what the success of these efforts may mean to the District’s financial projections, PFM was asked to model a scenario that assumed a 50 percent cut in the outflow of students to charter schools to 30 students a year, 150 over the projection period. PFM was also asked to model a more optimistic scenario that assumed the District was able to hold charter school enrollment growth to zero after School Year 2019-20. The revenue and tax impact of these initiatives are set out in the chart below.

Charter School Stabilization: 50% Cut in Enrollment Growth (In $ Millions)						
	2019-20	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**Cumulative**
	Projected	**Projected**	**Projected**	**Projected**	**Projected**	**Impact**
Charter School Tuition	($0.4)	($0.8)	($1.3)	($1.9)	($2.5)	($6.9)
Annual Tax Impact of Initiative	**(0.79%)**	**(1.04%)**	**(1.14%)**	**(1.21%)**	**(1.31%)**	**(5.49%)**

Charter School Stabilization: Zero Growth After 2019-20 (In $ Millions)						
	2019-20	2020-21	2021-22	2022-23	2023-24	Cumulative
	Projected	Projected	Projected	Projected	Projected	Impact
Charter School Tuition	($0.4)	($1.2)	($2.2)	($3.3)	($4.4)	($11.4)
Annual Tax Impact of Initiative	**(0.79%)**	**(1.87%)**	**(2.19%)**	**(2.35%)**	**(2.54%)**	**(9.75%)**

Investments in Education and Facilities

Having weathered budget cuts that battered its budget for nearly a decade, the prospect of the Financial Improvement Plan and a return to fiscal solvency has sparked the District to advance plans that would begin to reinvest in its students and schools. As both plans would require new funding, they must be considered as part of the overall Financial Improvement Plan.

Education Plan

Even as it was consumed with its financial crisis, it is clear the District never lost sight of its core educational mission. It was in the wake of the crisis that the District launched what it described as a stakeholder driven strategic planning process aimed at unifying the organization and larger school community around the goal of "accelerating learning, growth and success for every student, without exception."

The District's initiative was rooted in its belief that the current educational status quo was unacceptable and that dramatic steps were needed to address what it considered to be too many students not making sufficient academic progress. Consider:

- The 2018 PSSA results show that only 34 percent of students in English Language Arts and just 20 percent in math tested at proficiency or above;
- For School Year 2016-17, roughly 74 percent of students graduated in four years compared with the statewide average of 87 percent;
- In 2016-17, just 45 percent of students reach a 95 percent attendance rate; and
- According to PDE data, the District's dropout rate for School Year 2016-17 was 5.12 percent, nearly 3 times the statewide rate of 1.72 percent.

The product of the District's efforts was a six-year strategic plan *Mobilizing Community, Igniting Excellence*. The centerpiece of the plan is a set of five aspirational goals and measures for student success organized around a framework of "four pillars" to organize work at the school and system level to achieve the goals for student success. The plan also identified the key actions required to align the people, practice and programs of the District behind the objective of accelerated student learning.

Consistent with the strategic plan's priorities, the District has proposed a two-part, 5-year budget plan aimed at improving student achievement. The first part of the plan would update and replace curriculum across all grade levels and subject areas over the next five years with the hope of returning the District to a consistent curriculum replacement cycle in future years. Importantly, the plan prioritizes the adoption of a new English Language Arts (ELA) curriculum for all elementary schools and a new math curriculum for all elementary and middle schools, addressing two critical areas of underperformance. These proposals align with key actions 1.1, 1.3, and 1.4 of the strategic plan.

For both ELA and math, the District's Assistant Superintendent for Academics has developed procedures and timelines with key milestones for the adoption of new curriculum, culminating with a recommendation to the Superintendent and approval by the Board. While the adoption process for ELA and math is already underway this current school year, the District's education plan, if approved, looks to adopt in future years curriculum for ELA grades 6-12 as well as Algebra, Geometry, Biology, Social Studies in grades 6-12, Science in grades 4-12, and electives for grades 6-12.

The second part of the District's plan calls for 13 elementary and middle school "interventionists" to provide additional academic support to students who are not on grade level, especially in ELA and math. The plan also calls for the addition of three "specials" teachers so that art, music and physical education can be provided to all students. These proposals align with key actions 3.1, 3.2, 3.3, 2.4 and 3.4 of the strategic plan. The proposed budget for the District's education plan can be found in Appendix K. The revenue and tax impact of this initiative is set out in the chart below.

Erie Public Schools Education Plan (In $ Millions)

	2019-20 Projected	2020-21 Projected	2021-22 Projected	2022-23 Projected	2023-24 Projected	Cumulative Impact
Salaries	$0.8	$0.8	$0.8	$0.8	$0.8	$3.9
Net Benefits	$0.4	$0.4	$0.4	$0.5	$0.5	$2.1
Curriculum Cycle	$1.2	$1.6	$1.3	$1.7	$1.4	$7.2
Charter School Tuition	$0.0	$0.5	$0.7	$0.7	$0.8	$2.7
Total Impact	**$2.4**	**$3.3**	**$3.2**	**$3.7**	**$3.5**	**$16.0**
Annual Tax Impact of Initiative	**5.25%**	**1.96%**	**(0.11%)**	**0.97%**	**(0.39%)**	**7.67%**

Facilities Improvement Plan

Erie Public Schools has its share of old and aging building infrastructure. Save for two of its elementary schools (McKinley and Pfeiffer-Burleigh) and one middle school (East) that are just decades old, most of the District's school buildings date back 60 to over 100 years, with an average building age of roughly 75 years. While all its buildings have undergone some renovations over time, deferred maintenance compounded by its recent financial struggles has left most of the District's buildings in either fair or poor condition. This is especially true when it comes to the buildings' core systems – roofs; heating, ventilation, and air conditioning (HVAC) systems; plumbing; and electrical – that are essential to keeping schools open, operating and safe for the children and staffs that call them home.

In anticipation of the Financial Improvement Plan, the District engaged HHSDR Architects/Engineers in June 2018 to assess the capital improvements needed across the District's facilities, except for its Administration Building and Culinary Center. HHSDR was directed to take a "no frills" approach in its evaluation and to focus only on those capital improvements necessary to keep buildings "warm, safe and dry" with an emphasis on maintaining the operational integrity of core building systems.

In November 2018, HHSDR presented to the Board the results of its evaluation, proposing a two-phased, multi-year $211 million improvement plan. For purposes of the Financial Improvement Plan, the District is focused on the Phase 1 priorities recommended by HHSDR, a 3-year, $80.8 million plan of infrastructure improvements and renovations.

In keeping with the "warm, safe and dry" mandate the District provided HHSDR, the bulk of the proposal's costs are to address structural repairs to building exteriors, roofing, windows, and paving, followed by costs for electrical and HVAC systems upgrades. The proposal also includes safety and security upgrades such as entry vestibules for each school to control building access along with electronic controls to regulate employee access to buildings. The *District-Wide Facilities Plan* PowerPoint presentation that HHSDR provided to the Board can be found in Appendix L.

The District has proposed financing the plan through a combination of fund balance transfers and a new $50 million bond issue. The District's proposal would maintain $8 million in reserves for emergencies and unforeseen events but transfer surplus funds to a Capital Project Account for facilities upgrades.

A new bond issue would also fund the termination of a Series 2011 variable interest rate bond and refund a Series 2009 bond. Both transactions are in the District's financial interest and would each generate modest savings. The bond transaction in its entirety would add $3.1 million a year in new debt service and extend the District's existing bond payments by five years, from thirteen to eighteen years. The revenue and tax impact of this initiative is set out in the chart below.

Erie School District Facilities Plan (In $ Millions)						
	2019-20 Projected	2020-21 Projected	2021-22 Projected	2022-23 Projected	2023-24 Projected	Cumulative Impact
Additional Debt Service	$0.0	$3.1	$3.1	$3.1	$3.1	$12.4
Tax Impact of Initiative	**0.00%**	**6.73%**	**0.07%**	**0.06%**	**0.07%**	**6.93%**

Financial Improvement Plan – Plan Options

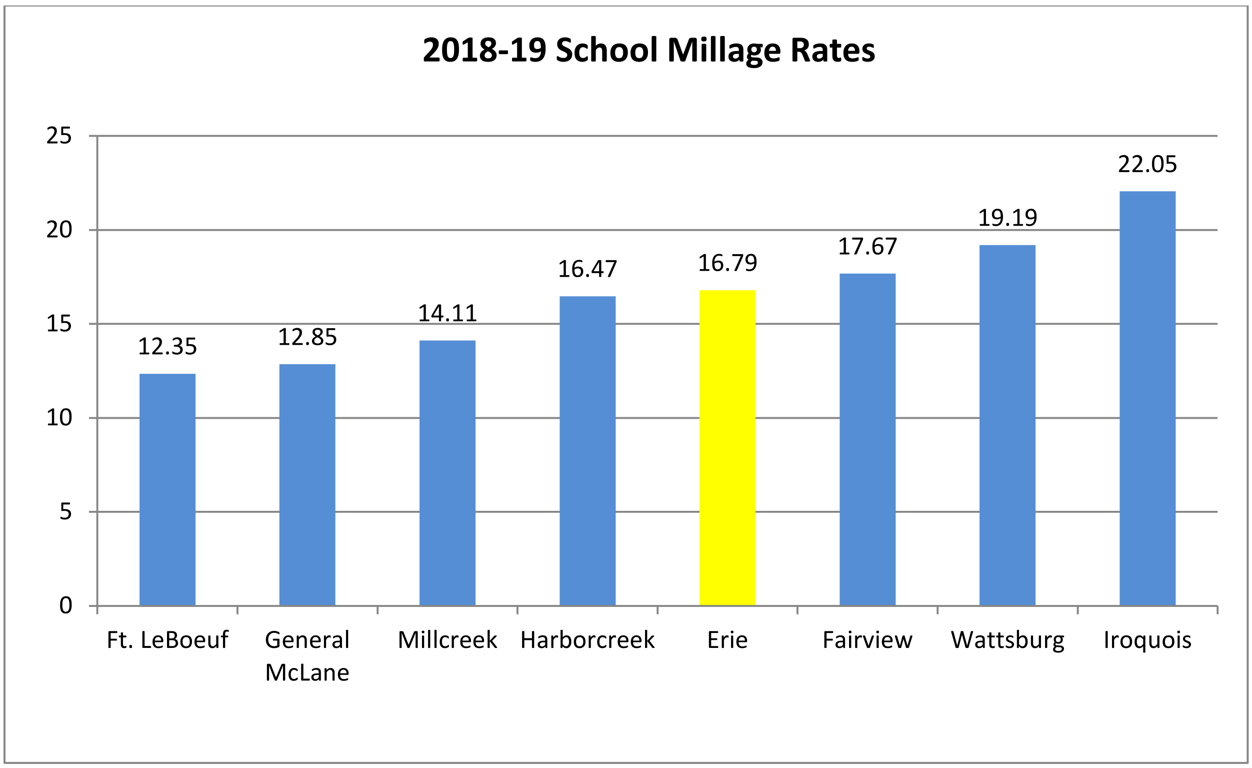
With tax increases, revenue and expenditure initiatives, and the District's education and facilities improvement plans to consider, the task next turns to developing a Financial Improvement Plan that combines that mix of options best likely to improve the District's future financial performance and better ensure its fiscal solvency. The criteria applied in this sorting process are the same that were articulated earlier, namely, that any proposed solution must be: 1) within the District's span of control to execute; 2) include revenue and expenditure options, or some combination of both; 3) that the options chosen are able to be accomplished with a reasonable degree of certainty; and 4) that the savings produced by the options not be speculative, that they too must be able to be achieved with a reasonable degree of certainty.

Taxes

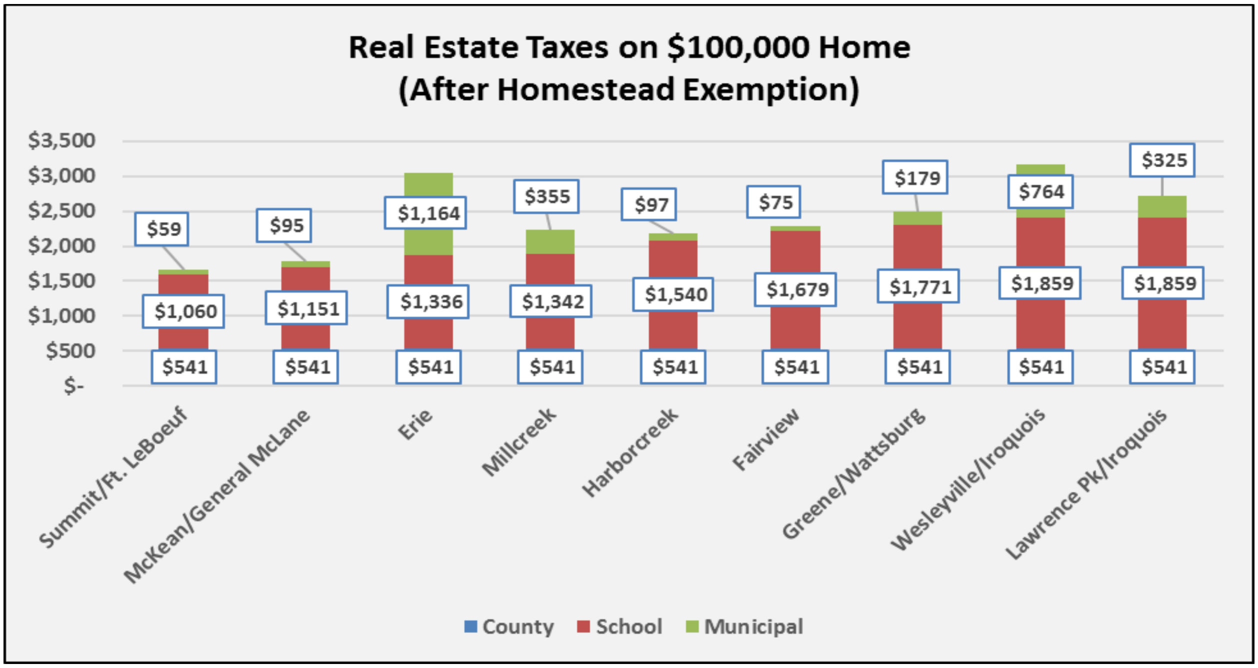
As it was at the outset of this exercise, tax increases remain the most certain option available to the District, at least to the extent any proposed increases remain within the limits of the District's Act 1 Index. Recognizing tax increases are typically viewed as the least attractive option, the Financial Improvement Plan cannot discard them simply because they are unpopular. By the same token, the Plan cannot ignore the reality of what any increases would mean for District taxpayers as well as the District's tax position relative to neighboring school districts and other taxing bodies. The graphs set out below help provide some insight to these questions.

This first graph compares the District's current millage rate with that of neighboring school districts and, as can be seen, at 16.79 mills it places roughly in the middle of the group. The second graph depicts the real estate taxes paid by an owner of a $100,000 home in Erie County after the homestead exemption is applied, providing a comparison of what a District homeowner pays in taxes as compared to what a like homeowner pays in a neighboring school district. As the graph shows, considering only school taxes, the District homeowner's tax bill would be among the lowest in the region. At $1,336, only homeowners in General McLane and Ft. LeBoeuf School Districts are paying less in school taxes than the District homeowner. It is only after the City of Erie's taxes are layered in that the District homeowner goes from paying the third lowest real estate tax bill to paying the second highest tax bill behind like homeowners save for those in the Iroquois School District.

Comparison of School Millage Rates, 2018-19:



Comparison of Real Estate Taxes on a $100,000 Home:



The chart below provides the more recent history of District tax increases and compares those increases to both the Consumer Price Index (CPI) and Social Security Cost-of-Living Adjustment (COLAs), the latter of which is used to provide annual increases in Social Security benefits to offset the effects of inflation for those on fixed incomes. The data shows the District's history of tax increases has been episodic, having raised taxes in 5 of the last 12 years and often after several years of no increases. The data shows too that while the District has in the past enacted some very large increases, the increases averaged over the past dozen years average out to a 1.5 percent yearly increase, lower than both the CPI and Social Security COLAs over that same period.

Erie Public Schools Tax Increases: 2007-2018

Year	CPI-U	Social Security COLA	Tax Increase
2007	2.4%	3.3%	0.0%
2008	4.0%	2.3%	0.0%
2009	0.2%	5.8%	0.0%
2010	2.1%	0.0%	4.3%
2011	2.1%	0.0%	5.4%
2012	2.9%	3.6%	0.0%
2013	2.0%	1.7%	7.1%
2014	1.1%	1.5%	0.0%
2015	0.0%	1.7%	0.0%
2016	1.0%	0.0%	0.0%
2017	2.7%	0.3%	0.5%
2018	2.2%	2.0%	0.5%
Average	**1.9%**	**1.9%**	**1.5%**

Finally, as tax increase options are considered, the chart below serves as a helpful guide to calculating the revenue a given increase is likely to generate, the impact of that increase on the District's millage rate, and what that increase means in terms of a homeowner's tax bill.

Tax Increase Revenue Generation

Percent Increase	Millage Increase	Impact on $100,000 Home	Estimated Revenue Generated
0.5%	0.0839	$8.39	$235,845
1.0%	0.1679	$16.79	$471,690
1.5%	0.2518	$25.18	$707,536
2.0%	0.3358	$33.58	$943,381
2.5%	0.4197	$41.97	$1,179,226
3.0%	0.5037	$50.37	$1,415,071
3.5%	0.5876	$58.76	$1,650,917

Revenue and Expenditure Initiatives

While each of the revenue and expenditure initiatives that were reviewed generate some level of savings, not all can be considered viable alternatives for including in the Financial Improvement Plan. Increasing the amount that employees contribute for their medical benefits by raising deductibles or prescription drug co-pays, for example, could generate sizeable savings but that these proposals are subject to negotiation makes them too speculative an option to include in the Plan. The same applies to increasing retiree payments for health care benefits.

Similarly, the option of additional school consolidations and closures carries certain savings but that they may well work against the District's interests by spurring enrollments in charter schools makes them a less attractive alternative, at least in the near term.

Of the remaining initiatives, the PILOTs for other tax-exempt properties are already ongoing and certain to generate new revenues for the District. The initiatives to outsource both custodial services and the stationary steam engineers offer the potential to generate substantial savings for the District and should be considered as potential Plan components.

The charter school stabilization initiatives are less straightforward to categorize. Whether the initiatives are viable depends on judgments as to what extent the District can reasonably be expected to make headway in blunting the outflow of its students to charter schools. In this regard, the initiative to cut the outflow in half is viewed as more likely to occur than the more aggressive initiative that would stem the outflow in its entirety. It is also the case that the viability of both initiatives is influenced by the District's education and facilities improvement plans and the degree to which either or both are undertaken.

Education and Facilities Improvement Plans

If the Financial Improvement Plan reveals any bias it is to favor those potential options that would fund the District's proposed education and facilities improvements plans over those that would not. That current levels of student achievement are unsatisfactory is undeniable. But it is unreasonable to think the District can accelerate learning and academic growth much less stem the outflow of students to charter schools absent any new investments in its educational program. Likewise, the facilities improvement plan would address core systems critical to keeping buildings open and operating and likely avoid in many cases more expensive repairs that would be required were any of these systems to fail. Plan options then that would enable these goals to be achieved should be preferred over those that do not.

Financial Improvement Plan

To help determine the mix of options best likely to improve the District's performance and better ensure its fiscal solvency, PFM was asked to run several budget scenarios. These scenarios and the annual tax impact each would entail are set out in the chart below. There were no scenarios that did not require some level of tax increase.

	Scenario 1	Scenario 2	Scenario 3	Senario 4a	Scenario 4b	Scenario 5-Plan Scenario
Final Year Deficit	($3,759,858)	($1,939,953)	($10,383,408)	($8,563,502)	($7,641,069)	($6,073,435)
Tax Increase to Balance (One-Year)	8.29%	4.28%	22.89%	18.88%	16.84%	13.39%
Required Annual Tax Increase	1.56%	0.81%	4.09%	3.40%	3.06%	2.46%

Scenario 1 would pay for a 2 percent salary increase with a tax increase and do nothing else. This scenario required a 1.56 percent a year increase in taxes. Scenario 2 sought to minimize the tax increases by maximizing the revenue and expenditure initiatives. This scenario, applying the savings from the other tax-exempts and the outsourcing of custodial services and stationary steam engineers, drove the yearly tax increases down to 0.81 percent, or less than 1 percent, a year. That neither of these scenarios addressed the District's education and facility needs makes them less preferable options.

In Scenario 3, PFM was asked to determine the tax increases necessary to support a 2 percent salary increase as well as the District's education and facilities improvement plans, with no offsetting savings options. The answer, at 4.09 percent, put the needed tax increases over the District's Act 1 Index and removed the scenario from consideration.

Scenario 4 considered alternatives to Scenario 3. Scenario 4a added the savings from the other tax-exempts and the outsourcing of custodial services and stationary steam engineers. This scenario lowered the tax increase to 3.4 percent, just below the District's Act 1 Index. Scenario 4b added the savings from the other tax-exempts and the charter school enrollment stabilization initiative but excluded any savings from the outsourcing initiatives. Scenario 4b required a 3.06 percent tax increase. While both alternatives are conceivably workable options to guide the District going forward, the fact that both would require tax increases above 3 percent a year make them less attractive than the final scenario that was considered.

That scenario, Scenario 5, serves as the basis of the Financial Improvement Plan and is an "all of the above" scenario. This Plan Scenario enables the District to pay for a 2 percent salary increase, fund its education and facilities plans, and still maintain a modest fund balance for emergencies or unforeseen events. It does so by combining a 2.46 percent tax increase with all the savings options considered in all the other scenarios -- the other tax-exempts, the outsourcing of custodial services and stationary steam engineers, and the charter school enrollment stabilization. It is this Plan Scenario that is judged best likely to improve the District's performance and better ensure its fiscal solvency. A detailed presentation of the Plan Scenario Projections can be found in Appendix M.

Budget Process and Projections

While the Plan Scenario provides the District a roadmap to improve its performance and return it to fiscal solvency, a guaranteed feature of any plan is the likelihood it will change. It is no less the case here. An obvious example is the assumption of a 2 percent salary increase the Plan Scenario is built on, which may be a different number when the District reaches new agreements with its various bargaining units. Likewise, the Plan Scenario uses the estimated savings from the outsourcing of custodial services and stationary steam engineers to reduce needed tax increases, though the actual amount these initiatives will generate will only be known once the District has gone through a Request for Proposal (RFP) process to solicit bids to outsource these functions. In sum, as these and other numbers change so to must the Plan to reflect these changes.

Recognizing these limitations, the Plan proposes to align the financial projections used to guide the District while it is in Financial Watch Status with the District's own budget process to ensure the District remains on a track towards fiscal solvency.

Specifically, the Plan calls for the Financial Administrator to issue updated financial projections and a recalculation of the tax increase needed to keep the District's budget in balance through the projection period prior to the Board's May Committee of the Whole meeting. These May projections would incorporate any new information and be based on the District's proposed budget for the coming fiscal year, which is typically presented in April. The May projections would also include a review of proposed savings offsets and a calculation of the tax increase necessary with and without the offsets. For this to work requires the Superintendent provide the Financial Administrator with the District's proposed budget two weeks prior to the Board's April Committee of the Whole meeting. This process would begin with the development of the District's Fiscal Year 2019-20 Budget.

Updated financial projections would be issued again prior to the Board's regular meeting in December and reflect both the current year budget adopted by the District back in June as well as the audited financials of the prior year's budget, which are typically available by October of each year and presented to the Board in November or December. The December projections would also contain an initial estimate of the tax increase needed in the coming year's budget to keep the District's budget in balance through the projection period.

This December update is important too because of the Act 1 deadline that requires the Board to either adopt a resolution not to raise the rate of any tax by more than the District's Act 1 Index or make available for public inspection a preliminary budget. This statutory deadline, which is set at 110 days prior to primary election day, typically falls in late January or early February, depending on the primary date. The cycle of May and December updated projections would occur each fiscal year for as long as the District is in Financial Watch Status.

Revenue and Expenditures Initiatives

The revenue generated by the District's Other Tax-Exempt Properties initiative is determined through legal agreements. A handful of properties in the initiative are currently in an appeal process to determine the exact taxable status of the properties. Any revenue derived from new agreements reached in cases where the District receives a favorable determination will be accounted for in the Plan projections as the agreements are reached.

The proposed savings initiatives to outsources custodial services and stationary steam engineer functions are timed to be considered through the budget process. The Plan proposes the Board adopt a resolution no later than its August 2019 meeting to direct the Superintendent to develop and issue a RFP for the outsourcing of custodial services and stationary steam engineer functions on a timeline that would allow for a Board presentation of the bids by no later than

December 2019. That sequence would allow the outsourcing initiatives to be considered in Spring 2020 during the Fiscal Year 2020-21 Budget development process.

To realize immediate savings from the elimination of overtime for engineers in buildings without steam boilers, the Board should adopt by the end of Fiscal Year 2018-19 a resolution to conform the District's current policy regarding stationary steam engineers with the City's ordinance requiring engineers only for steam boilers and when the boilers are in operation.

On charter school enrollment stabilization, the proposed budget process and specifically the issuance of the May updated financial projections will enable the District to capture the value of its efforts to stabilize charter school enrollments. By the April/May timeframe when updated projections are to be generated, the District will have 9 to 10 months of actual data on charter enrollments for the current year. Utilizing this data, the District and Financial Administrator will be able to both gauge the success of the District's ongoing stabilization efforts and make a better, more informed judgment in projecting charter enrollments for the coming year's budget.

Given the significant role charter enrollments play in the District's budget, it is proposed that assumptions on charter enrollments underlying the Financial Improvement Plan only be changed on the recommendation of the Financial Administrator, which would be issued each year along with the updated May financial projections. The District's adoption of charter enrollment assumptions in its budget for any coming fiscal year that differ from those recommended by the Financial Administrator would be considered noncompliance with the Plan.

Demonstrating improved academic performance is the biggest step the District can take to impact on charter school enrollments, but the District could benefit as well by developing a charter enrollment stabilization strategy aimed at curbing future enrollment growth. The Superintendent should recommend a strategy to the Board and the Board approve a strategy no later than the start of School Year 2019-20.

While a District charter school enrollment stabilization strategy should be a priority and given a chance to work, its pursuit only makes sense so long as the efforts to stabilize the outflow of students to charter schools are successful. The more successful the strategy, the less likely it is the District will need to pursue additional school closures. If the strategy is not successful, however, the District will need to be prepared with a Plan B option that will likely make additional closures necessary.

With this in mind, the District should operate on both tracks simultaneously. Even as it implements its charter stabilization efforts, the District should be internally assessing and planning possible consolidation options should they be required. A "Plan B" option or options should be fully developed and executable by no later than Spring 2021 to allow the Board to consider it for Summer 2021 implementation, prior to the start of School Year 2021-22, should circumstances warrant the move at that time.

Education Plan

The Financial Improvement Plan adopts the District's education plan as proposed and the budget supporting that plan has been incorporated into the Plan projections. The Plan recognizes the Board and Superintendent may change the education plan as they determine best and the Plan projections will recognize the budget impact of changes as any are made. For each curriculum adoption the Board approves, the Assistant Superintendent for Academics should propose an adoption procedure and timeline with key milestones to be approved by the Board. The Assistant Superintendent should report to the Board at least quarterly on the curriculum adoptions and their impact on student performance.

Facilities Plan

The Financial Improvement Plan adopts the District's Phase 1, 3-year facilities improvement plan as proposed, and the financing to support the plan has been incorporated into the Plan projections. As a new bond issue is proposed to finance part of the facilities improvement plan, the Plan projections will be adjusted based on bond approved by the Board if different from the proposed plan. Prior to the start of each fiscal year, the Superintendent should submit to the Board for approval a proposed work plan with key milestones of the facility improvements to be undertaken in the coming fiscal year. The Superintendent should report to the Board at least quarterly on the progress of the work plan.

Like any other plan, the proposed Financial Improvement Plan carries with it both upside and downside potential. On the upside, for example, if the District is able to achieve the full savings estimated by the initiatives and outperform on stabilizing charter school enrollments such that it could hold enrollments flat after Fiscal Year 2019-20, it could bring future tax increases down to 1.7 percent from the 2.46 percent.

On the downside, to the extent that the District rejects any of the proposed savings initiatives or those initiatives generate less than the savings anticipated here, that would require raising taxes by more than the 2.46 percent envisioned by the Plan. By the same token, if the charter school enrollment stabilization strategy fails to stem the outflow of students to charters, the District will likely be required to make a mid-course correction and implement a Plan B strategy. Plan B would likely entail starting to close schools beginning in Fiscal Year 2021-22 as well as both eliminating the staff hires and trimming back the curriculum purchases envisioned in its education plan in the last two years of the projection period. The Financial Improvement Plan is structured to allow for these options should they be needed.

Changes in School District Policy

Section 695-A(d) directs the Financial Administrator to review existing school policy and to include any changes in school district policy in the Financial Improvement Plan. Set out below are the policy changes recommended by this Plan.

1. Responsible Contracting with the District

Originally adopted in 2012 and later revised in January 2014, the District's Responsible Contracting with the District, Policy Number 610.1, sets out what is describes as a set of "pre-established, clearly defined, minimum standards relating to contractor responsibility" to "ensure that all work on public construction and maintenance contracts is performed by responsible, qualified firms." Applicable to any work valued at over $25,000, the policy outlines the requirements any contractor or subcontractor wishing to do business with the District must meet to be deemed "responsible." The complete text of Policy 610.1, Responsible Contracting with the District, is set out in Appendix N.

The policy states that as a condition of performing work, a general contractor, construction manager, lead or prime contractor seeking an award of a contract "shall" submit a Contractor Responsibility Certification at the time it submits its bid. The policy further states that any entity that fails to provide this certification "shall be disqualified from bidding."

The Contractor Responsibility Certification requirements are extensive, forming a 15-item checklist which a contractor must "confirm" in providing its certification. The bulk of the information requested pertains to the contractor's past performance and work history and involve items that bear directly on determining whether a contractor is "responsible." Firms, for example, are asked to certify that they: 1) hold valid and required licenses, registrations or certifications; 2) meet bonding and insurance requirements; 3) have not been debarred, defaulted, or suspended; 4) have not willfully violated any safety laws or been convicted of any crime; and 5) will make best efforts to comply with workforce diversity requirements work to safeguard the Board's and taxpayer's interests.

Noteworthy, however, among the requested items is item number eleven (11) which requires a contractor to certify that it participates in a "Class A Apprenticeship Program for each separate trade or classification in which it employs craft employees." The purpose section of the policy notes it is "necessary" to require firms to participate in "established, formal apprenticeship training programs as a condition of bidding" to promote "successful project delivery" and ensure "future workforce development."

The policy defines a Class A Apprenticeship Program as an apprenticeship program that: 1) is "currently registered with and approved by" the U.S. Department of Labor or its corresponding state apprenticeship agency, which in the Commonwealth is the Pennsylvania Department of Labor and Industry; and 2) "has graduated apprentices to journey person status for at least three (3) of the past five (5) years." Interestingly, neither federal or state law appears to define a Class A Apprenticeship Program.

This aspect of the District's policy raises several concerns. Materially distinct from the other requirements to which a contractor must certify, the apprenticeship requirement differs in that it dictates how a contractor must operate its business rather than examining the conduct of the contractor in the operation of its business.

Apprenticeship programs, well designed and properly executed, are likely beneficial to contractors in developing a quality workforce but they are by no means the only way in which a company can achieve this objective. Additionally, the requirement that a contractor have graduated apprentices to journey person status in the last 3 out of 5 years would limit bidders to contractors which regularly hire new employees. This is an arbitrary requirement that has no material effect on the quality of the workmanship offered by the contractor. Moreover, the District itself seems ill-suited and poorly equipped to make judgments about the nature and quality of employer training programs much less determine the specific type and nature of program a contractor would be required to have in order do business with the District

Along with being overly intrusive, the apprenticeship requirement appears out of step with the approach of nearly every other school district in the Commonwealth. A requested policy review by the Pennsylvania School Boards Association (PSBA), for example, was able to identify only one other school district in the PSBA database with an active policy that incorporates the apprenticeship requirement. That district, Bristol Township School District in Bucks County, adopted a nearly identical policy in May 2007 but amended it in 2017 to provide contractors with an alternative path to demonstrate "responsibility" other than to have a formal apprenticeship program. In changing its policy, Bristol Township more closely tracked the Commonwealth's contractor responsibility requirements.

A search by the District's legal counsel identified one other district with a similar policy, Colonial School District in Montgomery County. Colonial's policy was adopted in August 2018 and the district was sued the following month in U.S. District Court by the Eastern PA Chapter of the Associated Builders and Contractors claiming the Class A Apprenticeship Program requirement to be illegal and unconstitutional. That lawsuit is still pending.

In addition to being inconsistent with most other districts' policies and a potential target for litigation, the practical effect of the District's apprenticeship requirement runs counter to basic economic principles. It should be self-evident that in bidding out its work, the District and its taxpayers are best served by a process that promotes a robust competition among as many qualified firms as possible to obtain bids that will ensure quality work at the lowest price, wringing the most out of limited tax dollars. This is especially true for a district that is in financial watch status, already looking at yearly tax increases to balance its budget, and with limited resources to address only a portion of its facilities improvement needs.

Yet here, in requiring firms participate in a very specific type of apprenticeship program and graduate a certain number of individuals from that program as a condition of bidding, the District's policy acts to unnecessarily restrict the number of firms qualified to bid on the District's work and, by extension, limits the competition for the District's business. The outcome is likely a bid process that results in the District receiving fewer bids and those bids carrying higher costs than if the process were to involve a larger number of bidders, thus limiting the District's buying power.

The District's own experience, albeit limited, substantiates this reasoning. In 2013, the District took bids for certain electrical improvements for what was then Strong Vincent High School. In a letter dated May 2, 2013 to then Superintendent Jay Badams, the District's architect, Roth Marz Partnership P.C., recommended after a review of the bids that the District make an award to Lathrop Electric, Inc., the low bidder that had submitted a base bid of $226,520. This bid, however, was rejected because the responsible contractor certification had not been included in the initial bid specifications.

The project was then rebid, this time with the responsible contractor certification requirements included. Following the rebid, in a letter dated June 14, 2013 to Superintendent Badams, Roth Marz recommended an award be made to the low bidder, Church & Murdock Electric, Inc., which had submitted a base bid of $334,862. Not only was the winning June bid $108,342 (47.7 percent) higher than the May bid that was rejected but Church & Murdock's winning June bid was itself $25,862 (8.4 percent) higher than the $309,000 bid it originally submitted for the same work in May. Note too that the June bids submitted by two other firms were marginally higher than the bids they originally made in May. Lathrop Electric, the winning bidder in May, did not participate in the June round of bidding.

In addition to the apprenticeship mandate, another troublesome aspect of the policy is its placement of the contractor responsibility determination at the back-end of the contracting process. In doing so, the policy adds time consuming and potentially costly delays to the bidding process that work against the interests of the District and its taxpayers.
The policy directs the District issue a Notice of Intent to Award Contract to the firm with the lowest responsive bid as soon as practicable but conditions the award on the issuance of a written Contractor Responsibility Determination. After the Notice is issued, the prospective awardee must submit within seven (7) days a list of all subcontractors along with a description of the work each will perform as well as Subcontractor Responsibility Certifications for each that

mirrors the certification the contractor awardee must supply. After this information is received, the District must "undertake a review process for a period of at least five (5) business days."

If, at the end of the review process, the awardee and subcontractors are determined to be "responsible," the policy directs a written Contractor Responsibility Determination be issued. If the awardee is determined not to be "responsible" the District must provide the firm with written notice, which must be sent as "soon as practicable but not later than ten (10) days" following the determination. A firm deemed not "responsible" may request a hearing before the District which must be held within thirty (30) days. If a firm is ultimately determined to not be "responsible," the policy then directs the District to "proceed to conduct a responsibility review of the next lowest, responsive bidder," restarting the review periods or, "if necessary, rebid the project."

The backloaded contractor responsibility determination adds times consuming delays to the process, with potential to add significantly more time were an initial review to yield a negative determination. It makes inefficient use of staff time and resources as the District focuses on evaluating bids from firms that may – or may not – ultimately be qualified to do the work, a determination that is only reach at the end of the process when much of the evaluation work has been completed and a winning bid identified.

With the District hoping to undertake a multi-year facilities improvement plan, it can ill afford the burdens of a policy likely to add costs and delays. A better policy for the District to track is the Commonwealth's Contractor Responsibility Program which was put in place in October 2010 by Management Directive 215.9 Amended and applies to all contracts entered into by the Commonwealth and departments under the Governor's jurisdiction.

The Management Directive puts the contractor responsibility determination at the front end of the process, establishing as policy that the "determination of contractor responsibility must be made prior to any contract award, renewal, extension, or assignment." Additionally, while many of the factors Commonwealth agencies must consider in making the determination of contractor responsibility mirror the District's own requirements – suspensions, debarments, tax obligations, criminal charges, discriminatory acts, etc. -- the Commonwealth's policy lacks any requirement that would dictate or direct the types of internal training programs, such as an apprenticeship program, a contractor must have as a condition of bidding.

A policy that more closely mirrors the Commonwealth's contractor responsibility policy is more in keeping with the District's fiduciary responsibility than its present policy and more likely to deliver for District's taxpayers a robust competition of qualified contractors that will ensure they get the most for their tax dollars. As such, before the District solicits bids for capital projects to be undertaken as part of its proposed facilities improvement plan, the Board should change the Responsible Contracting with the District policy. A redlined version of the District's policy is set out in Appendix O.

2. Budget Development and Approval Process

The budget development and approval process currently employed by the District allows for thoughtful and deliberative approach to budget development and adoption. Under current practice, the first quarter of the calendar year is used by the Superintendent, working with his leadership team, to develop a proposed budget. This proposed budget is typically shared with the Board at its April meeting, with a discussion of any new initiatives or proposals to be funded during the coming fiscal year. A more formal presentation on the budget is then given in May, allowing further discussion and deliberation, before a final budget is adopted in June, prior to the annual deadline of June 30th.

This process appears much approved from previous years' versions, particularly the more recent past as the District lurched from year to year dealing with its financial crisis. This process, however, is merely practice and could change with a change in the District's Superintendent. To guard against that, the Board should embed the current practice in formal policy to ensure the District continues to follow it even as future Board members and Superintendents change over time.

3. Budget and Enrollment Reporting

The current Superintendent has made it a practice to share with the Board monthly reports on the budget and enrollments. The budget report provides a snapshot of major revenue and expenditure sources and provides for each the amounts budgeted in the current year, the year-to-date actuals, and the variances, if any. The enrollment report tracks monthly data on District enrollments as well as charter and cyber charter enrollments. The enrollment report has become particularly significant as the District has begun to focus acutely on charter school enrollments and their impact on the budget.

Like the budget process, these reports are provided by practice and not any formal policy requirement. Given this, the Board should require both these reports be provided by formal policy to ensure current practice continues irrespective of any changes in the makeup of the current Board or Superintendent.

4. Timely Data Submission for State and Federal Revenues

The executive summary of PDE's 2018-19 Elementary/Secondary Consolidated Data Collection Calendar, which can be found in Appendix P, highlights the breadth and depth of the data reporting requirements placed on school districts. Though seemingly obvious, a critical component to ensuring the District's accurate and timely receipt of state and federal revenues is to ensure it submits accurate and timely data to PDE to receive those funds.

While all the data sets the District is required to submit to PDE are important for one reason or another, special attention should be given to those data sets that directly impact on the calculation of major state and federal subsidies such as Basic and Special Education Funding, Pupil Transportation, Social Security and PSERS contributions. To that end, the following data collections have been identified as the most critical to ensuring the District's revenue flow:

<u>Basic Education Funding</u>:

a. <u>Child Accounting End-of-Year Collection (PIMS Collection 5 - Summer)</u>: This data is used to determine the average daily membership of the District. In addition to ensuring the data for students educated by the District is accurately reported, the District should review the Preliminary Summary of Child Accounting Membership when available to ensure that District students educated by other Local Education Agencies (e.g., charter schools, intermediate units, other school districts, career and technical centers) are accurately reported.

b. English Language Reporting System (Non-PIMS Data Collection): The number of English Language Learner students are included in the calculation of the student-weighted average daily membership.

c. Annual Financial Report (Non-PIMS Data Collection): This data is used in the calculation of the local effort capacity index.

Special Education Funding:

a. Special Education Act 16 – Services cost per student (PIMS Collection 1 – October): This data is used to determine the weighted student count. In addition to ensuring that the data for students educated by the District is accurately reported, the District should confirm that charter schools accurately report this data for the District students they are educating.

Pupil Transportation Subsidy and Nonpublic and Charter School Pupil Transportation Subsidy:

a. eTran - Electronic Transportation System (Non-PIMS Data Collection)

Federal Subsidies:

a. eGrants – Electronic Grants – PDE Grants Management System (Non-PIMS Data Collection)

b. Quarterly and Annual Expenditure Reports – Financial Accounting Information (Non-PIMS Data Collection)

Social Security Subsidy:

a. SSR – Social Security Reimbursement (Non-PIMS Data Collection): Quarterly data collection of salary and wage data.

PSERS Subsidy:

a. Submission of monthly employee data to PSERS

PlanCon Bond Subsidy:

a. Submission of PDE-2071, Application for Reimbursement for School Construction Project to the Office of Comptroller Operations after each debt service payment for bonds with a Part H or Part K PlanCon approval.

For a large organization like the District, part of the challenge to ensuring timely and accurate data reporting is the distribution of responsibilities across the enterprise for the submission of each data set. The responsibilities for submitting the data sets identified above, for example, are distributed across multiple department and a myriad of staff, including Child Accounting, Federal Programs, Special Education, the Finance Department, the Payroll Department, Business Office, and Communications, and this is just for ten of the more than one hundred data sets listed in the PDE data collection calendar.

To enable the Board and Superintendent to more effectively track and ensure key data sets are being submitted to PDE in an accurate and timely fashion, the Plan recommends the creation of a data submission report. This report would track the key data collection sets listed above, along with others the District may wish to identify. For each data set, the dashboard should provide the collection and correction window dates established by PDE, the ACS (Accuracy Certification Statement) due date, and the District department and staff person whose responsibility it is to submit the data to PDE. Along with the budget and enrollment reports, the data submission report should be established by policy and provided to the Board on a monthly basis.

5. Student Exit Interviews

Much to its credit, the District's current leadership team is very data driven, using data as a key ingredient to plan and make decisions in nearly every area of operations. One area where the team recognizes a glaring "data gap" exists is information on the interests and wishes of the District's families and students. This is particularly so when it comes to parents who have made a choice to attend a brick and mortar charter or cyber charter school over a traditional District school. There is no shortage of opinions and views as to what may be driving these choices and anecdotal evidence is plentiful, but facts are in short supply.

While this question may have been of passing interest to the District's leadership in times past, the times of not knowing have clearly passed. With roughly 2,400 District students enrolled in charters, another 300 projected to opt to charters in the coming five years, and tuition payments to charters expected to balloon over that same time, it has become more essential than ever that the District better understand what is driving these families' choices. This is especially so given the impact charter school enrollments have on the District's financial projections.

With the start of current school year, the District has begun to collect information about student withdrawals from school using a Student Exit Interview Form. This form, a copy of which can be found in Appendix Q gathers not only baseline student information but asks students their reason(s) for leaving school and, in the case of students withdrawing to attend a charter or cyber charter school, their reason(s) for making that choice.

Though this form may have existed in previous years, it is not at all clear that it was utilized with any regularity and, to the extent it was used, that the data it generated by the form was collected and made use of it any systematic way to inform District decision-making. Neither appears to be case.

Going forward, the District should require as a matter of policy that the Student Exit Interview Form be completed by all students seeking to withdrawal from school. Additionally, the policy should direct the Superintendent to report to the Board at least yearly on student withdrawals and reasons students are giving for leaving school and choosing to attend a charter school. Each year, the District should also review the contents of the form to ensure the data being collected is appropriate and responsive to the District's information needs.

6. Consistency with Federal, State and Local Laws

As has been seen with policies such as Stationary Steam Engineers and Responsible Contracting with the District, the District has sometimes gone beyond the legal requirements imposed by federal, state or local laws to adopt its own more stringent requirements. In these few instances, the imposition of stricter requirements has worked to the detriment of District taxpayers, adding costs to operations with little or no discernable gains to show for those added requirements. Moreover, as a matter of policy, given the current complexity and cost that often accompanies compliance with requirements imposed by other governmental bodies, it would seem to make little financial sense for the District to impose on itself additional costs and burdens absent a compelling reason to do so.

Given this, the District should establish a policy framework to help guide future Board policy making that would avoid the imposition of stricter requirements by the District absent a compelling and articulable District interest. Using the framework of the Commonwealth's Executive Order 1996-1, Regulatory Review and Promulgation, the District's policy should require that the construction and adoption of any future Board policies adhere to the following principles:

a. A policy shall address a compelling public interest.
b. The costs imposed by the policy should not outweigh the benefits.
c. Policies should be written in clear, concise and, when possible, nontechnical language.
d. Where federal, state, or local law, regulations or policies exist, the District's policies shall not exceed federal, state, or local law, regulations, or policies unless justified by a compelling and articulable District interest.
e. Polices shall be drafted and adopted with early and meaningful input from the constituencies impacted by the policy.

7. Contracting Policy

The Board should establish a standard contracting policy to guide the review and consideration of all contracts entered by the District. The policy should include the following guidelines:

1. Contracts for normal and customary purchases are to be submitted to the Solicitors' Office no later than two (2) Friday's prior to the Board's Committee of the Whole Meeting.

2. Contracts for purchases or services with a value greater than $10,000 are to be submitted to the Solicitor's Office for review no later than ten (10) business days prior to the Board's Committee of the Whole meeting.

3. All contracts, when submitted for placement on the Board agenda, are to be fully executed by the vendor prior to placing them on the Board agenda.

4. Prior to submitting a contract for review to the Solicitor's Office, the following conditions should be met:

   a. all appropriate staff have reviewed and approved the contract, or have noted concerns to the Solicitor;
   b. the programmatic or service delivery terms of the contract have been determined by all appropriate staff to meet the needs of the District, or specific concerns have been relayed to the Solicitor; and
   c. all appropriate staff have determined that funding has been identified to pay the cost associated with the contract.

5. If no concerns with the contract are relayed to the Solicitor's Office when the contract has been submitted for review the Solicitor will review only the agreement for form and compliance with standard legal requirements.

6. All staff are encouraged to involve the Solicitor's office early in the contracting process to avoid unnecessary delays in approvals.

Annual Training for Board Members

695-A(c)(4) requires the Financial Improvement Plan include a plan for ten hours of annual Board training in school finance and policy provided by a statewide organization specializing in the same. To meet this requirement for School Year 2019-20, a training program has been developed with the assistance of the Pennsylvania School Boards Association (PSBA) and PFM.

The program is a combination of online courses and live, in-person training. Board members will utilize four PSBA-developed online courses focused on board policy and administrative regulations, procurement, comprehensive planning, and facilities planning. Complementing the online courses, PSBA will provide a full-day, in-person training session focused on procurement, requirements in the use of federal funds as well as the role of policy and regulation in governance and oversight. PFM will provide the balance of the ten-hour requirement with an in-depth discussion and analysis of the District's budget and future budget projections.
The scheduled training program for School Year 2019-20 is as follows:

PSBA Online Courses:

-	Policy & Administrative Regulations	25 minutes
-	Procurement Overview	35 minutes
-	The Comprehensive Plan	20 minutes
-	Facilities Planning	10 minutes

PSBA Live Training:

-	Procurement and Uniform Guidance	3 hours
-	Policy and Administrative Regulations for Strong Fiscal Governance	3 hours

PFM:

-	Erie Public Schools: Baseline Budget and Projections, An In-Depth Analysis	2 ½ hours

The training requirement for school years following 2019-290 will be developed in the following manner:

1. Prior to the start of a new school year, the Financial Administrator will help identify training offerings related to school finance and policy that will be available during the coming school year from the PSBA as well as the Pennsylvania Association of School Business Officials (PASBO). The training offerings may be online or in-person. The list of offerings shall also include any school director training programs made available by the PDE

2. Based on the available training offerings, the Board and Superintendent will provide feedback and recommendations regarding those offerings that best meet the training needs of individual Board members or address specific District challenges.

3. Based on the Board and Superintendent's feedback, the Financial Administrator and Superintendent will develop a schedule for the required training to be delivered that school year.

Cash Flow Analysis

An analysis of the District's cash flow can be found in Appendix R.

Sale of School District Assets

The District currently holds in its inventory of property four former school buildings, now vacated, and a parcel of land adjacent to one of the vacated schools. The properties are as follows:

Burton School: Built around 1894, the Burton School is one of the oldest in the District. Originally part of neighboring Millcreek Township School District where it was employed as a high school, Burton became part of the District when the City of Erie doubled in size during an annexation in 1920. The building underwent several renovations and upgrades over its life before being closed in 2012 as part of the District's right-sizing efforts.

Irving Elementary School and Field: Originally known as Public School No. 6, Irving Elementary was built in 1897 and received its current name in 1914 when it was renamed in honor of American author Washington Irving. An addition to the original school was completed in 1929, followed by upgrades to major systems in the 1950's, and extensive renovations in 1984-85. The school was closed in 2012, one of three schools that were closed that year as part of the District's efforts to "right-size" its facilities. Adjacent to the school is another District property, a softball field of roughly 1.77 acres.

Roosevelt Middle School: Built in 1922 and named in honor of the 26th U.S. President Theodore Roosevelt, an addition to the school was approved in 1927 and major systems upgrades were undertaken in the 1950's. The school was in continuous operation up until its closure in 2007. Though the Roosevelt name was used for other schools in the District, the original Roosevelt building itself was never reopened.

Wayne Elementary School: Built in 1914, Wayne Elementary saw new additions to the original structure built in 1927 and again in 1976. Major system upgrades and modernizations were also completed during the 1950's. The school was in continuous operation until 2017 when it was closed as part of the District's consolidation and reconfiguration.

In recent years, the District has made several attempts to sell these buildings and other District facilities for which it no longer had any use. In March 2017, the Board approved a resolution to solicit bids for the Burton, Irving and Roosevelt schools as well as a property known as the Old Central Kitchen. An offer for the latter was received in September 2017 and the sale of the property for $115,000 was eventually approved by the Court of Common Pleas of Erie County on January 26, 2018. In October 2017, the Board adopted another resolution to sell off unused properties, adding Wayne and Emerson-Gridley Elementary Schools to the list, both of which were closed prior to the 2017-18 school year as part of the District's consolidation and reconfiguration.

In April 2018, the Board approved the use of a real estate agent to assist in the sale of its unused properties and in May 2018 added its Family Center facility, which had housed the District's cyber and recovery academies, to the list of properties to be sold. The Board removed Emerson Gridley from the list after bringing the school back online this current school year to house its alternative education programs and Science Materials Center. As of this writing, all of these buildings remain up for sale.

Greater Use of Intermediate Unit Programs

Erie Public Schools is a member of the Northwest Tri-County Intermediate Unit 5 (IU 5), the regional educational service agency charged with providing programs and services for the 17 public school districts and nonpublic schools located in northwestern Pennsylvania and encompassing Crawford, Erie, and Warren counties. As a member of IU 5, Erie Public Schools has both a seat on the IU 5 Board of Directors and a voice in establishing the priorities, programs, and policies of the IU. Erie Public Schools is the largest school district in the IU 5 consortium.

As a member of IU 5, the District contributes approximately $154,186 towards IU 5's operating budget. For this base contribution, the District is allocated nine hours of School Improvement Services (SIS) and fifteen hours of Training and Consultation (TAC) services, primarily services related to special education, from the IU. The District also purchases services from the IU beyond its base allotment, last year spending $212,580, mostly for special education related services.

The current relationship between the District and IU 5 appears to be very focused and strategic, particularly in areas related to curriculum and instruction. The District's Assistant Superintendent for Academics and IU 5's Director of School Improvement Services, Curriculum, Instruction, and Assessment, for example, work collaboratively to develop a yearly plan for IU-delivered SIS and TAC services. The plan and services are aligned with the District's goals and objectives and focused on areas of critical need. There is also regular, ongoing communication at this leadership level to both monitor plan implementation and ensure its continued alignment with District priorities.

The District's and IU 5's yearly work plan currently focuses on four key areas: Special Education, School Behavior and Discipline, Career Pathways and Readiness, and Data-Driven Decision-Making. In Special Education, the IU assists the District in the development and implementation of corrective action plans to address areas of non-compliance that have been identified by PDE's Bureau of Special Education. The IU also provides training to District personnel to help implement a research-based model of positive behavior support systems in schools. Finally, the IU is delivering professional development to principals, teachers and administrators to enable them to strengthen the District's efforts in making better use of data to increase student achievement and improve professional practices.

With this as a backdrop, two programs have been identified as possible candidates for transition from the District to IU 5 for service delivery, Early Intervention (EI) and the Education Leading to Employment and Career Training (ELECT) programs. EI provides support and services to families with children from birth to age five with developmental delays and disabilities. ELECT is a primarily state-funded initiative that makes grants to school districts and intermediate units to provide a wide array of services to pregnant and parenting teens. The goal of ELECT is to help these students remain in school, maintain regular attendance, earn their high school diploma (or high school equivalency certificate) and make the transition to employment, career training or post-secondary education. The District has received from IU 5 proposals to transition service delivery of these programs. Over the balance of this current fiscal year, the District will evaluate these proposals and decide on whether transitioning these programs to the IU is more cost effective and would result in improved services for students in these programs.

Performance Goals for Administrative Staff

The Superintendent and Assistant Superintendent for Academics are approved by the Board. The Superintendent as the Chief Executive Officer of Erie Public Schools is ultimately responsible for the effective management and administration of the school system and for achieving the goals of the system as defined by the Board. As is evident in the title, the Assistant Superintendent for Academics is chiefly responsible for the effective management and administration of the District's academic program, reporting to the Superintendent and the Board.

As the District's CEO, the responsibility for implementing the Financial Improvement Plan and initiatives required to balance the budget and maintain the District's fiscal solvency falls, along with the Board, necessarily falls to the Superintendent. The same is true for the implementation of the District's Education and Facilities Improvement Plans should they be approved. The Board should utilize the goals and key milestones contained in these plans as a means to evaluate the Superintendent's performance for contract renewal.

For those elements of the District's education plan the Board approves, the procedures and timelines with key milestones approved by the Board for each curriculum adoption should be used by the Board in the evaluation of the Assistant Superintendent's performance for contract renewal.

Removal from Financial Watch Status

Section 695-A(i) states that the Financial Administrator, upon consultation with the Secretary, may remove the District from Financial Watch Status "provided the school district has demonstrated the ability to maintain a structurally balanced budget."

Given the front-loaded nature of the budget balancing initiatives proposed by the Financial Improvement Plan, falling as they do early in the projection period, determining whether the District is able to demonstrate it can maintain a structurally balanced budget is likely to be known sooner rather than later. The December budget projections called for in the Plan are critical to determining whether the District is on track to balance its budget and stay fiscally solvent, accounting as they do for the previous fiscal year's budget, the savings from any initiatives acted upon that fiscal year, and in projecting forward to calculate the likely tax increase needed the next year to balance.

Looking at the calendar, Spring 2021 and the adoption of the Fiscal Year 2021-22 Budget is likely to mark a watershed moment for the District. By this time, the District will have gone through three budget cycles under the Financial Improvement Plan, likely raised taxes, and have considered the proposals to outsource its custodial services and stationary steam engineer functions. It will also have gone through nearly two full school years of efforts to stabilize charter school enrollments and, based on the success of those efforts (or lack of it) will have begun making decisions on whether to begin closing schools prior to the start of School Year 2021-22.

When they are issued, the December 2021 budget projections will reflect all this activity and, based on it, will provide an initial estimate of the tax increase likely needed in the Fiscal Year 2022-23 Budget to keep the District in balance through the projection period. Assuming the tax increase estimate is within the District's Act 1 Index, the District will have demonstrated the ability to maintain a structurally balanced budget and, as such, can be removed from Financial Watch Status. If the estimated tax increases in the December 2021 budget projections is above the District's Act 1 Index, the District will not have demonstrated an ability to maintain a structurally balanced budget and will not be removed from Financial Watch Status until such a demonstration can be shown in future December projections.