



# **Merger Feasibility Study**

## **Pennsbury School District and Morrisville School District**

**PFM Group Consulting, LLC**

January 31, 2023



## QR Code for this Presentation





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# Overview



## Study scope

- ◆ In 2022, the Pennsbury School District retained PFM to conduct a feasibility study of a merger or student tuition arrangement between Pennsbury and the Morrisville Borough School District
- ◆ The purpose of the feasibility study was to provide the Pennsbury and Morrisville School Boards with information to evaluate while determining whether a merger or tuition agreement is in the best interest of both school districts
  - The report does not provide a specific recommendation to the school boards on whether they should move forward with any of the merger or tuition arrangement structures
  - Instead, the report focuses on the circumstances and conditions that would be required should the districts consider a merger or a tuition arrangement
  - In addition, the report provides guidance on issues that the school districts may encounter and identifies issues that would need to be discussed and addressed as they consider the alternatives
- ◆ It is up to the Pennsbury and Morrisville School Boards to determine if they want to proceed



## Scenarios

- ◆ A merger or a tuition agreement between Pennsbury and Morrisville could take many different forms
- ◆ In order to show the complexity of the alternatives and identify the major issues that would be encountered under each option, the study focused on three scenarios:
  - Scenario 1: A merger scenario where the two districts become one and all Morrisville students are educated by Pennsbury
  - Scenario 2: A tuition scenario where the districts remain separate but Morrisville sends its students in grades 3-12 to Pennsbury's schools
  - Scenario 3: A tuition scenario where the districts remain separate but Morrisville sends its students in grades 6-12 to Pennsbury's schools
- ◆ The purpose of the alternative scenarios is to highlight the dynamics of the different potential approaches the districts could take to merger or a tuition agreement
- ◆ Stakeholders can use these scenarios to evaluate the different assumptions and how changes in these assumptions may impact each school district



## Feasibility Committee

- ◆ As outlined in the request for proposals, PFM worked with Pennsbury and Morrisville to convene a Feasibility Committee comprised of 25 stakeholders
- ◆ The goal of the Feasibility Committee was to gather information from community members on different areas of the study, and to gain a local perspective on how a merger or tuition arrangement could be structured
- ◆ The Feasibility Committee met five times between September 2022 and January 2023:
  - September 19, 2022
  - October 3, 2022
  - October 17, 2022
  - November 14, 2022
  - January 26, 2023
- ◆ Information related to the Committee is posted on the Pennsbury and Morrisville website



# Feasibility Committee

- The Feasibility Committee raised a variety of issues that informed the study's scenarios
- While not all Committee members agreed on all issues, the Committee's input is reflected in the report
- Some elements of the scenarios that were structured to address Committee input, or will need to be addressed as the districts consider next steps, include:
  - Incorporated in the scenarios
    - Real estate taxes in the Pennsbury School District should not exceed the amounts included in its current 10-year financial plan
    - Academic supports must be funded to ensure the success of students from Morrisville moving to Pennsbury and to manage class sizes
    - Funding should be provided to minimize disruption for children with IEPs
  - Will need to be addressed
    - In a merger, Pennsbury should not assume a negative fund balance from Morrisville, and should be made whole for taking on Morrisville's remaining debt service payments
    - While the fund balance matter can be addressed in whole or in part by Morrisville, these two issues should be part of a dialogue with the Commonwealth; it is essential that the Commonwealth contribute financially in any scenario





## Tonight's presentation

- ◆ Over the course of the last several months, PFM's team interviewed staff and evaluated data provided from both school districts
  - In addition, the project team has also referred to independent sources of information, such as those provided by the Pennsylvania Department of Education or the federal government
- ◆ This review was used to inform each of the sections of the report, which include academic programs, operations, and multi-year financial projections
- ◆ Tonight's presentation will focus on the multi-year financial projections – baseline and the three scenarios – and the major assumptions from each of the other areas of the report that affect the financial viability of the study scenarios



# Baseline scenario



## Multi-year financial projections

- ◆ As part of the report PFM prepared a 10-year financial projection model for Pennsbury and Morrisville; Pennsbury's model was aligned with its existing 10-year financial plan
- ◆ The projections begin with the adopted budgets for the 2022-23 school year, and categories of revenues and costs are grown based on analysis of the major drivers
- ◆ In Pennsylvania, many school district cost categories grow more quickly than revenues if no action is taken to address expenditures
- ◆ The 10-year financial projections are not a status quo scenario since they assume annual real estate tax increases and other changes summarized in the next slides
- ◆ The baseline scenario developed for each district is used to illustrate the capacity of Pennsbury and Morrisville to maintain or achieve financial stability
- ◆ In addition, the baselines are used to compare the financial and tax impacts of the merger and tuition scenarios
- ◆ The baselines and the projections necessarily reflect a snapshot in time, and will change as new and updated information becomes available



## Revenue assumptions

- The table below summarizes the major revenue assumptions for the baseline scenarios

### Baseline Scenarios Revenue Assumptions

	Pennsbury	Morrisville
Real estate taxes	<ul style="list-style-type: none"><li>• 2.7 percent compound growth in tax rates over the 10-year period</li><li>• 0.8 percent annual growth in the tax base, slightly slower than recent historical trends</li></ul>	<ul style="list-style-type: none"><li>• 3.9 percent compound growth in tax rates over the 10-year period</li><li>• 0.1 percent annual reduction in the tax base, in line with historical trends</li></ul>
State funding	<ul style="list-style-type: none"><li>• Basic and special education subsidies increased at historical levels by the State</li></ul>	<ul style="list-style-type: none"><li>• Basic and special education subsidy growth based on the same analysis</li><li>• \$1.0 million supplemental Ready to Learn Block Grant added back to the budget after 2022-23</li></ul>
Other sources	<ul style="list-style-type: none"><li>• 2.0 percent growth in federal funding</li><li>• Minor growth in real estate transfer tax revenue based on historical trends</li></ul>	<ul style="list-style-type: none"><li>• 2.0 percent growth in federal funding</li><li>• Real estate transfer tax revenue held flat based on historical trends</li></ul>



## Tax rate comparison

- ◆ The table below shows the projected millage rates for Pennsbury and Morrisville in the baseline scenario
- ◆ As shown in the table, Morrisville’s real estate tax rate in the current 2022-23 school year is 133.6 percent of the rate levied in Pennsbury
- ◆ In the baseline projections, the gap between the rates levied in Morrisville and Pennsbury is projected to grow over the 10-year period and increase to 150.9 percent as Morrisville works to balance its budget and reduce its negative fund balance

### Baseline Scenario Millage Rate Projections

	22-23	23-24	24-25	25-26	26-27	27-28	28-29	29-30	30-31	31-32	32-33
	Budget	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Pennsbury	178.9470	183.9575	189.1083	194.4034	199.8467	205.4424	211.1947	217.1082	222.3188	227.6544	233.1182
Morrisville	239.0343	250.7470	263.0336	275.9222	289.4424	298.9940	308.8608	319.0532	329.5820	340.4582	351.6933
<b>Morrisville : Pennsbury</b>	<b>133.6%</b>	<b>136.3%</b>	<b>139.1%</b>	<b>141.9%</b>	<b>144.8%</b>	<b>145.5%</b>	<b>146.2%</b>	<b>147.0%</b>	<b>148.2%</b>	<b>149.6%</b>	<b>150.9%</b>



# Expenditure assumptions

- The table below summarizes the major expenditure assumptions for the baseline scenarios

## Baseline Scenarios Expenditure Assumptions

	Pennsbury	Morrisville
Salaries	<ul style="list-style-type: none"> <li>• 2.7 percent compound growth in salary costs based on review of contracts and staffing</li> </ul>	<ul style="list-style-type: none"> <li>• 3.0 percent compound growth in salary costs as an estimate for the ongoing negotiations with the teachers' union</li> </ul>
Employee benefits	<ul style="list-style-type: none"> <li>• PSERS costs based on projected rates from the Commonwealth</li> <li>• Social security grows with salaries</li> <li>• Healthcare costs grow at 4.0 percent, in line with Pennsbury's existing projections</li> </ul>	<ul style="list-style-type: none"> <li>• Same as Pennsbury</li> </ul>
Charter school tuition	<ul style="list-style-type: none"> <li>• Enrollment returns to pre-pandemic levels over five years</li> </ul>	<ul style="list-style-type: none"> <li>• Enrollment is reduced by 4 students per year over the projection period, but remains over pre-pandemic levels</li> </ul>
Inflation	<ul style="list-style-type: none"> <li>• 2.8 percent average rate over the 10-year period based on the federal Survey of Professional Forecasters</li> </ul>	<ul style="list-style-type: none"> <li>• Same as Pennsbury</li> </ul>
Debt service	<ul style="list-style-type: none"> <li>• Current debt service schedule</li> <li>• Future borrowings based on Pennsbury's first 10-year phase of its capital plan</li> </ul>	<ul style="list-style-type: none"> <li>• Current debt service schedule</li> <li>• Borrowing based on the estimated costs of necessary roofing projects</li> </ul>



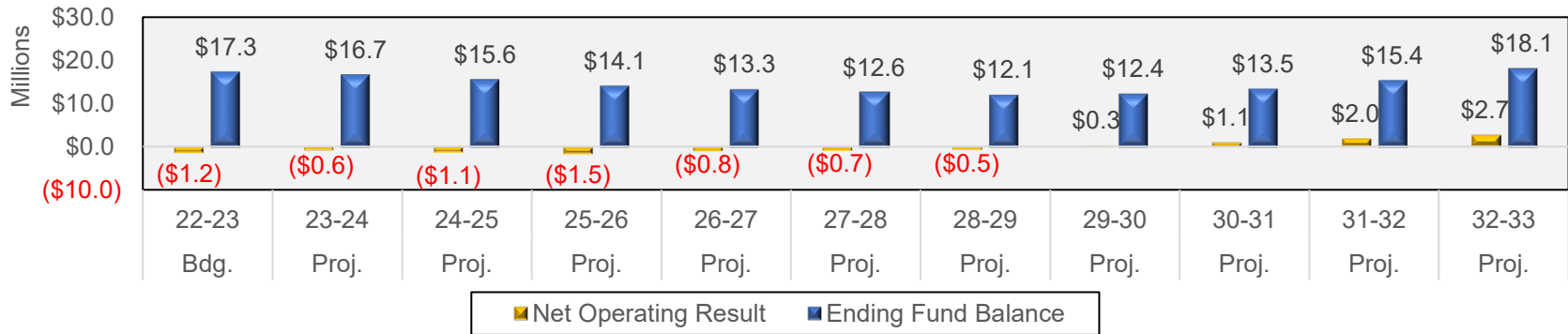
## Morrisville's building needs

- ◆ During the study team's evaluation of Morrisville's facilities, the team identified that Morrisville's two school buildings are generally in good condition despite their age
  - Grandview Elementary School (K-2): Constructed in 1957; addition in 1968
  - Morrisville Middle / Senior High School (3-12): Constructed in 1958; addition in 1974
- ◆ Although Morrisville made improvements to HVAC and lighting systems in 2019, the study team determined that Morrisville would need to make additional repairs to the buildings within the next several years
- ◆ Based on information provided by Morrisville and the team's inspection, Morrisville will need to replace the roofs on both buildings
- ◆ Using average costs for the construction industry, the study team estimated that the roofing projects would cost approximately \$5.9 million
- ◆ In the baseline projections, the model assumes that Morrisville would borrow \$6.0 million to complete the roofing projects in 2024 with payments beginning in the 2024-25 school year

# Pennsbury baseline projections

- Pennsbury is able to maintain stable finances in the baseline scenario with annual tax increases and expenditure management
  - For Pennsbury, the largest expenditure drivers are salaries, benefits, and debt service for building projects in the capital plan
- The projections begin with a drawdown of fund balance, which is due to Pennsbury’s planned transfer to the capital projects fund for its building projects

## General Fund Budget Projections 2022-23 to 2032-33 in Millions



	22-23	23-24	24-25	25-26	26-27	27-28	28-29	29-30	30-31	31-32	32-33
	Bdg.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Total Revenues	\$232.8	\$237.9	\$244.5	\$252.5	\$260.5	\$268.8	\$277.4	\$286.2	\$294.3	\$302.8	\$311.5
Total Expenditures	\$234.1	\$238.5	\$245.6	\$253.9	\$261.3	\$269.5	\$277.9	\$285.9	\$293.2	\$300.9	\$308.8
<b>Net Operating Result</b>	<b>(\$1.2)</b>	<b>(\$0.6)</b>	<b>(\$1.1)</b>	<b>(\$1.5)</b>	<b>(\$0.8)</b>	<b>(\$0.7)</b>	<b>(\$0.5)</b>	<b>\$0.3</b>	<b>\$1.1</b>	<b>\$2.0</b>	<b>\$2.7</b>
<b>Ending Fund Balance</b>	<b>\$17.3</b>	<b>\$16.7</b>	<b>\$15.6</b>	<b>\$14.1</b>	<b>\$13.3</b>	<b>\$12.6</b>	<b>\$12.1</b>	<b>\$12.4</b>	<b>\$13.5</b>	<b>\$15.4</b>	<b>\$18.1</b>

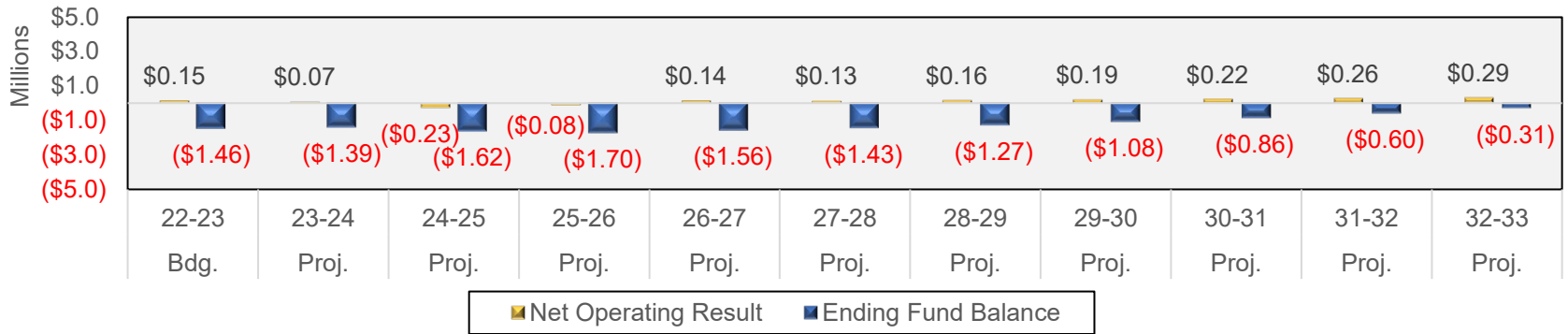




# Morrisville baseline projections

- Morrisville’s budget slowly stabilizes in the baseline scenario as a result of annual tax increases and with the inclusion of the \$1.0 million grant from the State, offsetting growth in expenditures
  - For Morrisville, the largest expenditure drivers are salaries, benefits, charter school tuition, and debt service for the roofing projects at the two school buildings
- The projections begin with an accumulated negative fund balance based on Morrisville’s most recent audit, and that amount is reduced over time with modest positive financial results

## General Fund Budget Projections 2022-23 to 2032-33 in Millions



	22-23	23-24	24-25	25-26	26-27	27-28	28-29	29-30	30-31	31-32	32-33
	Bdg.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Total Revenues	\$23.15	\$24.70	\$25.59	\$26.53	\$27.50	\$28.23	\$28.98	\$29.75	\$30.54	\$31.36	\$32.20
Total Expenditures	\$23.00	\$24.63	\$25.82	\$26.61	\$27.35	\$28.10	\$28.82	\$29.56	\$30.32	\$31.10	\$31.91
<b>Net Operating Result</b>	<b>\$0.15</b>	<b>\$0.07</b>	<b>(\$0.23)</b>	<b>(\$0.08)</b>	<b>\$0.14</b>	<b>\$0.13</b>	<b>\$0.16</b>	<b>\$0.19</b>	<b>\$0.22</b>	<b>\$0.26</b>	<b>\$0.29</b>
<b>Ending Fund Balance</b>	<b>(\$1.46)</b>	<b>(\$1.39)</b>	<b>(\$1.62)</b>	<b>(\$1.70)</b>	<b>(\$1.56)</b>	<b>(\$1.43)</b>	<b>(\$1.27)</b>	<b>(\$1.08)</b>	<b>(\$0.86)</b>	<b>(\$0.60)</b>	<b>(\$0.31)</b>



# Conclusions

- For Pennsbury, the 10-year financial projections show that the district is expected to remain financially stable
  - The projected tax increases are sufficient to cover the increased costs for employee contracts, inflationary growth in spending, and the first 10-year phase of the capital plan
  - In the model, positive annual results resume in 2029-30, and Pennsbury is able to meet its 5.0 percent minimum fund balance policy prior to 2027-28 and again beginning in 2031-32
  - In practice, the projected annual shortfalls are manageable and the District annually proposes a balanced budget
- For Morrisville, the 10-year financial projections show that the district can address its structural deficit and accumulated negative fund balance over time, but it must take action to do so
  - Based on the projections, the annual \$1.0 million grant from the State is essential to maintain financial stability and to invest in curriculum, classroom materials, and technology; while held flat in the projections, ideally it would grow over time
  - Annual tax increases are also required to continue to combine State funding with local commitment to maintain financial stability over the 10-year period
  - A negative operating result occurs in 2024-25 due to the borrowing for the roofing projects, and this gap is closed over the next two school years



# Merger and tuition scenarios



## Projection model scenarios

- ◆ After developing the baseline scenarios, PFM created three new scenarios to show the financial impacts of a merger or tuition agreement
- ◆ There are several major assumptions that are common under the merger and tuition arrangement scenarios
  - Any merger or tuition agreement would not begin prior to the 2024-25 school year
  - No distinction would be made between students from either district in classrooms, availability of academic supports, ability to participate in extracurricular activities, or other programs or facilities
  - Morrisville students attending school in Pennsbury would receive transportation
  - Various supports are provided for Morrisville's students to create the conditions for academic success, and these include additional teachers and counselors
- ◆ The report outlines the different analyses used to arrive at the academic and operational assumptions used in the projection models
- ◆ The following slides summarize the major variables affecting the financial results in the merger and tuition scenarios



## Average daily membership trends

- ◆ Given the complexities of how enrollment would change under a merger or tuition agreement, the study team developed assumptions to highlight the dynamics of how changes in student populations can affect the operations and finances of Pennsbury and Morrisville
- ◆ Data reported by the State over the last decade indicates that Pennsbury's enrollment measure has declined by 0.9 percent on a compound annual basis, or 911 students
- ◆ The same source shows that Morrisville's enrollment declined by 0.2 percent, or 17 students
- ◆ Applying these long-term measures of decline to the years covered by the study, Pennsbury would have 1,100 fewer students by 2032-33, and Morrisville would have 22 fewer students



## Enrollment assumptions

- Based on current trends, Pennsbury will experience a gradual long-term decline in enrollment
  - A merger or tuition arrangement could allow Pennsbury to rebalance class sizes, offer increased sections of special and electives, and add students to small AP and Honors sections
  - Stabilizing PSD enrollment could address staffing reductions or building closures in the medium- and long-term
- Broadly, there are three other enrollment assumptions that have the great impact on the operational and financial effects of merger or a tuition agreement
  - Students enrolled in Morrisville's schools
  - Students enrolled in charter schools
  - Students enrolled in non-public schools
- In order to test Pennsbury's classroom capacity to accommodate students from Morrisville, the study team assumed that some students currently enrolled in charter and non-public schools would enroll in Pennsbury's schools over time



# Enrollment assumptions

- The enrollment assumptions for Morrisville students educated in school buildings operated by Pennsbury or Morrisville are summarized in the table below
- The table shows the projected enrollment levels in first year of the merger or tuition agreement, as well as the final year of the shift in Morrisville’s enrollment from non-public schools to Pennsbury’s schools
- The numbers reflect the October enrollment counts from the two school districts and the addition of students returning from charter and non-public schools

## Merger and Tuition Scenario Enrollment Assumptions Morrisville Students Educated in District-Operated Buildings

	2024-25	2032-33	Increase
<b>Scenario 1: Merger</b>	<b>839</b>	<b>981</b>	<b>142</b>

### Scenario 2: Tuition Grades 3 to 12

Educated in Morrisville	204	209	5
Educated in Pennsbury	628	728	100
<b>Total</b>	<b>832</b>	<b>937</b>	<b>105</b>

### Scenario 3: Tuition Grades 6 to 12

Educated in Morrisville	412	422	10
Educated in Pennsbury	414	477	63
<b>Total</b>	<b>826</b>	<b>899</b>	<b>73</b>



## Evaluating Pennsbury's building capacities

- ◆ The study team reviewed the building capacities in Pennsbury's schools at the elementary, middle, and high school levels
  - For the elementary schools, the team reviewed current sections of classes at each of Pennsbury's 10 schools
  - At the middle and high school level, the team reviewed the current course schedules and capacity for core subject areas including English Language Arts, Math, Science, and Social Studies
- ◆ These available seats were compared to Morrisville's enrollment levels to determine whether capacity would be strained at any given level
- ◆ Based on this review, the study team determined that in some cases Pennsbury had available classroom seats to accommodate Morrisville's students, and in some cases Pennsbury may need to add additional staff to maintain current class sizes
  - This will be discussed further on the next slide focusing on staffing levels in the study
- ◆ As noted previously, in order to test Pennsbury's classroom capacity, the study team assumed that some students in Morrisville would shift from charter schools and non-public schools to Pennsbury's schools if a merger or tuition agreement occurred





# Professional staffing assumptions

- Based on the section and schedule analysis, the study team used these assumptions to estimate the financial impacts of professional staff added in a merger or tuition arrangement
- The table below describes the staffing assumptions for Pennsbury under the merger scenario; similar descriptions and summaries can be found in the report for the tuition scenarios

## Scenario 1: Merger Professional Staff Assumptions

### Assumptions

Elementary level grades K-2	<ul style="list-style-type: none"><li>• Assumes Grandview Elementary School remains open, operated by Pennsbury</li><li>• Staffing levels are based on Pennsbury's average 11.1 students per professional staff</li><li>• Staffing levels include classroom teachers, psychologists, special education teachers, ESL teachers, and other support specialists</li><li>• Staffing levels are increased over time to accommodate the growth in students from the enrollment analysis for a total of 20 positions in 2024-25 and 23 in 2032-33</li></ul>
Elementary level grades 3 to 5	<ul style="list-style-type: none"><li>• Assumes one additional classroom teacher to accommodate Morrisville's bubble class (grade 1 in the 2022-23 school year)</li><li>• Assumes two specialists per subject area (English Language Arts, Mathematics, and Science); staffing levels are reduced by half in the sixth year of merger for a total of six positions</li><li>• Includes Morrisville's elementary level special education teachers adjusted for enrollment in grades 3 to 5</li></ul>
Middle school	<ul style="list-style-type: none"><li>• Assumes one additional Math teacher based on the analysis of the master schedules and class sizes at the three middle schools</li></ul>



# Professional staffing assumptions (continued)

## Scenario 1: Merger Professional Staff Assumptions

### Assumptions

High school	<ul style="list-style-type: none"><li>Assumes a total of five additional teachers based on the analysis of the master schedules and class sizes for Math, Science, and Social Studies at the high school</li></ul>
Secondary-level remediation teachers	<ul style="list-style-type: none"><li>Assumes additional teachers are needed in the short term to support student achievement and to integrate Morrisville the students into Pennsbury's curriculum</li><li>Assumes two teachers per subject area per level (middle and high school) for a total of twelve positions</li><li>Staffing levels are reduced by half in the sixth year of merger</li></ul>
Guidance counselors	<ul style="list-style-type: none"><li>Assumes one additional counselor for the middle schools and one for the high school for a total of two positions</li></ul>
English as a second language (ESL) teachers	<ul style="list-style-type: none"><li>Assumes 40 ESL students from Morrisville and caseloads of 20 students per teacher for a total of two positions</li></ul>
Secondary-level special education teachers	<ul style="list-style-type: none"><li>Assumes all nine of Morrisville's budgeted special education teachers are transferred to ensure continuity</li></ul>



# Staffing impacts

- In order to estimate the staffing costs of the merger and tuition scenarios, the study team assumed that Pennsbury would need to add staff at the elementary, middle, and high school level to accommodate Morrisville’s students
- The table below shows the staffing counts by category for the first and final years of the projections for Pennsbury under all three scenarios

## Scenario Staffing Assumptions

Estimated Staff Added for Pennsbury

	Scenario 1: Merger		Scenario 2: Tuition Grades 3 to 12		Scenario 3: Tuition Grades 6 to 12	
	2024-25	2032-33	2024-25	2032-33	2024-25	2032-33
Teachers and other professional staff	60	54	40	31	31	25
Paraprofessionals	25	25	19	19	13	13
Administrators	3	1	0	0	0	0
Staff Nurses	1	1	0	0	0	0
Van Drivers	4	4	0	0	0	0
Bus Drivers	14	15	14	15	10	11
Clerks	2	2	0	0	0	0
Custodians and Maintenance	4	3	0	0	0	0
<b>Total</b>	<b>113</b>	<b>105</b>	<b>73</b>	<b>65</b>	<b>54</b>	<b>49</b>



## Transportation

- ◆ During the evaluation of enrollment levels and operations, the study team developed estimates for the buses and vans that would be required to transport Morrisville's students
- ◆ The table below shows the estimates for the number of vehicles in the first year of the merger or tuition arrangement

### Scenario Vehicle Assumptions

	Scenario 1: Merger	Scenario 2: Tuition Grades 3 to 12	Scenario 3: Tuition Grades 6 to 12
<b>Estimated Buses (2024-25)</b>			
Elementary (Single Tier)	4	4	0
Middle / High School (Dual Tier)	5	5	5
Non-Public / Charter School	4	4	4
Spare	1	1	1
<b>Total</b>	<b>14</b>	<b>14</b>	<b>10</b>

### Estimated Vans (2024-25)

Special Education and Homeless Transportation	4	4	4
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# Pennsbury Scenario 1: Merger

## Scenario 1: Merger

Net Operating Result Comparison in Millions

	24-25	25-26	26-27	27-28	28-29	29-30	30-31	31-32	32-33
	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Pennsbury Merger Net Operating Result	(\$2.34)	(\$1.76)	(\$1.18)	(\$0.82)	(\$0.71)	\$1.45	\$2.19	\$3.00	\$3.71
Pennsbury Baseline Net Operating Result	(\$1.12)	(\$1.46)	(\$0.83)	(\$0.70)	(\$0.54)	\$0.30	\$1.09	\$1.95	\$2.72
<b>Net Impact</b>	<b>(\$1.22)</b>	<b>(\$0.29)</b>	<b>(\$0.35)</b>	<b>(\$0.12)</b>	<b>(\$0.16)</b>	<b>\$1.15</b>	<b>\$1.10</b>	<b>\$1.05</b>	<b>\$0.99</b>

◆ Key assumptions include:

- Morrisville’s tax base is transferred to Pennsbury, and real estate tax rates are set to Pennsbury’s level
- Pennsbury’s tax rates remain the same as the baseline scenario
- Morrisville’s \$1.0 million supplemental Ready to Learn Block Grant is not transferred to Pennsbury, and no additional extraordinary aid is provided by the Commonwealth
- Morrisville’s remaining local, state, and federal revenue sources are transferred to Pennsbury
- Pennsbury assumes Morrisville’s debt service for current payments and roof replacement at Grandview Elementary School

◆ The total of the net impact line is \$2.15 million



## Scenario 2: Tuition grades 3 to 12 – Impact on Pennsbury

### Scenario 2: Tuition grades 3 to 12 – Impact on Pennsbury Net Operating Result Comparison in Millions

	24-25	25-26	26-27	27-28	28-29	29-30	30-31	31-32	32-33
	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Pennsbury Scenario 2 Net Operating Result	(\$0.08)	(\$0.64)	\$0.02	\$0.20	\$0.39	\$2.14	\$3.03	\$3.95	\$4.78
Pennsbury Baseline Net Operating Result	(\$1.12)	(\$1.46)	(\$0.83)	(\$0.70)	(\$0.54)	\$0.30	\$1.09	\$1.95	\$2.72
<b>Net Impact</b>	<b>\$1.05</b>	<b>\$0.82</b>	<b>\$0.85</b>	<b>\$0.89</b>	<b>\$0.93</b>	<b>\$1.84</b>	<b>\$1.94</b>	<b>\$2.00</b>	<b>\$2.06</b>

● Key assumptions include:

- Tuition payments from Morrisville cover the costs of additional teachers, transportation and other services provided by Pennsbury
- An additional amount is charged for overhead to cover administration of the agreement and other indirect expenditures
- Pennsbury does not receive additional aid from the State

● The total of the net impact line is \$12.38 million



## Scenario 2: Tuition grades 3 to 12 – Impact on Morrisville

### Scenario 2: Tuition grades 3 to 12 – Impact on Morrisville Net Operating Result Comparison in Millions

	24-25	25-26	26-27	27-28	28-29	29-30	30-31	31-32	32-33
	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Morrisville Scenario 2 Net Operating Result	(\$0.57)	\$0.64	\$0.88	\$0.66	\$0.58	\$0.83	\$0.63	\$0.44	\$0.25
Morrisville Baseline Net Operating Result	(\$0.23)	(\$0.08)	\$0.14	\$0.13	\$0.16	\$0.19	\$0.22	\$0.26	\$0.29
<b>Net Impact</b>	<b>(\$0.34)</b>	<b>\$0.72</b>	<b>\$0.74</b>	<b>\$0.54</b>	<b>\$0.42</b>	<b>\$0.64</b>	<b>\$0.40</b>	<b>\$0.18</b>	<b>(\$0.05)</b>

● Key assumptions include:

- Morrisville does not need to borrow to replace the roof at the Middle / Senior High School
- Morrisville's annual results can support lower tax increases compared to the baseline
- Morrisville continues to receive the supplemental \$1.0 million Ready to Learn Block Grant

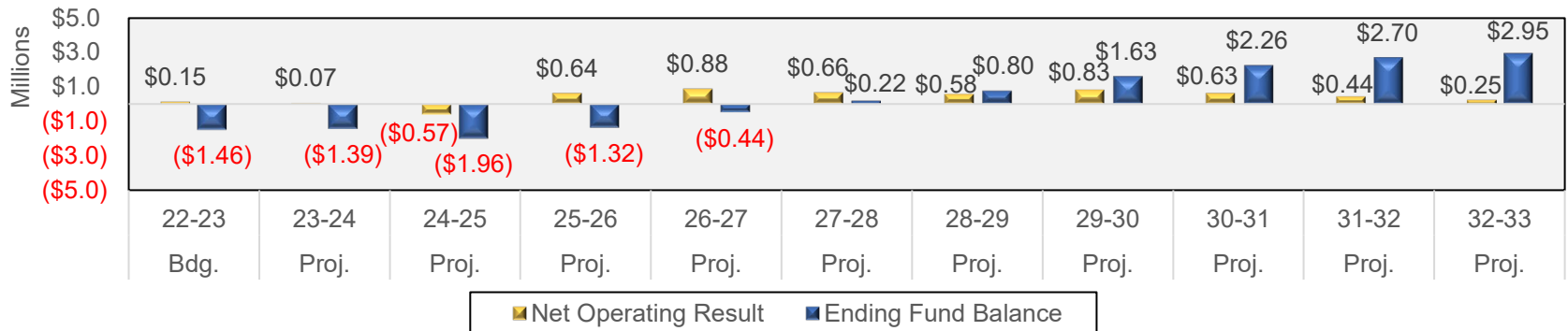
● The total of the net impact line is \$3.25 million



## Scenario 2: Tuition grades 3 to 12 – Impact on Morrisville

- For Morrisville, the impact of the tuition scenario is more clearly seen in the annual net operating results, which are shown in the chart and table below
- Compared to the baseline and Scenario 3, here Morrisville is able to begin reducing its negative accumulated deficit sooner, and Morrisville generates the highest positive fund balance figure

### Scenario 2 Budget Projections – Morrisville 2022-23 to 2032-33 in Millions



■ Net Operating Result ■ Ending Fund Balance

	22-23	23-24	24-25	25-26	26-27	27-28	28-29	29-30	30-31	31-32	32-33
	Bdg.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Total Revenues	\$23.15	\$24.70	\$24.24	\$24.96	\$25.70	\$25.82	\$26.29	\$26.80	\$27.32	\$27.85	\$28.40
Total Expenditures	\$23.00	\$24.63	\$24.81	\$24.32	\$24.82	\$25.16	\$25.71	\$25.97	\$26.70	\$27.41	\$28.15
<b>Net Operating Result</b>	<b>\$0.15</b>	<b>\$0.07</b>	<b>(\$0.57)</b>	<b>\$0.64</b>	<b>\$0.88</b>	<b>\$0.66</b>	<b>\$0.58</b>	<b>\$0.83</b>	<b>\$0.63</b>	<b>\$0.44</b>	<b>\$0.25</b>
<b>Ending Fund Balance</b>	<b>(\$1.46)</b>	<b>(\$1.39)</b>	<b>(\$1.96)</b>	<b>(\$1.32)</b>	<b>(\$0.44)</b>	<b>\$0.22</b>	<b>\$0.80</b>	<b>\$1.63</b>	<b>\$2.26</b>	<b>\$2.70</b>	<b>\$2.95</b>





## Scenario 3: Tuition grades 6 to 12 – Impact on Pennsbury

### Scenario 3: Tuition grades 6 to 12 – Impact on Pennsbury Net Operating Result Comparison in Millions

	24-25	25-26	26-27	27-28	28-29	29-30	30-31	31-32	32-33
	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Pennsbury Scenario 3 Net Operating Result	(\$0.60)	(\$1.11)	(\$0.47)	(\$0.31)	(\$0.14)	\$1.18	\$2.03	\$2.92	\$3.71
Pennsbury Baseline Net Operating Result	(\$1.12)	(\$1.46)	(\$0.83)	(\$0.70)	(\$0.54)	\$0.30	\$1.09	\$1.95	\$2.72
<b>Net Impact</b>	<b>\$0.53</b>	<b>\$0.35</b>	<b>\$0.36</b>	<b>\$0.38</b>	<b>\$0.40</b>	<b>\$0.88</b>	<b>\$0.94</b>	<b>\$0.97</b>	<b>\$0.99</b>

● Key assumptions include:

- Tuition payments from Morrisville cover the costs of additional teachers, transportation and other services provided by Pennsbury
- An additional amount is charged for overhead to cover administration of the agreement and other indirect expenditures
- Pennsbury does not receive additional aid from the State

● The total of the net impact line is \$5.80 million



## Scenario 3: Tuition grades 6 to 12 – Impact on Morrisville

### Scenario 3: Tuition grades 6 to 12 – Impact on Morrisville Net Operating Result Comparison in Millions

	24-25	25-26	26-27	27-28	28-29	29-30	30-31	31-32	32-33
	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Morrisville Scenario 3 Net Operating Result	(\$0.96)	(\$0.07)	\$0.27	\$0.39	\$0.48	\$0.75	\$0.75	\$0.78	\$0.80
Morrisville Baseline Net Operating Result	(\$0.23)	(\$0.08)	\$0.14	\$0.13	\$0.16	\$0.19	\$0.22	\$0.26	\$0.29
<b>Net Impact</b>	<b>(\$0.73)</b>	<b>\$0.01</b>	<b>\$0.12</b>	<b>\$0.26</b>	<b>\$0.33</b>	<b>\$0.56</b>	<b>\$0.53</b>	<b>\$0.52</b>	<b>\$0.51</b>

● Key assumptions include:

- Morrisville does not need to borrow to replace the roof at the Middle / Senior High School
- Morrisville's annual results can support lower tax increases compared to the baseline
- Morrisville continues to receive the supplemental \$1.0 million Ready to Learn Block Grant

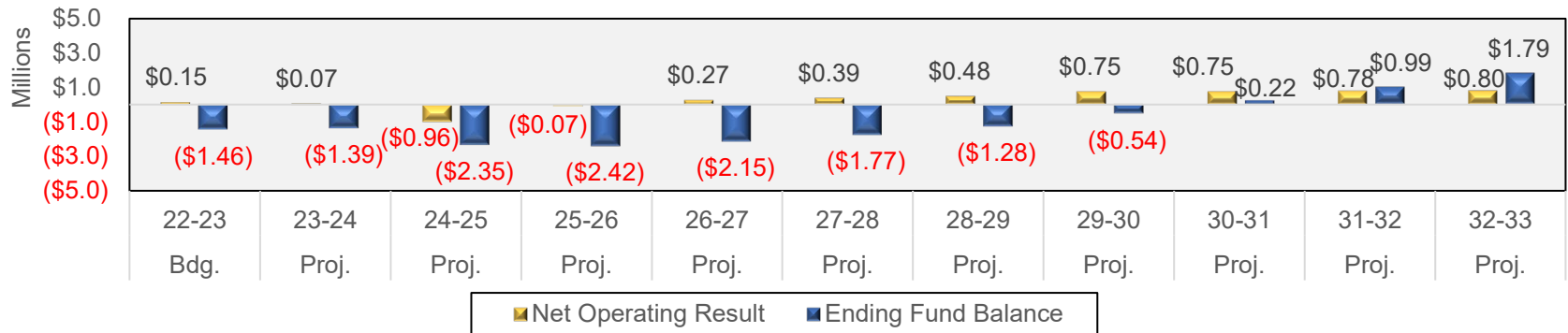
● The total of the net impact line is \$2.10 million



## Scenario 3: Tuition grades 6 to 12 – Impact on Morrisville

- For Morrisville, the impact of the tuition scenario is more clearly seen in the annual net operating results, which are shown in the chart and table below
- Compared to the baseline, Morrisville is able to reduce its accumulated negative fund balance faster and generate a positive fund balance
- However, the financial impact is less than Scenario 2

**Morrisville Scenario 3 Budget Projections**  
2022-23 to 2032-33 in Millions



	22-23	23-24	24-25	25-26	26-27	27-28	28-29	29-30	30-31	31-32	32-33
	Bdg.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Total Revenues	\$23.15	\$24.70	\$24.82	\$25.73	\$26.67	\$27.36	\$28.08	\$28.84	\$29.61	\$30.39	\$31.20
Total Expenditures	\$23.00	\$24.63	\$25.79	\$25.80	\$26.40	\$26.97	\$27.60	\$28.10	\$28.85	\$29.62	\$30.40
<b>Net Operating Result</b>	<b>\$0.15</b>	<b>\$0.07</b>	<b>(\$0.96)</b>	<b>(\$0.07)</b>	<b>\$0.27</b>	<b>\$0.39</b>	<b>\$0.48</b>	<b>\$0.75</b>	<b>\$0.75</b>	<b>\$0.78</b>	<b>\$0.80</b>
<b>Ending Fund Balance</b>	<b>(\$1.46)</b>	<b>(\$1.39)</b>	<b>(\$2.35)</b>	<b>(\$2.42)</b>	<b>(\$2.15)</b>	<b>(\$1.77)</b>	<b>(\$1.28)</b>	<b>(\$0.54)</b>	<b>\$0.22</b>	<b>\$0.99</b>	<b>\$1.79</b>



## What drives the expenditures?

- ◆ In all three scenarios, enrollment and capacity in Pennsbury's schools are the largest driver of expenditures since these variables influence the number of staff needed
- ◆ Calculating the financial impact of a merger or tuition arrangement requires a focus on the marginal changes in staffing or services rather than the average costs of educating students
  - Average costs per student in each district are calculated by dividing total expenditures by total enrollment
- ◆ If Morrisville's students attend school Pennsbury, it will not be necessary for Pennsbury to spend the same amount of money to educate those students
  - For example, another teacher will not be needed for some classrooms that are below Pennsbury's target class size with the addition of Morrisville's students
  - Most sports teams and activities will not need extra coaches and advisors
- ◆ The study's analysis also accounts for new costs, such as busing Morrisville students who previously did not have school bus service
- ◆ However, overall, this marginal additional cost per student is much less than the average cost, mostly because the same number of staff is not necessary



## What drives the revenues?

- ◆ In all three scenarios, educating students from Morrisville brings additional revenue to Pennsbury
- ◆ In the merger scenario, most of the additional revenue would be from property taxes, State aid, as well as State reimbursement for transportation, Social Security, and PSERS costs
- ◆ In the two tuition scenarios, Pennsbury would receive additional revenue from Morrisville's tuition payments, as well as State reimbursement for transportation, Social Security, and PSERS costs



## Factors to consider

- Some potential benefits or negative factors not included in the calculations are listed below

### **One-time first-year items**

- Audited 2021-22 results and eventual 2022-23 results are weaker or stronger than anticipated for either school district
- Morrisville may have additional ESSER funds available
- Full amount of unemployment benefits unlikely to be necessary

### **Longer-term and/or multi-year items**

- Full Morrisville special education supports transferred to Pennsbury; this need could decline over time
- Teacher costs affected by higher- or lower-than expected negotiated salary and benefits; teachers retained by Pennsbury at less than current seniority of Morrisville bargaining unit
- Ability to improve routing and implement three-tier transportation from Morrisville in all cases; challenges recruiting bus drivers in the current environment
- No proceeds from the sale of any Morrisville buildings
- Overhead portion of the tuition could be adjusted to increase financial benefit to Pennsbury



## Scenario considerations

- The three scenarios in the study were chosen to illustrate the different assumptions that could have impact on the feasibility of a merger or tuition agreement
- However, there are many alternatives that the two school districts might explore, which could include:
  - Merger: Pennsbury maintains the Middle / Senior High School building as K-5
  - Tuition and Merger: Pennsbury and Morrisville establish a tuition agreement; a merger decision takes place further in the future
- In addition to considering other configurations for the merger, there are steps that Pennsbury and Morrisville could pursue to improve the net impact on Pennsbury and have it happen sooner
  - **Firm state aid commitment** to address Morrisville's finances and enhance its ability to be a reliable long-term partner
  - **Ongoing state aid commitment** to Pennsbury to ensure the long-term stability of any arrangement and potentially lower property tax increases or fund capital for Pennsbury
  - **Increase out-year tax rates in Morrisville** to generate additional benefit to Pennsbury in a tuition scenario
  - Include provisions to **reopen and revise a tuition agreement within five years**



## State financial support

- State financial support for a merger or tuition arrangement will be an essential requirement in order to ensure that Morrisville's students have sufficient supports and Pennsbury is held harmless in assuming Morrisville's existing debt
- In prior merger and tuition arrangements, the State has provided both one-time and recurring support for the costs incurred by the receiving school district
- Given the size of Morrisville's accumulated negative fund balance, the study assumes that the District would take steps to eliminate it, and/or the State would provide a one-time payment
- In addition, there are several areas where the State could provide financial support to ensure a successful partnership between Pennsbury and Morrisville
  - **One-time:** Eliminate all or part of the negative fund balance; costs of buses as needed, facilities upgrades, one-time unemployment costs from staffing reductions, and other transition costs
  - **Recurring (Scenario 1 Merger):** Any additional State aid since the scenario does not assume the continuation of the \$1.0 supplemental Ready to Learn Block Grant provided to Morrisville
  - **Recurring (Scenarios 2 and 3 Tuition):** Any amounts above the \$1.0 supplemental Ready to Learn Block Grant provided to Morrisville, which is carried over from the baseline assumptions





## Governance and other factors

- The study leaves decisions regarding whether or how to proceed with a merger or tuition agreement to the two school boards
  - As noted, there are multiple alternative scenarios and approaches, and changes in assumptions could make the alternatives more or less workable or desirable
  - In particular, the districts should gauge the State's interest and willingness to participate financially
- Under a merger, the two school districts would combine academic programs, operations, finances, and School Board members
  - As outlined in the study and required by statute, the merged school district would begin with an 18-member School Board, which would reduce to 9 members over two election cycles
  - Based on Feasibility Committee input and public comment, the two School Boards may wish to explore options that would result more rapidly in a 9-member Board
- Under a tuition agreement, the study outlines several major factors for the School Boards to consider in negotiating with each other
  - These include the length of time for the agreement, the per student tuition rate, the calculation of annual increases in the tuition rate, and other conditions
- The two School Boards should consider the collaboration options identified in the report, which could benefit both districts whether or not there is further discussion of merger or a tuition arrangement

**Thank you.**



**pfm**