FISCAL BRIEF

April 26, 2022

SUMMARY: This fiscal brief corresponds to the presentation made at the Methacton Board of School Directors meeting on April 26, 2022 by Dr. Zerbe and Mr. Bricker presenting the Capital Reserve Fund and Shannondell Escrow recommendations.

NOTES:

This evening I will be making the following recommendations:

- Policy Recommendation
- Shannondell Escrow Recommendation
- Capital Reserve Fund Recommendation

In 2016, the Board accepted a professional assessment of all district facilities organized into a Master Plan document outlining the extent of work required, estimated costs and timelines over the next 10 years. An update to the Master Plan document will be presented in June 2022. This update will itemize and organize all remaining and new projects for the next 10 years.

The Master Plan document includes renovations as large as $10 Million dollars and some less than $1 Million dollars. All of the projects in the original Master Plan and those to be part of the updated plan will require Methacton School District to borrow money in order to fund these projects.

It is reasonable to expect the district to borrow money to complete large projects such as those above $1.5 Million dollars. However, there are numerous projects below $1.5 Million that can be funded without incurring additional interest and fees – thus reducing the overall cost of these recurring items and lessening the tax burden on our residents.

It is my recommendation that we establish a Board policy that:

1. Considers recurring capital matters under $1.5 Million each.
2. Reserves appropriate level of funding for unanticipated capital matters.
3. Provides specific guidelines for the Board and Administration to maintain the Capital Reserve Fund.
4. Removes projects under 1.5 Million from the Master Plan document and requires the production, use and regular maintenance of a Capital Reserve Plan document to schedule, complete and fund these projects without borrowing.

This recommendation is both practical and purposeful in our long-term approach to providing for the fiscally responsible means to maintain our schools.

In order to realize this recommendation, we will need to establish a level of funding within the Capital Reserve Fund to get started. Therefore, I am recommending the use of the Shannondell escrow to be moved into the Capital Reserve Fund to help us begin this process.

As a matter of history, the Methacton School District tax appeal court case with Shannondell, referenced as SWD 101 LLC and WNR 38 LLC, was ordered on February 7, 2022 by the Montgomery County Court of Common Pleas. Following a three-day trial, during which the judge ruled that neither party provided sufficient, competent, and credible evidence to overcome the Montgomery County Board of Assessments taxing determination and, therefore, the court ordered the adoption of the county taxing authority on market values and assessments for the said properties for the years in dispute.

The matter that began in 2006 with a taxpayer appeal and lasted for 16 subsequent tax years was ordered and the appeal deadline passed bringing the case involving those tax years with this taxpayer to a close.

The district, as a result of the taxpayer filing in protest of their taxes, began in 2011 under requirements of law, placing 25% of the due tax from taxpayer into an escrow account. The escrow would range from $600k to $800k over this period of time. It would generally increase with each tax year. The escrow account, at the conclusion of the case, ended with $7,193,687.

The capital reserve fund currently has $ $1,548,642.33 and has on average had approximately $900K and as low as $450K in the fund over the past 5 years. I recommend that we transfer the amount of $7,193,687 to Capital Reserve Fund to establish the proper Capital Reserve fund level necessary to accomplish our long term recurring capital needs. I propose the transfer motion be added to the agenda in May 2022 for the Board's consideration.

I believe this is the best use of the Shannondell escrow funds from a strategic perspective whereby allowing us to keep our commitment to our students, our community and our taxpayers.

Within this recommendation, it is important to remember that Shannondell's paying in protest for each of the last 13 years required all other taxpayers to make up the difference in tax revenue to balance the budget. As an example, when required by law to reserve 25% or $700,000 of Shannondell's taxes paid in protest, the remaining tax base made up that revenue deficit with a higher tax levy. The Shannondell escrow funds of $7,193,687, as a result of the judge's ruling, now sit in a General Fund revenue/expense account and will become part of the 2021-2022 end of year budgetary surplus if not spent or otherwise allocated before June 30, 2022.

In my experience, there is generally one goal and three common approaches to attain that goal with respects to the use of surplus funds as with the Shannondell escrow. The goal would be to give the money back to the tax payer. The three common approaches to accomplishing this include:

1. Send each taxpayer a refund check.
2. Offset future tax increases.
3. Reduce future expenses.

The approach to give the money back to the taxpayer through the issuance of a refund check for all of the 13 escrowed years is possible, but not the best approach. Aside from the labor and accuracy challenges associated with this approach, one must consider that the net impact to the average homeowner may not be as significant as one might imagine.

A refund check for the 2021 tax year based on the average assessment of $174,400 would be approximately $52.32. Assuming that the taxpayer paid taxes in each of the past 13 years, it is estimated that the average taxpayer would receive less than $400. The bulk of the refund would go to commercial properties with one of the largest refunds going to Shannondell itself.

	Value*	Assessment	Refund
	$100,000.00	$46,948.36	$14.08
	$150,000.00	$70,422.54	$21.13
	$200,000.00	$93,896.71	$28.17
	$250,000.00	$117,370.89	$35.21
	$300,000.00	$140,845.07	$42.25
MSD Avg.	**$371,472.00**	**$174,400.00**	**$52.32**
	$400,000.00	$187,793.43	$56.34
	$500,000.00	$234,741.78	$70.42
	$1,000,000.00	$469,483.57	$140.85
	$2,000,000.00	$938,967.14	$281.69

CHECK REFUND SAMPLE FOR 2021 TAX YEAR

The goal to give the money back to the taxpayer by issuing a refund check is not recommended. It has the least overall impact and value long term for students, the community and taxpayers.

The second common approach to giving the funds back to the taxpayer is to use the surplus to offset tax increases in future years. This idea of covering annual expenses with one-time revenue causes a number of inter-related issues. First, at some point the one-time fund runs out of money. For a school district, once the surplus fund hits zero it would be required to cut expenses or raise taxes or a combination of the two. I would recommend that before we do this, we make the cuts now or raise the tax now rather than prolong the inevitable.

In an inter-related challenge to using a surplus or one-time funds to offset future tax increases in the annual budget, the image below shows the one-time use of the funds in the amount of $1 Million dollars highlighted in grey. To offset the budget in the 22-23 FY would then require the district to start the 23-24 school year budget short $1 Million dollars. This means we would need to cut expenses by $1 Million or we start the planning for that year with a base of a 1.19% tax increase before considering any increase in expenses.

	2022-2023	2023-2024
ASSESSMENT	$2,677,725,872.00	$2,677,725,872.00
Millage Increase	2.8300%	1.1980%
MILLAGE RATE	32.1493	32.5344
Less Gaming Funds	($2,106,750.72)	($2,106,750.72)
Net Tax Levy	$83,980,261.66	$85,011,453.89
COLLECTION RATE	96.97%	96.97%
Gross Current Real Estate Taxes	$81,436,541.59	$82,436,499.53
Use of GF for Budget Relief	$1,000,000.00	
Total Funds for Budget	$82,436,541.59	$82,436,541.59

This type of budgeting, where you offset recurring expenses with one-time funds more than one year, can produce an exponential impact whereby you may not be able to even raise taxes in future years due to the Act 1 Index limitations and, thus, the only avenue is to cut expenses. This is commonly referred to as "falling off the cliff". Doing this presents a narrow space to address future budgetary challenges, future employee contracts, and future healthcare variances and so on.

Lastly, another inter-related issue of using one-time funds in the annual budget will impact our Moody's rating thus impacting the costs to taxpayers for us to borrow money and will eventually impact property values.

I strongly recommend against this approach to the use of surplus funds and budgeting.

My recommendation is to utilize the surplus or Shannondell escrow of $7 Million dollars to fund capital improvements rather than borrow to make those improvements, thereby you make investments in our infrastructure to support the instructional program delivery all while saving taxpayers nearly $4 Million dollars in interest and fees. This is the most appropriate means of giving the Shannondell escrow back to the taxpayers, by reducing future expenses.

Therefore, the most efficient and appropriate approach to the use of surplus and specifically the use of the Shannondell escrow, in keeping with our commitment to our students, our community and our tax payers, is to place a motion on the agenda for May 2022 to transfer the Shannondell funds from the General Fund to the Capital Reserve Fund at the May 2022 meeting.