Souderton Area
School District

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Testimony to the Senate Appropriations and Policy Committees

September 20, 2016

Frank T. Gallagher

Superintendent of Schools

Souderton Area School District

Good afternoon. My name is Frank Gallagher, and I am the Superintendent of Schools for the Souderton Area School District. Thank you to Chairman Browne, Chairman Hughes and Chairman Argall for the opportunity to testify today on such an important issue. Senate Bill 1341 is a laudable piece of legislation, and a performance-based budgeting framework has allowed the Souderton Area School District to develop a culture of fiscal responsibility that continues the educational excellence that our children deserve, but does so in a fiscally conservative manner.

Background on Souderton Area SD

Let me begin with some brief background on our school district. The Souderton Area SD is located approximately 30 miles northwest of the city of Philadelphia, in upper Montgomery County. Our district includes an area of 49 square miles and is the largest school district, in square miles, in the county. There are six municipalities within the boundaries of the Souderton Area SD, and the community is unique in its diversity of people and landscape. We educate approximately 6,500 students:

- 24% qualify for free or reduced price lunch through the National School Lunch Program
- Almost 623 students are non-native English speakers
- Over 1,100 students receive special education services, ranging from learning support to multiple disabilities who require full-time nursing care

Our academic achievement results are some of the highest in the Commonwealth.
- Souderton Area High School's most recent School Performance Profile score was 96. It has also been ranked as high as #18 in the Commonwealth by *U.S. News and World Report* in its annual high school ratings.

I am very proud of our students, teachers and our community for the success of Souderton Area SD.

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Budget Experiences in the Souderton Area SD

In 2009 and 2010, the Souderton Area SD, like most others in the Commonwealth, had to make a number of difficult academic, artistic and athletic program reductions in order to cope with declining revenues and increasing expenditures that resulted from the downturn in the economy. When I was appointed as superintendent in 2013, the effects of those cuts were still being felt in our organization, and we needed to re-evaluate our annual budgeting process to ensure the continued academic success demanded by our high standards in the face of the new economic reality facing Pennsylvania's public school districts. It was at this point that the administrative team adopted a performance-based budgeting model.

My primary goal in developing the Souderton Area SD performance-based budgeting model was to ensure that our spending was aligned with our latest comprehensive plan goals. I insisted that our comprehensive plan not simply collect dust on the shelf. It had to be a living document that reflected the reality of how I wanted our organization to operate. Under traditional budgeting models, a new comprehensive plan often leads to an increase in District spending – on new programs, new staff and new supplies to ensure its successful implementation. But increasing expenditures was not going to be possible in the new economic reality.

The performance-based budgeting model required a shift from reviewing our District spending on a more detailed level (by major function and account) to evaluating our programs. Doing so forced the administrative team and the School Board to evaluate programs based on their efficiency and effectiveness. Essentially we calculated a "return on investment," or ROI to our stakeholders. Programs which we believed had positive and measurable results would be prioritized for funding. Any programs that did not pass muster were reconfigured or eliminated.

We undertook this process through a number of means, including:
- Needs assessments
- Review of qualitative and quantitative data
- Redefining "goals" and "tasks" for our organization.

The last item I mentioned was perhaps the most important in a performance-based budgeting model. We had to clearly define our goals and then directly align our budgetary priorities with those goals. I will now discuss how we implemented and operate our performance-based budgeting model in the Souderton Area SD.

The Souderton Area SD Performance-Based Budget Model

There are three components to the Souderton Area SD performance-based budget model.
1. The first, which I already briefly discussed, was to align our budget with the organization's goals. We took the view that if a program is not working, then it should be eliminated. This includes reassigning our staff in programs and reallocating the financial resources to another, more successful program.

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2. To do so, we had to become very innovative with our personnel. We have determined that many of our positions can be satisfied using part-time employees. We perform staffing evaluations each time an employee retires or resigns to assess the effectiveness of that position. Utilizing this method, vacancies have been easier to fill with existing staff members.

3. Finally, we adopted a "fee for service" model for non-essential services that we provide, such as athletics, student parking and technology insurance. This frees up resources to be dedicated to the mission-critical expenditures.

To successfully implement this model, we had to secure the support of the School Board. This was accomplished through strong relationships with the Board President and Finance Committee Chairwoman and establishing the performance-based budgeting as a District goal. Our implementation was focused on demonstrating to the Board that this model would increase our operating efficiency. We documented the ways in which our efforts would save money and result in lower tax increases. For example, the Souderton Area SD had been paying for a very important, but very expensive, transition program for students with disabilities who were about to age out of the public school system. This was a critical program that needed to continue, so our administrative team developed an in-house program to accomplish our goal. Although we had to hire staff and purchase approximately $50,000 in equipment, we ended up saving almost five times that amount per year by avoiding the contracted services costs and essentially eliminating transportation costs. In addition to our Board, we are involving our constituents in the budgetary process, from parent and employee advisory councils to community forums with municipal, faith, social service and business leaders.

Through performance-based budgeting, we are creating a corporate culture of budget development in the Souderton Area SD. We have incorporated the use of dashboard reports for revenues and expenditures, which are sent to the Board on a monthly basis. These reports provide analysis and comparison data so that the Board and administration are constantly aware of budget versus actual performance. Additionally, we include a staffing dashboard, which is a concept borrowed directly from a business headquartered in our district. It allows our team to quickly and effectively monitor our personnel counts against budget and prior year. Finally, we adopted a multi-year, multi-faceted financial projection model that thinks beyond one year's budget and allows for more strategic and programmatic analysis of how we spend our money.

Our public budget presentations dramatically changed when we adopted performance-based budgeting. Our focus shifted to the "key drivers" of the budget, and our primary objective was to allow the Board to guide the budget development process by reaching consensus on the critical assumptions that underlie the budget. As you are all well aware, budgeting is not an exact science and carefully planned projections often do not come to fruition. For this reason, we spend a significant amount of time debating the assumptions that are used to develop the budget, rather than the numbers themselves. For example, real estate taxes are the most significant local revenue source in the Souderton Area SD. Therefore our discussions center around the most reasonable collection percentage, based on the most current data. Once we reach consensus on the assumptions, we are quickly able to identify any deviations in the assumption and can easily explain why our

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revenue accounts were higher or lower than anticipated. This methodology is rooted in research conducted by the Center on Budget Policy and Priorities.

Souderton Area SD Results

Performance-based budgeting has been extremely successful in the Souderton Area SD. In the past four years, the School District has:

- Delivered budgets with tax increases well below the state's Act 1 index and which have been the lowest in Montgomery County;
- Obtained almost $600,000 of private and federal grant funding to support innovative School District programs at all grade levels;
- Upgraded its bond rating outlook with Wall Street rating agencies due to strong reserves and sound management policies and practices;
- Provided for capital project funding without additional borrowing, including a much needed renovation at our most economically disadvantaged elementary school;
- Proactively capped its unassigned fund balance at 4% of operating expenditures; and
- Most importantly, crafted budgets that directly align with the School District's comprehensive plan goals, focus on the needs of the whole child and implement visionary leadership in technology integration.

I have included a chart in my testimony illustrating the Souderton Area SD tax increases over the last four years.

Conclusion

I would again like to thank the chairmen of these committees for the opportunity to testify about Souderton Area SD success using a performance-based budgeting model. As you know, we must hold ourselves to higher standards as stewards of public funds, and performance-based budgeting would allow the citizens of the Commonwealth to feel confident that the legislature's appropriations process was corporate-minded, data-driven and results-oriented. We applaud Senator Mensch and his co-sponsors for introducing Senate Bill 1341, and hope that you found this testimony helpful in your deliberations. I will be happy to attempt to answer any questions that you might have.

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Souderton Area SD Tax Increase History

Chart showing SASD (bars) and Act 1 Index (line):

Year	SASD	Act 1 Index
2013-14	0.89%	1.70%
2014-15	1.00%	2.10%
2015-16	0.39%	1.90%
2016-17	0.46%	2.40%

SASD — Act 1 Index