



# **Pennsylvania Association of School Business Officials**

Mailing Address:  
P.O. Box 6993  
Harrisburg, PA 17112-0993

Office Location:  
2608 Market Place  
Harrisburg, PA 17110

---

Telephone (717) 540-9551

[www.pasbo.org](http://www.pasbo.org)

FAX (717) 540-1796

**TESTIMONY OF JAY HIMES, CAE**

**EXECUTIVE DIRECTOR**

**PENNSYLVANIA ASSOCIATION OF SCHOOL BUSINESS OFFICIALS**

**PRESENTED TO THE**

**HOUSE EDUCATION COMMITTEE**

**MARCH 2, 2011**

**ECONOMIC FURLOUGHS**

Good morning I am Jay Himes, executive director of the PA Association of School Business Officials (PASBO) and I want to thank Chairman Clymer, Chairman Roebuck and the members of the committee for the opportunity to comment this vital and necessary proposal. In the interest of time, information about PASBO is attached.

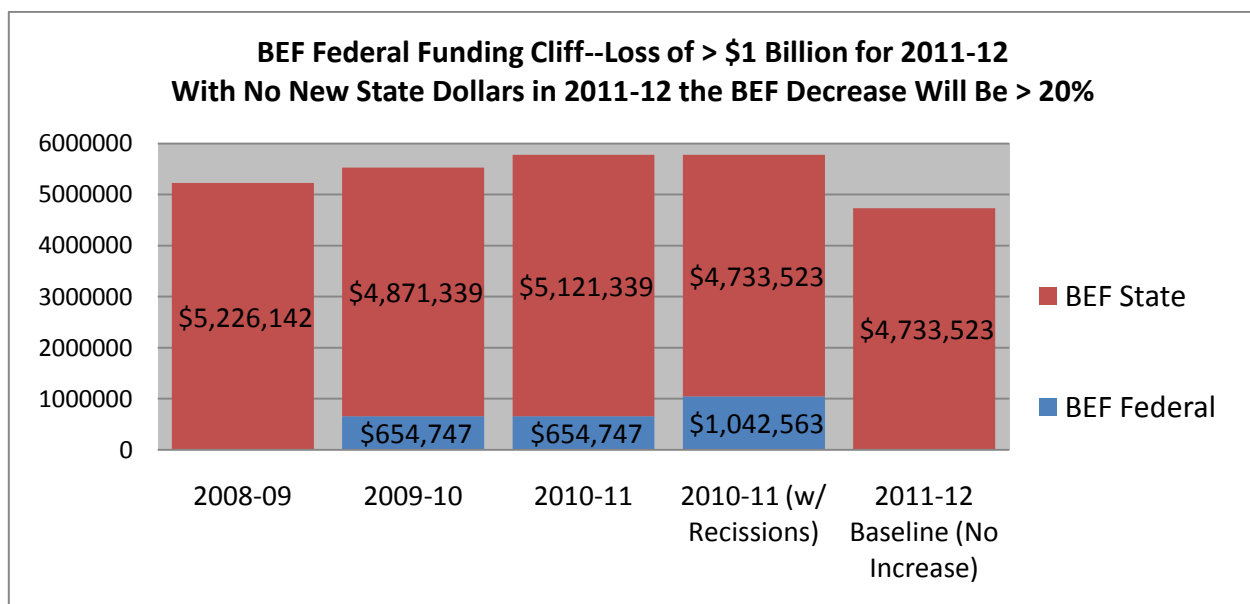
In the preliminary budget phase of developing 2011-12 budgets, virtually every school has at least a million dollar deficit, many have shortfalls between \$2 million and \$10 million and in some extreme cases, more than \$10 million. Reduction in force is not a pleasant option, particularly since eliminating instructional positions does not eliminate the accountability mandates still in place. Furloughs are drastic but we are in a school finance crisis. So while drastic and one of the last resort options for schools, furloughs are an economic necessity.

We support House Bill 855 which will provide schools with tools necessary to reduce personnel expenditures in a rational and efficient process. It is vital and necessary in order for schools to balance their budgets in the face of declining revenues, increasing costs and an historic low Act 1 index. We can no longer literally and figuratively afford not to be able to do what any other employer would do in a financial crisis.

Here is a quick recap of the multitude of financial conditions that have lead to the crisis as schools attempt to balance their 2011-12 budgets.

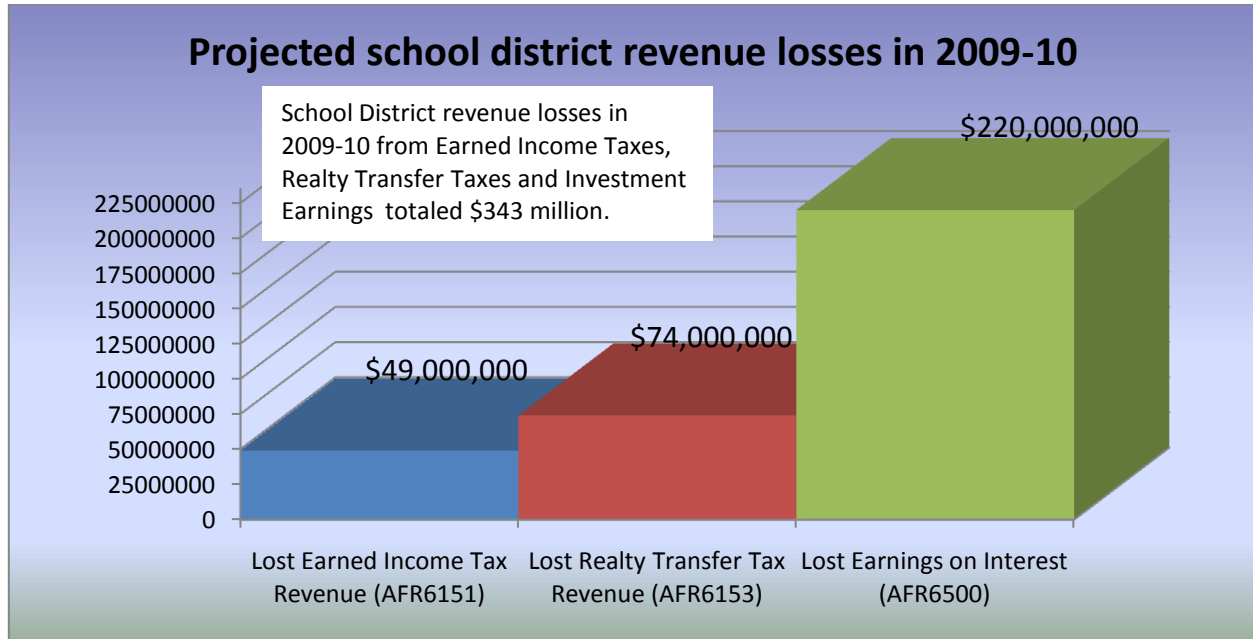
**Declining State Revenue**

We believe it is likely that schools will experience a billion dollar reduction in Basic Education Funding (BEF) for 2011-12 and perhaps cuts in other education line items. Federal assistance in the form of stimulus funds under the American Recovery and Reinvestment Act that has been utilized in Basic Education Funding is ending. Pennsylvania used \$654 million in the current and preceding fiscal years to bolster BEF funding. Then just a few weeks ago the new Budget Secretary announced that the \$387 million in federal Ed Jobs funds would supplant existing state dollars in this year’s BEF. The result is a billion dollar shortfall in BEF as reflected in the chart below that reduces BEF to its 2006-07 funding level.



**Declining Local Revenues**

In addition, schools continue to see a substantial decline in local revenues as well. The results from a joint survey conducted by PASBO and PA Association of School Administrators last spring identified \$340 million in reduced local revenues. Every major tax source and interest earnings have suffered declines as indicated below.

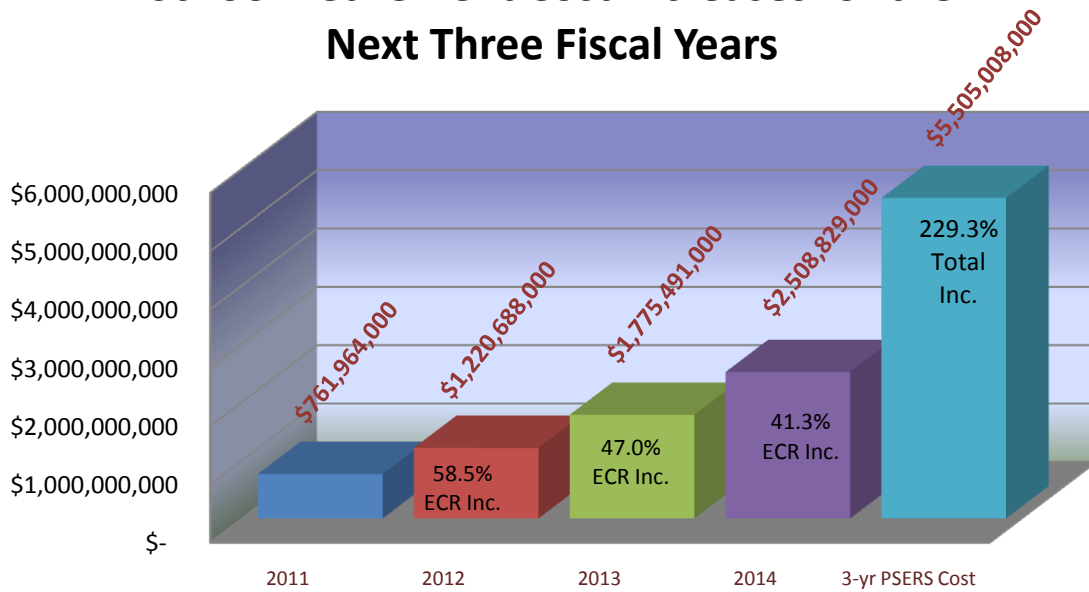


Property tax bases have been hard hit by the tide of assessment appeals in many counties which has resulted in significant revenue losses to many schools. We are sure that the downward trend in local revenues in schools across the state has not improved in the current fiscal year—in fact they may have worsened.

**Increasing School Expenditures**

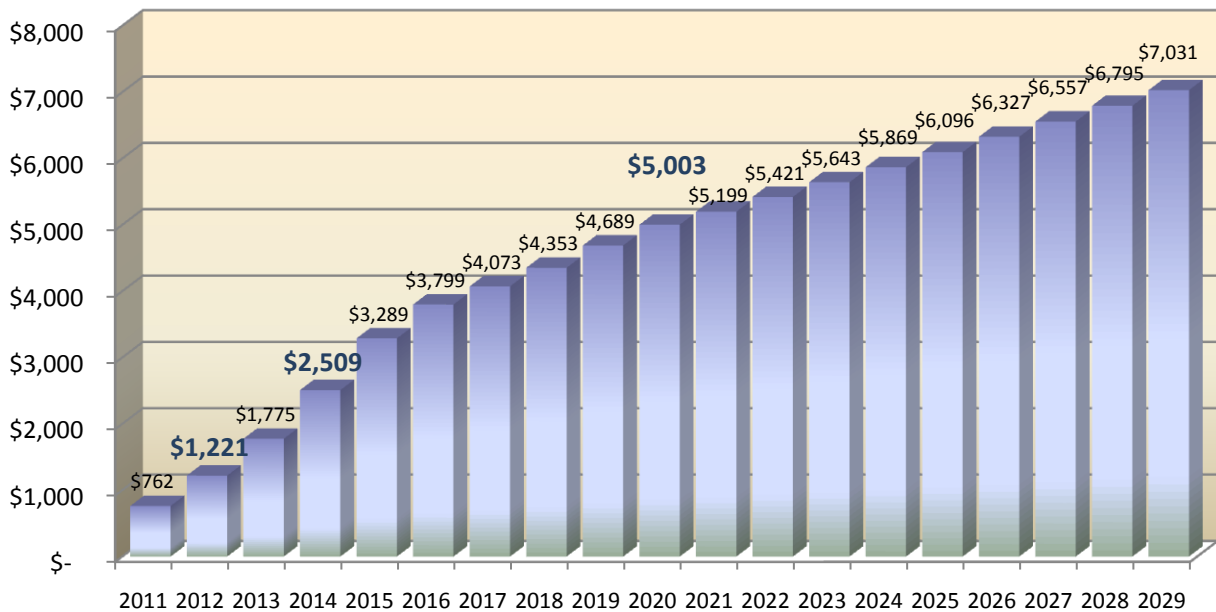
While many schools are aggressively seeking to reduce expenditures through a wide and sometimes severe variety of cost cutting strategies, schools cannot control mandated costs. The most significant of these mandated costs is the upward spiral of employer contributions for the Public School Employee Retirement System (PSERS). For the 2011-12 fiscal year schools will see a jump in the Employer Contribution Rate (ECR) of 3.5%. This 3.5% increase in the ECR is the equivalent of an additional half billion dollars in school and state contributions. The following year there is another half billion increase in the ECR followed by a ¼ billion dollar increase in the third fiscal year.

## School Retirement Cost Increases for the Next Three Fiscal Years



The three year total cost of school employee pensions is greater than the current BEF funding level. Moreover, this cost escalation is only the tip of the iceberg. As indicated in the chart below, school pension costs will continue to escalate topping out at an ECR of about 27% (compared to the current year ECR of 5.62%). The ECR “launch” will mean pension contributions will double from 2011-12 to 2013-14 and then double again in 2019-20.

## Annual Cost to Schools/State Under Act 120 (\$ in Millions)



### **Act 1 Index at Historic Low**

Historically schools could absorb declining revenues and increased costs by property tax increases. However Act 1 has now established two limits—one imposed by the law and one imposed by local discretion. The law caps property tax millage rate increases at an index which is calculated by averaging the Statewide Average Weekly Wage (SAWW) percentage increase and the Employment Cost Index (ECI) for Elementary and Secondary Education percentage increase. For the next fiscal year, the Act 1 Base Index is 1.4%. We believe, based on six months of data for the 2012-13 SAWW and ECI that the 2012-13 Act 1 Base Index may be even lower. For the most recent six months of data, the SAWW increase was .44% and the ECI change was 1.3%. If this trend continues the 2012-13 index could be less than 1%.

The other change that has been institutionalized by Act 1, at least in this economy, is the establishment of the index as the cap, forgoing the option to use exceptions. Some districts will use exceptions because they have to. Other districts are going to find ways to stay within the index, generally by using significant amounts of fund balance to make up for their shortfalls.

### **Furloughs for Economic Necessity Are an Economic Necessity**

Schools face a severe financial challenge. Perhaps for the first time ever, the Commonwealth's 500 school districts will experience the school finance trifecta—declining local, state and federal revenues. In addition to the declining revenues, there are significant expenditures increases in pensions and other on-going necessities for school e.g. fuel. Finally, the Act 1 Index has limited the flexibility on the property tax to compensate for the declining revenues and increased expenses.

In response, schools have been making cuts and will continue to do so. However, in any other business situation, the first place to achieve the most immediate and significant savings is in personnel. For schools, personnel costs are significant—education is labor intensive from the classroom to the myriad of support services that occur outside of the classroom and in some cases outside of the school. About 2/3rds of a school budget goes towards salaries and benefits.

Consequently, trying to reduce millions of dollars in shortfalls for 2011-12 budgets will not be accomplished effectively without having the OPTION to furlough what the School Code terms “professional employees.” Currently § 1124 of the School Code prohibits furloughs for instructional staff except for school consolidation, “program” eliminations and a significant reduction in students. A change to the School Code is an economic necessity. You simply cannot achieve the cost reductions that schools need to balance next year's budget (and future budgets) with attritional savings or program cuts. Reductions in force accomplished in this manner are inefficient, focus on specific courses and occur regardless of performance or evaluation criteria. It is a haphazard and ineffective process that is remedied by House Bill 855.

PASBO members and other administrators often are admonished to run schools like a business. In the business world, a decline in existing revenue sources, required expenditure increases in other line items, limited flexibility on raising new revenues would produce personnel reductions. But right now schools don't have the business tools to address their critical financial situation. Schools should be given the authority to reduce personnel if necessary and should be given the flexibility of how to reduce personnel as well.

Seniority based personnel reductions produces an obvious result—more positions are eliminated since higher compensated employees are protected. Other states are already addressing this issue.

In Arizona for example a recent state law prohibits furloughs based on seniority in order to reduce the impact of personnel reductions. Giving schools the flexibility to determine how to reduce instructional personnel will help to minimize the impact by providing more savings with fewer furloughs.

To implement furloughs for economic necessity, the School Code change should make it clear that furloughs are a prohibited subject of bargaining. Any current contract that contains furlough language should default to state law when the contract expires. If the state law is effective only if a new contract is bargained, the needed savings in school personnel costs can be easily thwarted.

### **No Magic Wand**

There is no magic wand. We don't expect the projected state deficit of \$4-\$5 billion will suddenly disappear. We don't think the federal government will come through with a second round of stimulus dollars. We don't expect that local revenues will suddenly rebound. All schools will have to cut their budgets—it is just a matter of how much and how severely.

Schools have and will continue to reduce expenditures. The current economic crisis requires all schools to not fill positions, reduce equipment and supply purchases, look at options such self-insurance, reduce transportation to extracurricular activities, impose pay-to-play fees, refinance debt to reduce bonds costs, delay construction, reduce energy consumption and dozens more. Several districts have made public outreach efforts to engage their community in identifying cost reduction strategies. These actions are not just a good idea; the current fiscal crisis requires them.

Schools need savings and their actions must produce results quickly. While long term savings may be beneficial, immediate cost cutting results must be achieved. Furloughs may be a more drastic response, but a crisis requires drastic measures.

### **Higher and Higher Property Taxes**

If schools do not get business-like tools to reduce personnel expenditures, there will be higher property taxes. There will not be an option for schools to balance their budgets other than to increase property tax millage.

At the end of the 2008-09 fiscal year, fifteen school districts reported negative fund balance—a sign of fiscal distress. Multiple years of negative fund balance indicates structural deficits. We anticipate this list will grow in light of the decline in school revenues. In fact, it would not be surprising to see some districts bordering on bankruptcy in the next three years. The financial crisis is real and tax-based challenged districts which see a significant cut in state revenue may not be able to recover.

Schools will need to take every step possible for both increasing revenues and decreasing expenditures. All expenditures, not just the 35% outside of the personnel line items, have to be examined and reduced—it's an economic necessity.

Thank you for the opportunity to express our support for House Bill 855.