

PASBO - PASA

SCHOOL DISTRICT BUDGET REPORT

JUNE 2018

This report is based on a recent survey of school districts that was conducted by the Pennsylvania Association of School Business Officials (PASBO) and the Pennsylvania Association of School Administrators (PASA). PASBO and PASA surveyed all 500 school districts in April/May 2018 to obtain the data included in this report. Responses were received from 265 school districts across the state. The Pennsylvania Association of School Business Officials (PASBO) is a statewide association, 3,000 members strong. It is devoted to providing members with education, training, professional development and timely access to legislative and policy news. The Pennsylvania Association of School Administrators (PASA) represents school superintendents and other school leaders from across the Commonwealth. PASA's mission is to promote high quality public education for all learners through its support and development of professional leadership.

FISCAL DETERIORATION CONTINUES

Each year the PASBO-PASA Report on School District Budgets seeks to capture an accurate picture of the financial condition in school districts across the Commonwealth based on their proposed budgets for the following fiscal year. Completed as school districts are working to finalize their 2018-19 budgets, the survey examines the budgetary and resulting operational considerations being planned by school leaders around the state.

As we review the survey results each year, we are always hopeful that the responses will show some indication that the financial challenges that have plagued so many districts in the past several years are beginning to diminish. We are often surprised to find little to no indication that the financial condition of school districts has improved significantly.

Unfortunately, this year is no different, and school districts, in general, continue to be focused on maintaining their current operations while continuing to make cuts to counter rising mandated costs. Some districts have begun recovery, but no one has fully recovered. School districts across Pennsylvania continue to struggle to make ends meet and balance their budgets without negatively impacting their educational programming.

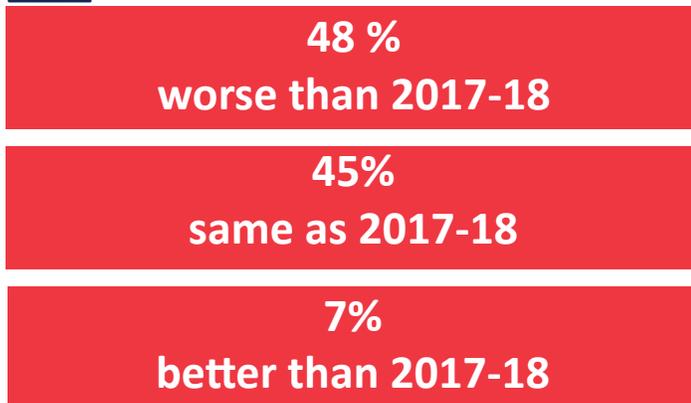
To illustrate the extent of this ongoing financial challenge for school districts, more survey respondents indicated that they anticipated their financial condition would be worse in 2018-19 than in the current fiscal year compared to those who indicated their financial condition would be the same.

Following our 2012-13 budget survey in which a majority of respondents indicated they anticipated their financial condition the next fiscal year would be worse, this development appeared somewhat ameliorated. However, based on this year's results, it appears that the many financial pressures affecting school districts could be undoing any positive gains made over the past few years, and we remain right where we started.

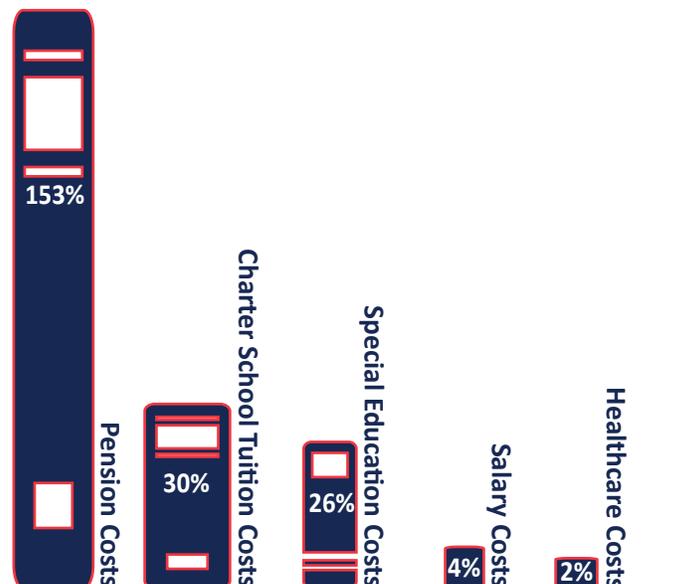
Based on statewide 2016-17 school district Annual Financial Report data recently released by the PA Department of Education, the situation has not changed in terms of school district cost drivers. Mandated cost increases for employee pension, special education and charter school tuition continue to make it difficult for districts to balance their budgets. Other cost increases, such as employee salary and healthcare increases, have played much less of a role in driving costs.

In fact, in the five year period from 2012-13 to 2016-17, the cost increases for employee pension costs increased by 153%, while special education costs increased by 26%, and charter school costs increased by 30%. During this same time, employee salary costs increased by only 4%, barely 1% per year. Reflecting the sustained budgetary pressures, during this time period, school salaries have actually decreased in some years. Similarly, employee healthcare costs have only increased by 2% during this time period.

For 2018-19, do you anticipate your school district's financial condition will be:



Increases in School District Mandated Costs (2012-13 to 2016-17)



FISCAL DETERIORATION CONTINUES

While school districts have received increases in state funding during this time period, those state funding increases have not kept up with the mandated costs school districts have had to shoulder. From 2012-13 to 2016-17, total state funding for school districts increased by slightly more than \$2 billion. However, 54% of this total state funding increase—about \$1 billion—represents the state share of the school district retirement contributions. While it can be argued that pension funding is school funding, it clearly does not provide additional resources to the district, and the school share has to be paid from local dollars. None of this funding goes into the classroom.

Additionally, while all state funding increased by \$2 billion between 2012-13 and 2016-17, the mandatory cost increases to school districts of employee pension costs, charter school tuition and special education costs alone increased by \$3.3 billion, dramatically outpacing the state funding increases and forcing school districts to turn to local revenues and cuts to make ends meet.

It's clear that school districts are continuing to struggle fiscally. To dive deeper into the causes of the anticipated financial conditions in school district for 2018-19, 23% of school district respondents reported that costs of employee benefits, including both pension costs and healthcare costs, were a major driving force behind the overall financial condition they are anticipating for their district in 2018-19. Employee salary costs, special education costs, lack of adequate state revenue and charter school tuition costs were also reported by respondents as playing a major role in defining their financial condition.

**Total increase in employee pension expenditures
2012-13 to 2016-17: \$2.04 billion**

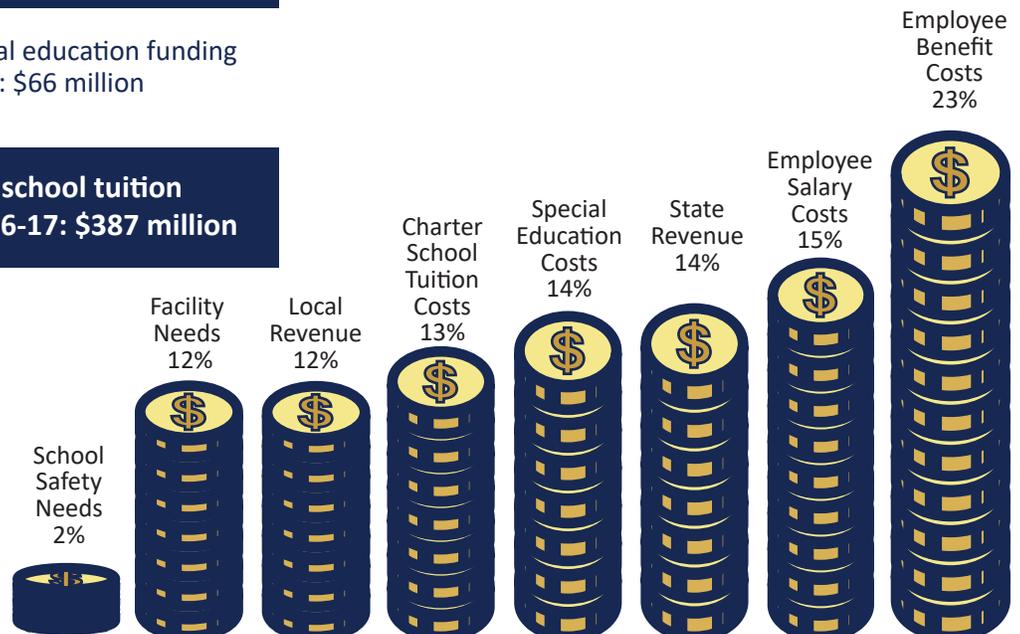
Total increase in state
employee pension funding
2012-13 to 2016-17:
\$1.17 billion

**Total increase in special education expenditures
2012-13 to 2016-17: \$913 million**

Total increase in state special education funding
2012-13 to 2016-17: \$66 million

**Total increase in charter school tuition
expenditures 2012-13 to 2016-17: \$387 million**

**\$0
state
funding
for
charter
school
tuition**



PROPERTY TAXES

With rising costs on all fronts and very few options to make meaningful reductions to school district budgets, many school districts are dependent on new revenue to balance their budgets. While new revenue from the state is positive, the reality is that it doesn't cover the actual cost increases that must be borne by school districts each year. As a result, unpopular local property taxes continue to provide a greater proportion of school funding to help cover many mandated cost increases.

Based on statewide data published by the Department of Education, total school district property tax revenue grew by approximately \$1.3 billion between 2012-13 and 2016-17. While some of this growth is due to property tax increases, some is due to natural growth in assessed value, development, etc.

Since during this time period mandated pension costs, charter school costs and special education costs alone increased by \$3.3 billion—while total state funding across all education line items increased by \$2 billion—school districts have no choice but to look to property tax increases to simply ensure they can maintain the status quo.

For 2018-19, 77% of school district respondents indicated that they expected to include a property tax increase in their final budget to generate additional needed revenue. While this is down from the high of 85% in 2016-17, which we believe was a direct response to the late budget of 2015-16 and the uncertainty it created for 2016-17, the number of districts contemplating a property tax increase is greater than last year.

Property Tax Increases

77%
Plan to
increase
property taxes
2018-2019



Additionally, 15% of survey respondents indicated that they planned to use Department of Education-approved exceptions to increase their property taxes above their Act 1 index. For 2018-19, the Department of Education has reported that 98 school districts have been approved to use Act 1 exceptions. This is the smallest number of school districts approved for Act 1 exceptions since 2009-10 and an indication that school districts are trying to maintain current programs and services for students despite the fiscal challenge.

We believe the reduction in exceptions applied for and approved this year (the lowest in nine years) reflects the reduction in the steep increases in employer pension rate increases and the cumulative effect of prior cost-cutting efforts, particularly in personnel. Additionally the Act 1 index has trended up, which has provided school districts with operating room under the cap.



INSTRUCTIONAL PROGRAMS

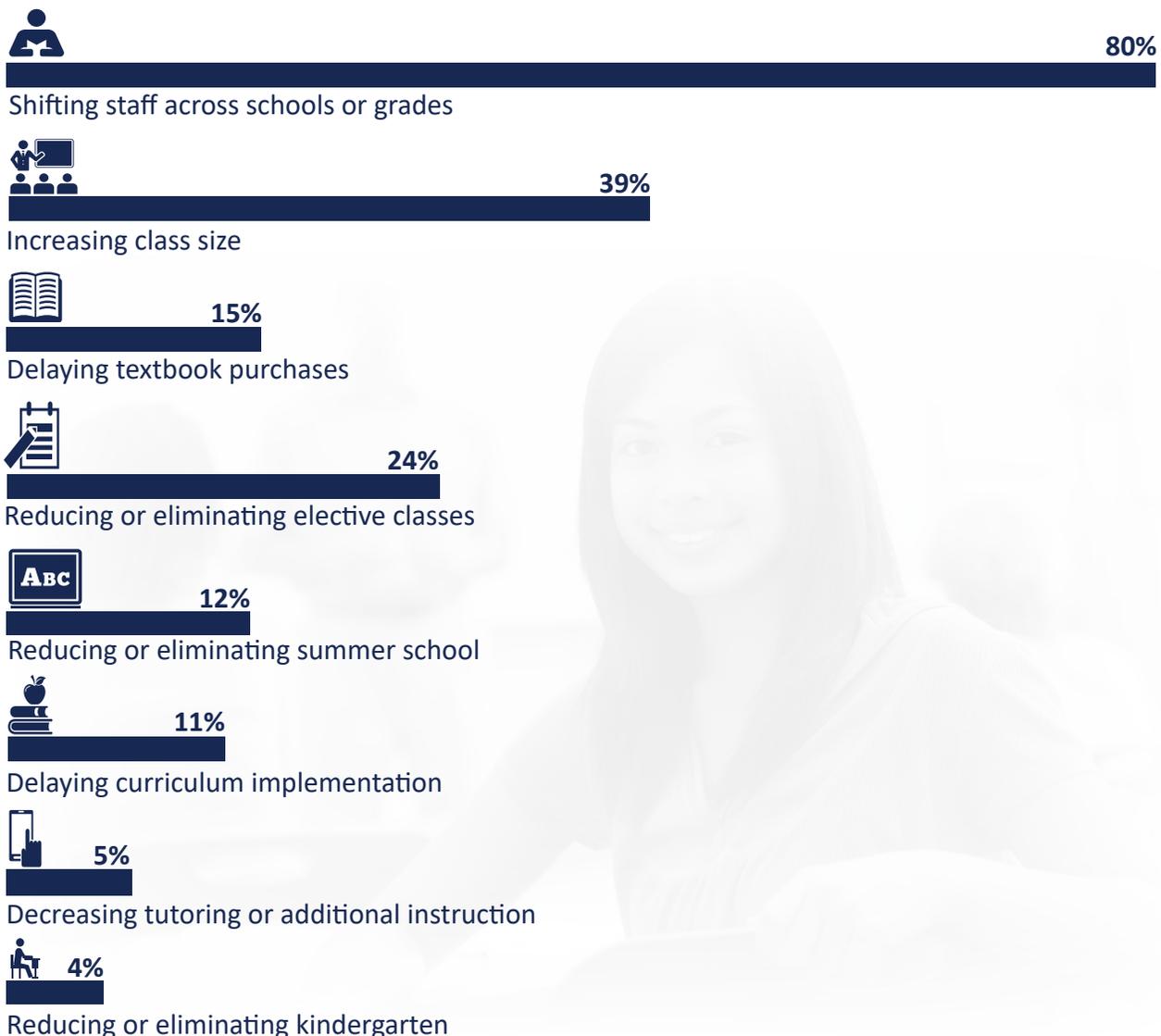
In light of the many mandated costs that squeeze school district budgets each year, there are a limited number of options for cutting or reducing costs. School districts across the state have made cuts or reductions to their instructional education programs over the past five years to help balance their budgets and navigate these challenging financial conditions.

Over the past five fiscal years (2013-14 to 2017-18), survey respondents indicated that they increased class sizes, reduced or eliminated elective programs, delayed textbook purchases, shifted staff across schools or grade levels and made several other changes in educational programming affecting students.

While we recognize that the financial condition of school districts has not completely recovered, we were surprised by the extent of the planned cuts and reductions to educational programming for 2018-19 reported by 55% of survey districts. Even though educational program reductions and cuts have been routine in districts across the Commonwealth for more than the past five years, the data shows that, for many districts, there is no end in sight to the annual cycle of examining and identifying cuts and reductions to make ends meet—even when those cuts and reductions impact educational programming.

Planned Cuts and Reductions to Instructional Programs for 2018-19

(percentages are based upon those respondents indicating cuts & reductions)



OTHER BUDGET CUTS/REDUCTIONS

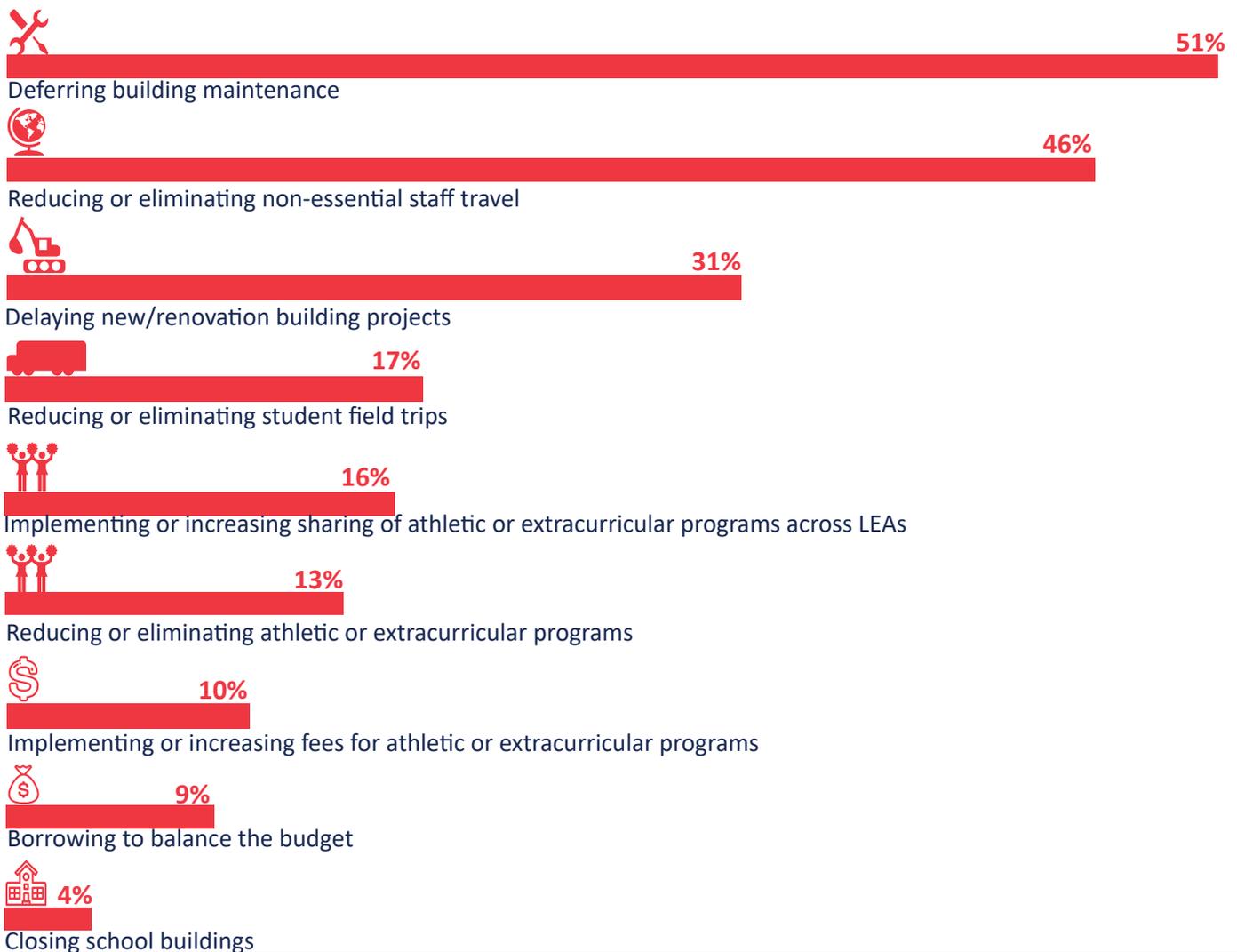
In addition to cuts or reductions in educational programming, many school districts have made cuts or reductions to their budgets in other areas in an attempt to further alleviate financial challenges. Over the past five years (2013-14 to 2017-18), school districts have taken steps to reduce or eliminate student field trips and athletic or extracurricular activities, have deferred building maintenance or have delayed construction or renovation projects and have even borrowed money to balance their budgets.

Looking specifically at the cuts and reductions school district respondents are considering for 2018-19, not a lot has changed, and still 58% of survey respondents reported

that they plan to engage in similar methods to provide additional flexibility in their budgets. Survey respondents indicated that they are still struggling with potentially cutting or reducing extracurricular activities and deferring building maintenance.

While there have been some reductions in the number of districts that are wrestling with cuts and reductions for 2018-19, likely due to slight relief felt in many districts due to an employer pension contribution rate that was lower than expected, the fact that these options are still on the table in many districts is cause for concern.

Planned Cuts and Reductions to Non-Instructional Programs for 2018-19 (percentages are based upon those respondents indicating cuts & reductions)



SCHOOL PERSONNEL

One of the areas of school district budgets that has lagged in recovery is school district personnel. While the total salary cost for school districts has only grown by 4% over the past five years—while the total share of school district salaries compared to total school district expenditures has decreased—the mandated pension costs associated with school district personnel has increased by 153% during that same time period.

To respond to dramatically rising pension rates and reductions in funding, school districts across the state have furloughed staff, opted not to fill positions left vacant by retirements and resignations and have outsourced numerous positions. With pension rates continuing to rise, the majority of school districts have not recovered from these staff reductions. These reductions in staff also contributed to lower health care cost increases, but as districts try to maintain current staffing levels, healthcare cost trends will re-enter the equation.

In fact, 57% of survey respondents indicated that they had fewer full time professional personnel on their payroll now compared to what they had in 2010-11. In terms of support personnel, 52% of respondents indicated a reduced payroll now than they had in 2010-11. While much of this is likely due to the challenges of finding the resources to cover employee salary and benefits costs, much of this could be the result of a shortage of qualified professional and support personnel. The financial challenges faced by public education over the past several years has functioned to redirect applicants to other careers. As a result, districts are facing challenges in filling positions on two fronts.

What has been your school district's change in total FTEs on payroll since 2010-11 for professional and support personnel?



Even with school district reductions in personnel since 2010-11, rising pension costs are forcing school districts across the Commonwealth to consider making additional cuts to staff to bring their budgets into line. For 2018-19, 11% of school districts respondents expect to make furloughs to their teaching staff, while 4% expect to furlough administrators and 9% expect to furlough other employees.

While it is positive that the percentage of survey respondents indicating that staff furloughs are a consideration for 2018-19 is lower than was reported on the survey last year, the fact that districts are still examining the possibility of cutting staff is alarming. Additionally, nearly half of districts responding to this survey have indicated that they are not planning to fill positions that will be left vacant at the end of 2017-18 as a result of retirements and resignations. These statistics have not changed substantially over the past several years.



53% intend to fill vacant positions for 2018-19



47% intend **NOT** to fill vacant positions for 2018-19

In addition to furloughing employees and leaving positions vacant, not surprisingly, school districts have also made decisions to outsource staffing to reduce pension and healthcare costs. Over the past five years (2013-14 to 2017-18), only 25% of school district respondents have not outsourced any of their functions.

Athletic trainers	36%
Custodial/maintenance	17%
Food service	32%
Paraprofessionals	14%
Secretarial/clerical	2%
Substitute teachers	44%
Technology	26%
Transportation	31%

SCHOOL SAFETY

Another important issue that school districts are factoring into their 2018-19 budgets, is school safety, and nearly all school district respondents are considering options to improve or upgrade safety and security. School districts across the Commonwealth are looking at their operations to identify how to improve school safety and security for students, teachers and the community. These discussions include consideration of mechanisms and personnel to increase the physical security and safety of school buildings as well as discussions about efforts to ensure that additional student supports are in place to prevent incidents of violence from occurring in the first place.

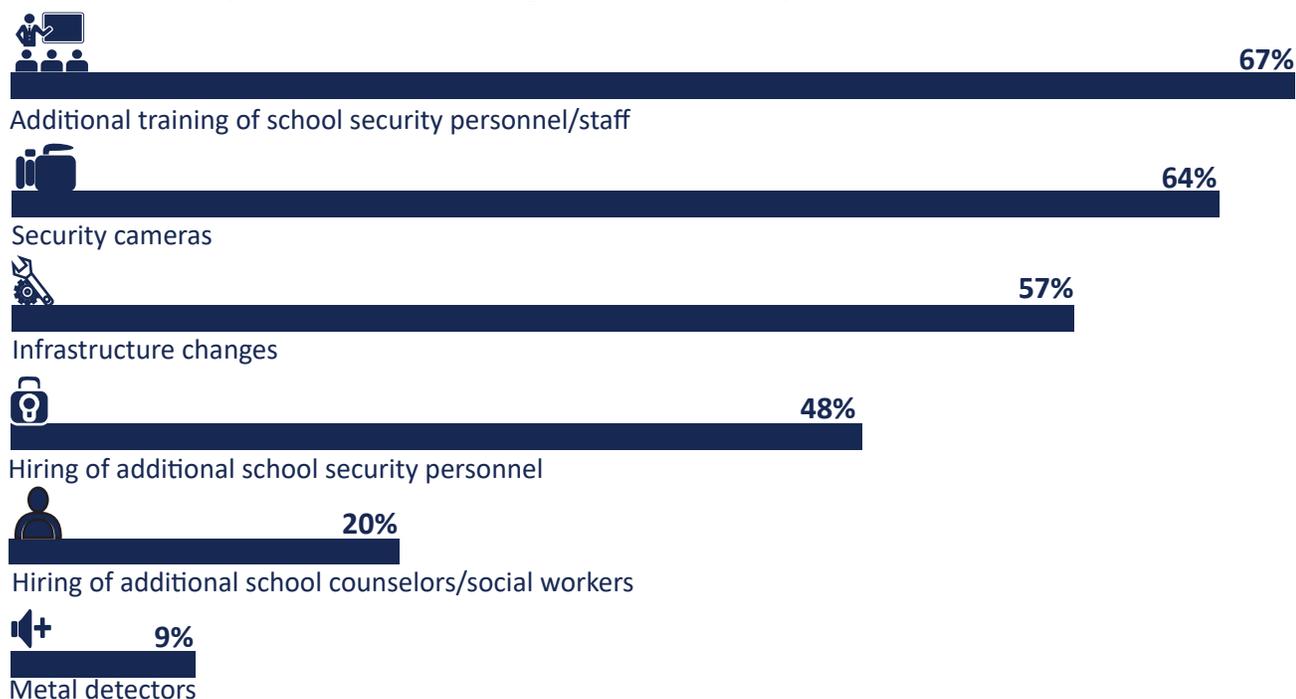
Fifty-seven percent of survey respondents considering school safety improvements indicated interest in making infrastructure changes to school buildings—which could include everything from secure or controlled entrances to installation of bullet resistance glass or access control systems. Additionally, 64% of respondents indicated that they are considering purchase and use of security cameras, 48% percent of respondents are examining hiring school security personnel, while 67% of respondents are examining the provision of additional training to security personnel and other staff. Twenty percent of survey

respondents indicated that they were considering hiring additional school counselors or social workers.

The critical and necessary importance of school safety and security improvements comes with challenging discussions regarding how to build these priorities into the budget. While some school safety options are one-time costs—such as infrastructure projects—they are not cheap, and without an operational state program to provide meaningful safety grants or school construction reimbursement, school districts would need to cover these costs on their own.

The number of school related deaths and injuries from active shooter situations across the country has made addressing safety improvements in every building in every district a high priority for 2018-19 budgets. The need to address safety improvements, which come at a substantial cost, both capital improvements and personnel increases (i.e. counselors, social workers and school security personnel), creates another financial burden on school leaders developing their 2018-19 budgets. Funding safety improvements of any type will mean further cuts in current operations (including instruction), more debt and additional use of reserves—if it is available. Clearly, addressing student and staff safety will be another cost driver in 2018-19 budgets and beyond.

School Districts are considering the following measures for 2018-19 to improve the safety and security of their students and staff.



SCHOOL CONSTRUCTION

Another major cost driver for school districts are facility needs, with major school district maintenance, repair, renovation and construction projects requiring decades of careful financial planning and millions in school district resources. As noted above, survey results indicated that many school districts have, for the past several years, deferred school facility needs, construction or renovation projects to ensure that dollars are available for educational programming and to cover the rising cost of the mandated expenses already mentioned.

As challenging financial conditions continue to exist, many school districts have taken measures to close school buildings to reduce costs instead of continuing to operate or renovate them. Survey respondents indicated that while there were 1,428 school buildings maintained in their collective districts in 2010-11, those same respondents now only maintain 1,334 school buildings—a reduction of 94 school buildings.

For those school districts that are continuing to operate and maintain school facilities, many anticipate that their instructional buildings will need major renovations in the very near future. Twenty-one percent of respondents indicated that they will need to engage in major school facility renovations within the next year.

How soon do you expect your school district will need to do a major renovation project to one of your instructional buildings?



Based on the diversity of age and condition of school buildings across the Commonwealth and the varying needs of each individual school district, the driving forces behind the needed major renovation projects mentioned above are far ranging. However, the age of the building, including the roof, plumbing, HVAC and other critical systems' needs, was noted as a driving force by 94% of respondents anticipating a building project. We are well into a full decade since the beginning of the great recession, and many districts have deferred major maintenance needs hoping for funding recovery and PlanCon funding to materialize. The need to improve safe school entrances or traffic flow patterns was a driving force behind 52% of respondents' renovation projects, while needed IT infrastructure upgrades, building consolidation and other instructional needs played a role in prioritizing planned renovation projects.

What are the driving forces for your projected or anticipated building renovation project(s) needs?

Age of building	94%
Safe entrance design/traffic flow patterns	52%
IT infrastructure upgrade needs	35%
Growth in enrollment	14%
Small and targeted program changes/small group instructional needs	13%
Improvements to online learning and hands on learning	12%
Consolidation	11%
Decline in enrollment	5%

For those school districts indicating that they are anticipating or planning major renovation projects within the next year, they will have an added financial challenge, as the state's program for school construction reimbursement—PlanCon—is currently in its second year of a moratorium during which no applications for new projects can be accepted.

While the Public School Building Construction and Reconstruction Advisory Committee recently released a final report outlining recommendations for the development of a new program for school construction reimbursement, that program is far from implementation, and the immediate school construction needs of districts across the Commonwealth either will have to be borne at the local level or projects will again need to be deferred.

CONCLUSION

With all of the financial challenges surrounding the provision of public education in the Commonwealth and the constant annual effort to develop a positive budget to adequately provide for the educational needs of students, it is not surprising that school districts have found themselves stuck in exactly the same place for at least the past five fiscal years. According to school district respondents, the largest cost drivers, budgetary and operational concerns for the past five fiscal years (2013-14 to 2017-18) are as follows:

- 1. Pension costs**
- 2. Special Education costs**
- 3. Healthcare costs**
- 4. Lack of increases in state basic education funding**
- 5. Charter school tuition costs**
- 6. Lack of increases in state special education funding**
- 7. School construction and maintenance needs**
- 8. School safety and security needs**
- 9. Availability of qualified/certificated professional personnel**
- 10. Availability of qualified non-professional personnel**

These cost drivers, budgetary and operational concerns are absolutely as expected. School districts have struggled with finding the resources to cover their annual increasing costs as well as the necessary costs of school construction and school safety upgrades—both of which are critical to ensure safe schools and safe operations, but are also expensive and require great effort to allocate resources appropriately. Additionally, the unpredictability surrounding annual increases in state funding for basic and special education funding, the fact that the increases in state funding are outpaced by increased costs and the frequent delay with which that funding is delivered make state funding one of the most uncertain components of school district budgeting.

Finally, respondents acknowledged the difficulty in finding qualified professional and support personnel. While this report notes above that many school districts have not yet recovered in terms of personnel, some of that may be that there are fewer and fewer qualified candidates for the

available positions. The impact of the past decade of cuts, reductions and financial struggles has redirected many potential job applicants out of education, leaving school districts to struggle even more to bounce back.

As discussed above in this report, many of these costs drivers continue to increase year over year forcing school districts to make additional cuts and reductions annually just to ensure that they have the resources available to cover their mandated cost increases.

Unless state policy changes to give school districts some relief from some of these mandates, state funding increases dramatically or other significant changes are made, the narrative will not change, the financial condition of districts will not improve, and instead of propelling Pennsylvania forward through education, districts will continue to struggle with the same exact problems for another decade. Further, it is clear from the responses that some districts are experiencing significantly more fiscal stress than others due to mandated costs and local economic situations. The wide range of fund disparity in Pennsylvania will continue to expand.

School district respondents are not at all optimistic that the narrative will change. In fact, when asked to look into the future of education—from 2018-19 to 2020-21—and rank the same ten items above from 1 to 10 in terms of greatest cost driver, budgetary or operational concern to the least, the resulting list was exactly the same as reported for the previous five fiscal years.

The financial, budgetary and operational challenges posed by these issues are all-encompassing, and it is nearly impossible for a district to overcome them given the many financial, policy and other limitations under which they must operate. School districts do their best each year to build their budgets, carefully balancing the constantly rising costs with the desire to minimize any negative impact on student programs and services.

All of this continues to leave school districts treading water, places tremendous stress on school districts and deprives students of important educational programs and personnel needed for their education. This trend will continue unless and until there is universal recognition of the overarching problem and a willingness to address this issue through comprehensive, meaningful discussion and thoughtful policy. Until then, this annual report will continue to tell the same distressing story.

About PASBO

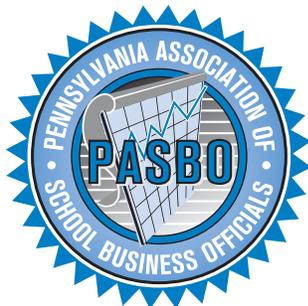
The Pennsylvania Association of School Business Officials is a statewide organization with more than 3,000 members, two-thirds of whom are K-12 non-instructional administrators serving in the areas of finance, accounting, facilities, transportation, food service, technology, communications, human resources, purchasing and safety. PASBO's focus is on educating its members through professional development opportunities as well as keeping them informed on the latest legislative issues affecting school business through workshops, the annual conference, specialty conferences and publications. Business Associate members provide products and services that can improve the operation of schools and support classroom learning.

About PASA

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