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* FAX 717-540-1796

MYTH: Lower Merion School District broke the law and engaged in poor budgeting practices.
Lower Merion School District adhered to all applicable laws, provided appropriate transparency regarding financial decisions, engaged in careful, long-term financial planning and budgeted conservatively in light of the myriad of fluctuating issues that are beyond their control. In the face of rising mandated costs and uncertainty, they did everything they could to balance the needs of their students with the needs of their taxpayers, and yet, they are being criticized and penalized for coming in under budget and planning for future taxpayer savings.

MYTH: Lower Merion School District overtaxed its residents for no purpose other to pad its reserves.
Due to Act 1 limitations and the lack of a state funding for ongoing and needed capital repairs and replacement equipment, a capital reserve fund creates the opportunity for a school district to set aside necessary funds in advance, allowing a district to avoid excessive short-term borrowing, eliminating associated interest costs and reducing the impact of such projects on students and taxpayers. Operating surpluses cannot be hidden in a capital reserve fund, as transfers to a capital reserve fund are completely transparent and accompanied by prior board approval. These funds can only be used for the specific purposes outlined in the board’s plan.

The district funded its publicly presented and publicly approved capital plans with surplus from its General Fund. This surplus will allow future capital expenditures for its district operated transportation system (bus purchases), classroom technology (hardware and software) as well as necessary infrastructure improvements and repairs for its ten buildings.

MYTH: The Lower Merion School District decision shows that the legislature should overhaul the school district budget process.
All local education agencies comply with a myriad of statutes, regulations, procedures and accounting rules created by the state and federal governments and regulatory agencies. In addition, there is more oversight by local independent auditors, the state Auditor General and federal program auditors. Finally, there are significant financial reporting requirements to PDE on an annual basis. At no time did any of these agencies identify any compliance issues or require changes to Lower Merion School District’s financial practices; this is because there were none to identify.

MYTH: Lower Merion School District overspent its budget.
To the contrary, Lower Merion School District underspent its budgeted expenditures. The surplus which allowed the district to fund future capital projects was created by reduction of expenditures during the fiscal year. In short good, sound management practices allowed the district to finish the fiscal year under budget. When will school districts stopped being criticized for saving taxpayer resources?

MYTH: The decision correctly rescinded a portion of district's property tax increase for this fiscal year.
There is no basis in Act 1, the Public School Code or any other state statute for rescinding a tax increase properly enacted by a board of school directors. Not only is the rescission without legal merit, but if required, the result will be at tremendous cost to the district further siphoning funds out of the classroom to the detriment of students.

MYTH: School districts should live within the Act 1 Index. There is no need for additional resources for schools after the Act 1 inflation adjustment.
It is not fiscally possible to live within the Index even for just operational expenses much less capital expenses. Mandated expenditures for several major expenses including pensions, healthcare, special education and charter tuition are not limited by inflation. In fact for the current fiscal year these expenses exceed new Act 1 revenues by $200 million before even considering any increase in employee salaries. So districts need to cut programs to students, spend fund balance and increase taxes to balance budgets.

MYTH: School districts purposefully exaggerate costs to accumulate funds.
The uncertainty inherent in estimating both school district expenditures and revenues is tremendous and varies from year to year. Additionally, the rise in mandated costs outpaces school district's ability to raise revenue by raising taxes to the Act 1 index. To ensure that a district can fund operations in light of these financial challenges, districts have no choice but to use Act 1 exceptions where applicable, plan to spend down fund balance, budget conservatively and plan to make reductions during the year to ensure they don't end the year with a deficit. When a district realizes an operating surplus at the end of the year, it is something to be celebrated, as the district accumulated necessary funds without cutting programs, placing additional burdens on taxpayers or borrowing money.

MYTH: School districts should never use fund balance to fill budget gaps.
While most would agree that long-term use of fund balance to fill budget gaps in not ideal, a large number of school districts have been required to do so during recent years due to unpredictable revenue and rising mandated costs that outpace the Act 1 index. Until Pennsylvania establishes a track record of consistent and adequate funding, local revenue sources such as interest earnings and real estate transfer stabilize, the state adequately funds capital projects, pension obligations reach the summit, and healthcare costs become more

predictable, use of fund balance will continue to be a prudent technique for school districts to fill annual budget gaps and fund capital projects.

MYTH: School districts should be required by state law to meet their budgeted expenditures at the end of the fiscal year.
A budget is an estimate for both revenues and expenditures. School district budgets must be developed in advance of the state budget or in the case of last year nine months before a state budget was even adopted. Also adding a great deal of uncertainty to the school district budget process is the unknown or unanticipated changes in annual expenditures. Costs can change dramatically and again required budget items such energy, employee benefits and insurance are beyond the control of school districts. These items can increase causing deficits or decrease causing surpluses.

MYTH: Estimating expenditures is easy.
School district budgeting isn't as simple as seeing what you spent the year before and adjusting slightly for inflation. School district costs—namely pension costs, special education costs, charter school costs and healthcare costs—rise significantly faster than inflation each year. Additionally, school districts can't predict enrollment changes, the impact of refinancing debt, legal costs, new state and federal mandates, just to name a few. In school district budgeting, the prior year is not predictive of the next, and conservative budgeting is the only prudent way forward.

MYTH: Revenues never change.
Property tax revenues, earned income tax revenue, realty transfer tax revenue and interest earnings can fluctuate—sometimes significantly—from year to year with little predictability. Added to this the uncertainty regarding annual state revenue and changes in the formulas for distribution of federal revenue. As a result, revenue is not predictable year over year making budgeting extremely difficult.