Student Learning Opportunities Slashed Across the State
As Financial Condition of School Districts Deteriorates
May 2012

INTRODUCTION

The financial condition of Pennsylvania's public school districts is declining from "difficult" in the current school year to "desperate" in 2012-13.

Following cuts of about $900 million in 2011-12, the Governor's budget proposal to eliminate $100 million in Accountability Block Grant funding, plus flat local tax revenues and increased operating costs which are forcing school districts to spend down reserves, are combining to produce financial conditions in which 53 percent of school districts report their financial conditions will worsen in 2012-13.

The third annual PASBO-PASA School District Budget Survey reveals a rapid decline in school district financial conditions, forcing school districts to cut programs that directly affect student learning, including kindergarten, core academic courses, tutoring programs and summer school. The survey of Pennsylvania's 500 school districts reveals the collective, harmful effects on student instruction of the end of federal stimulus funds, additional cuts in state funding and stagnant local revenues for the state's 1.7 million public school students.

As teachers, counselors, custodians, bus drivers and administrators are furloughed and vacant positions go unfilled, the ultimate losers will be students, who will have reduced learning opportunities through larger class sizes in core subjects and fewer, if any, art, music, physical education, family and consumer science, foreign language, advanced placement and elective courses. Fewer students will have access to a school library. Students who are struggling will have reduced opportunities to get back on track with assistance from tutoring programs or summer school. Students and their families will face new or increased fees to participate in extracurricular activities, including sports – where they still exist.

CONTEXT

The challenges for districts to continue providing academic excellence despite these historic financial woes are mounting. Many of the instructional supports for student achievement are diminishing as a stagnant national economy has kept school revenues low. In addition, new funding reductions such as elimination of the Accountability Block Grant in the 2012-13 state budget, will mean further reductions of programs and staff. To add to the challenge, schools face an historic increase in expenditures due to the spiraling cost of mandated school pension payments.

The reduction of state revenues, an increase of 45 percent in mandated pension costs, restrictions in local revenue-raising capacity due to the lowest Act 1 Index in its six-year history, and recently enacted restrictions on Act 1 exceptions all are leading to severe financial stress for many districts. In fact, the survey found that three percent of districts responded they are currently in fiscal distress. Without any state policy mechanism in place to assist these districts, it is likely instructional programming will be cut to the bare bones, resulting in a rapid decline in student achievement.

Harming Students

In 2011-12, school districts received about $900 million fewer dollars (state and federal), which forced school districts, particularly the most fiscally challenged, to furlough staff and leave more than 14,000 positions unfilled statewide. Seventy percent of districts increased class size, 44 percent reduced elective courses, 35 percent reduced or eliminated tutoring and programs that provide extra help to students, 20 percent eliminated summer school, 41 percent delayed the purchase of textbooks and 58 percent delayed purchases of technology such as computers. Seventy percent indicated they are using reserve funds to balance their budgets in 2011-12.

In February 2012, Governor Corbett proposed state funding for basic education that, factoring out mandated state pension contributions, decreases funding that directly benefits students through elimination of the Accountability Block Grant program that provided $100 million to schools in 2011-12. Based upon decreased state funding, relatively flat local revenue and a mandated increase in pension costs of more than $800 million, school directors and administrators are facing an increasingly difficult challenge as they attempt to preserve academic programs and services that improve student achievement despite the historic financial woes that many districts face.

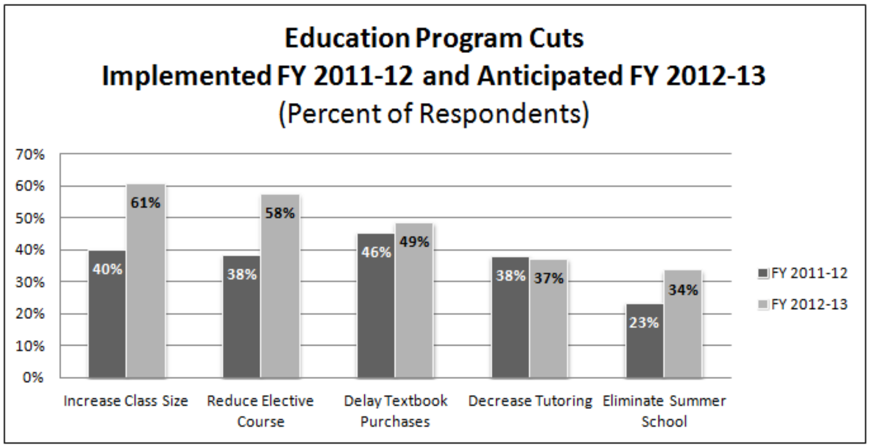
Now heading into the consecutive third year with increasing costs and flat or fewer resources, school districts across the state, limited by state and federal mandates in how and where they may cut, must resort to closing schools and eliminating entire academic departments, programs and services to balance their budgets. These are painful cuts that will hurt students.

Hopes and Dreams Slashed: Cuts Harm Student Learning Opportunities

The percentage of school districts that will reduce instructional programming has increased more than four-fold, from 15 percent of districts in 2009-10 to 67 percent in 2012-13.

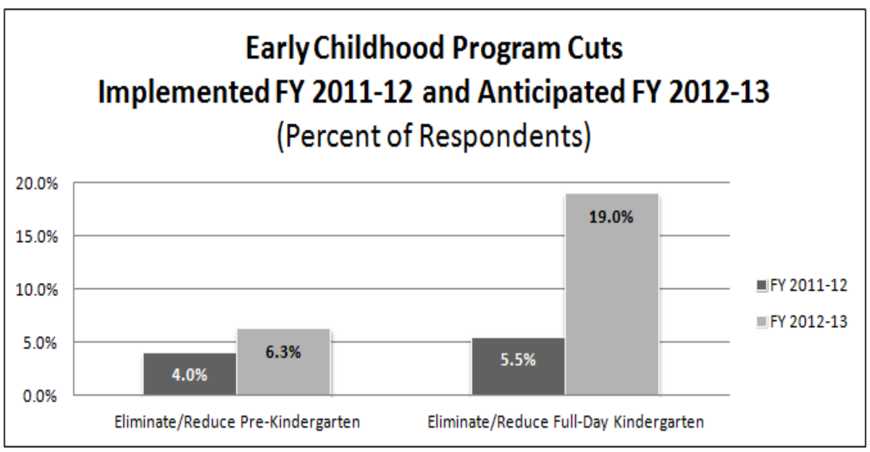
School districts anticipate they will cut instructional programs as follows:

- 61 percent will increase class size.
- 58 percent will reduce elective course offerings that are not required for graduation, such as those in foreign languages, arts, music, technology, and even courses in math, science, English and the social studies.
- 49 percent will delay purchases of new textbooks.
- 37 percent will reduce tutoring and extended learning opportunities that provide extra help for struggling students.
- 34 percent will eliminate summer school programs that provide students the opportunity to make up academic credit that will allow them to graduate on time.
- 46 percent will reduce or eliminate student field trips.



In addition to cuts in core instructional programs, districts are now forced to cut important early childhood programs that help provide students a strong foundation for learning.

- Eleven percent will reduce full-day kindergarten programs, and 8 percent will eliminate full-day kindergarten programs.
- Four percent will reduce pre-kindergarten programs and two percent will eliminate pre-kindergarten programs.

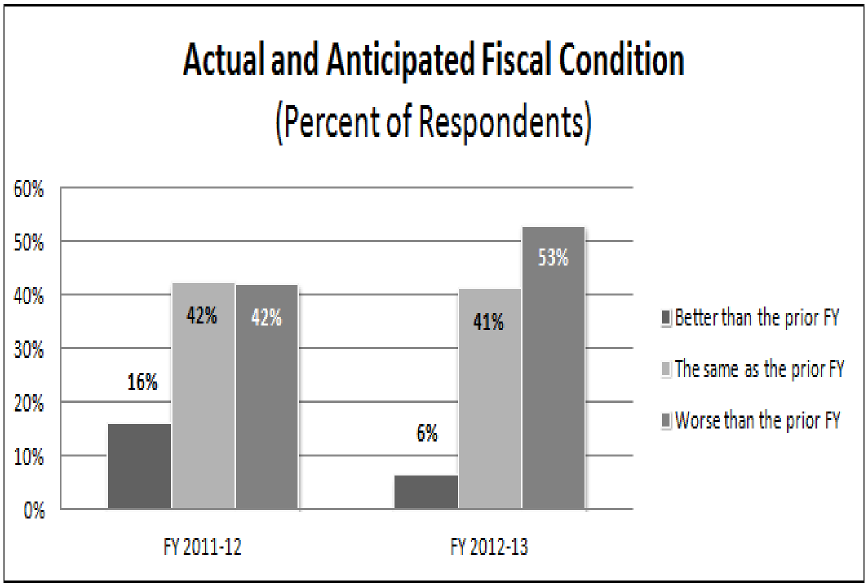


In addition, school districts are taking the following steps to cut costs:

- 75 percent will furlough staff or plan to leave vacant positions unfilled.
- 46 percent will reduce or eliminate extracurricular activities, including sports.
- 42 percent will delay capital building maintenance.
- 22 percent will delay new construction or renovation of existing buildings.
- 18 percent plan to close one or more school buildings.

Fiscal Deterioration Worsens

If the financial conditions now plaguing school districts were merely a protracted reaction to the continuing national economic slump, the urgency and severity of the fiscal deterioration could be discounted. Unfortunately, three percent of districts report they are already in serious fiscal distress and in some cases are teetering on bankruptcy. Nearly half (48 percent) of the respondents to the PASBO/PASA Budget Survey say their district will be in financial distress in three years if state funding and local revenues do not improve.



Unfortunately, there is no relief in sight. The federal government budget impasse potentially threatens the poorest districts in the state with late and/or reduced assistance targeted at students in poverty. The current state budget freezes the largest source of state funding to school districts (Basic Education Funding) as well as the second largest (Special Education) for the fifth consecutive year and totally eliminates the Accountability Block Grant Program. The Governor also has proposed collapsing four separate major school funding line items into one block grant which would discontinue the practice of allocating funding for student transportation and Social Security payments based on the actual costs incurred by school districts.

Moreover, even with the dismal fiscal plight of school districts, another current state funding obligation is being forced to the local level. The Department of Education has proposed imposing a moratorium on timely payments of state reimbursements to school districts for the cost of school construction, renovation and repairs. As a result, school districts with completed projects and school construction debt obligations are left holding the bag for a year or more for these payments.

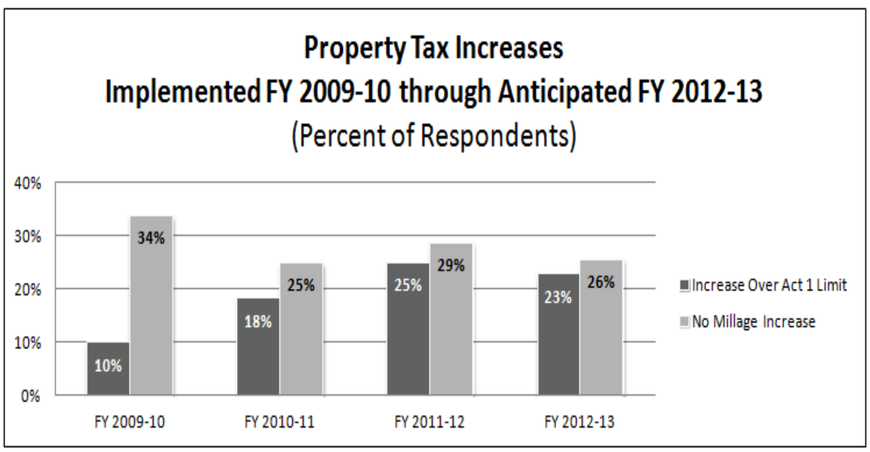
Expenditures will continue to mount. For fiscal year 2012-13, the mandated cost to pay state-imposed retirement benefits will increase by 45 percent. In 2013-14, the upward leap of pension costs continues to one billion dollars for the first time in history (a 40 percent increase from fiscal year 2012-13).

IMPACT ON HOMEOWNERS

Cuts in operating costs, administration and instructional programs, combined with the use of reserve funds have helped many districts to balance their budgets. However, many districts have also needed to increase local taxes as well. In 2011-12, total local revenues of school districts fell at the same time that state and federal funding were cut by about $900 million. According to the survey, districts estimate 2012-13 will be another year of flat or reduced local revenue from Earned Income Taxes, Realty Transfer Taxes, delinquent tax collections and interest earnings.

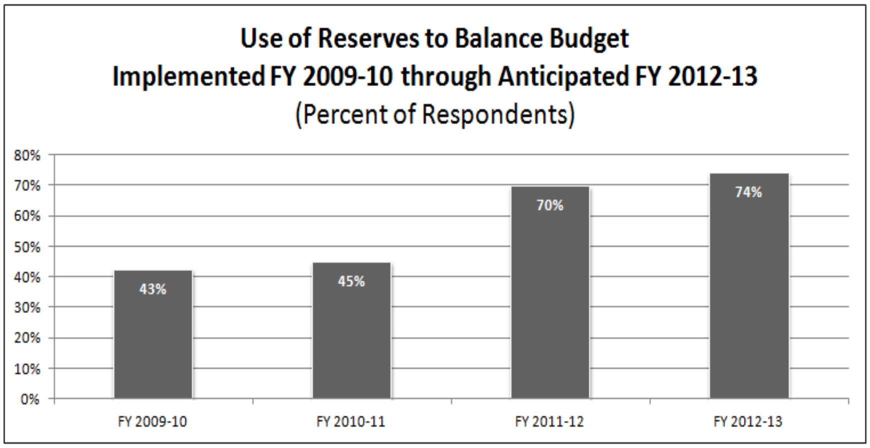
With few remaining options for reducing costs and with decreased state and federal revenues, the only revenue option available to schools is the property tax. Despite the severe financial pressures this year, a significant number of districts (29 percent) opted not to increase real estate taxes.

However, a growing number of districts are being forced by the low index, the reductions in state and federal funding and escalating pension costs to seek exceptions to raise property taxes above the Act 1 Index. In 2009-10 only 10 percent of the survey respondents said their property tax increase required Act 1 exceptions. In 2011-12, districts using exceptions jumped to 25 percent. The need for exceptions to the Act 1 Index likely will get worse. The base index of 1.4 percent (2011-12) and 1.7 percent (2012-13) does not generate sufficient revenue for schools to meet just the increase in their retirement costs. If the Index remains at this historically low level, combined with the significant escalation in pension costs, more schools will need to exceed the index and make further and deeper cuts in order to balance their budgets.



Over 70 percent of school districts have kept their financial situation from reaching a crisis stage by balancing their budgets through increasing use of fund balance or reserves at historic levels. The use of fund balance was three times greater in 2011-12 than it was in 2010-11. In fact, more than 20 percent of the survey respondents indicated their districts' fund balance (unreserved, undesignated) had been reduced by more than 50 percent over the last two years. Districts had built up those reserve funds in anticipation of a steep spike in pension costs in the years prior to enactment of pension reform legislation in 2010 (Act 120).

As in past surveys, more than 7 in 10 districts indicated that they will use reserves to balance their 2012-13 budgets. Spending-down fund balances at this rate is unsustainable and will create huge structural deficits down the road, forcing even deeper cuts to instructional programs.



WHERE IS MANDATE RELIEF?

One critical avenue of relief that could help stave off further financial troubles for schools is mandate relief. If mandated costs are eliminated or reduced, the continued cuts in instructional programs and personnel may be reduced. While there has been lots of talk about mandate relief and several legislative efforts to address mandates, there have been no significant results to date. Charter school funding reforms, changes to prevailing wage requirements and permitting districts to furlough staff for economic reasons could provide significant savings to school districts and taxpayers. Special education also remains a major cost driver to schools, and flat state funding for the past five years continues to push cost increases to local property taxpayers.

CONCLUSION

School districts across the state are surviving financially, some just barely, through reductions in instructional programs and personnel unheard of since the Great Depression. Future cost increases, not only in mandated pension costs but also health care and energy, will likely make the next several budget years even more difficult. Soon district fund balances will be completely exhausted. Staff wage freezes cannot be expected to continue indefinitely. At a time when academic expectations are increasing, we cannot and should not let a failing school finance system continue to reduce the quality of educational opportunities provided to our next generation of students. We simply cannot afford it.

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 late April 2012 to obtain the data included in this report. The survey instrument asked for actual revenues for fiscal years 2009-10 and 2010-11 and estimated 2011-12 revenues through the end of the fiscal year and information on budgets for FY 2012-13. Responses were received from 281 school districts across the state (56.2 percent of all districts), representing more than half of the Commonwealth's 1.7 million school district, which constituted a strong sampling of the state's 500 school districts. 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.

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