

Center On Regional Politics



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A MESSAGE FROM THE DIRECTOR

CORP's second annual five-year fiscal forecast for all 500 school districts projects that the vast majority will continue to face hard choices between budget cuts, higher taxes, or a combination of these often painful measures.

Increased pension costs, caused mostly by state legislation passed years ago, are likely to exceed increases in state aid over the five-year period, leaving local property tax payers on the hook for almost half of the total pension bill as it surpasses 30 percent of school payrolls.

And yet in an era of deep resistance to broad-based tax increases, school boards (and Philadelphia's City Council) have raised taxes to fund K-12 education, believing that voters will accept the need to invest in the future of our children (and perhaps also will recognize that better schools protect housing values). More than 90 percent of new school funding over the last five years has been raised locally, most from the hated property tax. Our over-reliance on property taxes is the main reason that PA ranks last or close to last on equity in school finance.

The General Assembly may consider later this year legislation to replace the school property tax with higher but more volatile state taxes on personal income and sales. It seems unlikely that such a measure would reduce inequities in the way most state funds are now distributed due to 25 years of "hold harmless" funding. Legislators could help schools with more aid but it is not clear, given other funding pressures they face, that they would do better at making the hard choices foreseen in our report.

Readers will also find inside the CORP Executive Committee for 2017, with new elected officials replacing those who have moved on to other roles.

Joseph P. McLaughlin, Jr.

CORP POLICY BRIEF: HARD CHOICES STILL AHEAD FOR PA SCHOOL DISTRICTS

The recent policy brief from the Center on Regional Politics, "Hard Choices Still Ahead," forecasts five more years of budget cuts, tax increases, or a combination of both for most Pennsylvania school districts. On a less gloomy note, the brief sees these adverse trends weakening toward the end of the forecast period, leaving districts with less budget instability but very likely a lower level of services and many unmet needs.

The brief projects changes to the fiscal condition of all 500 PA school districts for the period 2015-16 through 2019-20. It also analyzes changes in actual spending of districts between 2009-10 and 2014-15. The 10 years covered by the brief indicate that fiscal stress is "the new normal" for public school finance.

For the next five years, total revenues are projected to increase at \$700 to \$750 million per year at an increasing rate. However, projected expenditures are projected to increase at \$750 to \$800 million per year at a decreasing rate. What results are continuing shortfalls for most school districts although a net statewide shortfall would be substantially reduced. Over 350-425 districts will be in shortfall over the projection period, with 70% of districts projected to be facing shortfalls in 2019-20 at an average of approximately \$450,000.

Local revenues were the main and only stable source of increases in funding for education from 2009-10 through 2014-15, growing a total of \$2.5 billion over six years, and providing 90% of the increases in district revenues. During this period, expenditure increases were largely driven by mandated PSERS increases and charter school payments, with approximately \$800 million increases in each cat-

egory. Federal revenue sources, boosted by ARRA funds, totaled increases of about \$1.3 billion over 2009-11, but they saw a six-year period decline of \$37 million.

For the projection period through 2019-20, local revenues continue to be the main support of education, increasing at about \$600 million annually, or \$2.8 billion over the five-year period. Using a 2% annual growth assumption, the Basic Education Funding formula (BEF), is expected to provide \$700 million over five years. The new BEF formula has little impact on fiscal equity with only increases distributed through the formula. Expenditures will see pension increases drop from \$270 million annually to \$100 million, and charter tuition payments are projected to grow more slowly relative to the past for the total five-year period of \$400 million in addition to existing payments of \$1.5 billion from districts in 2014-15. No increases in federal aid are anticipated.

It's important to note the projected shortfalls for the districts indicate the level of fiscal distress a district is estimated to encounter in future years. It is not an actual deficit that will occur. By law, districts are not allowed to incur budget deficits. In the terminology of the brief, "shortfalls" indicate the extent of the expenditures that would need to be cut from the budget, or revenues increased, a much less likely scenario, according to the authors. At the same time, a "surplus" does not necessarily indicate a cushion to absorb cuts. Many districts with projected surpluses will likely have greater expenditure needs in the near future than have been indicated by the conservative analysis of the study. A number of budget items will require greater attention and funding than was the case in the prior six years, including:

- Deferred maintenance for buildings and equipment
- New capital construction in growing districts
- New technology and infrastructure upgrades
- Personnel contracts in districts with salary increases beyond the annual 1.5% growth assumed in the projections. As an extreme case, Philadelphia teachers have been working without a contract and have not had a salary increase in 5 years.
- Health care cost growth, artificially held down by staff cuts, the economy, cost-shifting and other reasons

A fund balance analysis examined the magnitude and variations of the three major accounts, committed, assigned, and unassigned, over the 2009-10 to 2014-15 period. For example, the 8% maximum established for unassigned fund balances equates to about 29 days for a district to operate. Unassigned fund balances have remained more or less

steady, ranging from 6.1% of total expenditures to 7.0%. The total unassigned fund balance for all districts in 2014-15 was 6.3%, or about 23 days of operation. Committed and assigned fund balances have grown steadily and more than doubled over the six-year period. These funds' growth directly reflects districts acting to maintain fiscal stability and operate adequate educational programs in the face of challenging circumstances, such as:

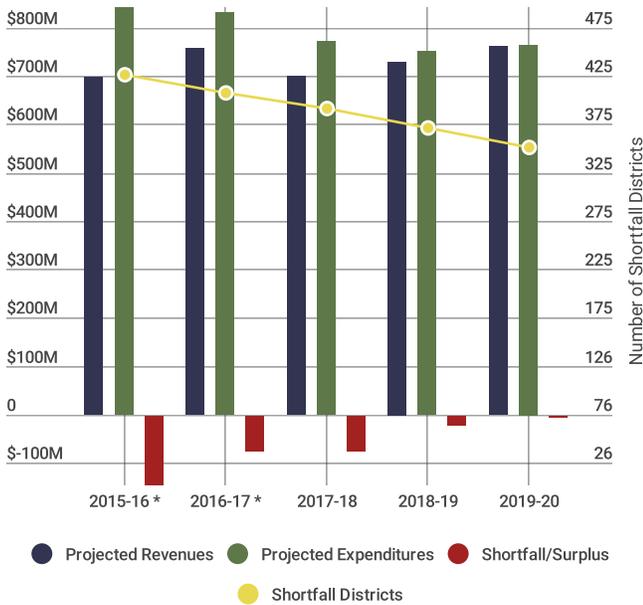
- Unreliable and substantially delayed state budgets
- State funding uncertainty and volatility in the levels of state subsidies
- State withdrawal from capital formation policy and support (PlanCon)
- Rapidly rising pension expenditures
- Substantial increases in charter school tuition payments and elimination of state support
- Increases in reserves for rising health care costs
- No state subsidy increases for special education for multiple years
- Nearly a decade of some extreme deferred maintenance in some districts and LEAs

Districts with large shortfalls relative to their total budget face a more difficult task involving more programs and staffing cuts to bring the budget back into balance. Those with smaller shortfalls may be able to minimize program and staffing cuts by realizing efficiencies. But it's clear that the vast majority of districts will face hard choices in the years ahead, and for many, the choices are likely to be extremely painful.

The brief also includes a sensitivity analysis that shows readers what more positive and more negative changes in revenues and expenditures would mean for the statewide forecast.

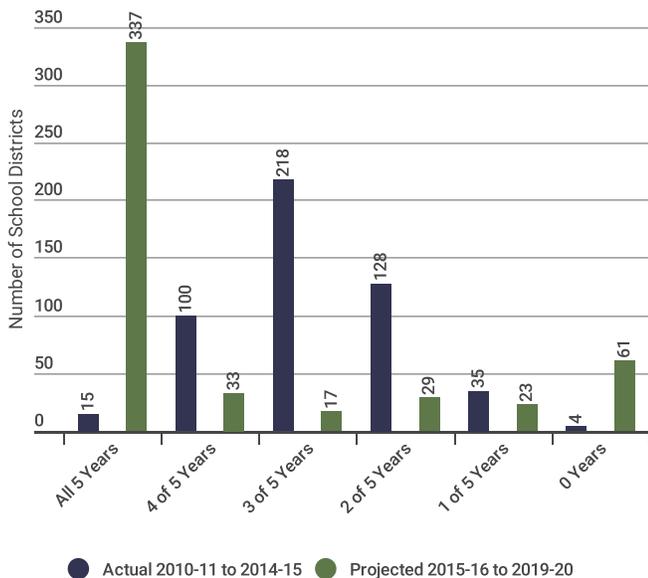
Find interactive graphics and PA school district maps showing actual and projected spending in nominal dollars and by percent of expenditures, including by PA House and Senate districts, on the Center on Regional Politics website at cla.temple.edu/corp/hard-choices-ahead. There is also a link to the full policy brief.

School District Projections: Annual Changes in Revenues, Expenditures; Shortfall/Surplus



*Actual subsidies for BEF and SEF

Comparison of Number of School Districts with Shortfalls 2010-11 to 2014-15 v. 2015-16 to 2019-20



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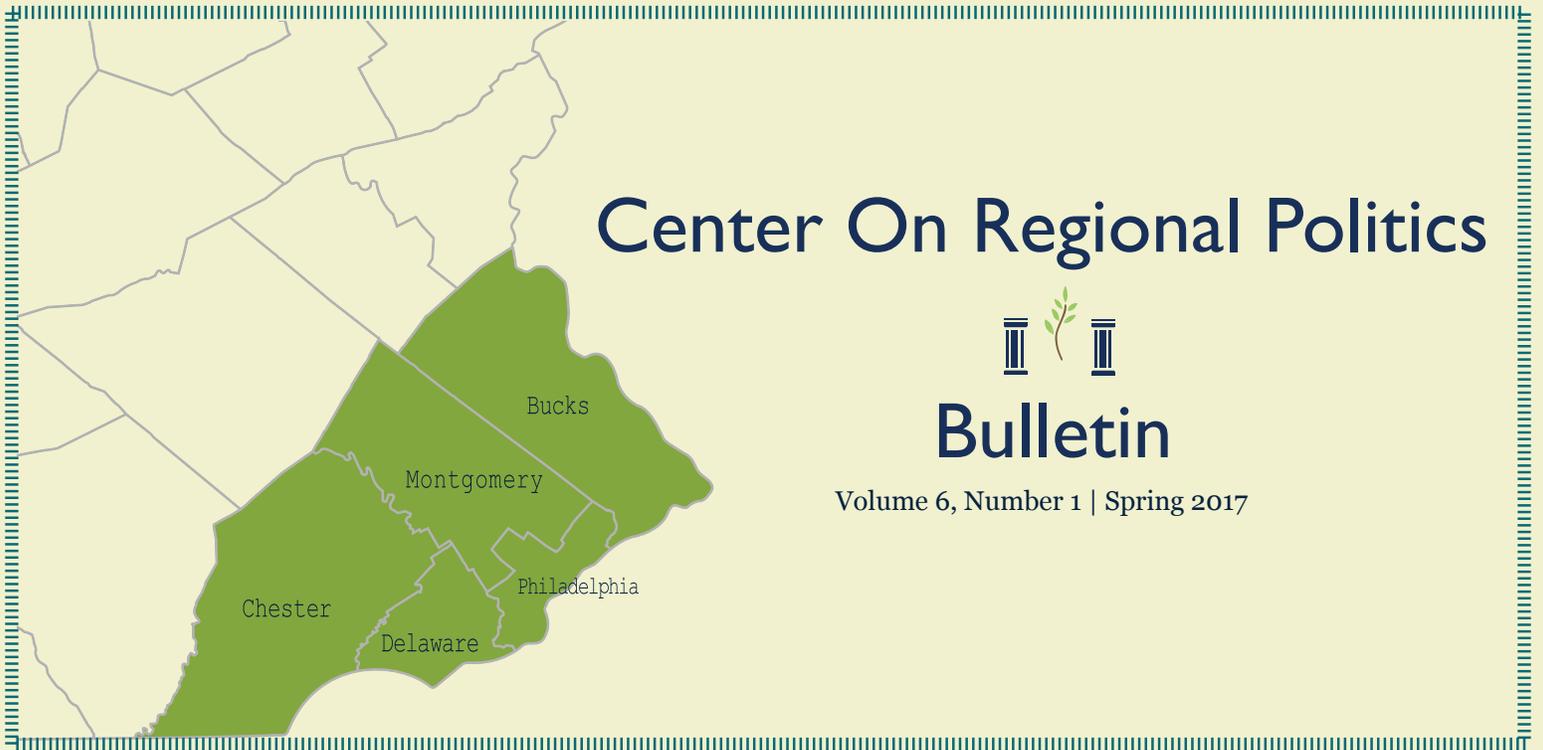
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