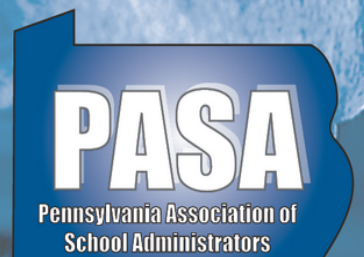


PASBO | PASA School District BUDGET REPORT



January 2019



Introduction

Each year the PA Association of School Business Officials (PASBO) and the PA Association of School Administrators (PASA) conduct a current year budget survey to understand the financial condition of school districts across the commonwealth and to identify the needs and financial pressures impacting their budgets.

We conducted a fall 2018 survey to determine what school districts faced and adopted in their final 2018-19 budgets. With 61% of school districts responding to our survey, we were able to get a sense of the footing on which many school districts started the 2018-19 fiscal year.

Additionally, we used statewide Annual Financial Report (AFR) submissions for 2016-17 and 2018-19 school district general fund budget submissions, both publicly available from the Pennsylvania Department of Education (PDE), to supplement our survey data. This information provides additional context and a more comprehensive lens through which to view survey results.

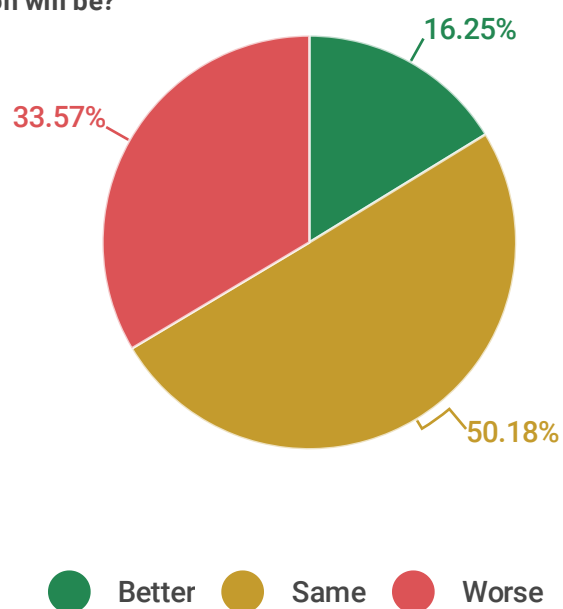
Every year we have conducted our survey, we have observed the growing disparity in the financial condition of school districts. This year is no different. Despite increases in state funding and some signs of recovery from the recession, many school districts across the state continue to be on shaky financial footing. As budgets are finalized and plans are implemented, many school districts are standing still or falling behind, as mandated cost increases outpace increased revenues year after year.

With no real options for breaking this cycle in most districts, property taxes are raised, cuts are made and most districts squeak by, preparing for another round of razor thin budgeting and tough decisions the next year just to cover the basics. What's missing from this discussion is an opportunity to move forward—to expand programming, to improve student safety, to go beyond the status quo. None of this can happen without increased state support.

The Big Picture

As we do every year, we asked survey respondents what their financial condition will be in 2018-19. Only 16% of respondents indicated that their district's financial condition would improve in comparison to 2017-18. While news of improvement is positive, it is troubling that nearly 84% of respondents reported that they weren't moving forward or that they were falling behind. This data sets the stage for the rest of the discussion.

Figure 1. For 2018-19, what will your school district's financial condition will be?



Source: PASBO/PASA survey results

School District Cost Drivers

Since the majority of our survey respondents were standing still or marching backwards, we sought to dig deeper into the data to find out why. We asked respondents to rank the largest areas of cost growth in their school districts for 2018-19, and not surprisingly, areas of mandated cost increase ranked in the top for many respondents.

Figure 2. Areas of largest anticipated cost growth in 2018-19 school district budgets.

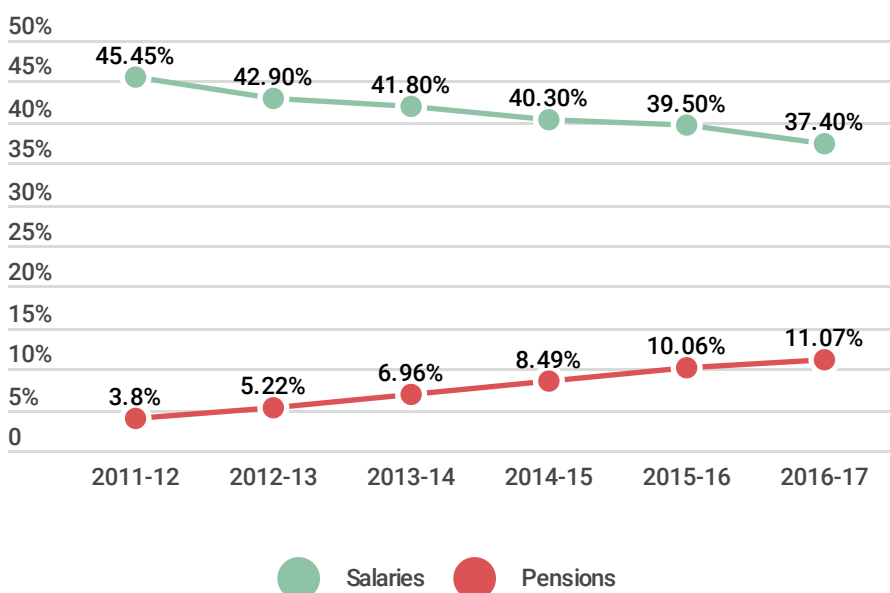
Area of Cost Growth	# of Respondents	% of Total Respondents
Pension	188	67.87%
Special Education	147	53.07%
Charter School Tuition	102	36.82%
Healthcare	113	40.79%
Maintenance & Operations	44	15.88%
Transportation	20	7.22%

Source: PASBO/PASA budget survey results

Pension Costs

Of the nearly \$30.5 billion in total expenditures in 2016-17 by Pennsylvania’s 500 school districts, nearly 11.1% was attributable to employee pension costs, so it comes as no surprise that those costs were among the top areas of anticipated cost growth for 2018-19. In fact, during 2011-12 to 2016-17, pension costs increased, on average, 52% annually across all school districts. Additionally, while employee salary costs have decreased as a percentage of total school district expenditures, pension costs have increased dramatically.

Figure 3. Falling share of salaries as a percent of total district expenditures versus rising share of pension costs as a percent of total district expenditures.



Source: PDE--AFR data 2011-12 through 2016-17

While our survey responses indicated that many school districts are continuing to reduce staff, some school districts are beginning to take steps to recover from the staff cuts made over the past several years (statewide total salary costs in 2016-17 remained less than salary costs in 2011-12). This salary growth comes as the annual increases in the employer contribution rate have slowed. However, as a result of the mountain of unfunded liability in the pension system, employer contribution rates will continue to climb and remain high for decades to come providing school districts with little opportunity for relief from the pressure pension costs place on their budgets.

Special Education Costs

Another major area of anticipated cost growth for 2018-19 reported by survey respondents was special education costs. With state and federal mandates driving the provision of special education services to eligible students, school districts have limited flexibility in controlling these costs. When a student requires special education services, programs, transportation or private placements, school districts must cover those costs, pure and simple. As a result, special education instructional costs across all 500 school districts increased by \$1.08 billion between 2011-12 and 2016-17, an average of 6.1% each year. Meanwhile, special education support services increased by \$166.7 million during those years, an average of 6.7% per year. Based on final general fund budgets submitted to the Department of Education, school districts budgeted \$4.649 billion in 2018-19, a \$275 million increase from 2016-17 for special education instructional services alone.

Figure 5. Average annual percentage and dollar increases in special education instructional and support services costs.



6.1% **\$1.08 billion**

Average annual percent increase in special education instructional costs.



6.7% **\$167 million**

Average annual percent increase in special education support services costs.

Source: PDE--AFR data from 2011-12 to 2016-17

Digging deeper into this issue, survey respondents were asked to identify the top three factors contributing to special education cost increases in their districts. A rise in the number of special education students, an increase in the number of students requiring outside or private placements and a need to hire additional special education staff ranked as the top three reasons for ballooning special education costs.

Figure 4. Top Reasons for Increasing Special Education Costs

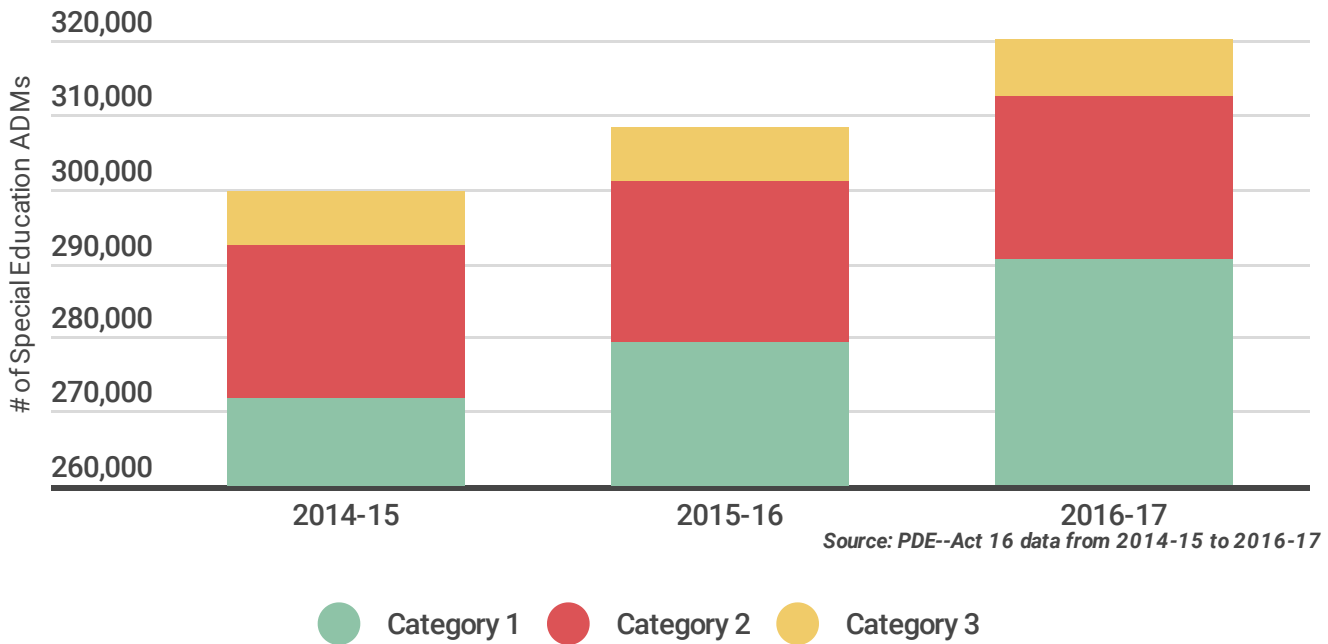
Reason for Increase in Special Education Costs	# of Respondents	% of Total Respondents
Increase in Need for Outside Placement	207	74.73%
Increase in Special Education Enrollment	187	67.51%
Need to Hire Special Education Staff	164	59.21%
Increase in Need for Special Education Transportation	139	50.18%
Increase in High-Need Special Education Enrollment	136	49.10%

Source: PASBO/PASA budget survey results

Examining statewide data further elucidates the survey responses. Just between 2014-15 and 2016-17, the overall number of students receiving special education services across Pennsylvania increased by more than 21,000 students or 7.1%. Additionally, the number of students requiring costlier special education services (including outside or private special education placements) has increased as well.

During that same time frame, the number of special education students whose special education programs and services cost between roughly \$25,000 and \$50,000 annually increased by 7%, while the number of special education students whose program and services cost in excess of \$50,000 annually has increased by 21%.

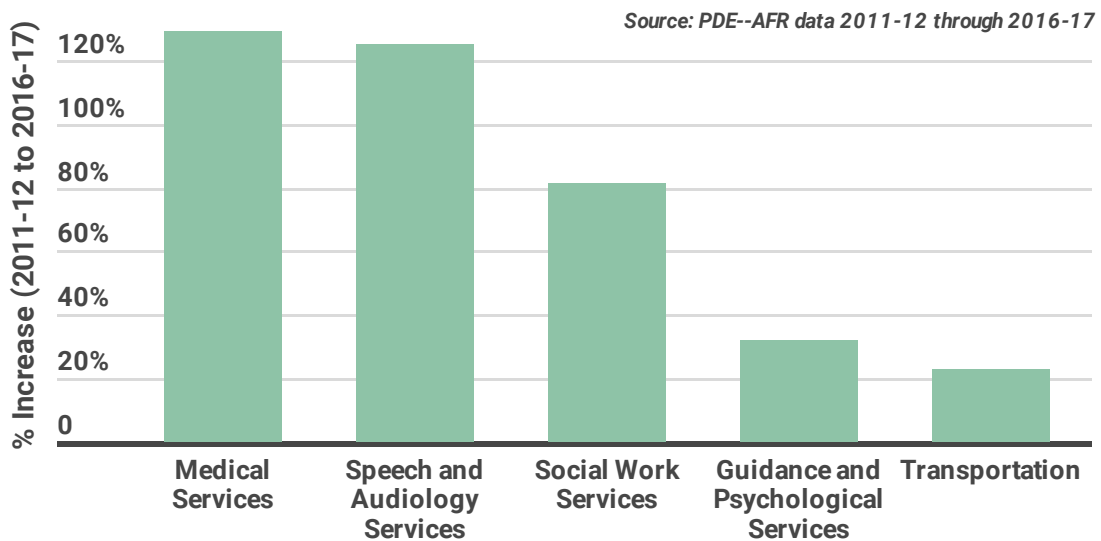
Figure 6. Change over time in number of special education students in each cost Category (Category 1 is students costing < \$25,000; Category 2 is students costing \$25,000-\$50,000; Category 3 is students costing > \$50,000)



Looking at some of the specific special education support services driving the expenditure increases, since 2011-12 (as reported to PDE pursuant to Act 16), total medical services costs increased by 129%, special and audiology services costs increased by 125%, social work services costs increased by 81%, guidance and psychological services costs increased by 32% and special education transportation costs increased by 23%.

Furthermore, school district payments for special education to intermediate units grew \$57.4 million or almost 8% between 2014-15 and 2016-17, while payments to Approved Private Schools and Chartered Schools for high-need special education students grew almost \$14 million or 14.3% between 2014-15 and 2016-17.

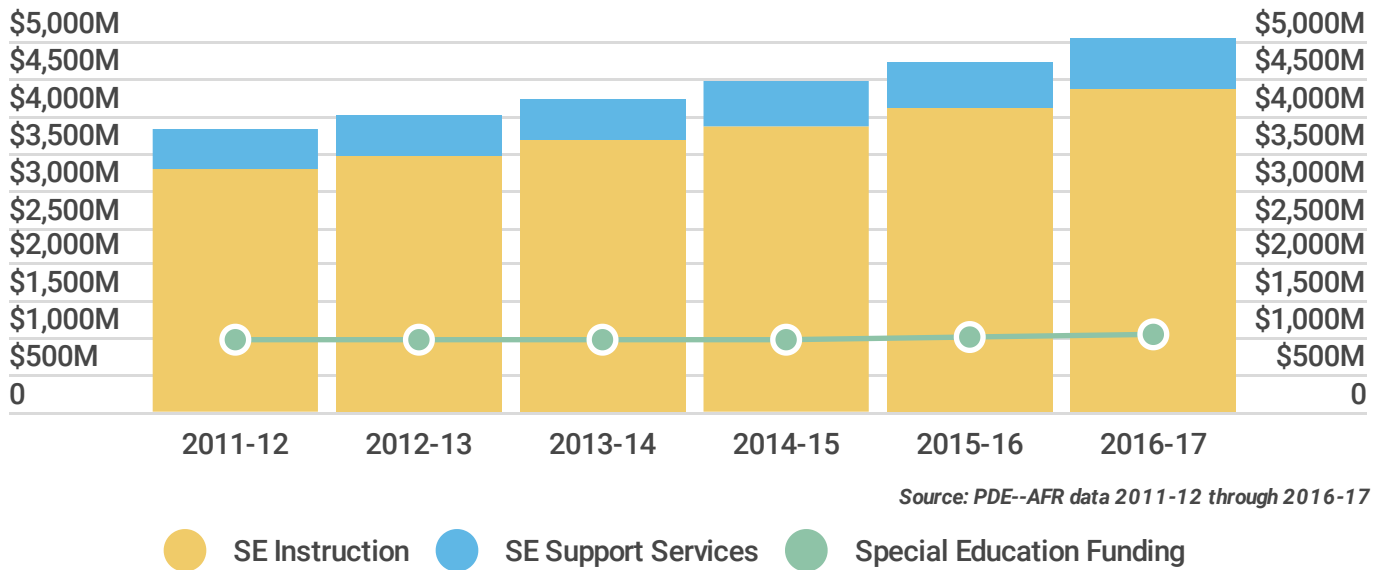
Figure 7. Percentage increase in special education support services costs, 2011-12-2016-17



To ensure that they are providing for the needs of their special education students, school districts brought on an additional 528 social workers, psychologists, school counselors and special education teachers just since 2014-15, resulting in a 6% increase in total special education-related employee salary costs.

These increases in special education expenditures, while mandatory costs for school districts, were minimally offset by small increases in state special education funding. While the combined cost of special education instruction and support services grew \$1.25 billion between 2011-12 and 2016-17, state special education funding grew by \$66.5 million. The result is that school districts shifted resources from other areas of the budget, cut programs or raised property taxes just to cover the difference.

Figure 8. Growth in school district special education instructional costs and support services expenditures versus growth in state special education funding.



Charter School Tuition

Another major area of cost growth reported by survey respondents for 2018-19 was charter school tuition. State law mandates that school districts pay charter schools a tuition rate based upon the school district’s total expenditures for each resident student enrolled. Each school district has two charter school tuition rates: one for regular education students and one for special education students.

Figure 9. Percentage increase in total charter school tuition, total regular education charter school tuition and total special education charter school tuition from 2011-12 to 2016-17.



45%

Percent increase from 2011-12 to 2016-17 in total tuition paid to charter schools.



30%

Percent increase from 2011-12 to 2016-17 in regular education tuition paid to charter schools.



86%

Percent increase from 2011-12 to 2016-17 in special education tuition paid to charter schools.

From 2011-12 to 2016-17, the total tuition paid by school districts to charter schools increased by more than \$500 million or by 45%. The amount of total tuition paid for regular education charter school students increased during this time frame by 30%, while the total tuition paid for special education charter school students increased by 86%. As a result, half of the total charter school tuition increase during this time frame is attributable to special education tuition increases.

There are two main reasons for this increase. First, the number of charter school students has increased. Since 2011-12, the number of regular education charter school students increased by more than 21,200 or 23%. The number of special education charter school students—for which school districts pay an increased tuition rate to charter schools—rose by nearly 60% or 8,600 students.

Source: PDE--AFR data 2011-12 through 2016-17

Second, since charter school tuition costs are factored into the charter school tuition calculation, rising tuition costs due to increased enrollment overall or due to increased special education enrollment function to increase the school district's charter school tuition for the following year.

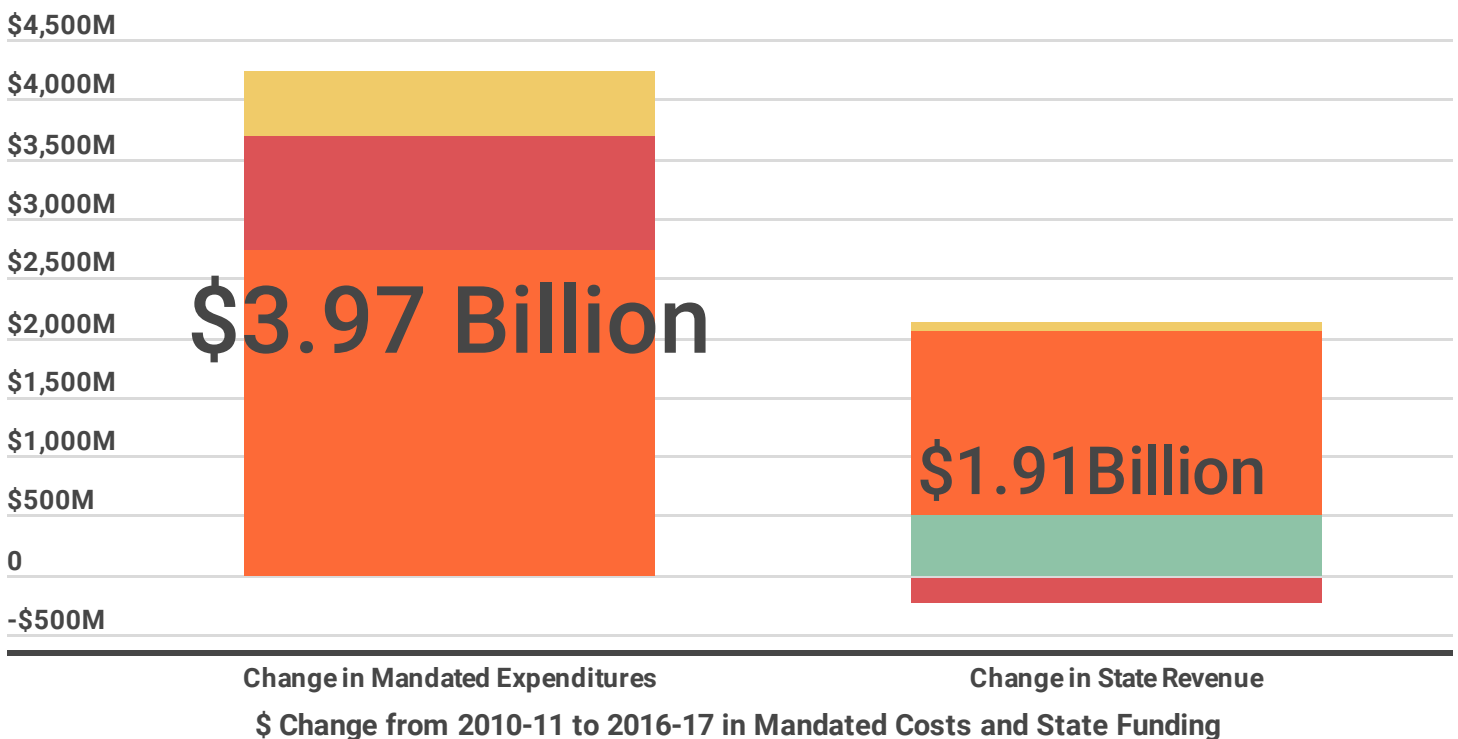
With the state providing no state support for mandatory charter school tuition costs, the increases in this single budget item have the potential to decimate school district budgets. Just like special education increases, school districts shifted resources from other areas of the budget, cut programs and raised property taxes to cover the difference.

The Mandatory Math

In terms of some of the areas of the largest cost growth as identified by survey respondents—pension, special education and charter school tuition—increases in these mandatory costs certainly aren't new. School district mandated costs for pension, charter school tuition and special education (excluding special education pension costs and special education charter tuition costs to avoid double-counting costs included under total pension and total charter tuition) increased by \$3.97 billion between 2010-11 and 2016-17.

During this time, state support for these costs through increases in basic education funding, special education funding, pension reimbursement payments and factoring in the elimination of the charter school reimbursement resulted in an increase of \$1.91 billion in state support. The result? School districts had to cover \$2.06 billion in mandated cost increases in these budget items alone through cuts to programs and staff, increasing property taxes (which would have equated to a 3.07% annual increase in property taxes statewide) or both.

Figure 10. Increase in Mandated Costs and Supporting State Revenues between 2010-11 and 2016-17.



- Rev: Basic Education
- Rev: Pension
- Rev: Special Education
- Rev: Charter Schools
- Exp: Pension Costs
- Exp: Charter Schools
- Exp: Special Education

Source: PDE--AFR data 2010-11 through 2016-17

Expenditures=Revenues

When school districts develop their budgets, there is little wiggle room: expenditures have to equal revenues, even when expenditures have increased by \$2.06 billion and counting. With little wiggle room in the budget and with much of the biggest cost increases outside the scope of a district's ability to control, school districts face an endless discussion about how to reduce expenditures to balance their budgets or how to raise additional revenue.

Option 1: Cuts and Reductions

When facing rising costs, to ensure expenditures equal revenues, one option is to reduce the budget through cuts or reductions. During the course of our annual budget surveys, school districts have repeatedly reported that they continue to reduce costs associated with programs, services and employees.

As in past years, survey respondents were asked which actions, if any, they took in 2018-19 to reduce or eliminate instructional program and non-instructional program costs. While it is positive that at least half of respondents made no reductions or eliminations to instructional or non-instructional programming, many others reported that such changes were necessary for 2018-19.

Figure 11. Survey respondents indicating that they planned cuts or reductions to instructional programming in 2018-19.



37.1%

Percent of respondent school districts that indicated they shifted staff across schools/grade levels to avoid filling vacancies.



25.5%

Percent of respondent school districts that indicated they increased class size.



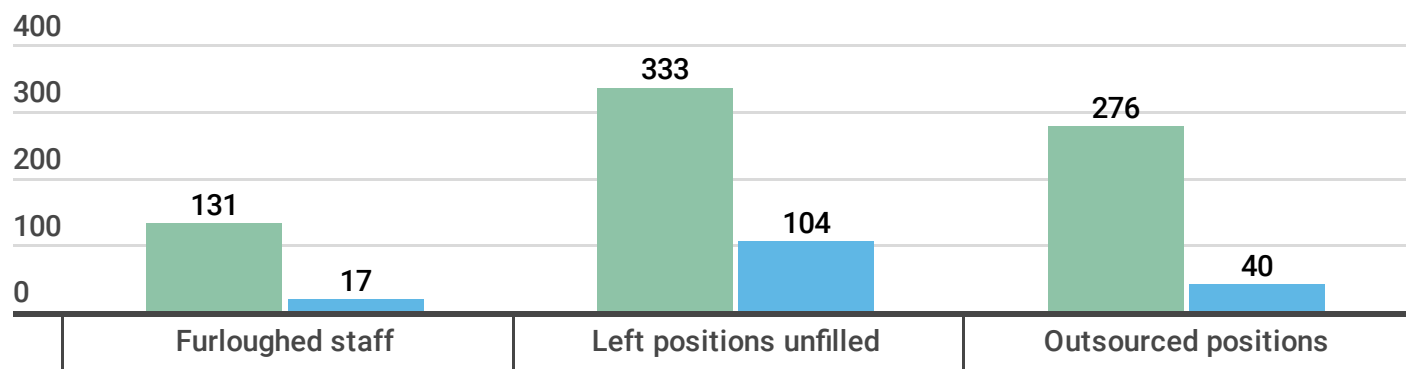
12.9%

Percent of respondent school districts that indicated they reduced or eliminated elective courses.

Source: PASBO/PASA survey results

Nearly 40% of respondents indicated that they shifted existing staff across schools or across grade levels to avoid filling vacancies, while 25% of respondents indicated that class sizes increased in their districts. Respondents also reported reducing or eliminating non-essential staff travel, reducing or eliminating elective courses or student field trips, deferring building maintenance and delaying a construction or renovation project.

Figure 12. Number of survey respondents furloughing employees, leaving positions vacant and outsourcing positions for 2018-19.



Source: PASBO/PASA budget survey results

● Full-Time Equivalent (FTE) ● # of School Districts

Survey respondents were also asked if they took any actions to furlough staff, outsource positions or leave positions vacant, and for 2018-19, respondents indicated the anticipated reduction of 740 full time equivalent school district positions. Forty-five percent of the reported reduction was accomplished by letting vacant positions from retirements and resignations go unfilled. Additionally, 37% were being moved to outsourced positions, and the final 17% was reported as planned staff furloughs.

Option 2: Property Tax Increases

Instead of (or, more likely, in addition to) cuts or reductions to programs, services and staff, the other option school districts have to ensure that revenues equal rising expenditures is to raise property taxes, and it has become an annual endeavor in many districts across the state. While there are significant limitations and restrictions on school districts' ability to raise additional revenue via property taxes, for those school districts that have the greatest mandatory cost increases and those that are most reliant on local revenue to drive the majority of their budgets, it is a necessary effort.

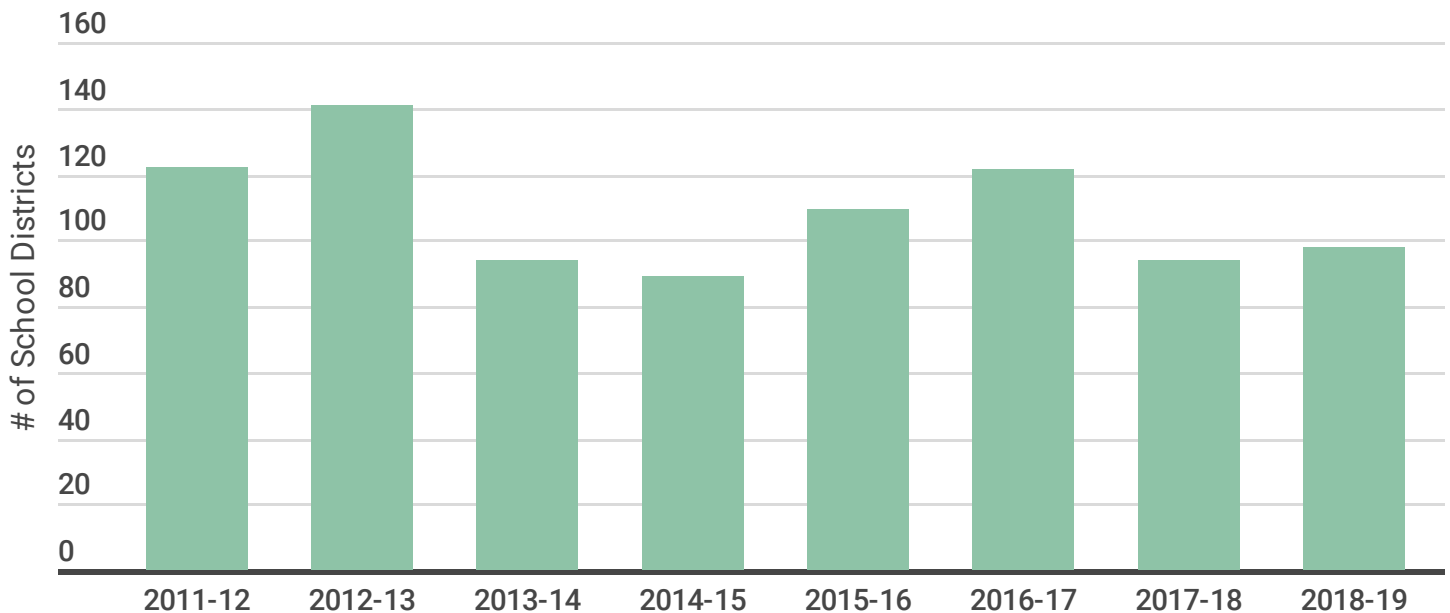
Overall, based on 2016-17 AFR data, local revenue represented about 55% of total statewide school district revenue, with property taxes generating more than \$13.5 billion in critical revenue for school district operations. The 2018-19 general fund budget data shows that school districts levied about \$14.5 billion in property taxes, revealing that the vast majority of school districts increased property taxes to some extent. Additionally in 2018-19, 498 school districts' median ratio between the property tax revenue levied in their budget and their maximum property tax levy allowed under Act 1 for 2018-19 was 99.2%.

The extent to which a school district can generate revenue through property taxes is complex. Given that the reasons behind an increase are almost always diverse, looking behind the curtain to understand these factors helps to demonstrate the revenue challenges faced by many school districts.

An important factor to examine is assessed value (AV)—the value upon which property taxes are based. The majority (77%) of school districts experienced an AV increase in 2018-19 based upon their budgets, which means that they were able to generate at least some revenue through this natural growth. While the amount generated by that AV growth in those school districts varied, and was, in most cases, minimal, it gave those school districts a head start on beginning to cover some mandated cost increases. In some cases, this natural growth could have mitigated the need for or extent of property tax increases, and in some cases, it could have provided the flexibility to go beyond the status quo.

However, in nearly 100 school districts, AV declined. For these school districts, doing nothing meant that property tax revenue would be lower than the prior year, so property taxes had to increase just to stand still. In these school districts, even before they were able to examine the impact of rising mandated costs on their budgets, they were starting behind the prior year when it came to revenue. On average, 109 districts had a decrease in AV each year from 2011-12 to 2016-17.

Figure 13. Number of school districts with a decline in assessed value from 2011-12 to 2018-19.



Sources: PDE--AFR and general fund budget data; DCED--STEB Land Use data

Budget discussions are the most challenging in these school districts. With rising mandated costs due to special education, charter school tuition and employee pension costs, these districts must generate the revenue necessary to cover those needs. Other needs outside of the mandated cost increases are not even options. Even worse is the fact that some of these school districts have seen AV declines in multiple years, forcing them to fall further and further behind and to deprioritize anything other than maintaining status quo.

The New Priorities

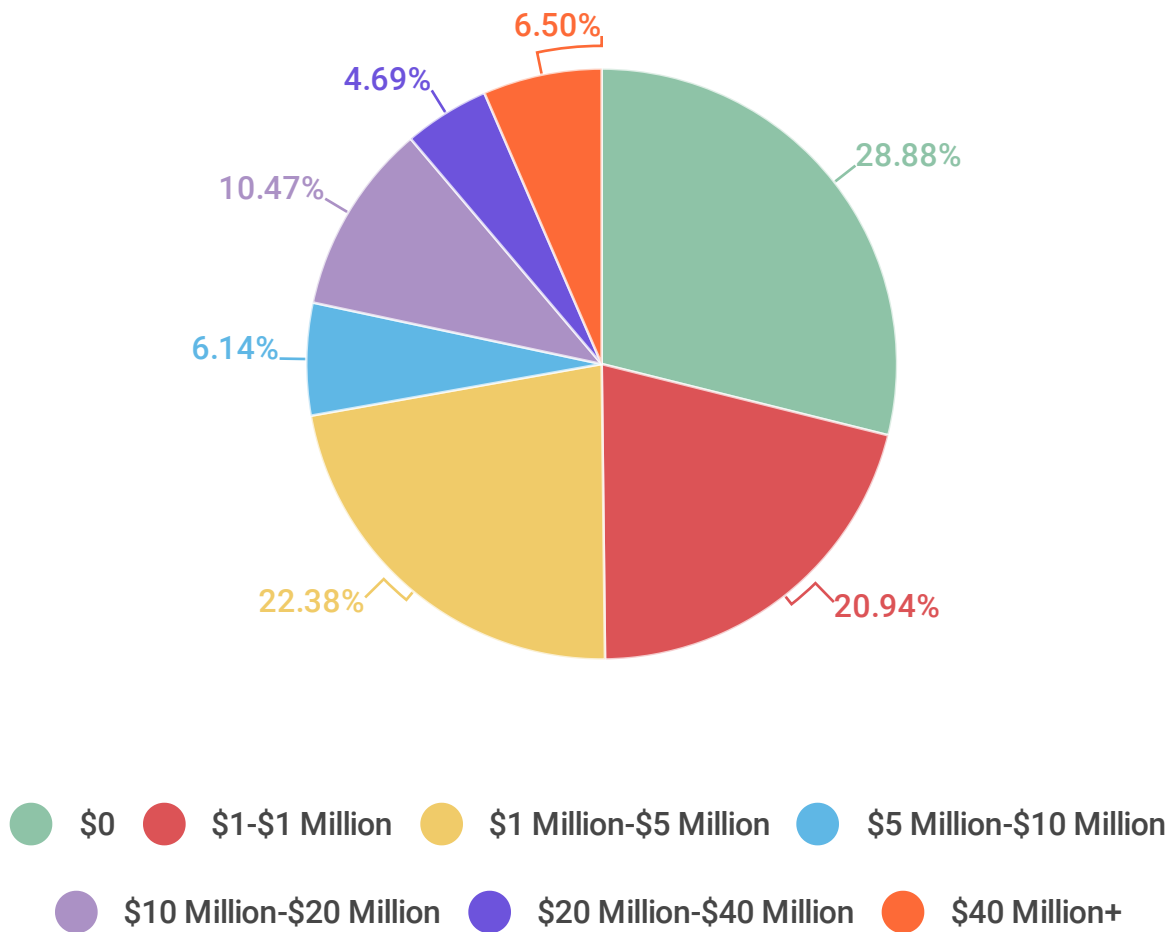
With the annual balance of expenditures and revenues being so delicate in so many districts across the commonwealth, outside of the mandated cost increases discussed above, there is little consideration of additional expenditures above and beyond the status quo—regardless of the need. Despite the lack of appetite to tackle additional costs after fighting budget battles to keep the basics intact, respondents highlighted some critical areas of need that are piling even more financial challenges on school district plates.

School Construction

School construction is an area highlighted by survey respondents that demonstrates the diversity in school district financial conditions. School facility needs, whether it be new construction or renovation to deal with increasing enrollment, construction to consolidate facilities due to declining enrollment, upgrades to improve student and staff security or routine facility maintenance to replace an HVAC system or roof, are critical and expensive expenditures for school districts.

Since school districts are now on their own to support all school facilities needs due to the end of the state’s PlanCon program for partial reimbursement for school construction projects, school districts were asked about their school construction or maintenance needs and the estimated cost of their projects.

Figure 14. School construction and maintenance needs for 2018-19.



Source: PASBO/PASA budget survey results

Seventy-one percent of respondents indicated that they have school construction and school facility maintenance needs within the next year. The respondents that reported a school construction or maintenance need within the next year reported a corresponding estimated price tag of nearly \$2.5 billion for their projects—the equivalent of approximately 8% of total school district expenditures for 2016-17. Twenty-one percent of respondents indicated that their anticipated projects would cost less than \$1 million; 45% of respondents indicated that their anticipated projects would cost between \$1 million and \$40 million; 5% of respondents indicated that their anticipated projects would cost in excess of \$40 million.

While funding school construction, renovation and maintenance in the absence of state support is a heavy lift for many school districts, 52% of those reporting a needed project expected to proceed with the project despite state funding. These districts may have essential construction or maintenance projects that simply cannot be delayed, or they may have already secured the funds via capital reserve, fund balance, increased property taxes or through another mechanism.

The real concern, however, is the nearly 48% of respondents that reported construction or maintenance needs and indicated that they cannot proceed with their needed projects in the absence of state construction reimbursement. These districts are typically poorer than the group of respondent districts that plan to move forward with their projects without state funding. Only 12.8% of respondents in the 100 wealthiest districts could not move forward with needed projects in the absence state reimbursement, while 45.2% of respondents in the 100 poorest districts indicated they could not move forward without state assistance.

Due to their financial conditions, many of these school districts relied heavily on partial state reimbursement to fund needed projects in the past, and in the absence of state funding, they have little to no ability to divert valuable resources to maintenance or construction needs. While safe and healthy school facilities should be a priority, when some school districts are using up every penny of savings and tax revenue just to cover their mandated cost increases, these basics become luxuries.

School Safety and Security

School shootings and the passage of Act 44 of 2018 have focused districts across the commonwealth on improving safety and security—both in terms of physical security and in terms of behavioral health and student supports. The prioritization of school safety and security is evident from the overwhelming interest in the School Safety and Security grant program implemented under Act 44. For a grant program providing \$52.5 million, school entities identified nearly \$330 million in school safety and security needs through the application process in fall 2018-19.

Recognizing the focus on school safety and security, we asked survey respondents to detail their school safety and security priorities for 2018-19. Not surprisingly, respondents indicated that their safety and security needs were wide-ranging and unique to their individual circumstances. The responses included everything from the hiring of school security personnel and the purchase of security equipment to the development of student assistance and behavioral health programs.

We also asked respondents if they hired or planned to hire school security personnel (school resource officers, school police officers and school security guards) and school counselors, psychologists, social workers or therapists to provide additional student support in the 2018-19 fiscal year.

With school districts spending approximately \$127.9 million on school security staff in 2016-17, respondents indicated an intent to focus additional revenues here. Sixty-six percent of respondents indicated that they had already hired or planned to hire additional school security staff in 2018-19. Additionally, 45% percent of respondents reported that they had hired or planned to hire additional student support staff to address the behavioral health issues that are often linked to school violence.

Figure 15. Respondents indicating they have hired or plan to hire additional school security or student support personnel in 2018-19.



66%

Percent of respondent school districts that hired or plan to hire additional school resources officers, school police officers, security guards in 2018-19.



45%

Percent of respondent school districts that hired or plan to hire additional school counselors, psychologists, social workers or therapists in 2018-19.

While the Act 44 grant funding is likely providing partial support for some of these additional positions, as the grant funding was only appropriated for the 2018-19 state budget, the future costs of these new safety and security-related positions will need to be borne by the districts and local taxpayers.

While school districts across the commonwealth have a serious desire to make critical and comprehensive improvements to school safety and security, the reality is that these improvements—while essential priorities and critical to every aspect of school district operation and student education—can only be addressed after mandated cost increases are covered.

Source: PASBO/PASA budget survey results

As a result, the expenditures and revenues argument is now even more challenging, as necessary safety-related programs, services, staff and equipment are added to the budget.

The extent of the need for additional state support to provide assistance to school districts for school safety and security-related costs is emphasized in the response to our survey question that asked what respondents would do if they were to receive a 5% increase in state funding for 2019-20. We gave them a list of possibilities and asked them to select all that were applicable.

Figure 16. Anticipated use of a 5% increase in state funding for 2019-20.



53.8%

Percent of respondent districts that indicated they would purchase additional school safety or security equipment or technology.



32.85%

Percent of respondent districts that indicated they would hire or contract additional school safety or security personnel.



47.65%

Percent of respondent districts that indicated they would expand behavioral health or student assistance programs.



46.57%

Percent of respondent districts that indicated they would expand STEM course and program offerings.



36.82%

Percent of respondent districts that indicated they would engage in needed school renovation, construction or maintenance.

While the needs of each of the 500 school districts are unique, the responses were relatively uniform—school safety. Fifty-four percent of respondents indicated they would use additional state funding to purchase additional school safety or security equipment or technology, 48% of respondents indicating that they would use additional funding to expand behavioral health or student assistance programs and 33% indicating that they would use additional funding to hire or contract with additional school safety or security personnel.

While it is positive that school districts recognize the need for comprehensive safety and security improvements, the fact that so many would direct additional state funding there is indicative of the fact that the need is great and that it cannot be borne by local revenue alone. With school safety and security being such a foundational need, the creation of holes and have nots in this area is alarming, yet without additional state support, school safety and security will become a luxury that some districts cannot afford.

Source: PASBO/PASA budget survey results

Conclusion

With increases in mandated costs, such as special education, forcing school districts to constantly balance property tax increases with cuts, continuing our current course will mean significant consequences—both educationally and fiscally. The cumulative effect of annual mandated cost increases that consume all available resources and are not offset by corresponding increases in state funding is that the status quo is the best some school districts can provide for their students, while others are marching backwards.

The mandated costs highlighted in the report above are not new. Following the pension tsunami, which began in 2012, total pension expenses are more than 11% of all school district expenditures, and every dollar of school payroll now requires a 34% pension expense before reimbursement.

Mandated special education costs are not new either. From 2007-08 to 2016-17 regular education instructional expense grew by 30% while special education instructional expenses grew by 58%, representing a combination of more special education students, more special education needs and more required special education staff.

Similarly, the continuing growth of charter school tuition in payments is not new. The school district obligation to fund students attending charter schools continues to increase as both the tuition rate and the number of charter students escalates. With the current total cost of charter school tuition costing school districts more than \$1.6 billion, this amount has increased by more than \$1 billion since 2007-08.

These mandated cost increases are exponentially beyond annual inflationary adjustments. They are budget wreckers requiring a multi-faceted effort by school district budget makers to find corresponding cuts and property tax increases. These items alone represented a \$3.97 billion increase to school district budgets between 2010-11 and 2016-17--\$2.06 billion of which was borne by school districts and not offset by state funding increases.

And while these mandated costs and their continued increase and strain on school district budgets are not new, the demands placed on school district budgets due to school safety and school construction represent new cost concerns. Unless there is a permanent funding source, school district budgets will need to absorb additional costs and students and local taxpayers will bear the brunt of the burden. Cuts or reductions in programs, services and staff are required or revenue must be raised locally—or both. As a result, there is little opportunity for new educational investments in many school districts. It is a zero sum game of cuts and property taxes to balance the budget.

Where do we go from here?

So, where do we go from here? Superintendents and business officials will continue to advocate for additional state funding for school districts.

Increases in state special education funding through the special education funding formula targets special education resources to those school districts that have the highest needs. A state investment here automatically reduces budget pressure for many school districts.

State funding for school construction, renovation and maintenance needs would mitigate the disparity in school facilities, allowing the have nots to proceed with needed projects.

Continued state support for school safety and security improvements would allow all school districts to focus on what should be their number one priority—keeping students safe. Support for school districts as they consider physical security improvements or examine expansion of student assistance programs should be a priority for the state. School districts cannot be allowed to fall behind in this critical area, but they can't move ahead without significant state support.

Finally, as noted multiple times in this report, all 500 school districts are different. Their challenges, successes and needs vary, and there is no one way to target increased state support to benefit all school districts uniformly. However, increased state support in any area will have positive implications for all 500 school districts. Additional state dollars to school districts reduce budgetary pressures, making the balance of expenditures and revenues that much easier and allowing all school districts to move forward.

We cannot fail our 1.7 million public school students, yet continuing our current course is doing just that. We must do better.

