



# Pennsylvania Association of School Business Officials

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**Testimony of the PA Association of School Business Officials  
House Appropriations Committee  
Subcommittee on Education  
American Recovery and Reinvestment Act Funds for Education  
March 19, 2009  
Jay Himes, Executive Director**

Good Afternoon. I am Jay Himes, executive director of the PA Association of School Business Officials (PASBO). PASBO is statewide association with 2,000 active members who are K-12 school employees below the rank of superintendent. Our members support classroom learning and student achievement by providing many services required in the day-to-day operations of schools including: finance, accounting, facility management, transportation, food service, technology, purchasing, human resources, communications and safety.

Thank you for the opportunity to present our comments on the impact of federal stimulus funds for education under the American Recovery and Reinvestment Act (ARRA) of 2009. This new source of federal funds will be a welcomed and necessary infusion of federal dollars to help schools eliminate the significant loss of revenue in the current fiscal year and sustain programs for next year without further burdening property taxpayers at a time when everyone is most susceptible to any additional expenses.

School districts of every size in every part of the Commonwealth are facing significant shortfalls in local taxes and revenues. Deterioration of local resources is not an isolated problem. Every school district is experiencing property tax delinquency increases, income tax revenue declines and vanishing investment returns. Some have seen skyrocketing debt service payments as a result of the credit market collapse. Sure to come are many new property assessment appeals that will further erode school district real estate tax revenues.

The same factors that have lead to reduced state revenues—higher unemployment, the decline in housing values, construction slowdown and decline in interest rate earnings—are reducing current school district revenues. Without question, these factors will continue into the 2009-10 fiscal year.

As an example, the Council Rock School District in Bucks County has forecast a loss ranging in this current fiscal year from \$4.8 million to \$7.3 million created by higher delinquency rates in property tax collections, increasing property tax assessment appeals, a decline in realty transfer tax revenues, loss of income tax revenues and a cut in investment income.

This scenario is not only occurring in large districts like Council Rock with an annual budget of \$200 million but smaller districts like Northern York School District here in the Midstate which is predicting a loss of revenue ranging from \$270,000 to \$817,000 with an annual budget of \$38 million.

The Governor's efforts to bolster state funding to meet adequacy levels for school districts as identified by the Costing Out Study have been an antidote to dwindling school revenues. The historic \$300 million increase in basic education funding for this fiscal year has provided a buffer from the crumbling economy for many districts. Without this significant state commitment, we would be experiencing much more drastic consequences of the economic downturn. Some districts would simply not be able to maintain current instructional programs and other services if additional state resources were not stabilizing dwindling local resources.

Looking ahead, we would also support the Governor's plan to utilize the federal stimulus funds to continue the investment in basic education funding to meet the Costing Out Study's adequacy targets. The sustained effort to meet the state funding commitment in years two and three of the six year phase-in of the additional state support for school districts will not only help meet adequacy targets, but provide much needed flexibility for school district budgets.

As this committee knows, federal stimulus dollars for education will come from the State Fiscal Stabilization Fund (SFSF) and through other categorical programs such as Title I, Title II-D (technology) and IDEA Part B special education funds. Clearly the SFSF dollars will allow districts to make critical local decisions in addressing their budget needs for the 2009-10 fiscal year. The Governor has proposed two years using more than a billion dollars in SFSF dollars to put into the basic education line item.

In addition to Basic Education Funding (BEF), the stimulus package also increases funding for poorer school districts through Title I. About \$339 million will go to schools to focus on students in poverty. The ARRA will also increase special education funds (\$363 million) through the Individuals with Disabilities Education Act (Part B). The additional funding will address a significant cost driver for schools and take a major step (even though only temporarily) to meet the long overdue federal commitment of 40% of local costs. The Title II-D funds will continue to provide technology assistance from both the instruction and professional development sides.

There will also be residual funds from the SFSF. These funds will give districts a choice of budgeting for school facility improvements or instructional programs or both. While \$286 million will be available statewide, most districts will receive relatively modest amounts of additional funding. Fifty two districts will receive no funds, 85 will receive less than \$100,000 and almost half of all districts (241) will receive less than \$250,000.

These amounts will not finance virtually any renovation project on their own, but they could be combined with existing resources to fund the kinds of projects which typically have no state funding component. Examples are window replacement, roof repairs, modular classroom units, infrastructure including parking lots and access roads and transportation facilities. Known as non-reimbursable projects (based on the lack of any state funding eligibility) districts may be able to use the new federal funds in lieu of local resources for minor projects that are limited in scope.

Districts with high poverty will receive significant support from this segment of the SFSF funds. In those cases (about 20 districts receive one million or greater) more substantive construction projects can be undertaken with the federal dollars or combined with local resources.

From the property tax side, the additional federal assistance is very good news. About  $\frac{3}{4}$  of all school districts in the state committed in February to staying within the Act 1 index. Many of the other districts may ultimately end up within the index as well since the increased BEF funding announced by the Governor in response to the federal stimulus package came after the deadline for submitting preliminary school budgets for districts that wanted to preserve the option to raise property taxes above the index.

It is also extremely important to recognize that passage of ARRA may be building unreasonable expectations for schools and property tax payers. All of the categorical funds come with significant program restrictions of where and how the money can be spent. So while the combined Title I, Title II-D and IDEA funds will give districts more than \$700 million in new revenues, there will be many, many strings attached. At this point in time it appears that none of the \$700 million in categorical funding will allow for financial recovery of lost and declining local revenues.

Even the SFSF funds that will increase Basic Education Funding come with restrictions. Legislation passed by the General Assembly and signed into law last year by the Governor only gives schools the ability to determine locally how to spend any new BEF funds up to the Act 1 index. For the current fiscal year, a district could use up to 4.4% in new BEF revenues with total local discretion. Eighty percent of any new funding over 4.4% is subject to specified program expansion. The other 20% can be used for sustaining existing programs. Moreover, even with another \$118 million in BEF funds provided by the SFSF, 15% of school districts will still receive the minimum 2% increase over the current year. The result is that some districts which receive very substantial increases may also require property tax increases for funding on-going programs.

In fact we are unsure that there will not be restrictions on use of the funds for eliminating current revenue shortfalls. Districts could be in the unusual situation of suffering significant revenue losses while having targeted new federal dollars that can not be used to remedy their financial need. We hope and encourage you to assure that recovery funds will help schools to financially recover and at the same time provide additional resources for student achievement.

Further there will be concern, just as there will be at the state level, about the short term nature of the funds. My members will hesitate to use the funds in a way that makes them fund categorical programs with additional local resources that will lock their LEAs into future maintenance of local effort requirements. While the stimulus funds and the Governor's plan provides necessary relief for school districts, everyone needs to appreciate the complexity of developing budgets that will meet the intent to "spend funds quickly to save and create jobs" and to "improve student achievement through school improvement and reform."

Thank you for the opportunity to present our comments on this critical school finance issue.