



# Pennsylvania Association of School Business Officials

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*House Appropriations Committee  
Senate Bill 850  
May 21, 2009  
Remarks of Jay Himes  
PASBO Executive Director*

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Good afternoon. My name is Jay Himes and I am executive director of the PA Association of School Business Officials (PASBO). PASBO is a statewide professional association with more than 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, technology, food service, purchasing, communications and human resources.

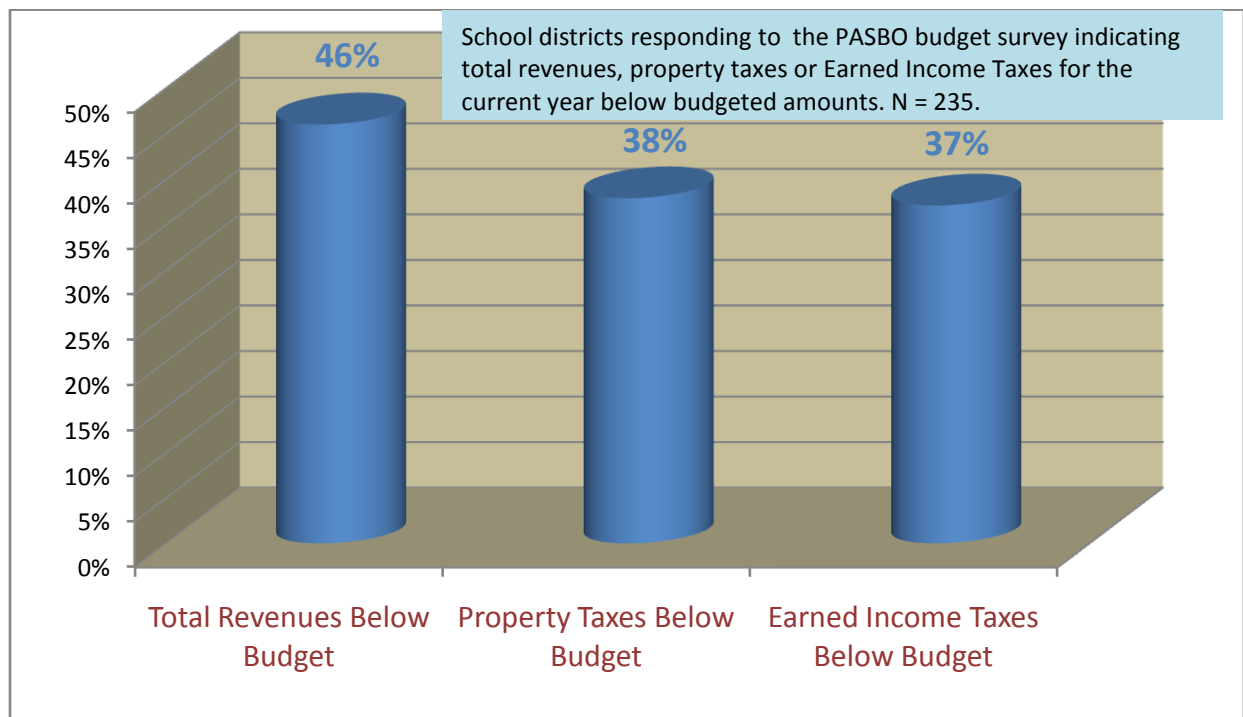
On behalf of PASBO, I want to thank you for the opportunity to testify about the impact of Senate Bill 850 on school budgets for the 2009-10 fiscal year and beyond. Districts are entering the adoption of preliminary budgets that must be finally adopted by June 30. In this testimony I would like to briefly discuss the effects of the current economic decline on school finances and the implications for school taxes and programs.

First let me address the current financial conditions of schools. Local education agencies are required to report enormous amounts of data to the PA Department of Education but in terms of school finances, the data exclusively looks at prospective financial information (budgets) and post expenditures transactions (audits and the Annual Financial Report). In order to assess the current financial conditions, we conducted a brief survey in March of this year. The survey response rate was almost half of the school districts in the state (N = 235). We asked for actual financial data as of the end of February.

The survey results reflect the deterioration of current year taxes and revenues, paralleling the decline of state revenues. In some cases local governments and the Commonwealth share the same tax base such as the Realty Transfer Tax. For this tax there is a direct correlation of the state's revenue shortfall—about 25%—and the statewide shortfall for school districts.

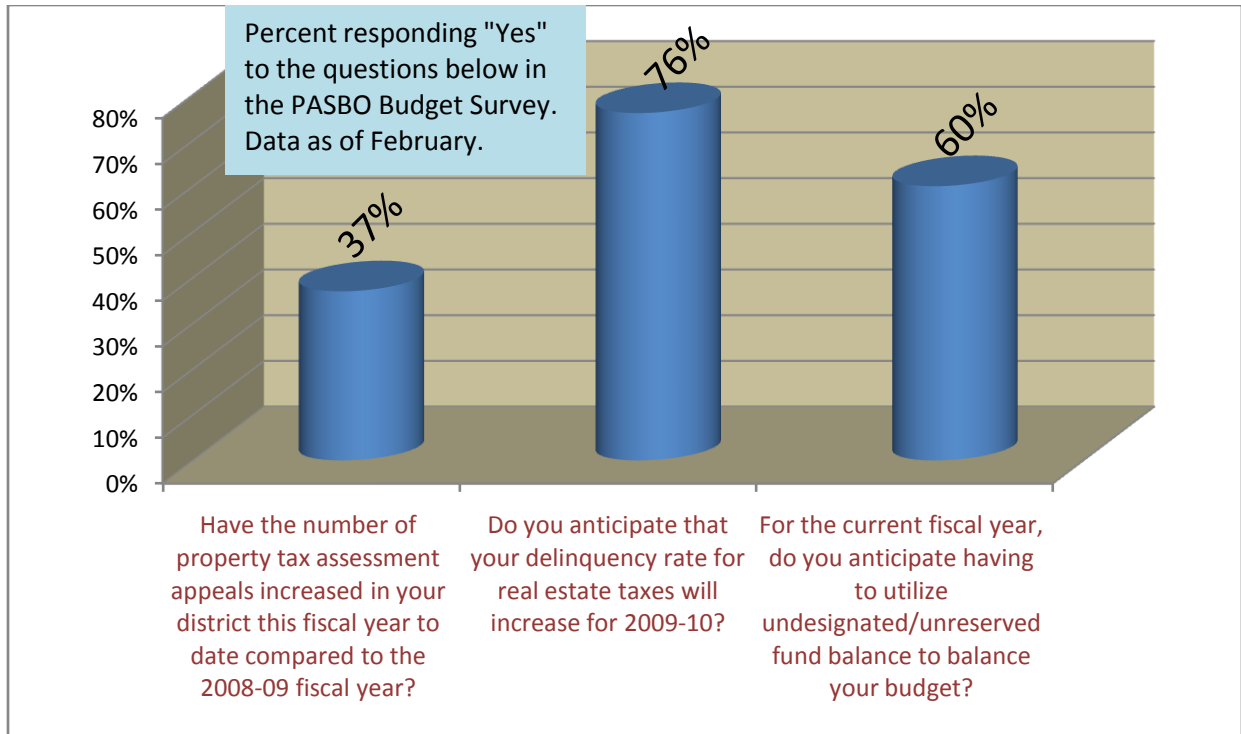
For other taxes such as state's Personal Income Tax (PIT), there is a correlation but the tax bases are similar not identical. We would expect to conclude that a decline in state PIT revenues would translate into a decline of the local Earned Income Tax since the majority of the tax base for both taxes is wages and other forms of compensation.

The one local tax that does not have a significant similarity to a state tax is the real estate tax. This tax continues to provide the bulk of local resources for school district operations. Our survey indicates not surprisingly that current real estate tax revenues are below budget for almost four in ten of the respondents. As indicated in the chart below, 38% indicated property taxes were below budget property tax revenues at the end of February.



Almost the same number of respondents (37%) indicated that Earned Income Taxes were below budget. Consequently, 46% of the respondents said that total revenues (state, local and federal school district revenues) were lower than budget.

Other data from our survey is summarized in the next chart. These responses indicate that that the current financial shortfalls will likely worsen for the 2009-10 fiscal year. More than a third of the respondents (37%) indicated that property tax appeals were increasing in their school district. As the economic decline continues, more commercial and industrial properties are inclined to seek reductions of assessed value thereby reducing property tax liability. Another common malady of economic decline is an increase in the delinquency rate. In our survey more than three quarters (76%) of the respondents predicted an increase in the delinquency rate for real estate taxes in 2009-10.



Both of these factors—an increase in property tax assessment appeals and an increase in the real estate tax delinquency rate—indicates that property tax revenues could decline next year if millage rates stay the same as the current year. As a result, some districts may be forced to increase property taxes just to stay revenue neutral. Equally concerning is the fact that real estate tax bills for the 2009-10 fiscal year that will be mailed this summer will hit at a far worse time than the 2008-09 school property tax bills. Last summer the spiraling economic decline was just beginning. Now, we have had three consecutive quarters of economic disruption and without a doubt some property tax payments will not come as quickly and from some financially troubled taxpayers perhaps not at all. In short, property tax revenues will continue to fall off for many school districts.

Perhaps most alarming, is the number of respondents utilizing fund balance to balance budgets for the current fiscal year. The chart above indicates more than half (60%) of the respondents are using reserves to balance budgets this year. If reserves are spent for operations (as opposed to one-time capital items) the future financial consequences can be significant. Every dollar in fund balance spent for current operations requires not only the same amount the following year to maintain expenditures, but a growth factor as well to reflect the cost to maintain that expenditure. In addition, continued utilization of fund balance prohibits any effort to replenish reserves for future costs.

So the worsening financial picture for school districts dictates other non-local revenues to minimize further financial erosion. Indeed, the federal stimulus funds will be welcomed resources. Unfortunately, all of the stimulus funds that the state has the flexibility to use for education—the State Fiscal Stabilization Fund (SFSF) dollars—are completely eliminated in Senate Bill 850.

There are significant new sources of federal stimulus revenues directed to local education agencies. However, the argument that the elimination of the SFSF funds will not have a detrimental effect on school district finances is misleading.

These funds come in the form of almost \$400 million for both Title I and IDEA (Individuals with Disabilities Education Assistance) Part B categorical funds as well as a much smaller allocation of Title II D technology funds. There have been arguments that these new funding sources provide more than sufficient funding for school districts and other local education agencies. There would be validity to that reasoning IF these categorical funds weren't restricted by federal law and regulation.

The Title I and IDEA funds have strings, perhaps more accurately ropes, attached to their current use and set baselines for future maintenance of local resources used to support the activities authorized for these two programs (maintenance of effort). No school district can use these funds for restoring this year's revenue shortfalls for example. To fill the revenue gaps in their current budgets, school districts need SFSF fund flexibility. Those funds under Senate Bill 850 are backfilled to free up state resources for other purposes. While this maneuver may give the state flexibility for meeting its budgetary needs, it provides school districts with no good options for meeting their budgetary needs. Essentially, using stimulus funds to backfill Basic Education Funding gives school districts funds they have already spent.

Furthermore, Title I, in particular, uses a complex set of formulae to determine allocations to local education agencies. The result is that the distribution is intentionally uneven, directing resources to high poverty areas. Consequently, some districts with high poverty will get a substantial distribution of the Title I stimulus dollars while many other school districts will see minimal increases. On a statewide basis there will be significant stimulus Title I new funding but that does not mean each school district will be the recipient of significant stimulus Title I new funding.

In the case of IDEA, schools must spend the stimulus funds and reoccurring IDEA funds for that matter for special education purposes. Federal law prohibits the use of IDEA funds for regular education purposes.

The lack of flexibility in spending the categorical stimulus funds creates the potential for a district to receive new federal funds AND have to increase property taxes. While it may appear that there is sufficient new stimulus dollars to blunt the financial blow of level funding for Basic Education Funding, it is an illusion.

We urge the restoration of SFSF funds for Basic Education Funding in the 2009-10 state budget. Schools are suffering financially just like the Commonwealth. Removing flexibility to address budget gaps this year with stimulus funds requires either more property tax increases at the wrong time or the continued use of reserves which will swell future school district property tax increases in the future.

We certainly understand the financial predicament of state policy makers and members of the General Assembly. These are difficult times for state and local budget makers.

We believe the SFSF funds were designed to benefit schools now to address the loss of revenues from the economic downturn and prevent further cuts in state funding.

We do not believe SB 850 does either for education. We urge the restoration of the Basic Education Funding increases proposed by the Governor.

I appreciate the opportunity to address our concerns. PASBO thanks Chairman Evans and the members of the Appropriations Committee for listening to our concerns. I will be glad to respond to any questions.

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