

**BUDGET PLANNING TO ADDRESS
THE CURRENT AND FUTURE FISCAL
REALITY**

*Presented by Dr. William Hartman
for the PA School Study Council*

March 5, 2013

Need to Recognize the NFR

- All Parties in Education
 - School boards, administrators, teachers, support staff, unions, parents, community
- Understand Effects on School Districts
 - Instructional programs and services
 - Support and Operational services
- Not the Good Old Days of Ample Funding
- Hard Decisions & Difficult Negotiations
 - Many involving \$ in personnel areas

3/5/2013 PSSC Webinar - New Fiscal Reality- Session 2 2

How Did We Get Here

- In General
 - Lower tax revenues at local & state levels
 - Continuing & growing expenditures
- Specifically
 - Act 1 capped local property revenue increases
 - 2011-12 state budget for Education
 - Proposed by Gov. Corbett, approved by Legislature
 - \$900 million cut from state aid to K-12
 - With fewer revenues districts had to reduce budgets
 - Poorer districts with greater reliance on state aid were hit hardest, but all suffered

3/5/2013 PSSC Webinar - New Fiscal Reality- Session 2 3

Where Are We Now?

- Permanently Lower Expenditure Budgets
 - No movement to fully restore lost state revenues
- Large mandated expenditures consuming growing portions of district budgets
 - PSERS
 - Charter Schools
 - Health care
- Less \$ left in budget for district programs & Services

3/5/2013 PSSC Webinar - New Fiscal Reality-Session 4

Key Fiscal Issues & Conditions

1. Constricted Revenues
 - Local: Act 1 index, predicted in low 2% range for next 3-4 years, small EIT growth with economy
 - State: Some state tax revenue growth, but unwillingness to provide much for public K-12
2. Growing Expenditures
 - Some of biggest ones are not under district control
3. Serious structural imbalance between revenues and expenditures threatens district survival

3/5/2013 PSSC Webinar - New Fiscal Reality-Session 5

District Budgeting

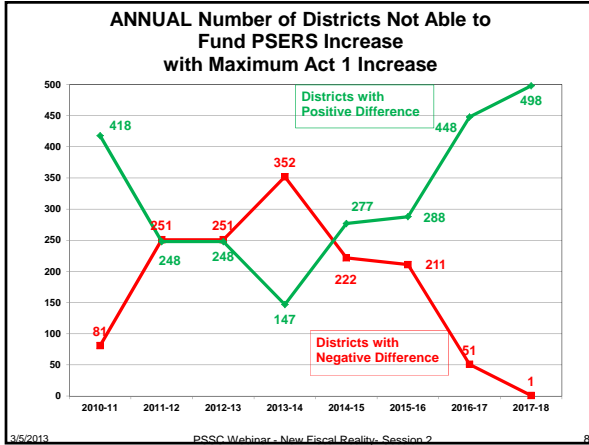
- **E = R**
- Basic budget requirement
 - Not excused in difficult economic times
- So, now when $E > R$ for most districts
- Revenues limited
 - Can't grow sufficiently to reach Expenditures
 - Fund balance limited to 1-2 years before gone
- Must reduce Expenditures to balance budget

3/5/2013 PSSC Webinar - New Fiscal Reality-Session 6

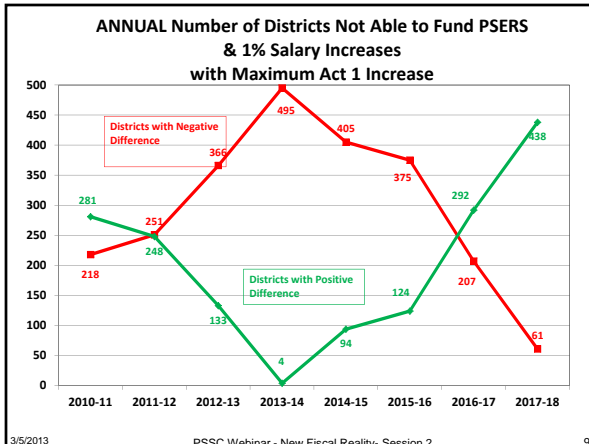
Expenditure Problems

- PSERS increasing at large annual amounts
- For 2013-14
 - 352 districts projected to have PSERS mandated payments grow more than Maximum Act 1 revenue increase
 - 495 districts cannot pay PSERS increase + 1% salary increase with Maximum Act 1 revenue increase
- Underwater

3/5/2013 PSSC Webinar - New Fiscal Reality- Session 2 7



3/5/2013 PSSC Webinar - New Fiscal Reality- Session 2 8



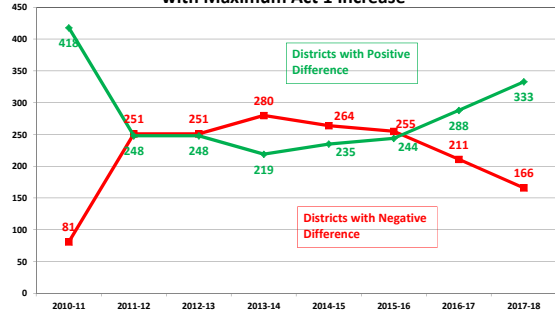
3/5/2013 PSSC Webinar - New Fiscal Reality- Session 2 9

Paying for PSERS

- Cumulatively over 5 years problem persists
 - Districts will take in less through Maximum Act 1 revenue than have to pay out in PSERS
- Half the districts underwater through 2015-16 with PSERS alone
 - Still 30% underwater in 2017-18
- Over 80% of districts cannot pay for PSERS + 1% annual salary increase through 2015-16
 - Still 70% in 2017-18

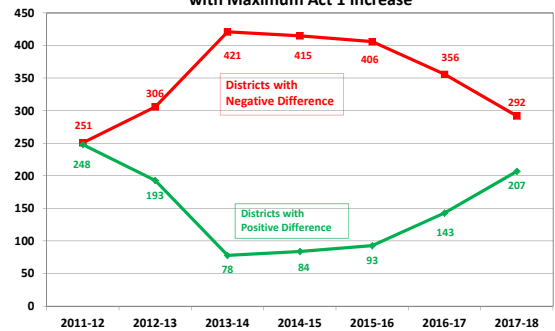
3/5/2013 PSSC Webinar - New Fiscal Reality- Session 2 10

CUMULATIVE Number of Districts Not Able to Fund PSERS Increase with Maximum Act 1 Increase



3/5/2013 PSSC Webinar - New Fiscal Reality- Session 2 11

CUMULATIVE Number of Districts Not Able to Fund PSERS & Salary Increases with Maximum Act 1 Increase



3/5/2013 PSSC Webinar - New Fiscal Reality- Session 2 12

Impacts on Districts

- Fewer \$ available to operate programs
- Priorities, choices, reallocations
- What is required?
- After that everything is optional

3/5/2013 PSSC Webinar - New Fiscal Reality- Session 2 13

Chapter 4 Requirements from the Public School Code

- Compulsory education for age 8 and above
- Academic standards to be met
- Courses for graduation
 - English Composition, Literature, Biology, Algebra
- World language
 - Two languages, one with four year sequence


Source: Dr. Brenda Becker, Superintendent, Hempfield School District. Public Schools in Crisis Forum, Hourglass Foundation, January 12, 2010.

3/5/2013 PSSC Webinar - New Fiscal Reality- Session 2 14

Implications for Budget Reductions

If It's Not Required:

1. Do we offer or provide it at all?
2. At what level?
 - Continue at same level
 - Lower levels



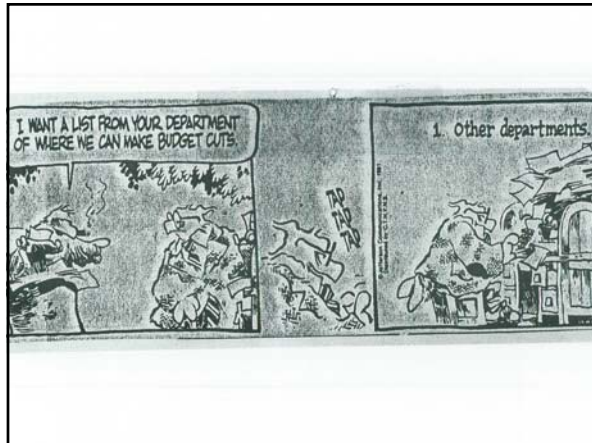
Keep, Eliminate or Reduce Analyses

3/5/2013 PSSC Webinar - New Fiscal Reality- Session 2 15

What Is Not Required

<p>Specialists & Program Offerings</p> <ul style="list-style-type: none"> • Art • Music • Elective Courses • Library • Physical Education • Family and Consumer Science • Technology Education • Guidance Counselors • Literacy/Math Coaches <p>Modern, State-of-the-Art Facilities</p> <ul style="list-style-type: none"> • Academic, Administrative, or Athletic 	<p>Extra-curricular Activities</p> <ul style="list-style-type: none"> • Athletics • Music & Drama <ul style="list-style-type: none"> – Band, Orchestra, Chorus, Theatre Productions • Student Government • Academic Teams <p>Student Transportation</p> <p>Limits on Class Size</p>
--	--

3/5/2013 PSSC Webinar - New Fiscal Reality- Session 2 16



Budget Planning Model

- Reliable, understandable way to project district's fiscal future
- Incorporate complex and interrelated budget factors
- Investigate alternative assumptions & approaches
 - Staff reductions, taxes, salary negotiations, health care, future state aid, major & minor expenditure amounts & growth
- What actions/tradeoffs are needed to balance budget

3/5/2013 PSSC Webinar - New Fiscal Reality- Session 2 18

Steps in Budget Planning

1. Balanced Budget in 1st Year
 - Try alternative actions to eliminate deficit
2. Project Later Years
 - Focus on main district variables
 - RE tax millage and Salary levels
 - Estimate key state variables
 - BEF
 - Other subsidies & reimbursements

3/5/2013 PSSC Webinar - New Fiscal Reality- Session 2 19

Structure of Budget Planning Model

- 1st Year Budget Balancing Dashboard
 - Preliminary estimates and deficit
 - District actions to eliminate deficit
 - Different choices possible to achieve balance
- 4 Year Budget Projections
 - Full set of projections for key fiscal results
- Charts of Key Fiscal Results

3/5/2013 PSSC Webinar - New Fiscal Reality- Session 2 20

Example of Budget Planning Model

- Refer to Hemlock School District (on ANGEL)
 - Based on actual PA School District
 - Uses real, but disguised data
- Dashboard (See *Hemlock Dashboard pages*)
 - **Initial** Preliminary budget out of balance
 - **Balanced 1** Option to close deficit
 - Maximum tax rates, staff reductions
- 4 Year Projection Results (See *Hemlock 4 Year pages*)
 - Max Act 1 tax increases – can survive at full Act 1 + Exceptions
 - Otherwise, Deficits & Negative Fund Balances by 2013-14 and growing
- Baseline Input
 - Key Inputs
 - Salary % growth (3% in 13/14; 3% succeeding years)
 - Historical growth rates for other expenditures
 - State appropriation increase (1% for 13/14, 1.5% in later years)

3/5/2013 PSSC Webinar - New Fiscal Reality- Session 2 21

For further information, please contact:

Dr. William Hartman
814 863-3765
wth@psu.edu

3/5/2013

PSSC Webinar - New Fiscal Reality- Session 2

22
