The Financial Impact of the Budget Impasse on Pennsylvania School Districts

February 2016

With the beginning of the 2016-17 budget season now blended into the unfinished business of 2015-16, school districts are operating with a combination of the partial “emergency” state funding that was distributed in January 2016 and local resources. Districts have made difficult decisions and continue to do so. Some have had to borrow money, miss payments or halt programs due to the budget impasse.

In February 2016, the Pennsylvania School Boards Association (PSBA) sent a survey to all districts, asking them to provide some insight into the impact of the budget impasse and costs incurred, looking over the past several months and ahead into the remainder of the current school year. Districts were also asked about how the impasse affects current and planned district operations, services and programs, and what they did with the funding they received in January.

The association received survey responses from 195 districts in 57 of Pennsylvania’s 67 counties. Here’s what PSBA heard from across the state:

Borrowing funds and interest incurred

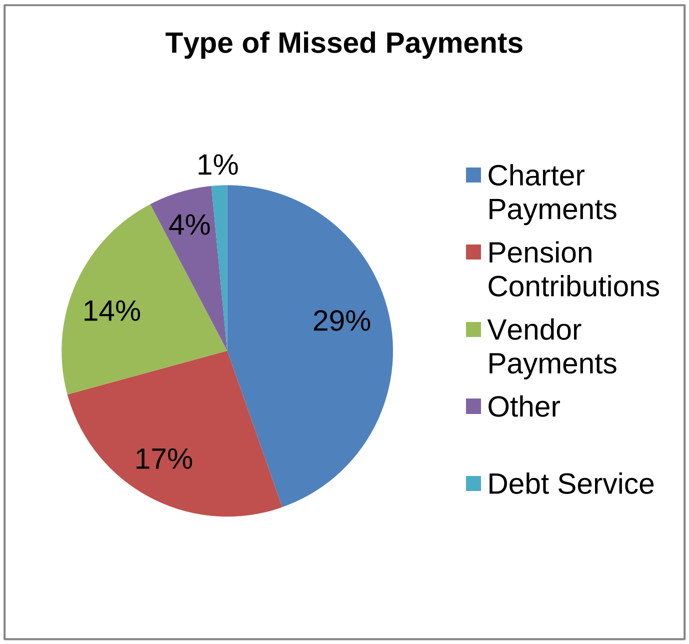
Districts have been operating this school year by drawing on reserves, making cuts and holding off on purchases and payments. One district reported that it if the state had not distributed the partial funding in January, it would have had to begin borrowing immediately. Further, starting in March, this district will need to borrow $1.8 million each month the full state budget is not passed. Some districts, anticipating that a full budget may not be enacted soon, have loans in place if the need becomes urgent.

Districts without the option of having a healthy reserve have been forced to look at borrowing in order to meet the immediate financial needs of the district and keep the school doors open. ***For districts that reported needing to borrow, the impact was significant and widespread. While the minimum amount borrowed $500,000, the majority of those responding to the survey reported having to borrow at least $1 million. The average amount borrowed was about $3.5 million, and the maximum amount was $10 million.***

Interest and fees incurred by those who borrowed also was significant. Those costs ranged from a low of $400 to a high of $65,000. The average estimated total amount of interest and fees incurred was $12,642.

Charter, pension, vendor payments missed

School districts are responsible for financial obligations to charter schools, employee pension contributions, contracted vendors, service providers and many other expenditure outlets. During the past several months, many districts were forced to spend down fund balances in order to pay the bills, or miss payments as a result of non-receipt of state subsidies.



PSBA asked districts about missed payments, and the responses emphasized the fact that districts have been faced with pared down spending, use of reserves and a careful look at absolutely necessary expenditures. One district commented: “We chose to pay all the bills on time and run the fund balance to almost zero.”

Many districts reported multiple problems in meeting their financial obligations. The survey showed 29% of responding districts missed payments to charter and cyber charter schools; some made only partial payments.

Districts also reported having to miss payments for employee pension contributions (17%), and 14% missed payments to vendors. Some reported holding off on filling purchase orders and not filling several instructional and support positions in order to make ends meet.

As a result of the non-receipt of state subsidies, districts’ credit ratings are being affected. Credit ratings are used by lenders when assessing the financial stability and credit worthiness of districts. Strong credit ratings are important for districts because they can dictate interest charges and impact the total cost associated with district borrowing for new construction and renovation, needed repairs or other necessary expenditures. The survey showed that 18% of the responding districts experienced a negative impact on their credit rating, an indication that the budget impasse is hurting districts.

Programs, services, building maintenance slowed or halted

Beyond the issue of borrowing and missed payments, the lack of state funding has another unintended but profound impact: a lessening of the ability of school districts to provide for the instructional and physical needs of their students. Certainly this was not the intention of districts, as exemplified by one comment received in the survey: “We tried to make all spending curtailments as non-transparent to our students as possible, and tried to continue to provide all student services as usual.”

Districts were also asked about programs and services they had planned to pursue that had to be discontinued. For some districts, the outlook has been bleak for several years due to ongoing state budget woes: “We have not had any plans for expanding educational opportunities in our district since 2010. We have steadily been cutting programs and positions. As a result, we survived the budget impasse, but we have been paying the costs for years.”

Other districts say they are maintaining current projects with the caveat that “all this changes” if the state does not provide additional funding.

PSBA asked districts to identify the specific programs and services previously offered that were negatively impacted by financial restraints. Of those that reported a negative impact, the restrictions they were forced to impose were varied and fell into these general areas:

- **Impacting quality/delivery of instruction:** professional development for educators, instructional materials and supplies, and technology.

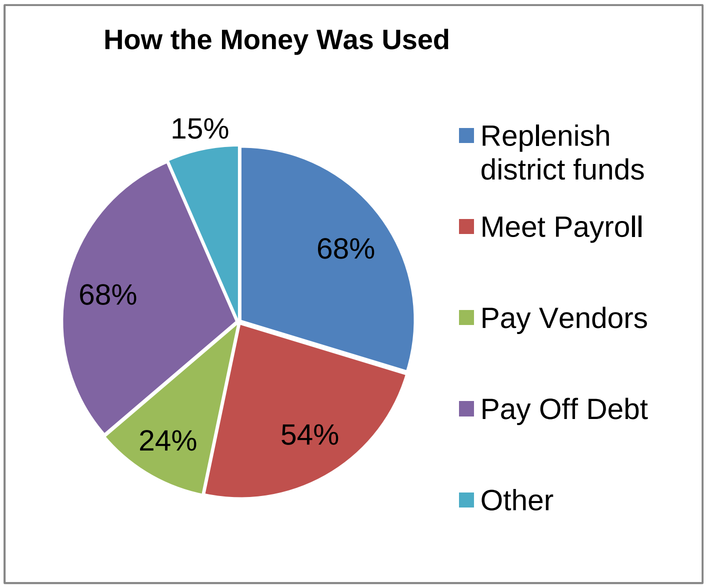
- **Impacting student learning:** tutoring and remediation, field trips, academic offerings, pre-kindergarten, extracurricular offerings, student social services and kindergarten.

- **Building maintenance:** Districts also reported that they had to delay building maintenance projects.

Districts reported spending freezes and a hold on all purchase orders except emergency purchases. Others said they had to stop afterschool programs and district curriculum writing. Some districts said they had to discontinue plans to hire additional teachers and staff. Other districts reported that they could not expand instructional technology programs or their career and technical education opportunities.

Program/Service *(Identify all that apply)*	**Percent of Responding Districts Whose Current Programs or Services Have Been Negatively Impacted**	**Percent of Responding Districts Whose Planned Programs or Services Have Been Postponed or Discontinued**
Teacher/administrator professional development	21%	18%
Instructional materials/supplies	19%	18%
Technology	18%	24%
Building maintenance	16%	27%
Tutoring/remediation for students	14%	16%
Student field trips	13%	10%
Other	8%	4%
Pre-K program	6%	9%
Student academic offerings	6%	9%
Student extracurricular offerings	5%	7%
Kindergarten	3%	3%
Student social services	3%	4%

District use of emergency funding



The release of emergency funding to school districts in January was a welcome relief to all. One district commented: "We would have had to borrow money in January after using all the district's existing funds. Therefore, the money from the state allowed us to meet our current payment needs."

Districts used the funds to meet payroll obligations, reconcile overdue vendor payments, pay off debt, and replenish general or reserve funds that had to be used. Most districts used the money for a combination of those obligations. Other districts specifically noted that the funds were used to get up-to-date with pension contributions as well as for charter school tuition payments.

How long will the money last?

The need for sufficient funds for districts to continue through the end of the current school year is urgent. The emergency funding that districts received was money owed that covered three missed payments in 2015 (August, October and December). While that money served to help keep schools open, the survey results show that most of the responding districts cannot make it to June.

While just 37% of the responding districts said they can make it to the remainder of the year without borrowing, a majority 63% of districts will not. Each month, the number of districts that will be in fiscal trouble will continue to climb.

The problems for school districts are compounded by the fact that at the same time that they are unsure of what additional funding they will receive for the remainder of the current 2015-16 school year, they are required to be developing their 2016-17 budgets. Certainly this budget season is far from the normal course of business, but the laws that dictate the rules and timeframes for the creation of local spending plans force districts to make decisions without all of the facts at hand.

PSBA asked districts if they believed they would be forced to raise additional local tax revenue in 2016-17 to meet state education mandates. An overwhelming 87% of districts said yes, and only 13% felt that a tax increase would not be necessary.

And while districts always begin the budget-making process now, this year is different. State funding is uncertain, and the formula that will determine the distribution of education subsidies has not been finally determined, while pension and charter school costs continue to be significantly hiked each year. Reforms and adequate, fair funding are desperately needed now.