



Hanover Area School District

Thomas R. Cipriano, Jr.

Business Administrator

My name is Tom Cipriano, Jr. Business Administrator, and along with Superintendent Andy Kuhl, we are here representing the Hanover Area School District, a school district of 2,100 students located in Luzerne County in Northeast PA. Also, we represent the 11 school districts of the Luzerne Intermediate Unit 18, many of whom are here this morning. Each of our school districts and the IU are experiencing tremendous financial pressures, directly attributed to the current commonwealth budget impasse. We have participated in and hosted community information meetings attended by in excess of 2,000 community members. Their attendance highlights how critically important this lack funding issue is to our entire community.

The Hanover Area School District alone is waiting on the release of \$4.2 million in basic education funding and an additional \$210,000 in promised PlanCon funding, or close to 50% of the state share of our general fund budget. We have already borrowed \$2.5 Million this year and are paying interest and fees of \$167/day, money that would be better spent on educating our students.

The Hanover Area School District already has undertaken an austerity program. In the past 5 years we have reduced our faculty through attrition, by 18 individuals or 14%; reduced our administrative staff by 4 or 19%; closed one elementary school building and; outsourced our entire food service operation. We have been forced to eliminate music and art in the elementary schools and have delayed adding new initiatives at both elementary and secondary levels.

On top of all this, our local taxpayers already pay the highest property tax millage in the county as our taxable values of our properties are decreasing at an alarming rate, \$12.4 million less in the past 5 years along with only 1 new home constructed.

That said, we are now faced with CLOSING our doors, in April 2016, shutting out the very students who depend on us. They depend on us not only for their education but also, to for their basic needs-breakfast and lunch, as we participate in the Community Eligible Program, basic health and nursing services and a safe clean school environment. Add to this participation in extra-curricular activities, clubs, sports and availing themselves to our guidance counseling services, both educational and social.

Hanover Area School District and many of the other districts in IU 18 need immediate resolution of the 2015-2016 budget. The districts in jeopardy of closing include: Wilkes-Barre Area School District, Greater Nanticoke Area School District, Northwest Area School District, Wyoming Area School District, Pittston Area School District and the Wilkes-Barre Area Career & Technical School. We especially need the state basic education funding, distributed through the



proposed new basic education funding formula, which gives the Hanover Area School District hope by recognizing our high poverty census, increased number of special needs students and our over-reliance on local taxes to operate our schools. We also need the state to keep the promise it made to school districts decades ago to provide promised PlanCon funds, the absence of which is making a difficult situation even worse.

If, and only if, these funds are approved and released quickly, can we assure the parents, students and community members of the Hanover Area School District that we will remain open through the end of the 2015-2016 school year.



Chichester School District

Nicole Jones, PRSBO

Assistant Business Administrator

Good morning. I am Nicole Jones, Assistant Business Administrator in Chichester School District, located in southeastern Delaware County. We are currently operating with an outstanding amount due from Basic Education Funding of \$5,616,147.00, or 8.4% of its revenue budget. This translate to 5.13 mills or the equivalent of 89.6 average full time teacher salaries. The current outstanding amount owed to Chichester School District for PlanCon reimbursement is \$687,415.00. This is equal to .63 mills or 10.97 average full time teacher salaries.

Currently, Chichester School District has not had to secure outside funding, but we will have to use fund balance to be able to remain open through the 2015-16 school year and pay our bills on time. The school district is currently seeking a TRAN (tax revenue anticipation note) to be able to open the 2016-2017 school year. In order to balance the budget for 2016-2017 school year, the school district would need to raise taxes by the adjusted rate of 3.2% or use fund balance to close any deficit.

More absolutely needs to be done by the state to ensure the leaders of tomorrow have a fighting chance at adequate public education. The first step is passing the 2015-16 budget immediately and a 2016-17 budget on time – just like the school districts, waiting for funding, are obligated to do.



Seneca Highlands Intermediate Unit 9

Anita R. Danielson

Assistant to the Executive Director

Good Morning. I am Anita Danielson, and I am representing the Seneca Highlands Intermediate Unit 9 and the fourteen school districts in the IU. We cover 3,300 square miles in Cameron, Elk, McKean and Potter Counties and serve approximately 12,670 students.

The school districts in our IU are hurting significantly due to the budget impasse. They are owed over \$40 million in Basic Education Funding for the current year, which represents anywhere from 17% to over 30% of the school districts' budgets. In addition, they are owed over \$2.7 million in PlanCon reimbursements. Overall, this represents more than \$3,300 per student in IU9.

These small rural schools have established loans totaling more than \$15 million and have borrowed from and depleted fund balances to maintain current operating expenses and keep schools open. This has been at a cost of over \$40,000 in interest and legal fees. Additionally, some school districts have had to cut spending on non-essentials like field trips, tutoring and technology purchases. They are having to delay necessary repairs and improvements in order to fund current payroll and benefit obligations.

It is imperative that Harrisburg comes to a resolution so that students can continue to attend school and get the education they deserve. With the uncertainty of funds for the current fiscal year and the possibility of no additional monies from the state, several districts will not be able to repay the funds they have borrowed by the June 30th due date and will have to default on loan payments. This leaves districts unsure of how the state will look at unfunded debt obligations.

According to Alanna Huck, Superintendent of the Coudersport Area School District, "The question on everyone's mind is, when do we shut the doors?" The school districts in IU9 are having serious discussions about the start of the 2016-17 school year and whether or not it will even be possible to open their doors. Without a current budget it is difficult to prepare a budget or plan for the next school year.

The students in IU9 and across the Commonwealth deserve better. Administrators should not be spending their time figuring out how to make the next loan payment or which program to cut because Harrisburg cannot resolve this budget impasse. Please, allow them to get back to their jobs of ensuring the best education possible and approve a budget that allows them to do so.



Harrisburg School District

William R. Gretton, III

Interim Business Administrator/CFO

Good morning. My name is William Gretton, and I am the Interim Business Administrator and CFO of the Harrisburg School District. The Harrisburg School District is amongst the poorest in the Commonwealth, and we rely on state revenues for approximately 50% of the annual budget. During this period without a fully approved budget, we have utilized local funds, federal grant monies, and significant fund balance to maintain our current programs, but these sources will not sustain programs through June.

With payrolls, vendor payments and debt service payments looming, the Harrisburg School District will be forced to shut down support programs and borrow funds to complete the current school year until local taxes are collected. Currently the district is owed over \$20 million in basic education funding subsidies as well as PlanCon funding from the commonwealth for the 2015-16 fiscal year.

But this is just a very small part of the larger issue that needs to be addressed with poorer school districts throughout the commonwealth. Reductions during the past five fiscal years have forced the district to reduce personnel and freeze—yes, totally freeze—wages for all employees. During this period Librarians, Social Workers, Truancy officers, Technology educators, and many support positions—critical to the success of any urban school environment—have been eliminated due to funding cuts. What we find is that the neediest student populations in Pennsylvania are being sacrificed by a system that does not support public education adequately.

On top of the needed state revenue for 2015-16, it is critical that the new basic education funding formula, recommended following significant discussion and research involving many knowledgeable constituencies, should be fully implemented to provide any benefit to high poverty school districts, such as Harrisburg. We understand that the current inequity in funding cannot be accomplished in one fiscal year, but in order to impact the neediest students the most, the goal needs to be established to fund this widely accepted formula as soon as possible. This formula will return some equality to the funding system that will allow long-suffering school districts to restore programs along with some hope for the future of their needy students.



Centennial School District

Christopher Berdnik
Business Administrator

Good morning. My name is Christopher Berdnik and I serve as the business administrator for Centennial School District, serving 5,519 students in lower Bucks County. Centennial School District is not as reliant on state funds as other districts here today, and we have not yet had to borrow nor are we currently considering closing our doors. However, we are not immune to the financial impacts of the budget impasse, and the absence of the \$6.8 million in state Basic Education Funding is playing a role in every decision we make.

In the absence of a complete 2015-16 state budget, my district has postponed replacement of end of life busses, vans, and computers. Without additional state appropriation, we will draw nearly \$7 million from our fund balance, putting at risk a carefully guarded underlying AA bond rating.

Centennial School District has received only a fraction of the anticipated 2015-16 PlanCon reimbursement for school construction, and we are waiting for over \$720,000 in state funding due in 15-16. Our careful planning that began a decade ago to efficiently consolidate six aging elementary buildings with just three larger common design schools, and renovate a stagnant high school facility into a 21st century learning community now finds us waiting and wanting for the promises the commonwealth made to be upheld.

We dutifully comply with statutory deadlines and best of breed practices for budget development and management, but there is no local solution for lack of clarity on more than 25% of our revenues in not one, but now two fiscal years.

A typical procurement cycle has school districts bidding in the winter and spring for work or commodities to be received over the summer and in time for the next school year. I am unable to bid and award contracts for essential goods and services – be they middle school roof repair or replacement textbooks – with any confidence that I will have sufficient resources to pay for them.

On behalf of the children of Centennial School District, I thank you for your time and consideration to bringing an end to the Harrisburg budget stalemate



Upper Adams School District

Belinda Wallen, PRSBA

Business Administrator/Board Secretary

Good morning. My name is Belinda Wallen, PRSBA, Business Administrator/Board Secretary representing Upper Adams School District located in Adams County. We are waiting for \$3.51 million in outstanding state Basic Education Funding and over \$194,000 in outstanding PlanCon reimbursement, and I am here today in solidarity of my fellow business colleagues across the state calling for an end of the 2015-16 budget impasse.

As a result of the impasse, the Upper Adams School District Board of Directors has embarked on securing a three month tax anticipation note (TRAN) to maintain operation absent state funding. For us, this resolution is the second time at the table, with no apples, mind you. Rather than planning our 2016-17 budget in November, we were planning for a note adoption on January 5, 2016 as we would have exhausted all local funds by the end of March. The very night we were to take action, notification occurred on the release of partial funding. While this was a blessing, and our board deferred loan action, action is short lived!

As I stand before you today, day 266 without a final state budget, our board passed a resolution to borrow \$2,140,000 funds covering operations from April through June 2016. Our borrowing was greatly reduced due to the governed pay back provisions. Our interest cost is factored at 67% of daily LIBOR plus 155 basis points. In other words, not to exceed 6% interest annually, for an estimated interest cost of \$18,000. In addition to interest, the borrowing cost we face is minimally \$3,000 to \$5,000. On top of this, no state budget means we will be required to borrow again July 1 to pay back our borrowings by June 30th.

The question remains, who pays for the impasse? Taxpayers and students do. Will Upper Adams School District raise taxes? Yes, we have no choice but to raise to our index producing \$358,178 in new revenue. The increase alone does not cover the increase in PSERS. Additionally, at this point, all our low hanging fruit has been addressed and any further cuts will directly and adversely affect our students.

In the meantime all of us before you are in the midst of planning another budget, required by law, to be voted on yearly by June 30th.

Thank you for your time. In closing, in the Upper Adams School District Board Room we serve our constituents by making decisions for the best interest of students. Isn't it time for state government to end the impasse, fund and invest in our schools and make the decisions in the best interest our students?



Reading School District

Wayne O. Gehris, CPA

Chief Financial Officer

Over the past three years, there have been significant improvements to the operations of the Reading School District. Under the direction of Dr. Khalid Mumin, Superintendent of Schools, we have developed a new strategic plan including Financial/Operational Effectiveness.

The Reading School District is a diverse urban school with over 17,600 students and 2,000 employees. We are the 5th largest urban school district in the Commonwealth of Pennsylvania and the 6th largest employer in Berks County. We embrace the culture of our community and our students. Our students represent 28 countries and speak 27 different languages. Our students are primarily Latino representing approximately 82% of our student population. Graduation rates have increased by 20 points or 42% over the past four years. Our high school SPP score has increased by 15 points. However, the expense to provide a free and appropriate education continues to rise. We have had many successes over the past few years, but we continue to have our challenges.

The Reading School District has an operating budget of over \$227 million. Our District currently receives approximately 72% of our funding from state sources including approximately \$117 million in Basic Education Funding, which has been reduced to less than \$52 million due to the budget impasse. This is a reduction of nearly \$65 million or \$3,693 per student, and is equivalent to nearly 41 mills in real estate tax. At the same time that we had a reduction in revenues, we had increases in key expenditures. Pension contributions increased by 20.7% this year and will increase by 16.2% next year. Healthcare cost increased by 17% last year and are on pace to increase by 8-10% this year.

It has been a priority of the school district to providing a safe and positive learning environment for our students. In 2013, Reading School District completed the renovation and addition to one of our schools, Amanda E. Stoudt Elementary, a \$27 million project. The year following the renovations, our students at that school had an increase of 15% on standard testing! This was a great accomplishment by our students, teaching staff and administration. We would like to provide all of our students with an environment to succeed. However, Reading has over \$200 million in deferred maintenance issues throughout the District's 19 schools. Future improvements to our buildings and infrastructure can only be made possible with the use of PlanCon funding. On average, the Reading School District receives approximately \$5.5 million in subsidy payments annually. This revenue is equivalent to 3.8 mills in real estate taxes. The loss of this reimbursement will have a significant impact on the District's operations.

In January 2014, the Reading School District was on the brink of being taken over by the Pennsylvania Department of Education. We were audited by the Auditor General and deemed to have 17 significant findings and had 11 financial findings that dated back to as early as 2010



that were reported in the 2013 annual financial report. At that time, the District had a fund balance of \$10.8 million or 4.8% of operating expenses, equivalent to less than one half of a month's operating expenditures. However, beginning in January 2014, under the direction of the current administration, overseen by the BCIU, we began to improve the financial reporting process, record keeping and fiscal management of the organization. Over the past two years, we were able to grow our fund balance to nearly \$37 million, almost 16.3% of operating expenses, creating nearly two months of operating expenses in assigned reserves. All findings previously reported in 2013 were addressed and removed during the 2014 annual financial audit. The improved financial position of the District allowed Moody's to remove the negative financial outlook effecting over \$300 million in bond debt.

Again, we have had many successes in our District, but we continue to face many challenges. In order to account for the impending budget impasse, we began to embark on measures to secure funding from local financial institutions by meeting with our financial advisors. We looked at various financial options ranging from bond refinancing and restructuring to obtaining a tax and revenue anticipation note.

In September 2015, Reading School District successfully entered into a bond restructuring that provided the District with the much needed two-year debt reduction of approximately \$12 million with an overall net present value savings of \$4.4 million dollars. However, we did not anticipate the nearly three-month budget delay and complete reduction of state funding. At this time, we explored the option of obtaining a tax and revenue anticipation note, also known as a TRAN. We were able to secure a \$20 million TRAN in September. Fortunately, the District was able to rely on its \$41 million cash balance at the beginning of the year, and we only had to begin to draw down on the TRAN in November 2015.

Unfortunately, the District is now fully drawn on the \$20 million TRAN, and we had to seek a second TRAN in the amount of \$30 million, which is now available. The total loan issuance cost was over \$43,000 and interest cost amount to nearly \$1,000 per day. Year-to-date, the District has incurred nearly \$84,000 in interest expense on the \$20 million TRAN with annualized cost of over \$315,000. If the District needs to draw on the \$30 million TRAN, which is more than likely if a budget is not approved in the near future, our annual interest cost could approach \$750,000. This is equivalent to the salaries and benefits of TEN new teachers and an impact of a half mill in real estate taxes to our residents.

The District is required to repay all outstanding TRAN balances by June 30, 2016, as required by the Local Government Unit Debt Act. If a budget is not approved by then allowing for funding to resume, the District will not be able to repay the note. Furthermore, the District may be forced to delay the start of the 2016-17 school year.

The time has come to compromise and pass a budget that supports the neediest of children in the Commonwealth of Pennsylvania.



Aliquippa School District

David Wytiaz
Superintendent

Good morning. My name is David Wytiaz, Superintendent of Schools for the Aliquippa School District in Beaver County, with an enrollment of 1,200 students. I have been Superintendent for the past 7 years, and I was the Business Administrator for 6 years prior to that. Aliquippa School District has been designated on Financial Watch Status pursuant to Act 141 since March of 2013. The School District has maintained a negative fund balance due to decreasing local revenues. The City of Aliquippa has been designated as Financially Distressed through Act 47 since November of 1987. The geographical area of the City encompasses 4.2 square miles.

The assessed values of the City of Aliquippa continues to decrease annually as more structures continue to be razed throughout the community. The median assessed home value is approximately \$18,000. The city and school district maintain a two tier tax structure. A blended mill brings in about \$80,000. The tax collection rate averages about 80%. The School District has qualified for the Community Eligibility program whereas all students are provided a free breakfast, lunch and even dinner in some cases.

What has occurred in Aliquippa during 2015-16 due to the failure of the Commonwealth of Pennsylvania to enact a budget? Aliquippa was granted an advance of \$300,000 in July 2015 by PDE due to cash flow difficulties as the fiscal year began. This amount was scheduled to be deducted from the August basic education subsidy. The school district was unsuccessful obtaining a tax revenue anticipation note in the fall of 2015. Through an intercept agreement secured with the assistance of PDE, the district was granted a \$2 million loan from F.N.B. The terms of the loan dictated that once money was released by the Commonwealth, repayment would occur immediately as a deduction from the basic education subsidy directly to the bank.

This occurred upon the partial release in January by Governor Wolf. The school district has extended vendor payments as much as possible throughout 2016.

With all of these financial maneuvers, as of May 1, the cash balance of the Aliquippa School District would be approximately \$1,000.00. We will be unable to meet payroll, vendor obligations and a \$1.1 million bond payment due June 1.

For the Aliquippa School District, the numbers are black and white. Without immediate resolution of the budget and receipt of our state basic education funding, our school district will simply no longer be able to function. The situation is as dire as it could be, as we are urging today that the 2015-16 budget be signed immediately so we can avoid any further impact on our students and financial deterioration.



Jay Himes
PASBO Executive Director

This morning was not an exercise in politics, partisanship or persuasion. Rather, this was a brief explanation of basic school accounting and finance.

School districts of all sizes and in all areas of the state are literally running out of money. As you have heard, some districts already have borrowed funds for this school year and will need to borrow again. Others may need to borrow for the first time. All will borrow at higher interest rates, in part due to downgrades in their bond ratings, which will be more costly for taxpayers and divert more critical funds from the classroom. These short term borrowings must be repaid by the end of the year.

Many of the stories you heard today are from districts without reserve funds to carry them until next year's property tax revenues are received. In some cases, the district's finances have deteriorated to the point that they can't borrow.

Recently in Pittsburgh the Governor said, "Pennsylvania is running out of money. We have been using smoke and mirrors in our budgets. We have been spending money we don't have." Well, schools have run out of money. They have exhausted every effort to conserve resources and minimize expenditures. At this point in the fiscal year, there are no smoke and mirror options for schools. Schools have spent money they don't have and may be forced to borrow more money they don't have to stay open.

Others may not stay open. They don't want to borrow funds they can't pay back and depend on the current budget year stalemate to end by June 30. If there is no budget resolution by June 30, these districts will be building their 2016-17 budgets on deficit spending in 2015-16. No district wants to close its doors. Doing so creates an unknown environment of legal, operational and educational questions. Will districts be thrust into litigation over collective bargaining agreement violations that could result in not only back pay but perhaps penalties?

What will be the additional costs of unemployment claims for school employees who are laid off? What state penalties will there be for districts that don't complete 180 days of instruction? What will be the costs be for violating service contracts to student transportation and food service companies? Most importantly, what happens to graduation requirements for seniors? These are just some of the issues that will impose more costs on districts that are simply out of funds. The poor will get poorer even with their doors closed.

This fiscal calamity was easy to predict. School districts throughout the commonwealth used property tax revenues to carry them through the beginning of the school year. Many districts were teetering on the edge of financial collapse in December when half of last year's Basic



Education Funding was dispersed. Now there is no property tax revenue coming in and schools are short \$3 billion compared to last year.

In addition, many districts are saddled with debt payments for construction projects. The budget impasse has relegated districts to make up for the state renegeing on its legal obligation to help schools meet their debt payments. So some districts have been bludgeoned twice—once by a reduction of half the Basic Ed Funding line item and then again by failure to fund almost \$300 million in promised help for school debt payments.

We agree with recent comments from legislators: "I am not willing to stand by and watch schools close."

But that is exactly what will happen if this budget bill on the Governor's desk is not signed. So today we say let's conclude a hopeless process for 15-16 and get to real and serious action on the 2016-17 budget. But in the meantime, let's not set an all-time low, even by Harrisburg standards, for putting the perceived needs of adults above the real educational needs of students.

We are not without hope, we are just out of time. We will work with many others to increase education funding for next year. We agree that the state's structural deficit needs fixed—with new and reliable revenues. But let's focus that effort on next year and prevent an educational and fiscal calamity this year.

Thank you.