



Pennsylvania Association of School Business Officials

Mailing Address:
P.O. Box 6993
Harrisburg, PA 17112-0993

Office Location:
2608 Market Place
Harrisburg, PA 17110

Testimony of Mary Lynne Kniley, PRSBA, CPA

Director of Finance/School Board Secretary

Hempfield School District

House Education Committee

Public Hearing on Economic Furloughs

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My name is Mary Lynne Kniley, and I am the Director of Finance at Hempfield School District in Lancaster County. I will be presenting testimony today on behalf of the PA Association of School Business Officials (PASBO), and I would like to thank Chairman Clymer and Chairman Roebuck as well as the members of the committee for the opportunity to discuss the important issue of economic furloughs.

PASBO is a state wide association of school management personnel in school districts, intermediate units, career and technology centers and charter schools across the Commonwealth. PASBO members are responsible for the administration and direction of many non-instructional services that support classroom learning and promote student success. PASBO members lead the finance, accounting, facilities, transportation, food service, technology, human resources, purchasing and communications functions in k-12 schools. The issue of economic furloughs and the related issue of seniority is a contentious one that has come before this committee several times before. I assure you that reduction in personnel is never a pleasant or preferred option for a school district, particularly since the elimination of an instructional position does not also eliminate the myriad of accountability, performance, and reporting mandates that are in place. Furloughs are drastic measures, but for those school districts that are facing challenging fiscal crises, furloughs are simply an economic necessity.

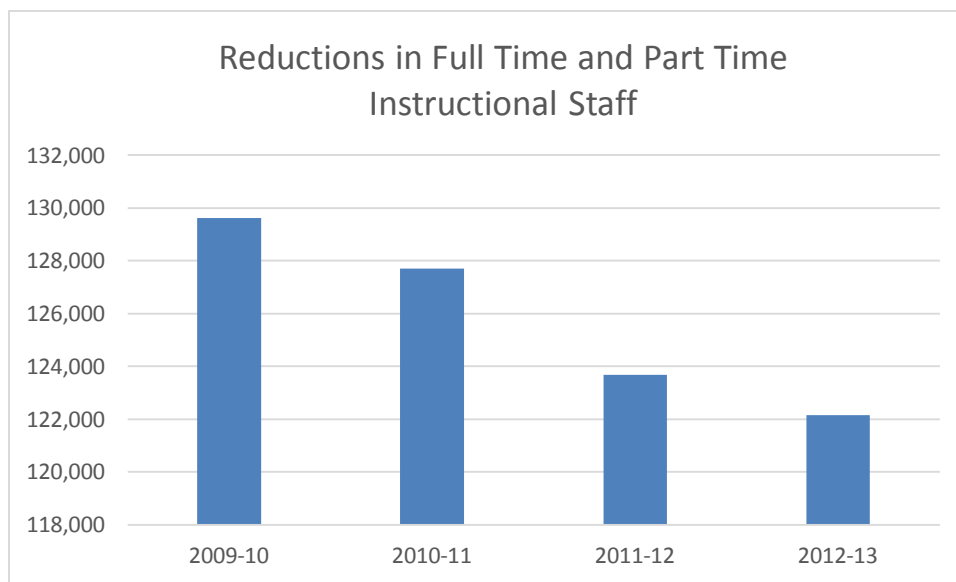
PASBO supports providing school districts with the ability to furlough employees for economic reasons. We also support ensuring that these reductions in personnel expenditures are done in a rational and efficient manner through the use of objective criteria such as employee qualifications, certifications, and performance evaluations, as opposed to using the artificial construct of seniority.

Education is a labor intensive operation that includes personnel inside the classroom as well as layers of support services that occur outside of the classroom and even in some cases outside of the

school. For school districts, personnel costs are significant, often consuming about two thirds of a school district's total budget. However, because pension and healthcare costs are rising so rapidly, personnel costs can approach 75% of a school district's total budget. With dramatically increasing employee pension and healthcare costs, charter school tuition, and mandated special education costs, a low Act 1 index, limited Act 1 exceptions, overdue PlanCon reimbursements and reduced funding, school districts have struggled and will continue to struggle to balance their budgets.

PASBO members and other administrators often are admonished to run school districts like businesses. In the business world, a decline in existing revenue sources, required expenditure increases in other line items, and limited flexibility to raise new revenues would result in looking for immediate and significant savings through personnel reductions. Currently, however, school districts do not have the tools necessary to function like a business.

Over the past few years, school districts have reduced their personnel by nearly 23,000 employees statewide. Of these 23,000 staff reductions, as the chart below illustrates, over 7,400 or nearly one-third of the total personnel reductions involved full and part time classroom instructional staff.



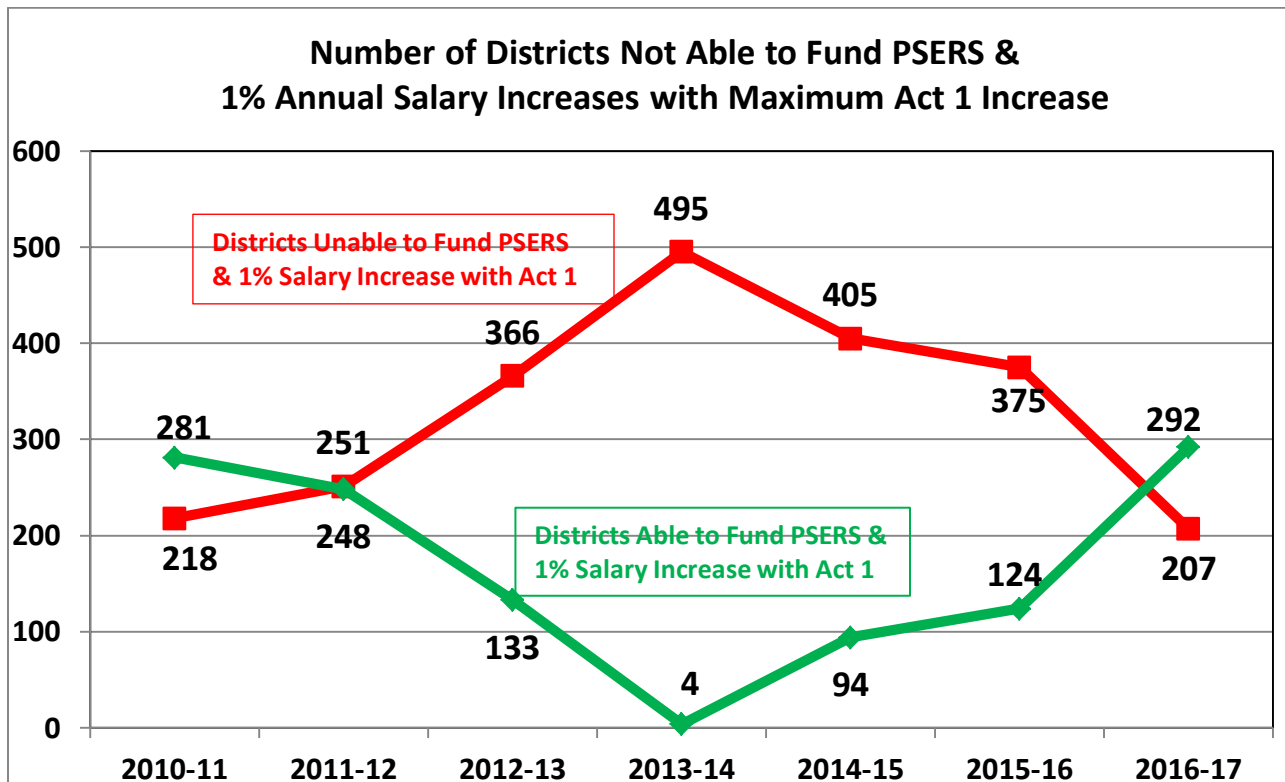
Currently, personnel cuts are made pursuant to section 1124 of the Public School Code, which prohibits furloughs for instructional staff except in the limited circumstances surrounding substantial decreases in district enrollment, school consolidation or reorganization and program eliminations as a result of a decline in course enrollment or changing educational standards. These limited exceptions have forced school districts to attempt to continually achieve the cost reductions necessary to balance their budgets with savings through attrition and program cuts.

Reductions in personnel accomplished through attrition and program cuts are inefficient, focus on specific courses and occur regardless of performance or evaluation criteria. Although it is a haphazard and ineffective mechanism for reducing personnel costs, school districts currently have no other choice and can no longer afford not to be able to do what any other employer would do in a financial crisis.

The chart below shows the relationship between rising school district pension costs, an assumed 1% annual salary increase and the corresponding limitations on local revenue generation under Act 1.

Assuming that districts must fund an annual 1% employee salary increase, combined with the rising employer contribution rate, which is at 16.93% for the 2013-14 school year, even if school districts increase their property taxes to the maximum allowed by the Act 1 index, the vast majority will still be unable to pay for these increasing personnel costs.

While districts have already maximized personnel reductions through attrition and program cuts to this point, going forward, other than paying down already limited fund balances, there is simply no mechanism for the 80% of school districts that will be faced with a budget shortfall next year to proceed without further significant cuts to educational programs. For these districts, modifying section 1124 of the Public School Code to allow school districts to furlough employees for economic reasons is an absolute necessity.



Note: Data for Philadelphia City SD is not included in the graph.

In addition to permitting school districts to furlough employees for economic reasons, it is also necessary to modify current language of the Public School Code to ensure that such furloughs are not governed by seniority, or the last in, first out construct. Seniority-based personnel reductions produce an obvious result—more positions are eliminated since higher compensated employees are protected, putting the quality of the programs and services provided at risk. In fact, if a school district needed to reduce personnel costs by 5%, using a furloughing policy that did not require the use of seniority would result in furloughing 5% of the teaching staff.

However, using a furloughing policy that includes seniority would require the district to furlough 7.5% of the teaching staff to achieve the same 5% reduction in costs, leaving more gaps in programs and services and putting the quality of instruction at risk.¹ Giving school districts the flexibility to determine how to reduce instructional personnel through the use of objective criteria that does not include seniority will help to minimize the impact on programs and services by providing more savings with fewer furloughs.

Hempfield School District Experience

As has been the case in many districts, we have faced budget challenges of significant proportions the past three budget cycles.

- For the 2011-12 year, as State funding and Federal Stimulus dollars were lost and local revenues remained flat, we used combined strategies to cut costs dramatically. Our teachers were the first in the state to step outside of the collectively bargained 3.7% salary increase and instead agree to a voluntary wage freeze. Their efforts combined with all other employee groups to put an essential element of cost cutting in place with our district-wide wage freeze. This freeze worked together with an early retirement incentive and corresponding elimination of 24 teaching and several support staff positions, transfer between entities, and across the board cuts in discretionary spending to help the district succeed in reducing overall spending from 2010-11 to 2011-12 despite the normal pressures of rising costs. There were also several revenue generation efforts made in this and subsequent years, but we have found that most revenue efforts bring in tens of thousands of dollars when budget shortfalls run in the millions. Overall, the district accomplished resolution of about \$5.9 million of budget shortfall primarily through our various expense reductions without the use of furloughs. There was a 1.6% Index-based tax increase for the year.
- For the 2012-13 year, we were back to facing a 3.7% increase in professional salaries, and a PSERS employer rate increase from 8.65% to 12.36% as key components in a \$4.6 million deficit. While we offered a voluntary workforce reduction program, most of our resignations/retirements in this particular year were from positions that did need to be replaced. That means we accomplished attritional savings from top of pay scale to entry level in most cases, but those savings are far less meaningful in accomplishing balanced budgets than position eliminations. We balanced the budget with combined strategies to decrease operational costs in order to offset other increases, use the attritional savings mentioned earlier, lower wage increases and decreased benefit costs for non-union employees, and continuing to develop revenue generation ideas with varying levels of success, plus planning for some strategic use of reserves if needed to fill the remaining budget gap. We were also successful in gaining Keystones to Opportunity grant funds that saved several positions slated for elimination. Ultimately this was a year when cost increases in Special Education and transportation services eliminated our ability to reduce costs, and an Index-based tax increase, grant revenue, and the anticipated use of reserves accomplished the balanced budget. We were not able to reduce costs in back-to-back years without imposing significant programmatic cuts, which we chose not to do at that time.

¹ Hess, Frederick M. and Eric Osberg, eds. *Stretching the School Dollar, How Schools and Districts Can Save Money While Serving Students Best*. 2011.

- In our planning for the current 2013-14 year, we faced another deficit of about \$4.3 million, primarily due to wage increases and the net impact of PSERS and anticipated medical cost increases. We continue to make every effort to hold operational costs at bay wherever possible so we can focus our dollars on the educational program. The retirement of about 20 professional staff members gave us the opportunity to reduce another 8.5 positions, and those savings plus attritional cost savings on other retirees were a key component of another year without furloughs. Resolving the deficit was negatively affected by both charter school and special education cost escalation, but the overall budget resolution was a combination of expense reductions and another Index-based tax increase plus \$1.6 million use of reserves. Of course as you well know, the use of reserves to fill budget gaps works only as long as there are reserves available, and we will continue to look at reducing overall costs by all means possible under legal constraints. While elimination of positions has created increased class sizes and some reductions in programs, we have yet to eliminate any programs completely. We do not believe we will be able to make a similar statement as we grapple with budget constraints for 2014-15 that will be the largest deficit numbers to date at an anticipated \$6.2 million.
- Beneficial changes: Our focus has been and continues to be preservation of student programs. If we could furlough for economic reasons, we could potentially scale back staffing in specific areas where retirements have not occurred but we could carefully adjust staffing levels without losing program options for students. Reducing staffing through furloughs or any other means is not our first choice, but is a necessary tool in these times that are so incredibly challenging for public school budgeting. Given the increased proportion of costs related to salary and benefits, without affecting our staffing levels there is no viable means by which to continue to resolve multiple-million dollar deficits.

Legislation

While the three proposals before you today, House Bill 779, House Bill 1722, and House Bill 1735, all provide school districts with needed flexibility beyond what is currently permitted when making important personnel decisions, PASBO is most supportive of the proposals that give school districts the greatest discretion.

House Bill 779

PASBO is very supportive of House Bill 779, as it allows school districts to furlough employees for economic reasons and to do so based not upon seniority, but upon the educational program needs of the district, employee certification, or performance evaluations of employees within an impacted program area. As a result, House Bill 779 simultaneously provides school districts with objective criteria on which to base these decisions and the broad discretion to consider the factors most relevant to each school district's educational program needs. Additionally, House Bill 779 requires that furloughed employees be reinstated on the basis of their qualifications to teach a particular subject or grade level. PASBO believes this also provides school districts with broad discretion to consider their unique program needs, as well as an employee's certifications and performance evaluations, instead of focusing the rehiring on the artificial construct of seniority.

Additionally, House Bill 779 removes the provision in current law that requires school districts to realign their staff to ensure that more senior employees have the opportunity to fill positions for which they are certified but are currently filled by less senior employees. This language ensures

that school districts have the discretion to ensure they have the most qualified employees in each position, and removes the requirement that they reshuffle their staff just to protect the most senior employees.

House Bill 1722

PASBO supports House Bill 1722 as well. This bill also allows school districts to furlough employees for economic reasons, however, it requires the decision to be based solely upon the employee performance evaluations in the employee's area of certification. Although House Bill 1722 provides school districts with less flexibility in making these difficult decisions than House Bill 779, we still believe that it gives school districts an important tool to manage their personnel costs in the most difficult financial situations while ensuring that the integrity of educational programming is maintained. Like House Bill 779, House Bill 1722 does not require school districts to rehire furloughed employees based seniority, but instead based upon performance evaluations in their areas of certification. Additionally, House Bill 1722 removes the provision in current law that requires school districts to reshuffle their staff based upon seniority.

House Bill 1735

While we like the the underlying concept of House Bill 1735 since it also gives school districts the flexibility to furlough employees for economic reasons, we do not support this legislation. Unlike House Bills 779 and House Bill 1722, the bill places a new mandate on school districts that want to use this tool and maintains the concept of seniority in the furlough decision.

Prior to furloughing any employees for economic necessity under House Bill 1735, a school board must go through adopt a resolution that states why the furloughs are necessary, the number and percentage of positions that will be eliminated, along with a description of each position to be eliminated, the academic subjects, courses, electives, nonacademic activities and services that will be impacted by the furloughs, a description of the cost-saving actions undertaken by the school district, and the measures that the school district will engage in to minimize the impact of the furloughs on student achievement.

It is important to emphasize again that the decision to reduce personnel through furloughs is not one that a school district, its administrators, and its school board take lightly. With any furlough proposal there is significant public discussion about the resulting impact on the students, teachers and parents prior to implementation. PASBO believes the resolution required by House Bill 1735 is unnecessary and does nothing but create an extra hoop through which a school district must jump before it can begin to address its financial challenges. Additionally, there is no similar resolution required prior to the furloughing of employees for any reason currently permitted by the Public School Code.

With respect to the criteria used to determine which employees to furlough, House Bill 1735 maintains the use of seniority, however, it exempts those employees that have achieved a rating of "distinguished" on their most recent performance evaluation. For those employees who have not achieved a "distinguished" rating, seniority will still dictate who is furloughed, regardless of whether their last performance evaluation gives them a rating of "proficient," "needs improvement," or "failing." As a result, House Bill 1735 does not allow school districts to take into consideration their specific educational needs when determining which employees to furlough. The bill ensures that even in situations of economic necessity, the last in, first out concept remains intact, which is likely to result in more employee furloughs than would be necessary if ratings, certifications, or other qualifications were to be considered.

Additionally, House Bill 1735 keeps seniority intact in the rehiring of furloughed employees, with the exception of any furloughed employees rated as “distinguished.” Again, using seniority instead of criteria such as the employee qualifications, ratings, or certifications to govern the rehiring process prevents a school district from making decisions based upon what provides the greatest educational benefit to students.

Finally, PASBO has one suggestion with regards to the language of all three proposals. PASBO suggests that the proposals add language to clarify that the ability to furlough employees for economic reasons as provided by any of these bills goes into effect upon the expiration of, the amendment of, or the adoption of, a new collective bargaining agreement. While the bills state that newly bargained contracts cannot include a prohibition on employee furloughs for economic reasons, this could be easily thwarted if the prohibition only becomes effective for collective bargaining agreements entered into after the effective date.

School districts across the Commonwealth have and will continue to reduce expenditures. Districts will continue to not fill positions, reduce equipment and supply purchases, look at options such as self-insurance, reduce transportation to extracurricular activities, impose pay-to-play fees, refinance debt to reduce bonds costs, delay construction, reduce energy consumption and take dozens of other cost-reduction measures to avoid making cuts to educational programs and services. However, with the personnel line item taking up such an increasingly large portion of a school district budget, school districts need business-like tools to reduce these expenditures and tackle dramatic financial challenges. Without these tools, program cuts and rising property taxes will continue.

PASBO believes that proposals such as House Bill 779 and House Bill 1722 provide school districts with the greatest flexibility and utility in allowing school districts to examine the option of furloughing employees for economic reasons while having the least impact on the educational programming offered.

Thank you for the opportunity to testify before you today on this important issue. I am happy to answer any questions you may have.

ABOUT PASBO

www.pasbo.org

Smart Business + Informed Decisions = Great Schools

The Pennsylvania Association of School Business Officials

(PASBO) is a state wide association, 3,000 members strong, devoted to helping the business of schools stay on the right track through education, training, professional development and timely access to legislative and policy news. Our membership base covers school professionals working in finance, accounting, operations, facilities, transportation, food service, technology, communications, human resources, purchasing and safety services. While diverse in areas of specialty, all members share a common goal -

to support classroom learning in schools during good and bad economic times through smart business practices. PASBO helps make that goal a reality.