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88 North Franklin Street, Suite 200 ◆ Wilkes-Barre, PA 18701-1393
Phone: 570.824.3559 ◆ Fax: 570.829.8099
www.pelcentral.org ◆ Email: pelcent@epix.net

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Senate Education Committee Hearing Written Testimony
Gerald Cross, Executive Director
The Pennsylvania Economy League Central PA, LLC
May 12, 2017

The Pennsylvania Economy League (PEL) is submitting this testimony in response to a request from the Senate Education Committee to provide input on Erie City School District's strategic and financial plan for the future and to review the Department's implementation of the financial watch and recovery systems.

Since PEL has been contracted to assist school districts in Erie County relative to the Erie City School District's situation, commenting directly on the Erie City School District would represent a conflict. As a result, our testimony will be limited to comments regarding the financial watch and recovery systems, as well as municipal fiscal distress in Erie County.

Open the Pennsylvania Department of Education's (PDE) web page on Financial Recovery for School Districts and you will see significant overlap with the state's Act 47 municipal distress program.

Chester-Upland, Duquesne and Harrisburg school districts are in financial recovery status and the cities of Chester, Duquesne and Harrisburg are in Act 47. The York City School District is also in Financial Recovery Status. While the city of York is not in Act 47, it has undergone numerous phases of the state's Early Intervention Plan and has considered entering Act 47.

On PDE's financial watch list are the Aliquippa and Reading city school districts. Both cities are in Act 47. More than half of the school districts in PDE's financial recovery program — five out of nine — include an Act 47 city. Six of the nine school districts are coterminous with a city — Duquesne, Harrisburg, York, Aliquippa, Erie and Reading.

It is not a surprise to see the school districts from so many distressed municipalities, most of them coterminous, in the PDE financial recovery program. These districts are obtaining revenues from the same strapped tax base that is already finding it difficult to pay for city services.

The Scranton City School District is not in the financial recovery program — yet. But with the highest deficit in the state, it seems only a matter of time before the district that shares a tax base with the Act 47 city of Scranton is forced into the program by necessity. As the Act 47 coordinator for Scranton, we see an unfortunate irony here: Scranton the city has taken concrete steps in the last year to overcome municipal distress only to have the school district end up in the same precarious financial position that has plagued the city since at least 1992. Will we have made strides to improve city finances, and therefore tax burden, only to see a continued exodus of residents and businesses from Scranton because of school district distress?

PEL believes that it is critical for the state to consider both the municipality and the school district when dealing with fiscal distress, particularly when the district is coterminous with a municipality. Currently, financial distress for the two types of local governments are handled by two completely different state agencies — PDE for school districts and the state Department of Community and Economic Development for municipalities — making use of two completely different programs. In our experience as Act 47 coordinator or participating on the coordinator team for numerous distressed municipalities, including Harrisburg and Duquesne, there is little to no communication between the teams working on municipal and school district distress even though they share the same tax base and both are receiving technical and other state assistance.

Erie County Fiscal Distress

Based on PEL's index that looks at relative municipal fiscal health on a statewide scale, numerous Erie County municipalities are experiencing financial distress that will impact the health and sustainability of the related school district. PEL is using a scale of 1 to 5, with 1 equaling least financial stress and 5 equaling the most financial stress. The city of Erie and seven other municipalities are 5s while another eight municipalities are 4s. If the underlying municipal tax base is poor to begin with, then that distress will obviously be reflected in the school district since the two are gaining revenue from the same taxpayers. This is particularly true in coterminous districts. The impact can be mitigated somewhat in non-coterminous districts where one or more of the member municipalities are relatively healthy.

The table below includes information on school district aid ratios. According to PDE, the aid ratio is the general term for three numerical values — market value aid ratio (MV), personal income aid ratio (PI), and market value/personal income aid ratio (MV/PI); calculated in accordance with the school code. Various state educational subsidies use aid ratios in their calculations. The MV/PI represents the relative wealth (market value and income), in relation to the state average, for each pupil in a school district. A district with a ratio higher than 0.4000 is relatively poorer compared to others in the state.

Erie County School Districts
Number of Municipalities, Relative Municipal Fiscal Health, MV/PI Ratio, and Statewide Rank

School District	Number of Municipalities	Relative Municipal Fiscal Health *1 = Best, 5 = Worse*	MV/PI Ratio	Statewide MV/PI Rank
Erie City	1	5	0.7733	471
Fairview	1	1	0.4497	117
Harbor Creek	1	2	0.5997	278
Millcreek Twp.	1	4	0.4681	128
Iroquois	2	4/5	0.8007	487
North East	2	2/5	0.6751	385
Girard	3	2/3/5	0.7295	438
Union City Area	3	2/4/5	0.7807	477
Fort LeBoeuf	5	1/1/3/4/4	0.5007	162
General McLane	5	1/2/3/4/5	0.5944	266
Wattsburg Area	5	2/2/2/3/5	0.6127	306
Northwestern	6	2/2/2/3/4/4	0.7224	432

Conclusion

Across the Commonwealth, we are seeing a trend of millennials moving back into urban areas, which are more likely to be financially distressed. They might be willing to tolerate a certain amount of municipal distress to maintain their hipster urban vibe. But as they start having children, many will have second thoughts about placing them in a distressed school district. As a result, urban areas could lose the gains that they have been making in that residential population. And as residents leave, businesses that opened to serve them can be expected to close as well. Both would lead to further erosion of an already weak urban tax base.

Distressed school districts in distressed municipalities that continually rely on real estate property tax increases can undermine municipal attempts to encourage growth through economic development efforts.

There is no question that the distress of a municipality impacts the school district and vice versa. The Commonwealth needs to recognize the interrelatedness of the two and devise a holistic approach to local government distress that treats both issues and recognizes the impact that one has on the other.