



Pennsylvania Association of School Administrators

Testimony to the Senate Education Committee

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School District Budgeting and Fund Balances

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Good afternoon Chairman Argall, Chairman Williams, and members of the Senate Education Committee. My name is Sherri Smith, and I am the new executive director of the Pennsylvania Association of School Administrators. I am here today speaking on behalf of more than 950 PASA members including 456 who are sitting school superintendents and executive directors. I provide this testimony to be read in conjunction with the testimony from my colleagues from PSBA and PASBO as they have provided a lot of financial data and background information.

Developing a school budget under Act 1 of 2006 is a long and arduous process. As a past Superintendent with more than 14 years of school leadership experience, it is not hard for me to recall the complexity and redundancy of this process – essentially, preparing a budget two times each year – the preliminary budget approved by the School Board by January, followed by the actual proposed budget for Board approval by June 30.

The timeline for the budget process is prescribed through Act 1 of 2006.

The first critical deadline in the development of a district’s budget is in January each year; for the 2023-24 preliminary budget, the date was set for January 26, 2023. By this date, school districts are to have a proposed version of the budget for public inspection or adopt a resolution pursuant to Section 311(d)(1) indicating that it will not raise the rate of any tax by more than its capped index. The Act 1 index is set annually for each school district and posted in the PA Bulletin.

Developing the preliminary budget in the early part of the school year forces schools to make a lot of “predictions” about what their actual expenses will be for the current year as well as what the increased costs will be for the next year. At this time of the year, schools are not yet aware of what the Governor will propose for education funding, have no idea what members of their staff are retiring, returning, etc., know what specific student needs are coming your way (special education

needs, English as a Second Language, etc.), know how many students have or will enroll in a charter school, and the list goes on— to say the least, it truly is in many cases an educated guess at this time of the year.

This process puts many of our schools in a tough predicament and one that if they want to protect their student programs and services, forces schools to be very conservative in revenue estimates and planning for worst-case scenarios on costs and expenditures. This scenario causes some districts to ask for the Act 1 exception which would provide them an opportunity to exceed their assigned Act 1 index cap if approved by PDE. This helps to explain why there are many more districts that apply for the Act 1 exception, but in the end, never use this exception because their expenditure and revenue numbers change so drastically when they redo their budgets later in the spring with more complete data.

The second development of a school budget occurs later in the school year after the Governor's budget is announced, and when schools can more accurately determine their end-of-year expenditures for the current year and are aware of staffing specifics such as retirements, programmatic needs of students coming with special needs from Early Intervention, Kindergarten screening, and potential move-ins. The Act 1 timeline for each school district to adopt the 2023-2024 proposed version of the final budget is May 31, with the annual deadline to adopt the final budget by June 30 each year.

One of the reasons why school budgeting is so complex is the lack of predictability of funding and the variability of mandated costs. One of the best examples of this is the increased costs of three key mandated drivers on school districts' budgets versus the state funding increases across this same time period. From 2010-11 to 2020-21, state funding for pension reimbursement, charter tuition reimbursement, special education funding, and basic education funding increased by \$2,764,700,000. Unfortunately, in this same period, the pension costs, charter tuition costs, and special education costs increased by \$6,360,600,000. A deficit of over \$3.5 billion for districts to look to local taxes to address these increased costs, or to significantly cut needed programs for their students.

This leads us to the discussion on the need for and importance of fund balances. There are many reasons why fund balances are essential for stability in operating and maintaining schools. Schools will commit or assign a fund balance for a variety of reasons, typically to mitigate future funding risks, to address an emergency expenditure that could not have been predicted, or to prepare for a future high-cost need, such as school construction and renovation.

There are so many unknown costs that have the potential to affect our schools that could not have been predicted in the budget process. Just to name a few examples – the boiler breaks down, costing \$80,000 to repair, you are a self-insured district with an expensive medical emergency of one or more of your staff members, multiple students decide to go to charter schools with the cost of tuition, one or more students with extensive special services moves into your district..... the possibilities truly are too many to name. In all these unpredictable situations, schools need to be prepared by having set

aside funds to protect their schools and student programs. It truly is being fiscally responsible for your students, schools, and community.

In conclusion, I think we can all agree that funding our public schools is complex. Budgeting and the use of fund balances is all part of and a result of how we currently fund our schools and the financial impacts of mandated expenditures. PASA and its members look forward to assisting in future conversations on the funding of our public schools and hopeful solutions moving forward. Thank you for the opportunity to present to you on these important topics and we welcome any questions you may have at this time.