



PSBA Special Report: Governor's Budget Veto Means Negotiations Continue

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July 1, 2015

Yesterday the General Assembly met its obligation to adopt a 2015-16 state budget by June 30 and passed [House Bill 1192](#), but the spending plan was largely crafted by Republican leaders in both chambers and was quickly rejected in its entirety by Gov. Tom Wolf.

The General Assembly also sent to the governor plans for pension reform under [Senate Bill 1](#), liquor privatization under [House Bill 466](#), and [House Bill 762](#), the omnibus School Code bill. Wolf has not taken action on those bills, and has until July 10 to do so.

The General Assembly did not address two of the governor's priorities – property tax relief and a severance tax on natural gas extraction, and Wolf made good on his promise to veto a budget package without those items.

As Pennsylvania enters a new fiscal year without a budget, legislators have gone home and don't plan on returning to Harrisburg until late August or September unless they are called back by their leaders. Gov. Wolf, however, has asked Republican and Democratic leaders to meet with him today in hopes of finding some common ground. At this time, it appears that negotiations could continue for several weeks until an agreement can be reached.

What does the lack of a state budget mean for school district budgets? [Read this article](#) prepared by PSBA addressing why districts should not delay budget adoption in order to wait to see what the state does.

Wins and other issues for school districts

Throughout the spring, and during these most recent days and nights of session leading up to the final hours yesterday, PSBA has been a continuing presence at the Capitol as so many critical issues are at stake. Among those issues are pension reform, a new school funding formula, reimbursements for school construction projects, and more. All of these issues were addressed and sent to the governor, but final determination on both the language and the appropriation is pending. Another issue that PSBA was deeply involved with was sent to Gov.

Wolf -- refinements to the Child Protective Services Law.

They are wins for school districts, and PSBA is working to ensure that these issues remain addressed in the final determinations. In the case of pension reform, PSBA will be seeking additional changes to the proposal adopted by the General Assembly.

Just as important, your association was busy fighting other issues, including a school take-over plan and a proposal to restrict the rights of school districts to conduct appeals of under-assessed property. While they did not receive final consideration yesterday, they are very much alive and could be part of a final negotiated package. PSBA has also been working to find a compromise on charter school reform legislation. As discussions on all of these issues continue, we will keep you updated and be asking you to communicate with your legislators.

Here's a closer look at some of these key issues as they played out over the past days.

Education Funding

The \$30.17 billion budget contained in House Bill 1192 provided a \$100 million increase for the basic subsidy for a total of \$5.8 billion (a 1.8% increase) that would be distributed through the formula recommended by the Basic Education Funding Commission. While both the governor and Republican leaders agreed on the use of the formula, the area of disagreement is in the amount of money that would be allocated, and how it would be applied.

The recommendations of the BEF Commission did not set specifics for the implementation or application of the proposed formula. The governor wanted to allocate a \$400 million increase to the basic subsidy for 2015-16 and use 2015-16 BEF as the base amount, with the formula to be applied in fiscal year 2016-17. However, the language in the budget and in House Bill 762, crafted by the Republican leadership, provides for the lesser increase of a \$100 million increase and uses the 2014-15 school year as the base, and implementing it in 2015-16. When the omnibus language was added to HB 762 by the Senate Appropriations Committee, the Democrats on the committee voted against it because it was not aligned with what the governor wanted.

House Bill 1192 also includes a \$20 million increase for special education, for a total of \$1.06 billion (a 1.9% increase). The appropriation for school employees' retirement costs provides a 14.4% decrease in funding for school employees' Social Security payments by calling for a two-month lag in payments. The budget bill also provided a \$573 million (49.5%) increase to the state appropriation for school employees' retirement, while the governor has proposed a \$592 million (51.1%) increase as necessary to cover costs.

School Construction/PlanCon

The General Assembly also sent a plan to the governor to finally pay school districts all of the money owed to them for approved school construction and renovation projects under the PlanCon program. Many of these districts have been waiting for years to receive state reimbursement for school construction and renovation projects will finally be paid. This has been an issue of major concern to school districts, and PSBA has been working with Rep. Seth Grove and Sen. John Eichelberger on a proposal to assist districts waiting for reimbursement and to get the needed reforms enacted.

Under the budget, the state would eliminate the backlog by bonding \$5.3 billion to fully fund projects in the pipeline at Part G and above. The funds would be put into a restricted account to pay for the projects, and lump sum payments would be paid to school districts over the coming year. The existing \$306 million line item in the state budget that pays for school construction projects, called the Authority Rentals and Sinking Fund Requirements, would be zeroed out and replaced with the funds in the new account.

House Bill 762 contains the implementing language. The state will refinance the reimbursable portion of the debt for such projects through the State Public School Building Authority; the Authority will issue bonds to pay the required reimbursements. The bonds will not be considered a debt of the state or any school district. Districts receiving reimbursements from the Authority must relinquish any future claims on payments for debt reimbursed through the bond issuance. The state must annually appropriate funds necessary to cover the debt payments of the Authority.

The bill also establishes a Public School Building Advisory Committee to review and make recommendations regarding construction and reconstruction of public school buildings, including planning, financing and state reimbursement. The bi-partisan panel includes legislators, the secretary of education, representatives from PSBA and the PA Association of School Business Officials, and appointees who must have experience in municipal debt and finance.

Pension Reform

One of the more contentious issues debated this spring has been pension reform. With a combined debt to the state and school employees' retirement systems of over \$50 billion and growing, reform is imperative. Rapidly climbing pension costs take a greater and greater share of available school district revenues, and PSBA has emphasized that any reform plan needs to generate both short-term and long-term savings for districts. What ended up on the governor's desk under Senate Bill 1 was both a win and a loss, in some respects. As originally introduced the bill would have generated both immediate and long-term savings by creating a new 401(k)-style defined contribution plan that would be mandatory for all new employees and make changes to future contributions for current employees in order to maintain current benefit levels. The plan showed a preliminary projected savings of \$16.2 billion through 2048.

However, on June 27 the bill was amended and the version that was subsequently approved and sent to the governor does not go far enough to provide adequate savings. It establishes a hybrid defined contribution/cash balance plan for future employees, enabling long-term savings, but removed provisions affecting current employees, with no reduction in the and makes other changes, thereby eliminating prospects for immediate savings. A new actuarial analysis of Senate Bill 1 shows a lesser savings of \$10 billion over the same 30-year period.

Understandably, getting any kind of pension plan to be able to garner enough votes for passage is a difficult task. PSBA is pleased that the General Assembly was able to send a pension plan to the governor's desk, but believes the proposal does not go far enough in achieving substantial cost savings for school districts that will continue to pay increasingly high employer contribution rates over the next several years.

Economic Furlough, Tenure Reforms

One of PSBA's long-time goals for mandate relief was included in a bill sponsored by Rep. Stephen Bloom to allow school districts to furlough professional employees for economic reasons. PSBA has said repeatedly that labor costs are one of the largest budget line items in school district budgets, and that school boards need maximum flexibility to manage their staff. This includes the authority to furlough existing professional employees without regard to seniority as currently mandated by the Public School Code.

On June 23, the House of Representatives passed [House Bill 805](#), and the bill is now in the Senate Education Committee for consideration. Under the bill, employees with a rating of "distinguished" on at least two of their most recent three evaluations may not be furloughed. The bill also requires an equal percentage proportion of administrative staff to be furloughed, but allows for exemptions of any five administrative staff positions and also allows for waivers of the requirement if it is determined that the district's operations are already sufficiently streamlined. In addition, the bill allows a superintendent to delay the awarding of tenure for one additional year (currently granted after three years) if the superintendent believes further evaluation is necessary prior to certifying the work as satisfactory.

PSBA believes that House Bill 805 creates a system of fairness and ensures that the best teachers are in the classroom. It establishes significant and lasting improvements to education and provides necessary mandate relief to school districts.

Child Protective Services

Now on the governor's desk is [House Bill 1276](#), which makes clarifying changes to the Child Protective Services Law (CPSL) that was adopted last session as the result of the Task Force on Child Protection and two years of discussions in the General Assembly. The bill clarifies existing statute with respect to individuals required to obtain background checks, how the law applies to volunteers, definitions, including "independent contractor," "person responsible for a child's welfare," and "school employee," and adds a definition for "routine interaction."

Children are among the most vulnerable when abuse is concerned and PSBA is committed to ensuring appropriate safeguards are implemented to keep schools safe. After the intense work of many to ensure the end product of 2014 contained provisions that were in the best interest of children, PSBA supported a number of the bills that became the new CPSL.

Our members have worked diligently over the last few months to implement the new legal requirements for clearances and reporting applicable to both employees and volunteers. However, as implementation began, many parties became aware of questions, concerns, and inconsistencies, and it became clear that a "clean-up" bill would be necessary.

PSBA worked with both House and Senate members to ensure that House Bill 1276 would be clear and consistent for our members to implement. The association extends a special thanks to Rep. Kristin Phillips-Hill, Rep. Todd Stephens, and Sen. Patrick Browne for their dedication to procedural clarity and work with PSBA on amendments to the bill.

A related bill, [Senate Bill 862](#), amends the Pennsylvania Public School Code to align the requirements and timeframes for school employees' submission of state and federal criminal history record checks and child abuse history clearances with the CPSL. PSBA supported Senate Bill 862 because it aligns the School Code with the new CPSL requirements for school

employees. The legislation provides additional clarity for schools implementing the new requirements for submitting state and federal criminal history record checks and child abuse history clearances. PSBA thanks Sen. Smucker for sponsoring a PSBA-recommended amendment to further clarify the language.

Thank you for all of your advocacy efforts over the last several weeks. PSBA will continue to report on any new budget developments.