



## POLICY BRIEF

### Forecasting Fiscal Futures of Pennsylvania School Districts: Where Law and Current Policy Are Taking Our Public Schools

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*This policy brief, Forecasting Fiscal Futures of Pennsylvania School Districts: Where Law and Current Policy Are Taking our Public Schools, is the text version of a presentation that Drs. William Hartman and Timothy Shrom gave to our symposium on October 3, 2014, in Green Tree. The symposium was co-hosted by Temple's Center on Regional Politics and by the University of Pittsburgh's Institute of Politics under the banner of the University Consortium to Improve Public School Finance and Promote Economic Growth, whose academic centers and individual faculty members are listed on the CORP website at [www.cla.temple.edu/corp/university-consortium/](http://www.cla.temple.edu/corp/university-consortium/). The power point slides for the fiscal futures presentation have been on the CORP website since last fall's symposium, the second in our series on public school finance. Hartman is a professor at Pennsylvania State University's College of Education, and Shrom is business manager of the Solanco School District.*

#### Introduction

There is a great deal of concern and speculation about the fiscal condition of school districts, both now and into the future. Will some districts not have enough money to continue to operate their programs while others survive and even flourish? Can districts meet growing expenditure requirements with restricted and uncertain revenues? These questions are at the heart of the ongoing policy debate and decisions that will shape the future of education in the Commonwealth.

#### Purpose

This study projects answers to some of the basic questions facing local and state policy makers regarding funding education in Pennsylvania. These include:

- 1. What are the major revenue sources of school district funding and how much can be expected from them?**
- 2. What are the major expenditures districts face in the next few years and how can they control or influence them?**
- 3. Will there be enough expected revenue to pay for the expected expenditures?**

The purpose of the study was to project the fiscal future for all 500 Pennsylvania school districts through 2017-18. The major revenue sources and their trends were compared with the mandated and necessary expenditures and their trends. In the projections, when a district's expenditures exceeded its revenues for a given year that indicated a "shortfall" or operating deficit. However, this is not an indication that this district will become insolvent or bankrupt. Rather it is an indication of the severity of the fiscal stress the district is facing and the magnitude of program cuts the district will be forced to make.

The conclusion of this study is that:

*Most school districts in Pennsylvania will not have sufficient revenues over the next five (now three) years to support their mandated and necessary expenditures. Sixty percent of the districts in the state will face severe and prolonged program and staff reductions to balance their budgets, which will reduce the quality of education in those districts and substantially widen the academic and fiscal gaps with more well-off districts.*

#### Summary Results

To start, summary results for all school districts are presented for the projection years of 2013-14 through 2017-18. Totals for this five year period are shown in Table 1.

**Table I**  
**5 Year Total Increases: 2013-14 through 2017-18**  
**Local Revenues + BEF – Expenditures**

	5 Year Totals
Total Local Revenues	\$2,389,884,079
BEF (2%)	\$468,016,002
Total Revenues	\$2,857,900,080
Net PSERS (Net to District)	2552
Salaries (1%)	2544
Charter Tuition (10.7%)	2530
Health Care & Other (6%)	2461
Major Expenditures	2277
Surplus or (Shortfall)	(\$401,502,194)
\$ Negative	(\$990,483,955)
\$ Positive	\$588,981,760
# Negative Districts	297
# Positive Districts	203

The projections show total local revenues increase by about \$2.4 billion (75% from property taxes) and the state basic education funding (at an annual estimate of 2% growth) would increase by a little less than \$500 million, for a total revenue increase of \$2.9 billion.

On the expenditure side, increases for four purposefully selected major expenditures that school districts face were also projected. Their five-year totals were: PSERS (net pension expense to districts after state contribution) of almost \$1 billion; salaries (projected at a 1% annual increase) of \$500 million; tuition payments to charter schools (at a 10.7% annual increase, the lowest increase over the past five years) of over \$800 million; and health care (at a 6% average annual increase) of close to \$1 billion.

In total, a shortfall across all 500 school districts of \$400 million was projected. However, not all districts were affected the same. Almost 300 districts had five-year total shortfalls projected and their combined shortfall was \$1 billion. On the other hand, there were 200 districts that had surpluses projected for the period and their total combined surplus amount was \$600 million.

These projections are conservative. On the expenditure side, only the four selected major expenditures were included and they made up approximately two-thirds of total district expenditures. The projected revenues basically maximize all local board tax authority under Act I, and BEF is included at a traditional increase. There are additional expenditures from other areas, such as transportation, sup-

plies, equipment, and debt service which were not included, while there are few if any additional revenue sources for districts to draw on.

**Approach to the Study**

The study utilized individual district data and analyses for all 500 districts in the state and then summarized the results to the state level for the overall totals. Relevant fiscal data by school district were downloaded directly from the Pennsylvania Department of Education (PDE) publicly available website for 2007-08 through 2012-13.<sup>1</sup> The key fiscal data collected were:

**Revenues:**

- Total Local Revenue
- State Basic Education Funding (BEF) subsidies.

**Expenditures:**

- Public School Employees’ Retirement System (PSERS)
- Salaries
- Charter School Tuition Payments
- Health Care

An extensive database was built from this information with individual year data organized by school district for each of the data elements. The data sets were then reviewed and cleaned to make sure any errors were eliminated before beginning the analyses. For example, there were several instances where the number or order of the districts changed over the time period covered by the study, so it was necessary to reorganize the district order and/or combine data from merged districts to make sure the districts aligned consistently across the years for every variable. The next step was to calculate the annual dollar and percent changes for each revenue and expenditure element for each district for the 2007-08 through 2012-13 period. These annual changes were reviewed for patterns and consistency and were the basis for projections for the future years.

The historical fiscal trends based on actual data were used to develop the projections for the key revenue and expenditure items for 2013-14 through 2017-18. The assumptions for each fiscal item that were employed were generally conservative and reflected past practice or known changes that would be occurring, such as future year PSERS rates. Individual projections were made for each district and the results were summed to calculate statewide totals for each element.

1. <http://www.education.state.pa.us/portal/server.pt/community/finances/7671>

For the analysis, the revenues were summed, the expenditures were summed and a surplus or shortfall was calculated for each district for each year. Statewide totals were obtained by aggregating districts' results. In addition to overall state totals, the number of districts that had shortfalls and their total amounts statewide were determined, and the same determination was made for districts that achieved surpluses.

### Annual Statewide Results

The annual projections show a slowly changing and evolving picture for school districts. As shown in Table 2, total local revenues are increasing slowly at around \$500 million annually, while the state BEF (projected at a 2% growth) would grow at approximately \$110 million per year. The BEF projection only starts in 2015-16 since the zero increase amount for 2014-15 was already fixed. In all, annual revenue increases exceed \$600 million by 2017-18.

Expenditure projections show a more mixed pattern. Expenditures for PSERS continue to grow, but the rate of growth lessens substantially from a \$238 million increase in 2015-16 to a \$66 million increase by 2017-18. However, this drop off is taken up by the other major expenditure areas. Salaries hold constant at just over \$100 million increase annually. Charter school tuition payments grow steadily at over 10% per year and reach an increase of \$200 million per year by 2017-18. Health care shows the same pattern with slightly lower growth, but is projected to be increasing by more than \$200 million per year by 2017-18, also.

Overall, the net result is steady decline in the number and amounts of shortfalls projected and a small net surplus in the last year of \$37 million. The number of districts that have shortfalls drops from 376 in 2014-15 to 228 in 2017-18. While this is a positive trend, there would still be 45% of all Pennsylvania school districts with shortfalls in this last year.

### Overall Observations

Most school districts in Pennsylvania are projected to have severe financial difficulties at least through 2017-18.

1. Under existing conditions and fiscal policies almost 50% of Pennsylvania districts will not have sufficient revenue to cover mandatory and necessary costs in 2017-18.
2. The lower annual increases in PSERS over time beginning in 2017-18 will provide some annual improvement in districts' fiscal conditions.
3. These advances largely will be counterbalanced by rising charter school tuition payments and by increasing health care payments.
4. Increases in the Basic Education Funding subsidy alone cannot resolve district fiscal shortfalls.
5. Without structural changes in Pennsylvania's school finance system, many districts will continue to erode programs to meet the balanced budget requirement.

**Table 2 - Annual Increases  
Local Revenues + BEF v. Expenditures**

	2012-13*	2013-14	2014-15	2015-16	2016-17	2017-18
Total Local Revenues	\$484,721,963	\$440,672,521	\$458,441,901	\$477,066,527	\$496,600,518	\$517,102,612
BEF (2%)	\$38,891,303	\$129,938,660	\$0	\$110,468,351	\$112,677,718	\$114,931,273
<b>Total Revenues</b>	<b>\$523,613,266</b>	<b>\$570,611,181</b>	<b>\$458,441,901</b>	<b>\$587,534,879</b>	<b>\$609,278,236</b>	<b>\$632,033,885</b>
Net PSERS (Net to District)	\$172,952,243	\$245,416,519	\$234,674,542	\$237,749,961	\$190,261,046	\$66,201,920
Salaries (1%)	(\$91,227,247)	\$54,839,760	\$110,227,918	\$111,330,198	\$112,443,500	\$113,567,935
Charter Tuition (10.7%)	\$123,081,922	\$135,711,404	\$150,232,524	\$166,307,404	\$184,102,296	\$203,801,242
Health Care & Other	\$56,319,971	\$167,202,158	\$177,234,287	\$187,868,344	\$199,140,445	\$211,088,872
<b>Major Expenditures</b>	<b>\$261,126,889</b>	<b>\$603,169,841</b>	<b>\$672,369,272</b>	<b>\$703,255,907</b>	<b>\$685,947,287</b>	<b>\$594,659,969</b>
<b>Surplus or (Shortfall)</b>	<b>\$262,486,376</b>	<b>(\$32,558,660)</b>	<b>(\$213,927,371)</b>	<b>(\$115,721,028)</b>	<b>(\$76,669,051)</b>	<b>\$37,373,916</b>
\$ Negative	(\$169,321,839)	(\$156,026,131)	(\$278,012,409)	(\$208,380,659)	(\$196,348,124)	(\$151,716,632)
\$ Positive	\$431,808,216	\$123,467,471	\$64,085,038	\$92,659,630	\$119,679,073	\$189,090,548
<b># Negative Districts</b>	<b>178</b>	<b>279</b>	<b>376</b>	<b>312</b>	<b>291</b>	<b>228</b>
<b># Positive Districts</b>	<b>322</b>	<b>221</b>	<b>124</b>	<b>188</b>	<b>209</b>	<b>272</b>

\* Actual - See a detailed description of the assumptions used on the fiscal components of the analysis located in the appendix.

## Overall Bifurcation of School Districts in State

The majority of school districts in the state will be trapped in shortfall conditions even with continued substantial local tax increases. The projections indicate that:

- **220 districts are in shortfall conditions for all five years of the study.**
- **Another 60 districts are in shortfall conditions for four years.**

In total, there are 280 (56%) Pennsylvania school districts that have negative fiscal positions. In broad budget terms, this means they are projected to spend more money each year than they expect to receive in revenue. While many of these districts are projected to have slowly improving fiscal conditions, generally this means a smaller shortfall, but still a shortfall.

On the other hand, there are a group of districts that are projected to be in surplus positions over the study period, at least within the four major expenditure projections. In general, districts that start in good financial condition will likely remain in good condition assuming the continued annual local tax growth.

- **125 Districts are projected to have surpluses over all five years of the study.**
- **Additionally, another 60 districts are projected to have surpluses over four years.**

The financial conditions of these districts are also generally getting better as PSERS increases level off and their growth in local and state revenues is sufficient to cover their expenditure increases.

### What Can Districts Do to Balance Their Budgets?

What can districts that have deficits do to cope with them? Their necessary course of action is determined by the basic budget equation under which districts must operate:

**E = R** or Expenditures must equal Revenues.

It's the law. Districts are required to have a balanced budget each year. Consequently, districts will take the often painful steps needed to eliminate a deficit. In some

instances, particularly when the condition is short term, it is possible that the district may use its fund balance, if it is large enough to cover the shortfall. However, this is a short term solution and most districts do not have a sufficient fund balance to cover more than one or two years.

In practical terms, school districts have very limited options by themselves. The school boards control only limited portions of the district budget related to local revenues and some expenditures. Within these constraints, districts have two general opportunities: increase local revenues and control expenditures.

The only local revenue source to increase revenues over which districts have control is the real estate tax. Even here, the annual millage rate limits under Act 1 restrict what increases can be levied. In recent years the Act 1 maximum index has been in the 1.7% to 2.1% range,<sup>2</sup> which will not produce adequate increases to close shortfalls for most districts. In the projections, increases for total local revenues were estimated for individual districts using their three year trend (which averaged 3%); the base included real estate taxes (about 75% of the total), earned income taxes, and other smaller revenues. As a result, the revenue projections were close to maximum Act 1 increases allowed.<sup>3</sup>

Districts have some control or influence over expenditures for health care and other benefit costs, but they are limited by the regulatory environment and by collective bargaining agreements. In most instances, control or reduction of health care costs is dependent upon changing district health care contracts and shifting some costs to the employees. Regional and national medical trends are clear that health care expenditures are expected to rise. The projections used a 6% annual increase, which was in line with the Affordable Care Act estimates and with health care expenditure trends. However, these changes in this expenditure area are generally limited to marginal reductions or slowing down cost increases.

Expenditures for salaries are generally negotiated through collective bargaining agreements with employee associations. Districts do have the opportunity to influence (not dictate) salary levels periodically in contract negotiations with different employee groups. The projections are for total salary growth at 1% annually (0.5% for 2013-14) which includes both changes in salary levels and number of staff. These estimates are relatively low and conservative

2. For districts with a Market Value Personal Income Aid Ratio of greater than 0.4000 an adjusted Act 1 Index is calculated by the Department of Education that allows a higher increase.

3. Shrom, T. and W. Hartman. 2014. "Property Tax Restrictions on School Board Fiscal Authority in Pennsylvania." *Educational Considerations*. 41(2): 1-7.

compared to prior salary trends and more recent contract settlements, which indicate some modest recovery from prior actual reductions in salary costs statewide.

All of the other major fiscal components of the district budget are controlled by others. The Basic Education Funding subsidy is determined by the legislature annually in their budget negotiations. At present, there is no funding formula that districts can look to for an estimate of state funding levels.<sup>4</sup> The PSERS pension expenditures are fixed and growing annually based on legislative decisions. Charter school tuition payments were established by the legislature and can only be changed by the legislature. As a result, districts facing shortfalls are forced to look internally for ways to balance their budgets.

With local revenues close to maximum and state revenues out of district control, balancing the budget largely means reducing expenditures. “There are two principal types of budget reductions:

1. Cost savings through improved efficiencies.
2. Cost reductions due to program reductions.”<sup>5</sup>

The improved efficiency route is the preferred approach since it is the least disruptive to the educational program. One example of this approach that is being increasingly used by school districts is outsourcing of operational services, such as custodial, transportation, and food service. Another growing area on the instructional side is outsourcing of professional and support staff; examples here include substitute teachers, instructional aides, and bus drivers. The major fiscal advantage to school districts of outsourcing personnel is the avoidance of pension and health care costs since the newly outsourced personnel are no longer district employees. Other efficiency improvement actions, particularly if they require a front-end capital investment, such as facility modifications to improve energy efficiency, are generally a longer term approach, and have less impact in the short term.

The more common step for Pennsylvania school districts, particularly for more severe and extended shortfalls in recent years, is to reduce and eliminate programs, staff, courses, and other services. In fact, this has been happening in districts for the past three years.<sup>6</sup> Examples of pro-

gram reductions include non-replacement of retiring staff, furloughs, higher class sizes, fewer academic offerings, and elimination of summer programs for at-risk students.

A short-term financial fix that many districts have utilized, by choice or necessity, is to draw down their fund balance and use it as a revenue source. However, this is a temporary measure since once fund balance monies are used, they are gone and no longer available. For most districts in shortfall positions, their fund balance, if used in this way, would be exhausted in only a few years. More problematic is that this path maintains a structural deficit for districts and yields bigger future shortfalls. It is not a solution, but only a costly postponement.

### Implications for the Future

With no changes to current law and fiscal policies for education, the fiscal crisis for the majority of Pennsylvania school districts will continue through 2017-18 at least. Over half of the school districts will face higher expenditures than they will receive in revenues over this time. They will run out of fund balance reserves and be forced into even further program and staffing cuts. Even with the leveling off of the very large annual pension increases, there are other mandatory expenditure areas—health care, charter school tuition payments—that are increasing and will continue and intensify fiscal pressures. For these districts, adding new programs or responding to new unfunded mandates will be very difficult, a zero-sum game with existing programs and mandates. As a result, all future legislative or administrative mandates imposed on local districts will most likely cause further program reductions since additional local revenues will be limited and needed for mandatory increased expenditures. This study focused only on school districts, yet Intermediate Units and Career and Technology Centers rely heavily on district funding as well as face the same expenditure pressures. As districts face increasing fiscal pressures so will these pass-through service entities.

For other districts, the fiscal pressures will neither be as great nor as restrictive. A substantial minority of districts are projected to have surpluses through 2017-18. This will allow them to avoid most of the program cuts that the shortfall districts are facing. It is likely that the current variations in spending per student and in program offerings

4. The Basic Education Funding Commission is in the process of developing recommendations for a basic education funding formula and their report is expected in 2015.

5. Hartman, W. 1999. *School District Budgeting*. Association of School Business Officials International. Reston, VA, p. 164.

6. Pennsylvania Association of School Administrators & Pennsylvania Association of School Business Officials. 2015. “Continued Cuts: The PASA-PASBO Report on School District Budgets.” January. Harrisburg, PA: Pennsylvania Association of School Administrators & Pennsylvania Association of School Business Officials.

are likely to grow; gaps in spending, program resources, and student outcomes would be expected to widen.

An educational bifurcation of the state into educational haves and have-nots will accelerate as some districts will be forced to cut back, while others will be able to remain stable or expand. The common saying that “If you do what you always have done, you will get what you always got,” is no longer true for Pennsylvania school districts. It should now be amended to say, “If you do what you always have done, you will get an even worse outcome than you got before.” Unless changes are made to current fiscal policy for education, more school districts will implode under the current system of laws and policy decisions. Restricted local revenues and limited and uncertain state revenues cannot match mandated and necessary expenditures. These conditions were for the most part created by the legislature and can only be modified by legislative action.

### Policy Implications

1. While state BEF funding is an important factor in lessening fiscal stress for districts, it is unlikely that there will be sufficient BEF funding alone to resolve district funding shortfalls.
2. Targeting state funding to districts of greatest need will allow BEF funds to go further; across-the-board type increases would dilute their impact.
3. Property tax relief, if it is a dollar-for-dollar exchange of state funds and reduced property taxes, does nothing for district shortfalls. The revenues are the same, only coming from different sources.
4. Charter school tuition payments are a major expenditure for district taxpayers for a relatively small portion of their students. Funding reform to improve the match between the charter school tuition payments paid by school districts and the expenditures incurred by charter schools for these students could lessen the burden on taxpayers and reduce shortfalls without impacting the educational programs for students.
5. The bifurcation among districts is not limited to the level of financial shortfalls and surpluses but will further exacerbate existing variations in educational offerings and programs as districts must balance budgets via expenditure reductions.

## APPENDIX

### Assumptions for Fiscal Components

#### Total Local Revenues

These are primarily real estate taxes and earned income taxes, although they do include other local revenue items such as delinquent taxes or investment earnings that are minor components of the total. An average annual change percentage was calculated for each individual district for the total local revenue amount and was reviewed. The annual numbers were fairly stable for most districts. To continue the existing patterns for estimating future total local revenue amounts, the 3-year average growth rate percentage was used to project the upcoming years for the district. The median growth rate across all districts was 3%.

#### Basic Education Funding

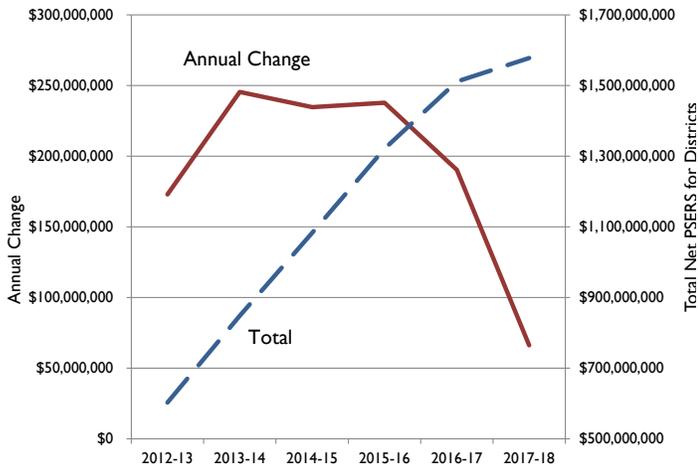
The actual amounts for 2013-14 and 2014-15 were used in the study since these amounts had already been established by the legislature and were known. Only the last three years in the study needed to be projected—2015-16 through 2017-18. Three different projections were made at 0%, 2%, and 4% per year to show impact of state aid at different levels since the future changes in BEF cannot be reliably determined at this time

#### Net PSERS

The pension costs are supported by both school districts and the state. While the districts actually pay the full contribution into the retirement fund, part of that expenditure is offset by a state subsidy. This study utilized the net district expenditure after deducting the state subsidy as the district amount. The calculations for PSERS expenditures were based on the latest official PSERS employer contribution rates multiplied by individual district salary estimates.

The annual increases in mandatory PSERS funding decline in later years from a high of \$245 million in 2013-14 to a low of a \$66 million increase in 2017-18, as the employer contribution rate levels off. However, the lower annual increases do not mean that PSERS costs disappear. The funding level remains very high at \$1.6 billion per year for two decades. The difference between the annual increases and the ongoing costs of PSERS is illustrated in Figure 1.

**Figure 1**  
**Net PSERS Expenditures**



The annual changes ranged from over 19% annual increases in two years to a low of just under 11% for one year, with a four-year average of 15.4%. The initial projection was based on the lowest year increase of 10.7% and alternative projections were done for the four-year of 15.4% and the highest year increase of 19.3% to see the impact of different past values.

Expenditure projections were done for each of these three possible annual increases for tuition payments to charter schools for both the annual increases and the total annual expenditures. Figure 2 shows the substantially different results with the different rates of increase. With the expenditures starting at \$1.3 billion in 2012-13, by 2017-18, the total annual costs would range from \$2.1 billion at the lowest 10.7% increase to \$3.1 billion at the highest historical rate of increase of 19.3%. The annual increases would be \$200 million per year to \$500 million per year for the lowest and highest rates respectively.

**Salary Projections**

Salary amounts were projected for each district. Salary amounts for 2013-14 were estimated to increase by 0.5%, and by 1% annually for 2014-15 through 2017-18. The salary amounts represent the total salary expenditures and include any changes in the number of staff and their salary levels. So if the number of persons employed went down, the total salary amount would decline, but if the salary levels went up, then there would be an increase. The net of any annual increases and decreases made up the change in salary amounts.

**Charter Tuition Payments**

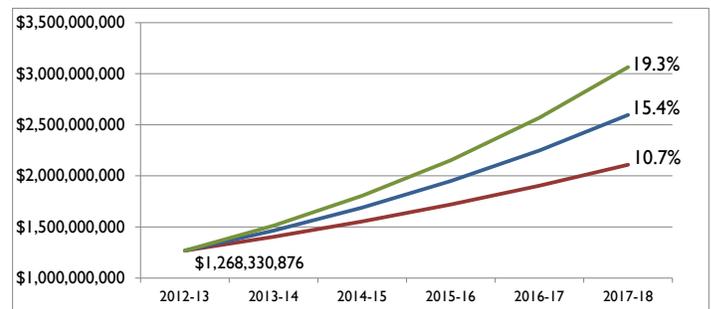
The average annual increases in tuition payments to charter schools from school districts varied widely from year to year and from district to district. As a result, it was not feasible to use individual district changes to project future tuition payment annual changes. Instead, a statewide average change was calculated for all districts and that percentage increase applied to each district's actual charter school tuition payment for 2012-13 to estimate the amount for 2013-14 and each succeeding year was increased by the same percentage. Table 3 below shows the calculations to determine possible rates of increase.

**Table 3**  
**Charter School Tuition Payments**

	Regular	Special	Total
2009-2010			12.4%
2010-2011	17.8%	24.1%	19.1%
2011-2012	14.3%	36.5%	19.3%
2012-2013	7.9%	18.8%	10.7%
3-4 Year Average	13.3%	26.5%	15.4%

7. To cross-check charter school tuition payment projections, available PDE charter information for 2013-14 charter enrollments and tuition rate increases were used to estimate a 2013-14 increase of 12.1%.

**Figure 2**  
**Charter School Tuition Projections**  
**Total Annual Cost**



**Health Care & Other Benefits**

The remaining benefits were calculated from PDE benefit data on all school districts. The reported expenditures were for total benefits; Social Security and PSERS expenditures were identified separately as part of the total. The balance of the remaining benefits was primarily for health care and included both group insurance from contracted providers and self-insurance. The remaining other benefits provided by the district included tuition reimbursement, unemployment compensation, and workers' compensation. Since health care was the prominent benefit in this group, the future growth was estimated at 6% annual growth, which reflects national trends.

**Testing Key Assumptions**

Sensitivity analyses were carried out for two of the projection factors that had a potentially wide range of outcomes. High, middle, and low values were utilized to calculate a range of results rather than only utilizing a single one. Each

**Table 4**  
**Comparison of Different BEF Subsidy Annual Growth Assumptions**  
**On Surplus/Shortfall Results and Number of Negative and Positive Districts**  
**(\$ Million)**

<b>BEF @ 0%</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>	<b>5 Year Totals</b>
Surplus or (Shortfall)	\$262	(\$32,)	(\$214)	(\$226)	(\$189)	(\$78)	(\$740)
# Negative Districts	178	279	376	376	358	291	342
# Positive Districts	322	221	124	124	142	209	158
<b>BEF @ 2%</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>	<b>5 Year Totals</b>
Surplus or (Shortfall)	\$262	(\$32,)	(\$214)	(\$116)	(\$77)	\$37	(\$402)
# Negative Districts	178	279	376	312	291	228	297
# Positive Districts	322	221	124	188	209	272	203
<b>BEF @ 4%</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>	<b>5 Year Totals</b>
Surplus or (Shortfall)	\$262	(\$32,)	(\$214)	(\$5)	\$40	\$161	(\$50)
# Negative Districts	178	279	376	225	192	134	248
# Positive Districts	322	221	124	275	308	366	252

of the different expenditures outcomes was substituted into the overall calculations to test its impact on the surplus/shortfall and number of negative and positive district outcomes.

### Basic Education Funding Subsidy

The first variable was the state Basic Education Funding Subsidy. The subsidy amounts are the result of sensitive and involved political choices by the legislature. Due to the nature of the process, reliable precise future subsidy amounts cannot be accurately determined in advance. However, given past history and current conditions, it is possible to estimate a reasonable range of future subsidy increases that may occur. As used in sensitivity analyses, these values in the range are used to answer “what if” questions. What would be the impact on the statewide surplus/shortfall if the BEF increased 2% per year? Or 0%? Or another value? Note that only three years remained to project in this analysis since the 2014-15 BEF had already been established at the time of the analysis. Three separate values were tested for the percent growth of BEF:

- 0% - A bottom limit and the increase for 2014-15
- 2% - A typical increase over past years
- 4% - A likely upper limit under current conditions

The differences among the BEF subsidy annual increases produce substantial differences in results in terms of the projected surplus or shortfall totals for the state as well as the number of districts with surpluses or shortfalls. The implications for BEF funding levels are critical as generally

the least wealthy districts have a greater funding reliance on this major state subsidy. With no subsidy increase for the next three years, the five-year total shortfall reaches a combined \$740 million with 342 (68%) of the districts with negative results over this time period.

As would be expected, a 2% annual increase improves results, but the five-year total shortfall is still \$400 million, and 297 (60%) of the districts have a net five-year shortfall. However, the trend would improve, and by 2017-18 there would be a small net surplus statewide, and more than half of the districts would show a surplus that year.

Increasing the annual BEF subsidy increase to 4% annually would provide improved results. The five-year totals are down to a much smaller \$50 million shortfall. Half of the districts would show a surplus for the five-year period, and by 2017-18 almost three-quarters of the districts show a surplus.

### Charter School Tuition Payments

The second sensitivity analysis was carried out for charter school tuition payments. As shown earlier, there was a wide range in the actual annual growth patterns for charter schools over the past five years. While the basic analysis used the lowest annual growth rate, since tuition payments to charter schools represent considerable and growing expenditures for school districts, alternative values were tested also to see their impact. Three separate values were tested for the annual percent growth of charter school tuition payments.

- 10.7% - The lowest growth rate over the past four years
- 15.4% - The average growth rate over the past four years
- 19.3% - The highest growth rate over the past four years

(A second year had a 19.1% growth rate so the highest rate may not be an outlier year.)

The actual growth rate of tuition payments to charter schools has a substantial impact on the future stability and fiscal health of school districts. At the lowest rate in the past four years, there is a combined statewide deficit of \$400 million with about 60% of all school districts having a five-year cumulative shortfall. At the average rate of 15.4% annual growth, the five-year statewide shortfall would grow to almost \$900 million and 63% of the districts having a cumulative shortfall over this period. At the highest growth rate of 19.3% annual growth, the five-year statewide shortfall would grow to almost \$1.400 billion and 69% of the districts would have a cumulative shortfall over this period. This highest rate is not an extreme outlier; two of the past four years have had charter school tuition payment increases of over 19% as shown in Table 5. The

difference between the lowest rate and highest rates over the five-year period is \$1.0 billion in expenditures paid by school districts to charter schools. In 2013-14, the latest year for which the growth rate can be estimated from preliminary data, the growth rate is estimated at 12.1%, which is lower than the average or highest rates, but still above the lowest rate used in these projections.

Since the state is not providing districts with a subsidy for charter school tuition payments, these expenditures must be paid directly by local district taxpayers. The expenditures for charter school tuition payments are not controllable by school districts. Districts do not control enrollments of their students in charter schools, and tuition payments are mandatory for each district student in a charter school. Being mandatory means that charter school tuition payments have priority in district budgets and must be funded before any of their own programs. For those districts with shortfalls to eliminate, this can result in reducing district programs and staff, while at the same time raising taxes and paying higher amounts to charter schools.

**Table 5**  
**Comparison of Different Charter School Tuition Annual Growth Assumptions**  
**On Surplus/Shortfall Results and Number of Negative and Positive Districts**  
**(\$ Million)**

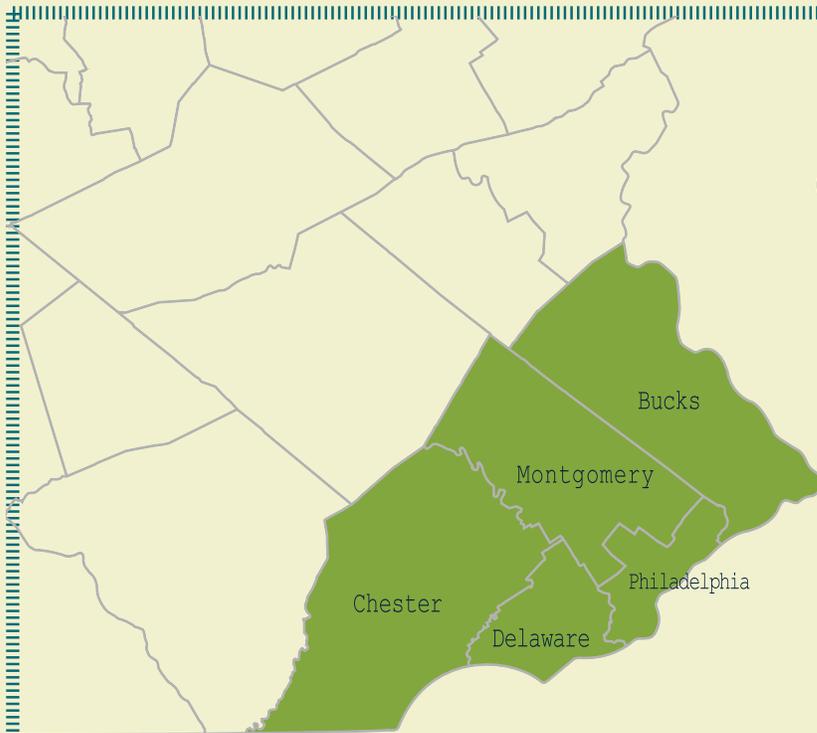
<b>CS @ 10.7%</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>	<b>5 Year Totals</b>
Surplus or (Shortfall)	\$262	(\$33)	(\$214)	(\$116)	(\$77)	\$37	(\$402)
# Negative Districts	178	279	376	312	291	228	297
# Positive Districts	322	221	124	188	209	272	203
<b>CS @ 15.4%</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>	<b>5 Year Totals</b>
Surplus or (Shortfall)	\$262	(\$92)	(\$289)	(\$210)	(\$193)	(\$105)	(\$889)
# Negative Districts	178	302	391	339	314	258	316
# Positive Districts	322	198	109	161	186	242	184
<b>CS @ 19.3%</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>	<b>5 Year Totals</b>
Surplus or (Shortfall)	\$262	(\$142)	(\$356)	(\$298)	(\$308)	(\$255)	(\$1,358)
# Negative Districts	178	314	406	360	342	286	345
# Positive Districts	322	186	94	140	158	214	155

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