

## **Pennsylvania's Pension Systems Public Hearing**

### **Statement by Bruce R Chambers, President of the Great Valley School Board**

Thank you for the invitation to this hearing. I am here with Dr. Alan Lonoconus, our District Superintendent, who will be available to answer questions.

I would like to thank Representative Duane Milne for scheduling this field hearing. Not very long ago, we asked to meet with Duane to discuss the problems we will experience if we must fund PSERS at the rates that are now scheduled. He immediately agreed to meet with us, and upon listening to our concerns, he quickly scheduled this hearing. We are very grateful for that, and we hope that this problem can be addressed with the same expediency demonstrated by Duane.

In the many news articles and speeches given about the PSERS funding problem, it is generally called a Pension Crisis. I believe, however, that it is an Education Crisis that is facing the children of our Commonwealth. There are two parts to the crisis; the adverse effect on education resources and the community's loss of confidence and sense of value in our school systems.

#### *Adverse effect on education resources:*

The first part of this Education Crisis is that the level of School District contribution to PSERS that is scheduled for the next 20 years will have an extremely adverse effect on the resources available to educate our children. I am sure you are aware of the very large increases in the School District contribution rate that will occur in the next few years, but perhaps the real numbers would provide a more graphic view of the problem. This year we are contributing \$1.7 million, next year we will contribute \$3 million, \$4 million the following year, and then it increases to \$13 million in 2013/2014. That level of yearly contribution is sustained through 2021 and then it decreases very gradually over a long period of time.

That \$13 million pension contribution will represent approximately 17% of our total budget. We are currently spending approximately 2% of our total budget on pension contributions. This increase in our required funding will undoubtedly dictate that we make some very difficult decisions about the education of our children.

Additionally, the current recession has only magnified the problems we will face. The drop in our tax revenue of over \$2 million a year that we are now experiencing will certainly compound an already very serious problem. These pension increases can not be sustained without serious changes in the way we educate our children.

Great Valley has not been idle while we wait for the pension payments to increase. A few years ago, we began putting money in a designated fund balance in an attempt to save money for the pension contribution increases. Unfortunately, the decreases we have

experienced in our tax revenue due to the recession have not allowed us to save nearly enough to offset the anticipated increases in payments that will be required. The recession has seriously eroded our ability to deal with this issue.

Even now, due to the recession, we are making decisions regarding next year's budget which will reduce some services for our students. While the current changes are not drastic, they do illustrate on a smaller scale the more dramatic changes we will be facing when our pension payments must increase to over \$13 million a year. We will have to make very significant changes.

I believe that it can be healthy to reexamine our budgets and our goals during a time of decreasing resources. We are doing that now. However, the pension payments that will come due in less than 2 years will go far beyond a healthy exercise in fiscal management. We will be adversely affecting our children's education.

#### *Loss of confidence by the community*

The second part of the Education Crisis is that the extremely high pension payments that will be required could very well result in our community losing confidence and a sense of value in our school system.

These pension payments are already the source of concern in our community. It is difficult to expect anything but an unfavorable reaction to tax increases that will be required to fund these pension payments. Our community has been adversely affected by the current recession with cuts in pay, cuts in retirement plans, loss of investments, drop in home values, unemployment, etc. We can reasonably expect that additional tax increases to fund the pension payments will result in resentment from our community toward our school districts and our employees.

We have estimated that the current average homeowner in our School District is paying \$62 a year in property taxes to fund the pension contribution. By 2014, we estimate that homeowners will be paying \$490 a year just to fund PSERS. The School Districts in Chester County are now spending between \$15,000 and \$20,000 per student per year for an education. The pension contributions will add significantly to those costs. How much more can we expect the community to spend on public education?

I believe this issue has the very real potential of creating a wedge between the community and our public schools, thereby eroding community support and ultimately the quality of education we can offer.

#### *Conclusion*

I have attended several briefings on the PSERS problems and I have heard all the proposed solutions to date. I will refrain from sharing my opinions on the suggestions at this time, but will gladly respond to any questions you may have regarding that subject. I will suggest at this time that it would be helpful for Districts to have more flexibility with

Capital Reserve Funds. The increased flexibility could allow Districts to use these funds for operational items in times of budget crisis like the one we are now facing.

The proposed solutions I have heard for this crisis seem to lose sight of the big picture. I believe very strongly that new and creative solutions to the PSERS problems can be found if you keep your eye on the primary goal of providing the best education possible for our children at a reasonable price to the community. PSERS is just one part of our education system in Pennsylvania, and it should therefore not be the sole focus when seeking solutions to these issues. Focus on the primary goal, and the solution to the PSERS problem could very well be different from what you envision otherwise.

I believe this issue calls for significant, courageous and immediate action by our Commonwealth to ensure we can continue to provide a good education for our children at a reasonable cost. It is my opinion that anything short of that will fail.

Thank you very much for this opportunity to speak with you directly. Dr. Lonoconus and I will be happy to answer your questions.