

Testimony of Arthur J. McDonnell, PRSBA, RSBA  
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Wayne, PA 19087

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Chester County Intermediate Unit  
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Good morning, I am Art McDonnell, Business Manager and Board Secretary for the Tredyffrin/Easttown School District in Wayne, Pennsylvania. I'm joined by Betsy Fadem, Tredyffrin/Easttown School Board President.

Thank you for the opportunity to speak regarding the Pennsylvania Public School Employee Retirement System and its impact on our school district.

The looming spike in the employer contribution rates of the retirement system that are projected to occur in the 2012-13 school year and continue for the next 10 years will affect our ability to deliver our educational program to our students and achieve our mission. We are currently examining budget strategies that would restructure our educational program in anticipation of projected budgeted deficits over the next several years.

As background, the Tredyffrin/Easttown School District is facing a \$9.25 million dollar gap between our forecasted revenue and our preliminary budgeted expenditures for 2010-2011 school year. Currently, we are evaluating 60 specific strategies that would reduce anticipated expenditures. Some of these strategies include: eliminating the foreign language program in the elementary schools, restructuring seventh and eighth grade programs, reducing regular and special education classroom aides and consolidating or eliminating programs at the high school.

In addition to reducing expenses, we are discussing raising real estate taxes next year. In January of this year, the T/E school board certified for the fourth consecutive year to stay at or below the Act 1 index. To date, we have not sought referendum exceptions to the Act 1 index from the State in keeping with the spirit of the Act 1 legislation.

There are a number of factors that are contributing to our budgeted deficit for the coming school year. The national depression in the economy has reached Chester County and has had a major impact on schools. As a result of the recession and the downturn of the housing market, interest earnings and local tax revenues have been dramatically reduced. We continue to deal with the impact of unfunded state and federal mandates and double digit percentage increases in healthcare costs.

During the past seven years, the growth in the assessed value of properties in Chester County has steadily declined. In 2003, the assessment growth in the county was over \$1.2 billion dollars. During the last six years, we continued to see growth in these assessed values; however, the increases were at a much slower rate. In the past school

year, there was no growth in assessed value, in fact, the total assessed value of properties in Chester County decreased by almost \$7 million dollars. In the T/E School District we have lost almost \$1 million dollars in local tax revenue over the past two fiscal years due to reductions in assessed values.

In addition to these factors, we are contending with the projected dramatic increases in the contributions to the Pennsylvania Public School Employee Retirement System. T/E's contribution to the Pennsylvania Public School Employee Retirement System will increase from 4.76 percent to 8.22 percent in the 2010-2011 year, this is a 72 percent increase in one year. According to projections made by the Pennsylvania Public School Employee Retirement System the employer contribution rate for PA School districts will increase in the 2011-2012 year to 10.59 percent, then to 29.55 percent in 2012-13. In 2015, the rate is projected to be 33.6 percent. Projections beyond 2015 show the employer contribution rate of payroll paid into the retirement fund remaining at over 30 percent until 2020.

For T/E, our total costs for the state retirement fund contribution for the next five years will be in excess of \$37 million dollars. The incremental increases alone will cost the T/E school district over \$10 million dollars in the next five fiscal years, beginning with over a \$ 1 million dollar increase next year. This retirement rate increase for next year is 11% of our budgeted deficit. The incremental increases alone over the next five year equate to over 2 mills in local property taxes assessed to T/E property owners. The entire retirement fund contribution for that same five year period equates to almost 8 mills in local property taxes.

At a recent meeting, our School Board passed a resolution calling upon the General Assembly to begin immediate consideration of school employee pension reform. Our pension reform resolution urges the reduction in projected employer contribution rate increases over the next four years thus reducing projected costs to school districts, taxpayers and the Commonwealth while maintaining appropriate pension benefits for school employees. This resolution was created with the understanding that a meaningful solution to these problems could involve the identification of another funding source for PSERS, a decrease or elimination of the costs and liabilities of the system, including benefit levels, and deferral of the liabilities of the system.

Again, thank you for your invitation, time and interest. I am glad to answer any questions or address any comments the group may have.

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