

**WEST CHESTER AREA SCHOOL DISTRICT
TESTIMONY BEFORE THE
PENNSYLVANIA HOUSE OF REPRESENTATIVES
REPUBLICAN PARTY COMMITTEE
April 12, 2010**

Dr. Suzanne Moore

Good morning. My name is Suzanne Moore, and I am the Director of Business Affairs for West Chester Area School District. West Chester Area School District is the 11th largest District in the state of Pennsylvania. Our 2010-11 budget is expected to exceed 200 million dollars. Given the state's funding formulas, our District relies on local revenues to fund 86% of our budget. Examples of these revenues include a tax on current real estate, interim real estate billings for new construction, a tax on real estate transfers, a tax on earned income, and earnings on District investments. Historically, our District has had a healthy tax base which reflected steady real estate development activity and consistent growth in our residents' earned income. The last year, however, have been our worst in terms of financial activity during my 22 years of employment at the district. Over a two year period we have seen the value of our tax base decrease by \$150 million due to real estate assessment appeals. As a result, for the first time in the history of our school district, our 2010-11 real estate tax base will be lower than the previous year. Other unexpected lows impacting our local revenues are earned income tax collections which will be \$300,000 less than the prior year; and, investment income, which averaged more than \$2.0 million in recent years, and is expected to be only \$350,000 this year. In essence, our district is experiencing its own financial meltdown as a result of the country's Wall Street, banking system and real estate crisis. Unfortunately, because it typically takes at least 12 months to generate tax revenues from commercial and residential development activity, our district's recovery will lag behind the recovery in the general economy.

Given the vast reduction in local revenue sources for the District, along with a 72% increase in our PSERS 2010-11 retirement expenses, in the fall of 2009, we estimated that our District faced a \$10 million gap in next year's budget. Included in the budget gap analysis was our District's decision not to take the Act 1 exception of the increase in the employer's retirement rate. To minimize this budget gap, we cut out \$4.0 million in current year spending and have taken measures to reduce \$6.0 million in spending for 2010-11.

To illustrate the impact of the PSERS system on school finances, one needs to compare the last ten years to the 2010-11 year and following 4 years for our District. In 2000-01, the PSERS board lowered the employer contribution rate from 4.62% to 1.94%. At that time, our District's retirement expense was \$2.7 million and accounted for 2.4% of our budget. The employer contribution rate continued to drop over the next two years and then increased to 3.77% in 2003-04. Our total retirement expense in the 2003-04 year was \$2.7 million which accounted for 1.9% of our operating expenses. Over the next four years, there was a gradual increase in the employer contribution rate and our retirement costs were 2%-3% of operating expenses during this time period. In 2008-09 the rate dropped from 7.13% to 4.76% which reduced expenses from \$6.1 million to \$4.1 million in our operating budget. During these years, the low employer retirement rates and associated costs offset other cost increases including debt service for high school renovations along with associated prevailing wage payments mandated by the state; 3 teacher labor agreements including one settlement involving the District's first teacher strike; fuel rate spikes in our busing operations for 16 public and 140 nonpublic

schools; \$6 million in annual charter school tuitions, including 130 students attending cyber schools; new resources needed to comply with NCLB; and, special education program costs that grew from \$10 million in 1999-00 to \$25 million in 2008-09. Our district expenditures grew by \$78 million over the last 10 years while our state funding only increased by \$9 million. Thus, local taxes paid for 88% of our cost increases over the last 10 years. Ten years ago, our average residential tax bill was \$2,026. Taxes increased an average of 4.7% or \$116 per year. The total tax bill per average resident was \$3,185 in 2008-09. Over the last ten years, PSERS expenses ranged from \$11 to \$76 per average annual residential tax bill.

The employer retirement contribution rate in 2009-10 – our current fiscal year - is 4.78% which represents \$53 of our average resident's tax bill. The latest estimates of the employer retirement contribution rate are 8.22% in 2010-11, 10.7% in 2011-12, 29.55% in 2012-13, 32.45% in 2013-14 and 33.6% in 2014-15. If the District passes the employer share rate increases onto our tax payers - as allowed by the Act 1 exception - our average resident's taxes will increase from \$53 to \$93 in 2010-11, \$125 in 2011-12, \$350 in 2012-13, \$392 in 2013-14 and \$414 in 2014-15. If the District does not pass on the cost increases to the local tax payer, our District will need to reduce expenses in other areas of the budget as follows: \$1.6 million in 2010-11, \$1.3 million in 2011-12, \$9.2 million in 2012-13, \$1.8 million in 2013-14 and \$1.0 in 2014-15. As I mentioned previously, for our 2010-11 budget, our District chose to not take the Act 1 exception, so we are reducing expenses in other areas of the budget to offset the employer share retirement percentage increase. If we make the same decision in the future, our District will be reducing our costs in other areas of the budget by \$15 million over the next 5 years. Our retirement expense will increase from 2.2% of our budget in 2009-10 to 14% of our budget in 2014-15. Given the grim outlook of our future budgets, the educational programs that have been a part of our District's framework will not be sustainable to say the least.

The PSERS retirement system is a state mandate for school districts in Pennsylvania. There are many mandates creating extreme operational inefficiencies and a heavy financial burden on school districts, the state government, and tax payers. It is up to the legislators to eliminate any senseless mandates by examining the costs and benefits associated with them, and making tough decisions on what is necessary for an effective and efficient public education system in Pennsylvania.