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PA SENATE EDUCATION COMMITTEE TESTIMONY

Presented May 12, 2017 | Erie, PA

Dr. Jay D. Badams, Superintendent of Schools

Good afternoon Chairman Eichelberger and members of the Senate Education Committee. Welcome to Erie and thank you for this opportunity to provide testimony on the financial challenges facing our district and the larger Erie community.

It has been a privilege for me to serve the City of Erie as Superintendent of Schools since 2010 and an honor to have been named to the Pennsylvania State Board of Education in 2014. As an educator whose greatest interest and previous experience was predominantly curriculum, instruction and assessment, my work for the past seven years has been almost singularly focused on financial recovery.

Here in Erie, we have been working to avoid insolvency since I began my tenure as superintendent in 2010. During that year I convened a local financial advisory committee with the help of the Erie Chamber and Growth Partnership. This group consists of CFOs and CEOs who have volunteered their time and expertise on a monthly basis ever since. Initially, this group of business leaders helped to confirm our deteriorating financial outlook, and as we have worked through each budget cycle, they have been invaluable critical friends of the district. One of their first acts was to help us to hire an independent financial advisory firm, and with their help, we engaged Public Resources Advisory Group to complete a five-year financial projection. In their most recent report, issued in 2013, PRAG predicted that we will not be able to cover our payroll obligations sometime in 2018 or 2019.

In January of 2015 I offered testimony to the Basic Education Funding Commission detailing our financial outlook. Our story was much the same then as it is now.

In April of 2015 we hosted a legislative breakfast to appeal to our elected officials and to inform them of our situation. At this meeting, Jim Schaffner, from local accounting firm Schaffner, Knight & Minnaugh, delivered a report they had done for us confirming our financial situation and predicting insolvency in the near future.

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In May of 2016, my colleague Brian Polito and I testified before the House Education Committee in support of proposed legislation from then Representative David Parker of Stroudsburg, who had recommended a plan to accelerate the implementation of the Basic Education Funding Formula.

Throughout 2015 and 2016 we visited with numerous members of the Administration, the Senate and the House as well as key staff members from each caucus and the Governor's office. We met with the Governor and his senior staff, Majority and Minority Leadership, Appropriations, Education and Budget staff. We met with Secretary Rivera and his staff on several occasions as well. At each of these meetings, we shared our financial outlook and sought advice.

As the 2016-17 state budget process drew to a close, Section 694-A was passed, which placed us into Financial Watch with special provisions tied to a \$4 million Educational Access Grant. This status required us to submit a financial plan to PDE and allowed us to work with the state's financial advisor Public Financial Management, whose services PDE had already provided to analyze our financial situation in the spring of 2016. It is our understanding that we are the only district in the Commonwealth to which this subsection of the law applies.

Just as PRAG and SKM had projected, PFM has now confirmed twice, that our district faces the prospect of insolvency as soon as the spring of 2018. PFM has also provided technical assistance that has proven very helpful as we work to comply with the requirements of Section 694-A.

No matter who has reviewed our finances, all experts have concluded that our situation is real, our numbers are accurate, and that we can't balance our budgets by local taxation and expenses reduction alone.

I am hopeful that the testimony you will receive today will prove to you that despite the threat of insolvency, our district may provide a replicable example of a school system that has responsibly reduced its spending, and positioned itself to regain fiscal stability with some additional help from the Commonwealth. We are well aware that there are many other districts throughout our state facing similar financial problems, but we have also learned that many have not yet exhausted all measures available to solve them.

Another takeaway I hope you gain from today's testimony is an accurate understanding of our well-publicized state-mandated planning process and resulting request for \$31.8 million in additional state aid, which was understandably rejected. Given the media coverage surrounding that process and the wording of our rejection letter, an observer might reasonably conclude that Erie's board and administration had mismanaged itself into financial distress through overspending and inadequate local taxation and was simply turning to Harrisburg for a bailout. While understandable, such a conclusion would be dead wrong. The letter made no acknowledgement of our district's prior efforts to solve our financial problems. Our board and administration have maintained a fiscally conservative approach to our annual budgets for seven consecutive years. We can show seven years' worth of corrective action which has resulted Erie spending less per-pupil than at least 80% of all Pennsylvania school districts. The \$31.8 million we included in our original state-mandated plan would still have left us approximately 9% below the 2016 state average.

I would also like to acknowledge our own part in the financial conditions that have helped to bring this issue to the fore. As then Education Secretary Tomalis admonished a group of educators at our introductory meeting in northwestern Pennsylvania, many of the districts facing devastating budgets in 2010 had negotiated unsustainable labor contracts -- even in the face of the recession. Admittedly, we were one of them.

But since that time, we have significantly reduced staff, renegotiated labor contracts and increased employee health care contributions. We have closed three elementary schools and optimized grade levels and attendance areas in our remaining schools.

In addition to that, subsequent testimony from my colleagues will show that we have introduced an aggressive consolidation plan that would further right-size the district and in the long-term improve equity, parity and efficiency of our system.

To manage a ballooning cash deficit, we entered into an innovative lease-lease-back arrangement with the Erie County General Authority to leverage our non-instructional real estate, which provided \$10 million of much-needed operating capital and helped us to avoid a court-managed bond issue for unfunded debt.

In Erie, we have changed our district's culture from "they'll find the money" to "how will we pay for this?" I truly believe that our board and administration have gained the trust of our community as careful stewards of taxpayer dollars.

Cutting Our Way to a Balanced Budget... Every Year

Since we've already cut our way through a \$26 million shortfall, a \$14 million shortfall in the following year, a \$9 million shortfall in 2013-14, \$5 million in 2014-15, \$7 million in 2015-16 and \$6 million in 2016-17, we have little left to cut.

Unfortunately, property tax payers in the City of Erie — already stretched thin due to the City's own financial challenges — have been forced to bite off an even larger piece of the education funding pie.

And, considering the fact that 30% of all property in the City is deemed tax exempt (representing \$2.6 billion in assessed real estate value), the burden is even greater on the individual homeowner in urban areas like ours.

Charter Schools

Our charter school costs are now topping \$24 million a year. If the charter reimbursement originally written into the law were fully funded, we would qualify for 40% offset of those costs, which would effectively balance our budget.

Any legislative progress on charter school funding reform would obviously help our district's financial outlook.

A way forward?

There should be a way to provide financial assistance to those districts like Erie, that have shown financial responsibility and can show a sustainable plan for the long term.

We also must keep in mind that Pennsylvania has an school funding equity problem that needs to be solved. More than half of Erie's Public School children represent racial minority groups. Our English Learners and resettled refugees are our fastest growing segment of our student population. These New Americans come to school with greater needs than do our typical students. Erie's high poverty rate ensures that our students come to school with burdens that the average child in Pennsylvania does not. Yet Erie's proportional share of state funding is significantly lower than many districts in the Commonwealth, and even in Erie County. In many ways, children with the greatest educational needs are receiving inadequate resources.

As a member of the State Board of Education, a school district superintendent, a resident taxpayer of the City of Erie, and as a parent of children in Erie's Public Schools, I share your commitment to finding a way to equip our schools with the resources they need to provide every child with the quality educational opportunities they deserve and to do so in a way that eases the burden currently shouldered by local property taxpayers.

Thank you again for the opportunity to provide this testimony and for the important work you are doing.