



COMMONWEALTH OF PENNSYLVANIA  
OFFICE OF THE GOVERNOR  
HARRISBURG

May 21, 2012

The Honorable Jeffrey E. Piccola  
Chairman, Senate Education Committee  
173 Main Capitol Building  
Senate Box 203015  
Harrisburg, PA 17120-3015

The Honorable Andrew E. Dinniman  
Chairman, Senate Education Committee  
183 Main Capitol Building  
Senate Box 203019  
Harrisburg, PA 17120-3019

Dear Chairmen Piccola and Dinniman:

In an effort to respond to the needs of school districts that are facing financial difficulty, the Administration has worked closely with Senate and House leadership to craft a proposal that will put in place important tools and resources for school districts struggling with their finances. Amendment A10521 to House Bill 1307 creates Article VI-A of the Public School Code related to school district financial recovery. This financial recovery system will consist of two major phases: 1) financial watch and 2) financial recovery.

This legislation directs the Department of Education to develop and implement an early warning system that will paint a clearer picture of the financial stability of Pennsylvania school districts. The Department will examine financial data about school districts, identify school districts that experience mild financial difficulties as being in "financial watch status" and provide those school districts with technical assistance so they can avoid entering financial recovery status.

If a school district meets criteria laid out in the legislation as having severe financial difficulties, that district will enter "financial recovery status" under this proposal. The Secretary of Education must issue a declaration of financial recovery status if a school district satisfies either of the following criteria: 1) a school district will be declared a "moderate financial recovery school district" if the school district has an average daily membership greater than 7,500 and receives an advance of its basic education subsidy at any time, or; 2) a school district will be declared a "severe financial recovery school district" if the school district receives an advance of its basic education subsidy at any time and is either under a declaration of financial distress under section 691 of the School Code, or is engaged in litigation against the Commonwealth in which the school district seeks financial assistance from the Commonwealth to allow the school district to continue in operation.

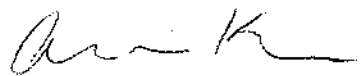
"Financial recovery status" will allow the Secretary of Education to appoint a chief recovery officer (CRO) for the school district. The CRO will be tasked with developing and implementing a financial recovery plan that will provide for the delivery of educational services while also making necessary payments. The financial recovery plan will include benchmarks for returning the school district to financial stability. The CRO will have access to tools that will allow him or her to effectively manage the financing of a district, including but not limited to, reopening of the budget,

conversion of school buildings to charters by a majority vote of the school board, renegotiation of contracts other than collective bargaining agreements, closure or reconstitution of a school, renegotiation of a collective bargaining agreement with certain limitations, etc. Once approved, the local school board must carry out the financial recovery plan developed by the CRO. If the school board fails to comply with directives of the CRO, the school district is subject to the appointment of a Receiver. The Secretary must petition the Court of Common Pleas for the appointment of a receiver if the school district fails to approve the plan, fails to implement the plan, fails to achieve the criteria set forth in the plan during the 5-year transition period after termination of financial recovery status or votes to proceed with the appointment of a Receiver.

Amendment A10521 also contains a Financial Recovery Transition Loan Program that will provide assistance to school districts that meet the requirements of the legislation. Each school district in financial recovery status is eligible for a long-term, interest-free loan, in an amount, accessible over a term and repayable according to a schedule set forth in the financial recovery plan developed by the CRO. The legislation also includes requirements for the termination of financial recovery status once a school district is returned to financial stability.

A silver bullet does not exist when it comes to the financing of our public education system; however, it is clear that difficult decisions about how to right-size operations and spend the \$26 billion dollars that is provided for the support of our educational system in the most efficient manner is of the utmost importance. When local school districts cannot or will not make these decisions on their own, the State will need to step in and take action to provide for the education of the students and to protect the interests of the taxpayers. Amendment A10521 puts a system in place that allows the State to more effectively monitor the financial status of school districts, and to provide assistance when a school district veers off the course of financial stability. I urge you to support the amendment to House Bill 1307 and to support the bill as amended so we can implement this system of school district financial recovery.

Sincerely,



Annmarie Kaiser  
Secretary of Legislative Affairs  
Office of the Governor

CC: Members, Senate Education Committee