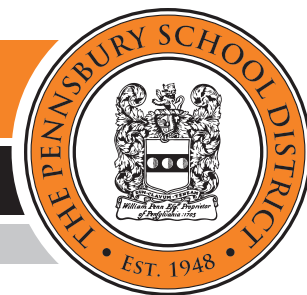


PENNSBURY SCHOOL DISTRICT

NEGOTIATIONS UPDATE

AUGUST 2011



DESPITE MONTHS OF TALKS, NO PROGRESS IN TEACHER CONTRACT NEGOTIATIONS

TIMELINE OF NEGOTIATIONS WITH THE PENNSBURY EDUCATION ASSOCIATION (PEA)

January 2010	<i>First negotiation session is held prior to contract expiration.</i>
March 2010	<i>Board proposal is presented to the PEA.</i>
June 2010	<i>PEA contract expires.</i>
July 2010	<i>Two sides meet to discuss PEA's counterproposal, but session focuses instead on economic realities. School Board agrees to meet with PEA again in August to further review counterproposal.</i>
August 2010	<i>PEA's counterproposal fails to address the School Board's concerns about health care costs. The School Board introduces an off-the-record proposal with 0% tax impact and a retirement incentive. PEA rejects this proposal. The School Board reverts to the formal proposal made in March 2010.</i>
October 2010	<i>School Board Negotiator Jeffrey Sultanik meets with state mediator John Cairns for a private discussion on the state of the negotiation.</i>
January 2011	<i>PEA members attend School Board meeting and urge members to talk; School Board President asks PEA to come back to the table with a different proposal.</i>
March 2011	<i>PEA announces intent to file for fact-finding in April, but this avenue is not pursued.</i>
April 2011	<i>Brief mediation session is suspended by state mediator. No further sessions are scheduled.</i>

Over a year has passed since the Pennsbury Education Association's (PEA) contract expired, and little progress is being made on a successor agreement. Since last June, Pennsbury teachers have been working under the terms of the expired contract, which is often referred to as "status quo." This update is intended to detail the negotiation process, show why status quo is not a good condition for either side, and highlight some of the financial challenges facing the School Board.

Before and after the current contract expired on June 30, 2010, the Pennsbury School Board and the PEA held a series of negotiation sessions to discuss financial challenges and exchange proposals, but the sides remained far apart on the issues of salary and health care. A state mediator was brought in to help. Last spring, the PEA indicated it would initiate the fact-finding process, where a neutral, third-party

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NO PROGRESS IN TEACHER CONTRACT NEGOTIATIONS (CONTINUED)

develops a proposal for consideration by the parties. That process was never requested by the union. The last mediation session was held in April 2011, but was suspended after very little discussion. At press time, no new sessions have been scheduled between the Board negotiating team and the union negotiating team. Updates may be found by visiting www.pennsbury.k12.pa.us > *PEA Negotiation Updates*.

STATUS QUO IS NEGATIVE FOR BOTH SIDES

Since the expiration of the PEA contract in June 2010, the teaching staff has been working under the conditions of the old contract (status quo). This means that teachers have been receiving the same salary and benefits since the 2009-10 school year.

While some might think this is positive from a School District budgetary perspective, the School Board and administration view maintaining status quo as a negative. While salaries remain frozen, the School Board continues to fund current health care plans and escalating retirement costs. Changing the health care plan is seen as the key factor to reaching a tax neutral settlement. If a new agreement is not reached, the total cost of the expired teachers' contract would continue to rise by an estimated \$2.6 million by 2013-2014 due to retirement and health care cost increases.

Members of the teachers' union do not benefit from the status quo, either. Working under the expired contract means that Pennsbury educators receive no additional compensation for educational attainment or traditional years of service increases. In addition, teachers may lose out on retirement benefits, since PSERS (pension) payments are based on a teacher's three highest years of service. Under status quo, the less experienced and lowest paid teachers remain frozen at the lowest level on the salary scale with no opportunity for increases. At the same time, they are required to continue their education to maintain certification. This imposes a significant financial impact on teachers at the lower end of the salary scale. While teachers earning the highest salary, currently \$98,222, may be inconvenienced by a salary freeze, entry level teachers who earn \$45,176 may be devastated by remaining in status quo.

SCHOOL BOARD BEGINS NEGOTIATION PROCESS WITH SUPPORT STAFF UNION

In addition to negotiating a new teachers' contract, the Pennsbury School Board is also in talks with its support staff union, the Pennsbury Educational Support Professionals Association (PESPA). PESPA represents the School District's secretaries, clerks, bus drivers, transportation staff, aides, paraprofessionals, custodians and some other employees.

PESPA's contract expired in June 2011, and the union and Board have met to exchange proposals. The most recent PESPA proposal was presented in early June and included a partial wage freeze in the first year and increased contributions to health care benefits. This proposal may be viewed online at www.pennsbury.k12.pa.us > *PESPA Negotiation Updates*.

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SUPPORT STAFF NEGOTIATIONS (CONTINUED)

The School Board made an unofficial proposal to the union, but is awaiting a new proposal from PESPA before making another offer. The Board's goal is to establish a contract that would have little to no impact on taxes or one that would be competitive with the cost of outsourced services. While School Board members have not decided to hire subcontractors to fill support staff positions, this concept is being explored. Board members have stated they value the quality of service provided by PESPA employees; however, they wish to understand the pros and cons associated with subcontracting.

BUDGET PROCESS CONSTRAINED BY MULTIPLE FACTORS

This is a difficult time for public school districts in Pennsylvania. With the effects of a recession still lingering, a new governor in office, changes to existing laws affecting school district budgets, and increasing costs, school districts across the Commonwealth – including Pennsbury – are struggling to continue to provide high quality educational programs without overburdening taxpayers.

RECESSION EFFECTS LINGER

Revenues have declined in the Pennsbury School District for the last several years due to lowered property assessments, reductions in state subsidies and grants, reduced interest on investments, the loss of stimulus money, and reduced federal subsidies. At the same time, expenses for health care, utilities, and the retirement system continue to increase. Retirement benefits are of particular concern, as the mandated contribution rates for school districts are projected to spike in coming years. This school year, Pennsbury will contribute payments to the Pennsylvania School Employees Retirement System (PSERS) at a rate of 8.65% of salaries, up from 5.64% in the 2010-11 school year. By the 2012-13 school year, the contribution rate will jump to 12.19%, and the rate continues to rise dramatically in subsequent years (see chart on the following page).

STATE CUTS REDUCE REVENUES

Governor Tom Corbett's initial budget in March 2011 proposed significant cuts to state educational funding. While some funding was restored in the final budget for the Accountability Block Grant program, Social Security contributions, and basic education subsidies for Pennsbury, state revenue to local districts clearly falls short of covering the numerous state mandates passed down from Harrisburg. The revenue reductions from the state compound the impact on local sources.

ACT 1 INDEX TRENDS DOWNWARD

The Act 1 index is set annually by the state and establishes the maximum tax rate by which school districts can raise taxes without going to voter referendum. The index, which is calculated based on the Statewide Average Weekly Wage and the Employment Cost Index, has seen a steady decline. Over the last four years, the index decreased from 4.4% to the current level of 1.4%.

In spite of this tight constraint, the Pennsbury School Board has held tax increases below the index cap each of the past four years and has not applied for exceptions to the limit of the Act 1 index during the past three years. It is anticipated that the Act 1 index will continue to fall in years to come, making it increasingly difficult, if not impossible, for districts like Pennsbury to generate revenue needed to fund educational programs at established levels.

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BUDGET PROCESS CONSTRAINED (CONTINUED)

BOARD SETS GOAL OF 0% TAX INCREASE

In preparing Pennsbury's budget for the 2011-2012 school year, the School Board met its established goal of imposing a 0% real estate tax increase on residents already suffering from existing economic realities. However, this was no easy task in light of a \$6 million shortfall established in an early draft of the budget.

To achieve its 0% goal, the Pennsbury School Board:

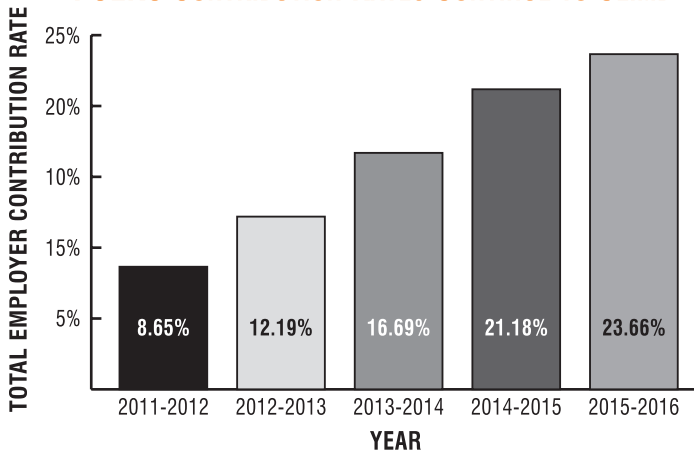
- reduced professional staff by attrition
- reduced support staff positions
- reduced overtime
- reduced the budgets for supplies, books and software
- suspended ninth-grade wrestling

...in addition to taking many other steps to cut costs. These reductions, coupled with an approximate \$3.2 million appropriation from fund balance, helped to balance the budget. A new Board Revenue Development Committee also began investigating ways to generate additional revenue through advertising opportunities and other initiatives.

SEEKING SOLUTIONS

As the School Board faces mounting financial challenges, compromise solutions are needed to reach settlement on two critical employee contracts. The implications of declining and constrained revenues and spiraling expenditures weigh heavily in every decision required of the School Board. In negotiating contracts for today's reality, the School Board will continue to focus on what it can afford to offer employees without unfairly burdening taxpayers or forfeiting high quality education that the community values and has come to expect in the Pennsbury schools.

PSERS CONTRIBUTION RATES CONTINUE TO CLIMB



ACT 1 INDEX VS. REAL ESTATE TAX INCREASE

