COUNTY IMPACTS DURING THE
FY 2015-2016 BUDGET IMPASSE

“If there’s no consistency with the state budget, it is almost impossible to plan for any future county expenditures.” A sentiment widely echoed across the state of Pennsylvania, this statement is a commentary on both the recently resolved FY 2015 – 2016 budget impasse, and the impending threat of another impasse for the upcoming FY 2016 – 2017. Counties are anxiously monitoring the current budget cycle and bracing for another difficult year. As evidenced by a recent survey from the County Commissioners Association of Pennsylvania, they have every right to be wary, because counties had to find a way to fund an average of 20 percent of their annual operating budgets that should have been covered by the delayed funding from the commonwealth. This equates to an average total cost of $12 million, an amount covered by using county reserves, and borrowing funds.

Of the 46 counties interviewed at length, 70 percent used funding from their reserves to cover their expenditures and maintain services at a consistent level for their residents. Four counties completely depleted their entire reserves, ten counties were at critical levels of their reserves, and some were only days away from needing to find another way to cover their costs. Counties utilized their reserves not only for operating expenses, but also as loans to various human services agencies to help ease their financial burden. In some cases, the loans provided by counties ensured the continued survival of those agencies, and enabled services to be administered at a level consistent with those provided before the impasse. This generosity was not without cost to the counties, who lost an average of $18,160 in interest earnings. It is important to consider that the generous use of counties’ reserves has resulted in un-replenished reserve levels, and also means that in the event of another impasse, counties have fewer assets available to them before they will have to find another source of funding.

By the Averages

- Average total cost: $12 million
- Average amount of budget funded: 20%
- Average amount borrowed: $5.7 million
- Average bank fees: $16,800
- Average interest payments: $17,900
Securing alternate funding sources provided another challenge for counties to overcome. In a typical fiscal year from January 1 through December 31, 22 percent of the counties responding (10 out of 46), use either a Tax Anticipation Note or a Tax Revenue Anticipation Note as a stop-gap measure until tax revenues are received beginning in March. The FY 2015 – 2016 budget impasse posed a serious challenge to the counties that relied on this method. Counties that already had a TAN or TRAN were forced to either delay the repayment of their funding, request authorization for an addition to their funding, or seek out a second method of funding to cover their expenses. This meant that in some cases, counties had two separate interest payments to make, which totaled in the tens of thousands of dollars in additional costs. In addition to the 22 percent of counties mentioned above, 30 percent of counties (14 out of 46) borrowed an average of $5.7 million, and an additional six counties were days away from borrowing. The average amount of fees paid by all counties who explored or capitalized on the borrowing option was $16,800. Interest payments also posed another serious challenge to those counties, with the interest payments at $17,900 and continuing to grow.

Counties began looking into borrowing options beginning in September 2015, and anticipated the costs and consequences of borrowed funding, but many of them did not foresee the significant amount of associated fees and interest costs. Counties had to absorb those additional costs in an already over-taxed county budget and recognize that they are going to run out of feasible alternatives to absorb these costs in the event of another impasse. The above-stated average of $5.7 million in borrowed funds only represents the average that counties needed to borrow. Collectively, counties authorized borrowing of an average of $11.8 million, more than double the amount actually borrowed in the impasse. In the event of a second impasse, the total dollar amount needed to cover another impasse will dramatically increase, and mark a surge in the amount borrowed by counties.
“Why burden an already burdened agency? They shouldn’t have to bear the brunt of a state [budget] issue.” For some counties, the impasse presented a moral and ethical issue, and forced them to examine what an “essential” service or program actually entailed, and whether it was the counties’ responsibility to ensure continued levels of service. Forty-eight percent of the counties interviewed were forced to delay payments to providers as early as July 1, 2015, because they were unable to afford those payments. Other counties provided loans from reserves, and borrowed larger sums of money to cover the gap left by state funding, upwards of hundreds of thousands of dollars. Of the service providers affected by the impasse, Mental Health and Intellectual Disabilities and Area Agency on Aging providers were the most negatively impacted, with the largest number of staff furloughed and wait lists created to handle the unrelenting demand for necessary services.

In some instances, counties developed priority lists for providers, dividing them into a tiered system that categorized how each provider received its funding, but 13 separate county senior centers were still forced to close, utility assistance to county residents was denied due to lack of state and federal funding and in at least one county, the Area Agency on Aging had to eliminate programs for their clients, and are still working on restoring those programs to their prior capacity. Although county commissioners remained absolutely committed to providing services and programs to their residents, 22 percent of counties were forced to eliminate or modify their programs, and developed substantial waiting lists for services. Of the seven counties that employed waiting lists to cope with the demand for services, 29 percent of those waiting lists are still unresolved, with no definitive end date in sight.

Six counties added clauses to their contracts with providers prior to FY 2015-2016 that excused them from making payments to providers until funding is received from the state. Providers were then obligated to continue services without payment, and forced to secure alternate funding sources until state funding was received. This caused significant financial stress on these organizations and will have a compounding effect moving forward in the event of another budget impasse. A cut or reduction in services or funding to providers only redistributes the costs to different agencies and the tax payers. These critical services must be provided and funded in some way, or the majority of counties will be unable to fund these providers and their programs because there are simply so few resources left.

70% of counties drew down on reserves, losing an average of $18,160 in earned interest.
At least four counties drained their reserves entirely, and many more were just weeks or even days from the same.
30% of counties borrowed funds, averaging $5.7 million of the average $11.8 million they were authorized to borrow.
48% delayed payments to providers and vendors, some beginning as early as July 2015.
50% delayed expenditures such as replacing furniture, and capital projects including needed renovations and upgrades.
32% made staff changes such as imposing hiring freezes, delaying new positions and limiting training and travel to essentials.
22% modified programs by creating waitlists, limiting hours, curtailing new recipients and in a few cases, closing programs.
“We weathered it [the impasse] well this time – it was business as usual here. But we know going forward we won’t be as lucky.” Counties are keenly aware of their limited resources as they face the potential of another impasse, and have already stated that they will be cutting their hours of operations, eliminating jobs, and will not pay providers or continue the majority of their services to their residents. These coping strategies will be implemented in varying degrees across the commonwealth in the event of another impasse. There are simply not the resources at the county level to handle the full-scale effort needed to survive another impasse successfully, and the effects of the FY 2015 – 2016 budget impasse will be compounded going forward.

Although every county in this commonwealth is unique in the way they gracefully managed this impasse, one clear and unifying message rings true:

“It may appear that we [counties] don’t need any funding because we found a way to make this work on our own [without state funding]. The real cost of this though, is the services we couldn’t provide, and the time and effort it took to make things work for our residents. You can’t put a dollar amount on that.”

Why it Matters - Looking Ahead

Another impasse in FY 2016-2017 will have a compounding effect – with less funds available in reserve, counties will have to borrow sooner and borrow more, incurring more fees and higher interest payments. This also means other contingency plans such as reducing services, laying off and furloughing staff, completely stopping provider payments, or in extreme cases, shutting down all county operations to the bare necessities, become more and more likely the longer an impasse goes on.

See CCAP’s 2016 Commonwealth Budget and Human Services Funding Priority at www.pacounties.org for more information.