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NONPROFITS, SCHOOL DISTRICTS AND THE GENERAL ASSEMBLY GO INTO DEBT DUE TO THE BUDGET IMPASSE

The Commonwealth of Pennsylvania is ending its fourth month without a budget. As a direct result of this impasse, nonprofit organizations, school districts and even the House and the Senate have gone into debt to continue operating.

Impact on Nonprofit Organizations

According to survey results released by United Way of Pennsylvania in mid-October, nearly 60% of the 282 participating organizations are currently accessing lines of credit. Sixty-seven (67) organizations reported carrying an estimated \$3.5 million in interest costs as a result of the budget crisis. Furthermore, 42% report not being able to access additional lines of credit, increasing the likelihood of service curtailment and/or agency shut-downs. Thirty percent (30%) of responding organizations have already reduced services or implemented waiting lists as a direct result of the state budget impasse.

During the October 29th Weekly Advocacy Call hosted by the Pennsylvania Association of Nonprofit Organization (PANO), members joined the conversation about strategies for asking financial institutions for new or extended lines of credit, facilitated by Patricia Markel-Mulligan, Senior Banking Executive with Covenant Bank. The following organizations noted their own stories related to their lines of credit:

PASSAGES, Inc.

Marlene Austin, Executive Director of PASSAGES, Inc. reports: We have done MAJOR cutbacks to hold back on using our line of credit. We will unfortunately need to begin using it at the end of November. Our line of credit is only \$60,000, which will keep us going for an additional 2 months. After that, we will unfortunately be looking at closing our doors.

We have 8 staff members spread between 3 counties. Two will begin a full-time lay-off beginning the 2nd week of November, in addition to myself and fiscal administrator taking pay-cuts. More layoffs will occur by the 2nd week of December.

COMMUNITY PROGRESS COUNCIL

Anticipating budget delays, the Community Progress Council took out a \$2 Million line of credit. On October 28, 2015, the organization announced scheduled agency-wide closures for two full weeks in November and December. "With no progress to report on budget negotiations, we cannot predict how long our line of credit will need to serve as our lifeline," said Community Progress Council's President and CEO, Robin Rohrbaugh. During these closures, Community Progress Council will cease all services and program offerings.

“These are difficult decisions that we do not take lightly, and we are working diligently to protect our employees and our clients from more extended closures,” said Rohrbaugh. “We hope these scheduled, short-term closures will prolong the number of days we can continue to maintain operations without a state budget.”

Impact on School Districts

According to Auditor General Eugene DePasquale, 27 Pennsylvania school districts and 2 intermediate units have borrowed at least \$431 million since July 1, 2015, with 54 more districts expected to borrow next month.

Impact on PA’s General Assembly and the Administration

According to the Press Secretary of the Senate Republican Caucus, Jennifer Kocher, the Senate borrowed \$9 million at an interest rate of 3%; the House has secured a \$30 Million line of credit at a 3.25% interest rate, immediately drawing down \$5 Million. These funds have been accessed to pay for daily operations of Pennsylvania’s general assembly. A spokesperson for the governor’s office stated that the Administration has not gone into debt to maintain operations during this time.

Who Will Pay?

Anne Gingerich, PANO’s Executive Director, raises questions without easy answers: “Who will pay these unplanned costs related to interest rates, debt service, lost earned interest and credit card costs? The private sector is being called on to finance the interest, debt service and credit card expenses for the nonprofit sector. Who will pay the debt costs incurred by the state?”

The time has come for bi-partisan solutions. Pennsylvanians must come together from all sides to negotiate and pass a final responsible budget into law.

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About PANO

PANO amplifies the impact of the community benefit sector through advocacy, collaboration, learning and support. PANO, a statewide membership organization serving over 865 nonprofits, walks alongside organizations and individuals working to improve the quality of life in communities throughout Pennsylvania. To learn more about PANO, please visit: www.pano.org.