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THE BUDGET CRISIS

While lawmakers in Harrisburg continue to haggle over two years of proposals with no resolution in sight, the effects of the stalemate are being felt far and wide.

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THE NEXT BIG SPARK THAT'LL DRIVE GROWTH



PNC's Kurt Rankin says there's only so much that can be squeezed out of the local economy.

That's why he believes the natural gas market must develop a national distribution network.

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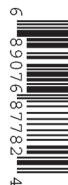


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PITTSBURGH BUSINESS TIMES

Budget impasse takes toll on nonprofits

SEVERAL HAVE HAD TO BORROW, CUT TO MAINTAIN SERVICES

BY PATTY TASCARELLA
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It was three months into Pennsylvania's unprecedented budget impasse and something had to give at Ursuline Support Services.

Executive Director Anthony Turo already had dipped into a \$400,000 line of credit and pushed back paying the nonprofit's landlord, IT provider and accountants. A provider of services to adults and seniors struggling with abuse and financial and emotional distress, Ursuline was down to a single option.

On Oct. 1, Turo made the wrenching decision to reduce the salaries of his 24 employees by 25 percent.

"I had staff members who had to go into their 401(k)s and take loans so they could pay their bills," Turo said. "That broke my heart."

As the holidays approached, Turo came to the awful realization that a second cut, slicing pay by half, would be how Ursuline would begin 2016.

But on Dec. 29, almost six months into the stalemate, Gov. Tom Wolf line-item-vetoed the budget bill and approved \$23.39 billion of the \$30.3 billion he originally proposed, which meant full funding was released for human services nonprofits across the commonwealth. Pockets of the longest budget gridlock in Pennsylvania history had ended – at least for the time being.

"We were able to make everyone whole by mid-January," Turo said. "But for two and a half months, their salaries were lower. They weren't able to put as much into savings as they had before. That's frustrating and uncalled for. We have a line of credit that was tapped out [for] all but \$34,000. We will end up spending about \$6,000 in interest this year that was not in our budget and we'll probably not get that back from anybody."

For the most part, Ursuline shouldn't even have been affected by the budget standoff.

BY THE NUMBERS

HUMAN SERVICES

Departments with the largest budget requests and how they compare to the previous year

Department/Appropriations	2016-17 budget	% change
Medical Assistance - Capitation	\$4,086,032	4.60%
Intellectual Disabilities - Community Waiver Program	\$1,283,376	5.90%
County Child Welfare	\$1,149,523	21.00%
Long-Term Care	\$1,096,608	13.30%
Mental Health Services	\$846,777	7.10%
Payment to Federal Government - Medicare Drug Program	\$629,343	8.90%
Medical Assistance - Fee for Service	\$489,972	24.70%
Services to Persons with Disabilities	\$378,177	13.20%
County Assistance Offices	\$346,864	3.60%
Home and Community-Based Services	\$312,160	22.20%
Attendant Care	\$172,909	8.10%
Child Care Services	\$167,691	7.70%
Intellectual Disabilities - Community Base Program	\$158,914	3.50%
Child Care Assistance	\$152,609	0.00%
Intellectual Disabilities - Intermediate Care Facilities	\$142,621	2.50%
Intellectual Disabilities - State Centers	\$141,769	2.40%
Supplemental Grants - Aged, Blind and Disabled	\$136,368	-0.40%
Long-Term Care Managed Care	\$136,214	17.30%
Early Intervention	\$129,211	1.00%
General Government Operations *	\$97,065	4.20%
Human Services Total (all departments)	\$12,657,519	8.50%

It receives at least 60 percent of its funding through contracts with the Allegheny County Department of Human Services, and most of that comes from money derived from the Pennsylvania Lottery.

"Those dollars, even though they don't have anything to do with the general fund, still got caught up in the budget impasse," Turo said. "So no money flowed from July 1 until the governor passed a portion of the budget in the week between Christmas and New Year's."

Many at risk

Ursuline's experience is not unique. Nor is it over.

Already weakened, nonprofits across Pennsylvania are now girding for the very real possibility of locked horns again in Harrisburg, this time over the 2016-17 budget.

Early in February, Wolf presented his \$32.7 billion plan. Legislators are haggling over this budget as they did with last year's unfinished allocation. And because of the tangled

way federal funding loops its way through the commonwealth and Pennsylvania's preference for contracting with nonprofits, some are still waiting for passage of the full budget to get paid.

The state isn't the only one whose fiscal year starts July 1. Most nonprofits run on the same calendar and that means speculating on what will happen with the next state budget so they can submit their funding plans to their respective boards.

"The biggest thing for us is never knowing if it was going to be passed," said Caroline Woodward, development director at Bethlehem Haven, which delivers services to homeless women and those in danger of becoming so. "We had a hiring freeze, we laid off some staff, we put off things we would normally have done."

Now the state has to fix two budgets instead of one, noted John Lydon, CEO of Auberle.

"This is going to be much, much worse for nonprofits and human services providers in particular," Lydon said.

Auberle serves at-risk children and families in 16 program areas, including residential and foster care, emergency intervention, drug and alcohol programs and workforce development.

"One of the gimmicks in the state budget that was presented to the governor was in human service funding," Lydon said. "In running the budget for this 12-month period, they're going to run the human service funding at the state on an accrual basis for nine months."

So the payments from April 1 through June 30 – the final quarter of the current budget – move into the next fiscal year that starts July 1.

"The state took a free quarter of expenditures and pushed the can down the road," Lydon said. "There will only be money in July if they pass the [2016-17] budget on time and that deferral, to only pay three quarters for four quarters of service, is going to hurt us sooner and deeper than it did in this current fiscal year."

In Allegheny County alone, \$198 million in funding – \$33 million a month – was held up by the state, according to the Greater Pittsburgh Nonprofit Partnership. GPNP has surveyed 270 service nonprofits in the county on a monthly basis since July. In October, 50 percent of respondents reported cash flow problems. By December, it was up to 95 percent.

GPNP is a coalition of about 420 nonprofits and community partners from a 12-county region in southwestern Pennsylvania that is part of The Forbes Funds, which in turn is a supporting organization of The Pittsburgh Foundation. It is in the early stages of devel-



"I was a litigator and tried multimillion-dollar cases and the stress level of this is far worse than it ever was in the business world. You don't have control, there are so many moving parts and we serve over 3,000 at-risk people and families every year who rely on you to guess where things are going, make your best assessment and move it forward."

JOHN LYDON, CEO, AUBERLE

oping a statewide study to assess and evaluate the damages caused by the 2015-2016 budget impasse on the nonprofit, government and business sectors.

"We're very concerned because of the acrimony in Harrisburg. The degree of polarization in government right now is so unhealthy that we need to figure out how to find common ground," said Samantha Balbier, GPNP executive director.

"We're really worried that the sector is not going to be able to finance their way out of another budget impasse, that very difficult decisions around stopping services and laying off employees will probably be considered much earlier this time around," Balbier said.

The nonprofits in Allegheny County with budgets of less than \$100 million – excluding the universities and hospitals – employ about 10 percent of the county's workforce, she said.

Being a significant part of the regional economy, when nonprofits are hobbled, there's a tangible trickle-down impact on the for-profits.

"There's never been anything like this in my time," said Paul Rudoy, managing partner of accounting firm Horovitz, Rudoy & Roteman LLC. "Many organizations had lines of credit set up and there's an interest cost to that. A lot had to tighten their belts like they've never done before."

Half of HRR's nonprofit clients had to defer payments, Rudoy said.

Even with the funding that was released at the end of the year, other aspects of the still-pending budget have left some nonprofits hamstrung.

Banking on credit

Blind & Vision Rehabilitative Services was hit by a triple whammy. For six months, it had to dip into its \$2.5 million line of credit to the tune of \$480,000 for various costs including salaries, and it will be paying interest on the loan, said President Erika Arbogast.

BVRS employs 14 clients who are blind or visually impaired to manufacture products for the state such as reflective and aluminum road signs and sheets for prisons. Their salaries came out of the credit line.

"But early on, the governor instructed his staff not to purchase anything that wasn't mandatory until the budget was passed," Arbogast said.

So BVRS was \$400,000 behind its budget by the end of January, and the amount keeps growing because its sole customer isn't ordering until last year's budget is resolved.

On top of that, BVRS is nearing the completion of a \$16 million building project in Uptown where its North Side and Homestead operations will be consolidated. The manufacturing group already has relocated there and the plan is to have everyone moved in by the end of April.

BVRS applied for \$1 million in funding from the Rehabilitation Assistance Capital Program to put toward this – but that's been held up because of the 2015-16 budget and RACP funding can only be received prior to a project's completion.

"We can't put the project on hold," Arbogast said. "If the (2015-16) budget isn't resolved soon, we're out \$1 million. We'll have to borrow."

Late last June, four months after submitting a proposal, Auberle was tapped by Allegheny County's human services department to develop a one-stop center for 1,500 youths ranging in age from 16 to 24. The selection meant a 20 percent boost to Auberle's budget, setting it at \$12 million. It also meant investing \$800,000 to rehab 412 Youth Zone, its downtown center for homeless young people; hiring 35 people;

and coordinating about 30 additional service providers, mostly other nonprofits.

But the best of news came at the worst of times. About 85 percent of Auberle's budget comes from the government and, "in most ways gets touched by the state," Lydon said. The contract from the county started in October.

Auberle weathered the impasse without layoffs or program cutbacks, and a dedication event for 412 Youth Zone is scheduled for March 16. But it only hired 14, stretching existing staff even thinner, and had to use its line of credit, convincing its bank to turn a 90-day loan extension into 180.

"I was a litigator and tried multimillion-dollar cases and the stress level of this is far worse than it ever was in the business world," Lydon said. "You don't have control, there are so many moving parts and we serve over 3,000 at-risk people and families every year who rely on you to guess where things are going, make your best assessment and move it forward. The planning process is significantly hampered. You can't rely on the state to honor its promise that if you overcome this, [it] will pay some part of it."

The problems weren't for lack of preparation. GPNP started warning members in February 2015 the budget could run late, though "no one expected it to go on as long as it did," Balbier said.

Some nonprofits socked away cash. Others went to the bank.

"We had the luck of being able to ask Citizens for two line-of-credit increases in June and in October," said Stephen Christian-Michaels, CEO of Family Services of Western Pennsylvania. "We were prepared to go to them again but at least the governor signed a partial budget and we've paid a lot of that down. But we have interest payments we've been making through all that time when there's been no funding by the state and even though it caused the problem, it's all up to us to pay for that."

Family Services reluctantly had to hold off paying its vendors.

"Our biggest payment is health insurance so we made a deal with our insurer to delay payment," Christian-Michaels said. "We expect to be fully caught up by April 1."

Banks may be one of the few winners in the budget deadlock, Christian-Michaels said. Several were contacted for this article but declined to discuss specifics.

Robert Moorehead, chief wholesale banking officer at F.N.B. Corp., said the financial institution has been "very active" supporting local nonprofits, school districts and other government entities that rely on the state funding.

"Overall, we've seen deposit balances decline as these clients depleted their reserves," Moorehead noted. "This budget delay is longer than others we've experienced. We expect to see these clients come back to us again for more support if the budget is not passed soon."

Just because an organization did not curtail programs or cut staff doesn't mean it wasn't hurt.

"It strapped us," said Michelle Robinson-Ritter of Domestic Violence Shelter Services of Southwestern Pennsylvania. "We're frugal anyway but we didn't reimburse travel expenses for staff, we weren't buying anything."

DVSS, which serves Washington, Greene and Fayette counties, took heed of past budget delays.

"We were putting a few months worth of operating budget away so we'd have it to use if we needed it," Robinson-Ritter explained. "By golly, we did. We have a line of credit, but we didn't have to use that." If the 2016-17 budget stalls, it may have to dip in.

"I don't see that any better relationships have been established in Harrisburg that would stop this," Robinson-Ritter said. "They're starting on next year and everything hasn't gone through from 2015-2016."

Lutheran SeniorLife, which operates senior living communities and provides senior care services throughout Allegheny, Butler, Beaver, Lawrence and Armstrong counties, said it had to use more than \$400,000 in cash reserves to continue some operations of its Lutheran Service Society – including Meals on Wheels programs in Aliquippa and Rochester – in the six months when state funding had dried up.

"Those are funds that normally would have been used for discretionary purposes, including nonessential repairs and facility improvements," noted Mark O'Donnell, director of system development and communications at Lutheran SeniorLife. "Some of those projects had to be delayed to cover the expenses related to the nonpayment of state money. Also, any interest income that may have been generated won't be recuperated."

What is compounding the funding dilemma is nonprofits often depend on other nonprofits.

"We rent space from LifeWorks and they haven't been able to maintain it as well as we'd like because they're also impacted by the impasse," Woodward said. "This summer, we went without air conditioning because they didn't have the money to repair it."

Most nonprofit executives will tell you that while the 2015-16 budget impasse is the worst they'd experienced, it could have been worse

► CLOSER LOOK

DESPERATE MEASURES

What some nonprofits are doing as a result of the budget crisis, according to a survey by the Greater Pittsburgh Nonprofit partnership:

- Borrowing money at rates ranging from 1 percent to 8 percent
- Shifting debt using credit cards and lines of credit; depleting reserves; financing facilities (results show that hundreds of millions of dollars likely have been borrowed)
- Extending payments to vendors by 60 to 90 days and, in some cases, beyond 120
- Organizations that have investments have used them as collateral and can't access those funds until debt is paid off
- Organizations with budgets over \$20 million are better able to weather the impasse by gaining temporary financial relief from parent organizations
- Organizations that provide services that are not Medicaid reimbursable are the most severely impacted
- Hundreds of millions of dollars in cash reserves have been used, begging the question of whether these funds will be available for another impasse

– and that is what they fear will happen if the latest budget proposal stalls.

"Our big fundraising time is November and December," Woodward said. "We won't have that boost in the summer. We can't put these women out on the street until the budget's passed. We might try to get the line of credit increased."

But not everyone qualifies for loans.

"It hurts the smaller agencies," Christian-Michaels said. "I have an endowment that banks can see as collateral. A small agency doesn't have that and they don't have as much business with the bank" to build a relationship.

And workers will have to make some hard choices.

"Some are already living too close to the edge and if this becomes an annual thing, it will take talented, dedicated, spirited, mission-driven people out of the nonprofit world because they can't trust that the state is going to keep them employed at a rate where they aren't going to have to worry about their own financial security," Ursuline's Turo said. "That's a very sad commentary."