

PA EDUCATION FINANCE & 2017-2018 BUDGET

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February 2017

The Education Policy and Leadership Center

Framework for State Education Policy

Governance

Standards

Assessments

Consequence

Educational Capacity

Finances

Alignment

35-YEAR HISTORY OF PA K-12 FUNDING

- Until 1983, 50% state share as a goal was embedded in the funding formula for basic education, but was removed that year after several years of underfunding the formula.
- 1991: **PARSS Equity Suit filed.**
- 1991: **Special Education funding changed.**
- 1992: **Sense of consistent formula funding abandoned. No formula used consistently until 2008. PA one of 2 states without a formula.**

35-YEAR HISTORY

- **1995-2002: Ridge/Schweiker Administration**
 - **Vouchers & Charter School Funding**
 - **Targeted: Link to Learn; Read to Succeed**
- **1998: Commonwealth Court decides that PARSS v. Ridge is not justiciable**
- **2002 Rendell Campaign/Election w K-12 funding much discussed**

35-YEAR HISTORY

- **Some modest progress in 2003-2007.**
 - **State Funding for Pre-School started**
 - **Basic Subsidy line item increased**
 - **Attention to “Foundation” funding**
 - **Targeted Accountability Block Grants initiated**
 - **School districts reimbursed 27% for charter school payments**
 - **Increasing attention to adequacy issues and calls for costing-out study**

35-YEAR HISTORY

- **2008** – New Formula aimed at closing gaps identified by Costing-Out Study.
- **2008-2010** – three years of largest increases in the country.
- **2009 & 2010** – additional increases helped by availability of federal stimulus funding

35-YEAR HISTORY

- **State Funding to Districts cut by nearly \$900 million in 2011.**
- **Included \$150 million cut to Accountability Block Grants and elimination of \$225 million Reimbursement to Districts for part of Charter School Costs.**
- **Largest cuts to poorest districts.**
- **Combined with more limits on local tax increases.**
- **Higher Education cut in 2011 by \$400 million.**

2012-13 to 2016-2017 Budgets

- **Excluding substantial increases in funding for pensions, 2011 funding cuts for school districts have not been fully restored.**
- **Actual new dollars for districts have been less than increased pension obligations of school districts.**
- **After six years of no increases for special education, small increases the past three years.**
- **About one-half of the 2011 funding cut for higher education has been restored.**
- **New formulas for special education and basic education, but.....**
 - **New money only**
 - **Do not determine need or state obligation**

Where Are We Today

**What's Wrong with
Education Funding**

For K-12, we have arguably the worst system in the country.

And it may be getting worse.

PUBLIC K-12 SPENDING

Per Pupil Amounts for Current Spending 2013-2014

	<u>Amount</u>	<u>Rank</u>
US	\$11,009	---
PA	\$13,961	11th

Source: US Census Bureau – 2016

PUBLIC K-12 SPENDING

CURRENT EXPENDITURES PER STUDENT – 2013-14

Compared to contiguous states, spending in Pennsylvania was in the middle of the pack --- exceeding Ohio and West Virginia, about the same as Delaware and Maryland, and trailing New Jersey and New York.

• Pennsylvania	\$13,961
• National	11,009
• Delaware	13,938
• Maryland	14,003
• New Jersey	17,907
• New York	20,610
• Ohio	11,354
• West Virginia	11,260

Source: US Census Bureau – June 2016

State/Local Shares

Elementary/Secondary Public Education Revenue in 2013-2014

	State Share %	Local Share %
• Pennsylvania	37.2	56.3
• National	46.7	45.3
• Delaware	59.8	33.2
• Maryland	44.3	49.9
• New Jersey	40.3	55.5
• New York	40.6	53.9
• Ohio	42.2	50.3
• West Virginia	58.1	31.9

PA ranked 46th in nation .

Source: US Census Bureau and USDE – 2016

1% in PA in 2014-2015 = approximately \$280 million

State Funding Appropriated Per Student

Source: US Census Bureau June 2016

	2013-2014	
	State \$ per pupil	Rank
US	5,969	---
PA	6,399	23
DE	9,432	7
MD	7,146	18
NJ	8,275	10
NY	9,477	5
OH	5,927	27
WV	7,257	16

RESULT: 2013-14 Burden on Local Property Taxes

	<u>Total K-12 State-wide Revenues</u>	<u>Local K-12 Property Taxes</u>	<u>% from Prop Taxes</u>
US	\$617,633,773	\$179,987,314	29.14%
PA	\$27,647,475	\$ 12,476,890	45.12%

(\$ in 000's)

Source: US Census Bureau – 2016

15.98% Difference = \$4.418 billion/year

RESULT: Inequity for Students Across PA

Great Inequity for Students Among 500 Districts

In 2013-14, current spending per pupil in Pennsylvania school districts ranged

from \$9,515 (Juniata County SD) to \$23,535 (Lower Merion)

This means, in an average classroom of 25 students, a **gap of \$350,500 per classroom per year.**

**Inequitable and Inadequate Resources in a
Standards-Based Environment with
Equal Expectations for All Students**

State Support for Higher Education – 2016-2017

Per \$1000 of Personal Income:

National - \$ 5.40

Pennsylvania - \$2.61 – Ranked 48th

(Behind IL, NH)

(DE \$5.11; MD \$5.66; NJ \$3.77; NY \$4.83; OH \$4.44; WV \$7.12)

Per Capita:

National - \$259.18

Pennsylvania - \$132.44 – Ranked 47th

(Behind only NH, AZ, IL)

(DE \$246; MD \$362; NJ \$232; NY \$291; OH \$198; WV \$264)

Source: Grapevine Report – Illinois State University – January 2017

What are the Financial Needs of Districts for Students?

2007 Costing-Out Study

2016 PILCOP Study

Proposed 2017-18 Education Budget Highlights

- **Early Education** – \$75 million increase for Pre-K Counts & Head Start Supplemental
- **K-12 Basic Subsidy** – \$100 million increase
- **K-12 Special Education** – \$25 million increase
- **Career Technical** – No increase
- **Pupil Transportation** – \$50 million decrease (new formula?)
- **Early Intervention** – \$11.719 million increase
- **Public Libraries** – No increase
- **School Food Services** – \$4.488 million increase
- **School Employees' SS** – \$37.418 million increase
- **School Employees' Retirement** – \$240 million increase
- **EITC** – No increase

“Educated Citizen” Cuts in Recent Years to Education-Related Items

- **K-12 Basic Ed and Other Supports**
- **Higher Ed**
- **Early Ed**
- **State Library**
- **Public Library Subsidy**
- **State Museum**
- **Museum Assistance Grants**
- **Grants to Arts Organizations**

2017-2018 Arts and Humanities

- **No increase for Libraries**
- **Shifting state grants for arts and history to bond funding**
- **Threat of elimination of federal support for NEA, NEH, and Public Broadcasting**

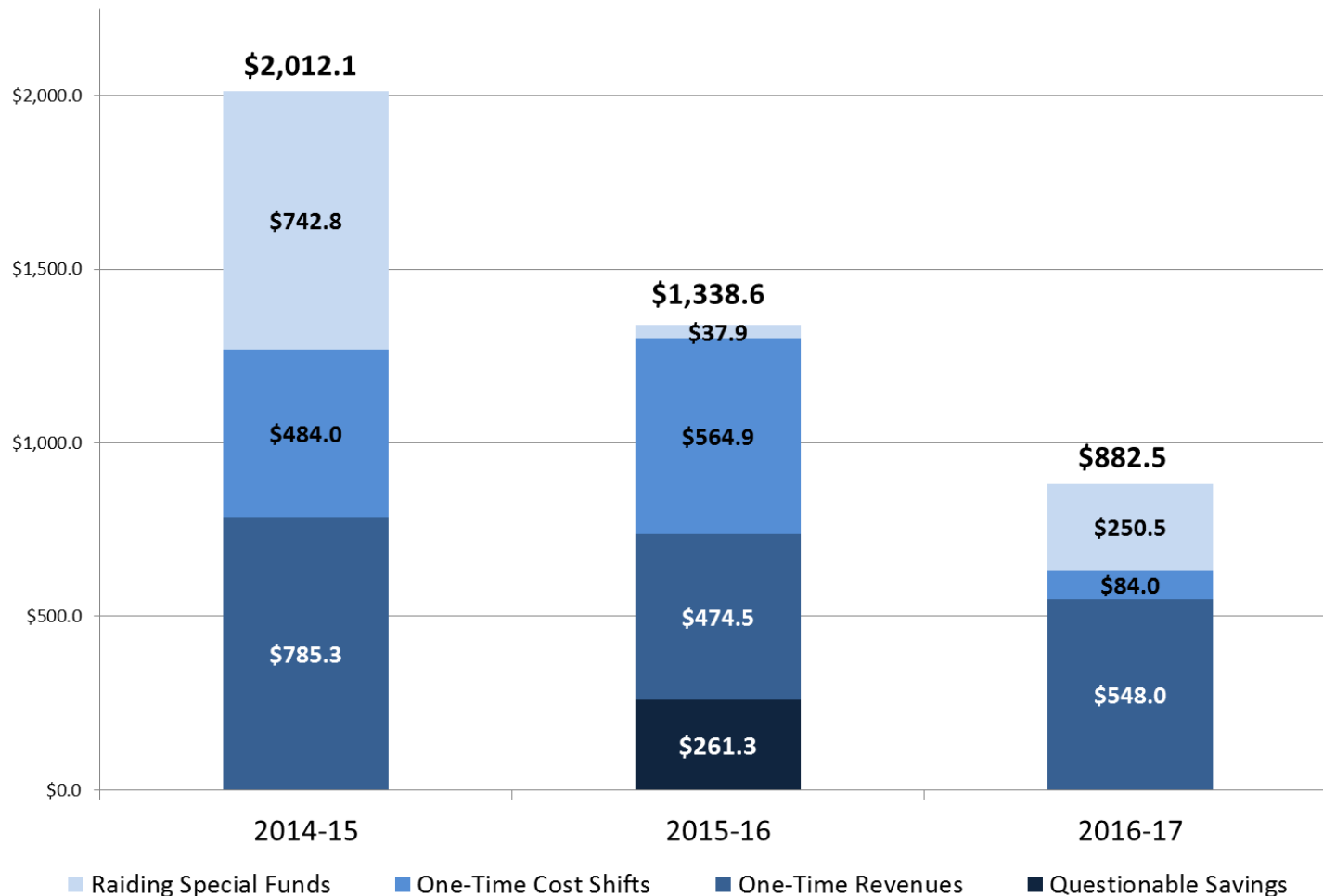
Long-Term Structural Imbalance

	15-16	16-17	17-18	...	21-22
Beginning Balance	\$257	\$2	--		--
Available Revenue	29,652	30,936	\$31,596		\$36,406
Lapses	221	75	100		100
State Expenditures	<u>-30,127</u>	<u>-31,535</u>	<u>-33,443</u>		<u>-39,486</u>
Ending Balance (Nov.)	2	-524	-1,746		-2,980
Revenue Adjustment (Jan.)		<u>-250</u>	<u>-334</u>		n.a.
Updated Balance (Jan.)		-774	-2,080		

Note: figures in dollar millions.

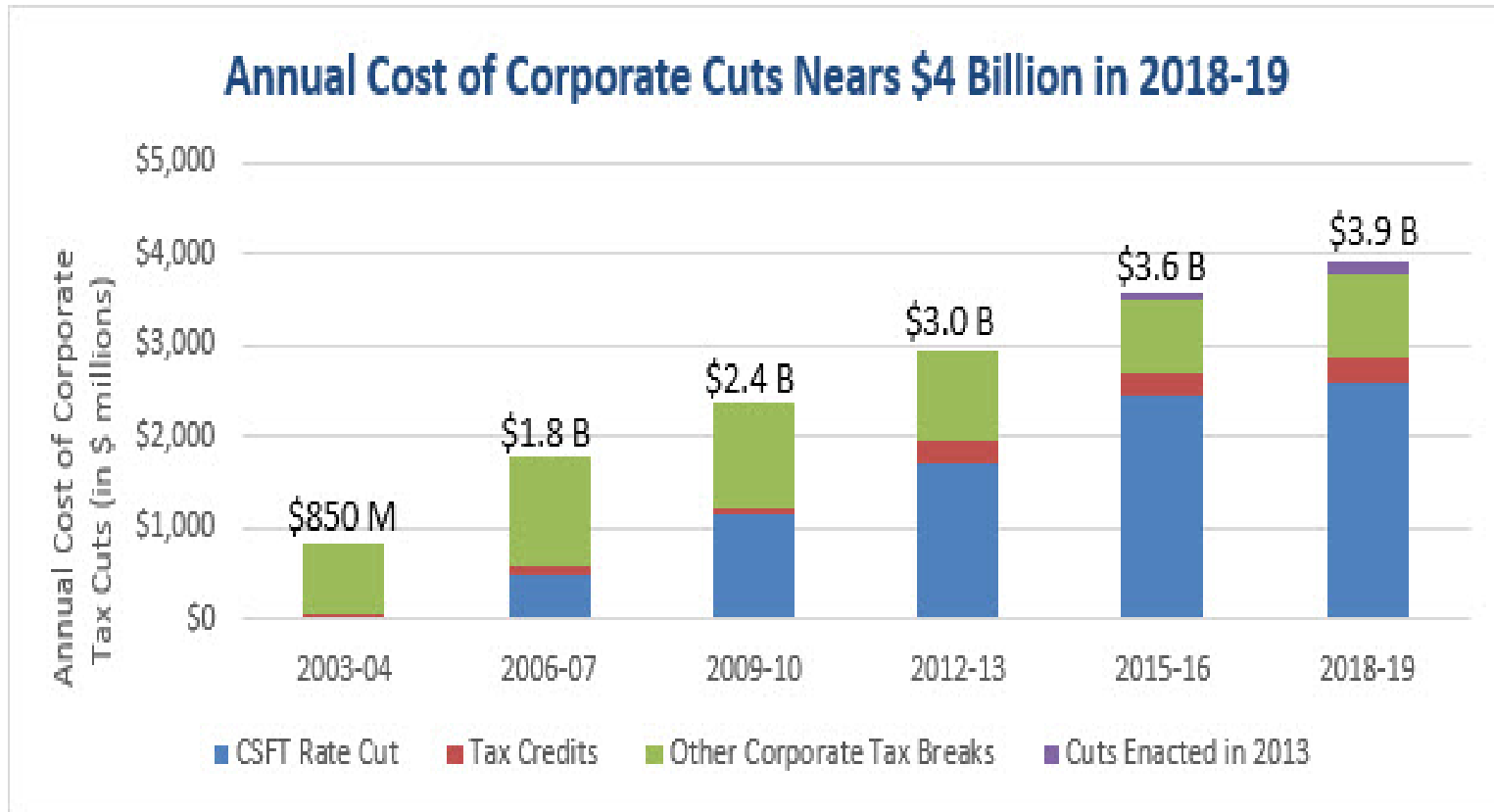
One-time funding Sources

(dollar amounts in millions)

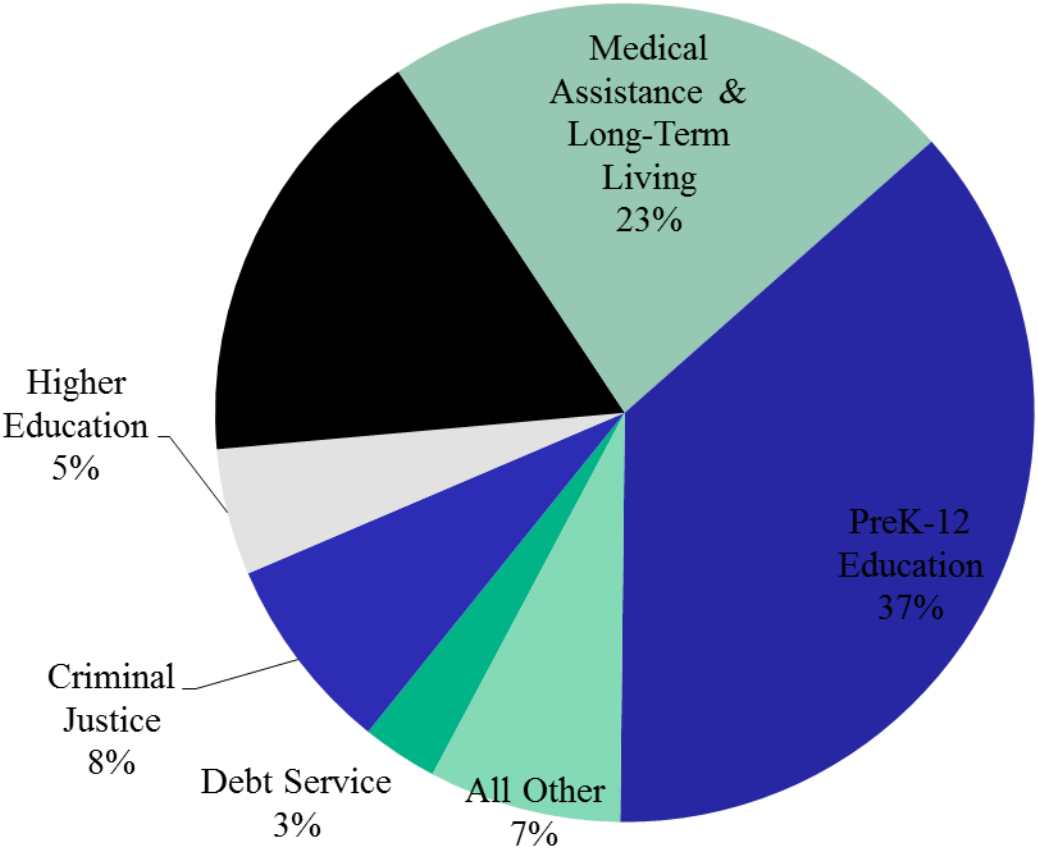


Source. Office of the Budget – Mid-Year Budget Briefing, 12/14/16

Lost Revenue is Significant – and Growing



2017-18 Proposed Budget Spending – General Fund: \$32.3 Billion



Proposed Revenue Changes

SUSTAINABLE REVENUE PACKAGE

(dollar amounts in millions) 2017-18

Cap Net Operating Losses at 30%, institute combined reporting in 2019, and step-downs in CNIT rate in 2019-2022	\$81.2
Severance Tax at 6.5% with Impact Fee credit	293.8
Close loopholes to ensure all insurers are taxed consistently (Insurance Premiums Tax)	141.5
Eliminate Special Interest Tax Loopholes	489.8
<i>Commercial Storage</i>	<i>153.6</i>
<i>Customized Software and Services</i>	<i>330.3</i>
<i>Prepared Foods Sold to Airlines</i>	<i>0.8</i>
<i>Aircraft Maintenance and Repair</i>	<i>5.1</i>
TOTAL	\$1,006.3

Other Relevant Policy Activity

- **School Property Tax Relief or Elimination**
- **Pension Reform**
 - **Current Obligations**
 - **New employees**
- **Charter School Funding changes**
- **School District Consolidation**
- **Pending Litigation in PA courts**
- **Legislation to increase EITC**

FY14-15 School District Revenues

Source	Amount	Percent
Property Tax	\$12,285	44.5%
Earned Income	\$1,476	5.4%
Other Local Sources	\$2,126	7.7%
Act 1 Allocations (slots)	\$530	1.9%
State (exclude Act 1)	\$9,492	34.4%
Federal	\$815	3.0%
Other	<u>\$855</u>	<u>3.1%</u>
Total	\$27,578	100.0%

Note: dollar amounts in millions.
Source: Pennsylvania Department of Education.

Property Tax Elimination Proposals

- **SB 76 of 2013 (IFO analysis on website).**
 - Eliminates school district property taxes over time (retention for debt service).
 - Increases personal income tax: 3.07% to 4.37%.
 - Increases sales tax rate: 6.0% to 7.0%. Expands tax base.
 - Distributions to school districts increase with inflation.
- **Recent proposal largely the same. Two major changes.**
 - Increases personal income tax: 3.07% to 4.95%.
 - Distributions to school districts increase by lesser of annual growth in (1) sales tax revenues or (2) statewide average weekly wage.

Property Tax Reform

- **Legislature keeps talking/promising.**
- **Caps place limit on district increases (the “index”).**
- **Relatively high school property taxes in PA.**
- **County assessment systems part of problem.**
- **Underlying cause is insufficient level of state support to school districts, which creates dependency on local taxes.**

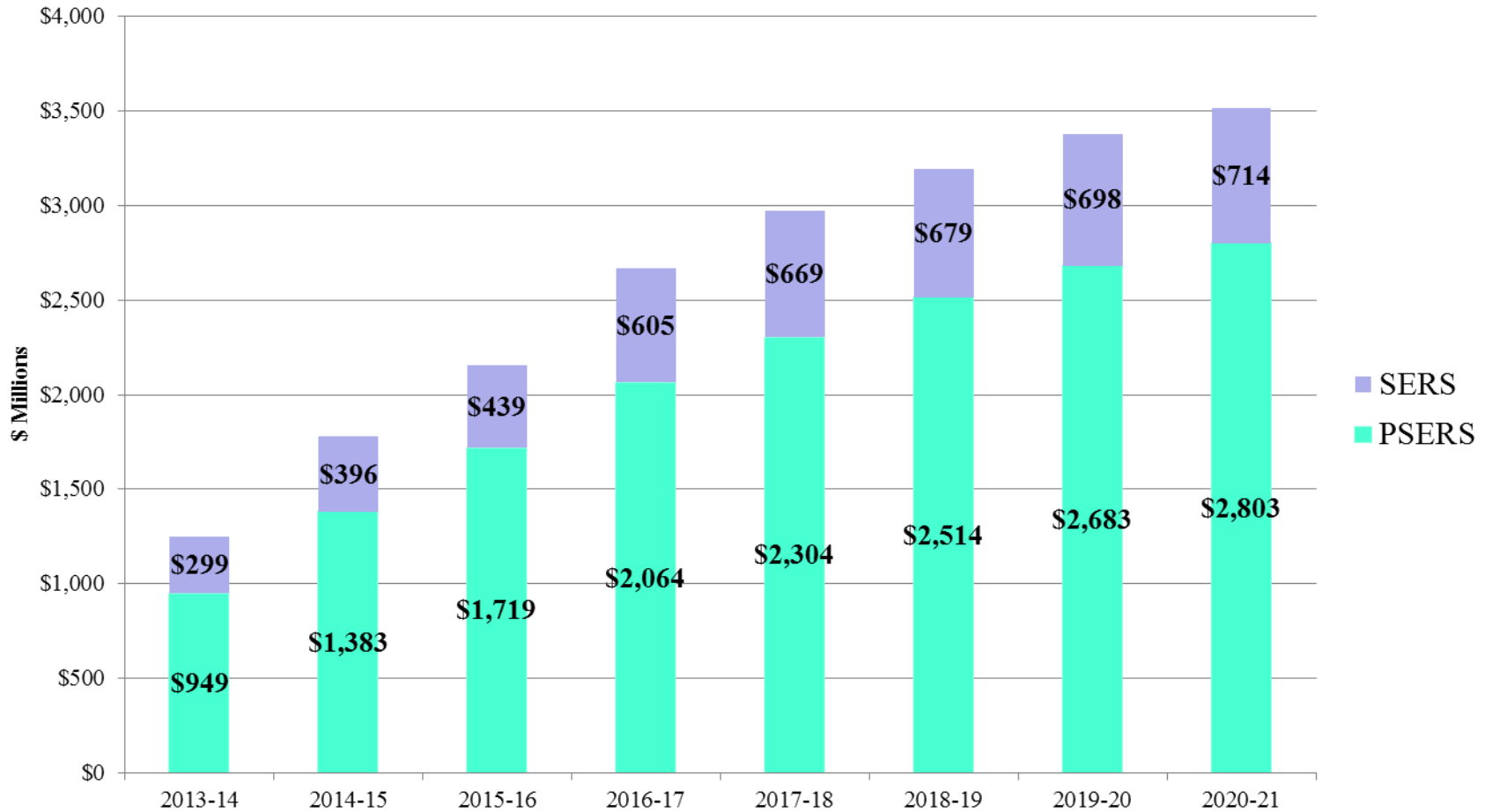
Property Tax Reform

- **Do the numbers add up? (cuts & replacement \$)**
- **Replaced with what state tax increase(s)?**
- **How will state replacement dollars be distributed?**
- **“Dollar for Dollar” means big shift of state tax funds to Southeast counties.**
- **Is the state a reliable partner? i.e. late budgets & arbitrary funding levels.**
- **Implications for local control?**
- **Other?**

School Employees Retirement System

- **Issues similar to State Employee System.**
- **School employee system costs split between state and local employer.**
- **Huge unfunded liability driving large increases annually in required state and district contributions (% of payroll).**
- **Caused by increased benefits; slowed earnings; failure to make appropriate employer contributions for many years.**

General Fund Pension Contributions



Charter School Funding

- **Charters part of public school menu.**
- **Paid for by school districts of residence.**
- **Growing cost to school districts.**
- **No reimbursement from state since 2011.**
- **Charters feeling effects of state cuts to districts.**
- **Districts argue they pay too much.**
- **Growing consensus that cyber charters are overpaid compared to student expenditures.**
- **Special education funding an issue.**
- **Issues of accountability for student achievement and use of taxpayer funds.**

Distressed Districts

- **Financially and Academically.**
- **Growing list of financially distressed.**
- **Have state cuts made problem worse?**
- **What state interventions are appropriate?**
- **Key challenge: Can public education successfully educate most students in an environment where there is a great concentration of poverty? What will it take?**

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