

# 2014/15 BUDGET BRIEFING

Report on Key Issues  
HOUSE APPROPRIATIONS COMMITTEE (D)



**JOE MARKOSEK, DEMOCRATIC CHAIRMAN** March 18, 2014

## Governor's Proposed Education Budget - Funding Still Below 2008/09 Levels

*Gov. Corbett 2014/15 budget proposal includes no increase in the basic education subsidy for school districts, which is the largest and most flexible appropriation within the education budget. Instead, he proposes to create a new block grant, called Ready to Learn, which is a retooling of last year's failed Passport for Learning Block Grant proposal. His proposal also includes a new Hybrid Learning Grant program and Governor's Schools program. The governor proposes to pay for his election-year increases in education by massively increasing the pension debt.*

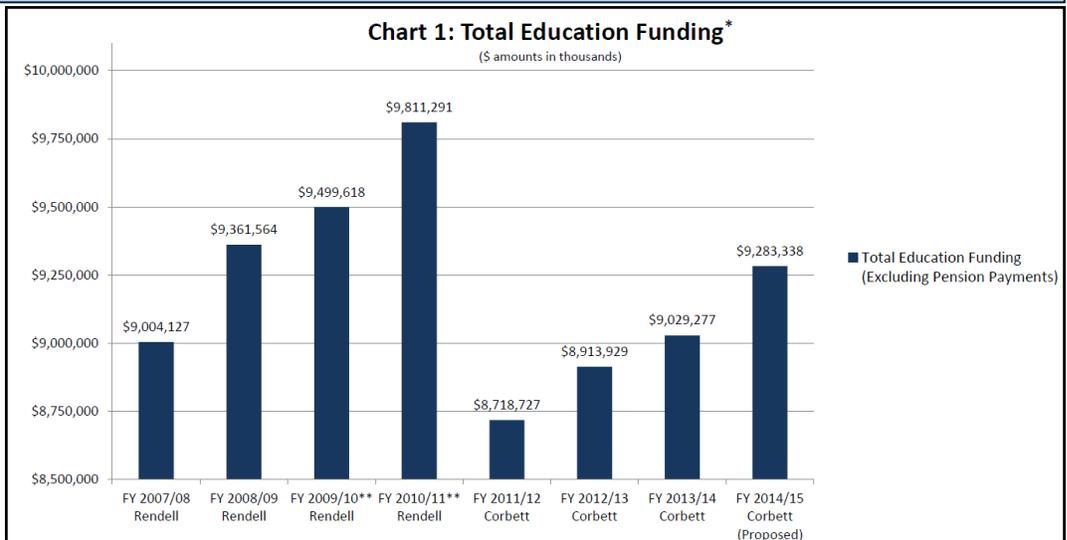
*Gov. Corbett continues to tout "record" state funding for education. However, the only way the governor can claim record funding is by counting the state's mandatory pension payment. In fact, excluding the state's required pension payment, total education funding to classrooms remains lower than 2008/09, which was the year prior to federal stimulus funding. (See Chart 1 below.) More than half of the state's pension payment, which is mandated by law, goes towards paying a past debt incurred by the state – not for education funding in today's classrooms.*

*PreK-12 and library funding accounts for approximately 35.3 percent of state General Fund expenditures in Gov. Corbett's proposed 2014/15 budget. The entire proposed Department of Education budget, which includes community college funding, is approximately 36.2 percent of the General Fund.*

*A spreadsheet with [proposed education funding by school district](#) is available at [www.hacd.net](http://www.hacd.net).*

### Total Education Funding Still Below 2008/09

Total education funding, excluding pension payments, during the Gov. Corbett years remains less than 2008/09 - the fiscal year prior to federal stimulus funding.



\* Includes all appropriations within the PA Department of Education except pension payments and higher education.

\*\* Only includes ARRA (federal stimulus) funding that was appropriated through the basic education subsidy formula - the portion that the Department of Education told school districts to count on as being built into the state funding base.

See Page 4 of the [PA School District Guide to Federal Stimulus Education Investments](#).

## Pre-K - 12

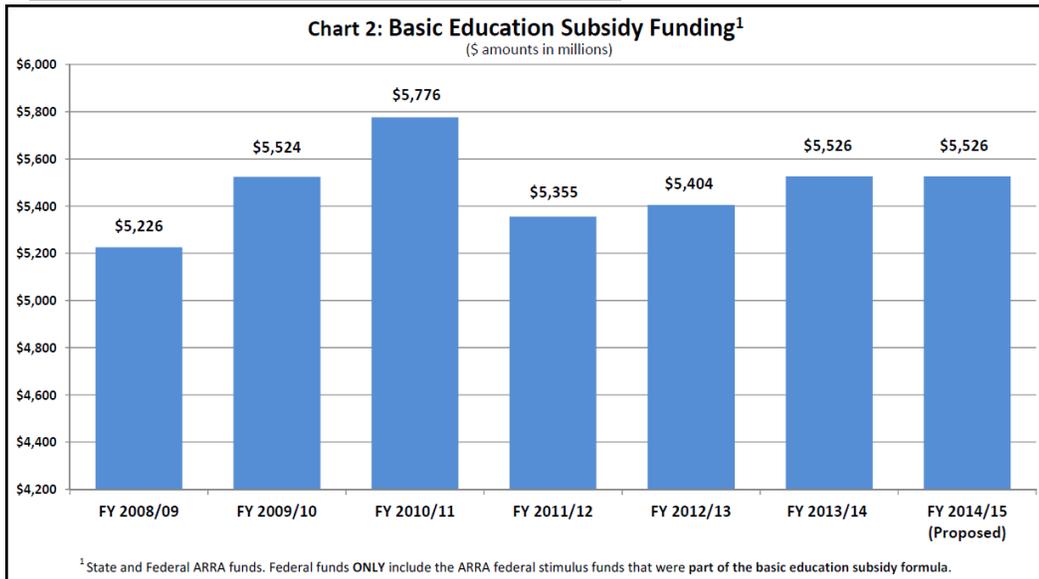
### Basic Education Funding (BEF)

Gov. Corbett's proposed 2014/15 budget includes \$5.53 billion in basic education funding, the largest and most flexible appropriation in the education budget, which reflects **level funding compared to last fiscal year**.

Gov. Corbett still has not reversed his severe cut to education enacted during his first budget in 2011/12. In 2010/11, the basic education funding subsidy formula drove out nearly \$5.8 billion. Gov. Corbett's first budget reduced this amount by more than \$400 million and none of his subsequent budgets have reached the record high funding level of 2010/11. (See Chart 2 below.)

#### Cumulative Basic Education Cuts Under Gov. Corbett: \$1.3 Billion

If in all of his budgets, Gov. Corbett had flat-funded the basic education subsidy at the 2010/11 level, school districts would have received nearly \$1.3 billion in additional funding.



### Special Education Funding (SEF)

Under Gov. Corbett's proposed budget, special education funding would increase by \$20 million or 1.95 percent for a total of nearly \$1.05 billion. This would be the first increase since 2008/09. Of the total funding, the governor proposes to appropriate \$1.03 billion in the same manner as last year and use a new formula to appropriate the additional \$20 million.

In November 2013, the Special Education Commission unanimously approved a new special education funding formula, with three levels of funding based upon student cost. Although the Acting Secretary of Education was a commission member, the Department of Education has indicated that this administration is only committed to supporting a formula that is "conceptually similar" to the one recommended by the commission. To date, Gov. Corbett has not proposed a new funding formula for the additional \$20 million. A [summary of the commission's recommendations](#) is available at [www.hacd.net](http://www.hacd.net).

### New Initiatives and Combined Appropriations

#### Accountability Block Grant

The governor's proposed budget eliminates the Accountability Block Grant (ABG) appropriation and folds it into the new Ready to Learn Block Grant. The governor's first two budgets proposed total elimination of the ABG grant; however, funding was

added back by the legislature prior to passage of the final budgets.

#### Ready to Learn Block Grant (RTL)

Gov. Corbett's proposed new Ready to Learn Block Grant appears to be a retooling of last year's failed "Passport for Learning Block Grant" proposal.

This new grant would contain the following funding for a total of

\$341 million:

- \$100 million from the **existing Accountability Block Grant (ABG)**;
- \$240 million in **new funds that would be appropriated through a "student-focused funding formula"**. These funds would be appropriated to the 500 school districts (\$220.8 million) and the 176 charter and cyber charter schools (\$19.2 million); and

- \$1 million that would be awarded separately in a **competitive grant**. These funds would be also available to charter and cyber charter schools.

School districts would receive the same amount in ABG funding as they received last year. Districts would be permitted to use those funds either for the same initiatives currently approved or to fund any of the new initiatives the governor has proposed for the Ready to Learn Block Grant.

Key components of the new portion of the proposed grant program include:

- **Ready by 3rd Grade** – Ensures younger students are performing at grade level in math and reading.
- **STEM (Science, Technology, Engineering and Math)** – Supports academic programs related to STEM.
- **Supplemental Instruction** – Provides for customized learning and flexibility to schools.
- **Governor’s Expanding Excellence Program** – Provides a \$1 million competitive grant program for the highest-achieving school districts. These high performing districts must agree to share best practices with other districts. These funds would be available to brick and mortar charter schools as well.

For the new funding portion, schools would be placed in “tiers” according to their School Performance Profile ranking. Higher ranking (i.e. better performing) districts will have more flexibility than poorer performing districts.

### Ready to Learn Block Grant Funding Formula

The Ready to Learn (RTL) Block Grant funding formula used to appropriate the new \$240 million portion of the grant would vary greatly from the Accountability Block Grant formula. In the ABG formula, school districts are awarded funding based upon a formula that accounts for PSSA test scores, student count and aid ratio. When funding was lower than the previous year, districts received a pro rata amount based upon their prior year grant amount.

The new RTL grant would use a formula based upon \$231 per student and factoring in aid ratio, student count, English language learner (ELL) count and a poverty factor. Unfortunately, the proposal would

only weigh the poverty factor at 25 percent and the ELL factor at 15 percent. If those factors were weighted higher, it would help to redistribute a greater portion of the funds to poorer districts. Additionally, approximately \$20 million of the new funds would be distributed to charter and cyber charter schools.

### Hybrid Learning Grants

The governor’s proposed budget contains \$10 million for a new Pennsylvania Hybrid Learning Grant program designed to award approximately 100 schools with funding to support the development and implementation of customized education that blends classroom and digital learning. This grant would also be available to the 162 brick and mortar charter schools.

### Governor’s Schools of Academic Excellence

The governor proposes to continue one program and establish two new programs (schools not yet named), and award the \$350,000 in the following manner:

- \$50,000 to continue the **Carnegie Mellon University Governor’s School for the Sciences**;
- \$150,000 for a new **Governor’s School for Technology and Engineering**; and
- \$150,000 for a new **Governor’s School for Agricultural Sciences**.

### Early Childhood Education

The governor’s budget proposal includes:

- \$97.3 million for **Pre-K Counts**, which is an increase of \$10 million, or 11.5 percent. This program provides school-based or community-based early learning programs. Approximately 15,697 students are expected to participate, an increase of 1,670 students over the 2013/14 level. These new slots would be for both full and half day programs.
- \$39.2 million for **Head Start Supplemental Assistance**, which would be flat compared to last year. This program provides school readiness and other family support for economically disadvantaged children. Approximately 5,590 students are expected to participate (same level as last year).
- \$237.5 million for **Early Intervention**, which is an

increase of \$841,000 or 0.4 percent. The funding increase was required because of federal mandates attached to the program. Early Intervention is a federally mandated program authorized under Individuals with Disabilities Act (IDEA) for developmentally delayed preschool students. Approximately 52,344 students are expected to be eligible. The proposed increase would fund an additional 1,500 children.

Although the governor proposes to eliminate the **Accountability Block Grant** and roll the existing \$100 million into the proposed new Ready to Learn Grant, districts may still use their portion of the \$100 million for currently approved programs. Nearly 75 percent of school districts target this funding to the youngest students, including Pre-Kindergarten programs, full-day Kindergarten and class size reduction.

## Other Subsidies

For Gov. Corbett's fourth budget in a row, he continues to eliminate classroom funding for programs such as: Dual Enrollment, Reimbursement of Charter Schools, Education Assistance Program, Science: It's Elementary, School Improvement Grants and Intermediate Units.

## Libraries

The governor's proposal includes:

- \$54 million for the **Public Library Subsidy**, which would be an increase of \$500,000 or 0.93 percent.
- \$2.8 million for the **Library Access** appropriation, for Power Library, interlibrary delivery, and electronic library catalog, which would be \$250,000 or 8.14 percent less.
- \$2.6 million for **Library Services for the Visually Impaired and Disabled**, which would be flat compared to last year.

## Safe Schools Initiative

The governor's budget includes \$8.5 million for the Safe Schools Initiative, which is the same level of funding as last year's budget.

The funding provides targeted grants to schools and municipalities to address school violence and safety issues. The [grant awards for 2013/14](#) are on the PA Department of Education's website.

## Career and Technical Education (Vo-Tech)

The governor proposes to flat fund Career and Technical Education (Vo-Tech) at \$62 million and eliminate the \$3 million appropriation for equipment grants that was included in last year's budget.

## PA Assessment (Keystone Exams)

The governor's budget proposal includes \$58.3 million for PA Assessment, an 8.6 percent increase. This appropriation funds the PSSA exams as well as the three Keystone Exams (Algebra I, Biology and Literature) that were implemented in 2012/13. The PA Department of Education's intent is for these exams to become a graduation requirement and replace the 11th grade PSSA exams for the class of 2017. PDE does not intend to develop or implement additional Keystone Exams at this time. The English Language Proficiency exam and Pennsylvania Value Added Assessment System (PVAAS) and No Child Left Behind (NCLB) programs are also supported with funds from this appropriation.

## Educational Opportunity Scholarship Tax Credit

The governor's budget proposal includes \$50 million for the Educational Opportunity Scholarship Tax Credit, also known as "voucher-lite", which is the same level of funding as last year's budget.

The tax credit was first enacted in 2012/13 and continues unless a change is made to the Tax Code. The program affords tax credits to businesses that contribute to scholarship organizations for the purpose of providing school vouchers to students in low-achieving public school districts. Students receiving these vouchers may attend public or private/parochial schools.

In 2012/13, only \$20 million was allocated of the \$50 million available. For 2013/14, \$28.5 million of the \$50 million available has been allocated to date. The remaining \$21.5 million is available until June 30, 2014.

## Educational Improvement Tax Credit

The governor's budget proposal includes \$100 million for the Educational Improvement Tax Credit (EITC), which is the same level as last year's budget.

This program awards tax credits to businesses that make contributions to scholarship organizations, educational improvement organizations and Pre-K

scholarship organizations. The tax credit is typically exhausted by early July of each fiscal year.

## Significant Changes to Current Programs & Policies

### School Employees' Retirement (PSERS)

The governor's budget proposal underfunds the level of state mandated payments for PSERS by assuming a change in current pension law. The payment should be roughly \$410 million higher than the 2013/14 level of \$1 billion; however, the governor proposes the following:

- An increase to the PSERS pension appropriation of \$105.3 million, for total funding of \$1.1 billion.
- A one-time transfer of equity investments and cash reserves worth \$225 million from the Tobacco Settlement Fund and the Health Venture Investment Account. (Note: This transfer would not have the same value as a cash payment.)

The governor's budget also assumes that legislation will pass to address the charter school pension "double dip" and the state, not school districts, would reap the benefit from the change (an assumption worth \$62.7 million to the state).

For 2013/14, the legally required employer contribution rate is 16.93 percent of payroll. Current state law mandates an employer contribution rate increase of 4.5 percent to 21.4 percent of payroll for 2014/15. However, the governor's proposal reduces this increase by 50 percent (a 2.25 percent increase rather than 4.5 percent), resulting in an employer contribution rate of 19.15 percent of payroll. Additionally, the governor's budget proposes that the new artificially suppressed payment (collar) remain in effect for four years. The pension payment would increase annually by 0.5 percent each year until collars again reach 4.5 percent or the collared rate equals the required contribution rate. The proposed shortage will require the legislature to change the current pension law.

Employer contributions are shared between the school entity and the commonwealth. The

commonwealth pays at least 50 percent of the employer share of the contributions, with less wealthy school districts receiving a larger share. On average, the state will contribute slightly more than 56 percent of the employer share of retirement contributions in 2014/15.

The proposed cut in the state payment will result in school districts paying a total of approximately \$132 million less than the current amount required by law.

### Distressed School Districts

Other than the recurring roughly \$9 million in the Transitional Loan Fund (funds that distressed districts must pay back), no additional special funding is appropriated to assist the eight distressed districts. More information, including a list of the eight distressed districts, is available on the [PA Department of Education's website](#).

### Authority Rentals and Sinking Fund Requirements (Also Known as PlanCon)

Flat-funded for a third time at \$296 million, this budgetary line item provides statutorily mandated state reimbursement to school districts for a portion of capital expenditures on school construction projects. Additionally, reimbursements are provided to charter schools for the cost to lease facilities.

PlanCon, an acronym for Planning and Construction Workbook, is the process by which entities seek reimbursement from the commonwealth through a series of steps known as Part A through Part K.

PDE is not obligated for payment until an entity has successfully completed Part H. The funding proposed in this appropriation is sufficient to **reimburse only those projects that have been approved through Part H and have submitted all required paperwork**. Currently, there are 347 projects that have not yet reached Part H.

PDE has begun a statewide school facilities study and is currently surveying some schools districts on various aspects of their construction projects. Any programmatic changes that may result from this study will require legislation.

#### House Appropriations Committee (D)

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