

2014/15 BUDGET BRIEFING

Report on Key Issues
HOUSE APPROPRIATIONS COMMITTEE (D)



JOE MARKOSEK, DEMOCRATIC CHAIRMAN Aug. 12, 2014

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

Overall, the enacted budget increases the Department of Education's (PDE) total Pre-K through 12 funding from \$10.02 billion in 2013/14 to \$10.33 billion in 2014/15, which is an increase of \$309.5 million, or 3.1 percent. Excluding the mandatory pension payment and after considering supplemental appropriations in 2013/14, state funding for education increases by only \$159 million, or 1.76 percent.

Total education funding, excluding pensions, remains less than 2008/09, the fiscal year prior to federal stimulus funding. Keep in mind, for several years, the state chose not to make its pension payments. Now that the state is required to make its payments (under Act 120), the governor is counting those artificially higher pension payments as funding to classrooms.

For the fourth budget in a row, the governor and Republican majority failed to fund the following programs: Dual Enrollment, Reimbursement of Charter Schools, Educational Assistance Program (tutoring), Science: It's Elementary, School Improvement Grants or Intermediate Units.

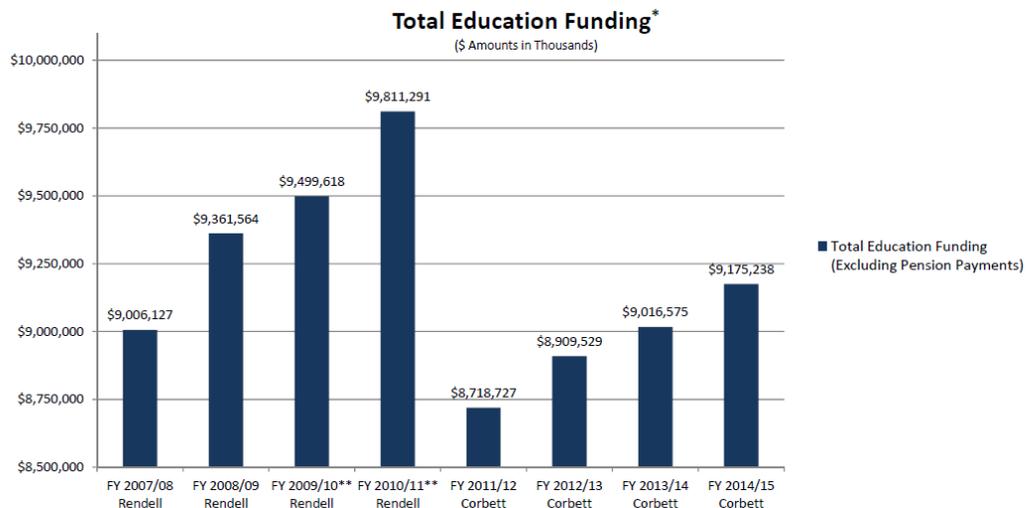
The state's share of school funding is declining. The state provides 35.2 percent of school funding, as compared to 40 percent in 1995/96. School districts rely on federal funding and other sources, such as local property taxes, for the rest of their funding.

Pennsylvania spends nearly three times more to house a prisoner than to educate a child. The **average annual cost to educate a student in Pennsylvania is \$14,620; the average annual cost to house one prisoner is \$41,100, according to the Governor's Executive Budget materials.**

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

Pre-K - 12

Basic Education Funding (BEF)

The budget flat funds the basic education subsidy at \$5.526 billion compared to 2013/14; however, the basic education subsidy formula only drives out approximately \$5.523 billion. The remaining \$2.7 million will be placed in the Transition Loan Account, which provides loans to financially distressed school districts.

Special Education Funding (SEF)

The final budget increases funding for the special education subsidy by \$20 million compared to 2013/14, for total state funding of \$1.047 billion. Each school district will receive the same amount they received in base funding in 2013/14. Of the \$20 million increase:

- \$19.8 million, or 99 percent, will be distributed to school districts using a new formula based upon student cost, relative district wealth and other factors.
- The remaining \$200,000, or 1 percent, will be set aside for extraordinary special education costs in districts and charter schools.

The new special education formula excludes charter schools. Charter schools will continue to receive tuition payments from school districts, as provided under current law.

The special education formula provides flat funding to Intermediate Units compared to 2013/14. This funding will be distributed in the same manner as 2013/14.

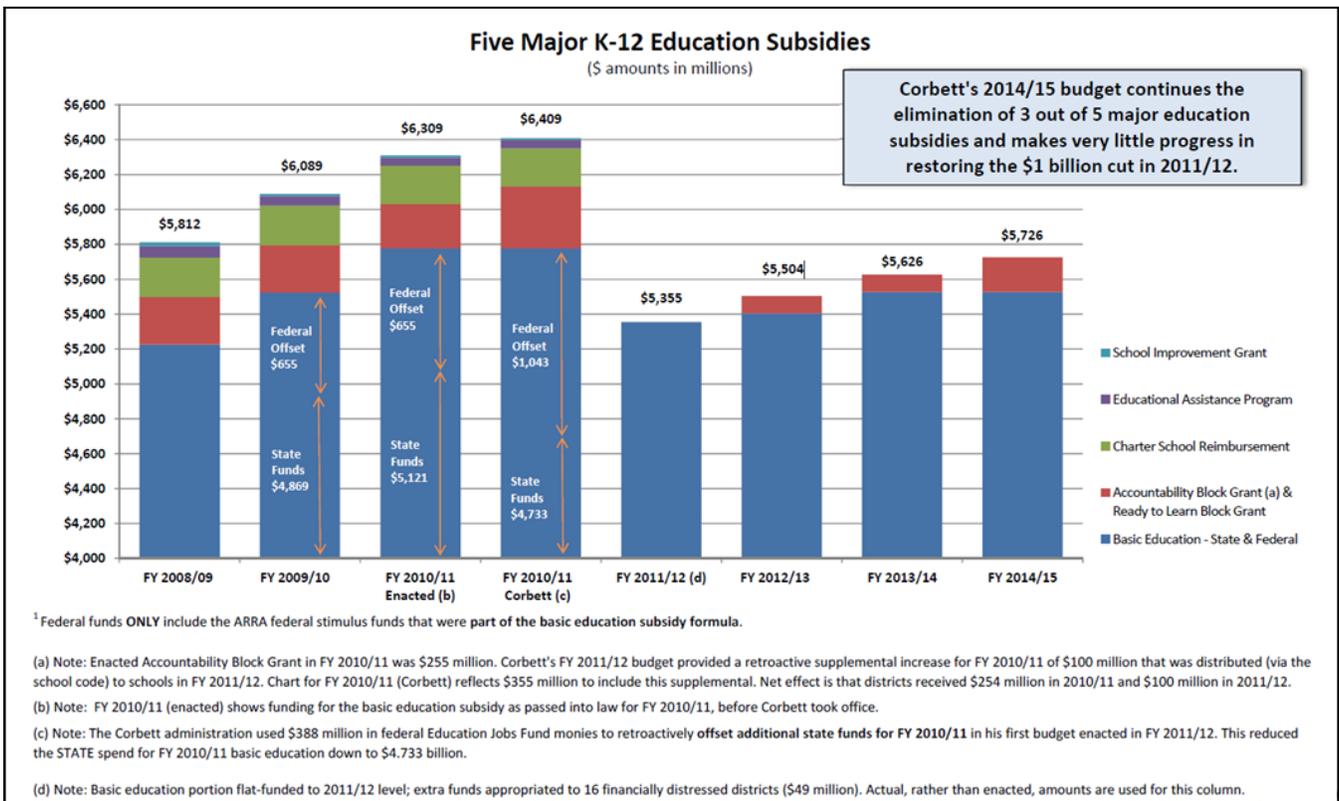
Cumulative Education Cuts Under Gov. Corbett: \$3 Billion

If in all of his budgets, Gov. Corbett had flat-funded the education appropriations at the 2010/11 level, school districts would have received \$3 billion in additional funding. A spreadsheet with [cumulative education funding by school district](#) is available at www.hacd.net.

New Initiatives & Combined Appropriations

Accountability Block Grant/Ready to Learn Block Grant

The budget eliminates the \$100 million **Accountability Block Grant**, and instead provides \$200 million for the **new Ready to Learn Block**



Grant. The enacted budget provides school districts more flexibility with this grant than was originally proposed by the governor.

The budget distributes the funding as follows:

- \$100 million will be distributed to school districts in the same manner as the 2013/14 Accountability Block Grant.
- An additional \$92 million will be distributed to school districts through a new funding formula that calculates payments based upon a base amount of \$231 per student, student count, aid ratio and other factors. The Fiscal Code permits school districts to deduct these funding increases from the calculation for payment of charter school student tuition.
- The formula provides \$8 million to charter schools.

Early Childhood Education

Of the **early childhood initiatives** within PDE's budget:

- The Ready to Learn Block Grant/Accountability Block Grant is typically used primarily for early learning initiatives.
- In addition, the enacted budget increases **Pre-K**

\$1 Billion in Cuts to Classroom Funding Remains Largely in Place

Despite the increase in education funding, the nearly \$1 billion in cuts to classroom funding enacted in Gov. Corbett's first budget remains largely in place.

Republicans attempt to include non-classroom education funding the state is required to pay school districts (e.g. transportation and pensions) to give the impression that the state is providing record K-12 funding. However, if you consider the five major subsidies, state funding for school districts remains lower than 2008/09, which was the fiscal year prior to the federal stimulus money.

Keep in mind, for several years, the state chose not to make its pension payments. Now that the state is required to make its payments (under Act 120), the governor is counting those artificially higher pension payments as funding to classrooms.

Counts by \$10 million, or 11.5 percent, compared to 2013/14.

- The budget provides flat funding for **Head Start Supplemental Assistance** at \$39.2 million.
- The enacted budget provides a \$9.5 million, or 4.2 percent, increase for **Early Intervention**, a federally mandated program required to serve all eligible students.

Early Childhood Development - Department of Public Welfare

The enacted budget reflects Gov. Corbett's proposed spending plan for DPW's child care programs. The appropriation for **Child Care Services**, which provides child care subsidies for low-income working families and early childhood quality improvement initiatives (such as Keystone STARS), includes the following two initiatives which are funded with federal funds:

- \$15 million in federal **Child Care Development Block Grant** funds are budgeted to serve an additional 2,895 children on the waiting list.
- \$15.2 million in federal **Early Learning Child Grants** are budgeted to provide high quality early learning opportunities to additional low-income and disadvantaged children. This is a four-year grant and the 2014/15 funding level is an \$8.3 million increase compared to 2013/14.

As requested by the governor, the budget includes an additional \$1.85 million for increased unannounced **inspections of regulated child care facilities**; however, while the governor recommended using state funds, the enacted budget uses available federal funds instead. This initiative, which is funded through DPW's appropriation for General Government Operations, funds 22 inspectors.

Other Subsidies

The enacted budget flat funds the **Public Library** subsidy at \$53.5 million.

The budget flat funds the **Safe Schools Initiative** at \$8.5 million. The funding provides targeted grants to schools and municipalities to address school violence and safety issues.

The budget flat funds **Career and Technical**

Education (vocational-technical schools) at \$62 million compared to 2013/14. It also flat-funds the \$3 million appropriation for equipment grants. This competitive grant program is available to vocational-technical schools and school districts that operate vocational-technical programs.

The enacted budget provides a \$10 million increase for **PlanCon**, for total funding of \$306.2 million. PlanCon, which is funded through the Authority Rentals and Sinking Fund Requirements appropriation, is a statutorily mandated reimbursement to school districts for a portion of their capital expenditures and to charter schools for the cost of leased facilities. Please note that a moratorium in place since October 2012, which prohibited funding approval of additional school construction projects, was not renewed in the budget.

Although the Department of Education (PDE) has indicated that an increase in funding for PlanCon would fund some school construction projects on the waiting list, this \$10 million increase will do little to resolve the current significant backlog. According to PDE, the department needs \$105 million to advance “G” level projects to the “H” level, when school districts receive reimbursement.

The budget provides \$50 million for the **Educational Opportunity Scholarship Tax Credit**, also known as “voucher-lite”. This 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. The tax credit program was first enacted in 2012/13 and continues unless a change is made to the Tax Code. Of the \$50 million available in the three fiscal years of the program, the actual usage was: \$18.2 million in 2012/13, \$29.6 million in 2013/14 and \$31 million to date in 2014/15. To date, no data is available on the number of students who receive vouchers and which school each student attends.

The budget continues the **Educational Improvement Tax Credit (EITC)** at \$100 million, the same level available in 2013/14. This program awards tax credits to businesses that make contributions to

scholarship organizations, educational improvement organizations and Pre-K scholarship organizations. This tax credit program continues at the current level unless a change is made to the Tax Code.

Public School Employees’ Retirement System (PSERS)

The 2014/15 budget includes a partial payment towards its \$1.48 billion mandated state-paid employer contributions for public school employees’ retirement, pursuant to Act 120 of 2010. The payment consists of a combination of appropriations, transfers, and cost-avoidance measures totaling between \$1.35 billion and \$1.41 billion, a shortfall of \$78 million to \$132 million. The following are included in the payment:

- Approximately \$1.16 billion from the General Fund.
- A one-time \$225 million transfer (as estimated by the Governor’s Budget Office) from the Tobacco Settlement Investment Board (TSIB) to the PSERS Fund from private equity investments and cash reserves in the Tobacco Settlement Fund and the Health Venture Investment Account. Of those assets, only \$45 million is cash and the balance is illiquid, long-term, high-risk investments. The transfer of these assets from the TSIB to PSERS is required to be done by the end of 2014. Once the funds are transferred, PSERS will be better positioned to understand the true market value of the assets. Note: In the event the valuation of investments plus any cash transferred to PSERS is less than \$225 million, the Fiscal Code provides for the transfer of monies from the Tobacco Settlement Fund to make up the difference; however, at this time we do not know whether the Fund has sufficient balances to hold PSERS harmless.
- Roughly \$76 million in savings from no longer reimbursing charter and cyber charter schools for contributions to public school employees’ retirement, also known as the pension “double dip.”

House Appropriations Committee (D)

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