

2012/2013
BUDGET BRIEFING
HOUSE APPROPRIATIONS COMMITTEE (D)
 Report on Key Issues
 HOUSE APPROPRIATIONS COMMITTEE (D)



JOE MARKOSEK, DEMOCRATIC CHAIRMAN February 27, 2012

Education Funding Cut Again in Governor's 2012/13 Budget Proposal

In addition to the \$1 billion in cuts included in the enacted 2011/12 budget, Gov. Corbett's 2012/13 proposed budget reduces Pre-K - 12 school and library funding by more than \$124 million. The governor is asking legislators to sacrifice an entire generation and continue his reversal of years of significant educational progress in Pennsylvania. Spreadsheets showing the impact of Gov. Corbett's proposed cuts per student and school district are available online at: www.hacd.net/budget/201213/spreadsheets_2012-13.asp.

*The impact of Pre-K – 12 cuts will follow students like ripples as they will enter college less prepared, needing more remedial study, taking longer to complete college and racking up higher student loans. Unfortunately, Gov. Corbett also proposes **more cuts to higher education funding** ranging from 3.8 to 30 percent for community colleges, State System of Higher Education, and state-related universities — Pennsylvania State University, Lincoln University, Temple University, and the University of Pittsburgh. That is in addition to the 10 to 19 percent cuts in higher education funding in the 2011/12 enacted budget.*

*This document outlines state funding for **Pre-K – 12** and **higher education** (starting on page 7).*

Pre-K - 12

Student Achievement Education Block Grant – New Appropriation \$6.5 billion

This is a new appropriation that combines four previously separate appropriations (basic education, pupil transportation, nonpublic transportation, and school employees' social

security), making Gov. Corbett's budget proposal less transparent by making it more difficult to compare with school district funding in previous years.

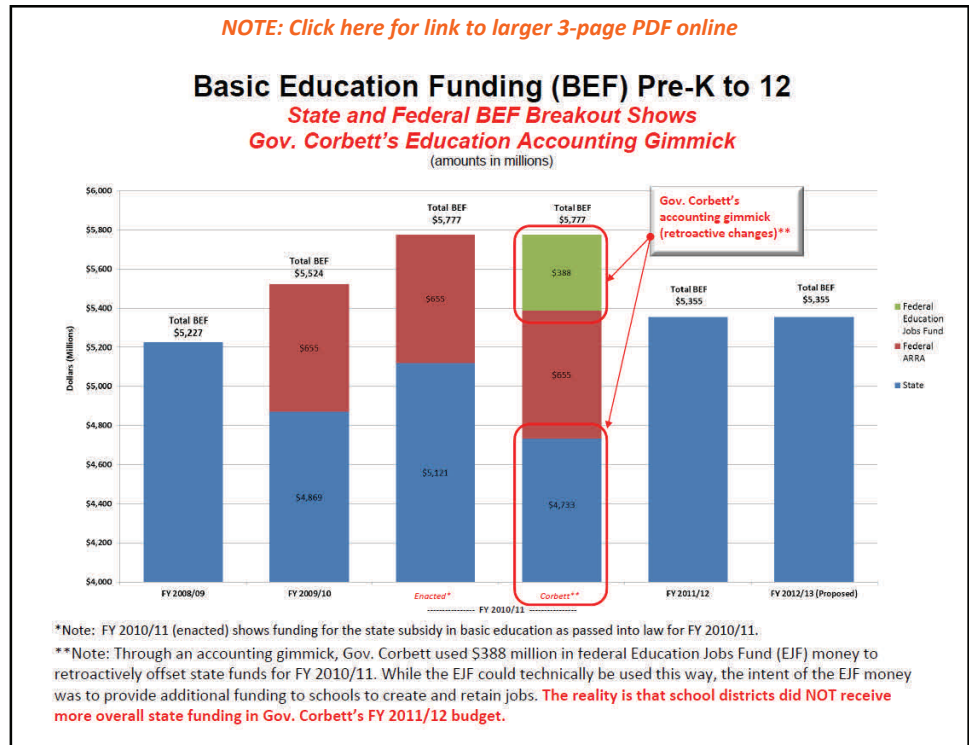
Basic education funding, pupil transportation, nonpublic and charter school transportation, and school employees' social security appropriations would be **eliminated and rolled into this new grant line**. The governor's budget funds the new appropriation at \$6.5 billion — a \$21.8 million increase over the total of the combined lines in 2011/12. According to the governor's budget office, all four appropriations within this new grant line are being flat-funded at their 2011-12 levels. The \$21.8 million increase reflects the Pennsylvania Department of Education's (PDE) estimated projection of increased costs in transportation and social security for 2012/13 and was spread across these three appropriations and distributed on a pro rata basis to each district. It is important to note that school districts do not receive their share of the \$21.8 million increase based upon the actual formulas that are normally used for transportation and social security payments.

Gov. Corbett's Major Education Program Eliminations in Both 2011/12 and 2012/13	2010/11 Funding Level
<i>(Dollars in Thousands)</i>	
Basic Education Formula Enhancements	\$1,946
PA Accountability Grants *	\$354,526
Dual Enrollment Payments	\$6,827
School Improvement Grants	\$10,592
Education Assistance Program	\$46,701
Science: It's Elementary	\$6,779
Intermediate Units	\$4,671
High School Reform	\$1,729
Reimbursement of Charter Schools	\$219,825
TOTAL	\$653,596

* 2010/11 Enacted budget was \$254 million. The 2011/12 budget provided a retroactive appropriation of \$100 million that was then provided to school districts in the 2011/12 fiscal year.

What this new block grant would mean:

- PDE will no longer make direct payments to entities for transportation and social security. Instead, these payments would be rolled into the separate block grants going to school districts, career and technical schools and community colleges. School districts will also receive the Intermediate Unit (IU) portion of social security and transportation and will be required to make these payments directly to the IU.



- Currently, transportation and social security are mandated reimbursements as outlined in the Public School Code. Statutory changes will be required to combine these appropriations and discontinue the reimbursement formulas.
- The formulas for transportation and social security will no longer determine the actual amounts due to these entities. For 2012/13, this

means that, if actual costs are higher than the amount provided in the governor's proposed budget, each entity will absorb that increased cost and no supplemental funds will be provided by the state. In prior years, the state was responsible for reimbursing a specific portion of all actual costs.

- Poorer school districts receive a higher social

(Dollars in Thousands)	FY 2011/12		FY 2012/13	
Major State Funding Decreases in Gov. Corbett's Education Budget Proposal	Available	Governor's Proposed Budget	\$ Increase/ Decrease	% Increase/ Decrease
State Library	\$2,060	\$1,946	(\$114)	-5.5%
Pre-K Counts	\$82,784	\$78,645	(\$4,139)	-5.0%
Head Start Supplemental Assistance	\$37,278	\$35,414	(\$1,864)	-5.0%
Teacher Professional Development	\$7,177	\$6,459	(\$718)	-10.0%
Adult and Family Literacy	\$12,289	\$11,675	(\$614)	-5.0%
Education of Migrant Laborers' Children	\$898	\$853	(\$45)	-5.0%
Services to Nonpublic Schools	\$86,384	\$82,065	(\$4,319)	-5.0%
Textbooks, Materials & Equipment for Nonpublic Schools	\$26,278	\$24,964	(\$1,314)	-5.0%
Public Library Subsidy	\$53,507	\$50,832	(\$2,675)	-5.0%
Library Services for Visually Impaired and Disabled	\$2,702	\$2,567	(\$135)	-5.0%
Library Access	\$2,970	\$2,821	(\$149)	-5.0%
TOTAL	\$314,327	\$298,241	(\$16,086)	-5.1%

security reimbursement and, therefore, could be more adversely impacted if additional funding is not provided in future years.

Don't Be Fooled!

Career and Technical Education will not receive an increase. This appropriation is flat-funded at \$62 million. The additional \$12.5 million in the appropriation is a shift from the social security payment that previously was part of the school employees' social security appropriation.

Program Eliminations

Accountability Block Grant - ELIMINATED

Although the governor proposed eliminating the Accountability Block Grant in 2011/12, the final budget provided \$100 million to school districts for this grant. This payment was made in the form of a supplemental appropriation to the 2010/11 block grant appropriation and provided to districts in the 2011/12 fiscal year. **In 2012/13, the governor again eliminated funding for the Accountability Block Grant.** This means that school districts will receive \$100 million less in 2012/13 than they received in 2011/12.

School Nutrition Incentive Program - ELIMINATED

As the country focuses on childhood obesity, Gov. Corbett's 2012/13 budget eliminates the **School**

Nutrition Incentive Program. Implemented in 2007/08, this appropriation provides additional reimbursements to school districts that voluntarily adopted the PDE's more stringent nutritional standards for school breakfasts and lunches. **Elimination of this appropriation represents another \$3.3 million loss to school districts.**

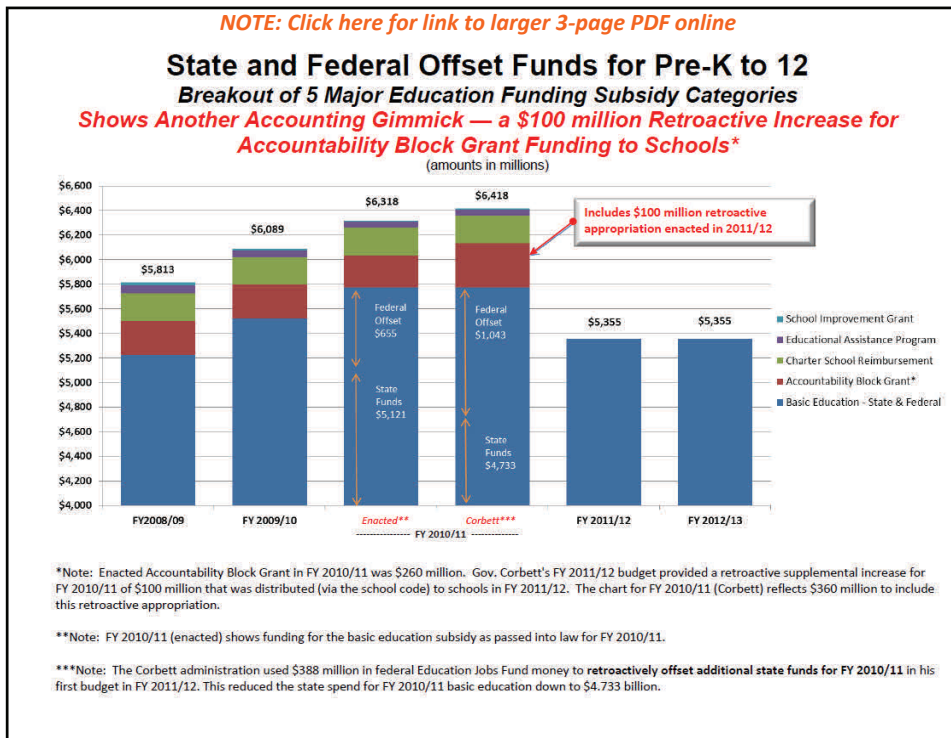
Early Childhood Education

Despite Gov. Corbett's campaign promise — "I will make funding early childhood education a priority" — he wants to cut funding for early childhood education for the second consecutive year. Under his plan, **Pre-K Counts funding** would be \$5 million, or 6 percent, lower than when he took office. **Head Start Supplemental Assistance**, for economically disadvantaged preschoolers, would be \$2.2 million, or 6 percent, lower than when he took office. This reduction means potential job losses. Only **Early Intervention**, a federally mandated program authorized under IDEA (Individuals with Disabilities Act) for developmentally delayed preschool students, is slated for funding increases. Due to special education regulations, qualifying students must receive services. **Therefore, when Gov. Corbett points out the expansion of services to 1,500 children, remember that he is merely providing the services as mandated by law.**

Nearly 75 percent of school districts target their **Accountability Block Grant (ABG)** funding for the youngest students, including Pre-K programs, full-day kindergarten and class size reduction. Gov. Corbett proposes eliminating this funding for a second year, a total two-year loss of \$354 million.

School Employees' Retirement

With a total of \$916 million in Gov. Corbett's budget proposal, the **School Employees' Retirement** appropriation would receive the single largest increase in PDE's budget; an increase of \$316 million, or 53 percent.

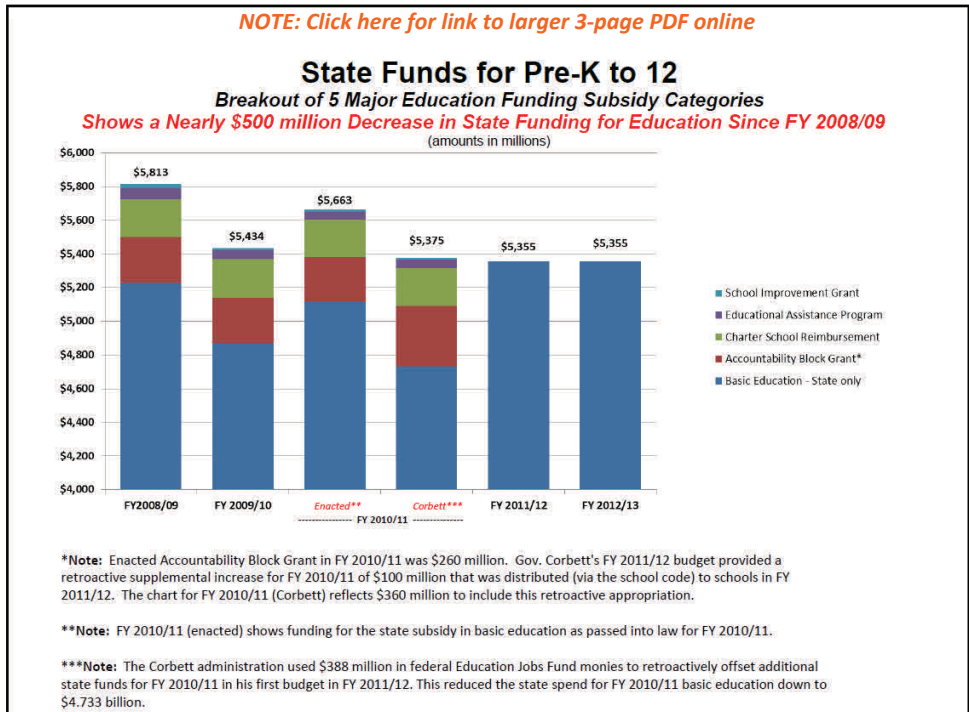


Act 120 of 2010 made substantive changes to the retirement system by both decreasing the level of benefits for future employees and instituting various actuarial changes. To moderate the expected spike in retirement costs, a gradually-increasing rate cap was applied beginning in 2011/12 for mandatory retirement reimbursements. For 2011/12, the employer contribution rate is 8.65 percent of payroll; for 2012/13, the rate increases to 12.36 percent of payroll.

The retirement system for school employees is funded by employee contributions, employer contributions, and investment returns. Employer contributions are split between the school entity and the state. 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 approximately 56 percent of the employer share of retirement contributions in 2012/13.

It is important to note that this 53 percent increase in the state's share of retirement contributions also

NOTE: Click here for link to larger 3-page PDF online



parallels a significant increase to school entities as they are responsible for the remaining portion of employer retirement costs.

For example: School district A has a 2011/12 payroll of \$40 million. Assuming that there is no growth/increase in this payroll and that the district receives 50 percent of the employer's share from the state, the following shows the increased cost for this district:

11/12 Cost	12/13 Cost	\$ increase	% increase
\$1,730,000	\$2,470,000	\$740,000	43 percent

Education Increases

Of the five major increases in Gov. Corbett's proposed education budget, four of those lines are mandated reimbursements based on federal and/or state statute.

(Dollars in Thousands)	FY 2011/12	FY 2012/13		
Major Funding Increases in Gov. Corbett's Education Budget Proposal	2011-12 Available	2012-13 Governor's Proposed Budget	\$ Increase/Decrease	% Increase/Decrease
PA Assessment	\$36,590	\$52,191	\$15,601	42.6%
Early Intervention*	\$198,116	\$206,173	\$8,057	4.1%
Tuition for Orphans and Children Placed in Private Homes*	\$56,655	\$58,610	\$1,955	3.5%
School Food Services*	\$30,525	\$31,259	\$734	2.4%
School Employees' Retirement*	\$600,172	\$916,052	\$315,880	52.6%
TOTAL	\$922,058	\$1,264,285	\$342,227	37.1%

* Indicates mandatory increase due to statutory requirements

Additional Funding

In addition to the mandated increase in the state's contribution to the School Employees' Retirement System, the governor's proposed budget includes increases for:

- PA Assessment (Keystone Exams) — increase of \$15.6 million (43 percent)

Nearly all of the funding for this appropriation,

\$15.4 million, is dedicated to the three Keystone Exams (Algebra I, Biology, and Literature) that will be implemented in 2012/13. PDE's intent is that these exams will become a graduation requirement beginning with the Class of 2017. Although there is no timeline yet, it is anticipated that these exams will eliminate the need for the 11th grade PSSA exam. PDE does not intend to develop or implement additional Keystone Exams. The remaining \$200,000 in funding to this appropriation will be used for the *School Report Card initiative described on page 6.*

Per-Student Funding Cuts in Every School District

A breakout of the funding cuts per student enacted in 2011/12 is available online at:

www.hacd.net/budget/201112/spreadsheets_2011-12.asp

For his proposed 2012/13 budget, Gov. Corbett continues on this path. For a breakout of the funding cuts per student proposed for 2012/13:

www.hacd.net/budget/201213/spreadsheets_2012-13.asp.

• **Early Intervention** — increase of \$8 million (4.1 percent)

This program provides early learning assistance for developmentally delayed preschool-age students. In 2011/12, approximately 48,700 students participated. The increased funding will allow for an additional 1,500 students to participate. *The funding increase was required due to federal mandates attached to this program that require eligible children to receive services.*

• **School Food Services** — increase of \$31.3 million (2.4 percent)

Receiving both federal and state funds, this

Campaign Promises vs. Reality

Number 28 on the list of **Gov. Corbett's campaign promises** was to "get funding into the classroom."

He said: "I will also work to ensure that schools and students with the greatest educational challenges receive the funding support they deserve."

Post-election action: For the second year, Gov. Corbett's budget reduces funding that negatively impacts the poorest school districts *disproportionately*. In 2011/12, the republican budget included a distribution of cuts per student in education, including programs such as basic education funding, accountability block grant, education assistance program, and charter school reimbursement, that was more heavily targeted towards poor school districts.

Candidate Corbett promised to "protect Pennsylvania taxpayers."

He said: "I will take tax increases off the table..."

Post-election action: By enacting draconian reductions in education funding at all levels, schools are left with few choices. More and more, school districts are being forced to use remaining fund balances and propose property tax increases.

The two years of devastating cuts to school districts translated to thousands of jobs lost, increased class sizes, reduced educational programs, and increased local property tax. All school districts are affected by the cuts. Although wealthier school districts tend to receive a lower proportion of state funding as compared to local funding, some are being forced to propose both increased local property taxes and staff and program reductions to offset state funding cuts.

Poorer school districts tend to receive a large proportion of state funds as compared to local funds because their local tax base is limited. The only option for many of these schools is to make dramatic reductions in staff and educational programs. One such school district, Chester-Upland, is experiencing financial insolvency. For a detailed summary of this district's plight, see "Education – Chester-Upland SD 1st Symptom of a Statewide Issue – January 19, 2012" online at: www.hacd.net/publications.asp.

program provides a mandated partial reimbursement for the cost of meals served to school students. *This increase in funding is required to comply with regulations.*

Significant Changes to Current Programs Authority Rentals & Sinking Fund Requirements appropriation (also known as PlanCon)

Flat-funded at \$296 million, this appropriation 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 state through a series of steps known as “Part A through Part K.” A detailed description can be found online at: www.education.state.pa.us/portal/server.pt/community/reimbursable_projects/7463.

PDE is not obligated to pay until an entity receives Part H approval and submits required paperwork. The funding proposed in this appropriation is sufficient to reimburse all projects approved through Part H that have submitted all required paperwork.

There are approximately \$30 million in projects that received Part H approval, but have not submitted all paperwork. Funding for these projects is not included in the appropriation. However, PDE indicated that this debt will be honored if paperwork is submitted.

There are currently 230 projects submitted that have not yet reached Part H. ***There is no funding included in this appropriation for those projects.*** In fact, PDE indicates that it intends to institute a ***one-year moratorium on accepting new projects*** and possibly implement some programmatic changes to the future approval process. Programmatic changes will require legislation.

Education Policy Changes

The proposed budget includes additional policy changes and initiatives as outlined below. Summaries are based on available data. Actual program design may change based on legislation that would be required to implement the programs.

School Report Card

Funding for this initiative is \$471,000, of which \$371,000 is state funds and \$100,000 is Federal Race to the Top funds. Funding is split between the General Government Operations and PA Assessment lines.

PDE will utilize this funding to develop an assessment system for all public schools to analyze three areas:

- academic performance,
- school safety, and
- fiscal strength.

Principal and Teacher Evaluation Tool

Funded as part of the Teacher Professional Development appropriation, this initiative will cost approximately \$3.7 million; nearly \$1 million in state funds and \$2.8 million in federal Race to the Top funds.

As proposed, this program will implement a ***new teacher evaluation tool*** beginning in the 2013/14 school year. Under the new program, teachers will be evaluated based on more and specific criteria, including student test scores, classroom observation, school building performance, and other data. Additionally, a pilot evaluation tool for principals and non-teaching staff will begin in 2013/14 for use in 2014/15.

Real-time data collection

Funded through PDE’s General Government Operations and Information Technology lines, this initiative costs \$1.7 million. Of this total, \$1.5 million in federal Race to the Top funds and \$200,000 in state funds will be used.

Currently, various payments to school districts are based on average daily membership (ADM), which is the student population that the district is responsible for educating. Most times, this data is more than one year old. PDE proposes moving to “real-time” ADM counts that accurately reflect the current student count. This will require revisions to the current reporting systems.

Higher Education

After sustaining cuts ranging from 10 to 19 percent in the 2011/12 budget, institutions of higher education are again targeted for heavy funding cuts in Gov. Corbett's 2012/13 budget proposal (see table below).

State-Related Universities

Funding for three of the four state-related schools would be cut under Gov. Corbett's budget proposal. The University of Pittsburgh and Temple University would receive a 30 percent reduction from the available amount in the current fiscal year.

Penn State would receive a 30 percent cut to its General Support appropriation, while the appropriation for the Pennsylvania College of Technology would receive no cut. The overall cut for Penn State, combining these two appropriations, is 28.2 percent. While Gov. Corbett has publically claimed his cuts reduce funding for Penn State by just 1.8 percent (with similar comparisons made for Temple and Pitt), he is looking at the university's total budget, which includes research activities, the medical center, housing and food enterprises and other non-educational pieces. Such a comparison vastly

distorts the impact cuts to the state appropriations would have on the core educational mission. Many areas of the universities' budgets are siloed off, meaning funds cannot be transferred to other parts of the budget to make up for state reductions.

Lincoln University in Chester County would not receive a funding cut under the governor's proposal.

In total, Gov. Corbett's budget reduced funding to the state-related universities by approximately \$147 million.

Agricultural Funding for Penn State

The flow of funds to Penn State has changed significantly in the past few years. The agricultural research and agricultural extension programs were traditionally appropriated separately in the university's non-preferred legislation. In 2009/10 and 2010/11, these appropriations were consolidated along with the "Education and General" appropriation into a new "General Support" appropriation to facilitate federal stimulus funding to the university.

In 2011/12, the agricultural functions were removed from the non-preferred appropriation and transferred to a new appropriation under the Department of Agriculture. The new appropriation

State Funding for Higher Education 2010/11 to 2012/13	2010/11 Actual	2011/12 Available	2012/13 Budget	\$ Cut	% Cut	% Cut over Two Years
Community Colleges*	\$ 254,340	\$ 230,727	\$ 221,926	\$ (8,801)	-3.8%	-12.7%
State	\$ 214,217	\$ 212,167	\$ 201,526	\$ (10,641)	-5.0%	
Federal ARRA	\$ 21,524					
School Employees' Social Security	\$ 18,599	\$ 18,560	\$ 20,400			
State System of Higher Education	\$ 503,355	\$ 412,751	\$ 330,201	\$ (82,550)	-20.0%	-34.4%
State	\$ 465,197	\$ 412,751	\$ 330,201			
Federal ARRA	\$ 38,158					
Penn State University **	\$ 281,244	\$ 227,694	\$ 163,461	\$ (64,233)	-28.2%	-41.9%
State	\$ 265,453	\$ 227,694	\$ 163,461			
Federal ARRA	\$ 15,791					
University of Pittsburgh	\$ 167,995	\$ 136,076	\$ 95,253	\$ (40,823)	-30.0%	-43.3%
State	\$ 160,490	\$ 136,076	\$ 95,253			
Federal ARRA	\$ 7,505					
Temple University	\$ 172,737	\$ 139,917	\$ 97,942	\$ (41,975)	-30.0%	-43.3%
State	\$ 164,974	\$ 139,917	\$ 97,942			
Federal ARRA	\$ 7,763					
Lincoln University	\$ 13,782	\$ 11,163	\$ 11,163	\$ -	0.0%	-19.0%
State	\$ 13,623	\$ 11,163	\$ 11,163			
Federal ARRA	\$ 159					
Thaddeus Stevens	\$ 10,876	\$ 10,332	\$ 10,332	\$ -	0.0%	-5.0%
State	\$ 8,550	\$ 10,332	\$ 10,332			
Federal ARRA	\$ 2,326					

* Governor's proposal for 2012/13 rolls a portion of School Employees' Social Security appropriation into Community Colleges. Actual and available years shown similarly for comparison.

** Does not include agricultural research and agriculture extension, though appropriated as part of General Support in 2010/11. See section below.

Higher Education

called, “Transfer to Agricultural College Land Scrip Fund” is a preferred appropriation transferring the money to a special fund. The Agricultural College Land Scrip Fund is an old fund that was used to transfer the original proceeds from the land grant to the commonwealth’s designated land grant university (Penn State).

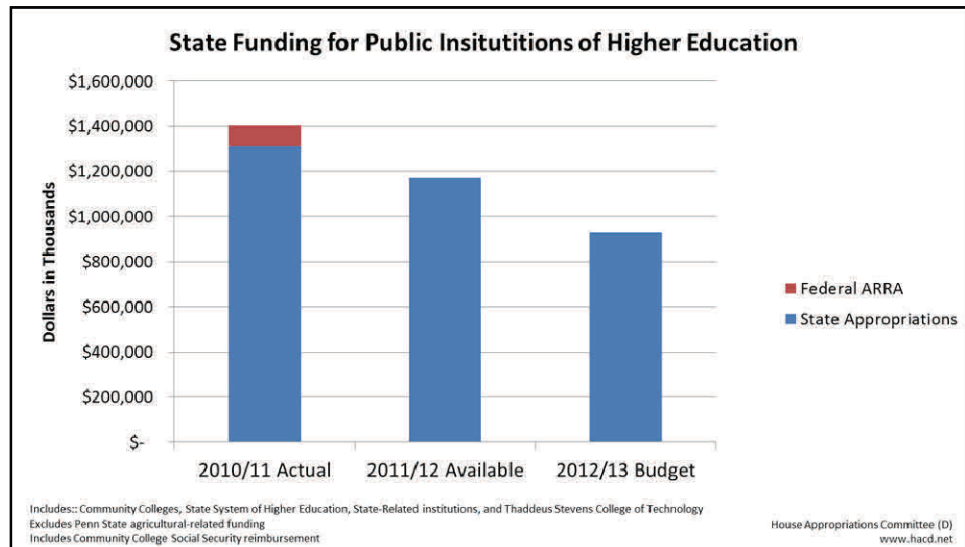
The governor’s budget proposal changes the funding source again.

Instead of a transfer from the General Fund to the Agricultural College Land Scrip Fund, Gov. Corbett proposes to transfer funds from the Race Horse Development Fund. Proposed funding for agricultural extension and agriculture research is \$44.7 million, the same level as the current year. The College of Agriculture at Penn State is disproportionately reliant on this appropriation compared to other academic units, as are the County Extension Offices.

State System of Higher Education

Under Gov. Corbett’s budget proposal, the 14 universities of the State System of Higher Education also receive a very large cut of 20 percent, or \$82.5 million. This level would mean a two year decline in funding for the State System of 34.4 percent. The state appropriation is distributed among the state system universities by a formula based on enrollment, university size, instruction cost, support programs and facilities.

In addition, the governor’s budget proposes to again redirect the State System’s share of funding from the Keystone Recreation, Park and Conservation Fund to the General Fund. This ‘Key 93’ funding is traditionally used by the State System for deferred maintenance on its facilities. The transfer is not new, as the revenue was redirected to the General Fund in 2009/10 and 2010/11. In 2011/12, the State System is scheduled to receive its usual percentage, which is estimated at \$6.8 million. Under the governor’s proposal the State System would not receive this funding in 2012/13.



Community Colleges

Community colleges would receive a 3.8 percent cut, or \$8.8 million, in the governor’s budget proposal. However, the size of the cut is only 3.8 percent because \$20.4 million of the School Employees’ Social Security appropriation is rolled into the community colleges appropriation. If this part is factored out to compare with the traditional appropriation in prior years, the reduction to the “core” community college portion is 5%. Community colleges traditionally receive a portion from the separate Social Security appropriation, but because Gov. Corbett’s Student Achievement Block Grant proposal for school districts combines the School Employees’ Social Security appropriation into the block grant, the community college part is shifted to the base appropriation.

The transfer to Community College Capital Fund appropriation is again flat funded at \$46.3 million. PDE pays half of all approved capital expenses for the 14 community colleges.

Thaddeus Stevens College of Technology

Funding for Thaddeus Stevens College of Technology would not be cut under the governor’s proposal, keeping funding at the 2011/12 level of \$10.3 million.

PHEAA

The largest program administered by Pennsylvania Higher Education Assistance Agency (PHEAA) is the State Grant program, which would be reduced by \$19 million, or 5 percent, under the governor’s

proposal. Institutional Assistance Grants (IAGs), which support private colleges and universities based on the number of needy students enrolled at eligible schools would be cut by 30 percent, or \$7.3 million. The Higher Education for the Disadvantaged appropriation, also known as the Act 101 program, would be cut by \$118,000, or 5 percent. The Cheyney Keystone Academy, which funds the honors program at Cheyney University, would be cut by \$76,000, or 5 percent. In total, state appropriations for PHEAA programs would be cut by \$27.2 million under Gov. Corbett's budget.

In 2011/12, PHEAA's business earnings provided an additional \$50 million to the State Grant Program, above the appropriated amount.

PHEAA also estimates that based on Gov. Corbett's proposed 2012/13 appropriation of \$361.8 million, plus PHEAA's \$50 million supplement, the maximum college funding award for Pennsylvania students will be \$4,096, down from the 2011/12 maximum of \$4,348; the average award would be \$2,666, down from \$2,824.

The budget also proposes a **new grant** for students enrolling in targeted industry certificate programs that are less than two years long. The budget proposes to fund the new program with \$5 million from PHEAA's business earnings and intends that the program would be up and running in 2012/13. While details are not yet available, PHEAA believes that the program's concept is to target funding for certificate programs that focus on growing segments of the state's job market, i.e. the Marcellus Shale drilling industry – to provide trained workers where jobs are available. It is not

clear if the \$5 million in business earnings will be in addition to the contribution to the State Grant program, or if it will come out of that sum.

Other Higher Education Appropriations

Community Education Councils (CECs), which provide higher education offerings to students in parts of rural Pennsylvania that do not have ready access to a community college, would be cut by 10 percent, or \$120,000. This appropriation was significantly reduced in the past few years. Interestingly, the governor's executive budget document goes out of its way to single out CECs for being an excellent partnership between businesses and educational institutions ([see page A1.15](#)), even as the budget calls for another heavy cut.

The regional community college services appropriation would be eliminated under Gov. Corbett's proposal, which subsidizes Pennsylvania students who attend a branch campus of a Maryland college that provides community college style services to an underserved area.

Advisory Commission on Post-Secondary Education

As mentioned in his budget address, Gov. Corbett appointed a commission to review higher education issues, similar to the advisory commission on transportation issues he appointed in 2011. In addition to funding policies, the commission is expected to review state workforce shortages, system sustainability and roles of the different sectors of higher education. The commission, headed by former state senator Rob Wonderling, is asked to submit findings by Nov. 15, 2012.

House Appropriations Committee (D)

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