

Primer

House Appropriations Committee (D)

JOE MARKOSEK, DEMOCRATIC CHAIRMAN

October 31, 2018



Pennsylvania's Education Funding Progress Report

Q: How does 2018/19 total state Pre-K to 12 education funding compare to previous years?

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A: Total education funding has nominally trended up in Pennsylvania; however, any honest assessment must differentiate between retirement contributions for current school employees (normal cost) and payments for old pension debt (unfunded liability).

Q: What percentage of the commonwealth's PSERS payment will pay down the unfunded liability in 2018/19?

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A: An estimated 75 percent.

Q: How does Pennsylvania's support for basic education, the largest source of direct funding to classrooms, in 2018/19 compare to previous years?

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A: The enacted 2018/19 budget brings basic education subsidies to a record \$6.36 billion, passing the previous \$6.31 billion 2010/11 peak.

Q: Should Gov. Wolf get credit for the education increases provided in the budgets that he did not sign?

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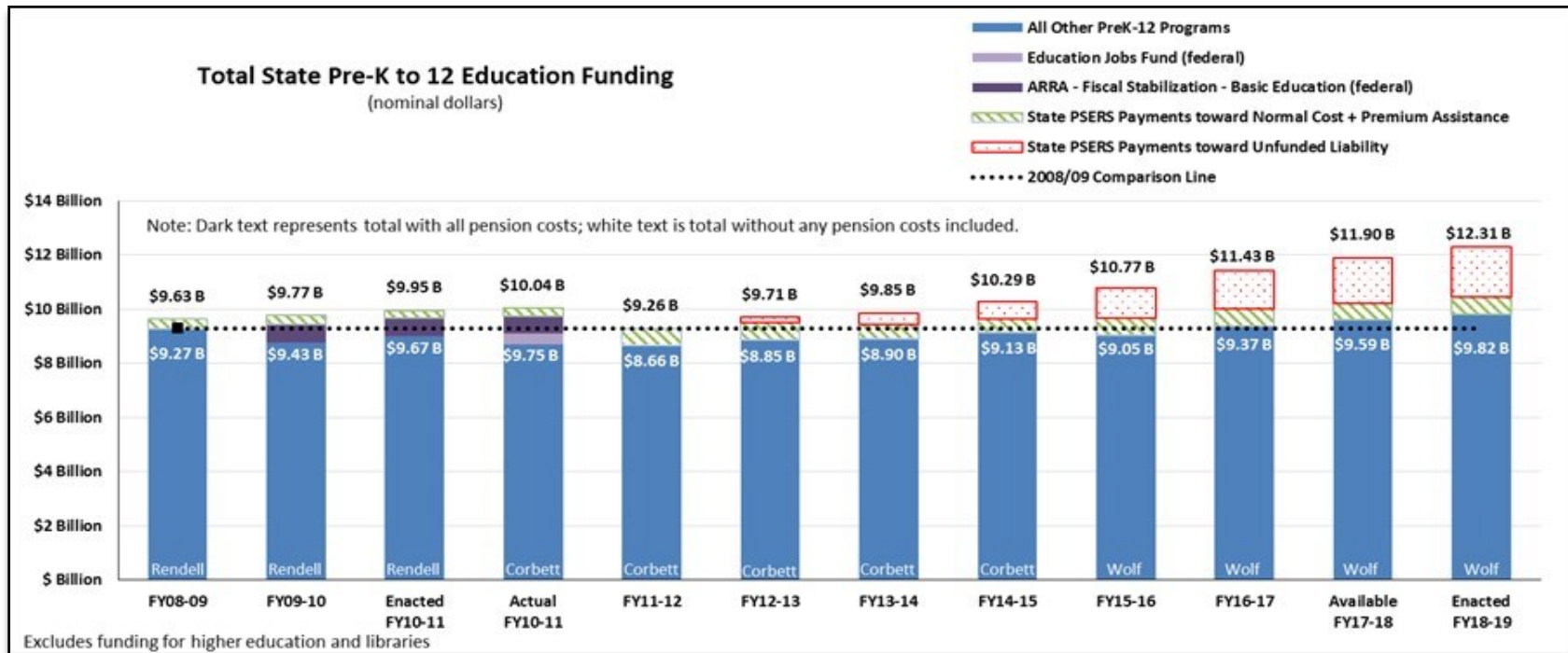
A: Yes, Gov. Wolf's budget proposals set the tone that education funding was a priority. In his first term, Gov. Wolf proposed increasing basic education by \$800 million, but the Republican-controlled General Assembly only provided \$633 million, or 79.1 percent, of his request.

Q: What budget challenges are Pennsylvania school districts facing?

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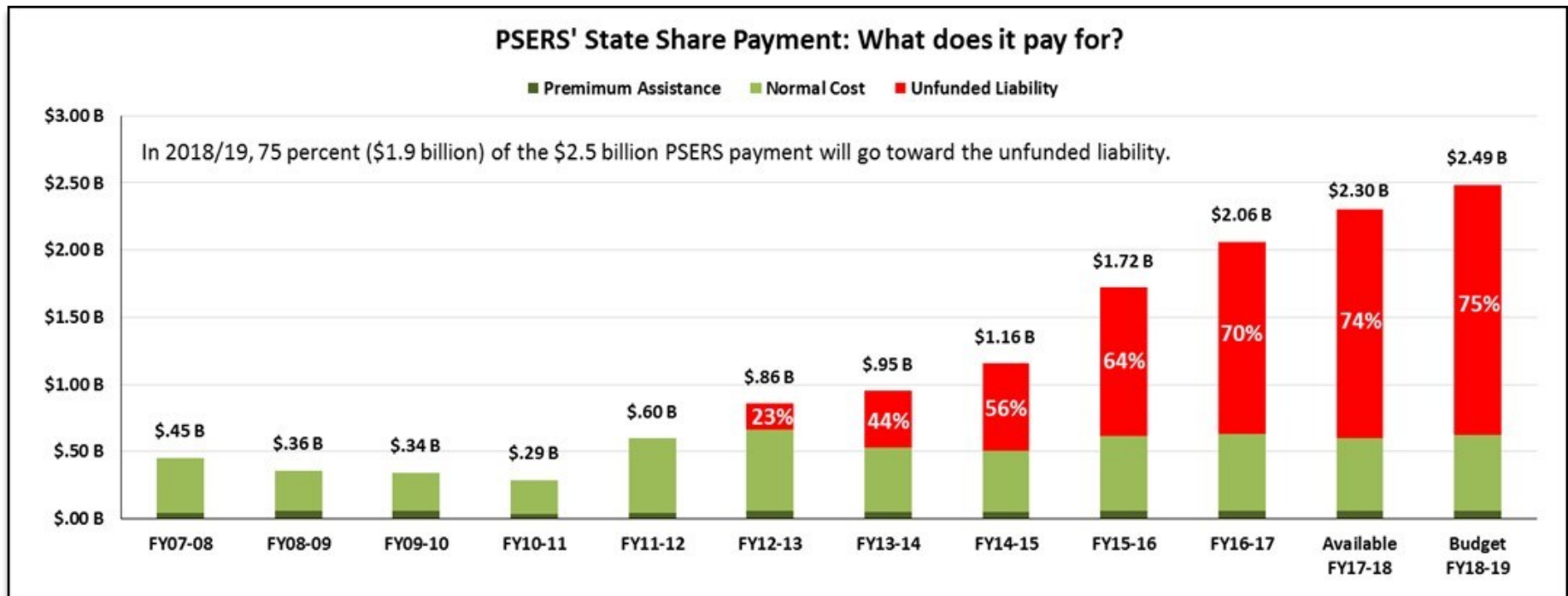
A: Rising charter school costs, special education expenses, and debt-related retirement contributions are cost-drivers for school districts.

How does 2018/19 total state Pre-K to 12 education funding compare to previous years?



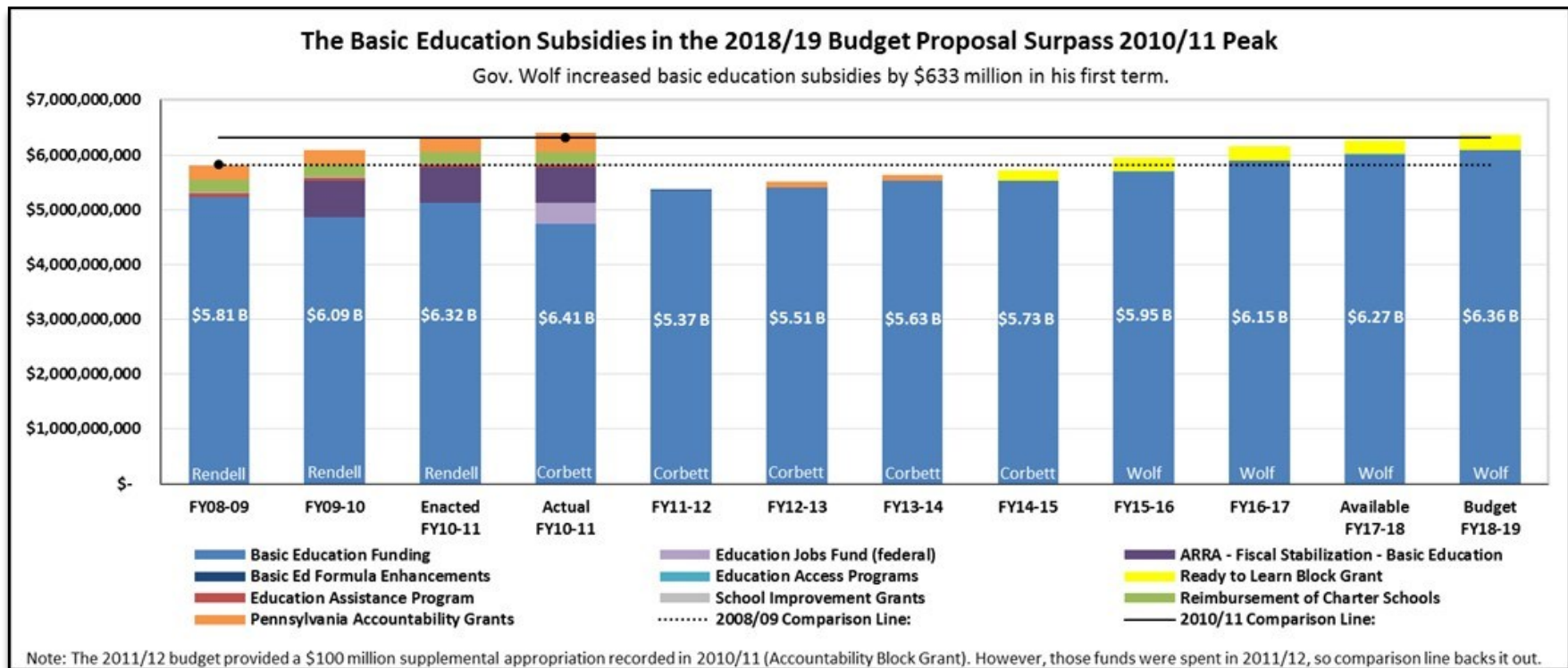
- A meaningful historical comparison of total state education funding should:
 - Not represent the entire PSERS appropriation as funding for today's classrooms;
 - Begin in 2008/09, the year before the Great Recession and the influx of federal stimulus funding; and
 - Include the fiscal stabilization dollars provided by the federal government to help states maintain spending at a time when state tax revenues were significantly underperforming. The mid-year supplanting of state revenue in 2010/11 is also important.
- Pennsylvania's total state education funding has been trending upward since the 10-year low point in 2011/12.
 - Republican claims in recent years of record state spending on education ignore the unfunded pension liability's share of the increases. Payments toward the unfunded liability should not be credited as investments in today's classrooms (see page 3).
 - Unrepresented policy nuances detract from the value of broad comparisons like year-to-year total state education funding. For example, the bonding of the PlanCon program used largely for school construction related costs in 2015/16 explains the dip in programmatic spending relative to 2014/15.
 - Total programmatic funding in the enacted 2018/19 budget (\$9.82 billion) is now slightly above the previous peak in 2010/11 (\$9.75 billion). However, this similar nominal dollar amount does not account for inflation and does not mean comparable service delivery (see page 6).

What percentage of the commonwealth's PSERS payment will pay down the unfunded liability in 2018/19?



- In the General Appropriations Act, there is one appropriation for the state's employer contribution for the Pennsylvania School Employee Retirement System (PSERS) fund. However, this money is effectively used toward three distinct purposes: payments for health care premium assistance, the retirement contributions for current school employees (normal cost), and payments for old pension debt (unfunded liability).
- Representing the entire PSERS appropriation as funding for today's classrooms is false. In 2018/19, an estimated 75 percent of the state's PSERS payment will go toward the unfunded liability.
 - One way to depict total education funding for today's classrooms would be to remove the PSERS payments altogether since so much of the appropriation is used to pay old debt and the cost for current employees (normal cost) is relatively flat across the years. Unfortunately, this method shortchanges the total education spending picture since current labor costs, of which pensions are a meaningful part, should be included.
 - At the very least, the unfunded liability should be differentiated from the normal cost of pension payments in the total education funding conversation.

How does Pennsylvania's support for basic education, the largest source of direct funding to classrooms, in 2018/19 compare to previous years?



- In 2018/19, basic education subsidies are \$633 million higher than when Gov. Wolf took office. The \$6.36 billion in basic education subsidies in 2018/19 represent a new peak nominal funding level for the state, narrowly eclipsing the federal-stimulus-infused 2010/11 level.
- The basic education funding distribution formula recommended by the Basic Education Funding Commission has been in effect since 2015/16, and it provides each school district with the amount it received in 2014/15 before it allocates the remaining funds based on annually updated student- and district-based factors.
- Citing inequities and inadequate funding, a lawsuit is challenging whether Pennsylvania is meeting its constitutional charge to “provide a thorough and efficient system of public education to serve the needs of the commonwealth.” The matter is still in the court system.
- Republicans have claimed they did not cut state funding for education, but none of the Corbett administration’s basic education subsidy totals exceeded the \$5.81 billion level of spending in 2008/09 (the year before the federal stimulus).
 - Poorer school districts bore the brunt of the **eliminated** (reimbursement of charter schools, school improvement grants, and education assistance programs) and **reduced** (accountability block grants) state programs.

Should Gov. Wolf get credit for the education increases provided in the budgets that he did not sign?

- Republicans have been making the strange argument that Gov. Wolf was not involved in the 2015/16, 2016/17, or 2017/18 budgets because he allowed those budgets to become law without his signature.
 - Gov. Wolf campaigned on “Jobs that pay. Schools that teach. Government that works,” And the “schools that teach” platform centered on restoring the cuts of the previous administration. Gov. Wolf has been a leader in making investments in preK-12 education.
 - In Gov. Wolf’s first term, the Republican-controlled General Assembly only funded 79 percent of what the governor requested for basic education, 46 percent for special education, and 39 percent for early childhood education.

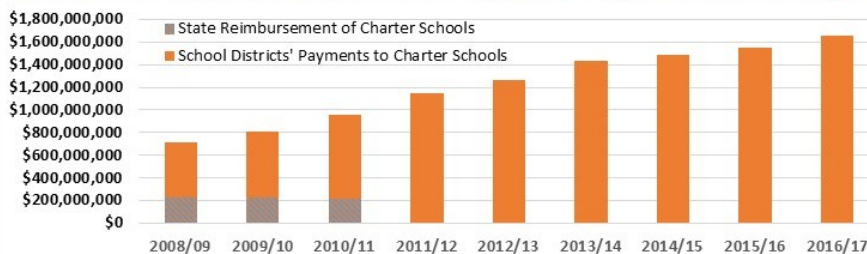
Fiscal Year	Basic Education Subsidies			Special Education Funding			Early Childhood Education		
	Gov. Wolf's Proposed Increase	Actual Increase Approved by the Republican-controlled General Assembly	Percent of Proposed Amount Funded	Gov. Wolf's Proposed Increase	Actual Increase Approved by the Republican-controlled General Assembly	Percent of Proposed Amount Funded	Gov. Wolf's Proposed Increase	Actual Increase Approved by the Republican-controlled General Assembly	Percent of Proposed Amount Funded
2015/16	\$400 million	\$221 million	55.3%	\$100 million	\$30 million	30.0%	\$120 million	\$30 million	25.0%
2016/17	\$200 million	\$200 million	99.9%	\$50 million	\$20 million	40.0%	\$60 million	\$30 million	50.0%
2017/18	\$100 million	\$117 million	117.1%	\$25 million	\$25 million	100.0%	\$75 million	\$30 million	40.0%
2018/19	\$100 million	\$95 million	94.9%	\$20 million	\$15 million	75.0%	\$40 million	\$25 million	62.5%
	\$800 million	\$633 million	79.1%	\$195 million	\$90 million	46.2%	\$295 million	\$115 million	39.0%

What budget challenges are Pennsylvania school districts facing?

Overall, there is too little state support, which drives inequities by putting the burden on local sources of funding. In 2016/17, the latest year for which we have data, 36.8 percent of funding for school districts came from the state, which ranks PA 46th in state support for education. This insufficient share of state funding has been consistent for at least two decades. In 2016/17, school district revenues were \$30.7 billion with \$11.3 billion coming from the state, \$16.8 billion from local sources, and \$2.6 billion from federal/other sources. The charts below are based on data from the annual financial reports (AFR) that local education agencies are required to file with the PA Department of Education.

School districts' payments to charter schools increased by \$1.17 billion, or 238 percent, between 2008/09 and 2016/17.

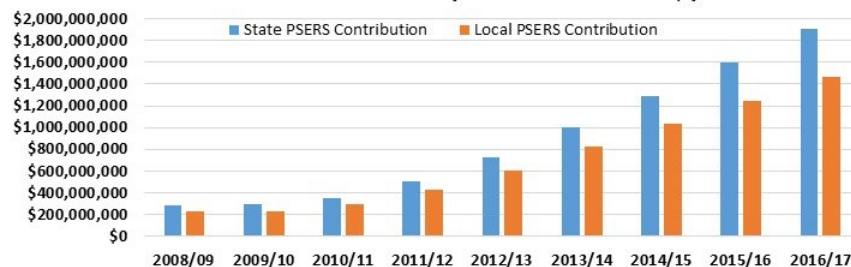
Gov. Corbett eliminated the direct state reimbursement (-\$219 million) of charter schools in 2011/12.



Note: Charter schools are public schools funded by payments (tuition) from the sending school district. School districts' charter expenditures are PDE's AFR Expenditures: Tuition Schedule net of the state reimbursement of charter schools (AFR 7140).

Local PSERS payments increased by \$1.24 billion, or 535 percent, between 2008/09 and 2016/17.

The state's share of the rising PSERS costs (due to paying down the old debt) remains consistent due to the structure of the state's PSERS subsidy formula.



Note: The local share of the PSERS contribution is PDE's AFR Code 230 net of the state's PSERS contribution (AFR Code 7820).

Total special education costs increased by \$1.5 billion, or 51 percent, between 2008/09 and 2016/17, with local revenues covering \$1.38 billion, or 90 percent, of the growth.

The state special education subsidy has not kept pace with total costs, causing the state share to fall from 32 percent in 2008/09 to 23 percent in 2016/17.



Note: Local special education payments are PDE's AFR Codes (1200+2140+2150) net of the state special education revenues AFR Codes (7271+7272) and federal special education revenues AFR Codes (6832+6833+8512+8513+8701+8702).

When PSERS costs are excluded, the 2016/17 state share of education spending is 4 percentage points less than pre-recession levels.



Note: Data obtained from PDE's AFR data. Total revenue excludes AFR expenditure 230. State revenue excludes AFR expenditure 7820, and local revenue excludes the difference between AFR 230 and 7820.

House Appropriations Committee (D)

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