

2012/2013 **BUDGET BRIEFING**

HOUSE APPROPRIATIONS COMMITTEE (D)
Report on Key Issues
HOUSE APPROPRIATIONS COMMITTEE (D)

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July 25, 2012



Education Funding Locks-In Previous Cuts

The Republican-crafted 2012/13 state budget locks in the roughly \$1 billion in cuts to the classroom imposed last year. Continuing last year's reduced level of funding means school districts across the state will continue to raise local taxes and reduce programs and staff. Already, 197 school districts (out of 500) received permission from the Department of Education to significantly raise local taxes in 2012/13 without seeking voter approval; continuing the governor's signature cost-shifting strategy as he cuts business taxes.

Spreadsheets showing the impact of funding per student and school district are available online at: www.hacd.net.

The impact of Pre-K – 12 cuts to the classroom will stifle students in their quest for higher education as they will enter college less prepared, needing more remedial study, taking longer to complete college and racking up higher student loans. See “Flat Funding = Local Tax Hikes + Job Cuts” on page 2.

The House and Senate rejected Gov. Corbett's plan to cut funding further for state-related institutions of higher education. The final 2012/13 budget provides flat funding at last year's level. However, these funding levels are significantly lower than before Gov. Corbett took office because of the major education cuts imposed in last year's budget that continue to punish middle-class families.

Pre-K-12 Funding Falls Flat

Pre-K-12 public school classroom funding as compared to last year (2011/12) is flat-funded in the enacted 2012/13 budget. However, \$49 million is added to the Basic Education Funding appropriation to provide supplemental financial aid to financially distressed school districts. Again, the enacted budget locks in the roughly \$1 billion in cuts to classroom funding implemented in Gov. Corbett's first budget.

Program Elimination

As the country focuses on addressing childhood obesity, the Republican-crafted 2012/13 budget **eliminates the School Nutrition Incentive Program.** Implemented in 2007/08, this appropriation provided additional reimbursements to school districts that voluntarily adopted the PDE's more stringent nutritional standards for school breakfasts and lunches. **Eliminating this appropriation represents another \$3.3 million loss to schools.**

Early Childhood Education

Despite Gov. Corbett's campaign promise — “I will make funding early childhood education a priority” — he proposed major education cuts in February. The House and Senate restored some of his cuts this

year, but early childhood education programs continue to suffer from cuts in funding Gov. Corbett made last year.

Accountability Block Grant

Funding under the **Accountability Block Grant (ABG)** provides resources for proven programs to help school districts reach academic performance targets. Nearly 75 percent of school districts choose to target their ABG funding for their youngest students, including Pre-K programs, full-day kindergarten and class size reduction in kindergarten through third grade.

During the 2011/12 fiscal year, school districts had \$100 million available to spend under ABG. The final 2012/13 budget provides \$100 million for ABG. However, this represents a cut of \$154.5 million, or 60.7 percent, when compared with the funding available for school districts to spend in 2010/11, before Gov. Corbett took office.

Pre-K Counts

The **Pre-K Counts** program provides high-quality early childhood education to about 11,400 Pennsylvania children in diverse settings, ranging from school-based programs to Keystone STARS child care centers. In 2009/10, third-year outcomes revealed that nearly every child (more than 98

percent) showed age-appropriate or emerging age-appropriate proficiency in literacy, numeracy and social skills after participating in the Pre-K Counts program.

The 2012/13 budget provides \$82.8 million for the Pre-K Counts program; level funding compared to 2011/12. However, this represents a cut of \$836,000, or 1 percent from 2010/11. In his February budget presentation, Gov. Corbett proposed funding the program at \$78.6 million.

Head Start Supplemental Assistance

Pennsylvania's **Head Start Supplemental Assistance** program is based on the federal model of Head Start, providing services to three- and four-year-old children and their families with family incomes up to 130 percent of the federal poverty guidelines. The Head Start model provides comprehensive education, health, nutrition and parent involvement services. This program has demonstrated a positive impact for children with personal and social development challenges.

The 2012/13 budget provides \$37.3 million for the

Head Start Supplemental Assistance program; level funding compared to 2011/12. However, this is a cut of \$377,000, or 1 percent, from 2010/11. In his February budget presentation, Gov. Corbett proposed funding the program at \$35.4 million.

Early Intervention

The Early Intervention program under PDE is a federally mandated program authorized under IDEA (Individuals with Disabilities Act) for developmentally delayed students ages three through kindergarten. **Due to the federal mandate, all eligible children must be served.**

The 2012/13 budget provides \$206.2 million for the Early Intervention program, the same as the governor's February proposal. This represents an increase of \$8.1 million, or 4.1 percent, over 2011/12. Compared to 2010/11, Early Intervention funding increases by \$25.5 million, or 14.1 percent. In 2009/10 and 2010/11 federal American Recovery and Reinvestment Act (ARRA) money was provided specifically for the IDEA services. When the ARRA funding disappeared, state funds were necessary to cover shortfalls in this mandated program.

Flat Funding = Local Tax Hikes + Job Cuts

Local school directors and educators across the state may have breathed a sigh of relief that legislators restored the Accountability Block Grant funding Gov. Corbett wanted to cut in the 2012/13 budget. However, **flat funding at 2011/12 levels locks-in the roughly \$1 billion in cuts to the classroom made last year** and will force more districts to **raise local taxes and cut school programs** to compensate for the lost state funding since Gov. Corbett took office. In many districts, reduced state funding is compounded by declining property values and reduced tax base. Here are a few **examples of changes that local school districts are making with a direct effect on local taxes and reduced educational opportunities:**

- [North Allegheny SD Raises Taxes, Cuts 37 Employees \(Tribune-Review\)](#)
- [Armstrong SD to Close School \(Tribune-Review\)](#)
- [Mars Area school board approves \\$39.8 million spending plan that cuts personnel \(Post-Gazette\)](#)
- [Carlisle School Board Raises Taxes \(Patriot-News\)](#)
- [Penns Valley and Bald Eagle District Raise Taxes \(Centre Daily Times\)](#)
- [Homeowners in Parkland SD to Pay Average \\$112 More \(Easton Express-Times\)](#)
- [Fairfield School District Raises Taxes \(Hanover Evening Sun\)](#)
- [Districts in Erie and Crawford Counties Hike Taxes and Cut Jobs \(Erie Times\)](#)
- [Great Valley SD Raises Taxes 3 Percent \(West Chester Daily Local News\)](#)
- [Luzerne County Schools Raising Taxes and Cutting Jobs \(Wilkes-Barre Times Leader\)](#)

[Click here](#) to read about how other districts around the state are dealing with the severe state budget cuts since Gov. Corbett took office.

Education Policy Changes

The final 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.

Funding for Distressed School Districts

The budget includes \$49 million added to the Basic Education Funding appropriation to provide supplemental funding to financially distressed school districts. Of this amount, \$39 million will provide grants to 16 financially distressed school districts (see table below) according to formulas in the new Education Code. The remaining \$10 million is expected to be distributed to qualifying school districts through the newly created Financial Recovery Transitional Loan Program. In separate appropriations, \$14 million is made available to the Chester-Upland School District for obligations related to the 2011/12 fiscal year, and \$2.5 million is made available to the Duquesne School District as a basic education funding enhancement including \$500 per pupil for transitional services related to students in 7th, 8th, and 9th grades reassigned to neighboring school districts at a cost of approximately \$68,500 per year.

School Districts Receiving Distressed School Funding Supplements		
School District	County	Distressed School Supplements
Chester-Upland SD	Delaware	\$9,708,322
York City SD	York	5,429,723
Allentown City SD	Lehigh	4,009,915
Reading SD	Berks	3,732,341
Erie City SD	Erie	2,930,774
Lancaster SD	Lancaster	2,410,858
Pocono Mountain SD	Monroe	2,000,000
Upper Darby SD	Delaware	2,000,000
Harrisburg City SD	Dauphin	1,732,162
Stroudsburg Area SD	Monroe	1,500,000
Coatesville Area SD	Chester	1,000,000
Lebanon SD	Lebanon	994,965
Steel Valley SD	Allegheny	559,026
Sto-Rox SD	Allegheny	440,974
Westmont Hilltop SD	Cambria	300,000
Jeannette City SD	Westmoreland	250,000
Subtotal - Formula		\$38,999,061
Financial Recovery School District Transitional Loan Account		10,000,939
TOTAL		\$49,000,000

Educational Improvement Tax Credit (EITC) Program (a.k.a. "EITC 1.0")

Funding for the 11-year-old Educational Improvement Tax Credit (EITC) program is increased by \$25 million, to \$100 million and authorizes the award of tax credits to businesses that make contributions to qualifying scholarship organizations and educational improvement organizations, and pre-kindergarten scholarship organizations.

The tax credit makes available \$60 million for private scholarships (previously \$44.7 million), \$30 million for public education improvement programs (previously \$22.3 million), and \$10 million for pre-kindergarten scholarships (\$8 million) on a first-come-first-served basis.

The qualifying household income ceiling, with the applicable income allowance, was increased from \$60,000 (which represents an income limit of \$50,000 plus \$10,000 for each eligible student) as follows:

- \$72,000 from July 1, 2011 through June 30, 2013,

New Tax Credit Offers Vouchers-Lite

The 2012/13 budget package includes a change in the Tax Code to offer **Educational Opportunity Scholarship Tax Credit Program** (a.k.a. "Vouchers-Lite"). The tax credit program makes available \$50 million in tax credits to businesses who contribute to scholarship organizations for the purposes of providing school vouchers to students living in low-achieving public schools.

The program provides — on a first come, first served basis, who meet income guidelines — a \$8,500 voucher to students without disabilities and a \$15,000 voucher to students with disabilities to attend another participating public or non-public school. Beginning in 2013/14, transportation costs for students receiving scholarships will be covered at the cost of approximately \$385 per student. Public and non-public students residing within the attendance boundary of a public school that ranked in the lowest 15 percent based on combined math and reading scores as annually assessed by the Department of Education are eligible (does not include charter or cyber-charter schools).

Preference is provided to students awarded a voucher in the previous school year and to students whose household income is less than 185 percent of federal poverty levels, or approximately \$42,600 for a family of four. The qualifying household income ceilings by fiscal year, with the applicable income allowances, are the same as for the EITC program.

which represents an income limit of \$60,000 plus \$12,000 for each eligible student and dependent.

- \$90,000 from July 1, **2013** through June 30, 2014, which represents an income limit of \$75,000 plus \$15,000 for each eligible student and dependents.
- Beginning July 1, **2014**, the income allowance and maximum household income will be adjusted annually to reflect any upward changes in the consumer price index.

With respect to scholarship organizations and educational improvement organizations, businesses may receive a tax credit of up to 75 percent of the total amount contributed during the taxable year and up to 90 percent of the total amount contributed if a commitment is made for two consecutive years. Preference is provided to businesses providing a 2-year commitment to the program. The maximum tax credit for each business is increased from \$300,000 to \$400,000 in 2012/13 and then to \$750,000 beginning in 2013/14. For pre-kindergarten scholarship

organizations, the maximum tax credit is increased from \$150,000 to \$200,000 annually.

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 appropriations.

PDE will use 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 Evaluations

New teacher and principal evaluation tools will be funded through the ongoing pilot program and will cost approximately \$3.7 million. Of this amount, \$900,000 is made available with existing state funds from the Teacher Professional Development appropriation and \$2.8 million in federal Race to the Top funds. Teacher evaluations for classroom teachers begin this year (2012/13), and principals and non-teaching professional employee beginning in 2013/14 based on more and specific criteria, including student test scores, classroom observation, school building performance, and other criteria. **A last minute GOP amendment to the Education Code excluded Charter School teachers from the evaluation provisions.**

Real-time data collection

Funded through PDE's General Government Operations and Information Technology appropriations, this initiative costs \$1.7 million — \$179,000 in state funds and \$1.5 million in federal Race to the Top funds.

Currently, various payments to school districts are based on "average daily membership" (ADM) figures, 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.

Notable Education Funding Facts

For the first time in history, this year Gov. Corbett attempted to lump the non-classroom education funding the state is required to pay school districts for transportation and social security to make it appear the state is increasing K-12 education funding. Not even Republicans in the House and Senate agreed with the governor's approach because **in reality, those mandated funds do not impact classroom education the same way as a school's Basic Education Funding and Accountability Block Grant funding.** The final 2012/13 K-12 education funding continues the roughly \$1 billion in cuts to school districts enacted in 2011/12, but does provide some additional funding for distressed schools. **Democrats pushed hard to successfully restore Gov. Corbett's elimination of \$100 million for the Accountability Block Grant** that many schools use for early child education programs such as full-day kindergarten.

There are essentially three ways to compare K-12 funding in 2012/13 to previous years. This year schools are receiving:

- **Roughly \$1 billion** (\$982.5 million) **in total cuts** continued from Gov. Corbett's first budget, as compared to 2010/11 which included federal stimulus money
- **\$861.3 million in net cuts** compared to 2010/11, excluding pension funding
- **\$309 million less than state funds four years ago** in 2008/09, major state education funding subsidy categories; **before federal stimulus money**

School Employees' Retirement

The enacted 2012/13 budget includes approximately \$856 million for the **School Employees' Retirement** appropriation, **an increase of \$256 million, or 43 percent**, representing the single largest increase in PDE's budget.

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 was 8.65 percent of payroll. For 2012/13, the rate is to 12.36 percent of payroll. **Without Act 120, the rate would have been 29.65 percent of payroll, a total savings of \$2.5 billion to the commonwealth (\$1.4 billion) and school districts (\$1.1 billion).** Employer contributions are estimated to peak in 2020 at 28.04 percent of payroll.

Over the past 10 years, the retirement system for school employees received funding from employee contributions (19 percent), employer contributions (12 percent), and investment returns (69 percent). 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 poorer school districts receiving a larger share. It is expected that **the state will contribute approximately 56 percent of the employer share of retirement contributions in 2012/13.**

The 43 percent increase in the *state's share* of retirement contributions also parallels a *commensurate and 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:**

<u>2011/12 Cost</u>	<u>2012/13 Cost</u>	<u>\$ Increase</u>	<u>% Increase</u>
\$1,730,000	\$2,472,000	\$742,000	43 percent

Additional Funding

In addition to the mandated increase in the state's contribution to the School Employees' Retirement System, the 2012/13 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* (see page 4).

- **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 *\$734,000 (2.4 percent)*

Receiving both federal and state funds, this 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

The **Authority Rentals & Sinking Fund Requirements** (also known as **PlanCon**) appropriation is 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.

A one-year moratorium on new projects has been implemented and other programmatic changes to the future approval process are sought however, further changes will require legislation.

Higher Education

The final 2012/13 **budget provides flat funding for institutions of higher education** compared to 2011/12. However, these funding levels are significantly lower than 2010/11, because of the major cuts imposed in last year’s budget.

- **14 Community Colleges** receive a collective \$212.2 million; level with last year; 10 percent below 2010/11
- **State System of Higher Education** schools receive a collective \$412.8 million; level with last year; 18 percent below 2010/11
- **Penn State University** (excluding agricultural research and agricultural extension funding) receives \$227.7 million; level with last year; 19 percent below 2010/11
- **University of Pittsburgh** receives \$136.1 million; level with last year; 19 percent below 2010/11
- **Temple University** receives \$139.9 million; level with last year; 19 percent below 2010/11
- **Lincoln University** receives \$11.2 million; level with last year; 19 percent below 2010/11
- **Thaddeus Stevens College of Technology** receives \$10.3 million; level with last year; 5 percent below 2010/11

The transfer to the **Community College Capital Fund**, which supports the building needs of the 14 community colleges, **receives a \$1.5 million increase**, bringing the total to \$47.8 million in 2012/13.

The appropriation for **Community Education Councils**, which provide access to higher education services in rural communities where there is no local community college or state system university, increases by \$600,000, to \$1.8 million.

Funding for **medical schools** remains under the Department of Public Welfare.

PHEAA (Pennsylvania Higher Education Assistance Agency)

PHEAA grants receive \$344.88 million in the final 2012/13 budget, a reduction of \$36 million. However, PHEAA intends to maintain the 2011/12 grant levels awarded by making up for the state appropriation shortfall by using \$10 million in unspent funds rolled forward and \$25 million in business earnings. PHEAA was already contributing \$50 million in business earnings, so the total contribution will now reach \$75 million. PHEAA believes the increased business contribution plus the unexpired funds will be sufficient to keep the state grant program stable for the current (2012/13) year.

House Appropriations Committee (D)

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