



Pennsylvania School Funding: A Short Course in School Finance

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Executive Director, PA Association of School Business Officials

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For the Millcreek Township Board of School Directors

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About the PA Association of School Business Officials

- We are a state wide association of 3,000 members located in Harrisburg with a focus of education, training and professional development of our members, two-thirds of whom are K-12 non-instructional administrators. PASBO members provide finance, accounting, operations, facilities, transportation, food service, technology, communications, human resources, purchasing and safety services to support classroom learning in schools in Pennsylvania.
- Our business associate members provide products and services in the school marketplace.
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Pennsylvania School Funding

- Unfair to students
- Unfair to local taxpayers
- Limits Pennsylvania's economic future

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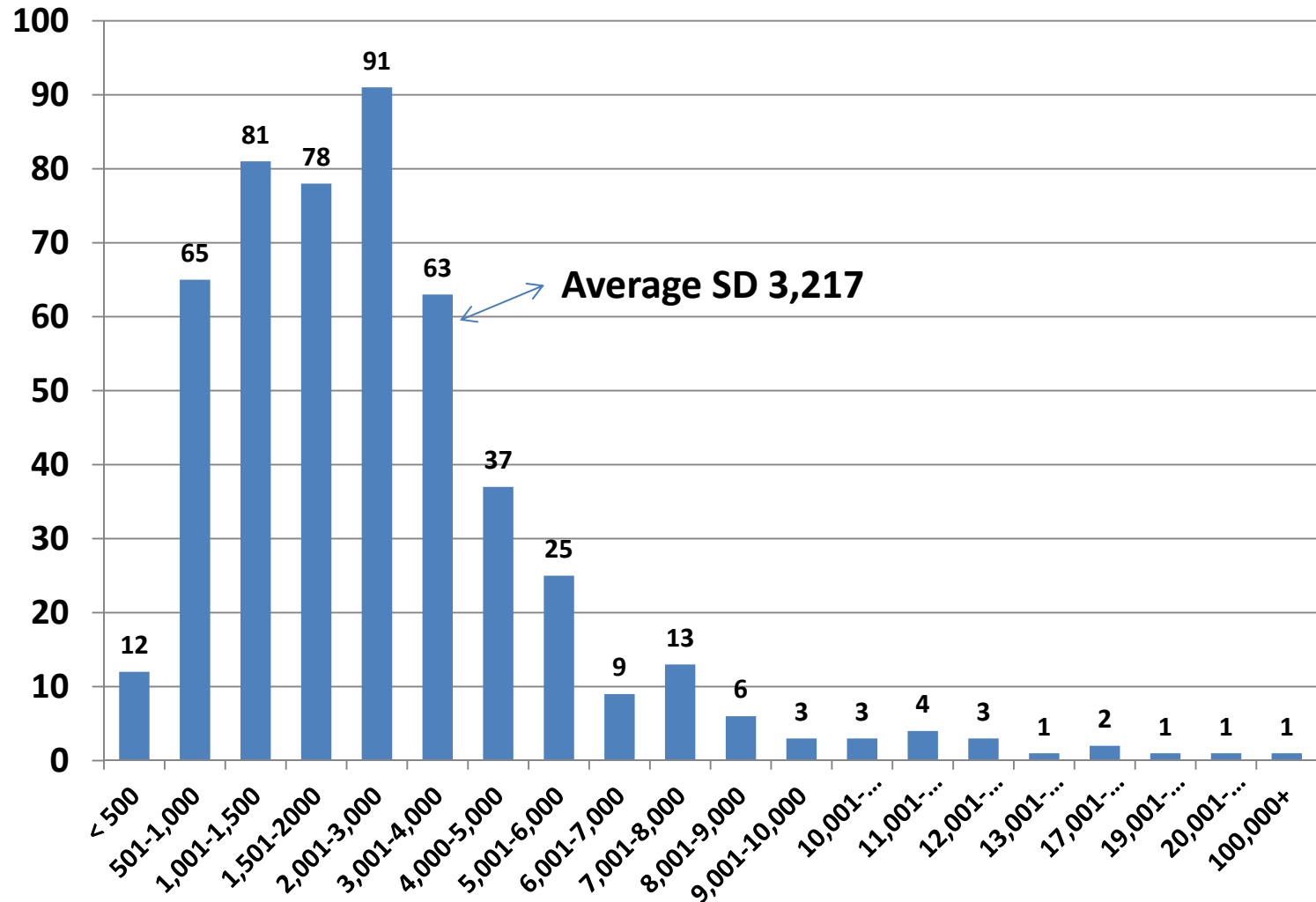
PA Public Education System

- 3,288 Public Schools
- 500 School Districts
- 176 Charter Schools
- 29 Intermediate Units
- 12 Comprehensive Career and Technology Centers
- 59 Occupational Career and Technology Centers
- 7 State Juvenile Correctional Institutions
- 2 School District sponsored Community Colleges

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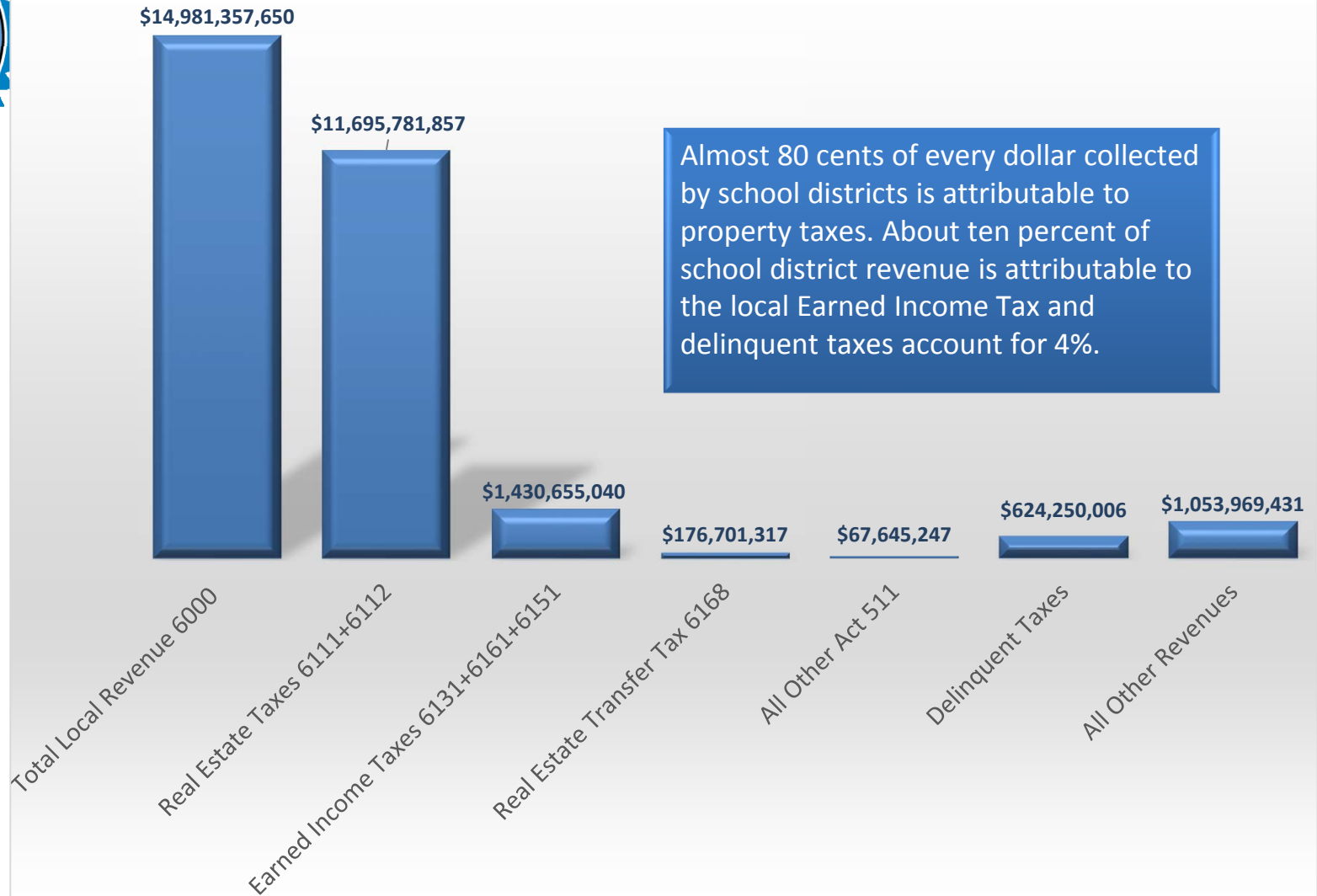


Number of School Districts by Enrollment Size





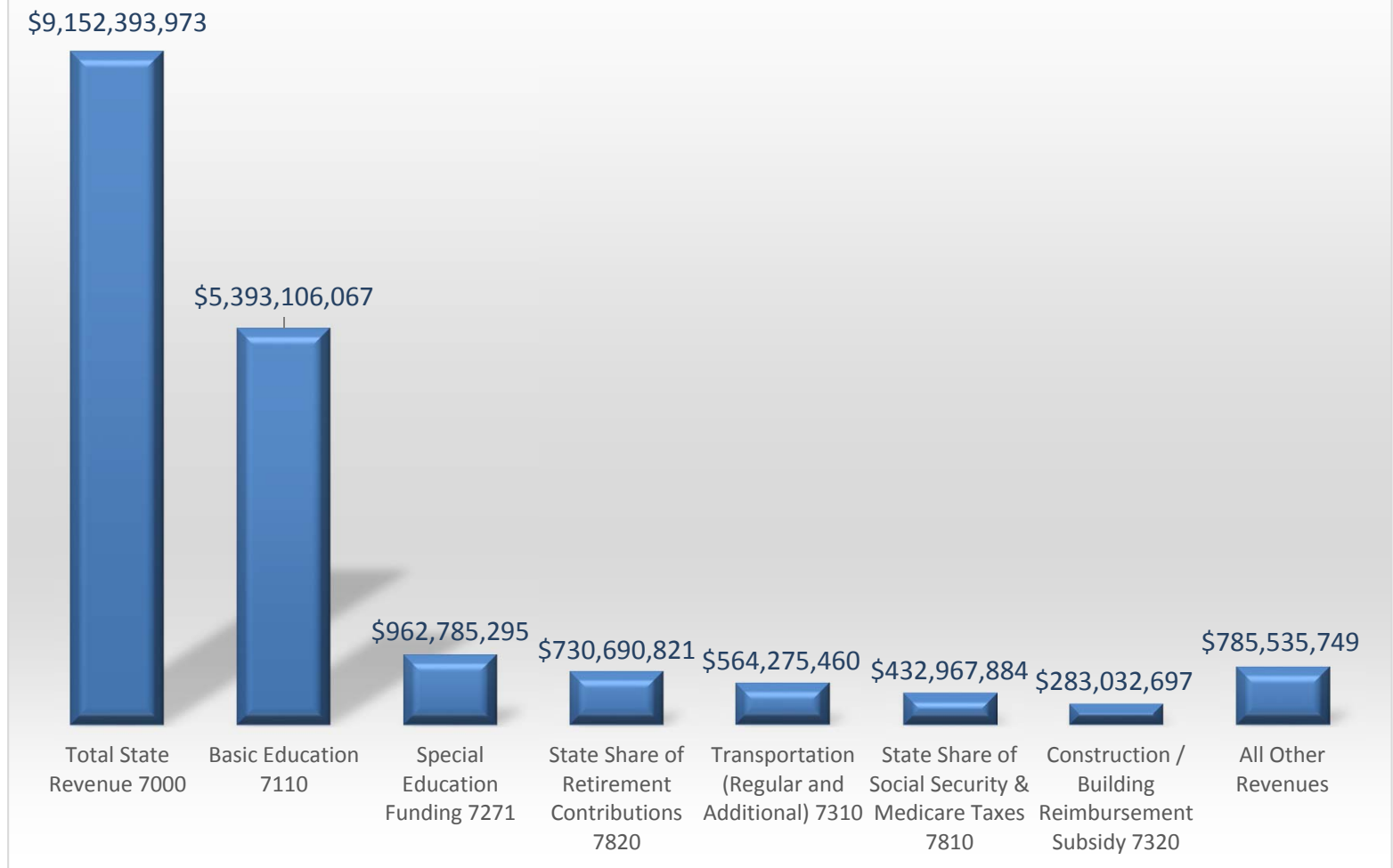
Local Revenues to Schools





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State Revenues to School Districts





The Numbers

Instruction 1000	Support Services 2000	Non- Instructional 3000	Current Expenditures	Facilities Acquisition & Construction 4000	Other Financing Uses 5000	Total Expenditures
\$14,902,305,540	\$7,011,817,068	\$434,329,217	\$22,348,451,825	\$35,528,942	\$3,180,267,110	\$25,564,247,877
58.29%	27.43%	1.70%	87.42%	0.14%	12.44%	



Regular Education 1100	Special Education 1200	Vocational Education 1300	Administration 2300	Business 2500	Operation & Maintenance of Plant Services 2600	Student Transportation Services 2700	All Other
\$ 10,356,775,776	\$ 3,461,058,240	\$ 620,827,201	\$ 1,380,646,238	\$ 293,699,340	\$ 2,005,358,373	\$ 1,324,501,922	\$6,121,380,786
40.5%	13.5%	2.4%	5.4%	1.1%	7.8%	5.2%	23.9%

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What Drives School Budgets and Taxes?

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The Numbers

2012-13 Personnel Costs Compared to Total Expenditures





Escalation in Pension Costs (using \$11 billion of Salary Expense)

Year	Salary Expense	Pension Rate	Pension Costs
08-09	11,000,000,000	4.76%	523,600,000
09-10	11,000,000,000	4.78%	525,800,000
10-11	11,000,000,000	5.64%	620,400,000
11-12	11,000,000,000	8.65%	951,500,000
12-13	11,000,000,000	12.36%	1,359,600,000
13-14	11,000,000,000	16.93%	1,862,300,000
14-15	11,000,000,000	21.40%	2,354,000,000
15-16	11,000,000,000	25.84%	2,842,400,000
16-17	11,000,000,000	29.27%	3,219,700,000
17-18	11,000,000,000	30.25%	3,327,500,000
18-19	11,000,000,000	31.28%	3,440,800,000
19-20	11,000,000,000	32.08%	3,528,800,000

Schools are paying the highest rate in PSERS history breaking 1986 record.

527% increase or \$3 billion



Total Charter Expenditure in 2012-13 = \$1.3 Billion

	Tuition to Charter Schools: Nonspecial	Inc. from previous	Tuition to Charter Schools: Special	Inc. from previous
2012-13	\$ 917,767,997	8%	\$ 350,562,879	19%
2011-12	\$ 850,257,860	14%	\$ 294,991,093	37%
2010-11	\$ 743,619,296	18%	\$ 216,084,416	24%
2009-10	\$ 631,483,811		\$ 174,137,927	

	Total Charter Payments		Total Charter Payments	
2007-08	\$ 527,943,681	2012-13	\$ 1,268,330,876	140%



Fund Balance In Perspective

- Additional fund balance for 2012-13 was created by a 1.7% differential between revenues and expenses.
- Fund balance not committed to future expenses and projects represents about one month of expenses
- State law provides for a range of allowable fund balance between 8% and 12% of expenditures depending on size of budget. Districts can exceed this percentage limit but they cannot raise property taxes.
- In addition to Act 1 and the cost of pensions, fund balance has increased as a result of failed state commitments to programs such as PlanCon and Special Education.



Fund Balance History

Fund Balance Total for SD's				
FY	Committed Fund Balance 0830	Assigned Fund Balance 0840	Unassigned Fund Balance 0850	Total
2012-13	\$ 1,484,599,106	\$ 775,700,543	\$ 1,723,587,607	\$ 3,983,887,256
	Post Act 1	Unreserved - Designated Fund Balance 0771	Unreserved - Undesignated Fund Balance 0772	Total
2008-09		\$ 871,893,501	\$ 1,641,513,729	\$ 2,513,407,230
2003-04	Pre-Act 1	\$ 345,133,074	\$ 1,150,488,101	\$ 1,495,621,175
1998-99		\$ 149,868,704	\$ 1,317,822,132	\$ 1,467,690,836



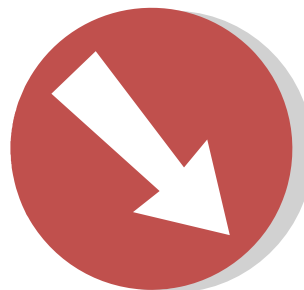
An Earlier Budget Process

- To accommodate the exception process and the potential for back-end referendum an accelerated budget timetable is required by Act 1.
- This earlier budget schedule increases the complexity of school district budgets since there is less actual data on which to base next year's costs and proposed state revenues have not been announced in the Governor's Budget.

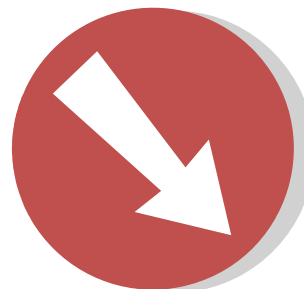


The PA Three Step: Act 1 of 2006

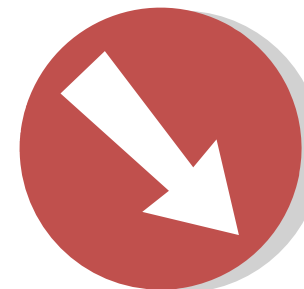
- A school district is allowed to increase its property tax millage rate by the index.
- If expenses still exceed your revenues you may seek an exception(s).
- If you still need additional revenues, voters must approve any additional millage above the index and exceptions (back-end referendum).



Step One: Index limits the millage rate increase



Step Two: Exceptions for dollar amounts created by additional millage (pensions and special education costs).

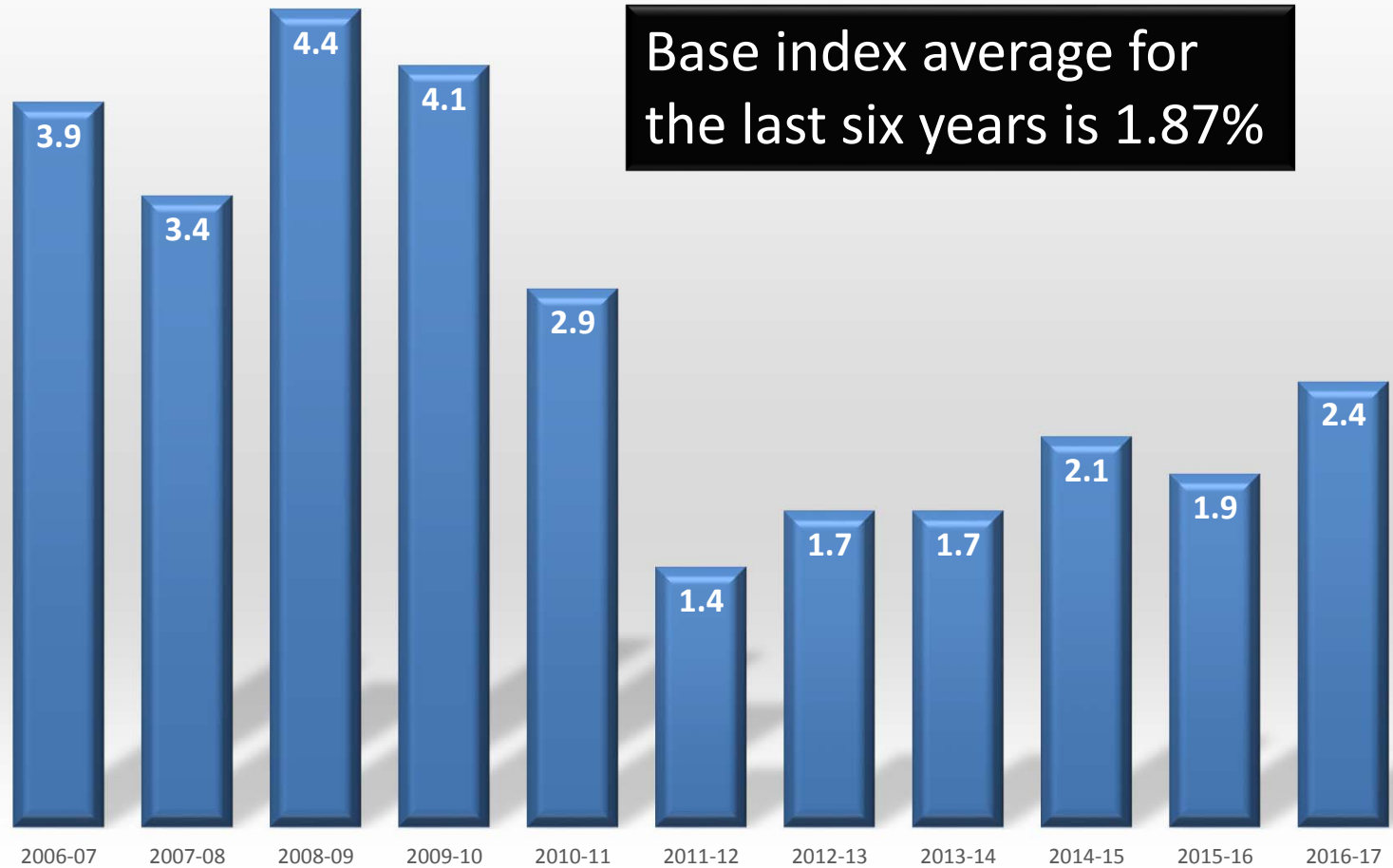


Step Three: For additional millage voters give approval at the primary election



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Act 1 Base Index by Fiscal Year





Act 1 Index Forecast

History and Forecast of the Act 1 Base Index (and Components)

Fiscal Year	SAWW ^{1/}	ECI	Act 1 Base Index
2006-07	4.2%	3.5%	3.9%
2007-08	2.8%	4.0%	3.4%
2008-09	4.3%	4.5%	4.4%
2009-10	4.6%	3.6%	4.1%
2010-11	2.7%	3.0%	2.9%
2011-12	0.9%	1.9%	1.4%
2012-13	2.1%	1.3%	1.7%
2013-14	2.0%	1.4%	1.7%
2014-15	2.7%	1.8%	2.2%
2015-16	2.5%	2.2%	2.3%
2016-17	2.4%	2.3%	2.3%
2017-18	2.3%	2.5%	2.4%

1/ For FY 2013-14 and thereafter the SAWW is calculated based on a three-year average.

Source: Independent Fiscal Office *Analysis of Senate Bill 1400 and House Bill 1776*



2015-16 Proposed Funding

State Funding	Increase
Basic Education Funding Increase	\$150 million
Ready to Learn Increase	\$50 million
Special Education Funding Increase	\$30 million
Pension Increase	\$249 million
PlanCon Decrease	(\$306 million)
TOTAL 15-16 INCREASE	\$123 million



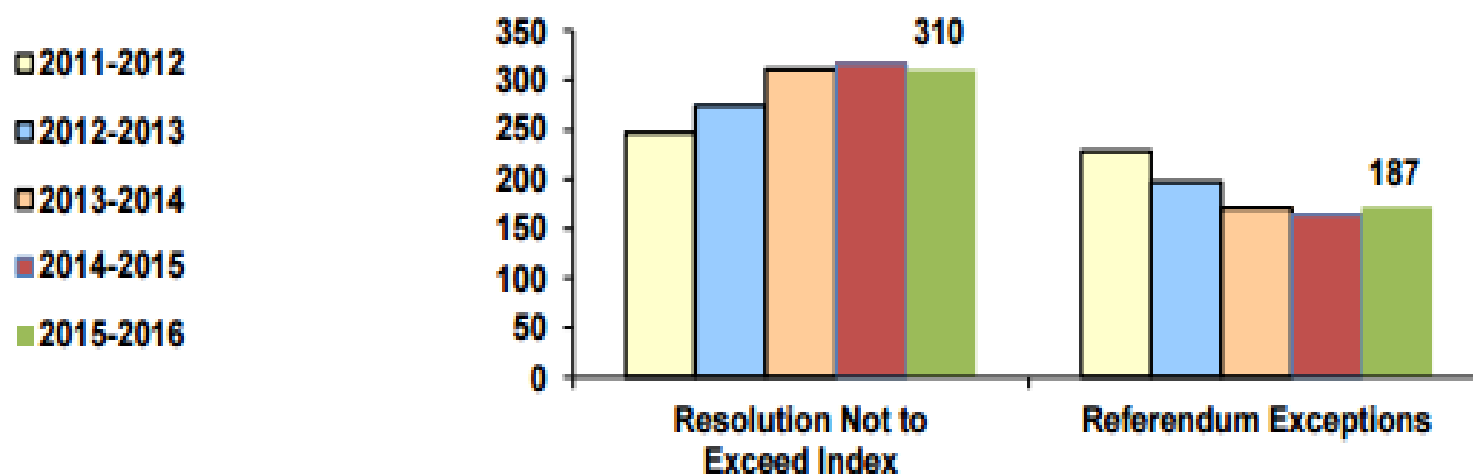
Mandated Spending Increases and Real Estate Taxes

Salary Estimate	\$11,000,000,000
1% Increase in Salaries	\$110,000,000
Net Local Share of PSERS Increase	\$212,014,000
Health Insurance at 4% (using \$2.7 billion as estimated cost)	\$108,000,000
Charter Schools (recent history)	\$150,000,000
Interest Costs from Borrowing	<u>\$40,000,000</u>
Total Cost Increases	\$620,014,000
Revenue Generated by Act 1 Index Tax Increases at Adj Index	<u>\$340,000,000</u>
Shortfall After RE Tax Increase	\$280,014,000



Implications

- The “Index” has become the cap in the budgeting process.



Source: PDE



The Untold Story

Budget Year	Amount of Referendum Exceptions				Number of School Districts		
	Approved	Used	Percent		Approved	Used	Percent
2008-2009	\$143,189,572	\$41,093,962	28.7%		102	66	64.7%
2009-2010	\$84,853,037	\$13,072,387	15.4%		61	18	29.5%
2010-2011	\$192,420,114	\$67,647,774	35.2%		133	84	63.2%
2011-2012	\$265,830,906	\$95,538,548	35.9%		228	135	59.2%
2012-2013	\$159,942,625	\$48,174,306	30.1%		197	105	53.3%
2013-2014	\$121,708,954	\$30,484,314	25.0%		171	93	54.4%
2014-2015	\$121,097,346	\$39,284,177	32.4%		164	92	56.1%
2015-2016	\$132,751,446				172		

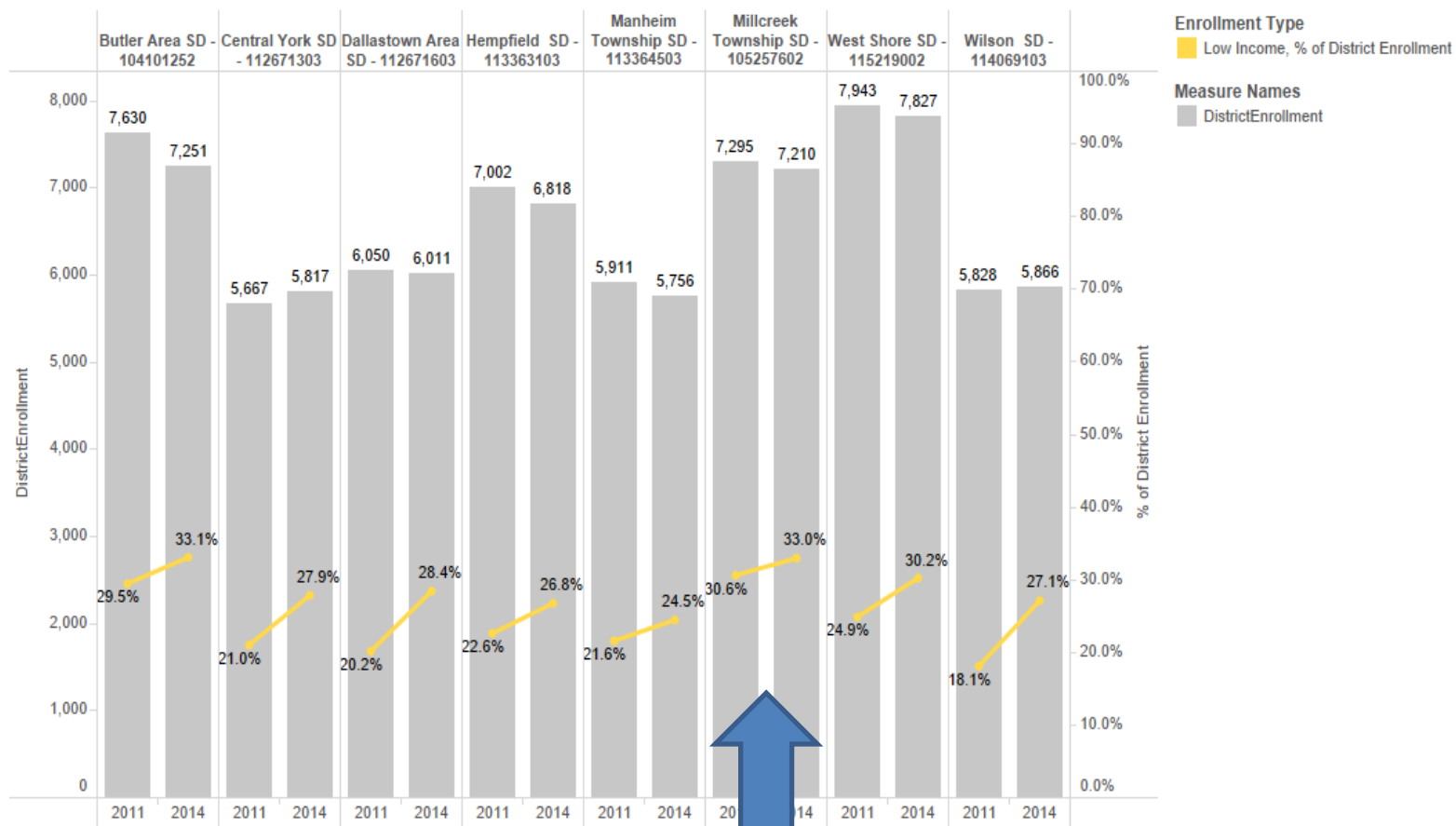


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Enrollment 2011 to 2014

Enrollment Breakdown (District Level)
 District(s): Butler Area SD, Central York SD, Dallastown Area SD and 5 more
 Source: PA DOE Enrollment Data



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Current Expense Per ADM

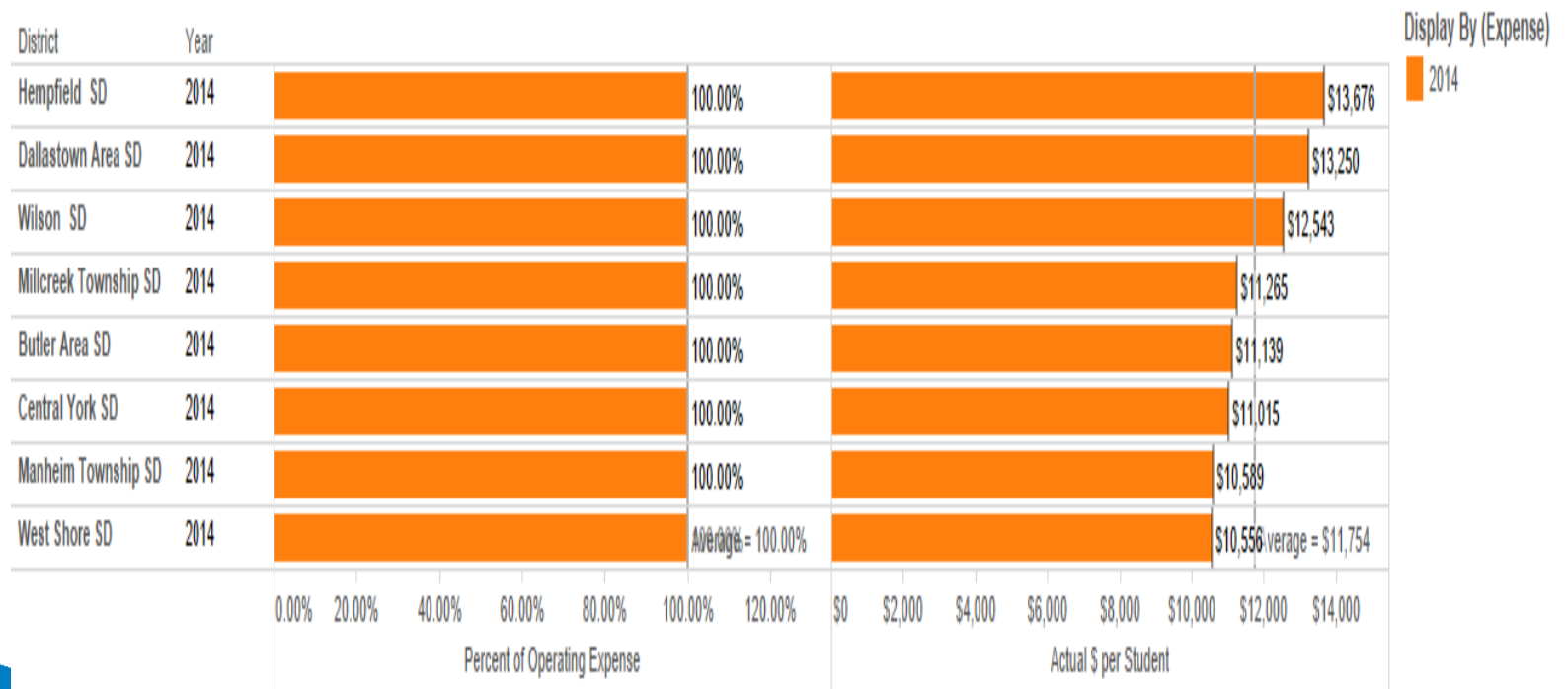
Line Item Spending Comparison

District(s): Hempfield SD, Dallastown Area SD, Wilson SD and 5 more

Source: Pennsylvania Department of Education

Notes: "Total Operating Expense" includes operating items from General Fund;

Actual \$ Per Student is calculated based on Average Daily Membership when available and regular enrollment when not available.



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Property as % of Total Revenue and per ADM

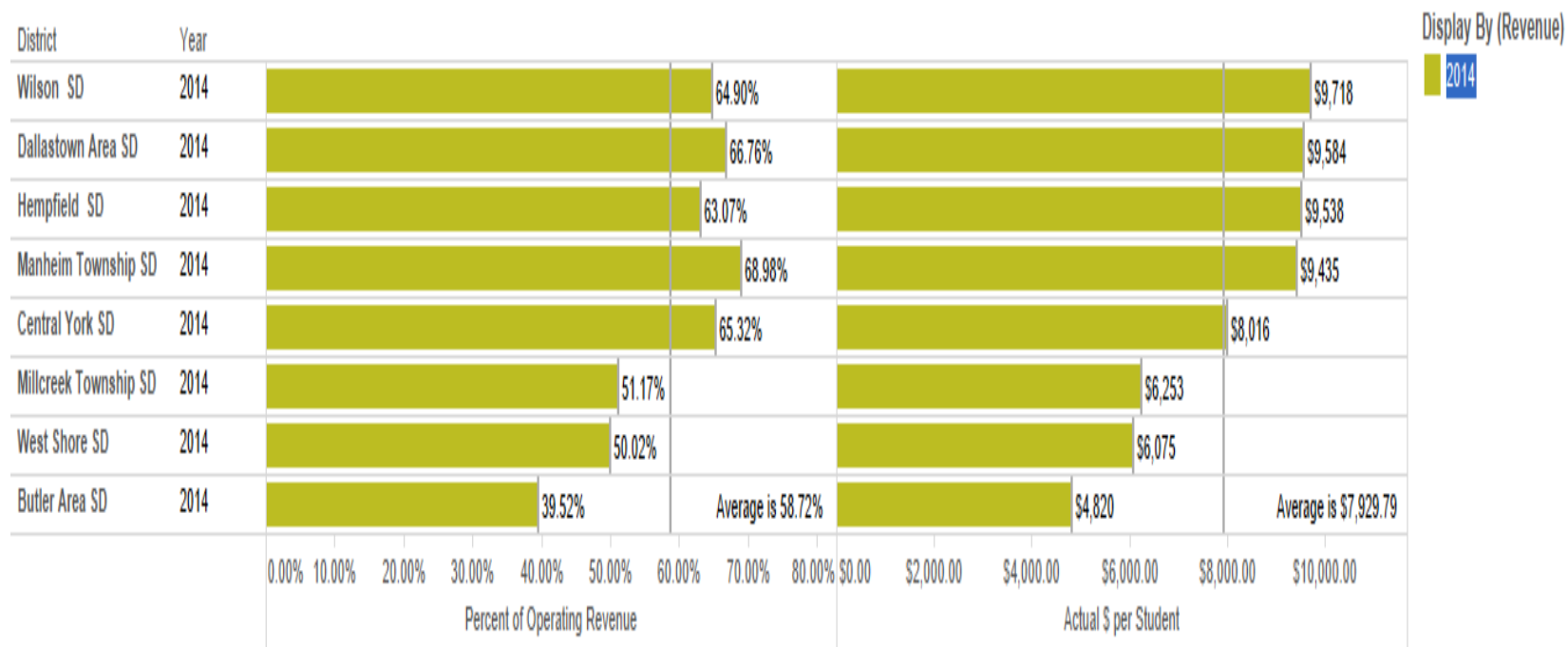
Line Item Revenue Comparison

District(s): Wilson SD, Dallastown Area SD, Hempfield SD and 5 more

Source: Pennsylvania Department of Education

Notes: "Total Operating Revenue" includes operating items from General Fund;

Actual \$ Per Student is calculated based on Average Daily Membership when available and regular enrollment when not available.



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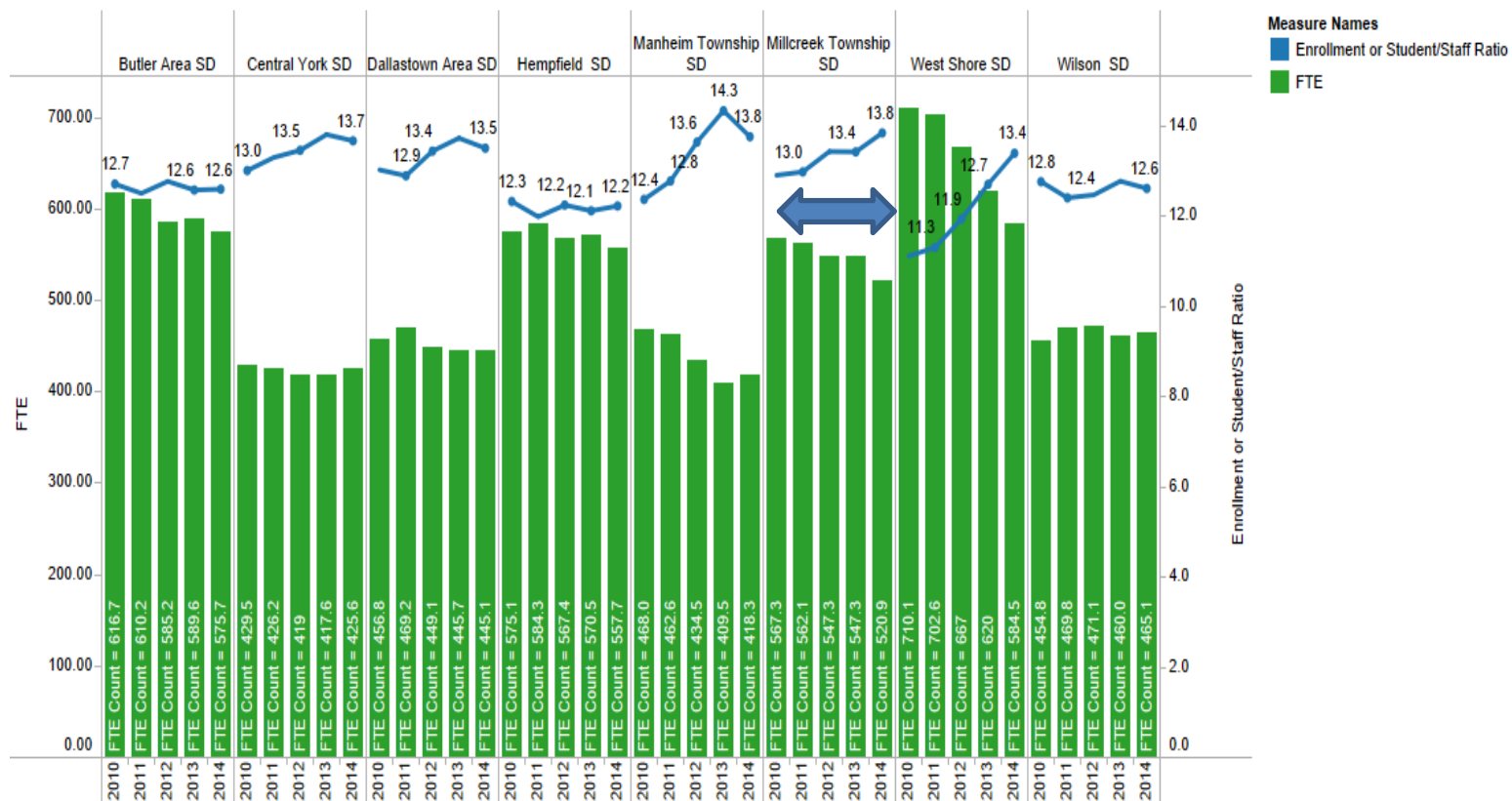
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Staffing

Staffing Ratios
District(s): Butler Area SD, Central York SD, Dallastown Area SD and 5 more
Position(s): All

Source: Teacher Salary and Enrollment Records



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Pennsylvania School Funding

- “...made on an ad hoc basis with the purposes and target of additional funding changing annually depending on transient administrative and legislative priorities. The bases for supplemental payments have included: low wealth, low expenditure, poverty, limited revenue, small district assistance, enrollment growth, minimum funding increases, tax effort, meeting foundation levels, limited English proficiency and performance.”

---Dr. William T. Hartman, Penn State University



Budget Year	Targeted Supplements	Number of SDs	Total Amount of Supplement
2013-14	Student Focused Supplement	ALL	\$99,597,341
	ELL High Incidence	5	\$14,650,000
	CS Extraordinary Enrollment	2	\$4,000,000
	Increasing Aid Ratio	1	\$2,500,000
	Small SD	1	\$500,000
	Small Rural SD	1	\$250,000
	Rural SD	1	\$500,000
	2 nd Class SD	1	\$500,000
	Personal Income	2	\$3,500,000
	2 nd Class A County SD	2	\$1,000,000
	3 rd Class County	1	\$1,000,000
	3 rd Class County Small SD	2	\$1,000,000
	Growth	3	\$860,000



Formulas

$$E = mc^2$$

$$a^2 + b^2 = c^2$$

~~BEF-???~~



1966

- The law transitioned funding based on teaching units to a formula based on district wealth (Aid Ratio) times Actual Instructional Expense per Weighted Average Daily Membership (WADM) times the district's WADM. There was also additional state support based on poverty, density or sparsity, home bound instruction and vocational education.
- Additionally, Act 580 set the level of state support at 50% of reimbursable costs. This funding framework remained in place until 1983.



1983

- The Equalized Subsidy for Basic Education **formula**:
 - Aid Ratio times Factor For Educational Expense (FEE) and times WADM.
 - The FEE was set at \$1,650 and
 - Additional funding by an Economic Supplement that used poverty, local tax effort and population per square mile as factors.
- The legislation creating ESBE removed the 50% state share and added a minimum annual increase of 2%. The ESBE formula determined state funding for schools through the 1991-92 fiscal year.



2008

Costing Out the Resources Needed to Meet Pennsylvania's Public Education Goals

Presented to the
Pennsylvania State Board of Education
By Augenblick, Palaich and Associates, Inc.
Denver, Colorado

December, 2007
Revised

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Other State Revenue
Special Education
Transportation
Pension Costs
Social Security Costs
Food Services
School Construction

These have
funding
formulas!



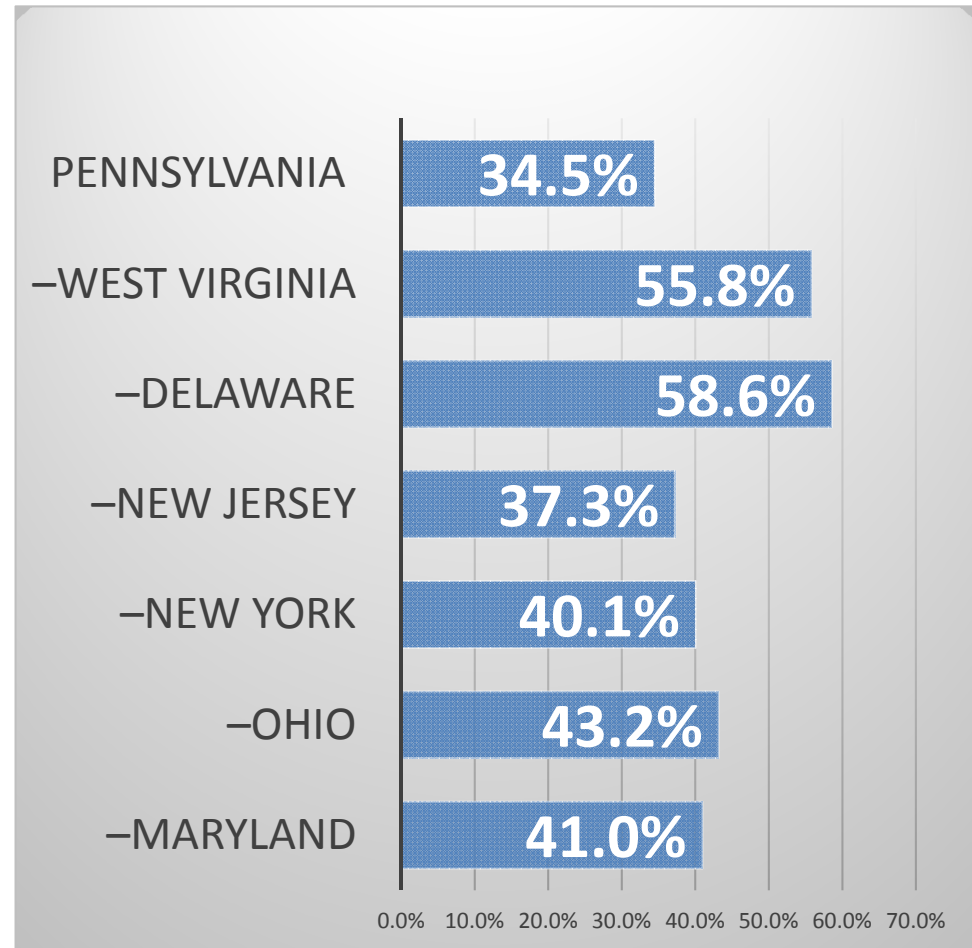
We Can Do Better

- PA is one of only 3 states without a consistently applied school funding formula
- States w/o a Funding Formula:
 - Pennsylvania
 - North Carolina
 - Delaware



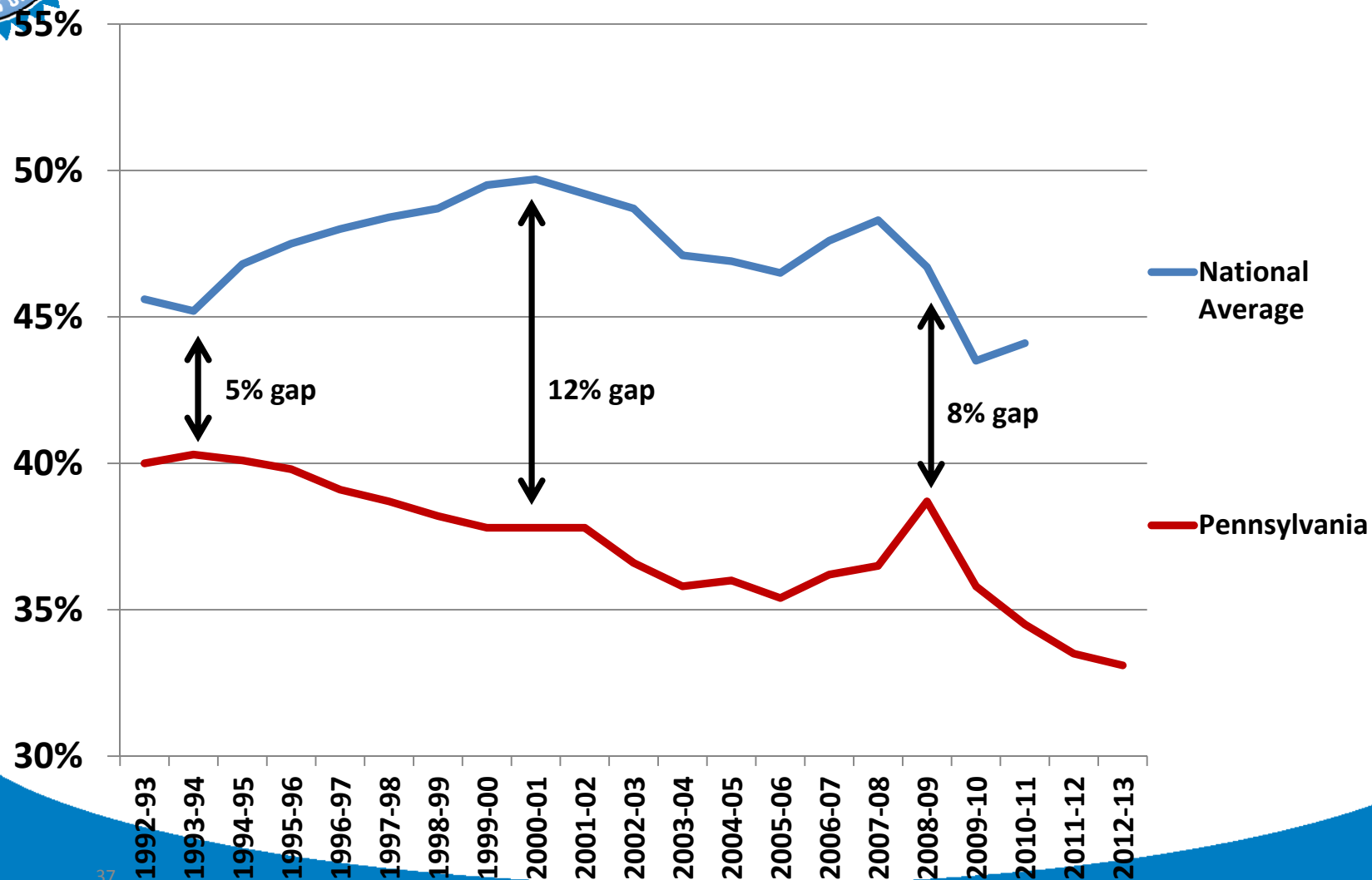
Pennsylvania School Funding

- At 34.5 percent, PA is 43rd of the 50 states the state share of total cost of its PK-12 schools (2010-11)





State Share of PK-12 Education Funding PA & National Average



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Pennsylvania School Funding

- It doesn't have to be this way...
- Other states have addressed similar problems and adopted and implemented sustainable solutions.
- They include:
 - Maryland – Thornton Commission
 - Wyoming – School Funding Lawsuit
 - North Dakota – Governor's Commission



- Made up of a group of 40+ diverse organizations from across the Commonwealth
- Working towards the common goal of ensuring PA adopts a sustainable, predictable, adequate and equitable funding formula by 2016.



THE CAMPAIGN FOR FAIR EDUCATION FUNDING

Because every child deserves a chance to succeed.

*Every Pennsylvania student deserves a quality education
no matter where that student lives*

But Pennsylvania's system for funding public schools is broken:

- We are one of only three states without a basic education funding formula to distribute adequate resources both fairly and predictably.
- Pennsylvania has the widest funding gap between wealthy and poor school districts of any state in the country. Per pupil spending in PA's poorest districts is 33% less than in PA's wealthiest districts. [NCES 2015]
- The absence of a funding formula, combined with state funding cuts in recent years, hits our students hard.

Since 2010-11:

93%

of school
districts
reduced staff

50%

furloughed
teachers or
other staff

74%

cut or reduced
at least one
academic program

57%

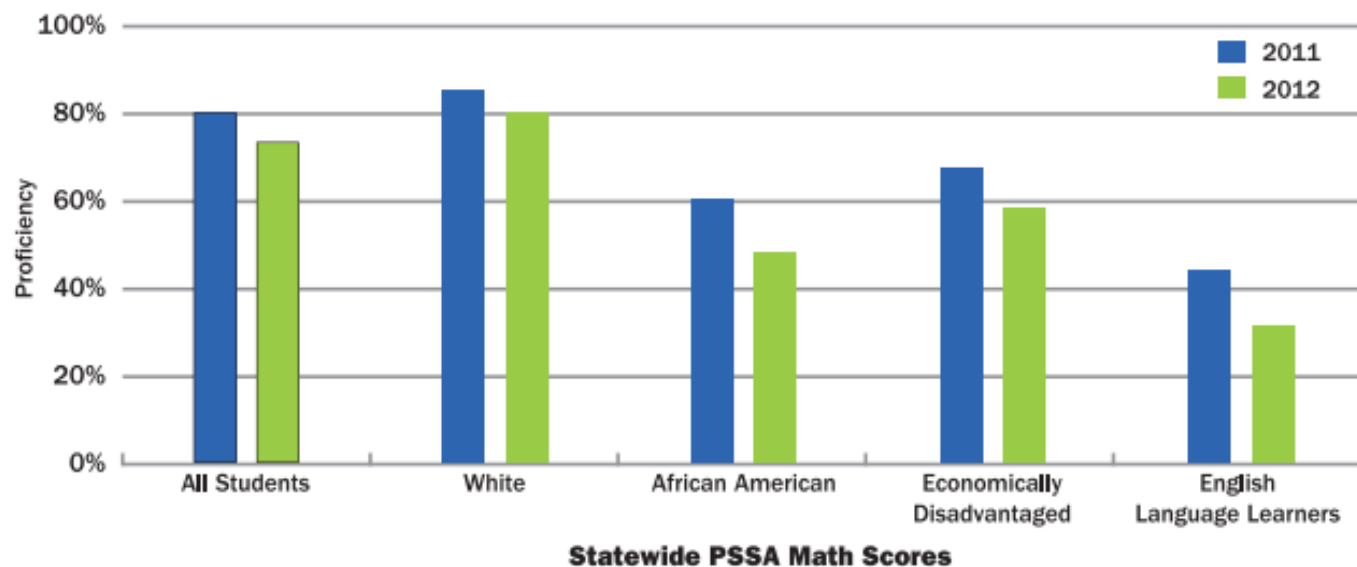
increased
class size

[PASA-PASBO Report, January 2015]

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And that has hurt students across Pennsylvania, as performance has lagged.

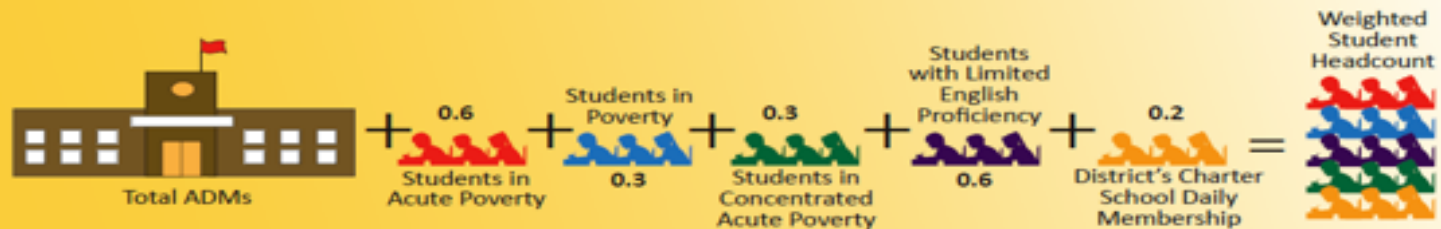


[Pittsburgh Post-Gazette, November 21, 2014]

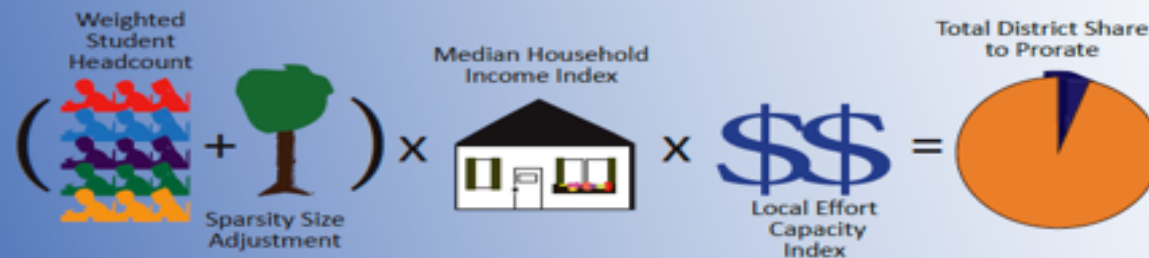


PA's New Funding Formula (Hopefully!)

STEP 1: Weighted Student Count



STEP 2: District Adjustments

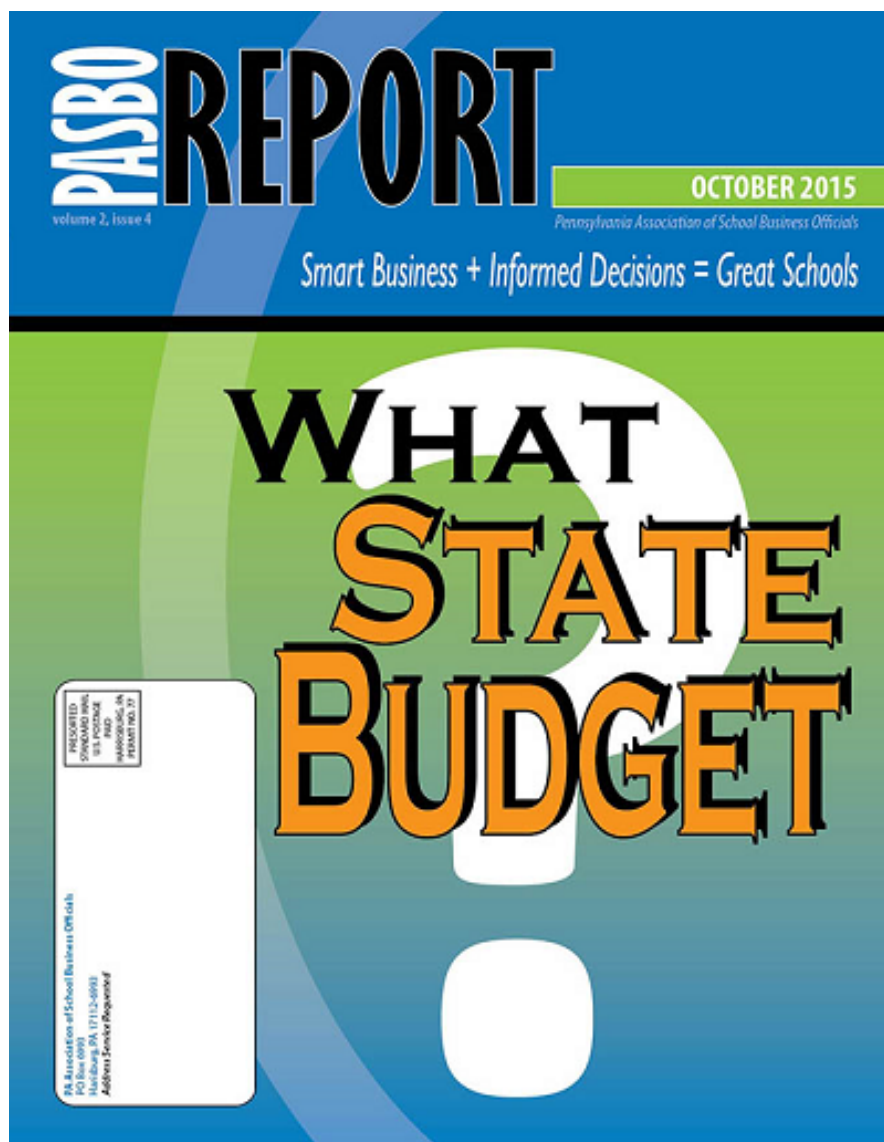


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Solve it Now or Later?

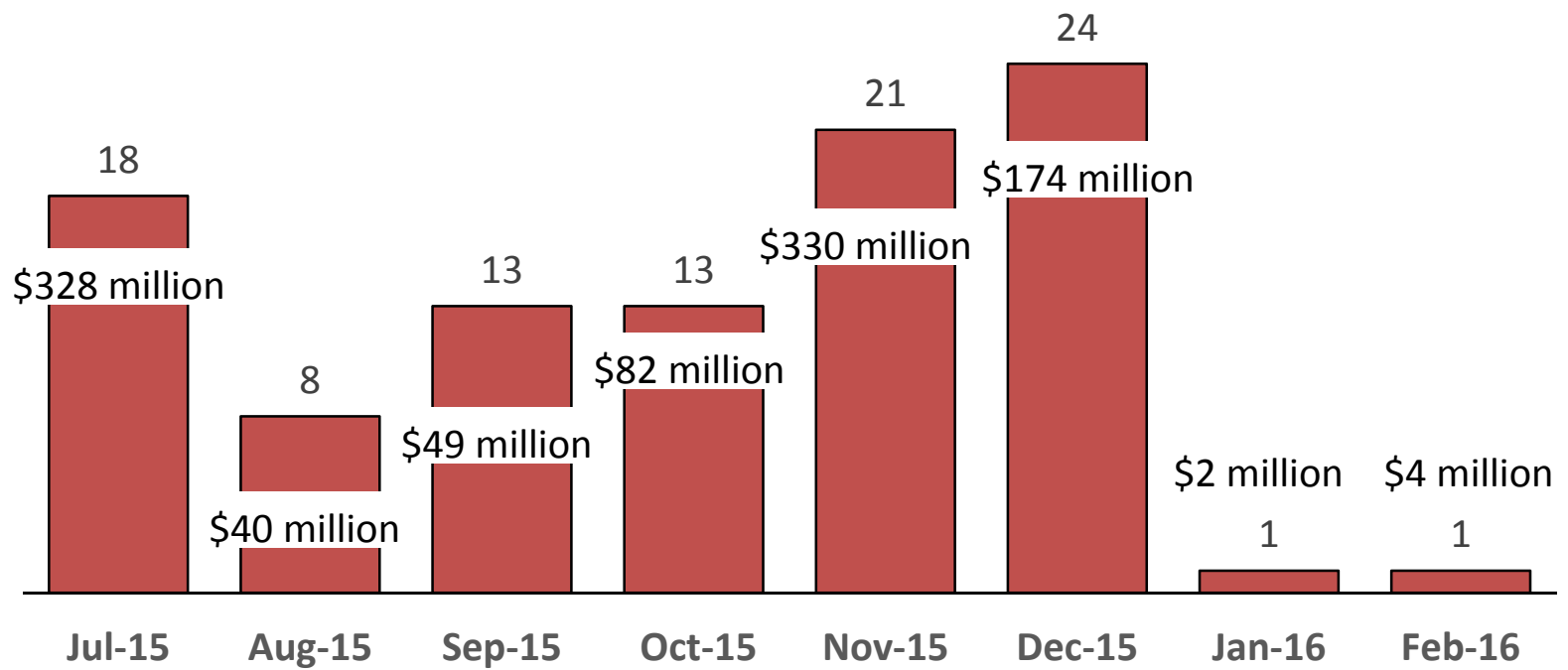


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Impact of 15-16 Budget Impasse

Number of TRANs By Month Since July 1, 2015

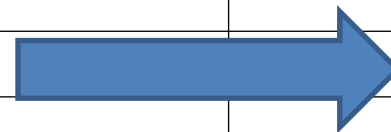


Source: DCED data



The Cost of Doing Nothing

	5 Year Totals
Total Local Revenues	\$2,389,884,079
BEF (2%)	\$468,016,002
Total Revenues	\$2,857,900,080
Net PSERS	\$974,303,988
Salaries	\$502,409,311
Charter Tuition (10.7%)	\$840,154,870
Health Care & Other	\$942,534,106
Major Expenditures	\$3,259,402,275
Surplus or (Shortfall)	(\$401,502,194)
\$ Negative	(\$990,483,955)
\$ Positive	\$588,981,760
# Negative	297
# Positive	203





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Thank you for the
opportunity to be here.

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