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Senate Education Committee

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Testimony of the PA Association of School Business Officials

On behalf of the Pennsylvania Association of School Business Officials (PASBO), thank you for the opportunity to testify today.

At this moment in time, education is facing more issues, challenges and opportunities than ever before. While we are hopeful that the chaos of the pandemic is mostly behind us, its impacts will continue to be felt in LEAs across the commonwealth for years to come.

Those impacts look different in every LEA. While all school districts are struggling to recover and to move beyond the pre-COVID baseline, the scope and extent of that struggle varies, which is a direct result of many factors including virus transmission levels, instructional models, frequency of changes to those models, student and school district demographics, cyber charter school enrollment increases and local tax base stability.

School districts and charter schools have been fortunate to be the recipients of federal funding to provide support to help move through and beyond the pandemic. This relief, which is coming via three separate federal acts, will have the capacity to both fill the holes created by the pandemic as well as assist LEAs to mitigate the myriad of COVID's impact. This funding was part and parcel of several trillion dollars the U.S. government released to millions of businesses, state and local governments and individuals. For districts to move beyond COVID, and the goal is not simply a return to pre-COVID operations and instruction—there must be a concerted effort to build a k-12 public education system that is stronger, more sustainable, more innovative and more effective going forward.

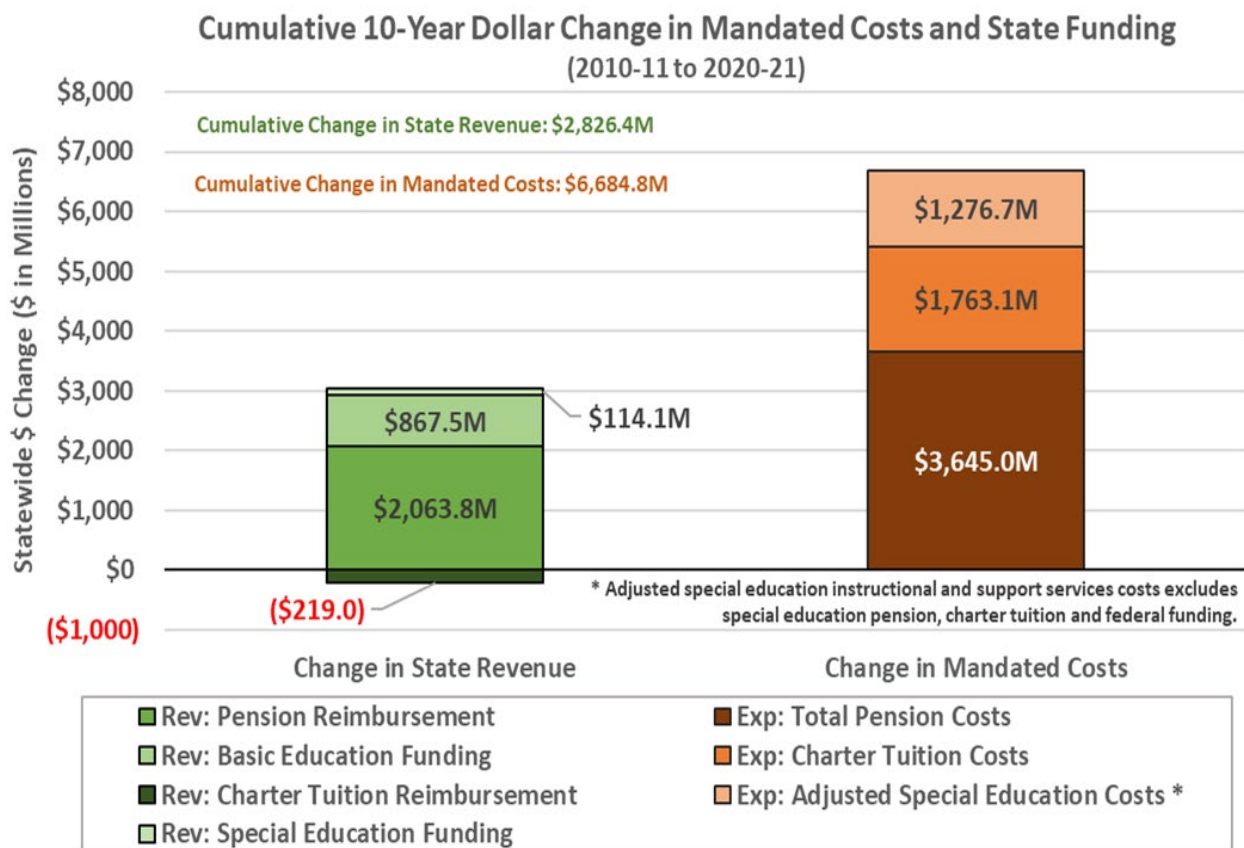
To the degree that they are not required to supplant, federal funds will be available to school districts and charter schools through September 2024 and will allow LEAs to take that step forward, however, they also introduce a challenge. They are one-time funds, and they create a massive cliff that school districts and charter schools across the commonwealth will need to carefully navigate to ensure that they will not be negatively financially impacted when those funds go away. Based on the scope of these funds and again, the degree to which they are filling holes, this will be a larger challenge for some than working through the chaos of the pandemic.

The impending expiration of these federal funds accelerates the need for a critical conversation about school funding in Pennsylvania. In terms of education reform, there is no greater need than to examine, evaluate and address our system of public education funding in a comprehensive manner. The issues

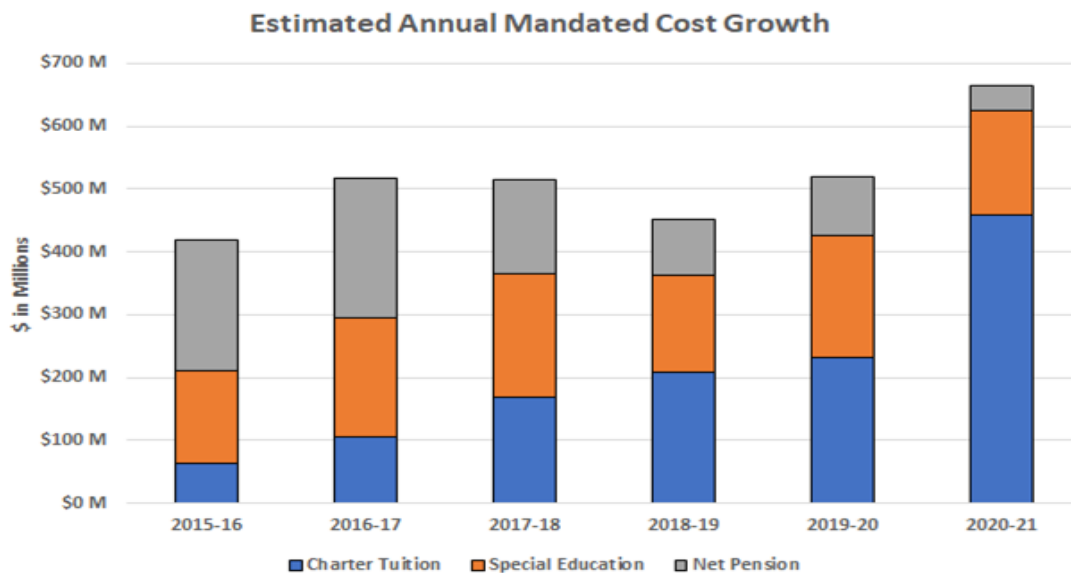
that plague the system—continued increases in mandated costs for charter school tuition, pension, and special education drive increases in property taxes and imbalances in equity across school districts—are all symptoms of a faltering system of education funding. They are also all sides of the same conversation.

From PASBO’s perspective, a comprehensive and sustainable solution to school funding is the most critical education reform needed, and the expiration of the federal funding accelerates the need to find a solution. The only way to address this issue, however, is to recognize the interconnectedness of each of the related issues and to understand that student equity and taxpayer equity are different sides of the same coin.

The Education Deficit provides a quick snapshot of the issue. Over the past ten years, mandated costs for special education, charter school tuition and employee pensions increased by \$6.7 billion. During that same timeframe, total state funding has increased by \$2.8 billion. That means that \$3.9 billion in school district mandated cost growth has been funded at the local level through property taxes or cuts in other areas of district budgets. See the figure below.

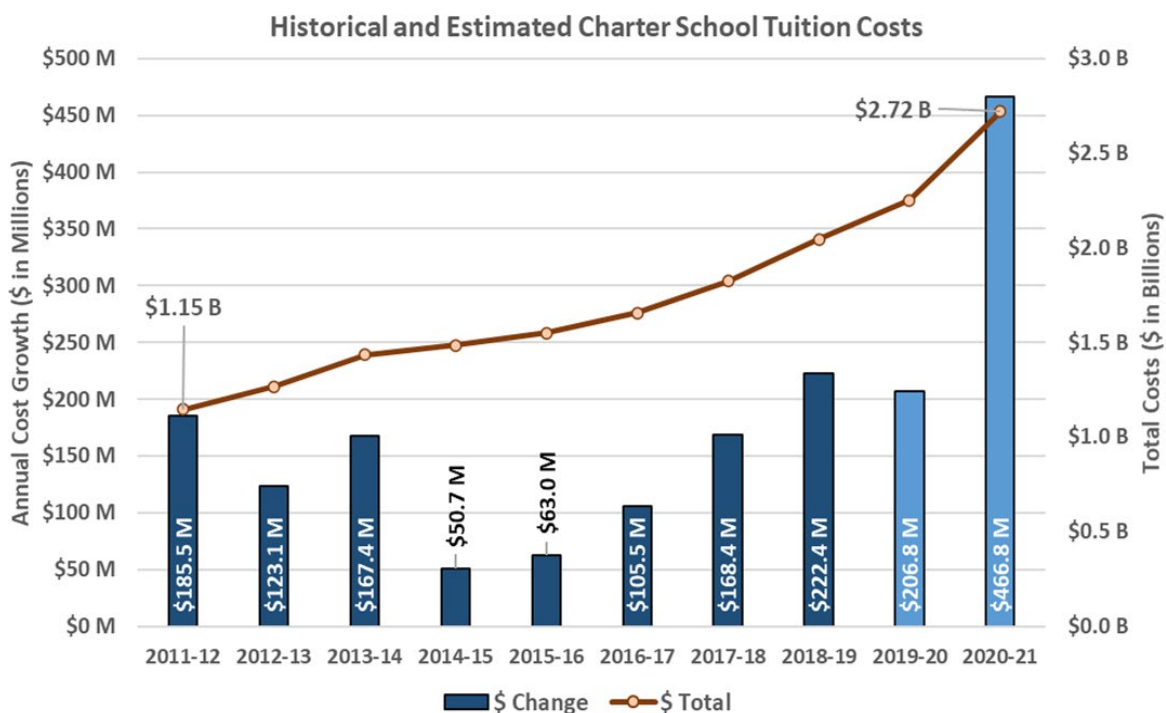


Another way to look at the growth in mandated costs is in the figure below, which highlights how each of the three biggest mandated cost drivers—charter school tuition, special education and pension costs—impact school district budgets each year. In that figure, it’s clear that two of the biggest cost drivers of school district budgets are charter school tuition and special education costs, which, in turn, are two of the biggest drivers of property tax increases.



On average, charter school tuition increases about \$150-200 million annually, which nearly every year directly offsets the basic education subsidy increase. This annual charter school tuition increase is mostly due to the tuition calculation itself with increased enrollment playing a role in individual school districts.

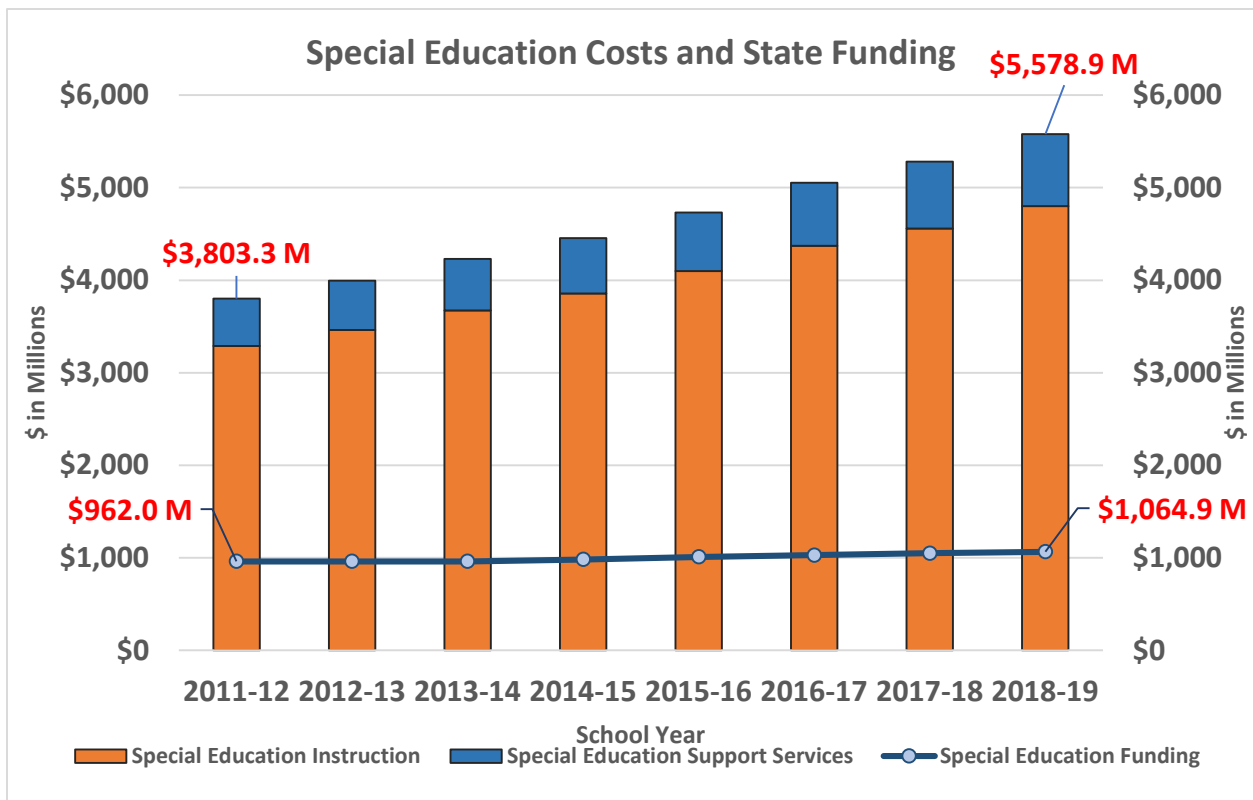
This year, however, in addition to the normal growth in the tuition rate the calculation drives out, enrollment increases in cyber charter schools has resulted in an increase that is double the average increase. School districts are expected to pay charter schools about \$450-500 million more in 2020-21 than they did last year. See the figure below.



In addition to charter school tuition costs, mandated special education costs increase each year as well. Over the past five years (2013-14 to 2018-19—the five most recent years for which we have Annual Financial Report data), school district special education costs have increased by \$1.35 billion. This includes special education instructional costs, support services costs and special education charter school tuition costs.

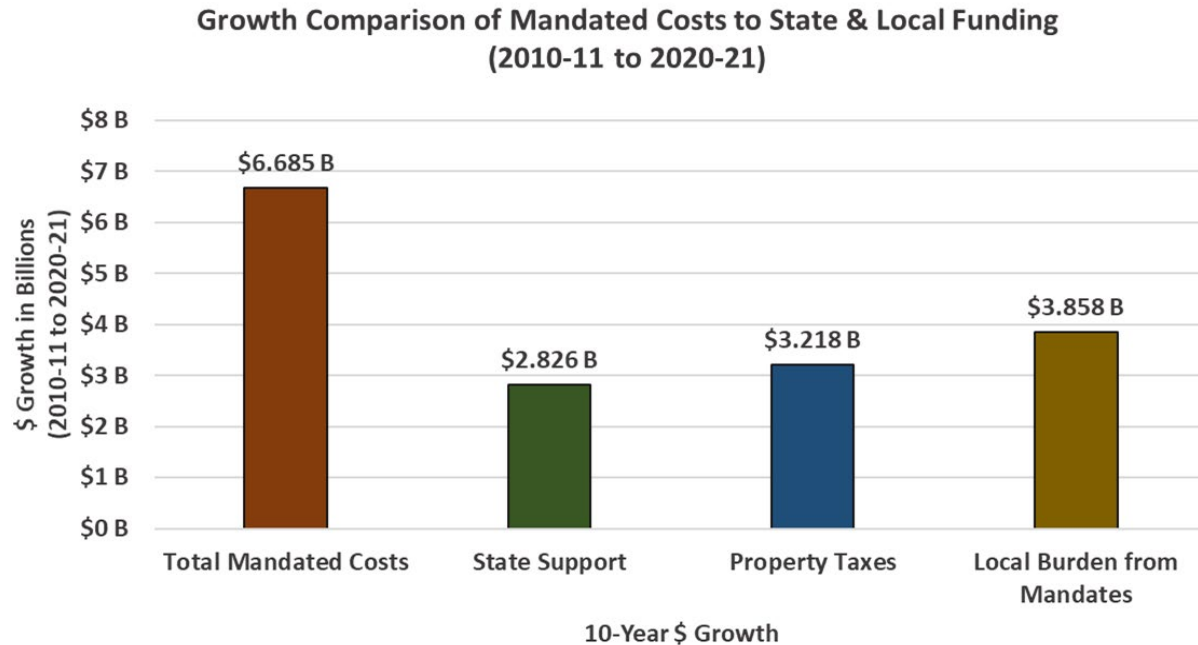
During that same time period, state special education funding increased by only \$308 million, and local funding make up nearly \$800 million of the difference. Of the \$308 million in state funding directed to special education, only \$100 million was additional state funding through the special education funding formula; the majority of it was simply to pay the state’s share of the special education-related PSERS increase.

The figure below illustrates the difference between the state’s overall share of school district special education costs over time and the actual cost of providing school district special education services. While school district costs grow consistently each year, the state’s share has remained virtually level over the past several years. Said another way, this is a direct tax shift to increase burden on the local tax base while at the same time often requiring cuts to other district services.



Likewise, the disparity in the value of basic education funding across school districts continues to grow, as more money flows from school districts annually to cover charter school tuition and special education costs than flows in increased state education funding. This serves to increase the resource imbalance between districts and increases local fiscal stress. As the state share in many line items declines, the problem only grows.

The figure below highlights this problem. Over the past ten years, mandated costs have increased far faster than state funding increases, creating the Education Deficit discussed above. This Education Deficit is largely paid for by local taxpayers—via property taxes; however, not all of the burden placed at the local level is paid for by property taxes.



In some school districts, other local revenue covers any remaining deficit between total mandated costs and state support and property taxes. In other school districts, however, the difference translates to cuts or reductions. Additionally, this calculation assumes that all the increased state support provided over the past ten years hasn't actually gone into the classroom for the vast majority of students that school districts educate—it has been used solely to pay for the charter school tuition increases and special education cost increases.

As a result, it's no surprise that the remedy in both the school funding lawsuit and the property tax reform discussion is the same—a larger state share of education funding on a wider and more sustainable tax base.

It's all one conversation, and there can't be meaningful and long-term success on any individual front unless there is an effort to tackle these issues together. Property tax reform in a vacuum will be unsustainable without simultaneous action to address the annual increases in charter school tuition and special education costs that drives property tax increases. Examining the disparity in basic education funding dollars won't be effective in getting more dollars into every classroom until policy that defunds schools is addressed in the policy conversations that actually fund schools. Until then, ever-growing mandates simply divert money out of the classroom.

The federal funding cliff creates the urgency for resolving this issue in the immediate future, and fortunately, there are ways to do it. PASBO has spent endless hours working to address each symptom of our broken education funding system with a comprehensive long-term solution that works to both provide student and taxpayer equity. It involves universal property tax relief to all taxpayers, targeted

property tax relief to homeowners and additional funding to expand the Property Tax and Rent Rebate program. It sustains this relief by targeting additional state dollars at property tax drivers, mitigating the need to increase property taxes from year to year. It also focuses on moving the needle towards both student equity and taxpayer equity.

It's possible, it's just a big education reform discussion, and we have to approach it in way we haven't before—as one issue and one conversation.

Thank you for the opportunity to participate in this important discussion today. We look forward to working with the committee to tackle this and other important education reform needs.