

Legislative Report | December 2015

Ms. Filiaggi noted there is still no budget. She submitted the following written report:

State Budget Update... *The Latest Budget News* – The only real news that matters right now is, of course, the unresolved state budget. After five months of waiting, the Senate last week managed to take huge leaps forward by sending the House a budget bill, a pension bill, a liquor bill, an omnibus School Code bill and several other pieces of related legislation. Now the pressure is on the House to get things figured out and finalized, even though they pulled back from the agreed-to budget framework early last week and passed their own version of the budget. Of course, the BIG question of revenue sources still remains. And on that everything depends.

****November Revenue-** According to the PA Department of Revenue, Pennsylvania collected \$1.8 billion in General Fund revenue in November, bringing fiscal year-to-date collections to 10.7 billion, 0.8 percent ahead of last year's to-date revenue. November revenues were \$75 million ahead of General Fund revenue collected in November 2014. Of the major categories, sales and use, personal income and corporate taxes all came in above 2014 levels. Just as it has for months, confusion reigns.

Current Legislation – Here is a brief overview of the bills passed by the Senate last week:

Budget Bill: *As passed by the Senate*, the budget bill, **SB 1073**, provides a \$350 million increase to BEF distributed through a hybrid formula that combines the governor's restoration proposal with the new BEF formula. It also provides a \$50 million BEF increase. It level-funds the Ready to Learn Block Grant and maintains it in a separate line item.

Pension Bill: *As passed by the Senate*, the pension bill, **SB 1082**, tapers the rate collars in 2016-17 to 2.25 percent, provides for a side-by-side hybrid plan for employees hired on or after July 1, 2017, and makes changes to the benefits of current employees, including an actuarial neutral lump sum withdrawal and a shared gain/risk provision for pre-Act 120 employees and a shared gain provision for Act 120 employees. **School Code Bill:** *As passed by the Senate*, the omnibus School Code bill, **HB 530**, includes the funding formulas for BEF and SEF and contains some pretty significant changes to school policy, including changes to the charter school law. See below for the highlights of the bill.

- **School Funding** - The proposed formula in the bill combines the new basic education funding formula with the governor's restoration formula. [Click here for a spreadsheet showing the proposed distribution under the hybrid formula.](#) Remember—this distribution is not final, and still needs House approval, which is far from certain at this time. HB 530 also includes language to implement the new basic education funding formula beginning in 2016-17 and codifies the special education funding formula to make it permanent. (The formula language was in the Fiscal Code last year, so it needs to be codified in the School Code.) Some other provisions in the Senate-passed bill include:

- **Keystone Exams & Education Regulations:** a two-year moratorium on the use of Keystone Exams as a graduation requirement and a requirement for a fiscal note for newly proposed education regulations
- **School Watch:** a “School Watch” provision requiring the PDE to post annual financial information related to each public school on its website. (This codifies what is already being done.)
- **Policies:** requiring Web posting of school district policies mandated by state and federal law
- **PlanCon:** changes to PlanCon, including: \$2.5 billion in borrowing through the Commonwealth Financing Authority to cover all current state obligations and to provide funding for new future projects; an 18-month moratorium on new projects entering the PlanCon pipeline, beginning January 15, 2016 and ending July 1, 2017; formation of a PlanCon Advisory Committee to review current PlanCon program and make recommendations for new program going forward; and a requirement that the PDE post information about each PlanCon project on its website to provide additional transparency
- **Charter School Reform:** - creates a charter school funding advisory commission to review the current calculation - modifies cyber charter tuition for 2015-16 by changing the calculation to the lesser of either the current tuition rate (requiring the deduction of 7.5 percent of operation and maintenance of plant services costs) OR the 90th percentile of all the current rate for all school districts. For special education, the addition is the lesser of the school district’s add-on or the 90th percentile of the increase for all school districts. This is expected to save \$15 million. - modifies cyber charter tuition for 2016-17 by changing the calculation to the lesser of either the current tuition rate (although requiring the deduction of 45 percent of operation and maintenance of plant services costs) OR the 70th percentile of the entire current rate for all school districts. For special education, the addition is the lesser of the school district’s add-on or the 70th percentile of the increase for all school districts. This is expected to save \$50 million. - requires direct pay for all cyber charters beginning in 2016-17 - caps charter school unassigned fund balance at 12-16 percent of total budgeted expenditures - provides for accountability and transparency requirements for charter schools - extends charter terms to 10 years if the charter meets the academic benchmarks set forth in a performance matrix - adds two charter school members and one school district member to the Charter Appeal Board - allows charters to form multiple charter organizations - gives charter schools the right of first refusal to purchase or lease school district facilities - requires schools to permit cyber charter students to test in their facilities when it will not cause undue interference
- **School Turnaround:** - establishes a three-year pilot program in the School District of Philadelphia to address persistently low-achieving schools - requires the PDE to develop and oversee the program that will start with five schools and add five additional schools each year, a plan which requires a diagnostic audit and PDE interventions (which include the required conversion of two schools to charter schools each year) - requires eligible

schools under this program to pay the charter tuition rate to PDE, as PDE will “take-over” the school

What Can We Expect? – News reports indicate that there remains significant House disagreement with provisions in many of the bills passed by the Senate, including those related to the overall spend amount, pension system changes and School Code provisions, as well as a liquor reform bill that would expand wine to-go sales for restaurant and hotel licensees but keeps the state-controlled wine and spirits system intact. House Republican leaders stated they were “tweaking” the budget bills sent to them last week from the Senate. Whether what they are doing actually amounts to “tweaks” and not substantial changes – and whether both the Senate and the Governor will agree to those changes – will be the question of the week. In fact, according to the Associated Press this morning, House and Senate officials said they had made no progress over the weekend in narrowing differences. And, of course, what still remains unresolved (as of Wednesday morning) is where the money will come from to do any of this.

Other Budget-Related News...

No Ability to Borrow - According to the Associated Press, "the commonwealth's long budget stalemate could soon make it impossible for dozens of school districts to get another loan to stay open. Standard & Poor's says it has withdrawn its ratings on school districts whose debt is backed by the state government's guarantee to repay bondholders. In a recent note, Standard & Poor's says Pennsylvania's state aid payments are no longer a reliable and stable source of money. On their list are some of the state's poorest and biggest school districts, including Philadelphia, Reading, Scranton, Erie and York. State Treasury Department's chief counsel Christopher Craig says, if the other ratings agencies were to follow suit, the districts would be effectively cut off from the debt market, or the cost would be so high, they couldn't afford it." (as reported on WITF Harrisburg, 12/14/15)

Pension Payment Rate – Last week the Public School Employees’ Retirement System (PSERS) Board of Trustees certified an annual employer contribution rate of 30.03 percent for fiscal year (FY) 2016-2017, which begins on July 1, 2016. The 30.03 percent employer contribution rate is composed of 0.83 percent for health insurance premium assistance and a pension rate of 29.20 percent. PSERS Executive Director Glen R. Grell commented, “Today’s certification of the FY 2016-2017 employer contribution rate continues to put PSERS on the path toward proper funding. For the first time in 15 years, the employer contribution rate provides 100% of the actuarially required rate based on sound actuarial practices and principles,” said Grell. “After July 1, 2016 no additional pension debt will be added due to underfunding. The FY 2016-2017 employer contribution rate fully meets actuarial funding obligations.” (from a press release, 12/8/15)

Payments to Charter Schools – A Commonwealth Court judge last week issued a court order forbidding the state from redirecting gaming revenues to pay charter school tuition owed by cash-strapped school districts, and further ordered that those schools should not receive funding until lawmakers pass a budget. The decision comes two months after state Treasurer Tim Reese halted a \$45 million gaming revenue payout to charter schools. (from a story on *Capitolwire*, 12/11/15)

National News...

New ESSA Law – On Thursday, December 10, 2015, President Barack Obama signed legislation which essentially puts states and districts back at the wheel when it comes to teacher evaluation, standards, school turnarounds, and accountability, otherwise known as "Every Student Succeeds Act." (ESSA) The overall goal of the new Law is to revise the contentious No Child Left Behind law, representing the end of an era in which the federal government aggressively policed public school performance. The overhaul, which passed on a 359 to 64 vote, discards No Child's prescribed goals and punishments, and allows states and school districts to set their own goals and to decide how to rate school and what to do with those that underperform.

The ESSA still requires annual testing in grades 3-8 and one time in high school. However, states have the flexibility to determine what accountability measure attach to the testing. The Law requires states to intervene in the bottom 5% of schools, allowing states to craft their own intervention and reform policies. In addition, the Law maintains the current Title 1 funding and consolidates about 50 programs into one block grant to give schools more flexibility.

Before signing the legislation, President Obama said the Every Student Succeeds Act "builds on the reforms that have helped us make so much progress already."*Read the rest of the story: "President Signs ESEA Rewrite, Giving States, Districts Bigger Say on Policy"*(from *Education Week*, 12/10/15).