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BASIC EDUCATION FUNDING COMMISSION TESTIMONY

Presented January 29, 2015 | Greenville, PA

Dr. Jay D. Badams, Superintendent of Schools

Good afternoon, Senator Browne and Representative Vereb and members of the Commission. Thank you for this opportunity to provide testimony on the important issue of Pennsylvania's Basic Education Funding.

It has been a privilege for me to serve the City of Erie as Superintendent of Schools since 2010 and an honor to have been named to the Pennsylvania State Board of Education in 2014.

Today, I speak on behalf of the students, staff, board and administration of Erie's Public Schools to share information about our school system and some of the financial challenges we've faced over the last five years. I hope this information is helpful as you continue to examine the current education funding system and recommend needed changes to remedy the inequity that exists across the Commonwealth, and especially in urban areas such as Erie.

Before I get into the data, I want to say that I appreciate the difficulty of your task. There is a great diversity of need throughout the Commonwealth's school districts and I know also that the Commonwealth has its own budget challenges.

I would also like to acknowledge our own part in the financial conditions that have helped to bring this issue to the fore. As then Education Secretary Tomalis admonished a group of educators at our introductory meeting in northwestern Pennsylvania, many of the districts facing devastating budgets in 2010 had negotiated unsustainable labor contracts -- even in the face of the recession. Admittedly, we were one of them.

But since that time, we have significantly reduced staff, renegotiated labor contracts with freezes and increases well below the CPI and increased employee health care contributions. We have closed three elementary schools and optimized grade levels and attendance areas in our remaining schools.

In addition to that, we've introduced an aggressive optimization plan that would further right-size the district and in the long-term improve equity, parity and efficiency of our system. Unfortunately, this plan would require significant renovation and additions and would require additional state aid.

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To manage a ballooning cash deficit, we entered into an innovative lease-lease-back arrangement with the Erie County General Authority to leverage our non-instructional real estate, which provided \$10 million of much-needed operating capital and helped us to avoid a court-managed bond issue for unfunded debt.

We've basically changed the culture from "they'll find the money" to "how will we pay for this?" I truly believe that our board and administration have gained the trust of our community as careful stewards of taxpayer dollars.

Erie City SD

Our 11,740 students are served by 18 public schools (12 elementary schools, two middle schools and four high schools) and 1,315 employees. Our current general fund budget is \$149.8 million and our tax millage rate is 16.6233.

As one of Pennsylvania's poorest cities, 80% of our students are classified as economically disadvantaged and, as one of Pennsylvania's largest refugee resettlement areas, our City's refugee population has increased nearly 800% since 2003 – pushing the number of English Language Learners to more than 1,100 (nearly 10% of our entire student body).

Approximately 20% of our students currently receive special education services, well above the national average. Interestingly though, our actual instructional expense per pupil is the lowest in Erie County, despite this high percentage of students with special needs.

Our schools serve the City of Erie, where the median value of owner-occupied housing units is \$83,800, half of the state average of \$164,700. Our City's median household income of \$33,049 is nearly \$20,000 less than the state average of \$52,548. In the City of Erie, 27.8% of all residents live below the poverty level, more than double the state average of 13.3%.

As you complete the task of recommending a revised state funding formula, please give adequate weight to the additional educational costs of providing necessary basic and supplemental services to students with clearly documented curricular and support needs. I am encouraged by the work of PASBO in considering many of these factors in their funding formula proposals.

State Revenues

Over the past five years, we have seen our total state revenues fluctuate, unpredictably.

Funding sources that we received and relied on such as charter school reimbursements, accountability block grant funding, Ready to Learn grant, distressed school district allocations, federal Title funding and so on, have come and gone. Unfortunately, when we are already budgeting with razor thin margins, even minor variations in state and federal funding have major impacts.

Also, while campaign rhetoric pointed to the state's total education budget spending as an "increase" each year, the net effect for school systems like ours was actually a significant decrease when mandated PSERS pension contributions (now at 21.4% and moving to 25.84%

of payroll next year) are factored in.

For example, the Erie City SD had \$2.2 million less in state funding to work with in fiscal year 2013-2014 than it did in 2008-2009 because of the increased PSERS contribution.

Combining this declining state revenue with rapidly rising charter school costs, increasing special education costs, pension contribution obligations that increase annually, and growing health care expenses, we're in danger of bankruptcy in the near future.

Although pension reform is not the focus of this Commission, we can't do this work in a vacuum. The context within which any funding formula will be implemented is dramatically impacted by these rapidly escalating costs.

Cutting Our Way to a Balanced Budget... Every Year

For the past five years, we've been in a situation where we have had to cut our way to a balanced budget every single year. Some of the cuts, believe it or not, were easier when we had larger deficits — such as the \$26 million shortfall in 2011-2012— and there was room for us to trim programs, staff and other expenditures. But, as the years have gone on, this has been an increasingly painful process.

As I mentioned at the outset of my testimony, the refinancing options of our various debt instruments have been maxed out, we've closed three elementary schools, we've furloughed more than 200 staff and we cut central administration in half. My assistant superintendent and I have insisted on five year pay freezes, our non-instructional employees and administrators are paying significantly more for healthcare, and any salary increases we do approve are far below the CPI.

Despite these efforts, we're already forecasting a \$7.4 million deficit for 2015-2016:

- **Increases in Charter School Costs:** We anticipate that our charter school costs will rise to \$20 million in next year's budget, including \$4.2 million that will be paid to cyber charters around the state.
- **Pennsylvania School Employees Retirement System (PSERS) Pension Contributions:** An increase of \$2.9 million in mandated pension contributions (which will be at 25.84% of district payroll).
- **Increases in Health Insurance Costs:** The cost of health insurance for district employees continues to rise and is projected to cost \$500,000 more in 2015-2016.
- **General Increases in the Costs of Goods and Services:** General increases in the cost of goods and services the district purchases are projected to reflect inflation in the amount of \$500,000 in 2015-2016.

The simple reality we're all facing across the Commonwealth — and feeling even more acutely in poor urban and rural school districts — is that our costs are absolutely guaranteed to rise at a higher rate than our revenue. Even the maximum allowable tax increase and potential referendum exceptions under Act 1 would fall short of even our net annual PSERS contribution increase. We simply can't close the gap under the current system.

It's sad that a single-digit budgetary shortfall doesn't seem to cause too much tumult these days, but since we've already cut our way through a \$26 million shortfall, a \$14 million shortfall in the following year, to \$9 million shortfall in 2013-2014 to \$5 million in 2014-2015, what is left to cut for next year?

Shifting the Burden

Unfortunately, property tax payers in the City of Erie — already stretched thin due to the City's own financial challenges — have been forced to bite off an even larger piece of the education funding pie.

And, considering the fact that 30% of all property in the City is deemed tax exempt (representing \$2.6 billion in assessed real estate value), the burden is even greater on the individual homeowner in urban areas like ours.

Speaking of homeowners, I want to remind you of the statistic I mentioned earlier: Erie's Public Schools serve a City where the median value of owner-occupied housing units is \$83,800, half of the state average of \$164,700.

Unfortunately, when more than 50% of our revenue comes from the state, increasing local taxes is the only other way we can raise our top line revenue to meet our expenditure obligations.

Charter Schools

Our charter school costs are now topping \$20 million a year.

At the same time that charter schools have disproportionately impacted the budgets of their authorizing districts, the lack of clear regulation and accountability has led to well documented fraud and abuse, leaving our children and taxpayers worse off by every objective measure.

For starters, please remember the in-depth reports of both our current and former Auditors General, as well as the national study of charter school performance conducted by *CREDO* at Stanford University. When more than 1,900 of our students are attending charter schools to the tune of \$20 million, it's simply a non-sustainable model of funding public education — basically funding two separate systems from the same pot of money, and then forcing both systems to use that limited funding to pay their solicitors to fight over everything from applications to payment reconciliation.

The excesses of cyber charter schools are well-documented. We also have charter schools in our City that have fund balances close to a year's worth of operating expenses. It's clear that something needs to change.

Just to put this into perspective, our \$7.4 million deficit would be completely erased without any legislative fiat if the administration and legislature simply agreed to fully fund the charter school reimbursement line — which is already part of the law.

Again broadening the context of this committee's charge, in addition to finding a fair and equitable funding formula, we need common sense reform to charter school law.

The Date of Our Demise

If we fail as policy makers to address these challenges, we – along with many other school districts – will go bankrupt. Some of us, sooner than others.

In fact, according to a five year budget projection created for us by the *Public Resource Advisory Group*, we will not be able to cover our payroll obligations sometime in 2018 or 2019. This erosion of our public education system and inequitable funding for our students with the greatest needs will cause irreparable damage to students, cities like ours, and our state's economy.

Thank You

All of this is what makes your work here so important... and so difficult.

As a member of the State Board of Education, a school district superintendent, a resident taxpayer of the City of Erie, and as a parent of children in Erie's Public Schools, I share your commitment to finding a way to equip our schools with the resources they need to provide every child with the quality educational opportunities they deserve and to do so in a way that eases the burden currently shouldered by local property taxpayers.

Thank you again for the opportunity to provide this testimony and for the important work you are doing.

