



TESTIMONY

of the

CONNECTICUT CONFERENCE OF MUNICIPALITIES

to the

EDUCATION COMMITTEE

February 22, 2012

The Connecticut Conference of Municipalities (CCM) is Connecticut's statewide association of towns and cities and the voice of local government - your partners in governing Connecticut. Our members represent over 90 percent of Connecticut's population. We appreciate the opportunity to testify today on proposed legislation of interest to towns and cities.

Senate Bill 24 "An Act Concerning Educational Competitiveness"

CCM applauds the Governor for making PreK-12 public education reform a priority despite the difficult fiscal challenges facing the State and local governments.

The Governor's proposals are ambitious, far-reaching, and complicated. The full implications of the proposals on local school districts, towns and cities, and local property taxpayers are difficult to evaluate based on the information presently available.

CCM will comment on the pros and cons of S.B. 24 as we presently understand it and raise questions about aspects of the proposal we are unsure of.

CCM asks the Committee to consider holding another hearing, at least an informational one, in a couple of weeks so as to fully delve into all the implications of the Governor's initiatives as new details emerge.

Overview of PreK-12 Education

- *There were approximately 556,000 students enrolled in Connecticut's public schools in the 2010-11 school year.¹*
 - Magnet Schools - 31,000 (5.6%)
 - CT Technical High School System - 10,600 (1.9%)
 - State Charter Schools - 5,700 (1.0%)
 - Traditional Public School Districts - 509,000 (91.5%)

¹ State Department of Education, CEDaR (latest data available from SDE)

- *Thus, traditional school districts educate 91.5 percent of public school students in Connecticut. Charter and magnet schools educate 6.6 percent.*
- *Expenditures on elementary and secondary education totaled \$9.9 billion in 2009-10 school year.²*
 - Local Share - \$5.2 billion (52.9%)
 - State Share - \$3.7 billion (37.4%)
 - Federal Share - \$921.4 million (9.3%)
 - Other - \$42.1 million (0.4%)
- *On average, PreK-12 public education is 59 percent of municipal budgets.*
- *\$0.62 out of every property tax dollar goes to pay for PreK-12 public education.*
- *The ECS grant is now underfunded by over \$700 million.*

As the facts above make clear, Connecticut is the most reliant state in the nation on property taxes to fund PreK-12 public education. The property tax is the largest state-local tax in our state, and the largest on business. Because of chronic state underfunding of PreK-12 education, the town side of municipal government has actually shrunk in size over the last decade in order to fund the increasing costs of education services.

The key to property tax reform in Connecticut is education finance reform.

As the Committee is aware, funding of PreK-12 public education has long been controversial in Connecticut. There has been almost 40 years of litigation (see Appendix C) on whether the State is meeting its state constitutional funding responsibilities. In every instance, the State has been found to be in noncompliance with its own constitution.

Absent a settlement, CCM is confident that the plaintiffs in the most current lawsuit, *CCJEF v Rell*, will prevail. The State is, yet again, failing to meet its constitutional responsibilities to adequately and equitably fund PreK-12 public education.

Proposed Changes to the Education Cost Sharing Grant

The Governor has proposed significant changes to the Education Cost Sharing (ECS) grant. Below are details on the proposed changes.

- *There is a proposed \$54.5 million increase in ECS funding.*
 - \$50 million will be distributed to traditional school districts. Of that amount, \$39.5 million will go to new “Conditional Funding Districts,” which are the 30 lowest-performing districts based on CT Mastery Test scores (see Appendix A for a list of the districts).
 - An additional \$4.5 million will be available on a competitive basis, with \$3.5 million going to conditional funding districts.

² State Department of Education (Latest data available from SDE. See Appendix B for CCM estimated updates.)

- *There are proposed changes to the formula elements.*
 - The foundation would be increased to \$12,000, from the current \$9,687.
 - Bilingual students would be added to Limited English Proficiency (LEP) student count, though the weighting toward need-student counts would remain at 15 percent.
 - HUSKY A enrollment would be used as a poverty measure, replacing Title 1 poverty, though the weighting toward need-student counts would remain at 33 percent.
 - The minimum aid ratio would be reduced to zero, while it will be 20 percent for conditional funding districts.
 - The Minimum Budget Requirement (MBR) would add a provision that allows districts not designated as conditional funding districts to reduce education appropriations if they can show intra-district efficiencies. Conditional funding districts would have to maintain current funding and meet the new minimum local funding percentage.
 - A hold-harmless provision is established so that no school district will receive less in the future than it receives today.
 - Wealth would be measured using Median Household Income (MHI) as obtained by DECD. This measure replaces the Census Bureau's MHI.

- *The Governor is also proposing changes to funding for charter schools.*
 - Funding for state charter schools will be incorporated into ECS, though the funds will not be distributed through the formula. The current funding total for charter schools, in a separate state budget line item, is \$59.8 million.
 - The per-pupil, state grant would be increased from \$9,400 to \$11,000. Towns in which the student resides would be required to contribute \$1,000 per pupil, so charter school funding would increase to \$12,000 per pupil, a 28 percent increase over the current grant.
 - An additional \$14.1 million in new funding for state charter schools would also be part of ECS.

Discussion of Proposed Changes in SB 24

We applaud the Governor's proposal to increase ECS funding. This is long overdue. There has been level-funding of ECS since FY 2009. The proposed phase-in of increased funding is an important first step, but there must be a sustained commitment to significantly increase ECS over a reasonable period of time until full funding is achieved. A fully funded ECS grant under the nascent formula proposed in S.B. 24 would total over \$4 billion.

We support these additional resources and the fact that municipalities will be held harmless. CCM also supports the proposed changes to the ECS foundation, poverty, and wealth measures, and need-student counts. CCM understands that the Governor's ECS Task Force will continue to discuss and recommend further changes to the ECS formula.

CCM has some concerns with other aspects of the Governor's proposal, however.

ECS Formula Elements

In the original ECS formula, the **foundation** was to adjust to costs each year, starting in 1993-94. That way, as actual costs rose, the foundation - and each town's ECS grant - would rise as well.

In practice, the foundation remained significantly below actual costs. Between FY1994 and FY2007 the foundation was raised three times, going from \$4,800 to \$5,891. In FY2007, the foundation was increased to \$9,687, and it has remained there ever since. All the while, per-pupil expenditures continue to rise, reaching \$11,864 in FY2007 and \$13,584 in FY2010. **The proposed increase in the foundation to \$12,000 is welcome and appreciated.**

The failure of the foundation to keep pace with costs devastated the efficacy of the ECS formula. Even though needier towns have the highest aid ratios, the foundation gap erodes the equalizing power of ECS because towns of moderate or low fiscal capacity are least able to fund the gap with local property tax revenues. Their only options are to underfund other critical local services and overburden local property taxpayers.

The foundation should be based on a sound analysis of what it costs to provide appropriate learning opportunities consistent with the State's high standards, the performance improvements under No Child Left Behind (NCLB), and all that is expected of schools in adequately preparing a highly competitive future workforce. The foundation should also be tied to a cost index.

CCM believes one of the key steps to determining appropriate funding for PreK-12 public education is to conduct a study to determine just how much it costs to appropriately educate a child in Connecticut. With information from such an adequacy study, policymakers can then further refine an education financing mechanism that would generate and target the necessary resources.

The Governor's proposal makes no changes to the **State Guaranteed Wealth Level (SGWL)** - the mechanism that determines each town's ECS aid percentage.

Although one of the more complex ECS calculations, the SGWL has a very simple purpose and is the single biggest factor that drives the ultimate state share of foundation level spending. Each town's wealth is compared to the SGWL to determine what percentage of the foundation it will receive from ECS and what will have to come from local revenue (property tax) sources.

Originally, the SGWL was to be set at a level that would give the median town - the town ranked 85th in fiscal capacity out of the state's 169 communities - 50 percent of the foundation per student from ECS. Towns below the median would receive higher amounts than 50 percent of the foundation, and those above the median would receive amounts less than 50 percent. At this original SGWL rate (2.0 x median wealth), the average state share of PreK-12 public education costs would tend to be around 50 percent.

From the inception of ECS, the SGWL was reduced several times to a low of 1.55 times median wealth where the median town only qualified for a 35-percent aid percentage, thereby reducing the State's overall share of the foundation accordingly. In 2007, the SGWL was increased to 1.75 times median wealth, short of its original level. **At the current level, the median town percentage is up to 43 percent. The overall state share of the foundation cannot reach 50 percent until the SGWL is restored to its originally intended level of 2.0 times median wealth.**

The **wealth measurement** in the current formula relies on outdated data. **The proposal to replace the measures with a more up-to-date estimate of Median Household Income is a good step.** These data

would be collected by a third party, so efforts must be made to ensure that the data remains available and as current as possible.

Another and more promising source for income data is the CT Department of Revenue Services (DRS). The annual income data produced by DRS may be more consistent, though two concerns arise.

First, the DRS data is now collected by zip code rather than by town, and zip codes are often associated with more than one town. CCM understand that income data will soon be collected by town to get a more accurate reading for purposes of a town-by-town calculation.

Secondly, many Connecticut residents are not required to file a tax return, so they would be left out of the data. These are generally lower-income residents. This issue may be partially addressed as the new Earned Income Tax Credit (EITC) is resulting in more filers.

The proposed change in the **poverty measure**, from Title I to HUSKY A, is a positive step. CCM and others feel that the Title I measure underestimates poverty numbers.

Minimum Budget Requirement

The proposed changes to the Minimum Budget Requirement (MBR) would add a provision that allows districts not designated as conditional funding districts to reduce education appropriations if they can show intra-district efficiencies and regional collaborations. The existing proposal that allows a reduction in appropriations if there is a decrease in enrollment remains in place.

Conditional funding districts would have to maintain current funding and meet the new minimum local funding percentage. The SDE Commissioner may permit a municipality designated as a conditional funding district to reduce its budgeted appropriation for education if such municipality can demonstrate that its local contribution has increased when compared to the local contribution used in determining its local funding percentage.

Charter Schools

Charter schools are seen by some as part of the answer in addressing Connecticut's achievement gap. Though charter schools educate only one percent of the public students statewide, they are a focus of the Governor's proposal.

Funding for state charter schools has historically been outside the ECS formula. This was due in part to the fact that these schools are chartered and regulated by the State and do not answer to local school districts. These schools are free of many of the requirements of traditional schools. They were originally sold to the State as a more efficient and effective deliverer of education services. Another reason charter schools were not part of ECS is because the State now pays \$9,400 per pupil directly to charter schools regardless of need factors. Many of these charter schools have substantial private endowments or contributions that they are not required to disclose and that supplement their state-guaranteed per pupil subsidy. There is not a traditional school district in Connecticut that now receives \$9,400 per pupil in state funding. The Governor is proposing a 28% increase in charter school funding. The traditional school districts that host charter schools will remain responsible for the special education and transportation costs of charter school students.

Why incorporate funding for charter schools into the ECS grant when such funding is not run through this needs formula? What is the policy goal here?

S.B. 24 also **requires municipalities to fund \$1,000 of the new \$12,000 per-pupil grant for state charter schools.** This increased cost is supposedly balanced by additional funding in ECS. **Why would the State not fund the entire \$12,000 directly to charter schools instead of embedding the unique charter school transaction in a needs-based education equalization formula?** The local portion of this new charter school funding, \$6.4 million, is taken directly from the \$50 million proposed increase in ECS. It means that **the ECS increase is really \$43.6 million in net new dollars.**

CCM understands that charter schools may be a component of an effective strategy to narrow Connecticut's achievement gap. However, in the context of chronic state underfunding of the ECS grant, **it is inappropriate to require resource-starved municipalities to pay \$1,000 per pupil to state charter schools.**

New Minimum Local Funding Percentage

Another component of the Governor's proposal that CCM is concerned about is the new mandated minimum local funding percentage. This would initially require that local governments fund at least 20 percent of the education costs of conditional school districts, with that percentage increasing each year until it reaches 30 percent in FY2016.

While it may only impact a few municipalities, it would place an added burden on already strained local budgets and property taxpayers. The municipalities most likely to be impacted are Connecticut's poorest communities with already high effective property tax rates and with significant municipal overburden (high demand for non-education services).

How does the minimum local funding requirement aid in reducing the over-reliance on property taxes to fund PreK-12 public education? How does it meet the State's constitutional responsibility to adequately and equitably fund PreK-12 public education?

Conditional Funding Districts

The proposal calls for 30 districts to be designated as conditional funding districts. It is unclear as to why the number 30 was chosen. Is the cutoff random? What if the weighted test scores for the 31st or 32nd districts are only just slightly above the 30th district? One could argue that they have the same or close to the same need as the 30th or possibly the 29th, yet they would not be eligible for additional resources.

It is understandable that more will be expected of the conditional funding districts in order to receive additional resources. What is unclear, however, is the eventual impact on districts that fail to meet the required objectives. Presumably, they'll lose funding and other support. This would place an even bigger strain on municipal budgets. A clearer picture of how the entire conditional component will work is needed.

Special Education

One significant aspect of education finance that is missing from the reform dialogue is special education. This is the single largest driver of cost in PreK-12 public education, growing at an estimated 5-6 percent annually. Towns and cities already fund about 60 percent of these program costs, and, like the ECS grant,

the state Excess Cost grant has been level funded since FY2009. The grant is supposed to provide reimbursement for costs that exceed 4.5 times the average per-pupil cost in each district. Level state funding means that each municipality's reimbursement is capped. **Special education reform is an essential element of education reform.**

ECS Task Force

The Education Cost Sharing Task Force is in the middle of its work. It is scheduled to deliver a final report in October with recommended changes to education funding that can inform further reform efforts. CCM commends the Governor for initiating the establishment of this Task Force.

Conclusion

CCM commends the Governor for laying out a bold path to education reform. We understand the fiscal challenges facing the State and appreciate the increased funding he proposes.

CCM also supports many of the ECS formula changes proposed in SB 24. They begin the march toward true education finance reform.

CCM asks that you consider the concerns we have raised and also schedule a follow-up hearing to more fully discuss the implications of SB 24.

Thank you.

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If you have any questions, please contact Jim Finley (jfinley@ccm-ct.org), Executive Director and CEO, George Rafael (grafael@ccm-ct.org), Senior Government Finance Analyst, or Kachina Walsh-Weaver (kweaver@ccm-ct.org), Senior Legislative Associate of CCM via email or via phone at 203-498-3000.

Attachments

Appendix A

Conditional Funding Districts and Proposed New Education Funding

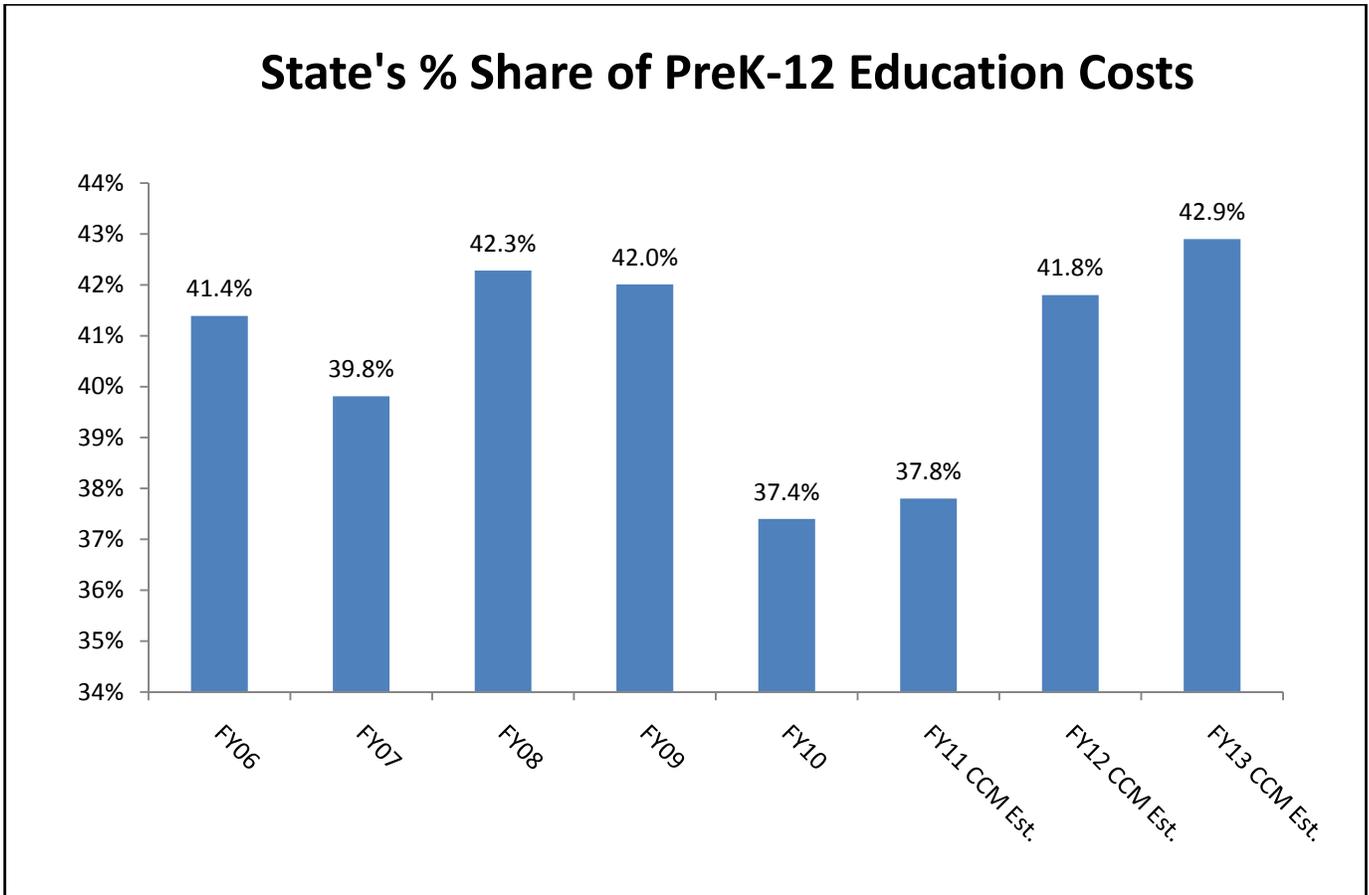
Ansonia	Naugatuck
Bloomfield	New Britain
Bridgeport	New Haven
Bristol	New London
Danbury	Norwalk
Derby	Norwich
East Hartford	Putnam
East Haven	Stamford
East Windsor	Vernon
Hamden	Waterbury
Hartford	West Haven
Killingly	Winchester
Manchester	Windham
Meriden	Windsor
Middletown	Windsor Locks

	New Funding (millions)	Share for Conditional Districts (millions)
ECS	\$50.0	\$39.5
Competitive Grants (added to ECS)*	\$4.5	\$3.0
Charter Schools (added to ECS)*	\$14.1	\$12.8
Commissioner's Network	\$24.8	\$24.8
Early Childhood	\$7.0	\$5.6
Talent Development	\$12.0	\$4.8
CTHSS Supplies	\$0.5	-
Magnets	\$7.3	\$5.8
Other Initiatives	\$7.8	\$6.2
Total New Funding	\$128.0	\$102.6
		80%

*Not run through the ECS formula.

APPENDIX B

Supplemental Information

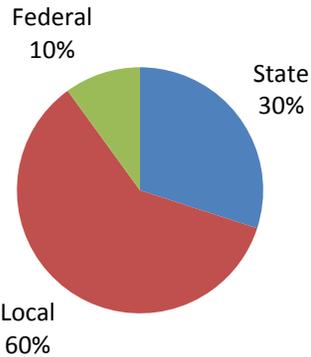


Source: Governor's Proposed FY13 Midterm Adjustments; CCM, February 2012

Note: State funds include all state revenues on behalf of public elementary and secondary education, including state grants, bond funds, and department expenditures - including the Connecticut Technical High School System, teacher's retirement costs, and unified school district expenditures.

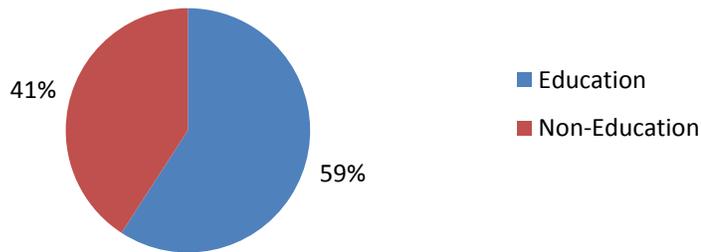
FY2010 Shares of Education Costs (Latest Audited Data)		
	\$	%
Local Share	\$5.24	52.9%
State Share	\$3.70	37.4%
Federal Share	\$0.92	9.3%
Other	\$0.04	0.4%
Total Estimated Local Education Expenditures	\$9.91	100.0%

Share of Special Education Expenditures, FY2011



Source: SDE, CCM Calculations

Local Education v. Non-Education Expenditures, FY2010



Source: OPM *Municipal Fiscal Indicators*



APPENDIX C

School Funding: 39 Years under Fire A Brief History of Education Litigation in Connecticut

1973: Canton parents, led by parent and lawyer Wesley Horton, file suit against then-Gov. Thomas J. Meskill and other state officials charging the system of financing public education violates the state constitution.

1977: The State Supreme Court, in *Horton v. Meskill*, rules that the system for paying for education is unconstitutional because it relies too heavily on the local property tax.

1985: The State Supreme Court, in response to a challenge by the Horton plaintiffs, orders the State to come up with a school financing plan providing more aid to needy towns.

1988: The legislature creates the “Equalized Cost Sharing Formula,” (ECS) a far-reaching remedy providing more money to communities for schools, based on a sliding scale. The formula considers a town’s property wealth, income, number of students, student performance, and poverty when figuring how much additional state aid a school district is eligible for. A minimum “foundation” for an adequate education is also established and set at \$4,800 per pupil.

1989: Another lawsuit - *Sheff v. O’Neill* - filed by a group of city and suburban parents against then-Gov. William A. O’Neill claiming that Hartford’s segregated and underfunded schools violate the State Constitution.

1990: In the first of a series of amendments, the legislature limits the overall amount of education funds available to towns under the ECS formula.

1992: Pressed by the recession, legislators seek to balance the State budget by amending the school funding formula further, cutting overall education grants and placing a cap limiting the increase in aid a municipality could receive. The education foundation is frozen at \$4,800.

1995: State legislators increase foundation for education spending to \$5,711, but place a cap on increases in education aid from the State to no more than 2 percent. The increase in the foundation is attributed to combining the special education reimbursement grant with the ECS grant. No municipality can receive a cut that is more than 9 percent over the previous year. Aid to selected poorly performing districts, particularly Hartford, increases.

1996: In the *Sheff v. O’Neill* case, the state Supreme Court rules that the racial segregation in Hartford violates the state constitution.

1997: State legislators continue to dramatically increase funds for Hartford schools, but a cap on increases in aid to other municipalities continues. The Connecticut Conference of Municipalities estimates that the State has shortchanged schools by nearly \$1 billion through changes in the ECS formula.

1998: Seven children file suit - *Johnson v. Rowland* - against the State claiming that the State Supreme Court's order in the *Horton v. Meskill* case is not being implemented. Among the dozen municipalities funding the lawsuit are Bridgeport, Manchester, Meriden, New Britain, and New Haven.

1999: In response to the Governor's Task Force to Study the Education Cost Sharing Grant, state legislators raise the ECS cap from 0-5% to 0-6% for three years and make plans to eliminate the cap in 2003-04. It is anticipated that the total removal of the cap will result in a \$100-\$120 million balloon payment by the State. Legislators also implement (1) a hold-harmless provision which guarantees municipalities no less funding than they received in the current year; (2) a minimum aid level of funding equal to 6% of the foundation (\$350 per need student), subject to the provisions of the cap; and (3) increasing the foundation by 2%, to \$5,891.

2001: State legislators provide each town whose ECS grant is capped a proportional share of \$25 million for 2001-02 and \$50 million for 2002-03. Each town's share is based on the difference between its capped grant and the amount its grant would be without the cap (excluding any density supplements). Also implement a minimum grant increase of 1.68% for all towns in 2001-02 and a minimum increase of 1.2% in 2003-03. The foundation of \$5,891 is unchanged.

2002: State budget maintains the prior year commitments to provide \$50 million in cap relief and a minimum increase of 1.2%, but cuts overall municipal aid by .8% and caps funding for special education, adult education, and school transportation.

2003: Funding for the ECS grant increased by 4.2% in FY 02-03, and by just .5% for FY 03-04. *Johnson v. Rowland* is withdrawn due to a lack of funding for legal costs. Efforts immediately begin to organize a new, broader-based statewide coalition to continue the struggle for school finance reform.

2004: The Connecticut Coalition for Justice in Education Funding (CCJEF) is incorporated and Yale Law School undertakes to provide pro bono representation. CCJEF commissions an education adequacy cost study to be performed by a nationally prominent consulting firm.

2005: CCJEF files education adequacy and equity lawsuit. *CCJEF v. Rell* challenges the constitutionality of Connecticut's entire education system, alleging that the State is failing to prepare its schoolchildren to pursue higher education, secure meaningful employment, and participate in the political lives of their communities. The complaint cites deficiencies and disparities in educational resources as the cause of this constitutional violation and Connecticut's persistent failures in educational outcomes as evidence that the State is failing to meet its constitutional obligations. Plaintiffs ask the court, among other things, to (1) declare the State's system of funding public education unconstitutional, (2) bar the state from continuing to use it,

and (3) if necessary due to inaction by the General Assembly, appoint a special master to evaluate and make recommendations to the court concerning possible reforms.

2006: Governor Rell forms a Commission on Education Finance. The bipartisan Commission meets for several months and hears testimony from a variety of experts.

2007: Governor Rell proposes significant changes to education finance laws, based on the recommendations of the Commission. Her proposals would, among other things, increase the ECS grant \$1.1 billion over the next five years to \$2.7 billion by FY 11-12. She proposed significant changes to the grant to (a) increase the foundation to \$9,867 from the current \$5,891, (b) increase the State Guaranteed Wealth Level (SGWL) to 1.75, (c) raise the minimum aid ratio to 10 percent from six percent, (d) calculate the "need students" using 33 percent of a district's Title I poverty count and 15 percent of students with Limited English Proficiency, and (e) eliminate grant caps. She also proposed increases in other areas, such as reimbursement for special education costs. When finally agreed to by the General Assembly and Governor, the adopted budget included several significant changes, including a \$237 million increase in overall education funding, including \$182 million for the ECS grant. The budget increased the foundation to \$9,687, increased the minimum aid ratio to 9% of the foundation and to 13% for the 20 school districts with the highest concentration of low income students, increased the SGWL to 1.75, and other changes.

2008: Oral arguments before the Connecticut Supreme Court are heard in *CCJEF v. Rell* (see below).

2010: The Connecticut Supreme Court, in a landmark decision, ruled in *CCJEF v. Rell* that all school children in the state are guaranteed not just a free public education, but a "suitable" one that prepares them for productive, employed, and civically engaged life. The Court's opinion included the following.

- "The fundamental right to education is not an empty linguistic shell."
- A suitable education is one that prepares school children to ...
 - "participate fully in democratic institutions, such as jury service and voting"
 - "progress to institutions of higher education"
 - "attain productive employment"
 - "contribute to the state's economy"

Absent settlement, the next step is for the *CCJEF* lawsuit to go to trial to determine if public school students in Connecticut are being provided with a constitutionally suitable