

CCM 2015 Testimony

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APPROPRIATIONS COMMITTEE

April 2, 2015

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 156 towns and cities, representing over 95 percent of Connecticut's population. We appreciate the opportunity to testify on bills of interest to towns and cities.

SB 816, "An Act Establishing a Minimum Level of Funding Under the Education Cost Sharing Grant Formula"

This bill would ensure that no municipality receives less than 50% of the education cost sharing grant adjusted fully funded formula.

CCM supports this proposal. SB 816 must result in enlarging the ECS pie. No municipality should receive less than it currently receives. The ECS grant in its current form is underfunded by more than \$600 million.

ECS & Connecticut's Towns and Cities: How Chronic Underfunding has Impacted Connecticut's Future

In Connecticut, towns and cities are responsible for funding the majority of preK-12 education. That means that, given the current tax structure, **Connecticut is the most reliant state in the nation on the local property tax to fund preK-12 public education.**¹

The cost for public education in our state is over \$10 billion, and municipal property taxpayers:

- Fund 51.5 percent of that amount (more than \$5 billion). The State contributes an estimated 42.8 percent and the federal government 5.1 percent.²
- Pay about **\$0.59 of every \$1.00** raised in property taxes toward preK-12 public education.³
- Pay for about **60 percent of Connecticut's \$1.8 billion** in special-education costs.

¹ CCM estimate based on US Census Bureau, *Public Education Finances*, 2012

² State Department of Education (SDE), FY 13 data. The remaining 0.5 percent comes from private donations and other contributions.

³ CCM estimate

- Pick-up the bill for numerous other state-mandated education priorities that are not fully funded by the State.

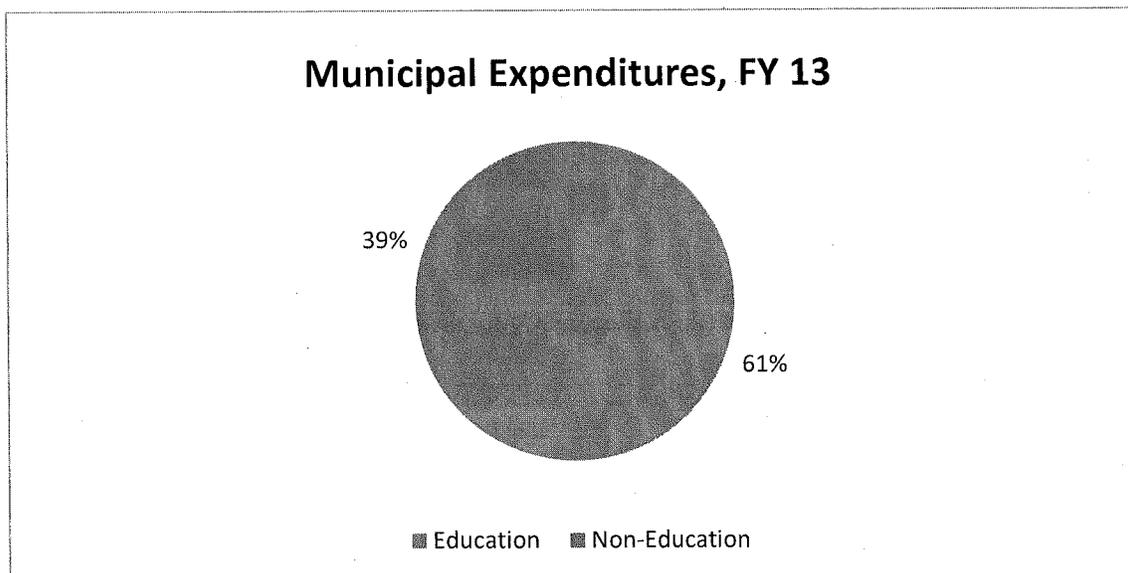
The quality of Connecticut’s educated workforce is one of the key assets in attracting and retaining businesses. A first-rate education system - and education finance system - is vital for Connecticut’s prosperity and quality of life. State law limits municipalities primarily to the property tax for own-source revenue, and when municipalities do not receive adequate state education aid, they are forced to raise property taxes, cut other vital services, or both. Local property taxes cannot continue to shoulder the lion’s share of preK-12 public education costs.

In order for Connecticut to compete economically with its neighbors and the world, the State must increase and sustain its financial commitment to preK-12 public education. For 40 years, court case after court case has ordered the State to do so in order to meet state constitutional requirements. Some progress has been made, but much more needs to be done.

Background

Connecticut has a long history of local control of public schools. At the same time, it is the State that has the constitutional responsibility to ensure that all children, regardless of where they live, receive equal access to quality public schooling.

Meeting Connecticut’s education needs is accomplished through a system under which local governments operate public schools - and local property taxpayers pay for them - with funding assistance from the state and federal governments. State aid comes through several different grants intended to address various public policy goals and priority needs in preK-12 public education.



Source: OPM *Municipal Fiscal Indicators, 2008-2012*

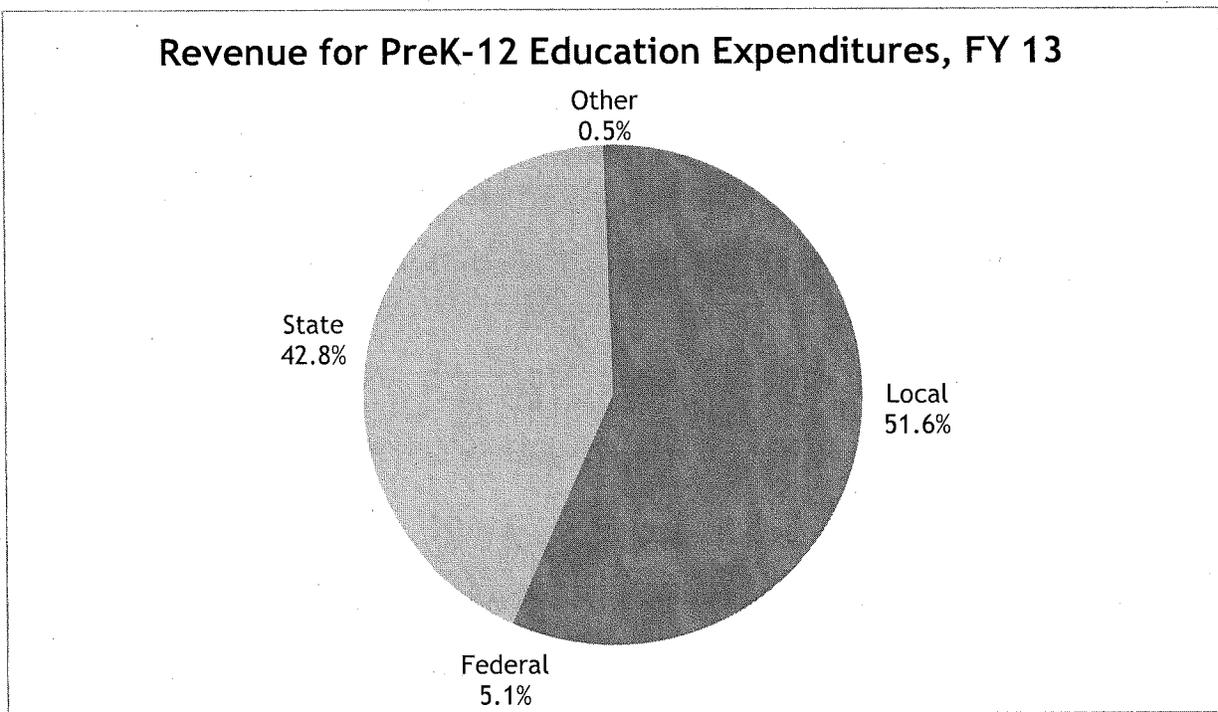
The local share of education expenditures is financed through local property taxes. Because property tax bases and incomes differ enormously among towns, a critical function of state aid is to “equalize” the ability of towns to pay for public schools that provide students with equal opportunities for educational excellence.

More than three decades ago in *Horton v. Meskill*, the Connecticut Supreme Court ruled that the State must distribute education aid in a manner that would make up for disparities in local property tax bases. Those disparities are significant. The adjusted equalized net grand list per capita (AENGLC) of the wealthiest town (Greenwich) is over 60 times greater than that of the poorest town (Hartford).⁴ The greater the disparity in property wealth becomes, the greater the need for additional state aid to try to balance the scales.

State and Local Shares of Education Costs

At least an equal partnership between state and local revenue sources has been a longstanding goal of the Connecticut State Board of Education. In 1989-90, the State's share of total education expenditures reached 45.5 percent, the closest it has ever come to that goal. Since then, the State's share has fallen well below the 50-percent mark.

The Governor's Task Force to Study the Education Cost Sharing Grant reiterated the 50-50 goal in 1999 when it recommended, "The State should budget and appropriate funds biennially to demonstrate progress toward equal state and local spending for education."⁵



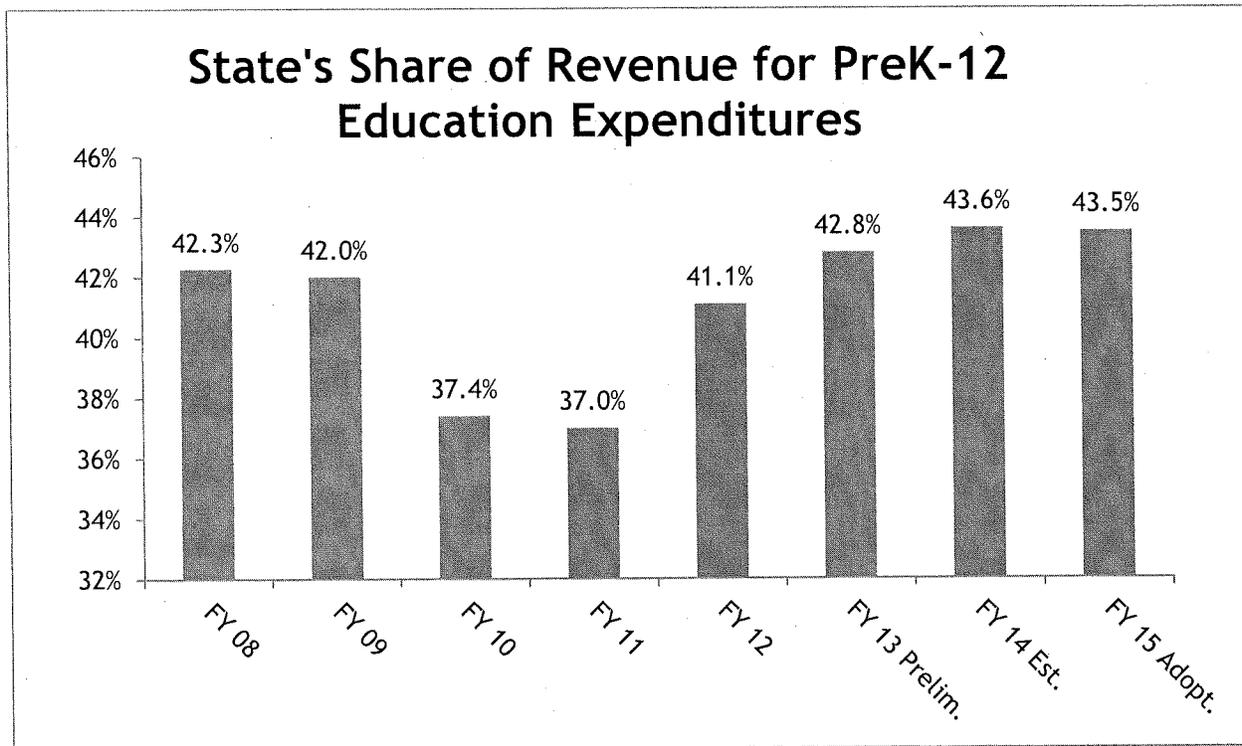
Source: SDE (preliminary estimate)

⁴ SDE, 2014-15 school year

⁵ Task Force to Study the Education Cost Sharing Grant, Recommendations, February 2, 1999

For FY 13, the State's share was 42.8 percent.⁶ In FY 12, Connecticut ranked 42th in the nation for state share of preK-12 public education funding.⁷ While the goal of at least a 50-50 funding partnership remains elusive, any movement toward that mark is important because new state dollars can reduce overdependence on regressive property taxes and lessen the inequity inherent in that dependence.

While the State has invested heavily in school construction over the past decades and introduced a reformed Education Cost Sharing (ECS) grant program enacted in 2013, these measures produced limited progress toward at least an equal state-local partnership.



Source: State Department of Education; CCM calculations

The Education Cost Sharing (ECS) Grant

The Education Cost Sharing (ECS) grant is the State's largest general education assistance grant. Initially developed in 1988, the ECS formula was intended to equalize a municipality's ability to pay for education. The most recent changes to the ECS formula occurred in 2013.

The grant totaled about \$2.0 billion in FY 14.

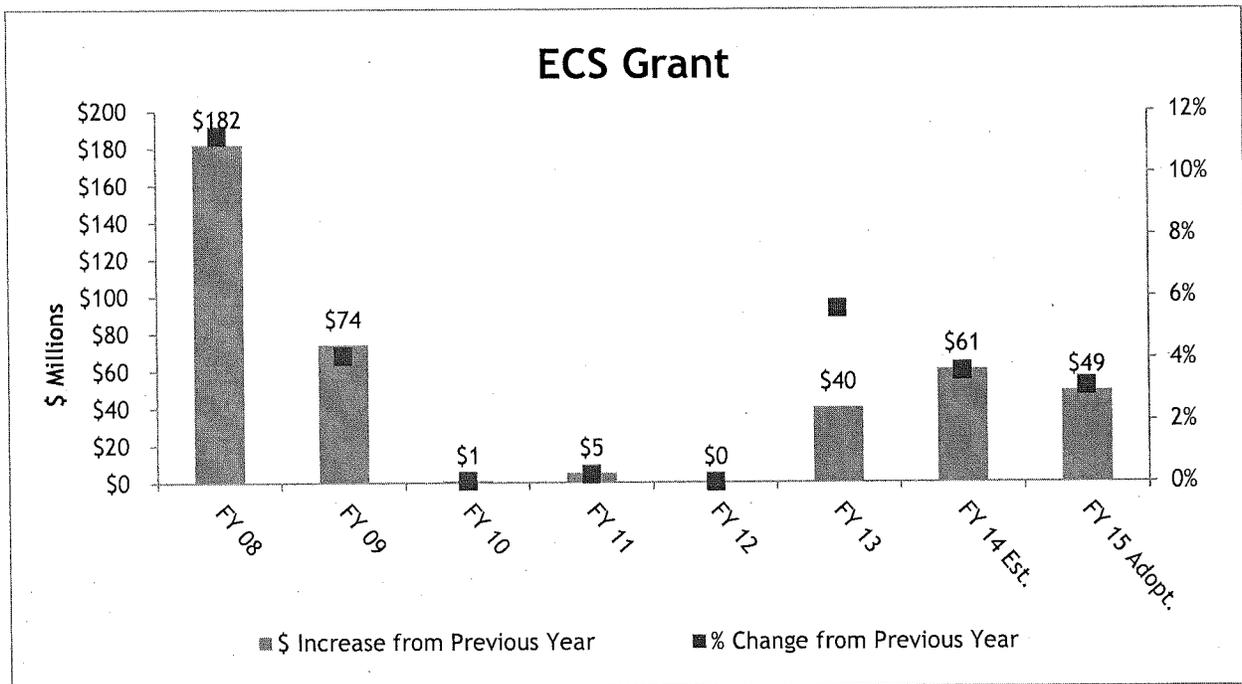
In simple terms, the current ECS formula is determined by multiplying the number of students in each school district (weighted for need) by the amount the state has determined a district should spend to provide an

⁶ Includes 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, magnet schools, charter schools, vo-ag programs, unified school district expenditures, and teachers' retirement costs.

⁷ US Census Bureau, *Public Education Finances*, 2012

adequate education (the “foundation”) and by an aid percentage determined by the district's wealth. The fully funded ECS grant is the result of that calculation plus a small regional bonus for regional school districts.

- Need is determined by the number of students that receive free or reduced price lunch. There is a weight of 1.30 assigned for each of these need students.
- The foundation is \$11,525.
- Wealth is determined by a town’s equalized net grant list per capita and the town’s median household income. Those values are compared to the values of the town at the median in each of the two wealth categories. These ratios determine the wealth, and subsequently, the aid percentage of the foundation that the State funds.



Source: Adopted State Budgets; State Comptroller Reports

Note: Does not include funding for charter schools, which was added to the ECS account beginning in FY 13.

Major Issues with ECS

There are many issues with ECS, and a few will be discussed in detail.

Underfunding of the Grant

The ECS formula has been modified many times by the General Assembly in ways that have significantly limited its effectiveness and the cost to the State. The formula has never been fully funded and implemented as designed. This gap in funding over the years has shifted an undue funding burden onto local property taxpayers.

If fully funded in FY 14, the ECS grant would total over \$2.6 billion.⁸ The actual ECS grant for FY 14 was about \$2.0 billion, more than \$600 million short of the ECS promise.

The 2013 changes to the formula were done in conjunction with a proposed phase-in of a fully funded grant. The phase-in percentages are below.

Type of District	FY 14	FY 15
Reform District (10 Lowest Performing)	12%	21.6%
Alliance District (Next 20 Lowest Performing)	8%	14.4%
Other	1%	1.8%

At the rate of these phase-in percentages, and assuming the phase-in continues, it would take a number of years before the grant was fully funded, especially for non-Alliance districts. Some of the hardest-hit districts will be those that fall just outside of the 30 lowest performers, as they still have significant funding challenges, but they would see very gradual increases.

Another issue concerning Alliance Districts is that ECS increases for those districts are conditional. This conditional funding goes against the principle of equalization and can magnify the problems associated with the current underfunding of the ECS grant in those lower-performing districts.

Since the increased funding for Alliance Districts must generally be used for new or expanded programing, it does little to address the lack of funding and increasing costs unrelated to these new programs in those districts. The net impact on Alliance Districts is that it can actually cost them more for programs than they receive in an ECS increase.

Lastly, more than 90 percent of the ECS increases in recent years have gone to the 30 Alliance Districts. This has left the other 136 school districts in Connecticut with little or, in some cases, no additional funding through the ECS grant. Many of these districts have significant educational needs, and the lack of funding is cause for concern.

The Foundation - the per-pupil figure on which the ECS calculation is based

In the original 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 FY 94 and FY 07, the foundation was raised three times, going from \$4,800 to \$5,891. In FY 07, the foundation was increased to \$9,687, and it has remained there until 2013 when it was raised to \$11,525. All the while, per-pupil expenditures continue to rise, reaching a statewide average of \$14,516 in FY 13.⁹

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

⁸ SDE data

⁹ Per-pupil expenditures refer to "net current expenditures per pupil" (NCEP) as defined by SDE. NCEP is commonly referred to as districts' operating budget minus pupil transportation costs.

of moderate or low fiscal capacity are least able to fund the gap with local property tax revenues. Their only options are to underfund schools and/or other critical local services and overburden local property taxpayers.

The foundation is now not based on any sound analysis of what it costs to provide appropriate learning opportunities consistent with the State's high standards, federal requirements, and all that is expected of schools in adequately preparing a highly competitive future workforce. It is also not tied to any cost index, which means that the foundation becomes less and less able to drive appropriate levels of ECS aid.

CCM has long advocated for using research-based cost estimates as the basis for setting the ECS foundation and student weights, rather than relying exclusively on past expenditures. An adequacy study needs to be completed to determine the proper level at which the foundation should be set. Cost measures based on a regional cost index, as resource costs can vary significantly by geographic region in Connecticut, should also be utilized.

CCM also believes that the foundation should be tied to a measurable economic indicator, such as the Consumer Price Index (CPI) or the Personal Consumption Expenditures (PCE) Index. This would ensure that increasing costs and factors such as salaries, benefits, books, supplies, transportation, energy costs, facilities maintenance and construction, student enrollments, state and federal education standards, etc., are not simply added to the burden borne by local mill rates.

Need Students - capturing additional costs associated with students of need

There were both positive and negative changes in the new ECS formula regarding need students.

On the positive side, the poverty measure was changed from using Title I students to students eligible for free or reduce-priced lunch. This change is a good step forward and provides a better measure of impoverished students. Unfortunately, the poverty weighting was reduced from 1.33 to 1.30, effectively reducing the benefit of the change.

One of the most concerning of the 2013 changes to the ECS formula was the elimination of the additional weighting given English Language Learners (ELL). There are additional costs associated with educating these students, and to eliminate the additional weight attributable to these students defeats some of the positive benefits of other changes to formula elements.

While the additional 15 percent weight added to ELL students in the previous iteration of the formula was regarded as inadequate, it at least provided some additional resources to districts facing added costs associated with ELL students.

The Wealth Adjustment Factor (WAF) - the mechanism that determines each town's share of the foundation

The WAF measures the income and property wealth in a town relative to statewide averages. The income measures are weighted at 90 percent for property wealth and 10 percent for income wealth.

To more accurately reflect a town's overall wealth, the weighting should be increased for income wealth and decreased for property wealth.

Income wealth is measured by the ratio of a town's median household income to 1.5 times the median household income of the town with the state's median household income. The property wealth is measured by the ratio of a town's equalized net grand list per capita (ENGLC) to 1.5 times the ENGLC of town with the state's median ENGLC.

The lower the multiplier (currently 1.5 for both income and property wealth), the lower the State's share of total education funding. In fact, the State's share of the foundation cannot reach 50 percent until the multiplier reaches 2.0.

Conclusion

The quality of Connecticut's educated workforce is one of the key assets in attracting and retaining businesses. A first-rate education system – and education finance system – is vital for Connecticut's prosperity and quality of life.

The education needs of Connecticut's schoolchildren don't disappear because of a bad economy. The choice is whether to provide adequate resources or to surrender the futures of today's school-age children. Connecticut can and should do better.



If you have any questions, please call Ron Thomas, Director of Public Policy & Advocacy, at (203) 498-3000.