

# SOUTH EASTERN SCHOOL DISTRICT

377 Main Street

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Nathan P. Van Deusen, Ed.D., *Superintendent*



## **Funding Commission Testimony- Dr. Nathan Van Deusen- South Eastern School District**

Good morning Chair Sturla, Chair Phillips-Hill, and members of the Basic Education Funding Commission. My name is Nathan Van Deusen and I am in my 5<sup>th</sup> year as the Superintendent of the South Eastern School District. The SESD is a rural to suburban district in southern York County. The SESD borders Maryland to our south, the Susquehanna River to our East, and Route 83 to our west. Geographically, we are a fairly large district that encompasses over 108 square miles with a student population of approximately 2600 students.

Let me begin by thanking members of our General Assembly for working collaboratively to provide significant increases to BEF, SEF, the Ready to Learn Block Grant, Career and Technical Education, and adopting the universal free breakfast. We are also confident that our representatives will work together to pass a bipartisan fiscal code, so that the remaining \$1.1 million dollars can be utilized by school districts across the Commonwealth.

A few weeks ago, after meeting with Senator Phillips-Hill, I was asked to provide testimony for this funding commission. I agreed to this because I see the value in creating more connection points between local school districts and their state representatives in the House and Senate. These points of connection allow local school districts and their representatives in the General Assembly a better understanding of public education from the point of view of both parties. Mother Teresa has the following quote that underscores the need for us to connect and collaborate on issues related to public education. She said, *"You can do what I cannot do. I can do what you cannot do. Together we can do great things."* It is only through these collaborative partnerships that we can provide an excellent education for students of this Commonwealth.

My testimony will not be solely based on the SESD. While our per pupil BEF falls in the bottom half of the distribution across the state and places a heavier burden on our local taxpayers, I wanted to take my time this morning identifying the issues that I am perceiving within our state funding. As I began to prepare my testimony, I started by working to understand the Basic Education Funding Formula more comprehensively. After reviewing the calculations on the PDE website, I ran various numbers in a system called 5Sight. I started by looking at the district per pupil expenditures across the state, then looked closer at district BEF per pupil expenditures. I then pulled median household income, local effort capacity, real estate market value, and mill rates for all 499 districts in the Commonwealth. Lastly, I color coded each area based upon quintiles, to see if there were trends. I color coded dark blue for districts doing well in each of those metrics and dark red for those districts who fell in the bottom quintile of the metric. So, what did I find? I found that districts who receive high BEF dollars have low median household income, low effort capacity, and in many cases a lower real estate market value. Conversely, districts with a lower BEF subsidy had higher median household income, higher local effort capacity, and higher district real estate market value. So, my conclusion was that our BEF is funding those districts who may not have the capacity to generate revenue needed through local taxing mechanisms. Thus, BEF is doing what it proports to do, sharing more dollars with those districts who may not have the ability to generate the necessary dollars from their real estate taxes.

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That being said, outside of the correlation between BEF funding to poverty levels, there were anomalies all over the place. One of the greatest anomalies was district mill rates. I initially assumed that these rates would be based upon the dollars needed to make up what wasn't provided by BEF. As I looked at this closer, the mill rates seemed to be more connected to a county or region, rather than the BEF amount or their poverty levels. I thought to myself, what does that mean then? I came to the conclusion that the current BEF formula tries to fix a multivariate problem with a univariate solution. In other words, poverty and the ability to generate local income should not be the only or most significant driver of state funding. What is being thoroughly considered is the expenditure side of the ledger. The truth is that the Commonwealth has 499 unique districts, each with a set of unique challenges and those challenges drive district spending.

There are countless budget drivers that are unique to each district. District geography, level of student need, infrastructure costs, and many more. I would like to take a few minutes to discuss 3 budget drivers that have a significant impact on district budgets and are not being funded fully. Those expenditures are personnel salaries/benefits, special education costs, and charter school disbursements. Each of these budget drivers are unique to each district and create a great deal of variability across the Commonwealth. This variability is not fully reflected in our current formula which heavily focuses on district wealth outcomes.

The first expenditure driver is salaries and benefits. Higher salaries and benefits seem to be clustered regionally and based upon the poverty levels of a district. When we look at counties such as Chester, Montgomery, and Delaware, districts must pay more in salary for their staff due to the cost of living in the area and the regional competition for those positions. Districts such as Lower Merion pay over \$134,000 at the top of their pay scale, where other more rural districts, such as Southern Tioga pay \$78,000 at the top of their pay scale. To be competitive regionally, districts in our more affluent counties must compensate their staff at a rate that is commensurate with peers in their region. So, for many districts in "affluent regions" those salary schedules create insurmountable funding difficulties for their districts. Lower Merion, for instance spends over 70% of their budget on salaries and benefits only. This leaves less than 30% for operations, curriculum/instruction, student support, and more. From a BEF standpoint, Lower Merion receives one of the lowest BEF per pupil expenditures in the state at about \$665 per student, this puts a larger share of the taxing burden on the local taxpayer. We then see this through higher mill rates in those regions.

The second budget driver that I will share are the variability of special education costs. Please understand that within special education costs there are extreme differences between school districts. Chester-Upland, for instance provides SE services to over 25% of their student population. This is 8% more than the average school district in the Commonwealth. The costs within each special education district population is also variable. Chester-Upland for instance spends just over \$59,000 per pupil for special education services, which is one of the highest per pupil expenditures in the state. To truly understand the costs though, we must understand that the needs of each student drives the cost of the service for the district. To provide an example of this, Chester Upland has more than twice the number of students identified with an intellectual disability than the state average (12.7% versus 6.2%). Providing support for those with an intellectual disability tends to

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be the costliest for all school districts. In many instances, districts need to find outside Life Skills or Multi-Disability placements for students with costs per student that can be over \$150,000 annually. While student need categories are calculated in the special education funding formula, the amount reimbursed never comes close to the outlay that is needed.

The final expenditure driver that I will discuss are charter school expenditures. The cost per student at the top end for a SE student is \$60,000 a year and the top end for a regular education student is \$25,000. Due to the fact that many charter schools are centrally located in our urban settings, our city school districts are hit the hardest financially. Charter school costs are based on an antiquated PDE 363 formula that compensates a charter school for what the sending school offers, rather than what the charter school provides. In addition, they compensate charter schools for SE students based upon the district average cost rather than the student's actual disability. These overpayments are reflected in district fund balances. As I was reviewing data for this testimony, I noticed that Twenty-one of the top 25 school entities with the highest fund balance based upon a percentage of their revenue were charter schools.

Last January there was a Performance Audit Report submitted regarding 12 districts in the Commonwealth that added dollars to their fund balances while simultaneously raising their millage rates. While this got some traction across the state, what the auditor general failed to mention were the huge fund balances held by our charter school counterparts. While our charter school counterparts do not have the ability to tax, these astronomical fund balances reflect the fact that our taxpayers are overpaying for an expense and this should be a red flag. Please understand that I am not speaking out against school choice, I am simply in favor of a new calculation that doesn't negatively affect the local tax payer.

So, how do we fix these unique cost driver issues across the Commonwealth? The first cost driver for our more "affluent regions" is the cost of salaries and benefits. Adding a cost of living calculation to the BEF formula may aid districts whose salary matrix reflects the regional income levels. While the average cost per student may be high when compared to other districts across the Commonwealth, the inflated numbers are simply a reflection of the cost of living in that region, rather than a reflection of the district's financial health. In many cases, these "wealthy" districts, are receiving a much lower BEF allocation and many are not sitting on large fund balances and ending up with annual surpluses. Many of these districts have needed to consistently increased mill rates because state funding responsibility was removed, making the local taxpayer bear the burden. Norristown Area school district is a great example. Norristown receives BEF dollars in the lower half of the state distribution but must keep up with a salary schedule that reflects other districts in Montgomery County and this places a high tax burden on their local taxpayers. In addition to salaries and benefits, many districts in "affluent regions" are dealing with a changing demographic and higher special education costs which creates the need for more district services.

The second budget driver mentioned was special education costs. As I previously mentioned, the special education funding formula does compensate districts based upon the level of need but it just is not enough. Over the past decade, student needs have drastically increased and the cost of those services have also

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enlarged. For smaller districts, students with more complex needs, are being educated in outside placements simply because the number of students with a unique need does not necessitate creating a district class for those students. This means not only paying more for the service but also covering significant transportation costs to transport those students to an outside placement.

The final cost driver that was previously mentioned are charter school costs that are affecting all districts across the Commonwealth but are hitting our urban settings the hardest. I am encouraged that House Bill 1422 (Modernizing the Cyber School Law) is a step in the right direction. This House Bill looks to set state charter school rates based upon the services provided, updates the SE formula, adds increased transparency on how dollars are being spent by the charter school. HB 1422 is a step in the right direction and will have a significant financial impact because all districts. Our urban districts who deal with this cost driver the most will finally feel some reprieve from an antiquated formula that compensates charter schools for what is provided by the home school district, rather than what is offered by the charter school.

As I close, I would like this commission to understand that the BEF formula cannot be the only answer. While more dollars should be driven to Commonwealth school districts and tweaks to the formula is needed, other specific funding streams should be available to support the unique challenges in all districts. For example, infrastructure upgrades in many of the districts across the Commonwealth are necessary. House Bill 1408-Plan Con 2.0 is a step in the right direction. Districts with limited fund balances and heavy financial burdens should be the first to benefit from these dollars. Those districts who have not been able to secure their front entrances and provide basic HVAC upgrades, such as air conditioning should be prioritized. Plan Con 2.0 is an opportunity to aid our most financially strapped school districts through basic upgrades of their facilities.

Last February the Common Court ruled that Pennsylvania's current system of funding schools is inequitable and must be reformed. As a result, this bipartisan commission has been formed to revamp the state's BEF formula. Voltaire once said, "*No problem can stand the assault of sustained thinking.*" I am a firm believer that the partnership between members of this commission and district level leaders can lead to a sustainable solution that will benefit both the children and taxpayers of the Commonwealth. Distinguished leaders, thank you for allowing me the time to share my thoughts with this Commission.