



The Impact of the Governor's Proposed Municipal Aid Budget on Education, Towns, and Children: Executive Summary

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The Governor's proposed Fiscal Year 2014-2015 budget would substantially restructure municipal aid, state-town revenue sharing, and education spending, making changes with major implications for Connecticut's cities and towns, public schools, and children. The impact of the proposed changes on children, particularly in the state's poorest cities and towns, is potentially troubling. Specifically, the Governor's proposed budget would have the following six adverse consequences:

1) Cutting flexible state aid to towns would increase reliance on local property taxes and build fiscal pressure for property tax increases.

The Governor's proposed budget eliminates both the state's Municipal Revenue Sharing Account (MRSA) and the Pequot-Mohegan Fund, which would reduce flexible state aid to towns – aid that can be used for a variety of municipal spending – by \$150 million. It would also shift nearly all funds from the State-owned PILOT grant – which is currently flexible aid – into the Education Cost Sharing (ECS) grant. State-owned PILOT grants compensate towns for property tax revenues lost due to the presence of state-owned property in these towns. While it is unclear if towns would have to spend this money on education, if they did, the cuts to flexible aid would total \$223.6 million. Finally, the proposal would eliminate property taxes on most motor vehicles, which would cost towns about \$633 million in additional revenue. To plug the approximately \$850 million worth of budget holes that would be created by these cuts, cities and towns would likely have to raise property taxes. Therefore, the budget may impose a hidden effective tax increase.

2) The Governor's proposed budget would continue the practice of maintaining education aid levels for towns that have a decreasing need for funding.

The formula for the ECS grant is intended to allocate aid to towns in a manner that reflects both a town's educational need and its ability to pay. However, the proposed budget maintains the practice of not reducing ECS aid for towns that have seen their need decline due to increasing wealth or falling school enrollment. Because the total amount of ECS money distributed to towns is still much less than is dictated by the state's statutory funding formula, every additional dollar Connecticut spends on a district that has seen its need *decrease* is a dollar not spent on a district that has seen its need *increase* and that still receives far less than full funding. Maintaining the same level of state education aid to towns that have increasing wealth or a decreasing school-age population means that towns with decreasing wealth or an increasing school-age population would not receive their fair slice of the ECS pie.

3) Reallocating the State-owned PILOT grant dollar-for-dollar into the ECS grant would distort education funding in ways that do not reflect town needs or capacity.

Because the Governor's proposed budget repurposes State-owned PILOT funds for education, it would exacerbate inequalities in the allocation of education funds. The proposal would cause each town's ECS increase to reflect the value of the state-owned property in a town, rather than the capacity of the town to pay for education or what it

should be allocated through the ECS formula. The examples below illustrate how two pairs of towns that are demographically similar but that differ in the amount of state-owned property within their borders could see dramatically different ECS increases.

Town	2013 ECS Grant (\$)	2013 State-owned PILOT (\$)	FY 2014 Increase in "Formula Aid" (\$)	Proposed 2014 ECS Grant (\$)	Total 2014 ECS Increase (\$)	% 2014 ECS Increase
Cheshire	9,376,495.00	2,072,234.70	24,563.35	11,473,293.05	2,096,798.05	22%
Guilford	3,058,981.00	19,304.27	13,141.07	3,091,426.34	32,445.34	1%
Hartford	192,783,001.00	13,570,279.31	4,459,965.54	210,813,245.85	18,030,244.85	9%
Bridgeport	168,599,571.00	2,834,256.53	4,288,818.16	175,722,645.69	7,123,074.69	4%

These examples illustrate how reallocating State-owned PILOT to ECS would distort the ECS formula so as to leave towns without high value state-owned property underfunded relative to their demographically similar peers.

Education Committee Alternative: On March 28th, 2013, the Education Committee voted in favor of an alternative ECS funding system (H.B. 6367) that would not reallocate State-owned PILOT funds to ECS. This would prevent the distortion of ECS described here.

4) Conditions placed on the increased funding for Alliance Districts create the possibility that underfunded low-income school districts will not receive much-needed ECS increases.

About 80% of the proposed new ECS formula aid is directed at Alliance Districts – the 30 school districts which perform most poorly on Connecticut’s standardized tests. All ECS increases to these Alliance Districts are conditional on the compliance of these districts with the terms of the Governor’s education reforms. So in spite of ostensibly large proposed ECS increases, these districts may not actually receive any increase if school administrators fail to meet these requirements. Connecticut’s 30 Alliance Districts are also 30 of its poorest towns. If the state were actually to withhold ECS increases to these districts, they would face serious constraints, and many of Connecticut’s poorest children would lose out on much needed increases in education funding.

5) Less than one-third of the proposed ECS increase for Alliance Districts is truly new state money – the remainder is reallocated municipal aid that the towns which house Alliance Districts already had been receiving.

Net Aid Increase for Alliance Districts	
ECS Increase	\$139 million
Other Aid Changes	- \$99 million
Net Aid Increase	\$40 million

Large proposed ECS increases for Alliance Districts are intended to help them pay for the costs of state-mandated education reforms. However, the Governor’s budget would make so many other municipal aid cuts that the *net* growth in municipal aid for the poor towns that house Alliance Districts would be far smaller than their accompanying ECS increase. Only 29% of the Governor’s proposed ECS increase for Alliance Districts can be attributed to new state money, as opposed to money effectively reallocated from other revenues these towns already receive. In fact, eight towns that house Alliance Districts – Bloomfield, Bristol, East Windsor, Killingly, Putnam, Winchester, Windsor, and Windsor Locks – would receive no net state aid increase at all. Moreover, since ECS aid to Alliance Districts is conditional, and much of it would have to be spent on state-mandated reforms, the

Governor's proposed budget could require more spending by these towns than is being provided to them by the state.

Education Committee Alternative. The Education Committee's proposal would restore aid for public school transportation and use a different ECS funding formula that would provide different formula aid increases than those proposed in the Governor's budget. As mentioned earlier, it would also not transfer PILOT funds to ECS. However, since the Committee proposal does specify the actual ECS grant each district would receive, it is difficult to determine how much of the ECS increases for Alliance Districts would be funded using cuts to other forms of state aid to these towns.

6) By both creating and maintaining loopholes in the Minimum Budget Requirement (MBR), the Governor's budget proposal obscures transparency in the use of State education aid.

Each town must generally spend its entire ECS grant on education. However, while the Governor's proposed budget reallocates the State-owned PILOT grant into ECS, it also would grant towns "the discretion to use the \$73.6 million reallocated from PILOT to ECS for tax relief." This means that funds labeled as being for education can, in fact, be used for other purposes, effectively "hiding" non-education money within an education grant.

Further, each town has a Minimum Budget Requirement which dictates the total minimum amount of money it must budget for education. The Governor's proposed budget sets an MBR that requires each town to *budget* increasing amounts of money for education each successive year; however, this is not equivalent to requiring them to *spend* this money on education. This is because (with the exception of Alliance Districts, for whom the balance of conditional ECS funds remaining for the board of education at the end of the fiscal year is carried forward to the next fiscal year) all unexpended monies that a town budgets for education typically revert back to the town at the end of the fiscal year, to be spent at the town's discretion. Hence, towns could simply over-budget for education and then use the unspent money to offset the cost of other municipal services, rendering it difficult to know exactly how much of a town's education grant is actually spent on education. While this loophole existed in previous years, the Governor's proposed budget fails to close it.

Taken together, these loopholes mean that while the Governor's proposed budget includes nominally large ECS increases, it is unclear how much education spending would actually increase over the biennium as a result of these changes.

A more adequate, equitable, and transparent municipal aid budget should:

- 1) Pay for education reform with commonsense revenue measures, such as closing corporate tax loopholes, rather than with diverted aid towns were already receiving, that could lead to property tax increases on low-income residents, municipal service cuts, or cuts to other education spending.
- 2) Allocate ECS money as mandated by the formula, and end the practice of not reducing the aid allocated to towns whose wealth has increased or whose enrollment has fallen, so that towns who have seen their wealth decline (or enrollment increase) can receive their fair share of the ECS pie.
- 3) Refrain from distorting the ECS formula by shifting State-owned PILOT funds into ECS, to avoid further obscuring the allocation of education aid, and to maintain transparency in the use of public funds.
- 4) Require towns to spend all money budgeted for education on education to maintain transparency in the use of public funds.