

PSBA Special Report:

The Need for a New Basic Education Funding Formula

Founded in 1895, PSBA is the voice for public education and the work of strong local school boards in the halls of the Capitol. We are committed to supporting an effective child-centered public education that is adequately and equitably funded. Pennsylvania public schools are the driving force behind our state's economy.

In October, 2015, school directors voting at PSBA's Delegate Assembly selected four legislative priorities for the 2015-16 session of the General Assembly, including the need for a new funding formula for basic education:

PSBA urges the General Assembly to increase state basic education funding for public school districts with distribution in a manner that is adequate, consistent, fair and equitable and that provides districts with the greatest flexibility to use their resources. Pennsylvania must develop and maintain a system of public school financing that emphasizes a sharing of costs between the commonwealth and local school districts, recognizing that the state must provide the majority of funding for public education.

This paper provides an in-depth discussion on the priority issue of equitable and adequate basic education funding for public schools.

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Executive Summary: Pennsylvania Needs a Statewide Funding Formula

The debate over basic education funding for public schools has been ongoing for several decades. Although the state has increased the appropriations to school districts through the basic education subsidy each year, the percentage of state dollars when compared to actual instructional expenditures has declined substantially. The problem compounds as number of state and federal mandates for public schools steadily increases each year.

State government and local school districts have long been partners in funding for the public schools of the commonwealth. However, it currently is fair to say that this partnership is less than equal. Over a span of several decades, the state's contribution as a percentage of basic instructional expenses has declined from over 50% during the mid 1970's, to less than 35% today.

As the state's share of basic education funding has decreased, school districts have been forced to rely more heavily on local property taxes to operate schools. This, in turn, widens the gap between poor and affluent school districts.

Contributing to the problem is the fact that, in recent years, Pennsylvania has not used an annually and consistently applied public school funding formula to distribute basic education funds to all its school districts. Instead, the General Assembly has determined how to distribute any new funding to school districts each year as part of the state budget process. Districts are provided a base amount, founded on their previous basic education subsidy, and possible additional funding may be provided through a patchwork of supplemental components and percentage increases. Traditionally, these supplements have focused on assisting school districts with growing populations, those with high percentages of students living in poverty and additional aid for small, poor districts. Unfortunately, these supplements and the amount of funding they provide easily, and arbitrarily, are changed from year to year.

Currently, Pennsylvania is one of only three states that does not use a statewide education funding formula.

A recent analysis by the Associated Press comparing Pennsylvania public school spending in 2010-11 with 2014-15 showed that "this school year, districts in the top half of average resident income are budgeted to spend nearly \$1,800 more per student than the poorest half of districts. That's a 140% increase in the size of the gap, or about \$1,060 more per student, since the 2010-11 school year. The gap is even wider when considering districts on the farther ends of the income spectrum. Districts in the top 20% of average resident income are budgeted to spend slightly more than \$4,000 more per student this year than the poorest 20% of districts. That's a 130% increase, or about \$2,300 more per student, in the past four years."

The lack of a reliable funding formula in Pennsylvania has led the state's property owners down a road of enduring tax increases. A set and predictable basic education funding formula, which distributes dollars on the basis of need, is part of the solution to this dilemma.

In June, 2014, legislation was signed into law to establish a bipartisan commission to make recommendations for a new funding formula for basic education. Under Act 51 of 2014, (introduced as House Bill 1738 by Rep. Bernie O'Neill, R-Bucks), the commission was created and charged with examining the funding problem and making recommendations for a new funding plan. The commission would study and identify factors that could be used to determine the distribution of basic education funding among school districts, including: market value/personal income aid ratio, equalized millage rate, geographic price differences, enrollment levels, local support and other areas.

With the passage of Act 51, Pennsylvania has its best chance for the creation of a new funding formula. The Basic Education Funding Commission began its work in the summer of 2014, holding numerous hearings around the state, gathering testimony and information from a wide-range of advocates and experts in the education field. These hearings continued throughout the winter and early spring of 2015. Recommendations are expected to be made by June, so that legislation may be drafted for approval by the General Assembly prior to the passage of the 2015-16 state budget.

In conjunction with the work of the commission, PSBA has worked with other basic education stakeholders throughout 2014 and early 2015 to more closely explore options for a new funding formula. Those efforts include the creation of regional "Circuit Riders" to work with and support school system leaders across the state to build capacity and advocate for an adequate and equitable school funding system. The project is a collaborative effort of PSBA and the PA Association of School Business Officials (PASBO), PA Association of School Administrators (PASA), PA Association of Rural and Small Schools (PARSS) and PA Association of Intermediate Units (PAIU).

Two approaches have emerged that PSBA believes are worthy of further consideration. Section 4 of this paper provides more detail on the two proposals.

The first approach

This includes the recommendations for a new funding formula developed by PSBA and presented to the Basic Education Funding Commission in December, 2014.

The formula contains factors that address a multitude of local issues while not overburdening the formula with many factors that complicate and cloud the goals of fair and predictable funding. Aid ratio would not be used as a measure of district wealth because the groups believe the current aid ratio pollutes the formula as it is based on market value and personal income, both of which contain flaws that produce opposing results in many cases. Additionally, the education groups propose that any new formula would only be applicable to new funding (dollars increased over the current 2014-15 fiscal year). Under this approach, the formula factors to be included are:

- *Average Adjusted Daily Membership*: Every formula should start off with the basic element of counting students. The count requires the state to collaborate with school districts to manage enrollment information on a yearly average and combines this yearly average with a five-year weighted number to obtain a final count.

- *Student Weights:* Weights would be established for Poverty based on Census Bureau figures, as well as a separate weight for English Language Learners using district data reported in PIMS.
- *District Weights:* There would be three adjustments here:
 - *Sparsity Size Adjustment*, based off of the special education formula, which recognizes districts where student populations are thinly scattered, mostly affecting those with large geographic boundaries.
 - *Local Tax Effort*, in which the total property tax is divided by the total assessed value to provide a household payment average. The household payment average would then be divided by the median household income.
 - *Local Cost Adjustment*, which calls for the Independent Fiscal Office to release a measurement of education approach costs that are beyond the control of a school district, in essence a cost-of-living calculation.

The second approach

This approach encompasses the recommendations of the Campaign for Fair Education Funding that were released on Feb. 26, 2015. The campaign includes 40 organizations, including PSBA and other education, civic and religious organizations, which joined together in October, 2014 to create a proposed formula. The elements of the new formula, which would be revisited every five years, include:

- *Statewide Base Cost:* A base cost calculation is derived from a five-year weighted average of Average Daily Membership (ADM), giving greatest value to the most recent data to count students, and the statewide average of Actual Instructional Expenses (AIE) to determine the per pupil base cost. This base cost is then adjusted to reflect the current federal share of education funding for Pennsylvania, which is approximately 4%.
- *Student-Specific Weights (Poverty, ELL, Homeless and Foster Care):* The base amount is adjusted for poverty among students in each district. Specific weights are added for students between 101-185% of the poverty level and an additional weight is added for children under 100% of the poverty level. A separate weight is added for each English Language Learner (ELL) student; a different weight is used if a school district has fewer than 40 ELL students. An additional weight is added for homeless students and for children in foster care to address the additional barriers these children face.
- *District-Specific Weights (Sparsity, Tax Effort and Local Wealth):* Students in districts that are both sparsely populated and large in terms of square miles will receive an additional weight according to a formula very similar to that enacted for Special Education Funding in Act 126 of 2013-14. The amount is also adjusted for local tax effort, and the campaign recommends that a new, more comprehensive measure of local wealth be developed to replace the current market value/personal income aid ratio now used in BEF allocations.

- *Charter Schools:* Districts paying tuition to charter schools are weighted to offset mandated costs associated with operating parallel systems of public schools. The weight is driven by the total number of charter students in a district, and would be higher for newly enrolled charter students in recognition that it takes time to reduce stranded costs.
- *Hold Harmless:* Under the plan, no district receives less in state BEF funds than received in 2014-15, increased by the Act 1 index. As the formula is phased in over time, any school district already at the adequacy target would receive a minimum annual increase in state BEF equal to the Act 1 Index. Once all districts reach the state share of the adequacy target, annual adjustments will be made to BEF based on an up-to-date student count.

PSBA believes the time is now for the General Assembly to reinvest its interest in the support of public schools. The association calls on legislators to increase state basic education funding with distribution in a manner that is adequate, consistent, fair and equitable and that provides districts with the greatest flexibility to use their resources.

Section 1

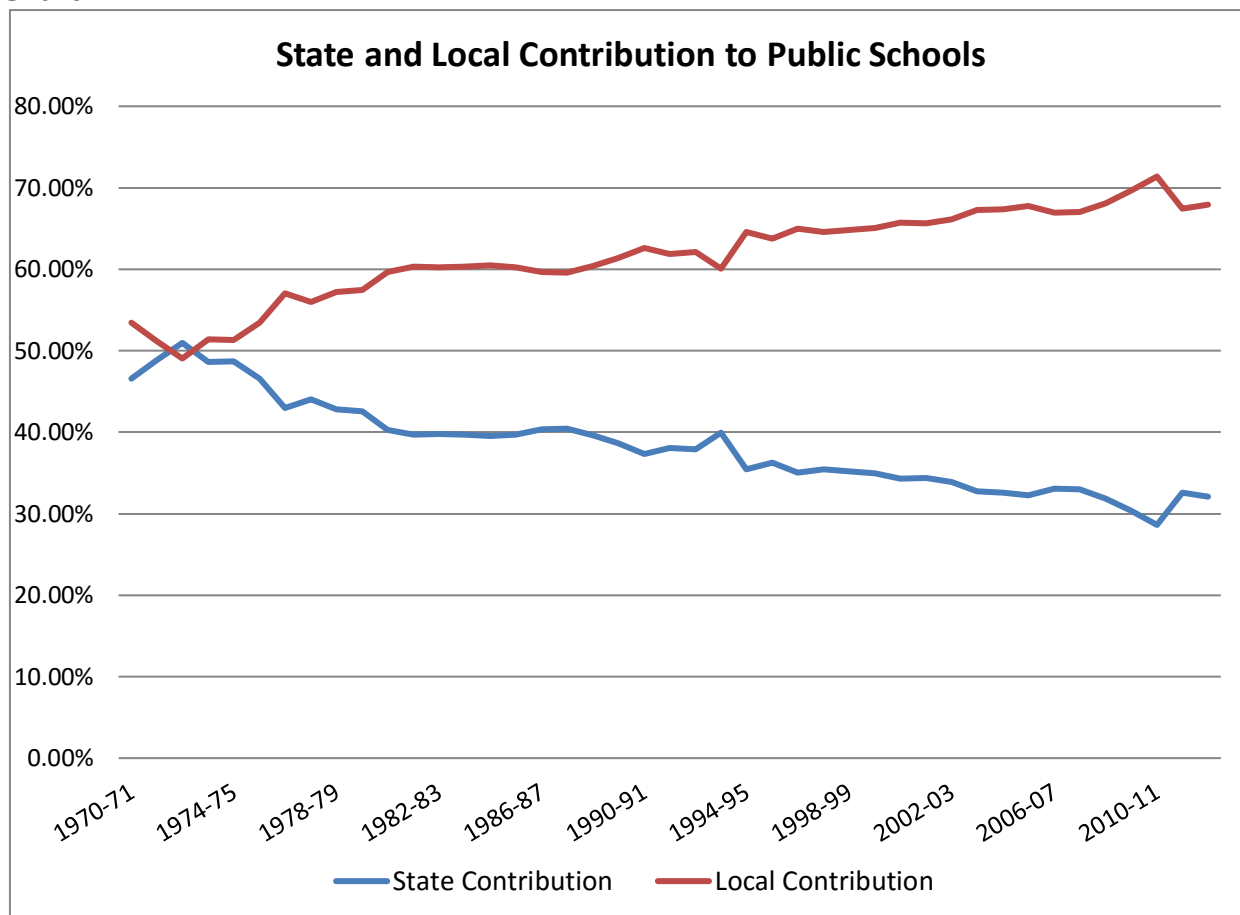
History of Pennsylvania's Subsidy Funding for Public Schools

Our system of public education is based on the concept of shared funding. The shared funding system adds to the complexity of financing school district operations in Pennsylvania. The initial funding distribution in 1794 as provided under a plan adopted by the House of Representatives called for a 20% state share, and over time the sharing grew to an equal partnership. The equal sharing provision occurred in 1972, when the state provided for 50% of actual instructional expenditures.

However, since 1972 the state's share of funding of actual instructional expenditures has declined steadily to 28.62% in the 2010-11 school year and it is less than 35% today. This means that the majority of funding for school districts is coming from the local share. On average, other states contribute 44% of total education funding; Pennsylvania ranks 47th among the 50 states in the amount of state subsidies allocated to support elementary and secondary education, and ranks 8th in reliance on local taxes.

Chart 1 shows a history of the percentages of state and local contributions for education in Pennsylvania. The Appendix on page X contains a table showing the specific percentages for each fiscal year.

Chart 1



The Pennsylvania constitution requires the General Assembly to provide for a “thorough and efficient” system of public education. In an effort to meet its constitutional mandate, the Legislature provides for a number of separate appropriations in the annual state budget. To name a few, these appropriations include basic instructional subsidy, school construction, special education, vocational education and pupil transportation.

The basic instructional subsidy is the most important state subsidy and has had a number of different labels over the years. More than \$5.26 billion for 2014-15, it is the largest single line item appropriation in the entire state budget. The subsidy reimburses school districts for a portion of actual instructional costs. Because this subsidy is so large and serves such a critical role in public school funding, the General Assembly frequently revises the method for distributing these funds.

The state has provided for a number of different funding mechanisms, from formulas to targeted funding. The formulas all provide for the allocation of state aid among local education agencies. **While the specifics of formulas continue to vary to meet the desires of the governor and the General Assembly several elements are frequently used in the formulas.**

- **Aid ratio** - A measure of the relative wealth of a school district using real property and personal income per student, compared to all other districts. The use of the ratio is intended to equalize various subsidies or portions of subsidies to which the ratio would be applied. There are, in fact, three separate ratios.

The primary ratio is officially known as the market value/personal income aid ratio (MV-PIAR), which is most often referred to as the aid ratio. The MV-PIAR is comprised of two separate ratios, the market value aid ratio and the personal income aid ratio.

The MV-PIAR is the relationship of district estimated market value and district total personal income as a proportion of state market value and state total personal income in proportion to the number of students in the district/state. The ratio calculations are done as an inverse calculation so the poorer districts have higher ratio values. The MV-PIAR is weighted 60% on property and 40% on income. (Some state subsidies, such as those for pupil transportation, school construction and vocational education, use the market value aid ratio only.)

- **Average daily membership and weighted average daily membership** - Enrollment calculations are a key element in the calculation of aid ratios and are important as stand-alone calculations. The average daily membership (ADM) is the calculation of the district's enrolled students (this differs from average daily attendance.) The number of actual students enrolled in the district is reported periodically throughout the year. This number then is averaged for the entire year. The calculation takes into account actions such as the transfer of students as well as new enrollments and dropouts. In some instances, the ADM is used when the subsidy is based on numbers of students. In other cases like the MV-PIAR, the simple count does not meet the complexity of the situation. Situations like the MV-PIAR use the weighted average daily membership (WADM). Weighting uses the ADM calculation by grade level and is multiplied by the following factors: Half-day kindergarten - 0.5; Full-day kindergarten and elementary - 1.0; and Secondary - 1.36

- **Actual instructional expense** - As its name implies, the actual instructional expense (AIE) is the total expenditure by the district for costs associated with the daily education activities of public schools. AIE includes expenditures such as teacher salaries and benefits, textbooks and educational supplies. AIE does not include building maintenance nor does it include debt service. Oftentimes, the actual instructional costs are expressed on a weighted student basis or AIE/WADM.
- **Equalized mills** - This is an expression of a school district's local tax effort as a millage equivalent on estimated market value. In this calculation, the local tax effort includes all non-real property tax revenues as part of the local tax effort. Market value is determined by the annual calculations prepared by the State Tax Equalization Board. For example, if a district collected \$1,500,000 in property tax, \$800,000 in earned income tax, \$30,000 of per capita taxes and \$22,000 of real estate transfer taxes, the local effort equals \$2,352,000. If the same district has a market value estimated to be \$92,500,500, by dividing the local effort by market value and multiplying by 1,000, the equalized mills equals 25.42. Equalized mills have been used to determine subsidy for excess tax effort and for cross-county comparisons.

ESBE

For many years, the basic instructional subsidy distribution was known as the **Equalized Subsidy for Basic Education (ESBE)**, and was used through the 1992-93 fiscal year. ESBE generally reimbursed a district based on its weighted pupil counts, the aid ratio and a fixed amount, known as the factor for educational expense that the Legislature adjusted from time to time. ESBE also contained several supplements that targeted groups of school districts, such as those with high incidence of pupils living in poverty or with above-average local tax efforts. Another add-on to the ESBE formula assisted small districts.

An **equity supplement** was used in conjunction with the ESBE formula to provide additional funding to poorer districts or districts with high tax effort. For this supplement, poorer districts were defined as those having an aid ratio of .5000 or greater. Tax effort was based on equalized mills and was typically based on 19.5 or more equalized mills. Many times the supplement was tied to per-pupil expenditures of less than \$6,000 per ADM. Payments were based on the ADMs and aid ratios of the eligible districts.

A **poverty supplement** provided additional funds were paid to school districts that did not qualify for the equity supplement. Those districts that received this payment typically had more than 35% of their average daily membership from families receiving Aid to Families with Dependent Children. This payment typically was a fixed amount such as \$100 for each eligible student.

Foundation funding

The funding structure was extensively altered for the 1994-95 school year when the General Assembly initiated a foundation funding system. The ESBE formula was eliminated and the dollars that ESBE provided in 1992-93 were frozen at that level. The foundation funding then incorporated the 1992-93 dollars as part of the base to implement the foundation formula. The implementation of this foundation formula was scheduled to take three years beginning with

1993-94 but only lasted for two years, through the 1994-95 school year. Beginning with the 1995-96 school year, state funding for basic education has been calculated using a variety of methods, including targeted funding for special purposes such as technology and adjustments for excessive student growth. The subsidy in some districts has been a minimum guarantee as low as 1%. Also included have been attempts to recognize improvement in statewide testing scores. The governor's proposed budget for 2005-06 attempted a return to foundation funding. However, the Legislature modified the distribution formula and continued the prior pattern of adjusting to fit needs perceived by the Legislature.

In 2008, a **state costing-out study** was undertaken to develop a fair, equitable, and adequate formula to provide the funding necessary for all students to receive a quality education. The study determined there was a \$4 billion shortfall in funding for education. A funding formula put in place to address the shortfall, and was used for the first time in 2008-09. At that time, the legislature also approved a six-year plan to fully-fund the new education formula with an additional \$2.6 billion.

In 2009-10 and 2010-11, the state used State Fiscal Stabilization Funds available under the federal American Recovery and Reinvestment Act (ARRA) to provide basic education subsidy increases to school districts. In doing so, the state also supplanted a portion of state dollars with the stimulus funds. In 2009, the Pennsylvania Department of Education issued [guidelines related to stimulus funding](#). The department warned the money was not to be used for recurring charges, except those from the basic education subsidy formula. Schools were told to consider that stimulus money as state funding and use it for recurring programs. Schools were told they would be held harmless for expending those funds. However, the appropriation State Fiscal Stabilization Funds expired after two years.

Under the 2011-12 budget, with those AARA funds gone, the state used \$387 million in federal Education Jobs Fund monies to backfill the loss. The Basic Education Subsidy was reset to the 2008-09 level, the last year before federal stimulus funds were available. A new formula was used so that each school district received an amount equal to its 2010-11 subsidy funding allocation from the State and Education Jobs Fund appropriations, and various supplements were created for qualifying districts.

The 2011-12 state budget abandoned that funding formula established by the General Assembly and included cuts for education. Debate has ensued relating to the loss of federal stimulus money versus state money for basic education. However, the issue at hand is that the current funding process is unpredictable and unreliable. All children and all communities should receive adequate support to provide a great education for every student.

At this time, there is no clearly defined formula that can be used to project future state subsidies. This is why Act 51 was adopted in 2014, to form a Special Committee to study and make recommendations for a school funding formula. The committee report and recommendations will be released in the spring of 2015, and legislation to authorize a new funding plan will be drafted for consideration by the General Assembly.

Section 2

Policy Discussion: Why is Change Needed?

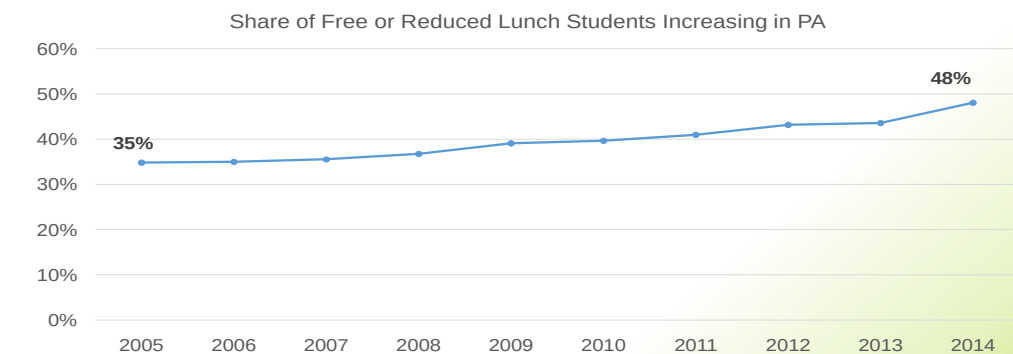
Public education has a valuable place in our nation and in Pennsylvania. Public schools are mandated by federal and state law to meet the educational needs of *all* children; they do not discriminate, or pick and choose which children are deserving of an education.

Within Pennsylvania, there are school districts that are doing exceedingly well and others that are struggling. We must provide the advisement and fiscal resources to those that are struggling because we can improve. Certainly there is much more work to be done, and an increased state commitment to public schools will lead to increased achievement. Money does matter. Money pays for a quality curriculum and the books and materials to support it; high quality teachers and reasonable class sizes, guidance counselors who help students prepare for their futures by understanding their options and selecting the right courses; supports to meet the needs of certain groups of students, including those with disabilities, those who are learning English, those who are gifted, and those impacted by poverty, professional development to improve the skills of current teachers and administrators, and modern educational technology to help students learn and prepare for college and the 21st century workplace.

Pennsylvania has an increasing number of children who live in poverty. As **Chart 2** shows, the share of students qualifying for free or reduced lunch continues rise, with nearly 50% of children eligible. The cost of educating a low-income child is much higher than that of a higher-income child as more time and resources are needed to improve academic achievement gaps. These costs jump even higher when a low-income child attends a school in a community of poverty, where classmates and the neighborhood is predominately low-income. Schools in these communities need additional financial resources to improve instruction, facilities, and other academic resources.

Chart 2

Diverse students, diverse needs



Source: PDE

What are the problems with the current funding system?

A look at national and local studies provides an overview of the problem: 1.) A 2012 report by the Center for American Progress found that Pennsylvania's state funding formula is reinforcing inequity; 2.) A 2014 report by the American Institute for Research noted that Pennsylvania has one of the least equitable education funding systems; and 3.) According to the 2014 Education Law Center National Report Card, Pennsylvania has a regressive funding system.

PSBA, along with PASBO and PASA, travelled around the state in 2014 listening to local school officials as they speak about school funding problems directly affecting their districts. These local testimonies point to significant problems. Common themes that may possibly be addressed by changing the funding formula include:

- *Increased enrollment:* The enrollment factor does not account for significant swings in enrollment due to unpredictable circumstances. Since 1993, 336 school districts have experienced a decrease, while 162 districts have experienced an increase.
- *Increased enrollment ramifications:* Increases in enrollment without adequate state resources, along with the constraints on the ability to raise local revenue due to the implications of Act 1 of 2006, have lead to an overall decrease in funding for certain districts.
- *Act 1 budget process ramifications:* School districts' budget processes are currently under way and will be finalized before a new state budget is agreed upon in June. Because of the lack of a transparent and consistent formula, districts cannot possibly predict with any certainty what funding they will have available in June of next year.
- *Enrollment of transient students:* Several school districts have seen over 30% enrollment turnover in one year. These students usually come with increased remediation costs or other needs due to social economic changes.
- *Hold harmless implications:* Arguments to change funding because of enrollment decreases only work in a situation where funding has been adequate and infrastructure has not been developed. In today's and tomorrow's funding environment, we simply cannot get rid of the hold harmless guarantee, as it will result in defunding a significant portion of the schools in Pennsylvania. Since 2002-03, over 70% of school districts across the commonwealth have experienced a decrease in student population, and on average, statewide student population has decreased by nearly 6% during this time. As a result, 70% of school districts are generally benefitting from hold harmless.
- *Charter school funding:* While the original intent to privatize public education and create laboratories for innovation was purposeful, the results of this experiment have been detrimental to student performance in many circumstances. The current formula that funds charter schools is bankrupting many districts because it is not fair or equitable and needs to be addressed. For example, the East Stroudsburg Area School District receives \$1,731.41 per student from the state and pays \$10,528 per student to charter schools.

- *Tax exemption:* Many districts have large parcels of land that are exempt from taxation, leading to the inability to finance the public school system at the local level.
- *Aid ratio issues:* This ratio consists of two factors combined to assess the relative wealth or poverty of a school district - total market value of property (60%) and total personal income (40%). In some districts, the real property value could be high (vacation, business or lodging areas of the state) while the district's constituents' personal income is low. This leads to a low aid ratio indicating the district is wealthy when that is not the case. Further, due to the inadequate property assessment system in Pennsylvania, it is sometimes impossible to figure out equalized millage even though we have a tax equalization office. The aid ratio also does not function because it has a floor that for some lower aid ratio districts provides funding that would not be realized if it was set at the actual number.
- *Shifting of public education expense:* The proportion of state funding to local funding has been shifting where now 58% is locally funded and 35% is state funded.
- *Property tax swings:* In many areas of the state, businesses within a district have suffered, leading to large swings in local property tax receipts. The social repercussions of these changes take effect over a period of years and cause shortages over the short term for school districts as a factor like the aid ratio attempts to catch-up.

School district expenses continue to climb

School districts across the state have been fiscally responsible in almost every possible way by reducing personnel and administration and being extremely creative through the sharing of services, reduction of transportation routes, increased class sizes, reduction of support staff and many other creative methods. However, the expense side of the budget in many cases is set by mandated costs that require school districts to do more without proportionally increased funding. Some of the major cost drivers include:

Pension: The 2015-16 rate will be the highest rate in PSERS history - 25.84%, a 442% increase since 2008. If this rate continues to rise many of the school districts we heard from over the past months will be bankrupt in two to three years.

Special education: While funding has remained relatively flat, the cost of special education has far outpaced inflation. Districts we spoke with experienced, on average, an 8% increase over the past five years.

Healthcare: Like every business in the state, school districts face a continual rise in the cost of healthcare that is outpacing inflation.

Charter special education: On average, based on 2012-13 data from PDE, school districts spend approximately \$13,000 per student on special education instructional costs. Under the old charter school special education formula, charter schools are spending, on average, \$9,300 per student on special education instructional costs (despite the fact that they are receiving, on average, \$19,000 for every special education student). Where is the excess money going that is not being used for special education services?

Charter school tuition: The cost of charter schools has increased from \$434 million in 2006-07 to \$1.145 billion in 2011-12. The charter tuition calculation is weighted in favor of paying more for charter tuition than is included in actual instructional expense at a traditional public school.

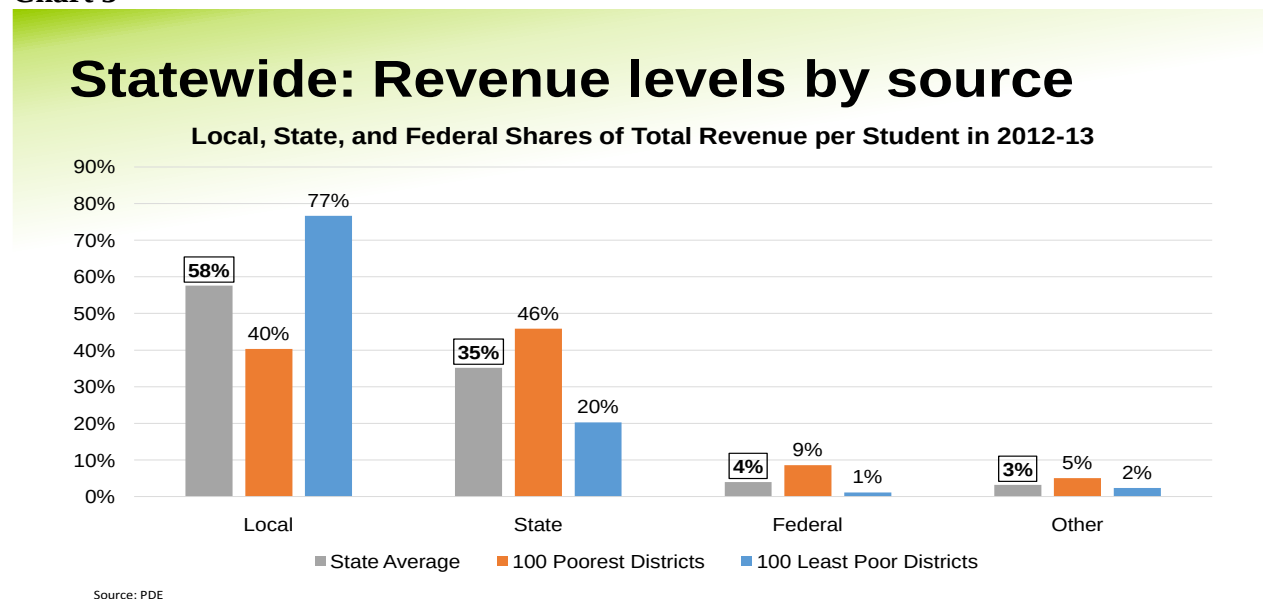
Mandates: Public schools also have built in costs that cannot be adjusted due to state and federal requirements. The list of mandates is long, and includes costs related to personnel, professional development, instructional, testing and remediation, gifted education, vocational education costs, alternative education and court-ordered student placements, food service, student transportation, charter school transportation, nonpublic school transportation, facilities maintenance, utilities, and more.

A closer look at the impact of poverty

The decline in state aid has resulted in school districts being forced to counter balance the lack of support with increased local tax levels, most of which consists of the property tax. Asking impoverished school districts whose tax bases have all but disappeared to continually generate greater resources at the local level only serves to expand the inequities of the current system. The current system of funding public schools creates unequal opportunities and inequitable tax loads. The existing funding system places untenable burdens on local taxpayers, and the gaps between the wealthy and poor districts are growing.

Chart 3 shows the breakdown of federal, state and local revenue per student in 2012-13, and compares the poorest and least poor school districts with the state average. There are major differences in revenue sources by poverty level. The least poor are overwhelmingly dependent on local revenue, making up over 3/4 of total revenue per student, while receiving about 20% of their revenue from the state. Meanwhile, the poorest school districts receive only 40% of their revenue from local sources and nearly half, 46%, comes from the state.

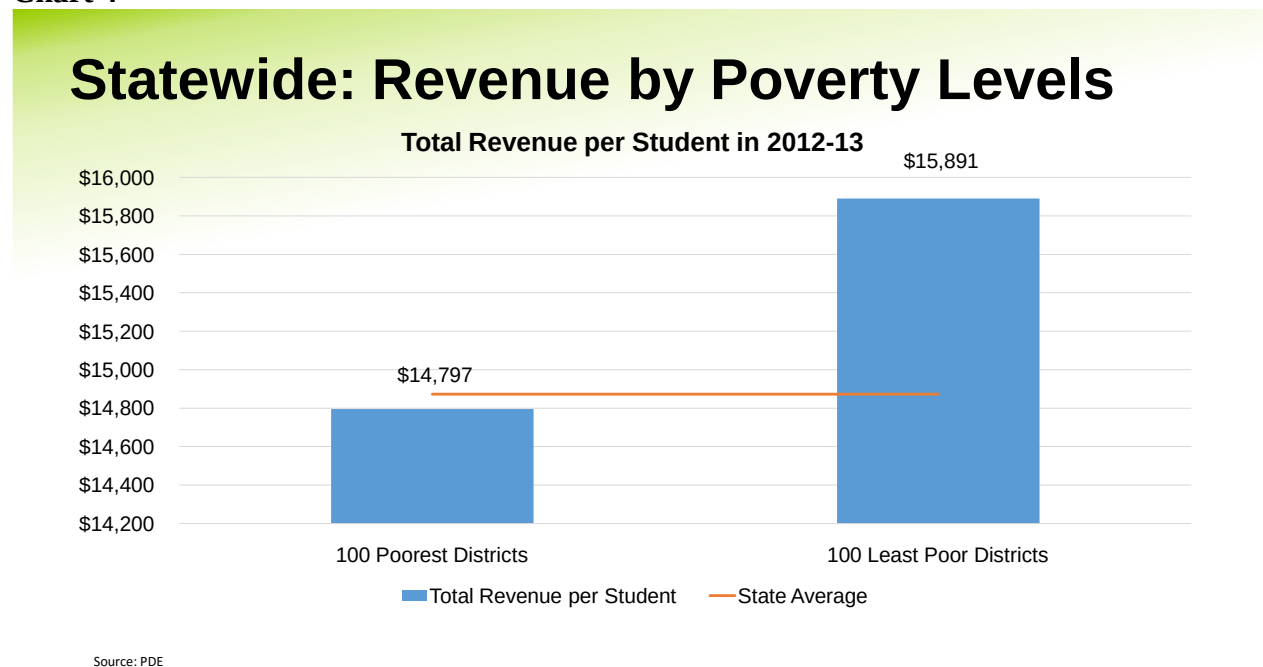
Chart 3



Source: The Campaign for Fair Education Funding

Chart 4 compares the revenue per student for the school districts with the highest and lowest levels of poverty, showing that those districts with the highest need received the lowest revenue. The chart compares the school districts with the largest and smallest shares of children who qualify for free or reduced lunch (the 100 poorest school districts with the 100 least poor school districts). The least poor districts received \$15,891 per student, while the poorest districts with the highest need received \$14,797 -- more than \$1,000 less in revenue per student than the least poor. The data also shows that the state average is far closer to the revenue level of the poorest school districts than the least poor.

Chart 4



Source: The Campaign for Fair Education Funding

Section 3

The Recommendations

Throughout 2014 and into early 2015, PSBA more closely explored options for a new funding formula. Two approaches have emerged that PSBA believes are worthy of further consideration.

Approach 1: Recommendations of PSBA

In December, 2014, PSBA made recommendations for a new school funding formula to the Basic Education Funding Commission. In the testimony, PSBA described the concerns most frequently voiced by school officials across the state regarding: student enrollment issues; budget timelines; hold harmless implications; charter school funding; the ongoing decline of the state's contribution in funding public education; local taxation issues; and concerns with the use of the aid ratio in the funding formula.

The testimony also emphasized that while school districts across the state have taken numerous steps to be fiscally responsible in tough budget times, expenses necessary to comply with a growing volume of mandates continue to rise and require school districts to do more without proportionally increased funding. Among the biggest cost drivers are those for pension, healthcare, special education, and charter school payments for regular and special education. Other mandated costs affecting district budgets include those related to personnel, professional development, instruction, testing and remediation, gifted education, vocational education, alternative education and court-ordered student placements, food service, student transportation, charter school transportation, nonpublic school transportation, facilities maintenance, utilities, and more.

The goal of any school funding formula is to provide fair, predictable and adequate funding to all school districts. The formula suggested by PSBA contains factors that address a multitude of local issues while not overburdening the formula with many factors that complicate and cloud the goals of fair and predictable funding. Aid ratio would not be used as a measure of district wealth because the groups believe the current aid ratio pollutes the formula as it is based on market value and personal income, both of which contain flaws that produce opposing results in many cases. Additionally, the education groups propose that any new formula would only be applicable to new funding (dollars increased over the current 2014-15 fiscal year).

The factors that are recommended by PSBA to be included are:

- **Average Adjusted Daily Membership:**
Every formula should start off with the basic element of counting students. The count requires the state to collaborate with school districts to manage enrollment information on a yearly average and combines this yearly average with a five-year weighted number to obtain a final count. This count would be averaged over a period of five weighted years to provide stability by preventing swings in population growth or decline that would otherwise cause this factor to fluctuate significantly. The current fiscal year would be weighted 30%, while the subsequent past years would be rated 25%, 20%, 15% and 10% respectively.

- **Student Weights:**

Poverty based on Census Bureau figures: The Census Bureau uses a set of money income thresholds that vary by family size and composition to determine who is in poverty. If a family's total income is less than the family's threshold, then that family and every individual in it is considered in poverty. Base the weight of the rate off of the average five year rate. The official poverty thresholds do not vary geographically, but are updated for inflation using the Consumer Price Index and would keep up with current trends between census studies.

English Language Learners: Use district data reported in PIMS.

- **District Weights:**

Sparsity Size Adjustment: Based off of the special education formula, this adjustment recognizes districts where student populations are thinly scattered, mostly affecting those with large geographic boundaries.

Local Tax Effort: The total property tax divided by the total assessed value would provide a household payment average. The household payment average would then be divided by the median household income.

Local Cost Adjustment: The groups encourage the Independent Fiscal Office to release a measurement of education approach costs that are beyond the control of a school district, in essence a cost-of-living calculation. There are several states that utilize various formulas that measure the cost of a basket of goods and services and would allow for comparison of costs across regions. Such a factor would be simple, relatively inexpensive to produce and unbiased. States that have this type of calculation include Maryland, Alaska and Texas.

Approach 2: Recommendations of the PSBA-supported Campaign for Fair Education Funding

On Feb. 26, 2015, the Campaign for Fair Education Funding released a series of funding recommendations. The campaign includes 40 organizations, including PSBA, PASA, PASBO, PARSS and other education, civic and religious organizations, which joined together in October, 2014 to create a proposed formula.

New formula for adequate and equitable basic education funding

The elements of this formula, which would be revisited every five years, are as follows:

- **Statewide Base Cost:** The first step was to determine a base amount of educational dollars that reflects the costs associated with educating each student. The base cost calculation is derived from a five-year weighted average of Average Daily Membership (ADM), giving greatest value to the most recent data to count students, and the statewide average of Actual Instructional Expenses (AIE) to determine the per pupil base cost. This base cost is then adjusted to reflect the current federal share of education funding for

Pennsylvania, which is approximately four percent. The group's calculations produced a base cost of \$7,266.

- **Student-Specific Weights – Poverty, ELL, Homeless and Foster Care:** The base amount is adjusted for poverty among students in each district. A weight of .25 is added for students between 101-185% of the poverty level and an additional weight of .75 is added for children under 100% of the poverty level. A weight of .50 is added for each English Language Learner (ELL) student, unless a school district has fewer than 40 ELL students and then the weight per child will be .75. An additional weight of .25 is added for homeless students and for children in foster care to address the additional barriers these children face.
- **District-Specific Weights – Sparsity, Tax Effort and Local Wealth:** Students in districts that are both sparsely populated and large in terms of square miles will receive an additional weight according to a formula very similar to that enacted for Special Education Funding in Act 126 of 2013-14. The amount is also adjusted for local tax effort, a measure of how much of a community's wealth and resources are employed to support its public schools. The campaign recommends that a new, more comprehensive measure of local wealth be developed to replace the current market value/personal income aid ratio now used in BEF allocations. Until that occurs, the current aid ratio should be used in the formula for 2015-16.
- **Charter Schools:** Districts paying tuition to charter schools should be weighted to offset stranded and other mandated costs associated with operating parallel systems of public schools. The weight should be driven by the total number of charter students in a district, and should be higher for newly enrolled charter students in recognition that it takes time to reduce stranded costs. The group used a 0.30 weight to calculate expected costs of implementing a charter school factor.
- **Hold Harmless:** The campaign recommends that no district receive less in state BEF funds than received in FY 2015, increased by the Act 1 index. As the formula is phased in over time, any school district already at the adequacy target would receive a minimum annual increase in state BEF equal to the Act 1 Index. Once all districts reach the state share of the adequacy target, annual adjustments will be made to BEF based on an up-to-date student count. This protection would provide minimum increases to 18 school districts at a cost of \$48.6 million.

Appendix

History of the Percentage of State and Local Contributions for Education

<u>Year</u>	<u>State Contribution</u>	<u>Local Contribution</u>
2012-13	32.11%	67.89%
2011-12	32.54%	67.46%
2010-11	28.62%	71.38%
2009-10	30.33%	69.67%
2008-09	31.88%	68.12%
2007-08	32.99%	67.01%
2006-07	33.09%	66.91%
2005-06	32.27%	67.73%
2004-05	32.61%	67.39%
2003-04	32.73%	67.27%
2002-03	33.87%	66.13%
2001-02	34.39%	65.61%
2000-01	34.28%	65.72%
1999-2000	34.96%	65.04%
1998-99	35.17%	64.83%
1997-98	35.42%	64.58%
1996-97	35.03%	64.97%
1995-96	36.26%	63.74%
1994-95	35.42%	64.58%
1993-94	39.96%	60.04%
1992-93	37.91%	62.09%
1991-92	38.10%	61.90%
1990-91	37.36%	62.64%
1989-90	38.63%	61.37%
1988-89	39.59%	60.41%
1987-88	40.45%	59.55%
1986-87	40.34%	59.66%
1985-86	39.73%	60.27%
1984-85	39.56%	60.44%
1983-84	39.68%	60.32%
1982-83	39.74%	60.26%
1981-82	39.67%	60.33%
1980-81	40.30%	59.70%
1979-80	42.56%	57.44%
1978-79	42.77%	57.23%
1977-78	44.06%	55.94%
1976-77	42.95%	57.05%
1975-76	46.58%	53.42%
1974-75	48.72%	51.28%
1973-74	48.63%	51.37%
1972-73	50.96%	49.04%
1971-72	48.83%	51.17%
1970-71	46.54%	53.46%

The Pennsylvania School Boards Association is a nonprofit statewide association representing the 4,500 elected officials who govern the commonwealth's public school districts. PSBA is a membership-driven organization that is pledged to the highest ideals of local lay leadership for public schools. We work to support reforms for the betterment of public education and to promote the achievements of public schools, students and local school boards.