

# Re-Structuring Pennsylvania's School Funding Formula

By Michael Churchill, Public Interest Law Center of Philadelphia

Pennsylvania's system of funding schools is a failure by every criterion: equity, adequacy, predictability, fairness. Too many students in too many schools are unable to meet state standards of what children should know and be able to do. Too few are going on to college or are prepared for well paying jobs. No one is responsible to calculate how much it will cost districts to provide the necessary instruction and support. The inequity of the system is glaring: the amount of public resources spent on preparing a child to succeed in the adult world varies from \$9,000 to \$27,000 a year, which is a quarter of a million dollars difference over a school career from K to 12<sup>th</sup> grade. But it is not only unfair to children, it is unfair to taxpayers where the tax burden can vary from the equivalent of 8 to 36 equalized mills of tax effort for homes with the same value. And in the ultimate insult, the districts bearing the highest tax burdens frequently have less dollars to spend on their students than districts with tax burdens half the amount.

**The reasons for these multiple failures are simple:**

- 1. Too few state dollars result in too high reliance on local dollars;**
- 2. The system does not take into account how much it costs to educate children.**
- 3. State dollars are distributed on a basis which does not reflect the tax effort of the district.**

**Too few state dollars result in too high reliance on local dollars.** On the first count, Pennsylvania has been an outlier on its state appropriation to

K-12 education for at least 15 years, always in the lowest 10 states, and sometimes in the lowest three. That means the burden of funding schools falls heavily on districts with vastly different wealth. **And there are simply not enough state dollars to level the differences out.**

Example: Colonial SD raises \$\$17,455 per student locally with a tax rate equivalent to 12.4 equalized mills of tax effort and Perkiomen, in the same county with a tax rate 82 percent higher at 22.5 equalized mills of tax effort raises only \$11,909 per student. The state contribution does not correct for this imbalance.

	Colonial	Perkiomen Valley	Reading
Local Tax Rate	12.4 mills	22.5 mills	22.1 mills
Local Taxes Raised	\$ 17,455	\$ 11,909	\$ 2,155
State Contribution	\$ 2,941	\$ 2,827	\$ 8,346
Total Available	\$20,396	\$14,736	\$ 10,501
Remaining Difference		--\$5,660	--\$9,895

An even more extreme example: Reading, with a tax effort at 22.1 equalized mills raises only \$2,155 per student. Even though the state gives Reading almost \$6,000 more per student than Colonial, Reading ends up with almost \$10,000 less.

When you remember that it actually costs more to educate Reading students because of their poverty than Colonial students, these disparities make even less sense.

Any system which ends up forcing taxpayers in poor districts to pay two to three times as much in local tax effort as wealthy districts and still have less to spend is obviously not working. When government permits such perversity to persist, it fails its most fundamental tasks.

**The system does not take into account how much it costs to educate children.** Any system which does not assess the cost to adequately prepare students is unlikely to succeed at preparing them. In 2013 schools located in 72% of the districts and in 80% of the charters could not meet the state's standard that 70% of their students be at grade level in reading/literature and 73% in math/algebra I on the state assessment exams. Meeting proficiency standards is not a problem for just a few isolated poorly performing districts.

Despite the widespread need to improve student performance, districts have been increasing class size and cutting the tutoring and support programs necessary to help struggling students succeed. They made these cuts because they did not have the financial ability to pay for these vital programs, not because they were a smart way to improve student performance. Deciding how to distribute an inadequate amount of funds unrelated to any determination of need will not address the real problem facing schools.

**This Commission has three critical decisions to make in considering a formula that will begin to provide a thorough and efficient system of public education that serves the needs of the Commonwealth:**

**1) One is how to weight the relative costs of educating students with different costs arising out of poverty, students involved in our**

dependency or delinquency systems, English language learners, students with high transiency, etc. And districts have different cost parameters based on the cost of providing services in their region, sparsity and density, and costs from growth or the stranded costs from loss of students because of declining population. Research produces a range of weights, and it would be wise to use weights at the higher end of the range to make up for the historic underfunding of these factors.

## **2) Another is how to determine the base cost that districts need.**

A rational basis for funding would start by determining a base price for an average student and then applying the various adjusting weights to it. Since the Costing Out Study was done there have been changes in instructional requirements that need to be taken into account, for example, such as the increased remediation needs for students not passing Keystone graduation exams which did not exist in 2007, the cost of training and materials for the new Pennsylvania Core standards, and the increases in unreimbursed pension costs. Whatever process is used to come up with a new base cost **it is absolutely essential that it be based on realistic staffing levels of teachers, counselors, nurses, aides, security personnel, etc. sufficient to meet state standards.** That is what is meant by Adequacy. You cannot demand students and districts meet certain standards and then purposely stay blind to what it costs to meet those standards.

Knowing those costs will also remove some false issues. There has been a lot of discussion of “hold harmless” (ie never adjusting a district’s state appropriation downward), coupled with a fear that either state money would be redistributed away from some districts or that starting to accurately count

students would hurt districts that have been losing population. **Those concerns, however, predominately arise in a system which ignores the basic issue of whether there are adequate resources to meet the cost of educating a student.** Let me explain by an example. The Costing Out Study found that every district-- except 22 well-to-do suburban districts in five counties and three other districts-- all needed additional funding in order to be able to bring students to proficiency levels. None of the 475 other districts need hold harmless, therefore, because they should be getting more money, not less. To say it another way: the issue of “hold harmless” goes away if the basis for allocating funding is based on the costs of educating children, rather than allocating funding by dividing up too little money.

So my message on this point is simple: **we need an adequacy determination for all districts, because that is what our students need and deserve, and for the very few districts not entitled to additional state funding we can devise transition plans which will buffer the problem without taking any money away.**

**3) Finally, the Commission must come up with a method to divide the cost between state and local taxpayers.** That is a task that the Costing Out Study did not address, although it suggested that given the low state share the state should pick up the bulk of the increases. This task has not received sufficient attention, and it needs the most radical change. It is, after all, the failure of the state to put in a sufficient share of the funding which lies at the heart of our funding problem.

I want to recognize that this is not a partisan issue, because the state share has trended down under administrations of both parties. The

legislature's reluctance to raise sufficient state revenues is aided and abetted by the current funding structure which –under the guise of local control— places the onus on the local school districts to decide how many additional dollars may be needed and to provide them. **The district is seen as the primary funder** because of the now outdated concept that the district sets the standard for how much education is needed.

Consequently the General Assembly is under no pressure to determine what is actually needed to fund education. It can give out what is available, and it is the districts' problem to then set a budget, each determining what is needed and what it can raise. This might have made sense at a time when the districts set the standards for what students needed to be taught. But it makes no sense when it is the General Assembly which imposes content standards and assessments. In any event it led to an abdication by the General Assembly of its responsibility to determine what was needed and to see that it was actually available.

The results for districts is the huge variation in spending and in local tax burdens noted above, and the huge gap in student performance in the districts with the biggest funding problems.

**It is time to turn the funding structure on its head**, to conform with the reality that it is the state –by setting content standards and testing for it— that determines what is an adequate level of education, not the district. It is time therefore **to make the district the first and limited provider of funding, while making the state the ultimate funder responsible for reaching adequacy.** This proposal boils down to two basic steps:

**First: A district's foundation share would be based on its ability to pay and be capped at a uniform statewide tax-effort rate for purposes of calculating its fair share.** That means all districts would be treated as if they collected taxes equal to the same equalized millage rate or equal to the same percentage of personal income.<sup>1</sup> This does not mean equal dollars. It means you would set a rate like 20 equalized mills, which is the 75<sup>th</sup> percentile of current tax effort, or 17.8 equalized mills which is the 50<sup>th</sup> percentile.

Depending on where this tax effort cap is set, many high taxed districts will see significant local tax reductions. This should be seen as part of a one-time effort to reduce Pennsylvania's unusually high dependence on local revenues raised from property taxes and replace them (partially) with state raised revenue. This would give property tax relief where it is needed and would protect other districts from future increases, but would not cripple districts by completely eliminating the tax. Taxpayers who do not get any relief would know it is because they are already paying less than others.

For example, if local tax effort were capped at the 75<sup>th</sup> percentile of tax effort (20.0 mills), taxpayers in 150 districts would experience reductions totaling \$800 million. This replacement process can be phased in over time while state contributions are also increasing to provide underfunded districts with additional amounts to bring them to an adequacy level.

**Second: Once the Expected Local Contribution is established as the first level, the state shall be responsible for paying the balance necessary**

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It makes sense to measure tax effort for this purpose by local tax receipts as a percentage of personal income since it is personal income that district taxpayers use to pay their taxes, including property taxes. Furthermore this measure is based on uniform data from tax returns and is not dependent upon the variation in county assessments. But the Commonwealth could use the an equalized millage rate which is more familiar.

**to fund the cost of meeting Pennsylvania's education standards: Adequacy. The state share calculation would be Adequacy minus the Expected Local Contribution.** As noted above, Adequacy would be determined by a process independent of yearly revenue projections, based on realistic costs to meet state standards. The actual calculation to determine Adequacy and the factors in the calculation are matters for the Commission to determine or for it to create a process for that determination.

So if Perkiomen's's adequacy target were \$15,000 (about what it is spending now) and the cap was 20 mills, it would raise \$10,500 locally with a tax of that rate and would receive \$4,500 of state money per student (\$15,000 less its local share of \$10,500) instead of the \$2,800 it currently receives. If Reading's adequacy target was that same \$15,000, it would receive \$13,100 per student (\$15,000 less \$1,900 in local share) which is \$4,300 more than currently.

This two-step proposal is different from the calculation used in Pennsylvania from 2008-2011 which was (Adequacy minus Current Spending) times Aid Ratio. That formulation left the vastly differing local tax burdens locked in place.

Needless to say, the new structure and formula can not bind future legislatures, but it does provide a very public measuring device as to whether the constitutional obligation to maintain a thorough and efficient system of public education is being met.

**Consequences:** Restructuring the framework for funding will align responsibility for funding with responsibility for setting standards. The uniform local tax-effort will rectify the gross inequality in tax burdens.

Importantly, its simplicity and uniformity will give taxpayers a sense of fairness currently lacking. The new structure will require an overall state-wide cost analysis instead of the current fragmented district by district process . The determination of an Adequacy amount and consequent funding will align resources and needs, greatly diminishing inequalities in funding and improving student outcomes in previously under-resourced districts.

Districts will continue to have a stake in economical and efficient management practices because the state sets the limit to what they can receive on the basis of need, not on the basis of their individual cost/salary structure. An inflated cost structure does not produce more funding for the district but limits what it can do, just as under the current structure taxpayer resistance to increased rates constrains district spending. There can be an accountability process for use of any large adequacy increases to assure it goes to additional services and proven programs, as in the ABG program or the Rendell era increases. Districts performing below the median in terms of PSSA proficiency can be subject to PDE pre-approval, for example.

There will be different consequences depending on whether a district is high-spending, low tax; high spending, high tax; low spending, high tax; or low spending low tax. 1. Districts with **high spending low adequacy gaps based on high local taxes** like Perkiomen Valley, Pottsgrove and Pocono Mountain will see reduced local tax levels. 2. Districts with **large adequacy gaps and high taxes** will benefit the most, receiving increases in adequacy funding and some replacement of local tax dollars. Older suburbs like Upper Darby and Southeast Delco, Penn Hills and Sto-Rox are examples. 3. Districts with **large adequacy gaps but low taxes** will receive adequacy increases

only for amounts in excess of the expected local contribution. Because almost all of the districts in this situation are relatively poor, with low taxing power, they will still receive substantial increases in state funding even after adjusting the calculation for their weak tax effort. Grove City, Shamokin, Butler and Sayre Area are examples. 4. Finally, well to do suburban **districts with minimum aid ratios and low taxes** could easily fund their entire Adequacy budget without nearing the maximum rate. They are currently receiving \$250 million in Basic Education Funding subsidies. Whether to lock those in or phase them out over time is a political question concerning whether the legislature is willing to raise those tax dollars in addition to the dollars needed for Adequacy.

Districts which wish to provide amenities beyond the state funded Adequacy level by additional local taxes above the uniform rate can be permitted to do so subject to voter approval.

What this proposal means for the state budget is that for any new adequacy targets beyond current expenditures, the state share will be all of the increase for the districts taxing above the cut off and will be reduced for low taxing districts. In addition the state will pick up the expense of bringing the high tax effort districts down to the cap. The actual cost will depend on where the maximum tax effort is set. If there were no Adequacy increases set, the cost is the current local spending in excess of the tax effort cap. As noted, if set at the 75<sup>th</sup> percentile it is around \$800 million. At the 50<sup>th</sup> percentile it is about \$1.5 billion. This presents a bigger state revenue problem, but there is legitimately a transition phase-in process which can buffer this.

Are there alternative ways to take into account tax effort and to equalize it? Certainly you can give high taxing districts preferential treatment in how much is distributed to them, or relieve them of any additional local match to state adequacy increases. Neither reduces the existing excessive tax burden and it is difficult to ensure that any of these funds are used to reduce local taxes when it is intended to get them to adequacy, and you don't have the benefits of a clear cap which the public understands is uniform across the state. A second alternative would be to have a fund to reduce high taxes, much like the casino revenues are used. The advantage of that is you can target specific types of taxpayers for assistance. But you still need to find the resources to pay for it and a way to make the local cap clear to taxpayers. Most importantly, the connection between increased adequacy and tax payer equity is less clear and it may be harder to get political support when they are not linked and the winner/loser count is done separately for each.

Will this proposal halt Pennsylvania's long history of burdening local taxpayers and low state appropriations? No guarantee, but by bringing the structure in conformity with taxing reality—only the state has the tax base necessary to fund the vast majority of districts with weak tax bases—and with budgeting reality—the state sets proficiency standards and therefore sets the costs which must be met, there is a much better chance. In any event, with a uniform local tax effort it will be a much fairer system and have more public support for the providing the necessary revenues so all children will have a fair educational opportunity.