

Pennsylvania School Funding Campaign

Successful Schools...Successful Children...Successful Communities

800 North Third Street · Suite 408 · Harrisburg, PA 17102 · 717-260-9900 · www.paschoolfunding.org

House Education Committee Hearing Brodheadsville – April 29, 2008

Chairman Roebuck, Chairman Stairs, honorable members of the House Education Committee. I am Tim Allwein, Assistant Executive Director for Governmental and Member Relations for the Pennsylvania School Boards Association, and I am joined today by David Callahan, Executive Vice President of Pennsylvania Partnerships for Children, and Dr. Eric Elliott, Assistant Director of Research for the Pennsylvania State Education Association. We are here today on behalf of the Pennsylvania School Funding Campaign.

As you know, our three organizations often disagree about specific issues, but we come before you today with a single voice, united by an issue of vital importance to the children, schools, taxpayers, and communities of our Commonwealth – Pennsylvania's inadequate and inequitable school finance system – and our opportunity to fix it this spring.

There is no more important priority this spring than for the General Assembly to enact a permanent school funding formula and fully fund it with at least \$2.6 billion in additional state funds in no more than six years.

We need to do this because the current school funding system is inadequate to provide over a million students with a quality education that enables them to meet the academic standards we have set for them. Their needs simply overwhelm the resources available to serve them. Their classes are too large. Their textbooks, materials, labs, and equipment are outdated. Their teachers have the least experience and fewest opportunities for professional development. We need to do this because the current system is inequitable to students – providing some of them with opportunities unimaginable to their peers in many other communities. We need to do this because the current system is inequitable to taxpayers – forcing homeowners in our poorest communities to pay very high property taxes that yield insufficient funds to provide the quality schools their children need.

The Pennsylvania School Funding Campaign (PSFC) is a statewide coalition of individuals and organizations representing hundreds of thousands of parents, students, educators, school board members, administrators, and other concerned citizens advocating for comprehensive, systemic reform of Pennsylvania's public education funding system. The Campaign formed last December in response to the release of the report of the General Assembly's Costing-Out Study to advocate for a new system of financing the schools in Pennsylvania's 501 districts. We are guided by a Steering Committee of 27 organizations representing community-based and statewide organizations of child advocates, educators, and

school and district leaders. In addition to our own organizations, the Steering Committee includes every major statewide education and education advocacy organization in the Commonwealth.

The Pennsylvania School Funding Campaign has two goals, and we believe you must meet both of them to resolve the school funding crisis.

- 1. Enact legislation in conjunction with the 2008-2009 budget to implement and fully finance by 2013 (including appropriate annual adjustments) a comprehensive, systemic, and sustainable education funding plan based on the principles of adequacy, equity, efficiency, accountability, and predictability.***
- 2. Allocate sufficient funds in the 2008-2009 budget to make a significant start toward implementation of a new statewide system of public school funding based on the 2007 Costing-Out Study.***

We believe that action on school funding should be guided by that study, which provides the evidence and information needed to determine what it costs to educate *every* student so he or she can meet the state's academic standards.

The Pennsylvania School Funding Campaign supports the Governor's 2008-09 basic education budget proposal because it makes the critical step to fix our education finance system and fund it in six years. ***The state has no greater responsibility than to assure that every child has a high quality public education.***

The Pennsylvania School Funding Campaign recommends that the Governor's proposal be strengthened by: (1) paying a higher state share of funding per pupil to districts with limited local wealth; (2) including a plan to address special education; (3) assuring transition funding for all districts of 2%; and (4) applying additional accountability provisions only to districts that fail to make adequate yearly progress.

We want to take a few minutes to discuss the history of how Pennsylvania's school funding crisis developed and then to discuss more recent history – your leadership in calling for the Costing-Out Study nearly two years ago, the Governor's budget proposal that is before you, and our support for the enactment of that proposal with four enhancements that we will spell out as well.

History

The first state commitment to public education is Article 44 of the 1776 Pennsylvania Constitution: "A school or schools shall be established in each county by the legislature, for the convenient instruction of youth, with such salaries, to the masters paid by the public, as may enable them to instruct youth at low prices." The first hint of free public education in Pennsylvania is Article VII, Section 1 of the Constitution of 1790: "The legislature shall, as soon as conveniently may be, provide, by law, for the establishment of schools throughout the State, in such manner that the poor may be taught gratis." However, it was not "convenient" to provide any real system of such schools for more than 40 years. In 1831, the Common School Fund was

established, effectively making \$100,000 a year of state revenue available to support public schools. Three years later, the Free School Act required each municipality to establish an elected school board and offered state financial support to any district that agreed to accept the act's provisions and teach all children in the district. Every dollar of state support had to be matched by a county school tax of at least two dollars. State support initially was distributed on the basis of the number of taxable inhabitants, without regard to the number of students or local wealth. Half the state's municipalities accepted the act immediately; about three-fourths did so within three years. The 1838 Constitution, adopted during this initial growth of public education, retained the education provisions of the 1790 Constitution.

The 1874 Constitution was a precursor to compulsory attendance and established a floor for state funding: "The General Assembly shall provide for the maintenance and support of a thorough and efficient system of public schools, wherein all the children of this Commonwealth above the age of six years may be educated, and shall appropriate at least one million dollars each year for that purpose."

In 1895, the state's first compulsory attendance law was passed, and two years later the state funding system was changed to incorporate the number of children between 6 and 16 as well as the number of taxable inhabitants. The state's first minimum teacher salary (\$35 per month) was enacted in 1903, and the subsidy system was tied to types of teaching certificates in 1919. The first effort to recognize differences in local ability to support schools – by paying poor districts more and wealthy districts less – was enacted in 1923.

Between 1930 and 1950, the state share of education costs increased from 19% to 40%. In 1949, the new School Code provided for state support to be based on "district teaching units" and local wealth, and in 1957, the formula began to take into account school districts' actual instructional expenses (AIE). From the mid-1960s until 1983, the School Code included a statutory goal that state aid would equal 50% of the median AIE per student of all districts. The peak in state support – 55% – was achieved in 1974-75.

In 1983, the statutory goal of a 50% state share was removed from the School Code. Since 1992, the General Assembly and successive Governors have abandoned any commitment to a consistent formula. Instead, since the early 1990s, the General Assembly has adopted a number of ad hoc methods to distribute increases in the annual appropriations. There currently is no continuing formula serving as the basis for annual adjustments to state aid for basic education.

The history of education and education finance in Pennsylvania is based on some fundamental principles. First, education is a state responsibility, embedded in the Constitution. Second, this responsibility – including the responsibility to finance the system – is exercised through a partnership of the state and local school boards. In the earliest days, the state's share was about 20%. It increased considerably in response to the inability of school districts to collect property taxes during the Depression — from 19% in 1930 to 30% in 1940 and 40% in 1950. A statutory goal that the state pay 50% of district instructional costs was in effect, but rarely met, between 1965 and its repeal in 1983. Today, the state share stands at about 36%. While the state share was declining in Pennsylvania over the past 30 years, it was increasing in most other states. Currently, we are among the bottom seven states in terms of state share. We rank 28th in state

funding per pupil – lower than all our bordering states except Maryland, which is rapidly closing the gap between us in response to their own Costing-Out Study. Delaware’s per pupil state contribution is 83 percent higher than ours, and even West Virginia’s is 32 percent higher.

The current subsidy is based on one that evolved in the early- to mid-1970s. It was designed to distribute state funds to ensure that all districts could spend as much per pupil as the one in the middle of the distribution of high-to-low spending districts. At the time, state aid accounted for about 55% of school district instructional spending, compared to about 36% last year. Under that system, each district was paid a subsidy calculated by multiplying the number of students by the state’s median instructional expenditure per pupil and by the district’s aid ratio (a measure of its local wealth relative to other districts). This resulted in each district receiving from the state some percentage of the actual cost of instruction per pupil — with low wealth districts receiving a larger share. This basic subsidy, known as the Equalized Subsidy for Basic Education (ESBE) was supplemented at various times with payments for large concentrations of low income students, for small districts, for rapidly growing districts, for local tax effort, and for sparsely and densely populated school districts.

Because state funds were not keeping pace with local spending (reflected in the declining state share), gaps in per pupil spending widened greatly among districts during the 1980s. By the beginning of the 1990s, ESBE was so badly out-of-joint with school district expenditures and growth patterns that the General Assembly essentially abandoned it. ESBE was used for the last time in 1991-92. Beginning in 1992-93, each district’s subsidy from the prior year has been its base, and annual increases in the state appropriation have been distributed through various ad hoc supplements.

At one point, the General Assembly attempted to restore a rational formula. In 1993-94, it established a foundation amount per pupil, below which spending in any district would not fall. The idea was to use additional state funding beyond the usual formula to guarantee every student in every district at least a foundation level of funding to support his or her education. This foundation figure was adjusted upward in 1994-95, and more districts became eligible for the extra state support. While the districts that received foundation funding from the state in those two years have had the extra state funding maintained as a part of their annual base, the foundation funding guarantee concept was abandoned as a way to promote equity or adequacy among the state's 501 school districts after only two years. A small step toward restoring this concept was made in the 2005-06 state budget and over three years will have directed \$144.327 million to low-spending districts.

The current state Constitution, adopted in 1968, states: “The General Assembly shall provide for the maintenance and support of a thorough and efficient system of public education to serve the needs of the Commonwealth.” In the early 1990s, with leadership from the Pennsylvania Association of Rural and Small Schools (PARSS), nearly half the state’s school districts sued the Commonwealth for not meeting its constitutional obligation to provide for the maintenance and support of a thorough and efficient system of public education. On October 1, 1999, the State Supreme Court held that the matter was not for the courts - but rather the General Assembly - to decide.

Since the Supreme Court decided the PARSS case more than eight years ago, Governors and the General Assembly have continued the ad hoc approach to school funding begun in 1992. Each year, you and the Governor decide how much additional state money will be appropriated for basic education and then design a series of supplements to make sure certain districts receive what you and your colleagues think is a fair share. But the system is not based on any sense of adequacy – how much money each district needs to achieve the state’s educational goals – or equity – how to assure that districts with the least local resources receive the greatest state aid per pupil. The system is not predictable, because the distribution method changes from year to year, so districts cannot plan their programs or budgets effectively – a problem of increasing magnitude since districts must adopt preliminary budgets in December to comply with Act 1. Since the distribution of funds is in no way related to student achievement – either in terms of what districts need to help all students meet the state standards or in terms of how effective they are in meeting that target – the system is neither accountable nor efficient.

As a result of this history, Pennsylvania’s funding of its schools has become highly dependent on the local wealth of each school district. As a result, children in low and moderately wealthy districts have fewer opportunities and resources, despite the fact that many of these districts tax themselves heavily. Available resources among Pennsylvania’s poorest and wealthiest school districts vary from \$7,000 to \$17,000 per student per year. This over-reliance on local taxes due to insufficient state funding for public education creates inequities for both students and taxpayers across the Commonwealth.

Money matters. It pays for a quality curriculum and the books and materials that support it. It pays for high quality teachers and reasonable class sizes. It pays for guidance counselors who help students prepare for their futures by understanding their options and selecting the right courses. It pays for the unique needs of certain groups of students, including those with disabilities, those who are learning English, those who are gifted, and those impacted by poverty. It pays for professional development to improve the skills of current teachers and administrators. It pays for modern educational technology that helps students learn and helps prepare them for college and the 21st century workplace.

Pennsylvania voters feel the time has come to change how we fund public education. According to a 2007 Center for Opinion Research Survey, **85%** of Pennsylvanians support increasing the state share of education funding.

What this history should make clear is **that there is no more important priority this spring than for the General Assembly to enact a permanent school funding formula and fully fund it with at least \$2.6 billion in additional state funds in no more than six years.**

Costing-Out Study

In July of 2006, by votes of 185-13 and 43-6, the House of Representatives and Senate passed, and Governor Rendell signed, Act 114, which assigned to the State Board of Education responsibility for conducting a Costing-Out Study. Act 114 required the study to address two issues – adequacy and equity. The study of adequacy grew out of a desire among state officials, educators, and others to understand what it costs for all of our students – no matter where they

live – to attain state academic standards. The study of equity grew out of their concern about the growing gap between high- and low-spending districts and the implications for (1) the quality of education received by students in our lowest spending districts and (2) local taxpayers.

You and your colleagues are to be commended for requesting this study so that you would have the information you need to make sound decisions about how to fund the schools in the years ahead.

In the fall of 2006, after consultation with the leadership of the General Assembly, the State Board issued a request for proposals to select a contractor to conduct the costing-out study. In December, after reviewing proposals, the Board selected the firm of Augenblick, Palaich and Associates (APA), and they began work in January, gathering and analyzing data, assembling and meeting with Pennsylvania educators and others, and working with a team of researchers from throughout the nation. They presented their report to the State Board on November 14, 2007, and a revised version in December 2007.

Adequacy Findings: The study was designed to determine the cost of 100 percent of Pennsylvania students mastering the state standards in 12 academic areas and demonstrating proficiency on state reading and math tests by 2014. APA used three primary methodologies in the study and combined results from all three and several other statistical analyses to reach their conclusions. The primary methods were **professional judgment** (empanelling educators to determine the resources needed to achieve the standards in different sized schools and districts); **successful schools** (determining actual costs in districts on track to meet the standard); and **evidence-based** (determining the costs of implementing research-based reforms shown to improve student performance). The report is based upon 2005-06 data (the last year for which all necessary data were available at the time) and excludes food service, capital costs and debt service, transportation (studied separately), vocational education, community services, and adult education. Act 114 did not request the design of a new funding formula. The study found:

- ◆ The statewide cost of meeting the standard (in 2005-06) is \$21.63 billion, compared with actual comparable spending of \$17.25 billion. Achieving this adequacy level would require an additional \$4.38 billion or 25.4 percent. On a per pupil basis, the adequacy level averages \$11,926 (compared with current spending of \$9,512), including:
 - A base cost of \$8,003 for all students, assuming they have no special needs.
 - A modification of enrollment to recognize growth and decline over five years.
 - Additional weights for students with disabilities, children in poverty, English language learners, and gifted students.
 - A district size modification that recognizes higher per pupil costs in smaller districts.
 - A geographic cost of living adjustment.
- ◆ The report calculates 2005-06 adequacy levels for each district, based upon its own student and community characteristics.
- ◆ 471 districts (94 percent) are spending less than their adequacy levels; the other 30 are spending a total of \$188.8 million more than their adequacy levels.
- ◆ 1.67 million students (92 percent) attend districts spending less than their adequacy levels.

- ◆ The least wealthy districts are furthest from meeting their resource needs; they would need an additional 37.5 percent (compared to the average of 25.4 percent). The wealthiest districts would need only an additional 6.6 percent.
- ◆ Current transportation spending appears to be reasonable.

Equity Findings: Act 114 also required the study to consider the equity of the current school finance system for **students** (variations in spending across districts) and for **taxpayers** (variations in tax effort across districts).

- ◆ Wealth (personal income and property value) per pupil varies widely across the state – from \$33,691 to \$2,354,028 per weighted pupil (using the weights from the adequacy analysis); the latter district has 70 times the wealth of the former.
- ◆ State aid is distributed so that poorer districts receive more funding per pupil than wealthy districts.
- ◆ However, the effect of this aid is overwhelmed by local wealth discrepancies, since local revenues account for about twice as much as state aid.
- ◆ Districts with the greatest student need generate the least local revenue per pupil.
- ◆ Districts with the lowest wealth make a greater tax effort than districts with more wealth.
- ◆ Districts with higher wealth and lower needs spend more than lower wealth districts that are making a higher tax effort.
- ◆ State and local taxes are comparable to those nationally but are considerably lower than the average of the six states that border us (Delaware, Maryland, New Jersey, New York, Ohio, and West Virginia), If Pennsylvania’s state and local tax revenues matched the six-state average of revenues per capita, we would generate an additional \$6.02 billion. If our tax revenues matched the six-state average of revenues per \$1,000 of personal income, we would generate an additional \$3.17 billion.

The 2008-09 Budget

In his 2008-09 budget proposal to the General Assembly, Governor Rendell called for a revamping of the state’s school subsidy system, with a \$291 million initial payment on what the Governor referred to as a \$2.6 billion six-year effort. The Governor’s proposal is based upon the Costing-Out Study. The proposed new funding formula includes three steps:

1. **Calculate each district’s adequacy target.** This begins with a base cost of \$8,355 per student (the costing-out study’s 2005-06 figure of \$8,003 increased by inflation), to which additional resources are added for low-income students and English language learners. The Governor proposed keeping a separate appropriation for special education, although the Costing-Out Study suggested additional resources for students with disabilities and gifted students as part of any new funding system). Each district’s target is then adjusted to reflect district size and regional cost-of-living variations.
2. **Calculate the state share of each district’s adequacy gap.** The difference between each district’s adequacy target (step 1) and its actual spending is its “adequacy gap.” The state share of

the gap is determined by local wealth (the district's aid ratio) and local tax effort. The state share is thus larger for districts with low local wealth per pupil and high tax effort. For 2008-09, the Governor proposed including "transition assistance" to the 36 districts already spending in excess of their adequacy levels and to others that are near those levels, so that all districts will receive state subsidy increases of at least 1.5%.

3. **Ensure the use of new resources to improve student achievement.** The Governor proposed that any state subsidy increases within the Act 1 inflation index (4.4% this year) could be used to offset any increased district costs. At least 80% of the state subsidy increases in excess of 4.4% would need to be spent to implement or expand a menu of school improvement strategies, including extra time for learning, new and more rigorous courses, teacher training, class size reduction, early childhood education, recruiting the most effective teachers and principals, and performance contracts for administrators. Another 10% would be spent to maintain any of those strategies districts already are implementing, and the final 10% could be spent on any proven or promising improvement strategies. Districts receiving more than 4.4% increases would have to submit plans to PDE showing how the money would be spent, and those with the lowest achievement (AYP status of warning, improvement, or corrective action), would need to have those plans approved by the Department.

The Pennsylvania School Funding Campaign supports the Governor's 2008-09 basic education budget proposal because it makes the critical step to fix our education finance system and fund it in six years. We also think it would be strengthened if you enact the following four recommendations.

Recommendations to Strengthen the Governor's Proposal

The Pennsylvania School Funding Campaign recommends that the Governor's proposal be strengthened by: (1) paying a higher state share of funding per pupil to districts with limited local wealth; (2) including a plan to address special education; (3) assuring transition funding for all districts of 2%; and (4) applying additional accountability provisions only to districts that fail to make adequate yearly progress (AYP).

State Share – The Governor's proposal calculates an adequacy gap for each district and then determines the state's share of that gap by using a measure of local wealth (the district's aid ratio) and the district's relative local tax effort (equalized mills). If a district's equalized mills are not in the top quartile, the state share is less than it would be if the adequacy gap were multiplied simply by the aid ratio (which is how state share typically is determined). This results in a large number of districts, many of which have high aid ratios, never being able to reach their adequacy targets and, for 2008-09, receiving the minimum increase. While it may be sensible to reward districts that make extraordinarily high tax effort, equity for taxpayers can be achieved by better means. **We believe the state share should be determined by using only a district's aid ratio, not a combination of aid ratio and equalized mills.** This would benefit 328 districts educating more than 1.1 million students.

Special Education Funding - The Campaign supports the Governor's use of the results of the Costing-Out Study, but his proposal does not include the study's weighting of students with disabilities or those who are identified as gifted. Instead, the special education appropriation remains a separate line item, and the increase of 3% is below the 4.4% inflation index. Special

education costs continue to be a growing problem for school districts. As more and different types of disabilities are identified, their treatments become more expensive. School districts identify growing special education costs as one of the major reasons for increased local school taxes. **The Campaign believes that when you enact legislation establishing a new funding formula this spring, the bill should include a framework to both build consensus among parents, advocates and educators on how to best serve our special education students and establish a financing model so Pennsylvania can more fairly fund special education beginning in 2009-10.**

Transition Funding - Act 1 requires school districts to prepare and adopt preliminary budgets before the Governor's budget is proposed. Most districts conservatively estimated a 2% increase in state aid in their 2008-09 budgets based upon the history of state funding over the past several years. Districts that have done so and are now slated to receive the proposed 1.5% minimum increase find themselves with the need to cut programs for students next year. **The Governor's proposed minimum increase (transition funding) of 1.5% should be increased to 2%.** This would benefit 143 districts educating almost 400,000 students.

Accountability - The new accountability measures proposed by the Governor call for additional fiscal accountability but are not linked to student achievement. Under the proposal, the 137 school districts receiving an increase in basic education funding in excess of 4.4% would have to spend 80% of the amount exceeding that figure on one of the programmatic options set by the Commonwealth. Generally, this list of allowable expenditures reflects practices that have been proven to improve student achievement. However, there are only 48 districts that did not make Adequate Yearly Progress in 2006-07. **PSFC believes that accountability for using public resources to achieve academic success is vital, but we believe new requirements to spend additional resources on specific programs and to submit investment plans and have them approved should apply only to districts that are not making AYP.**

We want to be clear that we think these four enhancements to the Governor's proposal are important. But the main point we want to emphasize is that this is an historic opportunity to fix the Commonwealth's inadequate and inequitable school finance system, and that is your most essential task this spring. **We call upon you to enact with this budget a permanent school funding formula and fully fund it with at least \$2.6 billion in additional state funds in no more than six years.**

Thank you for your attention to our concerns. We would be happy to try to answer any questions you might have.