

Impact of the New State Education Funding Formula

When the Basic Education Funding Commission held its first meeting in August of 2014 to begin work on its charge of devising a new formula for dividing up state funding for basic education (BEF) among the state's 500 school districts, it took testimony from the state Department of Education and joint testimony from the Association of School Administrators and Association of School Business Officials. Those two pieces of testimony illustrated how the state had historically funded education and how K-12 enrollment has changed in the last two decades.

If we look at the latter point first, K-12 enrollment statewide has stayed relatively the same from 1993-94 to 2013-14 (1.73 million): 336 school districts (67%) had fewer students, 162 districts (33%) had more students, and 1 district was unchanged. In Allegheny County (utilizing the Department of Education's data on Average Daily Membership, or ADM) this same pattern played out with 28 districts (65%) having a lower enrollment in 2013-14 than in 1993-94 and 15 districts (34%) having a higher enrollment. Eighteen of the declining districts had a greater than ten percent decline and eight districts had a greater than ten percent increase.

The Department of Education's testimony included a summary of various methods and formulas used by the Commonwealth to determine BEF allocations, and in the Commission's final report issued in June of this year, it noted that the passage of Act 85 in 1992 represented "...an important turning point in basic education funding from the Commonwealth". For much of the time since 1992 districts have been ensured they will not receive less BEF funding than they did the year before, known as the "hold harmless" provisions. Other supplements were added on in varying amounts depending on the district.

How this funding model affected districts in Allegheny County based on whether they grew or shrunk during this period can be seen in the following comparisons. For example, South Fayette's enrollment increased 111 percent from 1993-94 to 2013-14 (1,341 to 2,829) but with its BEF rising just 77 percent—just over the inflation rate of 64 percent for the period—the per-pupil funding fell from \$1,180 to \$992. Meanwhile, West Allegheny enrollment grew 34 percent (2,479 to 3,334) and BEF per-pupil went up only 19 percent, far slower than inflation.

On the opposite end of the spectrum Riverview enrollment fell 14 percent (1,230 to 1,058) and its BEF per-pupil went up 120 percent. Penn Hills enrollment decreased 23 percent (6,139 to 4,735) and its BEF per-pupil went up 88 percent.

Pittsburgh, the biggest school district in Allegheny County, saw enrollment fall by 31 percent over the twenty years (39,616 to 27,530). Over the period, BEF rose from \$104 million to \$153.8 million boosting per student BEF from \$2,606 to \$5,586, an increase of 114 percent—nearly double the inflation rate. At the same time, other state funding (not basic education) climbed from \$2,049 per pupil to \$3,525—a jump of 72 percent, above the inflation rate. Thus, total state funding reached \$9,111 per student, which represents a massive 97 percent hike. And all this despite the fact that Pittsburgh’s Department of Education aid ratio formula based on its relatively strong tax capacity would have produced a much smaller rise in funding. The “hold harmless” provision has clearly assisted Pittsburgh’s march toward a BEF level well above the state average (and five times higher than South Fayette). The BEF allocation is a major contributor to the funding required to spend \$21,000 per student. Bear in mind too, that Pittsburgh schools also receive a large amount of Federal dollars.

This context of how hold harmless has worked is important because the Commission’s recommended formula marks a dramatic funding change by taking into account actual district enrollment along with other weighted factors in determining a district’s share of the BEF allocation. In terms of student based factors in the formula, student count—which is defined as the average of the most recent three years of Average Daily Membership—is given a weight of 1 (district poverty level, English language learners, and charter school enrollment are the other student based factors in the formula and have lower weights).

The Commission noted in the final report that had it wrestled with the “hold harmless” provision and recommended that growth in future years funding be determined by the formula while leaving the current base amount in place. The final report noted “The Commission in its deliberations recognizes the hold harmless clause prevents the entire annual appropriation for basic education funding to be distributed based on current school district or student factors”.

The Commission also believed eliminating the “hold harmless” clause would have a significant negative impact on many school districts across the Commonwealth that would be unable to make operational adjustments or generate revenue from other sources to make up for the loss of basic education funding. Eliminating the “hold harmless” clause would have resulted in 320 school districts receiving approximately \$1 billion less in basic education funding.

While not mentioned by the Commission, it is important to note that the concession is very unfair and ironic in that it locks in the current Pittsburgh funding that produces a per student BEF amount of over \$5,500 and at the same time penalizes South Fayette with BEF funding amounting to less than \$1,000.

The Commission plan was essentially written into legislation passed by the General Assembly in June (which was vetoed) that would have given districts what they received in 2014-15 and put \$100 million in new money through the formula. That pattern will likely continue to play out in the years to come with new money distributed by the formula while a “hold harmless” base amount stays in place. As of this writing there is still no agreed upon amount of BEF for 2015-16 though there is some talk of a perhaps adding \$350 million to BEF.

Assuming districts across the state and in Allegheny County partake of new money through the formula while receiving what they did last year, the effects of the formula can be determined by looking at the respective share of the total statewide allocation received by a district in 2014-15 and the share based on the additional \$100 million amount, which was calculated by the House Appropriations Committee.

As a share of the 2014-15 BEF appropriation (\$5.5 billion) the 43 districts in Allegheny County received \$440 million, about eight percent of the statewide total, which was about the same percentage for the previous five fiscal years. Each district in the County received a share of that revenue, ranging from 34 percent in Pittsburgh to 0.27 percent in Quaker Valley.

If \$100 million in new money were allocated through the Commission’s formula, the districts in Allegheny County would share \$7.4 million of the \$100 million appropriation. A percentage share for each district in the County was calculated to see if the formula would have any significant impact in its first year of possible utilization. While most districts’ share from the 2014-15 amount to the new formula amount did not differ much (plus or minus a percentage point or less), these districts would see a different result from the formula:

- Sto-Rox (\$4,748 per-pupil in 2014-15 BEF)—The District’s share of the 2014-15 BEF was \$8.4 million (1.9% of the \$440 million) and under the formula it would get an additional \$319,000 in 2015-16, 4.27 percent of the County’s \$7.4 million and \$184 per-pupil from the formula determined funds. Sto-Rox’s enrollment increased 3 percent from 1993-94 to 2013-14.
- Woodland Hills (\$2,768 per-pupil in 2014-15)—The District’s share of the 2014-15 BEF was \$14 million (3.2% of the County total) and the District would receive \$406,000 from new funding, 5.4 percent of the County total and \$80 per pupil. Woodland Hills’ enrollment fell 21 percent from 1993-94 to 2013-14.
- Plum (\$3,058 per-pupil in 2014-15)—The District’s share of the 2014-15 BEF was \$12 million (2.8%) and its share of formula money would be \$120,000, 1.6 percent of the \$7.4 million and \$29 per pupil. Plum’s enrollment fell 3 percent over the last two decades.
- Pittsburgh (\$5,586 per-pupil in 2014-15)—The District’s share of the 2014-15 BEF was \$153.8 million (34.9%) and it would receive \$1.7 million from the

formula money. This represents a per-pupil amount of \$62 and would be 23 percent of all the BEF money awarded in the County.

It is possible that the other factors in the formula—whether they are student based or district based (district wealth, sparsity, and household income relative to state values)—could play a part in these four districts moving up or down in their share of BEF money in the County. If the formula begins to reflect more recent characteristics of the districts and their relative standing to statewide factors then it will be readily apparent how important the “hold harmless” provision was for them over the years. However, it is important to remember that actual future changes in district total BEF funding from current levels will be somewhat limited for several years since only the “additional” spending above 2014-15 base allotments will be driven by the new formula.

Eric Montarti, Senior Policy Analyst

Jake Haulk, Ph.D., President

*Policy Briefs may be reprinted as long as proper attribution is given.
For more information about this and other topics, please visit our website:*

www.alleghenyinstitute.org

<p>Allegheny Institute for Public Policy 305 Mt. Lebanon Blvd.* Suite 208* Pittsburgh PA 15234 Phone (412) 440-0079 * Fax (412) 440-0085 E-mail: aipp@alleghenyinstitute.org</p>
