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Pennsylvania education funding: a major dilemma

Introduction: *Judge Renée Cohn Jubelirer sided with the plaintiffs in a landmark trial that challenged the current school funding model, ruling that the General Assembly has not fulfilled its legal mandate and has deprived students in school districts with low property values and incomes of the same resources and opportunities as children in wealthier ones.*

-From Pennsylvania Capital-Star, Feb. 8, 2023.

This *Policy Brief* addresses the decision and proposes possible remedial actions.

Background and overview

The Commonwealth Court ruling is potentially far reaching in its impact on how public schools in Pennsylvania are funded by the state's taxpayers. The court declared there is inequity in funding that gives children in poorer districts less access to quality education and is therefore unconstitutional. If upheld by the Supreme Court, it will force the Legislature to act.

The problem of large differences in total funding per student is the direct result of the two-source revenue policy—namely, local funding, essentially based on property taxes, and state funding. The state allocation ostensibly uses a methodology predicated on an “aid ratio index” for each district. The aid ratio is calculated by combining the market value per average daily membership (ADM) aid ratio and the personal income per ADM aid ratio. There is a further funding complication created by the so-called “hold harmless” provision that prevents reductions in funding for districts that have lost enrollment.

In principle, the higher the value of the aid index for a school district the more state aid per student it should receive. The method of calculating the aid ratio essentially inverts the district's ability to generate revenue based on its market value of property per ADM and total personal income per ADM. The values are normalized over the 500 school districts and the combined property value and income aid ratio is forced to fall in a range of 0.1500 to 1.00. The three highest district readings were posted for Reading in Berks County (0.8967), Duquesne in Allegheny County (0.8924) and York City in York County (0.8649). All data in this *Brief* are taken from Pennsylvania Department of Education's “Annual Financial Reports 2020-2021,” the latest available.

Statewide, the 2020-2021 total revenue from local, state and federal per ADM sources (excluding the other revenue category that includes revenue from the sale of bonds; proceeds from extended term financing; interfund transfers; receipts from other local education agencies; sale of or compensation for loss of fixed assets and refunds of prior years' expenditures) totaled \$31.796 billion statewide. With a state total of 1,690,400 ADM, the statewide average revenue per ADM was \$18,810. Rounded to the nearest dollar, average local revenue per ADM was \$10,627 (56.5 percent of total), state revenue was \$7,200 per ADM (38.3 percent of total) and federal revenue was \$983 per ADM (5.2 percent of total). For the state as a whole, excluding the federal funding, the state share is 40 percent and the local share is 60 percent of funding.

School district funding examples

Combined state, local and federal spending per ADM ranged from \$13,058 in the Shamokin District (Northumberland County) to \$34,710 in the New Hope-Solebury District (Bucks County) with Forest Area District (Forest County) at \$33,516 per ADM close behind. Note that Shamokin's local revenue was only \$3,368 per ADM while New Hope-Solebury local funds were \$29,092 per ADM. Rounded to two decimal points, Shamokin's aid ratio was 0.79 and New Hope-Solebury's was 0.15. Shamokin received \$8,736 per ADM from the state while New Hope-Solebury received \$5,180.

While the Shamokin and New Hope-Solebury districts seem to support the notion that the aid ratio is allocating according to the purported intent of the corrective mechanism, it actually does not. For example, Line Mountain District in Northumberland County, with a significantly lower aid ratio than Shamokin at 0.65, received \$10,349 per ADM from the state. Even worse, West Middlesex District in Mercer County, with an aid ratio of 0.64, receive \$12,381 in state funds per ADM. And perhaps most egregiously, the Pittsburgh Public School District, with a quite low aid ratio of 0.27, received \$11,513 in state funds per ADM and another \$2,498 per ADM in federal funds and had total revenue of \$27,716 per ADM.

Some technical analysis

Countless other examples of the failure of the aid ratio to match actual state funding could be presented but statistical analyses provide an overall picture. For all districts, the covariance between the aid ratio and per ADM state funding is 0.64. And the R-squared from a regression analysis is 0.41. R-squared is simply the fraction of the variation in the state funding accounted for by the aid ratio.

In other words, the Education Department's use of the aid ratio falls far short of achieving more equitable funding. Equitable meaning closing the gap significantly between very high spending districts (far above the state average per ADM) and the very low spending districts. Much of the failure is likely due to falling enrollment in some districts.

Root causes of the funding disparities

As noted in the beginning paragraph, the problems with school funding in Pennsylvania derive largely from the long-standing policy of using both local and state funds for education—and some federal funding. Wealthier districts can raise far more money locally per student than poor districts can. Of course, this can be offset to some degree by the number of students in a district. A relatively poor district with only 300 or so students can most likely afford to spend more per student than a poor district with 3,000 students. That is somewhat adjusted for in the aid ratio but, as noted above, the aid ratio as put into practice leaves a lot to be desired in promoting equitable

funding. Consider, for example, the Forest Area District (mentioned above as having the state's second-highest total revenue per ADM) has only 420 ADM. As a result, it is able to raise \$18,220 locally and even with a relatively low aid ratio of 0.31 received \$13,729 in state funding per ADM along with another \$1,617 in federal funds per student.

Nonetheless, the situation becomes startlingly out of proportion when a rich district raises \$29,000 per student locally and still receives state funding when the average total state, local and federal spending per student is \$18,810. In the current system of local funding and state funding it might not be feasible to eliminate income and wealth inequality impacts on school funding across school districts. On the other hand, the state should not be further exacerbating per student funding differences by allocating state revenue to districts that locally raise \$11,000 per year more than the state average of total revenue per ADM.

Is there a solution?

Can the two funding tax sources ever produce a fairer system of funds per student in which the revenue per ADM falls in narrow range for all districts? There are several possible ways, none easy or readily implementable for political reasons. First of all, the minimum per student spending level that should create adequate educational and learning opportunities will need to be determined. That will not be easy. Note that in Pennsylvania, out of 500 districts and 99 charter schools, seven of the top 12 ranked school districts as measured by achievement test scores are in Allegheny County and have average revenue per ADM of \$20,733. South Fayette, the state's fourth-ranked district had revenue of \$18,051—under the state average total.

Meanwhile, the Pittsburgh Public School District ranked 454th with revenue of \$27,716 per ADM. The Cheltenham District in Montgomery County had revenue of \$28,790 per ADM and ranked 304th. Even worse, the Farrell District in Mercer County, despite having revenue per ADM of \$28,908, ranked 519th. On the other hand, the Loysock District in Lycoming County, with revenue of \$15,795 per student, ranked 78th or in the top 15 percent of districts.

In short, while there may be a relationship that shows broadly that revenue levels correlate with academic achievement, it is weak and there are plenty of counter examples showing poor academic performance in high revenue per student districts and good or above average performance in lower revenue districts.

Obviously, there are factors that influence learning and academic achievement besides the dollars spent per student. And spending more in an effort to improve performance in schools that are already abject failures despite huge expenditure per student is doomed to be ineffective. Thus, simply focusing on dollars per student will not produce desired outcomes. Determining the causes of poor performance and addressing those are far more likely to pay education dividends.

Outlines of possible equitable funding plans

If the Legislature wants to focus on reducing the wide disparities in per student funding across school districts it must address a principal cause, i.e., the vast differences in population, property values and incomes among the school districts. Without question, wealthier districts can raise relatively very large amounts of funds at fairly low tax rates compared to poor districts. In short, the wide disparities in funding can only be reduced by addressing this inescapable fact. The current system of using an aid ratio was shown above to be hopelessly inadequate.

Consider three possible options to get closer to equal funding:

One, by law, eliminate property taxes and other local funding sources and have all funding come from the state.

Two, place an enforceable dollar per student limit on local funds that can be raised for each district—perhaps the most recent statewide average of local funding—with future adjustments determined by inflation.

In either scenario the state would then provide each district funds adequate to equalize total per student funding across all districts at close to the most recent all district average total funding per student with some possible inflation adjustment each following year.

Without doubt these proposals will meet with tremendous opposition from wealthy districts. The teachers and employees whose salary and benefits—as specified in union contracts—are far greater than those in middle class or poor districts would face tremendous cuts in compensation. And, of course, the contracts currently in effect are unlikely to be renegotiated. This problem might be overcome over time by a phase-in of the new funding policy. But it would take many years and be derailed before completed.

A third option is to allow districts with the enormous ability to fund education the option of creating an essentially private district-wide school system that would receive *no* state funding. The districts would operate in a *relationship* to the state, similar to charter schools.

Indeed, the state should encourage the formation of charter schools and go further and provide vouchers that parents can use to find alternative education away from poorly performing public schools.

Clearly, all these proposed options will face a storm of resistance. That is the inevitable result of years of ignoring the problems or trying to solve them by half-measures that proved inadequate and difficult to implement.

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