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Commission begins quest for constitutional school funding

Summary: The Pennsylvania Basic Education Funding Commission (commission) is conducting hearings across the state to hear recommendations on how to redesign the state’s basic education funding subsidy. A significant part of the redesign should involve moving more of the subsidy through the student-weighted formula.

In February, the Pennsylvania Commonwealth Court ruled on a lawsuit filed in November 2014 that alleged the way public schools are funded violated the education and equal protection clauses of the state Constitution. The court agreed with the petitioners, determining the Constitution requires “that **every** student receives a **meaningful opportunity** to succeed academically, socially, and civically, which requires that **all** students have access to a comprehensive, effective, and contemporary system of public education” (**bold in original**).

Rather than imposing specifics on taxation or spending, the court noted it “is in uncharted territory with this landmark case. Therefore, it seems only reasonable to allow Respondents, comprised of the Executive and Legislative branches of government and administrative agencies with expertise in the field of education, the first opportunity, in conjunction with Petitioners, to devise a plan to address the constitutional deficiencies identified herein.” A July deadline to appeal the ruling passed.

Efforts to revamp funding, including the basic education funding subsidy, have begun. In September, the commission began a series of 10 hearings across the state to take testimony and make recommendations to the General Assembly.

For this fiscal year (FY) 2023-24, the estimated subsidy totals \$7.87 billion and represents 51 percent of the state’s grants and subsidies to public schools.

Since FY 2015-16, basic education funding is a hybrid with essentially all new appropriations distributed through a student-weighted formula recommended by the commission and adopted by the General Assembly in Act 35 of 2016. The formula utilizes each district’s three-year average daily membership (ADM), poverty, English-as-a-second-language students, charter school enrollment and sparsity (a district’s

population density relative to all districts) along with a median household income index and tax effort capacity index (based on a district's ability to generate local tax revenue relative to all districts). This year, \$1.99 billion will flow through the formula.

The bulk—\$5.88 billion, referred to as the base—is made up of “hold harmless” money which does not diminish even if districts lose students. Level-Up funding, which began in FY 2021-22 and is directed toward 100 school districts with at-risk populations, is now included in the base.

The commission has heard testimony on increasing the amount of money in the subsidy, changing some of the weights in the student-weighted formula, as well as how Pennsylvania compares with other states. Folding in other factors currently outside of the basic education subsidy, such as funding for school building facilities, has been discussed.

Policy Brief Vol. 23, No. 11, recommended three possible options to fix public school funding as a result of the ruling. Each has various obstacles and would encounter resistance, especially from wealthy districts that can raise substantial dollars locally. The court ruling noted that “Pennsylvania has used both state and local taxes to fund education since the 1800s.” How would these options affect school districts, particularly the 43 in Allegheny County?

- *Eliminate property taxes and other local funding sources and have all funding come from the state*—Based on FY 2021-22 Annual Financial Report (AFR) data, local revenue totaled \$19.6 billion with \$14.9 billion coming from current property taxes statewide. In Allegheny County local revenue was \$2.1 billion, with \$1.6 billion coming from current property taxes.
- *Place an enforceable per student limit on local funds that can be raised for each district and the state would provide each district funds to equalize per student funding*—The same year, the statewide average for local revenue per ADM was \$11,620, which ranged from \$31,413 to \$2,601. In Allegheny County the average was slightly higher at \$13,830 per ADM and the range was from \$24,075 to \$2,601. There were 25 districts above the average.
- *Allow wealthy districts to create private schools that would receive no state funding*—This arrangement could be based on local revenue per ADM with a specific threshold. Or it could be based on how much districts can raise in property taxes per mill (1/1,000 of a dollar, and the rate is expressed as dollars per \$1,000 of assessed value). Allegheny County's districts present a wide variety of assessed values: based on the most recent parcel count and values report from Oct. 9, Pittsburgh Public Schools has \$20.5 billion in taxable assessed value; 23 districts have between \$1 billion and \$6.5 billion in taxable assessed value; 19 have less than \$1 billion.

Pennsylvania is near the top in the nation for spending per-pupil. A June 2021 report from the National Center for Education Statistics (based on 2019-20 data on current

expenditures, capital and interest on school debt) ranked Pennsylvania 8th highest of the 50 states at \$19,165 with a range of \$27,506 (New York) to \$9,768 (Idaho).

The AFR data for FY 2021-22 shows statewide average current expenditure per ADM of \$18,382, with \$12,383 spent on instruction, \$5,671 for support and \$328 on non-instruction. The averages for Allegheny County's districts were higher. Current expenditures per ADM were \$20,149. Instruction per ADM was \$13,258, support was \$6,430 and non-instruction was \$460.

The Department of Education's statewide public enrollment count taken on Oct. 3, 2022, was 1,677,667. This is projected to be 1,604,569 (4 percent lower) by the 2027-28 school year.

Thus, the commission's task of deciding how to distribute the basic education subsidy, how that achieves equity and what happens to keep districts that can afford to tax and spend more from doing so is a very complex one, to say the least. The student-weighted formula, in place for nearly a decade, should be the vehicle through which more of the state's base is distributed. Leaving "hold harmless" in place is not good public policy and should be ended immediately. If a fixed percentage of that money had been shifted to the new formula each year over the past nine years, the state might be a lot closer to the school funding system the commission is charged with recommending.

It is important for the commission to consider the impact on taxpayers as the hearings continue. After all, whether derived from state taxes on income or sales or school district taxes on property, earned income or deed transfers, the level of taxation must not lead to growth in spending and school employment while performance and enrollment do not increase.

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