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Basic education subsidy would grow and transform in proposed budget

Summary: The proposed fiscal year (FY) 2024-25 state budget would spend $8.94 billion on the basic education funding subsidy (subsidy) for the state's 500 school districts. The subsidy would undergo several changes as recommended by the state's Basic Education Funding Commission (commission).

A decade ago, in FY 2014-15, the state distributed $5.5 billion from the subsidy. Since then, the General Assembly approved a student-weighted formula and applied that to each year's new appropriations, made Social Security payments to districts temporarily part of the subsidy and added a Level-Up payment for 100 districts. In FY 2023-24, the subsidy totals $7.87 billion, a 43 percent increase.

The FY 2024-25 budget presentation was preceded by two significant events. First, in February 2023, the state's Commonwealth Court ruled the method of funding K-12 public education unconstitutional. Second, in September 2023, the reconvened commission began a series of hearings on school funding. Members of the bicameral, bipartisan commission considered two reports at the final meeting this past January, approving one that had elements that made it into the budget presentation.

Under the budget, the state would spend $8.94 billion on the subsidy to districts. If adopted, the subsidy would have three components:

1. The base amount ($7.87 billion) would be the total basic education funding subsidy for FY 2023-24. In other words, it would be a new or reset base amount with the FY 2023-24 base ($5.88 billion), plus the money that has flowed through the student-weighted formula from FY 2015-16 through FY 2023-24 ($1.99 billion).
2. A distribution through the student-weighted formula ($200 million) and each district would receive a proportional share of the money.
3. A distribution through the adequacy investment ($871.3 million). The investment would be comprised of an adequacy supplement ($734.8 million) and a tax-equity supplement ($136.5 million), each with their own formula.

The adequacy investment is worth discussion since that was part of the court proceedings and commission testimony. The adequacy supplement is based on a district's spending compared to the median expenditure for a "successful" district ($13,704 per-student). If spending is lower, there is an "adequacy gap." After removing a local share and comparing that to different percentiles, a district may be granted an adequacy supplement. A similar process is used to determine if a district is to receive a tax-equity supplement, comparing a district's local taxes to a specific percentile and then paying a supplement if a district qualifies.

In the proposed FY 2024-25 budget, 416 of the 500 districts would receive an adequacy investment, with 124 of those receiving a dollar amount from both supplements. The Philadelphia School District—the largest district in the state by enrollment—would receive $202.6 million (23 percent). Pittsburgh Public Schools (PPS) would receive nothing. The Reading School District would receive $38.8 million (4.5 percent). Ten other districts would receive at least $10 million, while 12 would receive less than $50,000.

In order to compare district wealth with the adequacy investment, the market value/personal income aid ratio was used. The Department of Education states the aid ratio "represents the relative wealth (market value and income), in relation to the state average, for each pupil in a school district." For the 416 districts, the FY 2023-24 aid ratio ranges from 0.2011 to 0.9040 (a lower ratio indicates higher district wealth). The median ratio is 0.6003.

For the 208 districts with an aid ratio from 0.2011 to 0.6001, a total of $242.9 million (28 percent) from the adequacy investment would be allocated, with $176.9 million from the adequacy supplement and $66 million from the tax-equity supplement. For the 208 districts with an aid ratio from 0.6005 to 0.9040, a total of $628.4 million (72 percent) from the adequacy investment would be allocated, with $557.9 million from the adequacy supplement and $70.5 million from the tax-equity supplement.

Proposed Adequacy Investment for Six Allegheny County School Districts

School District	2023-24 Aid Ratio	2024-25 Adequacy Supplement	2024-25 Tax Equity Supplement	Total 2024-25 Adequacy Investment
Allegheny Valley	0.3096	$0	$120,311	$120,311
North Hills	0.4271	$401,537	$0	$401,537
West Jefferson Hills	0.5746	$428,375	$948,512	$1,376,887
West Mifflin Area	0.6546	$641,774	$1,540,324	$2,182,098
East Allegheny	0.7131	$668,500	$792,295	$1,460,795
Sto-Rox	0.8355	$2,720,973	$340,697	$3,061,670

The complex adequacy investment would be added to the mix with current subsidy components. Education advocates over the last decade noted that a shortcoming of education funding was that the student-weighted formula represented a small portion of the total since it only applied to new money. Now those dollars will be folded into the base with the “hold harmless” money that does not fluctuate with enrollment. It seems that portion of the subsidy will never be done away with.

For example, in the budget proposal, PPS would receive $180.1 million from the basic education funding subsidy and $153 million (85 percent) of that would be what the district received in FY 2014-15, before the addition of the student-weighted formula. K-12 enrollment is projected to be 25 percent lower in the 2024-25 school year. Likewise, Farrell Area’s enrollment is projected to fall 13 percent yet its $6.9 million subsidy from FY 2014-15 will represent 57 percent of its proposed subsidy. From FY 2014-15 to FY 2021-22 the Department of Education’s data on total expenditures and K-12 enrollment show PPS spending per student grew from $26,373 to $38,142 (45 percent) and in Farrell Area from $21,944 to $34,498 (57 percent).

There is nothing in the proposal about having all funding come from the state, placing a limit on local funds that can be raised, allowing wealthy districts to create private schools and receive no state funding or driving more funding through the student-weighted formula as the Institute has recommended.

The executive and legislative branches were given the first opportunity to deal with the court’s ruling since the judicial branch of government felt it was in uncharted territory. The opening proposal is a 13.6 percent increase in the subsidy next year.

Given the commission’s dueling reports and the partisan divide in Harrisburg, there is sure to be plenty of debate as budget negotiations begin—and that goes without touching on other education proposals, such as charter school payments, school construction and higher education reforms.

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