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PASBO Benchmarking Committee

Testimony to the Basic Education Funding Commission

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Good morning, and thank you for inviting us to testify before you this morning on the important matter of basic education funding. My name is Jay Himes, and I am the Executive Director of the PA Association of School Business Officials (PASBO). With me today is Dr. Wayne McCullough, the Chief Financial and Operations Officer at Southern York County School District. Today we are representing the PASBO Benchmarking Committee, which is comprised of PASBO members from across the state and focuses on reviewing data to identify best practices in all aspects of school business.

Earlier this year, the focus of the Benchmarking Committee shifted to examining basic education funding in Pennsylvania. The Committee began by discussing education funding formulas in Pennsylvania and education cost drivers. We acknowledged the difficulty with the current funding process, which provides a method for distribution that is not tied to any consistent formula beyond what a district received in the prior year. While targeted supplements have been provided for a limited number of districts in the recent past, this system provides school leaders with zero predictability and does not take into consideration the impact of cost drivers on a school district budget in any meaningful way.

The Committee also spent time analyzing and debating the pros and cons of the current measures of wealth and tax effort and determined that some measures frequently used in the distribution of

education funding, such as aid ratio to measure relative wealth, may no longer accurately reflect the reality in all school districts. In fact, the use of such measures may perpetuate the inequity that already exists across districts.

With this in mind, the Committee sought to identify a framework for a new basic education funding formula that provided school districts with predictable funding from year to year, targeted additional resources to recognized cost drivers and used known, reliable and verifiable data instead of simply relying on the same old indicators that may have outlived their usefulness.

As we undertook this challenge, we made the critical assumption that a new basic education funding formula would apply only to new basic education dollars and that the \$5.5 billion currently driven out to school districts would continue to be distributed as it is now. We also assumed that an easy to understand formula that did not attempt to address every district variable was the best way to proceed. The more extensive and complex the formula, the less reliability and predictability there is to build familiarity and trust.

The process for fleshing out our recommendations was a slow one that involved hundreds of hours, numerous spreadsheets and multiple false starts down pathways that proved inaccessible due to lack of available reliable data. In the end, we believe our recommendations are relatively straightforward—count students using average daily membership (ADM), weight and adjust those counts based upon student and district factors and prorate available funding based upon those weights.

To do this, we have identified several student and district factors that we believe should be included as components of a basic education funding formula. While these factors should be weighted appropriately in a formula, we do not have a research based analysis to recommend how these factors should be weighted; however, we do have the benefits of our previous Costing Out Study and similar studies in other states to eventually provide an informed judgment. In addition to student factors, we have identified some district factors that we believe can also be used to provide reliable adjustments to a school district's ADM based on district size, wealth and tax effort.

Count Students

One of the criticisms of Pennsylvania's current funding mechanism is that it does not take individual students into account—in fact, it completely disregards this information—resulting in a static distribution that cannot respond to changing demographics. The number of actual students in each school district is a factor in nearly every basic education funding formula in every other state and was used in each of Pennsylvania's prior funding formulas. Using accurate student counts to drive a formula ensures that it can respond to the changing actual needs of each school district.

Our proposal begins with each school district's ADM, which counts the total number of students for which a school district is financially responsible for each school year. These numbers range from an ADM of just below 300 in one school district to over 200,000 in the School District of Philadelphia. The ADM counts is known, reliable and verifiable data, and we recommend the use of ADM as the first component of a basic education funding formula.

Student-Specific Factors

There is recognition that certain student-specific factors play an important role in driving educational costs, as additional resources are necessary to ensure that certain students, such as those living in poverty, receive the supports they need to succeed. Starting with an accurate student count for each school district, we believe that a school district's ADM should be adjusted based upon certain student-specific factors that affect the overall cost of educating individual students. While there is potentially an infinite number of student factors that could be used if reliable data were available, PASBO recommends the use of three specific factors: poverty, English Language Learners and charter school enrollment.

Poverty Adjustment

Over the course of your hearings, you have heard from stakeholders and researchers alike that there are real hurdles in front of students living in poverty and that to overcome or at least counter these hurdles requires additional educational resources. Research shows that students living in poverty face numerous obstacles in the classroom compared to their peers as a direct result of their socioeconomic status. These students may have poor nutrition or health, smaller vocabularies, lower cognitive capacity, poor coping skills and may be at high risk for depression or distress, all of which impact their ability to positively and effectively learn, remember, process and interact with their peers. Fortunately, each of these challenges can be overcome, and with appropriate classroom supports, tutoring, counseling and other necessary interventions, students living in poverty can be just as successful as their more affluent peers. However, to ensure that schools are able to provide these additional supports to students living in poverty, additional resources beyond what it takes to educate a regular education student are required.

Prior to determining how to direct additional resources to school districts to be used to supplement their resources for each student living in poverty, we must determine how to measure students living in poverty—and how to do so using known, reliable and verifiable data. Poverty has been a frequent factor in school funding formulas, and Pennsylvania has used poverty as a formula factor and as a factor in a targeted supplement for years. In the past, poverty was sometimes measured by aid ratio, sometimes measured by personal income per ADM—or a combination of the two—and beginning in 2007-08 was based upon the number of students eligible for free and reduced price lunches.

Measuring students living at or below 185% of the poverty level, the free and reduced price lunch measure has served as Pennsylvania's poverty measure ever since, however, the number can no longer effectively be used as a proxy for poverty. School districts are now able to provide free lunches to all students—through the Community Eligibility Program (CEP)—regardless of whether the students would have qualified before. A school district or an individual school is eligible for the CEP if it has had a free or reduced population greater than 40%. Many school districts, including the School District of Philadelphia, have opted into this new program, and as a result, districts are no longer collecting the income data that was used to determine whether a student would qualify for a free and reduced price lunch. Therefore, this is no longer a valid measure of poverty in a school district.

As an alternative measure of poverty, Federal Census Data can be used. Census Data measures poverty in the general population and can be broken down to measure the number of individuals ages 5-17 living

in poverty in each school district. While numbers are produced annually, these numbers rely on estimates between Census years. Additionally, the numbers measure the total number of 5-17 year olds in poverty who are living in each school district, not necessarily enrolled in the school district. Despite this, the Census Data is a known, reliable and verifiable measure of poverty that would serve as an appropriate alternative to the free and reduced price lunch measure.

It is important to recognize, however, that in using Census Data, the percentages of students in poverty will vary greatly from those percentages used for free or reduced price lunches. While the threshold was 185% of the poverty line for free or reduced price lunch, which equates to \$44,122 per year for a family of four, the Census Data measures those at or below the poverty line, which is \$23,850 per year for a family of four. Due to the difference in these measures, use of the Census Data will significantly reduce the numbers of eligible students in each school district. Overall, PASBO believes that the use of the Census Data is appropriate, as it targets those students who are living in acute poverty—these are the students who will have the greatest educational struggles as a result of their socioeconomic status and, as a result, will require the greatest additional resources to overcome the challenges associated with poverty. Across Pennsylvania the percentage of students living in poverty using the Census Data ranges from just over 3% in Council Rock School District to over 48% in Reading School District.

As a potential alternative to the use of Census Data, Direct Certification data could also serve as a measurement of poverty. Direct Certification data is compiled annually by the PA Department of Welfare and includes all students who live in households that qualify for government assistance programs. When an individual becomes eligible for a government assistance program, students residing in that household are automatically added to Department of Welfare's list, which is then provided to school districts to ensure those students receive a subsidized school lunch. This Direct Certification data is known, reliable and verifiable, and like the Census Data, the Direct Certification data will have the impact of reducing the total number of eligible students in each school district, targeting only those who are living in acute poverty.

If the Commission desires to maintain the current threshold for poverty (185% as used for reduced price school lunch eligibility), then perhaps a blended Census Data indicator of more acute poverty at 100% and the 185% standard could be created. Regardless of which indicator, the poorest of the poor should drive this weight for the purpose of a new formula.

English Language Learner Adjustment

In addition to poverty as a cost driver for school districts, students who are English Language Learners (ELL) also require additional school district resources to achieve academic success, and a school district's ELL population has been a factor in prior funding formulas and supplements to basic education funding in the past.

With approximately 47,000 ELLs across Pennsylvania, not only must school districts provide instruction to these students on the regular curriculum, but they must also provide language instruction to ensure these students become proficient in English. This additional English language instruction generally comes in the form of small classrooms with low student to teacher ratios. Additionally, when a student moves into the district who is an ELL in a language for which the district does not currently have staff

with expertise, the district must hire additional staff to ensure that the educational needs of that student are met.

While ELL students will need less and less additional instruction and resources as they become more proficient in English, most estimates show that it takes students between 3 to 6 years to become entirely English proficient. Although the cost impact of these additional supports will depend on the size of the school district, the number of ELL students and the range of languages they speak, it is clear that the cost to educate an ELL student is higher than the cost to educate an English-speaking regular education student, and as a result, additional resources should be directed to school districts based on their ELL population.

Fortunately, the measurement of ELL students is straightforward, as the number of ELL students is known, reliable and verifiable and reported annually by school districts to PDE. Based on 2009-10 data, which is the most recent data made publically available by PDE, the ELL population ranged from zero students in approximately 80 school districts to over 12,000 ELL students in the School District of Philadelphia. Over 50 school districts had in excess of 100 ELL students and 6 school districts had in excess of 1,000 ELL students.

Charter School Enrollment Adjustment

One of the most significant—and growing—factors that impacts school district budgets is charter school enrollment. As charter school tuition rates climb, charter schools are a significant cost driver of school district budgets, and like poverty and ELL, is an important factor to consider in a basic education funding formula.

There are currently 162 charter schools and 14 cyber charter schools educating nearly 130,000 Pennsylvania students, numbers which have increased dramatically over the years. The tuition rates school districts pay for each charter school student have also increased. In 2012-13, the total school districts paid to charter schools had ballooned to \$1,268,330,875, an increase of 57% from 2009-10, with the average regular education tuition rate being \$9,266 per regular education student and the average special education tuition rate being \$19,003 per student.

While school districts used to receive state funding to cover approximately 25-30% of their charter school expenses, that reimbursement was eliminated in 2011-12, leaving school districts and local taxpayers to pick up all charter school costs.

With the exception of limited federal dollars and state dollars driven to charter schools through the Ready to Learn Block Grant, the vast majority of a charter school's revenue comes as tuition from local school districts. As a result, a growing share of a district's annual property tax revenue is dedicated to covering the annual increase in charter school expenditures. From 2009-10 to 2012-13 when property taxes increased by \$937,385,712 across the state, a full 50% of this increase was dedicated solely to covering the corresponding growth in charter school tuition costs. Between 2011-12 and 2012-13, a full 57% of the annual increase in property taxes was dedicated to covering the annual increase in charter school expenses, with total charter school costs in 2012-13 equating to nearly 11% of total property taxes that year.

Charter schools clearly have a tremendous impact on school district budgets and local taxpayers, and in most districts, it is nearly impossible to achieve any cost savings as a result of students leaving the district for charter schools. As a result, PASBO believes the total number of charter and cyber charter school students from each school district should be a factor in the formula to provide school districts with some additional resources to cover a portion of their rising charter and cyber charter school costs.

This data is known, reliable and verifiable, as charter and cyber charter school enrollment—by school district—is reported to the Department of Education annually. Based on 2012-13 data, the range of charter school enrollment varies from zero in 498 school districts to over 52,000 in one district. There are over 100 districts having in excess of 100 charter school students and nine districts having in excess of 1,000 charter school students.

District-Specific Factors

In recognition of the tremendous diversity of Pennsylvania's 500 school districts, we recommend certain school district-specific adjustments be included in a new basic education funding formula in addition to the student-specific factors discussed above. School districts across the Commonwealth face a variety of challenges, some due to their size and geography, and others due to economic factors, and failure to consider these district challenges would perpetuate the inequity that we currently see in basic education funding. PASBO recommends that following the adjustments for student-specific factors, additional district-specific adjustments are made to account for the unique challenges of small, rural school districts and for the wealth and tax effort in each school district.

Small, Rural School District Adjustment

In addition to the individual student factors, PASBO believes that the basic education funding formula should recognize the unique needs of small and rural school districts. In the past, basic education funding formulas and supplements have included weights or subsidies for small and rural school districts. In many cases, this weight was based primarily on the ADM of a school district.

It is the combination of being small and rural that provides some additional financial challenges for school districts. Across Pennsylvania, there are over 50 school districts that cover at least 200 square miles, with nearly 30 districts covering over 300 square miles. Despite their land mass, many of these school districts are relatively small in population, yet due to their size they are unable to benefit from economies of scale. For example, many of these school districts must operate many small schools across the district to avoid transporting students vast distances leading to excessively long bus rides. While this organization may not be the most cost effective, these districts have little choice based on their vast geography.

Acknowledging these financial challenges, PASBO recommends making an adjustment for small, rural school districts similar to that used in Act 126 of 2014 (the new special education funding formula legislation created by the Special Education Funding Commission). Act 126 provided an adjustment in the new special education funding formula based on a school district's sparsity/size ratio, which

measures a school district's size and population per square mile—all data that is known, reliable and verifiable. This measure provides for an adjustment to the ADM of precisely those small, rural school districts—approximately 150 of them—that face the greatest challenges achieving economies of scale. We would recommend that instead of weighting the size ratio by 60% and the sparsity ratio by 40% which was adopted in Act 126, these ratios should be weighted equally.

Wealth and Tax Effort Adjustment

The final component of our proposal includes an adjustment to reflect the wealth and tax effort of each school district. This component of the formula is critical, as without such a component, the formula discussed above would have the impact of driving all the new money to those school districts with the greatest ADMs regardless of the local wealth or current tax effort in the school district. This factor differentiates between those school districts that have few resources and/or a high tax effort and those that districts that are wealthy and/or have a relatively low tax effort.

As mentioned before, PASBO does not recommend the use of the same wealth (aid ratio) and tax effort (equalized mills) measures that have been used in the past, and as such, we have developed a new ratio that we believe effectively captures both tax effort and wealth in one measure.

Instead of using aid ratio to measure wealth, since taxes are paid with income not property, we created a measurement of a school district's median household income, and have labeled this new wealth/poverty indicator the Household Income Aid Ratio. Examining median household income in each school district as a proxy for wealth focuses discussion on the resources available to residents in each school district. We simply compared each school district's median household income to the state average median income to determine each school district's Household Income Aid Ratio. As a result, school districts that are relatively wealthy have low Household Income Aid Ratios, while school districts that are poorer have higher Household Income Aid Ratios, just like the current aid ratio range is expressed.

For example, Radnor Township School District has a median household income of over \$101,000, while the state average median household income is only \$52,000. As a result, Radnor Township School District has a low Household Income Aid Ratio of 0.0347. In contrast, Reading School District has a median household income of just over \$27,000, giving them a high Household Income Aid Ratio of 0.7417.

Measuring tax effort is also a critical component of a new basic education funding formula, as we believe additional state funding should be more directed to those school districts that have a relatively high tax effort and less to those districts that have low tax efforts—potentially because they have high natural growth that negates the need to add to local tax effort. To measure tax effort in each school district we created a ratio of residential taxes to median household income in each school district.

For this ratio, we wanted to focus entirely on the tax effort of residential taxpayers. To do so, we determined the amount of total property taxes paid by residential taxpayers—leaving out the taxes generated from commercial properties and other property types. From this amount, we deducted the amount of money provided to school district residents for property tax reduction, as this offsets the

property tax burden of homestead property. We then added to the resulting amount the other non-business local taxes paid by residential taxpayers—this includes per capita taxes, earned income taxes, occupation taxes and local services taxes paid to each school district. We have labeled this new indicator the Tax Effort Aid Ratio.

The school district's total residential property and non-business local taxes were divided by the number of households in each school district to determine the average total taxes per household in each school district. While this number ranges from just under \$500 per household in some districts to over \$4,000 per household in others, it must be put into perspective based upon the median household income of each district to determine the relative tax effort in that district.

To do so, we took the total residential property and non-business local taxes per household in each district as a percentage of their median household income—this tells us the share of local income going to the school district. We then converted this percentage to a Tax Effort Aid Ratio, with a lower number signaling a lower tax effort and a higher number signaling a high tax effort, meaning that residents are using a larger portion of their income to pay local school taxes.

For example, in Stroudsburg Area School District, the total residential property and non-business taxes per household are just over \$3,600. Based on the district's median household income, which is just about \$60,000, these residential and non-business local taxes represent approximately 6% of a resident's income. As a result, Stroudsburg Area School District has a Tax Effort Aid Ratio of 0.8411. On the flip side, in Blacklick Valley School District, the total residential property and non-business taxes per household are only \$425. Although the district's median household income is only \$39,000, residents are paying only 1% of their income to these local taxes, giving them a low Tax Effort Aid Ratio of 0.1520.

We then combined these ratios together, weighing each ratio at 50%, to get a total Household Income/Tax Effort Aid Ratio. The range of this combined ratio is 0.12 to 0.84, aligning with the current aid ratio distribution. A higher combined ratio generally shows that a district is less wealthy and has a higher tax effort. We then used this combined ratio as adjustment to a school district's ADM—providing a greater adjustment for those districts with higher combined ratios.

We believe that this combined Household Income/Tax Effort Aid Ratio effectively captures both the wealth and tax effort of a school district and serves as a much more accurate measure of these factors than aid ratio and equalized mills. The data we used to calculate each of these ratios is known, reliable and verifiable and comes from Federal Census data, data from the Tax Equalization Division at the PA Department of Community and Economic Development, PA Department of Education data, and data from the National Center for Education Statistics.

Putting the Factors Together

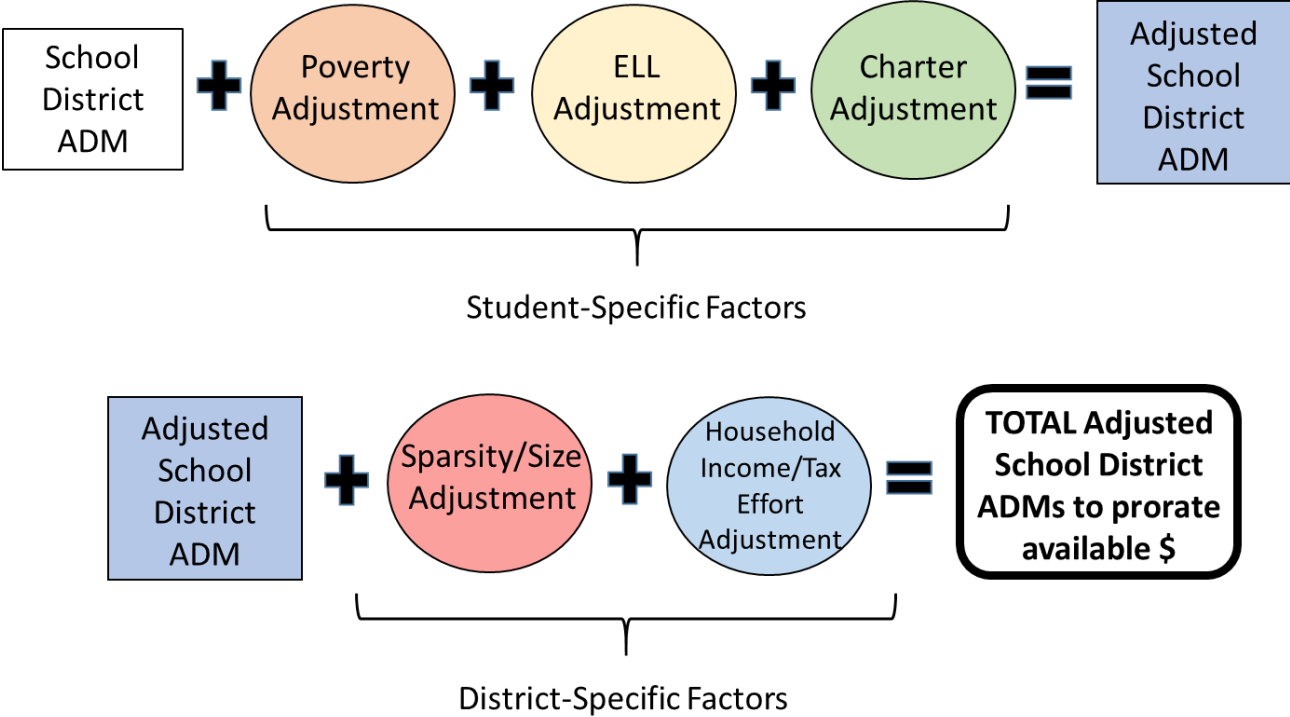
Putting all the above factors together into a formula, PASBO recommends a new basic education funding formula that is structured like the chart below. Beginning with an accurate student count in each school district, the money will be driven to school districts based on their actual composition of students, which will be a significant but positive change from current practice. Providing adjustments to each district's

total ADM based on the student specific factors of poverty, ELL population and charter school enrollment functions to direct additional resources to those school districts that are most affected by these educational cost drivers.

Providing an ADM adjustment to small and rural school districts recognizes the financial challenges faced by these districts that cannot take advantage of economies of scale. Finally, adjusting the ADM for the wealth and tax effort in each school district ensures equity in the distribution of these new dollars as it targets those resources to those school districts that currently have a high tax effort in relation to their wealth.

Once these adjustments are made to each school district’s ADM, new dollars would be distributed to school districts based upon their share of the total adjusted ADM count.

Proposed Basic Education Funding Formula



Hold Harmless Alternative

In addition to the formula we discussed above, during our Committee discussions, we also developed a loose concept that could serve as an alternative to hold harmless.

The current hold harmless has the effect of providing each school district with at least as much basic education funding as they received in the prior year, regardless of changes in their enrollment, wealth or tax effort. We would propose the idea that a hold harmless could be maintained but restructured to focus on per student funding.

In this situation, the state funding currently provided to each school district would be calculated on a per student basis—determining the total state basic education funding contribution per student. This per student amount, which would differ in each school district, would—after an annual inflation adjustment—become the new hold harmless amount in each school district. As such, the state would hold each school district harmless at this per student amount, but the total amount the state would send to that school district every year could fluctuate depending on whether the district grew or decreased in ADM.

For example, if a school district with 1,000 students currently received \$4,000,000 from the state in basic education funding, that equates to \$4,000 per student. This \$4,000 per student—adjusted annually for inflation—would be the hold harmless amount for the school district. If the district's ADM increased, the state funding to that district would increase ensure that each new student got the hold harmless amount. If, however, the district's ADM decreased, then the amount the school district would receive would decrease.

This concept would not negatively impact hundreds of school districts, as would be the case if hold harmless were eliminated. Instead, this concept would measure the state investment per student that exists currently and put in place a mechanism to ensure state funding to all school districts—to keep up with inflation—yet because the total state funding would be based on a per student amount and not a per district amount, it would be dynamic and reflect changes in school district enrollment going forward.

Thank you again for your time and the opportunity to testify before you today. On behalf of PASBO and the PASBO Benchmarking Committee, we would be pleased to provide you with any additional information regarding our proposal, and we look forward to the Commission's continued work and final recommendations. We would be happy to try to answer any questions you might have.