

**Testimony to:
Basic Education Funding Commission**

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**Presented by:
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Members of the Commission.

Good afternoon and thank you for the invitation to offer testimony today on K-12 school funding issues, with special emphasis on issues important to Pennsylvania's rural school districts, and the students they serve.

I am Ron Cowell, President of The Education Policy and Leadership Center (EPLC). EPLC is an independent, non-partisan, and not-for-profit organization based in Harrisburg with public policy and leadership development programs and activities throughout Pennsylvania. Our purpose is to improve the development and implementation of state-level education policy.

The challenge before the Commission is somewhat daunting on the one hand, because the issues are very important and you have a rare opportunity to make significant policy progress on behalf of Pennsylvania's public school students.

On the other hand, the potential elements of a funding formula are mostly known to state lawmakers for decades and are not unique to Pennsylvania. So this challenge is a lot less complicated than some like to imagine.

There usually are three main variables that are multiplied to determine state funding going to a district. One, you count something, usually the students. Two, you consider the relative wealth of districts or their ability to pay their own way, because the ultimate purpose of the state funding is to level the playing field --- or the field of academic opportunity for students. And three, you insert a dollar figure that ideally has something to do with actual costs of districts and the calculated needs of students.

Beyond these three basic elements of a formula, state lawmakers in Pennsylvania for several decades have also given some extra support to school districts that have a high degree of population density or are characterized by population sparsity. While these considerations were to some degree the result of political power, there are undoubtedly very real extraordinary costs associated with delivering services to students in densely populated urban centers as well as in relatively small enrollment districts geographically spread over large land areas.

Just about everyone agrees that a formula needs to include a count of students. You will hear different views about when to count the students and about applying different weights for early education, other elementary grades, and high school. You will certainly hear substantial consensus that extra weighting or some other consideration needs to be given for students who are from economically poor households or who are English Language Learners (ELL). The debate will largely be about the amount of extra weighting and will to some degree be about whether the extra weighting is triggered by the presence of an individual student who is poor or ELL or by a certain concentration of students who are financially disadvantaged or are ELL.

Of course, these questions of extra support for economically disadvantaged students or English Language Learners are as important for many rural districts as they are for non-rural districts.

There are two additional groups of students for which some additional weighting should be considered, and which have not been previously mentioned. A new formula should take into account the extraordinary costs associated with career-technical education programs and also the extraordinary costs related to education for homeless children.

For decades we measured a district's relative wealth – we call it aid ratio – by considering the relative value of real property in a district as compared to the entire state. Wealthier districts have a lower aid ratio and poorer districts have a higher aid ratio. About thirty years ago we shifted to a calculation that ever since has calculated aid ratio based 60% on the relative value of real property and 40% on the relative value of personal income in the district.

Through these hearings and your other inquiries, you will hear opinions about whether that 60-40 balance remains appropriate or should be shifted to give additional consideration to the relative value of personal income. A careful analysis of the implications of the current balance or any proposed shift will be in order from a statewide perspective, but may be especially important to rural districts where there often is found relatively great wealth in value of real property accompanied by relatively low personal income.

The third critical element in a formula is the dollar figure. This is a critical variable because an insufficient dollar figure will inevitably mute the effectiveness of all the other formula elements that are considered.

I'll return to this dollar figure element in a moment, but first want to turn to one of the other major issues that the Commission has been asked to consider. That is the issue of "hold harmless."

"Hold harmless" is as much a political consideration as it is an element of school funding. In short, it is a funding formula tool that reflects a belief that a school

district should not receive less funding from the state than it did the year before, no matter what the formula says the district is entitled to receive. One historical rationale for this has been that the Legislature would not want to suddenly reduce the state resources available to a district simply because it became wealthier for aid ratio purposes, or because it lost some students. In the case of either a lower aid ratio representing relative growth in wealth, or the loss of students, the district would normally be eligible for less state funding if all other things remained stable.

The other rationale --- the political consideration --- is that a member of the General Assembly doesn't want to go back home and explain why a district he or she represents is getting less state funding than the year before, especially if the overall statewide appropriations level has been increased.

First, consider the effect of hold harmless on the overall funding system. We in Pennsylvania have had a lot of experience with this over the past 40 years or more. While the application of "hold harmless" is practically assumed to be a given every year at budget time, consider how its application repeatedly for decades badly distorts the distribution of state dollars.

Think about the extreme hypothetical case. Assume the state appropriation is flat for two or more years. One district's enrollment decreases by 100%, or maybe 50%, or maybe just 25%, but "hold harmless" assures the district receives the same amount of state assistance --- year after year after year. But with flat funding for the state appropriation, the guarantee of no cuts means there is not additional funding available to increase support for any other district that may have become relatively poorer, or had an increase in student enrollment.

While the hypothetical is about an extreme case of 100% decrease in enrollment, or a severe drop in a single year, the general picture is the reality of Pennsylvania's K-12 funding policy for the past few decades. Especially in years when there is little or no increase in the state appropriation for funding districts, "hold harmless"

protects the interests of districts getting wealthier or losing enrollment at a cost to other districts with growing enrollment or decline in relative wealth.

Consider another long-term implication with the application of “hold harmless”. No matter how a district gets its state funding --- normal formula, a “one-time” boost, a political deal --- that total amount of funding usually becomes the district’s new base that will be fully protected in the future by the application of “hold harmless”.

The Legislature often has further exacerbated the effects of “hold harmless”. In years past, it has not been uncommon for the General Assembly to enact a distribution formula that guarantees every district not only what each received a year before, but also guarantees a 1% or even a 2% *increase*, no matter what the district might actually earn under the formula approved for the new year for distributing the state funds.

“Hold harmless”, like other artificial guarantees or limits the General Assembly may establish for the distribution of state funding, inevitably undermines the integrity and the intended effects of a formula that otherwise may be quite effective.

Now I also believe that the matter of “hold harmless” must be put in some larger context.

In state school funding circumstances that we have had in Pennsylvania for most of the past 20 years or longer, “hold harmless” has been a great conundrum for state lawmakers. For most of this time, we have seen no or very small annual increases in state funding for basic subsidy. It is precisely in these circumstances that the political demand for the application of “hold harmless” is the greatest. And it has been common for state lawmakers to acquiesce to this demand. As you know then, annually, the plan for the distribution of state funding starts with “every district will get what it received the prior year,” and the lawmakers then negotiate a formula or plan for the distribution of any increment in funding approved in the state budget.

It has worked this way because state lawmakers have not been consistently committed to any rational formula that would take into account the needs of districts and their students. For decades now, with one brief exceptional period from 2008 to 2010, state lawmakers have failed to support any state basic education subsidy system that considers the real costs of districts or the real needs of students.

A rational formula would begin with the needs of students if each is to have the opportunity to accomplish the academic standards that state policy says is so important. Such a rational formula would recognize the nearly inevitable year-to-year increased costs incurred by a district because of inflation or other cost pressures. But state policy in Pennsylvania ignores the real increased costs being incurred by districts --- all of them, large and small, richer and poorer, rural and urban as well as suburban. And this has been the reality of state funding for districts for most of the past 25 years or longer. Appropriations have generally been made without consideration of the costs incurred by districts and the actual needs of students for programs and services. State appropriations to support districts and their students have been driven only by what lawmakers are willing to appropriate.

In this environment where one might argue almost all districts are underfunded to some degree by inadequate state appropriations, “hold harmless” becomes easier to defend by those who benefit and especially for those districts where it is a real economic necessity.

But hold harmless is a political need for far few legislators, and an economic need for far fewer districts, in circumstances where there are annual increases in state basic subsidy support that keep pace with the increase in real costs incurred by districts throughout the Commonwealth. So the real answer to the “hold harmless” conundrum is to provide a greater and more fair share of state support for basic

education. When that is done, “hold harmless” will become what it was intended --- the rarely needed safety net for a few extraordinary situations each year.

The most reasonable way to assure that districts do not experience indefensible decreases in state funding year-to-year is not the application of the “hold harmless” protection, but instead a formula and appropriation that will assure the annual increases in state appropriations reflect the annual increases in costs incurred by the state’s 500 districts, and the real needs of students.

This Commission cannot seriously consider an appropriate K-12 funding formula without considering the effects of our current system. This is a system that transcends any single administration and any legislative session.

The major effect of our current system is that we have unconscionable gaps in academic opportunities for students, depending on where they live. These gaps exist despite our state policies that articulate the same high level of expectations for all students wherever they live, supported by a state system of assessments and accountability measures applied to all.

We live in a Commonwealth of 500 districts where far too many students do not have the academic opportunities presented by AP and honors courses, art and music programs, foreign language courses, and dual enrollment courses. Too often these same students do not have the benefit of appropriate class size, sufficient time with counselors, or the availability of academic support for those needing extra help or even prep for the SAT exam.

This is the result of a state funding system that has Pennsylvania ranked in the bottom five nationally for share of K-12 costs paid by the state; has us trailing all of our contiguous states for state dollars appropriated annually per student; and has us dependent on real property taxes for 43% of annual K-12 revenues compared to the national average of 28%.

This unconscionable inequity of opportunity for students is reflected in the state data that report some economically poorer districts in our state spend less than \$10,000 per student for current expenditures while others spend well over \$20,000 per student per year. And the negative consequences of our system that puts so much dependency on local resources to support opportunities for students will be made worse by shifting state policy that is further limiting state funding to support school construction and major renovation.

This growing responsibility for funding basic education with local resources rather than state assistance has also been exacerbated by the shift of special education funding responsibility from the state to school districts since 1991. School districts today have more than \$1.5 billion per year in unreimbursed costs for special education, and this figure grows every year. While the success of the General Assembly to apply a new formula this year to the special education funding increment is to be applauded, the reality is that districts incurred special education cost increases of hundreds of millions of dollars during the 6-year period of no increase in state support, and the \$20 million increase in state funding this year, while most welcome, doesn't keep pace with the increased special ed costs for districts in one year alone.

I believe this commission cannot complete its work in a conscientious manner if you do not begin with the question "What are the needs of students?"

It is not in the interests of Pennsylvania's nearly two million school children to have a major project about a funding formula that does not consider the needs of students.

Our state standards represent relatively high expectations for all students, and appropriately so. The state tests and related accountability --- all tied back to our academic expectations for students --- are state policies. It is not unreasonable to

suggest state policymakers also have a responsibility to determine what are the needs of students if each is to have a reasonable opportunity to succeed.

If we are serious about students graduating ready to succeed in college, career and citizenship, isn't there a responsibility to determine what it takes to give every student a chance for success?

The third variable or element in a typical school funding formula --- after counting the students and considering the relative wealth of each school district --- needs to be a dollar figure that reflects the real cost of providing opportunity for all students. The dollar figure in the formula needs to reflect the needs of students rather than some arbitrary figure inserted by policymakers based on what they choose to appropriate.

I suggest the Commission inform itself about the academic opportunity gaps for students that exist among the state's 500 districts. Much of this information is already available using the existing data systems of the Commonwealth. Note the degree to which students in many rural school districts do not have the academic opportunities provided their peers in many other districts of the Commonwealth. Note the huge opportunity gaps that exist when comparing all 500 districts.

I suggest the Commission also inform itself in a reliable and comprehensive manner about what is the cost of educating a student to accomplish the state's academic proficiencies and whatever else is deemed vital to getting students ready for success in college, career and citizenship. This is the information that should drive your answer to the question of cost which needs to be reflected in the third variable of the formula.

However you approach this question, the needs of students must be the basis for your consideration of a K-12 funding formula. We had a legislatively mandated costing-out study in 2007, and some didn't like the findings of that study. That does

not make the question go away. What are the needs of students, and what level of state support combined with reasonable local effort will assure sufficient resources to support opportunity for every student in every district?

A report of a committee of the Legislature has said “The problems imposed on state finances by the recent recession are not an excuse for inaction, but rather require that attention be paid to the creation of a long-term solution.”

That was the report of the House Select Committee on Public Education Funding, made in September 2002, following 16 hearings the preceding twelve months with testimony from more than 150 witnesses.

That Select Committee went on to recommend a process for the development of what it called a *“comprehensive foundation budget for basic education.”* Among its *“Adequacy Recommendations”* the Committee said the new system should *“Ensure that funding for all schools reflect the amounts required in schools determined each year to be successful in teaching their students mastery of State academic standards as promulgated by the State Board of Education.”*

On the issue of hold harmless, the Report said, *“To the degree the foundation budget process develops a level of funding determined to be adequate for basic education, and the Commonwealth thereafter consistently meets its obligation to fund, there should no longer be a need for hold harmless accommodations.”*

I understand that it is unlikely that the Governor and General Assembly will choose to accomplish a complete immediate fix to the challenges of the school funding system we have in Pennsylvania.

But this Commission can recommend a goal, a plan, and a commitment.

If all the Commission does is suggest recommendations for the distribution of whatever incremental funding the General Assembly chooses to appropriate in any given year, the impact will be a monumental disappointment for Pennsylvania's school children. And lawmakers will surely need to continue to use "hold harmless" as a political device and districts will depend upon it in lieu of a more rational funding system.

But you have a very special opportunity to be bold and to change a funding system that practically everyone agrees does not work in the interest of children.

The good news is that these problems can be fixed.

The good news is that practically all of the significant issues have been previously identified and considered here in Pennsylvania as well as around the nation.

What is in question is the matter of political will to act in a way that decisions are rooted in the best interests of students.

In other words, lawmakers will decide whether to perpetuate or to fix the very significant problem of academic opportunity gaps for Pennsylvania's students.

I will be happy to respond to any questions or requests for additional information today or during the remaining work of the Commission.

Thank you.

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