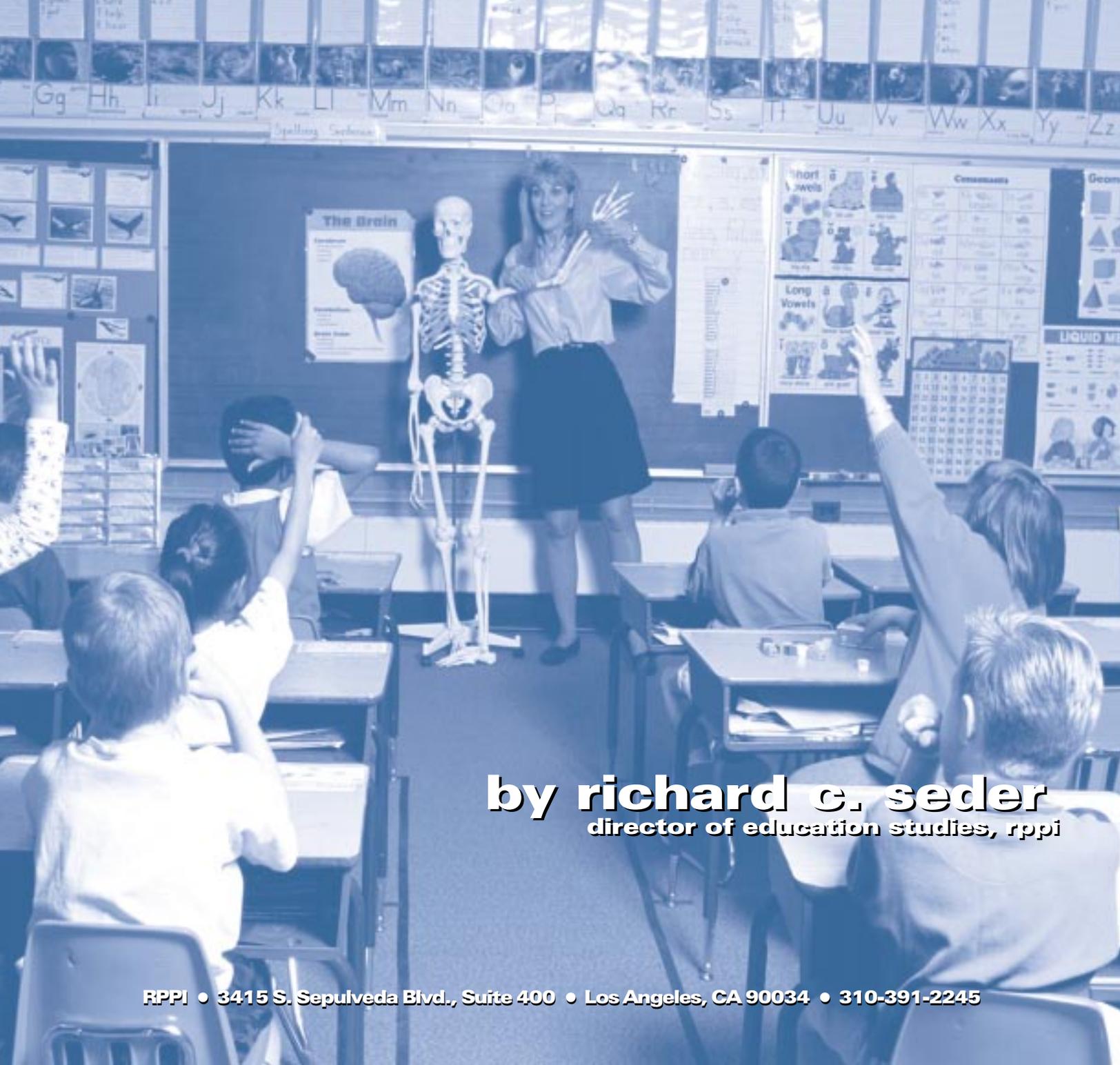


# Pennsylvania School Finance

## Out of the Courts, Into the Legislature



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## Equity Lawsuit

The Pennsylvania Association of Rural and Small Schools (PARSS) filed suit against the Commonwealth of Pennsylvania in 1991 claiming that the legislature failed in providing a “thorough and efficient” system of education. Their claim was based solely upon disparities in expenditures between school districts. Judge Dan Pellegrini handed down his decision on July 9, 1998 that the case was non-judicial, that because all school districts that testified indicated that children in their districts were receiving an adequate education, the Commonwealth was not in violation of constitutional provisions calling for a “thorough and efficient” system of public education. The court noted that all matters dealing with school finance are political matters and therefore are in the jurisdiction of the legislature.

The court’s ruling mirrored previous court rulings challenging the Pennsylvania school finance system. Earlier in 1998, the Commonwealth Court ruled similarly in *Marrero v. Commonwealth of Pennsylvania* that the Commonwealth was in compliance with the state constitution and that matters such as these fall into the hands of the General Assembly.<sup>1</sup> In this case, the Philadelphia School District brought suit against the Commonwealth claiming that the funding system systemically discriminated against the school district.

The constitutionality of the Pennsylvania school finance system was challenged once before and was heard before the Pennsylvania Supreme Court. In this case, plaintiffs sought equalized funding across school districts. The court ruled that it was unable to judicially define what constituted a “normal program of educational services.”<sup>2</sup>

## Major Components of PARSS Ruling: Concentration on Inputs

### A. Disparities in Spending

Arguments against the Commonwealth of Pennsylvania centered on disparities in expenditures among school districts. PARSS and its school finance experts contended that as long as differences in spending per child existed between school districts, the Commonwealth was not meeting its constitutional obligation to provide a “thorough and efficient” system of education.

In comparing the per-pupil instructional expenditures between the five percent of school districts with the lowest property wealth against the five percent of school districts with the highest property wealth, the statistical extremes, there was close to a \$1,700 per child difference in spending for school year 1993-94 as presented in the case (Figure 1).

### REGULAR PROGRAMS INSTRUCTION EXPENDITURES PER PUPIL (1993–1994)



Source: Judge Pellegrini Decision Memorandum, p. 48.

PARSS and its experts equated the \$1,700 spending difference to \$1,700 less units of education received by the students in those poorer districts.

The Commonwealth countered this argument by stating that comparing the bottom five percent and top five percent is comparing statistical extremes. When all school districts were compared, there were per-pupil instructional spending variations between districts with similar property wealth characteristics, but the average per-pupil instructional expenditures between districts of differing property wealth were not as extreme as PARSS made it appear. Only in the wealthiest (by property) school districts was there a large difference in the mean per-pupil instructional expenditures compared with the state as a whole (Figure 2).

However, when cost-of-living differences are factored into district expenditures — taking into account different housing costs as developed by the Panel on Poverty and Family Assistance at the National Research Council —

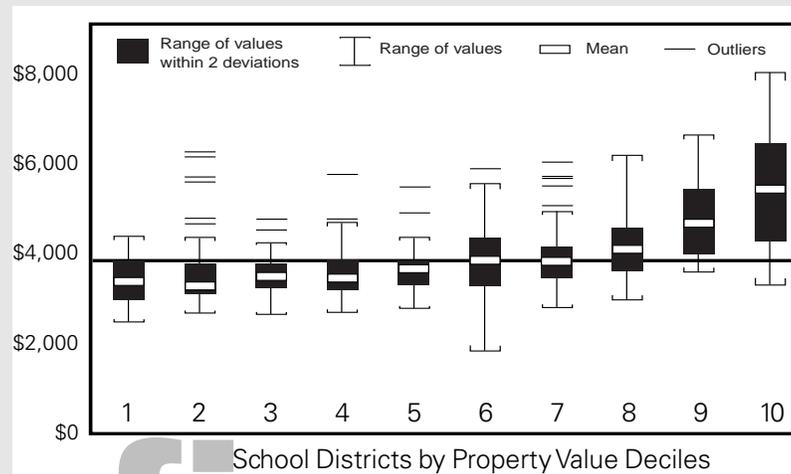
differences in school district spending within similar property-wealth districts is smaller; the differences in school district spending among various property wealth districts is smaller; and there is tremendous overlap in spending among the various school districts, including the most property-wealthy districts (Figure 3).

### B. Local Spending Priorities

Comparing differences in expenditures among school districts is problematic. A high-spending school district does not necessarily have a higher “quality” educational program just because of its higher overall expenditures. The plaintiffs in this case argued that lower spending equated with a lower-quality education.

Judge Pellegrini concluded that the quality of education was not directly related to spending levels. While more available funds allowed for more spending options, Judge Pellegrini concluded that setting spending priorities at the local level determined the

### ACTUAL INSTRUCTIONAL EXPENSE (1993–94): SPENDING PER PUPIL



Source: Judge Pellegrini Decision Memorandum, p. 54.

variation in educational programs (curriculum, class size, textbooks, facilities, technology) among school districts. Judge Pellegrini stated that “conditions in one representative district cannot be applied to another because each school district has different priorities: one district may place a greater emphasis on school facilities than on school books and computers; another places emphasis on retaining the best possible staff causing them not to spend as much on facilities.”<sup>3</sup> Therefore, spending decisions made by one school district were not generalizable across school districts with similar characteristics much less across the 501 school districts in the Commonwealth.

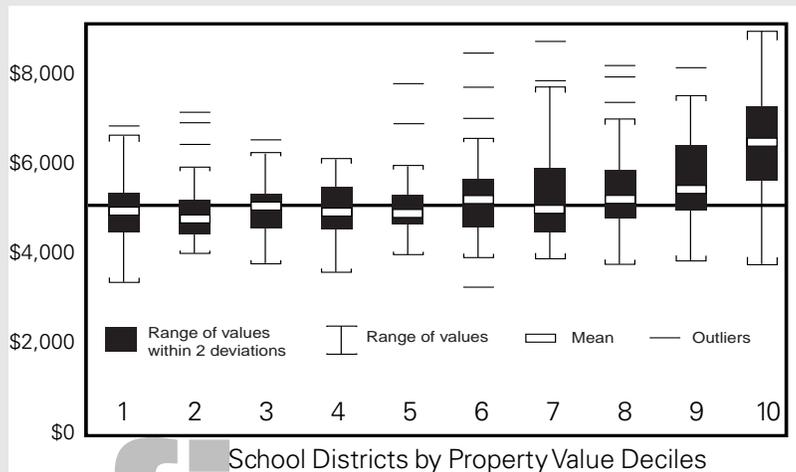
The ratio of Actual Instructional Expenditures to Total Expenditures shows varying spending decisions. Table 1 shows that different districts allot different percentages of funds to instructional programs as determined by their local spending priorities. Figures 2 and 3 also illustrate spending variations among similarly situated school districts.

If school districts were making uniform spending decisions, we could expect state rankings

not to change between total expenditures and actual instructional expenditures on a per student basis. Chartiers Valley School District, which ranks 30th in the state in terms of total expenditures, drops to 96th in the state and devotes only 54.4 percent of its total expenditures to instructional expenditures. On the other hand, Mount Lebanon School District moves from 106th in the state in total expenditures to 43rd by devoting nearly 75 percent to actual instructional expenditures. Again, the amount spent does not necessarily reflect the “quality” of education and does not take into account different student populations served. Instead, this table is intended to illustrate the varying spending priorities among school districts.

Judge Pellegrini’s decision included the example of Southeast Delco School District, which illustrates the sorts of spending decisions made at the local level. PARSS argued that poorer school districts could not afford textbooks. From school year 1993-94 to school year 1994-95, the average teacher’s salary increased by 14 percent. During the same period, expenditures for books and periodicals used for instruction declined by 48 percent. Inadequate textbooks do not result from inadequate re-

### COST OF LIVING ADJUSTMENT (1993–94): PRICE-ADJUSTED TOTAL SPENDING PER PUPIL



Source: Judge Pellegrini Memorandum, p. 55.

sources. Rather, in this case, less spending on textbooks reflected local spending priorities.

**C. Equally Efficient?**

PARSS and its finance experts stated that “statistically all school districts were presumed to be equally efficient or inefficient in their spending. As a result, one dollar spent on education can be considered equal to one unit of education.”<sup>4</sup>

In addressing this issue, Judge Pellegrini reverted back to Pennsylvania’s previous school finance case where the Pennsylvania Supreme Court stated:

[E]xpenditures are not the exclusive yardstick of educational quality, or even educational quantity. It must be obvious that the same total educational and administrative expenditures between two school districts does not necessarily produce the same educational service. The educational product is dependent on many factors including the wisdom of the efficiency and the economy with which the available sources are utilized.<sup>5</sup>

Not only did the Pennsylvania Supreme Court recognize the differences in spending priorities among districts, the court also recognized that school districts are not equally efficient in their use of available funds. The court recognized that, in the case of Danson, equal spending across districts will not necessarily lead to equal student outcomes. Hawai’i, for example, has a single, state school district with generally equal per pupil spending across the district. Yet, with equal funding, student outcomes vary. This is most likely due to the relative efficiency with which each school utilizes its resources (e.g., quality of teachers) and by the differing learning styles (phonics versus whole language) and needs of students.

Another indication that districts are not equally efficient can be inferred in the statistical relationship between school district spending and selected student outcomes (i.e., standardized test scores, dropout rates, etc.). Several studies have been done across the nation to determine the statistical relationship between inputs (spending) and outcomes. Few have found a positive statistically sig-

<b>ACTUAL INSTRUCTIONAL EXPENDITURES/WEIGHTED ADM /TOTAL EXPENDITURES</b>					
County, School District	Total Expenditure	State Rank	AIE/WADM	State Rank	Ratio
Allegheny, Chartiers Valley	9,548.72	30	5,196.15	96	54.4%
Allegheny, Mt. Lebanon	8,016.50	106	5,982.88	43	74.6%
Allegheny, Pittsburgh	10,374.43	15	6,583.82	23	63.5%
Philadelphia, Philadelphia	7,180.00	226	4,285.77	262	59.7%
Delaware, SE Delco	7,581.93	153	4,923.43	124	64.9%
Dauphin, Susquehanna Twnshp	6,469.13	400	4,242.52	288	65.6%
Bucks, Neshaminy	9,325.51	35	7,243.95	8	77.7%
Berks, Wilson	8,013.39	107	5,244.50	92	65.4%

Source: Selected Expenditure Data for Pennsylvania Public Schools, 1996–97, PA Department of Education, June 1998.

nificant relationship between spending and student outcomes.<sup>6</sup> The commonwealth's school finance expert examined the relationship between district spending and student scores on the 1991 statewide Testing for Essential Learning and Literary Skills (TELLS) test. When controlling for socioeconomic status and student ability, he found no significant relationship between spending and student performance on tests. Put very simply, spending more money does not necessarily equate to higher student achievement.

## **Pennsylvania's School Funding Formulas**

In reviewing Pennsylvania's school finance program, one cannot help but notice the changing nature in which the commonwealth funds public elementary and secondary education. Since school year 1991-92, Pennsylvania has changed the way it has funded public schools five times.

### **A. ESBE Formula (1983-84 to 1991-92)**

The amount of aid received by school districts under the Equalized Subsidy for Basic Education (ESBE) was determined by: an aid ratio (MV/PI ratio) which is determined as a measure of a district's wealth— total market value of property and personal income of residents; the district's weighted average daily membership (WADM);<sup>7</sup> and the Factor of Educational Expense (FEE), the maximum amount a district could receive per student—determined to be \$2,250 by the General Assembly in 1991-92. A school district received the total of its MV/PI ratio multiplied by the FEE, multiplied by the district's WADM.

The ESBE formula also took into account factors such as sparsely populated districts, districts with large populations of children from low incomes, and districts with above average tax efforts yet considered low wealth. The ESBE formula focused on equity and was designed to send a higher proportion of state funds to districts with the least wealth.

### **B. Funding Freeze (1992-93)**

The General Assembly suspended the use of the ESBE formula for educational funding for elementary and secondary schools and alloted school districts the same amount of funds as they received in school year 1991-92.

### **C. Foundation Equity Supplement (1993-95)**

Under the foundation approach, each school district was required to make a minimum local tax effort of 19.5 mills on the 1990 market value of property. The minimum expenditure level per student in every district was \$3,875 for school year 1993-94 and increased to \$4,700 per student for school year 1994-95. However, each school district was guaranteed to receive at least the same amount of funds as it received in the previous school year under the frozen ESBE formula.

The foundation approach also included supplements for poverty, district growth, and limited revenue availability. Districts were also guaranteed a minimum increase in funding with the poorest districts (those with aid ratios of greater than 0.700) receiving a 1.5 percent minimum increase, those with ratios between 0.500 and 0.700 receiving a 1.25 percent increase, and all others receiving a minimum 1 percent increase. Included in the foundation approach were three funding supplements:

# **constantly changing formulas for funding causes confusion**

poverty, growth, and the limited revenue source supplements.

Under the poverty supplement, districts with 35 percent or more of students from families receiving Aid to Families with Dependent Children (AFDC) received \$100 per ADM (1993-94) and increased to \$120 per ADM (1994-95).

The growth supplement, designed to aid districts with rapidly growing student populations, allotted \$400 per ADM for districts with 4.5 percent growth, \$225 per ADM for districts with less than 4.5 percent growth.

Under the limited revenue source supplement, districts with aid ratios of greater than 0.700 that did not receive any other forms of supplement received \$77.50 per ADM.

#### **D. Flat Increase (1995-96)**

Districts received a three-percent increase per ADM from the state during 1995-96. Two supplements aided school districts: minimum increase (four percent for districts with aid ratios of greater than 0.700, two percent for districts with aid ratios of between 0.500 and 0.700, and one percent for districts with aid ratios of below 0.500); and small district assistance (\$95 per ADM for any school district with an aid ratio of 0.500 and greater and ADM of 1,500 or fewer). State expenditures for basic education totaled nearly \$3.4 billion.

#### **E. No Increase (1996-97)**

From 1996-97, there was no increase in the amount of state aid to school districts regardless of change in district characteristics (wealth or student populations). Total expenditures for public education — local and state funds for all functions — totaled \$13.747 billion.

## **Pennsylvania's School Funding Future**

Judge Pellegrini determined that the PARSS case was non-judiciable, consistent with *Marrero* (1998) and *Danson* (1979), that found that matters involving school funding are issues left to the legislature. Education is a state function that is locally administered by school districts. The legislature, therefore, has the responsibility of structuring an education system that is understood by the citizens of Pennsylvania and the school districts, while being accountable to system stakeholders such as parents and taxpayers.

### **A. Consistency and Continuity**

The volatile nature of state funding from 1991 to the present makes it difficult for school districts to plan into the future. The uncertainty inherent in the current system may lead district boards and administrators to focus solely on near-term investments rather than on long-term planning. Also, interviews with school district board members and administrators generated many different answers when asked to describe the state funding system.<sup>8</sup> When compared to the various funding mechanisms used by the state, all responses were correct in one form or another, but some were incorrect at the particular point in time.

Constantly changing formulas for funding causes confusion. Pennsylvania's legislators should decide on a funding mechanism (continuance with ESBE base or through the development of a new funding system) and stay with it. Consistency and continuity are needed in order for the public to better understand how their schools are funded and for district personnel to better plan into the future.

**“content or subject knowledge seems not be central to the selection process”**

## **B. Adequacy**

In *Marrero*, the Commonwealth Court ruled that “this court is likewise unable to judicially define what constitutes an ‘adequate’ education or what funds are ‘adequate’ to support such a program. These are matters which are exclusively within the purview of the General Assembly’s powers...”<sup>9</sup> ”

While not a single school district administrator testified to having inadequate resources to provide an educational program in the PARSS case, the General Assembly would be wise to investigate and determine best-practices benchmarks regarding costs. The ESBE formula tried to approximate the cost of providing an education. However, since then the method in which Pennsylvania funds its public schools has followed expenditures-driven and flat-increase models without best practices benchmarking. Understanding the relative costs of providing an education and the various equity considerations (e.g. low-income families, sparse populations, etc.) will provide a basis from which to allocate funds, while letting individual districts decide how best to serve their student populations.

## **C. Accountability**

One way of assuring that districts pursue educational programs appropriate for their student populations is by developing an accountability system that works in conjunction with the finance system. To date, school districts have not been held accountable for the funds being spent on behalf of the public. Pennsylvania does not need to create a statewide curriculum to thoroughly assess the performance of school districts. Establishing clear goals and objectives, through objective state academic standards or through performance assessments, and allowing districts the flex-

ibility to meet those goals and objectives as they see fit would solidify the public education system in Pennsylvania. Pennsylvania continues to revise its standards in the core subjects of math and English.

## **D. Productivity**

In 1996-97, Pennsylvania spent \$6,708 per student, ranking sixth in the nation and nearly \$1,000 above the national average of \$5,787.<sup>10</sup> This represents a 20 percent increase in expenditures from 1986. Pennsylvania schools devote 64.4 percent of expenditures (excluding capital outlays and interest on debt) to instruction, ranking ninth in the nation and above the national average of 61.7 percent.

Pennsylvania ranks in the top ten states in education spending, yet Pennsylvania students perform at or near the national averages on the National Assessment of Educational Progress (NAEP) math and reading tests. Twenty percent of fourth-grade students performed at least at the “proficient” level, 48 percent at the “basic” level, and 32 percent at the “below basic” level on the 1996 NAEP math test.<sup>11</sup> This ranks 22nd in the nation. Thirty percent of fourth-graders scored at least at the “proficient” level on the 1994 NAEP reading test, above the national average of 28 percent.<sup>12</sup>

Students graduating from Pennsylvania high schools in 1994 enrolled in two and four-year colleges at a lower rate than the national average, 57 percent compared to 62 percent.<sup>13</sup>

One explanation for such modest school productivity is the selectivity of Pennsylvania school districts in hiring teachers. A recent study by Dr. Robert Strauss, from Carnegie Mellon University, shows that “there is wide variation in the content knowledge test scores among Pennsylvania’s teacher preparation

**spending more money does not necessarily equate to higher student achievement**

programs. Given that passing scores are quite low, around the 10th or 20th percentile and often representing very low fraction of correct, weighted scores, this means that there is a large pool of highly variable quality certified teachers from which districts make employment decisions.”<sup>14</sup> Strauss follows by criticizing the hiring practices of some Pennsylvania school districts. One criticism shows that “written hiring procedures are absent in about half of the districts; content knowledge or subject knowledge seems not be central to the selection process.”<sup>15</sup> Again, the quality of selection process and subsequent quality of teachers varied across school districts regardless of district wealth.

### **E. Governance and Structure**

Finally, additional funding into the current educational systems may not yield educational improvements without changing the structure and governance models in most of the 501 school districts in Pennsylvania. Most districts continue to have centralized decisionmaking bodies (districts) with little decisionmaking at the school site. In those districts that have site-based management, many provide little to no budget authority to the school site.<sup>16</sup>

Currently, above-average expenditures yield average results, both in the elementary school years and at the end of the K-12 schooling period. Changing the structure of decision-making in school districts requires a change in roles and responsibilities. School districts must comply with state and federal regulations and mandates, at the same time ensuring that schools are in compliance along with additional district regulations and mandates. A change in governance structure necessitates a change in school and district personnel functions.

District administrators, in a decentralized system, move from the role of compliance officers to information providers and facilitators. Site-based management requires schools to make decisions regarding budget allocations, staffing, training, curriculum development, etc.

With additional responsibility and authority comes additional accountability. The central district provides continuous information and feedback to the school site. Effective devolution of responsibilities requires information sharing across the organization. This information should also be shared with parents and the community to gauge the effectiveness of the schools.

Effective change of governance does not happen overnight. Training of district and school personnel is required in order to understand new roles and responsibilities. Governance change also requires a change in teacher and administrator preparation programs. Skills such as budgeting, scheduling, and curriculum development are needed by incoming teachers and administrators in order to meet the needs of the changing organizations. The roles and responsibilities of the state must also change, moving from regulators to information providers while holding school districts accountable.<sup>17</sup> A change in school governance also requires a change in other traditional institutions such as collective bargaining agreements and purchasing of services such as food service and supplies. These decisions, typically made at a level away from the school site, should be reconsidered with new models of governance.

There is not a single model of governance that is best for all school districts. Each district must devise a governance structure that best meets the local needs of its children. The change in governance must center on the goals and objectives of educating children. School districts must see this as a continuous improvement project, learning from past experiences and making adjustments as needed.

What is not known is the governance structure that each school district will undertake to better educate the children of Pennsylvania. However, utilizing the existing management systems for school districts will most likely lead to increased investments through spending with no increase in student performance.<sup>18</sup> ❖

- 1 *Marrero v. Commonwealth of Pennsylvania*, 709 A. 2d 956 (Pa. Cmwlth. 1998).
- 2 *Danson v. Casey*, 484 Pa. 415, 399 A. 2d 360 (1979).
- 3 Memorandum Opinion by Judge Dan Pellegrini, Filed July 9, 1998, p. 67.
- 4 Memorandum Opinion by Judge Dan Pellegrini, Filed July 9, 1998, p. 49.
- 5 Memorandum Opinion by Judge Dan Pellegrini, Filed July 9, 1998, p. 128, quoted from *Danson*, 484 Pa. At 427, 399 A.2d at 366.
- 6 James S. Coleman, *Equality of Educational Opportunity*, Volume I and II, United States Department of Health, Education and Welfare, 1966, Eric Hanushek, "The Economics of Schooling: Production and Efficiency in Public Schools," *Journal of Economics Literature*, vol. 24, no. 3, pp. 1141-1177.
- 7 Average Daily Membership is the sum of the district's enrollment count for each day of session divided by the number of days in the school year. Weighted ADM is determined by assigning the relative cost of educating students at various stages of their education: half-day kindergarten is weighted as 0.5, full-time kindergarten and elementary school as 1.0, and secondary students as 1.36.
- 8 Allegheny County Public Schools Systems Project, H. John Heinz III School of Public Policy and Management, Carnegie Mellon University, August 1996-May 1997. Interviews with school districts in Allegheny County, Pennsylvania.
- 9 *Marrero v. Commonwealth of Pennsylvania*, 709 A. 2d 956 (Pa. Cmwlth. 1998).
- 10 U.S. Department of Education, National Center for Education Statistics, "Public Elementary and Secondary Education Statistics: School Year 1996-97," July 1997. Figures are "current" expenditures, which exclude spending for capital outlays and interest on debt, and adjusted using the National Center for Education Statistics "cost-of-education" index.
- 11 U.S. Department of Education, National Center for Education Statistics, "NAEP 1996 Mathematics Report Card for the Nation and the States," February 1997.
- 12 U.S. Department of Education, National Center for Education Statistics, "NAEP 1994 Reading Report Card for the Nation and the States," January 1996.
- 13 National Education Goals Panel, "The National Education Goals Report: Building a Nation of Learners," November 1996, and U.S. Department of Education, National Center for Education Statistics, "The Condition of Education," June 1996.
- 14 Robert P. Strauss, Lori L. Bowes, Mindy S. Marks, and Mark R. Plesko, "Who Should Teach in Our Public Schools? Implications of Pennsylvania's Teacher Preparation and Selection Experience," paper for American Education Finance Association, March 10, 1998, p. 26.
- 15 Robert P. Strauss, Lori L. Bowes, Mindy S. Marks, and Mark R. Plesko, "Who Should Teach in Our Public Schools? Implications of Pennsylvania's Teacher Preparation and Selection Experience," paper for American Education Finance Association, March 10, 1998, p. 26.
- 16 Allegheny County Public Schools Systems Project, H. John Heinz III School of Public Policy and Management, Carnegie Mellon University, August 1996-May 1997. Interviews with school districts in Allegheny County, Pennsylvania.
- 17 Pennsylvania School Boards Association, White Paper on Relief from Mandates, March 1997.
- 18 Allan Odden and Carolyn Busch, *Financing Schools for High Performance: Strategies For Improving the Use of Educational Resources*, Jossey-Bass, San Francisco (1998), p. 22.

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