



## PA's Fair Funding Formula Explained

Pennsylvania has the most inequitable spending per pupil in the United States, according to a 2015 *Washington Post* [analysis](#) of federal data on state and local funding.

"In Pennsylvania, per-pupil spending in the poorest school districts is 33 percent lower than per-pupil spending in the wealthiest school districts," *The Post* [reported](#).

At the time of the *Post* article, Pennsylvania's Basic Education Funding Commission (BEFC) was already 10 months into its yearlong development of a new formula to distribute state basic education funds. Education stakeholders welcomed the development of this new formula, hoping it would reduce inequities and provide predictability in a state without a year-to-year consistent formula.

BEFC examined appropriate factors to include in a formula, held hearings around the state to gather testimony from school district officials and other experts, and surveyed school districts to get the most recent data to consider. However, BEFC was not charged with addressing the question of how much school funding is "adequate." The commission was only tasked with recommending an appropriate distribution of the basic education funding annually provided by the legislature.

### Key Dates:

- June 10, 2014 – Gov. Corbett signs House Bill 1738 (Act 51 of 2014) establishing the Basic Education Funding Commission.
- June 18, 2015 – The bipartisan, bicameral BEFC submits its unanimously approved report and recommended formula to the General Assembly for consideration.
- April 25, 2016 – House Bill 1589 (Act 25 of 2016) becomes law effectuating the new basic education funding formula recommended by BEFC for 2015/16.
- June 1, 2016 – Governor Wolf signs House Bill 1552 (Act 35 of 2016), which places BEFC's recommended formula in a permanent section of the Public School Code, which allows the formula to continue for 2016/17 and beyond.
- 2019/20 – Every five years, as required by Act 51 of 2014, BEFC "shall meet and hold public hearings to review the operation of the basic education funding provisions" and issue a report to leaders of the General Assembly.

### Formula Concept

The BEFC formula does not allocate a specific dollar amount to each school district. Instead, it determines each district's share of the amount of funding available to distribute from the state.

For example, the formula will yield a result saying, out of PA's 500 school districts, Erie City School District should receive 1.53 percent of the amount of funding available. This is different from a result saying Erie City School District should receive \$1.53 million of the \$100 million available. The BEFC formula determines the appropriate share of funding each school district receives. It does not answer the question: the share of what? This determination is made by the legislature through the annual budgeting process and various policy choices that will be examined in the "Hold-Harmless and Base Year" section of this briefing.

The BEFC formula is student-based, meaning a district's share of state funding is tied to its share of the student population. However, each school district is not given the same amount of state funding per student; that would be unfair and would ignore the vast differences in local resources available to districts as well as the research-supported evidence that some students require more resources than others to succeed.

As visualized in Figure 1, after starting with an accurate student count, the BEFC formula applies a series of weights to categories of students. The added weights for certain groups of students is a recognition of a higher cost to educate that group. The resulting weighted student count is then adjusted based on district factors to arrive at a weighted and adjusted student count. Finally, a district's share of funding under the BEFC formula is simply its share of the statewide weighted and adjusted student count.

In other words, under the BEFC formula, each district receives the same amount of state funding per **weighted and adjusted student**. In order to appreciate how the BEFC formula addresses inequities and fairness, one needs to understand what the elements of the formula are and why they were chosen.

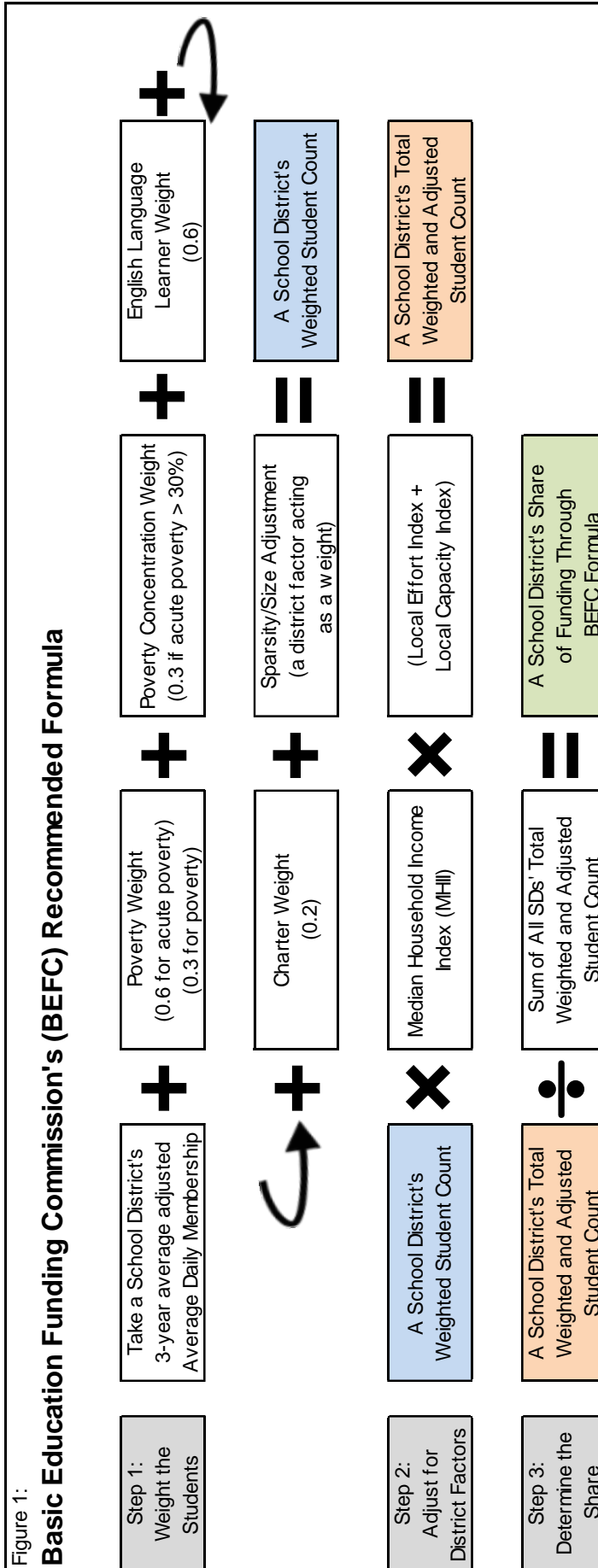
## Elements of the Formula

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On the next pages, Table 1 provides information on the student weights, and Table 2 details district factors.

Go to the "Learn How the State's Fair Funding Formula for Basic Education Works for Your School Districts 2017-18" spreadsheet on [www.HACD.net](http://www.HACD.net) to view the factors for each of PA's 500 school districts.

In 2015/16, only 36.8 percent of aggregate education funding came from the state while 57.2 percent came from local sources, according to the PA Department of Education's "Annual Financial Reports." The U.S. Census' "Annual Survey of School System Finances" data from fiscal year 2015 ranks PA 47<sup>th</sup> out of the 50 states in state support for public schools.



Step 1:	Take a School District's 3-year average adjusted Average Daily Membership	+	Poverty Weight (0.6 for acute poverty) (0.3 for poverty)	+	Poverty Concentration Weight (0.3 if acute poverty > 30%)	+	English Language Learner Weight (0.6)	+	Charter Weight (0.2)	+	Sparsity/Size Adjustment (an adjustment factoring in as a weight)	=	A School District's Weighted Student Count
<b>Table 1: Weighted Student Count</b>	<b>3-year average adjusted Average Daily Membership</b>	<b>Poverty Weight</b>	<b>Poverty Concentration Weight</b>	<b>Poverty Concentration Weight</b>	<b>English Language Learner Weight</b>	<b>Charter Weight</b>	<b>Sparsity/Size Adjustment</b>	<b>Charter Weight</b>	<b>Sparsity/Size Adjustment</b>	<b>English Language Learner Weight</b>	<b>Charter Weight</b>	<b>Sparsity/Size Adjustment</b>	<b>A School District's Weighted Student Count</b>
<b>Rationale</b>	A student-based formula needs to start with an accurate count of students. A 3-year average of adjusted ADM is used in order to smooth out any sudden changes in enrollment and allow districts more time to make adjustments due to enrollment changes.	"Various studies have shown that children living in poverty often begin their educational careers behind their non-impooverished peers and thus require additional supports and services in order for them to meet the same academic standards." – BEFC Final Report, page 45	Research indicates that not only does a low-socioeconomic household have a negative effect on student achievement, but it also demonstrates that the socioeconomic status of the student's community plays a large role. The negative effect that poverty has on student outcomes is compounded when the poverty is concentrated in a community. "For example, 86 percent of students are proficient in 3rd grade reading when attending Pennsylvania districts with fewer than 25 percent of children in poverty, but only 52 percent of students are proficient in 3rd grade reading if they attend a district with 50 percent or more of their students in poverty." – Joan Benso's testimony at BEFC hearing December 10, 2014	Research indicates that not only does a low-socioeconomic household have a negative effect on student achievement, but it also demonstrates that the socioeconomic status of the student's community plays a large role. The negative effect that poverty has on student outcomes is compounded when the poverty is concentrated in a community. "For example, 86 percent of students are proficient in 3rd grade reading when attending Pennsylvania districts with fewer than 25 percent of children in poverty, but only 52 percent of students are proficient in 3rd grade reading if they attend a district with 50 percent or more of their students in poverty." – Joan Benso's testimony at BEFC hearing December 10, 2014	In addition to the regular education curriculum, Pennsylvania requires that ELL students receive language instruction, which translates into higher costs to educate ELL students (dual language curriculum material, after school programs, etc).	0.2		0.2		In the IFO survey commissioned by the BEFC, the school districts that were sampled reported that, under the hypothetical scenario where 10 percent of students departed for charter schools, the average base cost to educate the remaining students increased by 18 percent. See page 84 of BEFC Final Report.			When a student leaves the school district to attend a charter school, there are fixed costs (e.g. classroom, teacher) that are spread out over fewer remaining students, meaning the cost to educate the remaining students goes up.
<b>Statistic</b>	PA's 2015/16 statewide adjusted ADM was 1,708,454. Philadelphia City SD is by far PA's largest district with an adjusted ADM of 204,058 or 12 percent of the state total with the next closest being Pittsburgh City SD with 27,227 or 1.6 percent of the total.	"One analysis revealed that children from professional families heard an average of 2,153 words per hour, while children in working class families heard an average of 1,251 words per hour, meaning that by age four, a child from a welfare-recipient family may have heard 32 million fewer words than a classroommate from a professional family." – BEFC Final Report, page 45	0.6 for acute poverty; 0.3 for poverty	0.3	ELL students are already counted as 1.0 in the ADM. The BEFC determined that an additional 20 percent was an appropriate amount to compensate school districts for the 'stranded costs.'	0.2		0.2		ELL students are already counted as 1.0 in the ADM. The BEFC determined that an additional 20 percent was an appropriate amount to compensate school districts for the 'stranded costs.'			Charter school students are counted in a district's ADM. The BEFC determined that an additional 20 percent was an appropriate amount to compensate school districts for the 'stranded costs.'
<b>Weight</b>	Every student counts as 1.0 except half-day kindergarten students count as 0.5 (this is how adjusted ADM differs from regular ADM which counts all students as 1).	0.6 for acute poverty; 0.3 for poverty	0.3	0.3	ELL students are already counted as 1.0 in the ADM. The BEFC determined that an additional 20 percent was an appropriate amount to compensate school districts for the 'stranded costs.'	0.2		0.2		ELL students are already counted as 1.0 in the ADM. The BEFC determined that an additional 20 percent was an appropriate amount to compensate school districts for the 'stranded costs.'			Charter school students are counted in a district's ADM. The BEFC determined that an additional 20 percent was an appropriate amount to compensate school districts for the 'stranded costs.'
<b>Making Sense of the Weight</b>	This is basically a school district's annual enrollment. The foundation of the formula is every student counts as 1.	Students in poverty are already counted as 1.0 in the ADM. The 0.6 and 0.3 weights for students in poverty are a recognition that it costs an additional 60 or 30 percent more to educate impoverished students.	The acute poverty weight applies to students falling in the 0-99% range of the federal poverty level while the poverty weight factors in for students between 100-184% of the federal poverty level.	The acute poverty weight applies to students falling in the 0-99% range of the federal poverty level while the poverty weight factors in for students between 100-184% of the federal poverty level.	ELL students are already counted as 1.0 in the ADM. The BEFC determined that an additional 20 percent was an appropriate amount to compensate school districts for the 'stranded costs.'	0.2		0.2		ELL students are already counted as 1.0 in the ADM. The BEFC determined that an additional 20 percent was an appropriate amount to compensate school districts for the 'stranded costs.'			Charter school students are counted in a district's ADM. The BEFC determined that an additional 20 percent was an appropriate amount to compensate school districts for the 'stranded costs.'
<b>Definition/ Notes</b>	The PA Dept. of Education defines average daily membership as "the term used for all resident pupils of the school district for whom the school district is financially responsible. It is calculated by dividing the aggregate days membership for all children on active rolls by the number of days the school district is in session."	The acute poverty weight applies to students falling in the 0-99% range of the federal poverty level while the poverty weight factors in for students between 100-184% of the federal poverty level.	School districts qualifying for the poverty concentration weight have over 30% of their students in the 0-99% range of the federal poverty level.	School districts qualifying for the poverty concentration weight have over 30% of their students in the 0-99% range of the federal poverty level.	ELL students are already counted as 1.0 in the ADM. The BEFC determined that an additional 20 percent was an appropriate amount to compensate school districts for the 'stranded costs.'	0.2		0.2		ELL students are already counted as 1.0 in the ADM. The BEFC determined that an additional 20 percent was an appropriate amount to compensate school districts for the 'stranded costs.'			Charter school students are counted in a district's ADM. The BEFC determined that an additional 20 percent was an appropriate amount to compensate school districts for the 'stranded costs.'
<b>Calculation</b>	See Appendix A	See Appendix A	See Appendix A	See Appendix A	See Appendix A	See Appendix A	See Appendix A	See Appendix A	See Appendix A	See Appendix A	See Appendix A	See Appendix A	See Appendix A
<b>Data Source(s)</b>	PA Department of Education	Most recent 5-year estimate of the U.S. Census Bureau's American Community Survey ACS_Series ID: B17024	Most recent 5-year estimate of the U.S. Census Bureau's American Community Survey ACS_Series ID: B17024	Most recent 5-year estimate of the U.S. Census Bureau's American Community Survey ACS_Series ID: B17024	PA Department of Education	PA Department of Education	PA Department of Education	PA Department of Education	PA Department of Education	PA Department of Education	PA Department of Education	PA Department of Education	PA Department of Education

Step 2:	A School District's Weighted Student Count	X	Median Household Income Index (MHI)	X	(Local Effort Index + Local Capacity Index)	=	A School District's Total Weighted and Adjusted Student Count
Table 2: Weighted & Adjusted Student Count	Sparsity/Size Adjustment	Median Household Income Index	Local Effort Capacity Index	Local Effort Index	Local Capacity Index		
<b>Rationale</b>	Testimony at BEFC hearings revealed that PA school districts in rural areas have unique challenges leading to higher costs. Some examples include difficulty to consolidate services due to the geographic size of a district, extraordinary transportation challenges, and higher per-pupil costs due to a loss of economies of scale.	A fair formula for state funding needs to account for the vastly different amounts of local wealth between districts. The MHI replaces the Market Value / Personal Income Aid Ratio as the measure of a district's relative wealth.	"Local tax effort and wealth are critical factors impacting the ability of school districts to raise local revenue." – BEFC Final Report, page 40	The local effort index is designed to determine whether a school district is making a fair local tax effort. It compares the tax burden in each school district to the statewide median tax burden. Importantly, it includes an adjustment for school districts spending above the statewide median expenditures per weighted student so as to not reward wealthier districts that choose to have high taxes so that they may spend more per pupil.	Local Capacity Index		Local Capacity Index  Asks the question, how much spending per weighted student could a district afford if it taxed at the statewide median effort? The local capacity index component provides more state funding for districts that are unable to raise enough funds locally even if taxing at the statewide median rate.
<b>Statistic</b>	"Specifically, when studying economies of scale in education, [researchers Baker and Levin] found per-pupil costs tend to be flat as district enrollment surpasses 2,000 students, while below this enrollment, costs tend to increase, dramatically so as enrollment dips below 500." – BEFC Final Report, page 35	In 2015, the median household income in PA was \$53,599 and the number of households was 4,958,859. Using 2017/18 distribution data: 278 school districts have a MHI greater than 1, while 222 have a MHI index value below 1. The median MHI value is 1.0423.	Using 2017/18 distribution data: PA's 125 poorest school districts based on the median household income index spent \$9,485 per weighted student while the wealthiest 125 districts spent \$14,472 per weighted student, or 53% more.	Using 2017/18 distribution data: The median local effort index is 0.92. Pocono Mountain School District has the highest local effort index at 1.90.	Local Effort Capacity Index		Using 2017/18 distribution data: Of PA's 500 school districts, 252 receive a local capacity index of zero, and 248 have an index value above zero. Reading School District's local capacity index value of 0.84 is the highest.
<b>Adjustment Definition</b>	The sparsity/size adjustment weight is unique in the BEFC formula in that it is a district factor treated as a student weight. The weight is 0.7, and it applies to school districts at or above the 70th percentile of sparsity size index. In other words, out of PA's 500 school districts, the 150 districts with the lowest population density receive additional support. The sparsity/size adjustment is part of the weighted student count. The special education formula uses the same sparsity/size ratio.	The MHI measures a school district's median household income compared to the statewide median household income. The higher the MHI, the less income a school district has. The weighted student count is multiplied by the MHI in the formula. This means a MHI value greater than 1 increases a school district's share of the funding, while a value below 1 decreases a school district's share of the funding.	<b>The Local Effort Capacity Index is the sum of the Local Effort Index and the Local Capacity Index.</b> In the BEFC formula, the Local Effort Capacity Index is multiplied by the weighted student count. This means an index value greater than 1 increases a school district's share of funding, while a value below 1 decreases a school district's share of the funding.	The local effort index is added to the local capacity index in the BEFC formula. The stronger the local effort is (after accounting for spending above the median), the higher the index value will be.	Local Effort Capacity Index		If the district's hypothetical capacity for spending per weighted student is lower than the hypothetical statewide median amount, the district's local capacity index is above zero. If higher, the index is zero. The local capacity index is added to the local effort index in the BEFC formula.
<b>Calculation</b>	See Appendix A	See Appendix A	See Appendix A	See Appendix A	See Appendix A		See Appendix A
<b>Data Source(s)</b>	PA Department of Education - for adjusted ADM U.S. Census Bureau's latest decennial census - for Total Square Miles	Most recent 5-year estimate of the U.S. Census Bureau's American Community Survey ACS Series ID: S1903	Most recent 5-year estimate of the U.S. Census Bureau's American Community Survey Series ID: S1903	PA Department of Education - for local tax related revenue, current expenditures, adj. ADM, and state property tax reduction allocation PA Department of Community and Economic Development's Tax Equalization Division - for market values and adjusted personal income (reported to PDE)	See Appendix A		See Appendix A See Appendix A

## Notes on PA's Basic Education Subsidy:

The state's and school districts' fiscal years run from July 1 to June 30 (except Scranton SD and Pittsburgh SD which are on calendar year budgets). Each fiscal year, the state makes six payments to school districts, beginning with an August payment and continuing every other month until the last payment in June. The first five payments each constitute 15 percent of what the state owes, while the final June payment represents 25 percent of what is owed, net of any reconciliations.

The state's basic education subsidy payment is viewed as a reimbursement to school districts for the previous year's expenses. For example, consider 2015/16 since that is when BEFC's recommended formula first took effect. The state's 2015/16 basic education subsidy payments to districts were reimbursements for the 2014/15 school year. So, the payments made in 2015/16 were based on 2014/15 data.

The trouble with this method was immediately revealed because the 2014/15 data was not finalized until halfway through 2015/16, meaning school districts did not know their actual state allocation until well into the fiscal year. Fluctuating data from the new formula made budgeting even more difficult for school districts. Therefore, to address this predictability issue, beginning with 2016/17, the PA Department of Education began using the most recent data available as of the June 1 preceding the beginning of the fiscal year in which the distributions occur. The legislature endorsed this change through Act 55 of 2017 which aligned the previously ambiguous statute with the department's new practice.

## Hold Harmless and Base Year

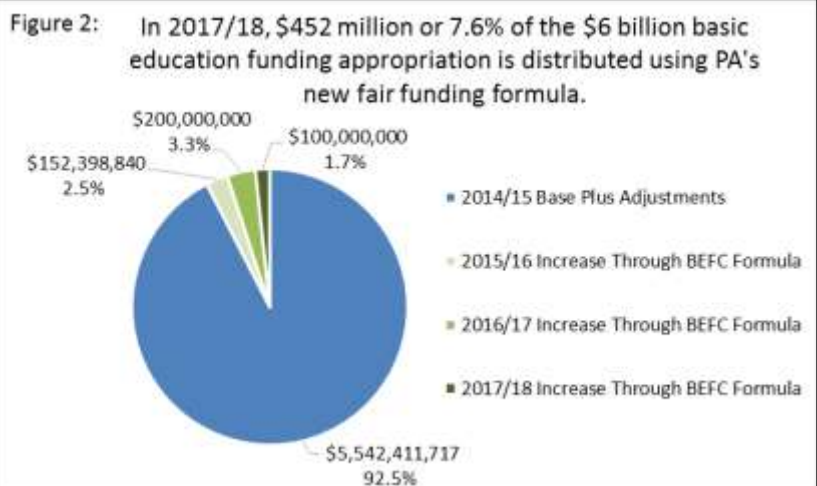
*"Hold harmless, or the practice of guaranteeing that a school district receives no less than the same amount of state basic education dollars that it received in the prior fiscal year, has been a considerable factor in the distribution of basic education dollars in Pennsylvania" – BEFC final report, page 36*

The commonwealth's history of providing school districts with at least as much state basic education funding as they received in the previous year created winners and losers. Generally, growing districts have had to share marginal increases with districts experiencing declining enrollments, creating a gap between the per student levels of state funding. This practice has been widely viewed as unfair assuming the declining enrollment coincided with declining costs.

BEFC agreed to two guiding principles on the issue of hold harmless: first, no new money should be subject to a hold harmless provision; and secondly, eliminating the existing hold harmless practice immediately and in its entirety would have a drastic negative impact on a majority of PA's 500 school districts.

*"Eliminating the hold harmless clause after more than 20 years of practice would result in 320 school districts receiving approximately \$1 billion less in basic education funding," the BEFC final report said.*

In other words, had the entire \$5.5 billion basic education funding appropriation been distributed using the new, fair formula, 320 school districts would have lost a combined \$1 billion in state support with the remaining 180 districts realizing that new funding.



## Introducing “base positive” and “base negative”

A base amount is a level of funding that a school district is guaranteed to get from the state every year. For ease of reference, districts with a base amount that is more than what they would receive compared to if the base amount went through the fair funding formula will be referred to as “base positive.” Conversely, districts whose base is less than their fair share will be referred to as “base negative.” In other words, if all the basic education money went through the BEFC formula, base negative school districts would receive more funding and base positive districts would receive less funding.

To avoid this, BEFC determined that some sort of base -- or guaranteed -- amount was needed, at least initially, to prevent extreme swings in state funding for which school districts were not prepared. Instead of taking a position on how to deal with the existing pool of basic education funds, BEFC’s final report identified three ways of addressing the longstanding hold harmless issue:

- Option 1: Select a base year of funding and distribute all funds above that amount through BEFC’s recommended formula. For example, each district’s allocation begins with what it received in 2014/15 and any funding appropriated above the amount that year is distributed through the formula. Under this scenario, a school district is always guaranteed to receive at least the state funding it received in 2014/15.
- Option 2: Deduct and redistribute a certain percentage of a “base positive” district’s annual increase. For example, the legislature could decide to use a base year of 2014/15 and provide a \$100 million basic education funding increase through the formula. Suppose when the entire basic education funding appropriation is distributed through the formula, District A’s base is greater than what is prescribed by the formula (“base positive”) and District B’s base is lower (“base negative”). If District A was due a \$100,000 increase, a certain percentage, maybe 50 percent, would be redistributed to District B and other “base negative” districts.
- Option 3: Gradually expand the percentage of basic education funding distributed through the formula. For example, 10 percent of the funds go through the formula in year 1, 20 percent in year 2, and so on until 100 percent is reached in year 10. Dollars not funneled through the formula would be distributed pro rata based on a district’s existing share of basic education funds.

Ultimately, the General Assembly opted to implement the first option – a fixed base year and all new money going through the new formula. Each district’s level of basic education funding in 2014/15 has been established as the base amount. In 2017/18, 7.6 percent of total basic education funding went through the fair funding formula (Figure 2).

In 2017/18, 113 school districts’ base amounts were more than 200 percent of what they would receive if those dollars were instead distributed using the fair funding formula. The 2014/15 base amount guarantee maintains \$505 million in state basic education funding for those districts. Meanwhile, 65 school districts receive less than 70 percent of what would be their fair share of the base amount. This corresponds to \$648 million in state basic education funding not realized for those districts.

Table 3: Base Analysis Using 2017/18 Distribution Data	Number of School Districts	State Funding Maintained or Not Realized By Using 2014/15 as a Base Instead of Distributing All Funds Thru BEFC’s Fair Funding Formula	2015/16 Actual Student Count	2015/16 Weighted Student Count
Base Positive	363	\$ 1,163,765,546	843,437	992,380
Base Negative	137	\$ (1,163,765,546)	865,017	1,109,505
Base Share 100-110%	33	\$ 18,930,566	133,730	155,590
Base Share 110-120%	31	\$ 35,459,319	103,911	120,474
Base Share 120-150%	83	\$ 163,485,907	198,381	229,487
Base Share 150-200%	103	\$ 440,441,408	250,648	299,624
Base Share 200-300%	94	\$ 404,576,395	132,210	158,691
Base Share above 300%	19	\$ 100,871,952	24,557	28,515
Base Share 90-100%	19	\$ (8,139,086)	68,516	78,251
Base Share 80-90%	23	\$ (37,224,225)	98,935	114,491
Base Share 70-80%	30	\$ (470,088,142)	335,031	458,780
Base Share below 70%	65	\$ (648,314,094)	362,534	457,983

Note: The base share is the actual base amount as a share of the amount if all funding when through the fair funding formula. Anything above 100% means a district’s actual base is higher than its fair share.

Table 4: Decile Analysis (using Median Household Income Index) for Base Share	Actual Base BEF Allocation	Entire Base Reallocated Using BEFC Formula	Actual Base As a Share of Base Redistributed Using BEFC Formula	Base Positive/Negative Amount
Bottom Decile	\$ 1,957,688,164	\$ 2,677,583,911	73%	\$ (719,895,747)
Second Decile	\$ 550,021,690	\$ 351,525,697	156%	\$ 198,495,993
Third Decile	\$ 466,023,166	\$ 344,897,957	135%	\$ 121,125,209
Fourth Decile	\$ 409,639,320	\$ 279,960,578	146%	\$ 129,678,743
Fifth Decile	\$ 355,347,804	\$ 210,685,712	169%	\$ 144,662,092
Sixth Decile	\$ 371,522,859	\$ 295,644,762	126%	\$ 75,878,097
Seventh Decile	\$ 422,549,344	\$ 423,365,154	100%	\$ (815,810)
Eighth Decile	\$ 392,652,853	\$ 338,209,983	116%	\$ 54,442,869
Nineth Decile	\$ 328,311,802	\$ 306,678,820	107%	\$ 21,632,982
Top Decile	\$ 288,654,714	\$ 313,859,143	92%	\$ (25,204,429)

Lastly, Table 4 summarizes a decile analysis of school districts’ base shares. It shows that the poorest 50 school districts in the state by median household income are the ones most negatively impacted by the continuation of hold harmless. However, most of the dollars associated with base positive districts are concentrated in the bottom half of the wealth distribution of school districts. Interestingly, the only three groups that are base negative are the bottom decile (the poorest 50 school districts), the top decile (the wealthiest 50 school districts), and the seventh decile.

### *Adjustments to the Base and Formula:*

Erie School District will become the third district to receive a base adjustment as a result of the 2017/18 Fiscal Code. The amount of funding Erie School District receives in 2017/18 through the educational access program (expected to be \$14 million of the \$23.15 million appropriation) will be considered part of the district’s base allocation for basic education funding beginning in 2018/19.

Before Erie, Act 35 of 2016 placed BEFC’s recommended formula in a permanent section of the Public School Code and included adjustments to two districts’ base amounts: Chester Upland School District received an additional \$12 million in its base to address its longstanding structural budget deficit, and Wilkesburg Borough School District received a \$3 million upward adjustment to help pay for closing middle and high schools and sending those students to another district.

The 2017/18 budget changed other aspects of the BEFC formula. The “Notes on the Basic Education Subsidy” subsection discussed one change regarding data timing. Act 55 of 2017, the 2017/18 Education Code, modified the “current expenditures” definition so as to not include tuition from patrons. Students financed by patrons (federal government, other school districts, etc.) are not included in a district’s average daily membership, so the funding for those students should not factor into the expenditure per average daily membership calculation used as part of the local effort capacity index.

Act 55 also clarified that, starting with 2017/18, Philadelphia’s sales, use, and cigarette tax revenue should be included in its local tax-related revenue as used in the local effort capacity index calculation. These local revenue sources are unique to Philadelphia and were mistakenly not included in the district’s 2015/16 and 2016/17 BEFC calculations, which resulted in underpayments to Philadelphia of \$2.7 million in 2015/16 and \$6.3 million in 2016/17. Act 55 clarified the issue for future years but took no action to make Philadelphia whole for the \$9 million in underpayments over the previous two years.

### *Quartile Analysis:*

Tables 5 and 6, on the following page, summarize a quartile analysis of PA school districts’ spending per student and share of state basic education funding. In this analysis, school districts are placed in four groups based on their “median household income index” rank. Each quartile contains 125 school districts. The bottom quartile represents the poorest 125 districts.



Table 5: Quartile Analysis (using Median Household Income Index) for Total Spending	2015/16 Current Expenditures	2015/16 adj ADM	2015/16 add-on for Weighted Student Count	Expenditures per student	Expenditures per <u>weighted</u> student
Bottom Quartile	\$ 7,524,077,783	552,340	240,914	\$ 13,622	\$ 9,485
Second Quartile	\$ 3,019,166,188	219,514	46,608	\$ 13,754	\$ 11,345
Third Quartile	\$ 5,469,239,573	379,265	59,878	\$ 14,421	\$ 12,454
Top Quartile	\$ 8,731,845,395	557,335	46,032	\$ 15,667	\$ 14,472

Table 6: Quartile Analysis (using Median Household Income Index) for State Funding Share	Base BEF Allocation	Share of Base BEF Allocation	2017-18 BEFC Distribution	Share of BEFC Distribution	Share of 2015/16 adj ADM	Share of 2015/16 Weighted Student Count
Bottom Quartile	\$ 2,794,164,836	50%	\$ 266,859,437	59%	32%	38%
Second Quartile	\$ 944,555,308	17%	\$ 48,779,760	11%	13%	13%
Third Quartile	\$ 983,643,375	18%	\$ 71,738,505	16%	22%	21%
Top Quartile	\$ 820,048,198	15%	\$ 65,289,585	14%	33%	29%

In the 2017/18 BEFC formula calculations, the top quartile of school districts spent \$14,472 per weighted student while the bottom quartile spent \$9,485. In other words, PA's wealthiest 125 districts spent \$4,987, or 53 percent, more per weighted student than the 125 poorest districts in the state.

The bottom quartile of school districts educate 32 percent of the actual students but 38 percent of the weighted student count. Collectively, these districts receive 59 percent of the state basic education funding distributed through the fair funding formula. Prior to the new formula, these districts were receiving 50 percent of state basic education funding. This means Pennsylvania is driving more dollars toward the poorest 125 school districts under the new formula.

## Conclusion

In only its third year, the fair funding formula has begun to address the ingrained inequities in PA's school funding, but its impact has been limited since it only applies to a small portion of the commonwealth's overall basic education funding. The statute that created BEFC requires an evaluation of, and a report on, the formula's operation every five years. So, the fair funding formula remains a work in progress.

See the "Learn How the State's Fair Funding Formula for Basic Education Works for Your School Districts 2017-18" spreadsheet on [www.HACD.net](http://www.HACD.net) to view the factors for each of PA's 500 school districts, including yours.

### House Appropriations Committee (D)

Miriam A. Fox, Executive Director

Sean Brandon, Budget Analyst

Mark Shade, Communications Director