

Center on Regional Politics



Commentary • May 30, 2014

WHAT CAN WE LEARN FROM PENNSYLVANIA'S HISTORY OF PUBLIC SCHOOL FINANCE?

Joseph P. McLaughlin, Jr.

Michelle Atherton's history of the state share of school funding reaches beyond the complex succession of laws and appropriations through which the General Assembly has supported public education for more than two centuries to take note of other fiscal, economic, and especially political developments that have influenced the school finance system -- or non-system -- that we have today. Eileen McNulty's analysis of local school taxes tells the other half of the story of public school finance. Here are lessons I draw from these accounts:

1. Some of the most important laws influencing school funding have had, on their face, little or nothing to do with distributing dollars to schools through the subsidy. Examples would be Act 195 of 1970, providing non-uniformed public employees with the right to unionize and strike and leaving the state to help fund teacher contracts in which it had no say; Act 2 of 1971, establishing the personal income tax and perhaps making a 50% state share of school finance seem feasible; subsequent periodic cuts in state personal income and business tax rates reducing state revenues; legislation increasing mandatory sentencing for a variety of offenses and contributing to rising prison costs; and Act 9 of 2001, expanding pension benefits for state and school employees without providing funds to pay for the benefits.
2. Federal legislation also has had a profound effect on our school funding system. Subsequent to the enactment of Medicaid in 1965 and the federal Individuals with Disabilities Education Act (IDEA) in 1975, mandated health care and special education costs have risen far more rapidly than the state's basic education subsidies.
3. Although the General Assembly established in law, in 1966, the goal of funding 50% of instructional expenditures, it has attained that goal only briefly in the early and mid-1970s, immediately after the enactment of the personal income tax and when the state was receiving federal revenue sharing funds. But in 1974, the legislature cut the personal income tax and by 1980, federal revenue sharing for states was gone. State funding for schools as a percent of state-local instructional expenditures began an almost continuous 40-year decline. In 1983, the legislature repealed the 50% goal, but it remains an aspirational one for many advocates.
4. Two large political costs stand in the way of providing fiscal relief to school districts under any formula: "hold-harmless funding," formally adopted in 1983, under which all school districts -- even those losing students -- are protected against state aid losses and share in any state aid gains and the \$29.5 billion unfunded liability of the school employees retirement system, most of which was caused by the legislature rather than the market. Both of these costs are rooted in legislative practice and not policy relevant data, and both have to be addressed if the full benefits of a new spending formula are to be realized.

5. School finance is undoubtedly complicated by local dependence on the property tax, a levy that homeowners hate but economists defend as a rational and efficient way to fund schools. When the legislature tries to increase school funding and reduce property taxes at the same time, as it did in the early 1970s, in 1988, and in the first half of the last decade, it risks dissatisfying both school advocates and property tax protestors. In retrospect, perhaps Act 1 gaming revenues should have been used to fund schools or the local share of school pensions, as suggested by CORP's 2013 working group report on public pensions, rather than to provide broad, but for many homeowners shallow, property tax relief. Should that decision be reconsidered?
6. Because property wealth is distributed unevenly across the Commonwealth and property taxes provide 85% of local school revenues, high levels of state funding are essential to achieve greater equity. State taxes also raise the vulnerability of the school finance system to recessions, of which there have been six since 1971. Evidence from other states suggests that when school finance becomes overly dependent on distant state governments and revenues, school funding can suffer and school quality decline. The state share of public school revenues has fallen, and the less volatile local property-tax-dependent share has grown, not just in Pennsylvania but nationally since the Great Recession that began in late 2007, counteracting property tax relief efforts.
7. Beware of free lunches. One study found that court-ordered equalization efforts in 22 states raised school spending in a progressive direction but were offset by cuts in other state programs and aid to local governments.
8. Although dramatic policy change is often driven by unified government-- school district consolidation in the 1960s and the personal income tax in 1971 are examples-- most of the important legislation affecting public school finance since 1970, for better or for worse, was adopted during divided government or by bipartisan margins.
9. Bipartisanship is important to stability, which school administrators value even when state aid is not optimal. The most stable period of state funding was the longest stretch of divided government since the adoption of the 1968 Constitution, the decade from 1983 to 1992. This was the era of the so-called Equalized Subsidy for Basic Education (ESBE). In all of these years, the governor's office, House, and Senate were not in the hands of one party, making sweeping change unlikely and compromise more likely. Funding disparities grew, however due to a minimum aid ratio and hold harmless increments that helped some wealthy districts and hurt some poor ones. It is also noteworthy that during this decade, a comprehensive effort to broaden local sources of school funding and reduce property taxes was defeated by voters after a highly partisan debate.
10. In recent years, governors of both parties have sought to sidestep the hold-harmless problem in the basic education subsidy by providing additional, block-grant funding that they regarded as more equitable and also more easily and directly linked by research to improving student performance. Whether the entire basic education subsidy can be designed and sustained to meet broad adequacy goals (as was attempted with the Costing-Out initiative) or whether the focus should be on discrete lines of supplemental funding is a question that the legislature needs to decide in light of the standards it is imposing on principals, teachers, and students.

Given the many complex and even extraneous factors that affect school funding, it might be wise for the legislature to take one step at a time. Redesigning the state's basic education subsidy (including fixing charter school funding) seems amenable to bipartisan cooperation, which is probably essential if improvements to the distribution system are to be not only fair and transparent but stable and resilient in the face of future partisan swings in control.

Determining the optimal level at which schools can or should be funded by the state to balance equity, stability, and adequacy may take longer and require the voice of the public to be heard through elections. Those might be the most important lessons we can draw from this history.

Joseph P. McLaughlin, Jr. is director of Temple University's Center on Regional Politics.