

UPDATING PENNSYLVANIA'S SPECIAL EDUCATION FUNDING FORMULA

Research for Action & Education Law Center-PA

October 2019



RESEARCH
for ACTION

EDUCATION
LAW CENTER

About Research for Action

Research for Action (RFA) is a Philadelphia-based nonprofit organization. We seek to use research as the basis for improvement of educational opportunities and outcomes for traditionally underserved children and students. Our work is designed to strengthen early education, public schools, and post-secondary institutions; provide research-based recommendations to policymakers, practitioners, and the public; and enrich civic and community dialogue. For more information, please visit our website at www.researchforaction.org.

About Education Law Center-PA

The Education Law Center-PA (ELC) is a nonprofit, legal advocacy organization with offices in Philadelphia and Pittsburgh, dedicated to ensuring that all children in Pennsylvania have access to a quality public education. Through legal representation, impact litigation, trainings, and policy advocacy, ELC advances the rights of underserved student populations, including children living in poverty, children of color, children in the foster care and juvenile justice systems, children with disabilities, English learners, LGBTQ students, and children experiencing homelessness. For more information, please visit our website at www.elc-pa.org

Acknowledgements

This report was funded with generous support from the William Penn Foundation. The opinions expressed in this report are those of the authors and do not necessarily reflect the views of the William Penn Foundation. Thank you to Michael Churchill and Dan Urevick-Ackelsberg of the Public Interest Law Center and to the many members of the Education Law Center (ELC) and Research for Action (RFA) teams who contributed to this project: Anna Shaw-Amoah, Cyril Cherian, Deborah Gordon Klehr, Dae Kim, Kate Shaw, Maura McInerney, and Paul Socolar.

David Lapp, Director of Policy Research, Research for Action
Reynelle Brown Staley, Policy Director, Education Law Center

Introduction

The goal of state special education funding should be to (1) *equitably* distribute funds (2) that are *adequate* for all schools to meet their legal obligation to provide a free and appropriate public education to students with disabilities.

Unfortunately, inadequate state special education funding is growing more common in PA schools. In a recent 2019 [report](#), the Education Law Center (ELC) and PA Schools Work found the proportion of special education costs covered by state funding in Pennsylvania has steadily declined since 2008. State funding now accounts for less than 25% of district spending on special education. Restoring state funding to its 2008 share of nearly one-third would require \$465 million in additional state funding.¹ Without an adequacy-based funding formula that objectively calculates and distributes sufficient state funding to all school districts, the manner in which allocated funds are *distributed* has greater consequence, especially for communities that struggle to raise local revenue.

In this report, ELC and Research for Action (RFA) examine Pennsylvania's Special Education Funding (SEF) formula and find that it does not accurately account for district poverty. As a result, state special education funding does not fulfill its intended purpose of addressing funding disparities resulting from differences in local wealth. However, the SEF can be improved during the 2019-2020 legislative session based on the recommendations of the Special Education Funding Commission, which was recently reconstituted under Act 16 of 2019 to review the operation of the formula.

We find that updating the SEF formula — by replacing the current metrics used to measure district characteristics with the newer metrics already used in Pennsylvania's Basic Education Funding (BEF) formula — would create a more equitable distribution of the state funding available for students with disabilities. In addition, the state could explore many practical ways to gradually move the state toward a more equitable distribution of special education funding without reducing funding for any school districts. We describe one simple approach that would prioritize new spending toward the districts that the updated formula identifies as the most inequitably funded, while ensuring that all other districts maintain current funding levels.

¹ Open Letter from PA School Works to the Pennsylvania Special Education Funding Commission (Sept. 25, 2019) <https://www.elc-pa.org/wp-content/uploads/2019/08/PASW-Letter-20190925.pdf>.

Recent Context: Funding Formulas without Equity or Adequacy

The vision of an aligned and comprehensive funding system that would equitably distribute adequate resources for all districts to meet the needs of all Pennsylvania students, including those receiving special education and basic education, has never been realized. Recent history of state funding has been plagued by fits and starts.

In 2007, a state-commissioned study identified poverty, limited English proficiency, *and disability* as critical student factors that should be addressed in determining the allocation of state education funding.² In 2008, the General Assembly enacted an adequacy and equity-based formula for basic education funding that reflected the greater educational needs of students in poverty and English learners, but failed to provide specific funding for students with disabilities.³

Following the enactment of that formula, a new report highlighted the ongoing need for adequate and equitable special education funding,⁴ and a broad campaign of special education advocates pushed policymakers to fix special education funding. The current SEF formula was finally adopted in 2014, based on the work of a Special Education Funding Commission created by the Pennsylvania legislature. However, by then the BEF formula had already been abolished in 2011. Pennsylvania was one of only three states without a basic education funding formula⁵ and in the unique position of having a state funding formula for special education funding in the absence of a formula for basic education.

In 2016, the Basic Education Funding Commission finally developed a new BEF formula that is modeled in some ways on the SEF formula adopted two years earlier. Both SEF and BEF formulas calculate the cost differentials of students with different needs. But the BEF formula adopted new metrics designed to more accurately measure each school district's wealth and tax effort.

Importantly, neither the SEF nor BEF formula calculate school district adequacy targets. This means the state only calculates relative needs and does not determine how much funding districts need to provide appropriate special education services in accordance with state and federal law. In addition, both formulas are only used to distribute *new* funding appropriated since the time of their adoption. For SEF, that means 86% of state resources, approximately \$950 million, remain distributed based on the amount districts received in 2014. The result is that many districts receive less than the formula calculates as their fair share and many other districts receive more. Likewise, many districts — even including many that receive more than their “fair” share — receive inadequate funds.⁶ This is because even districts that receive a relatively high proportion of state special education funding may not receive adequate resources to meet the needs of their students.

Below we compare the elements in both the SEF and the BEF formulas and discuss their similarities and also how they differ in both expected and unexpected ways.

² Augenblick, Palaich and Associates, Inc. *Costing Out the Resources Needed to Meet Pennsylvania's Public Education Goals*, (Dec. 2007), <https://www.stateboard.education.pa.gov/Documents/Research%20Reports%20and%20Studies/PA%20Costing%20Out%20Study%20rev%2012%2007.pdf>.

³ Public School Code of 1949 – P.L. 846, No. 61 (Jul. 9, 2008). <https://www.legis.state.pa.us/cfdocs/legis/li/uconsCheck.cfm?yr=2008&sessInd=0&act=61>.

⁴ Augenblick, Palaich and Associates, Inc. *Costing Out the Resources Needed to Meet Pennsylvania's Education Goals for Students with Disabilities*, (Feb. 2009) https://www.elc-pa.org/wp-content/uploads/2013/11/CostingOut_PASpecialEd_2_6_09.pdf.

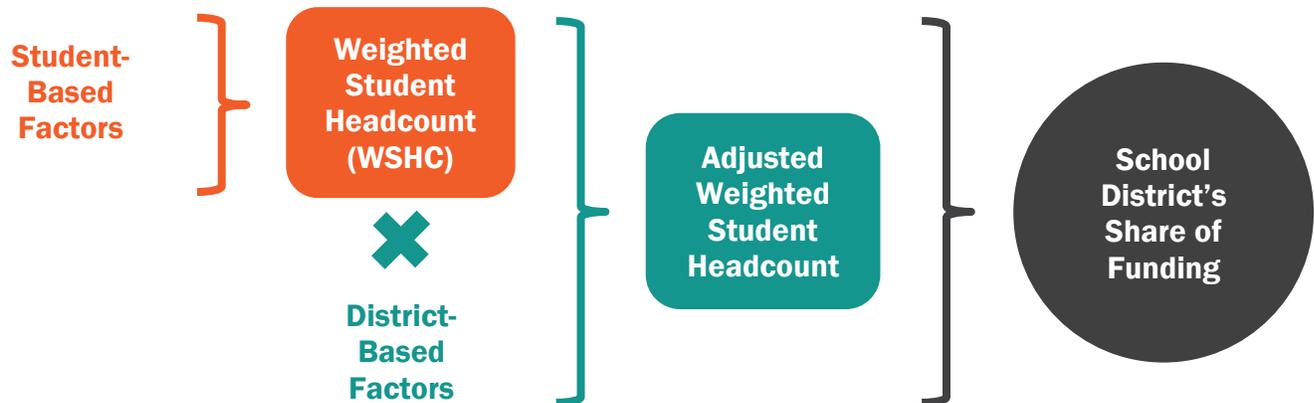
⁵ Education Law Center, *Funding, Formulas, and Fairness*, (Feb. 2013), https://www.elc-pa.org/wp-content/uploads/2013/02/ELC_schoolfundingreport.2013.pdf

⁶ See Education Law Center. *Still Shortchanging Children with Disabilities: State Underfunding of Special Education Continues*, (Oct. 2019) <https://www.elc-pa.org/wp-content/uploads/2019/10/Special-Education-Report-10-1-19.pdf>; Education Law Center. *Shortchanging Children with Disabilities: State Underfunding of Special Education in Pennsylvania*, (Oct. 2018) <https://www.elc-pa.org/wp-content/uploads/2018/10/Special-Education-Report-Online.pdf>.

Comparing the BEF and SEF Formulas

Similarities. As shown in Figure 1, the BEF and SEF formulas both follow the same basic structure. Both measure **student** and **district** characteristics to assess each district's relative need for state support. In both formulas, students who typically require additional resources to serve are counted with additional weights to provide a weighted student headcount (WSHC). In both formulas, the WSHC is then multiplied by factors reflecting district characteristics (such as local wealth) to determine an Adjusted Weighted Student Headcount, which is then used to calculate each district's share of available state funding.

Figure 1: Basic Structure of Pennsylvania's SEF and BEF funding formulas



Expected Differences in Student-Based Factors. The BEF formula seeks to equitably distribute funding to school districts for their **overall student body**, considering student factors such as the numbers of students in poverty, English learners, and charter school students. In contrast, the SEF formula distributes the additional funding needed for **students receiving special education services**. The SEF formula counts students based on three tiers, or cost categories, of the least, intermediate, and most intensive range of services typically provided to students with disabilities residing in the district, including those attending charter schools. Each tier is assigned a weight to reflect the additional costs of special education services relative to regular education costs.⁷

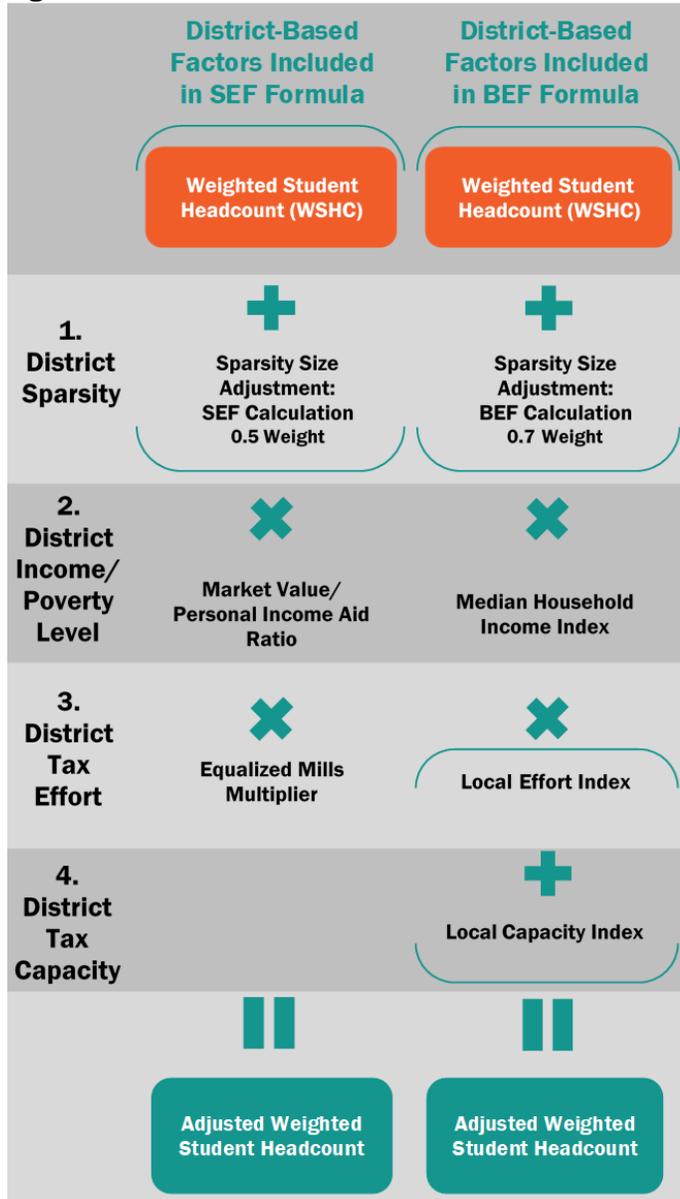
Expected Differences in District-Based Factors. Both formulas also include district-based factors that are intended to control for the same four local factors:

1. sparsity and size
2. income/poverty level
3. tax effort
4. tax capacity

⁷ Because the student-based factors are based on current district spending, the formula may fail to account for the reality that student need for special education services exceeds current identification and service levels in many districts. Research shows that districts with smaller EL populations tend toward over-identification and districts with larger populations tending toward under-identification of EL students with disabilities; in addition, low-income families are more often placed in substantially separate classrooms that may not meet legal standards for inclusion. These findings, as well as research on fiscal consequences of the application of the SEF formula to district but not charter schools, warrant further study of whether the three poverty weights, or the charter weight in the BEF formula should also be included in the SEF formula. See Laura A. Schifter, Todd Grindal, Gabriel Schwartz, Thomas Hehir, *Students from Low-Income Families and Special Education*, THE CENTURY FOUNDATION (Jan. 17, 2019), <https://tcf.org/content/report/students-low-income-families-special-education/?session=1>

However, as shown in Figure 2, the formulas use different metrics to measure those factors. When the BEF formula was adopted, the state increased the weight of the Sparsity Size Adjustment from 0.5 to 0.7, replaced the Market Value / Personal Income Aid Ratio (MV/PI Aid Ratio) with a new metric called the Median Household Income Index, replaced the Equalized Mills Multiplier with a Local Effort Index, and measured district tax capacity with the Local Capacity Index.

Figure 2: District Factors Included in BEF and SEF Formulas



The Appendix provides a more detailed description of the difference between these metrics.

The Importance of Accurate Measures of District Wealth

State and federal laws mandate that students with disabilities receive necessary supports and services regardless of cost. However, financial pressures can limit special education services in ways that compromise the extent and quality of supports that students with disabilities receive.⁸ Poorer districts with limited per-pupil funding face significant pressure to contain costs, including for special education services. Accurately distributing state funding to ensure that districts that have historically received less funding now receive an equitable share of state aid is critical to providing all students an appropriate public education.

As noted by the Basic Education Funding Commission, in the years since the adoption of the SEF formula, several statewide education stakeholders raised concerns that the MV/PI Aid Ratio fails to account for the deepest community needs due to inaccurate real estate assessments and a low-end floor that guarantees lower-aid ratio districts a higher level of funding than they would receive if the ratio were set at an actual number.⁹

In addition, the Local Effort Capacity Index (LECI) used in the BEF formula provides a better account of the *entire* tax effort and capacity in a school district community than the Equalized Mills Multiplier used in the current SEF. As described by the Keystone Research Center, some school districts rely more heavily on local taxes other than property taxes to fund education.¹⁰ The LECI is able to capture this tax effort and capacity in ways that are not captured by the current SEF formula.

As we describe in the section below, **by updating the SEF formula to incorporate the new district metrics that were adopted in the BEF formula, the state would better drive resources to districts that heavily serve students with the most need.**

Impact of Updated SEF Formula

To better understand the functional difference between the SEF and BEF formulas, we calculated the amount of special education funding that districts would receive if the BEF district factors were applied to available SEF formula funding. For this analysis, we only included the \$149 million that is distributed through the SEF formula as of the 2019-20 school year. Results show that 161 school districts are receiving less revenue under the current SEF formula than they would if the formula were updated with the BEF factors.

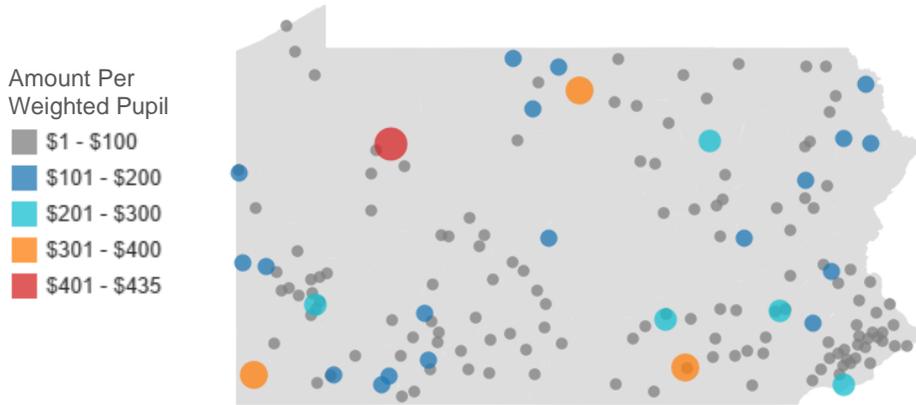
⁸ Researchers have routinely documented districts' use of cost-minimizing strategies for special education including: delaying the initial identification of children for evaluation; evaluating children's needs to emphasize less costly disabilities; recommending only some of the many services and supports that could help a student in school; and recommending that services be provided less frequently than the optimum level. See Augenblick, Palaich and Associates, Inc. *Costing-Out the Resources Needed to Meet Pa.'s Education Goals for Students with Disabilities* 12 (Feb. 2009) https://www.elc-pa.org/wp-content/uploads/2013/11/CostingOut_PASpecialEd_2_6_09.pdf.

⁹ Five prominent Pennsylvania education associations jointly argued the MV/PI aid ratio "pollutes the [SEF] formula." The associations included the Pennsylvania School Boards Association, the Pennsylvania Association of School Business Officials (PASBO), Pennsylvania Association of School Administrators (PASA), Pennsylvania Association of Rural and Small Schools (PARSS) and Pennsylvania Association of Intermediate Units (PAIU). PASBO concluded that "the basic education funding formula solved this problem by using the Median Household Income Index." Pennsylvania School Boards Association. *PSBA SPECIAL REPORT: The Need for a New Basic Education Funding Formula*, (Oct. 2015) https://www.pasba.org/wp-content/uploads/2015/06/BEF_PSBA-white-paper.pdf. See also, PENNSYLVANIA ASSOCIATION OF SCHOOL BUSINESS OFFICIALS, *What is the MV/PI Aid Ratio?* <https://www.pasbo.org/dailydata-feb14> (last updated Oct. 29, 2019).

¹⁰ Mark Price, *Who Pays for School Property Tax Elimination*, KEYSTONE RESEARCH CENTER (Apr. 2007) http://keystoneresearch.org/sites/default/files/KRC_WhoPaysPT_0.pdf

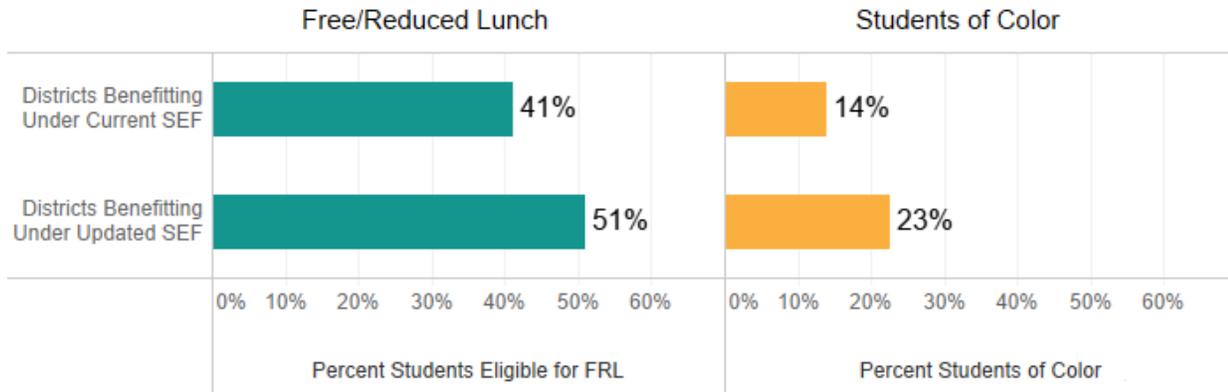
As shown in Figure 3, these districts are geographically dispersed across the state. Results are shown on a per-weighted student amount in order to better compare districts of different enrollment size and to isolate the effects of the formula’s district weights from student weights.

Figure 3: Increase in Special Education Funding Using BEF District Factors Per Weighted Pupil by School District



On average, the 161 districts that would receive more revenue if the SEF formula were updated with the newer metrics in the BEF also tend to serve higher proportions of historically disadvantaged student groups, including students receiving free or reduced lunch (FRL) and students of color, than the 339 school districts that benefit from the old metrics used in the current SEF formula.

Figure 4: Poverty and Race in Current SEF Compared to Updated SEF



This overall finding is consistent with our findings that the *individual* district factors currently included in the SEF formula are each less closely correlated with the share of students receiving FRL than the new district factors included in the BEF formula (see Table 1 in the Appendix).

How to Implement an Updated SEF Formula

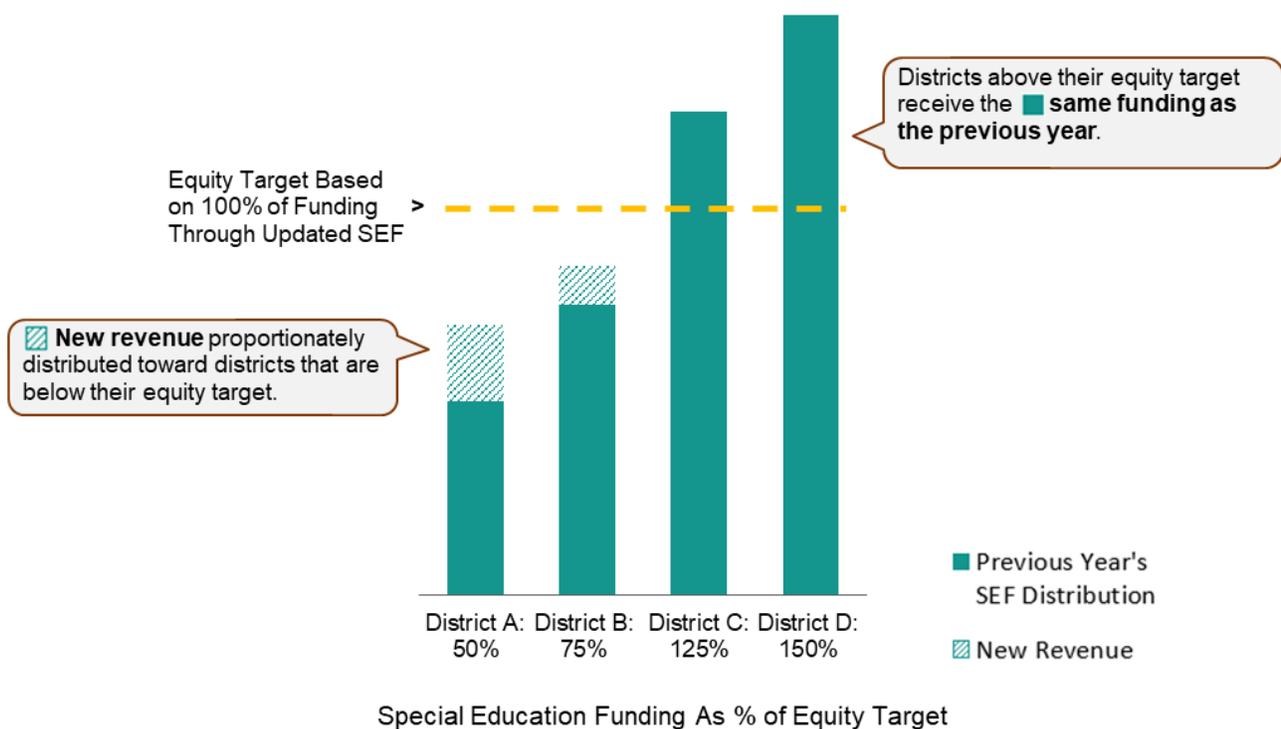
As described above, adopting an updated SEF formula that incorporates the metrics for district characteristics used in the BEF formula would create a more equitable and accurate system of special education funding. However, the state has also never addressed the larger issue of how the \$950 million of base SEF funding has locked inequity into the SEF in perpetuity. These funds remain distributed based on

the amount districts received in 2014, independent of the student-based and district-based factors in the SEF formula.

There are many ways for the state to move toward equity over time *without reducing funding for any districts*. One simple way is to appropriate enough new revenue into the new formula to ensure that every district receives at least as much as they received in the past. We calculate that, even without any additional changes to the SEF base funding, it would require approximately \$150 million of new revenue to implement the updated SEF as described above, without any district losing revenue.

A more deliberate approach is demonstrated in Figure 5. This approach would maintain the current distribution of existing funding and use the updated SEF formula to identify and distribute all, or a portion of, new additional appropriations to the most inequitably funded districts on a proportionate basis. In this way, no school districts would lose any funding from what they currently receive, but the SEF funding would achieve an equitable distribution in a shorter period of time.

Figure 5: Distributing New Special Education Revenue to Bring School Districts Closer to Equity



In the approach above, Districts A and B receive new revenues proportionate to how far away their current funding is from the equity target identified by the updated SEF formula. Because District A is the farthest away from equity it receives more than District B. Districts C and D receive at least the same amount of funding from the state they received in the current year.

Conclusion

More than a decade ago, researchers found that “[t]he inequity of Pennsylvania’s funding system can be summarized by the conclusion that school districts with higher wealth and lower needs spend more than lower wealth districts — and do so while making lower tax effort.”¹¹ They also explained that because of PA’s heavy reliance on local revenue, “school district spending is negatively associated with need and positively associated with wealth.”¹²

Sadly, these descriptions are still accurate. In particular, as local districts increase their spending on students with disabilities, the need for state special education funding to address funding disparities resulting from differences in local wealth grow more pronounced. Yet the bulk of special education funding that districts receive is still not equitably distributed. And Pennsylvania school districts still receive inadequate special education funding.

A simple, more equitable and adequate approach to state special education funding would be to update the district characteristics in the SEF formula to match those in BEF and increase funding under that updated formula.¹³ There is no policy or research-based rationale for using different district characteristics in the SEF formula when more accurate metrics are already available and used in the BEF formula. This updated formula would more equitably distribute funding to the districts and students with the most need and create better alignment between the BEF and SEF formulas. And it will bring Pennsylvania’s special education funding closer to its goal of equitably distributing funding so school districts can meet their legal obligation to provide a free and appropriate public education to students with disabilities.

The Special Education Funding Commission, reconvened for the first time in five years, has an opportunity to address the current flaws in the SEF formula. Updating the district wealth factors, as the Basic Education Funding Commission did in 2016, would improve the accuracy of the formula in meeting the needs of students with disabilities and the districts that serve them.

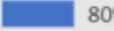
¹¹ Augenblick, Palaich and Associates, Inc. *Costing Out the Resources Needed to Meet Pennsylvania’s Public Education Goals* 36 (Dec. 2007) <https://www.stateboard.education.pa.gov/Documents/Research%20Reports%20and%20Studies/PA%20Costing%20Out%20Study%20rev%2012%2007.pdf>

¹² *Id.*

¹³ The state should also consider conducting a costing-out study to identify adequacy targets and determine appropriate baseline level of special education funding for all districts.

Appendix

Table 1: District Factors Included in BEF vs. SEF Formulas

DISTRICT FACTORS: SEF VS. BEF FORMULAS		
	SEF	BEF
	<p>Overall Correlation with District's Share of Students Receiving Free/Reduced-Price Lunch</p> 	<p>Overall Correlation with District's Share of Students Receiving Free/Reduced-Price Lunch</p> 
District Sparsity	<p>Sparsity Size Adjustment: SEF Calculation (0.5 Weight)</p> <p>The purpose of the sparsity size adjustment (SSA) is to recognize that geographic distribution prevents some Pennsylvania school districts from benefitting from cost-saving economies of scale. The sparsity size adjustment impacts 150 school districts per year that are relatively large geographically and small in total population. In the BEF the SSA weight was increased from 0.5 to 0.7, strengthening the adjustment for those 150 school districts.</p> <p>Correlation with District's Share of Students Receiving Free/Reduced-Price Lunch</p> 	<p>Sparsity Size Adjustment: BEF Calculation (0.7 Weight)</p> <p>Correlation with District's Share of Students Receiving Free/Reduced-Price Lunch</p> 
District Income/Poverty Level	<p>Market Value/Personal Income Aid Ratio</p> <p>The MV/PI aid ratio reflects the general wealth of the school district based on the total market value and personal income per student in comparison to the state. Districts with lower wealth have a higher MV/PI ratio and receive a higher funding allocation.</p> <p>Correlation with District's Share of Students Receiving Free/Reduced-Price Lunch</p> 	<p>Median Household Income Index</p> <p>The MHII is a measure of a school district's wealth in relation to the state. Each school district is compared to the statewide median household income of \$56,951. Districts with a higher index (i.e. lower median household income) receive a higher funding allocation.</p> <p>Correlation with District's Share of Students Receiving Free/Reduced-Price Lunch</p> 
District Tax Effort	<p>Equalized Mills Multiplier</p> <p>Equalized mills multiplier (EMM) is determined by dividing a school district's total taxes collected by its total market value. This is averaged over three years and compared to the 70th percentile of all districts. Districts with a higher tax effort compared to the 70th percentile receive a higher funding allocation.</p> <p>Correlation with District's Share of Students Receiving Free/Reduced-Price Lunch</p> 	<p>Local Effort Index</p> <p>The local effort index is calculated using the local tax effort placed on households earning the median household income in the district. This is added to the Local Capacity Index to create the Local Effort Capacity Index. Districts with higher tax effort receive a higher funding allocation.</p> <p>Correlation with District's Share of Students Receiving Free/Reduced-Price Lunch</p> 
District Tax Capacity	<p>Correlation with District's Share of Students Receiving Free/Reduced-Price Lunch</p> 	<p>Local Capacity Index</p> <p>The local capacity index measures a school district's ability to generate local revenue on a per weighted student basis. This is added to the Local Effort Index to create the Local Effort Capacity Index. Districts with lower tax capacity receive a higher funding allocation.</p> <p>Correlation with District's Share of Students Receiving Free/Reduced-Price Lunch</p> 