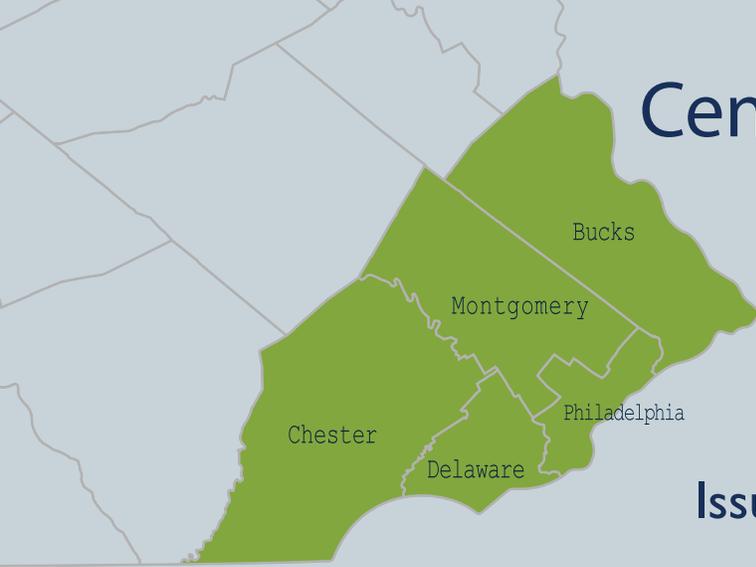


# Center on Regional Politics



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## HOW PENNSYLVANIA FUNDS PUBLIC SCHOOLS: THE STORY OF THE STATE SHARE

Michelle J. Atherton

The process of funding public education in Pennsylvania is complex at best and convoluted and indecipherable at its worst. To some, we already spend plenty of the taxpayers' money on educating Pennsylvania's children; to others, more funding is called for; and to almost all, the current distribution of the state's basic education subsidy is opaque, outdated, and in need of reform.<sup>1</sup>

To some observers, the difficulties of establishing and maintaining a fair, stable, and adequate system of school finance are so deeply embedded in the state's demographic diversity, geographic divides, contrasting cultures, partisan conflict, and institutional complexity (e.g., 500 school districts across 253 legislative districts) that they might be unfixable. One legislative veteran recently quoted a legendary legislative leader to this effect: "We have been trying to fix this problem for decades. If there were an answer, don't you think we would have found it by now?" (See summary of previous school funding studies in Appendix.)

Perhaps we can learn how to improve our public school finance system by reviewing how we got where we are. History reveals that episodically Pennsylvania has made necessary changes in its public school system to meet significant political and economic challenges. Pennsylvania, like other states, fostered universal public education when schooling was reserved for upper classes in European nations in

the late 18th century, supported the rapid growth of high schools when the manufacturing economy of the Industrial Revolution needed better educated workers, stepped up state funding when the Great Depression devastated local school finances in the 1930s, consolidated more than 2,000 school districts into 505 in response to the post-war baby boom and anxiety about the competitiveness of American education after the Soviets launched Sputnik in 1954, and maintained a stable, if not entirely satisfactory, system of school finance during the 1980s. These changes were dramatic but did not happen overnight.

The challenge facing the General Assembly today is to establish a fair, stable, and transparent system of public education finance to support schools that can produce engaged citizens and productive workers in an increasingly competitive global economy.

### Today's Challenges Stem from Yesterday's Choices— and the Great Recession

Here are some of the commonly recognized problems: Children lucky enough to live in wealthier school districts have educationally richer programs than children living in poor districts, because the school finance system relies heavily on the property tax. Property wealth is unevenly distributed and in many counties inequitably assessed for taxation. The Commonwealth has tried for more than

1. For a litany of criticism of the state's school finance system from leaders who span the partisan spectrum, see "Does Anybody Think PA's School Funding Formula Works?" 2014. Temple University Center on Regional Politics, *Winter/Spring Bulletin*, p. 2.

a century to address the problem of unequal resources through generally progressive state subsidies, yet its contribution as a percentage of districts' cost is lower than in all but nine states and falls far below the 50% goal that the legislature endorsed in the mid-1960s.

In recent years, the state has either reduced or frozen its basic education subsidy or appropriated small increases but cut other classroom programs, with the result that wealthier districts in many cases received smaller per-student funding cuts than their poorer counterparts.<sup>2</sup> Although poorer districts have had to inflict the most severe cuts in recent years, middle-class and wealthy districts also have had to make painful reductions in programs and staff. Yet, all 500 districts must deal with rising fixed costs such as health care and pension benefits for employees, transportation, and charter school reimbursements, making it difficult to argue that any district should lose state funds. The state has also frozen its subsidy for capital costs, leaving districts waiting for reimbursement for funds already spent, unable to build new schools or rehabilitate older ones.

Simultaneously, they must meet increasingly burdensome federal and state mandates, such as federal No Child Left Behind (NCLB) and special education requirements. Although the General Assembly has recently endorsed a more rational system of distributing special education funding, the proposed new formula will drive only incremental increases in state dollars, with the bulk of this subsidy still distributed according to arbitrary and decades-old rules. Act I of 2006 further restricted the ability of districts to raise revenue through increased property tax rates while the state share of education funding declined.

Although the Great Recession of 2007-09 exacerbated these circumstances, such conditions are nothing new. Today's funding system is the legacy of years of policy-making. For instance, the funding scheme in place largely reflects consequences of Act 31 of 1983, which marked the creation of a "hold harmless" provision, guaranteeing no district would receive less money in subsequent budget years than it had received the prior year, and that language remains in place today. Anything else leads to the political problem of creating winners and losers—a difficult agenda to pass in the General Assembly. Although up-to-date student counts have been used to drive relatively small annual increments of new funds, 53% of the basic education

subsidy for FY 2013-14 can be traced to FY 1990-91 data, according to Penn State Professor William Hartman.

### The Constitutional Basis for the State's Role in Public Education

Before examining the history of the state's role in funding schools, one should understand the constitutional basis of the state's role. Education advocates often point to the provision in Article III, Section 14 of the Pennsylvania Constitution when arguing for a more fair and equitable distribution of state money for schools. This provision, adopted in 1874, and slightly modified in the 1968 Constitution, reads:<sup>3</sup>

*"The General Assembly shall provide for the maintenance and support of a thorough and efficient system of public education to serve the needs of the Commonwealth."*

In *Marrero v. Commonwealth* (1999), the court interpreted "thorough and efficient" with emphasis on what would "serve the needs of the Commonwealth." In this case, Yesenia Marrero, a student in the Philadelphia public schools, the City of Philadelphia, the School District of Philadelphia, and other parties alleged the state had failed to provide "adequate" funding to Philadelphia's public schools. The Commonwealth Court determined that the case was non-justiciable, because the funding needs of the Commonwealth's schools were a matter for the legislature, not the judicial branch, to decide. The Supreme Court affirmed the Commonwealth Court's decision, and added that the General Assembly's obligation was to provide a "thorough and efficient system of public education," with the emphasis in their original decision. The system was surely in place, but as to what was adequate? That determination is outside the bounds of the judicial branch (Krill 2012). Across the US, 45 state education finance systems or funding level systems have seen challenges from their citizens, with mixed results.<sup>4</sup> When successful, court-ordered reforms have increased school spending and made it more equitable, but the cost has been off-setting cuts in other state funded programs that support local government services, according to a study of 22 states by two University of California economists (Baiker and Gordon 2006).

Unless federal courts or the Pennsylvania Supreme Court override the *Marrero* decision, it is exclusively up to the

2. Pennsylvania Budget and Policy Center Education Facts. <http://www.psea.org/uploadedImages/LegislationAndPolitics/Graph-AverageFundingChangePerStudentFrom201011.jpg>.

3. The Constitution of 1874 called for "a thorough and efficient system of public schools," and the language was changed slightly to read "public education," and the phrase "to serve the needs of the Commonwealth" was added in the Constitution of 1968. Simultaneously, Article III, Section 14, was added, barring the use of public school funds for sectarian schools (PARSS 2013).

4. <http://www.ncsl.org/research/education/state-role-in-education-finance.aspx#EdFinanceLitigation>. See also <http://schoolfunding.info/> for a breakdown of results by type of litigation and by state.

General Assembly to decide what the education needs of the Commonwealth are and how to address them. The courts are not to intervene and local school districts are instrumentalities of the Commonwealth, subject to state laws and policies that can govern their curricula, calendars, employment practices, and local funding sources. What follows is a history of how the state has supported public education funding in Pennsylvania.

### Early History: The Era of the One-Room School House

Early education in colonial Pennsylvania was provided largely by private institutions. Formal education was chiefly for the wealthy, and the skills needed for success in the general population were limited to the dominant industries of the day—agriculture, mostly, manufacturing, and transportation (PARSS 2013). Basic reading and math were taught in the home, on the job, or at religious institutions.

By 1776, Section 44 of the Pennsylvania Constitution called for the establishment of schools in each county of the Commonwealth “for the convenient instruction of youth... with such salaries to the masters to be paid by the public.” Without legislative action, school creation was haphazard. The Constitution of 1790 required the legislature to establish “schools throughout the state... that the poor may be taught gratis.” Governor Thomas Mifflin’s administration pleaded for the quick enactment of legislation to fulfill the constitutional obligation. It did not happen.

The School Act of 1809, also known as the “Pauper Act,” required township assessors to acquire the names of impoverished children and report their findings to the counties in order to enable poor parents to afford school tuition. Not many parents took the counties up on the offer, for as late as 1828 the state had paid tuition of only 4,477 children that year (Dunkleberger 1948 and PARSS v. Ridge, 737 A.2d 246).

This was the era of the ungraded one-room school house, where a single teacher instructed children of various ages in a curriculum tailored to each child’s individual abilities and previous learning. Although regarded today either as a nostalgic symbol of lost rural virtue or as a primitive and woefully inadequate pedagogical institution (Zimmerman 2009), the one-room school house was, according to one scholar, an efficient setting for educating students prior to the Industrial Revolution. Students did not need even high school level skills for many jobs and would come and go during the school year, depending on when their labor was

needed on the farm or in mills or shops. When students returned from work, the teacher would simply resume their instruction at the point where she (most teachers were single women) had left off (Fischel 2009).

The Common School Law of 1834 called for the creation of a school district in the “city and county of Philadelphia and every other county in the Commonwealth, and every ward, township, and borough.” County school taxes were set at no less than two dollars for every dollar of state aid (PSBA 1987 and Education Law Center 2011). As is common in contemporary debates, the varied distribution of wealth among municipalities led to wide disparities in educational dollars available. The funding formula put in place in 1835, and functioning until 1897, dictated a county-level distribution of funds. Based on the number of taxable persons in a county, the county treasurer collected the funds and sent them to school districts proportionally.

Under Article X of the Constitution of 1874, the General Assembly was required to “provide for the maintenance and support of a thorough and efficient system of public schools,” the first instance of this now familiar phrase, originally from a lecture delivered by education advocate Horace Mann. Mann saw public education as essential to democracy, the source of economic prosperity and public welfare, and he left it up to legislators as statesmen to guarantee what he saw as a natural right (PARSS v. Ridge, 737 A.2d 246).

Although “top-down” reformers like Mann are often given credit for driving school reform efforts at the state level, an alternative view is that citizens recognized the growing manufacturing economy required a more mobile workforce and high school level instruction to keep their communities prosperous. These “bottom-up” democratic forces drove legislatures to begin consolidating many one-room school houses into larger elementary schools to feed newly established high schools. Unlike the one-room school houses, the consolidated schools were graded, and school curricula and calendars were standardized, with summer vacations providing periods when families could move for employment reasons and their children could pick up in a new school where they left off in the old one (Fischel 2009).<sup>5</sup>

High schools blossomed across the state and “by 1895, every school district was authorized to establish a high school,” and the state appropriated money for them.<sup>6</sup> At this point, school was made compulsory for children ages

5. Fischel (2009) argues that the workforce mobility needs of the manufacturing economy, and not the seasonal needs of the agricultural economy, led to the standardized fall and spring school calendars and standardized, graded curricula. In the one-room school house, he contends, students were more likely to work on the farm during spring plantings and fall harvests and to attend school during the summers.

6. <http://www.allentownsd.org/Page/16>.

8 to 13, with 16 consecutive weeks required.<sup>7</sup> In 1897, money was distributed upon the basis of the number of children ages 6 to 16, taxable real estate, and taxable residents. By 1911, distribution based on the number of taxable residents was eliminated. Across the US in the early 1900s, common practice was to distribute funds based on “flat grants,” a basic dollar amount per student regardless of wealth or need. But by the 1920s and 1930s, states began to use “foundation formulas,” applying a sliding scale to district need according to relative wealth (Education Commission of the States 2012).

### Pennsylvania Responds to the Great Depression

In Pennsylvania, authorization of the State Tax Equalization Board came in 1947 (Act 447) as a result of local inequality in wealth, the absence of statewide assessment uniformity, and the growing responsibility of the state to provide more funds for public education. According to the PSBA (1987) the Great Depression significantly altered the landscape of the state proportion of local school funding: “In 1930, 83% of local school costs were funded locally, almost exclusively by property taxes. As these became unpayable, state aid jumped to almost 30% in 1940, and to 40% by 1950.” Funding was based on district teaching units and multiplied by a legislatively determined figure and a district reimbursement fraction as set forth in the Public School Code of 1949 (PARSS 2013).

After 1957 amendments to the school code, the funding formula for schools remained relatively unchanged until 1966, when Act 391 changed the calculation of district teaching units in determining reimbursement fractions and defined “Actual Instructional Expense” (AIE) for elementary, secondary,<sup>8</sup> and technical teaching units. There was also a supplement to districts with students enrolled in joint or merged schools to encourage consolidation. Nearly \$22 million was dedicated to this effort, or about 5% of the total 2-year appropriation.

### Pennsylvania Consolidates School Districts and Sets 50% as the Goal for the State Share

Drastic changes to the funding formula came from the amendment of 1966, Act 580 and remained in place until

1983. Notably, one requirement was the state share was marked as 50% of reimbursable cost, “For the school year 1966-67 and each school year thereafter, the State’s share of total reimbursable cost shall be fifty percent (50%).” Also introduced were such terms as “Weighted Pupil,” “Weighted Average Daily Membership (WADM),” “Actual Instruction Expense per ADM,” “Aid Ratio,” and “Minimum Subsidy.” Add-ons included payments for children living in poverty, and density factors.

Governor Lawrence signed a law in 1961 (Act 561) consolidating 2,500 school districts into 466, later increased to 505 under the Scranton administration under Act 299 of 1963,<sup>9</sup> and later reduced by federal order to 501<sup>10</sup> (PARSS 2013). The 1961 law argued that the “...system of more than 2,000 school districts is incapable of providing adequate education and appropriate training for all of the children of the Commonwealth.” Pennsylvania now has 500 school districts.

Subsequent to the adoption of amendments to the Pennsylvania Constitution of 1968 (which left the education clause intact), the General Assembly created a Legislative Modernization Commission to recommend steps to strengthen the legislature’s role in governing the Commonwealth, and particularly in controlling the state budget and levying taxes.

Among changes recommended by the commission and adopted by the General Assembly over the next decade were increasing the salaries of legislators, professionalizing its staff, developing its own capacity to analyze revenues and expenditures, requiring fiscal notes on legislation, opening committee meetings to the public, and a host of other measures regarded as reforms (McLaughlin 2012).

By the mid-1970s, before budget votes, legislators were routinely provided with spreadsheets showing in greater detail than ever before how state funds were being spent and in particular how much state funds every school district in the Commonwealth would receive. In the view of some former legislative staffers, the availability of these printouts to both legislators and their opponents aggravated political pressures for the so-called “hold harmless” practice.

7. <http://www.psea.org/general.aspx?id=280>.

8. The state share of Actual Instruction Expenditures either exceeded 50% in four years during the 1970s or exceeded 50% only in 1972-73, depending on whether the state subsidy is treated as a reimbursement for prior year spending, as the Pennsylvania State Education Association (PSEA) maintains, or as support for current-year spending, as the Pennsylvania School Boards Association (PSBA) has maintained. This history uses the PSEA approach in the text. Both approaches show the same pattern of decline in the state share from the 1970s on.

9. Paul B. Beers. 1980. *Pennsylvania Politics Today and Yesterday: The Tolerable Accommodation*. University Park: The Pennsylvania State University Press, pp. 264-65, 298.

10. This last reduction was the result of a lawsuit in 1981 aimed at reducing racial segregation in Allegheny County. Five districts were forced into one, now the Woodland Hills School District. (<https://www.psba.org/issues-advocacy/issues-research/school-mergers/psba-merger-paper.pdf>).

**New Revenue Sources Arrive in the 1970s and the State Share Rises**

It is probably not a coincidence that the 50% goal was attained, or nearly attained, only in the early to mid-1970s, when state coffers benefitted from two significant sources of new revenues. Pennsylvania became the 43rd state to enact a personal income tax (Act 2 of 1971), and the tax quickly became second only to the sales tax as a revenue producer for the general fund. Like the sales tax and the corporate net income tax, the personal income tax proved a powerful but volatile revenue source, fueling surpluses when the economy was growing but threatening deficits in recessions. Although higher levels of state funding are necessary to address school funding inequities, they also increase the vulnerability of school finance to recessions, of which there have been six since the adoption of the personal income tax. Some studies have found that when school districts become overly dependent on state funding, school finances and school quality decline (Fischel 2005 and 2009, and Knoepfel et al. 2013).

Soon thereafter, Pennsylvania and other states also began receiving federal revenue sharing funds under the State and Local Fiscal Assistance Act of 1972, which distributed \$30 billion before it was reauthorized in 1976. One-third of the funds were allocated to the states and two-thirds to municipalities. Although the municipal share of revenue sharing endured until 1986, the state share was not reauthorized in 1980 and thus lasted only eight years.

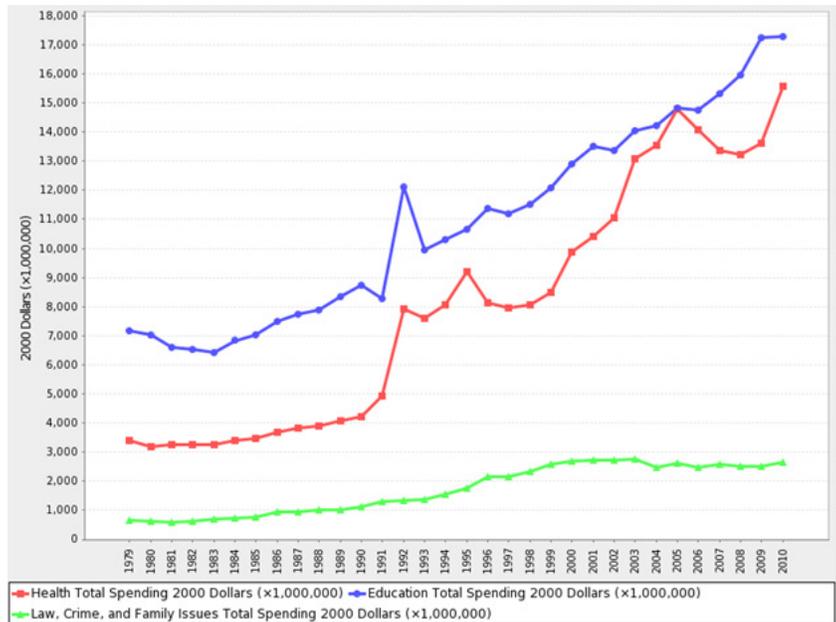
**Act 195, Medicaid, and the Rise of “Hold Harmless” Practice Complicate School Funding**

Although the adoption of the personal income tax and federal revenue sharing may have made the 50% threshold appear achievable during the 1970s, two seemingly unconnected but profoundly important changes in federal and state policies were enacted and slowly began making their impact felt. In 1970, the legislature authorized non-unionized public employees to engage in collective bargaining and to strike (Act 195). Teachers’ unions used this new right to bargain for higher wages, smaller class sizes, and work rules that made teaching a more attractive profession and, in the view of the unions, improved learning in the classroom. But these changes also put upward pressure on school budgets, which meant that the state would be fund-

ing labor contracts in which it was not represented at the bargaining table. Wealthy districts that increased funding for higher teacher salaries and new programs and facilities during ensuing decades in effect raised the cost for the state of meeting the 50% goal even as a statewide average. Act 372 of 1972 mandated districts provide transportation to non-public school students.

After several decades during which Pennsylvania often led the nation in the number and duration of school teacher

**Figure 1**



Source: The Pennsylvania Policy Database Project ([www.temple.edu/papolicy](http://www.temple.edu/papolicy)). Total spending for health, education, and law, crime, and family issues includes spending from all funds of the state government, including federal transfer payments.

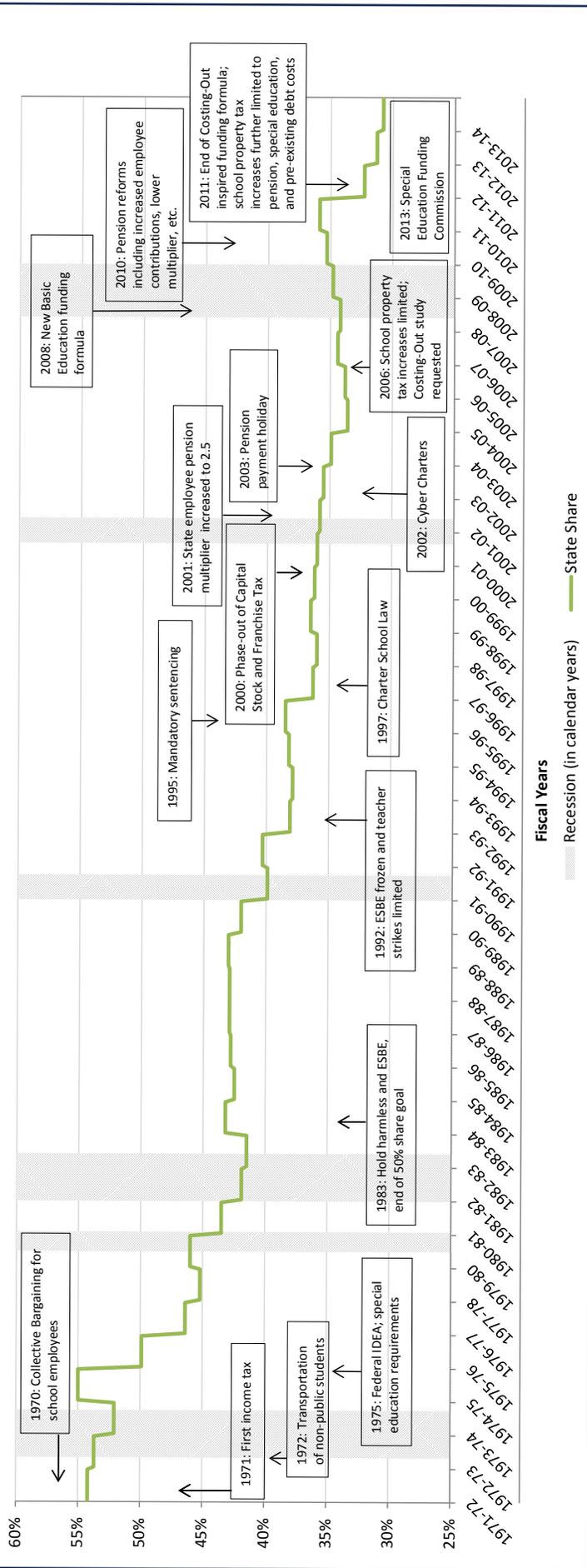
strikes, in 1992 the legislature enacted a requirement that strikes could not jeopardize the ability of school districts to meet the mandated 180 days of instruction (Act 88), and also provided incentives for resolution. Prior to 1992, Pennsylvania averaged 27.6 strikes per year, but the average dropped to 8.6 between 1992 and 2007.<sup>11</sup>

In 1965, the federal government created the Medicaid program to fund health care for the poor, with the states as almost equal partners in providing funding. Although the program grew slowly at first, health care spending, driven by a combination of federal mandates and economic downturns, accelerated at enormous rates and began to challenge education as the most expensive services provided by the state (Figure 1). The combination of federal rules and concern about not fully leveraging the program’s federal match arguably gave health care an edge in this

11. <http://www.pewstates.org/projects/stateline/headlines/public-strikes-explained-why-there-arent-more-of-them-85899419275>.

**Figure 2**

**State Share of Total Instructional Expense 1971-72 through 2013-14**



Source: State share from PSEA Research in PARSS 2013. Recessions from the National Bureau of Economic Research (NBER). The BEF amount for 2009-10 includes \$4.87 billion in state funds, and \$654.8 million in ARRA State Fiscal Stabilization Funding. The final BEF for 2010-11 includes \$4.732 billion in state funds, and \$654.8 million in ARRA State Fiscal Stabilization Funding, and \$387.8 million in EducJobs Funding and FMAP Restoration.

Note:

As indicated above, the state share shown in this timeline and in Table 2A is as calculated by PSEA and reprinted in PARSS 2013. This approach treats state subsidies as reimbursements for prior year spending, which in fact is how they are calculated, and shows the state percentage of Actual Instruction Expenditures (AIE) as exceeding 50% only for four consecutive fiscal years beginning in 1972. The Pennsylvania School Boards Association (PSBA) treats state subsidies as a percentage of AIE in the fiscal year in which they are received, which is their practical effect on funding school operations. Under this approach, the state share exceeds 50% only in 1972-73. Both approaches show the same pattern of decline in the state share from the 1970s on, with the PSBA percentages only slightly lower due to having larger denominators.

competition. In the words of one former secretary of the budget, more than any other single policy, Medicaid profoundly changed state government not just for Pennsylvania but for every state. The growing rolls for public assistance also contributed to pressure on the education budget, particularly in the years before welfare reform.

In the 1995 special session on crime, the legislature passed numerous acts providing longer sentences for a variety of offenses. These laws contributed to increased spending on criminal justice functions, including for prisons, another factor constricting funds available for education.

For whatever reasons, the state wasn't always able to meet its 50% goal for funding schools, although it occasionally provided more, as in 1974-75 when the state covered 55% of expenditures (PARSS 2013). An amendment of 1977 added among other terms, "personal income valuation," "equalized millage," and "real property valuation." This year also marked the first time the state could not meet its obligation under the prior formula, and the Equalized Supplement for Student Learning (ESSL) created through an amendment in 1982 was a way to distribute state dollars equitably. School districts were also guaranteed the same amount they had received in the prior year.

### A Stable Funding Formula Survives Under Divided Government

Act 31 of 1983 marked the end of the 50% state reimbursement guarantee<sup>12</sup> and the arrival of what was termed the Equalized Subsidy for Basic Education (ESBE) in place for 10 years. (There was divided government for all of these years.) In addition, a new formula was adopted as well as a hold harmless provision such that no district would receive less than 2% more than it received the year before. Wealthy and shrinking districts were still guaranteed a minimum increase in funding. Additional funds were allocated based on low income students, local tax effort, and population density. Act 31 of 1985 marked the arrival of small district assistance and a ceiling on increases in assistance to each of the districts of 7.45%. The 2% increase in year over year funding remained in place.

In 1986, the legislature tried to solve funding inequities created through the ESBE formula with the addition of a "School Supplement," followed by Act 25 of 1991 which increased aid to underfunded districts with "Low Expenditure/Low Wealth" and "Low Expenditure Poverty" supplements. This act also assumed the same distribution of special needs students throughout the Commonwealth's

districts, allocating funding for special education on a percentage basis. By 1990-91, the difference between the highest and lowest spending district was a factor of 3.4 (Hughes 1999). As of the 2010-11 school year, this ratio was 3.2. For FY 2012-13, the ratio of lowest to highest basic education subsidy was 25:1.

From 1975 to 2006, the share of state support to districts declined from 55% to a low of 36%. As of 2014, nine states contribute less. The hold harmless provision, minimum aid ratio, and maximum supplement exacerbated wealth inequalities and allowed some municipalities to spend more without property tax increases—funding for schools came from the state automatically.

ESBE was frozen in place in FY 93. Subsequent supplements based on poverty, enrollment growth, and aid ratio were legislated in 1993. The following years saw more use of supplements to deal with the erratic and often impractical funding as a result of Act 25 of 1991, such as those for small districts. The Pennsylvania Association of Rural and Small Schools (PARSS) sued Governor Ridge and the Secretary of Education, Eugene Hickok, in the late 1990s over the resulting inequities in school funding.<sup>13</sup> The decision declared the determination of "thorough and efficient" non-justiciable and further stated:

*Even if the question is justiciable, the Commonwealth contends that the system for funding education is constitutional because every student in Pennsylvania receives an "adequate" education and neither the Education Clause nor the Equal Protection provisions to the Pennsylvania Constitution requires more. It also contends that the Pennsylvania Constitution does not require that spending be uniform and to impose such requirement would impair local control over tax rates, spending choices and other educational choices. Finally, the Commonwealth argues that the amounts spent on a student's education, at least above the base minimums, have nothing to do with student achievement or the education they receive. (Judge Pellegrini 1998, PARSS v. Ridge, 737 A.2d 246)*

### Pennsylvania Adopts Charter Schools and Standards Based Reform

The Charter School Law was signed in 1997 with the purpose of fostering innovative learning and teaching methods and providing for measurements of academic standards and accountability. Cyber charters were added with Act 88 of 2002. Charter student populations grew rapidly, and as we shall see, controversy about their educational and financial impact on traditional public schools soon followed.

12. The last payable year the state reached 50% was 1974-75.

13. <http://pabararc.org/pdf/PARSS%20v%20Ridge%20-%20Cmwlt%20Ct%20Opinion.pdf>.

By 2000, more state dollars were poured into assessment and professional development, which that year saw a line item increase of 116.7%. With respect to pensions, Act 16 of 2000 set state funding at a minimum of 50% for district employees hired after 1994-95. For employees in districts above a 0.5 aid ratio, the state pays according to that ratio. However, over this period to the present day, there have been 13 years where the employees paid a larger percentage than the employer (PARSS 2013).

Millions more were allocated in 2001 toward assessment, the year of enactment of No Child Left Behind (NCLB). NCLB geared qualification for federal funds to states' implementation of assessments of student outcomes, largely directed toward improving performance in disadvantaged districts. For example, the Pennsylvania System of School Assessment exams (PSSAs) received \$5.5 million, and teacher tests \$4 million. However, the Retirement Fund allocation declined by \$44.4 million.

Act 23 of 2000 and later amendments began phasing out the Capital Stock and Franchise Tax, reducing revenues from this measure from \$1.08 billion, 5.5% of general fund tax revenues in FY 1999-2000, to \$602 million, 2.1% of tax revenues in FY 2012-13.

The state income tax rate increase from 2.8% to 3.07% of 2003 allowed for, at least partially, an increase in basic education funding of 3%, as well as money funneled into new programs, like the Accountability Block Grants (ABG) to encourage the creation of pre-school and full-day kindergarten seats. Funding supplements from 2003 and 2004 favored larger and poorer districts, which some argue resulted from federal NCLB requirements. Educational Assistance of \$66 million, the largest percentage increase in all education line items, was provided in 2006 as part of NCLB requirements for tutoring of students in schools which do not meet yearly adequacy standards.

In Act 9 of 2001, the General Assembly increased the multiplier for state and school district employees' pension benefits from 2% to 2.5% without providing new revenues to pay for the costs of the higher benefits. Act 40 of 2003 further added to the unfunded liability of the two funds by manipulating amortization periods to reduce immediate fiscal pressures on the state's operating budget. Despite reforms enacted in Act 120 of 2010 which repealed a higher multiplier and raised employee contribution rates for new hires, by 2013 the Pennsylvania Public School Employees' Retirement System (PSERS) estimated that more than 70%

of the system's \$29.5 billion unfunded liability was due to legislative actions and only 25% was due to poor investment performance (Center on Regional Politics 2013).

Act 1 of 2006 channeled revenue from gaming to the reduction of property taxes through a homestead exemption (except Philadelphia, where it is dedicated to reducing the wage tax). Starting with 2007-08, school districts would be unable to raise property taxes higher than the cost of living without a voter referendum, with the exceptions of increased special education costs, some construction projects, retirement and health care costs, and emergencies. Act 25 of 2011 limited the exceptions to only special education and pension costs, plus grandfathered debt and electoral debt. The 2006 state share of pension costs increased 44.9% (\$114.3 million). Gaming tax revenues have been providing property taxpayer credits averaging about \$200 on a statewide basis but ranging from \$52 in the Dallas and Palmyra school districts to \$652 in the Chester-Upland school district (McNulty 2014).<sup>14</sup>

As of 2007, the state was required to reimburse school districts up to 30% of the cost of charter schools. Philadelphia, Chester, and Duquesne were allotted 32.5%. The appropriation for PSSA test funding increased 57.4% and professional development by 30%.

### Costing-Out Comes and Goes

The "Costing-Out Study" commissioned by the General Assembly in 2006 was overseen by the PA Board of Education and carried out in 2007 by Augenblick and Associates. The purpose was to determine the proper funding level for each district to provide students with an "adequate" education. Panelists from diverse educational and business backgrounds met across the state to review best practice research from the Educational Policy Improvement Center (EPIC). Panelists were free to accept these standards, modify them, or reject them altogether. Accordingly, "adequate" was defined as the resources necessary in order to meet Pennsylvania's school performance standards, taking into account such items as: personnel, supplies and materials, non-traditional programs and services, technology, professional development, and maintenance.<sup>15</sup> To this end, the study looked at the actual number of students educated in each district, to which was applied a base cost, as well as adding variables for poverty, local tax effort, English language learners, sparsity and density, among others, to derive a formula for allocating state dollars. The study concluded that the Commonwealth and local school dis-

14. In a June 2013 report, Temple University's Working Group on Public Pensions suggested that the gaming revenues be redirected from property tax relief to paying down the school districts' share of the \$29.5 billion unfunded liability of the PSERS pension system (CORP 2013a).

15. "Costing Out the Resources Needed to Meet Pennsylvania's Public Education Goals." 2007. [http://www.portal.state.pa.us/portal/server.pt/community/research\\_reports\\_and\\_studies/19722/education\\_costing-out\\_study/529133](http://www.portal.state.pa.us/portal/server.pt/community/research_reports_and_studies/19722/education_costing-out_study/529133).

districts needed to spend an additional \$4.3 billion to reach the study's definition of "adequacy," an enormous sum. The Rendell administration in 2008 proposed a six-year plan to reach about 57% of AIE through state resources, and that year basic education funding increased 5.5% (\$270 million). The goal was never achieved, and the formula was subsequently abandoned.

The recession of 2007-09 did not dampen education funding in the short-term according to the Costing-Out plan. However, state pension contributions were reduced in 2008 and 2009, and the increase in basic education funding largely came through American Recovery and Reinvestment Act (ARRA) resources in the budgets for FY 10 and FY 11—a temporary supply. Once ARRA funds were depleted, they were not replaced in 2011. Of course, the entire education budget is more than the basic education subsidy, so while the state increased its funding of the basic education line item \$622.2 million, total school spending actually fell by \$420.4 million.

Reimbursements for charter schools, educational assistance grants, funding for intermediate units, and other categories were eliminated for a total of \$298.7 million in the FY 12 budget. For this and the FY 13 and FY 14 budgets, relatively small annual increments have been added through supplements for poorer and smaller districts, sometimes with the law written so as to be dedicated to a single qualified district. Largely, however, public education funding is a reenactment of older distributions, with the cumulative hold harmless provision distributing the bulk of funds.

In 2012, state contributions to teacher pensions increased by 42.6% (\$255.8 million increase, \$856 million total), the largest by percent and dollar amount in the state's history. The following year, pension contributions from the state increased 18.8% to top just over \$1 billion. According to PARSS (2013), as of the 2012-13 school year, 65% of all funds distributed were allocated based on measurements of school data from the 1989-90 academic year. The increase in basic education funding went to just 16 school districts. The cost of charter school reimbursement provokes strong protests from district administrators and public school advocates alike. Charters are accused of draining precious limited resources from traditional public schools, especially cyber charters, given their overwhelming failure to meet NCLB standards of progress.<sup>16</sup> According to former School Reform Commission member Joseph Dworetzky, charters cost the School District of Philadelphia—already in severe financial straits—about \$7000 per student because of fixed costs.<sup>17</sup>

Public education advocacy organizations call for a transparent and sustainable education funding formula for Pennsylvania. The usual formula works from a base cost, or what is needed to meet academic standards (present in 36 states) and an accurate count of students (present in 47 states), and then formula factors like special education, poverty, and English language learners, resulting in a weighted student count. Some states adjust base cost according to regional cost of living, disproportionately large and small districts, or isolated areas. The total cost is the split between the districts and the state, with wealthier districts usually taking on a larger proportion of the expenditure. Wealth is not easy to measure, as some districts with valuable business property are not always inhabited by wealthy residents (Education Commission of the States 2012).

### Conclusion

According to public opinion polls, public education funding is a major concern along with jobs and the economy. In his FY 15 budget, Governor Corbett called for a \$400 million increase in public education spending, but with flat funding for the basic education line item. The proposed Ready to Learn Block Grant combines the funds from the Accountability Block Grant into the new program, an increase of \$241 million. Other increases include: \$10 million for a new Hybrid Learning Grant, \$350,000 for Governor's Schools, \$10 million for Pre-K Counts, \$20 million for special education, and \$500,000 for the Public Library Subsidy. Representative Bernie O'Neill's (R-Bucks) proposal for a basic education funding commission (HB 1738) recently passed the House and awaits action in the Senate. A special education commission co-chaired by Senator Pat Browne (R-Lehigh) and Rep. O'Neill recently recommended reforms in state funding, and the proposed new \$20 million in the budget is to be distributed by this formula.

History shows that the Pennsylvania General Assembly, local elected leaders, and the people of Pennsylvania have over three centuries reshaped and then stabilized their public schools to meet economic, demographic, and political challenges. Inevitably, each new accommodation eventually deteriorates in the face of new challenges. To paraphrase Ben Franklin's observation that the challenge was not just to design a republic, but to keep it, today's challenge is not just to design a new school finance system, but to keep it.

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16. <http://www.post-gazette.com/news/education/2013/01/23/No-cyber-charter-school-in-Pennsylvania-made-Adequate-Yearly-Progress/stories/201301230245>.

17. <http://thenotebook.org/blog/136459/analyzing-role-charter-school-funding-districts-budget-problems>.

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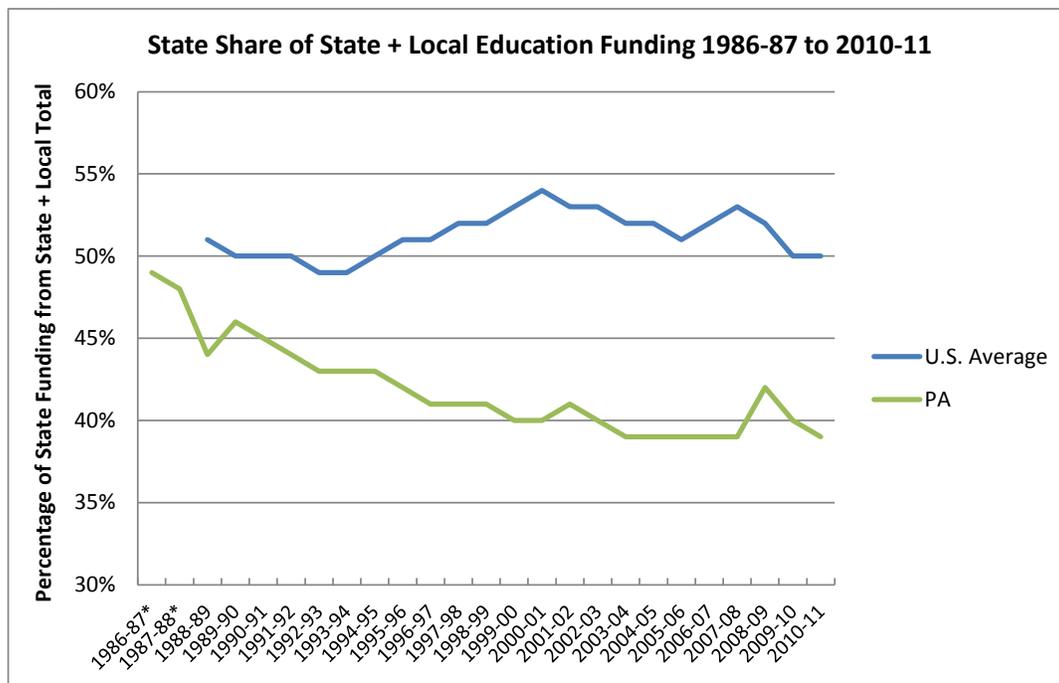
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**APPENDIX**

**Table IA:** The Bipartisan Roots of School Funding Policies- Below are the roll call votes of selected key legislation that has affected school funding in Pennsylvania.

Legislation	Description	House	Senate	Governor
Act 561 of 1961	Consolidation of districts from about 2,200 into 466	108-94	26-24	Lawrence
Act 299 of 1963	Consolidation of districts raised to 505	123-73	27-23	Scranton
Act 580 of 1965	State's share of total reimbursable cost set at 50%	189-13	47-1	Scranton
Act 195 of 1970	Collective bargaining for school employees	157-34	32-13	Shafer
Act 2 of 1971	First income tax: 2.3%	106-90	26-22	Shapp
Act 372 of 1972	Transportation of non-public students	133-49	42-0	Shapp
Act 31 of 1983	Hold Harmless and ESBE, end of 50% state share goal	167-28	37-12	Thornburgh
Act 85 of 1992	ESBE frozen	106-93	49-0	Casey
Act 88 of 1992	Teacher strikes limited	195-3	47-1	Casey
Act 21 of SSI of 1995	Mandatory sentencing (one of many in this special session)	177-20	45-2	Ridge
Act 22 of 1997	Charter School Law	137-57	30-18	Ridge
Act 23 of 2000	Phase-out of Capital Stock and Franchise Tax	198-0	43-4	Ridge
Act 9 of 2001	State employee pension multiplier increased from 2 to 2.5	176-23	41-8	Ridge
Act 88 of 2002	Cyber charters	135-66	29-21	Schweiker
Act 40 of 2003	Pension payment holiday	196-0	49-0	Schweiker
Act 1 of 2006	School property tax increases limited (Gaming funds law)	137-61	40-9	Rendell
Act 114 of 2006	Costing-Out study requested	185-13	43-6	Rendell
Act 61 of 2008	New Basic Education funding formula	191-11	50-0	Rendell
Act 120 of 2010	Pension reforms including increased employee contributions, lower multiplier, etc.	165-31	41-8	Rendell
Act 24 of 2011	End of Costing-Out inspired funding formula	109-89	33-17	Corbett
Act 25 of 2011	School property tax increases further limited to pension, special education, and pre-existing and electoral debt costs	109-86	32-17	Corbett
Act 3 of 2013	Special Education Funding Commission	193-0	50-0	Corbett

**Figure IA**



\* Significant amounts of data (25 states per year) are missing within the dataset for 1986-87 and 1987-88. Source: National Center on Education Statistics (NCES). Does not include ARRA funds.

**Table 2A: Divided Government, State Taxes, and the State Share of School Funding 1971-2014**

Payable Year	Divided Government = 1 (calendar year)	Income Tax Increase/Decrease (calendar year)	CNI Tax Rate Increase/Decrease (calendar year)	CSFT Rate Increase/Decrease (tax year)	State Share (PSEA Analysis)
1971	0	2.3%		10.00 mills	NA
1972	0				54.2%
1973	1		11.00%		53.7%
1974	1				52.1%
1975	0	2.0%	9.50%		55.0%
1976	0				49.9%
1977	0				46.4%
1978	0		10.50%		46.7%
1979	1	2.20%			45.2%
1980	1				46.0%
1981	0				43.5%
1982	0				41.9%
1983	1				41.5%
1984	1	2.45%			43.2%
1985	1	2.40%			42.5%
1986	1	2.35%	9.50%		42.8%
1987	1	2.16%		9.00 mills	42.9%
1988	1	2.10%	8.50%	9.50 mills	42.9%
1989	1				43.0%
1990	1				42.0%
1991	1			13.00 mills	39.9%
1992	1	2.60%	12.25%	12.75 mills	40.3%
1993	1	2.95%			38.1%
1994	1	2.80%			37.9%
1995	1		11.99%		38.2%
1996	0		9.99%		38.5%
1997	0				36.3%
1998	0			11.99 mills	36.0%
1999	0			10.99 mills	36.5%
2000	0			8.99 mills	36.2%
2001	0			7.49 mills	36.0%
2002	0			7.24 mills	35.8%
2003	1			7.24 mills	35.5%
2004	1	3.07%		6.99 mills	34.9%
2005	1			5.99 mills	33.6%
2006	1			4.89 mills	33.8%
2007	1			3.89 mills	34.4%
2008	1			2.89 mills	34.2%
2009	1			2.89 mills	34.8%
2010	1			2.89 mills	35.3%
2011	0			2.89 mills	35.9%
2012	0			1.89 mills	32.3%
2013	0			.89 mills	31.3%
2014	0			.67 mills	30.8%

Source: PA Tax Compendium, and PARSS 2013, with PSEA analysis. Note: The BEF amount for 2009-10 includes \$4.87 billion in state funds, and \$654.8 million in ARRA State Fiscal Stabilization Funding. The final BEF for 2010-11 includes \$4.732 billion in state funds, and \$654.8 million in ARRA State Fiscal Stabilization Funding, and \$387.8 million in EducJobs Funding and FMAP Restoration.

## Selected Pennsylvania Public School Finance Studies and Commissions (1961-2013)

### Governor's Committee on Education (1961)

The 21-member Governor's Committee on Education was created by Governor David L. Lawrence and charged with studying problems ranging from grade school to college-level education in Pennsylvania. The committee produced 145 proposals that included a 50% teacher salary increase, improved standards for teacher training, creating community colleges in urban school districts, increasing the number of liberal arts colleges by converting the state's network of teacher colleges, developing scholarship programs for high-performing high school students, raising state subsidy levels for local districts, setting minimal standards for education curricula, and school district consolidation.<sup>1</sup>

Due to disagreements within the legislative branch and between Republican legislative leaders and Lawrence concerning the tax legislation required to implement the program, "the lone part that did pass, school district consolidation, rather than providing the advantages of a quality education to all, resulted in numerous court cases" as communities sought to preserve their local school districts. The consolidation votes cost Democrats, who controlled the House and were tied in the Senate, seats in the ensuing elections.<sup>2</sup> Republicans repealed the Lawrence era legislation and passed a weaker consolidation bill during the administration of Governor William Scranton, when they had unified control of the government.<sup>3</sup>

### Report of the Governor's Advisory Commission on Public School Finance (1996)

Created by executive order under Governor Ridge, the 10-member Governor's Advisory Commission on Public School Finance was charged with advising the governor of ways to improve public school financing in Pennsylvania. Following six meetings and a public hearing, the commission acknowledged that disparities exist in the availability of local resources and noted that state government has already been tackling issues of equity by making needs-based appropriations directly to the school districts. The report stated that commission members do not believe that additional revenue alone will improve the state of education in Pennsylvania or that a discussion of equity should be linked exclusively to questions related to per pupil expenditures.

The report's recommendations included: targeting state funds to expand distance learning opportunities as a means of reducing disparities between districts, implementing more rigorous academic standards and assessment to measure success, and continuing to consider the wealth of individual districts when determining state appropriation levels. The commission also recommended linking state funding to academic performance as well as providing incentives for districts to enter into collaborative agreements aimed at increasing efficiency and consolidating certain types of programs such as joint purchasing initiatives or the sharing of administrative or instructional staff. Also recommended were the reduction of redundant or expensive mandates, more effective targeting of state dollars to community concern within districts, and revision of the special education funding formula.

The commission members noted that they were not seeking to reduce state support for public education, concluding that the elimination of "state funding for some school districts, or redistributing local revenues, would have a negative effect on support for public education"<sup>4</sup> in the Commonwealth. This report included arguments that the Ridge administration's lawyers used to defend the constitutionality of the school finance system in *Marrero v. Commonwealth* (1999).

### House of Representatives of the Commonwealth of Pennsylvania: Report of the Select Committee on Public Education Funding (2002)

The Select Committee on Public Education Funding was established by House Resolution 42 of the 2001 legislative session for the purpose of proposing a new system of education funding in Pennsylvania. Comprised of 14 members of the House and one legal counsel, the committee was co-chaired by Representatives Mario Civera (R) and Nick Colafella (D).

The committee suggested creating a Commonwealth Commission on Public Education Funding and Accountability, adopting standards for a foundation for a basic education budget, and calling on districts to engage in joint purchasing agreements, collaborative partnerships for insurance coverage, and shared tax collection services. It also called for the creation of a Basic Education Trust Fund to hold

1. Michael P. Weber. 1988. *Don't Call Me Boss: David L. Lawrence, Pittsburgh's Renaissance Mayor*. Pittsburgh: University of Pittsburgh Press, p. 356.

2. Paul B. Beers. 1980. *Pennsylvania Politics Today and Yesterday: The Tolerable Accommodation*. University Park: The Pennsylvania State University Press, pp. 264-65, 298.

3. *Ibid*, p. 357.

4. Report of the Governor's Commission on Public School Finance (1996), p. 21.

reserves to help the state maintain school funding during economic downturns. The fund could only be invaded for other purposes by a two-thirds vote of each house.

According to the committee, the Commonwealth should be responsible for at least 50% of the foundation costs of public education in each school district. It asked districts “to reduce local taxes in an aggregate dollar amount at least equal to the amount of additional state funding,”<sup>5</sup> require wage tax reductions for residents and non-residents in Philadelphia, and prevent the overall quality of education from declining due to required local property and wage tax cuts. The committee suggested holding harmless the districts that currently receive over half of their funding from the state, limiting the ability of districts to raise local school taxes moving forward, and providing state revenue increases to pay for implementation of their recommendations. Despite, or perhaps because of, unified Republican control of state government, its recommendations were not implemented.

### Costing Out the Resources Needed to Meet Pennsylvania’s Public Education Goals (2007)

Authorized by Act 114 of 2006 and carried out by Augenblick, Palaich, and Associates under the supervision of the State Pennsylvania Board of Education, this study was to determine the funding level for each district to provide students with an “adequate” education. Panelists from diverse educational and business backgrounds met across the state to review best practice research from the Educational Policy Improvement Center (EPIC). Panelists were free to accept these standards, modify them, or reject them altogether. “Adequate” was defined as the resources needed to meet Pennsylvania’s school performance standards, taking into account such items as: personnel, supplies and materials, non-traditional programs and services, technology, professional development, and maintenance. To this end, the study looked at the actual number of students educated in each district, to which was applied a base cost, as well as adding variables for poverty, local tax effort, English language learners, sparsity and density, among others, to derive a formula for allocating state dollars.

The study concluded that the Commonwealth and local school districts needed to spend an additional \$4.3 billion to reach the study’s definition of “adequacy.” The Rendell administration in 2008 proposed a six-year plan to reach about 57% of Actual Instructional Expenses (AIE) through state resources, and that year basic education funding in-

creased 5.5% (\$270 million). The goal was never achieved, and the formula was abandoned in 2011.

### Special Education Funding Commission Report (2013)

Created by House Bill 2 of 2013 and co-chaired by Senator Patrick Browne and Representative Bernie O’Neill, the Special Education Funding Commission was charged to review special education funding and to “develop a special education formula and identify factors that may be used to determine the distribution of a change in special education funding”<sup>6</sup> in Pennsylvania school districts. Seven hearings were conducted by the commission’s 15 members between June and September 2013 with two held in Harrisburg and five others in venues throughout the Commonwealth. Each caucus and the administration had three representatives on the commission.

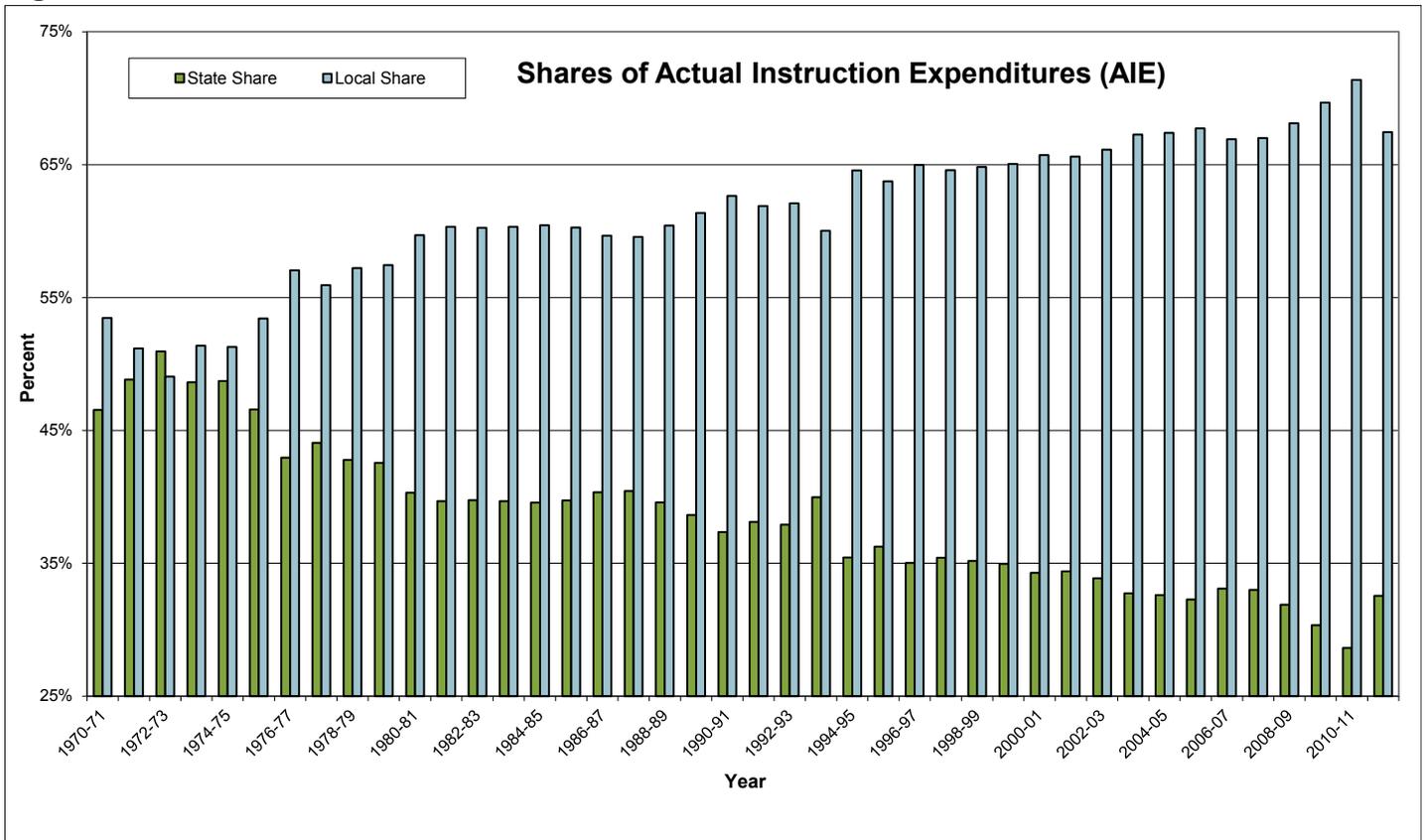
The commission recommended that special education retain its place as a free-standing budget line item rather than being absorbed by another line item such as basic education. The commission also argued that the legislature must “adopt a new formula for distributing state funding for special education in excess of 2010-11 levels,”<sup>7</sup> taking into consideration the ability of school districts to properly service students with disabilities. The commission proposed the creation of three cost categories reflecting the range of intensity of services required by each child among a low (less than \$25,000), moderate (\$25,000 to \$49,999), and most intense (equal to or exceeding \$50,000) range of services with the local education agency (LEA) providing a count to the state of how many students in their jurisdiction fall into each category. While the new formula has yet to be enacted, it is expected to drive Governor Corbett’s proposed \$20 million increase in special education funding, which has remained frozen for six years at \$1.026 billion.

5. House of Representatives of the Commonwealth of Pennsylvania: Report of the Select Committee on Public Education Funding (2002), p. 9.

6. Special Education Funding Commission Report (2013), p. 6.

7. Ibid, p. 3.

**Figure 2A**



Source: Pennsylvania Department of Education

This chart shows the state and local shares of Actual Instruction Expenditures (AIE) as calculated by David Davare, an advisor to the University Consortium to Improve Public School Finance and Promote Economic Growth, from data available on the Pennsylvania Department of Education website. Davare, now with the Pennsylvania Economy League’s Central Division, is former research director for the Pennsylvania School Boards Association (PSBA). The state share is the state basic education subsidy in a given fiscal year divided by the sum of the basic education subsidy and local revenues supporting the AIE for that same fiscal year. The local share is simply the inverse of the state share. Note that in this chart, the state share only reaches 50% in FY 1972-73. Federal ARRA funds are excluded.

In contrast, the Pennsylvania State Education Association (PSEA) calculates the state share as the basic education subsidy in a given fiscal year divided by the AIE for the previous fiscal year. As a result, the PSEA calculation is slightly higher than shown in this chart. PSEA data show the state share above 50% from FY 1971-72 to 1974-75.

Actual Instruction Expense - Includes all general fund expenditures as reported on the annual financial report by the school districts except those expenditures for health services, transportation, debt service, capital outlay, homebound instruction, early intervention, community/junior college education programs and payments to area vocational-technical schools. Deductions are also made for selected local, state, and federal revenues and for refunds of prior year expenditures and receipts from other local education agencies. It is calculated in accordance with Section 2501 of the “Pennsylvania Public School Code of 1949.”

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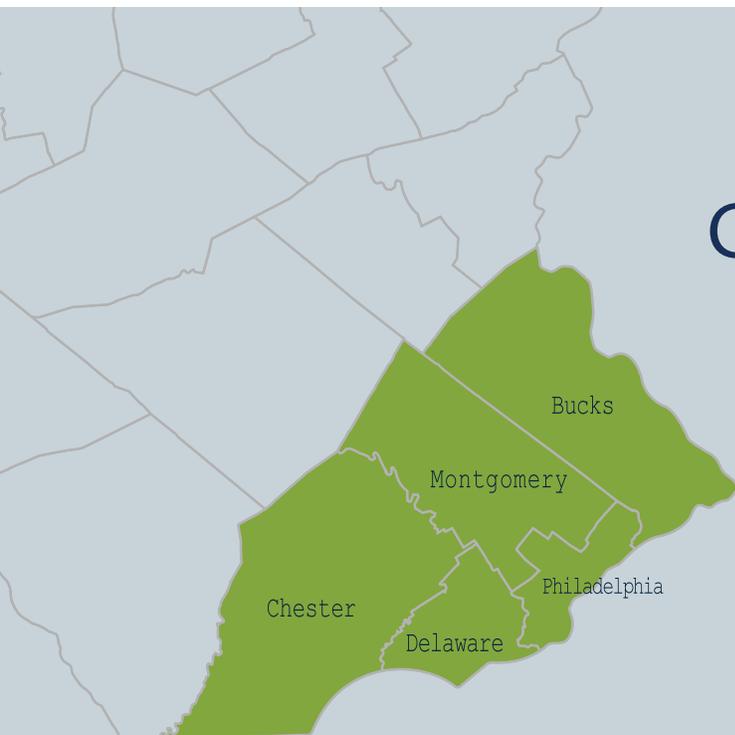
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