

Issue: PA Education

K-12 Education Funding in Pennsylvania

Why Do We Educate?

High quality primary and secondary school education is in everyone’s best interests. While it is expensive to fund education, it costs society in multiple ways when schools receive inadequate funding and underperform, which results in some students dropping out. For example, dropouts are three times more likely to receive public assistance, such as food stamps and Medicaid, than high school graduates.^{1,2,3} High school graduates are far less likely to commit crimes than their peers who left school early.⁴ The cost per year to incarcerate someone is about almost three times what it costs to educate a student. Over 40% of prisoners did not finish high school. People who are behind bars are not contributing to the economy. High school graduates are healthier and live longer than those who drop out.⁵

Although the benefits of a well-educated populace are abundant, Pennsylvania schools are falling short. There is vast inequality not just in the funds available for different school districts but in how funds are allocated. In addition, mandated expenses such as pensions and charter school costs are bleeding many districts dry. This report provides an overview of these problems.

How are Pennsylvania Primary and Secondary Public Schools Funded?

The three sources of funding are the federal government, the state government, and local property taxes. What sets Pennsylvania apart—and not in a good way—is the low level of funding provided by the state’s General Fund, which is vividly illustrated in the chart below. Although the data in this chart is from 2014, these trends still hold. The state’s contribution to total district funding in 2020 continues to hover just below 40%.⁶ There are only a handful of states that provide a smaller percentage of funding to local school districts than does Pennsylvania.⁷

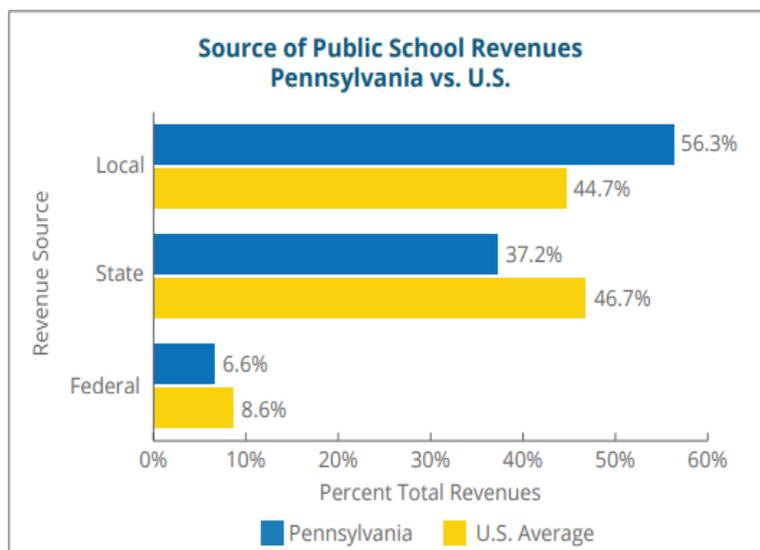


Figure 1 data from the U.S. Census Bureau, 2014 Annual Survey of School System Finances: Percentage Distribution of Public Elementary-Secondary School System Revenue by Source and State.²⁸

https://www.elc-pa.org/wp-content/uploads/2017/04/Education-Justice-Report_3.17.17_PRINTER.pdf

The shortfall in funding to school districts is made up by property taxes. However, not all districts are affluent enough to raise adequate monies to fund their schools by increased property taxes. This results in very unequal levels of spending among school districts in Pennsylvania, with some districts spending thousands more per pupil than others. In fact, the inequities in Pennsylvania are among the worst in the country.

There is no debate that per pupil funding in Pennsylvania varies dramatically. Districts spending the least per pupil are spending about \$7,000 a year, while those spending the most are spending approximately \$13,000.⁸ (Note that although the *average* total per pupil funding in Pennsylvania is higher than the national average, this obscures the high and low extremes.⁹)

According to the Center for American Progress, financially disadvantaged school districts are those whose funding does not come close to meeting the needs of the students. In Pennsylvania, about 15% of all students are in financially-disadvantaged districts. The Philadelphia, Reading, and Allentown school districts are considered among the most financially disadvantaged in the U.S.¹⁰

Funding Matters

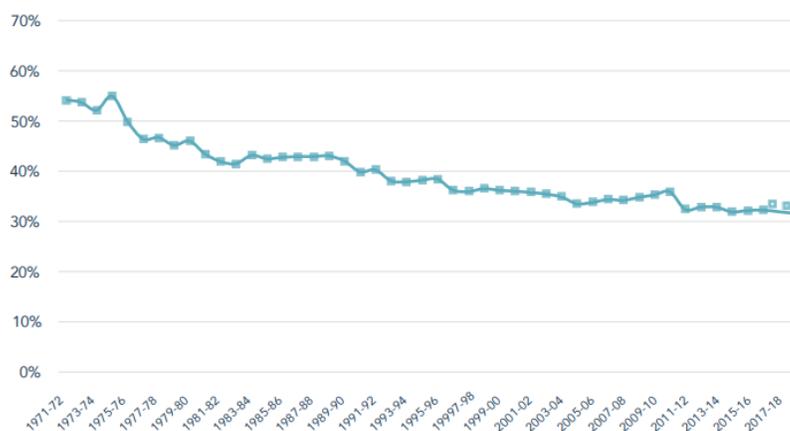
The level of funding does influence educational outcomes. A highly regarded study—because of both the methods used and the sample size—found that "for low-income children, a 10% increase in per-pupil spending each year for all 12 years of public school is associated with 0.43 additional years of completed education, 9.5 percent higher earnings, and a 6.8 percentage-point reduction in the annual incidence of adult poverty."¹¹

How Did We Get Here?

It wasn't always this way. Decades ago, the Pennsylvania's General Fund contributed over half of all public education funding. As the chart below shows, the state's contribution has been steadily dropping.

Over Time, The State Has Shirked More And More Of Its Responsibility To Fund Our Schools

State appropriations for basic education funding as a share of actual instructional expenses



Source: Keystone Research Center based on Pennsylvania Department of Education data.

<http://paschoolswork.org/wp-content/uploads/2019/03/taxreport-11819-2.pdf>

State Allocation of its Education Funds

In addition to the low amount of state funding, the manner in which that funding is distributed contributes to the inequities between school districts.

There are several components of K-12 education funding provided by the state; the largest is for basic education. The next highest education expenditure is for special education. Much smaller amounts are provided for other purposes.¹² Mandated costs, primarily retirement pensions and charter school tuition, over which the districts have no control, cause additional funding distress.¹³ Charter school tuition is discussed later in this report.

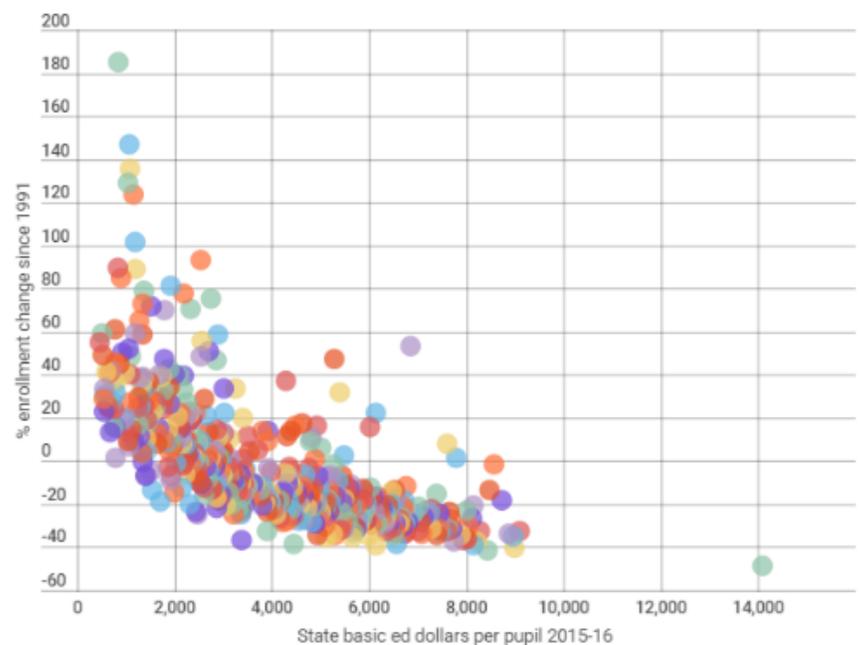
Since 1991, Pennsylvania has had a "hold harmless" policy, which means that the state does not use

enrollment to determine funding amounts for school districts. This means that even if all other factors are the same, a district with shrinking enrollment won't see a decrease in funds, and districts with increasing enrollments won't receive more than an additional 2% in funding from the state.¹⁴

The chart to the right, which has one dot for each school district, demonstrates this. The school district receiving just over \$14,000 per pupil in basic education funding has had a 50% decline in enrollment since 1991. Contrast that to a district which has had an increase in enrollment of over 180% yet only receives \$843 per pupil.¹⁵

Districts with shrinking enrollments are generally those in rural areas, so schools in urban areas tend to receive the least amount of state funding per pupil.¹⁶ (This chart is interactive at the WHYY website.)

How per pupil funding correlates with enrollment changes since 1991



<https://whyy.org/articles/the-story-of-pennsylvanias-per-pupil-school-funding-in-two-maps-and-a-chart/>

An attempt to remedy these problems—the "fair funding formula"—was enacted in April of 2016. Although it was a step in the right direction, it is still very flawed. The "fair funding formula" determines the percentage of the state's basic education funds that a particular district receives. The formula takes into account student and district demographics, such as poverty, the number of students learning English, and the median household income.

However, a significant drawback with the "fair funding formula" is that it only applies to "new" money. This is the portion of education monies that exceeds the basic education appropriation from the 2014-2015 school year. For the 2019-2020 school year, that meant that only 11% of the basic

education budget was subject to the formula. The state applies the "fair funding formula" only to "new" money to maintain the "hold harmless" policy, which was designed to prevent school districts from receiving less state money than was received in the prior year.^{17,18}

A detailed discussion of the basic education funding formula can be found here:

https://www.pahouse.com/Files/Documents/Appropriations/series/3013/BEFC_BP_011018.pdf

Tax Credits

Adding to the funding woes of Pennsylvania public schools are tax credits that further diminish available funds. The two principle tax credit programs in Pennsylvania are the Educational Improvement Tax Credit (EITC) and the Opportunity Scholarship Tax Credit (OSTC). These tax credits enable businesses and individuals to lower their state taxes by making donations to scholarship funds, private schools, and other educational programs. All Pennsylvania students are eligible for EITC scholarships, while the OSTC funds are only for scholarships for Philadelphia students who attend schools with the lowest scores on the Pennsylvania System of School Assessment tests.¹⁹

At the time of inception of the first education tax credit in 2001, the total aggregate EITC credits available to all contributors was \$30 million.²⁰ Currently, the state allots \$110 million per year for the EITC and \$100 million for the OSTC. Businesses and individuals apply to receive the credits ahead of tax filing time. Not all of the total tax credits are necessarily claimed each year. In 2019, Republicans introduced a bill to increase the EITC tax credits to \$210 million, but this bill was vetoed by Gov. Wolf.

Businesses can donate up to \$750,000 each year to EITC facilitators/organizations. Seventy-five percent of their donation is a credit that offsets their state tax bill. Donating in two consecutive years increases the credit to 90% in the second year.²¹

Although the scholarships created from the tax credits are billed as a way for low-income students to attend private schools, the family income cutoffs for students to qualify are much higher than the median annual Pennsylvania household income of about \$60,000.²² In 2019, the family income limit to receive a scholarship was \$90,000 plus \$15,842 for each child in the family.²³ Thus the income cutoff for a family with one child would be \$105,842 and the cutoff for a family with two children would be \$121,684.

These tax credits decrease the revenues flowing into Pennsylvania's general fund and hence are diverting money that could be spent on public schools. The scholarships enabled by the tax credits contribute funding to religious and other private schools.

Tax Credit Accountability

The loss of revenue to the state's general fund is just one downside of these tax credits. Another serious problem is the lack of accountability. Because the scholarship recipients attend private schools, the state has no authority to access any information about academic outcomes of scholarship students. Highlights pertaining to the lack of accountability, as reported by the Keystone Research Center, are shown in the box below. The full report can be obtained here:

http://keystoneresearch.org/sites/default/files/EITC%20Briefing%20Paper_0.pdf

Keystone Research Organization Findings

When it comes to educational accountability, the simple finding is that the EITC program has no accountability mechanisms.

- Schools that educate EITC scholarship children are not required to report on children's progress or to provide other information documenting school quality. In fact, legislation now prohibits state agencies from asking for information on student achievement.
- Students on EITC scholarship are not required by the state to take any tests.
- No data been collected on the socio-economic characteristics of EITC scholarship recipients or their families, their communities, or the student population of the private schools scholarship recipients attend. Such data would be necessary to analyze systematically the overall achievement of EITC students compared to students in public schools.
- As a result of the complete absence of any data, Pennsylvania knows nothing about the outcomes of a program that has in its 10-year life span received roughly a third of a billion dollars to educate school children at religious and other private schools.

http://keystoneresearch.org/sites/default/files/EITC%20Briefing%20Paper_0.pdf

Charter Schools

Charter Schools in Pennsylvania are taxpayer-funded public schools that are privately operated. However, charters may be operated by for-profit entities. As first conceived in the 1990s, charter schools would be free to experiment with different methods of teaching and those that failed would close. Traditional public schools would be spurred by the competition with charters to improve their performance. In keeping with their mission to innovate, charter schools would be free from many of the constraints that govern traditional public schools.

About eight percent of children in Pennsylvania attend charter schools and a quarter of those students attend cyber charters.^{24,25} The state does not limit the number of charters nor the number of students enrolled in a particular school.²⁶

Charter School Funding

As stated above, school districts receive funds from local property taxes, and the state and federal governments. In turn, school districts supply charters with the vast majority of their funding in the form of "tuition" payments.²⁷

Whenever a student enrolls in a charter school, the charter school receives "tuition" from the student's home district. Hence, the tuition the charter receives is based on how much it costs to educate that student in the student's home district. (Charter school students do not necessarily attend schools in the same district as their traditional public school.)

When students transfer from a traditional public school to a charter school, the costs of the traditional school do not decrease.²⁸ Salaries remain the same, as do other infrastructure costs, but

the school district has less money because of the "tuition" paid to the charters. (For a time, the state did reimburse school districts for the loss of funding when students transferred to charters, but that practice ended in 2011.²⁹)

Pennsylvania has over 37,000 students who attend cyber charter schools, where all instruction is conducted online.³⁰ The cost to educate a student at a cyber charter—about \$5000—is much less than at a brick-and-mortar school. However, the tuition received by those schools does not reflect the lower costs they incur; it has been estimated that \$290 million in unneeded funding is received by charters every year.³¹ Many school districts offer a cyber option (distinct from the cyber charters) at much lower rates than those of the cyber charters' tuition.³²

Since the 2007-2008 school year, charter school tuition payments have increased by 139.3% in a period during which enrollment has increased 97.4%.³³

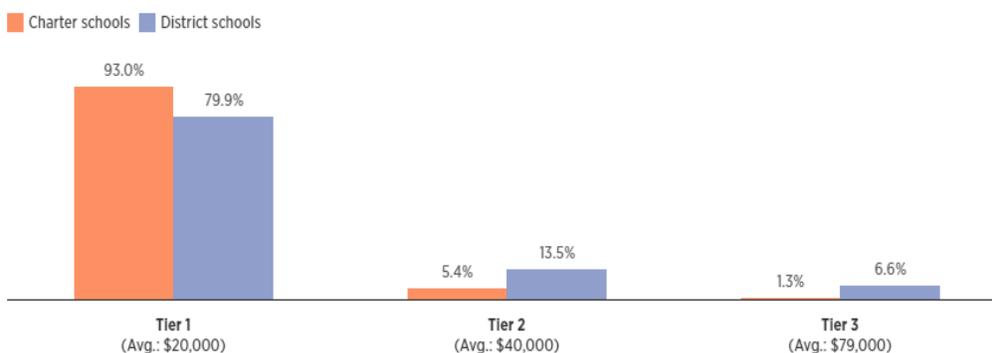
Special Education Funding in Charters

The costs of educating special education students vary, depending on individual students' needs. However, sponsoring school districts pay the charter schools the same amount for each special education student, regardless of the child's disability. The bar chart below, with data for Philadelphia, shows that charter schools have a lower percentage of students with severe disabilities than those in traditional public schools. This means that charter schools are receiving higher tuition for special education students than the amount spent on special education students in traditional schools in Philadelphia.

In other words, charter schools are receiving more than they need for their special education students. In 2012-2013, charter schools received over \$350 million but only spent about \$156 million—a difference of almost \$200 million.³⁴

Spending on Special-Education Students

Pennsylvania classifies special education students into three tiers, based on the severity of their disability. The current funding formula requires districts to pay charters one rate for special-education students, based on an average of what the district spends on its own special-education students. The school district's concentration of needier students increases the rate charters receive for special education students — even though the vast majority of charter students fall into the lowest-needs category.



Average District spending per tier is in parenthesis

<https://www.inquirer.com/education/charter-schools-philadelphia-special-education-costs-20200221.html>

Conclusion

Pennsylvania needs a complete overhaul of its K-12 education funding structures. For example, district funding should not be dependent on the ability of local school districts to raise revenues via property taxes. State contributions should better reflect district enrollment numbers. Information on

the academic outcomes of students using tax credit scholarships will enable lawmakers to determine whether they are worth the decreased revenue to the state. Special education funds received by charter schools should reflect the actual costs of educating these students. Tuition rates at cyber charter schools should reflect their lower costs.

Democratic Governor Wolf has proposed many of these reforms but will likely need the support of a Democratic legislature before they can be fully implemented.³⁵

K-12 Education funding is a complicated subject; only the surface has been touched in this report.

The economic devastation caused by the COVID19 pandemic is decimating state budgets everywhere. However, providing a high-quality primary and secondary education for all Pennsylvania schoolchildren is one of the most worthwhile investments Pennsylvania can make for the future of the citizens of the Commonwealth—even more so during these challenging economic times.

Further Reading

Pennsylvania's Best Investment: The Social and Economic Benefits of Public Education, by Dana Mitra, Associate Professor of Education at Pennsylvania State University.
https://www.elc-pa.org/wp-content/uploads/2011/06/BestInvestment_Full_Report_6.27.11.pdf

The story of Pennsylvania's per-pupil funding
<https://whyy.org/articles/the-story-of-pennsylvanias-per-pupil-school-funding-in-two-maps-and-a-chart/>

Money Matters in Education Justice
https://www.elc-pa.org/wp-content/uploads/2017/04/Education-Justice-Report_3.17.17_PRINTED.pdf

How Charter School Governance in Pennsylvania and Philadelphia Measures Up
https://www.pewtrusts.org/-/media/assets/2015/12/overseeingcharterschools_v5.pdf

Charter School Revenues Expenditures and Transparency
<https://www.psba.org/wp-content/uploads/2016/08/Charter-School-RtK-08172016.pdf>

¹ <https://www.pbs.org/newshour/education/behind-the-numbers-why-dropouts-have-it-worse-than-ever-before>

² <https://nces.ed.gov/pubs2019/2019117.pdf>

³ https://www.elc-pa.org/wp-content/uploads/2011/06/BestInvestment_Full_Report_6.27.11.pdf

⁴ <https://www.nytimes.com/2009/10/09/education/09dropout.html>

⁵ <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC4164164/>

⁶ <http://publications.psba.org/publications-and-reports-2020-state-of-education/0201117001588172444>

⁷ <http://educationvoterspa.org/issues/education-funding/>

⁸ https://www.pennlive.com/news/2018/02/school_districts_that_spend_the_most_and_the_least.html

⁹ <https://www.edweek.org/ew/collections/quality-counts-2019-state-finance/map-per-pupil-spending-state-by-state.html> (See map.)

¹⁰ <https://cdn.americanprogress.org/wp-content/uploads/2014/07/BakerSchoolDistricts.pdf>

¹¹ https://www.elc-pa.org/wp-content/uploads/2017/04/Education-Justice-Report_3.17.17_PRINTED.pdf

¹² <https://www.education.pa.gov/Teachers%20-%20Administrators/School%20Finances/Education%20Budget/Pages/default.aspx>

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- ¹³ https://www.pottsmmerc.com/news/haves-and-have-nots-60-of-pa-school-districts-headed-for-fiscal-stress/article_7ca19576-8bcd-11e9-b92f-778e1a1fa7d2.html
- ¹⁴ <https://www.pewtrusts.org/-/media/assets/2015/01/philadelphiaschoolfundingreportjanuary2015.pdf>
- ¹⁵ <https://whyy.org/articles/the-story-of-pennsylvanias-per-pupil-school-funding-in-two-maps-and-a-chart/>
- ¹⁶ <https://whyy.org/articles/the-story-of-pennsylvanias-per-pupil-school-funding-in-two-maps-and-a-chart/>
- ¹⁷ <https://www.buckscountycouriertimes.com/opinion/20190307/editorial-pas-fair-funding-formula-for-basic-education-doesnt-live-up-to-its-name>
- ¹⁸ <https://www.mcall.com/opinion/mc-opi-pennsylvania-school-funding-disgraceful-white-20180718-story.html>
- ¹⁹ <https://dced.pa.gov/programs/opportunity-scholarship-tax-credit-program-ostc/>
- ²⁰ https://www.pennlive.com/politics/2016/05/tax_credits_for_kids_education.html
- ²¹ <https://www.penncapital-star.com/educaprintedtion/eitc-explained-how-pennsylvanias-educational-tax-credit-program-works/>
- ²² <https://www.census.gov/quickfacts/fact/table/PA/INC110218>
- ²³ <https://www.pennsylvaniaeitc.org/pa-eitc-tax-credit.html>
- ²⁴ https://ballotpedia.org/Charter_schools_in_Pennsylvania
- ²⁵ https://www.pewtrusts.org/-/media/assets/2015/12/overseeingcharterschools_v5.pdf
- ²⁶ https://www.pewtrusts.org/-/media/assets/2015/12/overseeingcharterschools_v5.pdf
- ²⁷ <https://www.psba.org/wp-content/uploads/2016/08/Charter-School-RtK-08172016.pdf>
- ²⁸ https://www.pottsmmerc.com/news/haves-and-have-nots-60-of-pa-school-districts-headed-for-fiscal-stress/article_7ca19576-8bcd-11e9-b92f-778e1a1fa7d2.html
- ²⁹ <https://whyy.org/articles/new-report-on-pa-charter-school-growth-finds-stranded-costs-linger-five-years-later/>
- ³⁰ <https://whyy.org/articles/cyber-charters-in-pa-keep-teaching-amid-confusion-in-coronavirus-shutdown-order/>
- ³¹ <http://educationvoterspa.org/blog/new-report-cyber-charter-waste-grows-to-290-million-in-taxpayer-money-annually/>
- ³² <http://publications.psba.org/publications-and-reports-2020-state-of-education/0201117001588172444>
- ³³ <https://www.psba.org/wp-content/uploads/2016/08/Charter-School-RtK-08172016.pdf>
- ³⁴ <https://www.psba.org/wp-content/uploads/2015/07/PSBA-Special-Report-Charter-School-Reform.pdf>
- ³⁵ <https://www.pennlive.com/news/2020/02/pa-gov-tom-wolfs-charter-school-reforms-re-ignites-firestorm-with-advocates-parents.html>