



**A Strong State  
Commitment to Public Education,  
A Must Have for  
Pennsylvania's Children**



## **Executive Summary**

This report examines school funding in Pennsylvania, focusing on the city of Philadelphia and on other low-income school districts. The report highlights recent funding cuts, and the policy choices that led to these cuts. The end of the report suggests some alternative – and better – choices that Pennsylvania might make regarding state school funding and tax policies going forward.

The scale of recent funding cuts in Philadelphia and other low-income districts has been unprecedented. Since 2011 Philadelphia has experienced a \$294 million drop in state school funding. Philadelphia educates 12% of Pennsylvania's school students but experienced 35% of statewide school funding cuts.

State education funding cuts have affected all school districts, but targeted those with the poorest students. Philadelphia ranked first with cuts of \$1,351 per student, followed by Chester-Upland (\$1,194), York City (\$1,096) and Southeastern Greene, a rural district (\$1,022). Meanwhile some wealthy suburban districts experienced cuts of only \$36 to \$59 per student. Statewide, three years after close to \$1 billion in state reductions to classroom funding, 54% of per student cuts remain.

Within Philadelphia, state funding cuts, and the siphoning off of state school funding to charter schools, have wreaked tangible devastation on schools and children. For example, since 2011, the School District of Philadelphia has reduced its school counseling staff by over half, its central administration and support staff by nearly half, its school nurses by nearly a third, and its early childhood teachers by one fifth.

More than 800 parents from 70 schools have filed complaints with the Pennsylvania Department of Education alleging denial of necessary educational services to their children in 2013. Educational enrichment programs that help students get into competitive colleges have all but come to an end, including Northeast High School's acclaimed Space Research Center (SPARC), debate, dance, science Olympiad and other programs. With roughly 1 nurse for every 1,250 students, parents have been particularly concerned about health for their children. The lack of an onsite nurse is thought to have possibly contributed to the death of 12-year old Laporshia Massey following an asthma attack that began at school.

Other hard-pressed districts across the Commonwealth have also closed schools, increased class sizes, cut instructional personnel, and ended music, arts, and sports programs. Based on a survey of school districts, the Pennsylvania School Boards and School Business Officials declared that the "the financial condition of Pennsylvania's public schools declined from "difficult" in 2011-12 to "desperate" for 2012-13.

Recent trends follow the state's history of underfunding schools, with Pennsylvania ranked 10th lowest for the state share of school funding. Low state funding makes schools dependent on local income and wealth, leading to large gaps in funding between affluent and poor districts and a "D" for funding equity on one recent national report card.

Over two Pennsylvania gubernatorial administrations, the state began to recognize the problem of low state funding and then launched a bipartisan effort to close a \$2,400 per student gap between actual funding and levels adequate to support a quality education for all children. Philadelphia's shortfall to achieve funding adequacy was 75% higher than the statewide average gap, \$4,184 per student.

Funding cuts since 2010, however, have undone initial progress towards funding adequacy, leading Philadelphia's District Superintendent Dr. William Hite to lament only weeks before the current school year that stopgap funding would "allow us to open the doors of the school" but "not do enough for what goes on behind those doors."

State education funding cuts have come at the same time as federal funding for preK-12 education declined and the local property tax base has been constrained by a slow recovery, falling property values, and the state tightening caps on annual increases in local school funding.

Recent Pennsylvania public school funding trends reflect a trifecta of misguided policy choices.

The first choice was an effort to balance the state budget through cuts in public services. Pennsylvania's education funding cuts translated into 20,000 lost jobs in public education, which also held back private job (and revenue) growth as reduced spending by school employees rippled through local economies. Pennsylvania's job growth since January 2011 ranks 49th of the 50 states.

At the same time that the commonwealth was reducing education spending, the state moved forward with several large corporate tax cuts, some of which continue to phase in even now. Since 2003, the value of Pennsylvania corporate tax cuts has more than tripled, and in 2013-14 the tax breaks have a value equivalent to nearly one-third of the total preK-12 education budget. The state also failed to enact a severance tax on natural gas drilling.

Third, Governor Corbett and the General Assembly diverted additional funding for alternatives to public schools, despite the impact of funding cuts on public education and the commonwealth's economic recovery. The commonwealth now supports four separate systems: private and sectarian schools, charter schools, and online "cyber charters," as well as public schools. Expansion of these parallel systems has particularly affected districts like Philadelphia with high poverty populations. By 2013-14, for example, payments to charter schools represented 30% of Philadelphia school district's operating budget.

Pennsylvania's deep cuts in education funding singling out the most vulnerable districts fly in the face of overwhelming evidence that concentrated poverty is a major impediment to children's educational progress.

Pennsylvania can make different policy choices related to public education. The end of this report outlines ways that the state could increase revenues for schools and get back on track to funding levels adequate to deliver educational quality in poor as well as wealthy districts. This is the right – and far-sighted – choice not only for the children and families in those districts but also for the long-run health of Pennsylvania's economy.

## **Introduction**

On August 11, 2013, the School District of Philadelphia issued a statement stunning a city that had become accustomed to bad news about the financial health of its school district. Without an immediate commitment of \$50 million from the city of Philadelphia, city schools would not open as planned on September 9.

District Superintendent William Hite expressed concern that only weeks before school was scheduled to open, the district was hundreds of millions of dollars short of filling a \$304 million budget gap. Hite said at a press conference that the \$50 million would not actually be enough to provide students with a quality education.<sup>1</sup> “In a broader sense, \$50 million really only allows us to open the doors of the school,” he said in a statement. “It does not do enough for what goes on behind those doors.”<sup>2</sup>

As the 2013-14 school year has unfolded, it is clear that the school district’s children are suffering from the results of decisions by state officials in Harrisburg that have limited the resources available for education and redirected a growing share of what was left away from traditional public schools. That the goal of Pennsylvania’s largest school district was simply to get the school doors open and the bodies in the desks on time is a travesty. What’s worse, the crisis in Philadelphia is mirrored in many school districts across Pennsylvania and comes while the state has expanded tax cuts for corporations. It is hard to remember that just three years earlier Philadelphia, along with the state’s 499 other school districts, were – for the first time in memory – moving on a very different trajectory. The State Board of Education, General Assembly, and Governor had all committed to an ambitious goal: to develop a funding system ensuring that by 2014 every child in Pennsylvania could meet state performance standards. We are in a different place now.

Three years of crisis in the lives of our school children, particularly for those already struggling with the burden of poverty, is three years too many. State policymakers must restore the vision of high-performing schools with adequate funding to meet student needs. That will require substantial new funding and a commitment to distribute that funding through a transparent and predictable funding formula.

To accomplish this goal, Pennsylvanians must look toward Harrisburg. Without a strong and fully funded public school system, Pennsylvania will simply be unable to meet the challenges of a 21st Century economy. Pennsylvania has tried austerity; damaging children’s prospects, furthering inequality, increasing local taxes, and slowing the economic recovery. What is needed is an investment in our children.

The purpose of this paper is to outline the harms that have come from the failure to adequately fund Pennsylvania schools, examine the policy choices that led to this crisis, make the case for greater and more equitable investment, and present options for how to provide the needed resources. We begin with a detailed examination of the impact of the budget cuts on the school district of Philadelphia.

### **Deep Cuts and Destabilized Programs for Philadelphia Students**

Philadelphia is the state’s largest school district and serves one of the poorest student populations. Yet Philadelphia public schools have for decades been at the center of a struggle over adequate resources. As far back as the 1970s, there were efforts to have the courts declare that state funding of the city’s schools was inequitable and inadequate and violated the state constitution.<sup>3</sup> In the 1990s, then-Superintendent David Hornbeck called for a \$1.3 billion investment in the city’s schools, but state

officials in Harrisburg turned a deaf ear. Yet, the cuts since 2011 may have been the most impactful.<sup>4</sup>

The recent Philadelphia cuts included a \$294 million reduction in state classroom funding. This accounted for 35% of the total dollar value of the state's classroom reductions, despite Philadelphia enrolling 12% percent of the state's students.<sup>5</sup> These cuts, coupled with reductions in federal ARRA funding and higher costs for retirement, charter schools and mandated services, left the district with a \$629 million gap to fill for the 2011-12 school year and a \$721 million gap to fill for 2012-13.<sup>6</sup> The funding shortfalls were addressed through \$500 million in cuts and \$300 million in borrowing.

Compared to 2011, the Philadelphia school district has 3,885 fewer employees, a 16% reduction. This includes a:

- 45% reduction in central administration and support staff;
- 20% reduction in early childhood teachers;
- 31% reduction in the number of school nurses; and
- 54% reduction in counseling staff.

The Philadelphia school district has also closed 28 public school buildings since 2011, moving thousands of children to new and unfamiliar facilities.

The impact of these cuts on individual students is only beginning to be understood. More than 800 parents from 70 schools filed complaints with the Pennsylvania Department of Education in 2013 alleging denial of necessary educational services to their children, and the high school fair, a staple for helping tens of thousands of middle school students pick the right public high school program, was cancelled by the school district for lack of funding.<sup>7</sup> Without counselors, students and parents had little assistance making the choice or completing applications.

At one high school, a single counselor was assigned to 800 students and assisted 182 seniors with college applications.<sup>8</sup> Guidance counselors admitted that they could not always guarantee that college recommendations were submitted on time because of the overwhelming caseloads.<sup>9</sup>

Educational enrichment programs, where they existed, have all but come to an end. For example, Northeast High School announced it was ending its acclaimed Space Research Center (SPARC) program, which enabled students to participate in simulated space research, along with debate, dance, Science Olympiad and other programs that are increasingly necessary for students seeking to get into competitive colleges.<sup>10</sup>

With only 179 nurses for 223,181 students in public, charter and parochial schools, parents have been particularly concerned about the health of their children, especially those with special needs.<sup>11</sup> Complaints include insufficient medical support for students with cerebral palsy, autism and ADHD.<sup>12</sup> The lack of an on-site nurse is thought by many to have contributed to the death of 12-year-old Laporshia Massey, who died of an asthma attack that began at school.

Philadelphia's plight has become the most recognizable symptom of this round of budget cuts, but the city is not alone. Eight Pennsylvania school districts have been put on a watch list or are now identified as financially distressed, and many more are teetering on the brink. Across the commonwealth, districts have closed schools, increased class sizes, cut instructional personnel, and ended music, arts and sports programs.

Between 2010 and 2012, Pennsylvania lost 20,000 jobs in the education sector, including teachers,

administrators and classroom aides. A 2012 report from the Pennsylvania School Boards Association and Pennsylvania Association of School Business Officials declared that “the financial condition of Pennsylvania’s public school districts is declining from ‘difficult’ in [2011-12] to ‘desperate’ in 2012-13.”<sup>13</sup>

What’s worse, an updated version of the report for the 2013-14 school year revealed that the harm from budget cuts was only deepening. According to the report, “Seventy-five percent of school districts statewide plan to reduce instructional programming in the 2013-14 school year.” More districts reported needing to cut instructional programs for the current year than in either 2011-12 or 2012-13.<sup>14</sup>

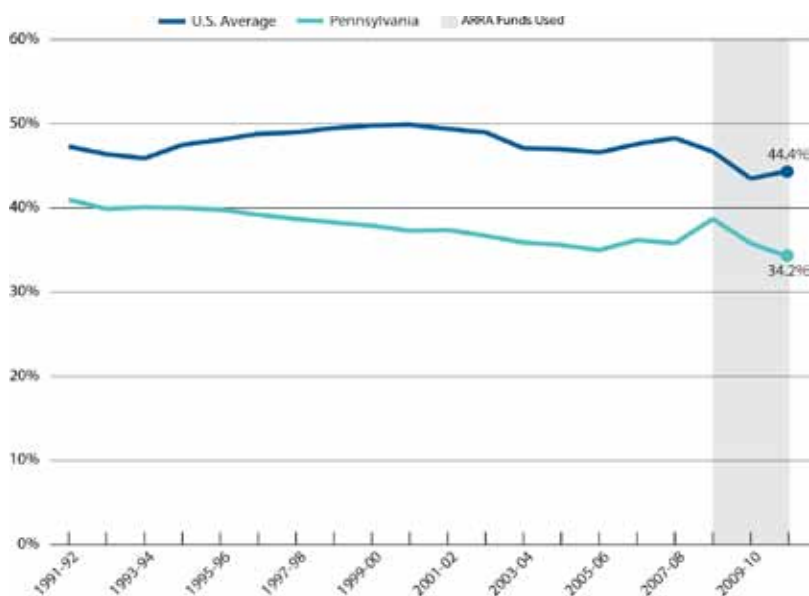
Among the specific findings for 2013-14: 47% of districts expected to raise class size. 30% reported that they planned to reduce elective course offerings; and 22% reported that they planned to reduce remediation programs. In each case, this is the third straight year where sizable numbers of districts reporting making cuts.

### **What Might Have Been: The Effort to Adequately Fund Pennsylvania’s Schools**

The budget cuts of 2011 to 2014 are unprecedented in their depth, but they come in part because of a long history of less than adequate state funding for public schools. There was a systematic effort to select a different path during the period 2006-10. An examination of that path offers a vision of what might have been, and potentially of what could be for Pennsylvania’s school children.

Pennsylvania traditionally provides a smaller percentage of state funding to public schools. In 2010, it had the 10th-lowest state share of school funding at 35.6%.<sup>15</sup> This has been a consistent pattern over time (see Table 1). The National Report Card on School Funding Fairness gave Pennsylvania a D in funding equity, with the high poverty districts receiving 89% of the resources of the low poverty districts.<sup>16</sup> The consequence of low state funding is higher local property taxes to provide needed funds to the districts.

**Table 1. State Share of Education Funding is Below the National Average**



Source: U.S. Census Bureau

In 2006, at the direction of the General Assembly,<sup>17</sup> the Pennsylvania Department of Education commissioned school finance experts Augenblick, Palaich and Associates to complete a report, known as the “Costing Out” Study, to assess the adequacy of resources available to the Commonwealth’s public school students and to determine whether those resources were distributed equitably across school districts.

The study set an ambitious goal: to determine the resources necessary to ensure universal student proficiency in reading and math as required by the federal No Child Left Behind law and to meet state academic standards in 12 subject areas.<sup>18</sup> Recognizing that some students with particular characteristics required additional resources to achieve these standards, the study established an adequacy target for each of the state’s 500 school districts, based on the characteristics of its student population. A base cost was established, and weights were assigned for students requiring special education services, in need of English language instruction, or living in poverty.

The “Costing Out” Study determined that 94% of Pennsylvania’s school districts did not have sufficient resources. Overall, 471 school districts were spending less than their adequacy targets, while the remaining districts were meeting or exceeding the resource needs of their students.

The study found that an average per-student expenditure of \$11,926 was necessary to meet adequacy targets, while the actual per-student expenditure at the time was only \$9,512, leaving a gap of more than \$2,400 per student. In total, the state was underfunding public schools by \$4.38 billion.

The state’s average adequacy gap of 26.8% masked tremendous differences between wealthy and low-to moderate-income districts. The least wealthy districts were spending 37.5% less than the adequacy targets, while wealthy districts had a gap that averaged just 6.6%.<sup>19</sup>

The study also confirmed that districts with higher student need had difficulty generating significant additional resources locally, despite having higher tax effort and higher property tax millage rates than wealthier districts. For example, school districts such as Wilkinsburg in Allegheny County, Pottstown in Montgomery County and the York City School District, which have large numbers of students in poverty, had high tax effort but lower per student expenditures than wealthier districts. Without a significant increase in state resources, a gap between rich and poor districts would continue to grow.

Philadelphia had a much greater adequacy gap than the state as a whole. In 2005-06, the Philadelphia school district was spending an average of \$9,947 per student, which was \$4,184 less than the \$14,131 adequacy target identified in the study. This gap was nearly 75% higher than the state average. Overall, Philadelphia was spending \$870 million less than its adequacy target, reflecting a deep history of inequitable investment.

This gap, although quite large, ranked 20th in the state, meaning spending in third class cities Reading, York, and Lebanon and in some rural communities, including Oxford Area in Chester County, Panther Valley in Carbon County, Columbia Borough in Lancaster County, and Moniteau in Butler County was even further behind.



**Table 2.** Philadelphia Adequacy Funding Gap Almost Double State Average

Costing Out Study				
Funding Targets and Funding Gap				
	<i>Per Student</i>	<i>Per Student</i>	<i>Per Student</i>	
	<i>2005-06</i>	<i>Adequacy</i>	<i>Gap</i>	<i>Rank</i>
Philadelphia	\$ 9,947	\$ 14,131	\$ (4,184)	20
Pennsylvania	\$ 9,512	\$ 11,926	\$ (2,414)	

Source: 'Costing Out' Study, see end note 18.

### **Efforts at School Finance Reform**

In the years preceding the Costing Out Study, there had been some first steps toward progress on addressing the inadequacy and inequity of the state's school funding system. Gov. Mark Schweiker and the General Assembly established programs for after-school tutoring and reimbursements to districts for the costs of losing students to charter schools.<sup>20</sup>

Gov. Ed Rendell was elected in 2002 on a platform of providing additional support for public education. His first budget, adopted by the state Legislature, increased funding for schools by \$750 million, which was financed through a series of revenue enhancements, including an increase in the state income tax from 2.89% to 3.07%, a 35-cent increase in the cigarette tax, and an extension of the telecommunications gross receipts tax to cellular and interstate calls. New programs adopted included:

- Accountability Block Grants. These new allocations were made available to all school districts to support new evidenced-based programming in one of 13 program areas, including pre-K, full-day kindergarten, teacher recruitment and professional development, and high school math, science and technology programs. The first-year allocation was \$250 million.
- Educational Assistance Tutoring Programs. Continuing the Schweiker administration's focus on tutoring, this program was initially allocated \$25 million.
- State funding for new Head Start classrooms. The first-year allocation was \$15 million.<sup>21</sup>

These programs, along with the Charter School Reimbursement program, which reimbursed a portion of the cost of students leaving traditional public schools for charter schools, were real steps forward in Pennsylvania school funding. Then, in 2008, based on the analysis of the costing-out study, the General Assembly adopted Act 114, which established a plan to meet funding adequacy targets distributed through a new funding formula. The commonwealth set a goal of allocating an additional \$2.6 billion to school districts by 2014.

Through the next three years, 2008-2011, the state met its funding commitment, despite the significant revenue losses precipitated by the Great Recession. Over that period, the main education funding program, Basic Education Funds (BEF), increased by \$825 million, or 16%.<sup>22</sup> The new formula, coupled with annual adjustments to Charter School Reimbursement funds, helped align funding with student need in Philadelphia. During that period, BEF funding for the city's schools increased by more than \$100 million.

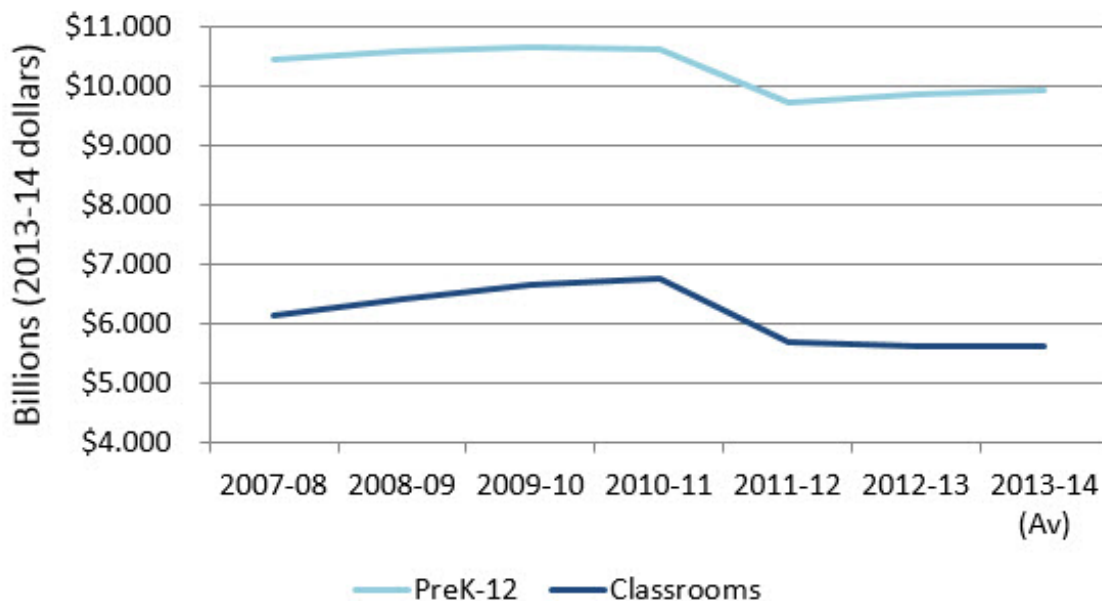
## State Funding Cuts Reverse a Decade of Progress

The election of Tom Corbett as Governor in 2010 marked a significant reversal in the state's education funding policies. He argued that "we are going to spend less because we have less to spend" and ruled out any new taxes to support education or other priorities. To balance the budget, the Governor proposed sweeping cuts to public schools and public colleges. He justified his decision this way: "This budget sorts the 'must haves' from the 'nice to haves.'"<sup>23</sup> The Governor also proposed a new system of portable education where funding would be withdrawn from institutions and given instead to all students in the form of a voucher.

In Governor Corbett's first budget proposal, Basic Education Funding (BEF) funding was rolled back to its 2008-09 level of \$5.2 billion. The General Assembly's enacted budget adopted most of the governor's proposed changes. BEF funding was cut by 9.5% from the prior year. In addition, lawmakers cut \$420 million in other state-funded education expenditures, targeting Schweiker and Rendell education initiatives, including tutoring, reimbursement of charter schools costs, and school improvement grants. The Governor also proposed complete elimination of Accountability Block Grants; the General Assembly balked, restoring 40% of the funding.

Although Gov. Corbett argued that cuts were necessary to close a \$4 billion budget gap, the commonwealth ended the year with a \$1.1 billion surplus.

**Table 3.** Education Funding Changes 2007-08 to 2013-14 (inflation adjusted)



Source. Pennsylvania Budget and Policy Center analysis of Governor's Budget Office data.

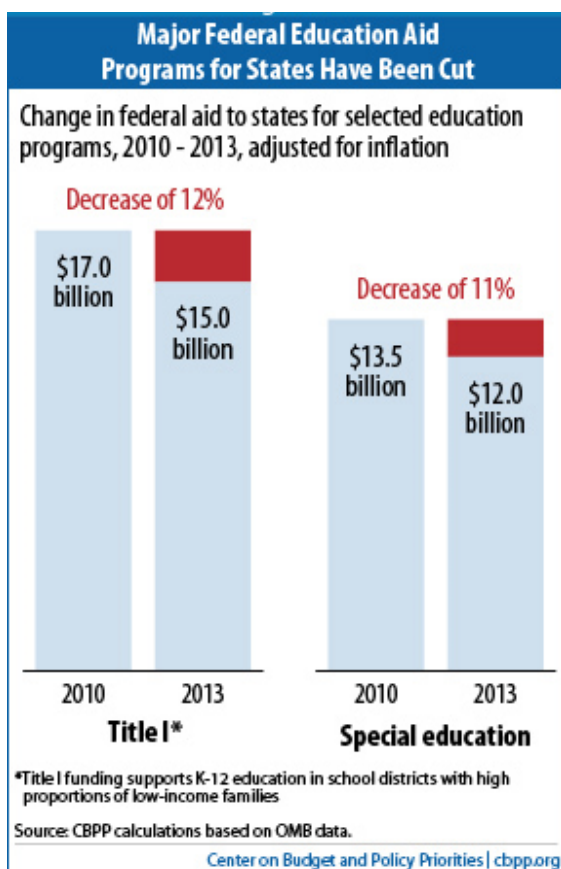
## State Cuts Come as Federal and Local Funds Have Declined

The Corbett administration's cuts came at the same time that federal funding for preK-12 education began to decline and the local property tax base had been constrained by both the recession and state action.

For example the two major federal programs that support school districts, the Title 1 program for students in poverty and the IDEA program for special education students have been cut nationwide by more than 11% each, after adjusting for inflation.<sup>24</sup> Between 2010 and 2014, Pennsylvania has had a reduction of approximately 7% in real federal funding for elementary and secondary education programs.<sup>25</sup>

At the same time, local governments faced new fiscal challenges. Declining property values and lower tax revenue resulting from the housing bust hit school districts hard. In addition, the General Assembly made changes to the formula used to calculate the caps putting new limits on school boards' ability to make up for the losses (modifying Act 1 in 2011), guaranteeing cuts to the classroom. Long delayed increases in employer pension contributions were also on the table, squeezing local education dollars even further.

**Table 4. Federal Cuts to State Education Programs**

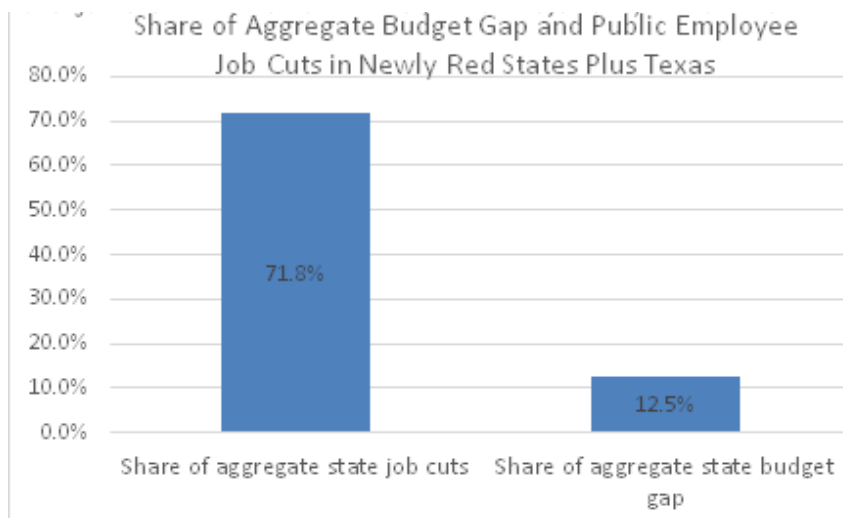


### Austerity and Inequity as Choices

Pennsylvania was not the only state to make deep cuts to public investments. But the cuts were deeper in some states than others. After the 2011 elections, Republicans gained control of both the Governor's mansion and state legislatures in 11 states. This "Republican Revolution" brought a national policy agenda, with these legislatures enacting new laws rolling back minimum wage increases, restricting collective bargaining rights and making deep cuts to public services, even as the economy was struggling to recover from the Great Recession.

Analysis by University of Oregon economist Gordon Lafer suggests that the depth of these cuts were driven less by economic conditions and more by political ideology. In 2011, the United States saw the biggest decline in public sector employment in the 55 years the government has tracked employment. Together, the 11 "newly red" states and Texas accounted for almost 72% of the job losses, but had only 12.5% of the aggregate budget shortfalls faced by the 50 states. More than two-thirds of total job cuts came from states that accounted for just one-eighth of the total state budget shortfall.<sup>26</sup> This reflects a decision to prioritize cuts to public services.

**Table 5.** 12 States Account for Most Public Sector Job Losses

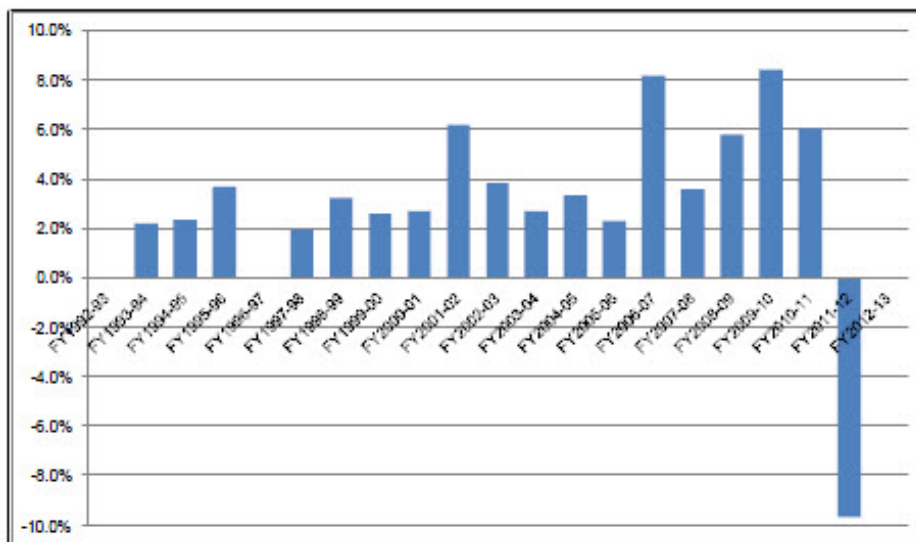


Source: Gordon Lafer, Economic Policy Institute

Prior to 2011, Pennsylvania had weathered the recession better than most states, with unemployment lower than the national average for 47 of the previous 48 months, and a full point below the average for 12 of those months.<sup>27</sup> That trend reversed beginning in 2010, as funding cuts resulted in the loss of 20,000 jobs in the education sector between 2010 and 2012—the equivalent of 40 manufacturing plants closing in just two years. Pennsylvania fell from seventh in job creation in December 2010 to 48th in December 2013.

At the same time the commonwealth was reducing education spending, it moved forward with several large corporate tax reductions, another choice. As will be discussed below, some of those tax cuts are still being phased in.

**Table 6.** SDP Basic Education Subsidy Change from Prior Year, 1992-93 to 2012-13

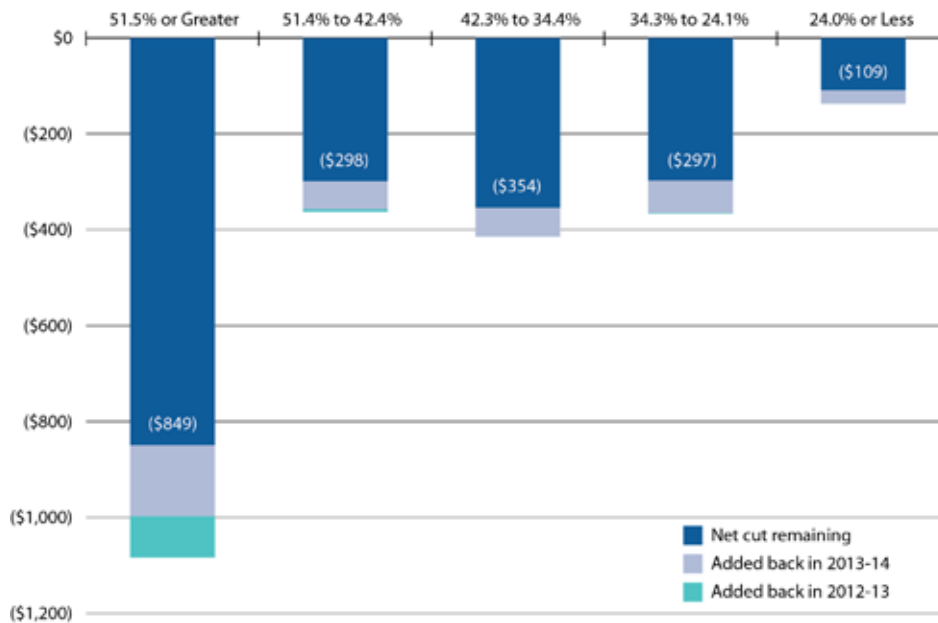


Source: School District of Philadelphia, FY2012-13 Budget in Brief.

The state's cuts affected all school districts, but all districts were not affected equally. Instead, the reductions disproportionately affected the districts with the poorest students, the highest local tax effort, or both. In terms of per-student cuts, Philadelphia ranked first, with cuts of \$1,351 per child, followed by three other districts with per-student cuts of more than \$1,000: Chester-Upland (\$1,194), York City (\$1,096), and Southeastern Greene (\$1,022). As noted earlier, Philadelphia has just 12% percent of the state's students but took 35% of the cuts.

Comparing those districts with Pennsylvania's wealthiest districts is striking. While Philadelphia sustained cuts of more than \$1,300 per student, the Springfield School District in Montgomery County had reductions of \$59 per student, New Hope-Solebury in Bucks County had cuts of \$56 dollars per student, and Tredyffrin-Easttown in Chester County sustained cuts of just \$36 per student. Not only were the statewide cuts greater than what might have been, they were targeted to programs that disproportionately affect the school systems serving more of our most vulnerable citizens.

**Table 7. Per-Student Cuts by Share of Students Eligible for Free and Reduced-Price Lunch**



Source. Pennsylvania Budget and Policy Center analysis of Pennsylvania Governor's Budget Office and House Democratic Appropriations Committee data.

### Funding Four School Systems

Pennsylvania's budget cuts came at the same time that Gov. Corbett and the General Assembly advanced proposals to expand funding for alternatives to public schools, despite the growing evidence of the impact of funding cuts on public education programs, staffing levels and the commonwealth's economic recovery.

With scarce resources, the commonwealth has chosen to support not one system of education but what can be described as four separate systems. In addition to public schools, public dollars are used to subsidize private and sectarian schools, brick-and-mortar charter schools, and online or cyber charters. As is the case with disinvestment, these policies have particularly affected districts like Philadelphia with high-poverty populations.

For example, the 2012-13 budget failed to provide an increase in the basic education subsidy for the state's 500 school districts, allocating only \$40 million in new funding to 16 school districts. In contrast, that budget added \$75 million in funding to public school alternatives, doubling the size of those programs.

The General Assembly added \$25 million to the existing Educational Improvement Tax Credit (EITC) program, which supports tuition for students enrolled in private and parochial schools, and created a new \$50 million per year program, the Educational Opportunity Scholarship Tax Credit (EOSTC), which provides private school tuition for students in the state's lowest-performing public schools' "attendance boundaries," whether or not the recipients attended public schools. These programs are funded through tax credits offered to Pennsylvania corporations.

There is very little public accountability for the EITC and EOSTC programs. Efforts to monitor the EITC program in particular have been hamstrung by the General Assembly, which, in 2005, passed legislation that prohibited the agency that administers the program from collecting any but the most basic information about scholarship recipients.<sup>28</sup> Despite this lack of transparency, the state has spent \$586 million between 2001 and 2012 on just the EITC program alone.

Pennsylvania has also seen a large increase in enrollment in online and cyber charter schools. In 2011-12, it enrolled 16% of all cyber charter school students in the nation.<sup>29</sup> Without fixed costs such as buildings and transportation, cyber charters' operating expenses are lower than brick-and-mortar schools; however, funding is based on per-student expenditures from each student's home district. Cyber charter funding has proven to be a significant drain on school district resources.

A 2012 audit of the Pennsylvania Cyber Charter School by Auditor General Jack Wagner found that the school received reimbursements based on each student's home district, with tuition payments ranging from \$4,500 per student to almost \$18,000 per student. The national average payment to such a school during that same period was \$6,600 per student. The audit estimated that the commonwealth could have saved \$85 million in 2009-10 by reimbursing charters for actual per-student charter expenditures.<sup>30</sup>

The auditor general's report identified numerous other deficiencies, including a management contract with the firm's founders that was based on total revenue rather than services rendered, and noted that the individuals associated with the school and its related entities are under federal investigation.

The continued loss of student enrollment to charter schools is another financial challenge. The first charters opened in 1998; by 2012-13, 25% of Philadelphia district students were enrolled in charter schools. For 2013-14, payments to charter schools represent 30% of the school district's operating budget.<sup>31</sup> However, Philadelphia public schools educate a higher share of English language learners (8.1% versus 3.3%) and students with severe disabilities.<sup>32</sup>

As a result of these enrollment dynamics and lost economies of scale, charter school operations add to the financial pressures on school districts. The Boston Consulting Group estimated that each additional charter school student increased district costs by \$7,000. When a student transfers from a district to a charter school, 50% of the fixed costs remain, leaving a net cost of \$5,600 per student.<sup>33</sup> In addition, approximately 30% of charter school enrollment comes from private or parochial schools rather than public schools, for which the district incurs an average cost of \$10,400 per student for that first year. These costs affect the district's ability to educate the remaining students.

At the same time, the state charter funding system increases pressures on school districts. For example, charter schools receive payments for students with disabilities based on a fictitious average cost per special education student (based on an assumed 16% special education enrollment), thereby inflating the amount received per student in districts that have a higher enrollment. As a result, districts like Chester-Upland pay more than \$35,000 to charter schools for each special education student. Furthermore, the payment is not on the cost of the students actually enrolled in charters, who typically have less severe disabilities.<sup>34</sup> Charter schools also receive what is known as the “pension double dip,” a flaw in the manner in which mandatory pension payments are calculated in the charter school tuition formula, leading them to be reimbursed for a portion of their pension costs by both the state and the local school district. The Pennsylvania Association of School Business Officials estimates that the pension double dip costs \$500 per charter school student, which costs school districts more than \$30 million.<sup>35</sup>

### **Tax Cuts Resume while Education Funding Stagnates**

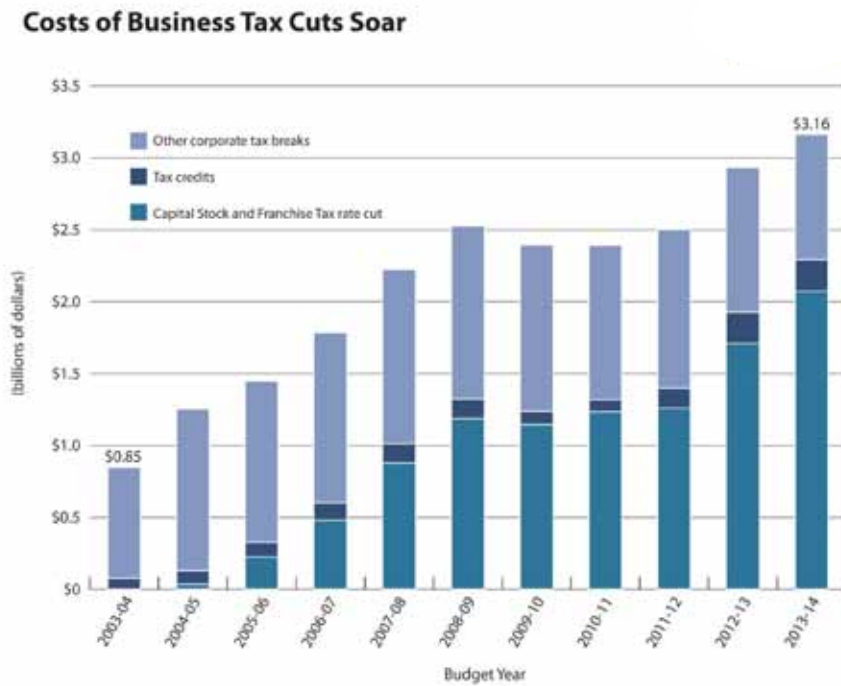
Pennsylvania’s ability to fund schools has been constrained by the decision to continue with a series of tax cuts. In 2000, the General Assembly implemented a program to eliminate one of Pennsylvania’s two main business taxes, the Capital Stock and Franchise Tax (CSFT), without finding a replacement for the lost revenue.

In 2004, a business tax reform commission empaneled by Gov. Rendell proposed a significant set of corporate tax reductions that would be paid for by closing corporate tax loopholes. Beginning in 2005, the governor and General Assembly began to cut business taxes, but despite three years of effort, the Senate refused to take comprehensive action to close tax loopholes, creating a gaping new hole in the state budget.

Further planned business tax reductions were suspended for three years during the recession, when the state could ill afford them. In 2011, one of the first actions taken by the Corbett administration was to enact a controversial policy change—the adoption of federal bonus depreciation rules—allowing Pennsylvania companies to reduce their tax liability, a change that cost almost \$300 million in what the administration acknowledged would be a difficult budget year. Many states faced with this same situation rejected such policies.

These actions have set the stage for a long-term structural imbalance that continues to undermine the state’s capacity to meet its most basic obligations, including public education. Since 2003, the value of the corporate tax cuts has more than tripled, and, in 2013-14, the tax breaks have a value equivalent to nearly one-third of the total prek-12 education budget.

**Table 8. Tax Cuts—30 Percent of Total Education Funding**



### Insufficient Progress in 2013

In Philadelphia, city, district and state officials cobbled together a plan to address the \$304 million shortfall announced in the spring of 2013 and open Philadelphia schools in the fall. A combination of deep cuts and new revenues, largely coming from local taxpayers, was used to help close the gap, but it came at a significant cost.

In May, the School Reform Commission enacted a “doomsday budget” containing roughly \$250 million in cuts. School administrators cut operating budgets to the bare bones and beyond: In addition to a reduction of 3,000 district positions, gone were new textbooks and funding for extracurricular activities.<sup>36</sup>

On the revenue side, the district asked the state for an additional \$120 million of funding, as well as \$60 million from the city to help lessen the cuts. The state’s response fell well short of what was needed, and included little new permanent state funding. The bulk of the new funding authorized by the General Assembly would be paid by Philadelphia taxpayers.

The General Assembly increased the statewide BEF subsidy by \$123 million in the 2013-14 budget, an increase of \$33 million from the governor’s plan in February. Of the \$33 million in new permanent funding, only \$2.7 million was allocated to the Philadelphia school district.

The Corbett administration offered an additional \$45 million in one-time funding, with significant strings attached. In exchange for the dollars, which the state redirected from the federal government, the district would be required to demonstrate “significant reforms,” largely in the form of labor concessions.



Throughout the summer and early fall, the state refused to release the funds despite repeated requests from local and school district officials that they needed the funds to rehire counselors and nurses. Finally, on Oct. 16, the administration announced it would release the \$45 million—a week after Massey’s death.<sup>37</sup>

State officials have in recent years deflected their obligation to adequately fund Philadelphia schools by challenging the city to ramp up its own financial contribution. The city has done just that, approving local recurring revenue increases by \$167 million since 2012. Also, in 2013, it sent the state authorization requests for a \$2 per pack tax on cigarettes and for new powers to collect delinquent taxes from nonresidents. Despite the dire situation facing the school district, neither authorization was approved. In its place, the General Assembly approved an extension of a 1% sales tax that was set to expire in June 2014 and directed that up to \$120 million of the revenue be sent to the school district in the form of a grant, subject to approval by the secretary of education. It also authorized the city to borrow \$50 million to be used in 2013-14.<sup>38</sup>

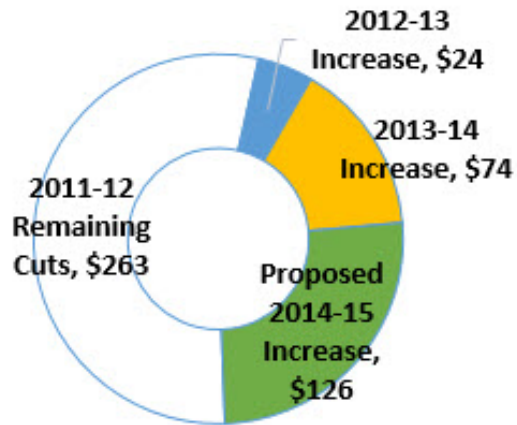
**Table 9.** School Funding Scorecard

Philadelphia School Funding Scorecard, December 2013			
City Funding	Requested	Received	Recurring
Delinquent Tax Collections (1)	\$14	\$14	\$14
Sale of Buildings (2)	\$0	\$50	\$0
City Action			
1% Sales Tax Authorization	\$120	\$0	\$0
<b>TOTAL</b>	<b>\$134</b>	<b>\$64</b>	<b>\$14</b>
State Funding	Requested	Received	Recurring
State Formula Increase	\$120	\$2.9	\$2.9
One-Time Funding		\$45.0	\$0.0
State Action			
Cigarette Tax Authorization	\$80	\$0.0	\$0.0
<b>TOTAL</b>	<b>\$200</b>	<b>\$47.9</b>	<b>\$2.9</b>
(1) SDP budgeted \$51 million for delinquent taxes. New authority will increase the amount collected.			
(2) SDP budgeted \$11 million. Funds transferred to SDP in 2013.			

Source: Pennsylvania Budget and Policy Center

**Table 10.** After Three Years, 54% of Per-Student Cuts to the Classroom Remain

### 54% of Per Student Classroom Cuts from 2011-12 Remain in 2014-15



Source: PBPC analysis of PDE data

#### Corbett's Budget Proposal for 2014-15 Does Not Restore Cuts

Governor Corbett's prek-12 education budget proposal for 2014-15 contains \$397.5 million more than the 2010-11 budget, an increase of 4%. However, this increase does not account for changes in costs between 2010-11 and 2014-15, and spending in inflation-adjusted terms remains below 2010-11 levels.

While overall prek-12 funding has increased modestly, state funding directed to the classroom still remains below its 2010-11 level. The 2011-12 budget cut an average of \$487 per student and modest increases in 2012-13 and 2013-14 added back \$98 per student. The governor's proposed budget for 2013-14 would add back an additional \$126 per student leaving \$263 per student, or 54% of the cuts intact.<sup>39</sup>

The increased classroom funds proposed for 2014-15 would largely come in the form of a new grant program called "Ready to Learn," which could only be used for particular purposes as outlined by the state. This funding will not be available to school districts to restore small class size, or bring back art, music or extracurricular programs as a result of previous budget cuts. Funding for the poorest school districts in highly restricted.<sup>40</sup>

Moreover, the governor's budget, as we have noted elsewhere, relies on optimistic revenue growth, one-time funding sources and revenue from possible changes to the state's public pension systems.

## **Investments in Pennsylvania Public Schools Are Wise and More Needed Than Ever**

Austerity budgeting for Pennsylvania public education reflects a series of choices. Recent research underscores that greater state investments in education might be a better choice. Such investments are directly related to states' overall economic health. Conversely, inadequate investments in education weaken the ability of a state to develop, grow and attract businesses that offer high-skilled, high-wage jobs.<sup>41</sup> Undermining the commonwealth's public education system has long-term ramifications for the state's growth and competitiveness.

The education arena has also changed in the last several years in ways that would indicate greater investment is needed, rather than disinvestment. Two examples of this would be the Common Core State Standards, which have been adopted by 45 states and the District of Columbia, and the increase in child poverty wrought by the recession.

The Common Core is an ambitious attempt to set high standards for what children should know and be able to do.<sup>42</sup> To be effective, its implementation needs to be about more than setting high expectations and adopting new assessments. Professional development, curricular material, and work to align systems to meet higher expectations and provide deeper supports to students may all be necessary. But the resources are not there. If the Common Core represents an opportunity, it is one that Pennsylvania may be squandering.

The Great Recession's impact on public education in Pennsylvania is frequently discussed in terms of lost revenues. But that's one half of the equation. The other component is poverty, which has increased dramatically. This is one of the savage effects of austerity: disinvestment occurs at the same time that the need for investment is spiking.

The child poverty rate in Pennsylvania increased from 16% in 2007 to 20% in 2012. There are 85,000 more children living in poverty as a result of the recession.<sup>43</sup> Poverty drives achievement gaps, with research showing that income-based achievement gaps have grown over time. The gap between children from high- and low-income families is 30-40% larger among children born in 2001 than among those born 25 years earlier.<sup>44</sup> The research is also clear that those gaps exist even before schooling begins.<sup>45</sup>

This is not just an American phenomenon. In international comparisons, achievement gaps based on poverty exist within all the U.S. competitor states, although a small number of countries, including Finland and South Korea, still have systematically higher achievement across income groups.<sup>46</sup> To reduce these achievement gaps, it is essential to understand and address poverty.

Factors related to poverty that may drive lower student performance include home environments with limited language experience, low birth weight, limited access to high-quality preschool opportunities, less access to after-school and summer enrichment opportunities.<sup>47</sup>

Child poverty is also associated with poorer health outcomes.<sup>48</sup> Many of these outcomes, particularly regarding vision, hearing, oral health, asthma and lead exposure, have all been linked to academic achievement.<sup>49</sup> Poorer children also are more likely to be malnourished, and have higher degrees of residential mobility, each of which is directly related to poorer student achievement.<sup>50</sup> There is also considerable research showing that investments to address these issues will improve student achievement.<sup>51</sup>

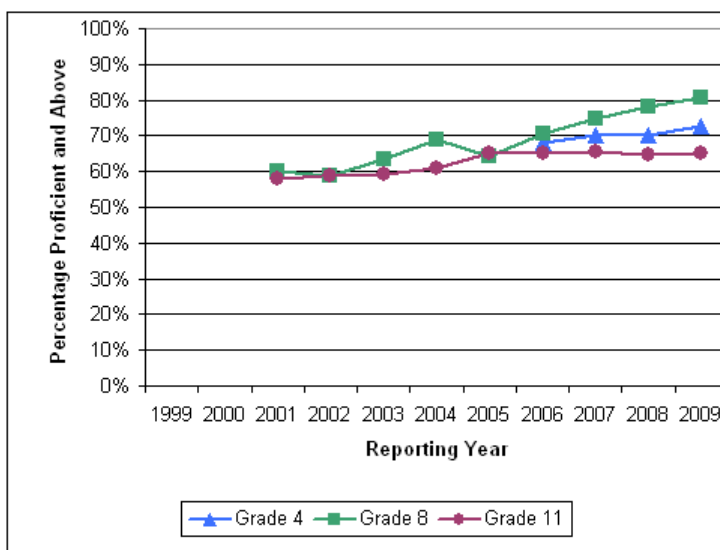
Given the centrality of poverty to issues in American education, it is astonishing that so little discussion has focused on linking the rise of child poverty since the recession to the impacts of austerity. Because of the recession, the “Costing Out” Study, created prior to the economic downturn, likely underestimated the amount of resources now needed to help all our children, particularly those in deep poverty. Other states have begun to recognize this link, and three states—Arkansas, Kansas and New Hampshire—have additional weights for concentrated poverty built into their funding formulas.<sup>52</sup>

### Student Performance Improves with More Resources

There are those who argue that improving school funding will not automatically lead to better results for Pennsylvania students. There is little that is automatic, but the track record indicates that when Pennsylvania has improved its investments, it has gotten better results. For example, the Center on Education Policy tracks state success in meeting Adequate Yearly Progress milestones. The first of its tracking reports released in 2009 found that student performance had generally risen during the period, with Pennsylvania posting particularly strong improvement. The center found that student achievement improved across the board in Pennsylvania between 2002 and 2008. Pennsylvania was the only state in the study to post improvement at three grade levels (third, eighth and eleventh), and in three achievement levels in reading and math. Also notable was Pennsylvania’s improvement in high school. Pennsylvania was one of only five states in the study to show improvement at the high school level over the six-year period.<sup>53</sup>

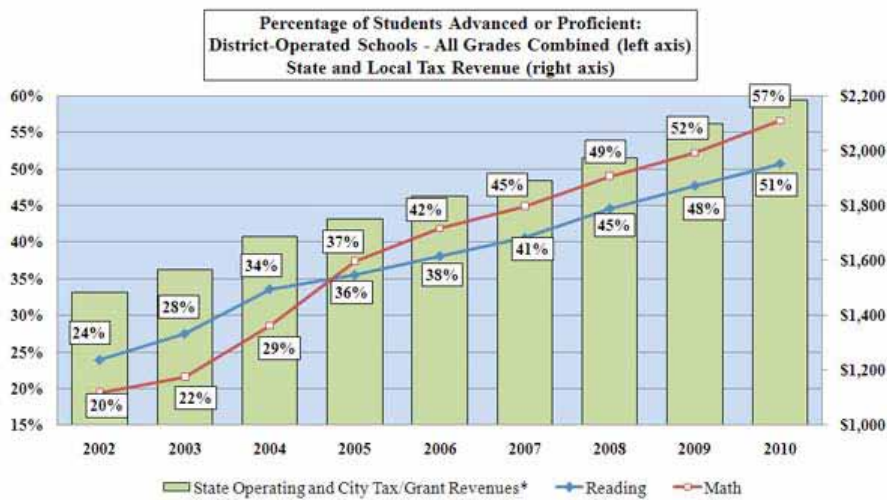
The average yearly increase in students achieving a proficient rating was 2.2% for third graders, 3.1% for 8th graders, and 0.9% for 11th graders. The report noted students in grade 8 made significant gains at the proficient-and-above and advanced achievement levels in both reading and math.<sup>54</sup>

**Table 11:** CEP: Percentage of Pennsylvania students scoring proficient and above in reading



Student performance grew in Philadelphia as well. The share of student scoring proficient or advanced in reading grew from 24% to 51% between 2002 and 2010, and from 20% to 57% in math. During this period, Philadelphia had the greatest number of schools showing significant improvement in FY 2009 and FY 2010 in the commonwealth. Ninety-four district-run schools received Keystone awards for making Adequate Yearly Progress in both years.<sup>55</sup>

**Table 12.** Philadelphia Student Performance Improves with Growing Resources



Source: Center on Education Policy

### Honoring Its First and Only Constitutional Obligation: Funding Public Schools

The crisis in Philadelphia’s schools is a result of the Great Recession and state and federal policy decisions that reversed longstanding trends toward increased support for public education. Across the state, school district officials anticipated and, in some cases, planned for reductions in federal ARRA funding for Title 1 and Title IV-A programs. They could not have anticipated that the commonwealth would simply walk away from its responsibilities to fill in expiring state level ARRA funds, particularly when other ARRA funded services, including hospitals and prisons, were largely made whole.

Nor could districts have anticipated the choice to make \$420 million in cuts to state-funded education programs, including to the Charter School Reimbursement program, Accountability Block Grants and the Educational Assistance Tutoring Programs, programs that were initiated by Republican governors and legislatures and that enjoyed bipartisan support. Nor could one have anticipated that these cuts would come at a time when the introduction of market-based reforms, higher academic standards and rising child poverty were putting additional strains on school districts.

School districts cannot raise property taxes high enough to replace these cuts with local funds. Pennsylvania’s students, particularly the most vulnerable, are paying the price for these decisions. However, there is still time to make a better choice and invest in our schools.

Pennsylvanians will support additional state taxes to restore public school funding. A 2013 poll found that majorities of those polled were willing to support increases in income or sales taxes to restore cuts to public schools and were more willing to do so if lawmakers held off planned corporate tax reductions.<sup>56</sup>

The commonwealth could raise the needed education funding in a number of ways:

**Enacting a natural gas severance tax.** Pennsylvania is now one of the top natural gas producing states in the United States. Enacting a severance tax on the value of natural gas produced in the state could raise more revenue than its current “impact fee,” which was enacted in 2012. A 5% severance tax could raise more than \$600 million in 2014-15, providing an additional \$400 million over what is expected from the impact fee. By 2020, a severance tax could generate \$1 billion more per year than the current impact fee.

**Maintain the very low capital stock and franchise tax.** Since 1999, the state’s capital stock and franchise tax rate has been cut from 12.99 mills to its current 0.67 mills. Under current law, the tax rate is supposed to be reduced to 0.45 mills in 2015 and be eliminated in tax year 2016. Rather than continuing the rate phase down, the rate could be frozen at 0.67 mills and be designated for schools. This could raise approximately \$200 million in additional revenue for schools in 2016-17.

**Enact a real corporate tax loophole reform.** In 2013, Pennsylvania took a small step toward closing the Delaware loophole and other corporate tax loopholes. Replacing this weak law with a strong one, such as those in place in New Jersey and Maryland, could raise several hundred million dollars annually.

**Increase the state’s low personal income tax rate.** Pennsylvania’s 3.07% income tax is the lowest in the country on higher-income taxpayers. With its broad tax base, relatively small increases in the tax rate could generate significant new revenue. An increase in the rate by 1% to 4.07% would produce in excess of \$3.8 billion. To help reduce the impact of this increase on low-income families, the state’s Tax Forgiveness program could be expanded to provide more Pennsylvanians with targeted tax relief. Currently, families of four with income up to \$34,250 receive tax forgiveness. The rate increase could allow current income limits to be expanded.

**Adopt a higher tax rate for unearned income.** Under Pennsylvania’s Constitution, all income of the same class must be subject to the same tax rate.<sup>57</sup> Currently all eight classes of income are subject to the same tax rate, but that is not a legal requirement. Rather than raising taxes on wages and interest, the types of income most commonly received by middle class families, personal income tax rates could be raised on “unearned” income, such as royalties, dividends and gambling winnings. An additional 1% rate on these types of income could generate \$130 million, which could be devoted for education.

### **A New Funding Formula?**

States use funding formulas comparable to that in Act 114 to allocate state resources across school districts. Pennsylvania is one of only three states without a continuing distribution formula.

Most formulas use actual student counts and consider student characteristics.

Pennsylvania is one of only eight states that does not provide specific funding either programmatically or through weighted student funding for English language learners.

In 2013, the General Assembly approved a Senate-devised plan that drove out new funding to 22 handpicked districts, then wrote 12 formulas to match the districts.

A funding formula should be transparent, applicable across all school districts rather than a select few, and provide ongoing, stable, predictable and adequate funding to districts based on student characteristics and student needs.

**Instituting a graduated personal income tax.** Of the 41 states with a general income tax, 34 have a graduated tax rate, where the tax rate increases as income rises.<sup>58</sup> To institute such a tax in Pennsylvania would require a change to our state constitution. This is not a quick or easy process, but it could provide a number of benefits, not only in additional revenue to support education. With such a change, Pennsylvania could adopt personal exemptions, as is done with federal taxes. Tax rates at higher incomes could be raised, and rates at lower incomes could be lowered.

## Education Is a Must Have

Children need to have a fighting chance to compete effectively in the new economy, a chance they have been denied. With a renewed investment in public schools our children, communities and economy will have a better chance to grow and thrive.

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