Hold “Harmless”
A Quarter Century of Inequity at the Heart of Pennsylvania’s School System

January 2021
Technical notes:

- In all instances in this report, “state funding” refers specifically to state Basic Education Funding.

- Poverty rates used in the report are from the U.S. Census Bureau's American Community Survey 5-year estimates of school-aged children in poverty, 2018, as used by the Pennsylvania Department of Education in the Basic Education Funding Formula.

- Tax effort is measured using the Local Effort Capacity Index, a metric calculated by the Pennsylvania Department of Education for use in the Basic Education Funding Formula.

- The source of data for all graphs and tables in this report is the Pennsylvania Department of Education.

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5 Executive Summary

Chart 1: Per-Student State Funding Grew 3X more at Shrinking Districts

7 Introduction

8 Pennsylvania School Funding

Background: A Quarter Century of Hold Harmless

9 Shifting School District Enrollment

Chart 2: One-Third of Pennsylvania Students Are in School Districts With Shrinking Enrollment

10 The Geography of Shifting Enrollment

Map 1: Public School Enrollment Change in Pennsylvania by County, 1991-92 to 2018-19


11 Hold Harmless Benefits Shrinking Districts

Chart 3: 199 School Districts Lost a Fifth or More of Their Students

12 Putting All Money Through The Funding Formula Would Hurt Districts In Need

Table 1: Many Shrinking Districts Struggle for Needed Funds

13 Hold “Harmless” Hurts Growing Districts

Chart 4: 185 Districts Grew by 204,000 Students

Chart 5: Per-Student State Funding Grew 3X more at Shrinking Districts

Chart 6: Mandated Costs Have Grown Nearly 4x as Much as State Funding for Growing Districts Since 2002

14 Differing Diversity and Tax Levels

Chart 7: Students of Color Comprise 44% of Growing Districts, 19% of Shrinking Districts

Chart 8: Growing Districts Have Higher School Taxes

15 Massive Disparities Between Growing and Shrinking Districts

Table 2: Shrinking Districts Receive Far More State Funding

16 Funding Formula Ties Funds to Needs

17 Hold Harmless Hits High-Poverty Districts Hardest

Chart 9: Hold Harmless Takes Nearly A Billion Dollars From Growing, High-Poverty Districts

Chart 10: Tax Effort Is 60% Higher Than Statewide Average at the Most Impoverished Districts

Chart 11: Two-Thirds of Students at Growing, High-Poverty, Underfunded Districts Are Black or Hispanic

Table 3: High-Poverty Growing Districts Are Shortchanged by the State

20 High-Poverty Districts Cannot Meet the Needs of Their Students Under Current Funding Conditions

20 The State Must Fix Its Broken System

22 Endnotes
Executive Summary

Pennsylvania’s school districts have undergone massive enrollment shifts over the past three decades. The state funding distribution, though, has largely remained the same, treating districts as though their student counts haven’t changed. This has helped create an education funding system that’s among the most inequitable in the nation.

The state’s “hold harmless” funding approach is to blame. Implemented in 1992, hold harmless is the policy that school districts cannot receive less funding than they did the year prior. For the next quarter century, the state gave each district small annual increases with little regard for changing enrollment levels. Though the state implemented a funding formula in 2016, it applies only to new funding. That means 89% of state Basic Education Funding is still distributed through the hold harmless-based method.

The school districts with declining enrollment have benefitted from the funding distortions caused by hold harmless. These districts have lost a total of 167,000 students since 1991-92 – a fifth of their student body – but they haven’t lost any money, instead receiving increased funding each year. They now have $590 million tied to students they no longer educate. However, many of these shrinking districts have actually received a reasonable amount of increased funding, given that the state puts far too little money into its education system in general.

The problem is that the rest of the districts, those that have grown, have not had the benefit of receiving funding consistent with their enrollment levels. These districts have 204,000 more students today than in 1991-92, but they have largely been denied the additional funding needed to compensate for the increase in students. The average growing district has received about $1,000 more per student from the state over the three decades since hold harmless began. Meanwhile funding has increased at the average shrinking district by $3,200 per student – more than triple the amount.

Chart 1: Per-Student State Funding Grew 3x More at Shrinking Districts

The average growing district has received about $1,000 more per student from the state since hold harmless began. The average shrinking district has received an additional $3,200 per student.
The most impoverished of these growing districts are the hardest hit by Pennsylvania’s hold harmless policy. The state gives $925 million less to high-poverty growing districts than it would if funding was distributed based on current enrollment levels and student and district need factors. The inadequate state funding forces these impoverished districts to raise their property taxes, often to extremely high levels, in order to fill the gap; 16 of these districts are ranked in the top 20 on tax effort statewide, and all but one are in the top 75.

Black and Hispanic students bear the brunt of the systemic underfunding. More than 80% of the state’s Black and Hispanic students attend growing school districts. To be sure, some Black and Hispanic students are in shrinking districts that benefit from hold harmless, but the vast majority attend schools that are hurt by the policy.

State underfunding of high poverty districts makes it virtually impossible for them to fully meet the needs of their students. For instance, the two most impoverished and underfunded growing school districts, Reading and York City, could hire enough teachers to significantly reduce their class sizes were the state to fund them adequately. Instead, the students in these districts – 90% of whom are Black or Hispanic – must often attend schools without the desired staffing levels and with fewer academic opportunities than their wealthier peers.

It is tempting to think that redistributing all education money through the funding formula will solve the hold harmless problem, but that approach would severely harm the many shrinking districts that lack adequate funding despite their state funding advantage. The nearly one-third of shrinking districts that are high-poverty would be particularly hard hit, and one in five students of color in Pennsylvania attend a district that would suffer.

Until the state funds the education system at an adequate level and distributes those funds equitably, it is contributing to the structural racism and economic inequality plaguing America.

To fix Pennsylvania’s broken education funding system, the state must do the following:

1. Maintain the funding approach that began in 2016 in which new funds are distributed through a dynamic funding formula in accordance with enrollment levels and student and district needs

2. Eliminate the gaps between districts’ current levels of funding and levels that are adequate for providing a quality education. The state can achieve this through the following approaches:

   - Calculate adequacy targets – an actual dollar amount that each district would require to effectively provide a quality education – and drive increased funding towards closing the gaps for districts that are below their targets.
• **Provide supplemental funding to districts that have the least funds relative to their student needs**, calculated as the districts in the bottom 20th percentile on current expenditures per student, with the student count weighted based on student needs included in the Basic Education Funding Formula, such as poverty, and the Special Education Funding Formula.

• The simplest approach is to **increase state funding by at least $4.6 billion and drive that funding through the formula**.

### Introduction

Pennsylvania has long been a leader in one of the most shameful categories – states with the most inequitable education systems.¹ The cause can in large part be traced back to the state’s low funding of education and to its “hold harmless” approach to funding schools, which guarantees no loss of funding for districts that lose students. As population levels have undergone major shifts, state funding has become heavily skewed towards shrinking school districts. As a *Keystone Crossroads* analysis of hold harmless puts it, “...[hold harmless] has greatly affected the equity of the state’s school funding. And for those on the losing end, this contributed to decades of strife.”² Though the state has recently implemented a new, rational funding formula, only 11% of funding flows through it, and the inequities remain as strong as ever.

However, simply taking funds from the shrinking districts and redistributing them to the rest, though, will not solve the funding problems; another major factor driving Pennsylvania’s inequitable education system is the low overall level of state funding. The shrinking districts may have more state money than the others, but it’s money that, in most cases, they truly need, especially given that these districts tend to already be crippled by dwindling economies. Taking money from these districts would, indeed, harm their students.

The state has created a system that helps one set of struggling districts but, due to legislative inaction, does so on the backs of another set of struggling districts. The only solution is for the state to provide an appropriate level of education funding and to distribute those funds through a rational formula. The state must end its practice of forcing growing districts to subsidize shrinking ones and instead fulfill its obligation to provide sufficient levels of funding to all of its districts.

What follows is a detailed examination of the effects of the state’s wildly irrational and inequitable approach to funding its schools.
Pennsylvania School Funding Background: A Quarter Century of Hold Harmless

Pennsylvania’s method of funding its schools began a downward spiral in the 1970s, with the state pulling back on its share of the education funding tab. In 1992 the state took a policy nosedive with the introduction of its “hold harmless” funding approach. The state did away with its funding formula, which allocated money to districts based on the number of students and relative student needs. The only universal policy to guide funding in place of the formula was the “hold harmless” rule, that no district could receive less state funding than it did the year prior. The rule helped the many districts in the state with declining student enrollment, but that help came on the backs of the rest of the districts.

From 1992 on, the share of state education funding each district received was essentially frozen. The state increased funding each year, and all districts got a cut of the new funding, roughly in proportion to their existing share of funding with little regard for changing student enrollment levels or needs. This put Pennsylvania in a hold harmless league of its own – no other state in the country guaranteed increased funding to districts with declining student enrollments.

The state took a step towards rectifying the situation when it adopted a new education funding formula in 2016, which distributes funds based on current enrollment levels as well as other factors such as poverty. The state commission that created the formula acknowledged that hold harmless created problems in distributing funding, but ultimately the commission and the legislature decided to leave the existing funding intact and only distribute new funding through the formula. As a result, just 11% of state funding is currently distributed through the formula and the inequitable hold harmless-based funding stream is locked into place.

Ideally, the state would calculate adequacy targets, or the amount of funding required for each district to provide a quality education. That would allow the state to identify the districts that are currently underfunded and work towards closing their funding gaps. However, because the state has not calculated such targets, a method available for assessing which districts require more state funding is to compare districts’ current funding to the amount they would receive if all money were distributed through the funding formula. This method is far from perfect, as the formula says nothing about the actual dollar amounts necessary for quality education. Nonetheless, it can be used as a tool for comparing relative district financial needs, and this report makes use of it in analyzing some of the funding issues discussed.
Shifting School District Enrollment

Pennsylvania is home to about 1.7 million public school students.\textsuperscript{11} About a third of those students – roughly 600,000 – are in school districts where enrollment has declined since the introduction of hold harmless in 1992.\textsuperscript{12} The other roughly 1.1 million students are in districts where enrollment has grown.

**Chart 2: One-Third of Pennsylvania Students Are in School Districts With Shrinking Enrollment**

- **Shrinking SDs:** 602,490 Students
- **Growing SDs:** 1,111,547 Students
The Geography of Shifting Enrollment

The eastern, southeastern and south central portion of the state is growing steadily. About three-quarters of school districts in this region have seen enrollment growth since hold harmless began, with a net increase of 165,000 students over that period in the region. There is also a small cluster of growing districts surrounding Pittsburgh. Together these regions account for 90% of the growing districts in the state.

Almost the entire rest of the state is shrinking, with more than 90% of school districts outside the growing regions seeing enrollment declines since hold harmless began. There has been a net decrease of about 109,000 students outside of the growing regions.

These public school enrollment shifts mirror the broader population change patterns in Pennsylvania. For decades, rural areas of the state have seen shrinking populations due largely to the decline of industries such as steel, coal and textiles. At the same time, cities and their surrounding areas have been attracting young people and immigrants because of the job opportunities they afford.
Hold Harmless Benefits Shrinking Districts

The majority of Pennsylvania’s school districts – 313 of the 499 – have seen enrollment declines since 1991-92. These districts have collectively lost more than 167,000 students, over a fifth of their total student body.

Despite these enrollment declines, the state has continued to increase these districts’ funding each year. Since 1993-94 (the first year of available funding data), shrinking districts have received an average state Basic Education Funding increase of $3,215 per student – a 142% increase. Some districts with particularly steep enrollment declines saw their per-student state funding quadruple, growing by more than $7,000 per student.

These large per-student funding increases are the result of the two complementary factors of increasing state funding and decreasing numbers of students. In other words, the districts are receiving more and more money spread across fewer and fewer students.

The shrinking districts now have $590 million tied to students they no longer educate.

To be clear, in many cases these shrinking districts have actually received a reasonable amount of increased funding, given that the state puts far too little money into its education system in general. Pennsylvania ranks 47th out of the 50 states for the share of education funding provided by the state. The problem is that the rest of the state’s districts don’t enjoy the same funding advantages.
Putting All Money Through The Funding Formula Would Hurt Districts In Need

It is tempting to think that redistributing all education money through the funding formula will solve the problems created by hold harmless. That approach, however, is misguided, and it would cause great harm.

Although the shrinking districts receive more state funding than the rest due to hold harmless, in many cases they still lack adequate funds because the overall level of state funding is so low. Putting all money through the formula would take much needed funds away from these districts.

High-poverty shrinking districts in particular would be hard-hit. One-quarter of shrinking districts have poverty rates of 20% or greater and would lose money, $332 million in total, if all funding were redistributed through the formula.20

Additionally, one in five students of color in Pennsylvania attends a district that would be harmed by a formula-based redistribution.21

Further, 30 shrinking districts that would be harmed rank in the top 100 districts statewide on local tax effort, or the level of taxes paid by the community to fund the district locally, indicating that they do not receive enough funding from the state.22

While a redistribution of funds through the formula would take money from these shrinking districts, it would also deliver additional state funding to a number of wealthy districts that have a much lower need for state money due to their ability to generate revenue locally.23

Table #1: Many Shrinking Districts Struggle for Needed Funds

<table>
<thead>
<tr>
<th></th>
<th>Enrollment Decline Since 91-92</th>
<th>Poverty Rate</th>
<th>% Students of Color</th>
<th>Tax Effort Rank</th>
<th>$ per Student Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Castle Area SD</td>
<td>-19%</td>
<td>35%</td>
<td>39%</td>
<td>87</td>
<td>357</td>
</tr>
<tr>
<td>(Lawrence County)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Big Beaver Falls Area SD</td>
<td>-21%</td>
<td>30%</td>
<td>45%</td>
<td>40</td>
<td>353</td>
</tr>
<tr>
<td>(Beaver County)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>McKeesport Area SD</td>
<td>-22%</td>
<td>39%</td>
<td>58%</td>
<td>72</td>
<td>259</td>
</tr>
<tr>
<td>(Allegheny County)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Hold “Harmless” Hurts Growing Districts

Because of the funding distortions caused by the hold harmless system, Pennsylvania’s other school districts, those that are growing, are being shortchanged by the state. These 185 districts have grown by 204,000 students since 1991-92, but they have received little to no extra funding to compensate for the additional students.\textsuperscript{24}

\textbf{Chart 4: 185 Districts Grew by 204,000 Students}

The growing districts educate about two-thirds of the state’s public school students, yet they receive just over half (53\%) of state Basic Education Funding.\textsuperscript{25} The balance goes to the shrinking districts, which educate just a third of the state’s students. Since 1993-94, the growing districts have received funding increases of about $1,000 per student on average.\textsuperscript{26} Meanwhile the shrinking districts have received average increases of $3,200 per student – more than triple the amount.

\textbf{Chart 5: Per-Student State Funding Grew 3x More at Shrinking Districts}

To make matters worse, growing districts face immense pressure from the rising state mandated costs of pensions, special education and charter school tuition. These three costs have grown nearly 300\% more than state funding for the growing districts since 2002 (the earliest year of available data). These costs have also outpaced state funding growth at the shrinking districts, but by just 20\%.\textsuperscript{27}
Differing Diversity and Tax Levels

The shrinking and growing districts also differ in their racial/ethnic makeup and local tax rates. As the graphs below show, the growing districts are more diverse. In fact, 80% of Pennsylvania’s students of color attend growing school districts, including 82% of the state’s Black and Hispanic students. Fortunately for students of color in shrinking districts, the state funds their schools at a level that makes it much easier to deliver a good education. The vast majority of students of color, though, do not get this benefit.

Chart 7: Students of Color Comprise 44% of Growing Districts, 19% of Shrinking Districts
The growing districts also have higher tax effort, made necessary by the state’s insufficient funding. While some more affluent districts have low tax effort and high performance, that is because they have enough local wealth to generate large sums for their schools while still having those sums be relatively small shares of the overall tax base. Less affluent districts do not have that luxury, especially those that are growing and lack sufficient state support.

**Chart 8: Growing Districts Have Higher School Taxes**

![Chart showing disparities in school taxes between growing and shrinking districts](chart8.png)

**Massive Disparities Between Growing and Shrinking Districts**

The disparities caused by hold harmless become clear when examining the impact on individual school districts. The following table is a sample of growing and shrinking districts that illustrates the stark differences in their state funding. While the shrinking districts tend to get relatively reasonable amounts of state funding, the growing districts get shockingly little.
Pennsylvania took a step towards a more rational and equitable education funding system when it adopted a new funding formula in 2016. The formula calculates the share of state funding that each school district should receive based on their actual enrollment levels and factors that affect the cost of education, including the share of students in poverty, English language learners, and charter school enrollment. The formula also accounts for districts’ local wealth and tax effort. The establishment of a strong formula that distributes money based on the actual costs that districts face is a major point of progress for the state.

However, the state puts only new funding allocated after 2016 through the formula. That currently amounts to $700 million, or just 11% of the $6.25 billion in total state funding. The rest is still distributed through the pre-formula, hold harmless-based method. As a result, the current distribution of funding is dramatically different than it would be if all

### Table #2: Shrinking Districts Receive Far More State Funding

<table>
<thead>
<tr>
<th>School District</th>
<th>Shrinking</th>
<th>Growing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cameron County (Cameron County)</td>
<td></td>
<td>Easton Area (Northampton County)</td>
</tr>
<tr>
<td>Change in Enrollment</td>
<td>-48%</td>
<td>+35%</td>
</tr>
<tr>
<td>Growth in State Funding per Student</td>
<td>290%</td>
<td>60%</td>
</tr>
<tr>
<td>Current State Funding per Student</td>
<td>$9,870</td>
<td>$2,290</td>
</tr>
<tr>
<td>Purchase Line (Indiana County)</td>
<td></td>
<td>Hazleton Area (Luzerne County)</td>
</tr>
<tr>
<td>Change in Enrollment</td>
<td>-47%</td>
<td>+38%</td>
</tr>
<tr>
<td>Growth in State Funding per Student</td>
<td>250%</td>
<td>70%</td>
</tr>
<tr>
<td>Current State Funding per Student</td>
<td>$10,470</td>
<td>$3,260</td>
</tr>
<tr>
<td>Juniata Valley (Huntingdon County)</td>
<td></td>
<td>York Suburban (York County)</td>
</tr>
<tr>
<td>Change in Enrollment</td>
<td>-27%</td>
<td>+48%</td>
</tr>
<tr>
<td>Growth in State Funding per Student</td>
<td>160%</td>
<td>80%</td>
</tr>
<tr>
<td>Current State Funding per Student</td>
<td>$6,780</td>
<td>$770</td>
</tr>
<tr>
<td>Allegheny-Clarion Valley (Clarion County)</td>
<td>220%</td>
<td>120%</td>
</tr>
<tr>
<td>Change in Enrollment</td>
<td>-38%</td>
<td>+32%</td>
</tr>
<tr>
<td>Growth in State Funding per Student</td>
<td>12%</td>
<td>80%</td>
</tr>
<tr>
<td>Current State Funding per Student</td>
<td>$8,580</td>
<td>$1,040</td>
</tr>
<tr>
<td>Western Beaver County (Beaver County)</td>
<td></td>
<td>Souderton Area (Montgomery County)</td>
</tr>
<tr>
<td>Change in Enrollment</td>
<td>-36%</td>
<td>+35%</td>
</tr>
<tr>
<td>Growth in State Funding per Student</td>
<td>200%</td>
<td>42%</td>
</tr>
<tr>
<td>Current State Funding per Student</td>
<td>$7,550</td>
<td>$1,410</td>
</tr>
</tbody>
</table>

**Funding Formula Ties Funds to Needs**

Pennsylvania took a step towards a more rational and equitable education funding system when it adopted a new funding formula in 2016. The formula calculates the share of state funding that each school district should receive based on their actual enrollment levels and factors that affect the cost of education, including the share of students in poverty, English language learners, and charter school enrollment. The formula also accounts for districts’ local wealth and tax effort. The establishment of a strong formula that distributes money based on the actual costs that districts face is a major point of progress for the state.

However, the state puts only new funding allocated after 2016 through the formula. That currently amounts to $700 million, or just 11% of the $6.25 billion in total state funding. The rest is still distributed through the pre-formula, hold harmless-based method. As a result, the current distribution of funding is dramatically different than it would be if all
funding was distributed through the formula. More than 90% of the shrinking districts currently receive a greater share of state funding than they would if all money was distributed through the formula.\textsuperscript{32} Two-thirds of the growing districts, on the other hand, receive a lower share. Importantly, districts receiving a higher or lower share of funding than their formula share are not necessarily over or underfunded. The formula does not calculate an actual dollar amount that each district needs, but rather the share of a given amount of funding each should receive. Nonetheless, the formula provides a lens for assessing districts’ relative financial needs.

\textbf{Hold Harmless Hits High-Poverty Districts Hardest}

The funding advantage that hold harmless gives the shrinking districts comes almost entirely at the expense of the most impoverished districts in the state, due to the fact that the state fails to put enough funding into education. Students in poverty often require additional supports to succeed in school, and the state accordingly drives additional resources to districts through the funding formula based on poverty rates.\textsuperscript{33} But because such little money is distributed through the formula, high-poverty districts receive far less state funding than they would if the formula was utilized for a greater share of funding. The legislature has created a system wherein the most impoverished districts are de facto subsidizing the shrinking districts. As a result, they don’t have the resources required to meet the needs of their students in poverty.

For instance, 34 of the growing districts have high poverty rates and receive dramatically less state funding – $925 million less in total – than they would if all money was distributed through the formula.\textsuperscript{34} These districts educate the majority of students in high-poverty districts statewide.\textsuperscript{35} While distributing all funds through the formula is an inadvisable approach, the analysis illustrates the funding gap that these high-poverty districts face.

\textbf{Chart 9: Hold Harmless Takes Nearly A Billion Dollars From Growing, High-Poverty Districts}
The inadequate state funding forces these high-poverty districts to raise their property taxes, often to extremely high levels, in order to fill the gap. Sixteen of these districts are ranked in the top 20 statewide on tax effort, and all but one is in the top 75.\textsuperscript{36}

\textbf{Chart 10: Tax Effort Is 60% Higher Than Statewide Average at the Most Impoverished Districts}

At these 34 districts that are the absolute hardest-hit by the state’s funding system, nearly two-thirds of students are Black (35\%) or Hispanic (30\%).\textsuperscript{37} Also, 59\% of both Black and Hispanic students in Pennsylvania attend one of these districts. The hold harmless funding approach therefore contributes to the structural racism in Pennsylvania’s education system, a system that denies the schools educating the majority of Black and Hispanic children from getting the same level of resources as others.

\textbf{Chart 11: Two-Thirds of Students at Growing, High-Poverty, Underfunded Districts Are Black or Hispanic}
The following examples illustrate the state-induced funding hardships facing urban, suburban and rural high-poverty districts alike.

### Table #3: High-Poverty Growing Districts Are Shortchanged by the State

<table>
<thead>
<tr>
<th>School District</th>
<th>Difference, Current vs Formula per Student*</th>
<th>Poverty Rate</th>
<th>Tax Effort Rank</th>
<th>% Black/Hispanic</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Urban</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>York City (York County)</td>
<td>-$6,711</td>
<td>45%</td>
<td>1</td>
<td>81%</td>
</tr>
<tr>
<td>Reading (Berks County)</td>
<td>-$5,357</td>
<td>47%</td>
<td>7</td>
<td>93%</td>
</tr>
<tr>
<td>Lancaster (Lancaster County)</td>
<td>-$2,212</td>
<td>32%</td>
<td>10</td>
<td>78%</td>
</tr>
<tr>
<td>Philadelphia (Philadelphia County)</td>
<td>-$1,976</td>
<td>36%</td>
<td>11</td>
<td>71%</td>
</tr>
<tr>
<td><strong>Suburban</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pottstown (Montgomery County)</td>
<td>-$3,984</td>
<td>33%</td>
<td>5</td>
<td>53%</td>
</tr>
<tr>
<td>Norristown (Montgomery County)</td>
<td>-$1,709</td>
<td>22%</td>
<td>66</td>
<td>75%</td>
</tr>
<tr>
<td>Southeast Delco (Delaware County)</td>
<td>-$1,495</td>
<td>26%</td>
<td>9</td>
<td>77%</td>
</tr>
<tr>
<td>Bensalem (Bucks County)</td>
<td>-$1,248</td>
<td>16%</td>
<td>71</td>
<td>32%</td>
</tr>
<tr>
<td><strong>Rural</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shenandoah Valley (Schuylkill County)</td>
<td>-$4,265</td>
<td>41%</td>
<td>23</td>
<td>52%</td>
</tr>
<tr>
<td>Antietam (Berks County)</td>
<td>-$2,515</td>
<td>24%</td>
<td>16</td>
<td>43%</td>
</tr>
<tr>
<td>Carbondale Area (Lackawanna County)</td>
<td>-$1,930</td>
<td>33%</td>
<td>51</td>
<td>15%</td>
</tr>
<tr>
<td>Hanover Area (Luzerne County)</td>
<td>-$1,660</td>
<td>33%</td>
<td>70</td>
<td>27%</td>
</tr>
</tbody>
</table>

*The difference between a district’s current state funding and the amount it would get if all funding was distributed through the formula
High-Poverty Districts Cannot Meet the Needs of Their Students Under Current Funding Conditions

State underfunding of high poverty districts makes it virtually impossible for these districts to sufficiently meet the needs of their students. Take Reading School District, which has the highest poverty rate of any growing school district at 47%. If education funding were distributed solely the formula, the district would get $100 million more from the state. That’s $5,300 dollars per student, money which could enable Reading to cut class sizes in half, or hire an army of support staff, or make any number of other major investments to deliver a quality educational experience to their students. York City School District has the second highest poverty rate of the growing districts at 45%, and they are shorted by even more per student – $6,700. Because of the massive funding shortfall the state deals these districts, the students – 90% of whom are Black or Hispanic – must often attend schools without the desired staffing levels and with fewer academic and extracurricular opportunities than their wealthier peers.

Generating the revenue needed to fill the funding gap through local taxes is simply not an option for these districts. York City would have to nearly triple its property tax rate to make up for its state funding shortfall – and it already has the highest tax effort in the state. Reading, which has the 7th highest tax effort in the state, would have to nearly quadruple its property taxes and nearly triple its local income tax rate to get the money the state shorts them. Both of those scenarios are impossibilities. The only viable solution is for the state to fulfill its obligation to these students by providing the necessary resources.

The State Must Fix Its Broken Funding System

The need to fix Pennsylvania’s funding system is both glaring and urgent. The current hold harmless-based system, coupled with the state’s underinvestment in education, subsidizes one set of districts that are losing students by taking money from districts where the majority of the state’s students of color and students in poverty attend school. The resulting impact on local taxpayers makes matters even worse, with these impoverished communities having some of the highest local tax rates in the state despite having the least ability to afford them. The state must act immediately to remedy this appalling situation.

To fix Pennsylvania’s broken funding system, the state must do the following:

1. Maintain the funding approach that began in 2016 in which new funds are distributed through a dynamic funding formula in accordance with enrollment levels and student and district needs.

York City would have to nearly triple its property tax rate, and Reading would have to nearly quadruple its property taxes and nearly triple its local income tax rate, to make up for their state funding shortfalls.
2. Eliminate the gaps between districts’ current levels of funding and levels that are adequate for providing a quality education. The state can achieve this through the following approaches:

- **Calculate adequacy targets** — an actual dollar amount that each district would require to effectively provide a quality education — and drive increased funding towards closing the gaps for districts that are below their targets.

- **Provide supplemental funding to districts that have the least funds relative to their student needs**, calculated as the districts in the bottom 20th percentile on current expenditures per student, with the student count weighted based on student needs included in the Basic Education Funding Formula, such as poverty, and the Special Education Funding Formula.

- The simplest approach is to **increase state funding by at least $4.6 billion and drive that funding through the formula**.

Regardless of the approach taken, closing the gaps between current and adequate education funding will require a major infusion of resources into the state’s funding system, and new revenues will likely be needed. The current level of state funding is far too low, making up just 36% of all education funding which puts Pennsylvania 47th out of the 50 states for the share of education funding it provides. Many of the shrinking districts are likely to be funded just at or below an adequate level. Simply redistributing existing funding through the formula, as some current legislation proposes, without also making major funding increases would harm these districts, particularly those that are high-poverty and don’t have the capacity to absorb cuts to their state funding. And the districts that would benefit from redistribution would still be short of the resources they need.

The current crises in America are putting intense focus on structural inequality. Pennsylvania’s education funding system is a prime example of a structure in which unjust distortions are baked into the foundation, a structure that is intended to reduce inequality but instead perpetuates it, a structure that holds most Black and Hispanic children down and makes life unfair for them as soon as it begins. The state must commit to funding the system at an adequate level and distributing those funds equitably to honor its obligation to provide a quality education for all children. Until that happens, the state is contributing to the structural racism and inequality plaguing America.
Adequacy can be defined in various ways, and a strong example exists in Pennsylvania’s own recent history. In 2006, the state commissioned a “costing out” study that established a minimum level of funding needed by each district to deliver a quality education. The state then increased funding and targeted it towards closing the gaps between the existing funding levels and the adequacy levels as defined by the study. The state unfortunately abandoned this funding approach in 2011, though the adequacy targets and methodology for their calculation still remain in state law. The costing out study can be accessed at: stateboard.education.pa.gov/Reports/Costing-Out/

Detailing the formula for funding, the Basic Education Funding Commission in 2016 signed their fair funding formula. The Komarowski Report explained the state of education funding and its issues in Pennsylvania. The Fair Funding Formula 2019 was signed into law, but the adequacy funds were abandoned by the state. This impacted the future funding for education. The current school funding is absolutely inadequate due to the school closures and remote learning from the COVID–19 pandemic. The Funding for Education was the last report from the Commission before the new formula was signed. The report was dated June 19, 2015.

Accurate funding for education is crucial. The state has abandoned the system; however, many school districts are still trying to make the best of inadequate funding. The Future Readiness Index provides a framework to understand how schools are performing. Pennsylvania has a large gap in funding between the high-performing and low-performing schools. This gap can be used to look at the inequities in the school funding of Pennsylvania.

For the time being, the inequities in school funding are not just a Pennsylvania issue. Many states struggle to adequately fund schools. The inequities vary from district to district within a state and each state has its unique issues. The Future Readiness Index highlights many of these issues. For the future, Pennsylvania must address these inequities and move towards a more equitable system of school funding.

Endnotes
10. Adequacy can be defined in various ways, and a strong example exists in Pennsylvania’s own recent history. In 2006, the state commissioned a “costing out” study that established a minimum level of funding needed by each district to deliver a quality education. The state then increased funding and targeted it towards closing the gaps between the existing funding levels and the adequacy levels as defined by the study. The state unfortunately abandoned this funding approach in 2011, though the adequacy targets and methodology for their calculation still remain in state law. The costing out study can be accessed at: stateboard.education.pa.gov/Reports/Costing-Out/
12. Ibid
17. Pennsylvania Department of Education. AFR Data: Detailed, State Revenue. https://www.education.pa.gov/Teachers-%20-%20Administrators/School%20Finances/Finances/AFR%20Data%20Summary/Pages/AFR-Data-Detailed-.aspx#.VZwC6mXD-Uk
18. Pennsylvania Department of Education. AFR Data: Detailed, State Revenue. https://www.education.pa.gov/Teachers-%20-%20Administrators/School%20Finances/Finances/AFR%20Data%20Summary/Pages/AFR-Data-Detailed-.aspx#.VZwC6mXD-Uk; The $590 million figure was calculated by finding the amount each district received in 1993-94 (earliest year of available data) for the students they have since lost and then adding the amount of increased funding they received between 1993-94 and 2014-15 (final year before the funding formula was introduced) tied to the students they have lost.


26. The ~$1,000 per student increase is roughly equivalent to keeping pace with inflation. Pennsylvania Department of Education. AFR Data: Detailed, State Revenue. https://www.education.pa.gov/Teachers%20-%20Administrators/School%20Finances/Finances/AFR%20Data%20Summary/Pages/AFR-Data-Detailed-.aspx#VZwC6mXD-Uk

27. Pennsylvania Department of Education. AFR Data: Detailed. https://www.education.pa.gov/Teachers%20-%20Administrators/School%20Finances/Finances/AFR%20Data%20Summary/Pages/AFR-Data-Detailed-.aspx#.VZwC6mXD-Uk; State funding appropriated specifically for any of the three mandated costs areas have been subtracted from the mandated cost figures presented in this report. That is, state special education funding was subtracted from special education costs, state pension payments were subtracted from pension costs, and state charter school reimbursement was subtracted from charter school costs. The remainder of the mandated costs must be covered by school districts using state Basic Education Funding or local revenue. The state funding growth figure presented is the growth of state Basic Education Funding.


29. Tax effort is measured by the Local Effort Capacity Index calculated by the Pennsylvania Department of Education; Pennsylvania Department of Education. Education Budget, Basic Education Funding. 2019-20. https://www.education.pa.gov/Teachers%20-%20Administrators/School%20Finances/AFR%20Data%20Summary/Pages/AFR-Data-Detailed-.aspx#.VZwC6mXD-Uk


33. Districts with above average poverty rates (above 15.5%) are considered to have high poverty rates; Pennsylvania Department of Education. Education Budget, Basic Education Funding. 2019-20. https://www.education.pa.gov/Teachers%20-%20Administrators/School%20Finances/AFR%20Data%20Summary/Pages/AFR-Data-Detailed-.aspx#.VZwC6mXD-Uk


36. The ~$1,000 per student increase is roughly equivalent to keeping pace with inflation. Pennsylvania Department of Education. AFR Data: Detailed, Local Revenue. 2018-19. https://www.education.pa.gov/Teachers%20-%20Administrators/School%20Finances/Finances/AFR%20Data%20Summary/Pages/AFR-Data-Detailed-.aspx#.VZwC6mXD-Uk


40. The state established adequacy targets in 2006 when it commissioned the “costing out” study that determined a minimum level of funding needed by each district to deliver a quality education. The state then increased funding and targeted it towards closing the gaps between the existing funding levels and the adequacy levels as defined by the study. The state unfortunately abandoned this funding approach in 2011. The costing out study can be accessed at: stateboard.education.pa.gov/Reports/Costing-Out/Pages/default.aspx

41. Hanna, Maddie & Fernandez, Cynthia. Pennsylvania schools need an additional $4.6 billion to close education gaps, new analysis finds. The Philadelphia Inquirer and Spotlight PA. https://www.inquirer.com/education/school-funding-pennsylvania-lawsuit-report-20201027.html; based on research by Gardner Kelly, Matthew, The Pennsylvania State University. Gardner Kelly used the adequacy formula developed through the 2006 costing out study to calculate current adequacy targets for each district; his findings indicate that $4.6 billion in additional state funding is needed to close the gaps between current and adequate funding levels.

Public Citizens for Children and Youth (PCCY) serves as the leading child advocacy organization working to improve the lives and life chances of children in the region.

Through thoughtful and informed advocacy, community education, targeted service projects and budget analysis, PCCY watches out and speaks out for children and families. PCCY undertakes specific and focused projects in areas affecting the healthy growth and development of children, including child care, public education, child health, juvenile justice and child welfare.

Founded in 1980 as Philadelphia Citizens for Children and Youth, our name was changed in 2007 to better reflect our expanded work in the counties surrounding Philadelphia. PCCY remains a committed advocate and an independent watchdog for the well-being of all our children.

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