



A School Funding Formula for Philadelphia

Lessons from urban districts across the United States

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About this report

This report was commissioned by The Pew Charitable Trusts and was researched and written by senior policy analyst Michael Griffith and policy analyst Maria Millard of the Education Commission of the States, a nonpartisan organization created by the states to analyze education trends and provide a forum for state leaders to share information. Larry Eichel, director of Pew's Philadelphia research initiative, edited the report along with Daniel LeDuc, Bernard Ohanian, Carol Hutchinson, and Elizabeth Lowe. Kodi Seaton was the designer, and Katye Martens coordinated the photographs.

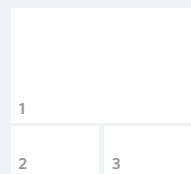
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About The Pew Charitable Trusts

The Pew Charitable Trusts is a nonprofit organization that applies a rigorous, analytical approach to improve public policy, inform the public, and invigorate civic life. Pew's Philadelphia research initiative provides timely, impartial research and analysis on key issues facing Philadelphia for the benefit of the city's residents and leaders.



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Overview

Pennsylvania is one of only three states that do not use a comprehensive school-finance formula to distribute state education funding to individual districts.¹ In June 2014, the state Legislature created the Basic Education Funding Commission to develop and recommend a formula, and a report is due by June 2015. Tom Wolf, Pennsylvania's governor-elect, also has pledged to put a formula in place. A lawsuit seeking a formula has been filed by some parents, school districts, and others dissatisfied with the status quo.

With this in mind, The Pew Charitable Trusts commissioned the nonpartisan Education Commission of the States to review funding formulas in other states, analyze their impact on big-city school districts across the country, and determine how a formula in Pennsylvania could affect the School District of Philadelphia.

The study found that in other states, a formula based on needs, demographics, and ability to pay did not necessarily provide a high level of state aid to big-city districts and that the overall funding available from the state was just as important a factor.

Regardless of the level of overall funding from Pennsylvania, a new formula would almost certainly provide Philadelphia with a larger share of state education money than it receives under the current system, which does not account for differences among districts such as the percentage of low-income students. A formula might also provide a lesser share of state funding to wealthier suburban districts with smaller numbers of high-needs students, thereby reducing the wide variation in per-pupil revenue between those districts and poorer urban and rural ones.

For this analysis, the School District of Philadelphia's funding was compared with that of 10 other large urban districts in different states for the 2013-14 school year. The districts were chosen because of their demographic and financial similarities to Philadelphia. The comparison found that:

- Philadelphia's \$12,570 per-pupil operational revenue was well below the average of the other districts, trailing Boston, Milwaukee, Cleveland, New York, Baltimore, Chicago, and Detroit.² The three districts with less per-pupil revenue were Shelby County (Memphis, Tennessee), Hillsborough County (Tampa, Florida), and Dallas, all of which generally had lower labor costs than Pennsylvania.
- Philadelphia relied somewhat more heavily on state revenue and less on local sources than did most of the 10 other districts in 2013-14. In that year, Philadelphia received 45.9 percent of its operational revenue from the state, which was slightly above the 10-district average, and 42.3 percent of its revenue from local sources, which was slightly below the average. For the 2014-15 school year, Philadelphia Mayor Michael A. Nutter has said that the local share will rise to about 47 percent, thanks to two additional revenue sources: a new tax on cigarettes and the commitment of \$120 million in existing local sales tax money to the district.³

In addition, the report examined how Philadelphia's revenue, wealth, and student needs compare with those of nine other districts in Pennsylvania—three urban, three suburban, and three rural. It found large variations in the total revenue each district had to spend per student, caused in part by the differences in property values from one community to another. Philadelphia's per-pupil revenue was less than Pittsburgh's but more than Erie's and Reading's, less than in the suburban districts but more than in the rural ones.

Charter school funding also is an important issue for Philadelphia. At last count, nearly one-third of Philadelphia students—about 61,000—attended brick-and-mortar charter schools, with 5,100 others enrolled in cyber charters. The district paid the schools \$8,417 for each student in 2013-14.

The study determined that Pennsylvania’s current charter school funding system places a greater financial burden on local districts than do the systems in five of the 10 other states—Massachusetts, Michigan, Ohio, Texas, and Wisconsin—and roughly the same burden as the systems in the remaining five states: Florida, Illinois, Maryland, New York, and Tennessee, all of which mandate local funding.

Having more money to spend is no guarantee of better student outcomes. Even so, how the funding formula and charter financing issues are resolved in Pennsylvania will go a long way toward determining how the School District of Philadelphia, which has been in near-constant crisis in recent years, fares in the years ahead.

Formulas and school funding in Pennsylvania

Most states use funding formulas to distribute education money to school districts. Among other benefits, formulas provide districts with financial stability and predictability. Often they are designed to at least partially offset the large variations in districts’ ability to pay for public education by targeting funding to low-wealth districts and to those that have a disproportionate share of high-needs students.

From 1991 to 2008, Pennsylvania did not use a formal education funding formula to distribute state dollars to school districts.⁴ Instead, the state funded districts through a “hold-harmless” system, which attempted to ensure that districts’ funding would not be cut from one year to the next and that any increases would be distributed as a percentage of past funding. Hold-harmless systems do not take into account changes in enrollment trends, a district’s wealth, or the demographic makeup of the student population.

From 2008 to 2011, the state used a new system that provided school districts with a base amount of funding per student that was adjusted for student needs and each district’s wealth.⁵ As the system was phased in, state funding was not reduced for any district, a provision designed to be phased out over several years. In 2011, however, after Republican Tom Corbett replaced Democrat Ed Rendell as governor, the state returned to the pre-existing hold-harmless system.⁶ Pennsylvania is now one of only three states that do not use a school finance formula.

To evaluate Pennsylvania’s current system, this analysis reviewed data from Philadelphia and nine other school districts in the state that were chosen for their geographic and economic diversity: three urban districts, Erie, Pittsburgh, and Reading; three rural districts, Connellsville, Solanco, and West Perry; and three districts from Philadelphia’s suburbs, Council Rock, Lower Merion, and Radnor Township.

Philadelphia is Pennsylvania’s largest school district with 202,134 students, counting those in district-run schools, charter schools, and pre-K programs, as well as Philadelphia students placed in out-of-district schools. That is over seven times the number of students served by Pittsburgh, the state’s second-largest school district. School districts also differ in the number of high-needs students: those who require special education, those who are English language learners, and those designated as “at risk” for failing in school or not meeting state standards.

Most states use free or reduced-price lunch qualification to identify students as potentially at risk. In the 2013-14 school year, approximately 777,200 students in Pennsylvania (43.6 percent) qualified.

Compared with the statewide average, Philadelphia has nearly twice the percentage of students qualifying for free or reduced-price lunch—and about 25 percent of all such students in Pennsylvania. (See Figure 1.) The district is slightly below average in the percentage of special education students and much higher than average in English language learners.

Figure 1

High-Needs Students in Philadelphia and Other Pennsylvania Districts

2013-14 school year, ranked by free/reduced-price lunch percentage

District	Free/reduced-price lunch	Special education	English language learners
Reading	91.2%	17.1%	18.8%
Philadelphia	80.8%	13.7%	7.7%
Erie	75.4%	17.1%	7.9%
Pittsburgh	73.1%	17.3%	2.1%
Connellsville	56.2%	19.1%	0.1%
Solanco	44.8%	13.0%	1.0%
West Perry	41.3%	15.1%	0.1%
Radnor Township	10.5%	14.1%	3.0%
Lower Merion	10.2%	13.3%	1.5%
Council Rock	7.5%	15.3%	1.8%
State average	43.6%	15.4%	2.4%

Sources: District-level special education and free/reduced-price lunch data plus all state-level data from the Pennsylvania Department of Education; district-level English language learner data from the National Center for Education Statistics

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How Pennsylvania districts pay for schools

In the United States, revenue for public education comes from three primary sources: the federal, state, and local governments. Nationally, the average revenue breakdown during the 2012-13 school year per district was 10.3 percent from federal sources, 46.2 percent from state, and 43.4 percent from local.⁷ In Pennsylvania during that same school year, revenue from state sources was lower than the national average while revenue from local sources was higher. The average from state sources, 35.2 percent, was among the lowest of any state in the country.⁸

Generally, Pennsylvania's urban and rural districts get a higher percentage of funding from the state than do the wealthier suburban districts. That is shown for the selected districts in Figure 2.

One reason for this is that the state used to have a funding formula that factored in the relative wealth of districts and the number of high-needs students they served. This has remained largely in place because of the hold-harmless system of the past two decades.

State revenue

Funding percentages alone do not tell the whole story of state spending. For example, although Philadelphia received a higher percentage of its funding from state sources than Pittsburgh did in 2012-13 (44.8 percent versus 41 percent), Pittsburgh received considerably more state funding per student than Philadelphia did. The Philadelphia school district received \$6,574 per student from the state, while Pittsburgh received \$8,649, a difference of \$2,075 per pupil. (See Figure 3.) The statewide average is \$5,235.

Although the three suburban districts—Council Rock, Lower Merion, and Radnor—received less per student in state funding than the urban and rural districts did, they still were able to spend significantly more per pupil than were the other districts. Lower Merion spent nearly twice as much per student as Philadelphia did and more than twice as much as Connellsville, Erie, Reading, Solanco, and West Perry.⁹

Figure 2

Revenue Sources in Philadelphia and Other Pennsylvania Districts 2012-13 school year, ranked by state share

District	State	Local/other	Federal
Reading	73.3%	18.9%	7.8%
Connellsville	68.6%	27.0%	4.4%
Erie	53.9%	34.3%	11.8%
Philadelphia	44.8%	43.1%	12.1%
West Perry	44.4%	51.4%	4.2%
Pittsburgh	41.0%	47.8%	11.2%
Solanco	34.8%	60.0%	5.2%
Council Rock	19.9%	79.7%	0.4%
Radnor Township	11.9%	87.1%	1.0%
Lower Merion	11.2%	88.4%	0.4%
State average	35.2%	60.8%	4.0%

Note: The revenue-source percentages shown here for Philadelphia differ from those used later in this report for comparisons with urban districts outside of Pennsylvania. There are two reasons for the difference. One is that the comparisons within Pennsylvania are based on 2012-13 data, and the national comparisons rely on 2013-14 numbers. The other is that the Pennsylvania comparisons are based on all school revenue while the national comparisons use “operational” revenue, which excludes funds not associated with K-12 programs.

Source: Pennsylvania Department of Education
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Figure 3

Revenue per Average Daily Membership (Attendance) in Philadelphia and Other Pennsylvania Districts

2012-13 school year, ranked by total revenue

District	Total revenue per average daily membership	State revenue per average daily membership
Lower Merion	\$26,812	\$2,991
Radnor Township	\$22,291	\$2,658
Pittsburgh	\$21,120	\$8,649
Council Rock	\$17,546	\$3,492
Philadelphia	\$14,683	\$6,574
West Perry	\$12,885	\$5,723
Connellsville	\$12,689	\$8,700
Solanco	\$12,367	\$4,305
Erie	\$12,079	\$6,515
Reading	\$11,392	\$8,346
State average	\$14,874	\$5,235

Note: These per-pupil statistics, which come from the state, include revenue for nonoperational activities such as capital costs, long-term debt, and out-of-district student placement. Elsewhere in this report, these nonoperational items were subtracted for purposes of calculating the per-pupil operational number, used for comparison with out-of-state urban districts. For Philadelphia, this explains the difference between the \$14,683 in revenue per pupil used here and the \$12,570 cited in the overview and in Figure 5.

Sources: School District of Philadelphia and Pennsylvania Department of Education

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District revenue

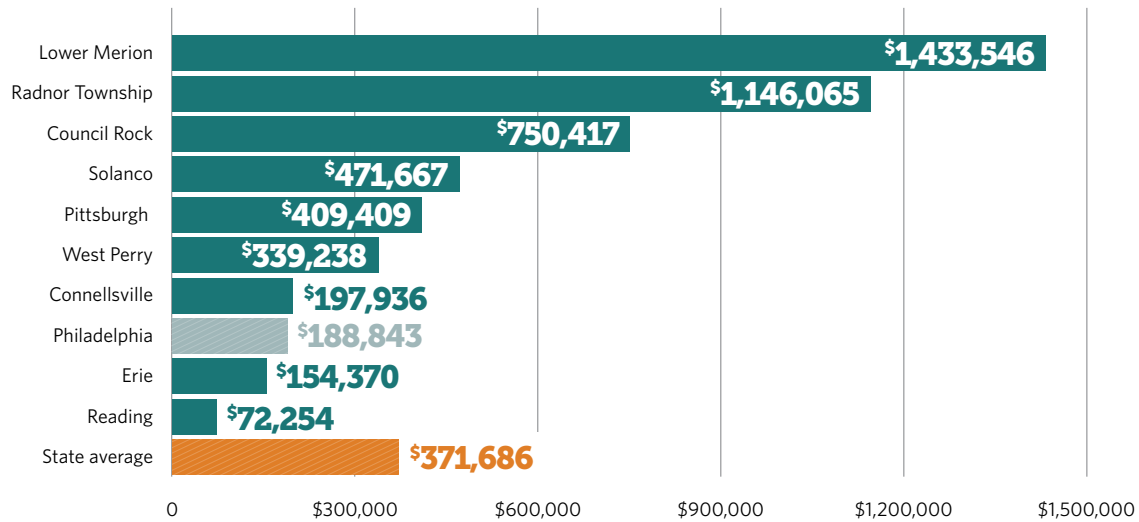
The Pennsylvania Department of Education provides two measures of a district's ability to raise revenue for its schools. One is personal income per pupil, calculated by taking the total taxable income in the district and dividing it by the number of students; the other is property value per pupil, determined by taking all of the taxable real estate in the district and dividing by the number of students.¹⁰

At the state level, personal income per pupil was \$145,197 in the 2012-13 school year. In the Philadelphia school district, it was \$93,674, or 35.5 percent below the state average. Among the 10 Pennsylvania districts, personal income per pupil in the wealthiest, Lower Merion, was \$750,708—16 times that of the poorest, Reading, where personal income per pupil was \$46,764.

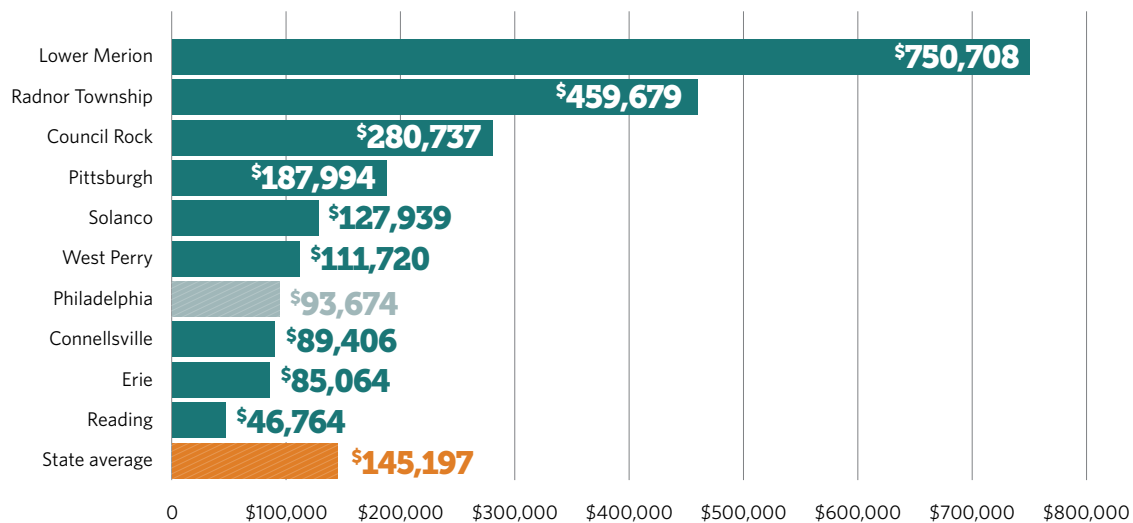
Figure 4

Wealth per Pupil in Philadelphia and Other Pennsylvania Districts 2012-13 school year

Assessed property value per pupil



Personal income per pupil



Source: Pennsylvania Department of Education
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Property taxes are not the only source of local education funding, but they are by far the largest. Statewide, the average property wealth per pupil is \$371,686. Philadelphia’s property wealth of \$188,843 per weighted pupil is about half the state average.¹¹ Among the 10 districts, the highest property value per pupil, in Lower Merion, was \$1,433,546, nearly 20 times that of the lowest, in Reading, where property wealth per pupil was \$72,254.¹² (See Figure 4.)

The difference in property value and income among districts in Pennsylvania leads to a large gap in their ability to raise local revenue.

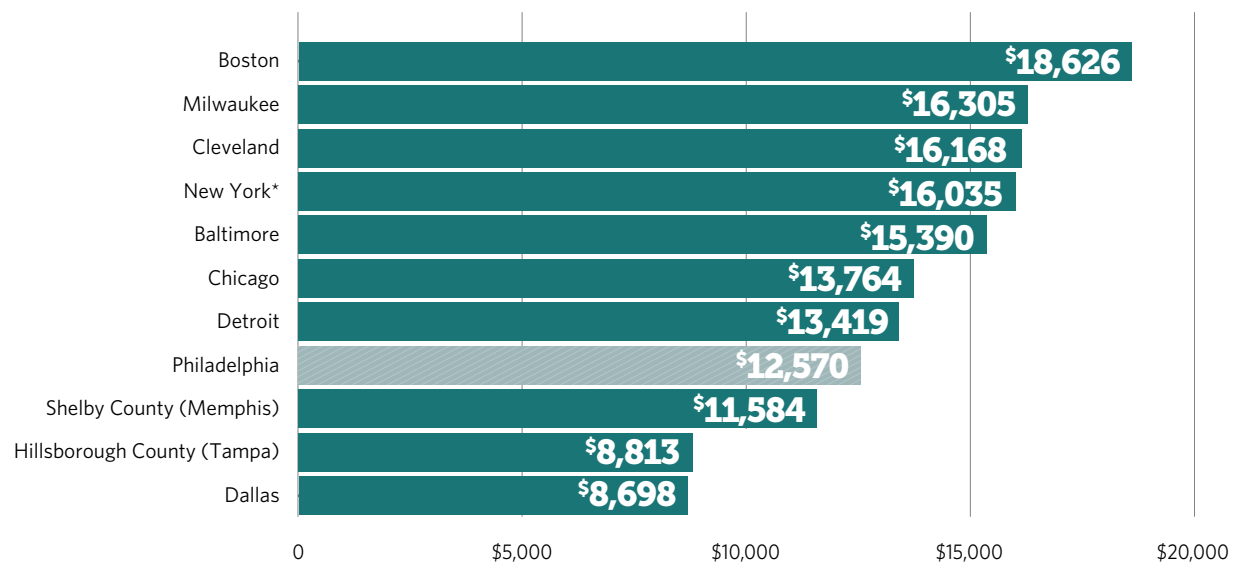
Philadelphia has a larger percentage of high-needs students than the state average. And the district’s average property value and income per pupil are below the state’s averages—and far below those of the wealthier districts in the state. If Pennsylvania adopted a formula that included these factors, it almost certainly would direct more funding to Philadelphia and other urban districts with large high-needs student populations. Such a formula also might decrease funding—in absolute terms or as a share of the overall state pie—for relatively wealthy suburban districts with small numbers of high-needs students.

Comparisons with urban districts nationally

This analysis also compared Philadelphia with 10 other large urban school districts that are similar in demographics and financial data, such as percentage of high-needs students, reliance on various revenue sources, and total enrollment. The comparable districts are Baltimore; Boston; Chicago; Cleveland; Dallas; Detroit; Hillsborough County, Florida (Tampa); Shelby County, Tennessee (Memphis); Milwaukee; and New York City. For a full description of how these districts were chosen, see the Appendix.

Figure 5

Operational Revenue per Pupil in Comparable Urban Districts 2013-14 school year



* New York data are for 2014-15 school year.

Sources: Individual school districts
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Comparative district information

Per-pupil revenue comparisons among the 10 districts were made on the basis of “operational revenue.” Philadelphia’s per-pupil revenue for 2013-14 was \$12,570. For an explanation of how the number was calculated—and how it differs from the \$14,683 amount used in Figure 3—see the Appendix.

Per-pupil revenue ranges from a high of \$18,626 in Boston to a low of \$8,698 in Dallas. At \$12,570, Philadelphia’s figure is below those of the seven other urban districts in the Northeastern and Midwestern states and above those of the three districts in the Southern states. (See Figure 5.)

Another important point of comparison among the districts is how much of overall school funding came from the three major sources—state, local, and federal.

For the 2013-14 school year, the local share of Philadelphia’s school district revenue, 42.3 percent, was slightly below the average for comparable large urban districts.¹³ Of those districts, Boston was the most reliant on local funding at 67.2 percent, and Detroit was the least reliant at 20.4 percent. (See Figure 6.)

Philadelphia’s ability to commit local revenue to education is hampered to some degree by its governmental structure. As a city and a county, Philadelphia is required to provide city and county services to its residents. For that reason, taxpayers in Philadelphia, unlike those in a number of other cities listed here, must bear the full cost of financing county functions—such as courts, jails, and human services—without the assistance of residents of surrounding suburbs.¹⁴ Even so, the percentage of local revenue for 2014-15 is slated to go up to 47 percent, according to Mayor Nutter.

Figure 6

Percentage of Funding From Local Sources in Comparable Urban Districts

2013-14 school year

District	Percentage
Boston	67.2%
Dallas	57.7%
Chicago	50.3%
New York*	48.3%
Philadelphia	42.3%
Shelby County (Memphis)	38.4%
Hillsborough County (Tampa)	29.5%
Milwaukee	28.8%
Baltimore	20.7%
Detroit	20.4%

42.3%

Local share of school funding in Philadelphia falls in the middle among the 10 comparable districts.

* New York data are for 2014-15 school year.

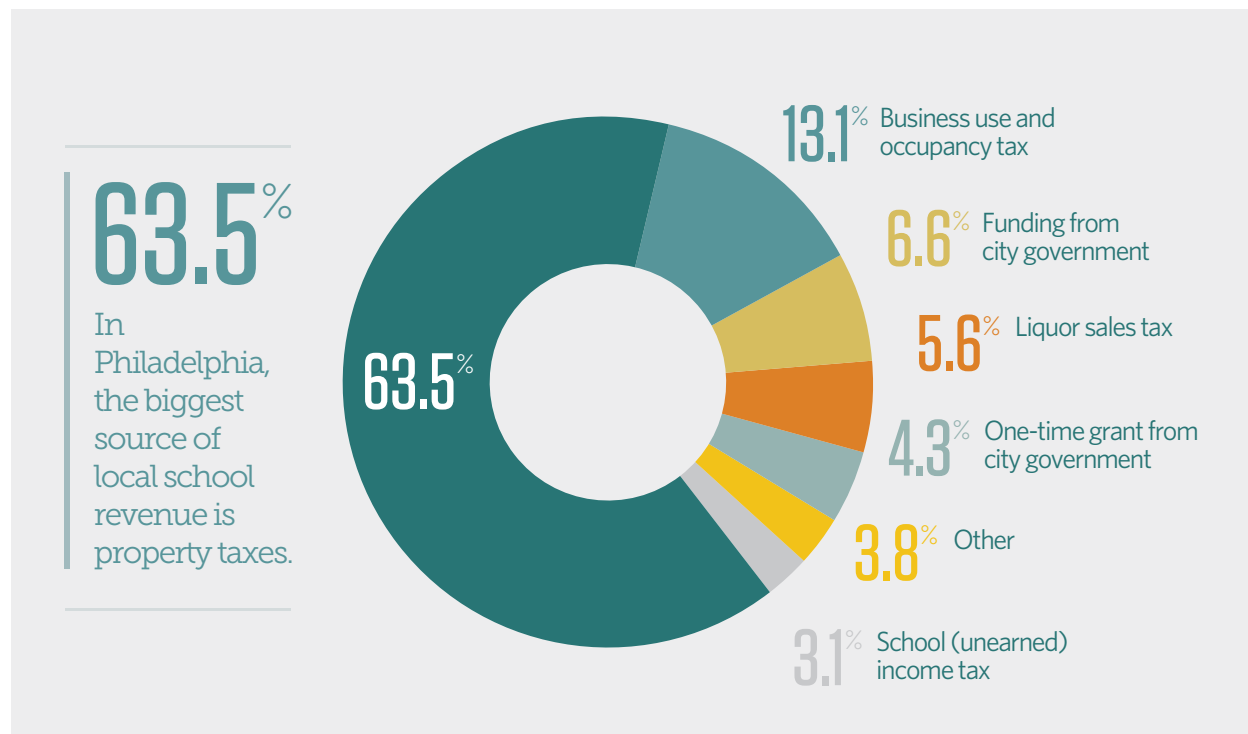
Sources: Individual school districts; information not available for Cleveland

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In the 2013-14 school year, local funding sources provided the Philadelphia district with \$1.05 billion. These sources included taxes, gaming revenue, grants, funding from the city of Philadelphia, and numerous smaller sources. The largest was the real estate tax, which accounted for 63.5 percent of local funding. All other local taxes accounted for 21.9 percent, while nontax revenue accounted for 14.6 percent. (See Figure 7.)

Figure 7

Sources of Local Revenue for School District of Philadelphia 2013-14 school year



Source: School District of Philadelphia
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Three major changes in local funding are affecting the Philadelphia school district in the 2014-15 school year: A \$45 million grant it received from the city in 2013-14 did not recur; it began to receive money from local sales taxes, estimated to generate \$120 million—10.6 percent of its local revenue; and the district will get an estimated \$49 million from a tax on cigarette sales in the city.

Local funding sources in other cities

Seven of the urban districts examined in this study provided detailed breakdowns of their local revenue sources for the 2013-14 school year: Chicago, Cleveland, Dallas, Detroit, Hillsborough County (Tampa), Milwaukee, and Shelby County (Memphis). Each of these districts was more reliant on property taxes than Philadelphia was. (See Figure 8.) Only one district, Shelby County, received education funding from a sales tax, and Philadelphia was the only district that received funding from a local income tax.

The analysis found that Philadelphia was much more reliant than the seven districts on taxes other than income, property, or sales taxes. Five of the districts reported no “other” local tax revenue (Dallas, Detroit, Hillsborough County, Milwaukee, and Shelby County). In Philadelphia, the other local taxes committed to education include the business use and occupancy tax (13.1 percent of the district’s local revenue), a local liquor tax (5.6 percent), and a public utilities tax (0.1 percent)—with cigarette and sales tax money added for 2014-15.

Districts’ reliance on nontax revenue—which can include public and private grants, interest earned on investments, and the one-time sale of school property—varied greatly, from a high of 20.6 percent in Detroit to a low of 1.6 percent in Dallas. The Philadelphia share was 14.6 percent.

Figure 8
Sources of Local Revenue for School District of Philadelphia and Comparable Urban Districts
2013-14 school year, ranked by reliance on property taxes

District	Property taxes	Sales tax	Income tax	Other local tax	Nontax revenue
Dallas	98.4%	0.0%	0.0%	0.0%	1.6%
Milwaukee	96.7%	0.0%	0.0%	0.0%	3.3%
Cleveland	88.4%	0.0%	0.0%	3.5%	8.1%
Hillsborough County (Tampa)	84.2%	0.0%	0.0%	0.0%	15.8%
Detroit	79.4%	0.0%	0.0%	0.0%	20.6%
Chicago	78.2%	0.0%	0.0%	5.8%	16.0%
Shelby County (Memphis)	66.2%	23.6%	0.0%	0.0%	10.2%
Philadelphia	63.5%	0*	3.1%	18.8%	14.6%

Note: The Baltimore and New York City school districts are not listed because they receive local funding directly from city government and not from any specific, dedicated sources. The Boston school district did not provide detailed revenue data.

* The Philadelphia district is receiving sales tax revenue in 2014-15.

Sources: Individual school districts

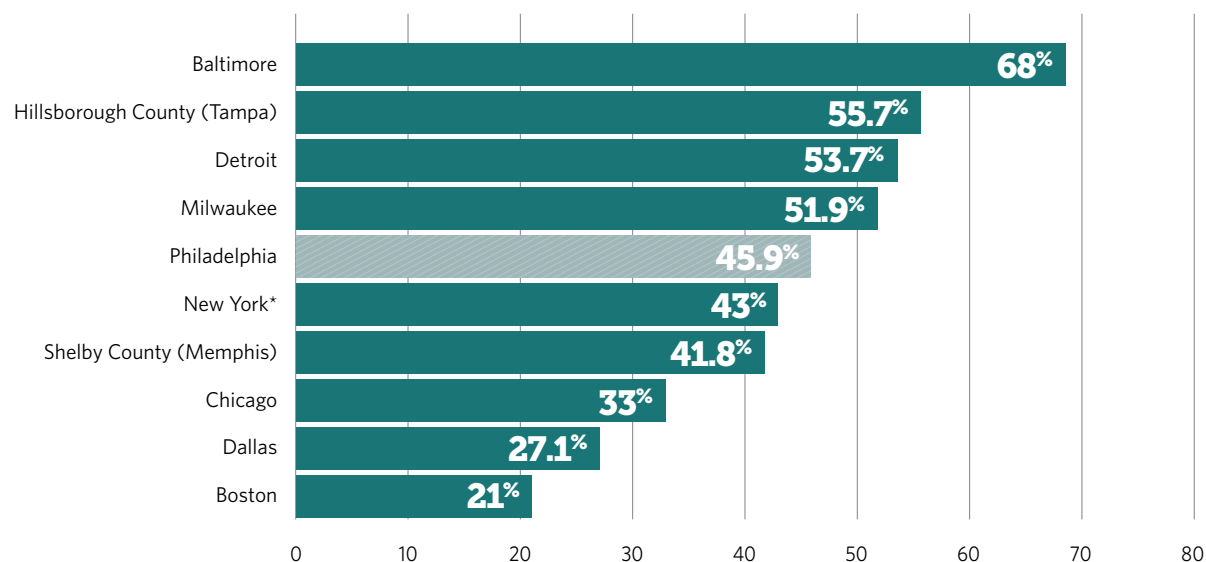
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State funding

The 45.9 percent of revenue that Philadelphia received from state sources in the 2013-14 school year was slightly above the average of the comparative large urban districts. Baltimore was the most reliant on state funding at 68.7 percent, and Boston was the least reliant at 21 percent. (See Figure 9.)

Figure 9

Percentage of Funding From State Sources in Philadelphia and Comparable Urban Districts 2013-14 school year



* New York data are for 2014-15 school year.

Sources: Individual school districts; information not available for Cleveland
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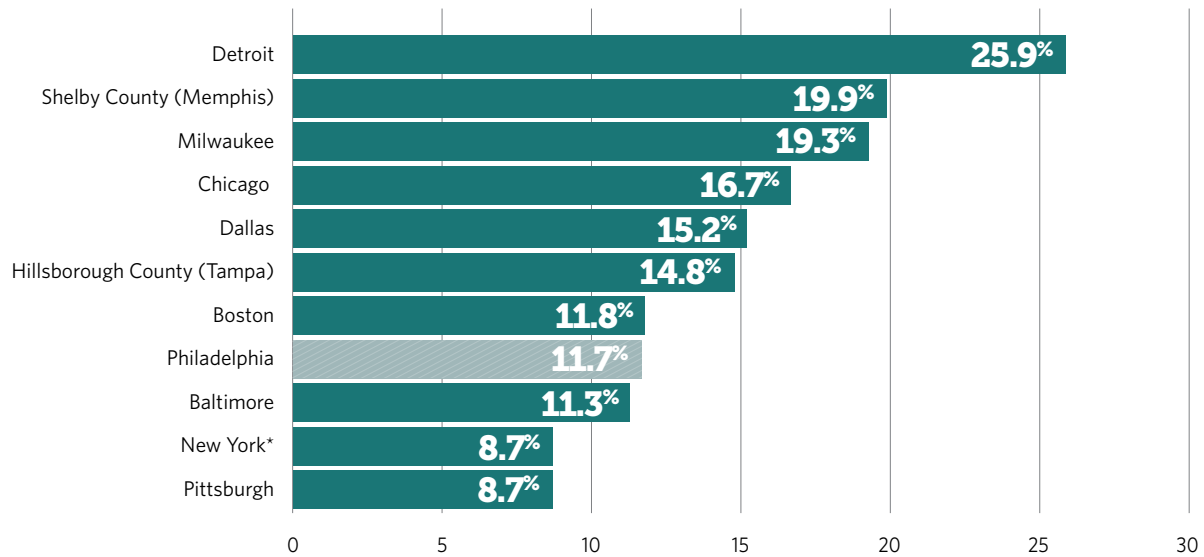
Federal funding

School districts receive a variety of funds from the U.S. government. More than three-quarters of federal dollars are targeted to low-income students (Title I funding) and special education students (Individuals with Disabilities Education Act). In the 2013-14 school year, Philadelphia received 11.7 percent of its funding from federal sources, which was slightly below the average of the comparative large urban districts. Detroit received 25.9 percent of its funding from federal sources, an amount more than two times that of Philadelphia. Baltimore, New York, and Pittsburgh received lower percentages of their funding from federal sources. (See Figure 10.)

Figure 10

Percentage of Funding From Federal Sources in Philadelphia and Comparable Urban Districts

2013-14 school year



* New York data are for 2014-15 school year.

Sources: Individual school districts; information not available for Cleveland

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Per-pupil funding by source

The percentages of funding from local, state, and federal sources are only part of the story. In terms of money per pupil, Philadelphia receives \$1,153 less from local sources than the comparative U.S. district average, \$425 less from state sources, and \$185 less from the federal government. (See Figure 11.)

Impact of state funding formulas

Historically, the commonwealth of Pennsylvania has been the single largest source of school revenue for Philadelphia, so small changes in a state funding formula could have a major financial impact on the district. This analysis (see Figure 12) looked at the impact of various funding formulas on the 10 comparative districts, with a focus on how the states target funding to large urban school districts. It found:

- All 10 urban districts receive money through their states' primary school funding formulas, although the Chicago and New York school districts have separate revenue streams in their states' education budgets available only to them.
- All 10 districts receive additional funding for English language learners and special education students in their funding formulas. Nine of them—all except Hillsborough County (Tampa)—get funds for at-risk/low-income students. The amounts of additional funding vary greatly.

- In only one state, Florida, does the formula provide additional funding to districts with large enrollments.
- Six of the 10 states (Florida, Maryland, Massachusetts, New York, Tennessee, and Texas) provide additional funding to districts based on their overall cost of educating students.

The variances and intricacies of school funding formulas make it difficult to assess what would happen if any one of these formulas were applied to Pennsylvania and the Philadelphia school district. Formulas are designed to distribute state education money to districts in a rational, predictable manner that reduces variations in per-pupil spending among individual districts, but much depends on the overall amount of state funding.

For example, Texas' formula appears to benefit large urban districts by providing additional funding for high-cost districts, at-risk students, special education students, and English language learners. But under the formula, Dallas receives only \$2,360 per student in state funding. Pennsylvania provides Philadelphia with nearly 2.5 times that amount.

Figure 11

Pupil Spending by Source in Philadelphia and Comparable Urban Districts

2013-14 school year, ranked by amount of local funding

District	Local funding	State funding	Federal funding
Boston	\$12,518	\$3,915	\$2,193
New York*	\$7,751	\$6,897	\$1,388
Chicago	\$6,918	\$4,545	\$2,301
Philadelphia	\$5,430	\$5,619	\$1,521
Dallas	\$5,015	\$2,360	\$1,324
Milwaukee	\$4,696	\$8,456	\$3,152
Shelby County (Memphis)	\$4,445	\$4,838	\$2,300
Baltimore	\$3,186	\$10,462	\$1,742
Detroit	\$2,732	\$7,208	\$3,480
Hillsborough County (Tampa)	\$2,601	\$4,905	\$1,307

* New York data are for 2014-15 school year.

Sources: Individual school districts; information not available for Cleveland
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Figure 12

State Funding Formulas for Comparable Urban Districts 2013-14 school year

District	Is the school district funded in the same way as other districts in the state?	At-risk students	English language learners	Special education	Large districts	High-cost districts
Baltimore	Yes	Yes	Yes	Yes	No	Yes
Boston	Yes	Yes	Yes	Yes	No	Yes
Chicago	Yes, with adjustments	Yes	Yes	Yes	No	No
Cleveland	Yes	Yes	Yes	Yes	No	No
Dallas	Yes	Yes	Yes	Yes	No	Yes
Detroit	Yes	Yes	Yes	Yes	No	No
Hillsborough County (Tampa)	Yes	No	K-3	Yes	Yes	Yes
Milwaukee	Yes	Yes	Yes	Yes	No	No
New York	Yes, with adjustments	Yes	Yes	Yes	No	Yes
Shelby County (Memphis)	Yes	Yes	Yes	Yes	No	Yes

Sources: Individual school districts
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Charter school funding

One of the major funding issues for the Philadelphia school district over the past decade has been the emergence of charter schools. According to a 2014 report by the Center for Rural Pennsylvania, a legislative agency of the General Assembly, the finances of individual districts, including Philadelphia, have been hurt by charters for two reasons.

One is the increase in charter school enrollment. For each student who went to a charter in 2013-14, the district was required by state law to pay the charters the district's full per-pupil budgeted expenditure amount for the previous year. This payment was mandated even though the district's savings from no longer having to educate that student in a district-run school might have been minimal, because many of the district's costs are fixed.¹⁵ The district is required to provide these funds to the charter even if the student did not attend a district-run school

in the previous year. In addition, districts must provide students with free transportation if they are attending a local or regional charter school.¹⁶ This means that the state requires school districts to provide transportation to students attending charter schools but not to students in district-run schools.¹⁷ In difficult budget years, districts can cut back, or even eliminate, transportation funding for students attending district-run schools but not for those attending charter schools.

The other important factor in charter funding is the removal, effective in the 2011-12 school year, of the state subsidy for districts' payments to charter schools.

For charter school funding, the district's per-pupil budgeted expenditure number was calculated by taking total expenditures and subtracting expenses for the following:

- Adult education programs.
- Community/junior college programs.
- Facilities costs.
- Nonpublic school programs.
- Special education services.
- Transportation services.
- Various financing expenses including debt service payments.

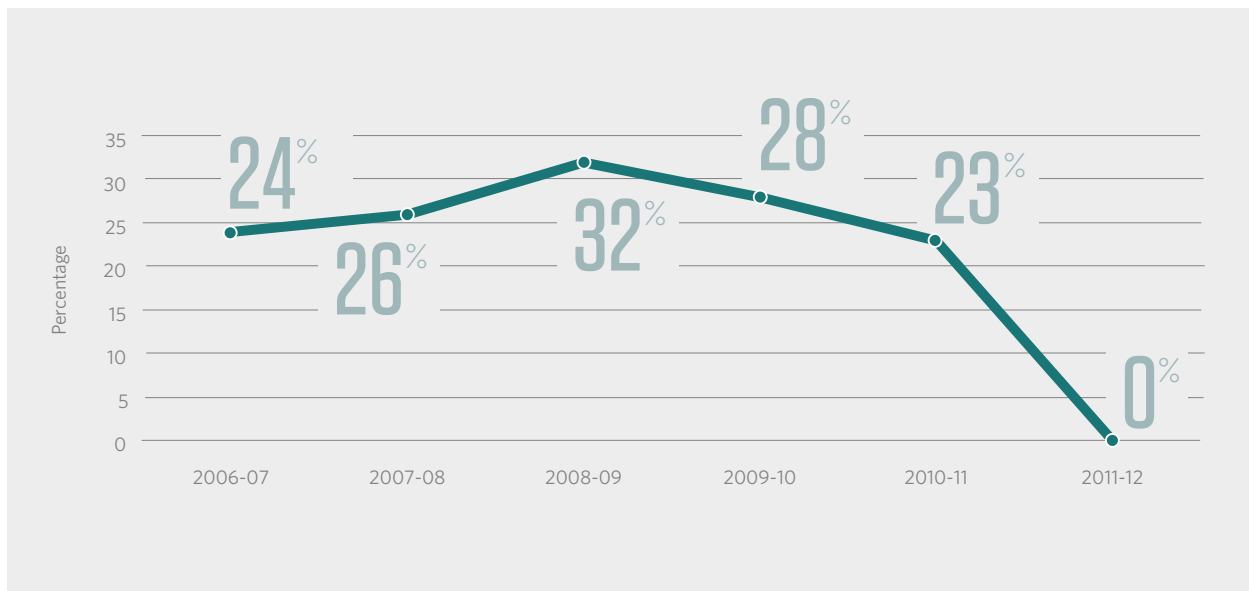
For the 2013-14 school year, the School District of Philadelphia's payment to charter schools was \$8,417 per general education student and \$22,307 per special education student.¹⁸ The district is required to provide the full amount for each special education student regardless of each student's level of disability; thus, students with mild needs are funded at the same level as students with high needs.

The Philadelphia Charter School Office reported that approximately 35 percent of public school students were attending brick-and-mortar or cyber charter schools at the end of 2013, an increase of more than 100 percent since the 2006-07 school year.¹⁹ The rapid growth of charter school enrollment in the city has had a significant financial impact on the district.

From 2002 to 2011, the state provided school districts with a subsidy to help offset the cost of charter schools. The subsidy reimbursed school districts for 23 to 32 percent of their per-pupil spending on charter school payments.²⁰ The state eliminated the subsidy in its 2011-12 budget, resulting in a net loss of \$219 million in revenue for the districts, half of which had gone to the School District of Philadelphia.²¹ (See Figure 13.) As a result of the change, individual districts had to spend a greater percentage of their overall funding on charter school students.

Figure 13

State Share of Tuition Payments to Charter Schools in Pennsylvania



Note: The percentage has remained at zero since 2011-12.

Source: Pennsylvania Department of Education
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Charter school funding in other states

This study also reviewed the charter school funding programs in the 10 comparative districts' states, looking only at charter schools that are run independently from the school districts. (See Figure 14.) Responsibility for funding charter schools fell into two categories:

- **State responsibility:** In five states—Massachusetts, Michigan, Ohio, Texas, and Wisconsin—funding for independent charter schools is the responsibility of the state. The state determines the amount of funding the charter receives and provides that full amount; no local funding is involved.
- **District responsibility:** In five states—Florida, Illinois, Maryland, New York, and Tennessee—districts are responsible for funding charters. This is also the system now used in Pennsylvania. Individual districts receive a specified amount of state funding for each student, regardless of whether the student goes to a charter or district-run school. The district must forward that amount, along with some local funding, to the charter.

This analysis shows that Pennsylvania's current charter school funding system places a greater financial burden on districts such as Philadelphia than do the five states that do not require local funding of independent charter schools. But the local burden on districts in Pennsylvania is similar to that imposed on districts in the other five states, which mandate that districts provide independent charters with local funding.

Figure 14 shows how per-pupil funding amounts are determined in Pennsylvania and the other five states in this study that make individual districts responsible for funding independent charter schools.

Figure 14

How States Determine the Size of Individual Districts' per-Student Payments to Charter Schools

State	Method of payment determination
Pennsylvania	District must fund charters based on the district's per-pupil operational cost, which is determined by taking the district total cost per pupil and subtracting certain federal reimbursements along with expenditures for facilities, transportation, adult education, dual enrollment, and pre-K programs.
Florida	District must provide charters with per-pupil funding equal to that of students enrolled in other public schools in the district.
Illinois	Funding is negotiated between the student's home district and the charter school. The per-pupil amount is specified in the charter and must not be less than 75 percent nor more than 125 percent of per-capita student tuition.
Maryland	District must give charters an amount of local, state, and federal money per pupil commensurate with the amount disbursed to other public schools in the district.
New York	A student's home district must provide the "charter school basic tuition" for each charter school student. The state determines the amount for each district by calculating its total expenditures per pupil and then subtracting capital costs, debt expenditures, transportation costs, services purchased from regional educational organizations that provide vocational and special education services, tuition paid to other districts, and some other expenses.
Tennessee	District must allocate state and local education funds to a charter based on the per-pupil expenditures of the district and on the district's average daily membership for the previous year.

Sources: Education Commission of the States' Charter School Database; Meagan Batdorff et al., "Charter School Funding: Inequity Expands," University of Arkansas, Department of Education Reform (April 2014); and individual state sources
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Conclusion

Over the past several years, critics of Pennsylvania's current method of paying for K-12 education, particularly as it affects Philadelphia, have called for adoption of a funding formula for schools in the state. A formula that takes into account the relative wealth of individual districts and the needs of each district's students probably would reduce the substantial variations in overall education revenue among urban, rural, and suburban districts in the state.

However, such a formula by itself does not guarantee that per-pupil spending in Philadelphia would surpass that of Detroit, Chicago, or Baltimore or reach that of New York, Cleveland, Milwaukee, or Boston. Although creating a formula would provide Pennsylvania districts with economic predictability and stability, the ultimate impact depends on the total amount of state funding to be allocated.

Appendix

Selecting comparative districts

To identify 10 large urban districts comparable to the School District of Philadelphia, the Education Commission of the States (ECS) reviewed education data from 18 districts: Atlanta; Baltimore; Boston; Chicago; Clark County, Nevada (Las Vegas); Cleveland; Dallas; Davidson County, Tennessee (Nashville); Denver; Detroit; Hillsborough County, Florida (Tampa); Houston; Los Angeles; Miami/Dade County; Milwaukee; New York City; San Diego; and Shelby County, Tennessee (Memphis).

These districts were chosen because of their size; each ranks as one of the 50 largest school districts in the country and is located in a large urban area. Some sizable districts were excluded because they do not serve large cities. Others, such as Honolulu and Washington, were excluded because they do not receive school funding from state and local sources.

The following criteria were used to choose the districts most like Philadelphia:

- Total student enrollment.
- Average enrollment per school.
- Percentage of students identified as:
 - African-American.
 - Hispanic.
 - White.
- Percentage of population identified as:
 - English language learners.
 - Free/reduced-price lunch qualifiers.
 - Special education students.
- Percentage of revenue derived from the following sources:
 - Local.
 - State.
 - Federal.
- Expenditures per pupil.
- Student-teacher ratio.

We collected data on the 13 criteria from each of the 18 districts and then reviewed the results to identify the districts most similar to Philadelphia. A district was considered to “match” Philadelphia on a particular criterion if it was one of the 10 districts closest to Philadelphia on that metric. The 18 districts were then ordered based on their number of matches. Because we wanted to maximize geographic diversity and the number of states in the study, we included only one district per state. On this basis, we chose the following 10 districts:

- Chicago (12 matches out of a maximum of 13).
- Baltimore (11).

- Milwaukee (11).
- Detroit (10).
- Shelby County (Memphis) (10).
- Hillsborough County (Tampa) (9).
- Cleveland (8).
- New York (8).
- Dallas (7).
- Boston (6).

Choosing Boston as the 10th district

In selecting the 10th district, we had to choose among four districts that matched Philadelphia in six of the 13 criteria; the four were Atlanta, Boston, Denver, and San Diego. Although an argument could be made to include any one of these districts, we chose Boston. One reason is that Boston and Philadelphia often are compared to one another in the media. These comparisons probably have more to do with location than size; Boston is about two-fifths the size of Philadelphia.

Other districts that were not included

In addition to Atlanta, Denver, and San Diego, five other districts were not included. Davidson County (Nashville), which had seven matches, was eliminated because another Tennessee school district, Shelby County (Memphis), had 10. Houston was eliminated—and Dallas was included—even though the two Texas districts matched Philadelphia in the same seven categories. We selected Dallas because its total enrollment is closer to Philadelphia's than is Houston's.

The three other districts not included were Los Angeles (four matches), Miami/Dade County (three), and Clark County (Las Vegas) (zero).

Determining Philadelphia's operational revenue per pupil

To determine the School District of Philadelphia's per-pupil funding amount, the Education Commission of the States staff worked with district staff to first identify K-12 student enrollment and total operational revenue.

- **K-12 student enrollment:** Philadelphia's total enrollment for the 2013-14 school year was 202,404. However, this number included 2,388 pre-K students along with 2,540 institutional placement students who receive their education in nondistrict schools. Subtracting them leaves 197,476 K-12 students enrolled in district-run and charter schools.
- **Total operational revenue:** This study defines operational revenue—as opposed to total revenue—as money spent on the daily operations of a district's K-12 programs, excluding expenditures such as capital programs and debt service. This does not include money for programs outside the district (such as revenue for a vocational education program serving multiple districts), programs for non-K-12 students (including pre-K or adult education), or for students who do not attend district schools (including nonpublic school students who receive services through the district's intermediate unit).

After working with school district staff, ECS determined that total revenue for the School District of Philadelphia—not including revenue for capital debt service—equated to \$2,758,563,448. Categories that do not meet the definition of K-12 operational revenue are:

- Intermediate unit (\$102.3 million).
- Pre-K programs (\$70.3 million).
- Institutional placements (\$69.3 million).
- Nonpublic school transportation (\$21.4 million).
- Area vocational technical schools (\$8.7 million).
- Nonpublic nursing services (\$4.3 million).

These amounts were subtracted from the total revenue number to produce a K-12 operational revenue figure of \$2,482,186,066. The district's operational total revenue includes funds for operational debt (\$276.4 million) and teacher pension payments (\$159.2 million). Although it can be argued that these are "legacy costs" incurred in previous years, they still count as current K-12 obligations. It should be noted that operational debt payments alone in 2013-14 accounted for 11.1 percent of the district's K-12 operational revenue, which equated to almost \$1,400 per student.

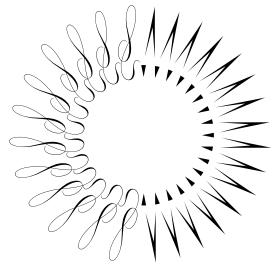
Taking the operational revenue figure of \$2,482,186,066 and dividing it by 197,476 students produces a per-pupil operational spending figure of \$12,570.

A word about the data

The National Center of Education Statistics and the U.S. Census Bureau require districts to report their financial data based on standardized reporting requirements. Although this data can be useful for certain types of school funding studies, we decided not to use it for our study because these reports tend to provide information that is two to three years old. Instead we chose to collect school funding data from individual district sources so that our information was from the most recent school year. We attempted to standardize this data by first surveying district staff and then contacting them to clarify certain data.

Endnotes

- 1 Education Law Center, *Funding, Formulas, and Fairness* (Philadelphia, 2013), http://www.elc-pa.org/wp-content/uploads/2013/02/ELC_schoolfundingreport.2013.pdf. The other two states without comprehensive school-finance formulas are Delaware and North Carolina.
- 2 For this study, the Education Commission of the States defines “operational revenue” as only that revenue associated with the district’s K-12 programs. A more detailed definition is provided later in this report.
- 3 Kristen Graham, “Nutter on SRC Move: ‘Not City’s Proudest Moment,’” *The Philadelphia Inquirer*, Oct. 8, 2014, accessed October 2014, http://articles.philly.com/2014-10-08/news/54790456_1_health-benefits-src-move-philadelphia-school-reform-commission.
- 4 Pennsylvania School Funding Project, “Pennsylvania’s School Funding Problem,” accessed September 2014, <http://www.paschoolfunding.org/the-problem/pennsylvania’s-historic-school-funding-problem/>.
- 5 Pennsylvania Act 61 of 2008, accessed September 2014, <http://www.legis.state.pa.us/cfdocs/legis/li/uconsCheck.cfm?yr=2008&sessInd=0&act=61>.
- 6 Pennsylvania School Funding Project, “Pennsylvania’s School Funding Problem.”
- 7 National Education Association, “Rankings & Estimates,” March 2014, accessed September 2014, <http://www.nea.org/assets/docs/NEA-Rankings-and-Estimates-2013-2014.pdf>.
- 8 Ibid.
- 9 This report compares districts in terms of revenue so that the money can be broken down by source.
- 10 These numbers from the Pennsylvania Department of Education are available at http://www.portal.state.pa.us/portal/server.pt/community/financial_data_elements/7672, accessed in October 2014. Personal income per pupil is the total income reported by district residents divided by the number of pupils. Property value per pupil is the total assessed value of the district divided by the number of pupils.
- 11 For these calculations, students are weighted by the Pennsylvania Department of Education in the following manner: Half-time kindergarten at 0.5, full-time kindergarten at 1.0, elementary (grades 1-6) at 1.0, and secondary (grades 7-12) at 1.36.
- 12 These numbers come from the Pennsylvania Department of Education. The state used pupil counts that are weighted to adjust for high-needs students in each district.
- 13 The revenue-source percentages shown here for Philadelphia differ from those used earlier in this report for comparisons within Pennsylvania. There are two reasons for the difference. One is that the national comparisons in this section of the report are based on 2013-14 data while the earlier comparisons within Pennsylvania rely on 2012-13 numbers. The other is that the national comparisons use “operational” revenue, which excludes funds not associated with K-12 programs, while the Pennsylvania comparisons are based on all school revenue.
- 14 Paul Jablow, “Answers to Common Questions on Philly Funding Needs,” *Philadelphia Public School Notebook*, Sept. 26, 2014, accessed October 2014, <http://thenotebook.org/october-2014/147731/answers-common-questions-philly-funding-needs>.
- 15 Education Commission of the States 2014 charter school database, http://www.ecs.org/html/educationIssues/CharterSchools/CHDB_intro.asp.
- 16 Ibid.
- 17 Pennsylvania Department of Education, “Frequently Asked Questions,” accessed October 2014, http://www.portal.state.pa.us/portal/server.pt/community/pupil_transportation/7516/frequently_asked_questions/509266.
- 18 Pennsylvania Department of Education, “Charter School Funding in Pennsylvania,” accessed September 2014, http://www.portal.state.pa.us/portal/server.pt/community/charter_school_funding/8661.
- 19 Pennsylvania Charter School Office data, accessed September 2014, <http://www.philasd.org/about/#charter-schools>.
- 20 Pennsylvania Education Code, Section 2591.1, <http://www.legis.state.pa.us/WU01/LI/LI/US/HTM/1949/0/0014.025.091.001.htm>.
- 21 Pennsylvania Department of Education, “Annual Financial Report Data: Detailed,” accessed October 2014, http://www.portal.state.pa.us/portal/server.pt/community/summaries_of_afr_data/7673/afr_data_detailed/509049.



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