COMMONWEALTH OF PENNSYLVANIA

SENATOR
KRISTIN PHILLIPS-HILL
CO-CHAIR

REPRESENTATIVE
MIKE STURLA
CO-CHAIR

BASIC EDUCATION FUNDING COMMISSION

HEARING AGENDA
September 28, 2023 – 10AM
South Western School District Board Room
Hanover, PA

10:00 a.m. Call to Order and Opening Remarks
- Sen. Kristin Phillips-Hill, 28th Senatorial District
- Rep. Mike Sturla, 96th Legislative District

10:10 a.m. Pennsylvania Association of School Business Officials:
- Hannah Barrick, JD, Executive Director

10:40 a.m. Questions & Answers

11:25 a.m. Panel from Pennsylvania Association of School Administrators:
- Dr. Sherri Smith, Executive Director
- Dr. Jay Burkhart, Superintendent, South Western School District
- Dr. Nathan Van Deusen, Superintendent, South Eastern School District

11:45 a.m. Questions & Answers

12:15 p.m. Closing Remarks and Adjournment

Pennsylvania Association of School Business Officials

Testimony to the Basic Education Funding Commission

September 28, 2023

Hannah Barrick, Executive Director

Good morning. My name is Hannah Barrick, and I am the executive director of the PA Association of School Business Officials (PASBO). Thank you for the opportunity to be here today to discuss the Basic Education Funding (BEF) formula, how it can be improved after nine years of implementation, and how it fits into a much larger conversation about state education funding.

As we have listened to the testimony over the previous four hearings, we agree with many testifiers that the state must make a significant additional investment in education. That said, we recognize the complexity of the challenge, and it's not as simple as adding state funds to the existing system—to do so undermines and compounds the underlying student and taxpayer inequity that is at the heart of the larger school funding conversation.

In our current education funding system, billions of dollars in mandated costs drive school district expenditures across widely disparate local tax bases and define the educational opportunity, supports, and facilities across 500 school districts. Those billions have grown at rates exceeding most local tax base sustainability and capacity, and the growth of those mandated costs have impacted the efficacy and effectiveness of the BEF formula for the past nine years. While many districts have seen record increases in BEF funding recently, half or more of those increases in too many districts went to pay for special education, charter school tuition, transportation, or pension costs.

Without thoughtful consideration given to the diversity across districts, the needs of school districts from a predictability and sustainability perspective, and the careful balance between student and taxpayer equity, simply increasing the state share or consolidating funding could worsen the gaps between the haves and the have nots. In this complex environment it is going to require a carefully calibrated long-term approach across all components of the existing school finance system, and while BEF is a major component of that system, it is simply one component.

Our testimony today focuses primarily on examining the BEF formula, how it has been working, and how it could be adjusted to mitigate issues observed over the past nine years of implementation. Making adjustments to the BEF formula is an important step in ensuring that BEF is distributed most effectively and predictably to school districts across the Commonwealth.

PASBO comes to this conversation having been engaged in the work of the original BEF Commission and the development of the existing BEF formula. Since the formula's implementation in 2015-16, PASBO has studied the formula, reviewed trends in the individual data elements from year to year, built and

rebuilt models, conducted workshops for school leaders across the Commonwealth, and highlighted areas for adjustment.

Basic Education Funding Subsidy

The BEF subsidy is the largest single state subsidy provided to schools; it funds 500 school districts and the nearly 1.7 million students those districts are financially responsible for educating. For 2023-24, the BEF appropriation makes up more than 50% of the total state funds available for school districts. At $7.8 billion for this fiscal year, the BEF subsidy is more than 2.6 times larger than the nearly $3 billion PSERS reimbursement appropriation and about 5.7 times larger than the $1.3 billion special education funding subsidy. From an expenditure perspective, the BEF subsidy equates to about 20% of total school district expenditures.

BEF subsidy, unlike other state funding, is not tied to school district expenditures. BEF subsidy is flexible, and it can be spent on any aspect of k-12 education and operation. Unlike special education funding, pupil transportation, PSERS, or Social Security reimbursements, there is no BEF expenditure category, and BEF dollars are used to support all areas of school district operations—from student programming, to staff salaries and curriculum, to facilities construction and renovation, charter school tuition, transportation, special education, and everything in-between. For many districts, the most common use of BEF dollars is to backfill needs in special education and charter school tuition expenditures.

Components of BEF

For the past nine years, the BEF subsidy school districts receive each year is broken into two pieces. One component of the subsidy is the stable base—statewide this accounts for nearly 75% of the total BEF subsidy in 2023-24 (if Level-Up funds are not included, the base accounts for about 74% of the total BEF subsidy in 2023-24). Across the Commonwealth, the base accounts for 30% to nearly 94% of school districts' total BEF subsidy (when Level-Up is included). The other component is the dynamic formula—this accounts for about 25% of the total BEF subsidy, and this amount has grown from less than 3% in 2015-16.

The stable base is, for most districts, the amount of BEF subsidy they received in 2014-15. This amount represents the outcome of a collection of state funding formulas that targeted different priorities and represented varying funding policies across decades. For some periods of time, state formulas worked to drive money to districts based on student and district demographic factors. For other periods of time, all school districts received inflationary adjustments to account for cost of living increases (the 2014-15 base has not been adjusted for inflation; if it had, it would approximate the BEF formula increases over the past nine years).

The combination of all of those efforts was locked in place by the original BEF Commission to ensure stability and to create a balance with the dynamic formula designed to distribute all new funds. The stable base concept was to ensure that districts would not receive less than their 2014-15 amount, but through the dynamic portion of the subsidy—the BEF formula (discussed below)—they could receive less from year to year.

How does the BEF Formula work?

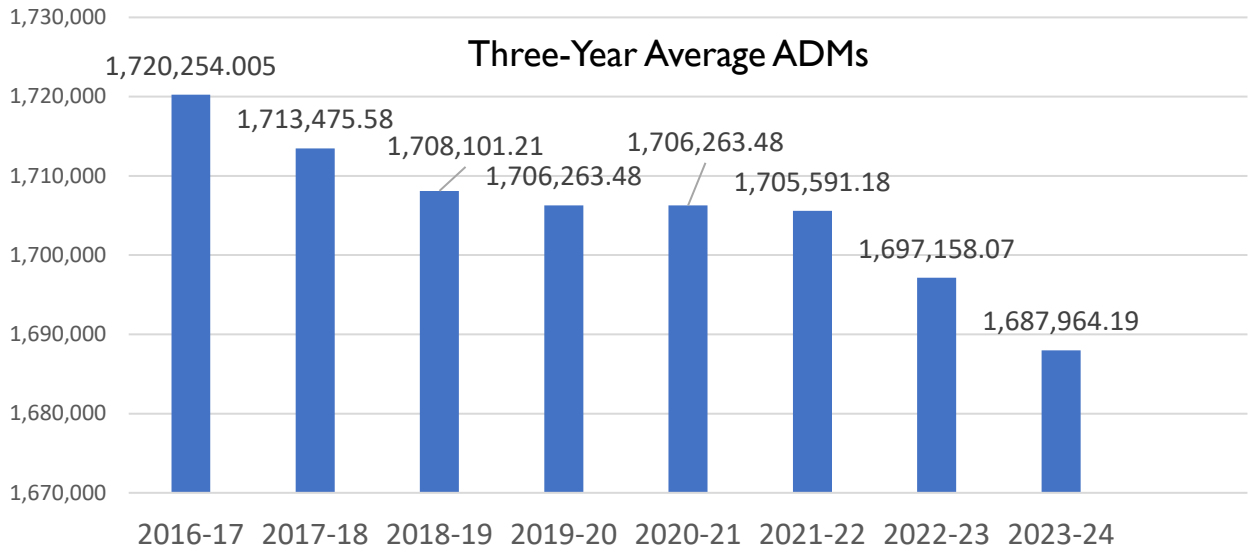
The BEF formula was developed after a long and comprehensive effort, spanning two administrations, to rethink the way BEF subsidy was distributed to school districts. The original BEF Commission held a series of hearings, worked with experts, examined student population and district demographics impacting district resource needs, conducted a survey of school districts with the Independent Fiscal Office, and developed the formula that is in its ninth year of implementation in 2023-24.

The BEF formula was developed for a specific purpose—to dynamically distribute a portion of the BEF subsidy dollars—and it was layered on top of a stable base for school districts. As noted above, the intent from the BEF Commission was that the stable base would provide stability while the dynamic formula would respond to changing needs and demographics of each individual school district.

Overall, the BEF formula does precisely what it's supposed to do—shift resources to school districts with needs comparatively greater than other districts each year. History has shown that it may be more dynamic than originally anticipated, but as designed, it alters district funding shares every year. The formula has two components, a student weighted component and a district demographic component, and both work together to determine the amount of funding a district receives each year.

The formula starts with each school district's Average Daily Membership (ADM) averaged over the three most recent years. The ADM for a school district represents the number of students the district is responsible for—this includes students the district educates each day in its buildings, as well as students that it pays tuition to educate in another LEA, such as an IU, charter or cyber charter school, or in a private placement. For the 2023-24 fiscal year, the BEF formula uses the average ADMs from 2019-20, 2020-21, and 2021-22—these are the three most recent years of ADM data available, and they are smoothed in the formula to mitigate any sharp increases or decreases.

The figure below shows the change in the three-year average ADMs across all nine years of the BEF formula. Overall, the ADMs have been declining in Pennsylvania. From 2015-16 to 2023-24 (the years of the BEF formula), 360 school districts (72%) have had declining ADMs, and 139 school districts (28%) have experienced increasing ADMs (Bryn Athyn School District is excluded from this analysis). Since the start of the BEF formula, school districts have lost approximately 32,000 ADMs.



For 2023-24, the range in three-year average ADMs across districts is about 156 ADMs in Austin Area School District, to more than 201,000 ADMs in the School District of Philadelphia. The median three-year average ADMs is about 2,000 ADMs. The table below identifies the number of school districts in each identified range of ADMs based on 2023-24 BEF formula data.

Range of Three-Year Average ADMs (2023-24)	Number of School Districts
1 to 500 ADMs	15
501 to 1,000 ADMs	76
1,001 to 2,000 ADMs	156
2,001 to 3,000 ADMs	79
3,001 to 4,000 ADMs	60
4,001 to 5,000 ADMs	39
5,001 to 6,000 ADMs	23
6,001 to 10,000 ADMs	35
10,001 to 20,000 ADMs	14
20,001 to 25,000 ADMs	2
>25,001 ADMs	1

The next step of the formula is to add weights to a district's three-year average ADM based on the population of students residing in each district. Based on the work of the original BEF Commission, the testimony they heard, and the factors included in many other state funding formulas (as well as many previous Pennsylvania funding formulas), the Commission identified three categories of need that require additional resources.

The first category is poverty, and the BEF formula provides three separate student weights for poverty. These weights are all derived from federal Census data that comes from the American Community Survey (ACS). This is a federal survey that is conducted on an annual bases through small surveys in each community across the country, and data is averaged over five years.

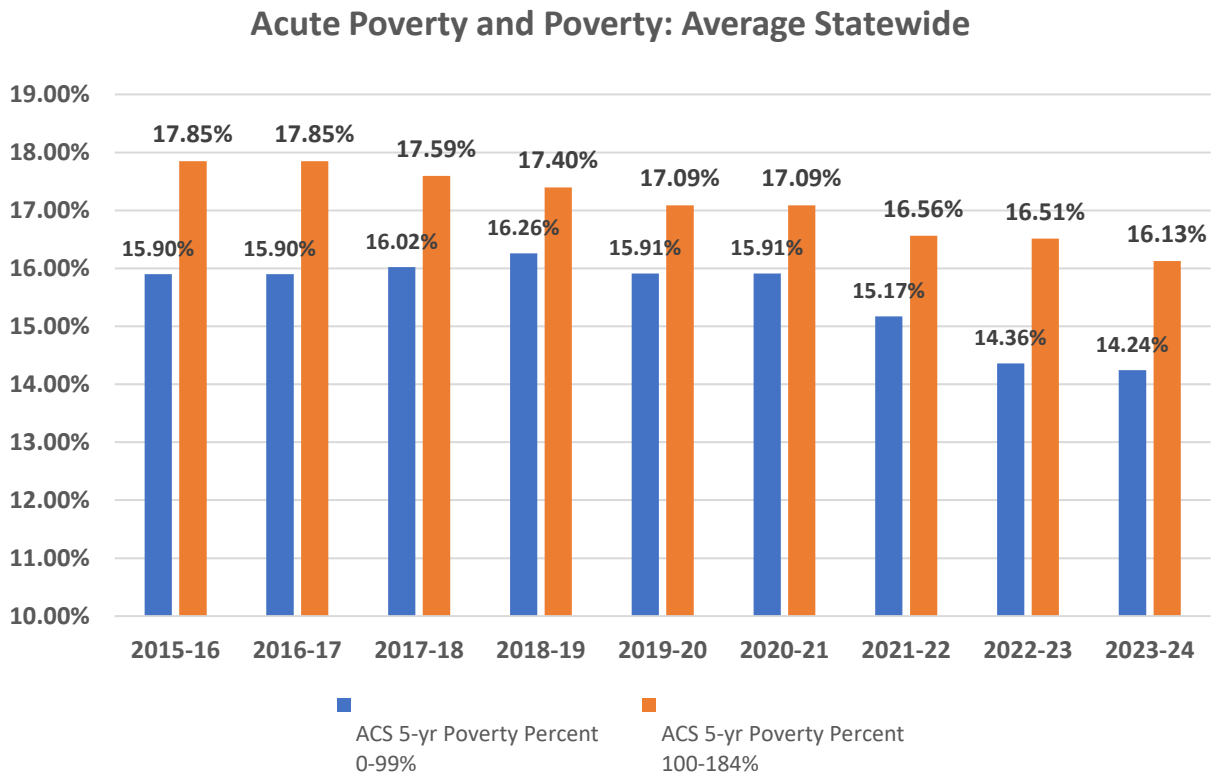
The original BEF Commission struggled to find an appropriate metric through which to measure student poverty in each district. Some of the data used in prior formulas—economically disadvantaged students—was not used in the formula. Some of reasons behind the use of federal ACS data was the recognition that the use of free/reduced price lunch data was limited as a metric due to participation in the Community Eligibility Provision of the National School Lunch program, which allows districts to provide free meals to all students in schools in which at least 40% of their student population is eligible for participation in certain assistance programs, such as Supplemental Nutrition Assistance Program (SNAP) or Temporary Assistance for Needy Families (TANF).

Additionally, this economically disadvantaged data does not require uniformity in application, and some schools—particularly high schools—have opted out of the National School Lunch and Breakfast programs.

As a result, the BEF Commission landed on the federal ACS data as the best option to uniformly measure student poverty. The ACS data measures *children in poverty* only, and it is not a measure of entire community. The BEF formula measures poverty in three categories: Acute Poverty: children 6-17

residing in the district that are living below the federal poverty line; Poverty: children 6-17 residing in the district that are living between 100% and 184% of the federal poverty line; and Concentrated Poverty: districts with 30% or greater of their children 6-17 living below the federal poverty line.

The figure below shows the average percentages of Acute Poverty and Poverty across Pennsylvania's school districts over the nine years of the BEF formula. In both metrics, the poverty percentages have declined over time. While some of the recent declines are likely driven by increases in COVID relief, the overall trend, even prior to the pandemic, was a decline.



For 2023-24, the Acute Poverty percentages range from less than 1% to about 65%, and the Poverty percentages range from less than 1% to about 42%.

The BEF formula uses the individual federal ACS percentage for each income threshold for each school district and multiplies it by the most recent available year of the district's ADM (for the 2023-24 fiscal year, the formula uses the 2021-22 ADM). It's important to note that the federal ACS data (like most of the data in the BEF formula) is delayed, so the 2023-24 BEF formula uses 2021 federal ACS poverty percentages (this data was released in December 2022). The product provides a proxy number of students in each district that are living in each category of poverty.

The next step is to apply the assigned weights, and the weights were derived from a survey of school district expenditures and an analysis conducted by the Independent Fiscal Office. The weights have not been adjusted since formula inception.

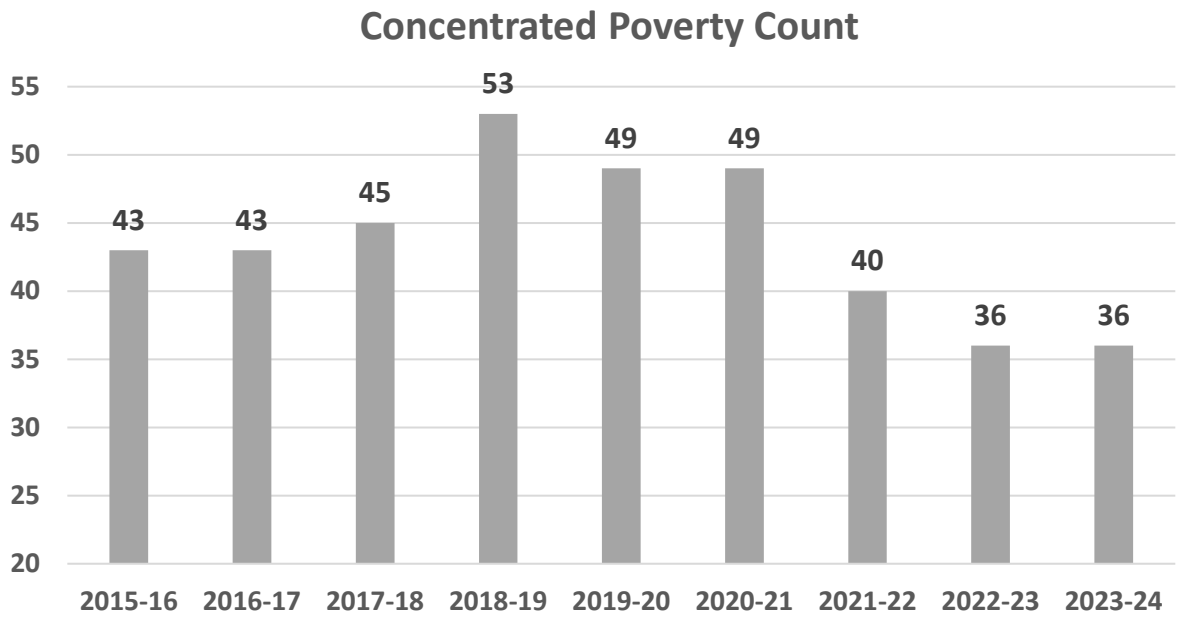
The weight designated for Acute Poverty is 0.6; the weight designated for Poverty is 0.3.

As an example of how the weights are calculated, a school district has 32% of their children ages 6-17 living under the federal poverty line and 26% of their children 6-17 living between 100% and 184% of the federal poverty line. The school district's 2021-22 ADM is 1,000. So, there are 320 (32% x 1,000) students living in Acute Poverty and 260 (26% x 1,000) students living in Poverty based on the BEF formula.

When the weights are applied (320 x 0.6 and 260 x 0.3), the district adds an additional 192 students through the Acute Poverty weight and an additional 78 students through the Poverty weight. These additional students are added to the district's three-year average ADM.

A. Acute Poverty percentage	32%
B. Poverty percentage	26%
C. Single Year ADM (2021-22)	1,000
D. Acute Poverty weight add-on (A x C x 0.6)	192
E. Poverty weight add-on (B x C x 0.3)	78
F. Total Acute & Poverty weight add-ons (D + E)	270

The final poverty weight, the Concentrated Poverty weight, applies only to school districts with an Acute Poverty percentage of at least 30%. Each year, there are about 45 school districts that qualify for this weight—however, it is not the same set of school districts each year, as many school districts hover around the 30% threshold. The figure below shows the number of qualifying districts each year of the BEF formula.



For those school districts qualifying for the Concentrated Poverty weight, these districts receive an additional weight of 0.3 for their proxy number of students living in Acute Poverty. Using the example above, with 320 students living in Acute Poverty, the district would get an additional 96 students (320 x 0.3) added to the three-year average ADM. In the example, the district would receive an additional 366 ADMs due to the three poverty weights.

A. Acute Poverty percentage	32%
B. Poverty percentage	26%
C. Single Year ADM (2021-22)	1,000
D. Acute Poverty weight add-on (AxCx0.6)	192
E. Poverty weight add-on (BxCx0.3)	78
F. Concentrated Poverty weight add-on (AxCx0.3)	96
G. Total Poverty add-on (D+E+F)	366

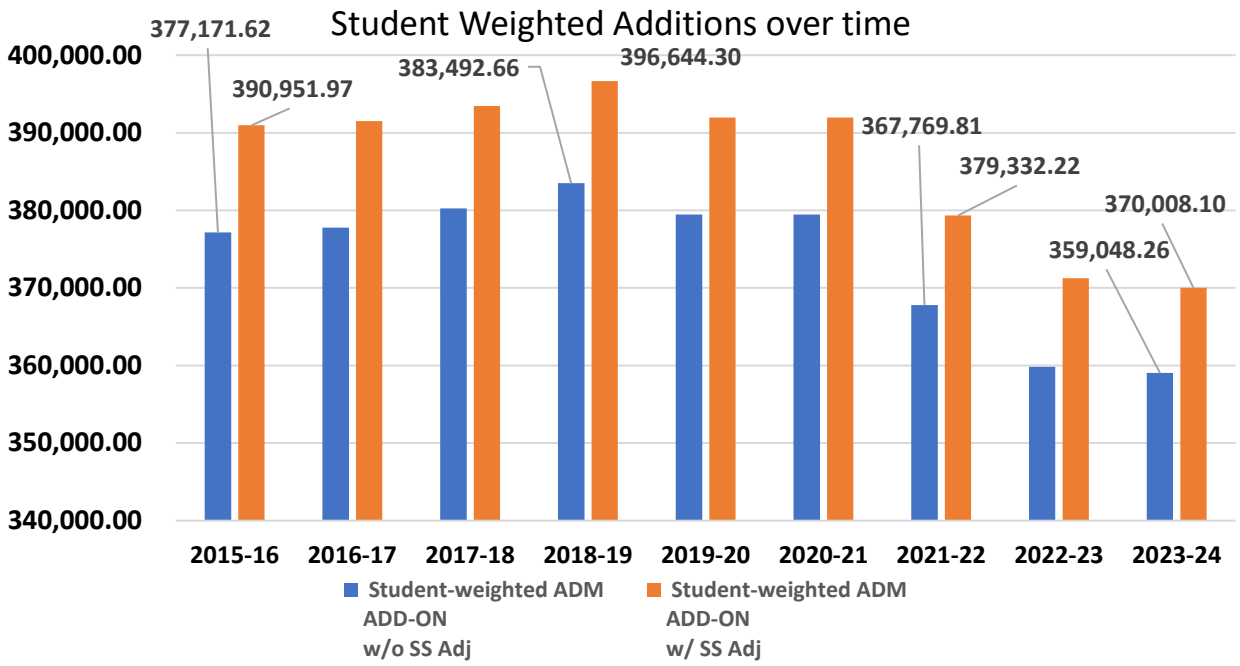
The next step of the BEF formula is to apply a weight for the number of students who are English Language Learners (ELL). This data is reported by LEAs via PIMS, and a weight of 0.6 is applied to the number of ELL students for each district. For example, if a district had 100 ELL students in 2021-22, the district would get an additional 60 ADMs through this part of the formula (100 x 0.6).

The final step of the student population-based piece of the BEF formula is to add a weight for charter school students, with the recognition that due to mandated and stranded costs that arise when a resident student attends a charter school, a weight of 0.2 is applied to each school district's charter school population. For example, a school district with 20 charter school students, adds 4 additional ADMs (20 x 0.2) to their three-year average ADMs.

The table below illustrates our example school district and the additional ADMs they added as a result of their student population and the corresponding formula weights. Overall, the formula weights increased their starting place—their three-year average ADMs (which includes charter school students)—by nearly 36%. For this portion of the formula, all school districts have a total student-weighted ADM that is higher than their three-year average ADM.

A. Three-year average ADMs	1,200
B. Acute Poverty Weight	192
C. Poverty Weight	78
D. Concentrated Poverty Weight	96
E. ELL Weight	60
F. Charter School Weight	4
G. Total Student-weighted ADM (A+B+C+E+F)	430

Across Pennsylvania, for the 2023-24 fiscal year, the BEF formula's student weights add about 360,000 ADMs to the three-year average ADMs number; however, because ADMs are falling, as well as poverty percentages, the student-weighted additions have been declining for several years (see the blue bars in the figure below).

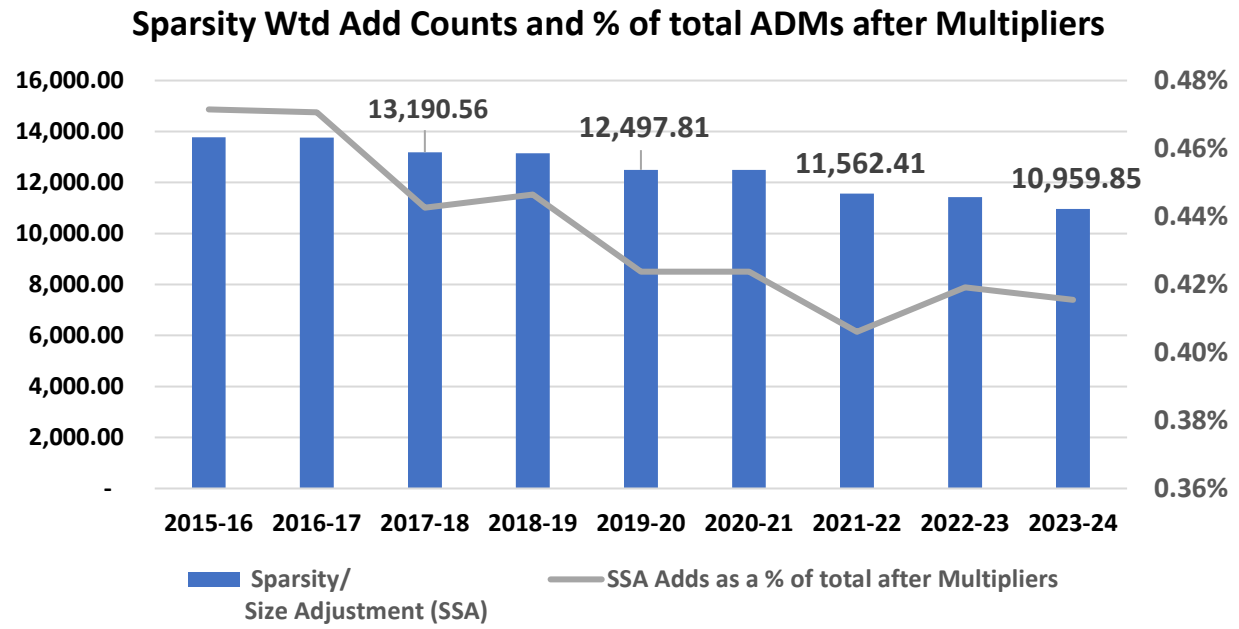


The extent to which a school district's student weights increase the district's three-year average ADM is dependent entirely the district's unique student population and community demographics. In some districts with low poverty percentages, few ELLs, and few charter school students, the formula adds just a handful of additional ADMs. However, in other school districts, the student weights can add more than 50% of their three-year average ADMs. The table below represents the top and the bottom for 2023-24 in terms of the extent of the Student-Weighted add-on across districts.

School District	Three-Year Avg ADM	Student Weighted Add-on	Add-on % of Three-Year Avg ADM
Unionville-Chadds Ford SD	3,914.298	66.221	1.69%
Peters Township SD	3,856.340	67.848	1.76%
Pine-Richland SD	4,448.978	88.844	2.00%
Upper Dublin SD	4,071.803	122.070	3.00%
Springfield SD	4,215.640	130.624	3.10%
South Fayette Township SD	3,373.729	105.299	3.12%
Jenkintown SD	732.143	25.289	3.45%
Wilkinsburg Borough SD	1,152.331	643.318	55.83%
York City SD	8,137.040	4,704.443	57.82%
Harrisburg City SD	7,967.737	4,787.925	60.09%
Chester-Upland SD	6,774.723	4,142.754	61.15%
Reading SD	18,434.621	11,423.306	61.97%
Farrell Area SD	700.639	460.128	65.67%
Aliquippa SD	1,233.241	854.293	69.27%

The next portion of the formula recognizes the challenges associated with school districts that are large geographically but sparsely populated—making it extremely difficult to gain efficiencies and benefit from economies of scale. As a result, the formula adds an adjustment—the Sparsity/Size Adjustment—to the 150 school districts (those above the 70th percentile) that have the fewest ADMs in comparison to the state *and* have the fewest ADMs per square mile in comparison to the state. The 150 school districts that qualify get a slight adjustment in the form of additional ADMs—the additional ADMs added to the three-year average ADM for 2023-24 range from less than 1 to nearly 142.

The blue bars in the figure below illustrate the overall additional ADMs that are added each year as a result of the Sparsity/Size Adjustment. For 2023-24, this component of the formula added nearly 11,000 additional ADMs across the 150 eligible school districts (see also the orange bars in the figure at the top of page 8, which highlights the overall additional weighted ADMs including Sparsity/Size).



With all of the additional ADMs now calculated, the next step is to add those additional ADMs to each school district's three-year average ADMs to calculate the Total Weighted Student Count. Once that is complete, the next step of the formula is to apply multipliers—one for local wealth and one that combines local tax effort and tax capacity. Nine years into the formula, these multipliers have a significant impact on increasing or decreasing a school district's share of BEF. These multipliers are applied to each school district's Total Student-Weighted ADMs.

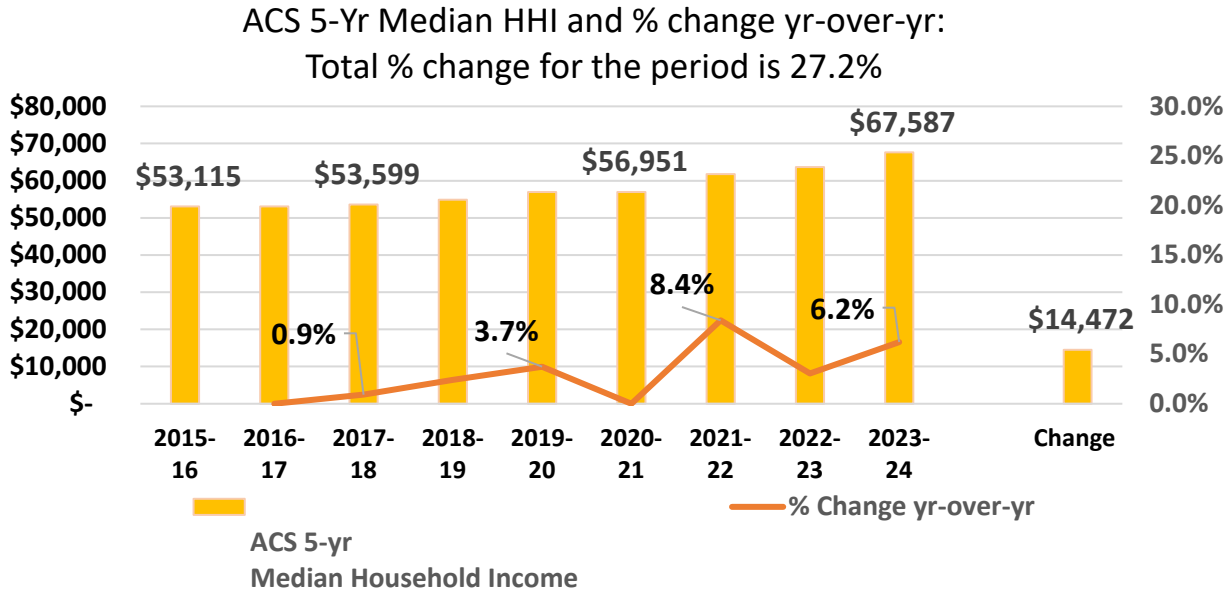
The first multiplier is the Median Household Income Index (MHII), and it functions as a proxy for a school district's local wealth. The BEF formula uses median household income to determine local wealth, and again uses federal ACS Census data (5-year average) to define the median household income in each school district. The data used for the 2023-24 BEF formula is the 2021 federal ACS data that was released in December 2022 (it's important to note that this date is COVID-impacted data and will be for at least another year).

The original BEF Commission chose median household income over other measures of school district local wealth—such as Market Value/Personal Income (MV/PI) Aid Ratio. The MV/PI Aid Ratio has demonstrated significant inaccuracies for large numbers of districts, and as such, it was explicitly avoided in the development of the BEF formula. The lack of uniform countywide reassessment, the fact that neither Market Value nor Personal Income are taxable, and the impact of second homes/vacation properties in some districts renders MV/PI Aid Ratio inaccurate for too many as a local wealth measure. The use of median household income more reliably captures a school district's local wealth, and while also not a taxable factor, more effectively captures the wealth of all adult residents in each community.

The BEF formula compares each school district's median household income to the state median household income. If the district is poorer than the state median, the district has an MHII multiplier that is greater than 1.0. If the school district is wealthier than the state median, the district has an MHII multiplier that is less than 1.0.

For the 2023-24 BEF formula, the state median household income is $67,587. There are 205 school districts with a median household greater than the state, resulting MHII less than one. The rest of the school districts have an MHII at or above 1.0. Each year a district's median household income changes in relation to the state median change (see median HHI figure) and in all other districts the index will change in correlation to that change.

The figure below shows the change in the state median household income over the years of the BEF formula. The relatively significant increase from 2022-23 to 2023-24 (representing the change between 2020 and 2021 federal Census data) is likely impacted by COVID-relief funds flowing to families across the Commonwealth. Since the inception of the formula in 2015-16, the state median household income increased by nearly $14,500.



For the 2023-24 BEF formula, the median household income in individual school districts ranged from

just under $30,000 in Farrell Area School District in Mercer County to more than $154,000 in New Hope-Solebury in Bucks County, which leads to MHII multipliers of nearly 2.28 and nearly 0.44 respectively.

The table below highlights the ends of the median household income spectrum in Pennsylvania along with the corresponding MHII multiplier for the BEF formula. The districts with the lowest median household income have an MHII multiplier that is four to five times greater than the districts with the highest median household income.

School District	Median Household Income	MHII Multiplier
Farrell Area SD	$29,652	2.2793
Greater Johnstown SD	$35,063	1.9276
Aliquippa SD	$35,688	1.8938
Sharon City SD	$35,814	1.8872
New Castle Area SD	$36,464	1.8535
Duquesne City SD	$37,478	1.8034
Unionville-Chadds Ford SD	$142,198	0.4753
Pine-Richland SD	$144,241	0.4686
Upper Dublin SD	$145,905	0.4632
Lower Merion SD	$147,418	0.4585
Tredyffrin-Easttown SD	$150,910	0.4479
New Hope-Solebury SD	$154,229	0.4382

The second multiplier in the formula includes two components and is, by far, the most complex component of the BEF formula. It is the Local Effort/Capacity Index (LECI), which aims to measure both the local tax effort on district households and the capacity of the district to generate local revenue.

The first part of the multiplier—the Local Effort Index—seeks to measure local tax effort. Because the BEF Commission recognized the flaws of using Market Value data, the formula moved away from the use of Equalized Mills as a metric for tax effort. Instead, it measures local tax effort by looking at the burden on each individual household in the district and comparing that to the state median.

To do so, the formula looks at a school district's total tax-related revenue (which is predominately comprised of property taxes for most school districts), and divides that by the district's median household income and the number of households in each district (also federal Census data). This household effort factor is then compared to the state median, with districts receiving a Local Effort Factor that is either above one (if their household effort is greater than the state median) or below one (if their household income is less than the state median).

The formula then adjusts the Local Effort Factor for school districts that are spending more than the state median in their Current Expenditures per Weighted Student. Current expenditures is a measurement of the amount a school district is spending in certain areas of operation—namely instruction, support services and operations (it does not include expenditures related to facilities or debt) on a per weighted student basis. This factor focuses on expenditures, so it represents the expenditure of all relevant state, local, and federal funds (it's important to recognize that this current

expenditure metric is hugely impacted by ESSER use across districts, which increases current expenditures significantly in some cases due to targeted eligible use of those limited funds).

To calculate this, the formula uses the most recently available Annual Financial Report data for each school district (for 2023-24, the formula uses 2021-22 data) and divides that by the total Student-weighted ADMs calculated as described above in the BEF formula.

If a district's Current Expenditures per Weighted Student are less than the state median (which is $15,309 for 2023-24), there is no adjustment to the district's Local Effort Factor as calculated above; however, if the district's Current Expenditures per Weighted Student are greater than the state median, the district's Local Effort Factor is reduced.

For example, a school district has a Local Effort Factor of 1.75 (meaning that taxes actually collected from their tax base are more than 1.7 times the median tax effort), and their Current Expenditures per Weighted Student are $21,896, which is 1.43 times greater than the state median of $15,309. As a result, that school district's Local Effort Factor would be reduced to 1.22.

The purpose of this adjustment in the formula is to ensure that school districts are not incentivized through the BEF formula to increase their local tax burden for the purpose of significantly increasing current expenditures above the state median.

The table below provides some examples from the 2023-24 BEF formula data showing the calculation of the Local Effort Index.

School District	Local Effort Factor	Current Expenditures per Weighted Student	Local Effort Index
Upper Saint Clair SD	1.4300	$20,981.11	1.0400
Reading SD	0.8000	$9,019.57	0.8000
Greater Johnstown SD	0.6300	$11,115.02	0.6300
State College Area SD	1.2700	$18,881.96	1.0300
Catasauqua Area SD	1.4800	$16,359.81	1.3800
Grove City Area SD	0.7800	$16,952.42	0.7000
Philadelphia City SD	1.0300	$12,808.91	1.0300

The second half of the LECI multiplier focuses on the capacity of each school district to generate revenue at the local level. The calculation starts by dividing a district's total tax-related revenue (for most districts, this is mostly property tax revenue) by the district's total Market Value and Personal Income (neither of which are taxable by districts) to obtain the state median rate. For 2023-24, it's 1.40%.

Then, each district's total Market Value and Personal Income are multiplied by that state median rate of 1.40%. Each district's amount is then divided by the Total Weighted Student count as discussed above. That amount is compared to the state median and conceptually represents the per student capacity to generate local revenue.

The state median is $8,258 per weighted student for 2023-24, so if a district can generate more than that amount pursuant to the metric, there is no adjustment. If a district can generate less than that state

median pursuant to the metric, the district gets a special capacity bonus representing the percentage of the difference between the district's per weighted student capacity and the state median capacity.

For 2023-24, 253 districts have a capacity adjustment of zero and 247 districts receive a capacity adjustment ranging from 0.01 to 0.84. This adjustment—the Local Capacity Index—is then added to a district's Local Effort Index.

The table below shows some examples of the 247 school districts that receive a capacity adjustment in the 2023-24 BEF formula as a result of having a local capacity per weighted student that is less than the state median.

School District	Local Capacity per Weighted Student	Local Capacity Index
Upper Adams SD	$6,168.24	0.2500
Duquesne City SD	$1,469.44	0.8200
Tussey Mountain SD	$5,934.30	0.2800
Brownsville Area SD	$3,835.52	0.5400
Hanover Public SD	$6,979.95	0.1500
Meyersdale Area SD	$5,641.65	0.3200
Philadelphia City SD	$6,176.58	0.2500

When the Local Effort Index and the Local Capacity Index as defined above are added together, it becomes the LECI multiplier, and just like the MHII, the multiplier ranges from less than one to greater than one. For 2023-24, the LECI ranges from 0.57 to nearly 2.0. The table below shows some examples from both ends of the spectrum for the LECI multiplier.

School District	LECI Multiplier
Palisades SD	0.5700
New Hope-Solebury SD	0.5800
Laurel SD	0.5800
Lakeview SD	0.6200
Salisbury-Elk Lick SD	0.6200
Northwest Area SD	0.6300
East Stroudsburg Area SD	1.8800
Allentown City SD	1.8900
Pottstown SD	1.9100
Southeast Delco SD	1.9600
Harrisburg City SD	1.9700
York City SD	1.9800

With all of the components calculated, it's time to do the final math of the BEF formula. We start with the Total Weighted Student Count (a number that represents each district's three-year average ADMs

plus all additional ADMs due to the student weights and the Sparsity/Size Adjustment). Then we multiply by the MHII multiplier (local wealth) and the LECI multiplier (tax effort and capacity).

The impact of this math varies dramatically across districts, as the multipliers can work together to significantly increase or decrease the Total Weighted Student Count. The multipliers can also, in some cases, counteract each other and have a net impact of about 1.0 on the Total Weighted Student Count.

Continuing our example, the school district in the table below has a Total Weighted Student Count of 1,4642.5 (their three-year average ADM was 1,200 plus student weights added). Their MHII multiplier is 1.30 (meaning their median household income is less than the state median—they are poorer than the state median), and their LECI multiplier is 1.10 (meaning that they have a slightly higher than tax effort and/or low capacity—however, they are very close to the median). When you do the math, the district ends up with 2,348.775 ADMs as their total share of the Total Formula ADMs. Since both multipliers were greater than 1.0, the Total Student-Weighted Count was adjusted upwards.

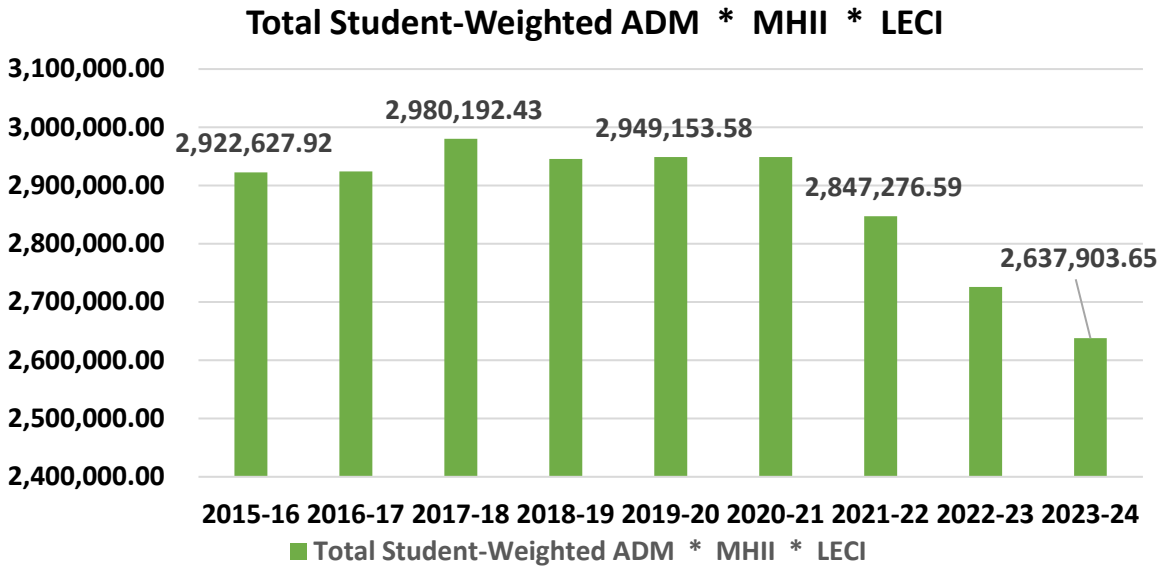
A. Three-year average ADMs	1,200
B. Acute Poverty Weight	192
C. Poverty Weight	78
D. Concentrated Poverty Weight	96
E. ELL Weight	60
F. Charter School Weight	4
G. Sparsity/Size Adjustment	12.5
H. Total Student-Weighted Count (A+B+C+D+E+F+G)	1,642.5
I. Median Household Income Index (MHII) ($51,986)	1.30
J. Local Effort/Capacity Index (LECI)	1.10
Total Formula Share of ADMs (after multipliers) (HxIxJ)	**2,348.775**

How each district's multipliers interact has a huge impact on the formula outcome. For 2023-24, there are 224 school districts in which the net impact of the multipliers is to reduce the Total Student-Weighted Count. In 276 districts, the net impact of the multipliers is to increase the Total Student-Weighted Count.

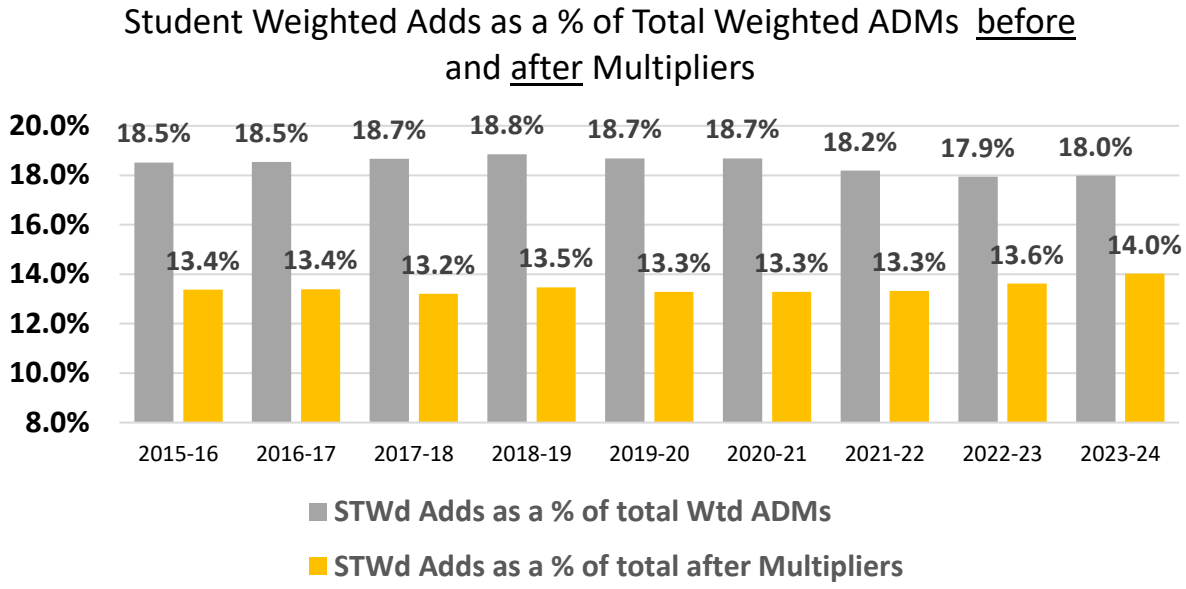
The table below shows the varying impacts of the formula on different districts—all entirely dependent on the individual demographics and dynamics of each school district.

School District	Total Student Weighted Count	MHII	LECI	Total Formula ADMs
Cumberland Valley SD	10,914.158	0.7160	1.0600	8,283.409
Harrisburg City SD	12,755.662	1.5207	1.9700	38,213.144
Solanco SD	3,684.580	0.9994	1.0000	3,682.369
Crestwood SD	3,178.434	0.7820	0.8200	2,038.139
North Penn SD	14,421.838	0.7172	1.0100	10,446.776
Wallenpaupack Area SD	3,329.366	1.1286	1.2200	4,584.177
York City SD	12,841.483	1.6997	1.9800	43,216.804

Additionally, the first of the figures below shows the total Formula ADMs across all 500 school districts (the end result of the BEF formula each year). Overall, the total of Formula ADMs are declining (nearly 10% since the inception of the formula) as overall ADMs decline, median household income grows, and other factors come into play.



The figure below shows the percentage of the total student weights to the Total Formula ADMs before and after the application of the MHII and LECI multipliers. Based on the figure below, the application of the MHII and LECI multipliers reduce the impact of the ADM additions based on the student population and the student weights, as district demographics are applied. This indicates, as we have noted nine years into the BEF formula, due to the range of the MHII and LECI multipliers across school districts, they play a critical role in defining BEF distribution.



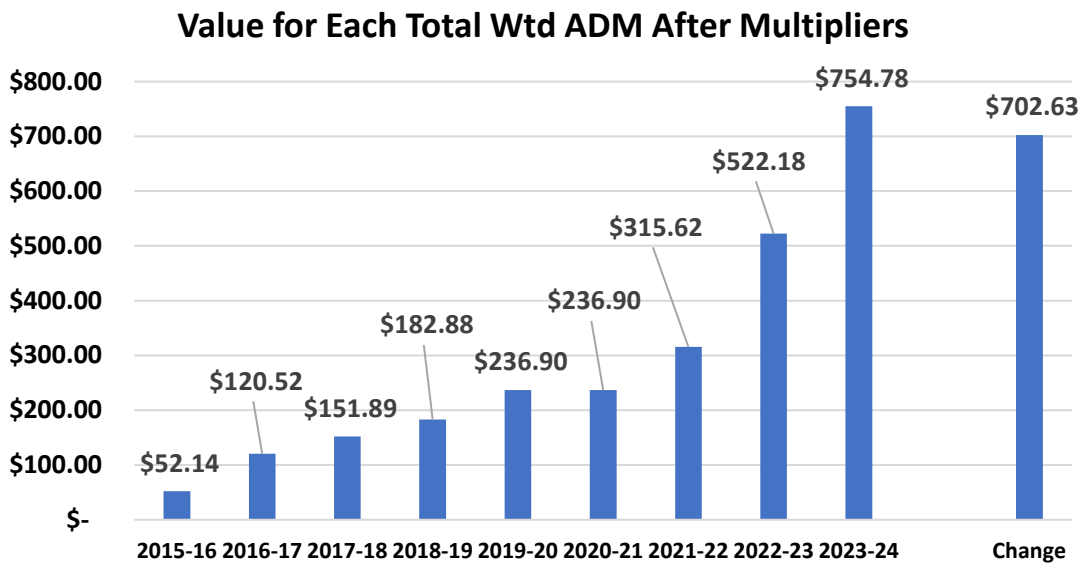
The final step of the formula is to distribute the available BEF funds based on each district's share of the Total Formula ADMs. The example school district's Formula ADMs are 2,348.775. Since the overall Formula ADMs for all 500 school districts are 2,637,903.65 for 2023-24, that district's share of the BEF formula funds is 0.00089039. That means the district's share of the $1,991,032,243.45 in 2023-24 BEF formula funds is $1,772,804 (0.00089039 x $1,991,032,243.45).

A. Three-year average ADMs	1,200
B. Total Poverty Weight	366
C. ELL Weight	60
D. Charter School Weight	4
E. Sparsity/Size Adjustment	12.5
F. Total Student-Weighted Count (A+B+C+D+E)	1,642.5
G. Median Household Income Index (MHII) ($51,986)	1.30
H. Local Effort/Capacity Index (LECI)	1.10
I. Total Formula Share of ADMs (FxGxH)	2,348.775
J. BEF Formula Share (I/2,637,903.65)	0.00089039
K. **BEF Formula Distribution (J x $1,991,032,243.45)**	**$1,772,804**

The amount each school districts receives through the BEF formula—which is recalculated and updated with all new data elements every year—is added to the amount the district receives in their BEF base, and the two components together equal a district's total BEF subsidy. It's critical to recognize that for next year's 2024-25 BEF, any district that has share reduction from 2023-24 to 2024-25, will first lose that share loss value multiplied by 2023-24 distribution amount of $1.991 billion.

Looking at the BEF formula broadly, based on the total ADMs in the formula, the value of an individual ADM has grown to more than $754 in 2023-24. That means that for each ADM in a district's total formula share, they get $754. In the example above, their total BEF formula distribution equates to $754 x 2,348.775. As more money is added to the BEF formula, the value of a formula ADM has grown significantly—by more than $700 since 2015-16. The table and figure below demonstrate this growth over time.

	Value for Each Total Wtd ADM	$ Change Year Over Year	% Change Year Over Year
2015-16	$ 52.14		
2016-17	$120.52	$ 68.37	131.1%
2017-18	$151.89	$ 31.38	26.0%
2018-19	$182.88	$ 30.99	20.4%
2019-20	$236.90	$ 54.03	29.5%
2020-21	$236.90	-	0.0%
2021-22	$315.62	$78.72	33.2%
2022-23	$522.18	$206.55	65.4%
2023-24	$754.78	$232.60	44.5%
Change	**$702.63**	**$650.49**	**1247.5%**



School District Share

PASBO has studied the BEF formula for nine years since its development, and we focus on looking at and understanding the formula by examining each school district's share of the total BEF formula amount. Since the BEF formula provides each school district with its pro rata share of the available subsidy based on its unique student population and district demographics, looking at the trends and changes in a school district's share of these dollars from year to year is effective and helps school districts cut through the complexity of the formula to plan for future fiscal years.

Examining a school district's BEF share (shares are calculated by dividing each school district's Formula ADMs by the Total Formula ADMs) and the extent of any BEF share change from year to year demonstrates the changes happening within the district and community that is then reflected in the BEF distribution. Looking just from 2022-23 to 2023-24, 310 school districts experienced a growing BEF formula share—meaning that the formula drove out a larger piece of the overall BEF formula pie than the previous year. The school districts below experienced the greatest BEF formula share growth in 2023-24.

School District	22-23 share	23-24 share	Share Change
Wyoming Valley West SD	0.00380	0.004196	0.1044590%
Lebanon SD	0.007409	0.008224	0.1099832%
Coatesville Area SD	0.003847	0.004366	0.1347880%
Pittsburgh SD	0.01044	0.01201	0.1503901%
Panther Valley SD	0.00218	0.002535	0.1628776%
Boyertown Area SD	0.002019	0.002355	0.1666021%
Ridley SD	0.001893	0.00224	0.1827977%
Aliquippa SD	0.002009	0.002413	0.2007853%
Big Beaver Falls Area SD	0.001814	0.002206	0.2159177%
Pleasant Valley SD	0.001631	0.002234	0.3700152%

Overall, when school districts experience growth in their share, it is due to several factors, such as growth in ADMs, increases in the percentages of students in poverty, eligibility for the Concentrated Poverty weight, a slow-growing or declining median household income, and/or increasing local effort or capacity. Within this, all the math is relative to all the metric changes for what all other 499 districts have experienced. So, as all those factors change at the district level, the impact on an individual district's BEF share is based on how all other districts moved as well. For example, if a district lost enrollment, but so did hundreds of other districts, the decline in enrollment may have no negative impact on their share.

In most cases, share growth is tied to a combination of these items. For example, if poverty percentages increase along with ADMs, the impact of the student weights is magnified. Additionally, the impact of growth in the Total Student-Weighted Count also has implications for some of the calculations in both the Local Effort Index and the Local Capacity Index—increasing the denominator of those calculations may result in a district falling below the state median, which may result in a greater LECI multiplier.

On the flip side, there are 190 school districts that lost share from 2022-23 to 2023-24. Those districts with the largest share loss are included in the table below.

School District	22-23 share	23-24 share	Share Change
East Stroudsburg Area SD	0.005677	0.005471	-0.0363018%
Wilkes-Barre Area SD	0.009507	0.009022	-0.0510235%
McKeesport Area SD	0.005409	0.00504	-0.0681701%
Philadelphia City SD	0.205897	0.190152	-0.0763615%
Williamsport Area SD	0.00506	0.004668	-0.0774058%
Woodland Hills SD	0.003406	0.003079	-0.0959687%
Columbia Borough SD	0.001857	0.001629	-0.1227839%
Dover Area SD	0.001657	0.001318	-0.2044059%
Sayre Area SD	0.0010	0.000729	-0.2710171%
Allentown City SD	0.037231	0.033914	-0.890687%

In many cases, share loss is a result of the opposite movement in factors causing share growth—such as a decrease in ADMs, decreases in the percentages of students in poverty, ineligibility for the Concentrated Poverty Weight, a median household income that is growing faster than the state median and/or a falling tax effort or tax capacity. As noted above, a combination of these factors can result in a magnification of share loss.

It's also important to recognize that the formula is so complex and treats each district so uniquely that you can't make assumptions about changes in shares across districts. For example, looking at BEF formula data from before the pandemic (2018-19) to 2023-24, 348 school districts experienced a decrease in their three-year average ADMs in that time.

However, not all of those school districts experienced a share loss over that timeframe. In fact, 207 districts (nearly 60%) of those that lost ADMs actually experienced an increase in their BEF formula share from 2018-29 to 2023-24. Additionally, of the 152 districts that experienced ADM growth during

that timeframe, nearly 16% of them experienced share loss in the BEF formula during that period. While this may seem counterintuitive, it demonstrates the purposeful complexity of the formula.

	Districts with ADM Loss (2018-19 to 2023-24)	Districts with ADM Gain (2018-19 to 2023-24)
Districts with Share Loss (2018-19 to 2023-24)	141	128
Districts with Share Gain (2018-19 to 2023-24)	207	24

While looking at share growth or share loss is important from year to year, it's important to look at it over time to provide school districts with some semblance of predictability in planning and budgeting over time. PASBO has built models for school districts to capture and track their BEF formula share from 2015-16 and on, allowing them to identify trends in share changes and to predict, based on data, future share changes so that they can more effectively balance state funds with local revenue needs and begin to plan over multiple fiscal years.

An example of this model is below, and school districts can make assumptions about their BEF formula share as well as the state funding level to map out possibilities as they are planning their school district budgets. Actual share trend data for districts run the full continuum of change from mild trend gain or loss, to severe trend gain or loss, to erratic changes up and down, and to those with steady stable share. Some notes about the model are below:

- The model uses all nine years of a district's BEF metrics and runs analytics on the various components for trend, direction, and scope of change. It includes poverty percentages, poverty weights, median household income and local effort indices, ELL, charter ADMs, three-year average ADMs, district share and share change, district student weighted dollars, and a district snapshot of their formula metric weights to that of the state averages.
- The output model (below) shows actual data above the grey bar and allows for what-if data based on best estimates on share changes and state additions to the formula for out years.
- Actual data includes state additions for each fiscal year, the district total student weighted amounts and the annual increase, the district share, and a four year what-if projection total.

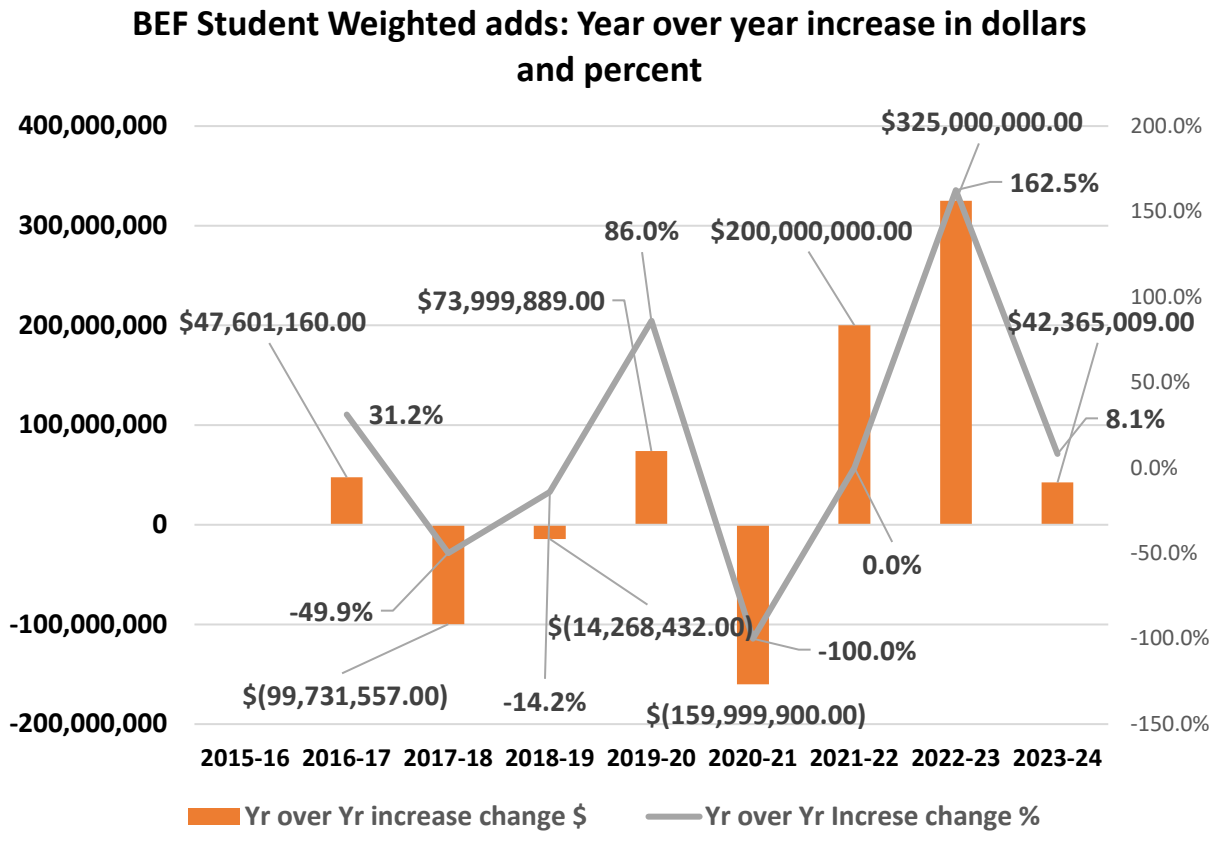
The example below shows the output model for Twin Valley School District. The out-year projections are set at $300 million increases per year and at a flat BEF share. The blue arrows indicate where districts can make adjustments to projected state increases and their BEF shares for future years to allow them to begin to build options as they move through their budget process.

Twin Valley SD	FY	State BEF ADD	State BEF Student wtd Distribution	(Enter) LEA's Share	LEA's Student Wtd Amount	LEA's Student Wtd Amount Annual Increase
Actuals from 2015-16 to 2023-24	2015-16	**$152,398,840.00**	$152,398,840.00	0.001088	$165,773.11	$165,773.11
	2016-17	**$200,000,000.00**	$352,398,840.00	0.001087	$383,193.62	$217,420.51
	2017-18	**$100,268,443.00**	$452,667,283.00	0.001152	$521,643.64	$138,450.02
	2018-19	**$86,000,011.00**	$538,667,294.00	0.001081	$582,201.63	$60,557.99
	2019-20	**$159,999,900.00**	$698,667,194.00	0.000973	$679,915.61	$97,713.98
	*2020-21	**$0.00**	$698,667,194.00	0.000973	$679,915.61	$0.00
	2021-22	**$200,000,000.00**	$898,667,194.00	0.001213	$1,090,247.96	$410,332.35
	2022-23	**$525,000,000.00**	$1,423,667,194.00	0.001104	$1,571,471.23	$481,223.27
Average Add = $221 million	2023-24	**$567,365,009.00**	$1,991,032,243.00	0.001357	$2,702,563.45	$1,131,092.22
Projections based on Estimated State Adds and share estimates	**2024-25 Proj.**	**$300,000,000.00**	$2,291,032,243.00	**0.001357**	**$3,109,773.85**	**$407,210.40**
	2025-26 Proj.	**$300,000,000.00**	$2,591,032,243.00	**0.001357**	**$3,516,984.25**	**$407,210.40**
	2026-27 Proj.	**$300,000,000.00**	$2,891,032,243.00	**0.001357**	**$3,924,194.65**	**$407,210.40**
	2027-28 Proj.	**$300,000,000.00**	$3,191,032,243.00	**0.001357**	**$4,331,405.05**	**$407,210.40**

While BEF formula share changes tell the story of each school district's dynamic distribution, it's important to recognize that the amount of money appropriated each year for distribution for the BEF formula determines the extent to which a school district's share change impacts them. Since 2015-16, the increases added to the BEF formula have not been consistent (see the table below).

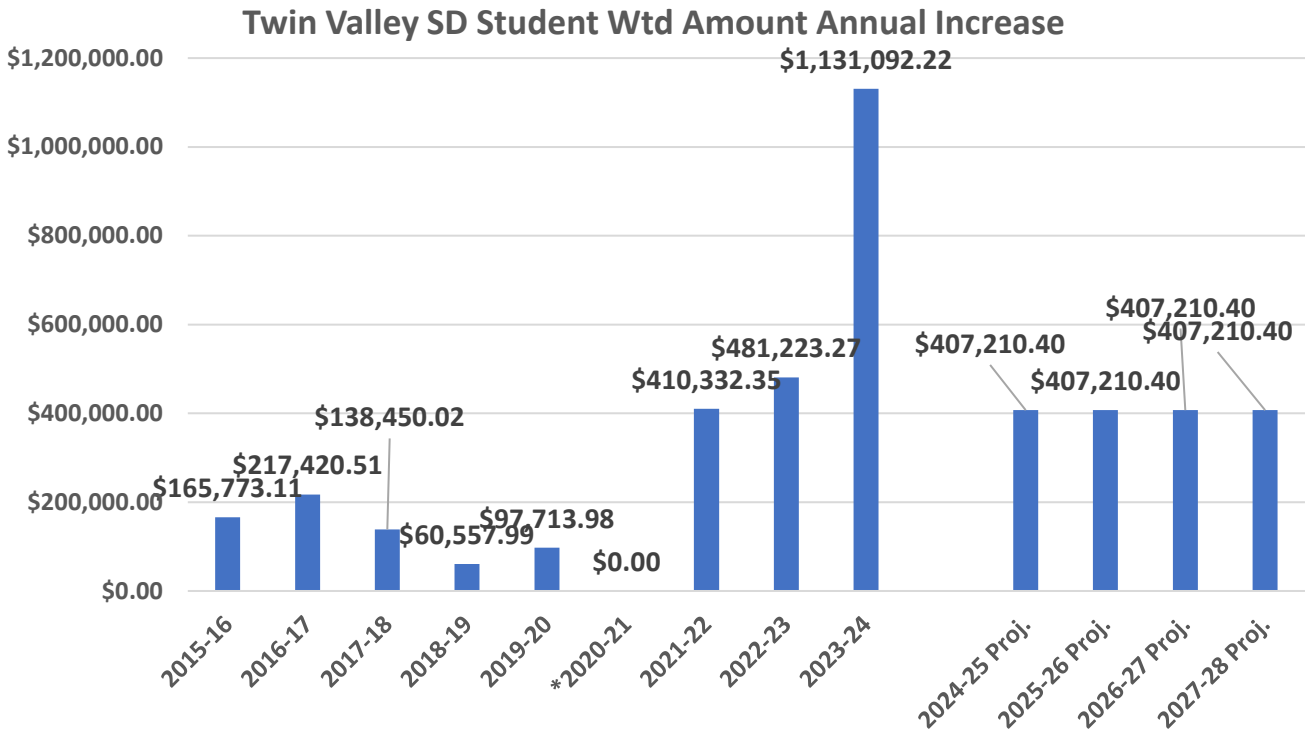
FY	BEF Formula Increase	$ Increase Year Over Year	% Increase Year Over Year
2015-16	$152,398,840	-	-
2016-17	$200,000,000	$47,601,160	31.2%
2017-18	$100,268,443	($99,731,557)	-49.9%
2018-19	$85,999,961	($14,268,432)	-14.2%
2019-20	$159,999,950	$73,999,889	86.0%
2020-21	$0	($159,999,900)	-100.0%
2021-22	$200,000,049	$200,000,000	0.0%
2022-23	$525,000,000	$325,000,000	162.5%
2023-24	$567,365,009	$42,365,009	8.1%

The table above and the figure below illustrate that not only are the BEF formula data metrics dynamic, but the state increases to BEF have been more dynamic than perhaps initially anticipated as well. These dynamic increases along with declining total student weights over time have quickly compounded the total dollar value of each student weighted ADM in the BEF formula.



The state increases in BEF have significant impacts on a district's BEF distribution. For example, a district that has a decreasing share of the BEF formula—meaning that its piece of the overall BEF formula pie has declined from the previous year—might not see a negative impact (i.e. the district could still get an increase in BEF funds from one year to the next) if the additional BEF appropriation added by the General Assembly is enough to offset the district's share loss.

For the district used in the model example above, Twin Valley School District, the share gain they experienced between 2022-23 and 2023-24 significantly increased their BEF share at a time that a historic $567 million increase was added to the formula. You can see from the figure below how significantly their BEF formula distribution changed in terms of their increase for 2023-24.



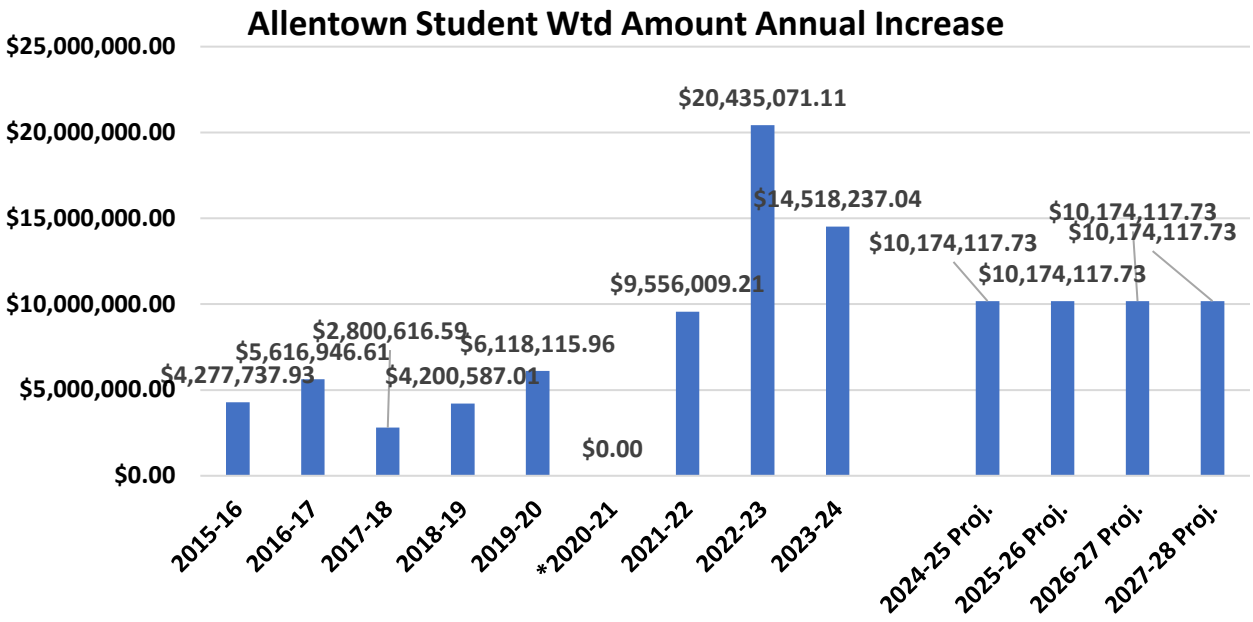
Because all of the data elements are updated in each year of the formula (with the exception of 2020-21, when, during the pandemic, the appropriation was level-funded and the data was not updated to avoid the negative impact of share losses across districts), each school district's BEF formula share changes every year. This means that each year districts experiencing a loss of share run the risk of getting less BEF dollars than the previous year unless the increased appropriation offsets their share decrease. It's also important to recognize that a school district could experience a loss of share simply because other school districts are gaining share. As the dynamic formula component of BEF grows, the amount needed from year to year to offset school district share losses increases as well, and there have been years of the BEF formula in which some districts received slightly less in BEF than in the previous year.

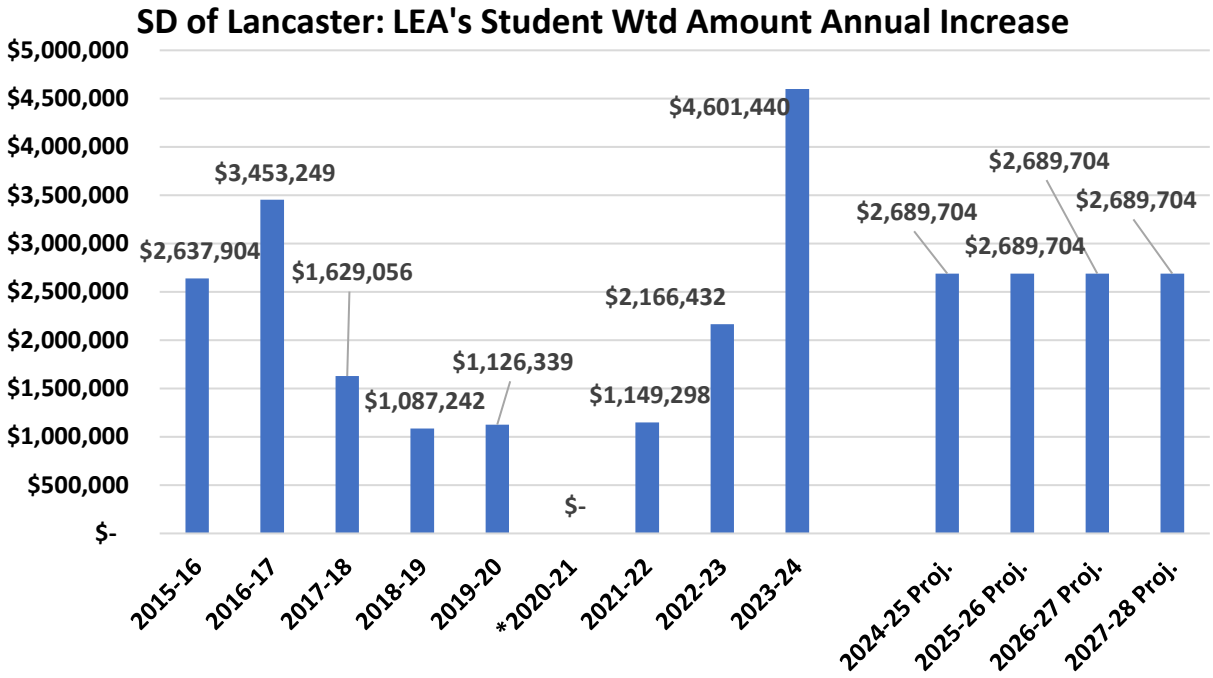
Allentown School District, for example, lost share in 2023-24—going from a share of 0.03723 of the BEF formula pie in 2022-23 to a share of 0.03391 in 2023-24. While they still received a $14 million increase this fiscal year due to the significant $567 million increase to the formula, the district would have

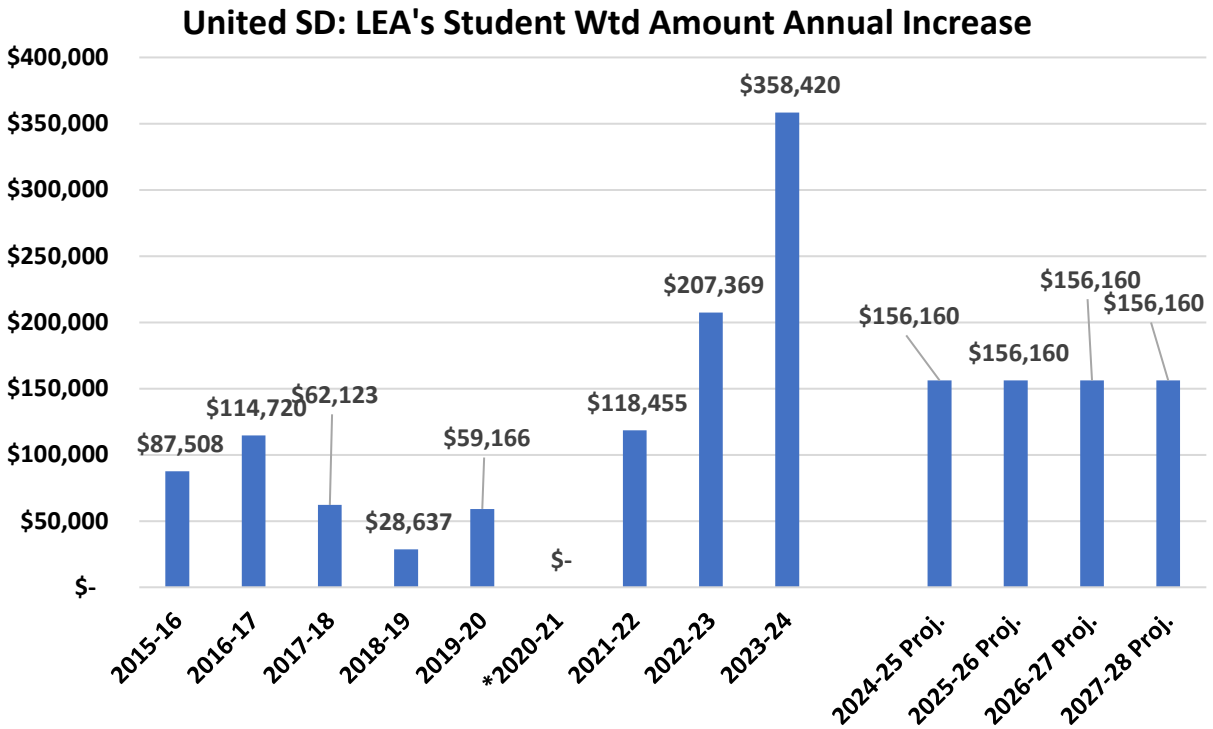
received $6.6 million more in BEF this year if its share had stayed the same. Of that $6.6 million that was distributed to other school districts through the dynamic formula, $4.7 million is money from 2022-23 that was distributed from Allentown School District to other school districts with growing BEF share.

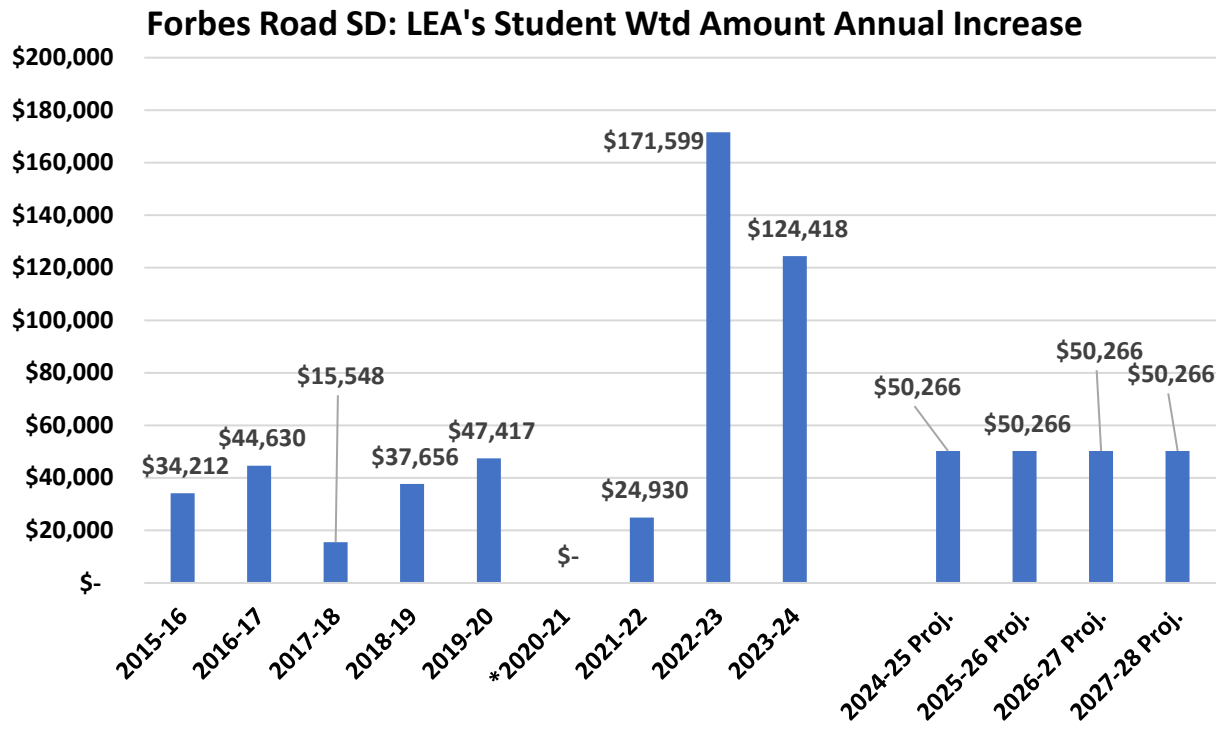
	0.036243	2021-22 share
	0.037231	2022-23 share
	0.033914	2023-24 share
	-0.003318	Yr over yr share change
$	1,423,667,194	22-23 Total BEF Formula Distribution
	-0.003317647	Share Change from 22-23 to 23-24
$	**(4,723,225.63)**	Dollar change on Prior year distribution
	0.0339137	New share for 23-24
$	567,365,049	New BEF added to formula
$	**19,241,463**	23-24 Increase on 23-24 new BEF
$	**14,518,237**	**Net Increase to Allentown for 23-24**

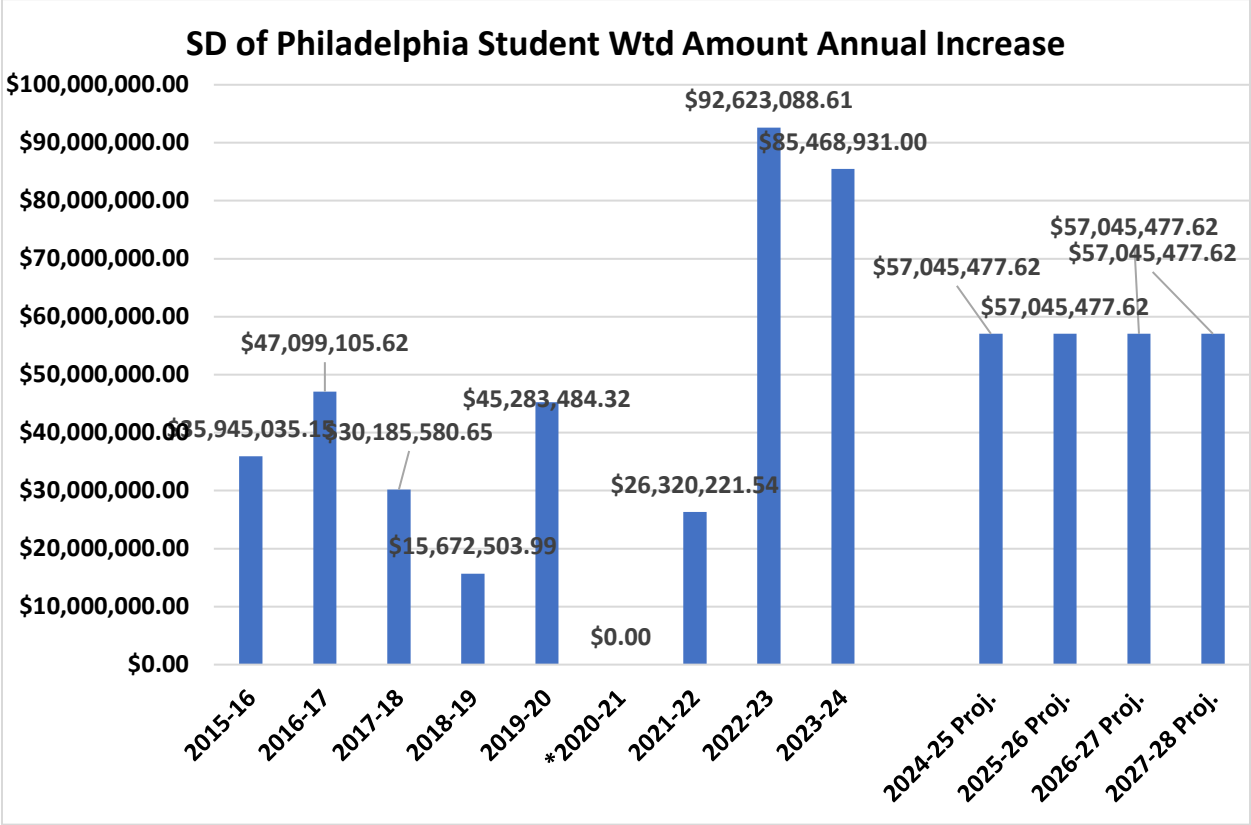
Below are several examples of BEF formula increases from year to year that are defined by share changes in in each school district. The examples below are pulled from the output model component of our PASBO BEF model. They include actual data through 2023-24, and the assumptions for out-years, for purposes of this model, include static share changes. Take note of the changes in the 2022-23 and the 2023-24 BEF formula increases in the districts below, driven almost entirely by share changes.

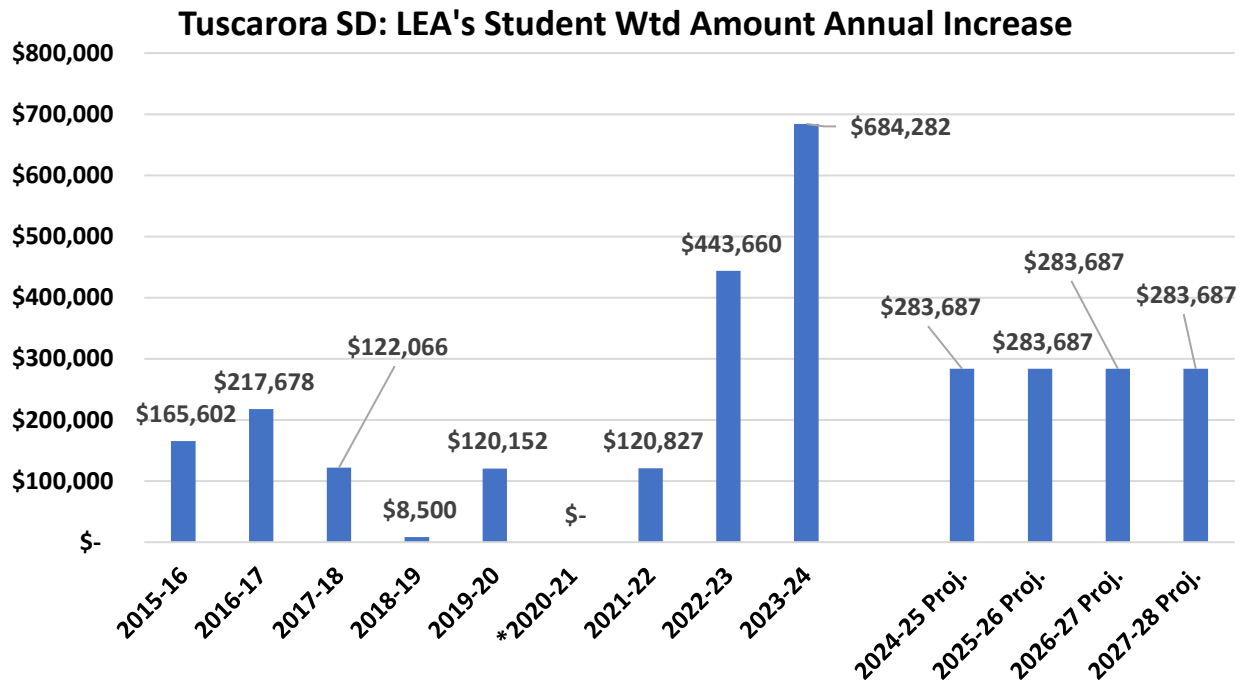


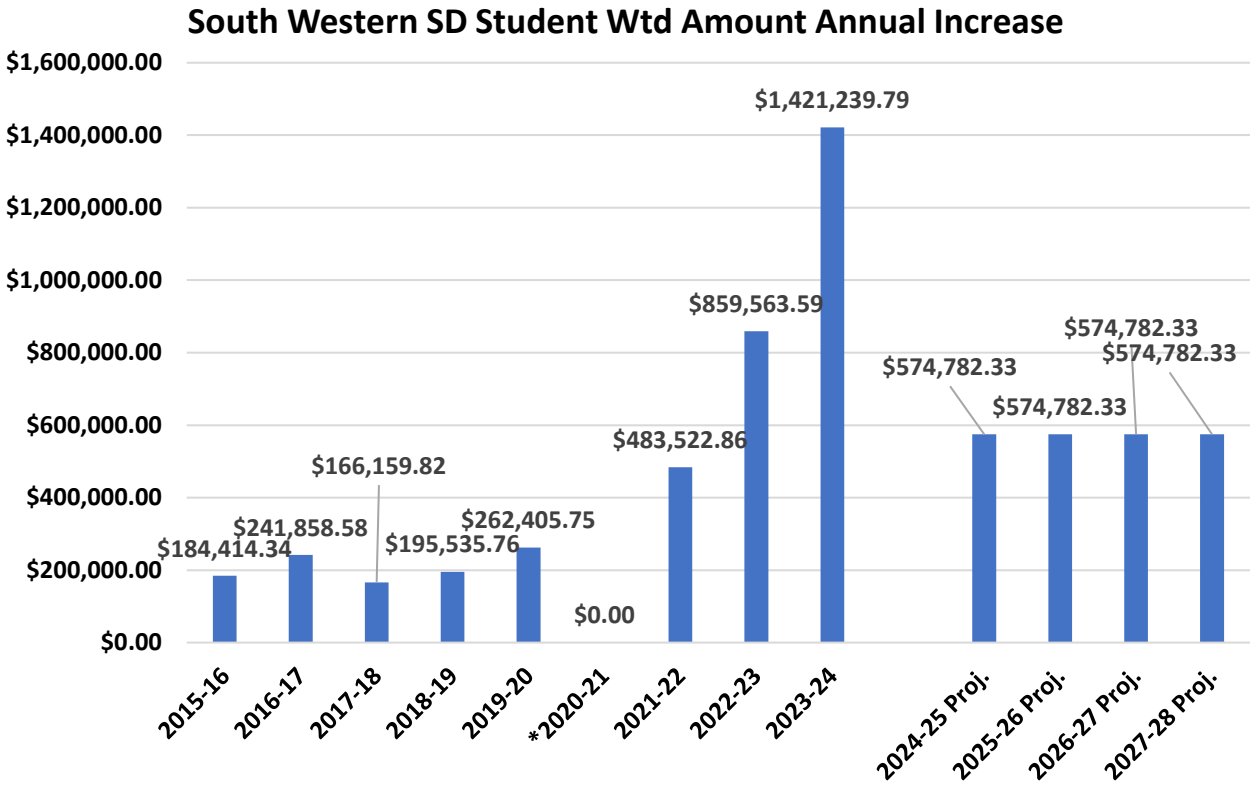

SD of Lancaster: LEA's Student Wtd Amount Annual Increase
$5,000,000
$4,500,000
$4,000,000
$3,500,000
$3,000,000
$2,500,000
$2,000,000
$1,500,000
$1,000,000
$500,000
$-
$2,637,904
$3,453,249
$1,629,056
$1,087,242
$1,126,339
$-
$1,149,298
$2,166,432
$4,601,440
$2,689,704
$2,689,704
$2,689,704
$2,689,704
2015-16
2016-17
2017-18
2018-19
2019-20
*2020-21
2021-22
2022-23
2023-24
2024-25 Proj.
2025-26 Proj.
2026-27 Proj.
2027-28 Proj.


United SD: LEA's Student Wtd Amount Annual Increase
$400,000
$350,000
$300,000
$250,000
$200,000
$150,000
$100,000
$50,000
$-
$87,508
$114,720
$62,123
$28,637
$59,166
$-
$118,455
$207,369
$358,420
$156,160
$156,160
$156,160
$156,160
2015-16
2016-17
2017-18
2018-19
2019-20
*2020-21
2021-22
2022-23
2023-24
2024-25 Proj.
2025-26 Proj.
2026-27 Proj.
2027-28 Proj.


Forbes Road SD: LEA's Student Wtd Amount Annual Increase
$200,000
$180,000
$160,000
$140,000
$120,000
$100,000
$80,000
$60,000
$40,000
$20,000
$-
$34,212
$44,630
$15,548
$37,656
$47,417
$-
$24,930
$171,599
$124,418
$50,266
$50,266
$50,266
$50,266
2015-16
2016-17
2017-18
2018-19
2019-20
*2020-21
2021-22
2022-23
2023-24
2024-25 Proj.
2025-26 Proj.
2026-27 Proj.
2027-28 Proj.


SD of Philadelphia Student Wtd Amount Annual Increase
$100,000,000.00
$90,000,000.00
$80,000,000.00
$70,000,000.00
$60,000,000.00
$50,000,000.00
$40,000,000.00
$30,000,000.00
$20,000,000.00
$10,000,000.00
$0.00
$35,945,035.15
$47,099,105.62
$30,185,580.65
$15,672,503.99
$45,283,484.32
$0.00
$26,320,221.54
$92,623,088.61
$85,468,931.00
$57,045,477.62
$57,045,477.62
$57,045,477.62
$57,045,477.62
2015-16
2016-17
2017-18
2018-19
2019-20
*2020-21
2021-22
2022-23
2023-24
2024-25 Proj.
2025-26 Proj.
2026-27 Proj.
2027-28 Proj.


Tuscarora SD: LEA's Student Wtd Amount Annual Increase
$800,000
$700,000
$600,000
$500,000
$400,000
$300,000
$200,000
$100,000
$-
$165,602
$217,678
$122,066
$8,500
$120,152
$-
$120,827
$443,660
$684,282
$283,687
$283,687
$283,687
$283,687
2015-16
2016-17
2017-18
2018-19
2019-20
*2020-21
2021-22
2022-23
2023-24
2024-25 Proj.
2025-26 Proj.
2026-27 Proj.
2027-28 Proj.


South Western SD Student Wtd Amount Annual Increase
$1,600,000.00
$1,400,000.00
$1,200,000.00
$1,000,000.00
$800,000.00
$600,000.00
$400,000.00
$200,000.00
$0.00
$184,414.34
$241,858.58
$166,159.82
$195,535.76
$262,405.75
$0.00
$483,522.86
$859,563.59
$1,421,239.79
$574,782.33
$574,782.33
$574,782.33
$574,782.33
2015-16
2016-17
2017-18
2018-19
2019-20
*2020-21
2021-22
2022-23
2023-24
2024-25 Proj.
2025-26 Proj.
2026-27 Proj.
2027-28 Proj.

Recommendations for BEF Formula Adjustments

PASBO has tracked the BEF formula metrics over nine years of implementation. We have evaluated how the formula works, built models to project trends and help school districts plan and budget from year to year, presented six-hour workshops on the math of the formula to districts across the state, identified concerns, and modeled solutions.

The BEF formula is a good formula that uses multiple factors that define—at a very detailed and complex level—the needs, demographics, and capacities at each school district, and it does precisely what it is intended to do—dynamically distribute resources to districts based on changes in populations and demographics.

From PASBO's perspective and the perspective of school business officials across the commonwealth tasked with developing, maintaining, and implementing school district budgets each year, the most important factor in any formula or funding source is predictability. The goal for school districts is to know what they are likely to receive in state funding far enough ahead in the process so that they can not only effectively plan for local revenue needs to sustain programming, staff, and operations for the next fiscal year, but also to ensure that they can make thoughtful and accurate plans over multiple-fiscal years. Predictability breeds accuracy and efficiency, and there are many ways to make improvements in predictability both within and outside of the BEF formula.

Reviewing the BEF formula, it's important to recognize that the formula is a snapshot in time—and all of the data elements are updated annually to ensure that the formula can respond to changes in need and demographics. What we have learned nine years in, is that some of the data elements are a little more volatile for some districts than originally anticipated, and to provide that critical component of predictability, there are changes that can be made within the four walls of the formula to mitigate the volatility.

Smooth the Poverty Percentages

Some of the most volatile metrics in the formula are the poverty metrics. With no uniformly reported state data to use, the federal Census data provides the proxy for student poverty by district. And while the data is already averaged over five years, some volatility—most likely due to small sample sizes in some districts—continues to exist. Smoothing both the percentages for Acute Poverty and Poverty over three years (as is done for the ADM measure in the BEF formula and also in some components of the Special Education Funding formula) would go a long way in mitigating some of the peaks and troughs for most districts (a three-year average of the five-year average number). While we anticipate that some of this volatility will be mitigated as we move further from the impact of the pandemic, this is an easy fix that would help to increase predictability.

Eliminate the Concentrated Poverty Cliff

The inherent volatility experienced by some districts in the poverty percentages is magnified for those districts that are at or around the 30% Acute Poverty threshold for the Concentrated Poverty weight. As noted above, while about 40-45 districts, on average, qualify for this additional weight each year, it is not a uniform group of school districts. Each year, some school districts drop below the 30% threshold and others reach it, and the impact from year to year of qualifying for or not qualifying for the Concentrated Poverty weight is significant. Realistically, for far too many districts there is no difference in their demographic composition and student needs whether at 25% or 35% Acute Poverty, yet the

formula can deliver a severe share penalty at 29.9% if a district had previously qualified for Concentrated Poverty.

The table below shows the districts that either no longer qualified for the Concentrated Poverty weight in or newly qualified for the Concentrated Poverty weight over the past several years of the BEF formula. Many districts that see the greatest overall share increase or share loss from year to year are districts that either newly qualify for or no longer qualify for the Concentrated Poverty weight.

	8	12	7	7	5	12	9
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Added	Woodland Hills SD Forest Area SD Claysburg-Kimmel SD Fannett-Metal SD Steelton-Highspire SD Pottstown SD Rochester Area SD Purchase Line SD	Uniontown Area SD Southeastern Greene SD Washington SD Clarion Area SD Greensburg Salem SD Jeannette City SD Salisbury-Elk Lick SD Shanksville-Stonycreek SD Columbia Borough SD Mount Carmel Area SD Mid Valley SD Mahanoy Area SD	Charleroi SD Steel Valley SD Forest Area SD Windber Area SD Antietam SD Hanover Area SD Bristol Borough SD	Jamestown Area SD Union SD Harmony Area SD Columbia Borough SD Hazleton Area SD Big Beaver Falls Area SD Marion Center Area SD	Charleroi SD Sto-Rox SD Salisbury-Elk Lick SD Windber Area SD Riverside SD	Uniontown Area SD East Allegheny SD Iroquois SD Northern Cambria SD Smethport Area SD Millersburg Area SD Sayre Area SD Williamsport Area SD Greater Nanticoke Area SD Weatherly Area SD Homer-Center SD Mahanoy Area SD	Lebanon SD Big Beaver Falls Area SD Midland Borough SD Ferndale Area SD Corry Area SD Forest Area SD Riverside SD Minersville Area SD Charleroi SD
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Dropped	Uniontown Area SD Carlynton SD Clarion-Limestone Area SD Mount Carmel Area SD Hazleton Area SD Wyoming Valley West SD	Forest Area SD Oil City Area SD Monessen City SD Purchase Line SD	Washington SD Woodland Hills SD Titusville Area SD Salisbury-Elk Lick SD Shanksville-Stonycreek SD Columbia Borough SD Lebanon SD Greater Nanticoke Area SD Mid Valley SD Panther Valley SD Big Beaver Falls Area SD	Albert Gallatin Area SD Connellsville Area SD Uniontown Area SD Southeastern Greene SD Charleroi SD Pittsburgh SD Sto-Rox SD Clarion Area SD Greensburg Salem SD Claysburg-Kimmel SD Windber Area SD Antietam SD Mount Carmel Area SD Mahanoy Area SD	Steel Valley SD Jamestown Area SD Harmony Area SD Williamsport Area SD Hazleton Area SD Bristol Borough SD Big Beaver Falls Area SD	Charleroi SD Clairton City SD Sharon City SD Forest Area SD Salisbury-Elk Lick SD Windber Area SD Fannett-Metal SD Columbia Borough SD Lancaster SD Steelton-Highspire SD Riverside SD Scranton SD Pottstown SD Midland Borough SD Rochester Area SD Marion Center Area SD	Millersburg Area SD Homer-Center SD Uniontown Area SD Williamsport Area SD Mahanoy Area SD Union SD Weatherly Area SD Sayre Area SD Wilkes-Barre Area SD
	6	4	11	14	7	16	9

The cliff component of this weight, along with the volatility in this metric (heightened by COVID), makes it extremely difficult for districts to predict their eligibility from year to year. For example, for 2023-24, the School District of Philadelphia has an Acute Poverty percentage of 33.4%, which has been steadily declining year over year since the start of the BEF formula. For 2023-24, the district still qualified for the Concentrated Poverty weight, and it was responsible for 20% of their overall Student-Weighted addition to their three-year average ADM. Similarly, Erie City School District has an Acute Poverty percentage of 34.75%, which has also been declining steadily. For Erie City School District, the Concentrated Poverty weight provides 21% of their total Student Weighed addition. As another example, Allentown City School District is at the 34% range for 23-24 in decline from 41.2% in 2019-20.

For these districts, and others like them, the implications of falling under the 30% threshold are significant from a financial perspective—and this change in the data is something that happens to districts every year. If the School District of Philadelphia wouldn't have qualified for the Concentrated Poverty weight in 2023-24, its BEF formula distribution would have been $20 million less. Likewise, if

Erie City School District didn't qualify for the Concentrated Poverty weight in 2023-24, its BEF formula distribution would have been $2.5 million less.

There are multiple ways to smooth this metric to eliminate the impact of the cliff and prevent the significant increases or decreases in weighted student count experienced by the 5-15 districts each year that fall on or off the Concentrated Poverty cliff. This could be accomplished by creating a metric that applied a percentage of the weight to districts based on their proximity to the 30% threshold. Or, if a district didn't qualify for the Concentrated Poverty weight from one year to the next, the weight could be applied for one additional year—giving the district the opportunity to plan for and adjust to a falling BEF formula amount. Focusing on this element of the BEF formula would provide another simple and beneficial adjustment to help districts that have experienced the huge increases or decreases due to this metric alone.

Exchange the Charter School Weight for Reimbursement

Pennsylvania's BEF formula is unique in that it includes a weight for students attending a charter school. This weight was added in recognition of the unique charter school tuition model used in Pennsylvania and the impact of stranded costs on school districts. While the intent of the weight was certainly positive, the impact of the weight is minimal. Overall, the charter school weight itself only drives out about $32.5 million of the nearly $2 billion BEF formula amount—which provides minimal relief for school districts (1.6% of BEF distribution) in comparison to the overall nearly $3 billion in total charter school tuition they paid in 2021-22 (the most recent year for which Annual Financial Report data is available). Said another way, for the average district, this component of the BEF formula provides funding to cover about 3 to 5 charter students out of 40 to 60 students.

While charter school students are included in each school district's ADM—along with all other students the district is financially responsible for being educated outside of the district—including a separate weight for charter students simply doesn't do much in terms acknowledging the impact of these costs. We would recommend the removal of the charter school weight from the formula and argue that districts and taxpayers would be far better served if a charter school reimbursement was created as a separate bucket of education funding provided to school districts. This recommendation requires both actions as without a move to mitigate charter costs on districts and their taxpayers, then we have to at least keep this small weight in the BEF formula.

For example, a significant state reimbursement could be resumed, and school districts could receive their share of available state funds based on their share of the overall charter school enrollment. Since all districts start from where they are, the state could simply assume a significant percent share of district cost increases prospectively. This effort would provide far greater support for school districts in recognition of the impacts of charter school policy and tuition costs. Additionally, recognizing that charter school tuition costs—which grow each year as school district expenditures grow—are one of the primary drivers of property taxes, moving to a reimbursement that could begin to target some of the growth in charter school tuition costs each year would provide relief to taxpayers in many districts as well as improve actual BEF efficacy.

Local Tax Effort

Another issue within the four walls of the formula that is worth a second look is simply based on the fact that the entire formula is relative—and each school district is compared to the 499 other school districts across the Commonwealth. This is very apparent in the Local Effort Index component—one half of one of the two multipliers in the BEF formula.

Each school district's local tax effort is assessed by examining their total tax-related revenue in the context of their median household income and number of households. While there are some changes each year in all of these factors that create some movement for some districts, the reality is that every district is starting from where they are, and in a tax effort spectrum of 500 school districts, with Act 1 limitations and political challenges in every tax conversation, districts don't have the capacity to move their place—at least not significantly. Who they are is built-in demographically and economically. A district that taxes at the maximum Act 1 index every year but started at the bottom in terms of tax effort will never catch a district at the top…ever.

Additionally, the rest of the Local Effort Index metric includes an adjustment based on current expenditures per weighted student, and over time, changes in enrollment as well volatility in poverty metrics have created some unintuitive impacts for some districts. While smoothing the poverty metrics as discussed above will go a long way to address this component of the issue, there is benefit to examining this factor in a different way and measuring growth within a district instead of solely growth across all 500 school districts. Comparing the top to the bottom is an ineffective metric when it comes to local effort, and PASBO is working to model some possibilities of measuring local effort in a way that captures changes in effort from year to year within a district versus across all districts.

Furthermore, we acknowledge that some important factors, such as growth (or decline) in assessed value and earned income tax—two of the factors that are actually taxable by school districts—could be added to the formula or even monitored separately as a backstop, to provide some additional precision to the local effort and capacity components of the formula.

Finally, within the LECI multiplier, we recommend use of the three-year average ADM instead of a single year of ADM data when calculating the current expenditures per weighted student.

Balance in the Formula

Outside of the factors within the BEF formula, which can be adjusted to be less volatile and more predictable, there are some larger issues with how the BEF formula has been funded and the balance between the stable base and dynamic portions of the BEF subsidy that substantially limit predictability.

As noted above, the BEF formula is dependent upon the General Assembly to determine the amount available for dynamic distribution each year. Since the original BEF Commission did not want to predefine future state budget conversations and negotiations, the amount added to the BEF formula is determined each year in the state budget process. The result has been routine increases, but at wildly varying amounts (see the table on page 21).

With increases ranging from $86 million to $567 million (and $0 in 2020-21 when the formula data was not updated), these varying increases coupled with the dynamic nature of the formula have made it increasingly hard for districts to predict what their BEF revenue will look like from year to year, let alone plan carefully over multiple fiscal years—both with regards to programming and operations and also with respect to local revenue needs.

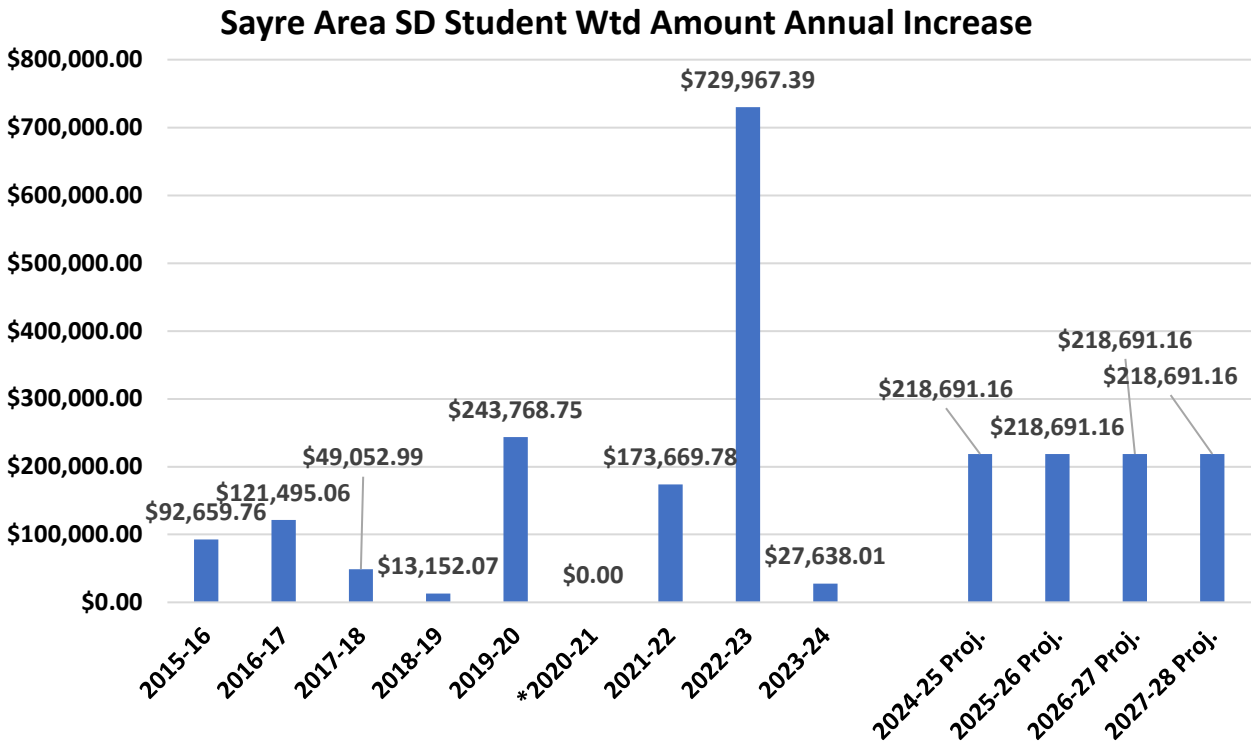
As described above, the original BEF Commission intended the BEF subsidy to have two components—a dynamic formula component that changed every year and a stable base that provided consistency from year to year. These two elements, if working in harmony and with consistent and inflationary adjusted

additions annually, would provide predictability for districts in budgeting. What has happened after nine years and nearly $2 billion added to the BEF formula is an imbalance in these two components.

Additionally, as illustrated above, while the value of a weighed ADM in the BEF formula was originally about $50 in 2015-16, for 2023-24, it has climbed to more than $754. That means that as a district's data change from year to year and the district gains share, every weighted ADM accumulated nets the district $754 more per student. The flip side is that every time a district loses share—through a decline in enrollment, a climb in median household income, or a reduction in tax effort by comparison, a district loses $754 per student.

Combining this increasing weighted student value with the dynamic nature of the formula, and predictability for school district school business officials is out the window. There are school districts that received a six or seven-figure BEF increase in 2022-23 when $525 million was added to the formula that are barely receiving five-figure BEF increases in 2023-24 when $567 million was added to the formula.

Sayre Area School District's BEF formula increases from year to year are highlighted in the figure below. After qualifying for the Concentrated Poverty weight in 2022-23, the district's share increased substantially in conjunction with a $525 million increase in BEF. However, in 2023-24, the district's share decreased dramatically, as the district dropped below the 30% threshold for Acute Poverty. As a result, with even more added by the state to the BEF formula ($567 million), Sayre Area School District is receiving an increase of just $27,000 compared to 2022-23.



While the dynamic nature of the formula was intended, the high stakes and unpredictable nature was not. These dynamics at the extreme are also why districts must retain fund balance flexibility to leverage BEF funds received over time for student effective use. Districts such as Sayre Area School District and many others can't make good, thoughtful, or long-term decisions within such significant swings in their BEF increases—and districts can't always accurately predict how significantly their data changes (or lack thereof) will impact their share of the BEF formula pie. Smoothing the poverty metrics as noted above will absolutely help, but as more money is added to the dynamic portion of the subsidy, it's clear that balance between the dynamic and the stable BEF components is also crucial.

How the state funds the BEF subsidy matters

Through the lens of predictability and from a school district budgeting perspective, knowing how much money a district will receive from year to year is important. Knowing whether you will sustain it from year to year is just as critical. While increasing the amount to school districts through BEF is certainly needed, how that is accomplished makes a difference.

To further ensure predictability in budgeting from year to year, there are two options that PASBO recommends. First, we would suggest adjusting the base to reduce the weighted student impact of the formula. This could be accomplished by locking in place more of the BEF subsidy to create a stable base for each school district; this would benefit all 500 school districts by ensuring that they would not get less from year to year than the newly reset base amount. It would reduce the dynamic component of the formula to further mitigate unpredictability, and it would lock in place many of the advances made through the BEF formula over the past nine years.

Some of the districts that would benefit the greatest from this approach are those that have experienced significant growth in their share of the BEF formula distribution since 2015-16 but maintain more recent share losses. School districts such as Philadelphia, Lancaster, Allentown, and Reading all fall into this category. Additionally, school districts that have experienced some of the greatest percentage increases in in BEF formula distribution—such as many wealthier suburban districts—would benefit from ensuring that the growth they have experienced is locked in and sustainable. Finally, rural school districts would benefit from this recommendation, as it would lock in some of the more minimal cost-of-living adjustments the formula has driven to them over time.

Adding more money to the BEF formula without also readjusting the balance between the dynamic and stable pieces of the subsidy will hurt all 500 districts—maybe not in year one or two, but eventually when the demographics result in share losses, there will be no capacity for districts to maintain their programs, services, or staff. When the current $754 per weighted student increases to $1,000, $3,000 or more, the dynamic changes in the annual BEF formula metrics will be magnified so substantially that it will be detrimental to school districts, taxpayers, and sound financial policy and planning.

Another option would simply be to provide constraints around the dynamic portion of the BEF formula to create a minimum and perhaps even a maximum increase from year to year at the school district level. While the $567 million added to the BEF formula for 2023-24 represented an 8% increase in the appropriation to correspond to the inflation rate, that is not the percentage increase that all districts received, with many well below the rate of inflation.

For 2023-24, the median percentage increase in BEF formula increases across all 500 school districts was about 7.1%; however, some school districts received an increase of less than 3% (with one receiving an increase of less than 1.0%), and others received an increase of greater than 20%. While the dollar

amounts associated with these percentage increases certainly vary and are reflective of decades of funding policy, the range is significant. For districts at the low end of the percentage increases, the increase may not be enough to begin to cover increased costs from year to year. For districts at the high end of the percentage increases, due to the dynamic nature of the formula, there can be no expectation that level of increase is sustainable, so planning for future years must include how best to leverage dollars over time. School district budgeting should never be a one-year exercise.

We recognize that our recommendations may not follow a similar lens or the approaches that have been presented at previous hearings. However, from a predictability, sustainability, and general school district operational finance perspective, we believe proposals that would move all $7.8 billion in BEF subsidy through the dynamic formula, or proposals that would increase the unpredictability of the formula by adding additional elements or combining multiple formulas would be detrimental to school districts across the board.

As noted above, more money in the dynamic portion of the formula results in a more magnified per weighted student impact. With all $7.8 billion through the dynamic formula and none in the stable base, for 2023-24, 310 school districts would lose a collective $1 billion in one fell swoop. The loss in most districts would be impossible to make up at the local level due to Act 1 limitations and limited tax bases, and simply attempting to level-fund these districts year over year ignores the fact that every district experiences increases in costs from one year to the next.

To take a closer look at the consequences of eliminating the stable base, we have modeled the impact on districts of running 100% of the BEF subsidy through the dynamic formula beginning in 2015-16. From 2014-15 to 2015-16, 344 school districts would have lost a collective $1 billion, shifting those dollars to the other 156 school districts. From 2015-16 and on, the dynamic nature of the formula would have wreaked havoc on school district budgets, making it impossible for districts to sustain programs, maintain a long-term local revenue policy, or predict their state revenue from year to year.

For example, the School District of Lancaster would have increased its BEF subsidy by $44 million in 2015-16 if all of the money ran through the BEF formula. If one assumes expenditures (E) = revenues (R) due to the state's balanced budget requirement, the district would have ramped up spending to utilize that BEF increase and lifted its spend level to a new baseline of E=R. After that, however, the amount the district received from year to year tracked the changes in their BEF share.

In 2016-17, the district would have gained an additional $3.5 million. In 2017-18, the district would have gained an additional $350,000. In 2018-19, the district would have lost $2.5 million. In 2019-20, the district would have lost $10.7 million. In 2021-22, the district would have lost another $8 million. In 2022-23, the district would have lost another $15.8 million. In 2023-24, the district would have gained an additional $2.7 million. Overall, if the state's policy had been to run all of the BEF subsidy through the BEF formula, the School District of Lancaster would have lost all but $13 million of the $44 million increase it received in 2015-16. This same dynamic would occur in year two after any large add or alteration in using more base funds in the formula creating annual "losers" of many districts lifted in year one.

2014-15 Base	$53,818,381.15
2015-16 Change	$44,499,313.74
2016-17 Change	$3,573,084.18
2017-18 Change	$354,872.99
2018-19 Change	($2,588,379.90)
2019-20 Change	($10,721,312.93)
2020-21 Change	$0
2021-22 Change	($8,093,452.00)
2022-23 Change	(15,876,600.73)
2023-24 Change	$2,702,070.30
Net Increase from 14-15	**$13,849,595.65**

The same up and down dynamics would be true for districts of all shapes and sizes across the Commonwealth. The BEF formula was designed to distribute resources to those districts that need them based on a one-year, snapshot-in-time look at the district's population and demographics. Comparing districts using metrics built to define distribution of *some* funds in an *individual* year defies an understanding of the purpose and functionality of the formula. Shifting to a completely dynamic distribution eliminates the capacity for any predictability, for sustainability of programming and supports, for long-term local tax policy, and for ensuring student equity across districts.

Frankenstein Formula

Similarly, there has been some discussion at previous hearings regarding the combination of state education funding formulas—or elements thereof—into the BEF formula. PASBO strongly cautions against this effort, especially given that we will continue to see COVID and economic lag impact on the BEF formula (and other state formulas) for the next several fiscal years (e.g. the BEF formula uses data that lags for Market Values, Personal Income, current expenditures, poverty percentages, ADMs, household incomes, and actual tax collection; we anticipate significant movement in Market Values, Personal Income, current expenditures, poverty percentages, and household income over the next couple of fiscal years).

Every school district is unique, and every school district benefits from different components of different state formulas. For example, for 2023-24, 324 school districts do better—dollar for dollar—in the state's Special Education Funding (SEF) formula compared to the BEF formula. Based on their population of students, these school districts have a larger share of the SEF pie than the BEF pie.

For those school districts, an attempt to roll the special education student weights and funds into the BEF formula would actually dilute the value of their SEF resources they receive now. Most districts would (when comparing the combined BEF and SEF formula amounts in 2023-24 to the same total dollar amount distribution through a modified BEF formula to contain SEF student weights), see reduced total dollars if the SEF weights were added to the BEF formula. The implications for combining components from multiple formulas into one larger formula are significant. Using the BEF/SEF example, 314 school districts would effectively lose funding through this simple adjustment, redistributing resources targeted to special education to districts with smaller shares of SEF need.

Consolidating state buckets of funding into one Frankenstein formula—as evidenced at a basic level through modeling the consolidation of SEF alone—minimizes the state's ability to respond to specific district needs or areas of expenditure growth. Targeting more resources to mental health supports,

increasing the state share of special education expenditures, or effectively addressing the school facility needs of districts would be impossible to do with consolidated formulas.

Overall, recognizing the diversity of districts in Pennsylvania, the most effective way to ensure that student equity is achieved is to ensure that multiple buckets of funds are available and that the state increases its overall share of education funding. Through multiple buckets—such as BEF, SEF, charter school tuition reimbursement, PSERS, school safety, pupil transportation, PlanCon, etc.—the unique student and community demographics and the needs of each student population and each school district can most efficiently be addressed. At the same time, predictability within individual buckets of state resources is easier to achieve and maintain, and the growing or changing needs in one area will not negatively impact the needs in all other relevant areas.

Student Equity vs. Taxpayer Equity

A critical component of the BEF conversation is the distinction between student equity and taxpayer equity. The school funding lawsuit focused on the inequity across high-wealth and low-wealth districts in Pennsylvania, and the BEF Commission has heard testimony regarding the inequity in opportunity, programs, staff, facilities, and funding at every hearing to date. While the lawsuit seeks to remedy student inequity across districts, ensuring that all school districts have the resources to provide students with the opportunities, programs, supports, and facilities they need, underlying that conversation is one regarding taxpayer inequity. There is significant inequity in the burden on taxpayers to fund k-12 education across the Commonwealth.

Based on 2021-22 Annual Financial Report data, the range of local revenue to total revenue across school districts is about 11% in Duquesne School District to about 84% in Lower Merion School District; there are 16 school districts with local revenue making up less than 20% of their total revenue picture and 14 school districts with local revenue making up more than 80% of their total revenue picture.

While the state and local revenue picture looks different across all 500 school districts, there are certainly distinctions between those districts that have wealthy and robust tax bases and can support relatively high current expenditures per weighted student and those that cannot. This distinction highlights the difference between student equity and taxpayer equity.

Directing more state resources to education is critical for ensuring that students in all 500 school districts have the learning opportunities, the safe and secure facilities, and the staff and supports they need regardless of their zip code; this is student equity. Putting more resources into BEF to get more money to school districts for students is one way to begin to address it.

For school districts that already have the resources to provide their students with extensive learning opportunities, updated facilities, and needed supports, the challenge is not just student equity, but it requires a balance with taxpayer equity. As the state support in these districts is generally on the low side of the spectrum, as the state revenues increase, these districts are focused on providing relief to taxpayers. If you accomplish this increased state support entirely through BEF (which represents the student equity side of the coin), districts with declining BEF share from year to year will have their previous portion of the BEF pie going to other districts. To the degree you send such shifted funds to districts with truly lower needs, those resources are simply shifted out of the student equity bucket and over to taxpayers, as other school districts become collateral damage.

While student equity and taxpayer equity are inextricably linked, they are not the same thing and efforts to address them require very different approaches. It's important to understand and distinguish whether each district's challenge is a student equity challenge, a taxpayer equity challenge, or a little bit of both.

More state resources to BEF, for example, represents more money for students and should be focused for those purposes only; they should not be used for property tax relief. Taxpayer equity should be accomplished through a different mechanism—a specific bucket of funds directed to property tax relief in districts with the greatest burden and/or targeted state efforts to begin to cover the growth in mandated expenditures from year to year, mitigating the need for additional property tax burden. Taxpayer equity is critical and property tax relief is essential; however, how you provide it matters.

Lots of Buckets

Overall, when it comes to state share, all 500 school districts are underfunded, and we believe a significant state investment in education is critical. While some districts may need a greater investment than others, more state support is needed for students in all zip codes, and how that investment is accomplished is important.

For purposes of the Commission's work, BEF is one important component of a much larger solution. BEF represents the lion's share of the state funding side, but it is still only about 20% of total school district expenditures, limiting its impact as a standalone opportunity to alter school funding policy. Currently, BEF provides dynamic funds to districts along with a stable base, and if some of the changes outlined above are adopted, the formula will be stronger, more predictable, more stable, and better for all 500 school districts, setting the stage for a conversation about increasing the state share.

A larger overarching conversation should be aimed at other needed areas of state funding, which should be based on a review of what is driving school district budget growth. Many of those areas already exist through separate buckets of state funds with separately defined formulas that drive resources based on student and/or district need.

For example, more funding for special education is critical, as the state's share of total school district special education expenditures continues to decline. Additionally, special education costs grow so significantly that many districts exhaust their BEF subsidy for SEF purposes and/or rely on property tax increases to cover growth in this important mandated cost. Targeting additional state funds at this critical program and cost driver would be significant in ensuring school districts—particularly those 300+ school districts that do better dollar for dollar through the SEF formula compared to the BEF formula—have the resources they need to cover growth in special education costs without pulling resources from BEF for this purpose and without the need to increase property taxes to cover the growth at the local revenue level. Additional funds in this bucket—as it is tied to a defined expenditure—have the capacity to produce both student equity and taxpayer equity.

Likewise, the same is true for school facilities. The state has had a moratorium in effect on new funding for any type of school construction or renovation, and the maintenance program approved in Act 70 has not been funded. School districts that have needed to engage in school facility upgrades, renovations, or maintenance have had to do it with no state support. Many simply have not been able to do it; others have used BEF dollars and property tax revenue to fund projects, and while ESSER funds provided a limited opportunity for some school districts to engage in long-overdue projects and upgrades, those dollars are coming to an end. School facilities funds are critical to the larger conversation of school

funding, and additional state investment in PlanCon and the maintenance program will support school districts across the commonwealth in making needed facility upgrades and repairs. Again, state investment in this bucket has the capacity to tackle both student equity and taxpayer equity.

Focusing on another major cost driver for school districts and an existing bucket of funding, the state could increase its share of PSERS reimbursement costs to school districts. Additional state funding targeted at covering the growth in costs from year to year would keep BEF intact for use in the classroom and would mitigate the need to increase the local tax burden to cover the growth in this expenditure from year to year.

Additionally, we think its important to look at other areas of school funding as well. The state's pupil transportation formula would benefit from an overhaul to ensure that the formula incentivizes efficiency and collaboration and minimizes burden at the local level; the state's CTE formula should be reviewed to ensure that dollars are flowing efficiently to the entities that need them the most and to avoid a process of having to adjust multipliers each year if a subsidy increase is provided; funds for school safety and student mental health continue to be critical.

Finally, concepts like the Level-Up Supplement, which provided targeted additional support to districts that needed the most additional resources based on their student populations but were spending at the low end on a per weighted student basis, could be valuable tools to further move the needle in this conversation. Buckets of state funding focused on lifting the bottom can provide meaningful support to those school districts with the greatest need without negatively impacting the rest of the Commonwealth.

All of these things together make up the state's share of k-12 education, and they must all be part of a larger solution to ensure that every school district has the resources it needs to provide its students with an effective education. Now is the time to lay out a long-term view for leveraging the growing statewide tax bases and to begin to grow the state share of education and shift, over time, away from our current polices of sending known cost drivers downstream to widening and disparate local tax bases.

As the conversation continues to focus on school funding policy, it's also important to also focus on the policies that make it difficult to drive the funding to the intended target. For example, every dollar that is added to BEF (or SEF, etc.) impacts a school district's charter school tuition costs. The nearly $2 billion added to the BEF formula since 2015-16, increased charter school tuition by increasing school districts' total budgeted expenditures. As a result, a portion of that $2 billion increased in BEF for school districts went directly to charter schools.

As noted above, charter school tuition costs for school districts totaled nearly $2.7 billion in 2021-22, and we expect that they will have exceeded $3 billion in 2023-24. As school district costs increase, charter school tuition increases as well, putting additional pressure on school district budgets and reducing the value of BEF and other funding increases.

The policy that defines the funding for charter schools functions to exacerbate student equity and taxpayer equity across school districts. As part of the larger school funding discussion, this challenge must be overcome prior to making any significant commitment to increasing the state investment in school districts—otherwise, that state investment will miss the mark entirely.

The solutions on this front are many. Modifications can be made in the policy that defines how charter school tuition is calculated. The state could reinstate a charter school tuition reimbursement to school districts to mitigate the impact of charter school costs on school district budgets. The state could take over funding charter schools—or take over the growth in charter school costs each year going forward. These options would generally serve to benefit both student equity and taxpayer equity (some options more than others); doing nothing to acknowledge, address, or control these costs makes it impossible to effectively remedy the inequity that exist with our current system of education funding.

PASBO appreciates the opportunity to participate in this important conversation, and we appreciate the opportunity to share our expertise. Pennsylvania has a good BEF formula, and there are many ways to could make it even better for school districts to ensure predictability from year to year. As the conversation expands, we reiterate that BEF is not the whole picture—it's only a part of a very large picture, and a too myopic lens on BEF may provide a temporary solution that complicates the future of school finance even more so than now. Looking holistically at the state's investment across multiple buckets—each of which impacts districts differently—is the most effective way to achieve improvement.

There is no one-size-fits-all approach to school funding in Pennsylvania, and we're starting from where we are today, but there is a way to navigate this massive conversation and to address our unconstitutional system of education funding in a way that provides increased state revenues, increased predictability and stability for school districts, and benefits for schools, students, and taxpayers.

Thank you for the opportunity to testify today.

PA Association of School Business Officials (PASBO)

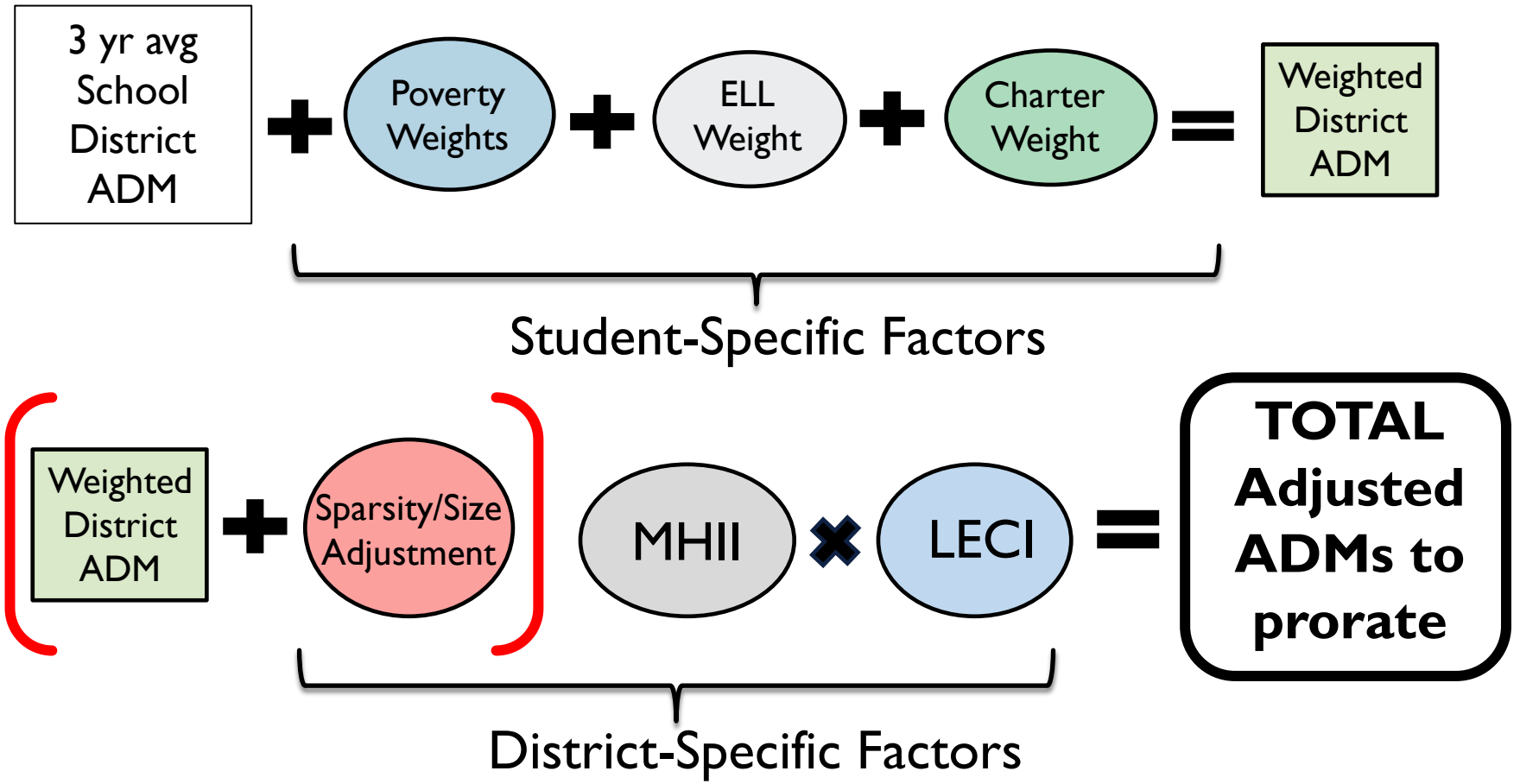
What is BEF?

- Largest state subsidy to schools; $7.8 billion in 2023-24
- Equates to 20% of total district expenditures
- Not an expenditure category—allows for broad, flexible spending
- Made up of two components:
  1. Stable base ($5.88 billion)
  2. Dynamic formula ($1.99 billion)

What does the BEF formula do?

- Formula is designed to direct resources to districts that need them the most (growing districts, high poverty, high ELL, etc.)
- Factors are designed to adjust for district geographic and fiscal capacity issues
- Formula is dynamic and distribution will respond to changing district demographics (new funds are redistributed through the formula each year)
- Formula is factor-specific; it does not distribute new dollars in the same way to all urban, suburban and rural districts—no two districts are alike

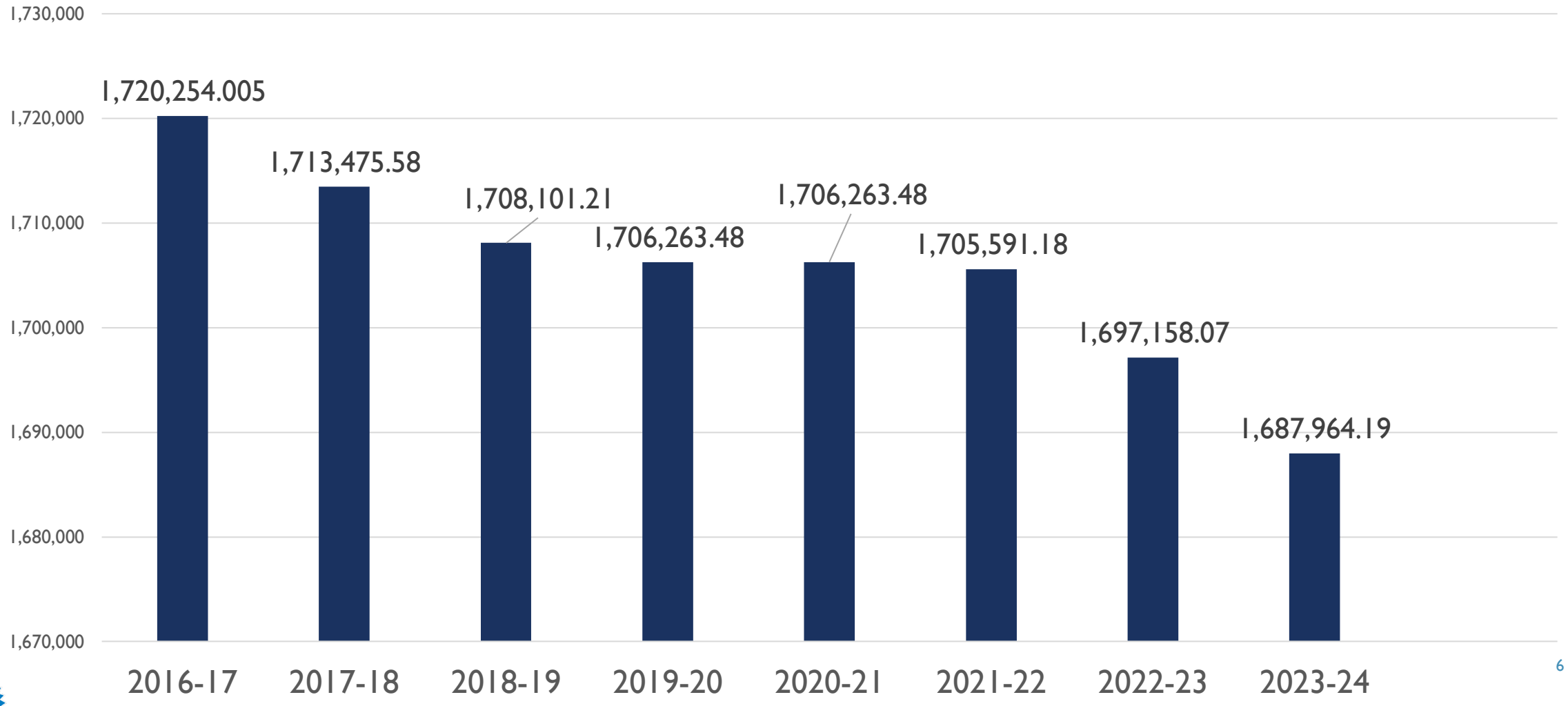
How does the BEF formula work?



Counting Students…

- ADMs=the number of students a district is financially responsible for (includes charter students)
- The 2023-24 BEF formula uses 19-20, 20-21, and 21-22 ADMs
- From 2015-16 to 2023-24 (the years of the BEF formula):
  - **360 or 72.2%** of SDs have had **declining ADMs**
  - **139 or 27.8%** of SDs have experienced **increasing ADMs**

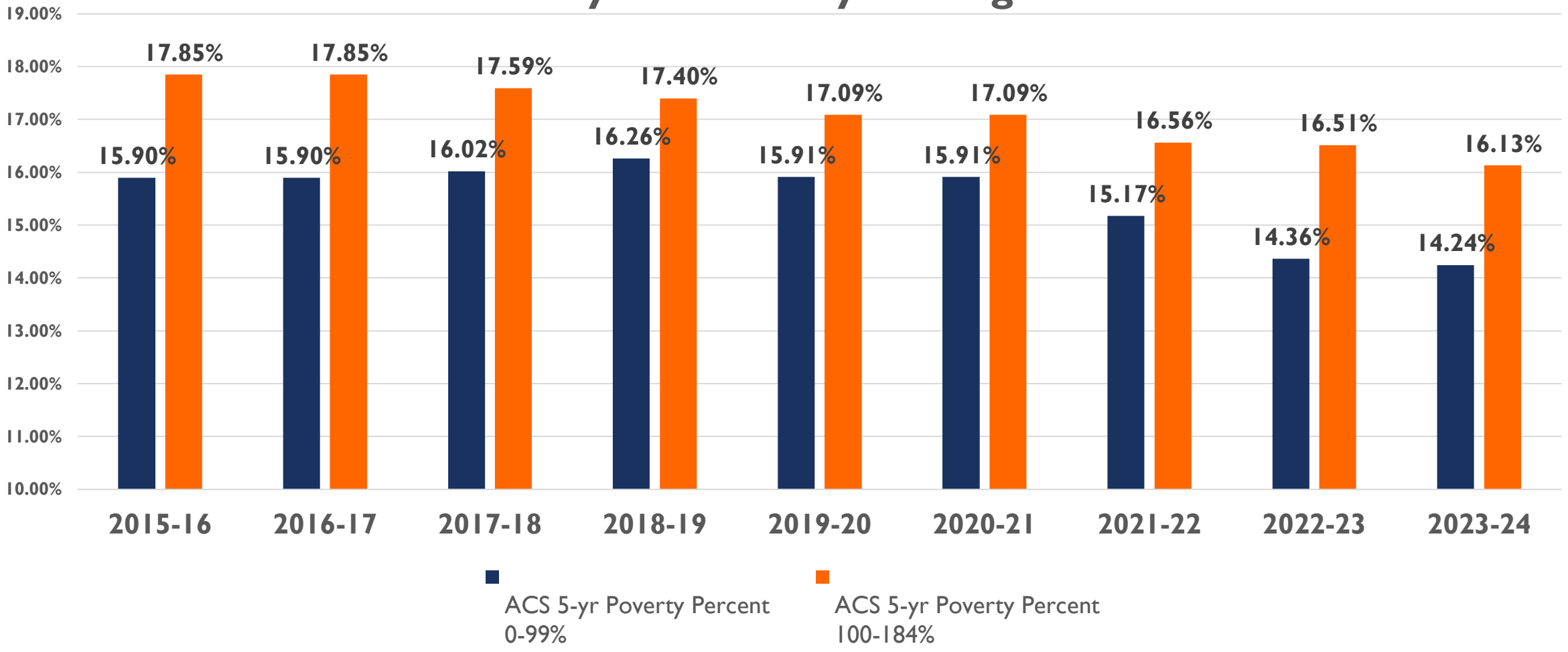
Three-Year Average ADMs



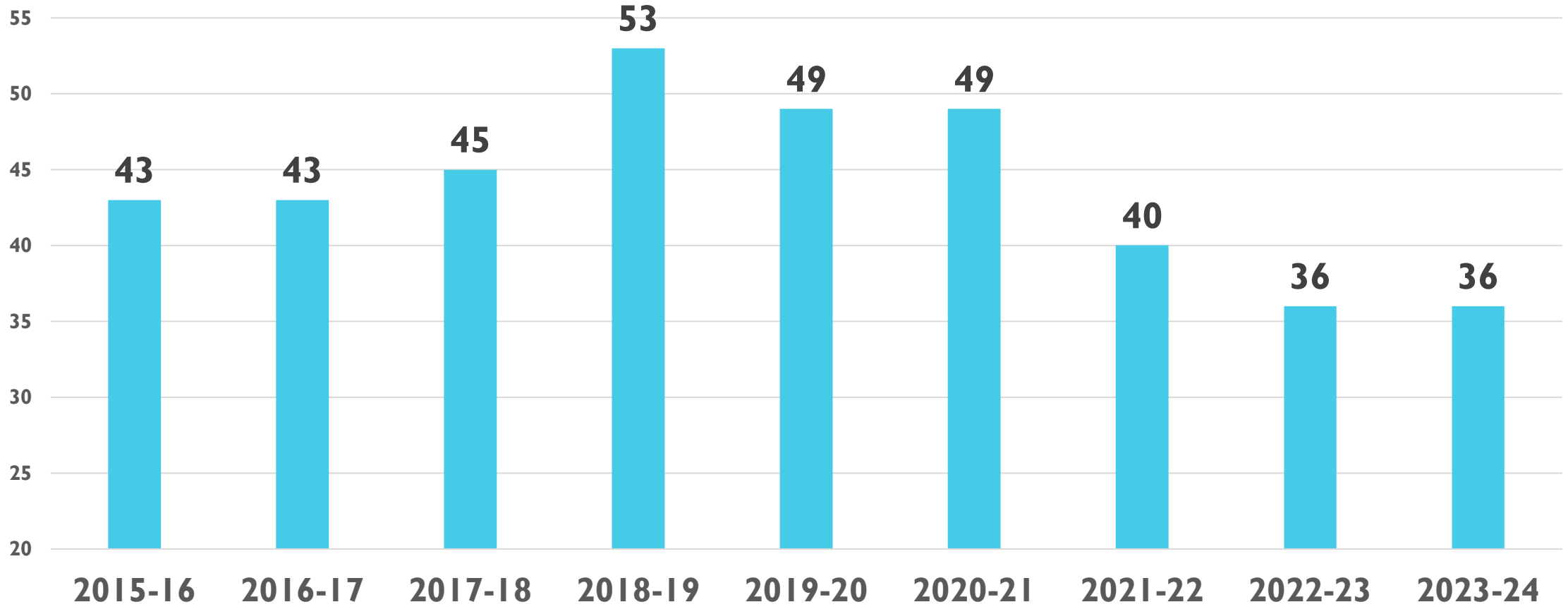
Apply Poverty Weights

1. Acute Poverty: children 6-17 living below the federal poverty line (weight is 0.6)
2. Poverty: children 6-17 living between 100% and 184% of the federal poverty line (weight is 0.3)
3. Concentrated Poverty: Acute Poverty percentage of 30% or more (weight is 0.3)

Acute Poverty and Poverty: Average Statewide %s



Number of Districts Qualifying for Concentrated Poverty



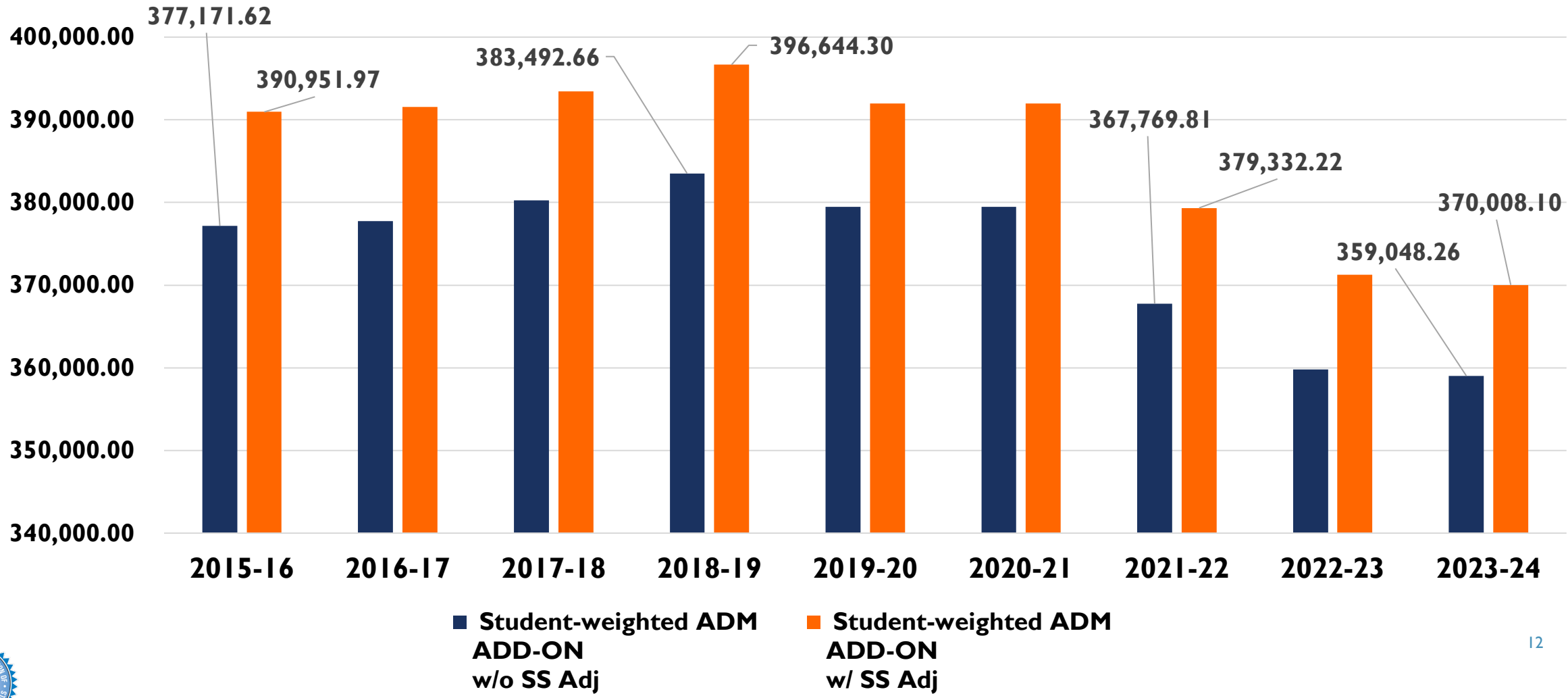
Student Poverty Calculation

A. Acute Poverty percentage	32%
B. Poverty percentage	26%
C. Single Year ADM (2021-22)	1,000
D. Acute Poverty weight add-on (AxCx0.6)	192
E. Poverty weight add-on (BxCx0.3)	78
F. Concentrated Poverty weight add-on (AxCx0.3)	96
G. Total Poverty add-on (D+E+F)	366

Apply ELL and Charter Weights

1. English Language Learners (ELL): Apply a weight of 0.3 to the number of ELLs in each district
2. Charter School: Apply a weight of 0.2 to the number of charter school students in each district

Student Weighted Additions Over time



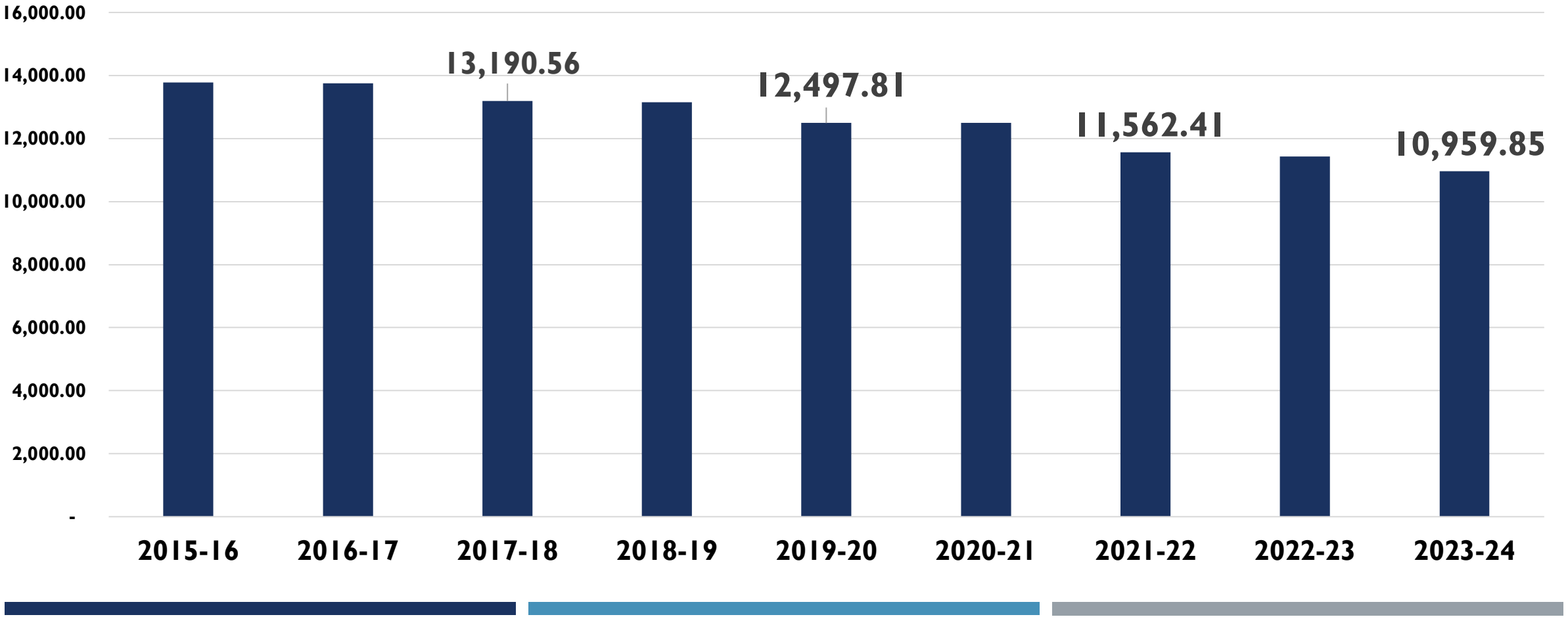
Add the Student Weights to the 3-Year Average ADMs

- SD ADMs (3 year average)
- Acute Poverty Adjustment
- Moderate Poverty Adjustment
- Concentrated Poverty Adjustment
- ELL Adjustment
- Charter School Adjustment

Student Weighted ADM

School District	Three-Year Avg ADM	Student Weighted Add-on	Add-on % of Three-Year Avg ADM
Unionville-Chadds Ford SD	3,914.298	66.221	1.69%
Peters Township SD	3,856.340	67.848	1.76%
Pine-Richland SD	4,448.978	88.844	2.00%
Upper Dublin SD	4,071.803	122.070	3.00%
Springfield SD	4,215.640	130.624	3.10%
South Fayette Township SD	3,373.729	105.299	3.12%
Jenkintown SD	732.143	25.289	3.45%
Wilkinsburg Borough SD	1,152.331	643.318	55.83%
York City SD	8,137.040	4,704.443	57.82%
Harrisburg City SD	7,967.737	4,787.925	60.09%
Chester-Upland SD	6,774.723	4,142.754	61.15%
Reading SD	18,434.621	11,423.306	61.97%
Farrell Area SD	700.639	460.128	65.67%
Aliquippa SD	1,233.241	854.293	69.27%

Student Weighted Additions as a Percentage of 3-Year Average ADM

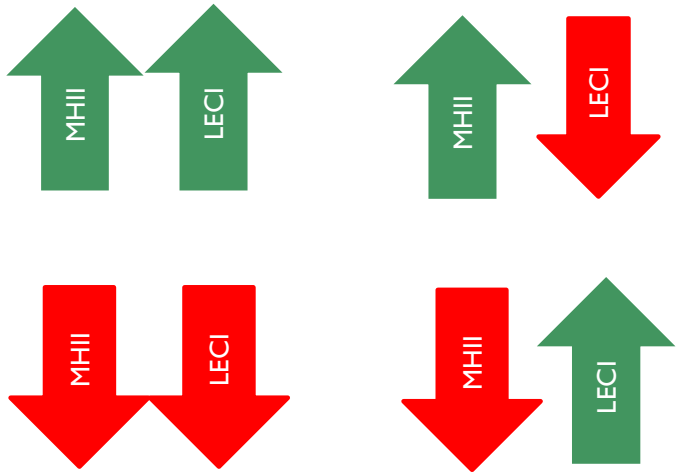


Sparsity/Size Adjustment and Additional ADMs

Adjust by the Multipliers

1. Median Household Income Index (MHII)
2. Local Effort/Capacity Index (LECI)

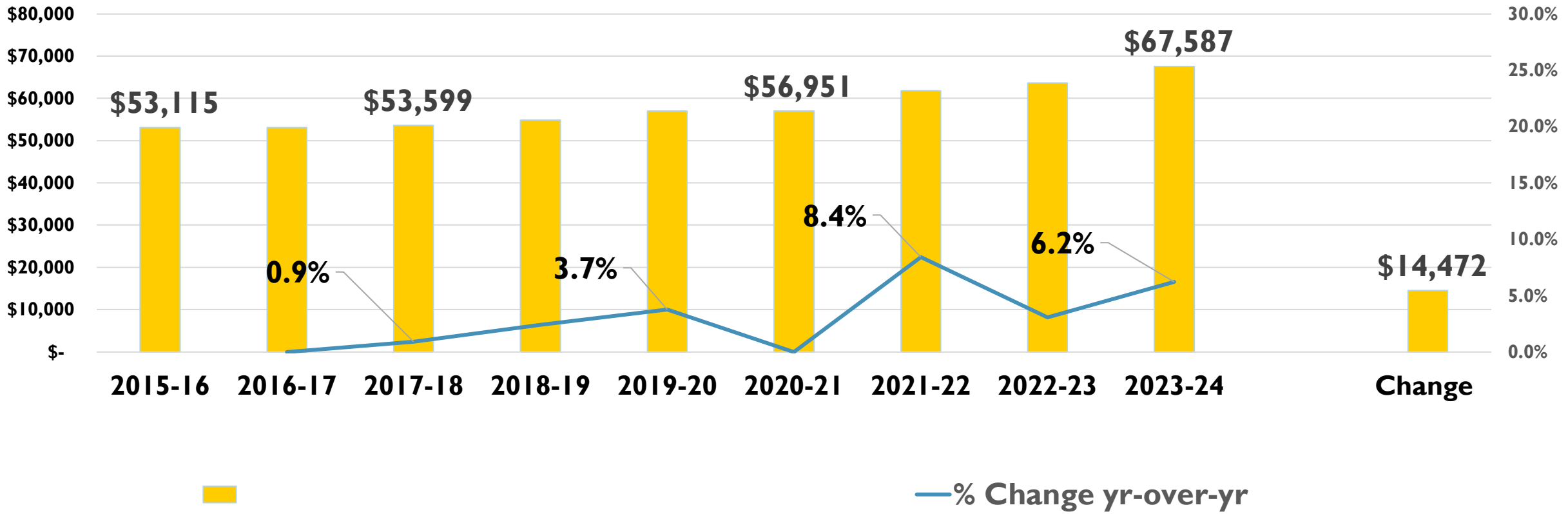
Either Multiplier can raise or lower final student adjusted ADM count depending on the extent to which they are above or below 1.0



Median Household Income

- Measure for local wealth
- Compare median district household income to state median household income ($67,587 for 2023-24)
- If > 1 = district median is below state median
- If < 1 = district median is above state median

Median Household Income Over Time



School District	Median Household Income	MHII Multiplier
Farrell Area SD	$29,652	2.2793
Greater Johnstown SD	$35,063	1.9276
Aliquippa SD	$35,688	1.8938
Sharon City SD	$35,814	1.8872
New Castle Area SD	$36,464	1.8535
Duquesne City SD	$37,478	1.8034
Unionville-Chadds Ford SD	$142,198	0.4753
Pine-Richland SD	$144,241	0.4686
Upper Dublin SD	$145,905	0.4632
Lower Merion SD	$147,418	0.4585
Tredyffrin-Easttown SD	$150,910	0.4479
New Hope-Solebury SD	$154,229	0.4382

Variation in Median Household Income

Local Effort/Capacity Index

Local Effort Index

- Replaces equalized mills as tax effort measure
- School district's local tax-related revenue divided by median household income times the number of households compared to the state median effort per household
- Index is adjusted down if a district's current expenditures are **more** per ADM than the state median ($15,309 in 23-24)

Local Capacity Index

- Local Capacity = district's ability to generate local tax-related revenue on a per-student basis
- Compares a school district's personal income and market value to the state median of local tax related revenue divided by the sum of personal income and market value
- Adjusts only those districts with a local tax capacity per ADM that is **less** than the state median ($8,257 for 23-24) (i.e. not every school district has a capacity add-on)

School District	Local Effort Factor	Current Expenditures per Weighted Student	Local Effort Index
Upper Saint Clair SD	1.4300	$20,981.11	1.0400
Reading SD	0.8000	$9,019.57	0.8000
Greater Johnstown SD	0.6300	$11,115.02	0.6300
State College Area SD	1.2700	$18,881.96	1.0300
Catasauqua Area SD	1.4800	$16,359.81	1.3800
Grove City Area SD	0.7800	$16,952.42	0.7000
Philadelphia City SD	1.0300	$12,808.91	1.0300

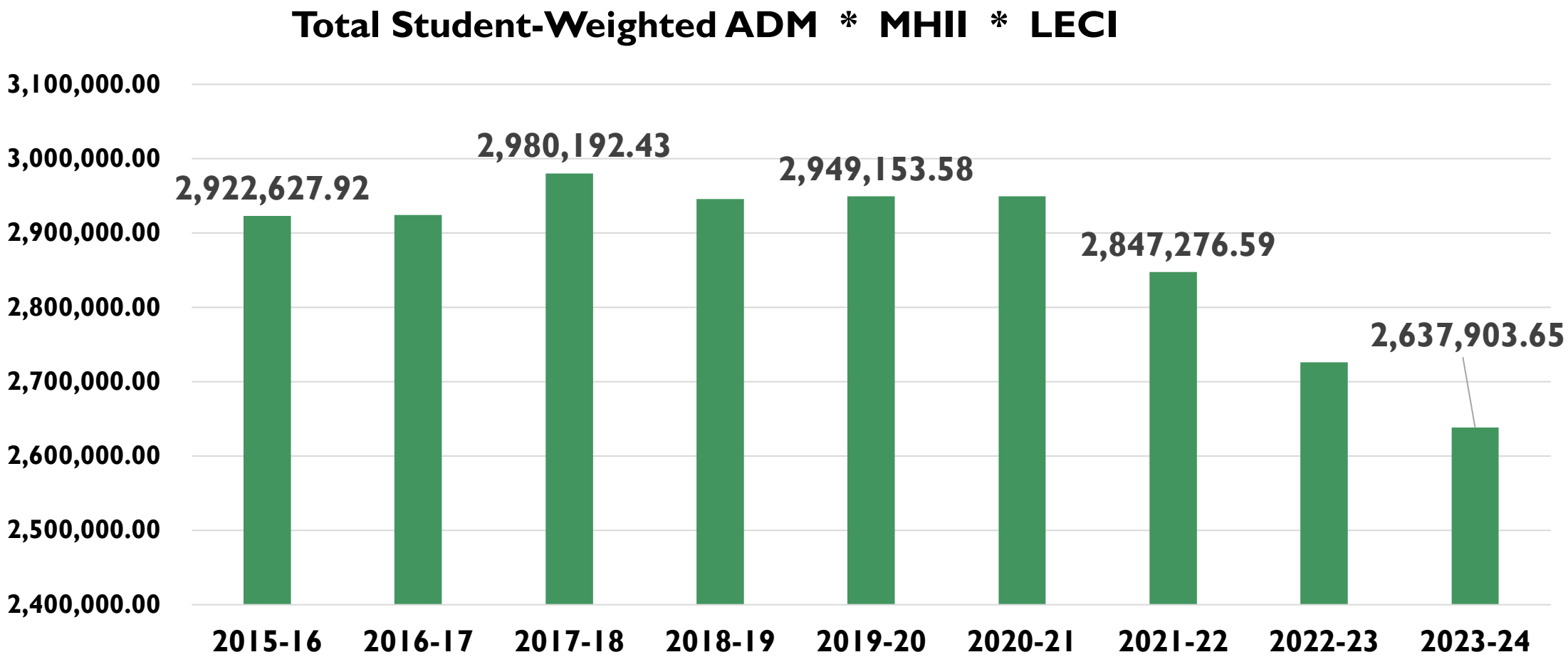
Local Effort Index

School District	Local Capacity per Weighted Student	Local Capacity Index
Upper Adams SD	$6,168.24	0.2500
Duquesne City SD	$1,469.44	0.8200
Tussey Mountain SD	$5,934.30	0.2800
Brownsville Area SD	$3,835.52	0.5400
Hanover Public SD	$6,979.95	0.1500
Meyersdale Area SD	$5,641.65	0.3200
Philadelphia City SD	$6,176.58	0.2500

Local Capacity Index

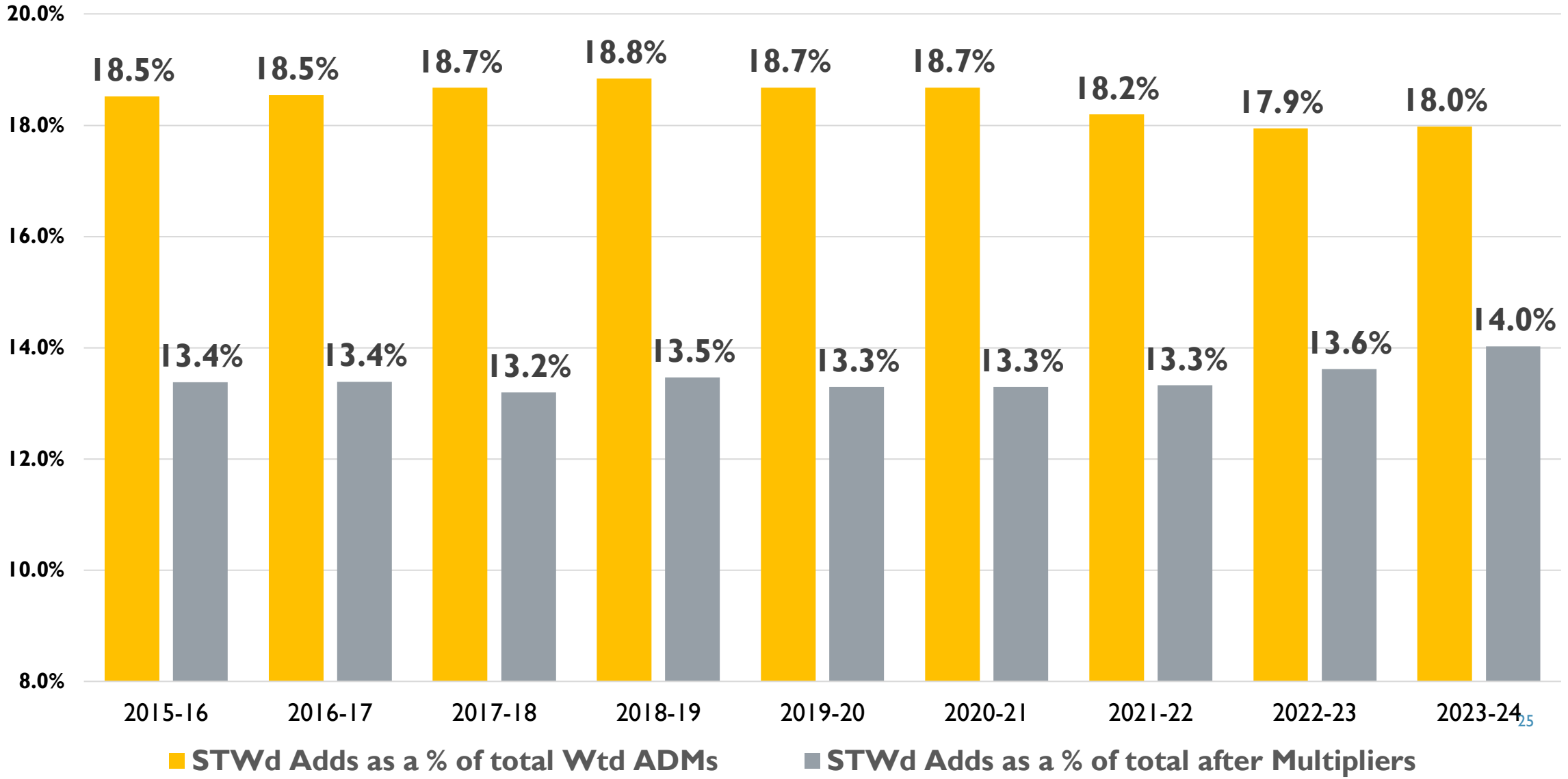
A. Three-year average ADMs	1,200
B. Acute Poverty Weight	192
C. Poverty Weight	78
D. Concentrated Poverty Weight	96
E. ELL Weight	60
F. Charter School Weight	4
G. Sparsity/Size Adjustment	12.5
H. Total Student-Weighted Count (A+B+C+D+E+F+G)	1,642.5
I. Median Household Income Index (MHII) ($51,986)	1.30
J. Local Effort/Capacity Index (LECI)	1.10
Total Formula Share of ADMs (after multipliers) (HxIxJ)	**2,348.775**

Example District BEF Formula Math…


Total Student-Weighted ADM * MHII * LECI
3,100,000.00
3,000,000.00
2,900,000.00
2,800,000.00
2,700,000.00
2,600,000.00
2,500,000.00
2,400,000.00
2,922,627.92
2,980,192.43
2,949,153.58
2,847,276.59
2,637,903.65
2015-16
2016-17
2017-18
2018-19
2019-20
2020-21
2021-22
2022-23
2023-24

School District	Total Student Weighted Count	MHII	LECI	Total Formula ADMs
Cumberland Valley SD	10,914.158	0.7160	1.0600	8,283.409
Harrisburg City SD	12,755.662	1.5207	1.9700	38,213.144
Solanco SD	3,684.580	0.9994	1.0000	3,682.369
Crestwood SD	3,178.434	0.7820	0.8200	2,038.139
North Penn SD	14,421.838	0.7172	1.0100	10,446.776
Wallenpaupack Area SD	3,329.366	1.1286	1.2200	4,584.177
York City SD	12,841.483	1.6997	1.9800	43,216.804

Student Weighted Adds as a % of Total Weighted ADMs before and after Multipliers



Calculate BEF Share and Total BEF Formula Distribution

1. Divide district's BEF Formula ADMs by the Total BEF Formula ADMs statewide (2,637,903.65) to determine district's share of the BEF pie
2. Multiply the district's share by the available BEF pie ($1,991,032,243.45)

A. Three-year average ADMs	1,200
B. Total Poverty Weight	366
C. ELL Weight	60
D. Charter School Weight	4
E. Sparsity/Size Adjustment	12.5
F. Total Student-Weighted Count (A+B+C+D+E)	1,642.5
G. Median Household Income Index (MHII) ($51,986)	1.30
H. Local Effort/Capacity Index (LECI)	1.10
I. Total Formula Share of ADMs (FxGxH)	2,348.775
J. BEF Formula Share (I/2,637,903.65)	0.00089039
BEF Formula Distribution (J x $1,991,032,243.45)	**$1,772,804**

Share Changes

For 2023-24 (from 22-23)

- 310 districts have an increasing share
- 190 districts have a declining share

Declining share districts are not necessarily receiving less BEF (it depends on the extent of the share loss and the amount of the appropriation)

BEF Share Increases

School District	22-23 share	23-24 share	Share Change
Wyoming Valley West SD	0.00380	0.004196	0.1044590%
Lebanon SD	0.007409	0.008224	0.1099832%
Coatesville Area SD	0.003847	0.004366	0.1347880%
Pittsburgh SD	0.01044	0.01201	0.1503901%
Panther Valley SD	0.00218	0.002535	0.1628776%
Boyertown Area SD	0.002019	0.002355	0.1666021%
Ridley SD	0.001893	0.00224	0.1827977%
Aliquippa SD	0.002009	0.002413	0.2007853%
Big Beaver Falls Area SD	0.001814	0.002206	0.2159177%
Pleasant Valley SD	0.001631	0.002234	0.3700152%

Common reasons for share gain…

- Increasing ADMs
- Increasing percentages of students in poverty
- Eligibility for the concentrated poverty weight
- Slow growing median household income
- Increasing local effort (multiple factors), falling below the median on LEI, LCI

…usually, it's a combination…

BEF Share Decreases

School District	22-23 share	23-24 share	Share Change
East Stroudsburg Area SD	0.005677	0.005471	-0.0363018%
Wilkes-Barre Area SD	0.009507	0.009022	-0.0510235%
McKeesport Area SD	0.005409	0.00504	-0.0681701%
Philadelphia City SD	0.205897	0.190152	-0.0763615%
Williamsport Area SD	0.00506	0.004668	-0.0774058%
Woodland Hills SD	0.003406	0.003079	-0.0959687%
Columbia Borough SD	0.001857	0.001629	-0.1227839%
Dover Area SD	0.001657	0.001318	-0.2044059%
Sayre Area SD	0.0010	0.000729	-0.2710171%
Allentown City SD	0.037231	0.033914	-0.890687%

Common reasons for share loss…

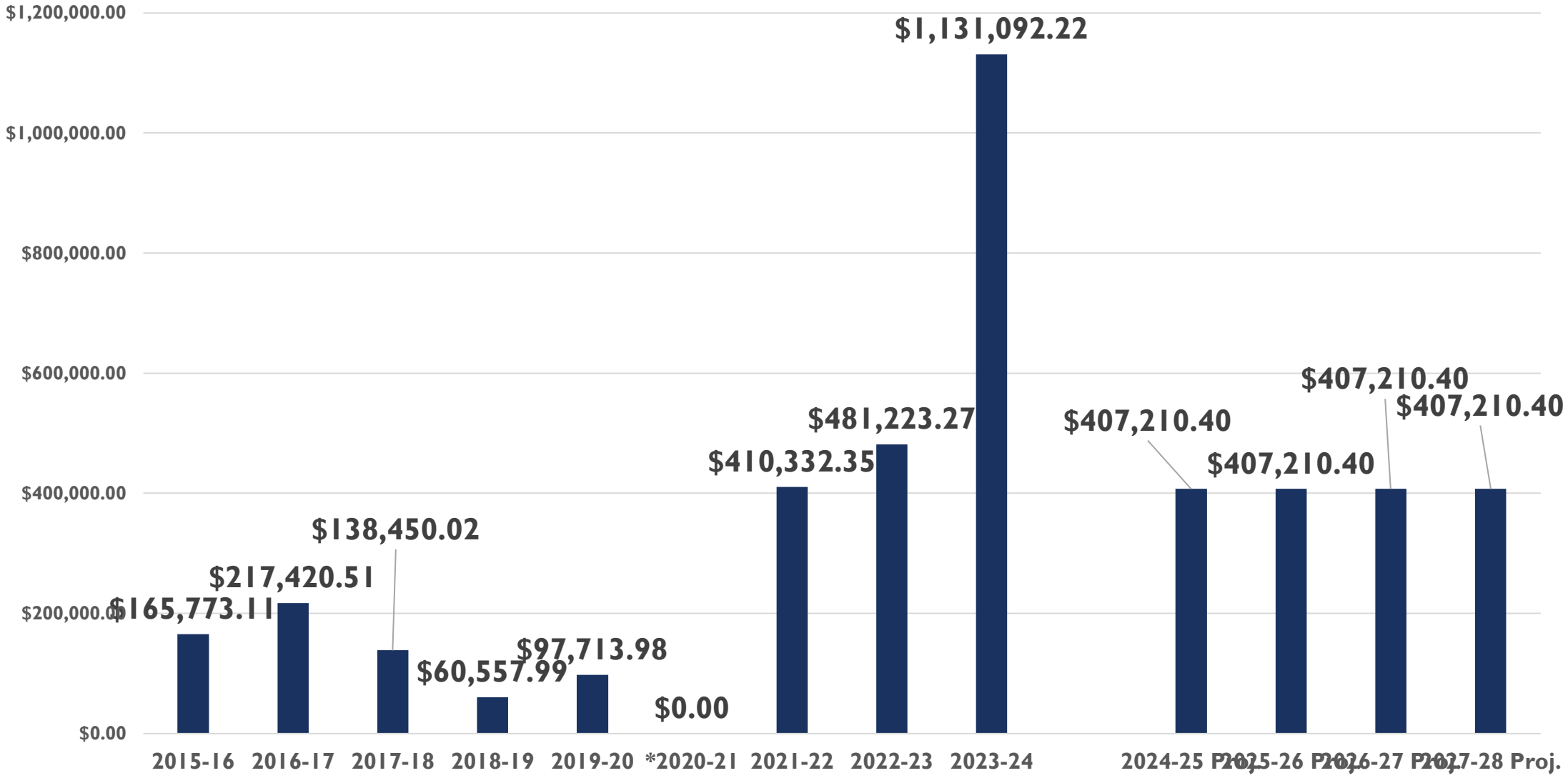
- Declining ADMs
- Falling percentages of students in poverty
- Falling off the concentrated poverty cliff
- Growing median household income
- Falling local effort (multiple factors), above the median on LEI, LCI

…usually, it's a combination…

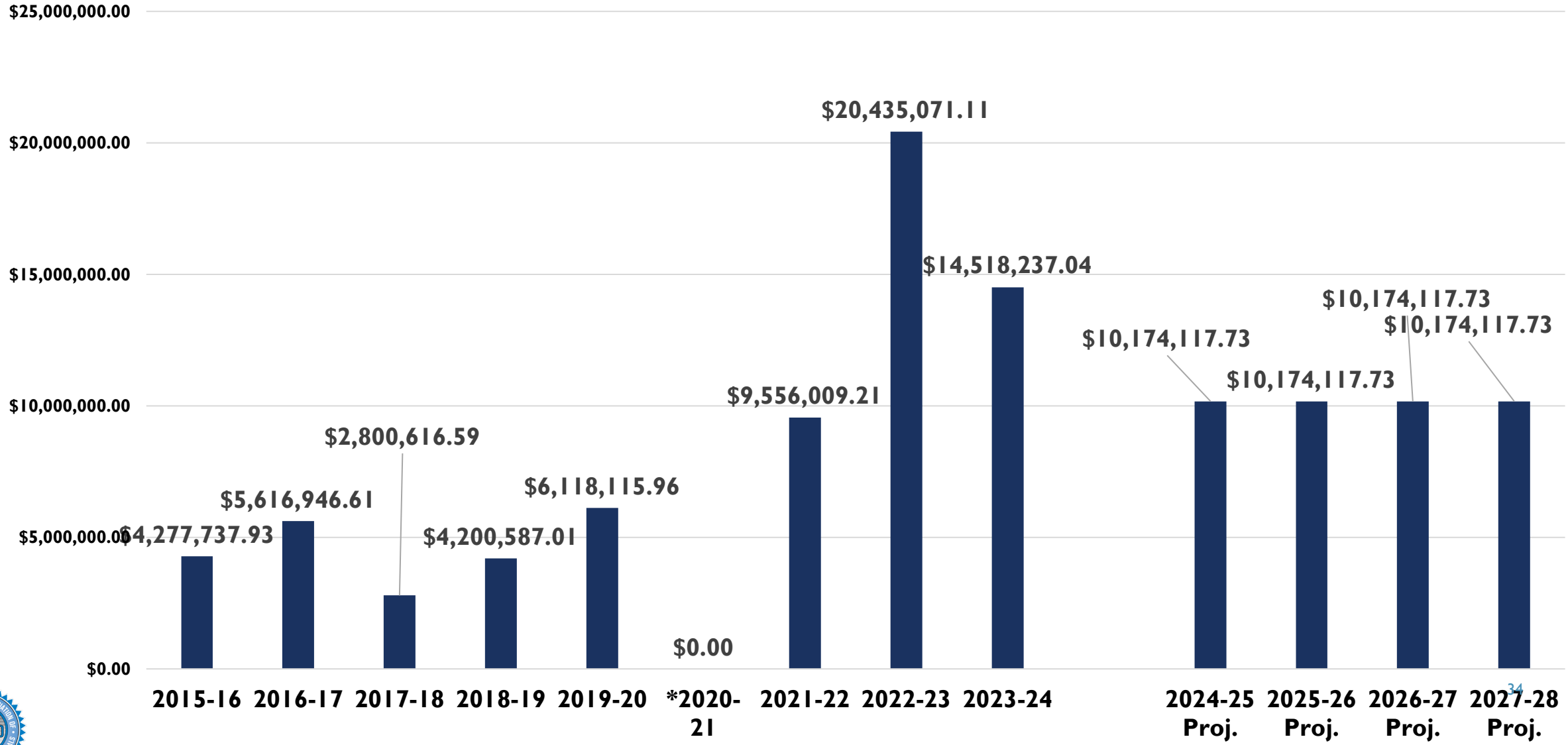
PASBO BEF Model

Twin Valley SD	FY	State BEF ADD	State BEF Student wtd Distribution	(Enter) LEA's Share	LEA's Student Wtd Amount	LEA's Student Wtd Amount Annual Increase
Actuals from 2015-16 to 2023-24	2015-16	**$152,398,840.00**	$152,398,840.00	0.001088	$165,773.11	$165,773.11
	2016-17	**$200,000,000.00**	$352,398,840.00	0.001087	$383,193.62	$217,420.51
	2017-18	**$100,268,443.00**	$452,667,283.00	0.001152	$521,643.64	$138,450.02
	2018-19	**$86,000,011.00**	$538,667,294.00	0.001081	$582,201.63	$60,557.99
	2019-20	**$159,999,900.00**	$698,667,194.00	0.000973	$679,915.61	$97,713.98
	*2020-21	**$0.00**	$698,667,194.00	0.000973	$679,915.61	$0.00
	2021-22	**$200,000,000.00**	$898,667,194.00	0.001213	$1,090,247.96	$410,332.35
	2022-23	**$525,000,000.00**	$1,423,667,194.00	0.001104	$1,571,471.23	$481,223.27
Average Add = $221 million	2023-24	**$567,365,009.00**	$1,991,032,243.00	0.001357	$2,702,563.45	$1,131,092.22
Projections based on Estimated State Adds and share estimates	**2024-25 Proj.**	**$300,000,000.00**	$2,291,032,243.00	**0.001357**	**$3,109,773.85**	**$407,210.40**
	2025-26 Proj.	**$300,000,000.00**	$2,591,032,243.00	**0.001357**	**$3,516,984.25**	**$407,210.40**
	2026-27 Proj.	**$300,000,000.00**	$2,891,032,243.00	**0.001357**	**$3,924,194.65**	**$407,210.40**
	2027-28 Proj.	**$300,000,000.00**	$3,191,032,243.00	**0.001357**	**$4,331,405.05**	**$407,210.40**

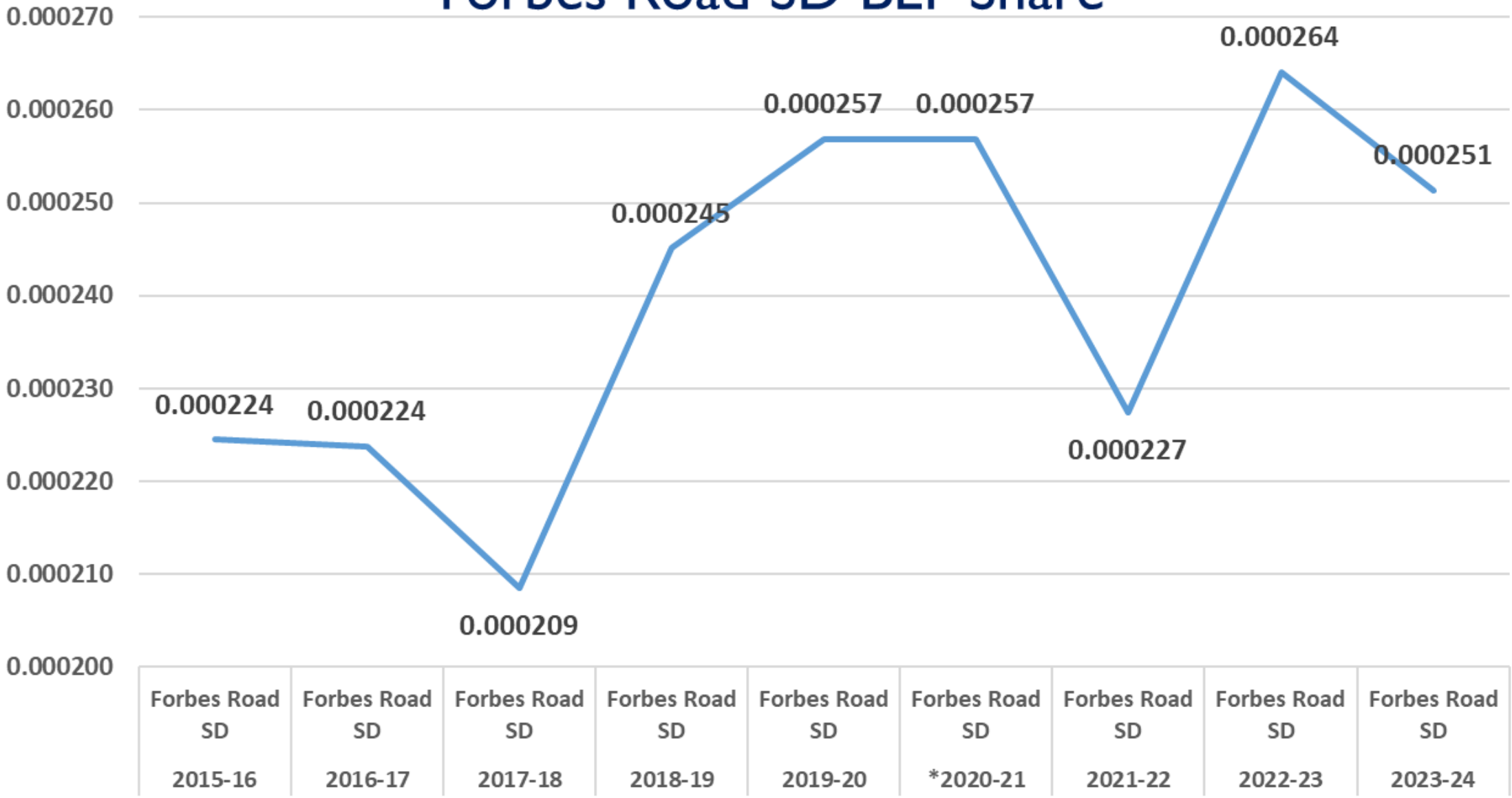
Twin Valley SD Student Wtd Amount Annual Increase



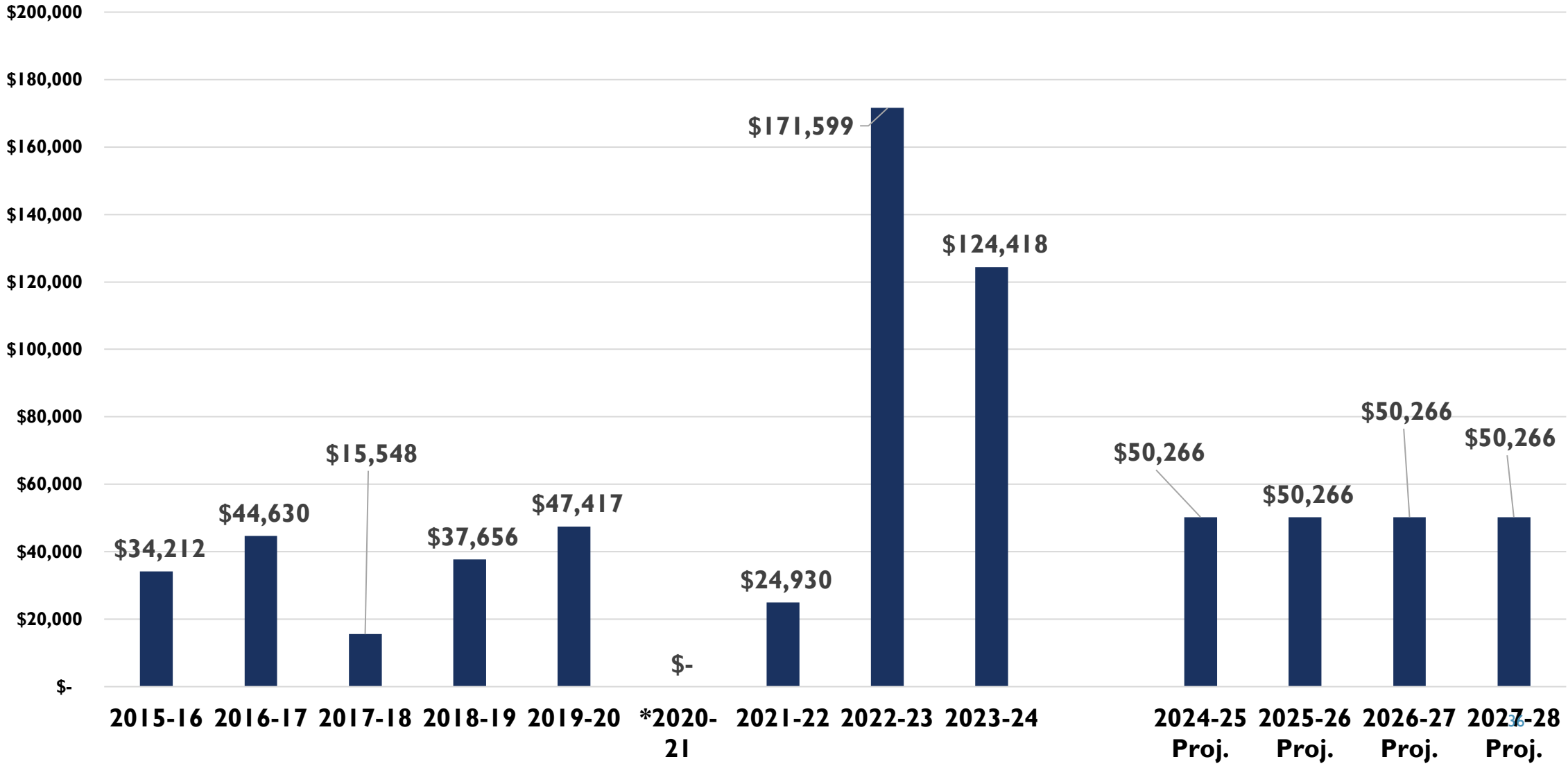
Allentown Student Wtd Amount Annual Increase



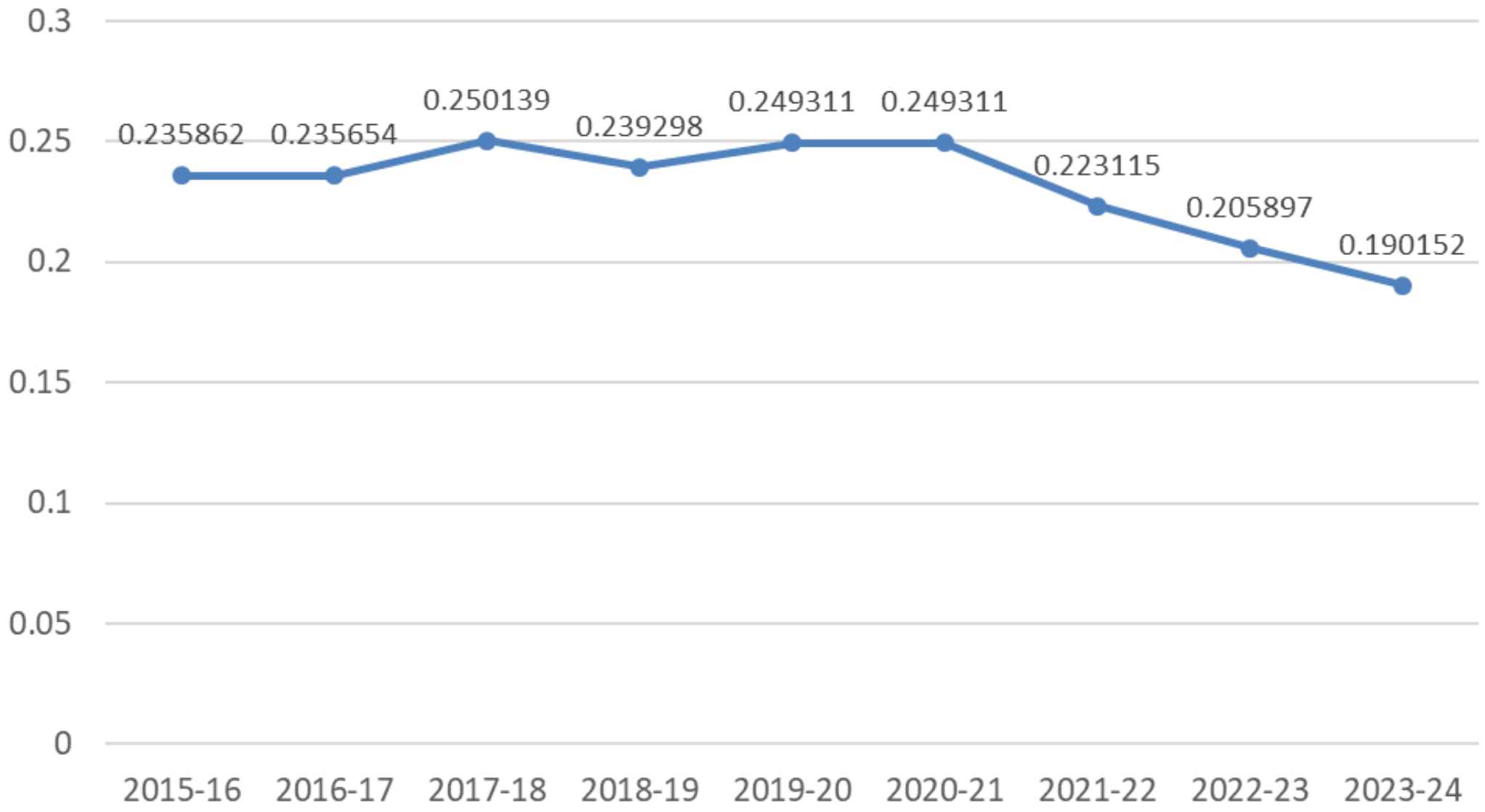
Forbes Road SD BEF Share



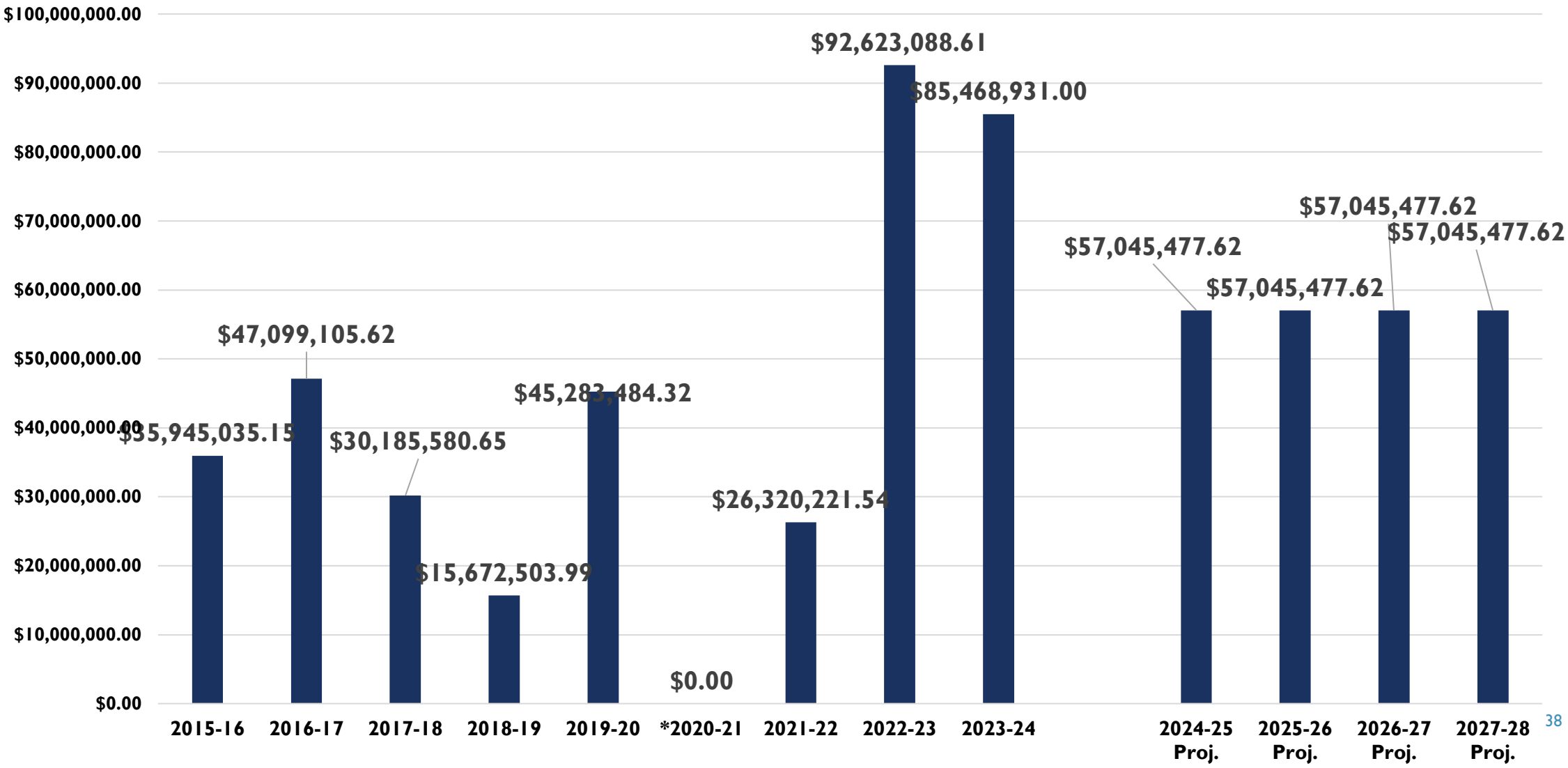
Forbes Road SD: LEA's Student Wtd Amount Annual Increase



SD of Philadelphia BEF Share



SD of Philadelphia Student Wtd Amount Annual Increase

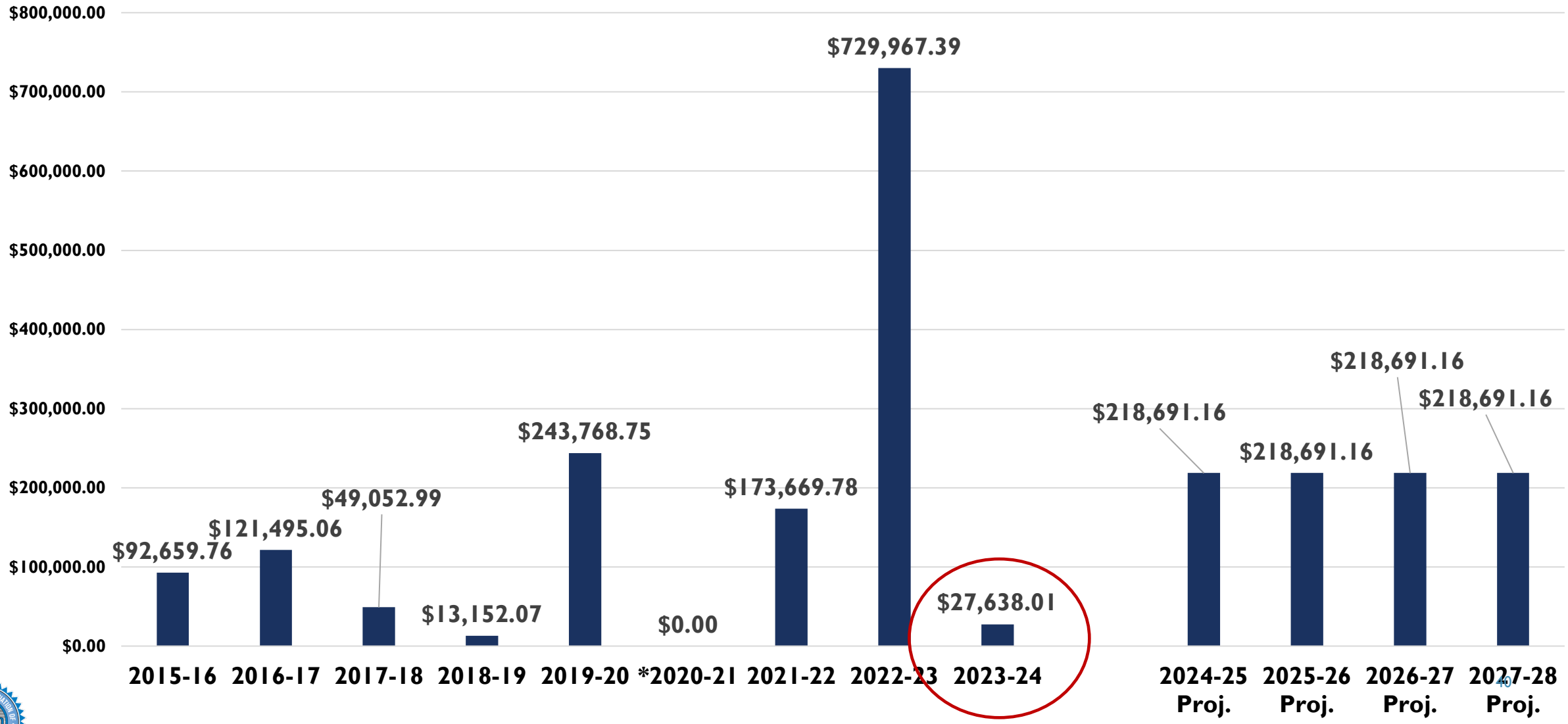


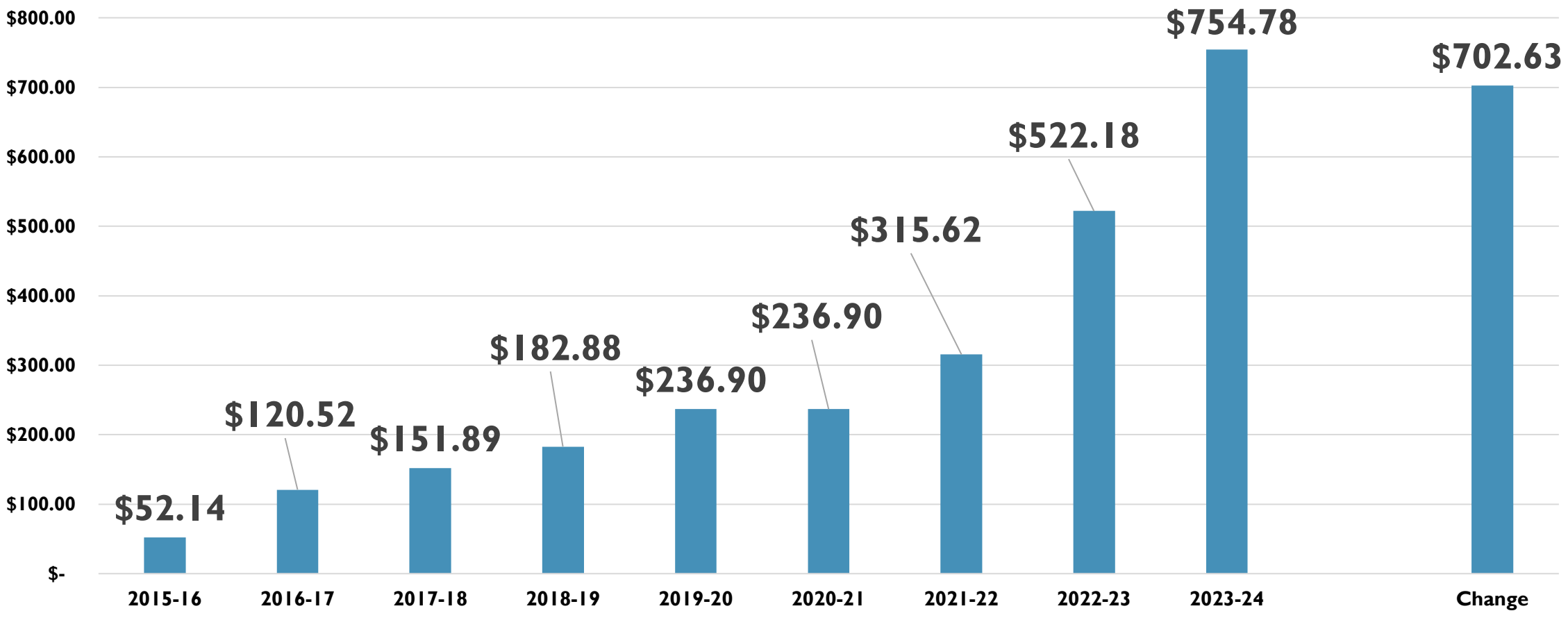
PASBO Recommended Adjustments to the BEF Formula

1. Smooth the poverty percentages
2. Fix the Concentrated Poverty Cliff
3. Exchange the Charter Weight for a Charter Reimbursement
4. Examine the LECI and consider measuring local effort through growth, not solely across districts
5. Adjust balance between the stable base and the dynamic formula

Improve predictability.

Sayre Area SD Student Wtd Amount Annual Increase





Total Value of a Weighted ADM (after multipliers)

PASBO Cautions Against…

01

Running all of the BEF subsidy through the BEF formula

02

Combining separate subsidies into one giant formula

03

Confusing student equity and taxpayer equity

PASBO Encourages…

01

Increased state share (increased focus on areas of expenditure growth)

02

Policy/other adjustment to ensure dollars hit the intended target

03

Continue to focus on multiple buckets of state funding

04

Creation of a new bucket to lift those districts that are furthest behind

Written Testimony
Basic Education Funding Commission

September 28, 2023

Good morning Chair Sturla, Chair Phillips-Hill, and members of the Basic Education Funding Commission.

I am Sherri Smith, Executive Director of the Pennsylvania Association of School Administrators. Thank you for hosting this hearing and inviting PASA to speak on behalf of more than 950 members including 456 who are sitting superintendents and executive directors. No issue is more important than the future of our young people and the educational opportunities that we provide for them across the Commonwealth.

The purpose of this Commission is to revamp a school funding system that provides for both adequate and equitable school funding and delivers on the need to provide all students a thorough and efficient education regardless of their zip code.

Pennsylvania's 500 school districts are all characteristically unique. Developing an equitable funding program that controls these variances is highly complex and creates many challenges to effectively address equity in funding of our schools, and ultimately provide for the equity of opportunities for all our students. However, it is critical in the work of this Commission that we accomplish this goal.

Because of these complexities and to ensure equity is achieved, having multiple funding sources is recommended. To try and encompass all the metrics needed to ensure equity under one set bucket of dollars, such as the Basic Education Formula, would be unmanageable and create other unintended inequities if attempted to do so. Funding allocations for special education programs and services, major facility renovation and maintenance projects, and transportation should all be provided separate from the Basic Education Formula.

There is a critical need to address the increasing costs of special education through the Special Education Formula. Special Education is one of the fastest growing cost drivers to school districts due to continued increase in number of students who require special education services, the number of specialized services they need, the costly legal fees incurred from Pennsylvania's Special Education Due Process Procedures, and the supply and demand needs of staffing special education classrooms and services. Between IDEA federal funding and SEF state funding, districts are only receiving 25% of

the funds needed to address their overall special education costs. That means districts are redirecting more and more BEF dollars to address the costs specific to special education. This, in turn, creates tighter budgets that would be used to provide needed opportunities for students served in other programs and classrooms, causing another concern for ensuring equitable opportunities for all students. Funneling significantly increased funding through the Special Education Formula is highly recommended to assist in resolving equity in our schools.

Another funding bucket that needs to be reinstituted is one for school facility renovations and upgrades. The environment that students are educated in is critical to their emotional and physical wellbeing. Walk through a newly built and renovated school building and feel the positive power and energy among the students and staff. Walk into a building with dim lighting, cracks in the walls, no air conditioning or reliable heating system, along with that distinct odor that comes from an old building. Then compare and measure the difference in the energy and power for learning in the building. Some of our schools are in such disrepair that it is not reasonable to think that it is a safe space for our students, much less conducive to learning. If you want equity for our students, without a doubt, we need to put money into ensuring all our students have the benefit of a safe, healthy, and inviting learning environment.

When our school leaders are asked what is most important to them in education funding, they are most concerned with the predictability and sustainability in the funds. They want to know that the state provided funds are fair to everyone and benefit all students in all school districts. It is also critical that the funding formulas are based on known reliable and verifiable data and formula components. School leaders need an understandable formula that allows them to estimate the future impact of local decisions.

PASA strongly supports the continued use of the Basic Education Funding Formula to distribute new basic education funds going forward. PASA believes the formula, combined with an increased state investment, provides the best pathway forward to correct the disparities in funding among school districts. The BEF formula directs money to school districts based on objective factors, such as student enrollment, the needs of students enrolled in district schools, population sparsity, school district wealth and capacity to raise local revenues. However, a review of the metrics in the formula is recommended to provide our school districts greater predictability of funding by smoothing out some of the high and low variances in payments from year-to-year. PASA encourages the Commission to reference back to PASBO's testimony on their recommendations, such as adjustments to the poverty percentages by using multiple years of data. We also question the need to increase the impact of the sparsity/size adjustment that provides for a slight adjustment in ADMs for PA's schools with the largest geographical area and are sparsely populated (small rural schools). Students in these schools are often remiss from receiving the varied opportunities that students in larger school districts receive. Even the digital infrastructure and connectivity are a challenge for these communities. A factor to be reviewed and considered.

Maintaining the stable base of BEF subsidy is necessary to not create other unintended consequences and inequities in funding. This base represents 75% of the BEF funding schools currently receive and reflects the total BEF subsidy schools received in 2014-15 formula. This base is important to maintain the stability of funding for schools and should not be rolled into the newer more dynamic formula. Instead, it is recommended that the Commission targets additional funding of those schools found to be unfunded in the BEF base funding to correct the inequities. A concept similar to that of Level-up funding, but to be inclusive of all schools underfunded, not just the bottom 100.

It is important that any state increases in BEF funds directly benefit the students who attend these schools, and not flow back out to fund other mandated costs. The biggest cost drivers for flow through of dollars goes to the increasing costs of the PSERs retirement system and the funding of charter schools. By example, the state increased district funding over a 10-year period (2010-11 and 2020-21) by $2.8 billion dollars, however PSERs increases ($3.5 billion) and charter tuition cost increases ($1.8 billion) – a combined cost of $5.3 billion - put districts 2.5 billion in the red, and in a difficult situation to either increase local taxes or cut district programs for students. How do we control the costs of these mandates so that the state increased funding actually benefits the students who attend these schools? These concerns are a critical part of resolving the funding of schools and for equitable opportunities for our students.

Beyond providing for additional funding and controlling mandated costs that take needed dollars from the instruction of our students, PASA offers a few other considerations for improving funding inequities and ultimately opportunities to students:

- There is a growing trend both at the state level and federal level to provide funds to schools through a grant application process. This trend creates many additional hours of school staff time to complete and comply with each of the grants' requirements (all with different rules and online application systems). In some cases, the districts must hire additional staff to manage the number and types of grants. It also causes inequity in the types of schools that have the personnel and knowledge to effectively apply for the dollars, creating an outcome that many of our most challenged districts are not able to apply or do not receive the funds. Pooling these dollars into a process as is used for the annual Ready to Learn grants would create greater opportunity and efficiency for schools to obtain the funds and ultimately, more effectively and efficiently, provide the programs mandated to support the students. The State would also be able to receive data on how each district implemented their programs and outcomes through such a system.
- Additional collaborative work among schools is encouraged to provide additional opportunities for students. With the use of modern-day technologies, sharing instructional staff and classes across districts will assist in personalizing instruction for students (such as AP classes, etc).

In closing, the question we need to ask ourselves first is "what are the needs and the specific targets we must provide for all the schools in the Commonwealth to ensure equitable opportunities for all

students?" Once we know what the programmatic targets are, then determining the needed funding to address and achieve the targets becomes more manageable in both concept and delivery.

This is our opportunity to correct the inequities our students experience based on the location of their schools. It is critical that we succeed in our intended goal to provide for an equitable funding system. PASA looks forward to continuing the work with this Commission on solutions to ensure all our students, no matter their zip code, have the education and opportunities for a successful and fulfilling life.

Good Morning Chair Sturla, Chair Phillips-Hill, and members of the Basic Education Funding Commission. I would also like to welcome my colleagues to our beautiful school district and thank you all for taking the time to come and speak about this topic. It is truly an honor to have everyone here today.

I am Jay Burkhart, superintendent of the South Western School District, and on behalf of our board of school directors, students, staff, and community, it is truly a privilege to speak with you today. I would like to take the next few minutes and talk with you about basic education funding and the role it plays in our district budgeting.

I would like to begin by asking you to take a moment and imagine our chairs are all connected by a single string, similar to what a spider web may look like. The string is tight and each chair is in some way connected to another chair in the room. Given the connections between the chairs, if we attempt to move even one chair, it will directly impact the position of another chair, whether that is our intention or not. As you attempt to move one chair, another chair moves, which may have a ripple effect that will move yet another chair, and so on. An additional impact could be that you attempt to move your chair but are unable to move the chair because the string from another chair may be preventing you from moving your chair.

At this point, you may be thinking, Jay, what in the world does this have to do with basic education funding? Well, it is the example of the chairs being interconnected that has to do with basic education funding. Please allow me to explain, the strings represent the connections between the program and the funding we receive from the basic education dollars. The string is tight because most, if not every, school district faces fiscal challenges each day. The chairs represent the programs that may have to be adjusted due to limited funding which may result and having to move the chair, adjusting the program, which will likely impact another program. If a program is inadequately funded, or not funded at all, but must be offered, districts have to look elsewhere for the funding in their budget. If we reduce or modify a program to adequately fund another, the impact would be felt in other areas.

The two areas I would like to discuss today are staffing and charter school funding. I recognize that some of my discussion points may be beyond the scope of BEF; however, if BEF is adequately funded it may present an opportunity for districts to have some flexibility between funding other programs that would otherwise take dollars away from district programming.

The first example I would like to discuss is staffing:

Our district has seen an increase in the number of positions needed for paraprofessionals in our district over the last several years. In addition to the increase in the number of positions, which carries a significant cost, our district has also had to increase starting and existing wages to attract and retain the talent needed to fill these very important positions in our classrooms. Some of the positions were needed due to increased student enrollment with special needs and others were due to the increase in hourly wages to retain our very important and talented employees. The resulting expenses are both immediate and carry long-lasting and compounding effects to our district budget.

Please allow me to share what the increases in our budgetary expenses for para-professionals have been:

SY 2022-23 - $834,884

SY 2023-24 - $931,332

SY 2024-25 - $1,017,698 (projected)

As mentioned many times by districts, the increased costs are due to pressures outside of our control and speak to the importance of the people who do the job to better educate our students. Wages have been increased so we can continue to attract highly qualified candidates to our positions. This continued need must be addressed and as you can imagine when we fund these additional costs, the string for that chair pulls on another area. The money will need to come from another area.

A second area of cost that continues to increase in cost and impact our district budget is the cost of charter schools. These costs have dramatically increased over the past several years. Our district has worked to contain these costs by partnering with our local IU to provide an online learning option for our students. The option we provide to our students is a school called Lincoln Edge.

Lincoln Edge, as of this testimony, has 83 South Western School District Students on their rolls. Our students who enroll in Lincoln Edge receive a South Western School District diploma upon graduation and maintain contact with the school district during their enrollment.

The district's costs for Lincoln Edge over the past three years are as follows:

SY 2021-22 – $838,149.50

SY 2022-23 – $687,724.50

SY 2023-24 – $689,425.00 (budgeted)

This cost works out to be approximately $8,306.33 per student to attend Lincoln Edge. Yes, Lincoln Edge is our online option and we work with the LIU to offer this quality program at a reduced rate, it is still a cost that continues to increase each year.

All other cyber and brick-and-mortar charter schools in the district account for 196 students. The costs for all of the other cyber charter schools over the past three years are as follows:

SY 2021-22 – $2,401,340.75

SY 2022-23 – $2,622,037.21

SY 2023-24 – $2,654,000.00 (budgeted)

This cost works out to be approximately $13,540.82.41 per student to attend all other cyber and brick-and-mortar charter schools

The total costs for the charter school expenses in our district over the past three years are:

SY 2021-22 – $3,239,490.25

SY 2022-23 – $3,309,761.71

SY 2023-24 – $3,343,425.00 (budgeted)

Even as we see an increase in charter school enrollment and costs, the demands on the district's resources (teachers, facilities, etc) are not reduced. This results in an additional cost to the district and in our case, like most, if not all other school districts, the cost is significant.

A final note that some of my colleagues have addressed or will address is PlanCon. Please note we are sitting in the board room of a school building that has recently undergone a 35 million-dollar renovation. Across the street, our HS is just starting a 70-million-dollar renovation. While Plancon is not part of BEF, renovations of our facilities are still a cost driver and without PlanCon they (renovations) pull money from our budge.

In closing, I am grateful for the time with you today to tell our story. Your task is not easy and the demands are great. We ask you to continue to talk with us to problem-solve solutions and make decisions with us that are what is best for our students and our communities.

SOUTH EASTERN SCHOOL DISTRICT

377 Main Street
Fawn Grove, PA 17321
(717) 382-4843 Fax: (717) 382-4769

Nathan P. Van Deusen, Ed.D., *Superintendent*

Funding Commission Testimony- Dr. Nathan Van Deusen- South Eastern School District

Good morning Chair Sturla, Chair Phillips-Hill, and members of the Basic Education Funding Commission. My name is Nathan Van Deusen and I am in my 5th year as the Superintendent of the South Eastern School District. The SESD is a rural to suburban district in southern York County. The SESD borders Maryland to our south, the Susquehanna River to our East, and Route 83 to our west. Geographically, we are a fairly large district that encompasses over 108 square miles with a student population of approximately 2600 students.

Let me begin by thanking members of our General Assembly for working collaboratively to provide significant increases to BEF, SEF, the Ready to Learn Block Grant, Career and Technical Education, and adopting the universal free breakfast. We are also confident that our representatives will work together to pass a bipartisan fiscal code, so that the remaining $1.1 million dollars can be utilized by school districts across the Commonwealth.

A few weeks ago, after meeting with Senator Phillips-Hill, I was asked to provide testimony for this funding commission. I agreed to this because I see the value in creating more connection points between local school districts and their state representatives in the House and Senate. These points of connection allow local school districts and their representatives in the General Assembly a better understanding of public education from the point of view of both parties. Mother Teresa has the following quote that underscores the need for us to connect and collaborate on issues related to public education. She said, *"You can do what I cannot do. I can do what you cannot do. Together we can do great things."* It is only through these collaborative partnerships that we can provide an excellent education for students of this Commonwealth.

My testimony will not be solely based on the SESD. While our per pupil BEF falls in the bottom half of the distribution across the state and places a heavier burden our local taxpayers, I wanted to take my time this morning identifying the issues that I am perceiving within our state funding. As I began to prepare my testimony, I started by working to understand the Basic Education Funding Formula more comprehensively. After reviewing the calculations on the PDE website, I ran various numbers in a system called 5Sight. I started by looking at the district per pupil expenditures across the state, then looked closer at district BEF per pupil expenditures. I then pulled median household income, local effort capacity, real estate market value, and mill rates for all 499 districts in the Commonwealth. Lastly, I color coded each area based upon quintiles, to see if there were trends. I color coded dark blue for districts doing well in each of those metrics and dark red for those districts who fell in the bottom quintile of the metric. So, what did I find? I found that districts who receive high BEF dollars have low median household income, low effort capacity, and in many cases a lower real estate market value. Conversely, districts with a lower BEF subsidy had higher median household income, higher local effort capacity, and higher district real estate market value. So, my conclusion was that our BEF is funding those districts who may not have the capacity to generate revenue needed through local taxing mechanisms. Thus, BEF is doing what it proports to do, sharing more dollars with those districts who may not have the ability to generate the necessary dollars from their real estate taxes.

SOUTH EASTERN SCHOOL DISTRICT
377 Main Street
Fawn Grove, PA 17321
(717) 382-4843 Fax: (717) 382-4769

Nathan P. Van Deusen, Ed.D., *Superintendent*

That being said, outside of the correlation between BEF funding to poverty levels, there were anomalies all over the place. One of the greatest anomalies was district mill rates. I initially assumed that these rates would be based upon the dollars needed to make up what wasn't provided by BEF. As I looked at this closer, the mill rates seemed to be more connected to a county or region, rather than the BEF amount or their poverty levels. I thought to myself, what does that mean then? I came to the conclusion that the current BEF formula tries to fix a multivariate problem with a univariate solution. In other words, poverty and the ability to generate local income should not be the only or most significant driver of state funding. What was is being thoroughly considered is the expenditure side of the ledger. The truth is that the Commonwealth has 499 unique districts, each with a set of unique challenges and those challenges drive district spending.

There are countless budget drivers that are unique to each district. District geography, level of student need, infrastructure costs, and many more. I would like to take a few minutes to discuss 3 budget drivers that have a significant impact on district budgets and are not being funded fully. Those expenditures are personnel salaries/benefits, special education costs, and charter school disbursements. Each of these budget drivers are unique to each district and create a great deal of variability across the Commonwealth. This variability is not fully reflected in our current formula which heavily focuses on district wealth outcomes.

The first expenditure driver is salaries and benefits. Higher salaries and benefits seem to be clustered regionally and based upon the poverty levels of a district. When we look at counties such as Chester, Montgomery, and Delaware, districts must pay more in salary for their staff due to the cost of living in the area and the regional competition for those positions. Districts such as Lower Merion pay over $134,000 at the top of their pay scale, where other more rural districts, such as Southern Tioga pay $78,000 at the top of their pay scale. To be competitive regionally, districts in our more affluent counties must compensate their staff at a rate that is commensurate with peers in their region. So, for many districts in "affluent regions" those salary schedules create insurmountable funding difficulties for their districts. Lower Merion, for instance spends over 70% or their budget on salaries and benefits only. This leaves less than 30% for operations, curriculum/ instruction, student support, and more. From a BEF standpoint, Lower Merion receives one of the lowest BEF per pupil expenditures in the state at about $665 per student, this puts a larger share of the taxing burden on the local taxpayer. We then see this through higher mill rates in those regions.

The second budget driver that I will share are the variability of special education costs. Please understand that within special education costs there are extreme differences between school districts. Chester-Upland, for instance provides SE services to over 25% of their student population. This is 8% more than the average school district in the Commonwealth. The costs within each special education district population is also variable. Chester-Upland for instance spends just over $59,000 per pupil for special education services, which is one of the highest per pupil expenditures in the state. To truly understand the costs though, we must understand that the needs of each student drives the cost of the service for the district. To provide an example of this, Chester Upland has more than twice the number of students identified with an intellectual disability than the state average (12.7% versus 6.2%). Providing support for those with an intellectual disability tends to

SOUTH EASTERN SCHOOL DISTRICT
377 Main Street
Fawn Grove, PA 17321
(717) 382-4843 Fax: (717) 382-4769

Nathan P. Van Deusen, Ed.D., *Superintendent*

be the costliest for all school districts. In many instances, districts need to find outside Life Skills or Multi-Disability placements for students with costs per student that can be over $150,000 annually. While student need categories are calculated in the special education funding formula, the amount reimbursed never comes close to the outlay that is needed.

The final expenditure driver that I will discuss are charter school expenditures. The cost per student at the top end for a SE student is $60,000 a year and the top end for a regular education student is $25,000. Due to the fact that many charter schools are centrally located in our urban settings, our city school districts are hit the hardest financially. Charter school costs are based on an antiquated PDE 363 formula that compensates a charter school for what the sending school offers, rather than what the charter school provides. In addition, they compensate charter schools for SE students based upon the district average cost rather than the student's actual disability. These overpayments are reflected in district fund balances. As I was reviewing data for this testimony, I noticed that Twenty-one of the top 25 school entities with the highest fund balance based upon a percentage of their revenue were charter schools.

Last January there was a Performance Audit Report submitted regarding 12 districts in the Commonwealth that added dollars to their fund balances while simultaneously raising their millage rates. While this got some traction across the state, what the auditor general failed to mention were the huge fund balances held by our charter school counterparts. While our charter school counterparts do not have the ability to tax, these astronomical fund balances reflect the fact that our taxpayers are overpaying for an expense and this should be a red flag. Please understand that I am not speaking out against school choice, I am simply in favor of a new calculation that doesn't negatively affect the local tax payer.

So, how do we fix these unique cost driver issues across the Commonwealth? The first cost driver for our more "affluent regions" is the cost of salaries and benefits. Adding a cost of living calculation to the BEF formula may aid districts whose salary matrix reflects the regional income levels. While the average cost per student may be high when compared to other districts across the Commonwealth, the inflated numbers are simply a reflection of the cost of living in that region, rather than a reflection of the district's financial health. In many cases, these "wealthy" districts, are receiving a much lower BEF allocation and many are not sitting on large fund balances and ending up with annual surpluses. Many of these districts have needed to consistently increased mill rates because state funding responsibility was removed, making the local taxpayer bear the burden. Norristown Area school district is a great example. Norristown receives BEF dollars in the lower half of the state distribution but must keep up with a salary schedule that reflects other districts in Montgomery County and this places a high tax burden on their local taxpayers. In addition to salaries and benefits, many districts in "affluent regions" are dealing with a changing demographic and higher special education costs which creates the need for more district services.

The second budget driver mentioned was special education costs. As I previously mentioned, the special education funding formula does compensate districts based upon the level of need but it just is not enough. Over the past decade, student needs have drastically increased and the cost of those services have also

SOUTH EASTERN SCHOOL DISTRICT
377 Main Street
Fawn Grove, PA 17321
(717) 382-4843 Fax: (717) 382-4769

Nathan P. Van Deusen, Ed.D., *Superintendent*

enlarged. For smaller districts, students with more complex needs, are being educated in outside placements simply because the number of students with a unique need does not necessitate creating a district class for those students. This means not only paying more for the service but also covering significant transportation costs to transport those students to an outside placement.

The final cost driver that was previously mentioned are charter school costs that are affecting all districts across the Commonwealth but are hitting our urban settings the hardest. I am encouraged that House Bill 1422 (Modernizing the Cyber School Law) is a step in the right direction. This House Bill looks to set state charter school rates based upon the services provided, updates the SE formula, adds increased transparency on how dollars are being spent by the charter school. HB 1422 is a step in the right direction and will have a significant financial impact because all districts. Our urban districts who deal with this cost driver the most will finally feel some reprieve from an antiquated formula that compensates charter schools for what is provided by the home school district, rather than what is offered by the charter school.

As I close, I would like this commission to understand that the BEF formula cannot be the only answer. While more dollars should be driven to Commonwealth school districts and tweaks to the formula is needed, other specific funding streams should be available to support the unique challenges in all districts. For example, infrastructure upgrades in many of the districts across the Commonwealth are necessary. House Bill 1408-Plan Con 2.0 is a step in the right direction. Districts with limited fund balances and heavy financial burdens should be the first to benefit from these dollars. Those districts who have not been able to secure their front entrances and provide basic HVAC upgrades, such as air conditioning should be prioritized. Plan Con 2.0 is an opportunity to aid our most financially strapped school districts through basic upgrades of their facilities.

Last February the Common Court ruled that Pennsylvania's current system of funding schools is inequitable and must be reformed. As a result, this bipartisan commission has been formed to revamp the state's BEF formula. Voltaire once said, *"No problem can stand the assault of sustained thinking."* I am a firm believer that the partnership between members of this commission and district level leaders can lead to a sustainable solution that will benefit both the children and taxpayers of the Commonwealth. Distinguished leaders, thank you for allowing me the time to share my thoughts with this Commission.

September 27, 2023

Sen. Kristin Philips-Hill & Rep. Mike Sturla
Co-Chairs of Basic Education Funding Commission
PA State Capitol
501 N 3rd Street
Harrisburg, PA 17120

Re: Urgent Appeal for Representation and Equity in Philadelphia's Educational Landscape

Dear Co-Chairs of the Basic Education Funding Commission,

We write this letter representing the African American Charter School Coalition (AACSC), an organization committed to championing the rights and interests of a significant portion of Philadelphia's public school community. As you undertake the monumental task of addressing the Commonwealth Court's directive stemming from the William Penn School District et al. v. Pennsylvania Department of Education et al. case, we find it imperative to bring to your attention a pressing concern that threatens to undermine the very essence of the "thorough and efficient system of public education" that we are all striving to achieve.

Despite representing a substantial third of Philadelphia's public school community, Philadelphia Public Charter Schools find themselves conspicuously absent from the critical discussions and deliberations that are shaping the future of education in our state. This exclusion is not just a matter of representation but a grave injustice that echoes the racial bias and inequities that have been a longstanding concern for our member schools.

For 21 months, we have awaited a response, a recognition, or even an acknowledgment from Dr. Watlington, the Philadelphia School Superintendent, regarding the investigation commissioned to Ballard Spahr. The continuous delay in releasing the report has not only fostered a climate of mistrust and uncertainty but has also exacerbated the racial inequities that we face.

We, therefore, stand before you to:

- Advocate for the immediate inclusion of Philadelphia Public Charter Schools in the pivotal discussions and hearings that are currently underway, ensuring that our voice, representing a significant portion of the public school community, is heard and valued.

- Urgently request the transparent and swift release of the Ballard Spahr report, a step that is critical in fostering accountability and initiating a dialogue rooted in truth and a commitment to

rectifying the pervasive racial bias, retaliation and targeting of charter schools by the School District of Philadelphia, the Board of Education and the Charter School Office.

- Call upon the Mayor, the Board of Education, and Dr. Watlington to break the silence and actively engage in a constructive dialogue aimed at addressing the concerns raised by our coalition, fostering a collaborative and inclusive approach to overcoming the challenges at hand.

We are not just stakeholders in this endeavor; we are custodians of the dreams and aspirations of thousands of young minds who look up to us for guidance, education, and a promise of a brighter future. We have a voice, and we MUST be heard, respected, and included in the larger narrative.

We thank you for your attention to this urgent matter and remain hopeful for a collaborative pathway forward, one that is rooted in justice, equity, and inclusivity, honoring the spirit of the Commonwealth Court's decision and our constitutional mandate.

We look forward to your swift and decisive action in this regard.

Thank you,

African American Charter School Coalition (AACSC)

Legislative Information Packet

for the

School Property Tax Elimination Act

prepared by the

Property Tax Elimination Working Group

Robert Kistler
Ron Snell
Henry Rothrock
Mike Fogarty
Bob Stilwell
Ryan Pertrusio

www.noprop.tax

September 2023

Legislative Information Packet
for the
School Property Tax Elimination Act

Contents:

More information: www.noprop.tax

Property Tax Elimination Working Group:

Ron Snell	snell1737@verizon.net	(670) 478-7018
Robert Kistler	skiortee@aol.com	(610) 379-5090
Henry Rothrock	htr2775@yahoo.com	(814) 503-0592
Bob Stilwell	bob.stilwell@verizon.net	(301) 515-7655
Ryan Pertusio	rpertusio@gmail.com	
Mike Fogarty	fogclan@aol.com	(610) 383-0817

The Legislative Challenge:

The Commonwealth Court Order of February 7, 2023 stated that:

The Education Clause, article III, section 14 of the Pennsylvania Constitution, requires that **every student receive a meaningful opportunity to succeed** academically, socially, and civically, which requires that all students have access to a comprehensive, effective, and contemporary system of public education. **Education is a fundamental right guaranteed by the Pennsylvania Constitution** to all school-age children residing in the Commonwealth

The respondents (Pennsylvania Department of Education, Governor, State Legislature, Secretary of Education, and the State Board of Education) have not fulfilled their obligations to all children under the Education Clause in violation of the rights of the Petitioners and students attending low wealth districts ;

Article III, section 32 of the Pennsylvania Constitution imposes upon the Respondents **an obligation to provide a system of public education that does not discriminate against students based on the level of income and value of taxable property in their school districts**. Students who reside in school districts with low property values and incomes are deprived of the same opportunities and resources as students who reside in school districts with high property values and incomes;

The disparity ... is not justified by any compelling government interest nor is it rationally related to any legitimate government objective; and as a result of these disparities, Petitioners and students attending low wealth districts are being deprived of equal protection of law.

The Current School Funding Problem

- Statewide, school property taxes collected amount to approximately $15B
- Such an amount cannot be replaced from the present state budget
- Available state school funding is dispensed inequitably in a failed attempt to help poor districts
- Currently, shrinking districts tend to receive increasing state percentages while growing districts receive less
- A broad-based tax replacement is needed to fix this problem
  - Only increases in the PIT and the SUT could generate sufficient funds
  - It would also shift the burden to be more fair and equitable
- Commonwealth Court hinted at court-defined remedy if legislature/executive inaction

Prepared by Property Tax Working Group -
Robert Kistler, Ron Snell, Henry Rothrock, Mike Fogarty, Bob Stilwell, Ryan Pertusio – March 2023

Solution

The School Property Tax Elimination Act, former House Bill 13 (2021-22), is designed to specifically solve this problem. HB13 replaces ALL school property tax with increases in personal income (school district) and sales/use taxes (county level).

Why HB13 (2021-22) is an ideal solution to the inequitable school funding court ruling:

- Immediate infusion of roughly $15B as the funding shifts from property taxes to Income and Sales Tax.
  - Real estate property taxes are collected in advance. When HB13 (2021-22) is implemented, funding distributions will occur as determined by the PDE. The funding sources of HB13 (2021-22) are SUT and PIT. Since PIT and SUT are collected real time, the School District Property Tax Elimination Fund is funded with very little delay in collection, monthly is feasible.
- Removes restrictions on school districts' maximum fund balance
- $1B toward emergency fund and appeals for districts that may be negatively impacted
  - Assistance for districts in financial trouble
  - Mandatory training for school business officials
  - Appeals board includes PSEA/AFT, PASBO, and PSBA representatives
- The current Funding Model and the Inequity it Self-propagates violate the State Constitution
  - The court highlighted excessive reliance on real property taxes.
    - The current funding model cannot fix this.
    - School funding via HB13 (2021-22) solves this problem permanently.
- The Court Order Demands Equity and Fairness in a Solution
  - HB13 (2021-22) accomplishes this as well as prevents a recurrence.
  - Local control is optimized.
- HB13 (2021-22) provides the funds necessary to meet all school districts' current debt service requirements

House Bill 13: "The School Property Tax Elimination Act"

Benefits for Owners, Renters, Small Business

- Eliminates school property tax
- Rent reduction
- Lower mortgage escrow payments
- Lower closing costs
- No penalty for prop improvement
- Attract businesses and jobs
- Zero lost homes

Benefits for Schools

- Rainy day savings cap removed
- Local funds, local control
- Creates $500M+ emergency fund
- No grief over property taxes
- Curbs unfunded mandates

Funding

$16B in Sales/Income taxes
replaces $16B in school property taxes

SALES & USE TAX (SUT)

- Additional 2% rate (to 8%)
- Food/Clothing at 2% rate
- No tax on WIC/SNAP purchases
- Stays local (county)

INCOME TAX (PIT)

- Addt'l 1.85% rate (to 4.92%)
- Non-SS Retirement as income
- No tax on Social Security
- No tax on your contributions
- No tax on military pensions
- Stays local (school district)

Funds increase with economy without raising rates

Economic Factors

School Property Taxes:

- Are regressive
- Grow faster than inflation
- Unfairly burden seniors

Economy/Demographics:

- Ages 0-64 shrinking/leaving PA
- 65+ population & costs growing
- Prop taxes stifle economy

Unsustainable Options

- Keep the school property tax
- Dump costs on working families
- "Relief" instead of Elimination

Estimate your own tax impact:
https://NoProp.Tax/calc

Fairness: School property taxes are **regressive**, **NOT** based on **ability** to **pay**, and rates must be **increased each year.** Sales/Income taxes are **fair:** If you **make/spend more**, you contribute **more** to school funding. PA's **most vulnerable** are **protected** with Income Tax Forgiveness and HB13 exclusions (like SS and SNAP)

Seniors as a whole save 50%, a majority save significantly, and those on Social Security alone save the most.

Sales, Use, and Occupancy Tax

An increase in the sales, use and occupancy taxes from the current tax rate of 6% to 8%, whereby the additional 2% tax shall be distributed to each county of this Commonwealth, which shall disburse money to school districts within the county from the *School District Property Tax Elimination Fund*. Food and Clothing will be taxed at a 2% tax rate. WIC and SNAP items are excluded.

"Governing body." The board of county commissioners, including the successor in function to the board of county commissioners in a county which has adopted a home rule charter. Each governing body shall implement county sales, use, and occupancy tax on October 1, 2024. Tax revenue collected is placed in this fund. (P13)

County accounts.--For each county the (proper name) County Sales and Use Tax Account is established as a separate account within the fund. (P24)

The School District Property Tax Elimination Fund **is established as a separate fund in the State Treasury (P23)**

The School District Emergency Fund is established as a separate fund in the State Treasury. (P8)

Purpose.--The emergency fund shall be used to make disbursements at a time and in a manner determined by the board. (P8)

Funding.--
(1) The sum of $500,000,000 is appropriated from the General Fund to the emergency fund for the fiscal years July 1, 2022, to June 30, 2024. The appropriation shall be a continuing appropriation and shall not lapse. The appropriation shall be allocated as follows:
(i) For fiscal year 2022-2023, $250,000,000.
(ii) For fiscal year 2023-2024, $250,000,000.
By August 1, 2024, and each August 1 thereafter, each school district shall submit one quarter of 1% of the school district's budget for that school year to the department. The amount transferred under shall be segregated in the emergency fund by accounts for each separate school district. (P9)

Purpose.--The fund shall be used to make disbursements at a time and in a manner determined by the Department of Education for the purpose of eliminating school district property taxes. (P23)

Initial amounts.--During the first three fiscal years immediately following the base year, the State Treasurer shall make distributions to each county, on behalf of school districts within the county, from the fund in an amount *equivalent to the total real property tax revenues* collected by the school districts during the base year, without regard to the amount of money contained in the fund at the time of the distributions. The General Assembly shall appropriate as much money as necessary to allow the fund to remain solvent to make the distributions. (P23)

Subsequent amounts.--For the fourth fiscal year immediately following the base year, and each fiscal year thereafter, the following apply.
(1) Sales, use, and occupancy tax shall be received by the department and paid to the State Treasurer. Money shall be credited to the county sales and use tax accounts not less frequently than every two weeks. (2) Money in the county sales and use tax accounts shall remain in the county sales and use tax accounts. Pending their disbursement, money in account shall be invested or reinvested as is other money in the custody of the State Treasurer in the manner provided by law. All earnings received from the investment or reinvestment of the money shall be credited to the respective county sales and use tax accounts.
(3) The State Treasurer shall make periodic disbursements to each county, on behalf of school districts within the county, out of the money contained in the county's sales and use tax account. (P24-25)

Disbursement to school districts.--Each county shall distribute to each school district a portion of the total disbursement to school districts which is equal to the total disbursement to school districts multiplied by the ratio of average daily membership of the school district divided by the sum of the average daily membership of all school districts in the county. (P25)

The School District Property Tax Elimination Appeals Board is established (P6)

Board Duties:
(1) Provide information to counties and school districts regarding the use of the fund and requirements.
(2) During the base year and the first three fiscal years immediately following the base year, periodically evaluate the finances of each school district in the Commonwealth to determine whether the school district is negatively impacted as a result of the elimination of school district property taxes and the replacement of that revenue through disbursements from the fund.
(3) Make a determination as to a request for supplemental funding.(P8)

The school may apply to the board for supplemental funding. The school can receive anything in their funds (contributed from the 0.25%) AND anything from the $500M, up to the available balance (as decided by the Board). See § 9014 Supplemental funding (P9).

Excess money.
If, as a result of the disbursements made through the fund, a school district receives more money during a fiscal year than the amount under the school district budget approved by the school district's board of school directors for that fiscal year, the school district shall reduce the earned income tax imposed by the school district or reduce any indebtedness of the school district by the difference between the amount of the fund disbursements and the amount under the school district budget. (P10/11)

Personal Income Tax

October 1, 2024: School districts levy, assess and collect a local tax on the personal income tax up to a *maximum* rate of 1.85%. School district shall designate the tax officer as collector of tax. (P21)

Low-income tax provisions may apply per section 317 of the Local Tax Enabling Act and 72 Pa.C.S. § 2204. Both determined by school district. (P22)

Retired & Working Cohort

Employee contributions to retirement plans are not taxed. There is a 15% cost basis default income reduction. If actual cost basis can be determined, the greater of default or actual can be applied. For additional clarity, if actual is less than 15%, still eligible to take the 15%. (P187)

For those still employed, the current income tax of 3.07% will continue to go to state general fund. For retired, 3.07% will go to general fund.

Additional income tax of up to 1.85% will be levied by local school with all revenue going directly to the local school

Retired Cohort

Income tax extended to compensation of retirement benefits. Social Security and equivalents excluded, military pension excluded. (P4)

Former House Bill 13 (2021-22)– Bill Reference Sheet

This document serves to condense 300+ pages into an easily referenced document. It highlights the material additions/changes implemented by former HB13 (21-22).

Dates shown assume bill passes the General Assembly in calendar year 2024

Section 1: The introduction and details of the School Property Tax Elimination Act

Page 1-4	Title/Explains the rationale for the bill

§ 9002
Page 5
	Definitions (notable ones listed)
	• "Base year": 1st fiscal year of SD after June 30, 2026
	• 2 funds specified:
	  • School District Property Tax Elimination Fund
	  • School District Emergency Fund

§ 9011 Page 6	• Prohibits levy/assess/collection of property taxes for schools on beginning fiscal year after **Dec 31, 2026**, other than delinquent tax collection • Penalty: A school reinstating property tax will not get $ from the fund, nor impose an income tax
§ 9012 Page 6	Description of the members and responsibilities of the School District Property Tax Elimination Appeals Board Duties of the board: • Inform SD about fund and requirements • Base year plus first 3 fiscal years after base year, evaluate if negatively impacted • Make a determination on requests for supplemental funding
§ 9013 Page 8	SD Emergency Fund • Separate fund • Used to make disbursements for supplemental funding • $500k (funded $250k in year 2024-2025, funded $250k in year 2025-2026) • **Aug 1, 2026** (and thereafter): 0.25% of each SD budget should go to the fund. • **Sept 1, 2026** (and thereafter): Dept of Edu transfers collected amount to the emergency fund • SD may not receive more funding than contained in the emergency fund, or each SD's individual amount (of the 0.25%)
§ 9014 Page 9	Supplemental Funding (from Emergency Fund) • For School Districts negatively impacted by elimination of property taxes • Board must review the request made by SD and determine amount of funding • Reciprocity: If no reciprocity agreement, money from General Fund gets paid to the SD

§ 9015
Page 10
	Excess Money:
	• If SD receives supplemental funding that pushes it over their approved budget:
	  ○ SD must reduce Income Tax
	  ○ or give the difference back

§ 9016 Page 11	Not intended to alter the Basic Education Funding allocation
§ 9017 Page 11	Rent Reduction: • Landlord should reduce rent equal to amount of property taxes • Except, if the last 5 years of property tax increases were not passed on to each tenant • Amount per tenant should be based on square footage or other 'reasonable'

	criteria to make the reduction proportional to tenants • Timing: 1st date of rent after property tax is eliminated. Lasts through the lease end • Month-to-Month leases would only be reduced for the 1st month. • Rent reduction received is not a taxable
§ 9018 Page 12	Training: • Budget and Financial Management for SD officials may be administered by the Board or institution of higher education who has expertise
§ 90A02 Page 13	Introduction, Definitions. Notable items: • County Sales and use Tax Account: Separate account established for each county • Requires each county and SD to levy/assess/collect taxes
§ 90A11 Page 15	Subjects of Taxation: • Each county should collect taxes • Each SD should collect taxes within the limits of the School District • Ensures that these new local taxes to fund schools don't interfere with taxes collected under the "Local Tax Enabling Act" of Dec 31, 1965
§ 90A12 Page 16	Taxes continue each calendar/fiscal year unless the rate of tax is increased or repealed
§ 90A22 Page 16	**Oct 1, 2026**: Sales, Use, and Occupancy Tax imposed at 2%, deposited into the School District Prop Tax Elimination Fund • Clothing (except sale of used clothing by 501c) • Food and beverages • Candy/gum
§ 90A23-24 Page 18,19	Determines the location in which a tax is collected for. (Example: Premium Cable, it should be collected based on the service address of the customer)
§ 90A25 Page 20	Administrative/Collection costs by the Dept of Revenue can be kept
§ 90A26 Page 20	Public notice must be given
§ 90A31 – 32 Page 21	**Oct 1, 2026**: School District can impose a maximum Income Tax at 1.85%.
§ 90A33 Page 21	School Districts have the same powers for collection under the Local Tax Enabling Act
§ 90A35 Page 22	Public Notice must be given
§ 90A41 Page 22	References how credits are handled. Uses section 317 of the Local Tax Enabling Act
§ 90A42 Page 22	Low-income tax provisions: Poverty provisions should be considered by school districts
§ 90A51 Page 23	SD Property Tax Elimination Fund • Separate fund in the State Treasury • Dept of Edu makes disbursements to school districts • Fund sources: Money collected, Money appropriated/transferred, Interest, Grants/gifts/donations
§ 90A52 Page 23	Payments to Counties: • First 3 years following base year: SD is funded the amount equivalent to Prop Tax collected in the base year • Fund must be kept solvent by the Gen Assembly • Each county "County Sales and use Tax Account" has a separate account in the fund • 4th year, Taxes collected go to the county accounts at least every 2 weeks

	• Money must stay in the fund. Can be invested, but interest goes to each account • Treasurer makes disbursements to each county from the Sales and use tax account
§ 90A53 Page 25	Payments by Counties: • Each county should distribute a portion to school districts: ○ Total disbursement x (avg Daily Membership / Daily membership of all SD in county) ○ If spanning more than 1 county, multiply by a factor of square milage for each SD

Section 2: Title 72 / Act II and III consolidation

Most of this section is not changing. It's consolidation of Title 72 "Act II" and "Act III" with formatting changes to fit a new format. ONLY items that have materially changed are listed below:

PAGE/SECTION/LINE	WHAT CHANGED
§ 1321 (17) Page 89	Permits the 2% clothing tax from being exempted ("Except as provided for under subparagraph (ii)")
§ 1321 (19) Page 89	Permits the 2% food/beverage tax from being exempted ("Except as provided for under subparagraph (ii)")
§ 1358 Page 123	Added: **Oct 1, 2021**: 2% tax on remote sellers goes to counties
§ 2102 Definitions "Compensation" (2)(ii) Page 186	Compensation expanded to include retirement, and excludes SS, SS 'in lieu of', Military, and contributions as part of distributions
§ 2102 Definitions "Compensation" (3)(iii) Page 187	Removed the exception for retirement income
§ 2102 Definitions "Compensation" (3)(iii.1) Page 187	After **December 31, 2026**: Compensation does not include contributions made to retirement plans
§ 2102 Definitions "Poverty Income" (3) Page 193	Clarified "Poverty Income" verbiage so that SS/SS-in-lieu-of/Military/Contributions are not counted as poverty income
§ 2102 Definitions "Social Security substitute pension" Page 195	Defined what "Social Security substitute pension" is

Section 3: Repeals

Section 3 (2) (i) Page 310	Section of "The Fiscal Code" repealed	Section 1730-E. Department of Revenue. (a) Income.--For the purposes of section 1303 of the act of June 27, 2006 (1st Sp.Sess., P.L.1873, No.1), known as the Taxpayer Relief Act, the definition of "income" shall exclude, for a person who receives pension benefits as a beneficiary through the Federal Civil Service Retirement System that accrued during a period of employment for which the beneficiary was not required to make contributions under the Social Security Act (49 Stat. 620, 42 U.S.C. § 301 et seq.), an amount determined by the

		Department of Revenue which shall equal 50% of the average retired worker Social Security payment for the previous calendar year for which the data is available from the Social Security Administration and published on the Social Security Administration's Internet website. (b) Applicability.--The provisions of subsection (a) shall apply to property tax or rent rebate claims for tax or rent due and payable in calendar year 2018 and each calendar year thereafter.
Section 3 (2) (ii) Page 310	Sections of the "Second Class County Code" repealed	REPEALED: (ii) a program for property tax rebate or rent rebate in lieu of property taxes modeled by the county or city after the act of March 11, 1971 (P.L.104, No.3), known as the "Senior Citizens Rebate and Assistance Act," for longtime owner-occupants of personal residences. Property eligible for tax relief under this clause shall be limited to a primary personal residence owned by a single person age 62 or older or by married persons if either spouse is 62 years of age or older. Tax relief provided pursuant to this clause shall be limited to persons whose income as defined under the act of March 11, 1971 (P.L.104, No.3), known as the "Senior Citizens Rebate and Assistance Act," does not exceed twenty-five thousand dollars ($25,000); or (iii) a program for property tax rebate or rent rebate in lieu of property taxes modeled by the county or city after the "Senior Citizens Rebate and Assistance Act" for longtime owner-occupants of personal residences. Property eligible for tax relief under this clause shall be limited to a primary personal residence owned by a single person age 60 or older or by married persons if either spouse is 60 years of age or older. Tax relief provided pursuant to this clause shall be limited to persons whose income as defined under the "Senior Citizens Rebate and Assistance Act" does not exceed thirty thousand dollars ($30,000). For purposes of this clause, "longtime owner-occupant" shall mean any person who for at least ten continuous years has owned and has occupied a dwelling place within the county as a principal residence and domicile, or any person who for at least five years has owned and occupied a dwelling within the county as a principal residence and domicile if that person received assistance in the acquisition of the property as part of a government or nonprofit housing program.
		REPEALED (2) Municipalities other than the county and the city shall utilize all or a portion of disbursements received for the purpose of reducing local taxes for the implementation of programs for real property tax relief. Such programs may consist of a program as provided by subsection (a)(4), a program for property tax rebate or rent rebate in lieu of property taxes modeled after the "Senior Citizens Rebate and Assistance Act," a reduction in the millage rate across all properties or a combination of the foregoing.
Section 3 (2) (iii) Page 310	Repeals entire Chap 13: "Taxpayer Relief Act"	2006 Special Session #1 Act 1 - PA General Assembly (state.pa.us)
Section 3 (4) Page 310	Repeals entire Section 688 "Limitations on Certain	Act of Mar. 10, 1949,P.L. 30, No. 14 Cl. 24 - PUBLIC SCHOOL CODE OF 1949 (state.pa.us)

	Unreserved Fund Balances"	
Section 3 (5) through (8) Page 310,311	Repeals Article II (Sales) and III (Income) and replaces it with consolidated Article II Subpart A (Sales) and B (Income)	
Section 3 (9) (i) Page 311	Blanket statement that covers "any other law" that permits levy/assess/collection of property tax	
Section 3 (9) (ii) Page 311	Ensures 1st class cities that created their own charters (like SD of Phila) don't have any conflicting language with HB13	First Class City Public Education Home Rule Act (state.pa.us)
Section 3 (9) (iii) Page 311	Blanket statement for any other items in the Taxpayer Relief Act	
Section 3 (10) Page 311	Blanket statement that repeals "all acts and parts of acts" that conflict	

Section 4-7: Notes / Effective Dates

Section 4 (1) Page 311	Ensures continuity of Title 72 during transition from 'repealed' to new consolidated state
Section 4 (2) Page 312	No material changes, despite tons of consolidation, with exceptions below
Section 4 (3) Page 312	Calls out exceptions where material changes were made. Nothing new that hasn't already been identified above.
Section 5 (1) Page 312	Article III (Personal Income Tax) was merged into Article II (Sales Tax), and this section ensures continuity during transition from 'repealed' to new 'consolidated' state
Section 5 (2) Page 313	No material changes, despite tons of consolidation, with exceptions below
Section 5 (3) Page 313	Calls our exceptions where material changes were made. Nothing new that hasn't been identified already
Section 6 (1) Page 313	Repeals begin for prohibition of Prohibit levy/assessment/collection of property taxes by SD beginning **Jan 1, 2025** if schools use Jan-Dec fiscal year
Section 6 (2) Page 313	Repeals begin for prohibition of levy/assessment/collection of property taxes by SD beginning **Jul 1, 2025** if schools use Jul-Jun fiscal year
Section 7 Page 313	**Oct 1, 2024**: • Statues are consolidated into 'Part II' of 72 Pa.C.S (Sales/Income tax) • Section 3(6) (Act II for sales tax) repealed • Section 3(8) (Act III for income tax) repealed **Jan 1, 2025**: • Section 3 (all other repeals) go into effect **Immediately**: • "the remainder of this act shall take effect immediately"

Pa. bill for school funding offers a bold and comprehensive solution to a major problem | Letter - lehighvalleylive.com (Published June 23, 2023)

The discussion surrounding school funding in Pennsylvania has long revolved around the need for increased financial resources. An analysis-based state data suggests that implementing House Bill 13 during the 2015-16 school year could have provided as much as an additional $5.1 billion for schools, surpassing all revenue increase proposals.

While this analysis was not conducted by the state, data used in this good faith estimate is readily available. Additional analyses are welcome and highly encouraged for verification, particularly by a savvy legislator who grasps the potential impact. Private citizens cannot request analysis by the Pennsylvania Independent Fiscal Office.

There are a couple key takeaways from this estimate.

The analysis shows the staggering potential financial impact of House Bill 13, which eliminates funding through property taxes. By redirecting funds that would have been collected as property tax revenue, this legislation could have significantly bolstered school budgets. The proposed increase surpasses all current revenue plans, providing an opportunity to address the persistent underfunding plaguing Pennsylvania's education system.

Existing funding proposals only perpetuate the shortcomings of the current system. Incremental changes and short-term fixes have proven insufficient. In contrast, House Bill 13 offers a bold and comprehensive solution that tackles the problem head-on.

By advocating for the elimination of the current funding structure, the bill breaks free from the limitations imposed by the status quo. It recognizes the urgent need for change and seizes the opportunity to transform Pennsylvania's educational landscape. This legislation represents a departure from myopic thinking and a commitment to long-term, sustainable improvement.

Respectfully,

Robert Kistler
1090 Mahoning Dr W
Lehighton, PA. 18235
610379-5090
skiortee@aol.com

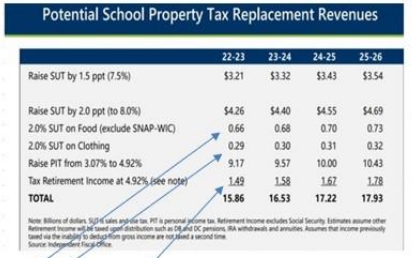
Supporting Information

Table 1 is data used (sources cited) for this analysis. The Potential School Property Tax Replacement Revenue is an IFO generated table.

Estimated HB13 Impact on School District Property Taxes							
Primary HB13 Revenue Generators - Increase SUT to 8% and PIT to 4.92%							
School Fiscal Year	15-16	16-17	17-18	18-19	19-20	20-21	21-22
School District Revenue - RE Taxes (PA AFR Data)	**$12,614,952,889**	**$13,052,096,839**	**$13,510,873,698**	**$13,929,896,489**	**$14,285,757,568**	**$14,576,408,407**	**$14,998,408,154**
SUT Annual Revenue (PA IFO Data)	$9,795,200,000	$10,005,200,000	$10,381,400,000	$11,099,600,000	$10,817,800,000	$12,834,900,000	$13,914,300,000
Each 1% SUT Revenue	$1,632,533,333	$1,667,533,333	$1,730,233,333	$1,849,933,333	$1,802,966,667	$2,139,150,000	$2,319,050,000
2% SUT Revenue Increase to Base (HB13)	**$3,265,066,667**	**$3,335,066,667**	**$3,460,466,667**	**$3,699,866,667**	**$3,605,933,333**	**$4,278,300,000**	**$4,638,100,000**
PIT Annual Revenue (PA IFO Data)	$12,506,000,000	$12,664,400,000	$13,399,000,000	$14,095,500,000	$12,835,000,000	$16,283,400,000	$18,125,700,000
Each 1% PIT Revenue	$4,073,615,635	$4,125,211,726	$4,364,495,114	$4,591,368,078	$4,180,781,759	$5,304,039,088	$5,904,136,808
1.85% PIT Revenue Increase to Base (HB13)	**$7,536,188,925**	**$7,631,641,694**	**$8,074,315,961**	**$8,494,030,945**	**$7,734,446,254**	**$9,812,472,313**	**$10,922,653,094**
Subtotal HB13 Revenue - SUT & PIT ONLY	**$10,801,255,592**	**$10,966,708,360**	**$11,534,782,628**	**$12,193,897,611**	**$11,340,379,587**	**$14,090,772,313**	**$15,560,753,094**
HB13 SUT/PIT Revenue Compared to School District Revenue - RE Taxes	($1,813,697,297)	($2,085,388,478)	($1,976,091,070)	($1,735,998,878)	($2,945,377,980)	($485,636,095)	**$562,344,940**
Additional HB13 Revenue Generator - Clothing and Food (WIC and SNAP)							
2% SUT on Food	$506,085,333	$516,935,333	$536,372,333	$573,479,333	$558,919,667	$663,136,500	$718,905,500
2% SUT on Clothing	$222,024,533	$226,784,533	$235,311,733	$251,590,933	$245,203,467	$290,924,400	$315,390,800
Subtotal HB13 Revenue - SUT/PIT Base Clothing, Food	**$11,529,365,458**	**$11,710,428,227**	**$12,306,466,694**	**$13,018,967,878**	**$12,144,502,721**	**$15,044,833,213**	**$16,595,049,394**
HB13 SUT/PIT Base Clothing, Food Compared to School District Revenue - RE Taxes	($1,085,587,430)	($1,341,668,612)	($1,204,407,003)	($910,928,611)	($2,141,254,847)	**$468,424,805**	**$1,596,641,240**
Additional HB13 Revenue Generator - Retirement Tax							
RIT	$1,220,862,606	$1,236,325,954	$1,308,039,186	$1,376,033,013	$1,252,980,293	$1,589,620,515	$1,769,469,801
HB13 Revenue Total - 2% Base, Clothing, Food SUT/PIT, RIT Revenue (HB13)	**$12,750,228,064**	**$12,946,754,182**	**$13,614,505,880**	**$14,395,000,891**	**$13,397,483,014**	**$16,634,453,727**	**$18,364,519,196**
HB13 School Property Tax Replacement Impact	**$135,275,175**	**($105,342,657)**	**$103,632,182**	**$465,104,402**	**($888,274,554)**	**$2,058,045,320**	**$3,366,111,041**
Cumulative HB13 School Property Tax Replacement Impact							**$5,134,550,911**

Note: IFO PIT and SUT presented in $M, converted to $B so direct compare to RE taxes

Source SUT/PIT Revenue http://www.ifo.state.pa.us/releases/type/1/Revenue-&-Economic-Update/
Source School District Revenue (Re (Taxes) https://www.education.pa.gov/Teachers%20-%20Administrators/School%20Finances/Finances/AFR%20Data%20Summary/Pages/AFR-Data-Detailed-.aspx



Clothing Multiplication Factor determined from above table
0.29/4.26 **0.068**
Food Multiplication Factor determined from above table
0.66/4.26 **0.155**
21-22 numbers in ball park with above 22-23 numbers and would be expected to be higher since SUT and PIT revenues higher than were projected when above table created by IFO.

RIT Multiplication Factor determined from above table
1.49/9.17 **0.162**

Table 1

Hold harmless drives distortion in school funding (Published by the Morning Call on July 16, 2023)

Hold harmless policy ensures that schools cannot experience a decrease in funding compared to any previous year. The fault of this policy is its inability to consider change in district enrollment. Since 1992, 313 school districts have lost students.

An analysis of PDE AFR revenue data raised through local school district tax funding as a percentage of all funding sources ranges from 10% in one school district to a mind boggling 85% in another school district. This distortion is primarily driven by hold harmless policy.

The inequitable funding court order emphasized that funding already relies too heavily on school property taxes. Utilizing property taxes to help approach level-up funding is not possible without burdening many with draconian tax increases and perpetuating the very funding policy that compelled the court to rule Pennsylvania school funding unconstitutional. With property taxes seemingly off the table, how will the legislature address the issue? It will be interesting to watch the myriad of proposals that will range from the laughable to misguided to excessively costly.

The legislature created its own predicament by neglecting the issue of "hold harmless." Realistically, they have no alternative but to scrap the current funding system and transition to a tax shift such as HB13.

Respectfully,

Robert Kistler
1090 Mahoning Dr W
Lehighton, PA. 18235
610379-5090
skiortee@aol.com

Supporting Information

Please reference the following excel and tableau generated heat maps. The maps were created using data from the PDE AFE Revenue website using 2019-2020 data, the most recent data available when tableau maps generated. No significant funding changes have been implemented that would appreciably impact this data.

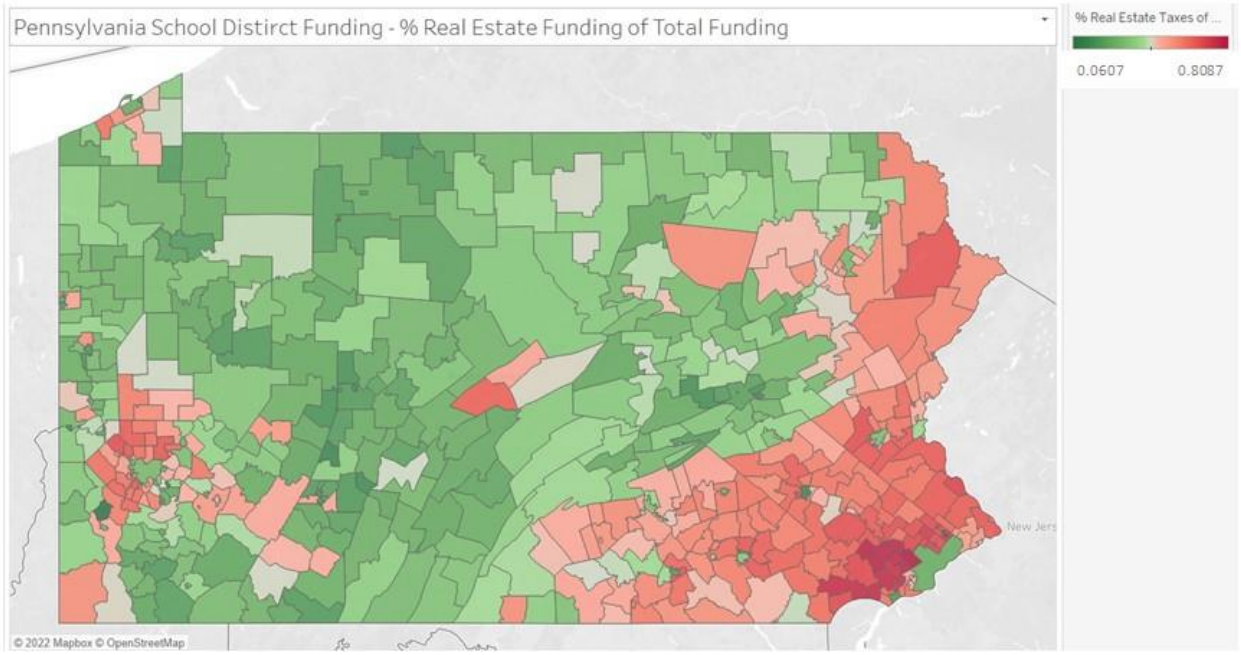
Revenue data from all school funding sources was entered into an excel spreadsheet. **Table 2** is presented to show how data is formatted. This data was then loaded into tableau. I sorted the data to show a few of the school districts where taxpayers contribute the least and the most local school property taxes as a percentage of all funding sources.

Map 1-5 are tableau generated heat maps that show the percent of each funding source as a percent of all funding sources.

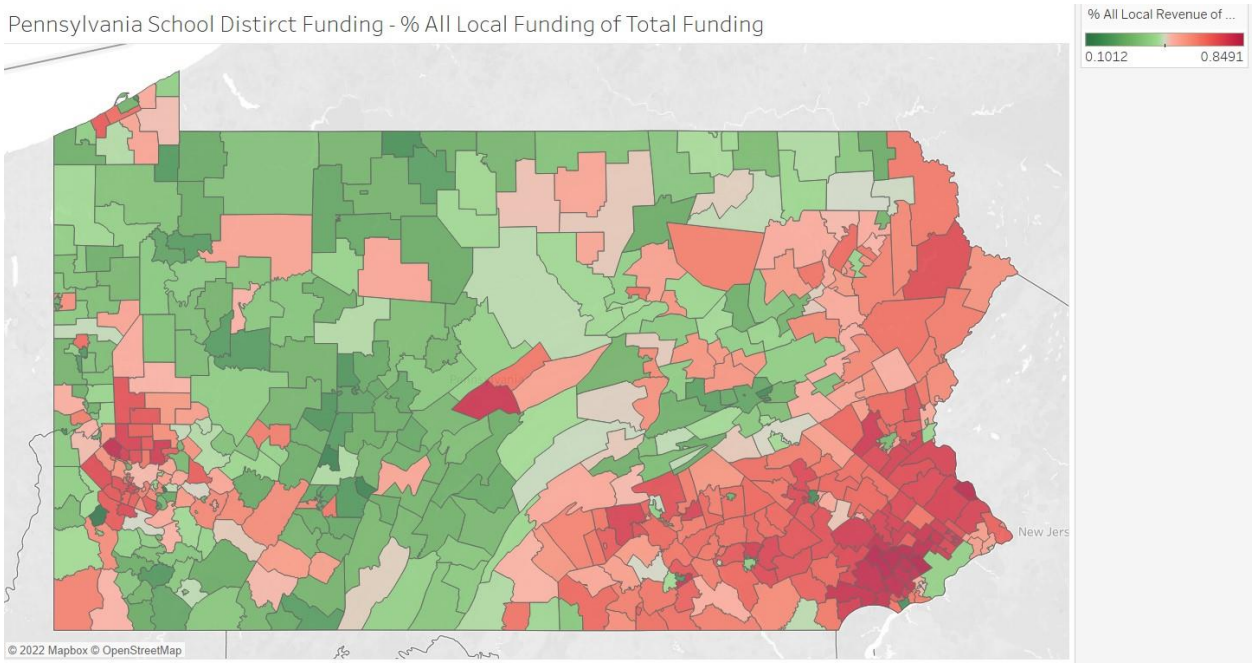
Map 6 is a heat map (source cited on map) that show Pennsylvania migration trend and correlates very well with tableau heat maps.

SCHOOL_DIS	% Real Estate Taxes of Total Revenue (E/P)	% All Local Revenue of Total Revenue	% State Revenue of Total Revenue	% Federal Revenue of Total Revenue	% Other Revenue of Total Revenue
Duquesne City SD	6.07%	10.12%	84.85%	4.72%	0.31%
Reading SD	6.88%	16.92%	75.90%	6.84%	0.33%
Blacklick Valley SD	7.20%	13.71%	49.79%	2.32%	34.18%
Portage Area SD	8.62%	13.78%	50.21%	1.50%	34.51%
Midland Borough SD	9.38%	18.40%	74.61%	4.13%	2.87%
SCHOOL_DIS	% Real Estate Taxes of Total Revenue (E/P)	% All Local Revenue of Total Revenue	% State Revenue of Total Revenue	% Federal Revenue of Total Revenue	% Other Revenue of Total Revenue
Lower Merion SD	80.87%	84.91%	14.55%	0.54%	0.00%
Great Valley SD	78.33%	84.49%	14.98%	0.53%	0.00%
Upper Merion Area SD	77.58%	83.66%	14.40%	0.89%	1.05%
Tredyffrin-Easttown SD	77.57%	84.17%	15.08%	0.74%	0.00%
Haverford Township SD	77.44%	81.81%	17.55%	0.65%	0.00%

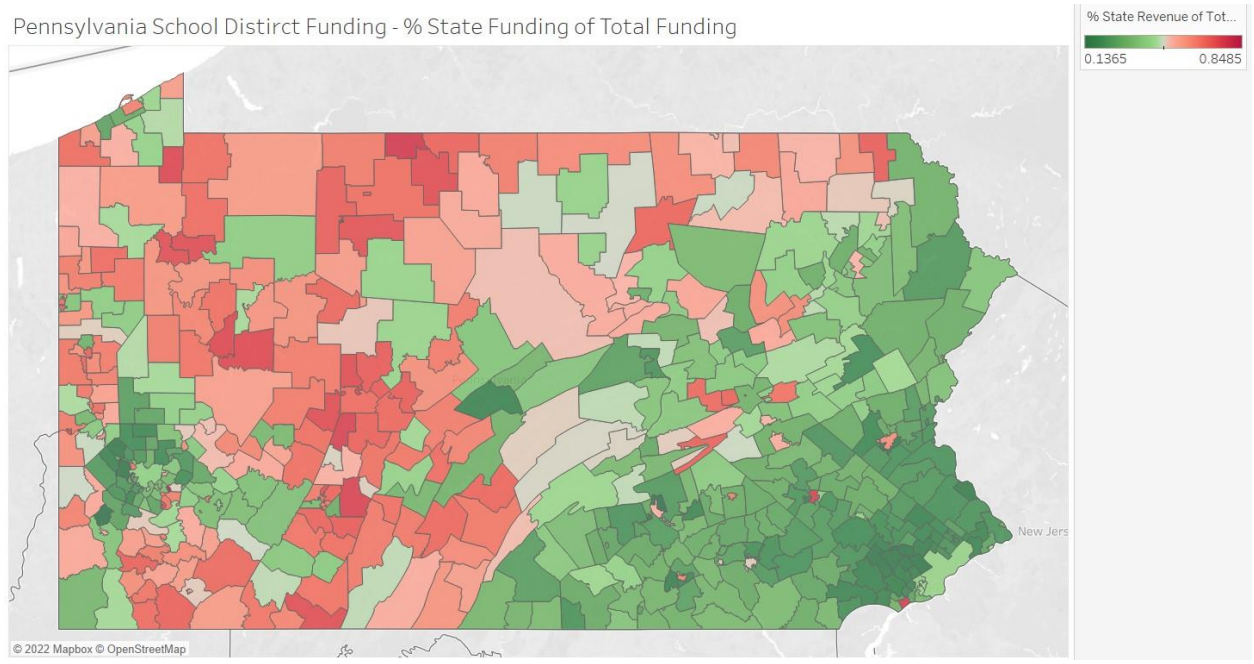
TABLE 2



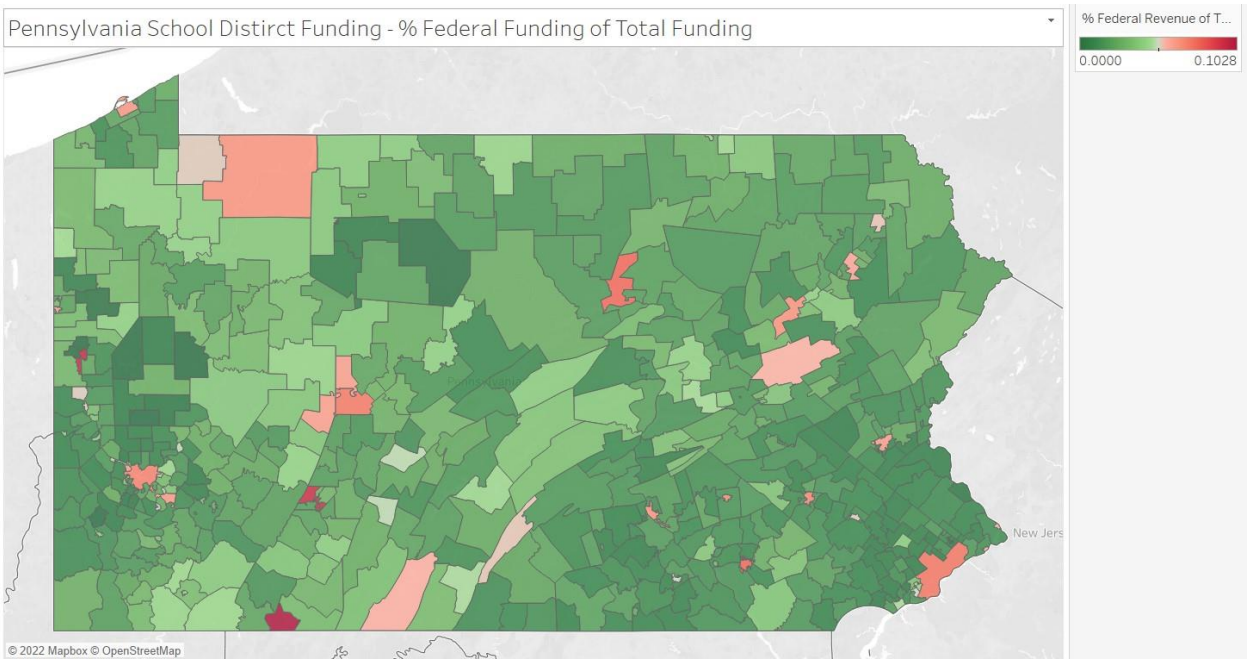
MAP 1 - % School Property Taxes (RE) as a % of ALL Funding Sources
Range 6.07% - 80.67%



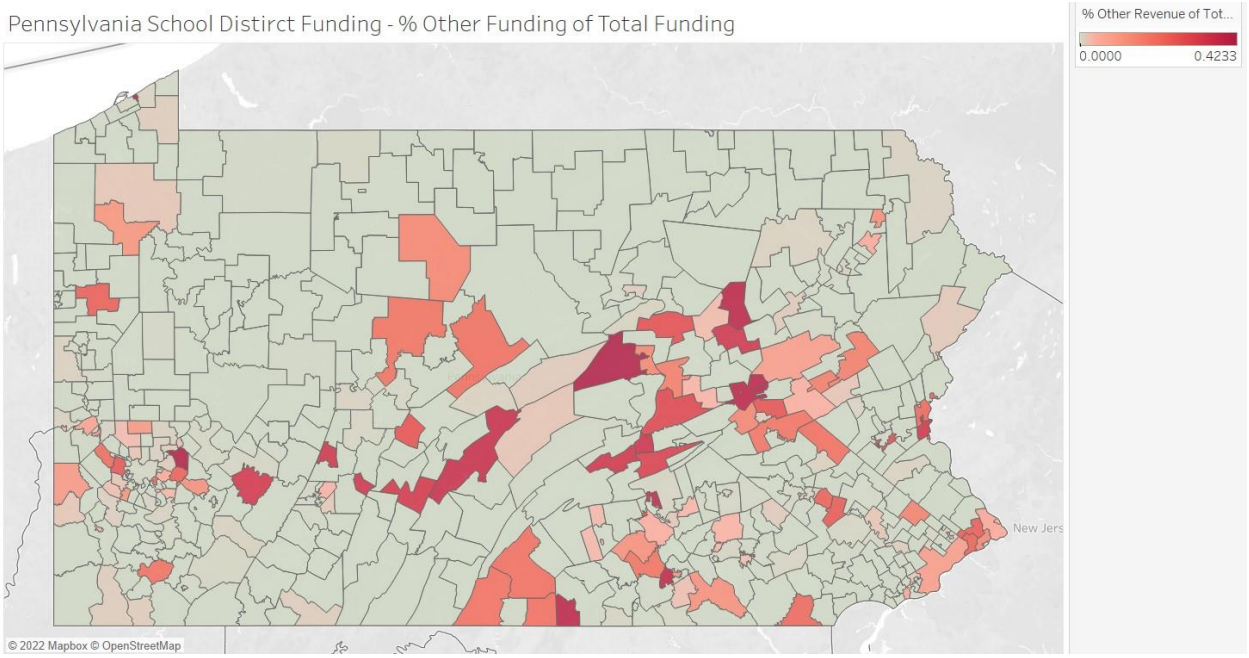
MAP 2 - % All Local School Property Taxes (RE) as a % of ALL Funding Sources
Range 10.12% - 84.91%



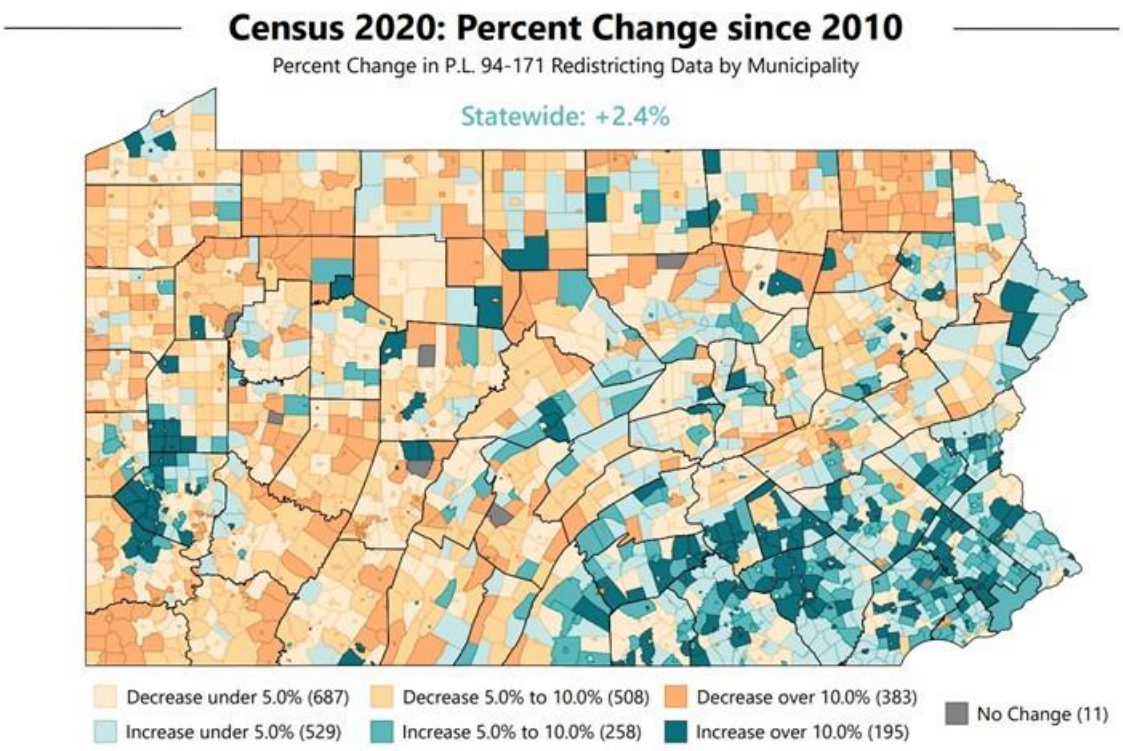
MAP 3 - % State Funding (RE) as a % of ALL Funding Sources
Range 13.65% - 84.85%



MAP 4 - % Federal Funding as a % of ALL Funding Sources
Range 0.00% - 10.28%



MAP 5 - % Federal Other Funding as a % of ALL Funding Sources
Range 0.00% - 42.33%



MAP 6 – Pennsylvania Migration Trend 2010 – 2020
PASDC - Pennsylvania State Data Center

Trends in Pennsylvania's Population by Age

Pennsylvania's older population cohorts continued to grow from 2010 to 2020 [Figure 1]. The population age 65 to 69 and age 70 to 74 were the fastest growing cohorts (40.1% and 46.9%, respectively). Outside of its older population, Pennsylvania also experienced notable growth in its young adult population in the age 25 to 29 and age 30 to 34 cohorts (7.9% and 18.3%, respectively).

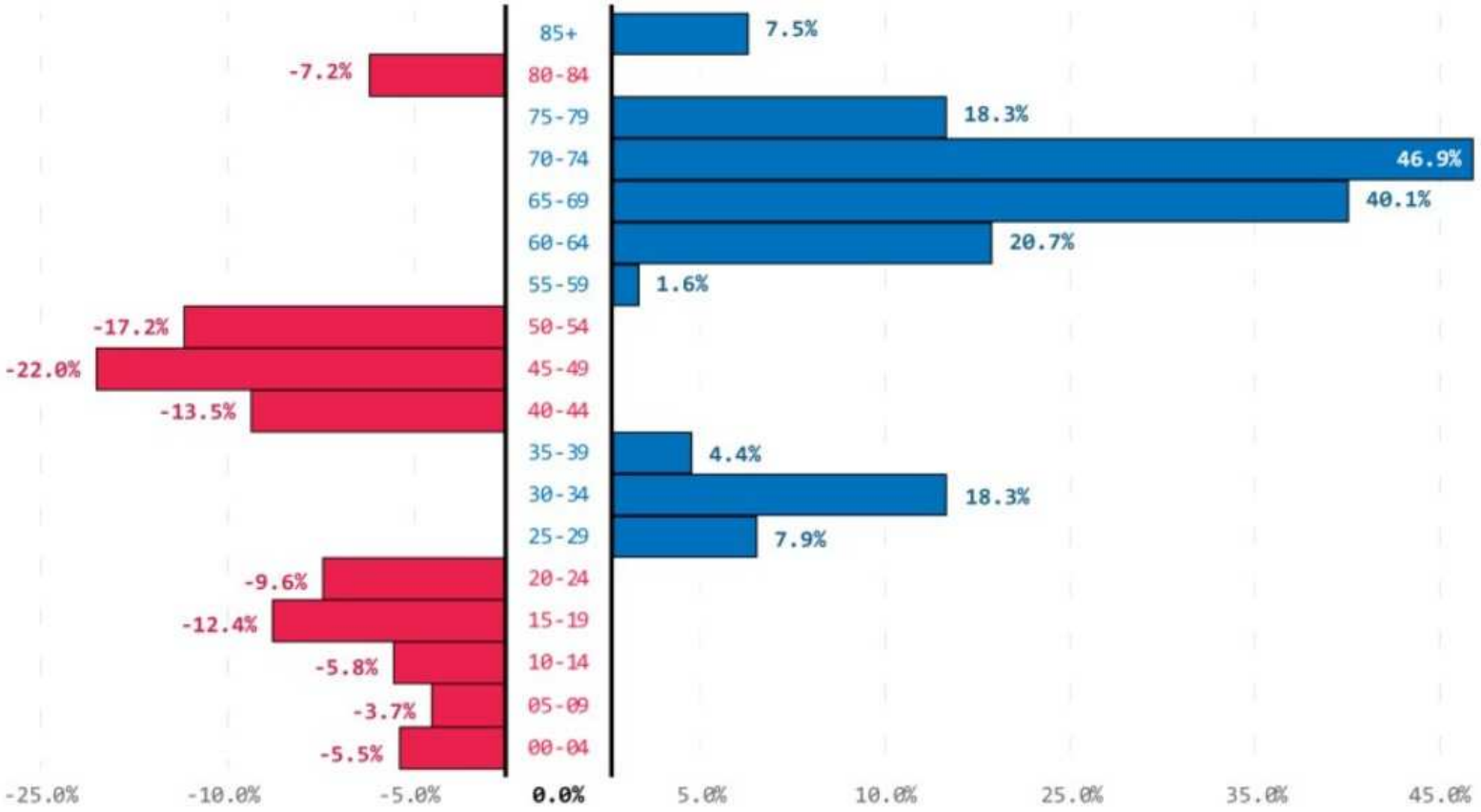


Figure 1. Percent change in Pennsylvania's population by age cohort from 2010 to 2020.

JUST THE FACTS! YOU MAY BE IN DANGER OF LOSING YOUR HOME!

SCHOOL PROPERTY TAX ELIMINATION ACT -HB13.

For nearly two decades legislators have stated that property taxes are one of their most consistent complaints from constituents.
Under HB13, 100% of School Property Tax replacement funding comes from increasing Sales and Use Tax (SUT) and Personal Income Tax (PIT).

1. Renters make up 40% of Pennsylvania residents. HB13 includes a tenant rent reduction equal to their portion of the landlord's School District Property Tax (estimated at 10-13% reduction in rent based on statewide averages)
2. Current school debt will be paid for by HB13
3. All money collected will flow directly to local School Districts, eliminating possible misuse by Harrisburg
4. HB13 does not expand the existing set of goods and services taxed, but does add food (WIC & SNAP purchases excluded), and clothing at a local 2% rate
5. The statewide cost of caring for seniors increases annually, creating a two-fold problem:

   (1) Young people leaving Pennsylvania for better employment opportunities and lower taxes,

   and

   (2) the over-65 population is increasing while working-age population is decreasing.

   Asking the working-age population to shoulder the entire tax burden is not fair. Rep. Ryan looked for a way to balance the cost of funding schools fairly across all age cohorts while reducing overall cost in a constitutionally valid way. It exempts Social Security (and equivalent) incomes from income tax.

   By doing so, seniors would pay a more reasonable share, based on state demographics, toward eliminating school property taxes. Seniors who make up 20% of the population will pay 20% of the total tax burden. (SUT/PIT), while ages 0-64 make up the rest, a significant majority of the revenue. Currently, seniors pay 32% of homestead School District Property Taxes.

There is no easy or perfect way to replace $ 16B of taxes without asking everyone to pitch in a fair share. HB 13 corrects the existing unfairness so that 80% of state funding comes from those under the age of 65, which makes up 80% of Pennsylvania's population.

<u>WHERE WILL THE MONEY COME FROM?</u>

HB13 would utilize the Sales and Use Tax (SUT) and personal income tax (PIT) to replace school property taxes. The SUT would increase from 6 to 8%; clothing and food would be subject to a 2% SUT (except WIC & SNAP ITEMS). Personal income tax (PIT) would be raised from 3.07% to 4.92%. Currently PIT is applicable to only those working. Under HB13 the PIT would be expanded to include SOME retirement income. These revenue sources are sufficient to fully fund schools.

<u>WON'T THE INCOME AND SALES TAXES NEED ANNUAL RATE INCREASES LIKE PROPERTY TAX DOES NOW?</u>

Historically, the revenue from both SUT and PIT increases due to annual wage gains and increased cost of products and services. These natural increases have funded our state budget for years with no increases needed. SUT rate has not risen in more than 50
years. PIT has risen only 0.77% in 50 years; the last increase was in 2004. It is important to remember that raising either the PIT or the SUT would still require statewide legislative action. That is much harder to do than raising School Property Taxes!

WILL THE LOCAL MONEY GO TO HARRISBURG?
Revenue associated with the tax increases will be implemented and collected locally rather than at the state level. By implementing the tax increases at the local level all revenue collected is sent directly to the LOCAL SCHOOL DISTRICTS! There is NO redistribution of funding by money first going to Harrisburg, then to the School Districts.

For more information, please visit the volunteer groups below that support fully funding schools through HB13 School Property Tax Elimination Act along with a newly released website that includes a PERSONAL IMPACT ESTIMATOR.

Respectfully submitted,

Robert Kistler-Bipartisans for School District Property Tax Shift (FB)
Ron Snell-MARCH ON HARRISBURG! (FB)
Henry Rothrock & Robert Kistler PTCC-PENNSYLVANIA TAXPAYERS CYBER COALITION (FB)
Henry Rothrock www.PTCC-us.org (website)
Ryan Pertusio www.NoProp.tax (website)

INDEPENDENT FISCAL OFFICE

April 16, 2021

The Honorable Francis X. Ryan
Pennsylvania House of Representatives
149A East Wing, Main Capitol Building
Harrisburg, PA 17120

Dear Representative Ryan:

Thank you for your recent request that asks the Independent Fiscal Office (IFO) to provide updates to prior requests that were published November 2017 and September 2019.[1] This letter uses the same data sources and methodologies used in those analyses to provide updated estimates. The updated tables are as follows.

Table 1 provides the latest IFO baseline for school district property taxes. This baseline was released by the office in February 2021.

Table 2 provides detail on the estimated costs of major programs that provide services to Pennsylvania seniors from FY 2018-19 to FY 2020-21. The major program costs include (1) the portion of Medicaid and long-term living appropriations administered by the Department of Human Services attributable to residents age 65 and older, (2) additional Lottery-funded programs administered by the Departments of Aging, Revenue and Transportation and (3) funding for Veterans Homes in the Department of Military and Veterans Affairs. The cost estimates are broken out by type of funding (state, federal or lottery funds). This analysis does not include any state or federal expenditures for non-Medicaid programs without age restrictions (e.g., public safety, state parks, food and nutrition assistance). These programs generally benefit seniors along with the overall population. Also excluded are state funds for the Public School Employees' Retirement System (PSERS) and state employee pension and retiree healthcare benefits.

The analysis estimates that total senior program spending for all funds was $8.20 billion in FY 2018-19 and is projected to grow to $10.19 billion in FY 2020-21. Federal funds in FY 2019-20 and FY 2020-21 reflect the temporary increase in the Federal Medical Assistance Percentage (FMAP) used to reimburse states for Medicaid program costs (effective January 1, 2020 until the termination of the national public health emergency declaration related to the COVID-19 pandemic). Likewise, federal funding for DMVA in these two fiscal years include COVID relief funds that total $5.0 million and $5.8 million, respectively. In the Lottery Fund, the transfer for the Property Tax Rent Rebate (PTRR) program that would have occurred in

[1] See http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/Response_Letter_9_23_2019.pdf, http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/Response-Letter-9-30-2019.pdf and http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/SR2017-05.pdf.

FY 2020-21 was shifted into FY 2019-20. These factors contribute to the increase in the federal share of senior program expenditures from 46.4% in FY 2018-19 to 54.2% in FY 2020-21 (projected).

Table 3 provides updates for estimates of General Fund revenues remitted by seniors by major tax type. For this purpose, the IFO did not consider indirect taxes that are levied on a business and passed through to shareholders, workers or consumers (e.g., corporate net income, insurance premiums and financial institutions), mid-sized or smaller tax types (e.g., realty transfer) and taxes not based on income or consumption (e.g., inheritance). The analysis also did not consider local earned income or sales taxes. Based on these criteria, Table 3 includes the following General Fund taxes: (1) state personal income tax, (2) state sales and use tax, (3) gross receipts taxes, (4) all tobacco product taxes and (5) liquor and malt beverage taxes. For all consumption taxes, the analysis assumes that taxes are passed through to final consumers via higher prices.

Because they are part of the larger request, the analysis also displays estimated school district property taxes remitted by senior homeowners, and those amounts are itemized separately in Table 3. Senior renters would also effectively remit property tax, but it is not clear how much of the property tax is passed through to renters. Moreover, the analysis did not assume that businesses pass property taxes through to final consumers, when in fact some portion would be effectively borne by senior consumers. Other major General Fund tax revenues are also displayed in Table 3 but are not apportioned to senior residents.

The analysis estimates that seniors remitted between $4.6 to $5.4 billion of General Fund revenues for these five revenue sources for FY 2018-19. For FY 2020-21, the projected range is $4.8 to $5.6 billion (excludes tax revenues shifted into the year). Those dollar amounts comprise 16.3% to 19.3% of taxes included in this analysis. The bottom of Table 3 lists other taxes not directly included in the analysis. Based on data from the American Community Survey (ACS) and Pennsylvania Department of Education, the analysis assumes that homeowners remit 57.5% of total school district property taxes. Of that amount, the analysis assumes that seniors remit 29% to 32%. If those assumptions hold, then senior homeowners remitted $2.4 to $2.7 billion of school district property taxes (excludes Act 1 allocations) for FY 2018-19 and the same amounts for FY 2020-21.[2]

It is noted that school district property tax effectively remitted by senior renters is excluded. To provide context regarding a potential order of magnitude for those payments, a hypothetical example is as follows: If owners of residential rental units remit 10% to 15% ($1.5 to $2.2 billion) of all school district property tax and if all property tax on rental units was passed through to renters, then Consumer Expenditure Survey (CEX) data suggest that senior renters might effectively pay one-fifth of that amount ($290 to $440 million) for FY 2020-21.

Table 4 provides Pennsylvania net migration data across seven age groups from 2013 to 2019. The data reflect both international and domestic net migration. For all years, net international migration was positive (inflows exceed outflows) while net domestic migration was negative. The data from Table 4 are computed as a residual based on published U.S. Census data. For example, total net migration for 2017 was computed as follows: 2017 population less 2016 population less 2017 births plus 2017 deaths. It is noted that these data are preliminary and will be revised after the Census Bureau has completed the 2020 Census.

[2] These amounts are prior to any deductions through the Property Tax Rent Rebate program. Data for 2018 show that 260,000 elderly homeowners claimed $109.4 million of property tax rebates.

Table 5 provides a summary of state income tax treatment of retirement income for 2021. As shown by the table, Pennsylvania is one of 28 states with a personal income tax that do not tax Social Security income and one of three states that do not tax public and private pensions.

Table 6 provides updated estimates for potential revenue sources that could replace school district property taxes if they were eliminated. Language for this proposal was submitted to our office in 2019. Relevant notes for the estimates are as follows:

- As with the prior analysis, the estimates should be viewed as approximations only. They do not incorporate effective dates or a compliance phase-in. In addition, the estimates are not reduced for administrative costs, which would likely be significant under this proposal.
- The estimates include the impact of changes in behavior and compliance at full implementation for each of the proposed tax rates.
- The additional sales and use tax (SUT) would be imposed at the local level, similar to the existing local SUT in Philadelphia and Allegheny counties. Unlike the state tax, which is imposed at the point of use, the local taxes are imposed at the point of sale and only apply to purchases originating in those counties. Local tax is not collected on sales shipped into those counties by out-of-state (or out-of-county) sellers. Imposing the tax with the same local situs could materially reduce collections (10% to 15%). The projections included in the enclosed table assume the new SUT (including that imposed on food and clothing) is imposed at the state level.
- The SUT estimates assume that any increase in the SUT rate would coincide with a revenue neutral adjustment to the SUT transfers for public transportation. In other words, public transportation would not receive a funding windfall from an increase in the tax rate.
- The SUT estimates for clothing and food assume that the new 2% tax is only imposed on those items not subject to the current 6% tax.
- The additional personal income tax (PIT) would be collected at the local level, similar to the existing local earned income tax (EIT). The Department of Revenue devotes significant resources to ensuring compliance with PIT laws, including the matching of state returns with federal tax data. Since local collectors lack these resources, imposing the tax at the local level would likely produce reduced collections. The PIT estimates included in the enclosed table are calculated using the current state tax base and assume that the tax would be collected at the state level.
- Under current Pennsylvania law, employee contributions to qualified retirement accounts are subject to PIT, but qualified distributions from those accounts (including employer contributions and earnings) are exempt from tax. If Pennsylvania were to impose PIT on retirement income (excluding Social Security), employee contributions already subject to tax under prior law would be deductible. Assuming that under the proposal, contributions to retirement accounts would now be exempt and distributions would be taxable (consistent with federal tax law), Pennsylvania would immediately lose the PIT paid on new employee contributions (tax is now delayed until retirement). These transition issues are incorporated into the Retirement Income forecast (see table) and will resolve slowly over the next 30 to 40 years.

If you have any questions regarding the tables or estimates provided, please do not hesitate to contact my office (717-230-8293). Per the policy of the IFO, this letter will be posted to the office website three days after transmittal to your office.

Sincerely,

Matthew J. Knittel
Director, Independent Fiscal Office

Attachments

Table 1
School District Property Tax Forecast

	Actual	Estimate		Forecast				
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Current-Year	$13,930	$14,301	$14,109	$14,595	$15,155	$15,795	$16,405	$16,985
Act 1 Allocations[1]	533	534	535	535	535	535	535	535
Delinquent[2]	551	565	488	616	618	622	645	668
Total	**15,014**	**15,400**	**15,131**	**15,746**	**16,308**	**16,952**	**17,585**	**18,188**

Note: Dollar amounts in millions.

1 Actuals through FY 2020-21. Estimated at $535 million thereafter.

2 Reported by PDE for FY 2018-19. Estimated by IFO thereafter.

Table 2
Program Funding for Pennsylvania Seniors ($000s)

	2018-19 Actual	2019-20 Actual	2020-21 Enacted
Department of Aging:			
State[1]	$25,771	$2,056	$2,108
Lottery[2]	520,470	465,464	474,398
Federal[3]	158,702	174,564	105,261
Department of Human Services:			
State[4]	3,043,345	3,239,239	3,554,224
Lottery[5]	372,355	337,513	352,466
Federal[6]	3,581,971	4,537,251	5,334,755
Department of Revenue:			
Lottery[7]	155,343	288,372	0
Department of Transportation:			
Lottery[8]	165,429	170,907	170,907
Department of Military and Veterans Affairs:			
State[9]	116,356	112,461	109,803
Federal[9,10]	62,614	78,153	86,768
Total State	3,185,472	3,353,756	3,666,135
Total Lottery	1,213,597	1,262,256	997,771
Total Federal	3,803,287	4,789,968	5,526,784
Total All Funds	**8,202,356**	**9,405,980**	**10,190,690**

1 Includes appropriations from the Tobacco Settlement Fund (TSF) and the Pharmaceutical Assistance Fund.

2 Includes funding to administer PENNCARE, Pre-Admission Assessment, Caregiver Support, Alzheimer's Outreach, Pharmaceutical Assistance Fund and Grants to Senior Centers appropriations.

3 Includes appropriations from the TSF.

4 Includes General Fund and TSF funding for MA - Long-Term Care, MA - Community HealthChoices, MA - Capitation, MA - Fee-for-Service, Home and Community-Based Services, Long-Term Care Managed Care and Payment to Federal Government - Medicare Drug Program appropriations.

5 Includes MA - Long-Term Care, Home and Community-Based Services, MA - Community HealthChoices and MA - Transportation Services.

6 Includes MA - Long-Term Care, MA - Community HealthChoices, MA - Home and Community-Based Services and MA - Long-Term Care Managed Care.

7 Estimated Property Tax Rent Rebate (PTRR) funding attributable to recipients age 65 and older is based on Department of Revenue PTRR statistical report data. The transfer to the Lottery Fund for the PTRR program that would have occurred in FY 2020-21 was shifted into FY 2019-20.

8 Includes Transfer to Public Transportation Trust Fund and Older Pennsylvanians Shared Rides appropriations.

9 Veterans Homes funding attributable to residents age 65 and older.

10 FY 2019-20 and 2020-21 include COVID relief funds that total $5.0 million and $5.8 million, respectively.

Table 3
Pennsylvania Senior Share of Tax Revenues

Revenue Source	Share Age 65+ Low	Share Age 65+ High	FY 2018-19 Total Amount	FY 2018-19 Estimated Senior Low	FY 2018-19 Estimated Senior High	FY 2020-21 (Estimate) Total Amount	FY 2020-21 (Estimate) Estimated Senior Low	FY 2020-21 (Estimate) Estimated Senior High
State Personal Income	13.0%	16.0%	$14,096	$1,832	$2,255	$14,472	$1,881	$2,316
State Sales and Use	20.0	23.0	11,100	2,220	2,553	12,167	2,433	2,798
Gross Receipts	21.0	24.0	1,250	263	300	1,002	210	240
All Tobacco	15.0	18.0	1,249	187	225	1,066	160	192
Liquor and Malt Beverage	19.0	22.0	405	77	89	435	83	96
Total or Weighted Average	**16.3**	**19.3**	**28,100**	**4,579**	**5,422**	**29,142**	**4,768**	**5,642**
Other Major Taxes								
Homeowner SD Prop Tax	29.0%	32.0%	$8,327	$2,415	$2,665	$8,393	$2,434	$2,686
Corporate Net Income	n.a.	n.a.	3,398	n.a.	n.a.	3,400	n.a.	n.a.
Insurance Premiums	n.a.	n.a.	444	n.a.	n.a.	424	n.a.	n.a.
Bank Shares	n.a.	n.a.	380	n.a.	n.a.	382	n.a.	n.a.
Realty Transfer	n.a.	n.a.	534	n.a.	n.a.	585	n.a.	n.a.
Inheritance	n.a.	n.a.	1,054	n.a.	n.a.	1,128	n.a.	n.a.

Note: Millions of dollars. FY 2020-21 revenues adjusted for monies shifted into year due to delayed due dates. Only direct and consumption taxes included. Business taxes such as corporate net income, bank shares and insurance premiums were not included for the purpose of this analysis. Analysis assumes all sales-use and gross receipts taxes remitted by businesses are fully passed forward to consumers. Property taxes remitted by businesses are not included. School district property tax excludes Act 1 allocations and assumes 57.5% of tax is remitted by homeowners.

Source: Tax revenues from IFO Official Revenue Estimate and do not include amounts transferred to special funds. Data used to inform shares are from various sources including: federal tax data published by state (Internal Revenue Service), Consumer Expenditure Survey for northeast consumers and consumers age 65 or older (U.S. Bureau of Labor Statistics) and the American Community Survey (U.S. Census Bureau).

Table 4
Pennsylvania International and Domestic Net Migration

Age Group	Census Year Ending July 1 2013	2014	2015	2016	2017	2018	2019
0 to 17	7,775	8,707	8,434	7,817	12,161	13,550	9,825
18 to 24	-6,894	-7,656	-9,538	-9,282	-8,437	-6,501	-7,710
25 to 34	4,882	3,221	2,063	4,361	6,864	8,496	6,970
35 to 44	1,939	1,587	627	1,080	2,916	4,306	2,636
45 to 54	-1,100	-1,397	-2,414	-3,477	-2,592	-1,357	-1,306
55 to 64	-2,898	-3,287	-4,456	-5,861	-3,955	-3,049	-3,750
65+	-6,233	-3,511	-6,652	-3,821	-3,795	-3,084	-3,152
Total	**-2,529**	**-2,336**	**-11,936**	**-9,183**	**3,162**	**12,361**	**3,513**

Source: IFO computations based on U.S. Census Bureau data.

Table 5
State Income Tax Treatment of Retirement Income

State	Private Pensions	Gov't Pensions	Social Security
Alabama	limited exemption	exempt	exempt
Alaska	n.a.	n.a.	n.a.
Arizona	fully taxable	$2,500	exempt
Arkansas	$6,000	$6,000	exempt
California	fully taxable	fully taxable	exempt
Colorado	$20,000/$24,000	$20,000/$24,000	$20,000/$24,000
Connecticut	limited exemption/42%	limited exemption/42%	income dependent
Delaware	$2,000/$12,500	$2,000/$12,500	exempt
District of Columbia	fully taxable	fully taxable	exempt
Florida	n.a.	n.a.	n.a.
Georgia	$35,000/$65,000	$35,000/$65,000	exempt
Hawaii	limited exemption	exempt	exempt
Idaho	fully taxable	$34,332	exempt
Illinois	exempt	exempt	exempt
Indiana	fully taxable	limited exemption	exempt
Iowa	$6,000	$6,000	exempt
Kansas	fully taxable	exempt	income dependent
Kentucky	$31,110	$31,110/exempt	exempt
Louisiana	$6,000	$6,000/exempt	exempt
Maine	$10,000	$10,000	exempt
Maryland	$33,100	$33,100	exempt
Massachusetts	fully taxable	exempt	exempt
Michigan	limited exemption	limited exemption	exempt
Minnesota	fully taxable	limited exemption	income dependent
Mississippi	exempt	exempt	exempt
Missouri	$6,000	$38,437	income dependent
Montana	$4,370	$4,370	income dependent
Nebraska	fully taxable	limited exemption	income dependent
Nevada	n.a.	n.a.	n.a.
New Hampshire	n.a.	n.a.	n.a.
New Jersey	$75,000	$75,000	exempt
New Mexico	fully taxable	fully taxable	same as federal
New York	$20,000	exempt	exempt
North Carolina	fully taxable	limited exemption	exempt
North Dakota	fully taxable	limited exemption	income dependent
Ohio	$200 credit	limited exemption	exempt
Oklahoma	$10,000	$10,000	exempt
Oregon	limited exemption	limited exemption	exempt
Pennsylvania	**exempt**	**exempt**	**exempt**
Rhode Island	$15,000	$15,000	income dependent
South Carolina	$3,000/$10,000	$3,000/$10,000	exempt
South Dakota	n.a.	n.a.	n.a.
Tennessee	n.a.	n.a.	n.a.
Texas	n.a.	n.a.	n.a.
Utah	$450 credit	$450 credit	same as federal
Vermont	fully taxable	fully taxable	income dependent
Virginia	fully taxable	fully taxable	exempt
Washington	n.a.	n.a.	n.a.
West Virginia	fully taxable	limited exemption/$2,000	income dependent
Wisconsin	$5,000	limited exemption/$5,000	exempt
Wyoming	n.a.	n.a.	n.a.

Note: Reflects tax year 2021 maximum allowable deductions for single filer or head of household aged 65 or older. States that have no personal income tax on wages are denoted as n.a. Where applicable, lower deduction limit reflects amount for residents under age 65.

Source: National Conference of State Legislatures, Bloomberg BNA State Tax and CCH Smart Charts as of Feb 2021.

Table 6
Options to Fund School District Property Tax Elimination

		2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Additional SUT[1]	1.50%	$2,794	$3,003	$3,112	$3,213	$3,313	$3,416	$3,522
	2.00%	3,706	3,984	4,128	4,262	4,395	4,532	4,672
Food[2]	2.00%	575	607	638	660	682	705	729
Clothing[3]	2.00%	252	265	278	287	297	306	316
Additional PIT[4]	1.85%	8,019	8,107	8,428	8,844	9,235	9,638	10,056
Retirement Income[5]	4.92%	1,246	1,323	1,383	1,471	1,561	1,652	1,751
State Share	*3.07%*	*778*	*825*	*863*	*918*	*974*	*1,031*	*1,092*
Local Share	*1.85%*	*469*	*497*	*520*	*553*	*587*	*621*	*658*

Note: Millions of dollars. Estimates are long-term and assume an effective date prior to FY 2019-20.

1 New statewide SUT rates would be 7.5% or 8.0% respectively. The new rates for Philadelphia would be 9.5% or 10.0%. The new rates for Allegheny County would be 8.5% or 9.0%. Estimates are calculated using the current state SUT base. The existing local SUTs are point of sale taxes and are only imposed on sales originating in those counties. If the new tax is imposed with the same situs, tax collections will be materially lower (approximately 5% to 10%) because tax would not be collected on e-commerce purchases from out of state sellers. Estimates assume that all transfers from SUT are adjusted to a revenue neutral rate, i.e., special funds do not receive a windfall from the increased tax rate and are not reduced for Department of Revenue administrative costs.

2 Excludes food purchased with Supplemental Nutrition Assistance Program (SNAP) and Women, Infants and Children (WIC) benefits. Assumes foods already subject to the 6% state tax are excluded.

3 Assumes clothing and footwear already subject to the 6% state tax are excluded.

4 New PIT tax of 1.85% calculated using the existing state PIT base. The Department of Revenue devotes significant resources to ensuring taxpayer compliance, including the matching of state returns with federal tax data. Since local collectors lack these resources, actual collections would likely be lower than the provided estimates by an unknown amount.

5 Retirement income tax of 4.92% (3.07% state tax and 1.85% local) net of previously taxed employee contributions and excluding Social Security. Moving forward, assumes that all retirement income will be taxed upon distribution.

INDEPENDENT FISCAL OFFICE

May 16, 2022

The Honorable Francis X. Ryan
Pennsylvania House of Representatives
149A East Wing, Main Capitol Building
Harrisburg, PA 17120

Dear Representative Ryan:

On April 12, 2022, the Independent Fiscal Office (IFO) provided updated estimates for potential property tax replacement revenues proposed under House Bill 13. This letter responds to your April 20 request for additional information related to those estimates.

Estimates Adjusted for Effective Dates

The IFO projects that an October 1 effective date for the proposed sales and use tax (SUT) changes would yield roughly 70% of the full-year revenue estimate. For fiscal year (FY) 2022-23, the full-year SUT estimate is $5.2 billion ($4.3 billion for the rate increase, $0.7 billion for the new 2% tax on clothing and $0.3 billion for the new 2% tax on food). Assuming an effective date of October 1, 2022, roughly $3.7 billion ($5.2 billion * 70%) in additional revenue would be collected in FY 2022-23. The same percentage can be applied to other full-year SUT estimates based on the anticipated year of implementation.

For personal income tax (PIT), the IFO assumes an effective date of January 1, because a mid-year PIT increase would be difficult to implement, particularly for the new tax on retirement income (and associated new exemption for contributions to retirement accounts). Adjusting for a January 1 effective date, the IFO estimates that roughly 40% of the full-year PIT impact would be received in the first fiscal year. For FY 2022-23, the full-year PIT estimate is $11.1 billion ($9.6 billion for the rate increase and $1.5 billion for the state and local tax on retirement income). Assuming an effective date of January 1, 2023, roughly $4.5 billion ($11.1 billion * 40%) would be received in FY 2022-23. Again, this same percentage can be applied to other fiscal year estimates based on the anticipated date of implementation.

These estimates should be viewed as approximations and include the impact of changes in behavior and compliance at full implementation for each of the proposed tax increases. In the short term, taxpayers may have a stronger reaction to the tax increase. In addition, the estimates are not reduced for administrative costs, which would likely be significant under this proposal.

School District Cash Balances

According to annual financial reports filed with the Pennsylvania Department of Education, the total school district unassigned fund balance for fiscal year ending 2020 was $1.975 billion. For fiscal year ending 2021, the unassigned fund balance increased to $2.207 billion. Both years include school districts reporting negative unassigned fund balances.

If you have any questions regarding this information, please do not hesitate to contact my office (717-230-8293). Per the policy of the IFO, this letter will be posted to the office website three days after transmittal to your office.

Sincerely,

Matthew J. Knittel
Director, Independent Fiscal Office