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Pennsylvania School Tax Burden

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POLICY BRIEF

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Introduction

After operating without a systematic school district funding mechanism for most of the past twenty-five years, Pennsylvania recently enacted a state funding formula. Act 35 of 2016 codified the formula recommended by the state's bipartisan Basic Education Funding Commission (BEFC), directing future state spending increases to be allocated according to district needs and ability to pay. Since the formula as enacted applies only to funding increases, leaders of some of the lowest-income communities in the state have estimated it will take several decades before their districts reach the levels of funding deemed equitable by the BEFC. This has sparked calls to expedite the implementation of the formula. Advocates of accelerating the formula claim it would serve two main purposes— increase access to resources in districts with low per-pupil spending levels and ease inequitable local school tax burdens in the state.

This policy brief examines the second of these purposes, specifically the claim that differences exist in local school tax burdens across Pennsylvania's 500 districts.

Key Findings



Several districts in the state have local school tax burdens of over 10 percent of personal income, more than twice the average burden in the state.



Many of the districts with the highest local school tax burdens, which include most districts with explosive growth and small cities with low income, are among those that will receive the largest increases in funding under the Act 35 funding formula.

PA Act 35 of 2016

Act 35, signed into law on June 1, 2016, amended the state public school code, including the creation of a school funding formula. Prior to the enactment, the state had no automatic means for adjusting funding when demographics shifted, including changes in student enrollment.

The new formula directs how state basic education funding* is allocated to local school districts based on need, ability to pay, and local school tax effort. Need is calculated from factors such as enrollment and student poverty; ability to pay is determined from personal income and property values in the district; and local school tax effort is the share of local resources spent on education. As implemented in Act 35, the funding formula applies only to increases in state appropriations to local districts.

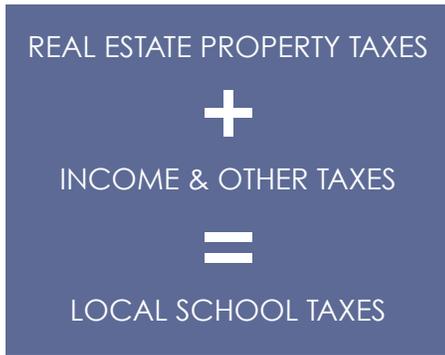
**Special education funding from the state is allocated separate from basic education funding.*



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Local School Taxes in Pennsylvania

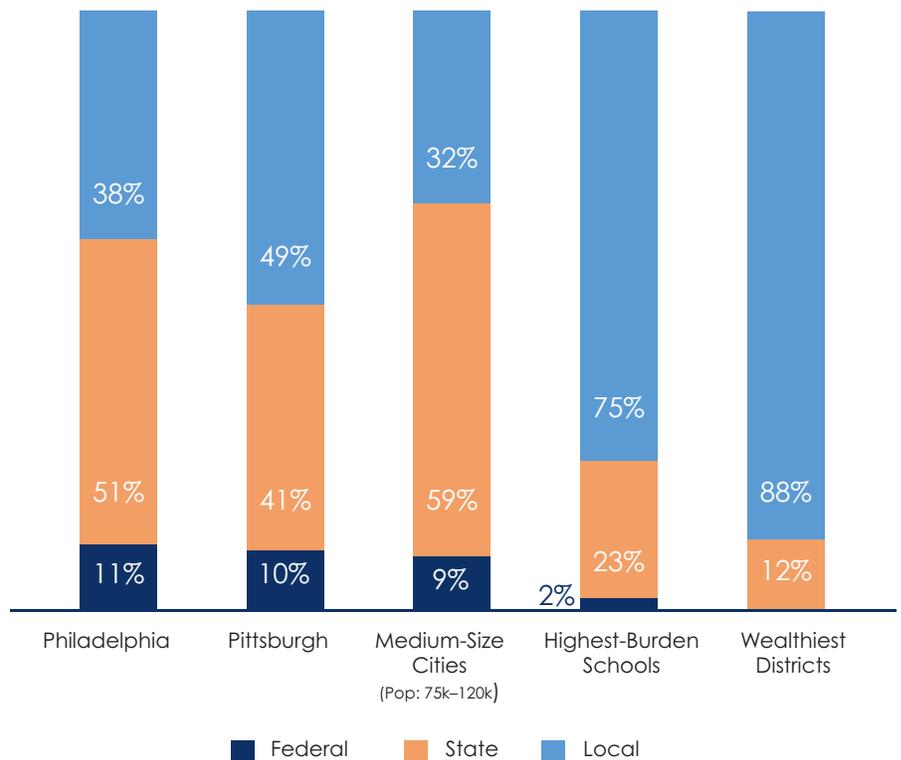
Pennsylvania school districts, like those in most states with higher levels of K-12 educational spending, rely largely on local revenue. With 56 percent of school funding coming from local sources, Pennsylvania ranks seventh in the nation in its dependence on local taxes for school funding.



Local school tax effort in Pennsylvania is largely determined by the board of each school district, though limits are placed on the allowable tax rates by the state. In most districts, real estate property taxes provide more than 70 percent of local school revenues. Personal income tax and an assortment of other taxes contribute to the remaining local school funding.

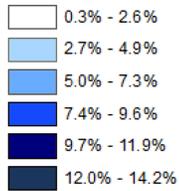
The relative reliance on local funding varies greatly across Pennsylvania as demonstrated in the figure below. Philadelphia has received a larger share of its funding from state and federal sources than higher-personal-income cities such as Pittsburgh, while medium-sized cities with lower personal incomes are even more reliant on the state for funding. As shown in the two bars on the far right, districts with the highest local school tax burden, despite having lower personal incomes than many cities in the state, fund schools primarily through local revenue, more similar to districts with the highest personal incomes.

Revenue by Source for Selected PA School Districts

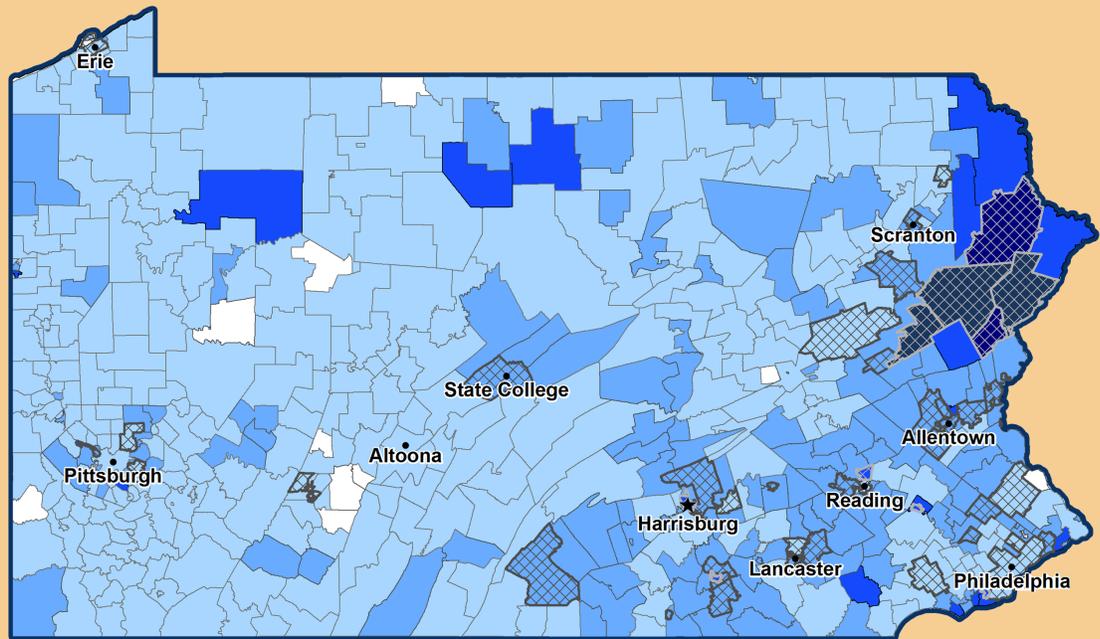


Local School Tax Burden by School District

Local School Tax Revenue as Share of Personal Income



Data are from the most recent files publicly released by PA Dept. of Education. Local revenue for 2013-14 school year (Source: Finances AFR Revenue 2013-14.xls). Local income for 2013 (Source: Finances PersonalIncome 2013.xls).



Findings

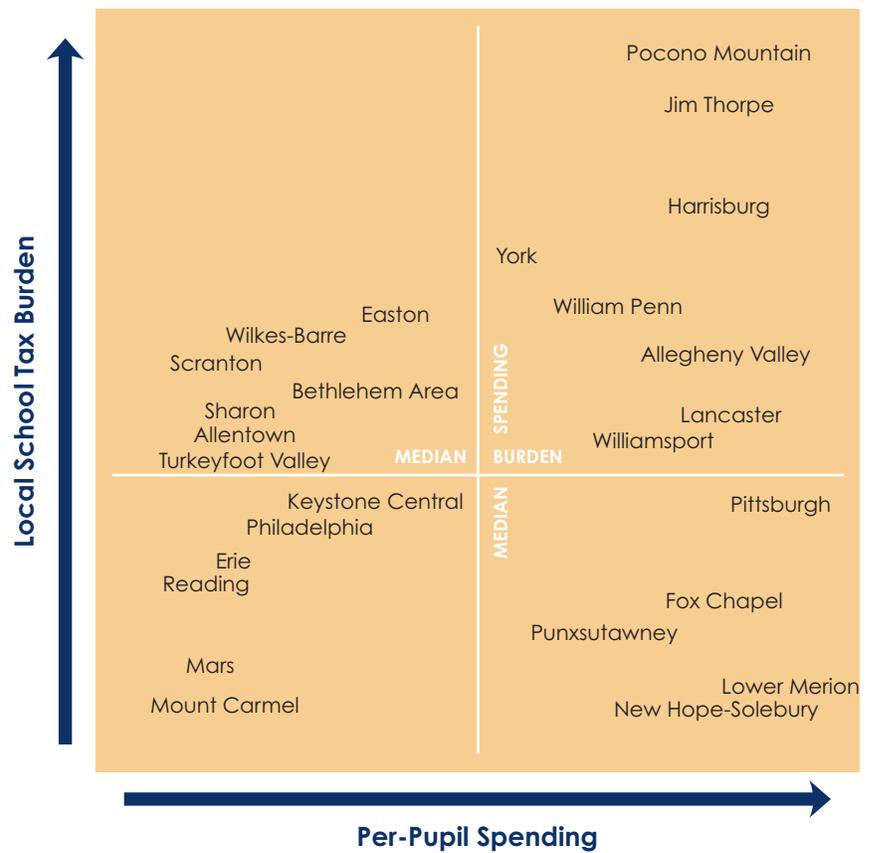
- There are great differences in local school tax burdens across the state. As a share of personal income, local school tax burdens vary widely across Pennsylvania, with a few districts burdened at over 10 percent of income while several dozen contribute less than 3 percent of personal earnings.
- Several of the districts with the highest tax burdens have experienced rapid growth over the past twenty years, some having doubled in enrollment during this period, without commensurate increases in appropriations from the state.
- Districts with the lowest school tax burdens include both high-income suburban districts and low-income rural districts. Some of the wealthiest districts in the state are among the highest-spending, and provide nearly 90 percent of school funds locally, yet the high income levels allow the local school tax burden to remain low as a percent of income. Other communities with low local school tax burdens are relatively low income, but high levels of funding from the state have allowed these districts to spend near or above the state average per pupil while maintaining local school tax burdens much lower than the state average.
- Districts in small cities face above-average local burdens. While urban districts in Philadelphia and Pittsburgh contribute nearly the same share of their local income to schools as the average

The map of Pennsylvania examines the claims about differences in local school tax burden by district. Local school tax burden was calculated using local school revenue as a share of the personal income of district residents. Personal income was used because it is a measure of ability to pay as applied in the new funding formula. Since it omits non-resident taxpayers, the resulting percentage burdens shown are somewhat higher than the actual average burdens experienced by individual taxpayers in the district. Excluding taxes on commerce and industry would lower the estimated state average local school tax burden from 4.8 percent to 3.6 percent, of which the latter may be more indicative of the direct taxes paid by an individual resident to support local schools. The relative ranking of local school tax burdens is generally similar whether or not commercial and industrial properties are included, and the rates for the highest-burden districts remain above 10 percent of personal income. Urban districts and those with active natural gas operations are exceptions, as larger shares of non-residential property reduce the direct burden on residents more than in school districts that are primarily residential.

Pennsylvania district, most small-city school systems have higher burdens. For example, the local school tax burden in York exceeds 8 percent and that in Harrisburg exceeds 9 percent of personal income. Though higher levels of commerce in these communities somewhat lessen the direct taxes experienced by individual residents, local school tax burdens on residents are nonetheless above average in most small cities.

- Pennsylvania's new funding formula increases funding to many high-burden districts. Many of the districts with high local school tax burdens (for instance, Harrisburg, Pocono Mountain, and York) are also among those that will receive the largest increases in state funding under Act 35.

Local school tax burden and per-pupil spending for a sample of Pennsylvania school districts



Implications

- Now that Pennsylvania has adopted a funding formula, maintaining it could prevent future underfunding by the state. Most of the districts in the state with high local school tax burdens will benefit from the new appropriation formula as enacted. Given that rapid population shifts appear to have contributed to the underfunding (as defined by the BEFC) of some districts, merely maintaining an enrollment-related funding formula may be the most important action to prevent future underfunding by the state.
- Monitoring school district responses to changes in state funding will be essential. Past evidence has shown that high-tax districts in Pennsylvania have lowered local taxes in response to increases in state funding. Under the new funding formula, however, local tax effort is rewarded with increased state dollars, which may create an incentive to maintain high local school taxes. District-level changes in school finance should therefore be tracked and examined to ensure that state education funding policy is having the desired impact on school spending and the local school tax burden.

About the Author

Gregory J. Collins is an advanced doctoral student in education policy at the University of Pennsylvania's Graduate School of Education. A former high school science and economics teacher, and operations engineering leader, Collins' research interests center on teacher and educational leadership policy and school and district organization.

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