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Pennsylvania's school funding debate continues

Summary: On July 12, the governor signed the commonwealth's fiscal year (FY) 2026-27 budget into law. The budget includes increased K-12 public education funding but sidesteps the policy debate over "school choice" tax credits.

Background

In 2023, Commonwealth Court ruled that Pennsylvania's method of funding K-12 public education is unconstitutional. The argument was that wealthier districts could raise considerable local revenues in addition to state (and federal) revenues, leaving poorer districts underfunded and depriving students of a quality education.

To begin to address the ruling, the FY2024-25 budget allocated $526 million for an "adequacy investment" – housed in the state's "Ready to Learn Block Grant" (RTLBG) – which is comprised of an "adequacy supplement" and "tax equity supplement" (see *Policy Brief Vol. 24, No. 8*). The adequacy supplement is based on a district's spending relative to a "successful" district's spending; if spending is lower, there is an adequacy gap. The tax equity supplement is similar but for a district's relative property tax burden.

The FY2026-27 enacted budget includes an additional $565 million toward the adequacy investment, bringing the RTLBG total to $1.95 billion.

The state's largest K-12 funding component, the basic education subsidy, will see a small increase of $58 million from the year prior to $8.32 billion. The amount distributed through the "student-weighted funding formula" (SWFF) will go from $325 million to $375 million and four districts will receive part of an $8 million supplement. The "base" component is roughly $7.94 billon and is primarily made up of "hold-harmless" funding – which does not decrease even if a district loses students – and all money appropriated through the SWFF since its inception in 2015-16 through the FY2024-25 budget.

Since the FY2023-24 budget, the last budget which did not include the adequacy investment, the basic education subsidy has increased by $448.5 million to $8.32 billion.

The RTLBG has increased by $1.66 billion to $1.95 billion. Just these two pieces of K-12 public education funding have grown by $2.10 billion in the span of four years.

Despite debate leading up to the passage of the FY2026-27 budget, it includes no changes to the state's $575 million school choice tax credit programs.

Education tax credits

Pennsylvania has two school choice tax credit programs: the Educational Improvement Tax Credit (EITC) and Opportunity Scholarship Tax Credit (OSTC). Both offer tax liability credits for individual businesses (up to $750,000 annually) who contribute to state-approved organizations which primarily provide scholarships to private schools. EITC contributions toward Economically Disadvantaged Schools (EDS) – a school in which at least 51 percent of the students attending received a minimum scholarship – have no individual business cap and offer a higher tax credit. Firms offering a written two-year commitment receive a higher tax credit percentage but face the same annual cap. Unlike the EITC programs, the OSTC program is specifically for student scholarship awards in districts with a low-achieving public school.

Pennsylvania's School Choice Tax Credit Programs

Approved Organization Type	State Funding Cap ($, millions)	Business Cap ($, thousands)	Tax Credit (%)	Tax Credit w/ 2-year commitment (%)
Scholarship	375	750	75	90
EDS	110	N/A	85	99
Opportunity Scholarship	90	750	75	90

On June 22, the state House of Representatives passed a bill that would have replaced the existing programs with "Education Options Tax Credits" beginning in FY2027-28.

The primary changes would include stricter household income caps, expanded reporting requirements for all participating organizations and expanded accountability and compliance checks by the Pennsylvania departments of Education, Revenue, Community and Economic Development (DCED), the Auditor General and Independent Fiscal Office (IFO). Proponents of the proposal argued that the current program's effectiveness is difficult to ascertain due to a lack of data and overall scrutiny and, as such, is largely unaccountable to taxpayers.

Currently, state law stipulates that beginning Nov. 1, 2026, the DCED must publicly publish the following information from recipients of scholarships from organizations: (1) student eligibility; (2) the scholarship amount; (3) name of each recipient's school district of residence and (4) the school entity each recipient attended. However, the DCED is prohibited from requesting information not expressly authorized. The IFO stated in a 2022 report evaluating the programs that without relevant data it "is unable to determine if the tax credit substantially enhances educational opportunities available to all Pennsylvania students."

Opponents argued that the proposal goes too far by imposing significantly more duties on organizations, leaving less funding for student scholarships. The compliance and administration portions of the proposal would be funded via a 2 percent levy on scholarship organizations' contributions – even though these organizations already must distribute 90 percent of their annual contributions for scholarships to participate. The two-year commitment bonus for scholarship organizations specifically would be eliminated.

A May 2026 report by the Commonwealth Foundation highlighted that the number of students turned away from scholarships due to credit caps was nearly 70,000 based on 2023-24 data from the DCED – the latest available. It also emphasized the lack of scrutiny over "the more than $17.7 billion in state appropriations for public schools and $38.6 billion in total revenue for school districts."

To wit, "[p]ublic schools that repeatedly score in the bottom 15 percent on Keystone and Pennsylvania System of School Assessment (PSSA) exams have received increased education funding from the state, yet fail to improve outcomes." As such, "[t]here are 211,000 kids across the state attending 380 low-achieving schools."

Policy Brief Vol. 25, No. 39, noted that "[s]tatewide, the percentage of 11th- grade students scoring proficient or advanced on the Algebra I, Biology and Literature Keystone Exams for 2025 were 44.3 percent, 49.4 percent and 62.1 percent, respectively." PSSA exam scores – taken by grades 3-8 – are equally disappointing. Just one grade level (6th) scored above 50 percent proficiency on the English and Language Arts exams and two grade levels (3rd and 4th) scored above 50 percent proficiency on the math exams.

Concluding thoughts

Following the Commonwealth Court ruling, *Policy Brief Vol. 23, No. 11*, recommended that the state "provide vouchers that parents can use to find alternative education away from poorly performing public schools." While the governor vetoed a $100 million voucher plan proposed in the FY2023-24 budget, the EITC and OSTC programs have seen their funding increased by $105 million in the past four years.

It is evident that there is scope to improve the reporting requirements and ensure that the EITC and OSTC programs – like all tax credits – are accountable to taxpayers. That being said, *expanding* school choice is a necessity to encourage competition and enhance student outcomes, especially given the continued underperformance of Pennsylvania's public school system. Keep in mind that the $575 million of the two tax credits makes up 5.6 percent of *just* the combined basic education subsidy and RTLBG total of $10.27 billion in the FY2026-27 budget.

The Allegheny Institute has repeatedly called into question the abject academic performance of Pittsburgh Public Schools, and other districts in Allegheny County, despite extortionate per-pupil spending which far exceeds the state average (see *Policy*

Brief Vol. 26, No. 21). The seeming lack of accountability and performance outcomes over the far greater sums of taxpayer dollars being spent on public education funding is alarming.

Ultimately, taxpayers deserve to see results for the billions of tax dollars being spent on education, private *and* public.

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