

## Deficit Watch: February 2025

Public school spending is at record highs despite declining enrollment.

### BACKGROUND

Pennsylvania faces serious fiscal challenges. The enacted 2024–25 General Fund budget **created** a \$3.6 billion structural deficit, with \$47.6 billion in spending and only \$43.9 billion in net revenue. Gov. Josh Shapiro’s 2025–26 budget **proposal** would increase the deficit to \$4.65 billion. Revenue collection data from the first half of the fiscal year shows that the deficit may be larger than previously estimated.

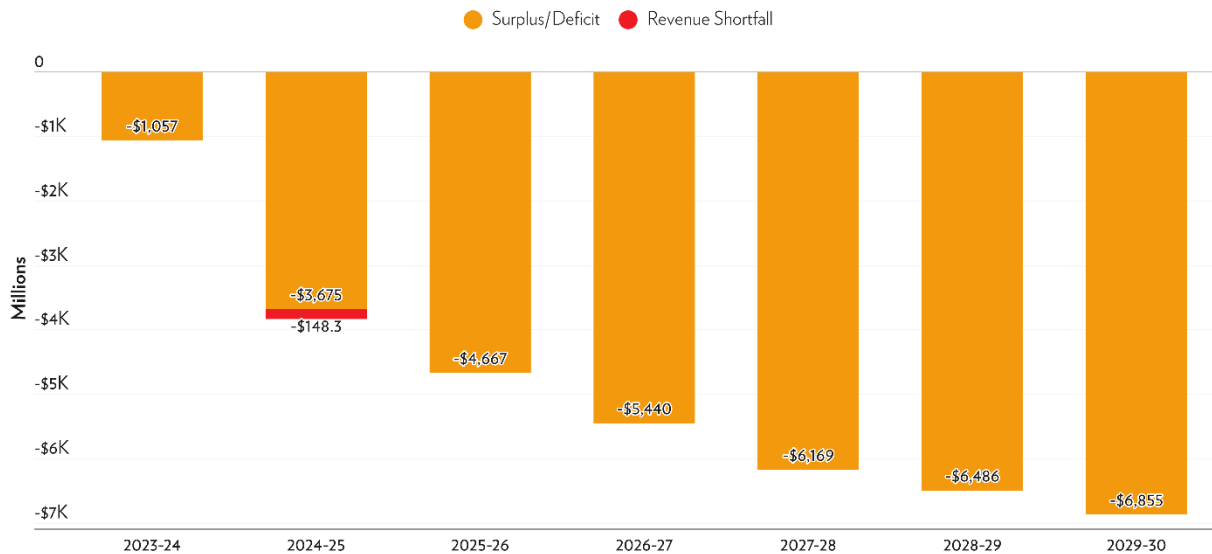
### REVENUE COLLECTIONS

- Low collections do not bode well for the budget deficit. In January 2025, Pennsylvania **collected** \$3.9 billion in revenue, \$51.3 million below the official revenue estimate. This marks the fourth time this year that monthly revenue collections were less than the official estimate. In total, fiscal year-to-date collections are \$148 million below expected revenues.

Even if collections match estimates for the rest of the fiscal year, Pennsylvania’s budget deficit will reach \$3.8 billion by June.

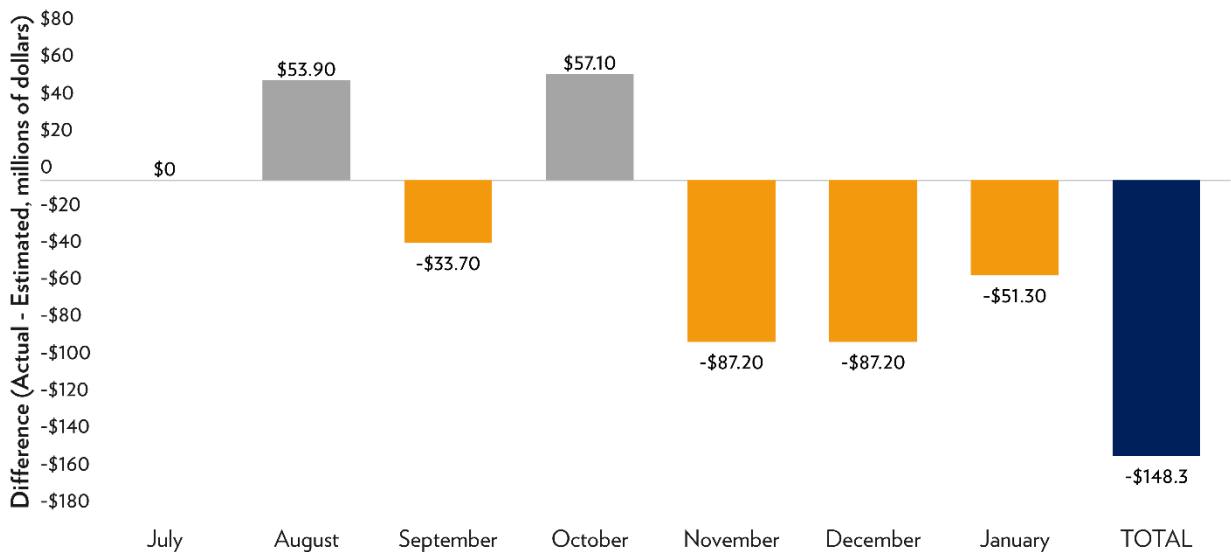
## Projected Budget Deficits

Pennsylvania is facing a budget deficit that will grow in future years.



Source: Pennsylvania Independent Fiscal Office, "Economic and Budget Outlook, Fiscal Years 2024-25 to 2029-30," November 2024, [http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/Five-Year\\_Outlook\\_2024.pdf](http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/Five-Year_Outlook_2024.pdf)

# Actual vs. Estimated Revenue Collections, FY 24-25



## EDUCATION SPENDING AND THE DEFICIT

- State support of public schools in Pennsylvania has **increased** by 67 percent since 2013. In fiscal year (FY) 2024–25, public school funding jumped \$1.3 billion, representing the second-biggest increase ever. The current state budget **spends** \$16.8 billion for “state support of public schools.” Including federal, state, and local funds, **total school district revenue** reached \$37 billion, nearly \$22,000 per student. Pennsylvania ranks seventh in the nation in per-student K–12 education spending, exceeding the national **average** of \$18,461.
- Despite this, Pennsylvania has failed to **rank** in the top ten on our Nation’s Report Card for eighth-grade reading or math in over 10 years. Pennsylvania System of School Assessment testing **results** show that 75 percent of Pennsylvania eighth graders are not proficient in Math, and 47 percent are not proficient in English Language Arts.
- Public school enrollment is **down** 140,000 students since 2000. The Pennsylvania Department of Education **projects** public schools to lose another 60,000 students by 2028. Yet, public school employment **increased** by 24,000 since 2000. And public school employee benefit costs **increased** by 86 percent from FY 2011–12 to FY 2023–24.
- Pennsylvania’s education funding formula funds buildings and systems rather than students. Due to “**hold harmless**” guarantees in state law, school districts receive the same amount of funding as they did the year prior, regardless of changes in enrollment. Hold harmless benefits shrinking school districts, which receive more funding per student while enrollment declines, and punishes growing districts, which receive less funding per student as enrollment grows.
- Shapiro’s FY 2025–26 budget **proposal** adds another \$824 million to state support of public schools, to \$17.7 billion—on top of the \$4.1 billion in increases over just the past four years.

- Shapiro’s proposal fails to deliver on his campaign promise to provide more educational options to families, so that, in his own words, “every student, no matter their zip code, has access to high-quality and safe schools.” Instead, the governor proposes taking options away from parents by slashing funding to cyber charter students to just \$8,000 per student—or 36 percent of what school districts spend per student.

## SOLUTIONS

- Lawmakers must direct any new education funding to students instead of buildings. Pennsylvania school districts receive funds well above the national average and hold a collective \$6.8 billion in [reserve funds](#).
- Instead, lawmakers should direct state education funding to follow students. Establishing the [Lifeline Scholarship Program](#) and the [Child Learning Investment Tax Credit](#), in addition to further expansions of the Educational Improvement Tax Credit (EITC) and Opportunity Scholarship Tax Credit (OSTC) programs, would ensure that state funding will follow children. Likewise, state allocations to district schools should be based on student enrollment.
- Funding tax credit scholarships and Lifeline Scholarships would lead to significant cost savings. A [review](#) of Pennsylvania’s EITC and OSTC programs found that private schools serving EITC and OSTC recipients educated students at an average annual tuition of \$5,598, a fraction of the nearly \$22,000 per student spent in public education. A 2021 [review](#) of 40 school choice programs in 19 states found a cost savings of between \$1.80 and \$2.85 per dollar spent.

## State Support of Public Schools

State support of public schools (excluding local and federal funds) reached \$16.8 billion for 2024-25.

