Pennsylvania Association of School Business Officials

Testimony to the Senate Education Committee

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School District Budgeting and Fund Balances

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Good afternoon. 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 this afternoon to discuss budgeting and fund balances—both critical issues to our membership, schools, students, and taxpayers.

PASBO represents about 3,500 school business officials in Pennsylvania. Our members work in school districts, charter schools and cyber charter schools, intermediate units, career and technical education centers, as well as private and nonpublic schools, and our members are responsible for everything from the finances and accounting of these entities to the facilities, transportation, food service, technology, human resources, payroll, safety, and support services.

School District Budgeting

One of the most important functions that school boards and school administrators have each year is developing and implementing a budget. Just like the state, the process for school districts is a lengthy one that begins early in the new fiscal year. At the same time school districts are working with their local auditors to close the prior fiscal year, they are looking ahead to build the next fiscal year's budget.

The timeline for the school district budget process is complex, and a timeline for the 2023-24 budget process is included with this testimony. The school district budget process is prescriptive because local revenue through property taxes is—via state policy—a necessary and intended component of the total revenue necessary to fund school district operations. The process for raising local revenue is both extremely complex and transparent due to the implementation of Act 1 of 2006.

Act 1 defined the extent to which school districts could raise local property taxes without a voter referendum or without obtaining an exception from the PA Department of Education (PDE). This cap is determined annually and posted in the PA Bulletin, and it is based on a calculation that includes a three-year average of federal data (the Employment Cost Index) and state data (the Statewide Average Weekly Wage). This annual calculation defines the Act 1 base index.

Poorer districts—those that have a Market Value/Personal Income Aid Ratio (MV/PI AR) of greater than 0.400—receive an additional adjustment to their Act 1 base index that is calculated annually by PDE based on their MV/PI AR. For these districts, they can raise property taxes to their adjusted Act 1 index without seeking approval for an exception from PDE or going to referendum. PDE posts all applicable Act 1 rates on its website each year. Historical rates are available as well.

Once a school district knows its applicable Act 1 index for the next fiscal year, it can begin the budgeting process. Much of this involves examining anticipated cost growth and potential areas of cost reduction, and school districts engage in efforts to predict state funding (before the governor even provides a proposed budget address) to know the extent to which local revenue will be necessary to close any gaps.

Act 1 provides for limited opportunities for a school district to increase property taxes above the Act 1 index. While there used to be many Act 1 exceptions, Act 25 of 2011 reduced the number of possible exceptions to: 1) grandfathered debt, 2) debt approved by a voter referendum, 3) special education costs (net of state reimbursement), and 4) employee pension costs in excess of the Act 1 index.

Of these remaining exceptions, there is only one that is still relevant for school districts—special education costs. The exceptions for grandfathered debt and debt approved by a referendum are no longer applicable. Additionally, the employee pension exception was drafted to freeze the wage base at 2011-12 levels so that it is not applicable to cover wage base increases—rendering it useless going forward.

Each year, PDE publishes and posts annual Act 1 exception reports, and through those reports, it is clear that the only applicable remaining exception is for special education costs.

Each year, many school districts make a decision early in the budget process to stay within their applicable Act 1 index. Some school districts elect to complete a preliminary budget and apply to PDE for an exception to the Act 1 index—giving them the opportunity to exceed their Act 1 index for a specific purpose and specific dollar amount, if approved.

Given all of the unknowns and uncertainties at the time school districts are making these important decisions, many districts have in the past (and continue to a very limited extent) to keep all budgeting options open, applying for applicable Act 1 exceptions so they have flexibility if and when it is needed when their budget comes into more clarity later in the fiscal year—usually when state revenue is more defined.

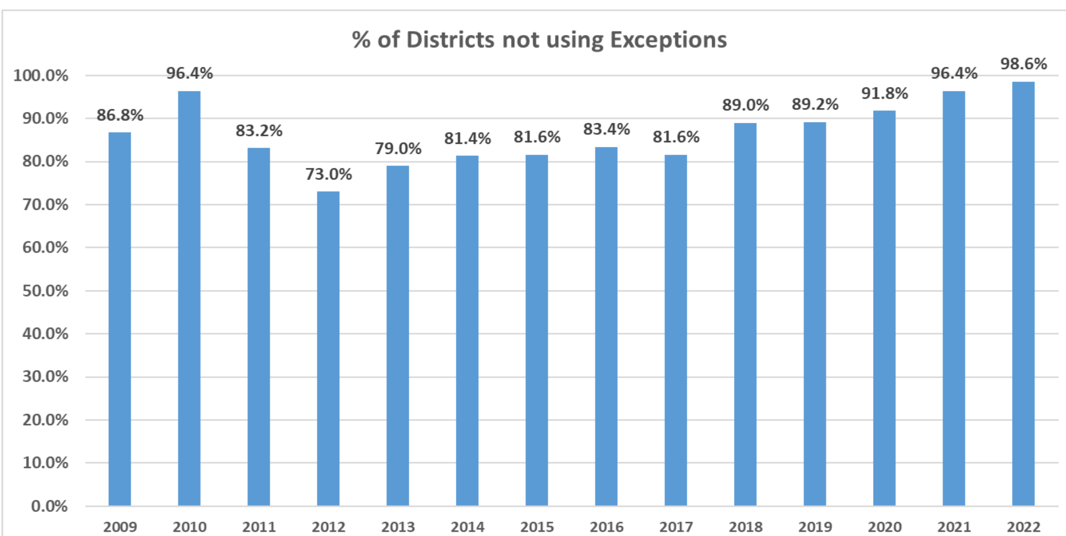
Again, reviewing the annual PDE Act 1 exception reports, it's clear that most school districts that apply for and are approved for Act 1 exceptions do not use the exceptions to exceed their Act 1 index in their final budgets. Additionally, as noted by the school districts in the Auditor General's report, applying for the exceptions is simply another tool they have as they progress through the budget process.

The information from PDE's Act 1 exception report highlights the extent to which most districts approved for Act 1 exceptions choose not to use them. It also highlights the fact that virtually no school districts are using Act 1 exceptions. A trend PASBO anticipates will continue going forward.

	Amount of Referendum Exceptions				Number of School Districts		
Budget Year	Approved	Used	Percent		Approved	Used	Percent
2008-2009	$143,189,572	$41,093,962	28.7%		102	66	64.7%
2009-2010	$84,853,037	$13,072,387	15.4%		61	18	29.5%
2010-2011	$192,420,114	$67,647,774	35.2%		133	84	63.2%
2011-2012	$265,830,906	$95,538,548	35.9%		228	135	59.2%
2012-2013	$159,942,625	$48,174,306	30.1%		197	105	53.3%
2013-2014	$121,708,954	$30,484,314	25.0%		171	93	54.4%
2014-2015	$121,097,346	$39,284,177	32.4%		164	92	56.1%
2015-2016	$132,751,446	$36,206,209	27.3%		172	83	48.3%
2016-2017	$144,280,586	$47,960,372	33.2%		179	92	51.4%
2017-2018	$99,542,024	$23,105,124	23.2%		129	55	42.6%
2018-2019	$54,306,649	$19,777,445	36.4%		98	54	55.1%
2019-2020	$52,943,105	$18,551,572	35.0%		84	41	48.8%
2020-2021	$44,906,658	$6,001,026	13.4%		64	18	28.1%
2021-2022	$10,717,996	$2,726,138	25.4%		30	7	23.3%
2022-2023	$4,560,963						

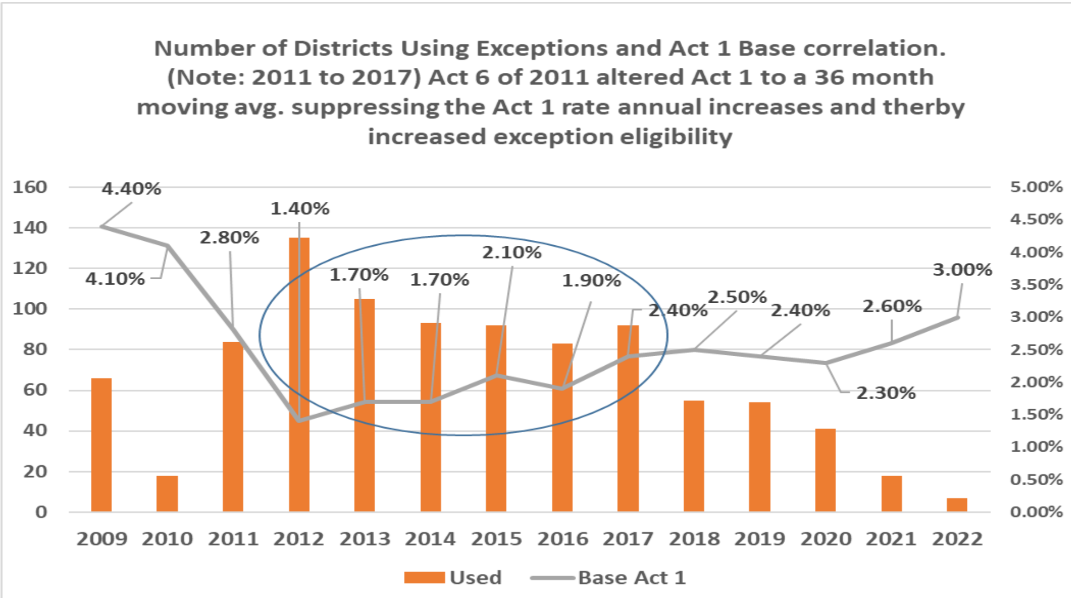
SOURCE: PDE Act 1 Exception Report

The data below shows the percentage of school districts not using Act 1 exceptions to exceed their Act 1 index each year. While the vast majority of Pennsylvania's 500 school districts do not exceed the Act 1 index, it's important to note that many do not even use the entirety of their index—and many others do not raise property taxes at all.



SOURCE: PDE Act 1 Exception Report

The calculation for determining the Act 1 index changed as a result of Act 6 of 2011. Instead of using single-year data, Act 6 changed the Act 1 calculation to a 3-year average of the federal Employment Cost Index and the Statewide Average Weekly Wage. This had the impact of reducing the overall Act 1 base index, which resulted in larger numbers of school districts applying for and using Act 1 exceptions during the initial years that change was made.



SOURCE: PDE Act 1 Exception Report and Act 1 Index Data

With the first major step in the budget process occurring around the end of the calendar year, districts have to make an initial decision about whether they will move forward with a budget that contains a property tax increase within their Act 1 index or whether they will maintain an option to apply for an Act 1 exception. When districts have to make this initial decision, they barely have six months of operating expenditures for the current fiscal year to gauge trends and needs and no idea what state revenue to expect for the following fiscal year.

As school districts move through the spring, they get a better picture of their expenditure trends for the fiscal year and potentially more direction on what their state funding may look like, and the Act 1 timeline requires them to adopt a proposed final budget by the end of May. Just ten days later, they must have their final budget on public display, and their final budget, along with their tax levy, must be adopted and approved by June 30 each year.

This very prescriptive process includes public meetings, public display of documents, and multiple layers of approvals at various points in the process with the goal of ensuring that budgeting development and local revenue needs are public and transparent throughout the process.

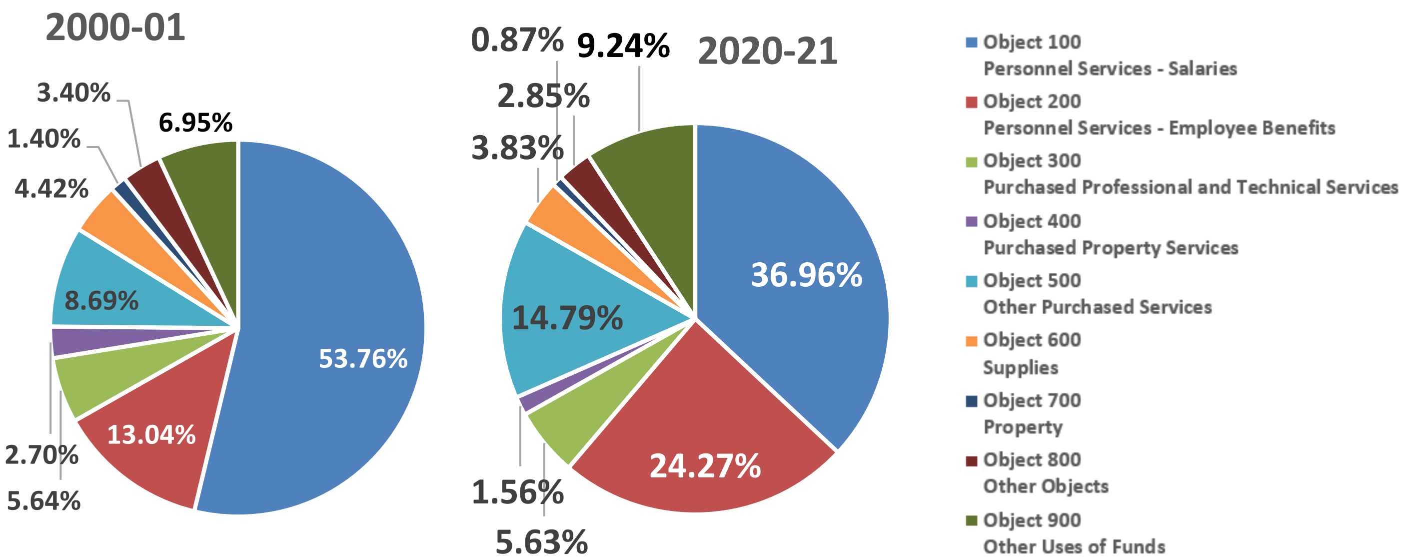
School District Cost Drivers

While the school district budgeting timeline is relatively straightforward and statutorily defined, the internal process for developing a budget for the next fiscal year is certainly complex. The easiest way to look at the school district budgeting process is to look at what drives school district budgets from year to year.

Looking at the pie charts below, you can see the changes in school district object-level expenditures (the item or commodity on which school district resources were spent) over time. Based on school district Annual Financial Reports (data reported to PDE by school districts annually and available publicly), an object-level expenditure review highlights two of the biggest changes in school district budgets: employee pension costs and charter school tuition costs.

Salaries school districts pay to employees make up the lion's share of the expenditures each year (Object 100); however, the share of the total expenditures accounted for by employee benefits (Object 200), which includes pension, healthcare, and other employee benefits, have grown substantially between 2000-01 and 2020-21 (the most recent year for which AFR data is available).

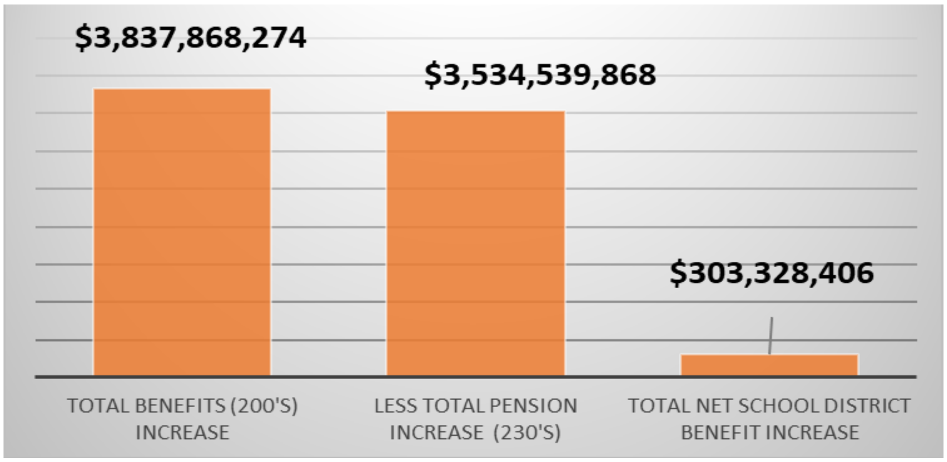
School District Expenditures by Object Code



SOURCE: PDE, Annual Financial Report data

Additionally, the growth of the Object 500 expenditures is notable as well. Object 500 expenditures includes costs for some contracted services, such as transportation; however, it also includes charter and cyber charter tuition. The growth in charter and cyber charter tuition is responsible for the growth in that expenditure as a share of total expenditures over the past twenty years.

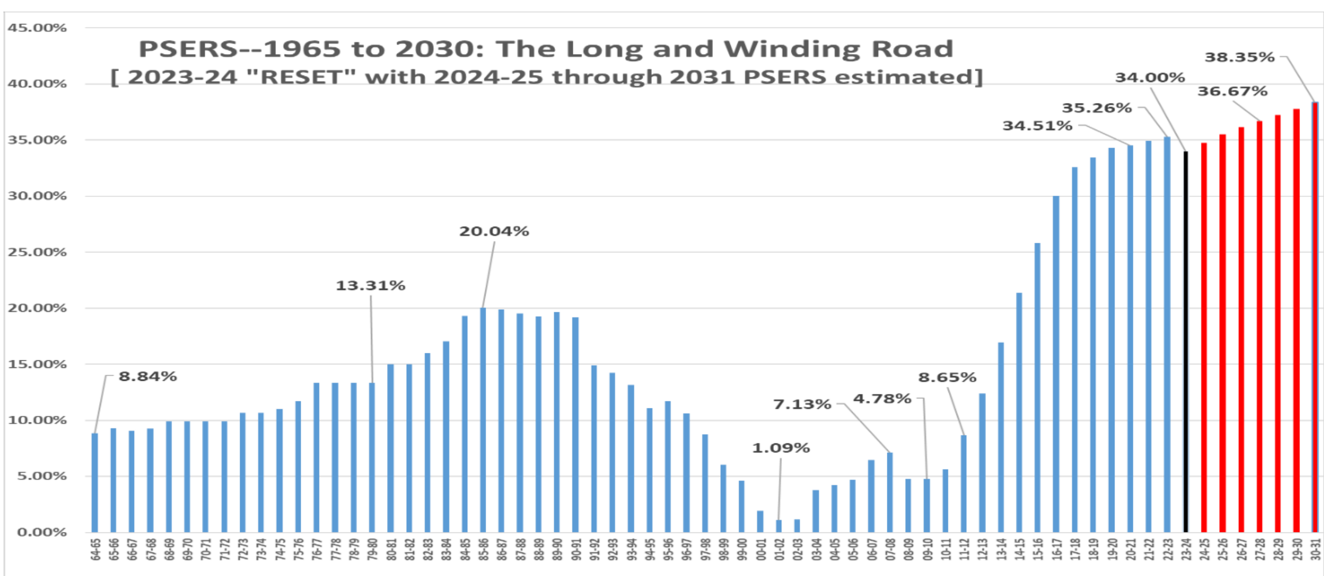
Looking more specifically at employee benefit costs, the employee pension costs are what have driven those expenditure increases from year to year. Over the past ten years, only about $300 million of the total school district employee benefit cost growth has been for healthcare, Social Security, workers compensation and other non-retirement benefits. That means that about $3.5 billion of the total $3.8 billion in employee benefits cost growth over ten years was due solely to PSERS costs.



SOURCE: PDE Annual Financial Report data 2010-11 to 2020-21.

While the rate of increase in the employer contribution rate has slowed over the past few years, it is expected to continue to increase going forward, despite the slight decrease for 2023-24. In fact, Representative Seth Grove, Minority Chair of the House Appropriations Committee, shared a recent letter with school districts indicating that the reduction in the employer contribution rate is temporary and that the Independent Fiscal Office (IFO), as well as PSERS, anticipates continued increases going forward.

The graph below illustrates the changes in the employer contribution rate over time and the projected rates going forward.

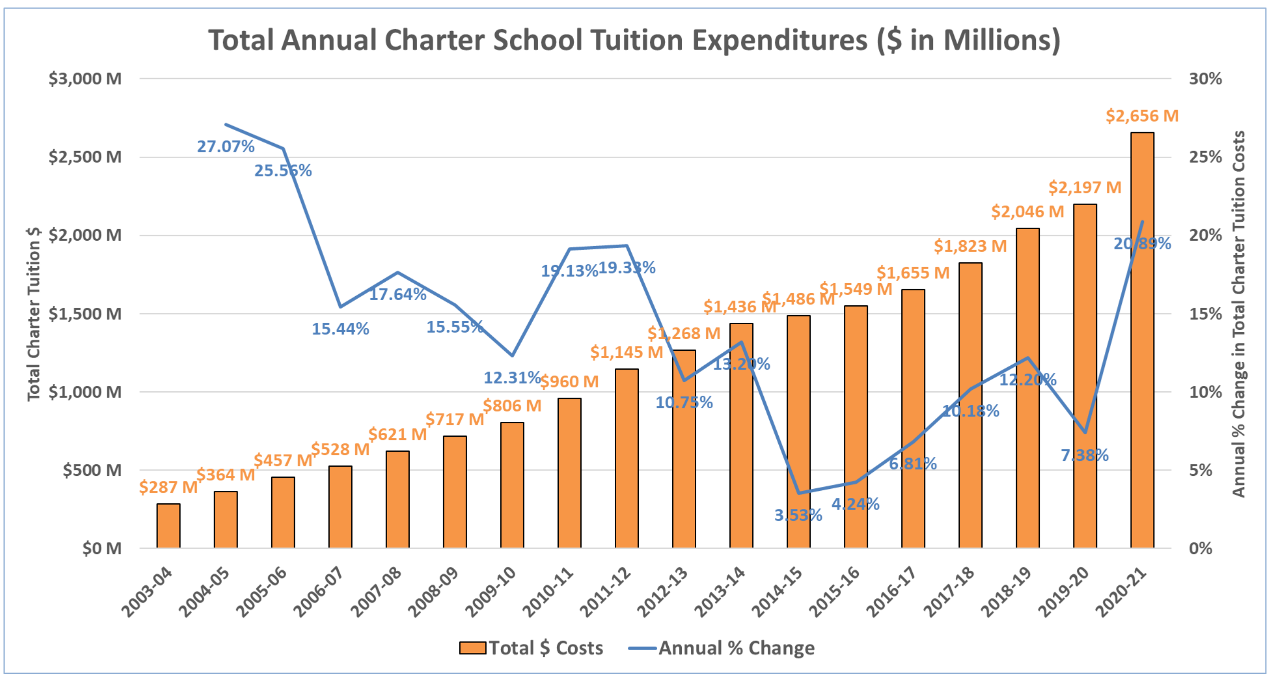


Additionally, it's important to note that while school districts must pay 100% of the pension costs up front ($0.35 on every dollar of salary for 2022-23), they do receive reimbursement from the state for a portion of their costs. This reimbursement is about 50% in the aggregate; however, districts with a higher MV/PI AR receive a greater share of reimbursement.

Overall, in 2020-21, school districts paid $4.18 billion in employee retirement costs, and the state reimbursed them $2.37 billion, with $1.81 billion in employee retirement costs being funded at the local level.

Another major area of school district budget growth is in charter school tuition. The Public School Code provides the methodology for the calculation to define the amount a school district pays to charter and cyber charter schools for resident students enrolled. While there has been an increase in the number of students attending charter and cyber charter schools—particularly cyber charter schools during and after the pandemic—the tuition rates have grown annually as a result of school district budget growth.

The chart below shows the total annual charter and cyber charter tuition costs paid by school districts. The blue line shows the percentage increase in that overall expenditure from year to year. That percentage change has been under 10% only four times in the past ten years. Overall, school districts paid more than $2.56 billion to charter schools in 2020-21, a number that is likely to surpass $3 billion for 2022-23.



SOURCE: PDE data

For comparison, the table below shows the annual increase in charter school tuition costs as well as the annual increase in basic education funding (BEF). The BEF formula increases are actual through all fiscal years, and the charter tuition is estimated for 2021-22 and 2022-23 (as final data are not yet available from the state).

Actual data shows new BEF formula increases lag charter tuition increases by $470.6 million through 2020-21. Based on estimated charter school tuition increases for the past two years, the BEF increases end up about $65.6 million short.

FY	562 Obj code Charter Tuition increase	New BEF Formula Increase	BEF Increase less Charter Increase	Cumulative
2015-16	$ 63,009,394	$ 152,398,840	$ 89,389,446	$ 89,389,446
2016-17	$ 105,548,648	$ 200,000,000	$ 94,451,352	$ 183,840,798
2017-18	$ 168,412,447	$ 100,268,443	$ (68,144,004)	$ 115,696,794
2018-19	$ 222,412,447	$ 85,999,961	$ (136,412,486)	$ (20,715,692)
2019-20	$ 151,079,359	$ 159,999,951	$ 8,920,592	$ (11,795,101)
2020-21	$ 458,852,910	$ -	$ (458,852,910)	$ (470,648,011)
2021-22	$ 150,000,000	$ 200,000,000	$ 50,000,000	$ (420,648,011)
2022-23	$ 170,000,000	$ 525,000,000	$ 355,000,000	$ (65,648,010)

SOURCE: PDE Annual Financial Report data

Looking at school district employee pension costs along with charter and cyber charter school tuition costs, these two mandated costs alone have driven—statewide—more than 64% of total school district expenditure increases from 2010-11 through 2020-21.

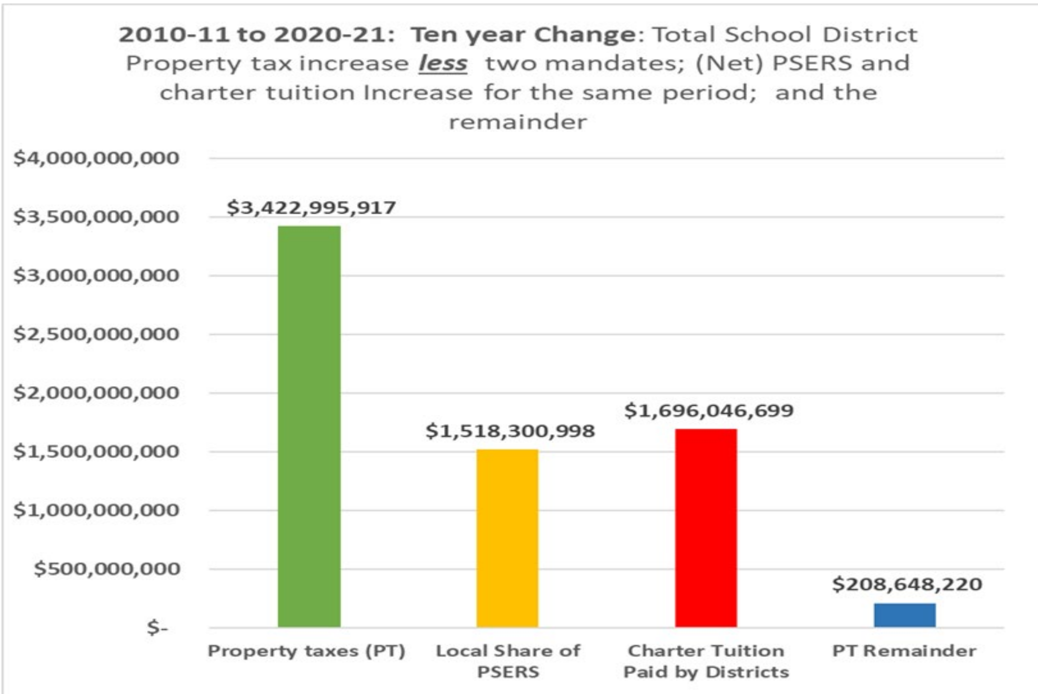
The increases in state-mandated employee retirement and charter tuition were $5.23 billion. Net of these two line items, school district expenditures increased 11.62% over the entire decade, or 1.16% per year on average. Special education, salaries, and healthcare would be included in that 1.16% annual increase.

Fiscal year	School District Total Expenditures as Per PDE AFR data	SD Gross Pension (230 object Code AFR)	SD Charter Tuition Totals PDE AFR	*Charter & Pension $'s of Total Exp.	Charter & Gross Pension as a % of Exp	NET: School District Total Expenditures NET of Charter and Pension (10 year Comparison)
2020-21	$33,244,862,295	$4,185,686,132	$2,655,750,411	$6,841,436,543	20.6%	$26,403,425,752
Less 2010-11	$25,097,498,696	$651,146,264	$959,703,712	$1,610,849,976	6.4%	$23,486,648,719
= 10 Year Dollar Increase	$8,147,363,600	$3,534,539,868	$1,696,046,699	$5,230,586,567	64.2%	$2,916,777,033
10 Year Increase %	32.5%	542.8%	176.7%	64.2%		11.62%
*Charter and Gross Pension Account for 64.2% of total School District expenditure increases over the past decade					Avg Net District total Increase Per year; Divided by 10 years:	$291,677,703
						1.16%

SOURCE: PDE Annual Financial Report data

Another way to look at this is in the chart below, which compares the ten-year property tax increase across all 500 school districts, which was $3.4 billion from 2010-11 to 2020-21, to the net employee retirement cost increases across all school districts and the charter school tuition cost increases across all districts for the same time-period.

The $3.4 billion increase in property taxes is certainly a lot in anyone's book (and this amount includes natural growth and millage rate changes), but the real story is that just two mandated line items over the decade combined for an equivalent of 93.9% of total property tax increases, leaving a remainder of 6.1% for all other purposes.

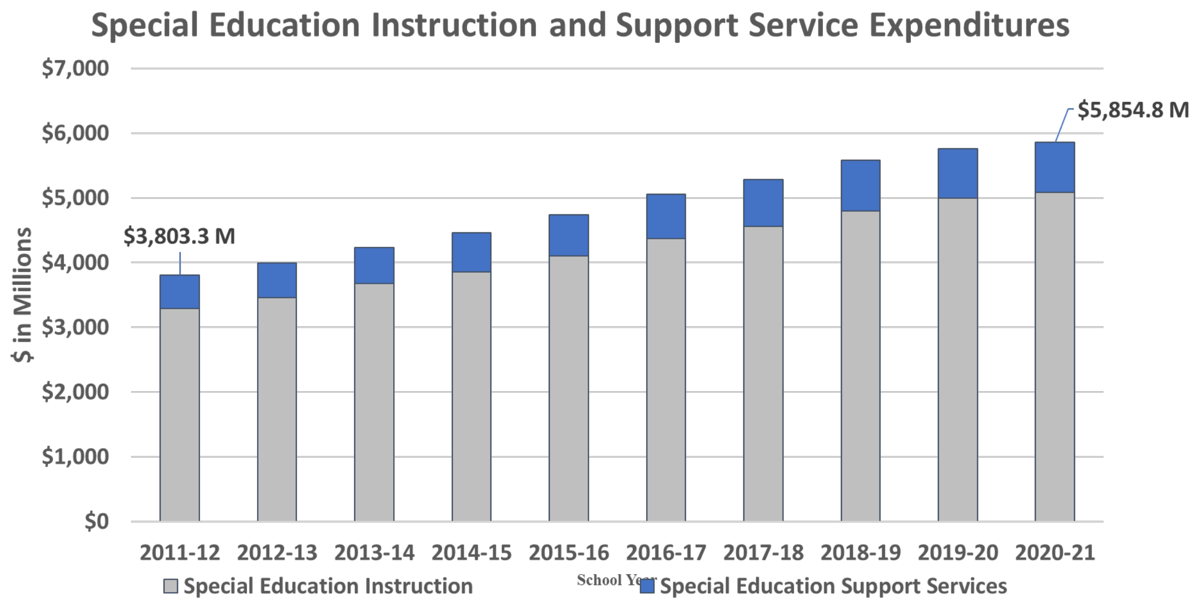


SOURCE: PDE Annual Financial Report data

One additional mandated cost plays a significant role in driving school district expenditures from year to year and makes the budget development and implementation process challenging. That mandate is special education, as school districts must provide the services, programs, and supports in the least restrictive environment to all students that have an individualized education plan (IEP). The provision of special education programs and services is driven by state and federal law, and as special education enrollment and needs increase, costs do as well.

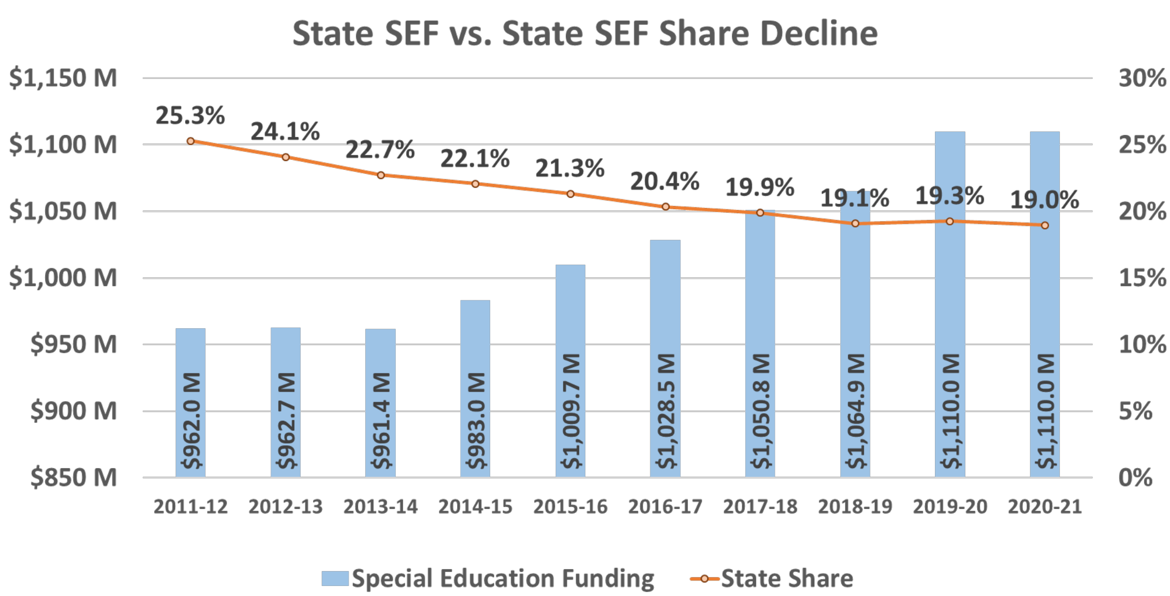
Over the past ten years, school district total special education expenditures—for both special education instruction and support services—have increased from $3.8 billion in 2011-12 to $5.8 billion in 2020-21. While school districts do receive some special education funding from the federal government, the vast majority of all school district special education costs are covered by state and local revenue.

The chart below shows the total special education expenditures for all 500 school districts annually over the past ten years.



SOURCE: PDE Annual Financial Report data

From a budgeting perspective, while there have been increases in state special education funding over the past several years, the special education expenditure increases have outpaced the increases in state funding, such that the state's share of special education has been in decline, pushing more of these costs to the local level and making the budgeting process that much more complex.



SOURCE: PDE Annual Financial Report data

While the information about mandated costs and mandated cost growth above illustrates just some of the challenges, cost drivers, and unknowns that impact the school district budget development process, it also illustrates the role of local revenue in the school district budgeting process, which, again, is driven by a prescriptive statutory process designed for maximum taxpayer transparency.

The conversation about mandated costs and other uncertainties and unknowns as school districts approach and move through the budgeting process also illustrates the need for and importance of fund balances.

School District Fund Balances

Fund balance represents an entity's assets over its liabilities, as determined at a specific moment in time (June 30 for most school districts.) The intent of fund balance is to guard against uncertainty and volatility in the General Fund, serving as a shock absorber to mitigate risk and ensure that resources are available for the underlying mission of the entity.

For school districts, fund balances protect the General Fund from unpredictability that could arise from growth in mandated cost increases, unanticipated increases in other areas of the budget—such as healthcare—declines, volatility, or delays in local or state revenue, or other emergency needs. Fund balances also protect local taxpayers, allowing for prudent multi-fiscal year planning and mitigating the need for spikes or volatility in tax increases from year to year.

There are various types of fund balances, as defined by PDE's Accounting Bulletin:

- *Non-spendable fund balances*: These are funds that cannot be spent because they are either (1) not in a spendable form or (2) legally or contractually required to remain intact. Examples of items that would be considered nonspendable include inventories and the principal of a permanent fund.

- *Restricted fund balances:* These are funds that are restricted to be spent for a specific purpose. The constraints on these amounts must be externally imposed by creditors, grantors, contributors or laws or regulations of other governments; or by enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or mandate payment and includes a legally enforceable requirement on the use of these funds. An example is funding specifically set aside for capital improvements.

- *Committed fund balances:* These are funds that can only be used for specific purposes as a result of formal action by the school's highest level of authority (in most cases this would be the school board). Once the item is committed, it cannot be used for any other purpose unless changed by the same procedures used to initially constrain the money.

- *Assigned fund balances:* These funds reflect the intent for use for a specific purpose as determined and authorized by a committee of the governing board or by an individual authorized by the LEA's governing board, such as the superintendent or CFO. Unlike committed fund balances, assigned fund balances can be changed without formal action and do not need to be designated by the board.

- *Unassigned Fund Balances:* These are funds that have not been designated for a specific use or purpose and have not been categorized as restricted, committed or assigned. This portion of the fund balance is commonly used to meet cash flow needs or to finance monthly operating expenditures.

How does a school district end up with fund balance? Most simply, a school district spends less than it budgets or ends up with greater revenue than anticipated. From the first day of the fiscal year, a school district works hard to spend effectively and conservatively. With so many unknowns capable of disrupting carefully planned budgets, school districts work hard to minimize their expenditures during the year—not knowing, for example, whether state funding will be delayed, whether revenue estimates will hold, or the extent to which special education costs will increase.

At the same time, school districts often pass their budgets without a clear picture of what state revenue will look like. This is often true as the state budget is passed after the June 30 deadline. It was certainly true for 2022-23, when the state budget with historic education funding was passed in early July after all 500 school districts passed their budgets and defined their tax rates.

Whether school districts are working hard to spend as efficiently as possible, whether they are experiencing increased state revenues, or both, they may finish the fiscal year with a surplus—as of June 30, and as determined by their local auditor. These funds, functionally, become available as fund balance, and school districts often use these funds to serve as the shock absorber in their General Fund going forward.

Some of the most common directed uses for existing school district committed and assigned fund balance are the state-mandated costs such as employee retirement, charter school tuition costs, and special education costs as discussed above. Other common committed and assigned fund balance uses are for healthcare costs that routinely exceed inflation and future infrastructure needs and upgrades, as there is currently no longer state funding for even the most basic of renovations.

An unassigned fund balance is the portion of spendable fund balance that has not been categorized as restricted, committed, or assigned to a specific purpose. This portion of the fund balance is commonly used to meet cash flow needs or to finance monthly operating expenditures. While the unassigned fund balance is technically spendable, it's important to note that a significant portion of the unassigned fund balance defined on June 30 is in accounts receivable from federal, state and local sources that is not available to be spent until it is received in the following months.

Generally, school districts have little income during June, July and August and a lot of expenditures associated with the close of one year and the start of another. Many school districts rely on fund balance use to cover current obligations or unexpected increases in expenditures due to increased special education or charter school enrollment or unexpected decreases in revenue.

School district unassigned fund balance is the equivalent of the state's Rainy Day Fund or Budget Stabilization Reserve Fund. According to the Governor's Office of the Budget, the state's Budget Stabilization Reserve Fund provides "financial assistance to minimize future revenue shortfalls or deficits, and promote greater continuity and predictability in the funding of vital government services. It minimizes the need to increase taxes to balance the budget of the Commonwealth during periods of financial distress."

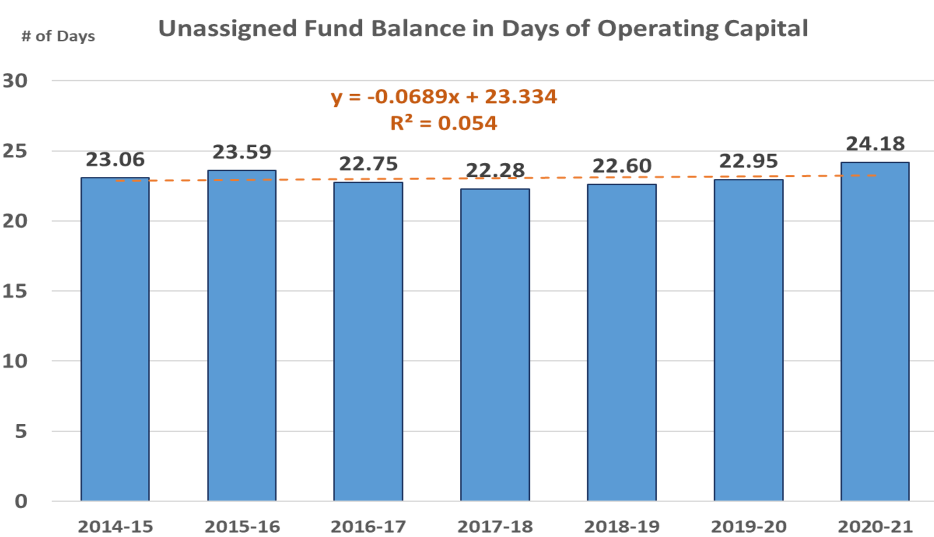
With the significant progress made in increasing the funds available over the past two years, the state's Budget Stabilization Reserve Fund has grown substantially, providing the equivalent of 42 days of operating expenditures. While this has been great progress, recognizing the financial challenges ahead, with a potential recession looming on the horizon along with the fiscal cliff from the expiration of federal funds paired with the demographic challenges facing Pennsylvania, there is certainly a need for additional investment to guard against future volatility.

Additionally, a recent audit highlighted the 2021-22 fund balance of the General Assembly and the thirteen legislative service agencies, which was $261 million on nearly a $420 budget, enough to cover about eight months of operation, according to a Pennlive article. The House's fund balance was about $116 million—49% of its annual operating expenditures; the Senate's fund balance was $44 million—36% of its operating expenditures.

The responses from the House and the Senate indicated the need to preserve operations and financial obligations and to guard against uncertainty—such as budget impasses. The responses also indicated the benefit to taxpayers of maintaining fund balances. PASBO certainly agrees.

In comparison to the state's and General Assembly's fund balances, for 2020-21, the most recent year of financial data publicly available, Pennsylvania's 500 school districts had only 0.8 months of resources available to cover their operating expenditures—that's 3.44 weeks or 24.18 days—far less than the state, the House, and the Senate.

Over time, the extent of unassigned fund balance carried by school districts in terms of operating expenses, has remained relatively flat. School districts have, on average, maintained only 23.06 days of unassigned fund balance since the 2014-15 school year.



SOURCE: PDE Annual Financial Reports

Generally, the reason school districts have maintained only about 23 days of operating expenditures in unassigned fund balance since 2014-15—and for even longer before that—is because of the policy defined in state law.

Section 688 of the Public School Code prohibits a school district from approving an increase in property taxes of any amount unless it has adopted a budget that includes an estimated unassigned fund balance that falls within the parameters below.

Total District Budgeted Expenditures	**Fund Balance % Limit (Less than or equal to)**
Less than or equal to $11.999 million	12.0%
Between $12 million and $12.999 million	11.5%
Between $13 million and $13.999 million	11.0%
Between $14 million and $14.999 million	10.5%
Between $15 million and $15.999 million	`10.0%
Between $16 million and $16.999 million	9.5%
Between $17 million and $17.999 million	9.0%
Between $18 million and $18.999 million	8.5%
Greater than or equal to $19 million	8.0%

Due to the size of most school district budgets, the vast majority of Pennsylvania's 500 school districts are limited to an unassigned fund balance of 8.0% of their total budgeted expenditures if they are going to raise property taxes.

Each year, school districts that are increasing property taxes must certify to the PA Department of Education that they are in compliance with section 688, which includes information about the district's ending unassigned fund balance as a percentage of the district's total budgeted expenditures. This process is a component of the prescriptive Act 1-defined budget development process discussed above.

As part of that budgeting process, school districts are constantly reviewing and assessing their needs, their mandated cost drivers, and the extent to which they have the flexibility to cover them with or without property tax increases above or within the Act 1 index.

Based on PDE's school district budget data, 347 school districts approved General Fund deficit operational budgets for the 2022-23 fiscal year (e.g. operating revenues less than expenditures). There are similar numbers for the past few years as well, and we anticipate more for 2023-24.

More than $605.7 million was represented in those combined operating deficits, which means that districts are leveraging the difference between budgeted expenditures and revenues over multiple years to avoid tax increases and plan for effective utilization of those funds across a wide spectrum of district operational needs.

That $605.7 million was reserved in school district fund balance (in committed, assigned, or even unassigned). That is the equivalent of nearly two years' worth of aggregate property tax increases that is not happening due to districts' strategic multi-year use of fund balance.

This systemic multi-year strategy is a practice being well-implemented by many districts to address many unknowns that a district faces in budgetary operations. As a practice, it has evolved over time from few districts utilizing it decades ago, to many using it now.

Additionally, it's important to recognize that fund balances are available for one-time use only. These funds are not available to fund ongoing, long-term costs, and drawing down fund balance—if not done thoughtfully and deliberatively—can result in a downward fiscal spiral. In fact, Section 621-A of the Public School Code and the corresponding regulations include several fund balance-related criteria that may be used to declare a school district in financial distress.

School districts, looking ahead over multiple fiscal years and planning for mandated cost increases, facilities needs in the absence of PlanCon, healthcare claims, or declines in revenue due to economic downturns, use the effective, responsible, and prudent practice of setting aside funds to cover these costs and carefully utilizing fund balance over time. They do this precisely in the same way the state does, for the purpose of benefitting students, taxpayers, and the community.

The Auditor General's Fund Balance Report

The performance audit of 12 school districts selected through a series of specific criteria released by the Auditor General in January of 2023 after nearly a year of work provided a one-sided and limited view of the careful financial planning and taxpayer-protecting efforts that are occurring in school districts across the state.

This report merits review as it recommends substantive policy changes, and PASBO is certainly open to changes that can bring about more clarity, improved financial practices, and better communications. We acknowledge that reasonable people can disagree professionally if, in the end, substantive policy changes understand and appreciate the complexity in the governance of organizations serving a wide array of constituent needs in their communities and students.

Unfortunately, nearly all of the recommendations provided in the Auditor General's report are likely to cost taxpayers more in the long run and subject school districts to the whims of economic and operating uncertainties. Most of the recommendations are contrary to financial best practices, and in many cases, they would create more complexity, less transparency, increased risk of dynamic cost shock, and result in less effective use of taxpayer resources.

After looking at only 12 school districts, the report advances one-size-fits-all reinterpretations of decades-old processes and laws, ignoring the careful multi-fiscal year planning and decision-making by locally-elected officials and the competent and hardworking individuals hired to deliver educational programs and manage financial resources.

While the report clearly and often states that the 12 selected districts did nothing unlawful, it also concludes and repeatedly accuses board members and administrators of intentionally misleading taxpayers—despite clear and direct information to the contrary provided by each of the school districts and without regard to the prescriptive nature of the school district budgeting process and Act 1 timeline.

The report and the recommendations reinterpret decades of school law and practices, many of which have evolved from past and current state policy decisions. The report also ignores many of the factors discussed above that drive school district budgets and the need for the maintenance of fund balances to protect the General Fund from volatility.

As noted by many Senate and House leaders this week, the next few years are likely to be financially rocky. The economy will slow down, the clock is running down on federal COVID-relief funding, there is a looming state budget deficit as noted by the IFO, and for school districts, mandated cost increases will continue to rise with no end in sight. It benefits us all to have as many districts as possible that are stable and doing their level best to determine future needs and risks and are effectively addressing them.

Many of the approaches school districts employ with their fund balance and strategies serve to avoid costs, minimize cost shocks, hedge known liabilities, and save taxpayer dollars year after year. More importantly, districts must constantly provide for long-range planning and windows of time to invest and spend their funding, whenever it arrives, as effectively as possible. Spending resources as quickly as possible or using one-time funds to delay and defer ongoing costs are not a good long-term strategies.

The report has created worthwhile discussion, and the school districts that were part of the report provided very detailed responses outlining the careful and prudent efforts made to protect the mission of the district and use taxpayer funds effectively.

Districts can always continue to strive to communicate better and to be as transparent as possible with the taxpayer resources provided. Prioritization of limited resources—which is precisely what the school district budgeting process is—requires diligent thought and often intense debates, but each year, school districts remain on the front line getting it done as best they can.

The past decade shows that districts have done a yeoman's job evolving and adapting within the Commonwealth's school finance policy constraints and changes, even in the face of increased expectations and responsibilities. There will always be a tension on prioritizing limited resources; that is not going to change.

PASBO's responses to the specific the recommendations in the Auditor General's report are below:

The general underlying recommendation in the Auditor General's report is that school districts should not be increasing property taxes above the Act 1 index if they maintain General Fund balances. However:

- This interpretation defies more than a decade of practice and the intent and language associated with the Act 1 index cap and the Act 1 index exceptions.
- Current statutory language limits the Act 1 index cap for exceptions to a percentage of unassigned fund balance of total budgeted expenditures (8% for most school districts).
- The vast majority of school districts do not apply for or use Act 1 exceptions. In fact, in 2021-22, the most recent data available from PDE, only 7 out of 500 school districts used Act 1 exceptions. The number for 2022-23 is lower (based on the data that is available), and we anticipate that this number will be even less (or zero) for 2023-24.
- Data shows that school districts are simply not raising property taxes above the Act 1 exception—even if you looked at all General Fund balances combined to determine the threshold for exceptions (unassigned, committed, and assigned together, which is a reinterpretation of existing law).

- The recommendation simultaneously acknowledges that school districts have done nothing wrong and have complied with the law and admonishes them for not adhering to a reinterpretation of that same law.

The Auditor General's report indicates that school districts should not even apply for Act 1 exceptions if they have unassigned fund balance and/or if they do not intend to use the exceptions. However:

- As noted in PDE's annual reports on Act 1 exception usage, most school districts do not apply for Act 1 exceptions (only 30 school districts applied in 2021-22).
- Historically, while school districts have applied for Act 1 exceptions, most have not actually used them and their property tax increases did not exceed the Act 1 index. See the PDE annual reports.
- The timeline for applying for Act 1 exceptions occurs early in the calendar year, far before school districts know what they will receive in state funding, and while they only have a sense of what about 6 months of their operating expenditures will be for the current fiscal year. As a result, many school districts apply for exceptions, keeping all options on the table as then enter the budgeting process. Again, most do not use the exceptions once the budget picture comes to more clarity closer to the end of the fiscal year.
- The responses by the school districts that were included in the audit indicated repeatedly this practice of using a possible exception as an option as they entered the budgeting process with many unknowns. School districts informed their communities of this option and reasons for pursuing a possible Act 1 exception at public meetings and taxpayers were not mislead about the reasoning behind these efforts.

The Auditor General's report indicated that districts should pass a preliminary budget indicating they will not increase property taxes if they have unassigned or other committed or assigned fund balances; however:

- This opinion reinterprets more than a decade of existing law and practice (as noted above), and undermines the thoughtful multi-fiscal year planning that school districts engage in to ensure that they are protecting their General Fund from volatility.
- Under the Act 1 statutory timeline, districts would have to do that five to six months ahead of June 30, and with only six months' worth of current fiscal data.
- The report does not acknowledge the value and importance of maintaining fund balances, nor does it acknowledge the fundamental cost drivers of school district budgets--mandated cost growth, specifically in the areas of pension costs, special education costs, and charter school tuition costs—many of which are the reasons fund balances exist.
- Committed and assigned fund balances are designated for specific purposes—generally and routinely for pension costs, healthcare costs, charter school tuition costs, facilities/infrastructure costs, or special education costs.
- Fund balances of all kinds represent one-time funds, and careful planning must accompany their use, otherwise, use of fund balance will exacerbate and accelerate financial challenges.

Overall, the Auditor General's report suggests that the accumulation of General Fund balance of any type (committed, assigned, or unassigned) represents an inappropriate use of taxpayer dollars; however:

- According to the Government Finance Officers Association, "it is essential that governments maintain adequate levels of fund balance to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures) and to ensure stable tax rates. In most cases, discussions of fund balance will properly focus on a government's general fund. Nonetheless, financial resources available in other funds should also be considered in assessing the adequacy of unrestricted fund balance in the general fund."
- It is essential that school districts maintain fund balances to protect against volatility in the General Fund to ensure that the core functions of the district—the instruction of students—is unaffected by variances in revenues and expenditures.
- Growth in mandated costs, variation in state funding, late state budgets, health insurance claims for self-insured districts, needed facility maintenance (in the absence of state PlanCon funds), the addition of new mandates, growth in enrollment, declines in assessed values, and assessment appeals are some of the reasons that define the need for fund balances to protect the General Fund.
- School districts work from day one of their fiscal year to be conservative in spending to ensure that they are carefully using all resources during the year. Virtually every district is striving to achieve all budgetary program delivery objectives, under the budget. When a district comes in under budget, they should be applauded, as those additional funds are often used to mitigate the need to go to taxpayers for additional revenue. The Auditor General's suggestion would disincentivize efforts to use resources conservatively during the fiscal year and would incent unnecessary spending to match budgeted amounts.
- Effective maintenance of fund balances allows school districts to make responsible multi-fiscal year plans to target areas of expenditure growth or resource needs, protecting taxpayers from spikes in property taxes and ensuring that taxpayer dollars are used thoughtfully and appropriately without exacerbating financial challenges through the use of one-time funds.
- If, as the Auditor General suggests, General Fund resources had to be used to protect against the volatility in the General Fund—in the absence or serious reduction of General Fund balances—it would translate to a much higher millage rate for most school districts. By reducing the capacity of a district to control the volatility of the General Fund and moving the shocks into the budget (and away from reserves), property tax rates would increase accordingly.
- It is the definition of a balanced budget for a district to have an array of committed and assigned funds that remain stable over several years. This simply means the district budgeted and spent prudently and had the good fortune to not need the reserves planned for. For example, a district with self-funded healthcare likely maintains reserve funds for situations in which healthcare costs are higher than expected. If a district is lucky enough to operate for several years without high cost claims or needing to touch the healthcare reserves, it doesn't mean that they aren't needed or that they are inappropriate uses of resources. These funds are committed or assigned for the sole purpose of ensuring that when the high cost claims come, neither the General Fund, students, nor taxpayers will be impacted.

The Auditor General's report ignores the driving factors behind the need for General Fund balances to stabilize the General Fund; however:

- Over the past ten years (2011-12 through 2020-21—the most recent year for which publicly available data is provided by PDE), school district mandated costs for pension, charter school tuition, and special education have increased by $6.3 billion. During the same time, school district state funding for basic education funding, pension reimbursement, and special education funding have only increased by $2.7 billion. The result is a $3.6 billion education deficit—the amount over the past ten years that school districts had to either raise in property taxes or make cuts to school district budgets. During this timeframe, many school districts carefully used General Fund balance to cover mandated cost increases.
- Over the past ten years (2011-12 through 2020-21), school district employee benefit costs have increased by more than $3.8 billion. Of that total, more than $3.5 billion represents simply the school district PSERS costs alone, meaning that only $300 million of that increase has been made up of health care benefits, Social Security, and other benefits increases. The growth in mandated school district pension costs has had a huge impact on property taxes, and it represents a primary area for which General Fund balance is set-aside and used.
- Over the past ten years (2011-12 through 2020-21), charter school tuition costs have grown from $1.1 billion to $2.6 billion, meaning that local taxpayers have funded $1.5 billion in charter school tuition growth, with zero funding coming from the state.
- Over the past ten years (2011-12 through 2020-21), special education costs have grown from $3.8 billion to $5.8 billion, meaning that local taxpayers have funded $2 billion in special education cost growth, as state funding has not kept pace with special education expenditure growth.
- The extent to which school districts have control of their local revenue to cover costs—their board authority—is often misunderstood. For example, a school district with a $100 million budget and 65% of its revenue being generated from local sources (mainly property taxes), would be able to generate $2.6 million if it increased its property taxes to the Act 1 index (using 4% as the index example). That means that the district has the authority to raise just 2.6% of its total budget. This $2.6 million possible in revenue to be generated within the board's authority has to be balanced with the rise in mandated costs for the district. If the mandated costs are rising greater than 2.5% of the total budget—which, in many situations they are—the district may need to increase above the Act 1 index, where applicable, make cuts, or use reserves. To continue this example; a district with a $100 million budget but their property tax base is only 25% of their budget can only raise $1 million with the same 4% increase. One size fits all reinterpretations of well-established practice and law must be considered carefully for unintended consequences.

The Auditor General's report questions the use of General Fund balance (generally committed fund balance) for school facility or infrastructure projects, especially where the district has a capital reserve fund. However:

- The state stopped providing state support for school construction projects, so school districts must fund all school construction, renovation, and maintenance projects on their own.
- Given the scope and cost of school facility needs, many school districts use both General Fund balances and capital reserve funds for facility needs. The reason is balance and prudent financial planning.
- Money transferred out of the General Fund to a capital reserve fund cannot be brought back to the General Fund due to statutory limitations, making it beneficial to maintain facility-related reserves inside the General Fund. It also is much easier to align with timelines for planning as many projects take several years for design, local and state approvals, bidding, and project start-up, equipment orders and contract implementation.
- A capital reserve fund may be used where a school district will be replacing a roof, fixing a sewer plant, or renovating major HVAC equipment in the near-future or on a planned schedule. A General Fund balance may be for similar purposes, however, the planning may be a few years away and the school board wants to keep options open as the project evolves and costs and options are evaluated.

The Auditor General's report suggests that school districts should not designate capital reserve funds unless it is done for a specific and identified project, however:

- Most school districts that utilize a capital reserve fund for infrastructure needs have a clear list of projects and capital formation items identified that may include more than ten years of projects, needs, and estimated costs.
- The school board aligns priorities each year as to what capital projects move forward. The amount of money in this fund is rarely enough to cover the needs that can be identified on these lists.
- Additionally, capital reserve fund projects often require a minimum of two or even up to five years of lead time for investigating, planning, obtaining municipal approvals, land development, and bidding and project implementation.
- As the state has withdrawn from all PlanCon support, school districts are effectively using capital reserve funds, in conjunction with their general fund, to do the best they can to pay as they go and plan ahead for capital project needs.
- The Auditor General's suggested logic leaves no room for funding an emergency project or repair even as it creates a confusing system of designations that may or may not hold up as districts need to prioritize and dedicate limited funds for project needs.

The Auditor General's report suggests changing the school district fiscal year to better align with the state budget timeline, however:

- A more efficient and less disruptive process to 500 school districts, the Act 1 timeline, and all associated LEAs and local taxpayers would be for the state to pass a budget by its June 30 statutory deadline—or even by June 15—or 1st—each year.
- If the statutory deadline for school districts were extended, there would be even less pressure for the state to complete it's budget on time, and it may be more likely that it would extend even further past June 30 than it does now.

- Districts depend heavily on reserves to ride out the summer months (60 to 120 days for many districts) until property tax bills flow in—extending the school district fiscal year would exacerbate this issue, as tax bills could not be sent until final budgets were approved, meaning that more districts would require tax anticipation notes to get through the summer months.
- The process for changing the school district fiscal year would be complex, lengthy, and costly. For example, all typical discount, base and even penalty windows for tax payer bills would by law have to change, tax bills and forms would have be restated to conform and explain the new dates, printing schedules and duplicate delivery to tax collectors would need to be adjusted, escrow company processing shifts would create confusion, if not actual math confusion for escrow reconciliations, and payments to tax collectors would be delayed and their timelines for work and contracts would need to be altered.
- Such a change would create taxpayer confusion. The tax bill process must be on a set process with embedded consistent deadlines for taxpayers, tax collectors, bank lock boxes, escrow companies, district cash flows, and more.
- Delaying tax collections longer into the school year will alter historic cash flow modeling, force deeper use of reserves and undermine efforts for maximizing return from investment of funds.

Frequently Asked Questions on Fund Balance

What is fund balance?

Most think of fund balance as cash or other money sitting in a bank, however, fund balance is the difference between assets and liabilities and represents the spendable (tangible) and non-spendable (intangible) resources available to meet future obligations.

Additionally, fund balance is a snapshot of the difference between assets and liabilities at a very specific point in time. Since the vast majority of public schools submit annual financial reports for the fiscal year ending on June 30, the fund balance amounts included in annual fund balance information capture the balance on that specific date.

According to the Government Finance Officers Association, "it is essential that governments maintain adequate levels of fund balance to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures) and to ensure stable tax rates. In most cases, discussions of fund balance will properly focus on a government's general fund. Nonetheless, financial resources available in other funds should also be considered in assessing the adequacy of unrestricted fund balance in the general fund."

What are the types of fund balance?

There are several different types of fund balances for schools, as defined by PDE's Accounting Bulletin:

- *Non-spendable fund balances*: These are funds that cannot be spent because they are either (1) not in a spendable form or (2) legally or contractually required to remain intact. Examples of items that would be considered nonspendable include inventories and the principal of a permanent fund.

- *Restricted fund balances:* These are funds that are restricted to be spent for a specific purpose. The constraints on these amounts must be externally imposed by creditors, grantors, contributors or laws or regulations of other governments; or by enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or mandate payment and includes a legally enforceable requirement on the use of these funds. An example is funds specifically set aside for capital improvements.

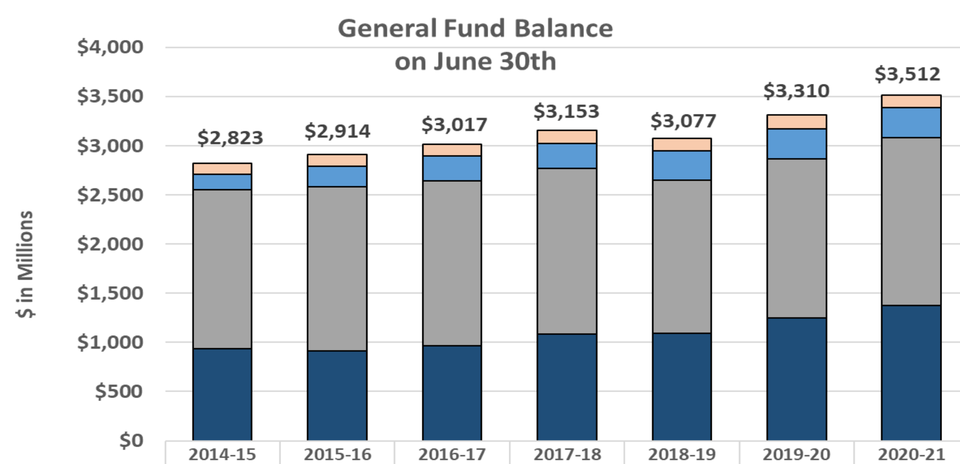
- *Committed fund balances:* These are funds that can only be used for specific purposes as a result of formal action by the school's highest level of authority (in most cases this would be the school board). Once the item is committed, it cannot be used for any other purpose unless changed by the same procedures used to initially constrain the money.

- *Assigned fund balances:* These funds reflect the intent for use for a specific purpose as determined and authorized by a committee of the governing board or by an individual authorized by the LEA's governing board, such as the superintendent or CFO. Unlike committed fund balances, assigned fund balances can be changed without formal action and do not need to be designated by the board.

- *Unassigned Fund Balances:* These are funds that have not been designated for a specific use or purpose and have not been categorized as restricted, committed or assigned. This portion of the fund balance is commonly used to meet cash flow needs or to finance monthly operating expenditures.

How much do school districts have in non-spendable, restricted, committed, and assigned fund balances?

On June 30, 2021, school districts reported $3.5 billion in non-spendable, restricted, committed, and assigned fund balances combined—General Fund balances. With a total of $33.2 billion in total expenditures in 2020-21 by all 500 school districts, this combined General Fund balance amount represents about 11% of total school district expenditures. Again, this is a snapshot in time and represents only what existed on June 30.



	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Nonspendable FB	$112	$120	$122	$130	$129	$136	$127
Restricted FB	$161	$214	$250	$257	$300	$307	$307
Committed FB	$1,617	$1,666	$1,679	$1,682	$1,552	$1,622	$1,703
Assigned FB	$934	$914	$966	$1,084	$1,096	$1,245	$1,375

These funds are intended to protect the General Fund from high variability, serving as buffers to the unexpected as well as encouraging strategic long-term planning to approach capital needs incrementally and to mitigate the need for tax rate increases. Consistency over time matters when providing instructional programs to students, and strategic use of funds acts to protect that consistency.

How much do LEAs have in total fund balance (committed, assigned, and unassigned)?

Over the past three years, total fund balance (committed, assigned, and unassigned fund balance) have grown for each category of LEAs—school districts, CTCs, and charter schools—as have the total expenditures for each LEA.

The table below shows the LEA's (school districts (SD), CTCs, and charter schools (CS)) total expenditure, the total committed, assigned, and unassigned fund balance, as well as the total fund balance for 2018-19, 2019-20, and 2020-21, the three most recent years of publicly available data from the PA Department of Education.

Fiscal Year	Total LEA Expenditures	LEA Type	Committed Fund Balance	Assigned Fund Balance	Unassigned Fund Balance	Total Fund Balance
2020-21	$33,244,862,295	SD	$1,703,491,235	$1,374,738,781	$2,207,217,298	$5,285,447,314
	$675,142,649	CTC	$14,301,911	$21,927,615	$34,753,434	$70,982,960
	$2,665,843,584	CS	$360,830,463	$153,869,275	$456,419,399	$971,119,137
2019-20	$32,778,123,328	SD	$1,622,219,729	$1,245,139,002	$1,973,960,062	$4,841,318,793
	$639,255,736	CTC	$13,726,934	$18,947,197	$28,643,855	$61,317,986
	$2,309,744,996	CS	$260,907,461	$91,739,203	$286,709,659	$639,356,323
2018-19	$31,396,049,186	SD	$1,551,944,496	$1,096,675,358	$1,943,766,860	$4,591,386,714
	$633,069,230	CTC	$14,190,871	$19,765,583	$21,961,326	$55,917,780
	$2,163,252,402	CS	$223,981,820	$107,127,967	$142,731,628	$473,841,415

As noted above, committed and assigned fund balance are exactly that, they are designated for known or planned expenses or possible shock costs, and those funds are being marked in to cover those specific items to protect the General Fund from disruptions.

The unassigned fund balance is the result of the difference from district assets and liabilities at the end of the fiscal year audit, which usually is completed each fall well after June 30.

What are the most frequent uses for committed and assigned fund balances?

Some of the most common directed uses for existing committed and assigned fund balance are state mandated costs such as pension contributions, special education, and charter school tuition costs that are not under the school district's control. Special education expenditures grew to nearly $6 billion in 2020-21 and only about $1 billion was funded by the state. Charter school tuition costs grew to nearly $2.7 billion in 2020-21 with no state reimbursement.

Other committed and assigned fund balance uses are for healthcare costs that routinely exceed inflation, and future infrastructure needs and upgrades, especially when there is no longer state funding for even the most basic of renovations. Schools have large buildings that require regular planned and unexpected maintenance and improvements to maintain the life of the building, to meet safety requirements for students and staff, and to ensure quality learning environments.

Why do districts create reserves in the General Fund as opposed to transferring money to a separate capital reserve fund?

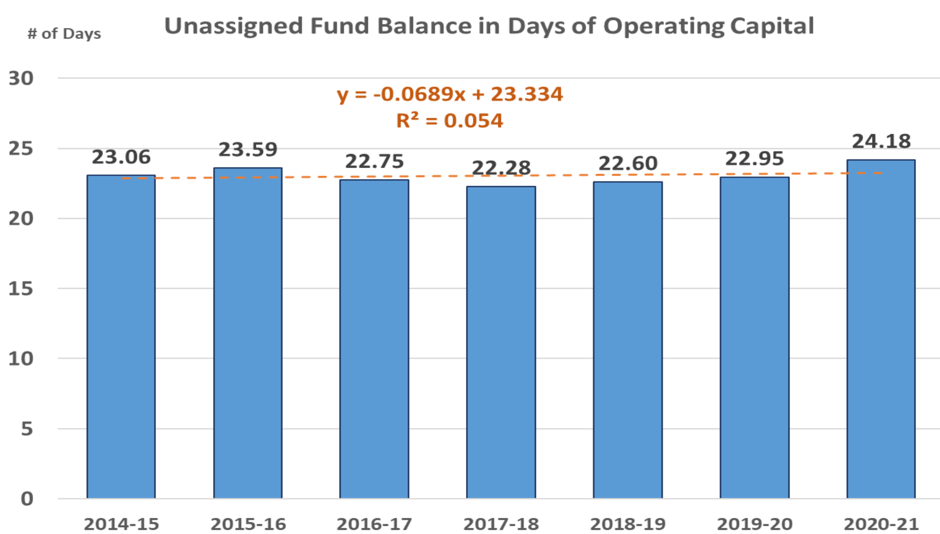
Many school districts do both. The reason is balance and prudent financial planning. Money transferred out of the General Fund to a capital reserve fund cannot be brought back to the General Fund due to statutory limitations.

A capital reserve fund may be used where a school district will be replacing a roof, fixing a sewer plant, or renovating major HVAC equipment in the near-future or on a planned schedule. A General Fund balance may be for similar purposes, however, the planning may be a few years away and the school board wants to keep options open as the project evolves and costs and options are evaluated.

How much do school districts have in unassigned fund balance?

For 2020-21, the most recent year of financial data publicly available, Pennsylvania's 500 school districts reported $2.2 billion in unassigned fund balance. By comparison, school districts' average monthly operating expenditures were $2.78 billion in 2020-21. That means that school districts had 0.8 months of resources available to cover their operating expenditures—that's 3.44 weeks or 24.18 days.

Over time, the extent of unassigned fund balance carried by school districts in terms of operating expenses, has remained relatively flat. School districts have, on average, maintained only 23.06 days of unassigned fund balance since the 2014-15 school year.



Individually, Pennsylvania's 500 school districts vary substantially in terms of the length to which their unassigned fund balance could cover their operating expenditures. For example, 314 school districts had an unassigned fund balance that represented less than or equal to 30 days of operating expenses on June 30, 2021.

Additionally, you can see below the unassigned fund balance total for multiple LEA types (school districts, CTCs, and charter schools), and the aggregate percentage of total LEA expenditures represented by the unassigned fund balance.

Fiscal Year	Total LEA Expenditures	LEA Type	Unassigned Fund Balance	Total Unassigned Fund Balance as a Percentage of Total LEA Expenditures
2020-21	$33,244,862,295	SD	$2,207,217,298	6.6%
	$675,142,649	CTC	$34,753,434	5.1%
	$2,665,843,584	CS	$456,419,399	17.1%
2019-20	$32,778,123,328	SD	$1,973,960,062	6.0%
	$639,255,736	CTC	$28,643,855	4.5%
	$2,309,744,996	CS	$286,709,659	12.4%
2018-19	$31,396,049,186	SD	$1,943,766,860	6.2%
	$633,069,230	CTC	$21,961,326	3.5%
	$2,163,252,402	CS	$142,731,628	6.6%

Why do school districts have unassigned fund balance?

As noted above, unassigned fund balance is the portion of spendable fund balance that has not been categorized as restricted, committed or assigned to a specific purpose. This portion of the fund balance is commonly used to meet cash flow needs or to finance monthly operating expenditures. While the unassigned fund balance is technically spendable, a significant portion on June 30 is in accounts receivable from federal, state and local sources that is not available to be spent until received in the following months.

Generally, school districts have little income during June, July and August and a lot of expenditures associated with the close of one year and the start of another, and many rely on fund balance use to cover current obligations or unexpected increases in expenditures due to increased special education or charter school enrollment or unexpected decreases in revenue.

School district unassigned fund balance is the equivalent of the state's Rainy Day Fund. A significant difference, however, is that it is much easier for the state to reduce funding to schools or other agencies, while the schools and other agencies are tasked with reducing programs and staff as a result of lost funding.

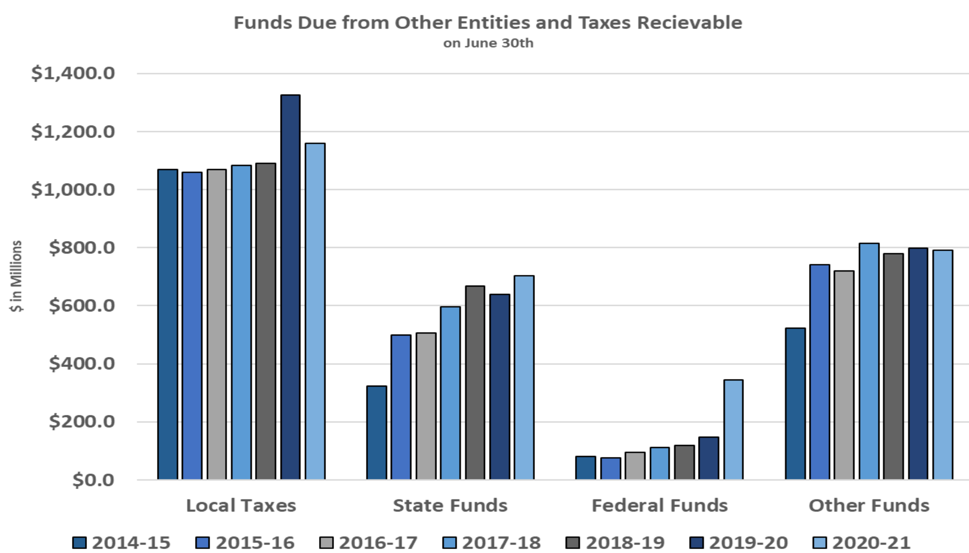
What does unassigned fund balance include?

Unassigned fund balance is the portion of spendable fund balance that has not been categorized as restricted, committed or assigned to a specific purpose; it is the result of the difference from school district assets and liabilities at the end of the fiscal year audit which usually is completed each fall well after June 30.

Unassigned fund balance includes millions of dollars of LEA receivables (assets)—money due to the school district that has not yet been received as of June 30 each year. Money due to the school district includes funds due but not yet paid by other local, state and federal governments, as well as taxes owed to the school district that have not yet been received.

LEAs must also manage millions of dollars in liabilities over the same time period, ensuring they can make payroll and pay bills due 60 to 90 days out from the prior school year.

At the end of 2020-21, the amounts due to but not yet received by school districts from the state and federal governments totaled $1.05 billion, and the amounts due to but not yet received by school districts for taxes totaled $1.16 billion. Because fund balance is a snapshot in time on June 30 each year, the funds due from the state and federal government to schools significantly increase fund balance amounts at that time.



What are the restrictions on unassigned fund balance?

There are restrictions on the extent of the unassigned fund balance that a school district can carry if it is going to increase property taxes.

Section 688 of the Public School Code states prohibits a school district from approving an increase in property taxes of any amount unless it has adopted a budget that includes an estimated unassigned fund balance that falls within the parameters below.

Total District Budgeted Expenditures	Fund Balance % Limit (Less than or equal to)
Less than or equal to $11.999 million	12.0%
Between $12 million and $12.999 million	11.5%
Between $13 million and $13.999 million	11.0%
Between $14 million and $14.999 million	10.5%
Between $15 million and $15.999 million	`10.0%
Between $16 million and $16.999 million	9.5%
Between $17 million and $17.999 million	9.0%
Between $18 million and $18.999 million	8.5%
Greater than or equal to $19 million	8.0%

Due to the size of most school district budgets, the vast majority of Pennsylvania's 500 school districts are limited to an unassigned fund balance of 8.0% of their total budgeted expenditures if they are going to raise property taxes.

Each year, school districts that are increasing property taxes must certify to the PA Department of Education that they are in compliance with section 688, which includes information about the district's ending unassigned fund balance as a percentage of the district's total budgeted expenditures.

What do property tax increases look like statewide?

Act 1 created limitations on school districts' ability to raise property taxes, creating caps—via an Act 1 Index—for school district property tax increases without the use of exceptions. Over the past decade, statewide property tax increases have slowed, with 2020-21 being the lowest aggregate increase since 2013-14, which was even lower than 2011-12.

Fiscal year	Total Property Tax (6111&6112)	Revenue change year over year	Revenue percent change each year
2010-11	$11,153,412,490		
2011-12	$11,480,468,871	$327,056,381	2.9%
2012-13	$11,694,873,249	$214,404,378	1.9%
2013-14	$11,947,430,324	$252,557,075	2.2%
2014-15	$12,280,755,102	$333,324,778	2.8%
2015-16	$12,554,788,716	$274,033,614	2.2%
2016-17	$13,052,096,839	$497,308,123	4.0%
2017-18	$13,510,873,698	$458,776,859	3.5%
2018-19	$13,929,896,489	$419,022,791	3.1%
2019-20	$14,285,757,568	$355,861,079	2.6%
2020-21	$14,576,408,407	$290,650,839	2.0%
	Avg /10	$3,422,995,917	$342,299,592

These increases include both rate (mill increases) as well as natural growth, as school district assessed values certainly increased over the same timeframe as well. Statewide, school district taxable property assessments have increased on average about 0.5% per year, with about 20% seeing no increase or assessment loss.

What are Act 1 exceptions?

Act 1 exceptions allow school districts to apply to the PA Department of Education to move forward with a property tax increase that exceeds their Act 1 Index in limited circumstances. While the number and use of Act 1 exceptions has decreased over time, currently, there are four applicable Act 1 exceptions for school districts:

- Grandfathered debt for school construction
- Electoral debt for school construction
- Special education expenditure growth
- Pension contribution growth

School districts can apply to the Department early each year for approval to move forward with a property tax increase that exceeds their Act 1 index due to one of the exceptions above.

Each year, the PA Department of Education releases reports on the number of Act 1 exceptions applied for and the number of Act 1 exceptions actually used by school districts. Click here to access the Department's Act 1 exception reports.

Are school districts using Act 1 exceptions?

As noted above, school districts are permitted to apply to the PA Department of Education early in the budget process for an exception to their Act 1 index. If they approved by the Department, they may decide to increase property taxes slightly higher than their Act 1 Index.

While these exceptions used to be applied for frequently to give school districts some flexibility as they were working through their budgeting process—as they never knew what their state funding would be until they were passing their final budgets in June (or after they had already passed their budgets), many school districts that were approved for exceptions did not use them.

In more recent years, fewer and fewer school districts even apply for Act 1 exceptions, as evidenced by the historical reports on the Department's website. The table below from the Department's 2022-23 report shows the number of school districts applying for exceptions and the amount of those exceptions, along with the dollar amount of exceptions actually used has continued to decrease significantly over time.

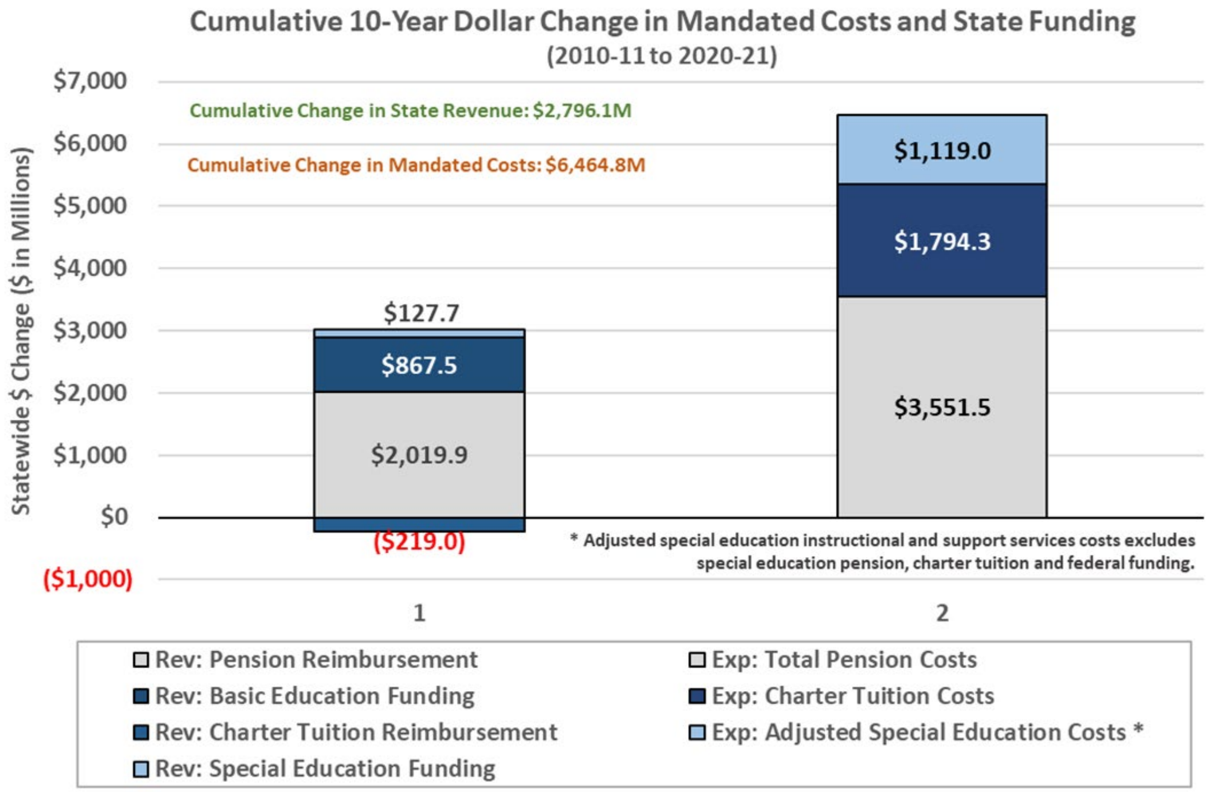
	Amount of Referendum Exceptions			Number of School Districts		
Budget Year	Approved	Used	Percent	Approved	Used	Percent
2008-2009	$143,189,572	$41,093,962	28.7%	102	66	64.7%
2009-2010	$84,853,037	$13,072,387	15.4%	61	18	29.5%
2010-2011	$192,420,114	$67,647,774	35.2%	133	84	63.2%
2011-2012	$265,830,906	$95,538,548	35.9%	228	135	59.2%
2012-2013	$159,942,625	$48,174,306	30.1%	197	105	53.3%
2013-2014	$121,708,954	$30,484,314	25.0%	171	93	54.4%
2014-2015	$121,097,346	$39,284,177	32.4%	164	92	56.1%
2015-2016	$132,751,446	$36,206,209	27.3%	172	83	48.3%
2016-2017	$144,280,586	$47,960,372	33.2%	179	92	51.4%
2017-2018	$99,542,024	$23,105,124	23.2%	129	55	42.6%
2018-2019	$54,306,649	$19,777,445	36.4%	98	54	55.1%
2019-2020	$52,943,105	$18,551,572	35.0%	84	41	48.8%
2020-2021	$44,906,658	$6,001,026	13.4%	64	18	28.1%
2021-2022	$10,717,996	$2,726,138	25.4%	30	7	23.3%
2022-2023	$4,560,963					

What is driving property tax increases?

Over the last decade, school districts have experienced an explosion of rising mandated state and federal costs in three major areas: special education, charter school tuition and pensions. Meanwhile, on the whole, the state's funding of these growing mandates has not kept pace. As a result, there continues to be a fiscal education deficit resulting in the reliance on local tax revenue increases and necessitating the need and allocate fund balances every year.

As illustrated in the figure below, state and federal mandates for those three major cost areas have risen $6.5 billion since 2010-11. Meanwhile, state revenues supporting those costs have grown $2.8 billion as property taxes raised $3.4 billion during that timeframe and combined, meaning over $500 million of other revenue or budget cuts had to be made.

School district spending has not been out of control over the last decade, mandates and how school districts are required to pay for them as public policy has been.



What is capital reserve planning?

Some school districts operate a capital reserve fund—a fund outside of the General Fund to be used for infrastructure needs. Once funds are moved into the capital reserve fund, they cannot be moved out.

Most school districts that currently utilize a capital reserve fund for infrastructure needs have a clear list of projects and capital formation items identified that may include more than ten years of projects, needs, and estimated costs. The school board aligns priorities each year as to what capital projects move forward. The amount of money in this fund is rarely enough to cover the needs that can be identified on these lists.

Additionally, capital reserve fund projects often require a minimum of two or even up to five years of lead time for investigating, planning, obtaining municipal approvals, land development, and bidding and project implementation. As the state has withdrawn from all PlanCon support, school districts are effectively using capital reserve funds to do the best they can to pay as they go and plan ahead for capital project needs.

Act 1 Timeline for 2023-2024 Budget Process – KKLL Version

Preliminary Notes: (1) This document is a work in progress based on the PDE Timeline format – with appropriate dates and other changes, additions, and explanations from KKLL. (2) Timeline dates apply to all school districts except Philadelphia, Pittsburgh, and Scranton. (3) Concerning the various forms referred to in this Timeline, forms listed with the **title typed in <u>bold</u> are PDE forms**; forms listed with the ***title typed in <u>bold italics</u> are KKLL forms***.

Act 25 Exceptions Change Note: ***On June 30, 2011, Act 25 was adopted and signed into law. Act 25 eliminated all referendum exceptions other than: (1) grandfathered debt; (2) debt approved by voter referendum; (3) special education costs, net of state reimbursement, in excess of the index (measured by look back – compare 2 prior years); (4) PSERS cost in excess of the index. For PSERS cost, the exception freezes the wage base at 2011-12 levels, such that the exception cannot be used to cover increased costs applicable to wage base increases, even if the district hires new employees or total salary costs otherwise exceed the 2011-12 wage base. The exception applies based on the increase between the current year and estimated payments for the next year, as determined by PDE. PDE provides guidance on how to calculate estimated payments in the PDE annual publication entitled "Referendum Exception Guidelines" and also in the "Retirement Contributions Referendum Exception Worksheet."***

Date/Deadline	Description	Law Section
Now	**School district** begin development of 2023-2024 **Proposed Preliminary Budget**. As part of this process, the business office should prepare a specific timeline for its school district to take each applicable step set forth in this Act 1 Timeline.	Unless otherwise stated, Law Section references are to Act 1, 53 P.S. § 6926.101 *et seq*.
September 1, 2022 *(annual deadline)*	**Department of Education** deadline to publish in Pennsylvania Bulletin the permitted 2022-2023 tax increase base index.	Section 333(l)
September 30, 2022 *(annual deadline)*	**Department of Education** deadline to notify school districts of applicable base index or adjusted index; and of PDE version of timeline for budget process.	Section 313(1)
----- <u>MAJOR STEP #1</u> ----- December 2022/January 2023 *(If school district will adopt **Accelerated Budget Opt Out Resolution**, this step does not apply)*	**School district** adopt ***Resolution Authorizing Proposed Preliminary Budget Display and Advertising*** – Documents #4, #5, and #5A. [***Note:*** Unless school district intends to adopt an opt out resolution, must display and advertise. Although KKLL believes this resolution authorizing public display and advertising is optional, PDE recommends this step. School districts should follow the PDE recommended process unless there is a compelling reason to do otherwise. See discussion at end of timeline on **Required Budget Votes and Related Steps**.] **N/A if opt out.**	
December 15, 2022 – tax certification deadline *(annual deadline)*	**School district** (that imposed earned income tax in 2021 and had residents paying tax on compensation imposed by Philadelphia under Sterling Act) – deadline to certify to PDE the total amount of 2021 tax credits claimed by school district residents based on the school district tax rate. Certification is accomplished by filing Sterling Act Tax Credit Data – Document #2.	Sections 503(b)(2); 324(2)

December 27, 2022 *(30 days prior to preliminary budget display deadline)*	**Department of Education** deadline to notify school districts of school year AFR data to be used when calculating referendum exception under Section 333(f)(2)(v) (special education).	Section 333(j)(4)
December 31, 2022 – **homestead notice** *(annual deadline – 60 days prior to March 1 homestead application deadline)*	**School district** deadline to notify by first class mail owner of each parcel of residential property – which can be limited to owners not currently approved or whose approval is due to expire – stating that the owner must submit a completed application to county assessment office to qualify for homestead exclusion. Mailing must include application, instructions, and deadline. (See also March 1 concerning application deadline.)	Section 341(b)
January 2022	**School districts** should meet with the county assessment office to engage in dialogue concerning Act 1 homestead/farmstead approval and property transfer rules, and procedures to be followed for May 1 certification of approved properties. This step is optional, but should help avoid later problems with the county homestead and farmstead list.	
----- <u>MAJOR STEP #2</u> ----- **January 26, 2023 – preliminary budget public display or opt out** *(110 days prior to primary election – and for public display 20 days prior to preliminary budget adoption)*	**School district** deadline to **either**: (1) make 2023-2024 **Proposed Preliminary Budget** on form PDE-2028 available for public inspection (public display); **or** (2) adopt opt out resolution pursuant to Section 311(d)(1) stating district will not raise the rate of any tax by more than index (***Accelerated Budget Opt Out Resolution*** – Document #6).	Sections 311(c); 311(d)(1)
January 31, 2023 *(and within 5 days after opt out resolution adoption)*	**School district** deadline to submit to PDE copy of opt out resolution and related proposed tax rate increases (**Real Estate Tax Rate Report** – Document #10). To be filed online in Consolidated Financial System (CFRS)	Section 311(d)(2)(iii)
*If school district adopts **Accelerated Budget Opt Out Resolution**, skip to Feb 11, Feb. 15, March 1, Apr. 15, and after*	If school district adopts ***Accelerated Budget Opt Out Resolution***, the accelerated budget and Act 1 exception and primary election steps that follow do not apply – skip Timeline items other than Feb 11, Feb. 15, March 1, Apr. 15, and after.	Section 311(d)(2)
February 6, 2023 *(and at least 10 days prior to preliminary budget adoption)* ***(n/a if opt out)***	**School district** deadline to publish notice of intent to adopt 2022-2023 Preliminary Budget (***Preliminary Budget Notice*** – Document #5 or #5A – must advertise at least 10 days before preliminary budget adoption. **N/A if opt out.**	Section 311(c)
February 11, 2023 *(and within 10 days after PDE receipt of opt out resolution)*	**Department of Education** deadline to notify school districts that adopted opt out resolution whether the proposed tax rates are equal to or less than index.	Section 311(d)(4)

February 15, 2023 – elected or municipality appointed tax collector qualification (law does not mandate this item or state a deadline for this item; KKLL suggests this item as best practice and February 15 deadline)	In the <u>first year of service</u> by, <u>or in the first year of a new term of</u>, an elected or municipality appointed tax collector, prior to delivery of the tax duplicate or tax bills to the collector, the **school district should receive** copies of: (1) DCED Qualified Tax Collector Certificate; (2) Criminal history background information report; (3) Bond in proper form; Evidence of appointment of deputy in compliance with applicable rules.	
-----KEY DATE ----- **February 15, 2025 – elected tax collector compensation** *(deadline is **<u>before</u>** Feb. 15 of municipal election year – every 4 years – the next applicable year is 2025)*	**School districts** that collect real estate taxes directly, and also those with elected tax collectors, should complete data collection and analysis to establish official elected tax collector compensation rate. February 15, 2025 is deadline for school board action to establish or change the compensation rate applicable to anyone who runs for office, is elected, or serves for years starting 2026.	Section 36a (Local Tax Collection Law)
----- <u>MAJOR STEP #3</u> ----- **February 15, 2023** **Preliminary Budget** *(90 days prior to primary election)* ***(n/a if opt out)***	**School district** deadline to adopt **Preliminary Budget** on form PDE-2028 unless opt out resolution was adopted (***Resolution Approving Preliminary Budget and Authorizing [Referendum Exception and] Final Budget Notice*** – Documents #7, #8, and #9). If school district does not intend adoption of a Proposed Final Budget, school board president sign and submit to PDE **Certification of Use of PDE-2028** – Document #14. To be filed online in the CFRS. (See also May 31, and discussion at end of timeline on **Required Budget Votes and Related Steps**.) **N/A if opt out.**	Section 311(a)
February 22, 2023 *(85 days prior to primary election)* ***(n/a if opt out)***	**School district** deadline to submit to PDE Preliminary Budget and related proposed tax rate increases (**PDE-2028**, including **Real Estate Tax Rate Report** – Document #10). To be filed in the CFRS. **N/A if opt out.**	Section 333(e)
February 24, 2023 *(and at least 1 week prior to filing referendum exception request)* ***(n/a if opt out)***	**School district** deadline to publish and post on district website notice of intent to apply to PDE for referendum exceptions (***Act 1 Referendum Exception Notice*** – Document #5A or #8). **N/A if opt out.**	Section 333(j)(2)
March 1, 2023 – Homestead Application *(annual deadline)*	**Homeowner** deadline to file homestead application (and, if applicable, farmstead application) with county assessment office. (See also Dec. 31, 2022.)	Sections 341(c), (e), (i)
March 2, 2023 *(75 days prior to primary election)* ***(n/a if opt out)***	**Department of Education** deadline to notify school districts (that did not adopt an opt out resolution and therefore submitted a Preliminary Budget to PDE) whether the proposed tax rates are equal to or less than index. **N/A if opt out.**	Section 333(e)

March 17, 2023 *(60 days prior to primary election)* **(n/a if opt out)**	**School district** deadline to submit primary election referendum question seeking voter approval of tax rate increase in excess of index to county election officials (for each county in which the school district is located), unless referendum exception request has been submitted to PDE. If the school district proposed tax rate increase would exceed the index even if all referendum exception requests were approved, and if it intends to submit a referendum question for that part of the tax rate increase, it must do so by this date. (See also March 27 if referendum exception request submitted.) **N/A if opt out.**	Section 333(c)(3)
March 22, 2023 *(55 days prior to primary election)* (**n/a if opt out**)	**Department of Education** deadline to rule on school district request for referendum exception. **N/A if opt out.**	Section 333(j)(5)(i)
March 27, 2023 *(50 days prior to primary election)* ***(n/a if opt out)***	**School district** deadline, if PDE denies all or a part of referendum exception request, to submit to county election officials primary election referendum question seeking voter approval of tax rate increase in excess of index for denied portion of the referendum exception request. **N/A if opt out.**	Section 333(j)(5)(iii)
April 15, 2023 *(annual deadline)*	**Secretary of Budget** certifies total amount of slot money revenue in Property Tax Relief Fund and Property Tax Relief Reserve Fund and total amount available for distribution.	Sections 503(a)(1), (e)
April 20, 2023 *(annual deadline)*	**Secretary of Budget** notifies PDE whether it is authorized to provide school districts with slot money allocations.	Section 503(d)
----- KEY DATE ----- **May 16, 2023 – primary election** *(fourth Tuesday in April for Presidential election year; otherwise, third Tuesday in May)* ***(n/a if opt out)***	**Primary election**. If school district budget requires tax rate increase in excess of index and approved exceptions, county election officials place referendum question on the ballot pursuant to school district request. In addition, county election officials, in conjunction with school board, draft nonlegal interpretative statement to accompany referendum question. (See also March 17 and March 27.) **N/A if opt out.**	Section 333(c)(4)
May/June of 2023	**School district** consider final and future budget and long term financial planning steps, including: (1) fund transfer to capital reserve fund or other budget category, and (2) general fund balance designation for particular future needs. Factors to consider include future capital needs and School Code § 688 general fund balance limits. [***Note:*** As to timing for transfers, the School Accounting Manual, under Budgetary Transfers, states: "Transfers may not be made after the end of the budgeted fiscal year." However, relying on Municipal Code legal authority, many districts make transfers to a Municipal Code capital reserve fund as part of finalizing the audit after the fiscal year end. As to timing for fund balance commitment or assignment, this may occur at any time, but generally should be done before fiscal year end in connection with budget adoption.	Section 687 (School Code); Section 1432 (Municipal Code)

May 1, 2023 – slot money notice *(annual deadline)*	**Department of Education** notifies school districts of slot money allocation amount. This amount is used in calculating the homestead exclusion amount for tax bills.	Section 505(a)(4)
May 1, 2023 – county homestead report *(annual deadline)*	**County assessment office** provides each school district a **certified** report of homestead and farmstead properties per 53 Pa.C.S.A. § 8584(i).	Section 341(g)(3)
May regular school board meeting	**School district** appoint tax collector for direct collection of real estate taxes as required by School Code § 683 (***Direct Tax Collection Tax Collector Appointment Resolution*** and ***Direct Tax Collection Acceptance of Appointment as Tax Collector*** – Documents #12 and #12A) – if school district collects directly rather than through elected tax collector. **School district** approve any tax collection procedure changes. **School district** adopt any changes to existing LTEA taxes. (See also May 31 concerning other required LTEA steps. If LTEA taxes changed and advertising required, deliver advertisement to newspaper of general circulation/Law Review for publication once a week for 3 weeks as required by LTEA § 306. Also, consider preliminary action at prior school board meeting.)	Section 683 (School Code)
May 31, 2023 *(annual deadline/optional action)* *(adoption must occur within 30 days of receipt of PDE notice of slot money)*	**School district** deadline to adopt resolution declining slot money and allowing voter decision. (See also June 5 and August 4.)	Section 903(a)
May 31, 2023 *(annual deadline – Act 1 § 351(f)(1) and LTEA § 511 state a June 1 deadline to report tax information; however, LTEA § 312 states a May 31 deadline. LTEA § 310 also requires filing a certified copy within 15 days after effective date.*	**School district** deadline to report to, and file certified copy with, the Department of Community and Economic Development, new LTEA tax enactments and repeals and changes of LTEA taxes or tax collector (in order to require employer withholding of a new tax, withholding at a new rate, or to suspend withholding of a tax effective July 1, and otherwise to comply with filing requirements). [***Note:*** DCED encourages e-filing using Form CLGS-501. Certified copies of tax enactments may be filed by pdf email attachment.]	Section 351(f)(1); LTEA Sections 310, 312, 511; 71 P.S. § 965
----- MAJOR STEP #4 ----- **May 31, 2023 –** **Proposed Final Budget** *(and at least 30 days prior to final budget adoption – see discussion in middle column and at end of timeline on Required Budget Votes and Related Steps)*	**School district** deadline to adopt **Proposed Final Budget** (***Resolution Authorizing Proposed Final Budget Display and Advertising*** – Documents #13 and #9) – and to submit to PDE **Certification of Use of PDE-2028** – Document #14. [***Notes:*** (1) We understand PDE has directed that the certification of use be filed online in the CFRS. (2) PDE believes this action should occur in all cases, even if the school district adopted a Preliminary Budget. KKLL believes this action approving the specific Proposed Final Budget before adoption is mandatory if the school board previously adopted an opt out resolution and therefore did not previously adopt a Preliminary Budget. KKLL believes this step is optional if the school board previously adopted a Preliminary Budget. However, KKLL recommends following the PDE recommended process unless there is a compelling reason to do otherwise. See discussion at end of timeline on **Required Budget Votes and Related Steps**.]	Section 687(a)(1) (School Code)

June 5, 2023 *(and within 5 days after slot money rejection resolution adoption)*	**School district** deadline to submit copy of resolution declining slot money to PDE. (See also May 31 and August 4).	Section 903(b)
June 10, 2023 – **budget public display** *(and at least 20 days prior to final budget adoption)*	**School district** deadline to make **Proposed Final Budget** on form PDE-2028 available for public inspection (public display).	Section 312(c); School Code Section 687(a)(2)(i)
June 20, 2023 *(and at least 10 days prior to final budget adoption)*	**School district** deadline to publish notice of intent to adopt Final Budget (***Final Budget Notice*** – Document #9).	Section 312(c)
----- MAJOR STEP #5 ----- **June 30, 2022 – Final Budget** *(annual deadline) (the final budget must be adopted no later than the last day of the fiscal year)*	**School district** deadline to adopt **Final Budget** on form PDE-2028 (***Final Budget for General Fund Approval Resolution*** – Document #15).	Section 312(a)
June 30, 2023 – homestead exclusion *(annual deadline)*	**School district** deadline to adopt resolution implementing homestead/farmstead exclusion (***Homestead and Farmstead Exclusion Resolution*** – Document #16).	Sections 321(d), 342, 505(a)(4)
June 30, 2023 – tax levy *(annual deadline)*	**School district** deadline to adopt ***Annual Tax Levy Resolution*** – Document #17 (real estate tax levy, School Code per capita tax levy (if any), and summary of LTEA taxes not requiring annual levy). [***Notes***: In school districts where a county-wide reassessment is applicable for the first time this year, calculating the permissible real estate tax rate requires two steps – an initial step of calculating a lower, revenue neutral tax rate, and a second step of calculating the permissible tax rate – using the Act 1 index for the **preceding year** (not the current year). Act 91 previously required a two-vote procedure, with initial adoption of **Reassessment Year – Preliminary Resolution Establishing Revenue Neutral Tax Rate,** followed by **Reassessment Year – Final Resolution Levying Taxes and Establishing Final Tax Rate**. The two-vote procedure is now optional for school districts.]	Section 687 (School Code) 53 Pa.C.S.A. § 8823 53 P.S. § 6926.327
July 1, 2023 – **tax bills** *(annual deadline)*	**School district** deadline to furnish tax collector with tax duplicate/***Tax Bills*** – Document #18. [***Note:*** Tax bills should be dated July 1 and mailed on or before July 1.]	
July 15, 2023 *(annual deadline)*	**School district** deadline to submit copy of ***Annual Tax Levy Resolution*** to Department of Community and Economic Development. (Copy may be filed by pdf email attachment.)	71 P.S. § 965

July 15, 2023 *(annual deadline – and within 15 days after final budget adoption)*	**School district** deadline to submit Final Budget to PDE on form PDE-2028. In order to show compliance with School Code § 688 eight percent (8%) general fund balance limit; also file **Certification of Estimated Ending Fund Balance from 2022-2023 General Fund Budget**. To be filed in the CFRS. In addition, if referendum exceptions were approved, must file **Certification of Utilization of Referendum Exceptions** – Document #19.	Sections 687(b), 688 (School Code)
August 4, 2023 *(and within 60 days after deadline for school district to notify PDE of slot money rejection resolution adoption)*	**Department of Education** deadline to notify election officials of applicable county of school districts that have taken action to decline slot money and allow voter decision. (See also May 31 and June 5.)	Section 904(b)
August 24, 2023 *(fourth Thursday in August)*	**Department of Education** pays school district 50% of slot money allocation.	Section 505(b)
October 26, 2023 *(fourth Thursday in October)*	**Department of Education** pays school district 50% of slot money allocation.	Section 505(b)
November 1, 2023	Date on which unpaid school district real estate tax becomes delinquent. **School district** or **tax collector** send delinquent tax notice to taxpayers who have not paid real estate tax or real estate tax installment due on or before October 31. Notice should include reference to applicable penalty and December 31 turnover to County Tax Claim Bureau or delinquent tax collector.	Section 10 (Local Tax Collection Law)
November 7, 2023 (first Tuesday after first Monday in November)	**General election**. For school districts that rejected slot money allocation, county election officials place referendum question on the ballot for voters to determine if the school district will be eligible to receive slot money allocation in 2023-2024. In addition, county election officials, in conjunction with school board, draft nonlegal interpretative statement to accompany referendum question. (See also May 31, June 5, and August 4.)	Sections 904(c), (d)
December 1, 2023 *(annual deadline – Act 1 § 351(f)(2) and LTEA § 511 state a December 1 deadline)*	**School district** deadline to report to, and file certified copy with, the Department of Community and Economic Development, new LTEA tax enactments and repeals and changes of LTEA taxes or tax collector (to require employer withholding of a new tax, withholding at a new rate, or to suspend withholding of a tax effective January 1, and otherwise to comply with filing requirements). [***Note:*** DCED encourages e-filing using Form CLGS-501. Certified copies of tax enactments may be filed by pdf email attachment.]	Section 351(f)(2); 71 P.S. § 965.

Meaning of deadlines: Various deadlines require the school district to "submit" various items or to "seek approval" by specified dates. Act 1 does not expressly state whether this requires receipt by the other party by the specified date, or merely requires mailing by the specified date. In order to avoid any question, the school district should assume that the item must be received by the other party by the specified date.

Deadlines that fall on Saturday or Sunday: The Pennsylvania Statutory Construction Act, 1 Pa. C.S.A. § 1908, provides as follows: "When any period of time is referred to in any statute, such period in all cases … shall be so computed as to exclude the first and include the last day of such period. Whenever the last day of any such period shall fall on Saturday or Sunday, or on any day made a legal holiday by the laws of this Commonwealth or of the United States, such day shall be omitted from the computation." However, for statutes that require action on a specified annual date, such as December 15, February 15, March 1, or May 1, the law is unclear as to what deadline applies when the specified date falls on a Saturday or Sunday. To avoid potential issues, school districts should assume the deadlines are not extended.

Required Budget Votes and Related Steps:

1. Act 1 of 2006 §§ 311 and 312 enacted different provisions governing the budget process than the School Code. When these provisions were written, the drafters failed to consider the pre-existing School Code § 687 provisions on the budget process. The end result is inconsistency and uncertainty on how to reconcile the Act 1 and School Code § 687 budget process provisions.

2. School Code § 687 provisions that predated Act 1 include the following:

    - Section 687 refers to a **Proposed Budget**. (Before Act 1, the Proposed Budget was often referred to as the Preliminary Budget. However, there was no reference in § 687 or any other statute to a Preliminary Budget, Preliminary Budget Proposal, or Proposed Final Budget. Under § 687, the only document expressly required to be approved before the Final Budget was the Proposed Budget.)
    - Section 687 mandates that the school board adopt the Proposed Budget at least 30 days before adoption of the **Final Budget**.
    - Section 687 mandates public display of the Proposed Budget at least 20 days before adoption of the Final Budget, and mandates publishing notice of the Proposed Budget at least 10 days before adoption of the Final Budget.
    - Section 687 mandates that, on the date of school board adoption of the Proposed Budget, the school board president certify to PDE that the Proposed Budget was prepared, presented, and will be made available for public inspection using PDE form 2028. For this purpose, PDE has directed use of the PDE form **Certification of Use of PDE-2028 – Document #14.**
    - School Code §§ 671 and 672 mandate adoption by June 30 of the Final Budget.

3. Act 1 provisions include the following:

   - Unless an opt out resolution is adopted, § 311(a) mandates that the school board adopt a **Preliminary Budget Proposal** at least 90 days before the primary election.
   - Act 1 mandates 20-day public display and 10-day published notice of intent to adopt before adoption of the Preliminary Budget Proposal (but does not state any requirement for a school board vote prior to adoption of the Preliminary Budget Proposal 90 days before the primary election).
   - Act 1 next repeats the School Code requirements for adoption of the Final Budget by June 30, and for 20-day public display and 10-day published notice of intent to adopt before adoption of the Final Budget. (Once again, other than the requirement for adoption of the Preliminary Budget Proposal 90 days before the primary election, Act 1 does not state any requirement for the school board to vote on the Final Budget before its adoption by June 30.)

4. Act 1 does not address whether the Act 1 **Preliminary Budget Proposal** is the same as or something different from the School Code § 687 **Proposed Budget**. KKLL believes these two terms should be interpreted as meaning the same thing, and that adoption of the Preliminary Budget Proposal early in the year satisfies the School Code § 687 requirement for adopting a proposed budget 30 days before adoption of the Final Budget. However, PDE takes a different view. PDE interprets the Act 1 Preliminary Budget Proposal as something different from the § 687 Proposed Budget, and therefore believes school districts that have not adopted an opt out resolution are required to adopt both a Preliminary Budget Proposal and also another version labeled Proposed Final Budget at least 30 days in advance of adopting the Final Budget. In fact, PDE also believes school districts that do not intend to adopt an opt out resolution should also adopt a Proposed Preliminary Budget before adopting the Preliminary Budget Proposal.

5. PDE's interpretation is that ***4 separate votes*** are required as follows if the school district has not adopted an opt out resolution:

   <u>December/January/February</u>

   1. Adopt Proposed Preliminary Budget
   2. Adopt Preliminary Budget

   <u>May/June</u>

   3. Adopt Proposed Final Budget (at least 30 days before step 4)
   4. Adopt Final Budget

6. Although KKLL believes that steps 1 and 3 are optional, we suggest following PDE's interpretation in order to avoid unnecessary questions.

Prepared by Kegel Kelin Litts & Lord LLP

Tax and Fund Balance Limits (other than Act 1):

1. LTEA limits the amount of taxes that may be imposed under LTEA. Under LTEA § 320, the aggregate amount of all taxes imposed under LTEA during one fiscal year may not exceed the amount that is equal to the market value of all real estate in the district times 12 mills. In calculating whether a district has exceeded the limit, realty transfer taxes are not included for any year in which 100 or more new homes or major improvements were constructed.

2. The School Code also limits the amount of real estate taxes that may be levied. Under School Code § 672, school districts are limited to a tax rate of 25 mills. There is an exception to the 25 mill tax limit. Taxes may be levied in an unlimited amount to pay salaries and debt service. If a school district tax levy will exceed 25 mills, additional language should be added to the Resolution Levying Taxes.

3. School Code § 688 imposes limits on school district unreserved fund balances. A school district is prohibited from increasing real estate taxes unless its general fund budget has an estimated ending unreserved undesignated fund balance less than the percentage provided below. Note that based on GASB 54 change in accounting terminology, PDE considers "undesignated" to mean not "committed" or "assigned."

School district budget size	Fund balance limit
≤ \$11,999,999	12.0%
\$12,000,000 - \$12,999,000	11.5%
\$13,000,000 - \$13,999,000	11.0%
\$14,000,000 - \$14,999,000	10.5%
\$15,000,000 - \$15,999,000	10.0%
\$16,000,000 - \$16,999,000	9.5%
\$17,000,000 - \$17,999,000	9.0%
\$18,000,000 - \$18,999,000	8.5%
≥ \$19,000,000	8.0%

Delayed Budget Adoption: School Code § 671(b) permits schools districts to delay adoption of the annual budget beyond June 30 when state legislation providing the appropriation for basic education has not been enacted by June 15. In such event, a district must adopt its budget no later than 15 days after the state enacts the basic education funding provisions, and must provide the public with 10 days notice prior to final action. School Code § 672 allows delay of the annual tax levy beyond June 30 to a date no later than 20 days after enactment of the basic education funding provisions.