



COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF EDUCATION

Senate Education Committee
Public Hearing on K-12 School Budgeting and Fund Balances
March 15, 2023

Good afternoon, Chair Argall, Chair Williams, and distinguished members of the Senate Education Committee.

While the Pennsylvania Department of Education (PDE) is regrettably unable to participate in person today, we sincerely appreciate the invitation and the opportunity to provide written testimony outlining the Department's limited role in K-12 school budgeting and public school fund balances.

Special Session Act 1 of 2006 (Act 1) requires PDE's annual calculation of an inflationary index that is used to limit the maximum tax rate increases for each tax the school district can levy unless additional actions under Act 1 are taken by a school district.

The Department has a limited role in administering various provisions of Act 1. PDE annually calculates the base and adjusts Act 1 indices to determine the maximum tax rate percentage increases a school district can impose. PDE also annually calculates the State Property Tax Reduction Allocation after receiving certification from the Secretary of the Budget that an allocation may be provided in the next fiscal year.

Additionally, the Department approves school districts' eligibility to use one or more of the four referendum exceptions that allow school districts to raise tax rates above the level of their adjusted Act 1 index, which includes school construction-related grandfathered debt, school construction-related electoral debt, special education expenditures, and retirement contributions. School districts determine their eligibility for a referendum exception by submitting data to PDE through the online Referendum Exception System. Based on the wording in the statute, the referendum exception sought determines the type of data that school districts must submit, which may include bond information, general fund data, or budgeted retirement contributions to the Public School Employees' Retirement System (PSERS). Furthermore, Act 1 contains specific calculation criteria for each referendum exception. PDE is not permitted to consider the size of a school district's fund balance when approving each referendum exception.

When a school district applies for a school construction exception on a Planning and Construction Workbook (PlanCon) project, PDE staff crosscheck the PlanCon data with bond data submitted through the Referendum Exception System and previous data submissions to the Annual Financial Report.



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Superintendents certify via a signed Accuracy Certification Statement-type document that the data provided is accurate. PDE has no ability to determine whether the school district has accurately reported its expenditures. If the request for an exception is approved, PDE calculates the dollar amount of the expenditure for which the exception is sought and approves the tax rate increase required to fund the approved exception. If PDE's approval is insufficient to cover the tax rate increase on the school district's preliminary budget, the school district must either plan to reduce the proposed tax rate increase on the final budget or submit a referendum question for voter approval in the Spring primary election.

PDE must approve referendum exception requests if the data demonstrate that the school district qualifies for one or more of the exceptions. PDE does not deny exception requests because the electronic Act 1 system calculates allowable exceptions based on the data provided by the school district. The system does not allow a school district to submit an exception request unless the resulting calculation is a positive amount. Before applying, school districts may use the Excel templates posted on the [PDE website](#) to determine their exception eligibility.

There is little action that can be taken to address fund balance transfers at the school district level without impacting local control. The existing guidelines, based on the [Governmental Accounting Standards Board statement 54](#), only require that certain types of fund balance transfers be based on formal School Board action. There are many reasons that school districts move fund balance to the Assigned and Committed categories. If there is a desire to have additional transparency within the budgetary process, PDE recommends that language be added to School Code requiring all transfers out of the Unassigned category be approved by formal School Board action.

The Department appreciates the Committee's thoughtful consideration of the issue and looks forward to additional discussions based on the testimony gathered through this hearing.