REMARKS

PENNSYLVANIA DEPARTMENT OF THE AUDITOR GENERAL

Thank you, Chairman Argall, Chairwoman Williams and the rest of the Senate Education Committee for inviting us here to talk about our most recent audit where we looked at the system governing property taxes to fund school districts and its impact on taxpayers.

Before I begin, I wanted to provide some background on how we transformed audits involving school districts.

When I first took office in 2021, we began looking at not only the audits that had been done over the years, but the processes and personnel used to do them. Two things were immediately clear: first that there weren't enough people to do the nearly 4,000 audits that we were legally required to perform each year. Second, we were performing compliance audits for decades for Pennsylvania Department of Education that were no longer timely or impactful.

We only had enough auditors to look at each district once every 7-10 years for things like whether a school entity correctly reported to PDE the number of children it bused or if it conducted the correct number of safety drills. Now I am an auditor with more than 30 years of experience, but anyone with common sense could tell you that if you were auditing events that happened a decade ago, the time for accountability has long passed.

There is a better way to perform audits of school districts to provide taxpayers with the information they need to hold government accountable.

Which brings me to the audit we are talking about today.

For nearly a year, our auditors investigated whether these districts appropriately used referendum exceptions to raise property taxes without voter input and whether districts were using their Fund balances the way they were intended. The 12 school districts selected met very specific criteria: first, we hadn't audited the district since 2017; second, they applied for and were granted referendum exceptions; and third, they had surpluses in their general fund.

These districts represent a cross-section of Pennsylvania communities, from urban to rural and wealthier to poorer tax bases.

We found that the system designed by the legislature to protect taxpayers is failing. School districts are following the letter of the law, but not its intent, and the victims are taxpayers — especially those on a fixed income.

Here is how it works.

To make sure they meet the legal requirement to increase taxes under the Public School Code, school boards vote to move and earmark unspent money giving them the legal ability to raise taxes every year without voter input.

Then they use a clause in the Taxpayer Relief Act meant for extreme fiscal circumstances to ask the Department of Education for a referendum exception to raise property taxes above the inflationary index for things like special education and pension obligations. The districts meet the requirements, so the Department of Education grants the request.

Taxpayers are intentionally taken out of the equation.

To put this into perspective: these 12 school districts collectively raised taxes 37 times out of a possible 48 times during the four years we reviewed while applying for a referendum exception at least once. They each had sufficient unused funds that would have made some of the 37 tax increases unnecessary.

And applying for referendum exceptions was used as a regular budgeting tool, rather than an extreme measure whether it was intended to be used or not. It was common practice for school boards to vote to move unspent money into other funds while increasing taxes.

During the audit period the districts moved $102 million more than they budgeted into their Capital Funds. On top of that, at the end of the audit period, the 12 districts collectively had more than $390 million in their respective General Fund accounts that is sitting unspent.

The school districts told us they must budget this way because they never know how much funding they will receive from the state. But at the end of the day, it's the taxpayers, especially those on a fixed income, that are carrying the burden.

So, what can we do to change it?

We have a series of recommendations that can make a meaningful impact for taxpayers and school districts alike. First, the legislature needs to close the loopholes in the laws that allow these practices to continue. If the law was changed to base tax increase calculations on unrestricted funds, only 5 of the districts in this audit would have been eligible to raise taxes 11 times, instead of all 12 districts being eligible to raise taxes 48 times.

Next, the legislature can consider changing the fiscal year for school districts from June 30 to September 30. If school districts are telling us that they need to know how much money they are getting from the state to have a balanced budget, we should listen. Changing the fiscal year would give them three months to plan a budget based on known data.

And finally, the Department of Education needs to revise its guidelines for granting a referendum exception. These guidelines should be based on actual cash in a district's general fund instead of their budget. And we must require school boards to use excess unrestricted funds before they can even apply for a referendum exception.

These are just 12 school districts. There are 500 in Pennsylvania.

If this is standard operating procedure for these twelve urban, suburban and rural districts, it's not a stretch to say that it's common practice across the state. This is an opportunity to restore the original intent of the Public School Code and Taxpayer Relief Act, and to provide real property tax relief for our fixed income seniors and hard-working families.

My job is to look at how tax dollars are being spent and if the systems created to use them are working. In this case, the system isn't working, and we need to fix it.

Thank you.