

**Senate Finance Committee**  
**Testimony on SB 1202**  
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I would like to thank Chairman Browne, Chairman Wozniak and the members of the Senate Finance Committee for inviting the Pennsylvania Department of Education to provide testimony today on SB 1202, which amends Special Session Act 1 of 2006 –the Taxpayer Relief Act.

Act 1 provides historic property tax relief to Pennsylvania homeowners. Just yesterday, Governor Rendell announced that the law will enable more than \$850 million in property tax cuts in the next school year. All homeowners will receive first-ever tax relief, averaging \$185 for every household, and senior citizens – who have the toughest time paying property taxes while on fixed incomes – will receive even greater assistance. More than 250,000 additional older Pennsylvanians have already benefited from property tax rebates as a result of Act 1, and this is only the beginning.

The legislation that the committee is discussing today addresses the other groundbreaking aspect of Act 1: for the first time ever, school boards no longer have the authority to enact unlimited tax increases without voter approval. Now, school districts are held to an “inflation index” and in order to raise property taxes beyond that index they must either place the question before the voters in a referendum or seek an exception for specific unavoidable or essential costs.

SB 1202 would restrict or eliminate four of the referendum exceptions that school districts currently rely on:

- **School construction.** This legislation would eliminate the referendum exception for new academic construction that falls within 60% of the construction cost average and for non-academic construction up to \$250,000. Perhaps most troubling, the legislation would make it impossible for school districts to refinance their *existing* debt to take advantage of low interest rates; this provision of the bill would drive up the cost of already-built construction projects for local and state taxpayers.
- **Special education.** Under current law, school districts can seek a referendum exception for special education costs that are beyond their control if those costs exceed the inflation index. SB 1202 would raise the exception threshold to only those costs that exceed 250% of the inflation index. For reference, 68 school districts utilized this referendum exception in their adopted 2007-08 budgets in order to raise \$20.4 million in funding, representing two-tenths of one percent of all school property taxes projected to be collected this year.
- **Per-pupil educational support.** SB 1202 would eliminate the referendum exception for growing school districts to maintain local tax revenue per pupil by the rate of the inflation index and for all other school districts to maintain actual

instruction expenses per pupil by the rate of the inflation index. In other words, the legislation eliminates the ability of school districts to receive an exception in order to keep per-pupil resources on par with inflation. For reference, 24 school districts utilized this referendum exception in their adopted 2007-08 budgets in order to raise \$6 million in revenue, or about six one-hundredths of one percent of all school property taxes projected to be collected this year.

- **Maintenance of revenue.** Lastly, SB 1202 would eliminate the referendum exception that ensures that the combined four major sources of school district revenue – the state basic education subsidy, the state special education subsidy, local property taxes and local income taxes – together keep pace with the inflation index from one year to the next. In 2007-08, seven school districts utilized this referendum exception to raise \$696,000 in resources – approximately seven one-thousandths of one percent of all school property taxes.

The Act 1 taxpayer controls appear to be working and – in the second full year of implementation – we believe that it is too early to make changes now. Given the new state funds we have proposed, including \$2.6 billion in new state basic education funds over the next six years included in Governor Rendell's budget, and the referendum requirements that are currently in place, the existing controls may well result in less local tax increases in the future.

Let me give you one example that provides reason for optimism: last year, 233 school districts adopted resolutions under Act 1 certifying months in advance that they would not increase property taxes by more than the inflation index and would not apply for any referendum exceptions. This year, the number of districts that adopted that early certification increased by 39% to 325. Moreover, just as occurred last year, we fully expect school districts – in an abundance of caution – to apply for far more exceptions than they actually use when they adopt their final budget.

We have to understand that there are legitimate costs to running a school district and we need to be careful to maintain the delicate balance between the interests of taxpayers and the interests of our students.

The Pennsylvania Department of Education will closely monitor the effectiveness of Act 1 to ensure that it keeps property tax increases in check at the same time as state-funded property tax reductions provide real relief to all homeowners. In addition, I hope that we can work together on other strategies to drive down the local tax burden in communities across the Commonwealth, including:

- Enacting a statewide school health benefit system. Health benefits are a major cost driver for school districts, and we have a bipartisan solution that will keep costs down while preserving the quality of health care. The House Education Committee recently approved HB 1841 to achieve this goal, and we look forward to working with both chambers of the General Assembly on this important issue.

- Encouraging school districts to share services and move towards voluntary consolidation. We are pleased that school districts have responded so positively to “Common Cents,” the voluntary shared services initiative that Governor Rendell launched last year. With the help of professional consultants, we will make it easier for school districts to share services to improve efficiency and avoid costly duplication of back-office, instructional, transportation and other expenses

Thank you again for the opportunity to address the committee. The Department of Education remains committed to maximizing every taxpayer dollar on behalf of increasing student achievement in Pennsylvania’s classrooms.