

Testimony
of the
Pennsylvania State Education Association
Public Hearing on Senate Bill 1202

Presented to the
Senate Finance Committee

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by
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Good morning, Chairman Browne, Chairman Wozniak and members of the Senate Finance Committee. My name is Mike Crossey, and I am an emotional support teacher currently on leave from the Keystone Oaks School District, while serving as Vice President of the Pennsylvania State Education Association (PSEA). On behalf of our more than 185,000 members composed of future, active and retired school employees as well as health care workers, I thank you for inviting me here today to speak to the issue of back-end referendum and specifically Senate Bill 1202.

The issue of tax reform continues to be an ongoing struggle for Pennsylvania policymakers. For decades, the legislature has struggled with this issue only relatively recently arriving at a workable consensus -- Act 1 of the Special Session of 2006. Incorporated within this law are two main tenets - tax reduction and tax controls - with tax reduction coming in the form of homestead/farmstead exclusions funded with the proceeds from the tax on state gaming revenues. Due to a slower than anticipated pace of bringing slots casinos online within the Commonwealth, the anticipated tax relief from this new law will begin in 2008-2009.

The second component of Act 1, and what we are here to focus on today, is the tax control portion of the law, called back-end referendum. Currently, Act 1 prevents any school board from increasing local tax rates by more than an inflationary index without seeking voter approval. The General Assembly, when debating this law and Act 72 of 2004, determined that there were a limited number of instances in which a school board may raise its tax rates above the indexed tax rate without seeking or receiving voter approval.

These instances are defined as "exceptions" to referendum in Act 1. While PSEA strongly opposed backend referendum during the debate surrounding the crafting of this law, we supported the inclusion of these exceptions. The exceptions cover increases in costs over which school districts have no control, such as; special education, pension contributions, health and safety emergencies, student growth or a decline in state subsidy. Unfortunately, these do not represent the full spectrum of costs over which boards have no discretion, as some of these were not included as exceptions, one example being charter and cyber charter school costs.

In our view, each of these exceptions is a critical component of the law. Without them, school boards would lose the necessary flexibility to budget for the educational needs of their students, which enable them to achieve. If Senate Bill 1202 were to be enacted, school boards would be left to budget with one hand tied behind their backs.

We encourage the General Assembly look very carefully at this legislation for two basic reasons. First, the referendum requirements in the law have only been implemented for one year. As noted, the tax relief provisions will only begin in the next fiscal year, and this will help offset some anxiety about increased tax rates. Second, there are some who contend that the exceptions to referendum are too liberal. To illustrate this, they often point to the number of exceptions applied for as part of school districts 2007-2008 preliminary school budgets. Yes, 210 school districts were granted exceptions to

referendum last year. However, it is important to look beyond this one figure and examine the full scope of the numbers.

While 210 school boards took the precaution to apply for exceptions, 233 pledged through a binding resolution to not raise taxes above the inflationary index. Unfortunately, this fact is often ignored. Furthermore, simply because a board applied for an exception does not mean it was utilized. In fact, only a little over half of the districts granted exceptions ended up using them to raise tax rates by more than their indices. The rest adopted final budgets with increases at or below their indices.

Why, then, did so many boards seek exceptions, yet not utilize them? Simply put, this new law set forth a new set of circumstances by which school boards were forced to develop budgets. Preparing a preliminary budget a full six months or more before knowing what all of the income and expenses will be, most notably the exact amount of state funding, is no simple task. Many school boards applied for exceptions as a means of ensuring a “safety net” in case of some unforeseen circumstance. This should serve as a reminder that we only have one year “under our belts” living within the budgeting structures of Act 1. The General Assembly has not had enough time or experience under the law to warrant any changes as significant as removing exceptions.

Another complaint often lodged against the exceptions is the fact that the Pennsylvania Department of Education (PDE) is nothing more than a “rubber stamp” for exception applications. Again, we must look beyond the headlines before any judgments can be made. In reality, the exceptions over which the Department has authority were crafted to require minimal deliberation. Instead, they are based on verifiable budgetary data, hence the need to look several years into the past to ensure audited final numbers are utilized. Further, if one were to review the data, PDE actually approved \$13.3 million less in exceptions than were applied for by boards. This flies in the face of the “rubber stamp” contention put forth by opponents.

In the end, only about a quarter of the school districts in the state adopted final budgets that included rate increases greater than their Act 1 indices. This means nearly three-fourths of them stayed with the state’s inflationary limit for the 2007-2008 fiscal year. Indeed, final increases in property tax rates averaged 2.8% compared to an average Act 1 index of 4.4%. About one third of school districts either reduced their property tax rates or increased them by less than one percent in 2007-2008.

Ultimately, Act 1 and Senate Bill 1202 are responses to frustration over school districts’ over-reliance on property tax revenues to fund the education of our Commonwealth’s children. However, tinkering with tax reform and further hindering a school boards ability to fund services and programs is not the solution. Over one year ago the General Assembly charged the State Board of Education to conduct a “Costing Out Study” to determine what level of funding is necessary to educate all of our students to proficiency in all of our state standards. This past November, the study was released and the results were both astounding and disheartening. Public education is under-funded by \$4.38 billion in the Commonwealth. This means that property taxes are not the problem, but a

symptom of the problem; an irreparably broken school subsidy system. It has been the Commonwealth's lack of a coherent funding formula for more than a dozen years that has created the tension surrounding property taxes. PSEA believes that if school districts were funded both at their adequacy levels and in an appropriate manner by the state, then the need for exceptions to back-end referendum would drop off substantially.

PSEA would like to take this opportunity to, again, call upon the General Assembly to address the issue of school funding, and make a significant down payment toward the full funding our children's education in the upcoming state spending plan. In the absence of reform that provides for adequate, predictable and equitable state funding for public education, no further consideration of Senate Bill 1202 should occur. To do so will place the education of our students in jeopardy. In all the technical discussion of exceptions and indexes, it all comes down to the question of how do we make sure every child in every community receives a great education at a fair cost to taxpayers.

Thank you for this opportunity to speak with you today. I look forward to answering your questions.