



Testimony

Submitted on behalf of the  
Pennsylvania Chamber of Business and Industry

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Before the:  
**Basic Education Funding Commission**

Presented by:  
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**Central Penn Business College**  
Summerdale, PA  
November 2, 2023

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Chairman Sturla, Chairwoman Phillips-Hill and honorable members of the Basic Education Funding Commission, my name is Alex Halper, and I am the Vice President of Government Affairs for the Pennsylvania Chamber of Business and Industry. The PA Chamber is the largest, broad-based business advocacy association in Pennsylvania. We represent employers of all sizes, crossing all industry sectors throughout the Commonwealth.

Pennsylvania employers have a significant stake in our Commonwealth's education system. Today's students are tomorrow's business leaders, entrepreneurs, innovators and skilled workforce, and a strong, effective education system is critical for our employers and economy to thrive. The business community has a significant financial stake in our education system as well. A Council on State Taxation study from December 2022 reported that total property taxes (including school and municipal) paid by businesses in Pennsylvania totaled \$13.2 billion and accounted for 36 percent of the total business tax burden in Pennsylvania<sup>1</sup>. Additionally, taxes paid by businesses account for a relatively significant portion of the overall property tax revenue generated in Pennsylvania. According to the Independent Fiscal Office, rental and commercial properties accounted for \$6.4 billion, or a nearly 41 percent share, of school district property taxes collected statewide in FY2020-21<sup>2</sup>. As major investors in our education system, businesses care about our schools and support policies that will help Pennsylvania's children succeed and lead to a vibrant economy. Achieving these lofty goals demands participation of and enhanced coordination among stakeholders, including public schools, which must continue

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<sup>1</sup> [2209-4097478\\_50-state-tax-2022-final-e-file.pdf \(cost.org\)](https://www.cost.org/2209-4097478_50-state-tax-2022-final-e-file.pdf)

<sup>2</sup> [http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/SD\\_Prop\\_Tax\\_Update\\_Aug\\_2022.pdf](http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/SD_Prop_Tax_Update_Aug_2022.pdf)

to review and improve the manner in which students are educated and prepared for the workforce, higher education or whatever path they choose. For these reasons, I thank you for the opportunity to testify today on behalf of our business community regarding the state's education system.

Pennsylvania's 21st century economy increasingly requires those entering or participating in the workforce to obtain specific skills, training and, at a minimum, fundamental education, which is most commonly attained through the public school system. The PA Chamber supports a robust education system where success is measurable through rigorous standards and schools are empowered to hold themselves accountable for outcomes. We urge lawmakers, educators, and all stakeholders to develop and implement systemic improvements to Pennsylvania's public education system to increase the quality of education and promote greater overall student achievement.

### **Historic Investments**

Funding is of course an important part of the discussion. The Legislature has made historic investments in public schools, to the tune of a nearly 60 percent increase in total K-12 spending, over the last decade in public education. Evaluating per-pupil funding specifically from the state, Pennsylvania ranks 21st in the nation, about 10 percent above the national average. When you consider all sources of spending, including federal and local, Pennsylvania jumps to the 11th highest per pupil spending in the nation or 27 percent above the national average<sup>3</sup>. Additionally, according to the National Education Association, Pennsylvania has the

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<sup>3</sup> <https://www.census.gov/newsroom/press-releases/2023/public-school-spending.html#:~:text=Seven%20of%20the%20nine%20states,and%20Maine%20was%20ranked%2013th>

10th highest starting teacher salary in the country and 6th highest top salary for teachers with a bachelor's degree<sup>4</sup>.

Unfortunately, these relatively robust investments do not appear to correlate with student outcomes when considered in the aggregate. For example, the National Assessment of Educational Progress ranks Pennsylvania's fourth and eighth graders as roughly average in math and reading proficiency; with little progress, and in some cases regression, in the last five years<sup>5</sup>. Additionally, Pennsylvania ranks worse than 29 states in average SAT scores<sup>6</sup>. We applaud this commission for your work carefully analyzing our public school system and encourage you to complement deliberations over funding levels with discussions focused on accountability, how existing tax dollars are used and, most importantly, student outcomes. We agree with Commonwealth Court Judge Renee Cohn Jubelirer who, in her historic court decision stated, "Nothing in the foregoing opinion undermines the ability of the General Assembly to continue providing local control to school boards or infringes on any of the sister branches of government's authority. *Nor does it require reform to be entirely financial.*"<sup>7</sup> (emphasis added)

### **Standards & Accountability**

An important part of understanding, in real time, student progress and the return on taxpayers' investment is through testing student knowledge. The age-old ritual of school tests has perhaps never been as unpopular as it seems to be today. Yet school tests – particularly

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<sup>4</sup> [https://www.nea.org/resource-library/educator-pay-and-student-spending-how-does-your-state-rank/teacher#:~:text=The%20national%20average%20public%20school,592\)%20at%20the%20low%20end.](https://www.nea.org/resource-library/educator-pay-and-student-spending-how-does-your-state-rank/teacher#:~:text=The%20national%20average%20public%20school,592)%20at%20the%20low%20end.)

<sup>5</sup> <https://nces.ed.gov/nationsreportcard/state/>

<sup>6</sup> <https://worldpopulationreview.com/state-rankings/sat-scores-by-state>

<sup>7</sup> <https://www.pacourts.us/news-and-statistics/cases-of-public-interest/587-md-2014---william-penn-school-district-et-al-v-pa-department-of-education-et-al>

standard assessments that allow comparisons among students in different schools, districts and regions – are a necessary tool for tracking growth and ensuring students are obtaining a baseline knowledge. The PA Chamber supports standardized assessments, such as the PSSAs and Keystone Exams, which should be viewed as a floor for student knowledge attainment and one of many tools for measuring outcomes and gaps within our education system. With tax dollars limited, assessments also provide the basis for data points for the General Assembly to make strategic decisions about state spending.

In the early days of the pandemic, schools were allowed to cancel state standardized tests – a decision that very few seemed to oppose. In 2021 however, when lawmakers contemplated canceling assessments for a second straight year, the PA Chamber and a coalition of stakeholders pushed back, citing the impact on students, long-term longitudinal research and feedback from parents, including the Data Quality Campaign’s national parent poll, conducted in spring 2020, which found that 77 percent of parents agree that states should resume end-of-year assessments in math and reading<sup>8</sup>. Ultimately assessments proceeded as planned after many concluded that the General Assembly and parents deserve accurate and measurable data to interpret the needs of students in the Commonwealth.

Standardized assessments are also an important component of evaluating teachers to help highlight our best educators. It is important for these reviews to prioritize objective measures and avoid over-dependence on in-class observations. While observing the lessons of a

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<sup>8</sup> <https://dataqualitycampaign.org/resource/2020-parent-poll/>

teacher provides important insight, objective data analysis at the student level eliminates the reliance on human bias and should be the predominant weight in rigorous teacher evaluations.

Objective and effective teacher evaluations become even more important as lawmakers consider policies that reward our most effective teachers, such as offering “merit pay.” Merit pay refers to any system in which teachers are positively reinforced financially for the success of their students. While recognizing and controlling for the multiple variables that may influence student outcomes, a merit pay system may further encourage teacher effectiveness by tying incentives to student achievement in their classroom. Studies suggest that the presence of a merit pay program is associated with a statistically significant positive effect on student test scores, roughly equivalent to three additional weeks of learning<sup>9</sup>. While not only a benefit for students, merit pay systems improve the composition of the workforce by attracting and retaining high performing teachers and discouraging lesser performers from entering or staying in the profession.

### **Career Readiness and Career and Technical Education**

Pennsylvania, along with much of the nation and world, is in the midst of a workforce crisis with employer struggling to find individuals to fill open positions. This crisis is often more acute in technical fields and the skilled trades and Pennsylvania’s educators and public education system should provide opportunities and encourage students into these fields, or any career-oriented disciplines that are in demand or expected to be in demand. The PA Chamber

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<sup>9</sup> Pham, L. D., Nguyen, T. D., & Springer, M. G. (2021). Teacher Merit Pay: A Meta-Analysis. *American Educational Research Journal*, 58(3), 527-566. <https://doi.org/10.3102/0002831220905580>

supported Act 76 of 2019<sup>10</sup>, which initiated several key reforms to address skilled trades workforce shortages in the Commonwealth. First, it required higher education institutions to submit articulation agreements to the Pennsylvania Department of Education so the public knows under what circumstances credits will transfer between schools. This provision provides transparency when students are considering transferring schools, situations that are often stressful and unclear. Students and parents ought to have all the information they need, far in advance, to plan their academic timeline and position themselves for success. Secondly, it codified what had been a pilot program to expedite the classification of instructional programs. Lastly, Act 76 required public schools to provide students the opportunity to hear from trade schools, representatives from the business community and others to provide educational and career guidance.

Act 76 was an encouraging early step but more is necessary to address the challenges and stigma surrounding career and technical education. The PA Chamber urges the administration and General Assembly to prioritize expediting the states licensing system, specifically for those seeking to become CTC instructors. Often applicants have cited months long waits with little predictability from the State. These unnecessary burdens disincentivize potential educators at a time when our Commonwealth faces an unprecedented workforce crisis. Similarly, out of state teachers should not be forced to navigate a complicated licensing process to transition to the Commonwealth. In line with Senate Bill 843, introduced by Senator Dave Argall (R-Schuylkill), the Interstate Teacher Mobility Compact is a welcome start in

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<sup>10</sup> <https://www.legis.state.pa.us/cfdocs/legis/li/uconsCheck.cfm?yr=2019&sessInd=0&act=76>

addressing these concerns and we urge further conversation about ways to streamline instructor certification upon moving to the Commonwealth<sup>11</sup>.

### **Non-Traditional Education Paths**

In addition to career and technical education opportunities, the PA Chamber urges the General Assembly to support non-traditional educational paths for students. Effective education for Pennsylvania's children is the greatest investment we can make and state policy should recognize that children are different and therefore their path to success may look different. The PA Chamber has supported programs like the Educational Improvement Tax Credit and effective Charter Schools that provide opportunities for children.

The Educational Improvement Tax Credit program provides students additional options to pursue their education. It also supports public schools and has been used to better align public education with employer needs. For example, Coterra Energy has provided over 100 mobile energy learning units (MELU) annually, 1000 scholarships at 26 Career & Technology Centers, 100 Dual Enrollment Scholarships, 750 Dual Enrollment classes for students, 30 CDL scholarships, \$210,000 in Pre-K scholarships. This is just one of numerous examples of private investment in our educational system that leads to greater alignment and we urge the General Assembly to expand the EITC program.

### **Maximizing Investment**

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<sup>11</sup><https://www.legis.state.pa.us/CFDOCS/Legis/PN/Public/btCheck.cfm?txtType=PDF&sessYr=2023&sessInd=0&billBody=S&billTyp=B&billNbr=0843&pn=0963>



While we ought to facilitate fair and purposeful distribution of state education funding, we also must maximize the value of our investment. Lawmakers and school administrators should always strive to use existing funding as effectively as possible and ensure resources are first and foremost driven into the classroom. This means thinking creatively to achieve savings. For example, how can school districts coordinate procurement or other costs to achieve economies of scale? Should school districts consider or be incentivized to consolidate? Are there ways to lower school construction and repairs costs? For example, in 1997, the Ohio legislature temporarily suspended prevailing wage requirements on school construction for five years and their Legislative Service Commission found indications of \$487.9 million in savings. That equates to roughly \$834.7 million in 2023 when you adjust for inflation, in aggregate school construction savings during the post-exemption period<sup>12</sup>. Pennsylvania ought to consider a similar exemption for school projects to ensure we use tax payer money in the most efficient, cost-effective manner possible.

### **Competitive Tax Reforms**

I would be remiss if I did not note that the best way to increase revenue in our Commonwealth to fund education and other essential services is to attract more taxpayers to Pennsylvania and broaden our base. Policymakers should build on recent reforms to create a more competitive environment for business, including strengthening the Commonwealth's tax climate with pro-growth initiatives like improving the treatment of Net Operating Losses (NOL)

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<sup>12</sup> <https://codes.ohio.gov/ohio-revised-code/section-4115.04>

and accelerating the reduction of the state's Corporate Net Income Tax. Making these changes will also allow for greater investment by all stakeholders into the education system.

### **Conclusion**

I thank the Commission again for the opportunity to testify today and recognizing employers as key stakeholders in our education system. This Commission has the opportunity to elevate Pennsylvania's status as a national leader and educational trend-setter: where policymakers and educators focus more on student outcomes, rather than financial inputs; where rigorous standards and a system of accountability help Pennsylvania children live up to their potential; where students and families are empowered to choose the educational path that best suits their unique needs; and where our business community and state economy flourish with an ever-expanding pool of home-grown talent.

Thank you again and I am happy to answer any questions.

Statement for the Record of Warren S.  
Hudak  
President, Hudak & Company

**Pennsylvania State Senate**

Education Funding Committee

November 2, 2023

1104 Fernwood Ave  
Camp Hill PA 17011

- Good morning. My name is Warren Hudak, and I am an enrolled agent and president of Hudak and Company, a Central Pennsylvania-based small-business accounting firm specializing in payroll services, bookkeeping, sales tax services, and advanced tax transaction analysis. My firm serves small-business clients in virtually every sector of the economy.

Thank you for the invitation to appear before the Education Funding Committee.

Identifying, acquiring, and retaining qualified employees has become an increasingly arduous task for businesses and entrepreneurs.

Wage expectations often do not align with an applicant's experience or ability. Our most recent job posting offered a salary 40% above pre pandemic levels. Out of the 218 applications received, not a single qualified applicant.

Our clients in the trades are not getting applicants. You can't fix a car from home.

One business owner in State College said after forty years in business he must hire 1.5 employees for every position.

Another business owner said he has 20-year-old college students who struggles to calculate sales tax on \$100.

Applicant work histories reveal candidates frequently hopping from job to job. Recent graduates lack people skills, an unwillingness to accept criticism or feedback, have difficulty adapting to new situations or environments, or a resistance to change.

Some education advocates would have you believe these deficiencies in hard and soft skills are a result of funding inequity inherent in our school funding formula.

Local school districts such as Cumberland Valley and Harrisburg School District spend \$12,500 and \$16,500 per pupil, respectively. If funding alone were a measure of academic success, Harrisburg students surely would surpass CV students in statewide test scores. We know that is not the case.

Parochial schools in our area with which I am familiar charge families about \$12,000 per pupil.

The average cost per pupil in Pennsylvania's public school is \$20,000.

The amount of funding, or lack thereof is not the problem.

When President John F. Kennedy challenged the nation to send a man to the moon, American schools rose to the challenge and produced a workforce of arguably the best engineers, scientist, mathematician, innovators, and inventors the world has ever known.

There is a disconnect between the skills taught in high schools and those demanded by employers. Employers increasingly seek candidates with practical skills such as critical thinking, problem-solving, communication, and teamwork.

Proficient readers can comprehend, apply reasoning, and apply it to real work situations. Emily Hanford, education researcher and reporter suggest that simply spending more money on education is not the solution to the reading problem.

She explains that despite schools thinking they are teaching students to read, a big body of scientific research about reading and how students learn to do it shows that important skills that all kids need to learn to become good readers are not being taught.

We also need more human interaction... and fewer computers and smart devices!

New entrants to the workforce lack interpersonal skills to reason, disagree, or find consensus with their professional colleagues. As employers, it is exhausting having to constantly repeat instructions.

Entrants to the job market today also are over reliant on computers to solve basic problems. These workers often are incapable of reasoning through a problem without significant assistance and constant coaching.

Artificial intelligence, AI, only exacerbates this problem. Without critical thinking skills, how will these new workers know what they read online is credible?

It won't be easy. A local college recently reported it was evaluating software that would identify AI generated papers. They received ten false positives.

The job market has evolved significantly over the past two decades. Technological advancements and globalization have led to the emergence of new industries.

I can appreciate how this rapid pace of change has made it challenging for educational systems to keep up and adequately prepare students for the evolving demands of the workforce.

But let's focus on the basics. Help our students develop practical skills such as critical thinking, problem-solving, communication, and teamwork.

And let's recognize more money isn't always the best answer.

Thank you.

## Education Funding in the Commonwealth

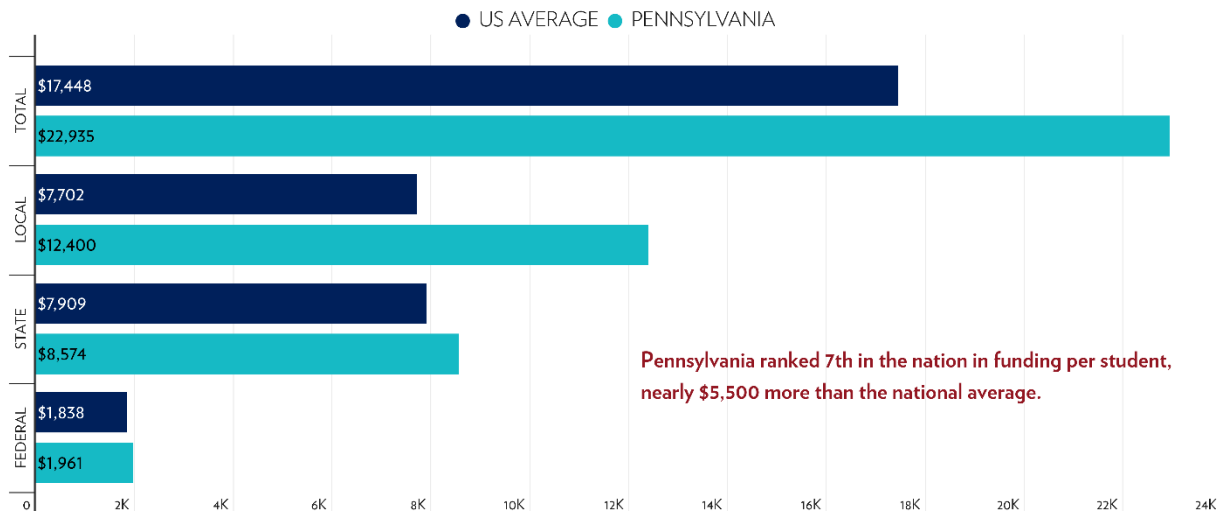
### PENNSYLVANIA OUTSPENDS THE NATION ON PUBLIC SCHOOLS

Pennsylvania ranks among the highest-spending states on public education.

- According to U.S. Census Bureau data, Pennsylvania’s spending of \$22,000 per student is almost \$5,500 more than the national average. The commonwealth’s spending per student exceeds the national average for every funding source—federal, state, and local.<sup>1</sup>
  - As of fiscal year 2021 (the most recent Bureau data available), [Pennsylvania ranks](#) 7th in total per-student funding, 7th in local per-student funding, and 22nd in state per-student funding.

### Pa. School Revenue Per Student

*Fiscal Year 2021*



Source: US Census Bureau, 2021 Public Elementary-Secondary Education Finance Data, <https://www.census.gov/data/tables/2021/econ/school-finances/secondary-education-finance.html>

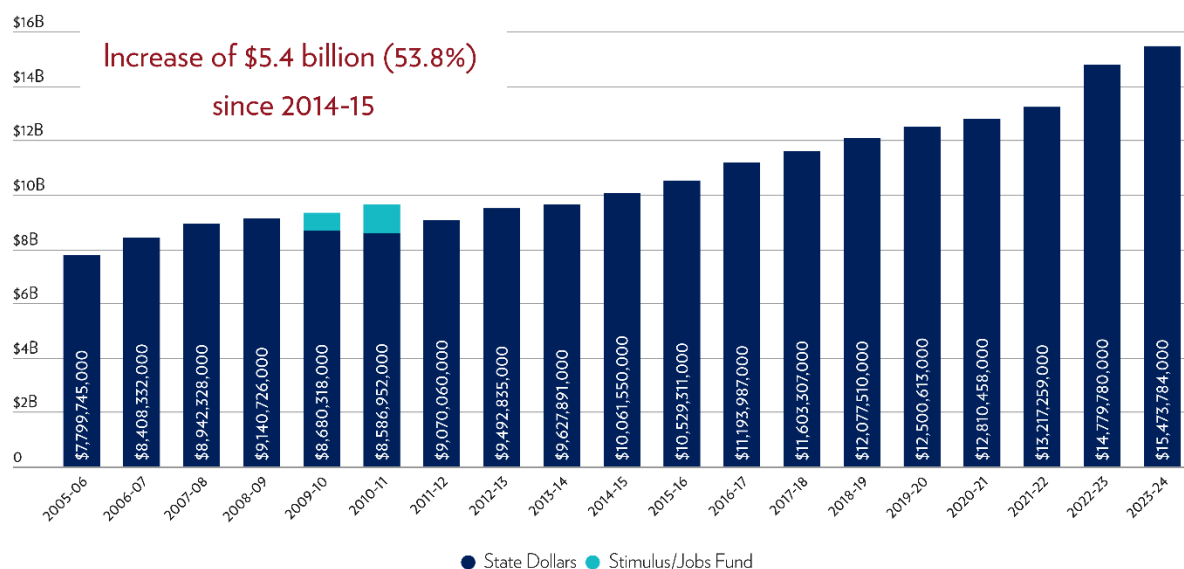
### PENNSYLVANIA PUBLIC SCHOOL SPENDING IS GROWING

Over the last decade, state spending on Pennsylvania public schools reached all-time highs year after year.

- Pennsylvania per-pupil public school funding increased to \$21,263 in the 2021–22 school year, up 37.6 percent since 2013, according to data from the Pennsylvania Department of Education (PDE).<sup>2</sup>
  - This spending increase occurred before Pennsylvania distributed most of its federal pandemic aid and increased public school funding in the most recent state budget.

- Total school district spending from all sources (local, state, and federal) increased to \$35.78 billion in 2021–22..
- As passed,<sup>3</sup> the Pennsylvania state budget **increases state support of public schools** to nearly \$15.5 billion, with the \$566 million increase in 2021–22, the \$1.58 billion increase in 2022–23, and the \$690 million increase for 2023–24.<sup>4</sup>
- State support of public schools has increased 53.8 percent since 2014–15, with a total increase of \$5.4 billion.

## State Support of Public Schools



Source: PA Department of Education, Summary of State Appropriations for Education

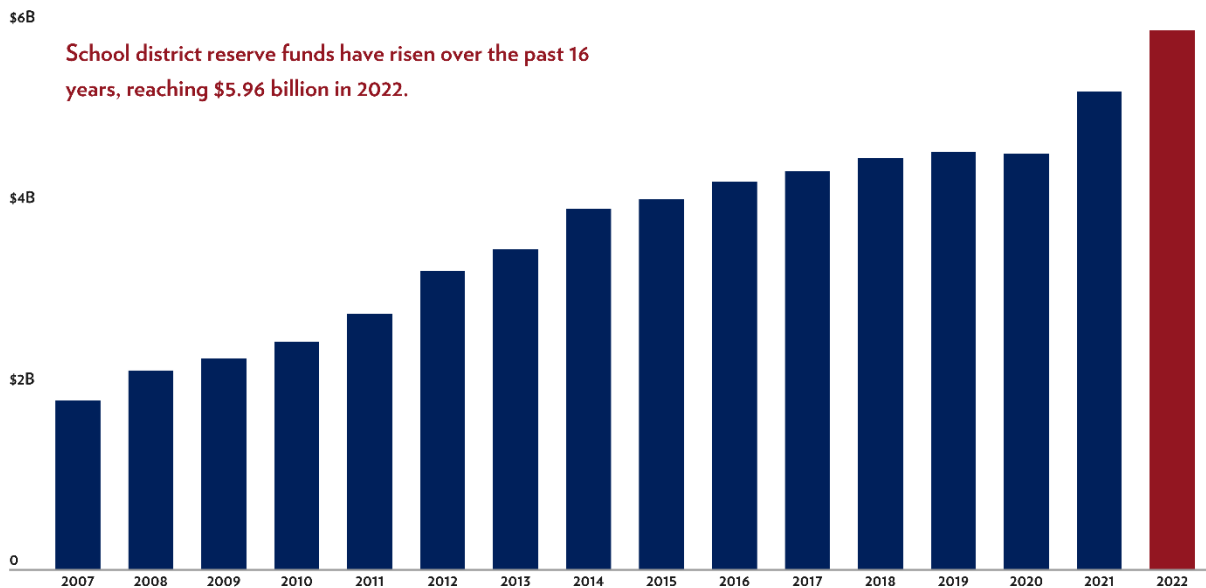
## SCHOOL DISTRICT RESERVE FUNDS ARE GROWING TO EXCESSIVE LEVELS

While some rainy-day funds are important for weathering unforeseen events, school districts have excessive stockpiles of taxpayer resources.

- School district reserves consist of assigned, unassigned, and committed funds. While the intent for assigned funds may be for capital improvements, reserve funds are fungible, which allows school districts to repurpose their use.
- The most recent PDE [data reveals](#) that school districts are collectively holding \$5.96 billion in reserve funds (as of 2021–22), up 68.6 percent since 2013.<sup>5</sup>
- School districts' collective combined reserve funds increased in 13 of the past 14 years, including a \$679 million increase in 2021–22.

These numbers represent school district reserves at the end of the 2021-22 school year (or June 30, 2022), before the record \$1.6 billion increase in support for public schools included in the 2022–23 budget. It also precedes the distribution of most of the pandemic aid funding for school districts.

## School District Fund Reserves



Source: Pennsylvania Department of Education, Detailed Annual Financial Reports, "General Fund Balance 1996-97 to 2020-2021." General Fund Balance includes Assigned, Committed, and Unassigned funds.

The state's previous auditor general, Eugene DePasquale, [recommended](#) that reserve funds be no more than 20 percent of the school district's total spending.<sup>6</sup> Remarkably, almost half of Pennsylvania's 500 school districts have reserve funds in excess of 20 percent of their spending. The average district's reserve balance is 23 percent of expenditures.

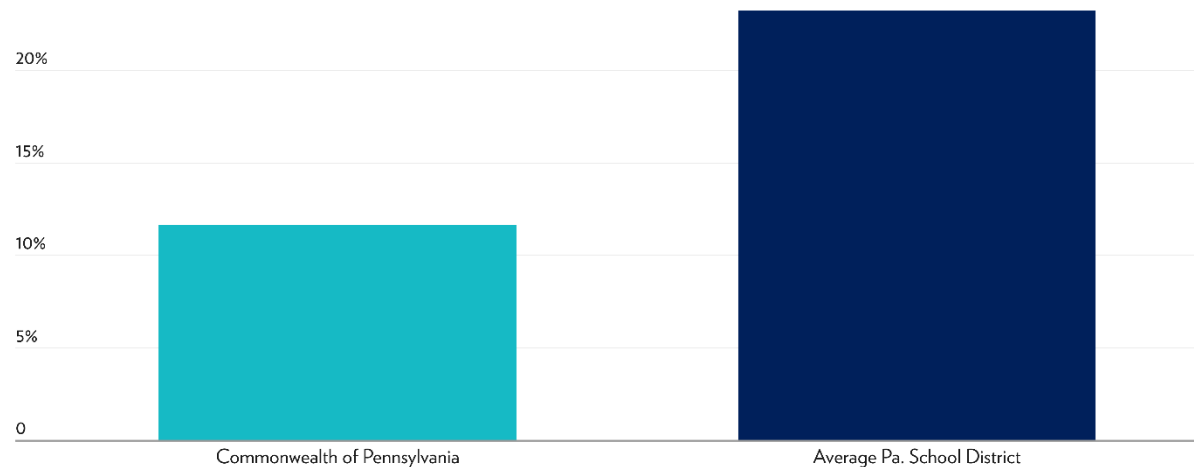
- 419 districts have reserve funds exceeding 10 percent of spending.
- 255 districts have reserve funds exceeding 20 percent of spending.
- 55 districts have reserves of 40 percent or greater.

As a percentage of general fund spending, Pennsylvania school districts have twice the reserves of the state's Rainy Day Fund.



## School Reserves vs. State Rainy Day Funds

*As a percentage of total spending, Pennsylvania school districts have twice the reserves of the state's Rainy Day Fund.*



Source: Pa. Treasury, Rainy Day Fund Balance, <https://www.patreasury.gov/transparency/fiscal-health-rdf.php>  
Pa. Department of Education, Detailed AFR data, General Reserve Fund Balance 2020-21, <https://www.education.pa.gov/Teachers%20-%20Administrators/School%20Finances/Finances/AFR%20Data%20Summary/Pages/AFR-Data-Detailed.aspx>.

In January 2023, Pennsylvania Auditor General Tim DeFoor [released an audit](#) showing that school districts were misusing reserve funds—shifting funds around in a “shell game” to avoid restrictions on raising taxes. These restrictions only apply when school districts hold more than 8 percent of expenses in their “unreserved, undesignated” fund balances but allow districts to shift money around to other types of accounts.

- The audit covered 12 school districts and found that “common yet questionable practices” allowed the districts to raise taxes 37 of the 48 times they were eligible. The districts raised taxes despite having sufficient funding—an average of more than \$360 million collectively—in their reserves.<sup>7</sup>
- Such practices have led to litigation, including in the Lower Merion School District, where the district agreed to [refund \\$27 million](#) to homeowners following tax increases in violation of state law.

This audit confirms that many school districts are not only adequately—but excessively—funded and use loopholes in the law to stockpile taxpayer resources.

### SCHOOL DISTRICT CONTINUE TO HOLD FEDERAL FUNDS

Calls for increases in state education funding come even as public schools sit on billions of unspent federal aid. This leftover federal money is *in addition* to the billions school districts hold in general reserves.

- Since 2019, Pennsylvania public schools were granted more than \$6.7 billion in federal pandemic aid through three packages: Federal Coronavirus Aid, Relief, and Economic Security (CARES) Act, Coronavirus Response and Relief Supplemental Appropriations Act (CRRSA), and American Rescue Plan (ARP).

- As of October 1, 2023, Pennsylvania public schools (including district and charter schools) still have **\$2.5 billion** in federal pandemic aid yet to be distributed from the state Treasury.<sup>8</sup>

## Public Schools Pandemic Relief Funds

*Public Schools have nearly \$2.5 billion in federal pandemic aid yet to be distributed, as of October 2023*



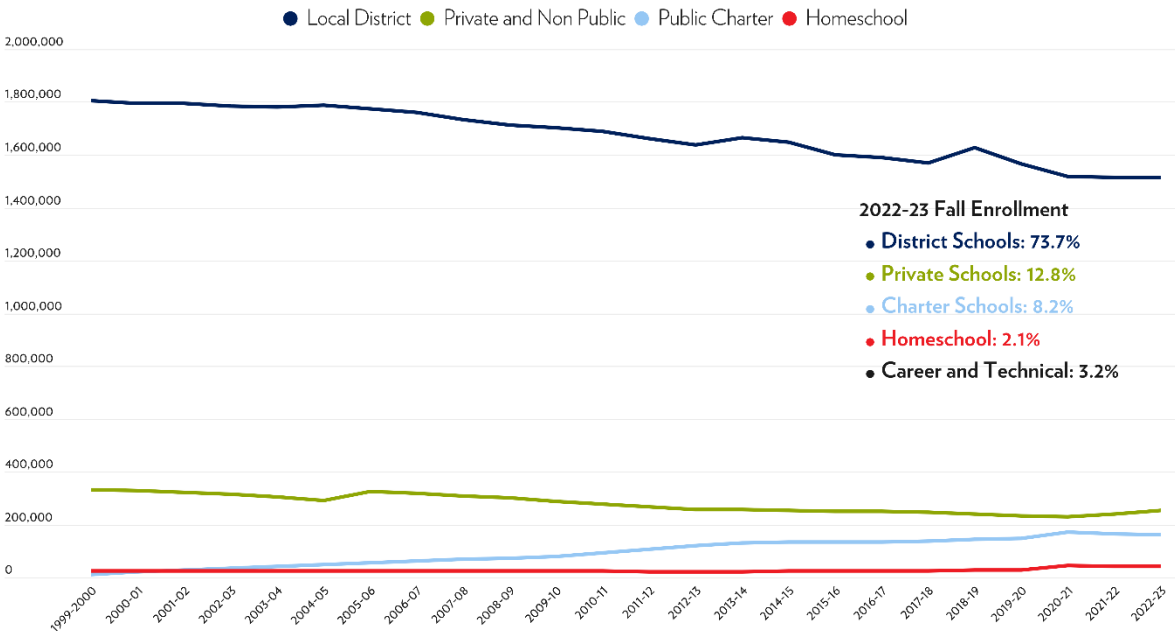
SOURCE: Status of Appropriations, COVID-ESSER-I-FA, <https://www.pnatreasury.gov/tabs/>

## PREK–12 PUBLIC SCHOOL ENROLLMENT IS DECLINING

Overall, Pennsylvania’s public school student enrollment is declining, while homeschool enrollment dramatically increased, fueled in large part by the COVID-19 pandemic.

- Pennsylvania public schools lost more than 139,000 students, or 7.7 percent from the 1999–2000 to the 2022–23 school year.<sup>9</sup>
  - District schools lost more than 289,000 students, or 16.1 percent, while charter schools grew by 151,000.
  - More than 60,000 students enrolled in Career and Technical Schools or Intermediate Unit Programs.
- Private school enrollment also dropped during this time frame, with 78,000 fewer students enrolled in private and nonpublic schools, a 24.1 percent decline.<sup>10</sup>
- Homeschooling rose by 74.5 percent from 1999–2000 to 2021–22, with a major increase in the 2020–21 school year, during the COVID-19 pandemic.<sup>11</sup>
- A large dip in school district enrollment has occurred since 2019–20, following the start of the COVID-19 pandemic, with almost 51,000 students leaving school districts.<sup>12</sup>
  - In Philadelphia alone, more than 11,000 students, or 8.6 percent, have left the school district since the start of the pandemic.<sup>13</sup>

# Pennsylvania PreK-12 School Enrollment Trends



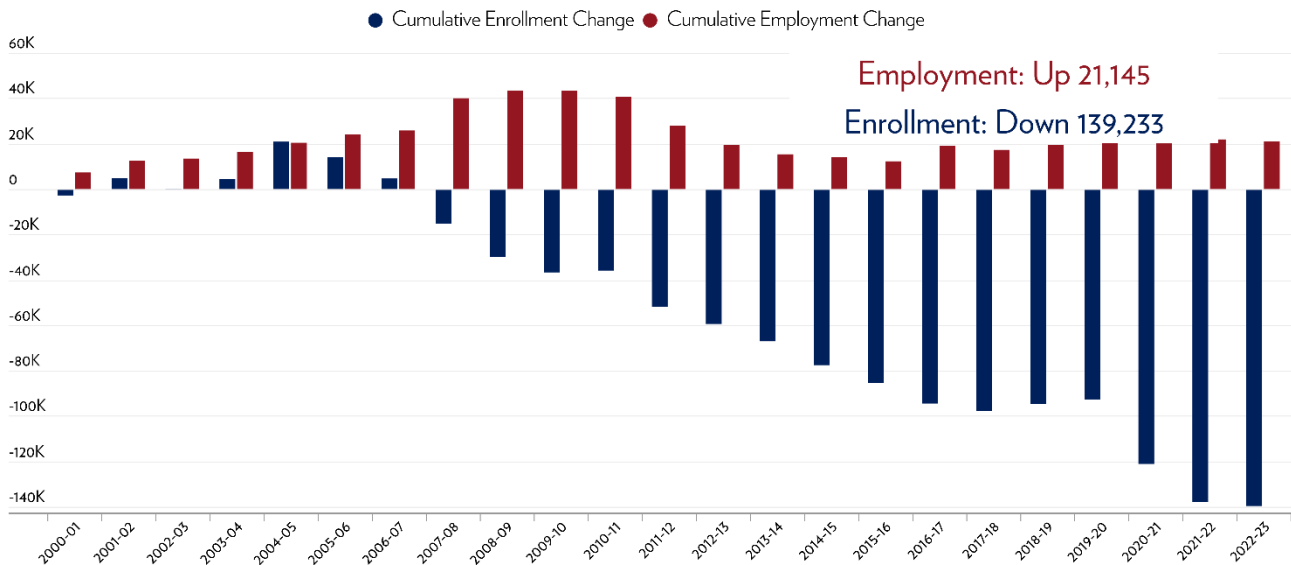
## PUBLIC SCHOOL EMPLOYMENT IS GROWING

Although student enrollment is down, public school employment of teachers and administrators is up. Individual school districts largely retain funding despite declines or increases in student enrollment.

- Even as enrollment declined, Pennsylvania public schools added 21,145 employees, a growth rate of 8.8 percent from 1999–2000 to 2022–23.<sup>14</sup>
  - Public schools added more than 7,500 classroom teachers (6.5 percent growth).
  - The largest growth was in all other categories of “professional staff”—including administrators, coordinators, and “other professional staff.” Public schools added 8,885 non-teacher professional staff, a growth rate of 39.0 percent.
  - Even post-pandemic, public schools have added staff—with an additional 1,319 classroom teachers since the 2019–20 school year—while enrollment dropped.
- At the same time, the number of students per teacher in public schools dropped from 15.7 to 13.6.
  - This student-to-teacher ratio varies by school district, from 18.9 to 1 for the Greater Nanticoke Area in Luzerne County down to 7.6 to 1 for North Clarion County.
  - The ratio of students to total employment dropped from 7.8 to 1 to 6.6 to 1.
- Some school districts are experiencing teacher shortages and difficulty hiring teachers. Focusing funding on school districts instead of students exacerbates the teacher hiring problem.
  - Statewide, there are more teachers (as well as more administrators and more support staff) but fewer students.

- Even school districts with shrinking enrollment have added teachers and other staff or retained more than their enrollment required.
- This over-hiring has led to shortages in school districts that face greater challenges in teacher hiring.
- This hiring problem is because funding doesn't follow students. School districts with shrinking enrollment have continued to get funding increases (due to "hold harmless" provisions).

## Pa. Public School Enrollment and Staff Growth Since 2000



Source: Bureau of Labor Statistics: <https://www.bls.gov/cpi/>

### PAST PENSION LIABILITIES LIMIT TEACHER PAY

Pennsylvania teachers are, on average, among the highest-paid teachers nationally. Employee benefit costs have skyrocketed because of past policy decisions—supported by the school unions—to underfund the school pension system and push off needed pension reform.

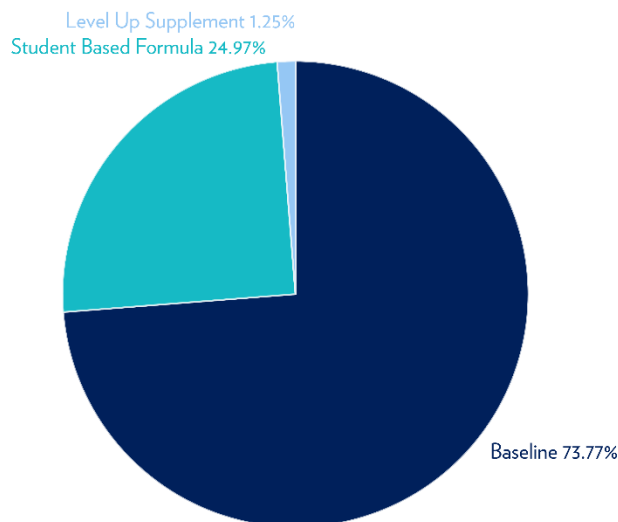
- The average salary for a classroom teacher in Pennsylvania public schools was \$74,723 as of 2022–23, according to the PDE.<sup>15</sup>
  - This ranks Pennsylvania 12th highest in average teacher pay, according to the National Education Association (NEA).<sup>16</sup>
- While teacher pay is relatively high compared to the national average, the cost of employee benefits has skyrocketed, crowding out salary increases.
  - In 2021–22 (the latest PDE data available), Pennsylvania public schools spent \$9.1 billion on employee benefits. This comes to nearly \$36,000 per employee.<sup>17</sup>

- From 2011–12 to 2021–22, total public school spending on salaries increased 15.7 percent; meanwhile spending on employee benefits increased 86 percent, as retirement contributions (i.e., pension payments) increased 367 percent.<sup>18</sup>
- For the 2022–23 school year, the pension contribution rate for all Pennsylvania public schools was 35.26 percent;<sup>19</sup> all public districts had to contribute 35 percent of salaries (in aggregate) towards that state-run pension plan for school employees (PSERS).
  - The lion’s share of this contribution rate—28.24 percent—wasn’t for current teacher’s retirement, but to pay off past unfunded pension liabilities (i.e., debt).
  - That rate (28.24 percent) equals \$20,186 when imposed on the average teacher salary.
  - If Pennsylvania had enrolled all employees in a defined contribution plan, like a 401k, there would be no pension debt to pay off. Had lawmakers done so, Pennsylvania public schools could be paying teachers an additional \$20,000 per year, without increasing overall spending.

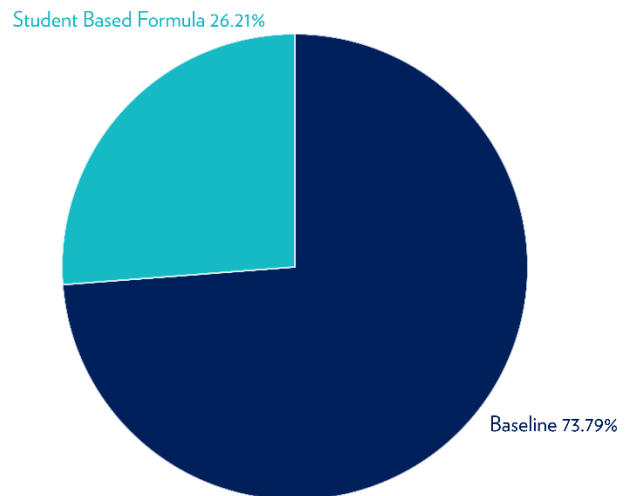
### MOST STATE AID IS DISTRIBUTED THROUGH HOLD HARMLESS

While the commonwealth adopted new student-based funding formulas for both basic education and special education, the vast majority of distributions—more than 70 percent of each appropriation in 2023–24—follow the baseline allocation, not the new funding formulas.<sup>20</sup>

#### Basic Education



#### Special Education



Source: PA Department of Education, 2022–23 Estimated Basic Education Funding, 2022–23 Estimated Special Education Funding

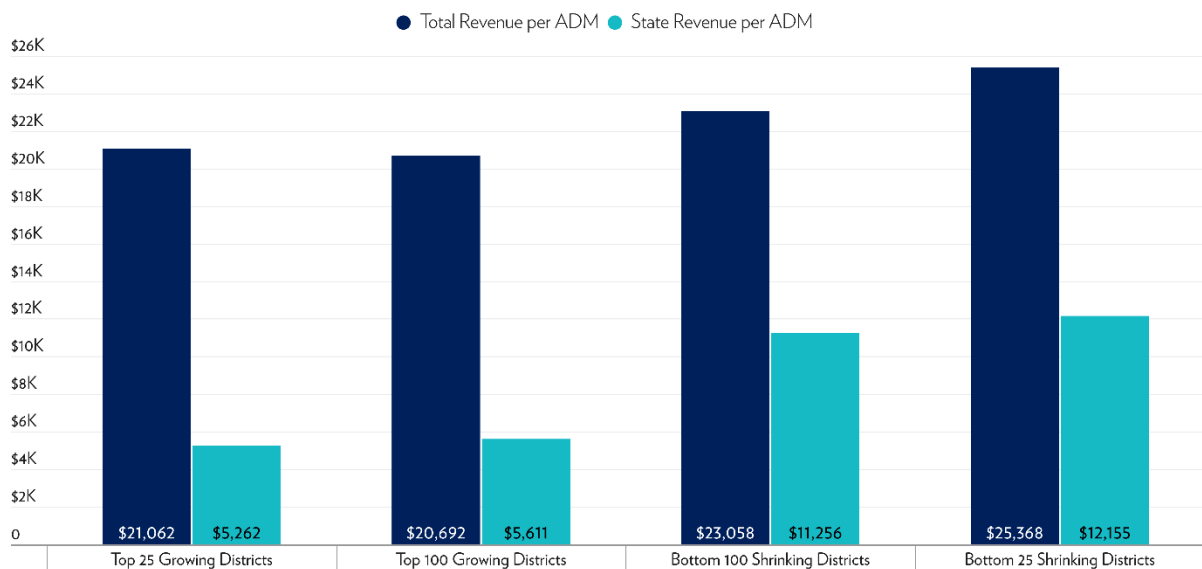
This baseline was set in 2014–15 for Basic Education (with some subsequent adjustments) and in 2013–14 for Special Education, after decades of hold harmless provisions in which districts were guaranteed the same amount of state revenue as the prior year, plus a percentage of the increase.

That is, the vast majority of state funds to districts *remain untied* to enrollment numbers, demographics, or special education designations.

As a result of this formula, districts that have had shrinking student enrollment get significantly more state funding per student—as well as averaging more funding per student overall—than districts with growing enrollment.

- In fact, the 25 fastest-growing districts received approximately \$5,262 in state funds per student in 2021–22, while the 25 districts that lost the most students received \$12,155 in state funds per student, about 2.3 times as much. This disparity allows districts to retain or add staff even with significantly fewer students.

## Impact of Hold Harmless



SOURCE: Pennsylvania Department of Education Annual Financial Reports (Expenditure Data for School Districts).

## RESPONSE TO “FUNDING GAP BETWEEN HIGH- AND LOW-POVERTY DISTRICTS”

There’s certainly some truth to there being a funding gap between high-poverty and low-poverty districts, though the biggest impact is on growing vs. shrinking districts.

- Pennsylvania spends significantly more per pupil than the national average. The 100 highest-poverty districts receive more than \$21,500 per student—nearly \$6,000 more per student than the national average.
  - For comparison, [Ohio ranks high](#) on the Education Trust report for “equity” between high-poverty and low-poverty districts, but those districts are getting \$15,000 per student.<sup>21</sup>
  - One of the big differences between Pennsylvania and other states is how much local funding there is for public schools—and how few restraints there are on school districts raising taxes.

- If Pennsylvania wanted to be at the national average, policymakers could cut local district funding for public schools—that would be more “equitable” by these measures, yet no one actually argues for that.
- The state funding formula, even with the problems associated with hold harmless, provides significantly more funding per student to high-poverty and low-income districts. The more money that flows through the fair funding formula, the less of a disparity there will be.
- Notably, because of hold harmless, the biggest gap is between shrinking districts and growing districts—with shrinking districts getting significantly more than growing districts.

## Per Student Funding Analysis

Avg. Revenue Per ADM	Total Revenue, 2021-22	State Revenue, 2021-22	BEF 2023-24
Top 25 Growing Districts	\$21,062	\$5,262	\$2,100
Top 100 Growing Districts	\$20,692	\$5,611	\$2,925
Bottom 100 Shrinking Districts	\$23,058	\$11,256	\$7,609
Bottom 25 Shrinking Districts	\$25,368	\$12,155	\$8,836
Top 25 Highest Median HH Income	\$23,658	\$5,197	\$1,268
Top 100 Highest Median HH Income	\$22,488	\$5,303	\$2,032
Bottom 100 Lowest Median HH Income	\$21,252	\$11,329	\$8,474
Bottom 25 Lowest Median HH Income	\$21,742	\$11,608	\$10,344
Top 25 Lowest Poverty Rate	\$23,954	\$6,117	\$2,138
Top 100 Lowest Poverty Rate	\$21,665	\$6,285	\$2,851
Bottom 100 Highest Poverty Rate	\$21,536	\$10,947	\$8,242
Bottom 25 Highest Poverty Rate	\$22,391	\$11,652	\$10,006

## EDUCATIONAL CHOICE SHOULD BE PART OF THE SOLUTION

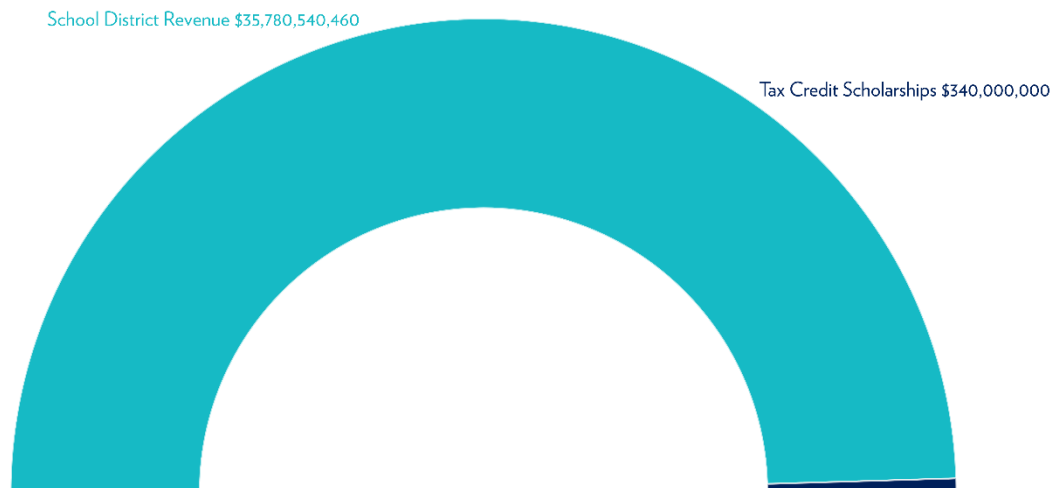
Much of the reason why certain school districts have excessive reserve funds is a state funding system—recently ruled unconstitutional by the Commonwealth Court—that remains unrelated to student enrollment. Indeed, most state funds flow through hold harmless provisions guaranteeing districts the funding they got in prior years.

Instead of funding empty buildings and allowing districts to stockpile resources, state lawmakers should target education funding to follow the student, ensuring it goes where it is most needed. This includes delivering on the Court’s new mandate that “**every** student receives a **meaningful opportunity** to succeed” by expanding educational options.<sup>22</sup>

Pennsylvania currently has two tax credit scholarship programs, the Educational Improvement Tax Credit (EITC) and the Opportunity Scholarship Tax Credit (OSTC) that allow businesses to donate to scholarship organizations to provide K–12 scholarships to private schools (as well as donating to PreK scholarship organizations and educational improvement organizations). Yet, while nearly 12 percent of Pennsylvania students attend private schools, the \$340 million available for tax credit scholarships represent less than 1 percent of funding.

## School District vs. Tax Credit Scholarships

*As a percentage of total spending, less than one percent goes to tax credit scholarships*



SOURCE: Pennsylvania Department of Education, Annual Financial Reports (Expenditure Data for School Districts).

Education Opportunity Account (EOA) programs like the proposed Lifeline Scholarships, referred to as the Pennsylvania Award for Student Success (PASS) in the ongoing 2023–24 state budget negotiations, would directly fund students—giving families the resources they need for educational costs and delivering on the promise that every child has access to a quality education regardless of their zip code.

EOAs are restricted-use accounts funded by tax dollars. As with health savings accounts, 529 college plans, or electronic benefits transfer (EBT) cards for food stamps, funds in the EOA are only for approved purchases—like tuition, curriculum, tutoring, internet access, and services for students with special needs.

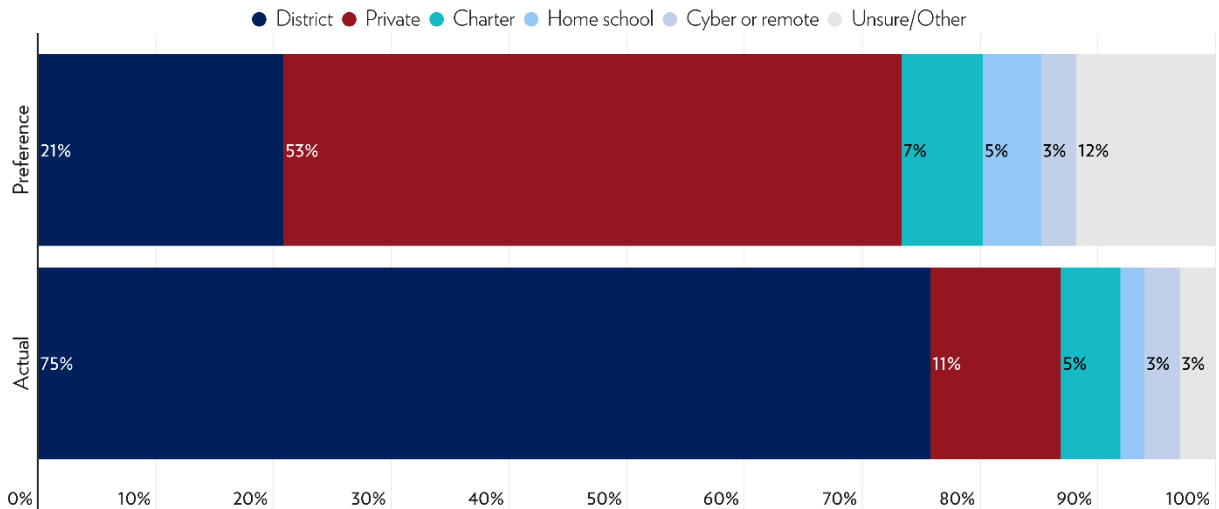
### PENNSYLVANIANS SUPPORT EDUCATIONAL CHOICE

- An overwhelming majority of parents want school choice. A [March 2023 poll](#) found that 77 percent of Pennsylvania voters support expanding the commonwealth’s tax credit scholarship program. The same poll also found that 67 percent of Pennsylvania voters support providing Lifeline Scholarships to families in the lowest-performing schools to use for their children’s educational expenses.<sup>23</sup>
- Polling also indicates a tremendous mismatch between what type of school children attend and what their parents would prefer. This mismatch helps show why education funding should follow students rather than have the monies locked into an assigned system. Even the “best” school won’t work for every child who happens to live within a certain radius of it. Wealthy families already have options for their children. School choice policies ensure all children—regardless of zip code, income, or race—have similar options.



# Parents' School Preference

In 2023, only about 1-in-5 parents surveyed would select a public district school for their child, if money was of no concern.



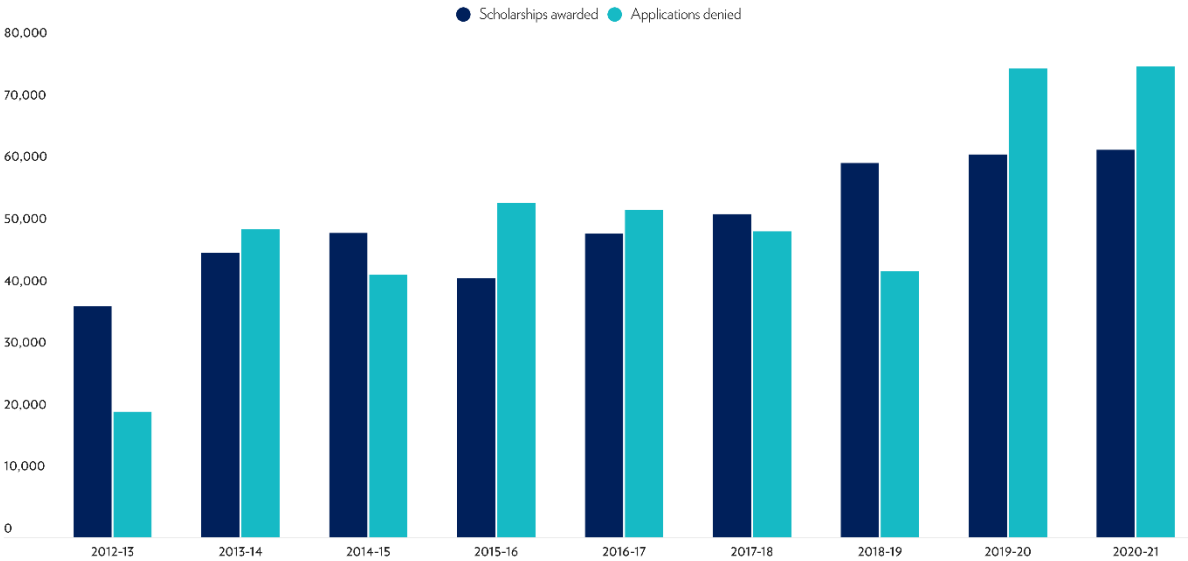
Source: Commonwealth Foundation, *Common Ground in the Commonwealth Q1 Survey, April 2023*. <https://www.commonwealthfoundation.org/wp-content/uploads/2023/04/Common-Ground-in-the-Commonwealth-Q1-Analysis.pdf>

## CURRENT PROGRAMS FALL SHORT OF STUDENT NEED

- Pennsylvania's EITC and OSTC are state tax credit programs that give thousands of low- to middle-income students access to high-quality schools of their choice. While these scholarship programs provide transformative opportunities to students, state caps limit the programs' impact.
  - In 2020–21, K–12 students submitted 138,538 scholarship applications, 1,120 more than the previous year and the highest on record.
  - In 2020–21, Pennsylvania denied a record of 76,031 K–12 student scholarship applications—almost 55 percent of applications—because of state caps. The state waitlisted 380 more students compared to the year before.

# Demand for EITC/OSTC far outpaces supply

While almost 63,000 students received a tax credit scholarship in 2020-21, over 76,000 applications were denied.



Source: Combined yearly total of EITC and OSTC applications. Pennsylvania Department of Community & Economic Development. Right to Know Law Request, 2012-13 through 2020-21 (most recent data available).

- The state also waitlisted a record \$156.3 million in donations to EITC and OSTC scholarships, up from \$116 million the year before.
- Twenty-one states offer tax credit scholarship programs. Four of those—Arizona, Florida, Montana, and Nevada—use automatic escalators. A Florida-style escalator, which provides for a 25 percent increase on the total tax credit cap when at least 90 percent of credits are utilized the previous year, would allow Pennsylvania’s programs to keep pace with demand from both student applicants and would-be business donors.

## Tax credit scholarship caps (K-12)

	Scholarships Awarded	Applications Denied	Average Scholarship	EITC	OSTC	EDS	Total
2016-17	48,977	52,857	\$1,885	\$75 million	\$50 million		\$125 million
2017-18	52,144	49,356	\$2,002	\$85 million	\$50 million		\$135 million
2018-19	60,387	42,918	\$2,113	\$110 million	\$50 million		\$160 million
2019-20	61,767	75,651	\$2,201	\$135 million	\$50 million	\$5 million	\$190 million
2020-21	62,507	76,031	\$2,534	\$135 million	\$50 million	\$5 million	\$190 million
2021-22	N/A	N/A	N/A	\$175 million	\$50 million	\$5 million	\$230 million
2022-23	N/A	N/A	N/A	\$263 million	\$65 million	\$12 million	\$340 million

Source: Combined yearly total of EITC and OSTC applications. Pennsylvania Department of Community & Economic Development. Right to Know Law Request, 2012-13 through 2020-21 (most recent data available).

- Pennsylvania’s charter schools are independently run public schools with more flexibility than district schools. There were **163** brick-and-mortar charter schools and **14** cyber charter schools operating in Pennsylvania during the 2022–23 school year educating nearly 162,000 students.<sup>24, 25</sup>

- School districts are the sole authorizers for brick-and-mortar charter schools, which means districts get to decide if a competitor can open. This is a huge conflict of interest. While there is a state appeals board, it is a time-consuming and expensive process. The lengthy [waiting lists](#) at many charter schools show this [system isn't working for students](#).<sup>26</sup>
- The PDE is the sole authorizer for cyber charter schools. This makes the approval process highly political since an anti-cyber administration is unlikely to approve new cyber charter schools.
- In January 2023, Apply Philly Charter—a program that allows students to apply for open seats in any one of 72 Philadelphia-area charter schools—received applications from 26,102 students. Only 7,660 (or 29 percent) were selected by lottery for a seat in a charter school, while more than 18,000 students were put on waiting lists.<sup>27</sup>
- State law currently requires charter schools to go through school districts/school boards for authorization and renewal. This creates an inherent conflict of interest, and school boards have been reluctant to authorize new charter schools, and eager to close charters—even those that significantly outperform district schools.
  - Allowing for independent, alternative charter school authorizers—as other states have—would alleviate this conflict of interest and allow charter school operators another path to approval.

## ACADEMIC RESEARCH SHOWS BENEFITS OF EDUCATIONAL CHOICE

- Schools of choice are held accountable by the parents and students that they serve. If parents are not satisfied with a private school, they can transfer their child to another. Ultimately, parents—not bureaucrats—know which schools best serve the needs of their children.
- Studies show that school choice programs have positive, verifiable results. [Fourteen out of 18](#) empirical studies found that school choice improves the academic outcomes of students.<sup>28</sup>
- Tax credit scholarships and EOAs provide students with educational opportunity at a fraction of what public schools cost, generating significant savings for taxpayers.
  - A [2021 EdChoice study](#) examined 40 private school choice programs across 19 states and found significant fiscal savings for taxpayers. These school choice programs **saved a cumulative \$12.4 billion to \$28.3 billion, or on average, \$1.80 to \$2.85 for every dollar spent on the programs**.<sup>29</sup> Taxpayers incurred savings when students switched to school choice programs, which are much less expensive than public school education.
  - An [economic impact analysis](#) by Corey DeAngelis found that expanding Pennsylvania's tax credit scholarship program would generate billions of dollars in long-run savings. DeAngelis estimates that a \$100 million increase in tax credit scholarships would **result in \$3 billion in economic benefits from higher lifetime earnings**.<sup>30</sup>
- When students switch to school choice programs, their classmates that remain in public schools benefit from increased funding per student and smaller class sizes.
  - A [2022 study of Ohio's school choice program](#) found **no negative impact on school district per-student expenditures**. While receiving less state funding for school choice participants,

school districts retain local per-student funding—even for students they no longer pay to educate.<sup>31</sup>

- Another [EdChoice report](#), published in 2022, found that 25 out of 28 studies concluded that school choice programs improve the academic outcomes of public school students, while 68 of 73 studies found positive fiscal benefits for school districts and taxpayers. By exerting competitive pressure on public schools, school choice programs benefit participants and public school students alike.<sup>32</sup>

Lawmakers should change the system of public education funding. The state should move away from funding buildings and districts toward funding children. This includes transitioning away from hold harmless provisions and fully implementing a student-based funding formula.

This should include programs like Lifeline scholarships, a form of EOAs, for families to choose the best school for their kids.

## CONCLUSION

Pennsylvania spends nearly \$22,000 per student in public schools, with state and local taxpayer funding constantly increasing. School districts have fewer students, but more teachers, more administrators, more support staff, and significantly larger reserve funds.

The issue isn't a lack of money, but how it is distributed. State lawmakers should work to ensure that funding follows the child, not the building, and continue progress on pension reform that benefits both teachers and taxpayers.

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<sup>1</sup> U.S. Census Bureau, "2021 Public Elementary-Secondary Education Finance Data," May 16, 2023 [last page revision], <https://www.census.gov/data/tables/2021/econ/school-finances/secondary-education-finance.html>.

<sup>2</sup> Pennsylvania Department of Education, AFR Data Files, 2020–21, <https://www.education.pa.gov/Teachers - Administrators/School Finances/Finances/AFR Data Summary/Pages/default.aspx>.

<sup>3</sup> Some of these appropriations still require enabling legislation before funds can be distributed to school districts.

<sup>4</sup> Pennsylvania Department of Education, "2023–24 Enacted Summary of State Education Appropriations," accessed August 15, 2023, <https://www.education.pa.gov/Teachers - Administrators/School Finances/Education Budget/Pages/default.aspx>.

<sup>5</sup> Pennsylvania Department of Education, Annual Financial Report (AFR) Data: Detailed, "General Fund Balance: 2012–13 to 2021–22," accessed August 1, 2023, <https://www.education.pa.gov/Teachers - Administrators/School Finances/Finances/AFR Data Summary/Pages/AFR-Data-Detailed-.aspx>.

<sup>6</sup> Jan Murphy, "School Districts Reserve Funds Continue to Grow, Amassing \$4.3 Billion in 2014–15." *PennLive Patriot News*, June 15, 2016, [https://www.pennlive.com/politics/2016/06/school\\_districts\\_reserve\\_funds.html](https://www.pennlive.com/politics/2016/06/school_districts_reserve_funds.html).

<sup>7</sup> Pennsylvania Department of the Auditor General, "Auditor General DeFoor Questions Annual Property Tax Increases for 12 School Districts; Calls on Legislature to Close Loopholes," news release, January 25, 2023, <https://www.paauditor.gov/press-releases/auditor-general-defoor-questions-annual-property-tax-increases-for-12-school-districts-calls-on-legislature-to-close-loopholes>; Auditor General Timothy DeFoor, "School Districts – General Fund Balances: Applying for Referendum Exceptions, Designating Funds, and Increasing Taxes," (Harrisburg, PA: Department of the Auditor General, January 2023), <https://www.paauditor.gov/Media/Default/Reports/speSchoolReservesAuditReport012523.pdf>.

<sup>8</sup> Pennsylvania Treasury Accounting Bureau, Status of Appropriation (COVID-ESSER-LEA), September 2023 monthly report, September 29, 2023, <https://www.patreasury.gov/tabs/>.

<sup>9</sup> Pennsylvania Department of Education, Public School Enrollment Reports, accessed August 18, 2023, <https://www.education.pa.gov/DataAndReporting/Enrollment/Pages/PublicSchEnrReports.aspx>.

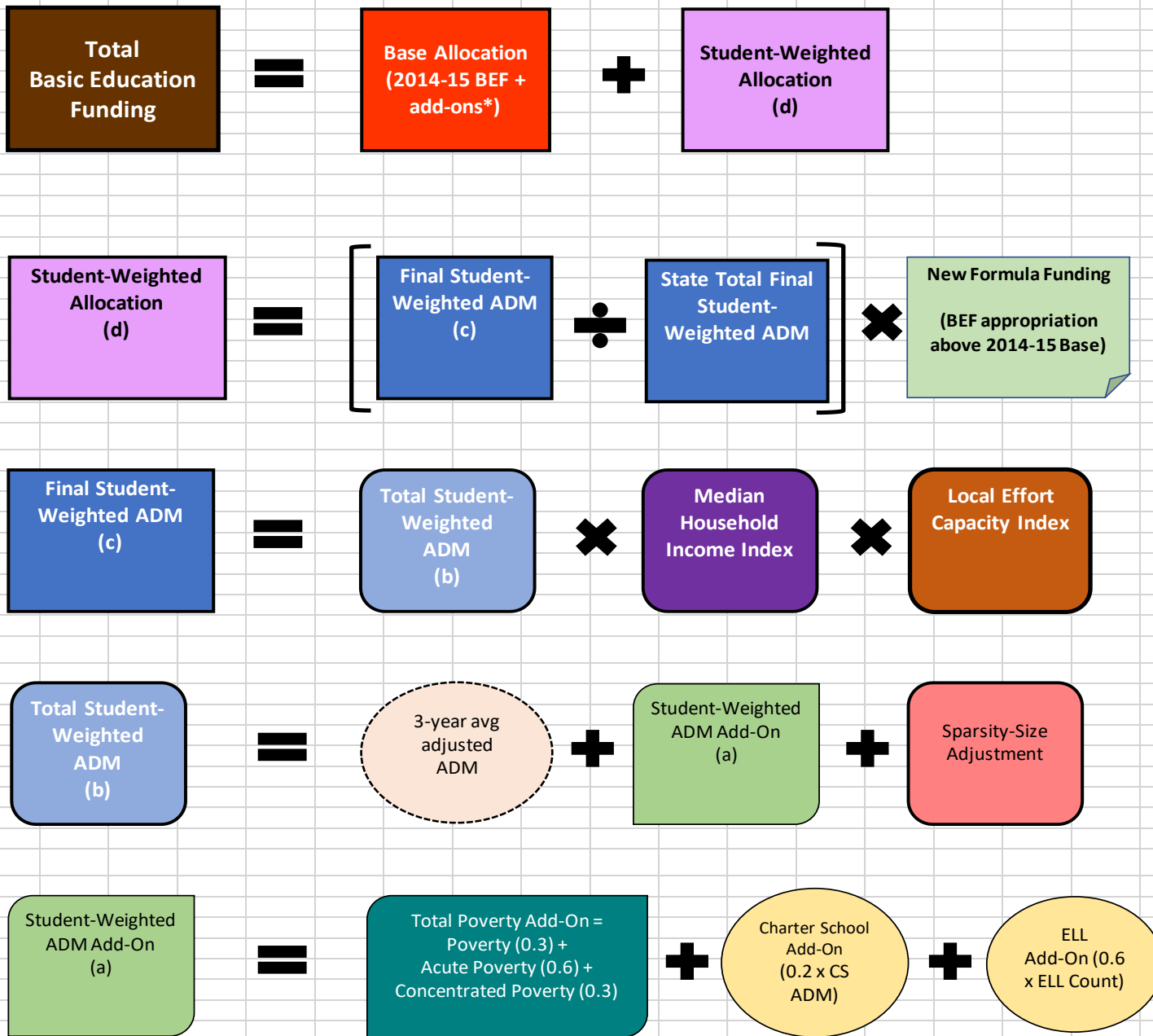
<sup>10</sup> Pennsylvania Department of Education, Private and Nonpublic School Enrollment Reports, accessed August 18, 2023, <https://www.education.pa.gov/DataAndReporting/Enrollment/Pages/PrivateNPEnrRpts.aspx>.

<sup>11</sup> Pennsylvania Department of Education, Home School Education, accessed August 1, 2023, <https://www.education.pa.gov/DataAndReporting/HomeSchool/Pages/default.aspx>.

<sup>12</sup> Pennsylvania Department of Education, Public School Enrollment Reports.

<sup>13</sup> Philadelphia School District, District Performance Office, School Information, December 2022 [update], accessed August 18, 2023, [https://www.philasd.org/performance/programsservices/open-data/school-information/#district\\_enrollment](https://www.philasd.org/performance/programsservices/open-data/school-information/#district_enrollment).

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- <sup>14</sup> Pennsylvania Department of Education, Professional Staff Summary, accessed August 15, 2023, <https://www.education.pa.gov/DataAndReporting/ProfSupPers/Pages/ProfStaffSummary.aspx>; Pennsylvania Department of Education, Support Staff Summary, accessed August 15, 2023, <https://www.education.pa.gov/DataAndReporting/ProfSupPers/Pages/SupportStaffSum.aspx>.
- <sup>15</sup> Pennsylvania Department of Education, Professional Staff Summary.
- <sup>16</sup> National Education Association, "Rankings of the States and Estimates of School Statistics 2022," June 2022, [https://www.nea.org/sites/default/files/2022-06/2022\\_Rankings\\_and\\_Estimates\\_Report.pdf](https://www.nea.org/sites/default/files/2022-06/2022_Rankings_and_Estimates_Report.pdf).
- <sup>17</sup> Pennsylvania Department of Education, Annual Financial Report (AFR) Data: Detailed.
- <sup>18</sup> Pennsylvania Department of Education, Annual Financial Report (AFR) Data: Detailed.
- <sup>19</sup> Pennsylvania Public School Employees Retirement System (PSERS), Employer Contribution Rates, accessed August 1, 2023, <https://www.psers.pa.gov/FPP/Publications/General/Pages/Employer-Contribution-Rates.aspx>.
- <sup>20</sup> Pennsylvania Department of Education, Education Budget, "2023–24 Estimated Basic Education Funding" and "2023–24 Estimated Special Education Funding," [https://www.education.pa.gov/Teachers - Administrators/School Finances/Education Budget/Pages/default.aspx](https://www.education.pa.gov/Teachers-Administrators/School_Finances/Education_Budget/Pages/default.aspx).
- <sup>21</sup> The Education Trust, "The State of Funding Equity in Ohio," accessed August 15, 2023, <https://stateofeducationfunding.org/state/ohio/?category=students-in-poverty>.
- <sup>22</sup> William Penn School District et al. v. PA Department of Education et al., 587 MD 2014, "Memorandum Opinion Filed" (February 7, 2023), <https://www.pacourts.us/news-and-statistics/cases-of-public-interest/587-md-2014---william-penn-school-district-et-al-v-pa-department-of-education-et-al>.
- <sup>23</sup> Jennifer Stefano, "Common Ground in the Commonwealth Poll Findings (Q1)," Commonwealth Foundation, April 6, 2023, <https://www.commonwealthfoundation.org/research/common-ground-commonwealth-poll/>.
- <sup>24</sup> PA Charter Change, "Understanding Pennsylvania Charter Schools," Keystone Center for Charter Change at Pennsylvania School Boards Association, accessed May 27, 2022, <https://www.pacharterchange.org/understanding-pennsylvania-charter-schools/>.
- <sup>25</sup> Pennsylvania Department of Education, Pennsylvania Charter School Enrollment 2020–2021, accessed May 27, 2021, <https://www.education.pa.gov/K-12/Charter%20Schools/Pages/Annual-Reports-Data-and-Resources.aspx>.
- <sup>26</sup> Commonwealth Foundation, "Charter Schools: Hope Is on the Way, The Need for Charter Schools," October 18, 2018, <https://www.commonwealthfoundation.org/2018/10/18/the-need-for-charter-schools/>.
- <sup>27</sup> Elana Galli, "Apply Philly Charter Data Show Family Demand for Seats Continues to Outpace Supply," Elevate 215, accessed August 1, 2023, <https://elevate215.org/news/apply-philly-charter-data-show-family-demand-for-seats-continues-to-outpace-supply/>.
- <sup>28</sup> Greg Forster, "A Win-Win Solution: The Empirical Evidence on School Choice," EdChoice, May 2016, <https://www.edchoice.org/wp-content/uploads/2016/05/A-Win-Win-Solution-The-Empirical-Evidence-on-School-Choice.pdf>.
- <sup>29</sup> Martin F. Lueken, "Fiscal Effects of School Choice: Analyzing the Costs and Savings of Private School Choice Programs in America," EdChoice, November 11, 2021, <https://www.edchoice.org/research-library/?report=fiscal-effects-of-school-choice#report>.
- <sup>30</sup> Corey DeAngelis, "Unleashing Educational Opportunity: The Untapped Potential of Expanded Tax Credit Scholarships in Pennsylvania," Commonwealth Foundation, August 13, 2020, [https://www.commonwealthfoundation.org/doclib/20200813\\_UnleashingEducationalOpportunityDeAngelis08\\_13\\_2020reduced.pdf](https://www.commonwealthfoundation.org/doclib/20200813_UnleashingEducationalOpportunityDeAngelis08_13_2020reduced.pdf).
- <sup>31</sup> Stéphane Lavertu and John J. Gregg, "The Ohio EdChoice Program's Impact on School District Enrollments, Finances, and Academics," Thomas Fordham Institute, December 14, 2022, [https://fordhaminstitute.org/ohio/research/ohio-edchoice-programs-impact-school-district-enrollments-finances-and-academics?utm\\_source=pocket\\_saves](https://fordhaminstitute.org/ohio/research/ohio-edchoice-programs-impact-school-district-enrollments-finances-and-academics?utm_source=pocket_saves).
- <sup>32</sup> EdChoice, "The 123s of School Choice: What the Research Says about Private School Choice Programs in America," April 19, 2022, <https://www.edchoice.org/research-library/?report=the-123s-of-school-choice-2/>.



\* Base add-ons: Basic Education Formula Enhancements (2014-15), Supplemental BEF (2015-16), Educational Access Funding (2017-18), Level-Up Supplement (2021-22 and 2022-23)

# School District Revenues

\$40B

Total school district revenue increased to \$35.78 billion in 2021-22, up 37.6 percent since 2013.

\$30B

\$20B

\$10B

0



● Local ● State ● Federal ● Other

Source: Pennsylvania Department of Education, Summary Annual Financial Report Data, "Expenditure Data 2000-01 to 2021-2022."

# PA School District Funding Key Numbers

Point	Year	“State Support of Public Schools”	Total School District Revenue*	School District reserves**
Current school district funding levels	(See Notes)	\$15,581,745,000	\$38,145,026,460	\$5,964,606,149

Increase From	Year	“State Support of Public Schools” (State Budget)	Total School District Revenue (AFR Data)*	School District reserves**
Since Costing Out Study	2006-07	\$7,173,413,000	\$16,006,029,488	\$4,094,443,579
Since launch of Ed Funding Lawsuit	2013-14	\$5,953,854,000	\$11,927,301,034	\$1,980,718,893
Since Gov. Wolf took office	2014-15	\$5,520,195,000	\$10,566,740,208	\$1,874,735,767
Since Updated Study that Court found “not persuasive”	2018-19	\$3,504,235,000	\$6,729,792,888	\$1,354,765,097

Notes:

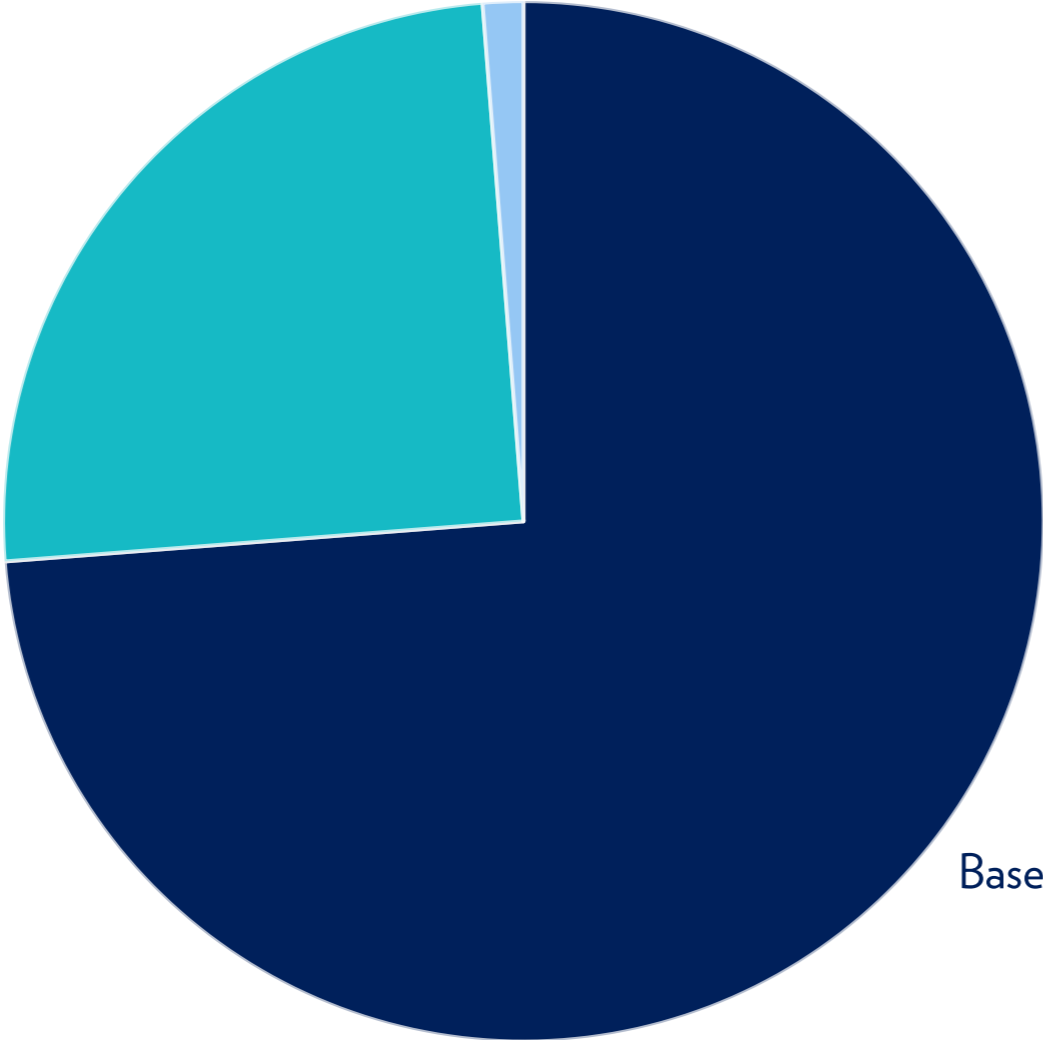
\*Actual 2021-22 Annual Financial Report data plus state budget increases for 2022 and 2023.

\*\*As of 2021-22



# Basic Education

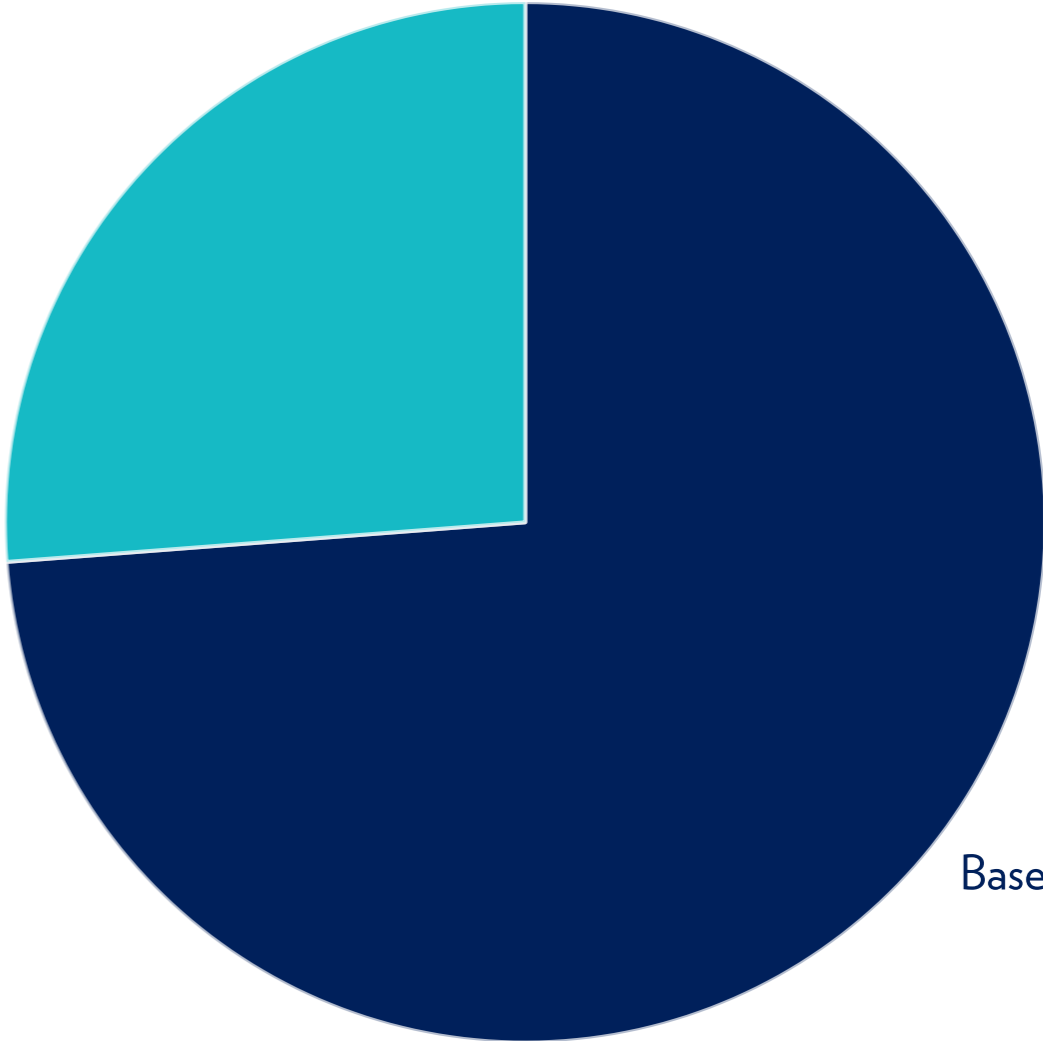
Level Up Supplement 1.25%  
Student Based Formula 24.97%



Baseline 73.77%

# Special Education

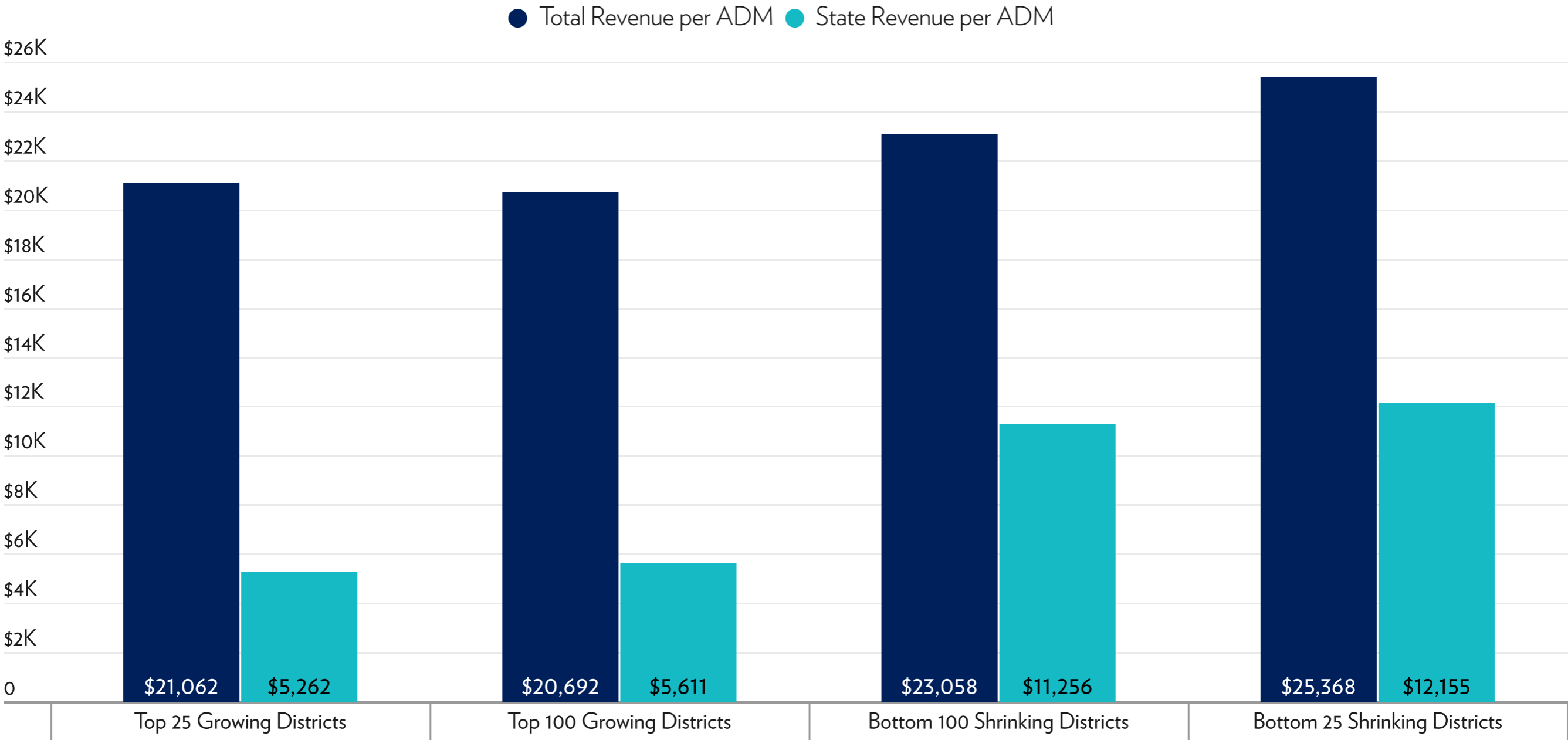
Student Based Formula 26.21%



Baseline 73.79%

Source: PA Department of Education, 2022-23 Estimated Basic Education Funding; 2022-23 Estimated Special Education Funding

# Impact of Hold Harmless



SOURCE: Pennsylvania Department of Education, Annual Financial Reports (Expenditure Data for School Districts).

# Per Student Funding Analysis

Gap in Avg. Revenue Per ADM	Total Revenue, 2021-22	State Revenue, 2021-22	BEF 2023-24
Shrinking vs Growing top 25	\$4,306	\$6,894	\$6,737
Shrinking vs Growing top 100	\$2,366	\$5,645	\$4,685
HH Income, Bottom 25 vs Top 25	(\$1,916)	\$6,411	\$9,076
HH Income, Bottom 100 vs Top 100	(\$1,236)	\$6,026	\$6,442
Poverty Rate, Highest 25 vs Lowest 25	(\$1,563)	\$5,534	\$7,868
Poverty Rate, Highest 100 vs Lowest 100	(\$129)	\$4,661	\$5,391

Avg. Revenue Per ADM	Total Revenue, 2021-22	State Revenue, 2021-22	BEF 2022-23
Top 25 Growing Districts	\$20,716	\$5,414	\$2,006
Top 100 Growing Districts	\$20,820	\$5,583	\$2,605
Bottom 100 Shrinking Districts	\$23,221	\$11,171	\$7,188
Bottom 25 Shrinking Districts	\$25,286	\$12,013	\$8,266

Written Testimony of  
Robert G. Stilwell  
to the  
Basic Education Funding Commission  
November 2, 2023

Thank you, Senator Phillips-Hill and Representative Sturla, for inviting us to testify today. I also want to thank you co-chairs and the other members of this commission for taking on the monumental task of righting school funding across the Commonwealth. I attended one hearing and watched many by live stream, and I commend you for your dedication to the challenge, the relentless travel involved, and your insightful questions of the testifiers.

I am a retired engineering and business development manager who enjoyed careers with a U.S. Navy laboratory and a major defense contractor. I am now a community activist trying to bring common sense to school funding in Pennsylvania.

We are not here to ask for more money for schools, but to discuss *how* to increase funding for schools. It is time to discuss the elephant in the room, school property taxes and why and how to finally eliminate them.

The school property tax is the most despised tax in Pennsylvania. It is a hugely regressive tax not based at all on one's ability to pay. How much more regressive can a tax be than one that threatens the loss of your home because you can't pay it?

Property taxes made sense in William Penn's day when virtually all wealth and income were derived from property ownership. The value of my house has no direct relationship to my income, yet it is taxed as though we still live in the 18<sup>th</sup> century. This is insane, but we continue to do it anyway.

Each of you has no doubt seen in your local paper every year pages of lists of properties in danger of being seized for unpaid school property taxes. This page from Adams County lists 224 properties for upset sales. I've seen other county newspapers with three, even four pages like this one.

NOTICE OF PUBLIC TAX SALE

TOWNSHIPS DESCRIBED IN THIS NOTICE AND TO ALL PERSONS HAVING LIENS, JUDGMENTS OR MUNICIPAL OR OTHER CLAIMS AGAINST SUCH PROPERTIES.

Notice is hereby given by the Tax Claim Bureau in and for the County of Adams under the Act of June 21, 1986, as amended, that the Bureau will receive at its offices in the Human Services Building, 303 Boyd's School Rd., Gettysburg, Pennsylvania at 9:00 a.m. E.D.S.T. on September 22, 2023 or any date to which the sale may be adjourned, as-adjudged or continued, for the purpose of collecting unpaid 2022 and any prior real estate taxes and all costs thereon, the following described set forth.

The sale of the property may, at the option of the Bureau, be adjourned at the mere threat or of any lien creditor of the owner, on or before the date of the sale enters into an agreement with the Bureau to pay the taxes, claims, and all costs in installments in the manner provided by said Act, and the agreement be entered into.

There will be no Redemption Period after the date of the sale, but these taxes and costs can be paid up to the date of the sale, September 22, 2023.

It is strongly urged that the prospective purchaser have an examination made of the title of any proceedings in which they may be interested. Every reasonable effort has been made to keep the proceedings free from error. However, in every case the Tax Claim Bureau is selling the taxable interest and the property is offered for sale by the Tax Claim Bureau with no guarantee of warranty whatsoever.

The property so struck down will be settled before the next property is offered for sale. Deeds for the premises will be prepared by the Tax Claim Bureau and recorded. Buyer(s) will be required to pay, in addition to the taxes owed, at the time the property is struck down to them, the basic sum for preparing and recording the deed, and the costs of each realty transfer stamps as required 1.19 of the assessed value x 2%. The Tax Claim Bureau will mail the deeds to the address given by the purchaser.

A property will not be sold if the delinquent taxes and all costs are paid prior to the sale and it is suggested that this be done as soon as possible before the sale, as the earlier this is done, the more savings there will be for the amount of costs due.

It is reported that there is no redemption after the property is struck down. It is suggested that this be done as soon as possible before the sale, as the earlier this is done, the more savings there will be for the amount of costs due.

TERMS OF SALE: In the case of all properties selling for one hundred dollars (\$100.00) or less, cash in the form of currency of the United States must be paid in full at the time the property is struck down. In the case of properties for which more than one hundred dollars (\$100.00) has been bid, the sum of one hundred dollars (\$100.00) in the form of currency of the United States must be paid with the balance being paid by a check on a bank or other satisfactory payment when the property is struck down. If the balance of the purchase price is not paid for any reason for example, if a check is not paid, the one hundred dollars (\$100.00) cash paid shall be forfeited as liquidated damages.

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JUDICIAL TAX SALE

PURSUANT TO COURT ORDERS, THE FOLLOWING REAL PROPERTY WILL BE OFFERED FOR SALE FRIDAY SEPTEMBER 22, 2023 AT 9:00 A.M. E.D.S.T., AT THE HUMAN SERVICES BUILDING, 303 BOYD'S SCHOOL RD., GETTYSBURG, PENNSYLVANIA IN ACCORDANCE WITH THE FOLLOWING TERMS:

TERMS OF SALE: In the case of all properties selling for fifty dollars (\$50.00) or less, cash in the form of currency of the United States must be paid in full at the time the property is struck down. In the case of properties for which more than fifty dollars (\$50.00) has been bid, the sum of fifty dollars (\$50.00) cash in the form of currency of the United States must be paid with the balance being paid by a check on a bank or other satisfactory payment when the property is struck down. If the balance of the purchase price is not paid for any reason (for example, if a check is not paid), the fifty dollars (\$50.00) cash paid shall be forfeited as liquidated damages.

It is strongly urged that the prospective purchaser have an examination made of the title of any proceedings in which they may be interested. Every reasonable effort has been made to keep the proceedings free from error. However, in every case the Tax Claim Bureau is selling the taxable interest and the property is offered for sale by the Tax Claim Bureau with no guarantee of warranty whatsoever.

The starting bid for each property shall be all tax claim bureau costs associated to the property as of the date of sale.

The property so struck down will be settled before the next property is offered for sale. Deeds for the premises will be prepared by the tax claim bureau and recorded. Buyer(s) will be required to pay, in addition to tax claim bureau costs at the time the property is struck down, the basic sum for preparing and recording the deed, and the costs of each realty transfer stamps as required 1.19 of the assessed value x 2%. The tax claim bureau will mail the deeds to the address given by the purchaser.

A property will not be sold if the delinquent taxes and all costs are paid prior to the sale.

There is no redemption after the property is sold and all sales will be final. No adjustments will be made after the property is struck down.

An owner shall have no right to purchase his own property at judicial sale unless the provisions of 72 P.S. § 5801(b), "Owner's Right" defined as any individual, partner, associate, partnership, limited partnership, corporation, or any other business association that has any individual or a part of the business association who had any ownership interest or rights in the property.

The purpose of this sale is to dispose of public sale the following parcels of real estate, which were previously advertised for public sale in this publication on July 26, 2023.

Table with columns for County, Township, Parcel Number, and Owner/Deficient. Includes entries for York, Adams, and York counties.

NOTICE TO PROSPECTIVE TAX SALE BIDDERS

IN ACCORDANCE WITH ACT NO 133 OF 1966, NO 542 (AMENDED) ENCL. (N. 2021), PROSPECTIVE PURCHASERS OF ALL TAX SALES MUST APPEAR AND REGISTER AT THE ADAMS COUNTY TAX CLAIM BUREAU, 117 BALTIMORE STREET, ROOM 20, GETTYSBURG, PA 17325, NOT LATER THAN TEN (10) DAYS BEFORE THE SCHEDULED PUBLIC TAX SALE SEPTEMBER 22, 2023 9:00 P.M. E.D.S.T. IN ORDER TO REGISTER. THE PURCHASER MUST SUBMIT AN AFFIDAVIT THAT INCLUDING THE FOLLOWING INFORMATION:

- 1. IF THE APPLICANT IS AN INDIVIDUAL, THE INDIVIDUAL'S NAME, RESIDENTIAL ADDRESS AND PHONE NUMBER.
2. IF THE APPLICANT IS NOT AN INDIVIDUAL, THE APPLICANT'S NAME, INCLUDING THE NAME OF ALL OFFICERS, BUSINESS ADDRESS AND PHONE NUMBER.
3. IF THE APPLICANT IS A LIMITED LIABILITY COMPANY, THE NAME, BUSINESS ADDRESS AND PHONE NUMBERS OF ALL MEMBERS, MANAGERS AND ANY OTHER PERSONS WITH ANY OWNERSHIP INTEREST OR RIGHT IN THE LIMITED LIABILITY COMPANY.
4. AN AFFIDAVIT STATING THAT THE APPLICANT:
a. IS NOT DELINQUENT IN PAYING REAL ESTATE TAXES TO ANY TAXING DISTRICT IN THE COMMONWEALTH OF PENNSYLVANIA AND THAT THE APPLICANT HAS NO MUNICIPALITY LIEN TAXES THAT ARE NOT MORE THAN ONE (1) YEAR OUTSTANDING ANYWHERE IN THE COMMONWEALTH OF PENNSYLVANIA.
b. IS NOT BIDDING FOR OR ACTING AS AN AGENT FOR A PERSON WHO IS BARRED FROM PARTICIPATING IN THE UPSET SALE.
c. HAS NOT, WITHIN THE THREE (3) YEARS PRECEDING THE FILING OF THE APPLICATION, ENGAGED IN A COURSE OF CONDUCT OR PERMITTED AN UNCORRECTED VIOLATION, ENGAGE IN A COURSE OF CONDUCT OR PERMITTED AN UNCORRECTED VIOLATION OF THE PENNSYLVANIA REAL ESTATE BROKERAGE ACT OR HAS NOT EITHER:
1. FAILED TO MAINTAIN PROPERTY OWNED BY THE APPLICANT IN A REASONABLE MANNER SUCH THAT THE PROPERTY POSSESS A TRIBUTARY TO HEALTH, SAFETY OR PROPERTY, OR;
2. PERMITTED THE USE OF PROPERTY IN AN UNSAFE, ILLEGAL, OR UNSANITARY MANNER SUCH THAT THE PROPERTY POSSES A TRIBUTARY TO HEALTH, SAFETY OR PROPERTY; AND
d. UNDERSTANDS THAT AN APPLICANT WHO SIGNS A BIDDER REGISTRATION APPLICATION KNOWING THAT IT CONTAINS A FALSE STATEMENT AND WHO CALLS TO BE FILED WITH THE ADAMS COUNTY TAX CLAIM BUREAU SHALL BE SUBJECT TO PROSECUTION FOR THE COMMISSION OF A MISDEMEANOR OF THE SECOND DEGREE (IN VIOLATION OF 18 P.S. § 4904) (RELATING TO UNLAWFUL FALSIFICATION TO AUTHORITIES).
e. IF THE APPLICANT IS NOT AN INDIVIDUAL, DOCUMENTATION THAT THE SIGNER HAS THE AUTHORITY TO ACT ON BEHALF OF THE APPLICANT, AND THE INDIVIDUAL APPEARING IN PERSON TO REGISTER IS THE SIGNER OF THE APPLICATION OR OTHERWISE AUTHORIZED TO ACT ON BEHALF OF THE APPLICANT.
f. NO INDIVIDUAL WHOSE LANDLORD LICENSE HAS BEEN REVOKED IN A MUNICIPALITY PURSUANT TO ITS ORDINANCE MAY PURCHASE PROPERTY IN THE COUNTY IN WHICH THE LOCAL MUNICIPALITY IS LOCATED AT A TAX SALE UNDER THIS ACT.

APPLICATIONS MAY BE OBTAINED BEGINNING AUGUST 1, 2023 BY CONTACTING THE ADAMS COUNTY TAX SERVICES DEPARTMENT, 717.307.1027, 117 BALTIMORE STREET, ROOM 20, GETTYSBURG, PA 17325 OR VIA E-MAIL TO THE ADAMS COUNTY WEBSITE WWW.ADMSCOUNTYPA.GOV. APPLICATIONS MUST BE NOTARIZED PRIOR TO SUBMISSION TO THE ADAMS COUNTY TAX CLAIM BUREAU.

David K. James, III
Solicitor, Tax Claim Bureau
Daryl C. Crum
Director, Tax Claim Bureau

If Adams County is a representative average of the 67 counties, then as many as 15,000 properties are put at risk each year. Too many of them belong to families who, despite having paid off the mortgages on their homes, still owe allegiance to the school district for their yearly tax. Your home is never your own as long as it can be seized by the sheriff for unpaid school property taxes.

Pennsylvania boasts that it levies no tax on retirement income. Try telling that to any of your constituents living on Social Security who are in danger of losing their home because they are not able to pay the school tax from their retirement income. And, according to the National Institute on Retirement Security, 40% of retired Americans rely solely on Social Security.

Worse, school districts abuse their authority to tax.

I live in a mostly rural county in southcentral Pennsylvania. My school district has a yearly budget of a little over \$70M. By law, Act 48 of 2003, the district is limited to keeping a reserve account, or Unassigned Reserve, of no more than 8% of its yearly budget, or no more than about \$5.6M, in order to be allowed to raise the school property tax rate.

In reviewing the yearly audits for the district, I was stunned to see that their Unassigned Fund account had been \$8M, \$9M, even close to \$10M for several years. I discovered this was accomplished by a system of overbudgeting and then underspending in almost every budget category, and tucking \$1.5M in a management reserve account that was never needed. Yet every year the district asked for a tax increase because the projected revenues for the next year would not meet the needs of the grossly inflated projected budgeted expenses.

It was not until I started to shine a light on this skewed budgeting process, both through public comment at school board meetings and with editorials in the local paper, that the district administration began to reign in this practice.

Lest you be tempted to think that this is just an anomaly for one rural school board, you would be mistaken.

The Pennsylvania Auditor General recently released a report (January 2023) in which he chose to audit 12 school districts in urban, suburban and rural areas to assess their budgeting processes. Each of them was selected because they had asked for and received an Act 1 exemption yet had substantial fund balances for the period assessed (2017 through 2021).

Incredibly, he found that in every one of those school districts the same sort of manipulation of budget numbers as has occurred in my school district had also occurred in those. The media announced the audit report under a headline, "School districts tuck money in reserve accounts to justify need for tax increases, audit finds."

According to the Auditor General, "it's not a stretch to say that it's happening across the commonwealth."

But the school property tax crisis is more complicated and more damaging than that. And the Commonwealth Court in its decision recognized the urgency to repair it. To quote from the President Judge's decision (p.769):

"... it is evident to the Court that the current system of funding public education has disproportionately, negatively impacted students who attend schools in low-wealth school districts. This disparity is the result of a funding system that is heavily dependent on local tax revenue, which benefits students in high-wealth districts."

It is stunning just how huge that disparity is. According to the PDE Annual Financial Report revenue database, the percentage of property tax contribution to total school district funding ranges from 81% (Lower Merion SD in Montgomery County) to only 6% (Duquesne City SD in Allegheny County). What justification is there for taxpayers to be treated so inequitably by the state?

Such a level of disparity CANNOT be fixed.

The school property tax system of funding public schools is irretrievably broken, totally unfair to students and taxpayers alike, and MUST be replaced.

I wanted to personally thank BEFC co-chairs, Senator Phillips-Hill, Representative Sturla and the entire commission for permitting us to testify today to discuss a school funding change in light of a recent Commonwealth Court Decision.

Our team, the bipartisan Property Tax Elimination Working Group came about as a result of an August 2019 policy hearing in Lebanon, PA. After years of abject frustration in studying potential solutions to the property tax elimination and the funding formula, I had asked that the policy meeting on property taxes be held. I had planned on summarizing the work that had been done, the complexity of the issues at hand, the economic interrelationships with the issue and pronouncing that the issue was not solvable and to announce my retirement from the legislator so that I could work with citizens to build consensus.

However, during that meeting, the Executive Director of the Independent Fiscal Office responded to a question concerning a property tax elimination bill that I had introduced previously. His response, indicating the fiscal soundness of the plan, breathed new life into our efforts and the bipartisan Property Tax Elimination Working Group came about.

Clearly, as a retired legislator and someone deeply involved in this particular effort, I understand completely how difficult your job is. I applaud ALL of you for your efforts and the efforts of your staff.

In 2021, I introduced HB-13 with the following co-sponsorship memo which stated:

“This is a unique co-sponsorship memo concerning property tax elimination.

I would humbly ask that you NOT cosponsor this bill on property tax elimination until we meet personally to discuss all of the nuances in this very complex piece of legislation. My hope is that you will agree with me to meet to discuss and then hopefully cosponsor.

Currently, there is a case before the Pennsylvania Commonwealth Court concerning the fair funding of schools in the Commonwealth. It is virtually impossible to determine how a court will rule; however, Pennsylvania’s education funding is so complex and archaic that a judicial decision would likely be reams of paper in the making. It is also very likely that the Court will direct the legislature to fix the system of funding.

HB-13 provides the needed legislative solution to modernize education funding as well as eliminate school property taxes. It will end the archaic reliance on property taxes, and transition to fair and equitable funding sources for our education system.

As background, property tax elimination has been discussed for decades with no end in sight.

After an extensive number of meetings with stakeholders over the past four years to determine why property tax elimination has not been achieved, it became apparent that the complexity of the funding model is so intertwined and convoluted that any previous solution would have created havoc for a protracted period of time. Candidly, the solutions were, in essence, worse than the problem being solved in the minds of those affected.”



As a result, in our property tax elimination bill, we have attempted to address a wide range of stakeholder concerns by incorporating balanced solutions in my bill to eliminate the school property tax.

The critical issues that my thousands of hours of personal research and a lifetime personally in the classroom and administering a school for children with emotional and behavioral problems, causes me to encourage you to consider these complexities.

First, I was relatively certain that the Commonwealth Court was not going to provide a solution but rather have the legislature develop the solution. This is apparent because the difficulties I encountered would have also been uncovered by the Courts. Our state is just too diverse to proscribe an easy solution.

Our research indicates the following:

1. The school funding crisis took decades, if not centuries to develop and, as such, solutions must be far-reaching and will take 5-10 to implement to preclude massive disruptions to our diverse state and economies.
2. The current rate of increase in school property taxes is unsustainable. Unchanged, Pennsylvania residents will continue to lose their homes to this hostile school property tax or choose to leave the Commonwealth to avoid it. The most recent Demographics Outlook shows a rapidly expanding retiree (age 65+) population whose growing costs fall on a contracting working-age (age 20-64) population. This bill must move forward because it eliminates the unsustainable school property tax yet ensures that no single segment of population in this Commonwealth shoulders the entire burden.
3. The cost drivers of education costs include:
  - a. PSERS pension contributions
  - b. Parental involvement or lack of involvement in their child's education.
  - c. Transfers in and out of the classroom during the course of an academic year
  - d. Mandates, either self-imposed or directed legislatively or by the executive branch or federal government
  - e. Needs of children with disabilities since federal funding has fallen massively short of the IDEA Act levels of 40%
  - f. Facilities maintenance
  - g. Capabilities of the specific educator.
  - h. Hold harmless agreements
  - i. Lack of internal controls for school districts under the COSO standards
  - j. Lack of effective measures of effectiveness for determining success (ie statewide assessments may not be effective)
4. School debt is a direct liability of ALL of the property tax base in a district
5. As referenced in our Financial Rescue Caucus (see youtube for series), the sales and income taxes are more predictable and sustainable than previously mentioned.
6. The inability to deal with the hold-harmless programs set up complicates any solution.
7. Any solution, not well balanced, will lead to further lawsuits and likely suboptimal solutions.

8. Many school business officers lack the experience necessary to deal with a rapidly changing economic funding model without severe disruptions.

Co-chair and committee, the information in my handouts to you also include the IFO letters on the property tax elimination bill, the impact of out-migration of younger people in PA and the in-migration of older citizens, the “effective lien” of school debt on the tax bases of each school district, a reference source for specific aspects of the bill as well as other background documents relating to the points above.

Finally, my deep gratitude to you all for your willingness to tackle this difficult task and I look forward to answering any questions you might have.

## 2019-2020 Basic Education Funding

The enacted budget includes \$6,742,838,000 for the 2019-2020 Basic Education Funding appropriation. This amount includes a \$160,000,000 (2.6%) increase over the 2018-2019 Basic Education Funding appropriation. In addition, the enacted 2019-2020 Basic Education Funding appropriation includes \$487,759,000 previously appropriated as School Employees' Social Security, which must be used for School Employees' Social Security payments to school districts.

The Basic Education Funding allocation for 2019-2020 is calculated as follows:

1. Each school district will receive an amount equal to its Basic Education Funding base allocation.
2. Each school district will receive a distribution in the student-weighted basic education funding formula determined as follows:

A prorata share of \$698,667,194 based on the school district's student-weighted average daily membership multiplied by its median household income index and its local effort capacity index.

- Student-weighted average daily membership equals the sum of:
  - (a) the average of the school district's three most recent years' average daily membership, plus
  - (b) the acute poverty average daily membership calculated by multiplying the school district's average daily membership by its acute poverty percentage and 0.6, plus
  - (c) the poverty average daily membership calculated by multiplying the school district's average daily membership by its poverty percentage and 0.3, plus
  - (d) the concentrated poverty average daily membership for qualifying school districts with an acute poverty percentage equal to or greater than 30% calculated by multiplying the school district's average daily membership by its acute poverty percentage by 0.3, plus
  - (e) the number of the school district's limited English-proficient students multiplied by 0.6, plus
  - (f) the average daily membership for the school district's students enrolled in charter schools and cyber charter schools multiplied by 0.2, plus
  - (g) the sparsity/size adjustment for qualifying school districts with a sparsity size ratio greater than the 70th percentile calculated by: dividing the school district's sparsity/size ratio by the ratio at the 70th percentile; subtracting 1; multiplying by the sum of (a) through (f); multiplying by 0.7.

Sparsity/size ratio is calculated as follows:

- Calculate the sparsity ratio: divide the school district's average daily membership per square mile by the state total average daily membership per square mile; multiply by 0.5; subtract from 1.
- Calculate the size ratio: divide the school district's average daily membership by the average of the average daily membership for all school districts; multiply by 0.5; subtract from 1.
- Calculate the combined sparsity/size ratio by weighting the sparsity ratio at 40 percent and the size ratio at 60 percent.
- Median household index is calculated for each school district as follows: divide 1 by its median household income divided by the State median household income.
- Local effort capacity index equals the sum of the local effort index and the local capacity index.
  - (a) Local effort index equals the local effort factor multiplied by the lesser of 1 or the excess spending factor.
    - Local effort factor is calculated for each school district as follows: divide its local tax-related revenue by its median household income multiplied by its number of households; multiply by 1,000; divide by the Statewide median.
    - Excess spending factor is calculated for each school district as follows: divide 1 by its net current expenditures per student-weighted average daily membership divided by the Statewide median.
  - (b) Local capacity index is calculated as follows:
    - If the school district's local capacity per student-weighted average daily membership is less than the Statewide median, divide its local capacity per student-weighted average daily membership by the Statewide median. If the school district's local capacity per student-weighted average daily membership is equal to or greater than the Statewide median, the local capacity index is zero.
    - Local capacity per student-weighted average daily membership for each school district is calculated as follows: multiply the sum of its market value and personal income by the Statewide median local effort rate; divide by its student-weighted average daily membership.
    - Local effort rate for each school district is calculated as follows: divide its local tax-related income by the sum of its market value and personal income.



## INDEPENDENT FISCAL OFFICE

April 16, 2021

The Honorable Francis X. Ryan  
Pennsylvania House of Representatives  
149A East Wing, Main Capitol Building  
Harrisburg, PA 17120

Dear Representative Ryan:

Thank you for your recent request that asks the Independent Fiscal Office (IFO) to provide updates to prior requests that were published November 2017 and September 2019.<sup>1</sup> This letter uses the same data sources and methodologies used in those analyses to provide updated estimates. The updated tables are as follows.

**Table 1** provides the latest IFO baseline for school district property taxes. This baseline was released by the office in February 2021.

**Table 2** provides detail on the estimated costs of major programs that provide services to Pennsylvania seniors from FY 2018-19 to FY 2020-21. The major program costs include (1) the portion of Medicaid and long-term living appropriations administered by the Department of Human Services attributable to residents age 65 and older, (2) additional Lottery-funded programs administered by the Departments of Aging, Revenue and Transportation and (3) funding for Veterans Homes in the Department of Military and Veterans Affairs. The cost estimates are broken out by type of funding (state, federal or lottery funds). This analysis does not include any state or federal expenditures for non-Medicaid programs without age restrictions (e.g., public safety, state parks, food and nutrition assistance). These programs generally benefit seniors along with the overall population. Also excluded are state funds for the Public School Employees' Retirement System (PSERS) and state employee pension and retiree healthcare benefits.

The analysis estimates that total senior program spending for all funds was \$8.20 billion in FY 2018-19 and is projected to grow to \$10.19 billion in FY 2020-21. Federal funds in FY 2019-20 and FY 2020-21 reflect the temporary increase in the Federal Medical Assistance Percentage (FMAP) used to reimburse states for Medicaid program costs (effective January 1, 2020 until the termination of the national public health emergency declaration related to the COVID-19 pandemic). Likewise, federal funding for DMVA in these two fiscal years include COVID relief funds that total \$5.0 million and \$5.8 million, respectively. In the Lottery Fund, the transfer for the Property Tax Rent Rebate (PTRR) program that would have occurred in

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<sup>1</sup> See [http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/Response\\_Letter\\_9\\_23\\_2019.pdf](http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/Response_Letter_9_23_2019.pdf), <http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/Response-Letter-9-30-2019.pdf> and <http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/SR2017-05.pdf>.

FY 2020-21 was shifted into FY 2019-20. These factors contribute to the increase in the federal share of senior program expenditures from 46.4% in FY 2018-19 to 54.2% in FY 2020-21 (projected).

**Table 3** provides updates for estimates of General Fund revenues remitted by seniors by major tax type. For this purpose, the IFO did not consider indirect taxes that are levied on a business and passed through to shareholders, workers or consumers (e.g., corporate net income, insurance premiums and financial institutions), mid-sized or smaller tax types (e.g., realty transfer) and taxes not based on income or consumption (e.g., inheritance). The analysis also did not consider local earned income or sales taxes. Based on these criteria, Table 3 includes the following General Fund taxes: (1) state personal income tax, (2) state sales and use tax, (3) gross receipts taxes, (4) all tobacco product taxes and (5) liquor and malt beverage taxes. For all consumption taxes, the analysis assumes that taxes are passed through to final consumers via higher prices.

Because they are part of the larger request, the analysis also displays estimated school district property taxes remitted by senior homeowners, and those amounts are itemized separately in Table 3. Senior renters would also effectively remit property tax, but it is not clear how much of the property tax is passed through to renters. Moreover, the analysis did not assume that businesses pass property taxes through to final consumers, when in fact some portion would be effectively borne by senior consumers. Other major General Fund tax revenues are also displayed in Table 3 but are not apportioned to senior residents.

The analysis estimates that seniors remitted between \$4.6 to \$5.4 billion of General Fund revenues for these five revenue sources for FY 2018-19. For FY 2020-21, the projected range is \$4.8 to \$5.6 billion (excludes tax revenues shifted into the year). Those dollar amounts comprise 16.3% to 19.3% of taxes included in this analysis. The bottom of Table 3 lists other taxes not directly included in the analysis. Based on data from the American Community Survey (ACS) and Pennsylvania Department of Education, the analysis assumes that homeowners remit 57.5% of total school district property taxes. Of that amount, the analysis assumes that seniors remit 29% to 32%. If those assumptions hold, then senior homeowners remitted \$2.4 to \$2.7 billion of school district property taxes (excludes Act 1 allocations) for FY 2018-19 and the same amounts for FY 2020-21.<sup>2</sup>

It is noted that school district property tax effectively remitted by senior renters is excluded. To provide context regarding a potential order of magnitude for those payments, a hypothetical example is as follows: If owners of residential rental units remit 10% to 15% (\$1.5 to \$2.2 billion) of all school district property tax and if all property tax on rental units was passed through to renters, then Consumer Expenditure Survey (CEX) data suggest that senior renters might effectively pay one-fifth of that amount (\$290 to \$440 million) for FY 2020-21.

**Table 4** provides Pennsylvania net migration data across seven age groups from 2013 to 2019. The data reflect both international and domestic net migration. For all years, net international migration was positive (inflows exceed outflows) while net domestic migration was negative. The data from Table 4 are computed as a residual based on published U.S. Census data. For example, total net migration for 2017 was computed as follows: 2017 population less 2016 population less 2017 births plus 2017 deaths. It is noted that these data are preliminary and will be revised after the Census Bureau has completed the 2020 Census.

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<sup>2</sup> These amounts are prior to any deductions through the Property Tax Rent Rebate program. Data for 2018 show that 260,000 elderly homeowners claimed \$109.4 million of property tax rebates.

**Table 5** provides a summary of state income tax treatment of retirement income for 2021. As shown by the table, Pennsylvania is one of 28 states with a personal income tax that do not tax Social Security income and one of three states that do not tax public and private pensions.

**Table 6** provides updated estimates for potential revenue sources that could replace school district property taxes if they were eliminated. Language for this proposal was submitted to our office in 2019. Relevant notes for the estimates are as follows:

- As with the prior analysis, the estimates should be viewed as approximations only. They do not incorporate effective dates or a compliance phase-in. In addition, the estimates are not reduced for administrative costs, which would likely be significant under this proposal.
- The estimates include the impact of changes in behavior and compliance at full implementation for each of the proposed tax rates.
- The additional sales and use tax (SUT) would be imposed at the local level, similar to the existing local SUT in Philadelphia and Allegheny counties. Unlike the state tax, which is imposed at the point of use, the local taxes are imposed at the point of sale and only apply to purchases originating in those counties. Local tax is not collected on sales shipped into those counties by out-of-state (or out-of-county) sellers. Imposing the tax with the same local situs could materially reduce collections (10% to 15%). The projections included in the enclosed table assume the new SUT (including that imposed on food and clothing) is imposed at the state level.
- The SUT estimates assume that any increase in the SUT rate would coincide with a revenue neutral adjustment to the SUT transfers for public transportation. In other words, public transportation would not receive a funding windfall from an increase in the tax rate.
- The SUT estimates for clothing and food assume that the new 2% tax is only imposed on those items not subject to the current 6% tax.
- The additional personal income tax (PIT) would be collected at the local level, similar to the existing local earned income tax (EIT). The Department of Revenue devotes significant resources to ensuring compliance with PIT laws, including the matching of state returns with federal tax data. Since local collectors lack these resources, imposing the tax at the local level would likely produce reduced collections. The PIT estimates included in the enclosed table are calculated using the current state tax base and assume that the tax would be collected at the state level.
- Under current Pennsylvania law, employee contributions to qualified retirement accounts are subject to PIT, but qualified distributions from those accounts (including employer contributions and earnings) are exempt from tax. If Pennsylvania were to impose PIT on retirement income (excluding Social Security), employee contributions already subject to tax under prior law would be deductible. Assuming that under the proposal, contributions to retirement accounts would now be exempt and distributions would be taxable (consistent with federal tax law), Pennsylvania would immediately lose the PIT paid on new employee contributions (tax is now delayed until retirement). These transition issues are incorporated into the Retirement Income forecast (see table) and will resolve slowly over the next 30 to 40 years.

If you have any questions regarding the tables or estimates provided, please do not hesitate to contact my office (717-230-8293). Per the policy of the IFO, this letter will be posted to the office website three days after transmittal to your office.

Sincerely,



Matthew J. Knittel  
Director, Independent Fiscal Office

Attachments

**Table 1**  
**School District Property Tax Forecast**

	Actual	Estimate		Forecast				
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Current-Year	\$13,930	\$14,301	\$14,109	\$14,595	\$15,155	\$15,795	\$16,405	\$16,985
Act 1 Allocations <sup>1</sup>	533	534	535	535	535	535	535	535
Delinquent <sup>2</sup>	<u>551</u>	<u>565</u>	<u>488</u>	<u>616</u>	<u>618</u>	<u>622</u>	<u>645</u>	<u>668</u>
<b>Total</b>	<b>15,014</b>	<b>15,400</b>	<b>15,131</b>	<b>15,746</b>	<b>16,308</b>	<b>16,952</b>	<b>17,585</b>	<b>18,188</b>

Note: Dollar amounts in millions.

1 Actuals through FY 2020-21. Estimated at \$535 million thereafter.

2 Reported by PDE for FY 2018-19. Estimated by IFO thereafter.

**Table 2  
Program Funding for Pennsylvania Seniors (\$000s)**

	2018-19 Actual	2019-20 Actual	2020-21 Enacted
Department of Aging:			
State <sup>1</sup> .....	\$25,771	\$2,056	\$2,108
Lottery <sup>2</sup> .....	520,470	465,464	474,398
Federal <sup>3</sup> .....	158,702	174,564	105,261
Department of Human Services:			
State <sup>4</sup> .....	3,043,345	3,239,239	3,554,224
Lottery <sup>5</sup> .....	372,355	337,513	352,466
Federal <sup>6</sup> .....	3,581,971	4,537,251	5,334,755
Department of Revenue:			
Lottery <sup>7</sup> .....	155,343	288,372	0
Department of Transportation:			
Lottery <sup>8</sup> .....	165,429	170,907	170,907
Department of Military and Veterans Affairs:			
State <sup>9</sup> .....	116,356	112,461	109,803
Federal <sup>9,10</sup> .....	62,614	78,153	86,768
Total State.....	3,185,472	3,353,756	3,666,135
Total Lottery.....	1,213,597	1,262,256	997,771
Total Federal.....	3,803,287	4,789,968	5,526,784
<b>Total All Funds.....</b>	<b>8,202,356</b>	<b>9,405,980</b>	<b>10,190,690</b>

- 1 Includes appropriations from the Tobacco Settlement Fund (TSF) and the Pharmaceutical Assistance Fund.
- 2 Includes funding to administer PENNCARE, Pre-Admission Assessment, Caregiver Support, Alzheimer's Outreach, Pharmaceutical Assistance Fund and Grants to Senior Centers appropriations.
- 3 Includes appropriations from the TSF.
- 4 Includes General Fund and TSF funding for MA - Long-Term Care, MA - Community HealthChoices, MA - Capitation, MA - Fee-for-Service, Home and Community-Based Services, Long-Term Care Managed Care and Payment to Federal Government - Medicare Drug Program appropriations.
- 5 Includes MA - Long-Term Care, Home and Community-Based Services, MA - Community HealthChoices and MA - Transportation Services.
- 6 Includes MA - Long-Term Care, MA - Community HealthChoices, MA - Home and Community-Based Services and MA - Long-Term Care Managed Care.
- 7 Estimated Property Tax Rent Rebate (PTRR) funding attributable to recipients age 65 and older is based on Department of Revenue PTRR statistical report data. The transfer to the Lottery Fund for the PTRR program that would have occurred in FY 2020-21 was shifted into FY 2019-20.
- 8 Includes Transfer to Public Transportation Trust Fund and Older Pennsylvanians Shared Rides appropriations.
- 9 Veterans Homes funding attributable to residents age 65 and older.
- 10 FY 2019-20 and 2020-21 include COVID relief funds that total \$5.0 million and \$5.8 million, respectively.



**Table 3**  
**Pennsylvania Senior Share of Tax Revenues**

Revenue Source	Share Age 65+		FY 2018-19			FY 2020-21 (Estimate)		
	Low	High	Total	Estimated	Senior	Total	Estimated	Senior
			Amount	Low	High	Amount	Low	High
State Personal Income	13.0%	16.0%	\$14,096	\$1,832	\$2,255	\$14,472	\$1,881	\$2,316
State Sales and Use	20.0	23.0	11,100	2,220	2,553	12,167	2,433	2,798
Gross Receipts	21.0	24.0	1,250	263	300	1,002	210	240
All Tobacco	15.0	18.0	1,249	187	225	1,066	160	192
Liquor and Malt Beverage	<u>19.0</u>	<u>22.0</u>	<u>405</u>	<u>77</u>	<u>89</u>	<u>435</u>	<u>83</u>	<u>96</u>
<b>Total or Weighted Average</b>	<b>16.3</b>	<b>19.3</b>	<b>28,100</b>	<b>4,579</b>	<b>5,422</b>	<b>29,142</b>	<b>4,768</b>	<b>5,642</b>
<b>Other Major Taxes</b>								
Homeowner SD Prop Tax	29.0%	32.0%	\$8,327	\$2,415	\$2,665	\$8,393	\$2,434	\$2,686
Corporate Net Income	n.a.	n.a.	3,398	n.a.	n.a.	3,400	n.a.	n.a.
Insurance Premiums	n.a.	n.a.	444	n.a.	n.a.	424	n.a.	n.a.
Bank Shares	n.a.	n.a.	380	n.a.	n.a.	382	n.a.	n.a.
Realty Transfer	n.a.	n.a.	534	n.a.	n.a.	585	n.a.	n.a.
Inheritance	n.a.	n.a.	1,054	n.a.	n.a.	1,128	n.a.	n.a.

Note: Millions of dollars. FY 2020-21 revenues adjusted for monies shifted into year due to delayed due dates. Only direct and consumption taxes included. Business taxes such as corporate net income, bank shares and insurance premiums were not included for the purpose of this analysis. Analysis assumes all sales-use and gross receipts taxes remitted by businesses are fully passed forward to consumers. Property taxes remitted by businesses are not included. School district property tax excludes Act 1 allocations and assumes 57.5% of tax is remitted by homeowners.

Source: Tax revenues from IFO Official Revenue Estimate and do not include amounts transferred to special funds. Data used to inform shares are from various sources including: federal tax data published by state (Internal Revenue Service), Consumer Expenditure Survey for northeast consumers and consumers age 65 or older (U.S. Bureau of Labor Statistics) and the American Community Survey (U.S. Census Bureau).

**Table 4**  
**Pennsylvania International and Domestic Net Migration**

Age Group	Census Year Ending July 1						
	2013	2014	2015	2016	2017	2018	2019
0 to 17	7,775	8,707	8,434	7,817	12,161	13,550	9,825
18 to 24	-6,894	-7,656	-9,538	-9,282	-8,437	-6,501	-7,710
25 to 34	4,882	3,221	2,063	4,361	6,864	8,496	6,970
35 to 44	1,939	1,587	627	1,080	2,916	4,306	2,636
45 to 54	-1,100	-1,397	-2,414	-3,477	-2,592	-1,357	-1,306
55 to 64	-2,898	-3,287	-4,456	-5,861	-3,955	-3,049	-3,750
65+	<u>-6,233</u>	<u>-3,511</u>	<u>-6,652</u>	<u>-3,821</u>	<u>-3,795</u>	<u>-3,084</u>	<u>-3,152</u>
<b>Total</b>	<b>-2,529</b>	<b>-2,336</b>	<b>-11,936</b>	<b>-9,183</b>	<b>3,162</b>	<b>12,361</b>	<b>3,513</b>

Source: IFO computations based on U.S. Census Bureau data.

**Table 5**  
**State Income Tax Treatment of Retirement Income**

State	Private Pensions	Gov't Pensions	Social Security
Alabama	limited exemption	exempt	exempt
Alaska	n.a.	n.a.	n.a.
Arizona	fully taxable	\$2,500	exempt
Arkansas	\$6,000	\$6,000	exempt
California	fully taxable	fully taxable	exempt
Colorado	\$20,000/\$24,000	\$20,000/\$24,000	\$20,000/\$24,000
Connecticut	limited exemption/42%	limited exemption/42%	income dependent
Delaware	\$2,000/\$12,500	\$2,000/\$12,500	exempt
District of Columbia	fully taxable	fully taxable	exempt
Florida	n.a.	n.a.	n.a.
Georgia	\$35,000/\$65,000	\$35,000/\$65,000	exempt
Hawaii	limited exemption	exempt	exempt
Idaho	fully taxable	\$34,332	exempt
Illinois	exempt	exempt	exempt
Indiana	fully taxable	limited exemption	exempt
Iowa	\$6,000	\$6,000	exempt
Kansas	fully taxable	exempt	income dependent
Kentucky	\$31,110	\$31,110/exempt	exempt
Louisiana	\$6,000	\$6,000/exempt	exempt
Maine	\$10,000	\$10,000	exempt
Maryland	\$33,100	\$33,100	exempt
Massachusetts	fully taxable	exempt	exempt
Michigan	limited exemption	limited exemption	exempt
Minnesota	fully taxable	limited exemption	income dependent
Mississippi	exempt	exempt	exempt
Missouri	\$6,000	\$38,437	income dependent
Montana	\$4,370	\$4,370	income dependent
Nebraska	fully taxable	limited exemption	income dependent
Nevada	n.a.	n.a.	n.a.
New Hampshire	n.a.	n.a.	n.a.
New Jersey	\$75,000	\$75,000	exempt
New Mexico	fully taxable	fully taxable	same as federal
New York	\$20,000	exempt	exempt
North Carolina	fully taxable	limited exemption	exempt
North Dakota	fully taxable	limited exemption	income dependent
Ohio	\$200 credit	limited exemption	exempt
Oklahoma	\$10,000	\$10,000	exempt
Oregon	limited exemption	limited exemption	exempt
<b>Pennsylvania</b>	<b>exempt</b>	<b>exempt</b>	<b>exempt</b>
Rhode Island	\$15,000	\$15,000	income dependent
South Carolina	\$3,000/\$10,000	\$3,000/\$10,000	exempt
South Dakota	n.a.	n.a.	n.a.
Tennessee	n.a.	n.a.	n.a.
Texas	n.a.	n.a.	n.a.
Utah	\$450 credit	\$450 credit	same as federal
Vermont	fully taxable	fully taxable	income dependent
Virginia	fully taxable	fully taxable	exempt
Washington	n.a.	n.a.	n.a.
West Virginia	fully taxable	limited exemption/\$2,000	income dependent
Wisconsin	\$5,000	limited exemption/\$5,000	exempt
Wyoming	n.a.	n.a.	n.a.

Note: Reflects tax year 2021 maximum allowable deductions for single filer or head of household aged 65 or older. States that have no personal income tax on wages are denoted as n.a. Where applicable, lower deduction limit reflects amount for residents under age 65.

Source: National Conference of State Legislatures, Bloomberg BNA State Tax and CCH Smart Charts as of Feb 2021.

**Table 6**  
**Options to Fund School District Property Tax Elimination**

		2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
<b>Additional SUT<sup>1</sup></b>	1.50%	\$2,794	\$3,003	\$3,112	\$3,213	\$3,313	\$3,416	\$3,522
	2.00%	3,706	3,984	4,128	4,262	4,395	4,532	4,672
Food <sup>2</sup>	2.00%	575	607	638	660	682	705	729
Clothing <sup>3</sup>	2.00%	252	265	278	287	297	306	316
<b>Additional PIT<sup>4</sup></b>	1.85%	8,019	8,107	8,428	8,844	9,235	9,638	10,056
<b>Retirement Income<sup>5</sup></b>	4.92%	1,246	1,323	1,383	1,471	1,561	1,652	1,751
<i>State Share</i>	3.07%	778	825	863	918	974	1,031	1,092
<i>Local Share</i>	1.85%	469	497	520	553	587	621	658

Note: Millions of dollars. Estimates are long-term and assume an effective date prior to FY 2019-20.

1 New statewide SUT rates would be 7.5% or 8.0% respectively. The new rates for Philadelphia would be 9.5% or 10.0%. The new rates for Allegheny County would be 8.5% or 9.0%. Estimates are calculated using the current state SUT base. The existing local SUTs are point of sale taxes and are only imposed on sales originating in those counties. If the new tax is imposed with the same situs, tax collections will be materially lower (approximately 5% to 10%) because tax would not be collected on e-commerce purchases from out of state sellers. Estimates assume that all transfers from SUT are adjusted to a revenue neutral rate, i.e., special funds do not receive a windfall from the increased tax rate and are not reduced for Department of Revenue administrative costs.

2 Excludes food purchased with Supplemental Nutrition Assistance Program (SNAP) and Women, Infants and Children (WIC) benefits. Assumes foods already subject to the 6% state tax are excluded.

3 Assumes clothing and footwear already subject to the 6% state tax are excluded.

4 New PIT tax of 1.85% calculated using the existing state PIT base. The Department of Revenue devotes significant resources to ensuring taxpayer compliance, including the matching of state returns with federal tax data. Since local collectors lack these resources, actual collections would likely be lower than the provided estimates by an unknown amount.

5 Retirement income tax of 4.92% (3.07% state tax and 1.85% local) net of previously taxed employee contributions and excluding Social Security. Moving forward, assumes that all retirement income will be taxed upon distribution.

# School Property Tax Elimination Act

(House Bill 13)

All School Property Taxes Eliminated

## Why eliminate property taxes?

With property taxes we are all one life event away from losing our homes

The value of your home goes up immediately

Reverses loss of jobs in PA - the whole state becomes an opportunity zone

Reverses loss of young workers out of the state

## Who Benefits?

### SENIORS

Seniors on average save 75% of taxes

### RENTERS

All renters who get passed-on savings of property tax reductions of landowners

### PROPERTY OWNERS

No longer rent your home from the school district

### SCHOOL DISTRICTS

School districts because they share the benefit of economic growth

## How Schools Will be Funded

### NEW TAXES STAY LOCAL

1.85% local PIT goes to school districts directly

2% local sales tax allocated to school districts

No Tax on Social Security income

Retirement income tax - 4.92%

• 1.85% - local

• 3.07% - state

PENNSYLVANIA HOUSE OF REPRESENTATIVES

Facebook.com/RepFrankRyan



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## OFFICIAL STATEMENT

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**NEW ISSUE  
BOOK-ENTRY ONLY**

**S&P Rating: Underlying: "A" (Stable Outlook)  
Insured: "AA" (Stable Outlook)  
MAC Insured**

*In the opinion of Bond Counsel, interest on the Bonds is not includable in gross income for purposes of federal income taxation under existing statutes, regulations, rulings and court decisions, subject to the condition described in "TAX MATTERS" herein and interest on the Bonds is not treated as an item of tax preference under Section 57 of the Internal Revenue Code of 1986, as amended (the "Code") for purposes of the federal alternative minimum tax. Under the laws of the Commonwealth of Pennsylvania, the Bonds are exempt from personal property taxes in Pennsylvania, and interest on the Bonds is exempt from Pennsylvania personal income tax and the Pennsylvania corporate net income tax. For a more complete discussion, see "TAX MATTERS" herein.*

*The School District has designated the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Code. For a more complete discussion, see "TAX MATTERS - Deduction for Interest Paid by Financial Institutions to Purchase or Carry Tax-Exempt Obligations" herein.*

**\$9,980,000**  
**MONTOURSVILLE AREA SCHOOL DISTRICT**  
**Lycoming County, Pennsylvania**  
**General Obligation Bonds, Series of 2019**

**Dated:** Date of Delivery  
**Due:** June 1, as shown on inside cover  
**Denomination:** Integral multiples of \$5,000

**Interest Payable:** June 1 and December 1  
**First Interest Payment:** December 1, 2019  
**Form:** Fully Registered Book-Entry Only

**Payable:** The General Obligation Bonds, Series of 2019, in the aggregate principal amount of \$9,980,000 (the "Bonds") will be issued as fully registered bonds and when issued, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Purchases of beneficial ownership in the Bonds will be made in book-entry only form, and purchasers will not receive certificates representing their interests in the Bonds. So long as DTC, or its nominee, Cede & Co., is the registered owner of the Bonds, payments of the principal of and interest on the Bonds will be made by the Paying Agent directly to Cede & Co as nominee for DTC for redistribution by DTC to its participants. Payment to DTC Participants is the responsibility of DTC, and disbursement of such payments to Beneficial Owners of the Bonds is the responsibility of the DTC Participants and the Indirect Participants. See "BOOK-ENTRY ONLY SYSTEM" herein. Interest on the Bonds is payable initially on December 1, 2019, and thereafter semiannually on June 1 and December 1 of each year. The interest on the Bonds will be payable by check mailed to the registered owner thereof. The principal of the Bonds will be payable upon surrender thereof at the corporate trust office of the Paying Agent, Manufacturers and Traders Trust Company, located in Harrisburg, Pennsylvania.

**Redemption:** The Bonds stated to mature on or after June 1, 2025, are subject to redemption prior to maturity, at the option of the School District, in whole or, from time to time, in part (in order of maturity or portion of each maturity as may be designated by the School District and within a maturity by lot) at any time on or after December 1, 2024 upon payment of a redemption price of 100% of the principal amount of the Bonds, plus accrued interest to the date fixed for redemption.

**Purpose:** Proceeds of the Bonds will be used to provide funds to: (1) currently refund the School District's outstanding General Obligation Bond, Series A of 2015; and (2) pay the costs of issuing and insuring the Bonds.

**Security:** The Bonds are payable from tax and other general revenues of the School District. The School District has covenanted that it will provide in its budget in each year, and will appropriate from its general revenues in each such year, the amount of the debt service on the Bonds for such year and will duly and punctually pay or cause to be paid from funds in the sinking fund established in the Resolution or from any other of its revenues or funds, the principal of every Bond and the interest thereon on the dates, at the place and in the manner stated in the Bonds, and for such budgeting, appropriation and payment the School District irrevocably has pledged its full faith, credit and taxing power, which taxing power includes the power to levy *ad valorem* taxes on all taxable property within the School District, within limitations provided by law (see "SECURITY FOR THE BONDS" and, in Appendix A, "TAXING POWERS OF THE SCHOOL DISTRICT" and "PENNSYLVANIA ACTS AFFECTING CERTAIN LOCAL TAXING POWERS OF SCHOOL DISTRICTS" herein).

**Bond Insurance:** The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by MUNICIPAL ASSURANCE CORP.

**MUNICIPAL  
ASSURANCE  
CORP**

The Bonds are offered for delivery when, as and if issued by the School District and received by the Underwriter and subject to the approving legal opinion of Saul Ewing Arnstein & Lehr LLP, Philadelphia, Pennsylvania, Bond Counsel to the School District. Certain legal matters will be passed upon by Thomas C. Marshall, Esquire, Williamsport, Pennsylvania, Solicitor for the School District and for the Underwriter by McNees Wallace & Nurick LLC, Lancaster, Pennsylvania, Limited Scope Underwriter's Counsel. It is expected that the Bonds in definitive form will be available for delivery through the facilities of the Depository Trust Company in New York, New York on or about August 21, 2019.



**Capital  
Markets**

## SECURITY FOR THE BONDS

The Bonds are general obligations of the School District and are payable from the general taxes and revenues of the School District. The taxing powers of the School District are described more fully herein. The School District has covenanted in the Resolution that it will provide in its budget for each fiscal year, and will appropriate in each such year, the amount of the debt service on the Bonds for such year and will duly and punctually pay, or cause to be paid, the principal of every Bond and the interest thereon on the dates, at the place and in the manner stated in the Bonds, and for such budgeting, appropriation and payment, the School District has irrevocably pledged its full faith, credit and taxing power, which taxing power presently includes the power to levy *ad valorem* taxes on all taxable property within the School District, within limitations provided by law. (See Appendix A – “TAXING POWERS OF THE SCHOOL DISTRICT” and “PENNSYLVANIA ACTS AFFECTING CERTAIN LOCAL TAXING POWERS OF SCHOOL DISTRICTS” discussing recent legislation subjecting the School District’s taxing power to certain limitations). The Act presently provides for enforcement of debt service payments as hereinafter described (see “Actions in the Event of Default” herein) and the Public School Code (herein defined) presently provides for the withholding and application of subsidies in the event of failure to pay debt service (see “Security for General Obligation Bonds Under Section 633 of the Public School Code of 1949” herein).

### **Sinking Fund**

In the Resolution, the School District has set forth that a “Sinking Fund - General Obligation Bonds, Series of 2019” (the “Sinking Fund”), shall be created and maintained with the Paying Agent, as sinking fund depository and segregated from all other funds of the School District. The School District shall deposit in the Sinking Fund a sufficient sum no later than June 1 and December 1 of each year beginning December 1, 2019, the debt service payable on the Bonds on such dates or such greater or lesser amount as at the time shall be sufficient to pay interest and principal on the Bonds as they become due and payable.

The Sinking Fund shall be held by the Paying Agent, as sinking fund depository, and invested by the Paying Agent in such securities or shall be deposited in such funds or accounts as are authorized by the Act, upon direction of the School District. Such deposits and securities shall be in the name of the School District, but subject to withdrawal or collection only by the Paying Agent, as sinking fund depository, and such deposits and securities, together with the interest thereon, shall be a part of the Sinking Fund.

The Paying Agent, as sinking fund depository, is authorized without further order from the School District to pay from the Sinking Fund the principal of and interest on the Bonds when due and payable.

### **Actions in the Event of Default**

Subject to the exclusive representation of Bondholders by a trustee appointed under the Act as described in the following paragraph, if the School District fails or neglects to pay principal of or interest on any of the Bonds as it becomes due and payable, and such failure continues for thirty (30) days, the holder of such bond may bring suit in the Court of Common Pleas of the county in which the School District is located (Lycoming County) and any judgment recovered shall have an appropriate priority upon the money next coming into the treasury of the School District, all as provided in the Act. The Act also provides other remedies to Bondholders to enforce the School District’s covenants in respect of payment of the Bonds.

In the event the School District defaults in the payment of the principal of or the interest on any of the Bonds after the same shall become due, whether at the stated maturity or upon call for prior redemption, and such default shall continue for thirty (30) days, or if the School District fails to comply with any provision of the Bonds or the Resolution, the Act provides that the holders of 25% in aggregate principal amount of the Bonds then outstanding may, upon appropriate action, appoint a trustee to represent the Bondholders. The trustee may, and upon request of the holders of 25% in principal amount of the Bonds then outstanding and upon being provided with indemnity satisfactory to it, shall, take such action on behalf of the Bondholders as is more specifically set forth in the Act. Such representation by the trustee shall be exclusive.

### **State Reimbursement Intercept Program under Section 633 of the Public School Code of 1949**

Section 633 of the Public School Code of 1949, as amended (the “Public School Code”) presently provides that in all cases where the board of school directors of any school district fails to pay or to provide for the payment of any indebtedness, at the date of maturity or mandatory redemption, or any sinking fund deposit date, or any interest due on such indebtedness on any

interest payment date or any sinking fund deposit date, in accordance with the schedule under which the bonds or notes were issued, the Secretary of Education of the Commonwealth shall notify the board of school directors of its obligation and shall withhold from any Commonwealth appropriation due such school district, or sinking fund deposit due by such school district, and shall pay over an amount equal to the sum of such principal or interest due and shall pay such amount directly to the bank acting as sinking fund depository for the bond issue.

The withholding provisions of Section 633 are not part of any contract with the registered owners of the Bonds and may be amended or repealed by future legislation. The effectiveness of Section 633 may be limited by the application of other withholding provisions contained in the Public School Code, such as provisions for withholding and paying over of appropriations for payment of unpaid teachers' salaries. Enforcement may also be limited by bankruptcy, insolvency, or other laws or equitable principles affecting the enforcement of creditors' rights generally.

### **Pennsylvania Budget Adoption**

Over the past several years the Commonwealth of Pennsylvania has, from time to time, started its fiscal year without a fully adopted state budget. Under the law, the budget is enacted when the Governor signs the state budget or if the Governor fails to sign and does not veto it, the budget is automatically adopted 10 days after receipt by the Governor. In the state's 2015 fiscal year, a final budget was not enacted until March 27, 2016, which was 270 days into that fiscal year, when the Governor failed to sign or veto the state budget that was adopted by the General Assembly on March 17, 2016.

For the 2016-17 fiscal year, the state budget became law, known as Act 16A of 2016, on July 12, 2016, when the Governor failed to sign or veto the state budget that was adopted by the General Assembly on July 1, 2016. On July 13, 2016, the General Assembly adopted and Governor signed into law additional tax and revenue package, known as Act 85 of 2016, that was needed to balance the 2016-17 state budget.

For the 2017-18 fiscal year, the state budget became law, known as Act 1A of 2017, on July 11, 2017 when the Governor failed to sign or veto the state budget that was adopted by the General Assembly on June 30, 2017. Act 1A of 2017 did not have any accompanying legislation regarding the potential revenue that would be needed to fund the balance of the 2017-18 Budget at the time of its enactment. On October 25, 2017, the General Assembly adopted House Bill 542 which contained the necessary revenue to fund the balance of the previously adopted 1A of 2017. On October 30, 2017 the Governor approved and signed House Bill 542 and it became known as Act 43 of 2017.

For the current 2018-19 fiscal year, the Governor signed the budget on June 22, 2018.

During a state budget impasse, school districts in the Commonwealth cannot be certain that state subsidies and revenues owed them from the Commonwealth will become available. This includes many of the major state subsidies, and overall revenues, that a Pennsylvania school district receives including basic education funding, special education funding, PlanCon reimbursements, and certain block grants, among many others. **Recent legislation included in Act 85 of 2016 has attempted to address the timeliness of the withholding provisions of Section 633 of the Public School Code during any future budget impasses. See "Act 85 of 2016" below.**

### **Act 85 of 2016**

On July 13, 2016, the Governor of the Commonwealth signed into law Act No. 85 of 2016, (P.L. 664, No. 85) ("Act 85 of 2016"), an amendment to the Act of April 9, 1929 (P.L. 343, No. 176), known as the Fiscal Code ("Fiscal Code"). Act 85 of 2016 adds to the Fiscal Code Article XVI-E.4, entitled "School District Intercepts for the Payment of Debt Service During Budget Impasse", which provides for intercept of subsidy payments by PDE from a school district subject to an intercept statute or an intercept agreement in the event of a Commonwealth budget impasse in any fiscal year.

Act 85 of 2016 includes in the definition of "intercept statutes" Sections 633 of the Public School Code. The School District's General Obligation Bonds and Notes, including these Bonds, are subject to Section 633 of the Public School Code.

Act 85 of 2016 provides that the amounts as may be necessary for PDE to comply with the provisions of the applicable intercept statute or intercept agreement "shall be appropriated" to PDE from the General Fund of the Commonwealth after PDE submits justification to the majority and minority chairs of the appropriations committees of the Pennsylvania Senate and House of Representatives allowing ten (10) calendar days for their review and comment, if, in any fiscal year:

## TAXING POWERS OF THE SCHOOL DISTRICT

Subject to certain limitations imposed by the Taxpayer Relief Act, Act No. 1 of the Special Session of 2006 (see below), the School District is empowered by the School Code to levy the following taxes:

1. A basic annual tax on all real property taxable for school purposes, not to exceed 25 mills on each dollar of assessed valuation, to be used for general school purposes.
2. An unlimited ad valorem tax on the property taxable for school purposes to provide fund s:
  - a. to pay minimum salaries and increments of the teaching and supervisory staff;
  - b. to pay rentals due any municipality authority or non-profit corporation or due the State Public School Building Authority;
  - c. to pay interest and principal on any indebtedness incurred pursuant to the Local Government Unit Debt Act, or any prior or subsequent act governing the incurrence of indebtedness of the School District; and
  - d. to pay for the amortization of a bond or note issue which financed the construction of a school building prior to the first Monday of July, 1959.
3. An annual per capita tax on each resident or inhabitant over 18 years of age of not more than \$5.00

The School District may also levy additional taxes subject to division with other political subdivisions authorized to levy similar taxes on the same person, subject, business, transaction or privilege, under Act No. 511, enacted December 31, 1965, as amended ("The Local Tax Enabling Act"). These taxes, which may include, among others, an additional per capita tax, wage and other earned income taxes, real estate transfer taxes, gross receipts taxes, and occupation taxes, shall not exceed, in the aggregate, an amount equal to the product of the market valuation of real estate in the School District (as certified by the State Tax Equalization Board of the Commonwealth - "STEB") multiplied by twelve mills. All local taxing authorities are required by the Local Tax Enabling Act to exempt disabled veterans and members of the armed forces reserve who are called to active duty at any time during the tax year from any local services tax and to exempt from any local services tax levied at a rate in excess of \$10 those persons whose total income and net profits from all sources within the political subdivision is less than \$12,000 for the tax year.

The Local Tax Enabling Act was amended by Act 222 of 2004 to authorize all taxing authorities to exempt from per capita, occupation, emergency and municipal service or earned income taxes any person whose total income from all sources is less than \$12,000 per year. (Which includes full-time college students with respect to the per capita tax).

## PENNSYLVANIA ACTS AFFECTING CERTAIN LOCAL TAXING POWERS OF SCHOOL DISTRICTS

### The Taxpayer Relief Act (Act 1)

Under Pennsylvania Act No. 1 of the Special Session of 2006, as amended by Act 25 of 2011 (the "Taxpayer Relief Act" or "Act 1"), a school district may not, in fiscal year 2007-08 or in any subsequent fiscal year, levy any tax for the support of the public schools which was not levied in the previous fiscal year, raise the rate of any earned income and net profits tax if already imposed under the authority of the Local Tax Enabling Act (Act 511), or increase the rate of any tax for school purposes by more than the Index (defined below), unless in each case either (a) such increase is approved by the voters in the school district at a public referendum or (b) one of the exceptions summarized below is applicable and the use of such exception is approved by the PDE:

1. to pay interest and principal on indebtedness incurred (i) prior to September 4, 2004, in the case of a school district which had elected to become subject to the provisions of the prior Homeowner Tax Relief Act, Act 72 of 2004, or (ii) prior to June 27, 2006, in the case of a school district which had not elected to become subject to Act 72 of 2004; to pay interest and principal on any indebtedness



approved by the voters at referendum (electoral debt); and to pay interest and principal on debt refunding or refinancing debt for which one of the above exceptions is permitted, as long as the refunding or refinancing incurs no additional debt other than for costs and expenses related to the refunding or refinancing and the funding of appropriate debt service reserves;

2. to pay costs incurred in providing special education programs and services to students with disabilities, under specified circumstances; and
3. to make payments into the State Public School Employees' Retirement System when the increase in the estimated payments between the current year and the upcoming year is greater than the Index, as determined by PDE in accordance with the provisions of Act 1.

Any revenue derived from an increase in the rate of any tax allowed under the exception numbered 1 above may not exceed the anticipated dollar amount of the expenditure, and any revenue derived from an increase in the rate of any tax allowed pursuant to any other exception enumerated above may not exceed the rate increase required, as determined by the court or PDE, as the case may be. If a school district's petition or request to increase taxes by more than the Index pursuant to one or more of the allowable exceptions is not approved, the school district may submit the proposed tax increase to a referendum.

The Index (to be determined and reported by PDE by September of each year for application to the following fiscal year) is the average of the percentage increase in the statewide average weekly wage; as determined by the State Department of Labor and Industry for the preceding calendar year, and the employment cost index for elementary and secondary schools, as reported by the federal Bureau of Labor Statistics for the preceding 12-month period beginning July 1 and ending June 30. If and when a school district has a Market Value/Income Aid Ratio greater than 0.40 for the prior school year, however, the Index is adjusted upward by multiplying the unadjusted Index by the sum of 0.75 and such Aid Ratio.

The Index applicable to the School District for the current and previous fiscal years is as follows:

2019-20	3.0%
2018-19	3.1%
2017-18	3.2%
2016-17	3.1%
2015-16	2.5%
2014-15	2.7%
2013-14	2.2%
2012-13	2.2%

In accordance with Act 1, the Board of School Directors of the School District placed a referendum on the ballot for the May 15, 2007 primary election seeking voter approval to levy (or increase the rate of) an earned income tax or personal income tax and use the proceeds to reduce local real estate taxes by a homestead and farmstead exclusion. The referendum was not approved by a majority of the voters at the primary election.

A board of school directors may submit, but is not required to submit, a future referendum question to the voters at any municipal election seeking approval to levy or increase the rate of an EIT or a PIT for the purpose of further funding homestead and farmstead exclusions, but the proposed rate of the EIT or PIT shall not exceed the rate which, when combined with any tax rate authorized at the 2007 primary election, is required to provide the maximum homestead and farmstead exclusions allowable under law.

Act 1 also provides for gaming revenues received by the Commonwealth to be accumulated in the Property Tax Relief Reserve Fund ("Fund"). When the Fund has sufficient money according to a formula, the Secretary of the Commonwealth announces that funds are available for distribution to school districts. The money received by school districts from the Fund may only be used to provide a reduction in real estate taxes to qualified homestead/farmstead properties. To qualify for a homestead and/or farmstead tax reduction, the property must be owner-occupied and used for residential purposes. The money received by the local school district from the Fund are offset on a dollar for dollar basis by reductions in the local real estate tax payments from owners of qualified homestead and farmstead properties.

*This summary is not intended to be an exhaustive discussion of the provisions of Act 1 nor a legal interpretation of any provision of Act 1, and a prospective purchaser of the Bonds should review the full text of Act 1 as a part of any decision to purchase the Bonds.*

**Application of Act 1 to the Bonds (Not eligible for the exception for debt incurred prior to the Act 1 effective date)**

The Bonds were authorized after the effective date of Act 1. Therefore, the School District cannot be granted the pre-existing debt exception to the Act 1 referendum requirement if a tax increase greater than the Index is required in order to pay debt service on the Bonds. The School District expects to be able to absorb the annual debt service payments on the Bonds within revenue increases permitted by the state Index limitations under Act 1.

**Act 130 of 2008**

Act 130 of 2008 of the Commonwealth amended the Local Tax Enabling Act so as to authorize school districts levying an occupation tax to replace that occupation tax with an increased earned income tax or, if the school district has implemented a personal income tax in accordance with the Taxpayer Relief Act, an increased personal income tax, in a revenue neutral manner. To so replace an occupation tax, the board of school directors must first hold at least one public hearing on the matter and then place a binding referendum question on the ballot at a general or municipal election for approval by the voters.

The School District's occupation tax was replaced with an increased earned income tax under the provisions of Act 24 of 2001. Effective July 1, 2005, the School District's earned income tax was adjusted to 1.15% which continues to be the School District's rate.

SET FORTH ABOVE IS A SUMMARY OF PORTIONS OF ACT 130. THIS SUMMARY IS NOT INTENDED TO BE AN EXHAUSTIVE DISCUSSION OF THE PROVISIONS OF ACT 130 NOR A LEGAL INTERPRETATION OF ANY PROVISION OF ACT 130. A PROSPECTIVE PURCHASER OF THE BONDS SHOULD REVIEW THE FULL TEXT OF ACT 130 AS A PART OF ANY DECISION TO PURCHASE THE BONDS

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## OFFICIAL STATEMENT

NEW ISSUE – BOOK ENTRY ONLY

Rating: S & P Rated "AA-" (stable outlook)  
AGM Insured

Underlying Rating (Based on State Intercept Program) "A"  
See "Rating" and "Bond Insurance" herein

*In the opinion of Bond Counsel, under existing statutes, regulations and judicial decisions, interest on the Series A Bonds and Series B Bonds is excluded from gross income for purposes of federal income taxation and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although in the case of corporations (as defined for federal income tax purposes) such interest is taken into account in determining adjusted current earnings for purposes of such alternative minimum tax. This opinion of Bond Counsel is subject to continuing compliance by the School District with its covenants in the Resolution and other documents to comply with requirements of the Internal Revenue Code of 1986, as amended, and applicable regulations thereunder.*

*Bond Counsel is also of the opinion that under the laws of the Commonwealth of Pennsylvania as presently enacted and construed, the Bonds are exempt from personal property taxes in the Commonwealth of Pennsylvania and the interest on the Bonds is exempt from the Commonwealth of Pennsylvania Personal Income Tax and the Commonwealth of Pennsylvania Corporate Net Income Tax. This summary of Bond Counsel's opinion and the summary of Bond Counsel's opinion set forth under the caption "Opinion of Bond Counsel" does not purport to be and should not be construed to be a complete recitation of Bond Counsel's opinion. The full text draft of Bond Counsel's opinion is appended hereto in Appendix "D" and reference is made hereto.) For further information concerning federal and state tax matters relating to the Bonds, see "Tax Exemption and Other Tax Matters" herein.*

**\$79,300,000**

### Pocono Mountain School District (Monroe County, Pennsylvania)

**\$7,860,000 General Obligation Bonds, Series A of 2013**

**\$60,820,000 General Obligation Bonds, Series B of 2013**

**\$10,620,000 General Obligation Bonds, Taxable Series C of 2013**

**Dated:** Date of Delivery  
**Interest Due:** June 15 and December 15

**Principal Due:** June 15, (as shown on inside cover)  
**First Interest Payment:** December 15, 2013

Pocono Mountain School District's General Obligation Bonds, Series of 2013 (the "2013 Bonds" or the "Bonds") in the aggregate principal amount of \$79,300,000 consisting of \$7,860,000 aggregate principal amount of General Obligation Bonds, Series A of 2013 (the "Series A Bonds") and \$60,820,000 aggregate principal amount of General Obligation Bonds, Series B of 2013 (the "Series B Bonds") and \$10,620,000 aggregate principal amount of General Obligation Bonds, Series C of 2013 (the "Series C Bonds" and together with the Series A Bonds and the Series B Bonds, the "Bonds") will be issued as fully registered Bonds. The Bonds will be registered in the name of Cede & Co., as the registered owner and nominee of The Depository Trust Company ("DTC"), New York, New York. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or any integral multiple thereof only under the book-entry system maintained by DTC through its brokers and dealers who are, or act through, DTC Participants. The purchasers of the Bonds will not receive physical delivery of the Bonds. For so long as any purchaser is the beneficial owner of a Bond, that purchaser must maintain an account with a broker or a dealer who is, or acts through, a DTC Participant to receive payment of principal of and interest on the Bonds. See "BOOK-ENTRY ONLY SYSTEM" herein. If, under the circumstances described herein, Bonds are ever issued in certificated form, the Bonds will be subject to registration of transfer, exchange and payment as described herein. The principal of the Bonds will be paid to the registered owners or assigns, when due, upon presentation and surrender of the Bonds to Manufacturers and Traders Trust Company, ("Paying Agent"), acting as paying agent and sinking fund depository, at its designated corporate trust office in Harrisburg, Pennsylvania. Interest on the Bonds is payable initially on December 15, 2013, and thereafter, semiannually on June 15 and December 15 of each year, until the principal sum thereof is paid. Payment of interest on the Bonds will be made by check drawn on the Paying Agent mailed to the registered owners of the Bonds as of the Record Date (see "THE BONDS" herein).

#### The Bonds are subject to redemption prior to maturity.

The Bonds are general obligations of the Pocono Mountain School District (the "School District" or "District") payable from its tax and other general revenues. The School District has covenanted that it will provide in its budget in each year, and will appropriate from its general revenues in each such year, the amount of the debt service on the Bonds for such year and will duly and punctually pay or cause to be paid from the sinking fund established under the Resolution (as hereinafter defined) or any other of its revenues or funds the principal of every Bond and the interest thereon on the dates, at the place and in the manner stated in the Bonds, and for such budgeting, appropriation and payment the School District irrevocably has pledged its full faith, credit and all available taxing power, which taxing power includes the power to levy ad valorem taxes on all taxable real property within the School District, subject to the limitations of Act 1. (See "Security" and "Act 1 Special Session of 2006 (The Homeowner Tax Relief Act)" herein).

The proceeds from the sale of the Series A Bonds will be used to: (1) currently refund all of the District's outstanding General Obligation Bonds, Series A of 2004; (2) currently refund all of the District's outstanding General Obligation Notes, Series C of 2008 and all of its General Obligation Notes, Series D of 2008; and (3) pay the costs of issuing the Series A Bonds. The proceeds from the sale of the Series B Bonds will be used to: (1) currently refund all of the District's outstanding General Obligation Notes, Series A, of 2004, Series, C of 2004 and Series E of 2004; (2) currently refund all of the District's outstanding General Obligation Notes, Series of 2006; (3) currently refund all of the District's outstanding General Obligation Notes, Series of 2008; (4) fund various capital projects of the District; and (5) pay the costs of issuing the Series B Bonds. The proceeds from the sale of the Series C Bonds will be used to: (1) fund a portion of an unfunded actuarial accrued liability; and (2) pay the costs of issuing the Series C Bonds.

The Bonds are an authorized investment for fiduciaries in the Commonwealth of Pennsylvania pursuant to the Pennsylvania Probate, Estate and Fiduciaries Code, Act of June 30, 1972, No. 164, P.L. 508, as amended and supplemented.

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by ASSURED GUARANTY MUNICIPAL CORP.



**MATURITIES, AMOUNTS, RATES AND YIELDS/PRICES**  
See Inside Cover

The Bonds are offered for delivery when, as and if issued by the School District and received by Boenning & Scattergood Inc. (the "Underwriter") and subject to the approving legal opinion of King, Spry, Herrman, Freund & Faul, LLC, Bethlehem, Pennsylvania, Bond Counsel. Certain legal matters will be passed upon for the School District by John E. Freund, III, Esquire of Bethlehem, Pennsylvania, Solicitor for the School District. Certain legal matters will be passed upon for the Underwriter by Reed Smith LLP, Philadelphia, Pennsylvania and Pittsburgh, Pennsylvania, Counsel for the Underwriter. It is expected that the Bonds in definitive form will be available on or about May 29, 2013.

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## Boenning & Scattergood Inc.

**Dated:** April 24, 2013

## SECURITY

The Bonds are general obligations of the School District, payable from its tax and other general revenues. The School District has covenanted that it will provide in its budget for each year, and will appropriate from its general revenues in each such year, the amount of the debt service on the Bonds for such year, and will duly and punctually pay or cause to be paid from its Sinking Fund, as hereinafter defined, or any other of its revenues or funds, the principal of each of the Bonds and the interest thereon at the dates and place and in the manner stated on the Bonds, and for such budgeting, appropriation and payment the School District irrevocably has pledged its full faith, credit and all available taxing power, which taxing power includes the power to levy ad valorem taxes on all taxable property within the School District within the limits provided by law. (See "Taxing Powers and Limits" herein). The Act presently provides for enforcement of debt service payments as hereinafter described (see "Defaults and Remedies" herein), and the Public School Code presently provides for the withholding and application of subsidies in the event of failure to pay debt service (see "Commonwealth Enforcement of Debt Service Payments" above).

### Commonwealth Enforcement of Debt Service Payments

Section 633 of the Pennsylvania Public School Code of 1949, as amended (the "Public School Code"), presently provides that in all cases where the board of school directors of any school district fails to pay or to provide for the payment of any indebtedness at date of maturity or date of mandatory redemption, or any interest due on such indebtedness on any interest payment date, in accordance with the schedule under which the Bonds or Bonds were issued, the Secretary of Education shall notify such board of school directors of its obligation and shall withhold out of any state appropriation due such school district an amount equal to the sum of the principal amount maturing or subject to mandatory redemption and interest owing by such school district, and shall pay over the amount so withheld to the bank or other person acting as sinking fund depository for such Bonds or Bonds (known as the "State Intercept Program"). These withholding provisions are not part of any contract with the holders of the Bonds, and may be amended or repealed by future legislation.

There can be no assurance, however, that any payments pursuant to this withholding provision will be made by the date on which such payments are due to the Bondholders.

The effectiveness of Section 633 of the Public School Code may be limited by the application of other withholding provisions contained in the Public School Code, such as provisions for withholding and paying over of appropriations for payment of unpaid teachers' salaries. Enforcement may also be limited by bankruptcy, insolvency, or other laws or equitable principles affecting the enforcement of creditors' rights generally.

### Sinking Fund

A sinking fund for the payment of debt service on the Series A Bonds Series B Bonds and Series C Bonds, designated the Series A Bonds Sinking Fund, Series B Sinking Fund and Series C Bonds Sinking Fund (collectively, the "Sinking Funds"), have been created under the Resolution, and is maintained by the Paying Agent, as sinking fund depository. The School District shall deposit in the respective Sinking Fund a sufficient sum not later than the date when interest and/or principal is to become due on the respective Bonds so that on each payment date the respective Sinking Funds will contain an amount which, together with any other funds available therein, is sufficient to pay, in full, interest and/or principal then due on the respective Bonds.

The Sinking Funds shall be held by the Paying Agent, as sinking fund depository, and invested by the Paying Agent in such securities or shall be deposited in such funds or accounts as are authorized by the Act, upon direction of the School District. Such deposits and securities shall be in the name of the School District, but subject to withdrawal or collection only by the Paying Agent, as sinking fund depository, and such deposits and securities, together with the interest thereon, shall be a part of the Sinking Fund.

The Paying Agent, as sinking fund depository, is authorized without further order from the School District to pay from the respective Sinking Fund the principal of and interest on the respective Bonds, as and when due and payable.

## BOOK-ENTRY ONLY SYSTEM

***The information in this section has been obtained from materials provided by DTC for such purpose. The School District (herein referred to as the "Issuer") and the Underwriter do not guaranty the accuracy or completeness of such information and such information is not to be construed as a representation of the School District or the Underwriter.***

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or in such other name as may be requested by an authorized representative of DTC. One fully-registered certificate for the Bonds of each maturity will be issued in principal amount equal to the aggregate principal amount of such maturity, and will be deposited with DTC.

## DEFAULTS AND REMEDIES

In the event of failure of the School District to pay or cause to be paid the interest on or principal of the Bonds, as the same becomes due and payable, the holders of the Bonds shall be entitled to certain remedies provided by the Act. Among the remedies, if the failure to pay shall continue for 30 days, holders of the Bonds shall have the right to recover the amount due by bringing an action in assumpsit in the Court of Common Pleas of the county in which the School District is located. The Act provides any judgment shall have an appropriate priority upon the funds next coming into the treasury of the School District. The Act also provides that upon a default of at least 30 days, holders of at least 25 percent of the Bonds may appoint a trustee to represent them. The Act provides certain other remedies in the event of default, and further qualifies the remedies hereinbefore described.

## TAX EXEMPTION AND OTHER TAX MATTERS

### Bond Counsel Opinion

The information which follows is a summary of Bond Counsel's opinion. This summary does not purport and should not be construed to be a complete recitation of Bond Counsel's opinion. The full text draft of Bond Counsel's opinion is appended hereto in Appendix "D" and reference is made hereto. On the date of delivery of the Tax Exempt Bonds, King, Spry, Herman, Freund & Faul, LLC, as Bond Counsel, will issue an opinion to the effect that under existing statutes, regulations and judicial decisions, interest on the Tax Exempt Bonds is excluded from gross income for purposes of Federal income taxation and is not an item of tax preference for purposes of the Federal alternative minimum tax imposed on individuals and corporations, but that in the case of corporations (as defined for Federal income tax purposes) such interest is taken into account in determining adjusted current earnings for purposes of such alternative minimum tax. This opinion of Bond Counsel will assume the accuracy of certifications made by the School District and will be subject to the condition that the School District will comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Tax Exempt Bonds in order that the interest thereon be, and continue to be, excluded from gross income for Federal income tax purposes. The School District has covenanted to comply with all such requirements. Failure to comply with such requirements could cause interest on the Tax Exempt Bonds to be included in gross income retroactive to the date of issuance of the Bonds. In the opinion of Bond Counsel, under the law of the Commonwealth of Pennsylvania, the Tax Exempt Bonds, their transfer and income therefrom shall at all times be free from taxation for state and local purposes within the Commonwealth of Pennsylvania but such exemption does not extend to gift, succession, or inheritance taxes, taxes on gain on the same or transfer thereof, or other taxes not levied or assessed directly on the Bonds or the transfer thereof. All other discussions concerning the Code or tax consequences discussed within the Official Statement are not statements or comments of Bond Counsel and are not matters to which Bond Counsel will opine.

From time to time, there are Presidential proposals, proposals of various federal committees, and legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to herein or adversely affect the marketability or market value of the Tax Exempt Bonds or otherwise prevent holders of the Tax Exempt Bonds from realizing the full benefit of the tax exemption of interest on the Tax Exempt Bonds. Further, such proposals may impact the marketability or market value of the Tax Exempt Bonds simply by being proposed. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value, marketability or tax status of the Tax Exempt Bonds.

### Other Federal Tax Matters

Accruals of the original issue discount with respect to a Tax Exempt Bond allocable to an owner of a Tax Exempt Bond under a constant yield method of accrual (a) are not included in gross income for federal income tax purposes, and (b) are added to such owner's tax basis in the Tax Exempt Bond for the purpose of determining gain or loss for federal income tax purposes upon sale, exchange, redemption and other disposition of the Tax Exempt Bond. The opinions set forth in the preceding two sentences are subject to the condition that the School District complies with all the requirements of the Code that must be satisfied subsequent to the issuance of the Tax Exempt Bonds in order that interest on and accruals of original issue discount with respect to the Tax Exempt Bonds be (or continue to be) excluded from gross income for federal income tax purposes.

Failure to comply with such requirements could cause the interest on and accruals of original issue discount with respect to the Tax Exempt Bonds to be included in gross income retroactively to the date of issuance of the Tax Exempt Bonds. The School District has covenanted to comply with all such requirements.

## **Introduction**

Thank you BEFC co-chairs, Senator Phillips-Hill, Representative Sturla and the entire commission for inviting us to testify today to discuss a school funding change that we feel you will find very intriguing. As previous testimony has confirmed, school funding is an extremely complex issue. Our team, the bipartisan Property Tax Elimination Working Group, has gone through a tremendous amount of analytics, and we feel that our solution provides the best way to do a transition from the current system and accounts for the need of school districts to evolve over time.

Throughout these hearings, we've heard a lot of evidence and stories from all parts of the state on what is and is not working well with school funding but few have touched on the sources of funding. Today, I am sharing our bipartisan, grassroots-driven solution that can provide NOT ONLY the funding that may be needed now AND, in the future, but would also eliminate the most hated unjust tax in Pennsylvania, the School Property Tax."

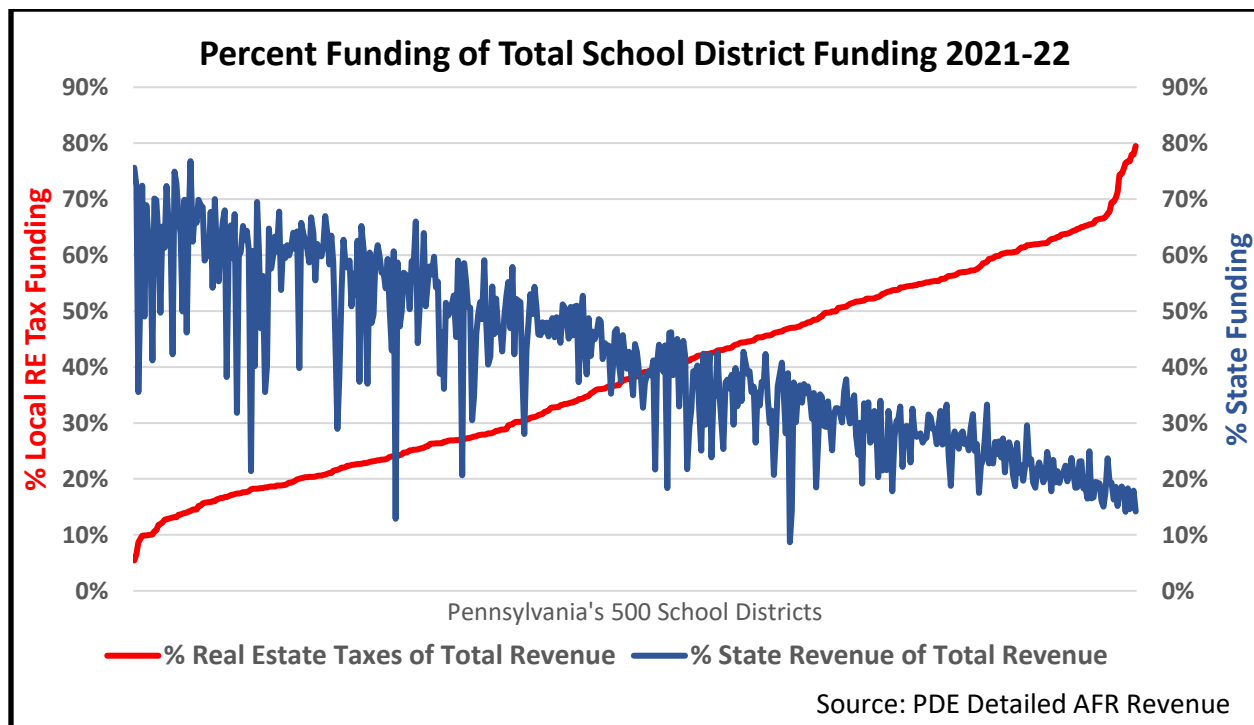
My name is Robert Kistler. I am a retired engineer having worked for Air Products, Western Electric, AT&T, Bell Labs, Lucent Technologies, Agere Systems, and LSI. Late in my career I took advantage of the Trade Adjustment Act (TAA) obtaining a Medical Technology degree from Penn State and subsequently obtained employment as a medical technologist.

During 2010, I attended a property tax meeting where three of the speakers shared how they were blindsided by reassessments of their recently purchased homes, resulting in property taxes tripling or quadrupling. What I heard that day seemed unbelievable. Subsequently, listening to and learning about the struggles so many Pennsylvanians experience with finding the means to pay their property taxes couple with the profound inequality of local school real estate property taxes, I quickly became a resilient property tax activist, primarily driven by the desire to find a better system and end the injustice.

## **Worst in Nation Funding Model**

Previous speaker, Mr. Bob Stilwell shared compelling arguments about the troubling unfairness of school funding. He touched upon the two book-end school districts with regard to local real estate property tax funding. One school district, Duquesne City, the taxpayers pay roughly 6% of total school funding, while at the other end of the spectrum, Lower Merion School District taxpayers pay 80% of total school funding. Please note, PASBO Executive Director Hannah Barrick stated a similar range during her testimony to the BEFC on September 28, 2023."

**Graph 1** shows the percentage of local real estate tax funding expressed as a percentage of all funding sources. As you can see, the range is from approximately 6% to 80%. If all local funding were considered, our numbers would be nearly identical to Director Barrick's figures. While these two school districts lie at the extremities of the data range, they are not outliers.



**Graph 1**

The second data set contained in **Graph 1** is the percent state funding expressed as a percentage of all funding sources. The deviations are due to the variation in the other funding sources for each school district. Pennsylvania Department of Education Annual Financial Report (PDE AFR) revenue data includes four categories, Local, State, Federal, and Other. Local revenue data includes both real estate tax revenue and a myriad of other local taxes, for example, EIT. All of these vary by school district.

The highly irrational disparities quantified here clearly show that funding from local real estate taxes cannot be fixed. The extreme variation of local tax bases coupled with Hold Harmless policy effectively lock in this extremely unjust and unfair local funding. Even if Hold Harmless were to be vacated, the local tax bases across the state would keep the horrendous disparity locked in. The Commonwealth Court order clearly discusses that Pennsylvania relies far too heavily on property taxes for funding schools, something that has been overlooked in most if not all BEFC testimony to date. Applying a system of funding that meets student adequacy intrinsically demands that those funding the system (many parents and grandparents) be treated with evenhandedness.

### **Robust Solution**

We have a plan that will achieve this while satisfying the biggest concerns of the Commonwealth Court order. The plan is known as the “School Property Tax Elimination Act.” It is a robust, grassroots, bipartisan solution that has been refined over the last decade.

As you are aware, school real estate property taxes are collected in advance. Because of this, in the base year of implementing the “School Property Tax Elimination Act”, schools will realize a one-time cash infusion of roughly 75% of annual school real estate taxes collected. For the year 2019 when the “School Property Tax

Elimination Act” was first introduced, that number was approximately \$9 billion. Today, this number is roughly \$11.5B. Much of the BEFC testimony has expressed the need for significant money in order to achieve adequacy. If it is determined that additional funding is needed, the Court has made it clear that property taxes are not the answer. Our plan not only provides a formula that eliminates dependency on school property taxes, but it can be easily adapted for additional revenue if deemed necessary.

In addition to the cash infusion, in an attempt to understand the post implementation impact of the “School Property Tax Elimination Act” we ran a “backtest” analysis. If this legislation had been passed and implemented for the 2015-16 school year, we estimate that our solution would have provided schools with an **estimated \$7.7B** over what was actually collected in school real estate property tax revenue. Had our plan been passed then, it would have resulted in fewer challenges for the BEFC committee to tackle.

This analysis used Pennsylvania Independent Fiscal Office (IFO) revenue data applied to the funding spelled out in the “School Property Tax Elimination Act”. While we are not the IFO, the analysis is not rocket science and could be duplicated by anyone in this room. We do encourage the BEFC to add a request to verify our analysis in the IFO study approved by the commission at the October 5, 2023 Hazleton meeting.

The “School Property Tax Elimination Act” would fund schools by increasing Sales and Use Tax (SUT) as well as Personal Income Tax (PIT). The IFO publishes revenue for both on a monthly basis. These reports include annual revenue collected. Thus, it is a simple matter of applying the tax rates specified in the “School Property Tax Elimination Act” to obtain the revenue that would be generated.

**Table 1** is the “backtest” analysis estimating the impact of implementing the “School Property Tax Elimination Act” in school year 2015-16. The table shows that the “School Property Tax Elimination Act” would have generated slightly more than **\$7.7B** (backtest estimate) over what school real estate taxes generated for the same time frame.

School Property Tax Elimination Act (HB13) - Estimated Impact on School District Property Taxes									
School Fiscal Year	15-16	16-17	17-18	18-19	19-20	20-21	21-22	22-23*	
Primary School Property Tax Elimination Act (HB13) Revenue Generators - Increase SUT to 8% and PIT to 4.92%									
School District Revenue - RE Taxes (PA AFR Data)	\$12,614,952,889	\$13,052,096,839	\$13,510,873,698	\$13,929,896,489	\$14,285,757,568	\$14,576,408,407	\$14,998,408,154	\$15,448,360,399	
SUT Annual Revenue (PA IFO Data)	\$9,795,200,000	\$10,005,200,000	\$10,381,400,000	\$11,099,600,000	\$10,817,800,000	\$12,834,900,000	\$13,914,300,000	\$14,024,400,000	
Each 1% SUT Revenue	\$1,632,533,333	\$1,667,533,333	\$1,730,233,333	\$1,849,933,333	\$1,802,966,667	\$2,139,150,000	\$2,319,050,000	\$2,337,400,000	
7% SUT Revenue Increase to Base (HB13)	\$3,265,066,667	\$3,335,066,667	\$3,460,466,667	\$3,699,866,667	\$3,605,933,333	\$4,278,300,000	\$4,638,100,000	\$4,674,800,000	
PIT Annual Revenue (PA IFO Data)	\$12,506,000,000	\$12,664,400,000	\$13,399,000,000	\$14,095,500,000	\$12,835,000,000	\$16,283,400,000	\$18,125,700,000	\$17,628,100,000	
Each 1% PIT Revenue	\$4,073,615,635	\$4,125,211,726	\$4,364,495,114	\$4,591,368,078	\$4,180,781,759	\$5,304,039,088	\$5,904,136,808	\$5,742,052,117	
1.85% PIT Revenue Increase to Base (HB13)	\$7,536,188,925	\$7,631,641,694	\$8,074,315,961	\$8,494,030,945	\$7,734,446,254	\$9,812,472,313	\$10,922,653,094	\$10,622,796,417	
Subtotal HB13 Revenue - SUT & PIT ONLY	\$10,801,255,592	\$10,966,708,360	\$11,534,782,628	\$12,193,897,611	\$11,340,379,587	\$14,090,772,313	\$15,560,753,094	\$15,297,596,417	
HB13 SUT/PIT Revenue Compared to School District Revenue - RE Taxes	(\$1,813,697,297)	(\$2,085,388,478)	(\$1,976,091,070)	(\$1,735,998,878)	(\$2,945,377,980)	(\$485,636,095)	\$562,344,940	(\$150,763,982)	
Additional HB13 Revenue Generator - Clothing and Food (WIC and SNAP excluded)									
2% SUT on Food	\$506,085,333	\$516,935,333	\$536,372,333	\$573,479,333	\$558,919,667	\$663,136,500	\$718,905,500	\$724,594,000	
2% SUT on Clothing	\$222,024,533	\$226,784,533	\$235,311,733	\$251,590,933	\$246,203,467	\$290,924,400	\$315,390,800	\$317,885,400	
Subtotal HB13 Revenue SUT/PIT Base Clothing	\$11,529,365,458	\$11,710,428,227	\$12,306,466,694	\$13,018,967,878	\$12,144,502,721	\$15,044,833,213	\$16,595,049,394	\$16,340,076,817	
HB13 SUT/PIT Base Clothing, Food Compared to School District Revenue - RE Taxes	(\$1,085,587,430)	(\$1,341,668,612)	(\$1,204,407,003)	(\$910,928,611)	(\$2,141,254,847)	\$468,424,805	\$1,596,641,240	\$891,716,418	
Additional HB13 Revenue Generator - Retirement Tax									
PIT Extension	\$1,220,862,606	\$1,236,325,954	\$1,308,039,186	\$1,376,033,013	\$1,252,980,293	\$1,589,620,515	\$1,769,469,801	\$1,720,893,020	
HB13 Revenue Total - 2% Base, Clothing, Food SUT/PIT, RIT Revenue (HB13)	\$12,750,228,064	\$12,946,754,182	\$13,614,505,880	\$14,395,500,891	\$13,397,483,014	\$16,634,453,727	\$18,364,519,196	\$18,060,969,836	
HB13 School Property Tax Replacement Impact	\$135,275,175	(\$105,342,657)	\$103,632,182	\$465,104,402	(\$888,274,554)	\$2,058,045,320	\$3,366,111,041	\$2,612,609,437	
<b>Cumulative HB13 School Property Tax Replacement Impact</b>								<b>\$7,747,160,348</b>	

Potential School Property Tax Replacement Revenues				
	22-23	23-24	24-25	25-26
Raise SUT by 1.5 ppt (7.5%)	\$3.21	\$3.32	\$3.43	\$3.54
Raise SUT by 2.0 ppt (8.0%)	\$4.26	\$4.40	\$4.55	\$4.69
2.0% SUT on Food (exclude SNAP-WIC)	0.66	0.68	0.70	0.73
2.0% SUT on Clothing	0.29	0.30	0.31	0.32
Raise PIT from 3.07% to 4.92%	9.17	9.57	10.00	10.43
Tax Retirement Income at 4.92% (see notes)	1.69	1.58	1.67	1.78
<b>TOTAL</b>	<b>15.86</b>	<b>16.53</b>	<b>17.22</b>	<b>17.93</b>

Clothing Multiplication Factor determined from above table 0.29/4.26	<b>0.068</b>
Food Multiplication Factor determined from above table 0.66/4.26	<b>0.155</b>
22-23 numbers in ball park with IFO 22-23 numbers and would be expected to be higher since SUT and PIT revenues higher than were projected when above table created by IFO.	
RIT Multiplication Factor determined from above table 1.49/9.17	<b>0.162</b>

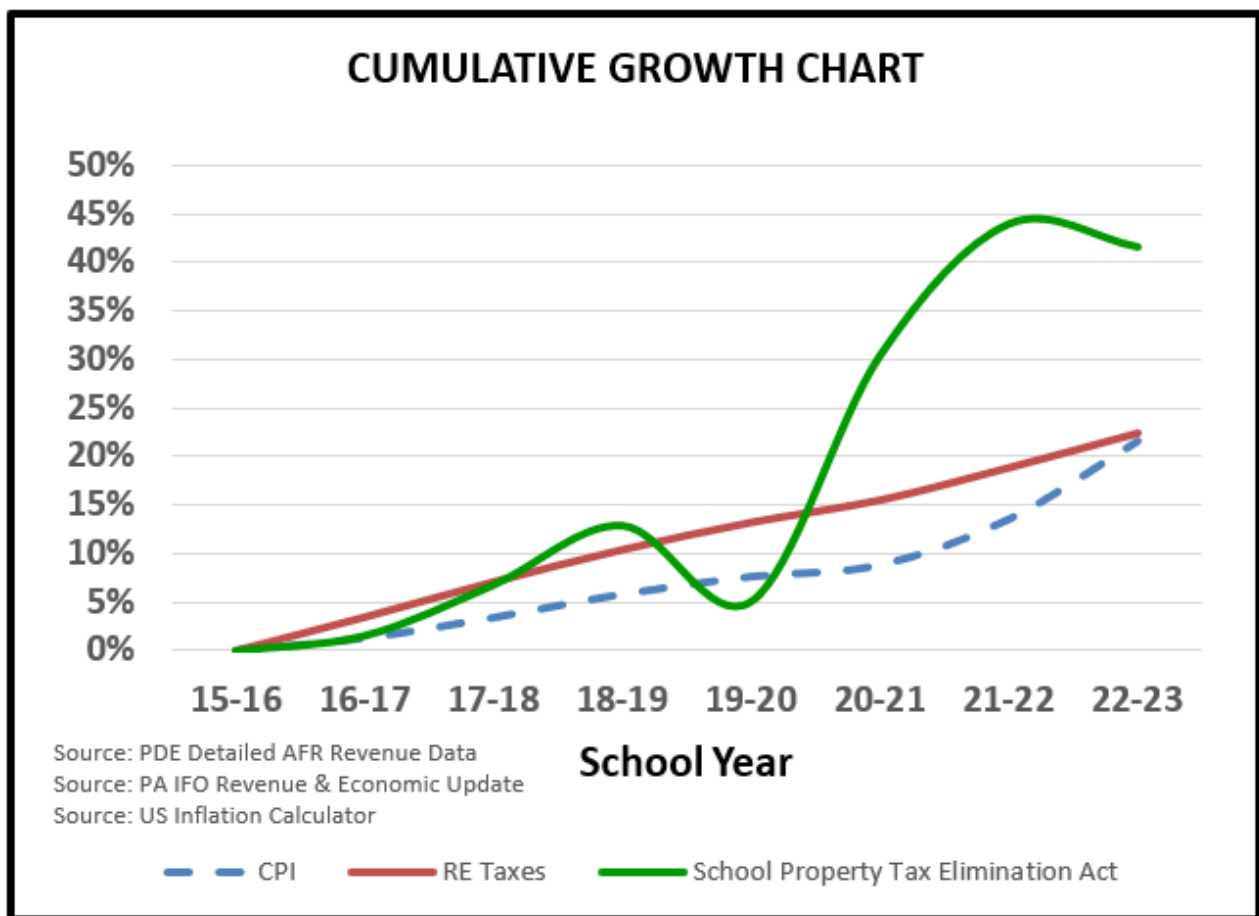
\* School District Revenue - RE Taxes estimated for school year 22-23. PDE AFR revenue data published in April of following year.  
 Note: IFO PIT and SUT presented in \$M, converted to \$B so direct compare to RE taxes  
 Source SUT/PIT Revenue <http://www.ifo.state.pa.us/releases/type/1/Revenue-&Economic-Update/>  
 Source School District Revenue (R) <https://www.education.pa.gov/teachers%20-%20Administrators/School%20Finances/Finances/AFR%20Data%20Summary/Pages/AFR-Data-Detailed-.aspx>

**Table 1**



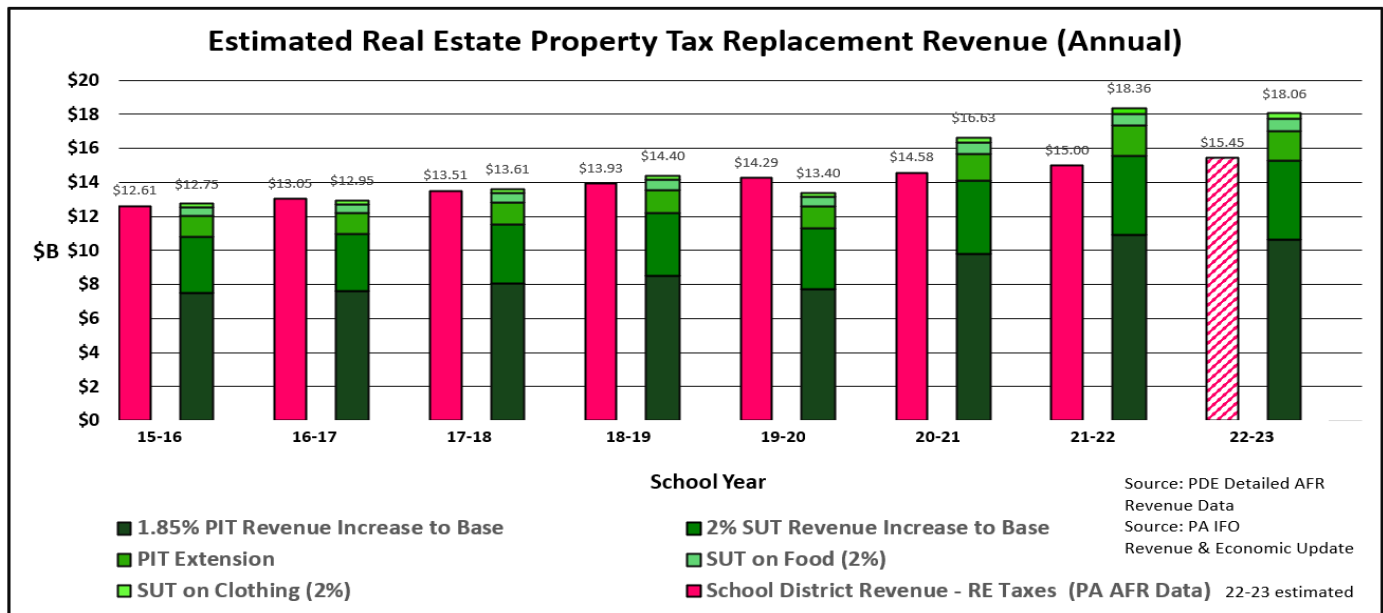
The yellow highlighted lines in the table show revenue from the sources listed in the table. The light blue headers breakout out the revenue generators contained within the “School Property Tax Elimination Act”. The bulk of the revenue, about 85%, is generated by SUT and PIT base tax rate increases. Additional revenue generators are a 2% SUT on food and clothing (WIC and SNAP items excluded), and the extension of PIT to some retirement income. Military pensions and Social Security (or equivalents like Railroad Retirement, State Police “in lieu of” Social Security are not taxed up to the full Social Security entitlement. The embedded table on the right with dark blue header was provided by the IFO to former Representative Frank Ryan. This table can be found on the PA IFO website under the “Economics And Other” category. The report date is August 30, 2021 (Property Tax Update).

**Graph 2** shows the estimated percent cumulative growth of the school replacement revenue generated by the “School Property Tax Elimination Act” along with actual school real estate property tax revenue growth and inflation.



**Graph 2**

**Graph 3** shows the estimated annual dollars generated by “School Property Tax Elimination Act” along with actual school real estate property tax revenue.



**Graph 3**

### PIT Extension - Financial Windfall

As previously mentioned, one of the revenue generators for the “School Property Tax Elimination Act” is an extension of PIT to some retirement income. There is no arguing that when the “School Property Tax Elimination Act” was first introduced in 2019, it created quite a stir and for some, an immediate but unfounded rejection of the Act.

The reality is, “School Property Tax Elimination Act” is expected to raise about \$1.49B per the IFO while senior property owners would experience roughly \$3.34B in tax savings. That is a statewide windfall of roughly \$1.84B (refer to **Table 2 and 3** - PA IFO data). The actual windfall would be slightly higher if 2022-23 data was available in **Table 2**. Because most seniors would actually experience a financial win, our members began educating the public and we created a property tax estimator where any individual can determine their personal estimated impact. Between the education and the calculator (found at [www.noprop.tax](http://www.noprop.tax)) when the “School Property Tax Elimination Act” was reintroduced during the 2021 legislative session, there was very little push back. The extension of PIT to some retirement income is a financial windfall for a large percentage of seniors, especially those living solely on Social Security.

**Table 2: Revenues by Property Type**

	2019-20	2020-21	2021-22	Avg. Share
<b>SD Property Taxes - Total</b>	<b>\$15.32</b>	<b>\$15.70</b>	<b>\$16.08</b>	<b>100%</b>
Non-Senior Homeowner	\$5.92	\$6.07	\$6.21	39%
<b>Senior Homeowner</b>	\$3.19	\$3.27	<b>\$3.34</b>	21%
Rental/Commercial	\$6.21	\$6.37	\$6.53	41%

Note: Dollar amounts in billions. Share represents the percentage of total school district property taxes.

Source: PA IFO - ECONOMICS AND OTHER - PROPERTY TAX UPDATE - August 30, 2021

**Table 2**

**Potential School Property Tax Replacement Revenues**

	22-23	23-24	24-25	25-26
Raise SUT by 1.5 ppt (7.5%)	\$3.21	\$3.32	\$3.43	\$3.54
Raise SUT by 2.0 ppt (to 8.0%)	\$4.26	\$4.40	\$4.55	\$4.69
2.0% SUT on Food (exclude SNAP-WIC)	0.66	0.68	0.70	0.73
2.0% SUT on Clothing	0.29	0.30	0.31	0.32
Raise PIT from 3.07% to 4.92%	9.17	9.57	10.00	10.43
<b>Tax Retirement Income at 4.92% (see note)</b>	<b>1.49</b>	<b>1.58</b>	<b>1.67</b>	<b>1.78</b>
<b>TOTAL</b>	<b>15.86</b>	<b>16.53</b>	<b>17.22</b>	<b>17.93</b>

Note: Billions of dollars. SUT is sales and use tax. PIT is personal income tax. Retirement income excludes Social Security. Estimates assume other Retirement Income will be taxed upon distribution such as DB and DC pensions, IRA withdrawals and annuities. Assumes that income previously taxed via the inability to deduct from gross income are not taxed a second time.  
Source: Independent Fiscal Office.

Source: PA IFO - PROPERTY TAX - SCHOOL DISTRICT PROPERTY TAX UPDATE - June 28, 2023

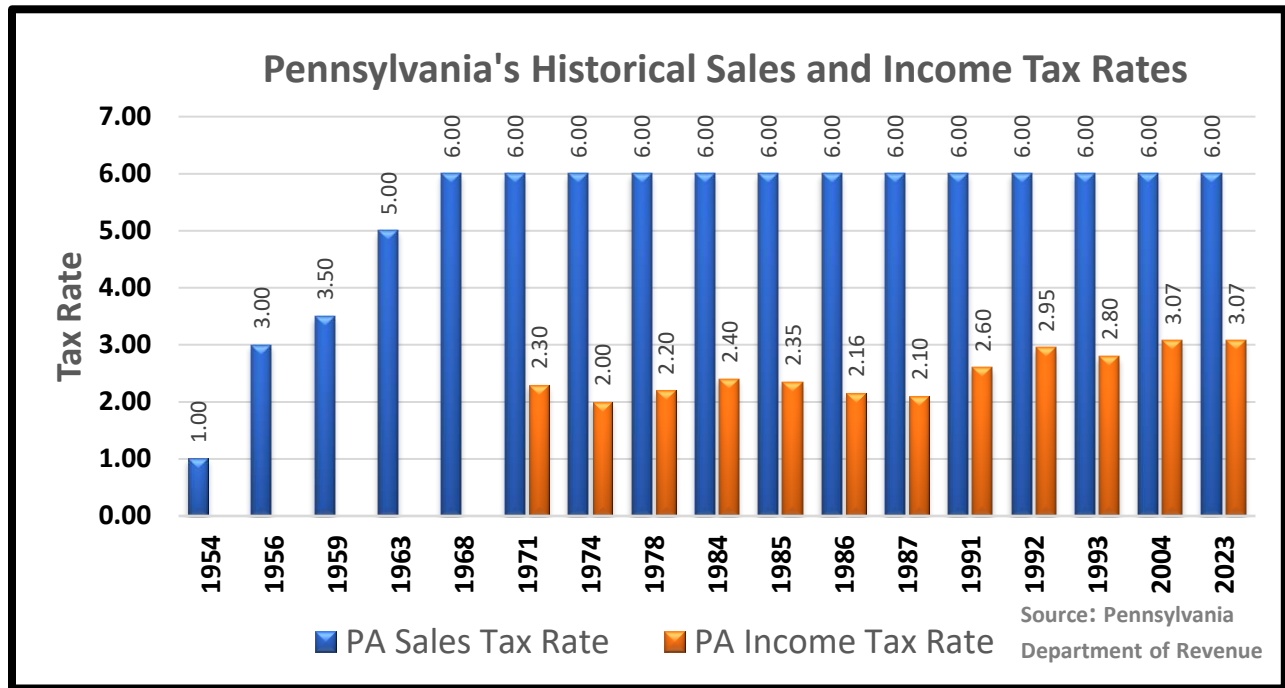
**Table 3**

## Tax Shift Stability

Some will argue that this just trades one tax for another and that SUT and PIT will have to be increased annually just as school real estate property taxes are now. This is decidedly not the case. SUT and PIT revenue “intrinsicly” increases annually. This occurs due to job creation, wage growth, and product and services cost increases. This “natural” revenue increase is so dependable that SUT has remained flat for 55 years and PIT for 19 years (**See Graph 4**). Historically, PIT has decreased and increased multiple times since inception. If SUT and PIT can partially fund an annually increasing state budget without the need for periodic tax increases, it certainly can run a subset of the budget, school funding using the same funding sources.

A previous PA IFO analysis of HB1776 titled “Analysis of SB1776 and HB 1400 of 2012” dated September 25, 2012 states, “The elimination of property taxes would significantly reduce the property tax share and would clearly increase the attractiveness of the Commonwealth for business location and expansion. (Page 25).

Creating a business friendly environment would generate additional sales and income revenue. Moving to a SUT / PIT funding model would also result in non-resident revenue, both which would serve to further enhance stability.



Graph 4

Because school funding would be moved to SUT and PIT revenue with no need for annual increases, those that are on the negative side of implementation will eventually flip to the positive side. Our calculator estimates the number of years needed for this to occur. Thus, over time, those experiencing a financial win will continue to increase.

### Additional Considerations

A [Retirement Security Task Force Report](#) issued by Joseph M. Torsella, Pennsylvania State Treasurer stated that 40% of Pennsylvania retirees are forced to survive on Social Security ALONE as their sole source of income, averaging approximately \$22,000 in year 2023 before Medicare cost is subtracted. Social Security is not taxable income under PA law, thus if an income tax replaces school property tax by schools, approximately 40% of retirees would have \$0 to tax.

In 2017, 44% of businesses offered no retirement plan, and of those who did, only 77% of their employees participated. Employees who left such employers without meeting vesting requirements risked losing any financial nest egg they had made. Among all other workers, including sole proprietors and immigrants with no access to an employer plan, only 5% opened an IRA on their own. Many, lacking training, gambled on a simple savings account with a paltry 0.01% annual interest rate, which would take 7,200 years to double their investment. The median worker today, of all ages, has literally saved \$0 for retirement or unexpected events.

To retire, the task force recommended that an individual needs to accumulate a minimum of 12 times their final year's earnings in an IRA investment. When combined with Social Security, this can provide the funds needed to meet one's basic needs until age 100. For employees who managed some retirement savings, the average saved was about one year's salary. What will your earnings be per year at age 67 times 12?

Families prioritize their financial obligations, and IRAs are ultimately delayed and dangerously underfunded. 401Ks or any savings may have been needed to pay the bills during the COVID crisis. Decades of retirement investment and years of compounding gains have been lost for many. What will the plight of seniors look like in 20-30 years?

Our proposed bill aims to eliminate school property taxes for a fairer way of funding, increasing school revenue naturally using inflation and discipline, with a tax system that can go decades without rate increases. No more school property taxes will be paid out of a Social Security check, rent, or monthly mortgage payment. Families, therefore, have a better chance to save seriously again.

Moody's, in 2006, vetted a previous elimination bill and predicted that most of the billions of dollars remaining in residents' pockets would be spent on local businesses throughout the state, increasing business start-ups, jobs, salaries, and expanding the taxpayer base, which would increase state as well as school tax revenue.

Pennsylvania Commonwealth Court Judge Renée Cohn Jubelirer court order criticized Pennsylvania's current funding system for schools as being unconstitutional for over a decade and called for Harrisburg to replace it, not just offer another funding formula that will simply follow the same footsteps as the many past failures.

## **Closing**

I want to thank the commission for inviting us and giving us the opportunity to share our plan. This plan elegantly solves today's problems with school funding, tomorrow's revenue growth, while satisfying the Commonwealth Court Order.

**Respectfully,**

**Robert Kistler for the Property Tax Elimination Working Group.**



Chair Sturla, Chair Phillips-Hill, and members of the committee:

Thank you for the opportunity to offer my perspective on Pennsylvania’s basic education funding formula, which allocates education dollars to the state’s 500 school districts. The education policy team at Reason Foundation works extensively on school finance, producing actionable policy research and advising policymakers across states.

### **Key School Finance Trends**

Public education is facing extraordinary challenges in the wake of the COVID-19 pandemic, with many school districts across the country experiencing deep enrollment declines and unsustainable budgets. To better equip policymakers for pivotal decisions that will shape generations to come, our forthcoming study, *Public Education at a Crossroads*, provides state and local officials in all 50 states with comprehensive data to help navigate the difficult decisions ahead. Using nearly two decades of school finance data (2002-2020) obtained from the U.S. Census Bureau and the National Center for Education Statistics, our study highlights several critical pre-pandemic education trends to help policymakers navigate these post-pandemic funding decisions.

Notably, sizable increases in education funding in many states have not translated into higher teacher salaries. Instead, a prevailing trend in public schools is to add new staff, regardless of enrollment levels. Education dollars are also increasingly devoted to paying for employee benefits, a Census expenditure category that includes pension contributions, healthcare, Social Security, and other expenses. Separate research shows this spending is primarily driven by unfunded pension liabilities that many states have accumulated and continue to worsen.

Finally, our study finds that additional investments in public education don’t automatically lead to improved student achievement on standardized tests. Comparing real funding growth between 2003 and 2019 and results on the National Assessment of Educational Progress (NAEP) did not show a clear or consistent relationship across states. For instance, New York had the largest increase in per-student funding, but its NAEP scores were essentially flat across subjects. In comparison, Arizona ranked near the bottom in per-student funding growth but saw NAEP score gains across all subjects examined, including substantial gains by its low-income students.

To be sure, there’s much more to education than standardized test scores—and our research doesn’t determine what caused the observed trends in New York, Arizona, or other states—but NAEP is the gold standard in measuring academic achievement over time, and provides valuable information for policymakers.

Pennsylvania’s K-12 finance trends largely mirror these national trends, as summarized in Table 1. For instance, the state’s inflation-adjusted revenue per student grew by 49%, the nation’s fifth-highest growth rate during the period



examined. Figure 1 shows this breakdown by funding source. Although funding increased by \$7,089 per student, more than half of those new dollars—\$3,588—went to spending on employee benefits. At the same time, total public school staff increased by over 10% despite a nearly 5% drop in student enrollment, as shown in Figure 2. Importantly, average teacher salary data indicate that the Keystone State’s new investments in K-12 education are not making their way to teachers’ paychecks, as inflation-adjusted salaries for Pennsylvania teachers declined nearly 4% from 2002 to 2020.

Table 1: Pennsylvania’s Public School Funding, Spending, and Enrollment Trends (2002-2020)

Category	2002	2020	Growth Rate	Growth Rank	2020 Rank
Revenue Per Student	\$14,435	\$21,524	49.1%	6	5
Benefits Per Student	\$2,068	\$5,656	173.6%	3	5
Enrollment	1,821,627	1,732,449	-4.9%	39	7
Total Staff	229,238	252,559	10.2%	31	7
Teachers	118,470	124,294	4.9%	26	6
Non-Teachers	110,768	128,265	15.8%	31	6
Average Teacher Salary	\$73,065	\$70,339	-3.7%	34	10

Figure 1: Inflation-Adjusted Public Education Funding (2002-2020)

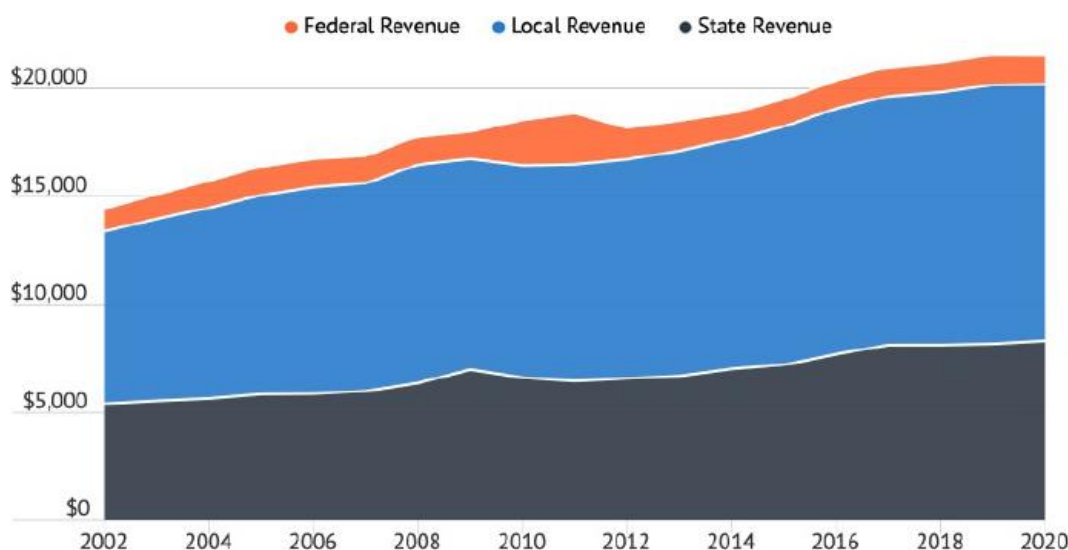
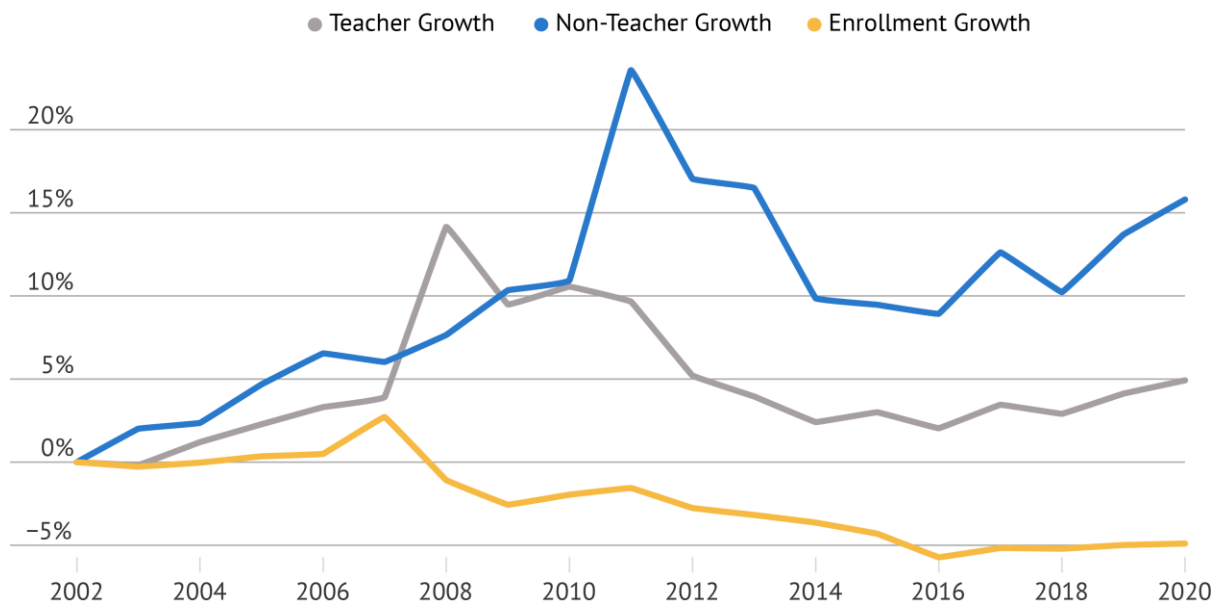


Figure 2: Public Education Enrollment and Staffing Trends (2002-2020)



Overall, Pennsylvania’s NAEP score growth rankings were above average, but not among the top-performing states in most subjects. Notably, low-income students demonstrated impressive NAEP gains in 4th-grade reading, ranking 5<sup>th</sup> overall in the country between 2003 and 2019. However, this growth wasn’t matched in the other three subjects, which ranked 15<sup>th</sup> (8th-grade math), 19<sup>th</sup> (8th-grade reading), and 21<sup>st</sup> (4th-grade math). Table 2 summarizes the results for low-income students along with Pennsylvania’s all-student NAEP growth scores and rankings.

Table 2: Pennsylvania NAEP Score Growth Rankings by Subject and Student Population (2003-2019)

Subject	4th Grade			8th Grade		
	Score Growth	Growth Rank	2019 Rank	Score Growth	Growth Rank	2019 Rank
Reading (All Students)	5	12	10	0	26	18
Math (All Students)	8	12	9	6	12	16
Reading (Low-Income)	9	5	22	3	19	25
Math (Low-Income)	7	21	28	8	15	35





## Recommended Policy Reforms

Three key reforms will help improve how Basic Education Funding is allocated and used across the Keystone State.

1. Phase-out hold harmless funding within a reasonable timeframe.

In 2016, Pennsylvania's legislature took a critical step toward improving its K-12 funding system by passing Act 35, which adopted the Fair Funding Formula.<sup>i</sup> This student-centered approach targets additional funding to English-language learners, low-income students, and students with disabilities. The Fair Funding Formula promotes greater fairness and transparency while providing legislators with a lever for prioritizing education and how state aid is allocated.

But seven years later, only about 25% of the state's Basic Education Funding appropriation is delivered using Pennsylvania's student-centered formula.<sup>ii</sup> Rather, the bulk of dollars are divvy-upped via a hold-harmless provision that ties education funding to 2014-2015 levels. While this policy might have helped ease the transition to a new funding formula, it diminishes transparency and allocates funding based on past priorities rather than current ones. Pennsylvania should expedite the phasing-out of hold harmless funding— as states such as California and Hawaii have previously done—by moving all of these dollars to the Fair Funding Formula within a reasonable timeframe. Policymakers can then decide how to align this funding with students' needs.

2. Adjust PSERS' assumed rate of return to a more realistic level.

Pennsylvania's Public School Employees Retirement System (PSERS) has seen unparalleled levels of funding volatility since 2000. The plan managed to hit the trifecta of poor decision-making relating to public pensions: 1. Increased pension benefits without having a way to pay for the increased costs; 2. Failed to fund annual required contributions to the pension system; 3. Failed to hit the assumed rate of return on the plan's investments. This necessitated a few rounds of reforms.

The first came in 2010, which increased the employer rate to the pension fund. This reform also reversed the benefit increases passed by previous legislators. The 2010 reforms helped, but ultimately had too little of an impact on the plan's funded trajectory.

In 2017, the legislature made larger reforms, which included placing all new hires in a hybrid plan, and allowing for employee contribution rates to increase during times of poor funding. This reform also created a commission to study why Pennsylvania pensions are paying some of the highest fees to consultants in the country while failing to hit their investment targets. PSERS has also slowly dropped its assumed rate of return down to the current rate of 7.0%, which is still above the national average of 6.88%). The assumed rate of return is the most important



assumption in terms of its effect on a plan's solvency, as investment returns have accounted for around 60% of all public pension assets over the past 30 years.

Putting the plan's assumed rate at a lower, more realistic number would drastically decrease the chance of unfunded liabilities accruing in the future, but does have the near-term impact of making PSERS more expensive in the near term. However, due to the new plan design and employee cost-sharing, PSERS is on a far better funding trajectory than they were just five years ago.

3. Adopt a statewide open enrollment policy that guarantees students access to all public schools.

The COVID-19 pandemic exacerbated Pennsylvania's declining enrollment trend: between 2020 and 2022, public schools lost nearly 3% of their students.<sup>iii</sup> Research suggests that parents want more agency over their K-12 educational experiences and are increasingly choosing other options, such as private schools and homeschooling.<sup>iv</sup> One way to stem the tide of enrollment losses—while improving public schools—is to adopt public school open enrollment, which allows all students to attend any public school with available seats.

In a recent Reason Foundation study, *Public Schools without Boundaries*, Pennsylvania met only one of five benchmarks for open enrollment best practices.<sup>v</sup> State laws guaranteeing public school students can transfer to any other public school with open seats would help students and districts. States such as Wisconsin, Kansas, and Arizona provide models for student-transfer policies that ensure students have access to public school options both across and within their residentially assigned school district boundaries.

Research shows that when given the opportunity, public school students use open enrollment for various reasons, such as to escape bullying and access specialized programs and curricula.<sup>vi</sup> There's also evidence that rural and urban school districts losing students to open enrollment respond by increasing parental engagement and improving their offerings to retain and attract students.<sup>vii</sup> Importantly, open enrollment enjoys strong bipartisan support, with solid majorities of Republican and Democratic lawmakers casting votes in favor of legislation across several states.<sup>viii</sup>

Thank you for the opportunity to share my perspective on Pennsylvania's school finance system. I welcome any questions or information requests the committee members may have.

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<sup>i</sup> Pennsylvania 2016 Act 35. [www.legis.state.pa.us/cfdocs/legis/li/uconsCheck.cfm?yr=2016&sessInd=0&act=35](http://www.legis.state.pa.us/cfdocs/legis/li/uconsCheck.cfm?yr=2016&sessInd=0&act=35) (26 Oct 2023).

<sup>ii</sup> “2023-24 Estimated Basic Education Funding” Pennsylvania Department of Education, [education.pa.gov](http://education.pa.gov). [www.education.pa.gov/Teachers%20%20Administrators/School%20Finances/Education%20Budget/Pages/default.aspx](http://www.education.pa.gov/Teachers%20%20Administrators/School%20Finances/Education%20Budget/Pages/default.aspx) (26 Oct 2023).

<sup>iii</sup> “Return to Learn Tracker,” American Enterprise Institute. [www.returntolearntacker.net/2020-22-enrollment-changes/](http://www.returntolearntacker.net/2020-22-enrollment-changes/) (26 Oct 2023).

<sup>iv</sup> Christian Lehr and Adam Newman, “Choose to Learn 2022,” Tyton Partners, October 2022. [www.tytonpartners.com/choose-to-learn-2022/](http://www.tytonpartners.com/choose-to-learn-2022/) (26 Oct 2023). Thomas S. Dee, “Where the Kids Went: Nonpublic Schooling and Demographic Change during the Pandemic Exodus from Public Schools, Urban Institute, February 2023. [www.urban.org/research/publication/where-kids-went-nonpublic-schooling-and-demographic-change-during-pandemic](http://www.urban.org/research/publication/where-kids-went-nonpublic-schooling-and-demographic-change-during-pandemic) (26 Oct 2023).

<sup>v</sup> Jude Schwalbach, “Public Schools Without Boundaries,” Reason Foundation, October 2023. [www.reason.org/open-enrollment/public-schools-without-boundaries-2023/](http://www.reason.org/open-enrollment/public-schools-without-boundaries-2023/) (Oct 26 2023).

<sup>vi</sup> Gabriel Petek, Follow-Up Evaluation of the District of Choice Program, California Legislative Analyst’s Office, February 2021, <https://lao.ca.gov/reports/2021/4329/District-Choice-Evaluation-020121.pdf>

<sup>vii</sup> Ibid.

<sup>viii</sup> Aaron Smith, “The Progressive Case for K-12 Open Enrollment,” Education Next, August 2023. [www.educationnext.org/the-progressive-case-for-k-12-open-enrollment/](http://www.educationnext.org/the-progressive-case-for-k-12-open-enrollment/) (26 Oct 2023).