



November 12, 2015

Join of PSBA, PA Association of School Administrators (PASA), PA Association of School Business Officials (PASBO), PA Association of Rural and Small Schools (PARSS), PA Association of Intermediate Units (PAIU) and the PA Principals Association on Monday, Nov. 16, at the State Capitol on for Budget Action Day. For more information: [Click here to register for Budget Action Day.](#)



STOP Referendum: Over 1,000 messages say vote "NO"

With over 1,000 messages already sent in response to [PSBA's Legislative Alert](#) released last Friday, public school officials are telling Gov. Wolf and legislators to vote "NO" on any legislation such as Senate Bill 909 that would require school districts to place a referendum question on the ballot for any and all property tax increases.

Responses have been sent from school officials in nearly every county in the state, resoundingly in opposition to any plan to eliminate the index under Act 1 of 2006 and the remaining allowed exceptions. A referendum requirement for any tax increase would eliminate the ability of school boards to build a budget, pay for mandated costs and make tax decisions based on their financial needs. Referendum, combined with the shortcomings of Pennsylvania's education funding system and the number of mandates imposed on school districts, translates into fewer overall resources available for needed programs and student services.

[If have not yet sent a letter to the governor and your legislators telling them to STOP referendum, click here to see PSBA's Legislative Alert and use a prepared letter.](#)



PSBA's new Closer Look publication explains referendum concerns

PSBA is sending to the governor and legislators the newest piece in its Closer Look information series, *Referendum: It's Not Tax Reform*. The report examines the concerns with the faulty concept of referendum on school districts as a tax reform solution. Referendum treats the symptom of unpopular property taxes without treating the cause of the problem -- an inadequate education funding system and too many unfunded and underfunded mandates. Rather than addressing these issues, proposals to eliminate the index and require referendum strips elected school boards of the ability to make tough financial decisions for their districts without any changes to the statutory processes under Act 1.

The report explains on practical level, districts also have to be able to pay for increasingly high mandated costs, including those for employer contributions to the Public School Employees' Retirement System

(PSERS), charter school tuition for regular and special education, and special education programs and services for district students. These are mandated costs that school boards cannot control, and every year they consume larger portions of district budgets.

Click here to read PSBA's report: [Referendum: It's Not Tax Reform](#)

STATE BUDGET

Tentative state budget agreement reached

Gov. Wolf and legislative leaders in the Senate and House of Representatives are reporting agreement on a broad framework of what could lead to a final budget compromise, with the hope to have the budget finished perhaps as early as Thanksgiving. Acknowledging that there are still many details to be finalized, legislators say that additional session days may be added to get the deal to the governor's desk.

The agreed-to budget framework includes an increase in the basic subsidy by \$350 million, raising the total line item from the current \$5.53 billion to \$5.88 billion. Special education would receive a boost of \$50 million, for a total of about \$1.1 billion. The governor had originally sought a \$400 million increase for the basic subsidy and an additional \$100 million for special education.

Other elements of the deal reportedly include a 1.25% hike in the state sales tax from 6% to 7.25% that would generate about \$2 billion to be used for property tax relief. (Because of existing higher sales tax rates, the sales tax would rise to 9.25% in Philadelphia and 8.25% in Allegheny County.) Revenue collected from casinos now directed to property tax relief could be used instead for pension costs (about \$600 million), and the money in the state's General Fund would be used for increases in basic and higher education.

The framework also includes a hybrid pension reform plan that the governor has agreed to sign. Although no details have been released, it has been reported that the plan will contain a "side by side" structure for future employees that contains components of both defined benefit and 401(k)-style defined contribution elements. Many other details, including possible changes to rules on withdrawal of pension contributions, or employer and employee contribution rates, have not yet been publicly reported.

Budget package details remain fluid as talks continue and no specific language has been drafted yet. Discussions are still in the works on major issues including the distribution of education funds and property tax relief, referendum mandates for school districts, and liquor privatization. However, work is continuing at a continued pace, and a package of bills could be ready to move soon.

Regarding a tax reform proposal, the Senate may quickly move to consider [Senate Bill 76](#) (Sen. Argall, R-Schuylkill), legislation that eliminates property taxes and shifts a significant burden of funding public schools onto various other taxing mechanisms, including sales, and income taxes. This bill, called the "Property Tax Independence Act," is very similar to the version of Senate Bill 76 from the previous session. Look for more information from PSBA on this soon.

Latest News

House Committee Action

- [Approved by the House Appropriations Committee](#)

- [Approved by the House Judiciary Committee](#)

Other News

- [PSERS annual financial report is released](#)
- [Governor, General Assembly ask PA Supreme Court to reject school funding lawsuit](#)

House Committee Action

Approved by the House Appropriations Committee

Tax Credits for Volunteer First Responders -- House Bill 1683 (Rep. Warner, R-Fayette) as originally introduced authorizes municipalities to enact a tax credit against the earned income and property tax liability of active volunteers of a fire company or EMS company. The bill was amended by the committee to authorize local governments and school districts to offer the tax credits.

Taxation of Out Buildings - Senate Bill 785 (Sen. Eichelberger, R-Blair) amends the Consolidated County Assessment Law (CCAL) to clarify that buildings, whether or not "permanently attached to land, water, gas, electric or sewer facilities," are subjects of taxation for real estate tax purposes. The phrase was inadvertently inserted during the codification of three major assessment laws in 2010 (Act 93 of 2010). Senate Bill 785 provides a limited exemption for a "de minimis structure" of 200 square feet or less that is not permanently attached to land or connected with water, gas, electric or sewage facilities. The Committee amended the definition of "de minimis structure" to permit a structure of 200 square feet or less to be connected to electric or water and remain exempt from real estate taxation. Additionally, this bill provides a limited exemption for certain agricultural buildings of 1,000 square feet or less that are not permanently attached to land or connected with water, gas, electric or sewage facilities

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Approved by the House Judiciary Committee

Antihazing Prohibition in Secondary Schools - House Bill 1574 (Rep. Marsico, R- Dauphin) expands the Antihazing Law to require secondary schools to adopt policies and rules prohibiting students or other persons from engaging in any activity associated with an organization recognized by the school that can be described as hazing. By expanding Pennsylvania's anti-hazing law to apply to public and private secondary schools as well as organizations affiliated with our schools, we are taking one more step toward aggressively halting hazing. Penalties for violating school policies include imposition of fines, withholding of diplomas or transcripts, and the imposition of probation, suspension, dismissal or expulsion. The antihazing rules apply to acts conducted on or off campus or other school property. [Click here to read PSBA's letter of support for House Bill 1574.](#)

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Other News

PSERS annual financial report is released

The Pennsylvania School Employees' Retirement System (PSERS) has released its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2015. The report is intended to provide financial, investment, actuarial, and statistical information regarding PSERS. The CAFR states that the past fiscal year was a mixed year to be invested in higher risk assets, with modestly positive returns to equities while commodity and commodity-related securities struggled. PSERS' Board and investment staff made significant changes to the fund's investment asset allocation, further refining investment strategy and increasing the diversification of the fund's assets. For the second year in a row, PSERS' investment manager fees have declined.

The report also notes that, for many years, the commonwealth and school employers paid below the annual required contribution (ARC) that was necessary to pay down the unfunded liability of the system. The ARC percentage received fell to a low of 27% before significant pension reform was enacted in 2010. Act 120 of 2010 has made dramatic progress toward addressing the funding issue at PSERS. Since 2010, Act 120 has slowly resulted in increased employer contributions to the system and has raised the ARC to a level closer to other states. In FY 2015, PSERS received 69% of the ARC and is projected to receive 80% of the ARC in FY 2016. After FY 2017, PSERS' Employer Contribution Rates are projected to plateau.

According to the report, employer contributions increased from \$2.1 billion in fiscal year (FY) 2014 to \$2.7 billion in FY 2015 due to the increase in the total employer contribution rate from 16.93% in FY 2014 to 21.40% in FY 2015. The rate will continue to climb over the next several years, projecting to peak at 32.23% in 2020 and remain at almost 32% through 2029.

[Click here to see the entire CAFR report.](#)

[Click here to see the actuarial section.](#)

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Governor, General Assembly ask PA Supreme Court to reject school funding lawsuit

The Wolf Administration and the General Assembly have filed separate briefs with the state Supreme Court urging the court not to consider the appeal of a school funding lawsuit that was dismissed last spring by the Commonwealth Court.

William Penn School District, et al. was brought last November by seven parents, the Pennsylvania Association of Rural and Small Schools (PARSS), the NAACP Pennsylvania State Conference, and six school districts from urban, rural, and suburban communities, represented by the Education Law Center. The lawsuit challenges the state's public education funding system as inadequate to satisfy the state constitutional mandate for the General Assembly to provide a "thorough and efficient" system of public education. In April, the Commonwealth Court dismissed the lawsuit, ruling that although the state constitution imposes a duty on the

legislature to provide a thorough and efficient system of public education, the question of whether any particular funding level is adequate is a non-justiciable political question that the courts cannot second guess because that is an education policy determination solely the province of the General Assembly.

The separate briefs filed by the Wolf Administration and General Assembly agree with the Commonwealth Court's reasoning, contending that the constitution sets the obligation of the legislative branch of government to establish a funding system. The districts and parents will file a reply brief within three weeks. Lawyers for the districts and parents expect the high court will hear oral argument in early 2016. The full court, including the newly-elected justices Wecht, Dougherty and Donohue, is expected to review the case.

[Click here to see the Wolf Administration's Brief.](#)

[Click here to see the General Assembly's Brief.](#)

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