



PENNSYLVANIA DEPARTMENT OF THE AUDITOR GENERAL

 Pennsylvania Auditor General  PaAuditorGen  Pennsylvania Auditor General



News for Immediate Release

January 25, 2023

Auditor General DeFoor Questions Annual Property Tax Increases for 12 School Districts; Calls on Legislature to Close Loopholes

HARRISBURG – Auditor General Timothy L. DeFoor today released an audit of 12 school districts from across the Commonwealth that uncovers a legal standard practice where districts are raising local property taxes while holding millions of dollars in their General Funds.

“These districts represent a cross-section of Pennsylvania – from wealthier to poorer tax bases and urban, suburban and rural communities,” DeFoor said. “These districts have found a way to use the law to their advantage so they could always raise property taxes. It’s basically a ‘shell game’ that allowed these 12 school districts to collectively raise taxes 37 times during the four years we reviewed, which increased their respective General Fund accounts to \$390 million.

The districts were selected based on criterion that included a district with approved referendum exceptions and substantial Government Fund balances for fiscal years ending 2018 through 2021. They include:

- Abington School District, Montgomery County;
- Bethlehem Area School District, Northampton and Lehigh counties;
- Cannon-McMillian School District, Washington County;
- Hempfield School District, Lancaster County;
- Lower Merion School District, Montgomery County;
- Neshaminy School District, Bucks County;
- North Allegheny School District, Allegheny County;
- Northampton Area School District, Northampton County;
- North Penn School District, Montgomery County;
- Penn Manor School District, Lancaster County; and
- School District of Lancaster, Lancaster County;
- West Chester Area School District, Chester and Delaware counties.

The audit evaluated whether each district appropriately used the Pennsylvania Department of Education (PDE) referendum exception method to raise local taxes; and whether each district ensured its General

Fund balances were properly designated as committed, assigned, and used in a timely manner for intended purposes.

“Some startling trends began to appear to our auditors, like moving money around to make sure a district would always meet the threshold to raise taxes,” DeFoor said. “They also applied for a referendum exception as a regular budgeting tool, rather than an extreme measure as the law intends. Each of the 12 districts had sufficient unused funds that should have negated some of the 37 tax increases.”

The Pennsylvania School Code and the Taxpayer Relief Act (Act 1) dictate how school districts can raise taxes and sets limits for those increases. If a district must raise taxes above the limits set in law, they are required to ask voters for permission through referendum or apply to PDE for a referendum exception. A referendum exception allows school districts to raise taxes above the inflationary index without voter input. PDE’s referendum exception applications are based on what a district has budgeted to cover expenses, versus actual cash on hand.

“School districts told us they must develop their budgets this way because they never know how much funding they will receive from the state,” DeFoor said. “But at the end of the day, it’s the taxpayers, especially those on a fixed income, that are shouldering the burden. If this is standard operating procedure for these urban, suburban and rural districts, it’s not a stretch to say that it’s common practice across the state.”

The audit team made the following recommendations to for the General Assembly to help school districts fund education and protect taxpayers:

- Add a provision to Act 1 that requires districts to use committed and assigned General Fund balances and the prior fiscal year’s surplus funds prior to requesting a referendum exception to raise taxes above the index;
- Revise the Pennsylvania School Code’s terminology used in the determination of the mandated threshold for raising taxes from *unreserved, undesignated* to *unrestricted* to include committed and assigned funds in the calculation to prevent school districts from retaining millions of dollars in General Fund commitments and assignments while increasing taxes; and
- Determine if there should be parameters around budgeting practices and transferring operating surpluses while increasing taxes. For instance, requiring that all transfers from the General Fund be considered unassigned funds and included as interfund transfers on a General Fund budget prior to being transferred to other Governmental Funds.

The audit team made the following recommendations for PDE:

- Review and revise the process of approving referendum exceptions if the district has committed and assigned General Fund balances. Based on our audit results, school districts have adequate funding for the related expenditures, are transferring excess surpluses, and are not using designated funds timely or to balance the preliminary budget prior to requesting to increase taxes above the index for the very same type of expenditure; and
- Consider revising the PDE Property Tax Referendum Exception Guidelines accordingly.

A full version of the audit is available at www.paauditor.gov.

###