

## Comprehensive School Finance Reform

1. Stabilizes Pennsylvania's crumbling and obsolete K-12 school funding system by replacing an inadequate revenue source with a broad based, modernized and predictable revenue system that is tied to economic growth.
2. Modernizes school finance reform to reflect 21st century economic realities.
3. Creates a dedicated Education Operating Fund separate from the Commonwealth General Fund into which all sales tax revenues will be deposited and from which schools will be equitably and adequately funded.
4. Achieves school equity and assures the prevention of financially distressed school districts.
5. Effectively manages current school debt with the Commonwealth assuming most outstanding debt obligations and provides school districts with numerous lowest cost financing options for new capital construction.

## Total School Property Tax Elimination

1. All school property taxes on all owner-occupied primary residences would be abolished as well as all other school district taxes. This includes, but is not limited to the school imposed earned income tax and nuisance taxes.
2. The schedule for school property tax elimination is as follows:
  - **December 31, 2010** - School property taxes frozen at 2010-2011 levels
  - **FY 2011-2012** - reduced by 25% of 2010-2011 levels
  - **FY 2012-2013** - reduced by 50% of 2010-2011 levels
  - **FY 2013-2014** - reduced by 75% of 2010-2011 levels
  - **FY 2014-2015** - achieve 100% elimination
3. Commercial and recreational property taxes capped at 100% of 2009-2010 levels.

## **School Funding Mechanism**

1. Current sales and use tax is repealed and replaced with a six percent EDUCATION sales and use tax that would be broadened to include a tax on a broader range of goods and services.
2. Additional exemptions from the sales tax include, but are not limited to, such items as:
  - Clothes
  - Food
  - Prescription medicines, medical supplies, physician/ dental services and hospital services
  - Items purchased in connection with the Food Stamp Act and federally approved items through the Women, Infants and Children (WIC) program.
  - Retail sale of insurance premiums
  - Investments or gains on investments
  - Rental of real property
  - Tuitions
  - Certain professional services including legal services, accounting, auditing and bookkeeping services, engineering services, research and computer services and data processing.
  - Commissions (including real estate broker commissions)
  - Agricultural transactions (current Agricultural Exemption)
  - Current Manufacturing Exemption
3. The legislation also allocates a portion of the revenue the state receives from royalty payments for drilling for natural gas on state-owned land to the Educational Operating fund. The legislation establishes a “base-year” revenue amount, to be adjusted based on the Consumer Price Index, and allocates 70% of any additional monies above the base amount to the Educational Operating Fund.
4. An automatic reduction in the sales tax rate is triggered when fund balances within the Education Operating Fund achieve a specified reserve level.

## **Education Operating Fund**

1. State tax revenues collected for education will be deposited into a restricted Education Operating Fund (EOF) reserved exclusively for education funding.
2. The EOF consists of three distinct accounts – School District Equity Fund, Education Trust Reserve (ETR) and the School Equity Capital Construction Fund.

3. Revenue collected by the EOF includes the Education sales and use tax; revenue from royalty payments to the state from natural gas extraction on state-owned land; a .5% state realty transfer tax [transfer of existing tax]; gaming revenues and other monies required by law to be transferred into the EOF.
4. The EOF will be administered by a new EOF Board created in the State Treasury.

## **Distribution of Funds**

1. The EOF funding mechanism provides districts with an assured and expanding source of funding.
2. The standard distribution formula will be based on specified funds that each school district received from the Commonwealth for the 2011-2012 fiscal year with annual adjustments for CPI and student enrollment changes (hold-harmless provision).
3. The Education Trust Reserve (ETR), part of the EOF, would be used for distressed district prevention and emergency disbursements. **NOTE:** *The distressed district provision for ETR disbursements is designed to prevent school districts from falling into distressed school district status. The emergency disbursement provision is designed to assist school districts that face major and unanticipated fiscal emergencies.*
4. The EOF is authorized to finance appropriations for programs that offer incentives and grants to school districts in order to achieve academic and other education-related goals. However, EOF funds can only be used for such programs if there are sufficient monies remaining after standard disbursements, the Commonwealth share of federal social security taxes, retirement contributions and annual debt payments have been paid.

## **Achieving Equity in the Schools**

1. The School District Equity Account is established in the EOF through quarterly transfers of funds from the Property Tax Relief Fund (gaming revenue).
2. In addition to receiving standard distributions, less affluent school districts will receive equity payments that will move their average per pupil expenditures toward the statewide average and in relationship to the findings of the Costing Out Study. In addition, an independent education funding study would also be required every 10 years, to provide needed evaluative data.

3. Additional funds from the ETR will be made available to help financially struggling school districts avoid distress status and to assist school districts facing major and unanticipated financial emergencies.

## Local Funding Options

1. School districts could impose a personal income tax or an earned income tax to help finance discretionary initiatives if adopted by the school board and approved by the voters at a referendum. NOTE: *To assure additional revenue for local district initiatives, there is no cap on the rate of school district personal income tax or earned income tax, provided the rate is approved by the voters.*
2. A school district that adopts a personal income tax cannot adopt a school district earned income tax and vice versa.
3. Revenue raised via a local EIT or PIT is retained by the school district rather than deposited in the EOF.
4. The School Financing Authority, working in conjunction with the Department of Treasury, is empowered to assist in achieving the lowest cost financing for new capital construction through several available options. New debt required for new construction would require local voter approval for both the project and revenue, through EIT or PIT, and would be limited in scope and duration to the project submitted to voter approval.

## Taxpayer Protections

1. Immediately upon passage of this legislation, all school property taxes would be frozen/capped at the 2010-2011 level and then follow this schedule for elimination:
  - 2010-2011 – School property taxes frozen
  - 2011-2012 – School property taxes reduced by 25%
  - 2012-2013 – School property taxes reduced by 50%
  - 2013-2014 – School property taxes reduced by 75%
  - 2014-2015 – School property taxes eliminated
2. School districts lose the power to levy realty transfer tax effective December 31, 2010 and their power to levy school per capita taxes, taxes authorized under the Local Tax Enabling Act and to levy other taxes (except the personal

income/earned income tax authorized via referendum) expires December 31, 2011.

3. Municipalities are prohibited from increasing their realty transfer taxes from .5% to 1% in order to fill the vacuum left by the abolition of the school property tax unless those municipalities were already imposing a 1% realty transfer tax.
4. A reduction in the sales and use tax is required when the EOF Board determines that the EOF, the ETR account and the School District Equity Account have maintained a balance that collectively exceeds the annual disbursement to all school districts for the prior fiscal year by at least 40% for eight consecutive quarters.

## Cost Reductions

1. The EOF will assume the outstanding amount of all local long-term debt to the extent that the Commonwealth can rewrite such debt at a lower cost. Current school debt will be evaluated jointly by the Department of Revenue and the Department of Treasury and refinanced at Commonwealth preferred rates with the savings retained in the EOF. School districts will be prohibited from incurring any new long-term debt after the legislation's effective date without voter approval.
2. All districts will integrate locally-driven, state of the art performance and evaluation methods already being successfully utilized by some Pennsylvania school districts – statewide in other states – to improve spending efficiencies and academic performance. The savings and performance gains that accrue as a result of this data-driven decision making (D3M) technology belong to the school district to use as desired. This is the first time that Pennsylvania schools will be given the tools to conduct regular, ongoing performance analyses of all school programs.
3. The legislation anticipates significant cost savings through the consolidation and rewriting of long-term debt and such costs as health insurance benefits.

6.17.09