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Pa. auditor general: School districts shifted funds around in bid to raise taxes; 2 local superintendents dispute report

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Auditor General Timothy L. DeFoor said Wednesday that some school districts across Pennsylvania have shifted funds around in a bid to raise taxes. He also said districts have sought waivers from limits on tax increases as a regular budget tactic.

The Bethlehem Area School District was one of 12 districts named during a news conference DeFoor held in Harrisburg. The **Northampton Area School District** was included.



BASD Superintendent Joseph Roy said his district has complied with state regulations about taxes, adding that the state auditor general report was "politically motivated."

The auditor's report did not say that neither Bethlehem nor Northampton district is out of compliance with state rules, the auditor's report noted.

Pennsylvania sets a limit on school tax increases, the Act 1 Index, based on inflation. Districts can seek a waiver to exceed the limit in extreme cases.

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Northampton Area Superintendent Joseph Kovalchik said the board of his district also has found it prudent at times to apply for the waiver because of the timing of budgets.

"You never know what's going to happen," he said, with the state budget coming out months after a preliminary district spending plan has to be proposed.

He also disputed DeFoor's claim about schools keeping excess fund balances.

"We need to have a savings account," Kovalchik said. "How much is the question, but we are a large organization with multiple buildings, multiple facilities and multiple needs."

Big expenses can come up suddenly, he said, citing the potential need to replace boilers as an example. Even so, the average tax increase in the Northampton district over the past four years has been less than 1%.

"There isn't one person in our school district who wants to raise taxes," he said.

Roy said that over the four years covered in DeFoor's report, 2018 through 2021, the BASD applied for waivers to exceed limits only as a precaution. The district did not exceed the Act 1 limit in any of those years, and in two years, there were no tax increases.

The school fiscal calendar is the problem, Roy said, and the auditor's comments make a standard process look like a sneaky maneuver.

"We have routinely applied for the exceptions in January because we're halfway through the current budget year and we have to put out a preliminary budget for the next school year," he said.

The next fiscal school year starts July 1, six months after the preliminary budget is due.

Districts do not know in January how much state funding they will receive, compounding the problem.

Roy emphasized that the district sought waivers to raise taxes above the Act 1 Index but did not use them. The BASD board, elected by residents of the district, made the decision as allowed by state rules to apply for the waiver just in case it was needed.

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The auditor general, the state's elected fiscal watchdog, said some districts engage in "a shell game" by switching money from their general fund, which pays for operating expenses, into capital accounts. That makes the districts look cash-poor and can lead to tax increases above the allowed amount, he said.

"I'm not going to say all districts are doing it," DeFoor said. He also did not allege wrongdoing: "It is legal, the problem is, it's not necessarily transparent."

"For years, there have been concerns raised to us from the General Assembly (state legislature) and residents about school districts that are raising taxes when they seem to have money in reserve," DeFoor said. He mentioned the burden of school taxes on people who are on fixed incomes multiple times.

DeFoor's comments at the conference appeared to be more dramatic than in his 183-page report, Roy said.

"We are in compliance with all laws and regulations. In their opinion, they do not agree with how our school board made some decisions. The school board is elected by the citizens of the district. The auditor general can have his opinion," Roy said, but the elected board makes decisions.

"We never used the exceptions that they think we shouldn't have applied for in the first case," he said. "Our board made the responsible decision to keep our options open."

Northampton's Kovalchik suggested that Pennsylvania should get its own fiscal affairs in order.

"Harrisburg should be looking at how schools are funded," he said. As for the NASD, "We are within the law and we are in compliance."

The DeFoor report notes on pages 32 and 124 that "... we did not find noncompliance with law or regulations" in procedures at the BASD or Northampton district. 69 News has contacted Northampton for comment.

DeFoor and Roy agreed on one thing, that the school fiscal calendar is a problem. The auditor general said school fiscal years could start Sept. 30, giving districts more time to put their budget together. That change would be up to the state legislature. If that happened, each fiscal year would cover parts of two different school years.

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DeFoor also said the state Department of Education should make exemption decisions based on how much cash a district has, not its proposed budget.

In addition to Bethlehem and Northampton, DeFoor's report covered the Abington, Neshaminy, North Allegheny, Canon-McMillan, North Penn, Hempfield, Lancaster, Penn Manor, Lower Merion and West Chester school districts. That's 12 districts out of 500 in the state, a selection that DeFoor provided a cross-section of Pennsylvania.

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