

## THE GENERAL ASSEMBLY OF PENNSYLVANIA

---

# HOUSE BILL

## No. 1075

Session of  
1977

---

INTRODUCED BY MESSRS. PIEVSKY, JOHNSON, COHEN, RIEGER, OLIVER,  
MRS. SCANLON, MESSRS. GIAMMARCO, JONES, BORSKI, McINTYRE,  
WIGGINS, DUMAS, BARBER, GREENFIELD, WHITE, MRS. HARPER,  
MESSRS. CIANCIULLI AND RICHARDSON, APRIL 27, 1977

---

AS REPORTED FROM COMMITTEE ON EDUCATION, HOUSE OF  
REPRESENTATIVES, AS AMENDED, MAY 5, 1977

---

## AN ACT

1 Providing for the creation of the Public School Finance  
2 Assistance Authority and providing for its powers and duties;  
3 and imposing additional powers and duties on the Department  
4 of Education.

## 5 TABLE OF CONTENTS

## 6 Chapter 1. General Provisions.

7 Section 101. Short title.

8 Section 102. Legislative findings and determination of  
9 policy.

10 Section 103. Definitions.

## 11 Chapter 2. Public School Finance Assistance Authority

12 Section 201. Creation of authority.

13 Section 202. General powers.

14 Section 203. Limitation on contracts.

15 Section 204. Leases, loans and transfer of buildings.

## 16 Chapter 3. Bonds; Notes; Obligations of the Authority

17 Section 301. Issuance of bonds and notes.

1       Section 302.   Credit of Commonwealth or any subdivision  
2                       not pledged.  
3       Section 303.   Moneys of the authority.  
4       Section 304.   Annual report, books and records of the  
5                       authority.  
6       Section 305.   Exemptions from taxation.  
7       Section 306.   Bonds as legal investments.  
8       Section 307.   Covenant by Commonwealth not to limit or  
9                       alter powers vested in authority.  
10   Chapter 4.   Powers and Duties of the Secretary of Education  
11       Section 401.   Application.  
12       Section 402.   Requirements for application.  
13       Section 403.   Initial review by secretary.  
14       Section 404.   Financial schedule.  
15       Section 405.   Agreements.  
16       Section 406.   Approval of agreements.  
17       Section 407.   Closing.  
18       Section 408.   Amendments to financial schedule.  
19       Section 409.   Investigation and audits by the department.  
20       Section 410.   Noncompliance by school district.  
21       Section 411.   Special board of control; petition,  
22                       appointments.  
23       Section 412.   Powers of the special board of control.  
24       Section 413.   Additional tax.  
25       Section 414.   School directors to remain in  
26                       office; elections.  
27       Section 415.   Payments to school districts.  
28       Section 416.   Withholding Commonwealth funds for unpaid  
29                       indebtedness.

30   Chapter 5.   Rules and Regulations; Effective Date

1 Section 501. Rules and regulations.

2 Section 502. Secretary.

3 Section 503. Severability.

4 Section 504. Authorized investments for school district  
5 funds.

6 Section 505. Effective date.

7 The General Assembly of the Commonwealth of Pennsylvania  
8 hereby enacts as follows:

9 CHAPTER 1

10 GENERAL PROVISIONS

11 Section 101. Short title.

12 This act shall be known and may be cited as the "Public  
13 School Finance Assistance Act."

14 Section 102. Legislative findings and determination of policy.

15 It is hereby determined and declared as a matter of  
16 legislative finding that:

17 (1) The welfare of the Commonwealth is threatened by the  
18 fact that some school districts may not be able to find  
19 adequate funding.

20 (2) The tax burden of the citizens of Pennsylvania is  
21 already at a very high level of their incomes.

22 (3) As the economy expands, and school enrollments  
23 stabilize or are reduced, the taxing authority of school  
24 districts will be adequate to meet future expenses.

25 (4) The Commonwealth has a strong responsibility to  
26 assist financially hard-pressed school districts in order to  
27 promote the educational opportunities of all of its citizens.  
28 The Commonwealth recognizes its obligation to assist these  
29 school districts to restore financial stability by providing  
30 the guidance of the Secretary of Education and paying the

1 school districts for some of the costs associated with  
2 restoring their financial health.

3 (5) The Commonwealth has a responsibility to promote  
4 educational opportunities by assisting school districts to  
5 plan for long-term financial stability.

6 (6) Therefore, it is hereby declared to be the policy of  
7 this Commonwealth to create an authority to issue bonds and  
8 to enact a program to:

9 (i) Loan money to or purchase school buildings from  
10 school districts for the purpose of assisting them in  
11 achieving and maintaining fiscal stability;

12 (ii) Require the preparation of a financial plan by  
13 school districts from which school buildings are  
14 purchased or qualify and apply for such loans;

15 (iii) Empower the Secretary of Education to monitor  
16 the finances of those school districts which qualify and  
17 file financial plans and receive loans or from which  
18 school buildings are to be purchased;

19 (iv) Authorize the Secretary of Education to apply  
20 sanctions to any school district participating in the  
21 loan program, or from which school buildings are  
22 purchased, which fails to comply with its approved  
23 financial plan.

#### 24 Section 103. Definitions.

25 The following words and phrases when used in this act shall  
26 have, unless the context clearly indicates otherwise, the  
27 meanings given to them in this section:

28 "Authority." The body politic and corporate created by this  
29 act.

30 "Bond" or Bonds." Notes, or any renewals thereof, bonds,

1 refunding bonds and other evidences of indebtedness or  
2 obligations of the authority.

3 "Department." The Department of Education.

4 "School building." Includes, but shall not be limited to,  
5 any structure used or useful for schools and playgrounds,  
6 including facilities for physical education.

7 "School district." A school district as defined in the act  
8 of March 10, 1949 (P.L.30, No.14), known as the "Public School  
9 Code of 1949."

10 "Secretary." The Secretary of Education.

11 "Unfunded debt of a school district." Its obligations of the  
12 same or a prior year, properly contracted for current expenses  
13 (including tax anticipation notes) due and owing, which taxes  
14 and other revenues of the school district remaining to be  
15 collected in the fiscal year and funds on hand will not be  
16 sufficient to pay without a curtailment of school district  
17 services to an extent which endangers the proper education of  
18 school children.

## 19 CHAPTER 2

### 20 PUBLIC SCHOOL FINANCE ASSISTANCE AUTHORITY

#### 21 Section 201. Creation of authority.

22 (a) Members.--The Governor, the State Treasurer, the Auditor  
23 General, the Secretary of Education, the Secretary of General  
24 Services, the President pro tempore of the Senate, the Speaker  
25 of the House of Representatives, the minority leader of the  
26 Senate, the minority leader of the House of Representatives, and  
27 their respective successors in office are hereby created a body  
28 corporate and politic, constituting a public corporation and  
29 government instrumentality by the name of the "Public School  
30 Finance Assistance Authority." The President pro tempore of the

1 Senate and minority leader of the Senate and the Speaker of the  
2 House of Representatives and minority leader of the House or  
3 Representatives may designate any member of the Senate or House,  
4 respectively, to act in their stead to serve at the discretion  
5 of the respective President pro tempore or minority leader and  
6 Speaker of the House of Representatives or minority leader. Such  
7 designees, if any, shall be the same persons designated under  
8 the "State Public School Building Authority Act." Said members  
9 of the authority shall be entitled to no compensation for their  
10 services as members but shall be entitled to reimbursement for  
11 all necessary expenses incurred in connection with the  
12 performance of their duties as members.

13 (b) Term for members of General Assembly.--The President pro  
14 tempore of the Senate and the Speaker of the House of  
15 Representatives, the minority leader of the Senate and the  
16 minority leader of the House of Representatives, shall continue  
17 as members of the authority until their respective successors in  
18 office assume such office, regardless of whether or not they  
19 shall have ceased to be members of the Senate or the House of  
20 Representatives.

21 (c) Deputy permitted.--The member of the authority may  
22 authorize by written proxy or authorization a personal deputy to  
23 appear and act for them at a meeting and for the purposes  
24 specified in such written proxy or authorization, provided that  
25 a separate written authorization or proxy shall be required for  
26 each separate meeting.

27 Section 202. General powers.

28 The authority is hereby granted and shall have and may  
29 exercise all the powers necessary or convenient for the carrying  
30 out of the aforesaid purposes, including but without limiting

1 the generality of the foregoing, the following rights and  
2 powers:

3 (1) To have perpetual existence as a corporation;

4 (2) To sue and be sued, implead and be impleaded,  
5 complain and defend, in all courts;

6 (3) To adopt, use and alter at will a corporate seal;  
7 use any property real, personal or mixed, tangible or  
8 intangible, or any interest therein (necessary or desirable)  
9 for carrying out the purpose of the authority, and to sell,  
10 lease, transfer and dispose of any property or any interest  
11 therein at any time acquired by it;

12 (4) To make bylaws for the management and regulation of  
13 its affairs;

14 (5) To obtain ONLY from the State Public School Building <—  
15 Authority, for a fee, those executive, fiscal and  
16 administrative services, as may be required to carry out the  
17 functions of the authority under this act;

18 (6) To fix, alter, charge and collect rentals, and other  
19 charges for the use of the facilities of, or for the services  
20 rendered by the authority, at reasonable rates to be  
21 determined by it for the purpose of providing for the payment  
22 of the expenses of the authority, not provided for by  
23 appropriation by the Commonwealth, or otherwise, the  
24 construction, improvement, repair, equipping and furnishing,  
25 maintenance and operation of its facilities and properties,  
26 the payment of the principal of, and interest on, its  
27 obligations, and to fulfill the terms and provisions of any  
28 agreements made with the purchasers or holders of any such  
29 obligations;

30 (7) To borrow money for the purposes of making loans to

1 school districts and purchasing public school buildings;

2 (8) To make loans to school districts in accordance with  
3 this act on such terms and conditions as it deems desirable  
4 subject to the approval of the secretary.

5 (9) To make and issue bonds and to secure the payment of  
6 all such bonds and to make such agreements with the  
7 purchasers or holders of all such bonds, or with others in  
8 connection with all such bonds, whether issued or to be  
9 issued as the authority shall deem advisable, and in general  
10 to provide for the security for all such bonds and the rights  
11 of the holders thereof; and in connection therewith to enter  
12 into a trust indenture, deed of trust, mortgage, or other  
13 similar security instrument with any bank or trust company as  
14 indenture trustee, trustee, mortgage or equivalent: Provided,  
15 however, That each separate issue of bonds shall be issued  
16 pursuant to a trust indenture, deed of trust, mortgage or  
17 other similar security instrument, separate, distinct and  
18 apart from that of each and every other issue of bonds:  
19 Provided further, That a particular bank or trust company may  
20 be designated by the authority as indenture trustee with  
21 respect to more than one trust indenture.

22 (10) Without limitation of the foregoing, to borrow  
23 money, and accept grants from, and to enter into contracts,  
24 leases or other transactions with any Federal agency;

25 (11) To pledge, hypothecate, mortgage or otherwise  
26 encumber, all or any of the school buildings, revenues or  
27 receipts of the authority as security for all, or any of the  
28 obligations of the authority;

29 (12) To do all acts and things necessary or convenient  
30 to carry out the powers granted to it by this act or any



1 other acts.

2 Section 203. Limitation on contracts.

3 No contract for the purchase, sale or lease of school  
4 buildings or for the loan of money, or for any other purpose,  
5 shall be executed between the authority and school districts or  
6 municipality authorities created by school districts without  
7 specific prior written approval of the secretary.

8 Section 204. Leases, loans and transfer of buildings.

9 (a) Authorization to lease.--Any school district or  
10 districts within the Commonwealth shall have power and authority  
11 to lease as lessee from the authority any school building, and  
12 the furnishings and equipment thereof for a term, with respect  
13 to each not exceeding 40 years, at such rental or rentals as may  
14 be determined by the authority.

15 (b) Authorization to borrow money.--Any school district or  
16 districts within the Commonwealth shall have the power and  
17 authority to borrow money from the authority and to transfer  
18 title of school buildings to the authority as part of such loan  
19 transaction.

20 (c) Conveyance of lands.-- Any school district shall have  
21 the power and authority, with the approval of the Secretary of  
22 Education, to grant, assign and convey to the authority, with or  
23 without consideration, any lands, easements or rights in lands  
24 together with any improvements, school buildings or structures  
25 therein or thereon, now owned by such school district or  
26 hereafter acquired by it, needed or convenient to carry out the  
27 purposes of this act, as well as furnishings and equipment for  
28 school buildings.

29 (d) Reconveyance by authority.-- When the authority shall  
30 have finally paid and discharged all bonds, including refunding

1 bonds, together with all interest due thereon, which were issued  
2 for the purposes of this act and shall have paid any and all  
3 other charges and obligations incurred, the authority may  
4 reconvey such school buildings conveyed to it in connection with  
5 the issuance of such bonds to the school district to which such  
6 buildings were leased.

### 7 CHAPTER 3

#### 8 BONDS; NOTES; OBLIGATIONS OF THE AUTHORITY

##### 9 Section 301. Issuance of bonds and notes.

10 (a) Power to issue bonds.-- The authority shall have the  
11 power and is hereby authorized from time to time to issue its  
12 bonds, either as serial bonds, maturing in annual installments  
13 or as term bonds, or any combination thereof, in such principal  
14 amount as in the opinion of the authority shall be necessary to  
15 provide sufficient funds for achieving its corporate purposes,  
16 including but not limited to the payment of interest on bonds of  
17 the authority, establishment of reserves to secure such bonds  
18 and all other expenditures of the authority incident to and  
19 necessary or convenient to carry out its corporate purposes and  
20 powers. The authority shall have power, from time to time, to  
21 issue bonds to pay notes and whenever it deems refunding  
22 expedient to refund any or all bonds by the issuance of new  
23 bonds, whether the bonds to be refunded have or have not  
24 matured, and to issue bonds partly to refund bonds then  
25 outstanding and partly for any other purpose. The proceeds of  
26 the refunding bonds shall be applied to the purchase, redemption  
27 or payment of the bonds to be refunded, all as authorized by the  
28 authority.

29 (b) Form of bonds.-- The bonds shall be authorized by  
30 resolution of the authority, shall bear such date or dates, and

1 shall mature at such time or times, not exceeding 40 years from  
2 the date of issue, as such resolution or resolutions may  
3 provide. The bonds shall bear interest at such rate or rates, be  
4 in such denominations, be in such form, either coupon or  
5 registered, carry such registration privileges, contain such  
6 terms and provisions relating to, but not limited to, pledges of  
7 the assets, setting aside of reserves, limitations or additional  
8 bonds, and such other matters as may affect the security or  
9 protection of the bonds, be executed in such manner, be payable  
10 in such medium of payment, at such place or places and be  
11 subject to such terms of redemption as such resolution or  
12 resolutions may provide. The bonds of the authority may be sold  
13 at public or private sale, at such price or prices as the  
14 authority shall determine.

15 (c) Liability for bonds.-- Neither the members of the  
16 authority nor any person executing the bonds shall be liable  
17 personally on the bonds or be subject to any personal liability  
18 or accountability by reason of the issuance thereof.

19 (d) Repurchase of bonds.-- The authority, subject to such  
20 agreement with bondholders as may then exist, shall have the  
21 power out of any funds available therefor to purchase its bonds,  
22 which shall thereupon be cancelled, at a price not exceeding:

23 (1) if the bonds are then redeemable, the redemption  
24 price then applicable plus accrued interest to the next  
25 interest payment date thereupon, or

26 (2) if the bonds are not then redeemable, the redemption  
27 price applicable on the first date after such purchase upon  
28 which the bonds become subject to redemption plus accrued  
29 interest to such date.

30 Section 302. Credit of Commonwealth or any subdivision not

1 pledged.

2 Except as may otherwise be expressly provided by the  
3 authority, its bonds shall be general obligations of the  
4 authority payable out of any moneys or revenues of the  
5 authority, including rental payments, the proceeds of loans made  
6 under this act, reserve funds created therefor by the authority,  
7 and other money lawfully available to the authority, subject  
8 only to any agreements with holders of the bonds pledging any  
9 moneys or revenues. Bonds of the authority issued under the  
10 provisions of this act shall not be deemed to constitute a debt  
11 of the Commonwealth or of any political subdivision thereof or a  
12 pledge of the faith and credit of the Commonwealth or of any  
13 such political subdivision thereof or a pledge of the faith and  
14 credit of the Commonwealth or of any such political subdivision.  
15 All such bonds shall contain on the face thereof a statement to  
16 the effect that neither the Commonwealth nor any political  
17 subdivision thereof shall be obligated to pay the same or the  
18 interest thereon and that neither the faith and credit nor the  
19 taxing power of the Commonwealth nor any political subdivision  
20 thereof is pledged to the payment of the principal of or the  
21 interest thereon.

22 Section 303. Moneys of the authority.

23 All moneys of the authority from whatever source derived  
24 shall be paid to the treasurer of the authority and shall be by  
25 him invested in United States Treasury obligations, obligations  
26 of agencies and instrumentalities of the United States, or  
27 obligations of this Commonwealth, or deposited in one or more  
28 banks or trust companies, in one or more special accounts until  
29 required to be transferred to one or more sinking funds or  
30 analogous funds in order to make payment of interest or

1 principal on bonds of the authority. Each deposit shall be  
2 continuously secured by pledge of direct obligations of the  
3 United States of America or of this Commonwealth, bonds of the  
4 agency, of other authorities of this Commonwealth, or of  
5 agencies and instrumentalities of the United States, having an  
6 aggregate market value, exclusive of accrued interest, at all  
7 times, at least equal to the balance on deposit in the account.  
8 The security shall be either deposited with the treasurer or  
9 held by a trustee or agent satisfactory to the authority. All  
10 banks and trust companies are authorized to give the security  
11 required. The treasurer shall make reasonable efforts to obtain  
12 the highest available yield on the investments or deposits.  
13 Interest or other income earned on the investments or deposits  
14 shall be used for debt service reduction, administrative  
15 expenses or for such other purposes as the authority may from  
16 time to time determine. The moneys of the authority shall be  
17 paid out on the warrant or other order of the treasurer of the  
18 authority or of another person authorized by the authority to  
19 execute warrants or orders. Moneys held in trust or otherwise to  
20 secure the payment of bonds or notes shall be secured in the  
21 same manner as moneys of the authority and all banks and trust  
22 companies are authorized to give security for such deposits.  
23 Notwithstanding the provisions of this section, the authority  
24 shall have power to contract with the holders of any of its  
25 bonds or notes as the custody, security, investment and payment  
26 of any moneys of the authority or any moneys held in trust or  
27 otherwise to secure the payment of bonds or notes. Any  
28 provisions with respect to custody, security, investment or  
29 payment of moneys of the authority shall not become effective  
30 until the resolution or trust indenture containing such contract

1 with bondholders or noteholders shall have been approved in  
2 writing by the Governor.

3 Section 304. Annual report, books and records of the  
4 authority.

5 The authority shall file an annual report with the Department  
6 of Community Affairs. The authority shall have its books,  
7 accounts and records audited annually by a certified public  
8 accountant and a copy of this audit shall be attached to and be  
9 made a part of the aforesaid annual report. A concise financial  
10 statement shall be published annually by the authority and shall  
11 be available for public inspection at the office of the  
12 authority. The Auditor General shall have the right to examine  
13 the books, accounts and records of the authority.

14 Section 305. Exemptions from taxation.

15 (a) Public purpose of authority.-- The creation of the  
16 authority is in all respects for the benefit of the people of  
17 the Commonwealth and for the improvement of their health,  
18 safety, welfare, comfort and security, and its purposes are  
19 public purposes and the authority will be performing an  
20 essential governmental function.

21 (b) Interest free of certain taxes.--The Commonwealth  
22 covenants with the purchasers and all subsequent holders and  
23 transferees of the bonds issued by the authority in  
24 consideration of the acceptance of any payment for the bonds,  
25 that the bonds of the authority issued pursuant to this act and  
26 the income therefrom shall at all times be free from taxation or  
27 assessment of every kind and nature except for inheritance,  
28 estate, gift and transfer taxes.

29 (c) Authority exempt from taxation.-- The authority shall be  
30 exempt from payment of any taxes or assessments upon any

1 property acquired, held, owned, leased or used by it. The income  
2 and revenues of the authority shall likewise be free from  
3 taxation.

4 Section 306. Bonds as legal investments.

5 The bonds of the authority are securities in which all public  
6 officers and bondholders of the Commonwealth and all municipalities  
7 and municipal subdivisions, all insurance companies and  
8 associations, and other persons carrying on a insurance  
9 business, all banks, trust companies, savings banks and savings  
10 associations, investment companies, all administrators,  
11 guardians, executors, trustees and other fiduciaries, and all  
12 other persons whatsoever who are now or may hereafter be  
13 authorized to invest in bonds or other obligations of the  
14 Commonwealth, may properly and legally invest funds, including  
15 capital, in their control or belonging to them.

16 Section 307. Covenant by Commonwealth not to limit or alter  
17 powers vested in authority.

18 The Commonwealth does hereby pledge and covenant and agree  
19 with the holders of any bonds issued pursuant to the authority  
20 of this act that the Commonwealth will not limit or alter the  
21 rights or powers hereby vested in the authority to perform and  
22 fulfill the terms of any agreement made with the holders of such  
23 bonds or in any way impair the rights or remedies of such  
24 holders, until such bonds, together with interest thereon, with  
25 interest on any unpaid installments of interest, and all costs  
26 and expenses in connection with any action or proceedings by or  
27 in behalf of such holders, are fully met and discharged or  
28 provided for. The authority may include this pledge and  
29 agreement of the Commonwealth in any agreement with the holders  
30 of bonds issued by the authority.

1 CHAPTER 4

2 POWERS AND DUTIES OF THE SECRETARY OF EDUCATION

3 Section 401. Application.

4 Any school district may apply and be considered for  
5 authorization to participate in the program provided by this act  
6 by filing an application with the secretary. Applications shall  
7 be submitted by the board of school directors in such form as  
8 the secretary may require.

9 Section 402. Requirements for application.

10 Each application shall state, and be supported by such  
11 adequate documentation as the secretary may require:

12 (1) that the school district has unfunded debt;

13 (2) that the board of school directors is taxing real  
14 estate at the maximum rate set by statute or that the board  
15 of school directors has levied real estate taxes such that  
16 the district is making a local real estate tax effort greater  
17 than 85% of the school districts in the Commonwealth and is  
18 taxing earned income at the maximum rate permitted under the  
19 act of December 31, 1965 (P.L.1257, No.511), known as "The  
20 Local Tax Enabling act." As used in this section, local tax  
21 effort means that figure determined by the secretary to be  
22 the mill equivalent of all taxes on equalized value; and

23 (3) that the school district would experience  
24 substantial financial benefits through participation in the  
25 programs provided by this act in addition to those benefits  
26 due to receipt of subsidies as provided for in section 415.

27 Section 403. Initial review by secretary.

28 (a) Review.--Upon receipt of an application the secretary  
29 shall review the statements and documentation submitted by the  
30 school district and shall determine whether or not the applicant



1 meets the requirements set forth in section 402.

2 (b) Procedure on approval.--If the secretary determines that  
3 an applicant meets the requirements set forth in section 402,  
4 and if he finds that the school district's participation in the  
5 programs provided by this act are in the best interests of the  
6 school district, he shall authorize the school district to file  
7 the financial schedule and agreements required by sections 404  
8 and 405 and to apply to and begin negotiations with the  
9 authority so that the school district may participate in the  
10 programs provided in this act.

11 Section 404. Financial schedule.

12 (a) Filing of schedule.--As a condition for receiving final  
13 approval to participate in the programs provided by this act,  
14 each school district authorized to negotiate with the authority  
15 pursuant to section 403, shall file with the secretary, for his  
16 approval, a financial schedule.

17 (b) Content of schedule.--The financial schedule shall set  
18 forth in detail:

19 (1) The budgets of the school district for the current  
20 and preceding year.

21 (2) A complete statement of all current obligations  
22 whether funded or unfunded.

23 (3) The schedules of all outstanding debts and lease  
24 rental obligations and the projects to which they are  
25 related.

26 (4) Copies of all current collective bargaining  
27 agreements.

28 (5) A five-year detailed estimate of all receipts and  
29 expenditures, including the proposed proceeds from the sale  
30 of school buildings and the obligations to the authority

1 incurred by the sale of school buildings.

2 (6) Such other information or matters as the secretary  
3 shall determine.

4 (c) Review of schedule.--The secretary shall review the  
5 financial schedule and may, in his sole discretion, require that  
6 it be supplemented or amended.

7 (d) Approval of schedule.--When the financial schedule is in  
8 a form acceptable to the secretary, he may approve it and if  
9 approved shall so inform the authority.

10 Section 405. Agreements.

11 (a) Contents of agreements.--As a condition for receiving  
12 approval to participate in the programs provided by this act,  
13 each school district shall agree with the secretary, in a form  
14 acceptable to him, that for the period covered by the financial  
15 schedule:

16 (1) The school district will incur no unfunded debt.

17 (2) The school district will not incur any debt except  
18 in accordance with the approved financial schedule.

19 (3) The school district shall adhere to the detailed  
20 financial schedule filed in accordance with section 404 or as  
21 amended in accordance with section 408.

22 (b) Legal effect of agreements.--These agreements shall  
23 become legally binding upon the school district in accordance  
24 with section 407 and the secretary is authorized to take all  
25 appropriate legal actions to enforce these agreements.

26 Section 406. Approval of agreements.

27 Each school district authorized under section 403 (b) to  
28 negotiate with the authority shall submit to the secretary any  
29 proposed agreement pursuant to section 204 between the school  
30 district and the authority. The secretary may approve such

1 proposed agreements only if the school district has submitted an  
2 approved financial schedule and approved proposed agreements  
3 with the secretary, provided that the secretary shall not  
4 approve any such proposed agreements pursuant to which  
5 obligations of a school district to the authority would result  
6 in payments pursuant to section 415 which would exceed without  
7 proration appropriations for such purposes.

8 Section 407. Closing.

9 Upon approval of the proposed agreements by the secretary,  
10 the school directors shall enter into such agreements with the  
11 authority. The agreements made by the school district and the  
12 authority in accordance with section 405 shall become legally  
13 binding on the parties thereto at the time of closing.

14 Section 408. Amendments to financial schedule.

15 The school district may, subject to the approval of the  
16 secretary, amend and revise its financial schedule. The  
17 secretary shall not approve an amendment to increase  
18 expenditures unless the proposed amendment includes at least an  
19 equal increase in revenue.

20 Section 409. Investigation and audits by the department.

21 The department may at any time make such investigations and  
22 audits of financial records that it deems appropriate to assure  
23 compliance with the financial schedule approved by the secretary  
24 and agreements with the secretary made by the district.

25 Section 410. Noncompliance by school district.

26 (a) Determination.--Whenever the secretary, after  
27 investigation, determines that a district is in noncompliance  
28 with the approved financial schedule and agreements with the  
29 secretary required by this act, he shall so notify the school  
30 district in writing, citing the specific facts and circumstances

1 which have resulted in the determination.

2 (b) Financial review board.--Upon making a determination of  
3 noncompliance, the secretary may call for the establishment of a  
4 financial review board to make recommendations regarding the  
5 school district's finances. When a financial review board is  
6 called for it shall be established as follows:

7 (1) For school districts of the first class the  
8 financial review board shall consist of seven members  
9 appointed as follows:

10 (i) One resident elector of the city who shall hold  
11 no public office or public employment shall be appointed  
12 by the secretary to serve as chairman.

13 ~~(ii) Two resident electors shall be appointed each~~ <—  
14 ~~by the school board, the mayor of the city and the city~~  
15 ~~council of the city. At least one of each appointing~~  
16 ~~agencies' appointments shall hold no public office or~~  
17 ~~public employment.~~

18 (II) THREE RESIDENT ELECTORS SHALL BE APPOINTED EACH <—  
19 BY THE GOVERNOR AND BY THE AUTHORITY. AT LEAST ONE OF  
20 EACH APPOINTING AGENCY'S APPOINTMENTS SHALL HOLD NO  
21 PUBLIC OFFICE OR PUBLIC EMPLOYMENT.

22 (iii) As used in this subsection city means a city  
23 which is coterminous with the boundaries of the school  
24 district.

25 (2) For school districts other than districts of the  
26 first class the financial review board shall consist of five  
27 members appointed as follows:

28 (i) One resident elector of the school district who  
29 shall hold no public office or public employment shall be  
30 appointed by the secretary to serve as chairman.

(ii) Two resident electors of the school district shall be appointed each by the board of school directors and by the intermediate unit board of school directors of the intermediate unit to which the school district is assigned. At least one of each appointing agencies' appointments shall hold no public office or public employment.

(c) Powers.--The financial review board shall review the facts related to the secretary's determination of noncompliance, the school district's budget and the approved financial schedule and agreements with the secretary submitted pursuant to this act and, within 30 days of the secretary's call for its establishment, the board shall make a written report to the school district with a copy to the secretary and, in the case of a school district of the first class, to the mayor and city council of the city whose political boundaries are coterminous with those of the school district. The report shall contain recommendations for adjusting revenues and expenditures of the school district to bring it into compliance with the approved financial schedule.

(d) Conduct of business.--The business of the financial review board shall be conducted in accordance with the act of July 19, 1974 (P.L.486, No.175), referred to as the Public Agency Open Meeting Law, by majority vote of those present and voting provided that a majority of the legally qualified members are present.

(e) Distressed district.--The secretary shall review the status of the school district 65 days after the call for the establishment of a financial review board, and if he determines that the district remains in noncompliance with the approved

1 financial schedule and agreements, he shall declare the school  
2 district to be distressed. If he determines that the school  
3 district is in compliance with the approved financial schedule  
4 and agreements, he shall discharge the financial review board.

5 Section 411. Special board of control; petition,  
6 appointments.

7 Whenever on the basis of an investigation as herein provided  
8 for, the secretary has declared any school district to be a  
9 distressed school district he or his designated representative  
10 shall petition the court of common pleas of the county in which  
11 such district, or the largest part in area, is located to  
12 appoint two citizens who shall be qualified electors and  
13 taxpayers in the county in which the school district is located.  
14 School directors and employees of any such school district shall  
15 be ineligible for appointment by the court. Within 10 days after  
16 the presentation of said petition, the court shall make the  
17 appointments herein provided and the appointees, together with  
18 the secretary or his designated representative, shall constitute  
19 a special board of control. Vacancies occurring because of death  
20 or resignation of appointed members of the board shall be filled  
21 by the court. The special board of control shall assume control  
22 of the affairs of the district and operate it in the place of  
23 the school directors during the period necessary to reestablish  
24 a sound financial structure in the district. The costs of the  
25 court proceedings shall be paid by the department.

26 Section 412. Powers of the special board of control.

27 When the special board of control assumes control of a  
28 distressed school district, it shall have power and is hereby  
29 authorized to exercise all the rights, powers, privileges,  
30 prerogatives and duties imposed or conferred by law on the board

1 of school directors of the distressed district, and the board of  
2 school directors shall have no power to act without the approval  
3 of the special board of control. In addition thereto, the  
4 special board of control shall have power to require the board  
5 of directors within 60 days to revise the district's budget for  
6 the purpose of effecting such economies as it deems necessary to  
7 improve the district's financial condition. To this end the  
8 special board of control may require the board:

9 (1) To cancel or to renegotiate any contract other than  
10 ~~teachers' contracts~~ COLLECTIVE BARGAINING AGREEMENTS OF <—  
11 SCHOOL EMPLOYEES, to which the board or the school district  
12 is a party, if such cancellation or renegotiation of contract  
13 will effect needed economies in the operation of the  
14 district's schools.

15 (2) To increase tax levies in such amounts and at such  
16 times as is permitted by the act of March 10, 1949 (P.L.30,  
17 No.14), known as the "Public School Code of 1949."

18 (3) To appoint a special collector of delinquent taxes  
19 for the district who need not be a resident of the school  
20 district. Such special tax collector shall exercise all the  
21 rights and perform all the duties imposed by law on tax  
22 collectors for school districts. The superseded tax collector  
23 shall not be entitled to any commissions on the taxes  
24 collected by the special collector of delinquent taxes.

25 (4) To direct the special school auditors of the  
26 department or to appoint a competent independent public  
27 accountant to audit the accounts of the distressed school  
28 districts.

29 (5) To dispense with the services of such  
30 nonprofessional employees as in his judgment are not actually

1       needed for the economical operation of the school system.

2           (6) To suspend, in accordance with the provisions of the  
3       act of March 10, 1949 (P.L.30, No.14), known as the "Public  
4       School Code of 1949," such number of professional and  
5       temporary professional employees as may be necessary to  
6       maintain a pupil-teacher ratio of not less than 26 pupils per  
7       teacher for the combined elementary and secondary school  
8       enrollments.

9       Section 413. Additional tax.

10       When the operation of a distressed school district has been  
11       assumed by the special board of control, the board of school  
12       directors of the district shall, upon the recommendation and  
13       with the approval of the special board of control, levy an  
14       additional tax or taxes sufficient to pay the indebtedness of  
15       the district including that for the authority: Provided, That  
16       when such school directors fail to levy such additional taxes  
17       within a reasonable time, the special board of control may  
18       petition the court of common pleas of the county in which such  
19       district or the largest part in area is located to issue a writ  
20       of mandamus requiring the board to levy such additional tax or  
21       taxes. In no case shall taxes levied under this section produce  
22       revenues greater than 120% of revenues raised by all local taxes  
23       levied for school district purposes in the current fiscal year.  
24       The subjects of taxation shall be limited to persons,  
25       transactions, occupations, privileges, subjects and real and  
26       personal property which may now or hereafter be taxable by the  
27       school district for school district purposes.

28       Section 414. School directors to remain in office; elections.

29       The school directors of a distressed district may not resign  
30       their offices, except with the unanimous consent of the special



1 board of control and shall continue in office, unless removed  
2 from office for neglect of duty under the provisions of the act  
3 of March 10, 1949 (P.L.30, No.14), known as the "Public School  
4 Code of 1949," set by the court of common pleas of the county in  
5 which such district or the largest part in area is located, or  
6 unless any of such directors are elected to another position not  
7 compatible with the position of school director or are appointed  
8 to any position for which there is a requirement that said  
9 appointee shall hold no elective office, for the remainder of  
10 their terms during the time the district is operated by the  
11 special board of control and shall perform any duties delegated  
12 to them by it. The assumption of control of a distressed school  
13 district by the special board of control shall in no way  
14 interfere with the regular election or reelection of school  
15 directors for the district.

16 Section 415. Payments to school districts.

17 (a) Appropriations.--From appropriations specifically made  
18 for this purpose, the department shall pay school districts for  
19 the amounts required to be paid to the authority by the school  
20 districts pursuant to agreements entered into in accordance with  
21 section 204. The amount of such payments to each school district  
22 shall not in any year exceed the amount of interest accrued or  
23 to accrue that year on the principal amount of the authority's  
24 outstanding bonds or notes, the proceeds of which were used to  
25 make a loan to or to finance the purchase of the school  
26 buildings, of the respective school districts.

27 (b) Certification of interest.--The authority shall certify  
28 the secretary as to each school district, the amount of such  
29 interest, for each school district.

30 (c) Pro rata payments.--In the event an appropriation

1 specifically for each such payment is not adequate to fund the  
2 aggregate of all such payments certified by the authority, the  
3 secretary shall make pro rata payments.

4 (d) Payments to be additional.--Payments under this act  
5 shall be in addition to all other funds, subsidies and  
6 reimbursements made available to school districts under any law  
7 now in effect or as may be henceforth enacted, including sinking  
8 fund and lease rental reimbursements to be extent and for the  
9 period currently committed.

10 Section 416. Withholding Commonwealth funds for unpaid  
11 indebtedness.

12 In all cases in which the board of school directors fails to  
13 pay or to provide for the payment of rental or rentals or loan  
14 repayments due the authority for any period in accordance with  
15 the terms of any lease or loan agreement entered into in  
16 accordance with the provisions of this act, the authority shall  
17 notify the secretary and the department shall withhold out of  
18 any moneys which may be or have been appropriated by the  
19 Commonwealth and which are due such school district an amount  
20 equal to the sum of the rental or rentals or loan payments owing  
21 by such school district to the authority, and shall pay over the  
22 amount so withheld to the authority.

23 CHAPTER 5

24 RULES AND REGULATIONS

25 EFFECTIVE DATE

26 Section 501. Rules and regulations.

27 The authority, the secretary, and the department shall have  
28 the power to promulgate rules and regulations as are necessary  
29 and appropriate and as are consistent with the intent and  
30 purpose of this act.

1 Section 502. Secretary.

2 The secretary is authorized to employ the staff necessary to  
3 administer this act. Persons so employed shall not be subject to  
4 the provisions of the act of August 5, 1941 (P.L.752, No.286),  
5 known as the "Civil Service Act."

6 Section 503. Severability.

7 The provisions of this statute shall be severable. If any  
8 provision of this statute or the application thereof of any  
9 person or circumstance is held invalid, the remainder of the  
10 statute, and the application of such provision to other persons  
11 or circumstances, shall not be affected thereby, unless the  
12 court finds that the valid provisions of the statute are so  
13 essentially and inseparably connected with, and so depend upon,  
14 the void provision or application, that it cannot be presumed  
15 the General Assembly would have enacted the remaining valid  
16 provisions without the void one; or unless the court finds that  
17 the remaining valid provisions, standing alone, are incomplete  
18 and are incapable of being executed in accordance with  
19 legislative intent.

20 Section 504. Authorized investments for school district funds.

21 Authorized types of investments of proceeds from the  
22 authority shall be limited to:

23 (1) United States treasury bills.

24 (2) Direct obligations of the United States Government  
25 and its agencies.

26 (3) Deposits in time accounts, open time accounts, share  
27 accounts and all other investments in authorized depositories  
28 for which collateral is secured by the pledging of assets in  
29 accordance with the act of August 6, 1971 (P.L.281, No.72),  
30 relating to pledges of assets to secure deposits of public

1 funds.

2 Section 505. Effective date.

3 This act shall take effect immediately.