Act 1 as Amended

- Governor Corbett signed into law Senate Bill 330, Act 25 of 2011
- Act 25 eliminates all but four (4) exceptions
- The referendum exceptions maintained are:
  - Costs to pay interest and principal for certain debt already incurred
  - Interest and principal related to electoral debt
  - Special education costs that exceed the index
  - Pension costs that exceed a certain index
- Act 25 also allows small businesses to pay school property taxes in installments

Installment Payments by Small Businesses

- Requires the adoption of a resolution to allow the payment of property taxes by small businesses to be made in installments; resolution must be adopted no later than June 30, 2012
- Excludes the payment of interim or delinquent taxes
- Defines small business as located in this Commonwealth with fewer than 50 employees

Referendum Exceptions Submitted to PDE
Guidelines for the 2013-2014 Fiscal Year
Special Session Act 1 of 2006

(Does not apply to Philadelphia City SD)

(Dates do not apply to Pittsburgh SD and Scranton SD)

I. Preliminary Budget and Approval of Tax Rate Increases (Sections 311, 333(a)(1), 333(e))

School districts must adopt a preliminary budget by February 20, 2013. The adopted preliminary budget, which includes a schedule of proposed tax rate increases, must be submitted to the Pennsylvania Department of Education (PDE) by February 25, 2013.

After review of the school district's proposed tax rate increases as reported on the preliminary budget, PDE will inform each school district in writing by March 7, 2013, if any further actions must be taken. If proposed tax rate increases exceed the school district's index, (1) the tax rate increase must be reduced to the index, (2) a referendum exception must be sought from PDE, or (3) the tax rate increases must be approved by voters at the general primary election on May 21, 2013.

In lieu of a preliminary budget process, school districts have the option of adopting a resolution indicating that the rate of any tax will not be raised by more than its index. School districts must submit a copy of this resolution and a schedule of proposed tax rate increases to PDE by February 5, 2013. After review of the school district's resolution and proposed tax rate increases, PDE will inform each school district in writing by February 15, 2013, whether the proposed tax rate increases are less than or equal to its index.

If proposed tax rate increases exceed the school district's index, the school district is required to adhere to sections 311(a) and (c)—relating to preliminary budget adoption—and will be permitted to submit referendum exceptions to PDE. PDE will only approve referendum exceptions if the school district demonstrates a need for exceptions by adopting a balanced preliminary budget that contains a tax rate increase in excess of the school district's index.

II. Index (Section 302, 313, 333(l))

Each September, PDE publishes the index for use in the determination of allowable tax rate increases in the following fiscal year. The base index is the average of the percentage increase in the statewide average weekly wage, as determined by the PA Department of Labor and Industry, for the preceding thirty-six months ending December 31 and the percentage increase in the Employment Cost Index for Elementary and Secondary Schools, as determined by the Bureau of Labor Statistics in the U.S. Department of Labor, for the previous 12-month period ending June 30. For a school district with a market value/personal income aid ratio (MV/PI AR) greater than 0.4000, its index equals the base index multiplied by the sum of 0.75 and its MV/PI AR for the current year.

Note: Section 404(e)(2) of the Unemployment Compensation Law was amended by Act 6 of 2011, which required that the average weekly wage be calculated for a 36-month period.

For the 2013-2014 fiscal year, the base index is 1.7%. The index for each school district is available on the PDE website at www.education.state.pa.us. Click on Programs, Programs O-R, Property Tax Relief.

III. Referendum Exceptions (Sections 333(f), (j), (n))

Section 333(f), as amended by Act 25 of 2011, provides for three referendum exceptions. A fourth exception is provided for in section 333(n).

For the 2013-2014 fiscal year, requests for referendum exceptions must be submitted to PDE by March 7, 2013. At least one week prior to submitting its request to PDE, a school district requesting a referendum exception must publish notice of its intent to seek PDE approval in a newspaper of general circulation and on the school district's publicly accessible World Wide Web site, if one is maintained.

PDE has developed a web-based application, the Referendum Exception System (RES), for submitting the data necessary to calculate and review the requests for referendum exceptions. In addition, Excel templates have been provided on the PDE website for use by school districts in estimating potential exception amounts before RES opens for the upcoming fiscal year.

General provisions (Section 333(f)(1), (2))

If approved by PDE, a school district may, without seeking voter approval, increase the rate of a tax levied for the support of public schools by more than its index if all of the following apply:

(1) The revenue raised by the allowable increase under the school district's index is insufficient to balance the proposed budget due to one or more of the expenditures listed in paragraph (2).

(2) The revenue generated by increasing the rate of a tax by more than the school district's index will be used to pay for any of the following:

- ***School Construction*** (Section 333(f)(2)(iii))

General Instructions for School Construction Exceptions

1. The phrase *effective date*[1] will be used throughout the School Construction section of this document and has two possible meanings, depending on the school district:
   - for the 109 school districts that opted in to Act 72 of 2004, *effective date* refers to September 4, 2004, and
   - for all other school districts, *effective date* refers to June 27, 2006.

2. For each issue/note/loan issued prior to adoption of the preliminary budget **with** PlanCon Part H or K approval and with budgeted payments in 2012-2013 or 2013-2014, provide copies of the following:
   - for indebtedness incurred before the *effective date*, but issued on or after the *effective date*:
     - complete copy of the executed board resolution, including the signature page, incurring the indebtedness,

[1] Although the actual effective date of Act 72 of 2004 was September 3, 2004, for functional reasons these Guidelines treat it as September 4, 2004. Special Session Act 1 of 2006 provides that school districts that opted in to Act 72 (the Homeowner Tax Relief Act) may seek referendum exceptions for indebtedness incurred prior to September 4, 2004, and for indebtedness incurred *on or after September 4, 2004*, for school construction projects. Act 1 also provides that school districts that did not elect to participate in Act 72 may seek referendum exceptions for indebtedness incurred prior to the effective date of Act 1 and for indebtedness incurred *on or after the effective date of Act 1*. Since these provisions in Act 1 use the term "effective date" in reference to both non-Act 72 school districts and Act 72 districts, we have constructed a meaning for the phrase "effective date" in order to facilitate discussion of the referendum exceptions for both groups. Although this is a slight aberration from the actual effective date of Act 72, it does not change the substance of any provisions.

- for variable rate issues/notes/loans:
  - o debt payment schedule based on budgeted interest rates,
  - o rationale for the budgeted interest rates used in preparing the payment schedule
  - o for vocational project financing: calculation showing the school district's share of scheduled payments

3. For each issue/note/loan issued prior to adoption of the preliminary budget **without** PlanCon Part H or K approval and with budgeted payments in 2012-2013 or 2013-2014, provide copies of the following:
   - complete copy of the executed board resolution, including the signature page, incurring the indebtedness -- if the amount issued is less than the amount incurred, include an amended or supplemental resolution or a statement signed by the superintendent or business manager that ties the issue to the resolution,
   - settlement sheet with date of issuance,
   - debt payment schedule,
   - for variable rate issues/notes/loans:
     - o debt payment schedule based on budgeted interest rates,
     - o rationale for the budgeted interest rates used in preparing the payment schedule,
   - for vocational project financing: calculation for the school district's share of scheduled payments,
   - for refunding: signed verification report for advance refunding or certification for current refunding from paying agent/trustee,
   - for partial refunding: payment schedule for the debt service not refunded; this should include any payments made in 2012-2013 prior to the refunding,
   - for issues funding reimbursable projects or refunding any reimbursable issues: estimated reimbursable percent calculations (for original financing refer to the page D14 calculations in PlanCon Part D; for refinancings refer to PlanCon Part K). Calculations must be based on the most up-to-date information on project costs. In particular, the estimated reimbursable percent for projects with bids awarded must be based on the bid costs, not previous estimates.

4. For each issue/note/loan not yet issued for which payments in 2013-2014 are being budgeted, provide copies of the following:
   - complete copy of the executed board resolution, including the signature page, or statement of intent to incur and issue indebtedness signed by superintendent or business manager,
   - proposed debt payment schedule,
   - for variable rate issues/notes/loans:
     - o debt payment schedule based on budgeted interest rates,
     - o rationale for the budgeted interest rates used in preparing the payment schedule,
   - for vocational project financing: calculation for the school district's share of scheduled payments,
   - for issues funding reimbursable projects or refunding any reimbursable issues but without PlanCon Part H or K approval: estimated reimbursable percent calculations (for original financing refer to the page D14 calculations in PlanCon Part D; for refinancings refer to PlanCon Part K). Calculations must be based on the most up-to-date information on project costs. In particular, the estimated reimbursable percent for projects with bids awarded must be based on the bid costs, not previous estimates.

5. Costs associated with any subsequent refinancing of this indebtedness will also qualify for an exception. The amount of refinancing bonds that a school district may issue is limited to a principal amount equal to the following: (1) the amount needed to pay, discharge or redeem the outstanding principal amount of the bonds to be refinanced, plus (2) any additional principal issued to meet the issuance costs of the refinancing such as underwriter's fees, bond insurance, legal fees, etc.

6. For refinancing incurred <u>after</u> the *effective date*, also include a copy of the following:
   - complete copy of the executed board resolution, including the signature page, incurring the indebtedness for the original issue.

7. The required documentation described above may be submitted electronically to <u>ra-res@pa.gov</u> or via regular mail to the Division of Subsidy Data and Administration for receipt by PDE within 3 days of the date that referendum exceptions are submitted. Failure to timely submit requested documentation could result in disapproval of the referendum exception.

8. Based on the original language contained in the Taxpayer Relief Act, PDE previously interpreted "final payment of interest and principal" – a phrase found in section 333(f) in conjunction with approved debt exceptions – to require the rescission of tax rates following either the last scheduled payment of a bond issue or the refinancing of a bond issue.

   Note: Act 25 of 2011 added section 333(o) to clarify "final payment of interest and principal" *<u>for previously-approved Academic or Nonacademic school building projects</u>* to not include a school district's payment of debt as a result of refunding or refinancing the debt. However, previously-approved Grandfathered Debt (indebtedness incurred prior to the *effective date*) and Electoral Debt referendum exceptions must still be rescinded according to the language in the Taxpayer Relief Act – following either the last scheduled payment of a bond issue or the refinancing of a bond issue. If indebtedness was refinanced, school districts may request approval of a referendum exception for the refinanced indebtedness but **only** in the fiscal year immediately following rescission of the originally-approved tax rate increase related to the refinanced principal.

(A) Indebtedness incurred prior to *effective date*

1. Costs associated with paying principal and interest on the indebtedness, incurred under the Local Government Unit Debt Act prior to the *effective date*, qualify for an exception.

2. A referendum exception may be requested if the total budgeted payments—for principal and interest on indebtedness incurred under 53 Pa. C.S. Pt. VII, Subpart B, which is supported by recurring revenues—increase due to an increase in the local share (debt service payments net of state reimbursement) or a decrease in nonrecurring revenues. The school district will be eligible for an exception for the amount of the increase in recurring revenue needed for the budgeted payments.

3. Liquidity, remarketing and other fees on a variable rate bond issue are not principal or interest on indebtedness. Therefore, if taxes must be increased by more than the amount allowable by its index and any approved referendum exceptions in order to meet these costs, a school district must seek voter approval.

4. Swap payments will qualify for the referendum exception if a school district:

a) makes swap payments to an authority (State Public School Building Authority or a municipal authority) on a swap agreement entered into by the authority on the school district's behalf, and
b) the swap payment is a component of the interest charge the school district makes to the authority on indebtedness, and
c) the debt (underlying that swap agreement) was incurred prior to the effective date, and
d) the proposed tax increase will be used to make those swap payments.

5. If a school district makes swap payments to a swap counterparty (i.e., not through an authority as described above), those payments will not qualify for a referendum exception. Therefore, a school district will need to seek voter approval if taxes must be increased by more than the amount allowable by its index and any approved referendum exceptions to meet these costs.

6. For example:

2012-2013 local share of debt service payments	$1,000,000
Nonrecurring revenues applied to debt service	- $ 500,000
2012-2013 local share from recurring revenue	$ 500,000
2013-2014 local share of debt service payments	$1,100,000
Nonrecurring revenues applied to debt service	- $ 200,000
2013-2014 local share from recurring revenue	$ 900,000
2012-2013 local share from recurring revenue	- $ 500,000
Referendum exception available	$ 400,000
2013-2014 local share of debt service payments	$1,100,000
Nonrecurring revenues applied to debt service	- $ 0
2013-2014 local share from recurring revenue	$1,100,000
2012-2013 local share from recurring revenue	- $ 900,000
Referendum exception available	$ 200,000

7. Any tax rate increase to pay these costs must be rescinded following the final payment of principal and interest. See page 7 for additional information.

(B) Electoral debt

1. Costs associated with paying principal and interest on any voter-approved debt, incurred under the Local Government Unit Debt Act, qualify for an exception. Voter approval must have occurred prior to requesting a referendum exception.

2. A referendum exception may be requested if the total budgeted payments—for principal and interest on indebtedness incurred under 53 Pa. C.S. Pt. VII, Subpart B, which is supported by recurring revenues—increase due to an increase in the local share (debt service payments net of state reimbursement) or a decrease in nonrecurring revenues. The school district will be eligible for an exception for the amount of the increase in recurring revenue needed for the budgeted payments.

Note: For each issue/note/loan with budgeted payments in 2012-2013 or 2013-2014, provide a copy of the certification of electoral approval to issue bonds or notes.

- ***Special Education Expenditures*** (Section 333(f)(2)(v))

If costs for special education programs and services for students with disabilities increased by more than the school district's index between 2010-2011 and 2011-2012, the school district is eligible for an exception equal to the increase in the *school district's* share of expenditures (i.e. costs in each year not offset by state Special Education Funding and Contingency Funds) that exceed its index.

'Special education program' expenditures are defined as total special education expenditures (function 1200) minus gifted support expenditures (function 1243).

'Special education services' expenditures are defined as the portion of the support services expenditures for costs described in the Individualized Education Program (IEP) for students with disabilities from the following expenditure accounts: 2120 Guidance Services, 2140 Psychological Services, 2150 Speech Pathology and Audiology Services, 2160 Social Work Services, 2260 Instruction and Curriculum Development Services (expenditures for the Director of Special Education only), 2350 Legal Services, 2420 Medical Services, 2440 Nursing Services and 2700 Student Transportation Services.

Example:

School district 2013-2014 index is 1.7%

2011-2012 special education expenditures:	$1,703,437
2011-2012 Special Education Funding and Contingency Funds:	$1,250,000
2011-2012 net special education expenditures	$ 453,437
2010-2011 special education expenditures:	$1,412,689
2010-2011 Special Education Funding and Contingency Funds:	$1,250,000
2010-2011 net special education expenditures	$ 162,689
1.7% of 2010-2011 net special education expenditures:	$2,766
2011-2012 *minus* 2010-2011 special education expenditures:	$290,748
Allowable referendum exception:	$290,748 - $2,766 = $287,982

- ***Retirement contributions*** (Section 333(n))

If the anticipated increase in the school district's (i.e. local) share of payments to the Public School Employees' Retirement System between 2012-2013 and 2013-2014 is greater than the school district's index, the school district will be eligible for an exception equal to the portion of the estimated payment increase that exceeds its index. The amount of state revenue reported for function 7820 must be at least 50% of the expenditures listed for object code 230.

The school district will be required to use the most up-to-date PSERS contribution rates for 2012-2013 and 2013-2014. The salary base for 2012-2013 and beyond will be capped at the 2011-2012 level.

Example:

School district 2013-2014 index is 1.7%

2013-2014 estimated SD share of payments to PSERS (at 16.75%):	$670,000
2012-2013 estimated SD share of payments to PSERS (at 12.36%):	$494,400
1.7% of 2012-2013 estimated SD share of payments to PSERS:	$ 8,405
2013-2014 *minus* 2012-2013 estimated SD share of payments to PSERS:	$175,600

Allowable referendum exception: $175,600 - $8,405 = $167,195

Department approval/disapproval (Section 333(j))

PDE shall approve the referendum exception request if a review of the data demonstrates that the school district qualifies for one or more of the exceptions.

If the request for an exception is approved, PDE shall determine the dollar amount of the expenditure for which the exception is sought and the tax rate increase required to fund the exception. If PDE denies the request, the school district must (1) reduce the tax rate increase to no more than its index or (2) submit a referendum question for voter approval in the primary election (for school districts with a July 1 through June 30 fiscal year).

The Taxpayer Relief Act
Special Session Act 1 of 2006
Frequently Asked Questions for Taxpayers

The following pages contain questions and answers on five Special Session Act 1 topics:

GENERAL INFORMATION ABOUT SPECIAL SESSION ACT 1 OF 2006

1. How does the Taxpayer Relief Act benefit taxpayers?

The Taxpayer Relief Act, also known as SS Act 1, fulfills Governor Rendell's promise to deliver property tax relief to every Pennsylvania homeowner. Benefits to taxpayers include the following:

- SS Act 1 guarantees that homeowners in every school district can benefit from state-funded property tax relief. (Exception: In Philadelphia, the funding will be used to reduce the wage tax.)
- It protects taxpayers in every school district from extraordinary tax increases in the future by implementing voter controls through a fair referendum requirement that gives voters control over the most severe tax increases while protecting school districts' ability to raise the funds they need.
- It provides extra property tax relief to senior citizens - who are the hardest hit by rising property taxes – through a major expansion of the state Property Tax and Rent Rebate Program.
- Act 1 gives local communities new options to choose the right mix of local taxes to fund their schools.
- It requires all school districts, except for Philadelphia and Pittsburgh, to adopt a resolution by June 30, 2007, authorizing the collection and payment of school district property taxes in installments for homeowners.

2. What new powers does the Taxpayer Relief Act give to voters in each school district?

- **May 2007 (primary) election** – Every school district, except Philadelphia, Pittsburgh and Scranton, will give voters the opportunity to approve local property tax relief by increasing the local income tax.
- **November 2009 election and every municipal election after** – Every school district except Philadelphia will have the option of asking voters to approve an additional income tax increase in order to fund greater local property tax relief.
- **Choosing whether to receive state-funded property tax relief** – If a school board rejects state funding for property tax relief through gaming, then the final decision goes to the voters. In a referendum question, voters can overrule their school board and decide to accept state-funded property tax relief.
- **Power over extraordinary tax increases** – Voters in every school district will have the final say on extraordinary tax increases. School boards will still be able to raise property taxes each year to keep up with inflation, and they can receive referendum exceptions for emergencies and educational necessities. But after that, tax increases will require voter approval.

3. What is the source of funds for property tax relief?

An estimated $1 billion from expanded gaming will be used to reduce local school property taxes. In addition, voters can choose to further reduce their property taxes by shifting to a local income tax.

4. How will the Senior Citizens Property Tax and Rent Rebate program be expanded?

SS Act 1 expands the income thresholds for qualification for property tax and rent rebates. The program only requires senior citizens to count 50% of Social Security payments towards their income.

- Before Governor Rendell signed this law, senior citizens who earned up to $15,000 could receive a property tax or rent rebate <u>up to</u> $500. In 2004, the average participating homeowner received a $375 rebate from the Property Tax and Rent Rebate program.
- Beginning with their 2006 tax bills, homeowners will be eligible to receive the following:

Household Income	Rebate
$0 to $8,000	$650
$8,001 to $15,000	$500
$15,001 to $18,000	$300
$18,001 to $35,000	$250

In addition, the law gives even more property tax relief to the senior citizens with the highest need, beginning in the first year that statewide property tax relief occurs for homeowners in all school districts:

- Because school districts in cities with high wage taxes will be unlikely to ever make a shift to increase their wage taxes to fund property tax relief, senior citizens in Philadelphia, Pittsburgh and Scranton who earn up to $30,000 a year will have their property tax rebate increase by an additional 50%.

- Senior citizens who earn up to $30,000 a year and pay more than 15% of their income in property taxes (and who do not live in Philadelphia, Pittsburgh or Scranton) will also have their property tax rebate increase by an additional 50%.

- Renters will be eligible to receive the following:

Household Income	Rebate
$0 to $8,000	$650
$8,001 to $15,000	$500

The Senior Citizens Property Tax and Rent Rebate Assistance Program is administered by the Department of Revenue. The application and information for filing a claim can be found at www.revenue.state.pa.us. Click on Forms and Publications; then click on Property Tax/Rent Rebate.

HOMESTEAD AND FARMSTEAD EXCLUSIONS

5. What are homestead and farmstead exclusions?

A homestead exclusion lowers property taxes by reducing the assessed value of the home. For example, if a home is assessed at $50,000 and the homestead exclusion is $5,000, then the homeowner only pays taxes on an assessed value of $45,000.

A homestead must be a Pennsylvanian's permanent primary residence on which property taxes are paid. Included with the term "homestead exclusion" is "farmstead exclusion."

A farmstead exclusion provides property tax relief to farmers. A farmstead applies to buildings used for agricultural purposes on a farm that is at least 10 contiguous acres. The farmstead must also be the primary residence of its owner. Farmers can be eligible for both a homestead exclusion and a farmstead exclusion since each covers a different part of the property.

6. How does a taxpayer become eligible to receive a homestead or farmstead exclusion?

To receive a homestead or farmstead exclusion, a Pennsylvania resident must submit an application to the county assessor.

School districts are required to send an application to all owners of residential property in the school district by December 31 each year; however, annual notification may be limited to owners of residential property not currently approved as a homestead or whose approval is due to expire.

Homestead exclusion applications are due by March 1. Homeowners cannot be required to resubmit their application more than once every three years. Residents that acquire property in the school district after the March 1 deadline must wait until the following year to qualify for a homestead or farmstead exclusion.

The county assessor must notify the property owner of the approval or denial of the homestead or farmstead exclusion no later than 30 days after receipt of the application.

7. Are taxpayers that were approved for homestead or farmstead exclusions under Act 72 required to resubmit an exclusion form under SS Act 1?

No. Homestead and farmstead exclusions that were approved under Act 72 remain valid under SS Act 1. However, taxpayers may still be required to reapply for an exclusion every three years.

8. Will every property owner receive property tax relief?

SS Act 1 only applies to residential property owners. Pennsylvanians in 66 counties will receive property tax relief through homestead and farmstead exclusions.

In Philadelphia, the state funding for tax relief will be used to reduce wage taxes instead of property taxes. Wage taxes will be reduced for both resident and commuter wage taxpayers. Scranton School District has the option of using up to 50% of its property tax reduction allocation to reduce the rate of its earned income and net profits tax.

9. To what extent will property taxes be reduced?

The extent of property tax relief in a particular school district will depend on whether the taxpayers in the school district approve a local income tax increase and whether the school district accepts its state allocation of revenue from expanded gaming.

10. Will every homeowner in the state get the same amount of property tax relief?

The amount of property tax relief will vary from one school district to another. The property tax relief formula is designed to take equity into account – sending the most state resources to the communities with the greatest tax burden and least local wealth.

LOCAL INCOME TAX

11. When can school districts raise their income tax in order to fund property tax relief?

All school districts, except Philadelphia, Pittsburgh and Scranton, must give voters the opportunity to raise the local Earned Income and Net Profits Tax (EIT) or switch to a Personal Income Tax (PIT) at the May 2007 primary election in order to raise revenue to fund local property tax relief. The school board will decide which kind of income tax voters will get to decide on, and at what rate. At least 98% of the additional revenue must be used for local property tax relief; up to 2% can be used for the school district's operations.

If approved, the additional EIT or the new PIT will take effect on July 1, 2007.

School districts do not have to increase or establish a local income tax in order to qualify for state-funded property tax relief.

12. What is the difference between the Earned Income and Net Profits Tax (EIT) and the Personal Income Tax (PIT)?

There are several types of income – ranging from the hourly wage that a worker earns to the dividends on an investor's stocks. The EIT and PIT include different types of income.

The **EIT** is a tax on compensation and net profits, including:

- Salaries
- Wages
- Commissions, bonuses, stock options and incentive payments
- Fees
- Tips
- Net profits from the operation of a business, profession or farm

The **PIT** taxes compensation, net profits and other kinds of income:

- Compensation and net profits (everything that is taxed by the EIT)
- Interest
- Dividends
- Net gains or income from the dispositions of property
- Net gains or income from rents, royalties, patents and copyrights
- Income derived through estates or trusts
- Gambling and lottery winnings

Neither the EIT nor the PIT taxes Social Security or retirement pensions.

13. What is a Local Tax Study Commission?

Before giving voters the choice to generate property tax relief by increasing a local income tax to replace a portion of property taxes, a school board must form a Local Tax Study Commission to evaluate the school district's existing tax structure and the impact of levying a new earned income and net profits tax (EIT) or personal income tax (PIT).

The school board can appoint a 5-, 7- or 9-member commission. Only one of the members can be a school board member; the rest must be residents or taxpayers of the school district. Membership should reflect the socioeconomic, age and occupational diversity of the community.

14. What are the responsibilities of the Local Tax Study Commission?

The Local Tax Study Commission is responsible for studying the district's current taxing structure and making a recommendation to the school board within 90 days on the impact of levying a new EIT or PIT to provide property tax relief. The commission must consider:

- historic, present and projected tax rates and collections,
- the proportion of taxes that come from each source, and
- the characteristics of the tax base.

The commission's recommendation is not binding, but the school board must vote to either accept or reject it.

15. How much will the income tax increase?

Local income taxes will increase only if voters approve an increase. The school board will decide whether residents of the school district vote on an Earned Income Tax or a Personal Income Tax, and the school board will set the proposed income tax rate based on the level of property tax relief that it decides to offer voters:

The maximum level of property tax relief that a school district can offer voters in the May 2007 referendum is a homestead exclusion equal to 50% of the median assessed value in the school district – the most allowed by law.

At a minimum, the proposed increase to an income tax must reduce property taxes by what is known as "50% of the maximum homestead exclusion." If achieving the minimum requires an increase in the income tax rate greater than 1%, a school district is not required to propose a rate greater than an increase of 1% for voter approval (in addition to the school district's existing Earned Income Tax rate).

REFERENDUM REQUIREMENT FOR TAX INCREASES

16. Will school districts need voter approval in order to raise school taxes?

The law requires a voter referendum if a school district proposes to raise its property tax rate – or the rate for other school taxes – faster than its inflation index after accounting for approved referendum exceptions.

The Department of Education provides each school district with its index annually by September 30. The index ranges from 3.4% to 5.5% for the 2007-2008 school year.

Further information about the index is available at www.pde.state.pa.us/proptax.

A school district may also qualify for one or more referendum exceptions; these exceptions allow a school district to raise tax rates beyond its index for specific purposes without voter approval.

17. What are the referendum exceptions in the Taxpayer Relief Act?

SS Act 1 includes sensible and flexible referendum requirements that protect homeowners while ensuring that school districts can afford to adequately fund their schools. A school board will need voter approval before enacting extraordinary tax increases.

In order to increase property taxes beyond the inflation index without seeking voter approval, a school board must receive a referendum exception for specific costs. The 10 referendum exceptions cover:

- Emergencies and disasters
- Court orders
- Conditions that pose an immediate threat of serious harm or injury
- Ensuring that district revenue from four major sources together keeps pace with the index – local property taxes, local earned income and net profits taxes and personal income taxes, state Basic Education Funding and state Special Education Funding

- Ensuring that spending per student keeps pace with the index – either by:
  - For school districts where enrollment has increased by more than 7.5% over three years – ensuring that total local tax revenue per student keeps pace with the school district's index; or
  - For all other districts – ensuring that actual instruction expense per student keeps pace with the school district's index
- No Child Left Behind school improvement plans
- For school construction, including:
  - Debt on an existing school construction projects
  - Construction for academic purposes up to a cost-per-square-foot threshold
  - Up to $250,000 of construction costs for non-academic construction
- Special education costs that increase by more than the index
- Health care benefits that rise faster than the index in contracts in effect on January 1, 2006
- Increases in retirement payments that rise faster than the index

DISTRIBUTION OF STATE PROPERTY TAX REDUCTION FUNDING

18. When will school districts receive state-funded property tax relief?

The Commonwealth will use a portion of the tax revenue from expanded gaming to provide state funding for property tax relief. School districts will receive an allocation when there is $400 million available in the Property Tax Relief Fund and $100 million in the Property Tax Relief Reserve Fund.

19. Can a school district reject its property tax reduction allocation?

School boards are given a limited opportunity to "opt out" of receiving state property tax reduction allocations. After the Department of Education notifies each school district of its property tax reduction allocation (no later than May 1 for the July-to-June fiscal year that starts that July 1), a school board can pass a resolution within one month refusing its property tax reduction allocation.

If a school board votes not to accept its state property tax reduction allocation, voters get the final say. In the subsequent election, voters will be asked to decide whether the school district should accept state funds to reduce property taxes. If the majority of voters approve, then the district will receive state-funded property tax relief beginning with the next fiscal year.