

PRESENTATIONS

(Part II- PASBO)

Homeowner Property Tax Relief Act

Preparing for Referendum:
An Overview Of The New
Property Tax Legislation
And State Budget Recap

July 27 and August 3, 2004



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Homeowner Tax Relief Act Major Provisions of Act 72-2004

- *School Property Tax Relief—Part I*
- State Funding/Local Tax Effort
- Homestead Credits
- Front End Referendum

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Homeowner Tax Relief Act Major Provisions of Act 72-2004

- *School Property Tax Restrictions—Part II*
- Index
- Back End Referendum & Budget Adoption
- Exceptions to Back End Referendum
- Reassessment

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**Homeowner Tax Relief Act
Major Provisions of Act 72-2004**

- *Reporting and Other Implementation Mandates—Part III*
- Homestead Notices
- Sterling Act Credit Filing
- Annual Property Tax Increase Submission

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**Homeowner Tax Relief Act
Major Provisions of Act 72-2004**

- *Special Provisions for Philadelphia and suburban counties—Part IV*
- Wage Tax Relief
- Sterling Act Credit Rebate
- Philadelphia Property Tax Rebates

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**Homeowner Tax Relief Act
Major Provisions of Act 72-2004**

- *Immediate Considerations—Part V*
- Effective Date = 60 days from July 5 (on or about September 3)
- Debt Exception
- Homestead Mailing—Oct. 18/Dec. 30
- EIT Revenue Projections—Dec. 15
- Sterling Act Credit Filing—Dec. 15

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Homeowner Tax Relief Act

- *Longer Term Considerations—Part VI*
- Is the Option Really an Option?
- Property Taxation Pattern
- Earned Income Tax v. Personal Income Tax
- Community Discussions
- Tax Collection

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State Funding/Local Tax Effort


- State Funding
- 34% of Slots Revenue
 - Property Tax Relief Fund
 - 14 licenses (12 at \$50 million)
- When the Fund accumulates \$900 million districts will receive a minimum of \$500 million for homestead credits if...

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State Funding/Local Tax Effort

- The district imposes a 0.1% Earned Income Tax by resolution of the school board by May 30
- Exception for districts not levying the EIT as of May 30 of the year in which the Budget Secretary certifies revenues
- Section 331(B) page 66, line 27
- Certification of available funds by Budget Secretary is April 15 annually, beginning 2005

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Warning

- When increasing your EIT in the middle of a calendar year you need to consider several factors that will impact cash flow for the EIT increase...



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Collection Issues

- Employers located outside of the districts are not mandated to collect from employees
- Employers may not timely change withholding rates
- The collection process may have a 6 month or longer drag so an increase from .5% to .6% may not produce a 20% increase in cash flow in the first fiscal year.

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Credits for Out-of-State Workers

- “Payment of any tax on income to any state other than Pennsylvania or to any political subdivision located outside of the boundaries of this Commonwealth, by a resident of a school district located in this Commonwealth, shall not be credited to and allowed as a deduction...for any income tax imposed by the school district of residence pursuant to this chapter.”
 - See section 323(B) page 63, line 18

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State Funding Formula

- Unchanged in Act 72 from recent versions of SB 100 and HB 113
- Four Components
- New and Different Compared to Other Funding Formulas
- “Interesting” Impact
- Section 505, page 93, line 21

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Formula Components

- Property Tax Reduction Index
 - Array the following data and assign a numerical ranking
- 2002 Personal Income/03-04 ADM
- 04-05 MV-PI Aid Ratio
- 02-03 Equalized Mills
- 02-03 School Tax Ratio
 - School taxes/personal income

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Formula Components

- 2002 Personal Income/03-04 ADM
 - Lowest product gets highest rank i.e. 501
 - Highest product get lowest rank i.e. 1
- Example:
 - PI of \$100 million ADM of 2,000 = 50,000
 - PI of \$100 million ADM of 2,500 = 40,000
 - PI of \$200 million ADM of 2,000 = 100,000
 - You maximize your distribution with low PI and high ADM

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Formula Components

- 04-05 MV-PI Aid Ratio
- 02-03 Equalized Mills
- 02-03 School Tax Ratio
 - Highest in each category gets highest rank
 - Lowest gets lowest rank
 - Higher aid ratios, equalized mills and tax ratio gets you more “points”

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Formula Components

- The poorer school districts and school districts with higher local taxes get higher ranking.
- A higher rank means that school districts will get more funding.
- The four numerical rankings for each school district are added and the sum is divided by 1000 to produce its Property Tax Reduction Index.

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Formula Components

- The Property Tax Reduction Index is then multiplied by the district ADM.
- That figure is multiplied by a dollar value that will drive out all of the funds available for property tax reduction, subject to a minimum amount of 15 percent of the residential property taxes and a maximum amount of 50 percent.
- Floor and ceiling are in the definitions

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Homestead Credits

- Revenues from new EIT plus state funding (including Sterling Act credit payments) = amount available for homestead credits
- Other than 2% transition year allowance, dollar for dollar reduction
- The credit is a reduction in assessed value that is uniform throughout the district
- Every eligible property owner will receive the same credit without regard to property value.

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2001 REAL ESTATE TAX NOTICE FOR CENTRAL DAUPHIN SCHOOL DISTRICT

E CHECKS PAYABLE TO
 L. Donnoyox Tax Collector
 (Hear) Jones Town PD
 Huxg, PA 17109-1705

52-5555
 thro Friday 12 Noon - 6PM
 Holidays & Closed November 23

DATE	BILL NUMBER
July 1, 2001	02668
PROPERTY LOCATION	
PROPERTY IDENTIFICATION NO.: 35 027 378	
ASSESSMENT	
ORIGINAL ASSESSMENT	\$ 155,800
HOMESTEAD EXCLUSION	\$ 2,928
FARMSTEAD EXCLUSION	\$ 0
NET ASSESSMENT	\$ 152,872

Lower Paxton Twp

The annual assessment appeal filing deadline with the Board of Assessment Appeals for tax year 2002 is August 1, 2001.

IF YOUR TAXES ARE IN ESCROW PLEASE FORWARD THIS BILL TO YOUR MORTGAGE COMPANY.

ES	MILLAGE/TAX RATE	TAX AMOUNT	DURING THIS PERIOD	PAY THIS AMOUNT
DISTRICT	18.35 ML	\$2,805.20		

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Maximum Homestead Exclusion

- Authorize local taxing authorities to exclude from taxation an amount based on the assessed value of homestead property. The exclusions authorized by this clause shall not exceed one-half of the median assessed value of all homestead property within a local taxing jurisdiction. A local taxing authority may not increase the millage rate of its tax on real property to pay for these exclusions.



State Constitution Article VIII, Section 2

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How Much Is the Credit?

- Combine your 0.1% EIT + additional EIT or PIT
- State Funding (including wage tax credits) =
- Total Available for Homestead Credits
- District calculated
- Final notification from county assessor on May 1 on the number of eligible applicants

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Front End Referendum

- When?
- November Election
- Earliest possible date is November 2005 (~~depending on April 15, 2005 certification by Secretary of Budget~~)—clearly optional
 - Section 332 (D.1), page 70, line 27
- Next “option” is November 2007
 - Section 332 (E), page 71, line 11
- New tax in effect for first day of fiscal year in which state funds are received

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Front End Referendum

- What is the rate?
- Not specified in 2005
- Very specific for 2007
 - Minimum is a rate to allow 50% of the maximum homestead exclusion
 - Maximum is a rate to allow the maximum homestead exclusion

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Front End Referendum

- What?
- Additional EIT to produce more revenue for homestead credits to further reduce residential property taxes
- Convert EIT to PIT to produce more revenue for homestead credits to further reduce residential property taxes

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Differences '05 and '07

- The minimum rate for the 2007 ballot question shall be sufficient to establish a homestead credit of 50% of the maximum under the Constitution
- There is no minimum rate specified for the 2005 primary vote
- The 2007 ballot question is "shall" unless the district is already at the maximum homestead credit but...
- The 2005 referendum is clearly optional

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Sanctions

- A board of school directors which does not propose a 2007 front end referendum shall be ineligible to receive a property tax reduction allocation
- Section 332 (E) page 71, line 14
- Front End Failure?
 - Impose the 0.1% EIT to maintain eligibility
 - For '07 see section 331 (B)(1), page 67, line 1
 - For '05 see section 331 (D.1)(1), page 71, line 5***

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The Ballot Questions

- Do you favor imposing an additional X% (Earned Income and Net Profits Taxes). The revenue generated from the increased tax rate will be used to reduce taxes on qualified residential property by an estimated amount of \$Y. The current (Earned Income and Net Profits Taxes) for the school district is Z%?

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The Ballot Questions

- Do you favor converting the school district's current Earned Income and Net Profits Tax into a Personal Income Tax at X%. The revenue generated from the Personal Income Tax will be used to reduce taxes on qualified residential property by an estimated amount of \$Y and to replace the revenue from the current school district's Earned Income and Net Profits Tax which is now levied at Z%.

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- Exceptions to Back End Referendum
- Reassessment

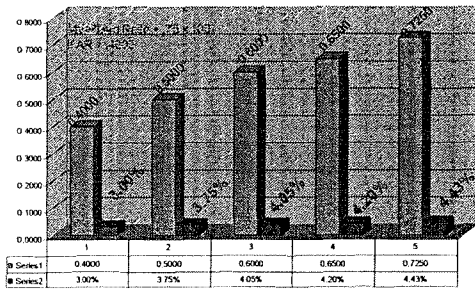
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What is the Index?

- Average
- Statewide Average Weekly Wage
 - PA Department of Labor and Industry
 - Tracks compensation paid by employers
- Employment Cost Index (for Elementary and Secondary Schools)
 - US Department of Labor, Bureau of Labor Statistics
 - Tracks employer labor costs for specific sectors
- Modified for SD's with > .4000 AR
 - Multiply index by .75 plus MV/PI AR times 100
 - Section 301—page 53, line 23

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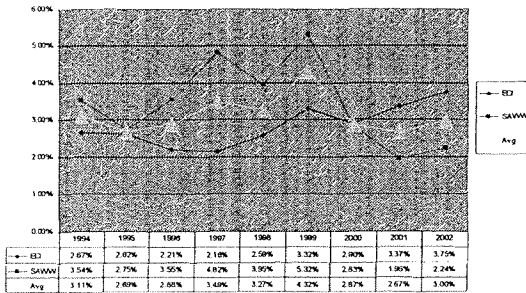
Weighting of Index by AR



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6.

SAWW/EI Index History



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Back End Referendum

- When?
- Will apply to the first budget adopted for a fiscal year in which state property tax reduction funds are received
- Implementation date is the 2006-07 fiscal year
 - 2006-07 budget or 2007-08 budget ?
 - Section 333, (A)(2), page 73, line 27
- Submitted to the county 60 days prior to the the primary

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When Are the Primaries?

- Third Tuesday in May
- May 19, 1998
- May 18, 1999
- May 15, 2001
- May 21, 2002
- May 20, 2003
- May 17, 2005
- Except for Presidential Election Years
- Fourth Tuesday in April
- April 27, 2004
- April 4, 2000*

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Back End Referendum

- What?
- Increase the rate of a tax by more than the index
- For multiple county school districts the index is applied to each separate rate that is levied
- Who?
- Districts that have taken action to claim state property tax relief funds with an EIT of 0.1%
- Section 333 (A)(1), page 73, line 24

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Back End Referendum and Budget Adoption

- September 1 index published by PDE
- September 30 budget calendar from PDE
Preliminary budget 90 days prior to the primary
- Public inspection 20 days prior and ten days notice prior to adoption
- May 1 notice of property tax reduction allocation
- Final budget by end of fiscal year
- State revenues—first week in February estimated in Governor's budget address

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Referendum Exceptions—10

- Section 333(F), page 77 line 1
- Emergencies
- Court/administrative orders (state or federal)
- Principal and interest on debt

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Principal and Interest Exception

- Existing debt is not subject to back-end (prior to the effective date)
- For “new” debt
 - indebtedness for 60% of the construction cost for elementary, capped at \$128 per sq. ft., and secondary, capped at \$133 per sq. ft., buildings after the effective date of the act.

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Principal and Interest Exception

- Existing undesignated fund balances and construction reserves are “fully committed”
- For non-academic facilities e.g. athletic facilities principal and interest is limited to \$250,000 in construction costs
- Plan Con A amendment deleted

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Referendum Exceptions

- Immediate threat of serious physical harm
- Special education cost increases that exceed 10% from previous year
- Costs for school improvement plan implementation (net)
- Maintenance of per student local tax revenue adjusted by the index if $> 7.5\%$ over three years or maintenance of the AIE per ADM if less than the index

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Referendum Exceptions

- Maintenance of revenues from real estate, income taxes, basic and special education funding based on the index
- Health care cost increases under a current collective bargaining agreement
- PSERS payments if the increase in the employer share is $> 7.5\%$

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Court Approval

- Some exceptions require approval by the Court of Common Pleas—1, 2 and 4
- Mandate to provide notice of intent to file and notice of hearing date when granted
- School district submits to court 75 days prior to the primary
- Court decision 55 days prior to the primary
- Court sets dollar amount

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Department Approval

- All other exceptions require PDE approval
- Approval based on AFR data
- PDE approval 55 days prior to primary

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Reassessment Restrictions

- Year after reassessment, property taxes limited to growth in index for the “real properties contained in the duplicate for the preceding year.”
- “Percentage increase in taxes” not rate
- Essentially a property tax freeze

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Homeowner Tax Relief Act Major Provisions of Act 72-2004

- *Reporting and Other Implementation Mandates—Part III*
- Homestead Notices
 - Section 341, page 87, line 21
- Sterling Act Credit Filing
 - Section 503 (D)(1), page 96, line 8
- Annual Property Tax Increase Submission
 - Section 333 (E), page 76, line 8

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Homestead Notices

- Annually notification to eligible homestead and farmstead property owners by first class mail
 - Not currently approved or expiring
 - Instructions
 - Notice of deadline
 - Mailing is required sixty days prior to March 1 deadline

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Sterling Act Credit Certification

- December 15, 2004 and annually thereafter
- The total amount of tax credits
 - First year data?
- No qualification required

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Annual Property Tax Increase Submission

- Annually to PDE, notice that the preliminary budget contains a property tax increase (at least 85 days prior to the primary)
- Return notice to school district within ten days but no later than 75 days prior to primary

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- *Special Provisions for Philadelphia and suburban counties—Part IV*
- Wage Tax Relief
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Special Provisions for Philadelphia and Region

- For the City...
- Philadelphia slots revenue is utilized for wage tax reduction—resident and non-resident
 - Phased-in to reach 1.1851% (resident) and 1.0526% (non resident) by 2009
- Special property tax rebate for Philadelphia homeowners equal to 50% of the amount received under the Senior Citizens Rebate and Assistance Act. Funds transferred to Lottery Fund

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Special Provisions for Philadelphia and Region

- For the suburbs...
- Payment for credits from non-resident Philadelphia workers
- Reimbursed to school district of residence from the Property Tax Relief Fund
- No qualifying requirements

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Homeowner Property Tax Relief Act Break

During the break, please hand your questions in to the on-site coordinator to be sent to PASBO. You will also have an opportunity to ask questions at the end of the program.



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- *Immediate Considerations—Part V*
- Effective Date = 60 days from July 5 (on or about September 3)
- Debt Exception
- Homestead Mailing—Oct. 18/Dec. 30
- EIT Revenue Projections—Dec. 15
- Sterling Act Credit Filing—Dec. 15
- “Wait and See”

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Exceptions

- To pay principal and interest on any indebtedness under 53 PA C.S. Part VII, subpart B *prior to the effective date of this section* (on or about September 2)
 - DC&ED Guidance
- Health care cost increases *under a current collective bargaining agreement*
- One time window

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“My reading of Act 72, therefore, is that as long as the District has finally adopted its debt resolution prior to September 3, 2004, it has 'incurred' the debt 'prior to the effective date' of Act 72 for purposes of determining if the above-cited provisions apply, even though the District will not be filing debt proceedings with DCED or obtaining DCED approval of that debt issue, or actually issuing the debt, until after September 3rd.”

Bernadette Barattini
Deputy Chief Counsel
Office of Chief Counsel
Department of Community and Economic Development

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Homestead Credit Notices

- Within 45 days of the effective date of Act 72 (on or about October 17), all districts must provide a notification by first class mail
 - Each owner of residential property in the district
 - Application (developed by DC&ED) and instructions
 - Notice of Deadline (March 1)
 - Second notice on or about December 30 to non-filers and those that will expire

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EIT Revenue Projections

- Certify the estimated “qualifying contribution” based on previous year’s EIT and cash flow experience
- If not levying EIT, estimate based on financial data from Department of Revenue that PDE will forward to the district
 - Section 503 (B), page 95, line 23

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Homeowner Tax Relief Act

- *Longer Term Considerations—Part VI*
- Is the Option Really an Option?
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Homeowner Property Tax Relief Act

State Budget Recap



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Basic Education Funding

- \$4,361,024,000
- 3.57% Increase over 2003/04 BEF
 - \$150,401,000 increase over 03/04 appropriation
- PDE web site
 - Estimated Basic Education Funding 2004-05
 - Basic Education Funding 2003-04

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Basic Education Funding

- BEF Components:
 - Base Supplement (3 tiers)
 - Poverty Supplement
 - Tax Effort Supplement
 - Growth Supplement
 - Small District Assistance (ADM 03/04 \leq 1,500)
 - \$75 \times ADM
 - Plus
 - \$50 \times ADM (if MV/PI AR \geq .5000)
 - Minimum Guarantee = 2%

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Basic Education Funding

- BEF Additional Provisions (Exclusive of the BEF formula and 2% minimum)
 - Temporary Special Aid for Severe Increases in ADM & MV/PI AR (\$8,500,000 – 11 school districts)
 - Temporary Special Aid for Extremely High Tax Effort (\$750,000 – 6 school districts)
 - Limited English Proficiency (\$11,135,070 pro rata share if 2002/03 LEP \geq 2% (2002/03 ADM)

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Special Education Funding

- \$929,175,000
- 2.7% Increase over 2003/04 SEF
 - \$24,569,000 increase over 03/04 appropriation
- SEF distribution:
 - Base Supplement Funding = 03/04 appropriation (\$836,000,000)
 - Pro rata share \$16,700,000
 - 16% (03/04 ADM) × MV/PI AR
 - 2% Minimum Guarantee
- PIDE web site
 - 2004/05 estimates
 - 2003/04 updates

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Special Education Funding

- Other Special Education Provisions:
 - \$9,300,000 Contingency fund = 1% of appropriation
 - \$46,430,600 CORE funding to IUs = 5% of appropriation
 - \$9,750,000 Institutional Children's funding to IUs
 - \$500,000 Community Service funding

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Vocational Education Funding

- \$58,181,000
 - \$44,323,000 allocated for Secondary Vocational Education Funding
 - School Districts share = \$10,301,516
 - AVTS share = \$34,020,467
- 2.5% Increase over 2003/04
 - \$1,419,000 increase over 03/04 appropriation
- PIDE web site
 - Subsidy Calculations
 - Vocational Education Funding Data

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PA Accountability Grants

- \$200,000,000
 - Grant application formula based upon amount of \$175,000,000
- PENNLINK – 7/13, Secretary of Education, Additional \$25 million in Accountability Block Grants
 - Adding new \$ to approved program in application (midyear report adjustment)
 - Changing within program area - strategies or budget line items (midyear report adjustment)
 - Add new program or removing money from approved program area in application (**Amendment to application must be received by September 1**)
- Formula for 2005/06 based upon \$200,000,000

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Reimbursement of Charter/Cyber School

- \$80,587,000
- 30% state reimbursement to school districts for 2003/04 resident student enrollments in charter/cyber charter schools
- If insufficient funds appropriated – pro rata basis
 - 27.4% reimbursement per printout on PDE web site

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Educational Assistance Program

- \$38,000,000
- Clarifies formula based upon 2002/03 PSSA data
- Targets 82 school districts where at least one building did not make adequate yearly progress in reading or math
- Eligible school district choose not to receive funding – distributed on pro rata basis to other eligible school districts

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School Code Changes - YSYM

- Amends section 613
- Removes YSYM reporting requirement for grade level (elementary) and subject level (middle & high school)
- Still requires:
 - Building level reporting (all governmental funds)
 - Classroom instruction (1000)
 - Instructional student support (2100, 2200, 2400 & 2900)
 - Facilities and plant management (2600)
 - District-wide (all governmental funds)
 - Special Education non-instructional student support
 - Professional development
 - Technology

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School Code Changes – Delinquent Taxes

- Amends section 686
- Permits school districts to assign or sell its claims for delinquent school taxes
- Previously only Philadelphia and Pittsburgh school districts had authorization

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School Code Changes – Annual Budget

- Amends section 687
- Allows (but does not require) school districts to reopen 2004/05 budgets

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School Code Changes – School Police Officer

- Amends sections 778 & 1714-B
- Annual reporting requirement for school police (name, number, municipalities, date & type of training)
- Section 778 not subject to mandate waiver program

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School Code Changes – Approved Private Schools

- Amends sections 1376 & 1376.1
- Establishes new budgeting and funding mechanism (30 APSs & 4 chartered schools for deaf & blind)
- Retains contribution ratio
 - 60% state
 - 40% school district
- Changes actual audited cost reference to approved tuition rate
- Distributes \$7,000,000 part of multi-year plan what state still owes

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School Code Changes – Charter School Provisions

- Amends sections 633, 1714-A, 1722 –A(c) & 1729-A
- Allows charter school to incur debt for construction of school facilities
- Requires charter schools to report a list of bonds or other indebtedness
- Provides for disposition of charter school assets if ceases to operate

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Public School Employee Retirement Code Changes

- Act No. 63 of 2004 (SB 200, P.N. 1765)
 - Amends 24 Pa CS § 8346, termination of annuities
- Return to service during emergencies
 - Extended to **other personnel** (school business officials)
 - Changes 95 days full-day sessions to not to exceed **one school year**
- Extracurricular position – contract position filled by an annuitant that is separate from the established academic course structure, including the position of athletic director.

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Questions and Answers

Homeowner Property Tax Relief Act & State Budget Recap

Please identify your name and
location when asking your
questions!



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