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WEISS

A "New Sheriff" In Town

**New Legal and Financial Obligations
under Special Session Act 1 of 2006
Tax Reform Act (SS HB 39)**

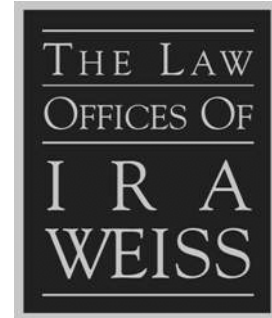
Prepared for:

West Jefferson Hills School District



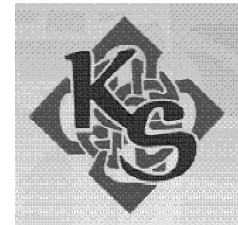
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In association with

**King, Spry, Herman, Freund & Faul
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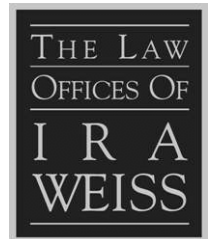


**Providing legal expertise across the Commonwealth's
Educational and Municipal sectors**

“New Sheriff” Imposing New Obligations on School Districts Across Commonwealth

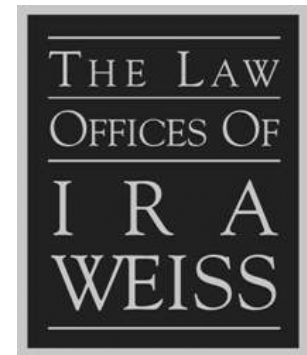
- Complex law imposes *new* mandates, deadlines, accelerated budget requirements and revenue allocation obligations on *every* school district in Pennsylvania
- Special Session Act 1 of 2006 (SS HB 39) is supposed to deliver largest property tax cut in Pennsylvania history \$1 billion annually once all 14 gaming facilities operational

SCHOOL DISTRICTS WILL HAVE A REAL AND UNPRECEDENTED PROPERTY TAX CAP



Today's Presentation

- Introduction - Legislative Overview - Complexity of Act 1
- Tax Study Commission
- 2007 Front-End Referendum - Homestead/Farmstead Exclusions
- Budget Process - Index - Exceptions
- Back-End Referendum
- Installment Payments
- Property Tax and Rent Rebate Program
- Gambling Funds
- Task Force on School Cost Reduction
- Question and Answer Session



Highlights of Act 1 Obligations

TAXPAYER RELIEF ACT HAS CHANGED

School districts cannot rely on reviews of earlier legislation

- Changes signed into law affecting budget, referendum requirements
- Limitations imposed on tax increases - Resolutions to be adopted
- Taxpayers vote in 2007 primary election if proposed tax increase exceeds set annual inflationary percentage (the index)
- School districts will be governed by back-end referendum requirements
- Installment payments/ACH/credit cards to pay taxes

REFERENDUM GIVES TAXPAYERS CONTROL OVER TAX INCREASES

The “New Sheriff” is Coming to Each of Your Districts

Legislative Overview

- Every school district in Commonwealth coming under cap for millage increases starting in 2007
- Taxpayers will have greater control over future school district tax increases in all our school districts
- School districts can elect to opt-out of receiving gaming funds but decision can be overturned by voters through a referendum process

Of Immediate Significance:

- A new **September 14, 2006** deadline requiring *every* school district to appoint a local Tax Study Commission

Tax Study Commission

Commission Required to:

- Research district tax structure
- Evaluate taxing options – EIT or PIT
- Produce study within 90 days
- Issue non-binding recommendation to school board

School District Required to:

- Appoint local Tax Study Commission by September 14, 2006

Tax Study Commission

Composition of Commission

- Commission to consist of 5, 7, or 9 resident individuals or taxpayers
- Reflect district's socio-economic, age, occupational diversity
- One school board member permitted – This is recommended
- No school administrators, employees or their relatives
- School district to provide support staff, reimburse expenses
- Commission operates as local government agency
- Sunshine Law applicable
- Must hold at least one public hearing

Tax Study Commission

Contents of Study

- Historic and projected tax rates of, and revenue provided by, taxes currently levied, assessed and collected
- Age, income, employment and property use characteristics of tax base
- Percentage of total revenues provided by these taxes

Non-Binding Recommendation

- Commission to issue non-binding recommendation to board regarding EIT or PIT in exchange for property tax reduction (Deadline December 13, 2006)
- Recommendation must be presented at public board meeting

Tax Study Commission

Public Hearing

- School district required to hold public hearing pursuant to public notices
(This is in addition to hearing for Tax Study Commission)
- Public notice weekly/three weeks - nature of tax, reason, revenue to be derived

The Process

- School board must accept or reject recommendation
- Board adopts 2007 front-end referendum resolution by March 13, 2007
- Submits to county election officials by March 16, 2007
- Non-legal interpretive statement appears with ballot question
- Local taxpayers vote on proposed plan at May 15, 2007 election
- Voters can elect to fund Homestead/Farmstead exclusions by increasing EIT or shifting to a PIT
- If approved new tax rate self executing and effective July 1, 2007

Tax Study Commission

Recommended Action

- Immediately adopt written charter to describe commission's tasks, organizational structure and resources
- Establish procedure for expenses
- Designate school district staff to work as resources for Commission
- TSC that fails to make a recommendation is discharged

Referenda on Primary Election Ballots

Act 1 Obligations require school districts to propose referenda on May 2007 election ballots to collect/raise taxes

Mandatory for *every* school district in PA

- By March 13, 2007 board must adopt resolution authorizing referendum question for authority to increase the EIT or shift to a PIT for purposes of reducing real estate taxes through Homestead/Farmstead exclusions
- Board has discretion in selecting tax rate, but Act 1 dictates the form of the question - from one of three options depending on imposition of EIT increases or conversion to PIT

Referenda on Primary Election Ballots

Referendum Question

- **Referendum question formulated based on Commission's Study - must contain proposed tax rate and expected amount of property tax reduction**

- **Question must seek approval of an increased EIT or PIT rate that would provide property tax relief:**
 1. At least equal to half of the maximum Homestead exclusion permitted under the state constitution (50% of median property value); but
 2. Not greater than maximum Homestead exclusion;
 3. Provided, however, that if the school board proposes a referendum question seeking an EIT of 1% (meaning an increase of .5% for school districts already imposing a maximum EIT) or a PIT at a rate generating equivalent revenue, it will satisfy requirements of 1 and 2 above.

May 2007 Election

- Philadelphia, Pittsburgh and Scranton exempt from front-end referendum
- Act 1 - special instructions for districts that increased their earned income taxes under Act 50
- Front-end referendum provisions fail to specify how gaming revenues are figured into tax reduction

Optional 2009 Referendum

- School boards may seek optional front-end referendum in 2009
- Requirements consistent with those for 2007 referendum

Homestead/Farmstead Exclusions

- School districts are responsible for calculating their Homestead/Farmstead exclusions
- SS HB 39 does not specify mandates for how they are calculated
- ELT rate must fund at least half of the maximum Homestead/Farmstead exclusion
- School districts must annually notify all property owners, except those already approved, of existence of Homestead/Farmstead exemptions

Homestead/Farmstead Exclusions

- Board submits referendum question to County Election Board seeking taxpayer approval for EIT or PIT to annually fund Homestead and Farmstead exclusions
- Voters approve EIT front-end referendum or gaming funds distributed before exclusion valid

Recommended Actions

- School boards adopt resolution implementing the Taxpayer Relief Act Homestead and Farmstead exclusion
- Tax Study Commission be charged with responsibility of making recommendation regarding calculation of exclusions

Preliminary Budget Options

Act 1 extends deadline to 2007 for adoption of preliminary budget proposals using an established index of 3.4 percent

New Budget Options – Traditional or Accelerated

Traditional Budget Adoption Process

- Proposed budget that will not raise the rate of any tax above index
- Not eligible for referendum exceptions
- Resolution mandatory to avoid accelerated process

Accelerated Budget Adoption Process

- Mandatory if district proposing to raise taxes above the index
- Earlier compliance dates

Traditional Budget Option

TRADITIONAL BUDGET ADOPTION PROCESS

- January 25, 2007 - Resolution adopted certifying board will not increase taxes
- If board adopts resolution, not eligible for referendum exceptions
- Within 5 days of adoption – Budget/tax rate information submitted to PDE
- February 14, 2007 - PDE notifies district of status with index
- June 11, 2007 - Deadline for displaying preliminary budget (20 days prior to adoption)
- June 20, 2007 - Deadline for public notice of intent to adopt (10 days prior to adoption)
- June 30, 2007 - Deadline for final adoption of budget
- If budget adopted prior to June 30, compliance dates advance accordingly

Accelerated Budget Option

ACCELERATED BUDGET ADOPTION PROCESS

- January 25, 2007 – Deadline for preliminary budget on display to public
- February 5, 2007 – Public notice for intent to adopt
(100 days prior to primary election)
- February 14, 2007 – Deadline for adoption of preliminary budget
- February 19, 2007 – Deadline to submit any proposed tax increase to PDE
- March 1, 2007 – Deadline for PDE to inform district if proposed tax rate exceeds index
- March 13, 2007 – Deadline for submission of referendum question
- June 30, 2007 - Deadline for final adoption of budget

PRELIMINARY TIMELINE - FOR PLANNING PURPOSES ONLY

Dates unofficial until PDE releases index and formal compliance dates

Budget Process

Budget Highlights

- Act 1 states if a board adopts a resolution indicating it will not raise the tax rate above the index, then not required to comply with the accelerated process.
- The last day to adopt a resolution indicating taxes will not be raised above the index is January 25, 2007. **If resolution is adopted**, district must adopt a preliminary budget at any date as long as it occurs 30 days prior to final budget adoption.
- Public School Code requires school boards to prepare a proposed budget at least 30 days prior to the final adoption of the annual budget.

Index for School Districts

Index determines increases for tax school district levies

- Calculated by average % increases in statewide average weekly wage and federal employment cost index (ECI) for schools

Index for Millage rate increase

- For next year's budget, school districts can increase millage rate by the index

Exceptions

- If the expenses exceed revenues, school district can file for an exception
- If additional revenues needed, voters must approve additional millage above the index and exceptions through a back-end referendum at election

Index for School Districts

- For school districts with a market value/personal income aid ratio (MV/PI AR) greater than 0.4000, the value of their index is adjusted upward by multiplying the base index by the sum of 0.75 and their MV/PI AR. For instance, if the base index is 3.9% and the school district's MV/PI AR is 0.6000, the adjusted index is

$$3.9\% \times (0.75 + 0.6000) = 5.3\%$$

$$3.9\% \times (0.75 + 0.7000) = 5.6\%$$

- PDE to publish base index annually by September 1 in the [Pennsylvania Bulletin](#). The value of each school district's index will be posted on the PDE website annually by September 30.
- http://www.pde.state.pa.us/proptax/lib/proptax/SDIndex_2006-07.pdf

Source PDE website

Exceptions for School Districts

Referendum Exceptions

- School boards can seek referendum exceptions when proposed budget increase exceeds index
- Certain referendum exceptions must be presented by petition to Court of Common Pleas, others submitted to PDE for approval
- Exceptions are similar to those in Act 72, with changes for debt, special education, health care costs and pension obligations
- Act 72 districts to receive benefit in form of exception improvements

Exceptions for School Districts

- Exceptions are the dollar amount of additional property tax revenue that increases the millage rate above each individual school district's index
- Formula for converting exception to additional millage:
 1. Total exceptions / collection percentage = tax levy needed
 2. Tax levy needed / assessed value * 1,000 = millage rate
- PDE issues summary of exceptions and identifies millage rate

Referendum Exceptions

EXCEPTIONS REQUIRING APPROVAL BY PDE

1. Principal and interest on existing debt
2. Special education cost increase
3. Costs for school improvement plan implementation
4. Maintenance of per student local tax revenue or maintenance of the average instructional expense per average daily membership
5. Retirement expenses
6. Maintenance of revenues from local income and real estate taxes and state funding (basic and special education subsidies)
7. Health care cost increases under a collective bargaining agreement in place by 2006

Referendum Exceptions

EXCEPTIONS REQUIRING PETITION TO COMMON PLEAS COURT

1. Emergencies and disaster response
2. Court/administrative orders (state or federal)
3. Costs to remedy an immediate threat of serious physical harm

Act 1 Changes to Act 72 Exceptions

Healthcare Exception

- Under new law, districts may receive exception for all or a portion of healthcare costs that exceed index for collective bargaining contracts in effect Jan. 1, 2006
- Applicable for health care-related expenses of employees covered by collective bargaining agreement

Retirement Exception

- Under new law, districts can receive an exception for retirement costs that exceed the index
- Act 72 originally required 7.5 % increase prior to claiming exception

Exceptions

Debt Exception

- For non Act 72 districts, debt that existed prior to June 14, 2006 eligible for exception for millage required to pay the obligation
- Act 72 districts date is September 4, 2004
- The local share is important
- School construction cost average increased on a square-foot basis
 - \$137 per square foot elementary (changed from \$128)
 - \$142 per square foot secondary (changed from \$133)
 - Adjusted annually by average of statewide average weekly wage and employment cost index

Special Education Exception

- Under the new law, school districts may receive an exception for special education costs that exceed index. This is changed from Act 72, originally requiring 10 % increase in dollar amount before exception claimed.

Back-End Referendum

- Beginning in 2009, back-end referenda mandatory for school districts seeking to raise taxes higher than index
- Limitation on tax increases, unless increases in excess of index are approved by taxpayers in back-end referendum process

Installment Payments

- New law requires school districts to accept installment payments (*ACH and credit cards are optional for real estate tax payments*)
- School districts required to adopt resolution by June 30, 2007 for installment payments
- Taxpayers must be offered a minimum of three installments – We recommend installments by the end of December
- Delinquent installment payers ineligible following year
- 10% penalty on late payment
- Collection of installments can be assigned to third party
- Only Homestead/Farmstead qualified properties are eligible to pay installments

Installment Payments

- Tax collectors required to make final settlement of all taxes for the prior calendar year by January 15
- Certify unpaid installment payments to be made after December 31 of the year levied
- Affirm in writing a true and just return of all taxes collected
- District may adjust compensation of the tax collector for increased costs

Property Tax and Rent Rebate Program

- New law more than doubles size of Property Tax and Rent Rebate Program – adding \$200 million annually
- Surplus lottery funds used to fund program for two years, then funded by anticipated gambling revenue
- Program initially benefits eligible Pennsylvanians age 65 and older; widows and widowers age 50 and older; and people with disabilities age 18 and older

Property Tax and Rent Rebate Program

- Law increases eligibility limits and amount of rebates available for eligible senior citizens
- Under new law, maximum rebate increased to \$650 and income eligibility changed from \$15,000 to \$35,000 (only half of social security, supplemental security, and Railroad Retirement Tier 1 benefits counted as income)
- Due to wage tax levies, rebate supplements and credits will be made available for eligible seniors in Pittsburgh, Philadelphia and Scranton
- Supplemental funding to school districts outside of Pittsburgh, Philadelphia and Scranton if property taxes exceed 15 % of household income
- Sterling tax credit – School districts in suburban Philadelphia will be reimbursed by revenue lost due to the wage tax

Gaming Revenue

- **Act 1 expected to deliver largest property tax cut in Pennsylvania history \$1 billion annually once 14 gaming facilities operational**
- All school districts eligible for tax reduction payments from gaming revenue
- Initial \$200 million borrowed from surplus state lottery funds - Lottery to be repaid using new slots revenue
- PA gaming revenue reserve level lowered from \$400 million to \$150 million
- Tax reduction payments will be disbursed based on a formula including district's tax capacity, tax effort and tax burden

Gaming Revenue

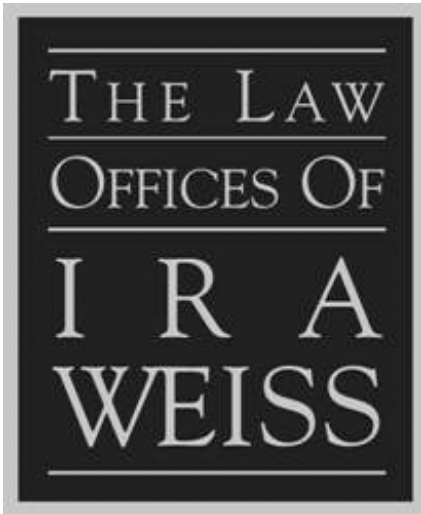
Opt-Out Provisions

- School districts can opt-out of gaming revenues
- Must adopt resolution and notify PDE by May 1
- Voters may reverse the decision to opt-out by approving referendum question at the next general or municipal election
- Referendum process – question with interpretive statement
- Law currently provides this can be done annually

Task Force on School Cost Reduction

- Created as advisory board to examine costs to school districts and offer options for General Assembly and local school districts to minimize/reduce costs
- 13 member task force in Office of Governor
- Non-binding recommendations
- Investigate, study and recommend to governor and General Assembly current and projected costs to school districts

The “New Sheriff” Has Arrived



Questions & Answers

QUESTION AND ANSWER SESSION

Additional comments or questions:

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**Providing legal expertise across the Commonwealth's
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