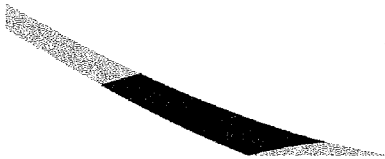


Taxation

GOV 123



Introductions

Introductions

- Dale Keagy – Southern York County SD (Retired)



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Learning Objectives

At the conclusion of this section, you will be able to:

- Adapt the Act 1 timeline to your school district's budget development process in a variety of circumstances
- Recreate the Act 1 index calculation for your school district
- Compare and contrast the advantages and disadvantages of a "no exceptions" pledge
- Complete a real estate tax calculation

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Act 1 Index

- Historical perspective
- Purpose: Limit school boards powers to raise real estate taxes
- Effect: Absent proportionate increases in state funding, forces school boards into "Resource Driven" budgeting

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Act 1 Limit Calculation

- Establishes a “base index” (an “Education COLA”) annually
- Modifies the base index for poorer school districts: If aid ratio is .4000 or greater multiply base by (.75 plus the aid ratio)
- Poorer school districts allowed to have higher local taxes (?!?!)

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Example Calculations

Example 1:

- Act 1 index is 2.1% for given year
- Aid ratio is .6000 for prior year
- Modification factor is $.75 + .60 = 1.35$
- Adjusted index is $2.1 \times (1.35) = 2.8\%$

Example 2

- Aid ratio is .3900
- No adjustment – Act 1 index is 2.1%

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Limited Exceptions

- Increases allowed above the “index” for exceptional circumstances
- Formula Defined {
- PSERS contribution increases
 - Special Education cost increases
 - Debt:
 - Grandfathered debt
 - Electoral debt

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Act 1 Limitation Issues

- Equity – allows for poorer school districts to raise real estate taxes more than richer school districts
- Base index – makes assumptions for “education COLA”
- State Share – logic breaks down if state share does not match COLA

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How to Find Your Act 1 Index

- Go to www.pde.state.pa.us
- Go to "Programs"
- Go to "Property Tax Relief"
- Go to "Act 1 Index"
- Go to the appropriate tax year for "School District Adjusted Tax Listing"
- You will also find the Act 1 Timeline at this page

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Practical Exercise

1. What is your school district's Act 1 index?
2. Will this level have a major impact on your budgeting philosophy?
3. Is the allowed increase reasonable for your demographic?
4. Do you know how your board is reacting to its index limitation?



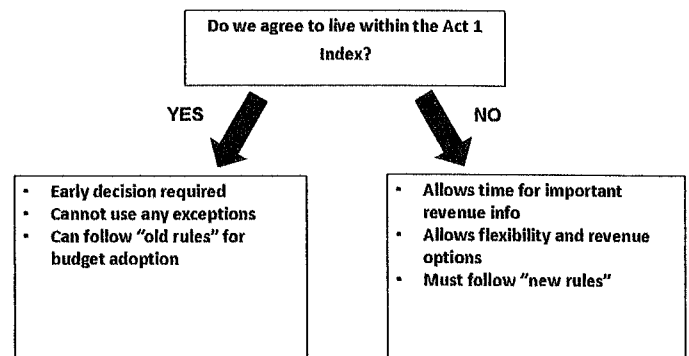
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Act 1 and Budget Timeline

- Another goal of Act 1 was to force more "transparency" and public involvement
- It established an extended timeline with important benchmarks

[See Act 1 Timeline](#)

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THERE ARE ADVANTAGES AND DISADVANTAGES FOR EITHER APPROACH

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Timetable Advantages and Disadvantages

	No Exceptions Pledge	Exceptions Option
Timetable	Simple; follows School Code rules after an early declaration	Complex; see timetable explanation in handout
Flexibility	None; pledge to stay within index is absolute	Ability to adapt to exceptional financial circumstances
Philosophy	Resource driven	Program driven (in a limited way)
Politics	Good press; plays as a pledge to keep taxes in check	Potential for negative public message

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Revenue

Source	2012-13 State-wide
Local revenue	57.6%
State revenue	35.2%
Federal revenue/ARRA	4.0%
Other misc. revenue	3.2%

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Local Revenue

Source	Typical Average
Real estate tax	80%
Earned income tax	9%
Other taxes	8%
Other misc. revenue	3%

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Taxation - Real Estate

- The definition of a "Mil" – 1/1000 or .001
- Your power (within Act 1 limitations) is to establish millage
- Assessed value of property is established by your county
- Each PA county is unique in its valuation timetable – very few are current

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Basic R/E Tax Calculations to Know

INDIVIDUAL TAX BILL – EXAMPLE

- Assessed value is \$100,000
- Your millage is 25
- Tax bill is $\$100,000 \times .025 = \$2,500$

“VALUE OF A MILL” – EXAMPLE

- Your district’s total taxable valuation is \$500,000,000
- “Value of a mil is $\$500,000,000 \times .001 = \$500,000$
- If you raise taxes by a mil, you’ll generate \$500K



Other Local Taxes

- PA’s reputation as “land of taxes”
- Primarily “Earned Income” (EIT) with a basic rate of one-half percent (.005)
- Some adjustments to EIT rate with electorate approval or if the host municipality does not have an EIT
- Local authority to impose new types of tax severely limited

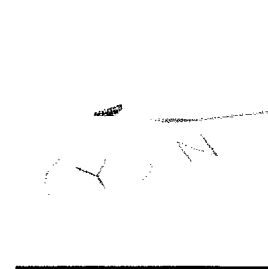


State Revenue

Source	Typical Average
Basic instruction	60%
Retirement/SS	11%
Special education	11%
Debt service	3%
Other state	15%



Let’s Review with a Quiz



Quiz – Question 1

TRUE or FALSE: The primary purpose of Act 1 legislation was to limit a school board's ability to raise taxes.

Prior to Act 1, a board's ability to raise taxes was unlimited. Act 1 imposes an annual percentage limitation on the rate by which a school district's real estate tax can rise (with very limited exceptions).



Quiz – Question 2

TRUE or FALSE: The Act 1 real estate tax limit (the "index") is set annually and is uniform for all school districts.

FALSE: The increase limit (like a cost of living increase) is set annually, but there are adjustments based on an individual school district's wealth (aid ratio). Poorer school districts can raise their taxes by a greater %.



Quiz – Question 3

TRUE or FALSE: Once a school district's Act 1 index is assigned, it is absolute for the given year.

FALSE: There are exceptions, for example: exceptional retirement expense increases or special education costs. There is also the option of a successful public referendum.



Quiz – Question 4

TRUE or FALSE: An election for the "no exceptions" pledge is not always in the best interest of the school district.

In fact, political considerations aside, it is best to follow the timeline and allow for the exception option. This is because the level of state aid is unknown at the time the "pledge" is required.



Quiz – Question 5

TRUE or FALSE: A property with an assessed valuation of \$200,000 in a school district with a tax rate of 20 mils would generate an annual tax bill of \$400.

FALSE: The tax bill is \$4,000. A “mil” is 1/1000 or .001. Move the decimal three places. The math is $200,000 \times .020 = \$4,000$.



Quiz – Question 6

TRUE or FALSE: Act 1 emphasizes real estate tax limits, but the law also limits school boards' ability to act in other tax areas.

The law also limited a board's ability to create “nuisance taxes.” Essentially, nuisance taxes in place were grandfathered, but new ones could not be levied.



Quiz – Question 7

TRUE or FALSE: The earned income tax (EIT) rate is uniformly set at 1/2% for all Pennsylvania school districts.

FALSE: Most school districts do have a 1/2% rate, but there are exceptions. If the host municipality does not impose an EIT, then the SD can keep the 1%. Also the SD rate can be increased by referendum.



This learning event connects with the following PSBA *Standards for Effective School Governance*

- II. Models responsible governance and leadership
- III. Governs through policy
- IV. Ensures that effective planning occurs
- V. Monitors results



