Act 1 Programs

The main purpose of Act 1 of 2006, the Taxpayer Relief Act, is to provide property tax relief to homeowners. Other portions of the law include limits on future increases in school property taxes, installment payment plans for property taxes and increases in the senior citizen rent/rebate program.

Property Tax Reduction – To provide property tax relief, the commonwealth will use a portion of anticipated gaming receipts from the creation of slot machine casinos in the state. As revenue from these casinos becomes available (most likely in 2008), the money will be distributed to school districts based on a formula. Districts then will reduce property taxes in an amount equal to the amount of gaming funds received. Each year, the amount of property tax reduction will change based on that year’s gaming revenue and the number of properties within the school district that are eligible to receive a tax break. The amount of the tax reduction must be specifically noted on property tax bills sent out by the school district.

The law also allows for further property tax reductions by using revenue from increased local income taxes, if approved by voters through a specific ballot question. The first attempt at implementing this method of property tax relief was widely rejected by school district residents by a referendum vote in May 2007. Voters in only eight school districts approved implementation of such a tax shift. The next opportunity for voters to consider this option occurs in 2009.

Limiting Future School Property Tax Increases – Act 1 limits future school property tax increases to a certain inflationary index, unless school districts receive specific voter approval to go higher than the limit. For the 2007-08 fiscal year, the index limited increases to 3.41%. The law does allow an upward adjustment to the index for poor school districts. If a school district wants to raise taxes higher than this index, it must get specific voter approval. A “back-end referendum” vote takes place during the primary election. This referendum must take place in any budget year when a school district proposes to raise property taxes beyond the limiting index. If voters do not approve an increase, then the school board must reduce the budget to the limit of the index plus any approved exceptions.

The law does allow school boards to apply for and receive exceptions to the back-end referendum. These exceptions, if granted, allow boards to raise taxes beyond the index without voter approval. These exceptions are for increased costs that school districts do not directly control, such as special education, construction debt payments and pension contribution costs. There are 10 exceptions: three require court approval and the remaining seven must be approved by the Pennsylvania Department of Education.

Early Budgeting for School Districts – Because of the tax increase index limit and the requirement of referendum approval to exceed that
limit, school boards now must approve preliminary budgets earlier in the fiscal year to allow time to ready a referendum vote if necessary. Districts must introduce preliminary budgets 110 days prior to the primary election. Act 1 also requires the adoption of the preliminary budget no later than 90 days prior to the primary election. School boards may waive this early budget process by adopting a resolution that limits any property tax increases for the next fiscal year to the inflationary index or less.

**Installment Payments of Property Taxes** – Act 1 authorized an expansion of installment payments for school property taxes and requires school boards to establish an optional payment schedule. The installment payment option is available only to those homeowners who qualify for property tax relief, not to owners of commercial property. School boards must set the number of payments at a minimum of three payments prior to the county date for unpaid taxes to be turned over, or a maximum of monthly. An annual notice to taxpayers about the installment payment plan is required. The choice of using the installment plan is made by the taxpayer. A taxpayer who chooses to make installments is not eligible for the 2% discount and must pay the tax at face value. A district can exclude a taxpayer from making installment payments if the taxpayer was late making scheduled payments by more than 10 days for two or more installment payments in the prior year.

**Senior Citizen Rent/Rebate Program** – The law expanded the eligibility for participation in the Senior Citizens Property Tax and Rent Rebate Assistance program and increased the dollar amount of program rebates. For senior citizens, the annual household income eligibility limit increased to $35,000. This expansion of eligibility is available only to those who own their own homes; it is not applicable to senior citizens seeking a rent rebate in lieu of property. The amount of the annual rebate benefit also was increased up to $650, depending on income.

The law also includes supplemental relief to senior citizens whose real property taxes were a major portion of their income. Act 1 provides that senior citizens are eligible if their real property taxes exceed 15% of household income and if the household income is equal to or less than $30,000. The requirement that real property taxes exceed 15% of their incomes is waived for residents living in Philadelphia, Pittsburgh and Scranton.

While Act 1 will serve to reduce school property taxes, it is important to note that the law does not help school districts reduce the cost of education in any way. Under the current public education funding scheme, school districts are forced to undertake an ever-increasing share of the cost of educating children, as state funds only support an average of 35% of the public school costs. Act 1 provides no relief for school districts’ mandated costs such as the retirement contributions, special education costs, charter and cyber-charter school tuition costs and compliance the Prevailing Wage Act. Until these mandates are reduced or eliminated, it is unrealistic to expect school districts to lower school property taxes further than the provisions of Act 1.