# Overview of Annual Budget Timelines and Standard Terminology

All school districts must act upon two completely independent budget processes**:**
**preliminary** and **final**.

School Code Section 687 requires school districts with a July–June fiscal year to adopt a *final* budget no later than June 30 for the succeeding fiscal year. SS Act 1 Chapter 3 mandates a *preliminary* budget process that adheres to the same mechanisms as with the *final* budget, except that the *preliminary* budget timeline takes place in the winter (December/January/February). As in all prior years, the *final* budget timeline continues to take place in the spring (April/May/June).

Both preliminary and final budgets must be prepared using the Department's General Fund Budget (PDE-2028) software. Section 687(a)(1) requires the school board president to certify to PDE, no later than May 31, that the proposed version of the final budget has been prepared, presented and will be made available for public inspection using the PDE-2028. The certification form is included in the PDE-2028 software; it should be submitted to PDE *immediately* after adoption of the proposed final budget.

To alleviate confusion concerning the procedures required for budget actions, the following define the standard terminology for use when discussing budget-related actions.

**Preliminary Budget:** The preliminary budget for fiscal year 2015-16 must be adopted (via Board vote) by February 18, 2015. PDE-2028 must be submitted to PDE by February 23, 2015.

A ***proposed*** version must be prepared at least 20 days before adoption; this work-in-progress budget, defined as the <u>*proposed preliminary budget*</u>, must be made available for public inspection no later than January 29, 2015 (20 days before adoption on 2/18/15).

Public notice of the intent to adopt the preliminary budget must be published no later than February 8, 2015 (10 days before adoption on 2/18/15).

*Note:* An alternate process exists under SS Act 1 of 2006. By January 29, 2015, a Board may adopt (via Board vote) a resolution indicating that it will not raise the rate of any tax for the support of public schools for the following fiscal year by more than its index. By February 3, 2015, a Board must submit a copy of the resolution and a schedule of the proposed tax rates (all tax reports from the PDE-2028) to PDE. A Board that adopts a resolution through this process does not need to comply with the preliminary budget requirements and need only follow the procedures outlined in section 312 of SS Act 1 and section 687 of the School Code for the adoption of both its proposed final budget and its final budget.

**Final Budget:** The final budget for fiscal year 2015-16 must be adopted (via Board vote) by June 30, 2015.

A ***proposed*** version must be prepared and adopted (via Board vote) no later than May 31, 2015 (at least 30 days before adoption); this work-in-progress budget, defined as the *proposed final budget*, must be made available for public inspection no later than June 10, 2015 (20 days before adoption on 6/30/15).

Public notice of the intent to adopt the final budget must be published no later than June 20, 2015 (10 days before adoption on 6/30/15).

*Note 1*: For the adopted preliminary budget to become the proposed final budget, the school board must take action. School districts should ask their solicitors to determine what constitutes board "action."

*Note 2:* The real estate tax rate adopted with the final budget may be raised above the rate that was adopted on both the preliminary and proposed final budgets.

The ability to increase tax rates at final budget adoption must be in conjunction with allowable tax rates based on the school district's index, approved referendum exceptions and voter approval. The software for the PDE-2028 must always be used to determine the maximum allowable tax rate based on the above factors.

Within the PDE-2028, page C-2 of the real estate tax rate report (RETR) calculates both the tax rate and revenue in excess of the school district's index. It is imperative that this information be reviewed prior to final adoption of the budget to ensure adoption of a tax rate within all pre-approved limits.

The terms 'preliminary' and 'tentative' have traditionally been used by school districts to describe the proposed version of a final budget. Because SS Act 1 specifically uses the term 'preliminary' to describe the budget to be adopted 90 days before the primary election, the term *proposed* should be used instead of *preliminary* to define the "working budget" that is 1) prepared at least 30 days in advance of adoption and 2) provided for public inspection no less than 20 days prior to adoption.

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# 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 <u>do</u> <u>not</u> 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.