



# Education Update

From the Senate Education Committee

JANUARY 15, 2007

## Act 1 Tax Study Commissions Make Recommendations

The local tax study commissions authorized under the Taxpayer Relief Act of 2006 have made their required recommendations to their school districts, mostly proposing increases in their existing earned income tax rates.

The act requires that each school district appoint a local tax study commission to recommend the rate of the earned income or personal income tax that voters will be required to approve or disapprove in ballot questions proposed at the 2007 primary election.

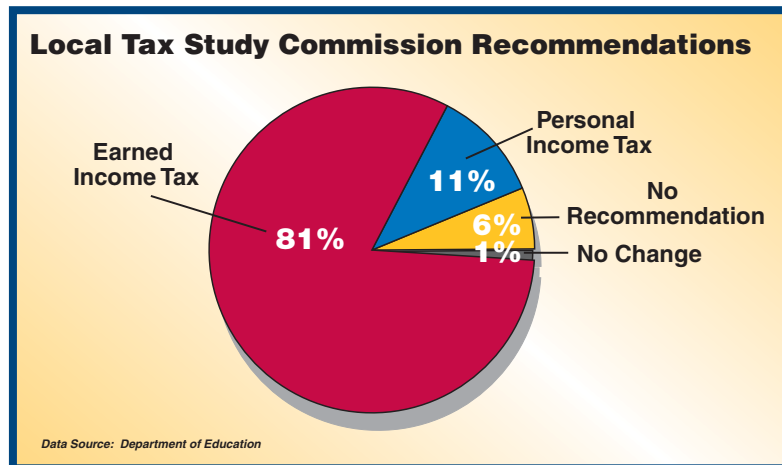
The income taxes will fund property tax reductions in the school districts. School boards must make final decisions on their ballot questions by March 13.

Local tax study commissions have discretion to recommend the income tax rate, so long as the recommendation will provide property tax reductions of 50% of the maximum homestead exclusion allowed by law.

According to the Department of Education, 309 school districts have so far provided their recommendations to the Department. Of those, 251, or 81%, have recommended the use of the earned income tax. Thirty-five, or 11%,

have recommended the use of the personal income tax.

Nineteen commissions did not issue recommendations and four recommended no change in the school district's current income tax structure. Neither of those options is allowed by law.



## Act 1 Index Controls School District Tax Rate Increases

The Taxpayer Relief Act limits school district tax increases to a specific percentage, called the index.

The index is determined annually for each school district by averaging the percentage increase in the Statewide Average Weekly Wage (SAWW) and Federal employment cost index for elementary and secondary education (ECI) and adjusting it for school districts with MV/PI aid ratios over 0.4000.

For FY 2007-2008, the base index is 3.4%. For individual school districts that receive the aid ratio adjustment,

the highest index is 5.4%. The base index for FY 2006-2007 was 3.9% and the highest adjusted index was 6.3%.

School districts may increase their property tax rates above the index only if they are granted one or more exceptions or if voters approve an additional tax increase through backend referendum.

### Act 1 Index Controls

FORMULA ELEMENT	FY 2007-2008
Percentage Change in SAWW	2.8%
Percentage Change in ECI	4.0%
Base Index	3.4%
Range of Adjusted Index	3.4% to 5.4%

*Source: Department of Education*

## Senate Education Committee

Phone: 787-2637  
 FAX: 783-9149  
 senateeducationcommittee@pasen.gov

Senator James J. Rhoades  
**Chairman**

David L. Broderic  
 Executive Director

## New School District Budget Deadlines Approach

To ensure that school district tax increases are within the limits imposed by the Taxpayer Relief Act, school districts must meet new deadlines to file preliminary budgets and request exceptions to backend referendum requirements.

Under Act 1, school districts are required to file preliminary budget proposals with the Department of Education by February 19 so that their proposed FY 2007-2008 tax rates can be certified. A school district that does not intend to increase its tax rates beyond the index may avoid this requirement by

adopting a resolution certifying that it will maintain its tax rate increases within the index.

Any school district that intends to request an increase in its tax rates beyond

what is allowed by its index is required to file a request for an exception by March 1. Exceptions are available for school construction and special education, among others.

### Act 1 2007 Deadlines

Action	Deadline
School District Submits Tax Rate Maintenance Resolution (if adopted)	January 30
Department Certifies School District Tax Rate in Resolution	February 9
School District Adopts Preliminary Budget	February 14
School District Submits Preliminary Budget to Department	February 19
Department Certifies School District Tax Rate	March 1
School District Requests Exception	March 1
Department Rules on Exception	March 21
School District Submits Backend Referendum Question to County Primary Election	March 26
	May 15

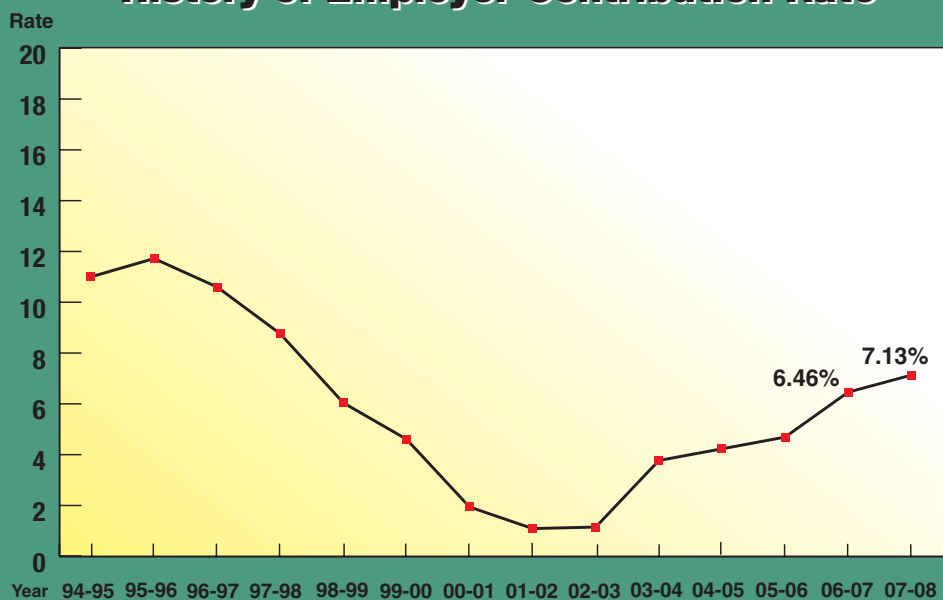
## PSERS Employer Contribution Rate Announced

On December 8, the Board of the Public School Employees Retirement System (PSERS) approved the employer contribution rate of 7.13% for FY 2007-2008. The rate reflects an increase over the 6.46% rate in effect for FY 2006-2007.

The Commonwealth pays at least 50% of each school district's employer contribution. The rate applies to salary and wages earned from July 1, 2007, through June 30, 2008.

The employer contribution rate has escalated gradually since FY 2001-2002, when investment returns allowed it to be set at 1%. The minimum employer contribution rate is now set at 4%.

### History of Employer Contribution Rate



Source: PSERS

**For more information or detailed analyses of these topics, contact the Senate Education Committee staff at 787-2637.**