



Senate Education Committee

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BILL SUMMARY
Senate Bill 1303, Printer's No. 1727
Prime Sponsor: Williams

SUMMARY

Senate Bill 1303 amends section 696 of the Public School Code of 1949 to provide flexibility in setting tax rates for school districts of the first class.

CURRENT LAW

Property owners in a school district of the first class pay two property taxes as part of their property tax bills – one for the city and one for the school district. Sixteen and three-quarter mills of the school district tax rate are set forth in various state laws, including:

- Section 652 of the Public School Code – 11.75 mills
- Act 505 of 1949 – 1.5 mills
- Act 303 of 1957 – 0.75 mills
- Act 557 of 1959 – 2 mills
- Act 310 of 1963 – 0.75 mills

The City in which a school district of the first class is located cannot adjust the rates that apply to the school district's portion of the property tax.

ANALYSIS

Senate Bill 1303 adds a new subsection to section 696 (relating to distress in school districts of the first class) to provide flexibility in establishing the tax rates in a school district of the first class where the body with the responsibility for making of assessments of real property in the school district of the first class certifies that the total assessed value of all real property in the city is more than two times the total assessed value for the previous year and for each year thereafter.

This legislation suspends the statutorily required tax rates for real property found in the Public School Code of 1949 and other acts. These statutorily required tax rates equate to 16.75 mills.

In addition, this bill suspends provisions relating to maintenance of effort by the city in a school district of the first class, but requires the city to authorize for a school district a real property tax rate of no less than the rate of tax authorized by the city for the immediately preceding year.

This legislation takes effect in 60 days.

THE GENERAL ASSEMBLY OF PENNSYLVANIA

SENATE BILL

No. 1303 Session of 2011

INTRODUCED BY WILLIAMS, KITCHEN, STACK, HUGHES, WASHINGTON,
FARNESE AND TARTAGLIONE, OCTOBER 26, 2011

REFERRED TO EDUCATION, OCTOBER 26, 2011

AN ACT

1 Amending the act of March 10, 1949 (P.L.30, No.14), entitled "An
2 act relating to the public school system, including certain
3 provisions applicable as well to private and parochial
4 schools; amending, revising, consolidating and changing the
5 laws relating thereto," further providing for distress in
6 school districts of the first class.

7 The General Assembly of the Commonwealth of Pennsylvania
8 hereby enacts as follows:

9 Section 1. Section 696(h) of the act of March 10, 1949
10 (P.L.30, No.14), known as the Public School Code of 1949,
11 amended June 29, 2002 (P.L.524, No.88), is amended and the
12 section is amended by adding a subsection to read:

13 Section 696. Distress in School Districts of the First
14 Class.--* * *

15 (h) The School Reform Commission shall be responsible for
16 financial matters related to the distressed school district of
17 the first class and subject to the provisions of subsection
18 (h.1):

19 (1) All taxes authorized to be levied by a school district
20 of the first class or for a school district of the first class

1 by a city or county of the first class on the date of the
2 declaration of distress shall continue to be authorized and
3 levied in accordance with this act and shall be transmitted to
4 the school district. For the first fiscal year or part thereof
5 and every fiscal year thereafter in which the school district is
6 declared to be distressed, the amount appropriated or paid by
7 the city or county to the school district and the tax authorized
8 by the city or county to be levied for the school district or
9 dedicated to the school district shall be an amount or tax not
10 less than the highest amount paid by the city or county to the
11 school district or authorized by the city or county to be levied
12 for the school district or dedicated to the school district
13 during any of the three full preceding fiscal years. In
14 addition, the city of the first class shall provide to the
15 school district of the first class all other available local
16 non-tax revenue, including grants, subsidies or payments made
17 during the prior year.

18 (2) In addition to the moneys collected under paragraph (1),
19 the city of the first class shall remit to the school district
20 of the first class for each year that the school district is
21 declared distressed that portion of all other local tax revenue
22 levied for a full fiscal year by a city or county of the first
23 class coterminous with a school district of the first class that
24 was allocated to the school district prior to the school
25 district being declared distressed in accordance with section
26 691(c).

27 (3) All taxes collected on behalf of a school district of
28 the first class by any person or entity, including a city or
29 county of the first class, shall be promptly paid following
30 collection to the School Reform Commission for the benefit of

1 the school district.

2 (4) In the event the city or county of the first class does
3 not meet the financial obligations prescribed in this
4 subsection, the Commonwealth may apply to that obligation any
5 amounts otherwise due from the Commonwealth to the city or
6 county of the first class, including, but not limited to,
7 grants, awards and moneys collected by the Commonwealth on
8 behalf of the city or county of the first class. Funds withheld
9 shall be maintained in a separate account by the State Treasurer
10 to be disbursed as determined by the Secretary of Education in
11 consultation with the State Treasurer.

12 (5) The School Reform Commission shall adopt a budget.

13 (h.1) For any year for which the body with responsibility
14 for the making of assessments of real property in a city of the
15 first class certifies that the total assessed value of all real
16 property in the city is more than two times the total assessed
17 value for the previous year, and for each year thereafter:

18 (1) Subsection (h) (1), (2), (3) and (4) shall not apply,
19 provided that for so long as the district remains subject to a
20 declaration of distress, for each year subsequent to the year
21 for which the board so certifies, the city shall authorize for a
22 school district a rate of tax no less than the rate of tax
23 authorized by the city for the immediately preceding year.

24 (2) The authorization of tax for school districts of the
25 first class set forth in the following acts shall not apply:

26 (i) Section 652 of this act.

27 (ii) The act of May 23, 1949 (P.L.1661, No.505), entitled,
28 as reenacted and amended, "An act to impose a tax on real estate
29 for public school purposes in school districts of the first
30 class and of the first class A for current expenses."

1 (iii) The act of July 8, 1957 (P.L.548, No.303), entitled
2 "An act to impose an additional tax on real estate for public
3 school purposes in school districts of the first class for
4 current expenses."

5 (iv) The act of November 19, 1959 (P.L.1552, No.557),
6 entitled "An act imposing a tax on real estate for public school
7 purposes in school districts of the first class and first class
8 A for current expenses."

9 (v) The act of August 8, 1963 (P.L.592, No.310), entitled
10 "An act to impose an additional tax on real estate for public
11 school purposes in school districts of the first class for
12 general public school purposes."

13 (3) The provisions of paragraph (2) shall continue after the
14 expiration of a declaration of distress.

15 * * *

16 Section 2. This act shall take effect in 60 days.



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A10003 to SB 1303, PN 1727

Background

The City of Philadelphia is moving from a fractional assessment of its real property to an actual value assessment system in order to correct longstanding inaccuracies in the City's property tax system. Currently, properties are assessed at 32% of their actual value. The change from a fractional value assessment system to an actual value assessment system will result in properties being assessed at 100% of their actual value. Doing so will result in a tremendous increase in real property assessments and taxpayers' property tax bills, and requires an adjustment of real property tax rates.

The property tax bill for Philadelphia property owners consists of two parts – the City tax bill and the school district tax bill. The City has the legal authority to adjust its own property tax rates, but a portion of the school district's tax rate rests with several state statutes that mandate a certain level of millage. Sixteen and three-quarter mills of the school district tax rate are mandated by five state laws, including:

- Section 652 of the Public School Code – 11.75 mills
- Act 505 of 1949 – 1.5 mills
- Act 303 of 1957 – 0.75 mills
- Act 557 of 1959 – 2 mills
- Act 310 of 1963 – 0.75 mills

These statutorily established rates cannot be adjusted without action on the part of the General Assembly.

In addition, Act 46 of 1998 contains maintenance of effort provisions that require the City to authorize property taxes each year in an amount no less than the amount authorized in the previous three years. This three-year look back also affects the ability to lower the City-established portion of the school district tax rate.

Amendment A10003

Amendment A10003 to Senate Bill 1303 provides the flexibility necessary with regards to the maintenance of effort provision of Act 46 and statutorily required property tax millage rates. This flexibility is necessary due to the shift from a fractional assessment system to an actual value assessment system. The City is proposing to phase in the increased reassessment, thus requiring a lowering of the tax rates, and flexibility with regards to maintenance of effort, to correspond to a three-year “smoothing” of assessments.

Under the amendment, section (h.1)(1) provides that, in the tax year following reassessment and the two years thereafter (2013-2015), the City would be permitted to lower the tax rate for the District portion of the City’s property tax. The City must, however, establish a tax rate that yields an amount of revenue for the District equal to or greater than the highest one-year yield of property tax revenue collected during the three years prior to reassessment (2010-2012). This is to ensure that the District receives as much revenue in the first three years after the reassessment as the baseline amount it has received this year (this is approximately \$545 million, the highest amount received in the past three years).

In addition, (h.1)(1) switches to maintenance of effort for 2016 and 2017 based on the new tax rate that will be established in the third year of smoothing, in 2015. Because Act 46 currently provides for a three-year “look-back,” a special maintenance of effort provision must be made for 2016 and 2017, when the look-back should be to the new baseline rate set in 2015. Looking back to the 2013 or 2014 rates in 2016 or 2017 would require rates that would be far too high. After 2017, the three-year “look-back” of the current language of Act 46 would resume.

To address the statutorily established millage rates for the school district portion of a property tax bill, the amendment to Senate Bill 1303 permits the levying of such tax rates only where the yield from the City-authorized portion of the property tax going forward fails to yield at least as much as the amount received in 2012 (\$545 million). This provision continues for as long as the school district remains under a designation of fiscal distress.

Explanation of SB1303, As Proposed To Be Amended

- Philadelphia property owners pay two property taxes as part of their property tax bill: one for the City and one for the School District of Philadelphia. Each of these components of the individual's tax bill has its own tax rate.
- Tax rates for both the City and School District tax must be reduced significantly in order to offset the anticipated increase in assessments that will happen with the City-wide reassessment we must implement this year. Otherwise, with the new, higher assessments, tax bills would skyrocket.
- The City can adjust the rate that applies to the City's portion of the property tax without any changes in state law, and the City will adjust the rate for the City portion of the tax to ensure there is not a massive tax increase after the reassessment.
- Two distinct changes to state law are needed to deal with the need to reduce the tax rate associated with the School District portion of the Philadelphia property tax.
- **Issue 1 -- Act 46 Relief.** Act 46 of 1998 contains a maintenance of effort requirement that requires the City to authorize property taxes each year in an amount no less than that authorized in the previous three years (the three-year "look-back.") This may prohibit the City from lowering the City-established portion of the School District tax rate to deal with the increased assessments resulting from our reassessment process.
- The language set forth in proposed section (h.1)(1) would provide that, in the tax year following reassessment and the two years thereafter (2013-2015), the City would be permitted to lower the tax rate for the District portion of the City's property tax. The City would be required, however, to establish a tax rate that would yield an amount of revenue for the District equal to or greater than the highest one-year yield of property tax revenue collected during the three years prior to reassessment (2010-2012). This would ensure that the District receives as much revenue in the first three years after the reassessment as the baseline amount it has received this year (about \$545 million, which is the highest amount received in the past three years).
- The reason maintenance of a specific tax rate must be suspended for three years is that we are proposing to phase in our increased reassessment, and therefore would need to lower our tax rates over the course of three years, to correspond to a three-year "smoothing" of assessments.
- The second sentence of proposed (h.1)(1) switches to maintenance of effort for 2016 and 2017 that is based on the new tax rate that will be established in the third year of smoothing, in 2015. Because Act 46 currently provides for a three-year "look-back," a special maintenance of effort provision must be made for 2016 and 2017, when the look-back should be to the new baseline rate set in 2015 (as looking back to the 2013 or 2014 rates in 2016 or 2017 would require rates

that would be far too high). After 2017, the three-year “look-back” of the current language of Act 46 would resume.

- **Issue 2 – The State-Established School District Tax Rate.** Independent of the Act 46 issue, we have a second issue related to a portion of the School District tax rate that is set forth in state law.
- Of the current 53 mills tax rate that constitutes the School District portion of the property tax, approximately 16.75 mills is directly authorized in state law. In other words, approximately a third of the School District portion of the property tax is established by the state and not by the City in the Philadelphia Code. The remaining two-thirds (about 36 mills) were approved by our City Council and are forth in the Philadelphia Code.
- That 16.75 mills state tax authorization is too high, even standing alone (without the 36 mills) to correlate properly with the increased assessments. Accordingly, even if the City eliminated the 36 mills, and the 16.75 mills authorization were used as the tax rate after reassessment, the School District portion of the property tax bill would increase significantly after the reassessment.
- The School District agrees with the City that during the period that the School District remains in distress and the maintenance of effort provisions of Act 46 are in place, there is no need for the District to utilize the 16.75 mills authorized in state law, as long as the yield from the City-authorized portion of the property tax going forward is at least as much as the \$545 MM received in 2012.
- Paragraph (h.1)(2) in the bill, as proposed to be amended, would therefore allow use of the 16.75 mills authorization only to the extent that the City-authorized mills were not enough to produce the \$545 MM in revenue.

LEGISLATIVE REFERENCE BUREAU

AMENDMENTS TO SENATE BILL NO. 1303

Sponsor:

Printer's No. 1727

1 Amend Bill, page 1, lines 9 through 12, by striking out all
2 of said lines and inserting

3 Section 1. Section 696 of the act of March 10, 1949 (P.L.30,
4 No.14), known as the Public School Code of 1949, is amended by
5 adding a subsection to read:

6 Amend Bill, page 1, lines 15 through 20; pages 2 and 3,
7 lines 1 through 30; page 4, lines 1 through 14, by striking out
8 all of said lines on said pages and inserting

9 (h.1) (1) For the reassessment year and the two (2) years
10 thereafter, the rate of any tax authorized by a city of the
11 first class or county of the first class to be levied for a
12 school district of the first class or dedicated to the school
13 district of the first class in accordance with subsection (h) (1)
14 may be adjusted so that the tax authorized by the city of the
15 first class or county of the first class for the school district
16 of the first class yields an amount equal to or greater than the
17 highest yield of the tax authorized by the city of the first
18 class or county of the first class to be levied by the school
19 district of the first class or dedicated to the school district
20 of the first class during any of the three (3) full preceding
21 years prior to the reassessment year. In the third and fourth
22 years following the reassessment year, the rate of any tax
23 authorized by the city of the first class or county of the first
24 class to be levied for the school district of the first class or
25 dedicated to the school district of the first class shall be not
26 less than the rate authorized in the immediately preceding year.

27 (2) Notwithstanding any other provision of law, in the
28 reassessment year and each year thereafter, in any year in which
29 the school district of the first class is subject to a
30 declaration of distress, the school district of the first class
31 may levy taxes on real estate under any of the following acts to
32 the extent the estimated yield on all taxes on real estate for
33 the year is less than an amount equal to the yield in the year
34 prior to the reassessment year, increased by an amount
35 proportional to the increase since the year prior to the

1 reassessment year in total assessed value of real estate in the
2 city of the first class:

3 (i) Section 652.

4 (ii) The act of May 23, 1949 (P.L.1661, No.505), entitled,
5 "An act to impose a tax on real estate for public school
6 purposes in school districts of the first class and of the first
7 class A for current expenses."

8 (iii) The act of July 8, 1957 (P.L.548, No.303), entitled
9 "An act to impose an additional tax on real estate for public
10 school purposes in school districts of the first class for
11 current expenses."

12 (iv) The act of November 19, 1959 (P.L.1552, No.557),
13 entitled "An act imposing a tax on real estate for public school
14 purposes in school districts of the first class and first class
15 A for current expenses."

16 (v) The act of August 8, 1963 (P.L.592, No.310), entitled
17 "An act to impose an additional tax on real estate for public
18 school purposes in school districts of the first class for
19 general public school purposes."

20 (vi) Any other statute authorizing the school district of
21 the first class to levy taxes without authorization of the city
22 of the first class.

23 (3) Paragraph (1) shall affect only the rate of the taxes
24 authorized by the city of the first class or county of the first
25 class to be levied by the school district of the first class or
26 dedicated to the school district of the first class for the
27 reassessment year and the four (4) years immediately thereafter.
28 Nothing under this subsection shall:

29 (i) Repeal or modify the obligation of the city of the first
30 class or the county of the first class to fully comply with
31 subsection (h) (1) for each year while the school district of the
32 first class is subject to a declaration of distress.

33 (ii) Repeal or affect the taxing authority of a city of the
34 first class under the act of August 5, 1932 (Sp.Sess., P.L.45,
35 No.45), referred to as the "Sterling Act."

36 (4) As used in this subsection, the term "reassessment year"
37 means the year immediately following the year in which the
38 director of finance in a city of the first class first certifies
39 that the total assessed value of all real property in the city
40 of the first class is at full market value.

41 Amend Bill, page 4, line 16, by striking out "in 60 days" and
42 inserting

43 immediately