



**ALLEGHENY INSTITUTE**  
FOR PUBLIC POLICY

*Measuring the Impact of Act 1 in  
Allegheny County*

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## Summary and Key Findings

The Pennsylvania General Assembly passed Act 1—the Taxpayer Relief Act of the 2006 Special Session on Property Taxes—as a way to address comprehensively school property taxes for homeowners. School property taxes are, of course, a very high-profile issue statewide, but particularly so in Allegheny County. This is especially true given the County’s move to a base year assessment model that means revenue growth has to come about through millage increases instead of growth in property values. Therefore, the statute has significant implications for the area’s taxpayers.

There are three “broad-based” components of the law that apply to all homeowners:

1. An option for voters to decide if they wanted to shift part of their tax burden away from real estate taxes to earned/personal income taxes.
2. The delivery of gaming money to expand residential property tax relief through the homestead exemption.
3. A property tax control measure that hinges on a cap for tax increases (the Act 1 index) and the option of voters to have a say on increases that outstrip that cap.

The referendum on the tax shift took place in the May 2007 primary and was defeated in every district in Allegheny County. Districts can revisit the issue and place it on the ballot in November of 2009 and every municipal election thereafter.

The distribution of gaming funds will take place in FY2009 (July 1, 2008 to June 30, 2009) by sending the money to school districts who will then adjust the homestead exemption for owner-occupied structures. Preliminary estimates on how much an average homeowner in the districts can expect to receive have been released from the Department of Education as of this writing.

The control measure went into effect in the 2008 Fiscal Year (July 1, 2007 to June 30, 2008) and this report focuses on what transpired in Allegheny County’s school districts.

With one year of data on the control measure, this report finds that:

- 15 school districts increased taxes in FY2008
- Two of those districts increased taxes at a rate greater than their allowable index. However, since they secured exceptions for the increase from the Department of Education, voters did not have an opportunity to approve or disapprove of the increase. The remaining districts increased taxes to or below their allowable rate
- Eight other districts that secured exceptions did not exceed their allowable index
- If and when the state revisits the issue, it ought to create a blanket policy requiring a referendum for any school tax increase

## **Introduction**

The Taxpayer Relief Act—Act 1 of the 2006 Special Session on Property Taxes—was aimed straight at the issue of school property taxes paid by homeowners in Pennsylvania. It is comprised of multiple parts, including the tax-shift referendum question that took place in the 2007 primary election, an expanded rent rebate for senior citizens, the infusion of relief from legalized gaming, and lastly, a measure of control over how high school taxes can increase annually.<sup>1</sup>

First in effect for the 2008 Fiscal Year (July 1, 2007-June 30, 2008), the tax control portion of Act 1 is a major change in the status quo from the power school boards have had to increase taxes at will without taxpayer referenda or some limit over how high increases can go. As we will see, there are a number of caveats to the control methodology and in very few instances statewide have the voters actually gone to the polls to vote a tax increase up or down.

So how has Act 1 worked thus far in Allegheny County? With school districts of varying economic and demographic characteristics, each with their own index under Act 1, there is a great opportunity for a comparative analysis. What districts increased their taxes above their index? Which ones cut taxes? Which ones got exceptions from the state? These are just a few intriguing questions that are raised by the implementation of the law now and going forward.

## **How the Act 1 Index Tries to Control Tax Increases**

The statute prescribes a budget timeline for school districts to follow for each fiscal year. Here's how the timeline worked for FY2008. First, the Department of Education calculated an index for school districts in September of 2006. The base statewide index was 3.4 percent and was calculated from the percentage increase in the average weekly Pennsylvania wage for the preceding calendar year and the Employment Cost Index for Elementary and Secondary Schools for the previous year ending June 30<sup>th</sup>. For lower wealth school districts, an enhancement was made by multiplying the index by .75 and the district's market value to personal income ratio.<sup>2</sup>

Once the index for the district was determined, Act 1 stipulates that the district can either 1) pass a resolution stating that their taxes will not increase faster than the index (which had to happen by January 25<sup>th</sup>, 2007) or 2) submit a preliminary budget to the state (which had to be submitted by February 14<sup>th</sup>, 2007).<sup>3</sup>

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<sup>1</sup> The legislation expanded the income thresholds for homeowners from their previous top level of \$15,000 to a new high of \$35,000. In addition the maximum rebate was increased from \$500 to \$650.

<sup>2</sup> Pennsylvania Department of Education, "Report on Referendum Exceptions for School Year 2007-08". More detail on the index is supplied by a Pennsylvania School Boards Association newsletter (Vol1, No.4) that states "the statewide average weekly wage is calculated twice annually...[it] does not include the cost of benefits...The Economic Cost index used for calculating the Act 1 index is the ECI for Elementary and Secondary Schools...the ECI takes benefit levels into account"

<sup>3</sup> Ibid

A resolution tells the taxpayers of the district that their school tax rate will not go above the index for the coming year.

Submission of a preliminary budget brings up other possibilities, depending on whether the budget contains a tax increase greater than the district's index. Even if there is a planned tax increase greater than the index, the voters still may not get a say. The district can seek an exception from the Department of Education that allows the index to be exceeded for the year due to one or more conditions related to school construction, pensions, health benefits, etc. Or the Department can find that the increase was not warranted and after scrutinizing the budget lower the amount of the exception. There is also the possibility that the district can apply to its county Court of Common Pleas for one or more of three possible exceptions.

Failure to secure an exception that fully covers the proposed tax increase meant that the district was then obligated to submit the increase to the voters of the district. This is a rare occurrence. The Pennsylvania School Boards Association knows of only four voter referendum questions on tax increase that took place in FY2008.

It is apropos to revisit a quote from a Department of Education publication on Act 1 which points out, "voters in every district will have the final say on *extraordinary* tax increases. School boards will still be able to raise property taxes each year...and they can receive referendum exceptions for emergencies and *educational necessities*" (emphasis added).<sup>4</sup> Here extraordinary is implied to mean greater than the index and not granted an exception, and necessities range from promises made to employees and teachers to the maintenance of revenue sources.

### **Act 1 in Allegheny County**

As stated in the summary, no district opted to approve the referendum question under Act 1 which would have permitted a shift to a higher earned income tax or a new personal income tax in order to enact a larger property tax reduction. Though the door is open for districts to revisit the issue in future municipal elections,<sup>5</sup> the large margin of defeat in many districts would likely prevent such an occurrence.<sup>5</sup>

As of early May 2008 the state released its estimated homestead reduction for districts in Allegheny County from the gaming fund distribution. These amounts are listed in the Appendix of this report. The district has to use the gaming money to determine the amount of the homestead exclusion by June 30, 2008.

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<sup>4</sup> Pennsylvania Department of Education, "Taxpayer Relief Act Special Session Act 1 of 2006: Frequently Asked Questions for Taxpayers". November 15, 2006.

<sup>5</sup> Specifically, nine districts wanted to eliminate their earned income tax and shift to a personal income tax and the remainder opted to increase their current earned income tax. The recommendations came after Local Tax Commissions were assembled in each district and came up with a course of action for the school board to take. The purpose of the tax shift was to fund relief that would come through a homestead exemption for homeowners. With that defeat, district taxpayers will get tax relief through the gaming money only.

That leaves the third leg of the stool for the broad-based relief under Act 1, the index and taxpayer control of increases. With one year of Act 1 index data reported, it is an opportune time to examine how things played out in Allegheny County for the 2008 Fiscal Year (July 1, 2007-June 30, 2008). The analysis for 41 school districts is based upon the changes in millage rates from the previous 2007 Fiscal Year (July 1, 2006-June 30, 2007) if any, and the course of action selected by the district under Act 1.<sup>6</sup>

*Aggregate Changes*

Beginning with overall changes to millage rates in aggregate, 15 districts—a third of the county total—increased taxes, 24 made no change to their rates, and 2 districts decreased their millage rates. The focus starts with those 15 districts and the magnitude of the increases.

**Tax Actions for School Districts<sup>7</sup>**

Direction of Millage Rate Change	Number of Districts
Increase, > Than Index	2
Increase, = To Index	5
Increase, < Than Index	8
No Change	24
Decrease	2
<b>Total</b>	<b>41</b>

Compared to each district’s Act 1 index, two exceeded it, five increased their rates equal to it, and the remaining eight districts increased them at a rate lower than the index. On average, the taxes in these school districts went up 4.2 percent and ranged from a high of a 12.1 percent increase to 1.9 percent increase.

Again, tax increases aren’t prohibited under Act 1—as long as it does not exceed the index or, if it does, the district has been granted permission to do it. Here are the actions pursuant to Act 1 taken by districts across the county.

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<sup>6</sup> Two districts were eliminated from this analysis. First, the Pittsburgh Public Schools, who operate on a calendar fiscal year and not on a July to June year. Nevertheless, the district has not changed its 13.92 rate for several years. Second, the Clairton School District, which created a split tax rate, one rate for land, and one for buildings. They made a slight upward change in the land rate in the 2008 fiscal year.

<sup>7</sup> Pennsylvania Department of Education Real Estate Tax Rates by School District and County ([www.pde.state.pa.us/k12\\_finances/cwp/view.asp?a=11&Q=108503](http://www.pde.state.pa.us/k12_finances/cwp/view.asp?a=11&Q=108503)) for FY 2007 and FY 2008.

### Index Actions for School Districts<sup>8</sup>

Action Taken Pursuant to Act 1	Number of Districts
Passed Resolution	24
Granted Exception	10
Unknown	7
<b>Total</b>	<b>41</b>

The percentage of Allegheny County districts taking a resolution (59%) was higher than the statewide percentage (47%). There were 200 additional districts across the state in addition to the ten here that were granted a full or partial exception by the state. The seven districts with an “unknown” action all stayed at or below their index for FY2008.

As can be seen in the third table only two districts of the ten that received exceptions actually exceeded their index. A conversation with an official at the Department of Education revealed that many of these districts might have just taken the exception as a cautionary measure and their budget process eliminated the need for the exception. These measures expire and it is a “use it or lose it” proposition—they do not carry over into the next fiscal year.

### Tax Actions and Index Actions

	Passed Resolution	Granted Exception	Unknown	<b>Total</b>
Increase, > Than Index	0	2	0	<b>2</b>
Increase, = To Index	1	1	3	<b>5</b>
Increase, < Than Index	5	3	0	<b>8</b>
No Change	16	4	4	<b>24</b>
Decrease	2	0	0	<b>2</b>
<b>Total</b>	<b>24</b>	<b>10</b>	<b>7</b>	<b>41</b>

#### *Individual School District Changes*

The table below on FY2008 data shows the changes for each individual school district. To be sure, taxpayers in the Steel Valley and South Fayette school districts would likely be unhappy when judging the ability of Act 1, which was sold as a way to control their taxes, yet rose at rates three times greater than their index and did so with a state-granted exception. South Fayette received six exceptions that allowed it to go over its index—school construction (debt and non-academic), special education expenditures, maintenance of local tax revenue, health care benefits, and pensions. Steel Valley received an exception for school construction debt.

<sup>8</sup> Pennsylvania Department of Education. “Report on Referendum Exceptions for School Year 2007-2008” and “School Districts Adopting Resolutions Pursuant to Section 311(d)(1)”

The next group of nine districts raising taxes in the range of 3 to 5 percent saw five taking their increase up to the index upper limit, again all done legally under the statute. The fifth highest percentage increase in the county—East Allegheny School District at 3.9 percent—was below that district’s index of 4.8 percent.

The table also displays the index for each district and this shows the wide range of values from the poorest districts to the wealthiest. The highest index, 5.5 percent, belonged to the Duquesne School District. Other districts in the Mon Valley—McKeesport, South Allegheny, and Steel Valley—all had indices at or near 5 percent. As pointed out earlier, this results from the adjustments made to the index by the state for lower wealth districts.

Contrast that with the County’s more affluent districts—Upper St. Clair, Mt. Lebanon, Fox Chapel, and North Allegheny—all of which had an index at the state base level of 3.4 percent.



**Allegheny County School Districts  
FY2008 Millage Rate Changes, Act 1 Index, and Act 1 Action  
(Ranked by % Change in Millage Rate)**

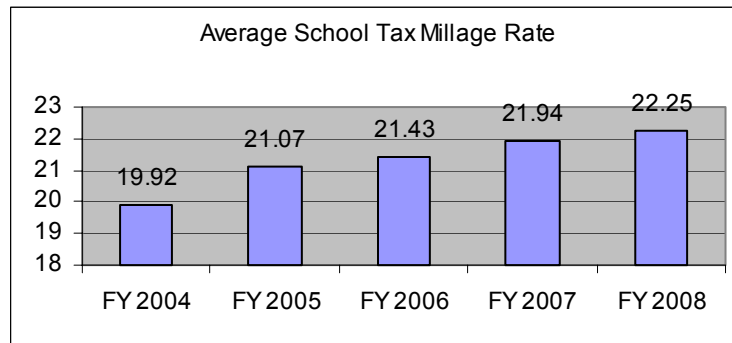
District	FY2007 millage	FY2008 millage	% change	FY2008 index	FY2008 action under Act 1
Steel Valley	18.92	21.21	12.1	4.7	Exception
South Fayette	21.19	23.14	9.2	3.4	Exception
Deer Lakes	23	24.035	4.5	4.5	Resolution
Cornell	20.89	21.74	4.1	4.1	Unknown
East Allegheny	25.54	26.54	3.9	4.8	Resolution
Allegheny Valley	21.5	22.23	3.4	3.4	Unknown
North Hills	18.5	19.125	3.4	3.4	Unknown
Fox Chapel	19.07	19.71	3.4	3.4	Exception
Avonworth	18.2	18.8	3.3	3.4	Resolution
Montour	18.3	18.9	3.3	3.4	Resolution
Woodland Hills	23.9	24.65	3.1	4.4	Exception
Quaker Valley	18.85	19.35	2.7	3.4	Exception
Riverview	22.74	23.34	2.6	4.2	Resolution
Moon	19.11	19.61	2.6	3.4	Exception
Shaler	24.25	24.7	1.9	4.5	Resolution
Baldwin	24.61	24.61	0.0	4.3	Exception
Bethel Park	22.75	22.75	0.0	4.1	Resolution
Brentwood	28.27	28.27	0.0	4.7	Resolution
Carlynton	24.15	24.15	0.0	4.2	Resolution
Chartiers Valley	19.32	19.32	0.0	3.4	Resolution
Duquesne	21.1	21.1	0.0	5.5	Resolution
Elizabeth Forward	21.36	21.36	0.0	4.7	Unknown
Gateway	19.41	19.41	0.0	3.4	Unknown
Hampton	20.53	20.53	0.0	3.4	Resolution
Highlands	23.71	23.71	0.0	4.9	Exception
Keystone Oaks	21.31	21.31	0.0	4	Resolution
McKeesport	17.71	17.71	0.0	5.1	Resolution
Mt Lebanon	23.56	23.56	0.0	3.4	Exception
Northgate	24.5	24.5	0.0	4.6	Resolution
Penn Hills	23.39	23.39	0.0	4.7	Resolution
Pine Richland	20.2	20.2	0.0	3.4	Resolution
Plum	22.2	22.2	0.0	4.6	Resolution
South Park	24.7	24.7	0.0	4.6	Resolution
Sto Rox	25	25	0.0	5	Exception
USC	22.45	22.45	0.0	3.4	Resolution
West Allegheny	21.5	21.5	0.0	4	Resolution
West Mifflin	21.092	21.092	0.0	4.5	Unknown
Wilkinsburg	35	35	0.0	4.9	Resolution
West Jeff Hills	19.99	19.99	0.0	4.2	Unknown
South Allegheny	18.21	18.11	-0.5	5.1	Resolution
North Allegheny	19.72	19.34	-1.9	3.4	Resolution

## Is the Act 1 Tax Control Measure Going to Make a Difference?

Seeing one year of data that shows how many districts increased their taxes, the magnitude of those increases, and the comparison with the index, allows us to ask the question “did Act 1 make a difference?” With just one year operating under the tax increase control portion of the statute, it is difficult to make a hard and fast prediction. But it is interesting to examine how school taxes have changed since the 2004 fiscal year and determine if there is any cause for optimism that school tax increases will be controlled.

In FY2004, the average millage rate for the 41 Allegheny County school districts was 19.9 mills. In FY2008, the average for those districts was 22.3 mills, an increase of 12 percent. The bulk of that growth was achieved by FY2007, when the average rate stood at 21.94 mills, an increase of 10 percent over FY2004

Is there a trend from the previous years that continued through the first year of Act 1? If so, it is hard to see. In fact, the first year of Act 1’s impact, FY2008, is almost identical to FY2006 in terms of the number of districts increasing taxes, those decreasing taxes, and those districts not changing their tax rates.



But there are two significant changes, whether or not they can be attributed to Act 1 is, however, questionable. First, the average tax increase (in percentage terms of millage increase year over year) is the smallest it has been since FY2004. However, it is worth noting that the average increase has been falling every year since then as well, starting at a 9.6 percent increase from 2004 to 2005, then 8.9 percent, 6.3 percent, and finally to 4.2 percent this year.

Second, the number of districts that increased taxes at a rate that beat inflation—or in the case of FY2008, the base index—is falling as well. But that is not to say that intervening factors—heightened sensitivity to school taxes by the public, districts enacting larger increases in FY2004 to FY2005 and smaller ones since then, etc.—could not be having an impact as well.

### School Tax Changes, FY2004-FY2008<sup>9</sup>

Years	FY2004-FY2005
<i># Districts That Increased Taxes</i>	27
<i># Districts That Decreased Taxes</i>	1
<i># Districts That Did Not Change Taxes</i>	13
<i>Inflation</i>	3.7%
<i># Districts with Tax Increases &gt; Inflation</i>	22
<i>Average % Increase</i>	9.60%

Years	FY2005-FY2006
<i># Districts That Increased Taxes</i>	15
<i># Districts That Decreased Taxes</i>	3
<i># Districts That Did Not Change Taxes</i>	23
<i>Inflation</i>	3.1%
<i># Districts with Tax Increases &gt; Inflation</i>	7
<i>Average % Increase</i>	8.90%

Years	FY2006-FY2007
<i># Districts That Increased Taxes</i>	19
<i># Districts That Decreased Taxes</i>	2
<i># Districts That Did Not Change Taxes</i>	20
<i>Inflation</i>	3%
<i># Districts with Tax Increases &gt; Inflation</i>	16
<i>Average % Increase</i>	6.40%

Years	FY2007-FY2008
<i># Districts That Increased Taxes</i>	15
<i># Districts That Decreased Taxes</i>	2
<i># Districts That Did Not Change Taxes</i>	24
<i>Base Index</i>	3.4%
<i># Districts with Tax Increases &gt; Index</i>	5
<i>Average % Increase</i>	4.2%

Heading into the 2009 Fiscal Year, the base index under Act 1 has grown from 3.4 percent this year to 4.4 percent. As a result, many more districts have already passed resolutions vowing they will not exceed the index and, if they plan to increase their taxes, can do so as long as they remain under the cap. Four districts have taken referendum

<sup>9</sup> School tax rates from Department of Education Real Estate Tax Rates, Inflation for years prior to 2007-2008 from Bureau of Labor Statistics

exceptions—Mt. Lebanon and Steel Valley, which received exceptions last year, along with Allegheny Valley and Deer Lakes. As with 2008, it is possible that these districts have secured exceptions yet plan to stay within their allowable index increase.

Would there have been a better way to do this? Absolutely. The better option would have been to pass a blanket referendum policy on any and all school tax increases. That would eliminate the design of the index, the exceptions, and allow voters to have a say whenever the district wants to increase taxes. It would have given a clear cut indication over what voters would have to say about school spending and the taxes used to fund it.

**FY2009 Act 1 Indices and Actions for Allegheny County School Districts  
And Estimated Relief from Gaming Money**

District	FY2008 millage	FY2009 index	FY2009 action under Act 1	Estimated Homestead Tax Relief
Allegheny Valley	22.23	4.4	Exception	\$ 135
Avonworth	18.8	4.4	Resolution	\$ 95
Baldwin	24.61	5.5	Resolution	\$ 149
Bethel Park	22.75	5.3	Resolution	\$ 169
Brentwood	28.27	6.1	Resolution	\$ 247
Carlynton	24.15	5.4	Resolution	\$ 171
Chartiers Valley	19.32	4.4	Resolution	\$ 108
Cornell	21.74	5.5	Resolution	\$ 166
Deer Lakes	24.035	5.8	Exception	\$ 213
Duquesne	21.1	7.1	Resolution	\$ 344
East Allegheny	26.54	6.2	Unknown	\$ 236
Elizabeth Forward	21.36	6.1	Unknown	\$ 231
Fox Chapel	19.71	4.4	Resolution	\$ 192
Gateway	19.41	4.4	Resolution	\$ 178
Hampton	20.53	5.1	Resolution	\$ 165
Highlands	23.71	6.3	Resolution	\$ 235
Keystone Oaks	21.31	5.2	Resolution	\$ 154
McKeesport	17.71	6.6	Resolution	\$ 324
Montour	18.9	4.4	Resolution	\$ 124
Moon	19.61	4.4	Resolution	\$ 144
Mt Lebanon	23.56	4.4	Exception	\$ 194
North Hills	19.125	4.4	Resolution	\$ 128
North Allegheny	19.34	4.4	Resolution	\$ 158
Northgate	24.5	6	Resolution	\$ 292
Penn Hills	23.39	6.1	Resolution	\$ 189
Pine Richland	20.2	5.1	Resolution	\$ 221
Plum	22.2	6	Resolution	\$ 221
Quaker Valley	19.35	4.4	Resolution	\$ 189
Riverview	23.34	4.4	Resolution	\$ 174
Shaler	24.7	5.8	Resolution	\$ 169
South Allegheny	18.11	6.6	Resolution	\$ 209
South Fayette	23.14	3.4	Unknown	\$ 178
South Park	24.7	6	Resolution	\$ 225
Steel Valley	21.21	6.2	Exception	\$ 235
Sto Rox	25	6.5	Resolution	\$ 312
USC	22.45	4.4	Resolution	\$ 245
West Allegheny	21.5	5.3	Resolution	\$ 215
West Mifflin	21.092	5.8	Resolution	\$ 219
Wilkinsburg	35	6.2	Resolution	\$ 304
West Jefferson Hills	19.99	5.5	Resolution	\$ 207
Woodland Hills	24.65	5.8	Resolution	\$ 184