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Has Act 1 Generated Taxpayer Relief?

The product of a special session of the General Assembly, Act 1 of 2006—the Taxpayer Relief Act—focuses on the largest portion of most taxpayers’ total property tax bill, namely, school taxes. By utilizing a voter referendum on a tax shift, gaming money to fund homestead/farmstead exemptions for school taxes, and the Act 1 index that tells school districts and taxpayers how much their taxes can increase without a special action, Act 1 has governed school property taxes since 2006.

Our most recent report looks at Act 1 and its impact on Allegheny County’s school districts. We examined 41 districts that operate on a fiscal year (which eliminated Pittsburgh Public Schools), with a single property tax rate (which eliminated Clairton, which taxes land and buildings separately), and that lie wholly in Allegheny County (which eliminated Norwin, Fort Cherry, and Penn-Trafford).

What did we find? We knew from our previous report in 2008 that none of these districts opted to vote for a higher wage tax or a personal income tax in the 2007 primary election. None have brought the question up since, which they are permitted to do. A shift to an income based tax would be used in conjunction with gaming money to fund larger homestead exemptions, but only about a dozen districts in Pennsylvania opted to do so.

That fiscal year (2006-07) the average millage rate for the districts we examined was 21.94. By 2012-13, the average rose to 23.89 (9%). The following year when the Allegheny County reassessments took effect and districts had to adjust millage rates to comply with Act 1 requirements, the average millage rate stood at 20.48.

In 2008-09 the first distributions from the state’s tax on slot machine gaming were delivered. Money from the tax is used to fund homestead tax relief for school property taxes by lowering the assessed value for a homestead/farmstead (other types of property do not partake of the relief). On average, the amount of relief has amounted to about \$200 with wide variations district-to-district as the allocations are driven by formula. A home assessed at \$100,000 in one of the 41 districts would have paid \$2,225 in school taxes in FY 2007-08 and \$2,056 the following fiscal year. Tax payments climbed in subsequent years as the average millage rate climbed and tax relief per homestead remained around the same amount.

When a school district prepares its annual fiscal year budget the state tells it the Act 1 index for that year. Suppose the district's index for a particular year is 2.5 percent. The district could raise property taxes that year up to 2.5 percent without any special action. If it decides to exceed the 2.5 percent cap, it can do one of two things: apply for an exception or put the increase to the voters.

In the time period our report covers, we found that 54 exceptions were granted by the Department of Education. Under Act 1 originally there were ten possible reasons an exception could be granted; a 2011 amendment shortened the list to three, covering pensions, construction, and special education. Of the 54 exceptions granted to districts (with some districts getting more than one) 29 resulted in above index tax increases. At no time during the years studied was a question put on the ballot for the voters to have a say over a possible school tax increase.

So does that mean that every homeowner in these districts is paying more in school property taxes now than they did in 2006-07? The answer is no.

We used an assessed value of \$100,000 in districts during the pre-reassessment years and then raised the assessment to \$120,000 for 2013-14 following the County reassessment's average value increase. Based on millage rates, the gaming relief for homesteads, and that change in value we found that a homeowner would have paid more in taxes in 25 districts and less in 16 districts. Cumulatively, a homeowner in the South Fayette School District would have paid \$695 more over the time period, a homeowner in Duquesne would have paid \$370 less. Every other district falls somewhere in between these two end points.

Certainly, taxpayers hoping to see their school taxes wiped out completely by gaming money are going to be disappointed. That's likely why we are seeing discussions over statewide or district-based tax shifts proposed in this legislative session (see *Policy Brief Volume 14, Number 21*). Until that happens, Act 1 will continue to be the governing statute with respect to school property taxes in Allegheny County and elsewhere across the state.

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