

THE GENERAL ASSEMBLY OF PENNSYLVANIA

HOUSE BILL

No. 437

Session of
1981

INTRODUCED BY A. K. HUTCHINSON AND DeMEDIO, FEBRUARY 9, 1981

REFERRED TO COMMITTEE ON FINANCE, FEBRUARY 9, 1981

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," withdrawing gradually the authority
6 of school districts to levy taxes on real property;
7 authorizing school districts and city councils coterminous
8 with districts of the first class to levy a local school
9 surtax upon personal income; increasing the share of
10 financial participation by the Commonwealth and decreasing
11 the share of school districts and revising State school
12 subsidy formulae accordingly; and requiring a judicial
13 hearing before counties, municipalities and townships may
14 increase real property taxes beyond certain limits.

15 WHEREAS, there now exists a constantly increasing criticism
16 of the fairness and efficiency of real property taxation as the
17 major source of revenues for local educational expenditures; and

18 WHEREAS, there is increasing evidence of unequal distribution
19 of the property tax base among school districts of the
20 Commonwealth; and

21 WHEREAS, the judiciary in other states are now reviewing the
22 constitutional fairness of fiscal policies utilized to finance
23 state educational responsibilities; the Supreme Court of New

1 Jersey, whose Constitution provides in part that "The
2 Legislature shall provide for the maintenance and support of a
3 thorough and efficient system of free public schools for the
4 instruction of all the children in this State between the ages
5 of five and eighteen years" on April 3, 1973 struck down that
6 state's system which provides for state and local financing of
7 their public schools; and in this connection the Pennsylvania
8 Constitution provides in Article III, section 14, that "The
9 General Assembly shall provide for the maintenance and support
10 of a thorough and efficient system of public education to serve
11 the needs of the Commonwealth," a similarity suggesting that the
12 New Jersey Supreme Court rationale might be available to
13 constitute a basis for judicial attack upon the Commonwealth's
14 present method of financing public education;

15 Therefore, the General Assembly now intends to reconsider and
16 revise the fiscal basis for financing the educational needs of
17 its citizens in accordance with responsible criticisms levied
18 against the present financial system and to effectuate
19 comprehensive tax reform by gradually withdrawing the power of
20 school districts to tax real property as hereinafter set forth
21 in this act and its companion acts containing amendments to the
22 "Tax Reform Code of 1971," and the "Public Utility Realty Tax
23 Act."

24 The General Assembly of the Commonwealth of Pennsylvania
25 hereby enacts as follows:

26 Section 1. The act of March 10, 1949 (P.L.30, No.14), known
27 as the "Public School Code of 1949," is amended by adding
28 sections to read:

29 Section 602.1. Real Estate Taxes Levied in Fiscal Year
30 Beginning in 1983 and Thereafter.--For the fiscal year beginning

1 in 1983, the board of school directors of each school district
2 of the second, third and fourth class shall not, and the board
3 of education in districts of the first class with the
4 authorization of city council shall not, and the board of
5 education in districts of the first class A shall not levy a tax
6 on the assessed valuation of real property as certified to them
7 at a millage rate which will produce greater revenue for the
8 district for school purposes than eight-tenths of the actual net
9 real property tax revenue produced for the fiscal year last
10 concluded. The "actual net real property tax revenue produced
11 for the fiscal year last concluded," shall be certified to the
12 Department of Education, and shall hereinafter be referred to as
13 the "base period revenues." For the three fiscal years
14 subsequent to the one beginning in 1983, the school directors,
15 members of the board and members of the city council, as
16 aforesaid, shall levy a tax on the assessed valuation of real
17 property at a millage rate which produces no greater revenue for
18 school purposes than the base period revenues multiplied by six-
19 tenths, four-tenths and two-tenths respectively; for the fiscal
20 year beginning in 1987 and thereafter there shall be levied no
21 taxes for school purposes upon the assessed valuation of real
22 property.

23 Section 602.2. Personal Income Surtax Authorization.--The
24 board of school directors of each school district of the second,
25 third and fourth class and the board of education in school
26 districts of the first class with the authorization of the city
27 council, and the board of education in the district of the first
28 class A, in addition to any other taxes authorized by law, may
29 provide by ordinance or resolution for the levying of a tax upon
30 the personal income of the residents of its district to be known

1 as the "local school surtax," at a rate not to exceed, for the
2 calendar years: 1983, six-tenths per centum (.6%); 1984, one and
3 two-tenths per centum (1.2%); 1985, one and eight-tenths per
4 centum (1.8%); 1986, two and four-tenths per centum (2.4%); and
5 1987 and thereafter, three per centum (3%). If for the fiscal
6 year beginning in 1982 and any fiscal year thereafter the school
7 district levied and collected a tax on wages, salaries,
8 commissions and other earned income of individuals as authorized
9 by section 2 of the act of December 31, 1965 (P.L.1257, No.511),
10 known as "The Local Tax Enabling Act," and limited by clause (3)
11 of section 8 thereof, then the rate at which it is hereby
12 authorized to levy a tax upon the personal income of the
13 residents of its district shall not exceed two-thirds of the
14 rate provided above for that period. "Personal income" shall
15 mean the total income taxed under Article III of the act, added
16 August 31, 1971 (P.L.362, No.93), known as the "Tax Reform Code
17 of 1971." In the ordinance or resolution levying a personal
18 income tax, the collection agent shall be specifically
19 authorized, which collection agent may be the Department of
20 Revenue as provided in section 343 of the "Tax Reform Code of
21 1971."

22 If it is determined to levy, relevy, increase or decrease the
23 local school surtax, as authorized herein, the chief
24 administrative officer of the school district shall so certify
25 to the collection agent. The collection agent shall remit to
26 each school district all such taxes collected by it on their
27 behalf within sixty (60) days after receipt of same.

28 Section 2. Clauses (12) and (14) of section 2501 of the act,
29 clause (12) amended August 24, 1977 (P.L.199, No.59) and clause
30 (14) added February 1, 1966 (1965 P.L.1642, No.580), are amended

1 to read:

2 Section 2501. Definitions.--For the purposes of this article
3 the following terms shall have the following meanings:

4 * * *

5 (12) "State's Share of Total Cost." For the school year
6 [1966-1967 and each school year thereafter] 1981-1982, the
7 State's share of total reimbursable cost shall be fifty percent
8 (50%) and for the school years thereafter, the State's share of
9 total reimbursable cost shall be:

10 school year 1982-1983, 56%;

11 1983-1984, 62%;

12 1984-1985, 68%;

13 1985-1986, 74%;

14 1986-1987 and thereafter, 80%.

15 Total reimbursable cost shall be the lesser of actual expense
16 per WADM as defined in clause (11.1) or a maximum amount to be
17 fixed by the General Assembly each year to represent the
18 estimated median actual instruction expense per WADM in the year
19 for which the reimbursement is to be payable. For the school
20 year commencing the first day of July 1976 and each school year
21 thereafter the maximum amount shall be the median actual
22 instruction expense per WADM in the year for which the
23 reimbursement is to be payable. The Secretary of Education
24 annually shall calculate the State "median actual instruction
25 expense per weighted average daily membership" and shall supply
26 the same to the General Assembly.

27 * * *

28 (14) "Aid Ratio" shall represent the Commonwealth's share of
29 reimbursable cost as defined in clause (12). The aid ratio shall
30 be determined in the following manner: [(a) divide the market

1 value per weighted average daily membership of the district by
2 the market value per weighted average daily membership of the
3 State; (b) determine the product of (a) multiplied by district's
4 share of total cost; (c) subtract the resultant product in (b)
5 from one (1.0000) to determine the aid ratio.

6
$$\frac{\text{District MV/WADM}}{\text{State MV/WADM}}$$

7
$$\text{Aid Ratio} = 1.0000 - \left(\frac{\text{District MV/WADM}}{\text{State MV/WADM}} \right) \times 0.50]$$

8
$$\text{State MV/WADM}$$

9 for the school years 1982-1983, .8 (Formula A) + .2 (Formula B);

10 1983-1984, .6 (Formula A) + .4 (Formula B);

11 1984-1985, .4 (Formula A) + .6 (Formula B);

12 1985-1986, .2 (Formula A) + .8 (Formula B);

13 1986-1987 and thereafter, (Formula B);

14 where "Formula A" shall be one (1) minus fifty percent (50%) of
15 the market value per weighted average daily membership of the
16 district divided by the market value per weighted average daily
17 membership of the State,

18
$$\frac{\text{District MV/WADM}}{\text{State MV/WADM}}$$

19
$$(\text{Formula A} = 1.0000 - \left(\frac{\text{District MV/WADM}}{\text{State MV/WADM}} \right) \times 0.50)$$

20
$$\text{State MV/WADM}$$

21 "Formula B" shall be one (1) minus twenty percent (20%) of the
22 personal income per weighted average daily membership of the
23 district divided by the personal income per weighted average
24 daily membership of the State,

25
$$\frac{\text{District PI/WADM}}{\text{State PI/WADM}}$$

26
$$(\text{Formula B} = 1.0000 - \left(\frac{\text{District PI/WADM}}{\text{State PI/WADM}} \right) \times 0.20)$$

27
$$\text{State PI/WADM}$$

28 "Personal Income" means the total income taxable under
29 Article III of the "Tax Reform Code of 1971," as certified for
30 each district each year by the Secretary of Revenue to the

1 Secretary of Education.

2 * * *

3 Section 3. The relief from taxes upon real property granted
4 under this act shall not be eroded by county, municipality and
5 township governments so as to defeat the purpose of this act in
6 providing such relief. Any political subdivision which increases
7 the rate of its real estate taxes by 10% or more subsequent to
8 the enactment of this act shall petition the court of common
9 pleas located in its county for authority to raise such real
10 estate taxes; the said court shall hold a hearing thereon which
11 shall be advertised at least once a week for three weeks prior
12 thereto in a newspaper circulated in the political subdivision
13 and in the legal journal published for the judicial district.
14 Any person objecting to the increase in the rate of real estate
15 tax may file an appearance in the proceeding and appear for the
16 purpose of testifying as to the inappropriateness of said
17 increase in tax insofar as said increase erodes the tax relief
18 made available under this act.

19 Section 4. The authority contained in section 2 of the act
20 of December 31, 1965 (P.L.1257, No.511), known as "The Local Tax
21 Enabling Act" for the levying and collecting of a tax on wages,
22 salaries, commissions and other earned income of individuals is
23 hereby repealed except as to such taxes levied and actually
24 collected by a political subdivision prior to its fiscal year
25 beginning in 1981; any such tax levied and collected in fiscal
26 year 1980 may continue to be levied and collected thereafter by
27 a political subdivision, but the rate actually levied and
28 collected shall not thereafter be increased. It is the intent of
29 the General Assembly that the personal income tax, and where
30 actually levied and collected by a school district, the so-

1 called earned income tax shall become the principal tax base for
2 school districts, while political subdivisions other than school
3 districts shall look primarily to real property as their
4 principal tax base.

5 Section 5. This act shall take effect immediately.