

THE GENERAL ASSEMBLY OF PENNSYLVANIA

HOUSE BILL

No. 2166 Session of  
2005

INTRODUCED BY REED, BOYD, CALTAGIRONE, CREIGHTON, GINGRICH,  
GODSHALL, HANNA, HARRIS, MACKERETH, MARKOSEK, MUSTIO,  
SCAVELLO AND E. Z. TAYLOR, OCTOBER 31, 2005

REFERRED TO COMMITTEE ON FINANCE, OCTOBER 31, 2005

AN ACT

1 Amending the act of July 5, 2004 (P.L.654, No.72), entitled "An  
2 act providing for taxation by school districts, for State  
3 funds and for wage and net profits tax relief in cities of  
4 the first class; and making an appropriation," further  
5 defining "personal income valuation," "fund," "income tax"  
6 and "personal income tax"; further providing for limitations,  
7 for certain rates of taxation limited, for general tax  
8 authorization, for exemption and special provisions, for  
9 regulations, for property tax limits on reassessment, for  
10 qualifying contribution, for adoption of referendum, for  
11 public referendum requirements for increasing certain taxes,  
12 for disposition of income tax revenue and property tax  
13 reduction allocations, for register for taxes and for effect  
14 of nonfiling; further defining "allocation maximum,"  
15 "allocation minimum," "income tax," "property tax reduction  
16 index," "qualifying contribution" and "school tax ratio"; and  
17 further providing for certification and calculation of  
18 minimum and maximum modifiers and for State property tax  
19 reduction allocation.

20 The General Assembly of the Commonwealth of Pennsylvania  
21 hereby enacts as follows:

22 Section 1. The definition of "personal income valuation" in  
23 section 102 of the act of July 5, 2004 (P.L.654, No.72), known  
24 as the Homeowner Tax Relief Act, is amended to read:

25 Section 102. Definitions.

26 The following words and phrases when used in this act shall

1 have the meanings given to them in this section unless the  
2 context clearly indicates otherwise:

3 \* \* \*

4 ["Personal income valuation." As defined in section  
5 2501(9.1) of the act of March 10, 1949 (P.L.30, No.14), known as  
6 the Public School Code of 1949.]

7 Section 2. The definitions of "fund," "income tax" and  
8 "personal income" in section 302 of the act are amended to read:  
9 Section 302. Definitions.

10 The following words and phrases when used in this chapter  
11 shall have the meanings given to them in this section unless the  
12 context clearly indicates otherwise:

13 \* \* \*

14 "Fund." The Property Tax [Relief] Reduction Fund established  
15 in the State Treasury.

16 \* \* \*

17 "Income tax." A tax on earned income and net profits [or a  
18 tax on personal income] imposed pursuant to this chapter.

19 \* \* \*

20 ["Personal income." Income enumerated in section 303 of the  
21 act of March 4, 1971 (P.L.6, No.2), known as the Tax Reform Code  
22 of 1971, as determined by the Department of Revenue, subject to  
23 any correction thereof for fraud, evasion or error as finally  
24 determined by the Commonwealth.]

25 \* \* \*

26 Section 3. Sections 303, 304, 321, 325(b), 326, 327, 331,  
27 332, 333, 334, 351(a), 354, 502, 503 and 505 of the act are  
28 amended to read:

29 Section 303. Limitations.

30 This chapter shall not be construed to affect the power of a

1 school district to do any of the following:

2 (1) To eliminate its occupation tax pursuant to the act  
3 of June 22, 2001 (P.L.374, No.24), known as the Optional  
4 Occupation Tax Elimination Act. Except for the municipal  
5 election of 2007 [or for an election in which a school  
6 district seeks to impose a personal income tax under section  
7 321(c)], a school district may place such referendum question  
8 on the ballot at the same municipal election as a referendum  
9 question placed on the ballot pursuant to Subchapter D. [If a  
10 school district converts its earned income and net profits  
11 tax to a personal income tax under this chapter, the school  
12 district may not utilize the Optional Occupation Tax  
13 Elimination Act.]

14 (2) To levy, assess or collect a tax on earned income  
15 and net profits under the Local Tax Enabling Act.

16 (3) To impose special purpose tax levies approved by the  
17 electorate.

18 Section 304. Certain rates of taxation limited.

19 (a) Municipal rates.--If a municipality and school district  
20 both impose an earned income and net profits tax on the same  
21 individual under the Local Tax Enabling Act and are limited to  
22 or have agreed upon a division of the tax rate in accordance  
23 with section 8 of the Local Tax Enabling Act, the municipality  
24 shall remain subject to that limitation or agreement in the  
25 event that the school district opts to impose or increase an  
26 earned income and net profits tax authorized under section  
27 321(b) [or a personal income tax authorized under section  
28 321(c)]. Nothing in this chapter shall be construed to authorize  
29 a municipality to raise the rate of earned income and net  
30 profits tax above the rate it levied under the previously agreed

upon division if a school district imposes or increases a personal income tax under Subchapter C].

(b) School districts.--A school district which imposes a tax under this chapter is subject to section 688 of the act of March 10, 1949 (P.L.30, No.14), known as the Public School Code of 1949.

Section 321. General tax authorization.

(a) General rule.--A board of school directors may levy, assess and collect a tax on earned income and net profits [or a tax on personal income] as provided in this section for the purpose of funding homestead and farmstead exclusions to reduce school district property taxes.

(b) Earned income and net profits tax.--

[(1) Pursuant to section 331, a board of school directors may levy, assess and collect a tax of 0.1% on earned income and net profits of resident individuals for purposes of qualifying for a property tax reduction allocation under Chapter 5 to fund homestead and farmstead exclusions.]

(2) [In addition to the authorization provided under paragraph (1), a] A school district may, in accordance with section 332, levy an additional tax on earned income and net profits of resident individuals for the purpose of further funding homestead and farmstead exclusions.

(3) Except as authorized in paragraph (4), the [combined] rate of the earned income and net profits tax authorized under [paragraphs (1) and (2)] paragraph (2) shall not exceed the rate required to raise revenue which, when combined with the school district's property tax reduction allocation under Chapter 5, all revenue received under

1 section 324 and all other revenue currently collected to fund  
2 homestead and farmstead exclusions, will be sufficient to  
3 fund exclusions for homestead property and farmstead property  
4 equal to the maximum exclusion under 53 Pa.C.S. § 8586  
5 (relating to limitations). The board of school directors  
6 shall round the rate of the earned income and net profits tax  
7 levied pursuant to this section to the nearest 0.1%. For  
8 purposes of calculating the combined tax rate, the portion of  
9 tax dedicated to the increase in revenue permitted under  
10 paragraph (4), if any, shall be excluded.

11 (4) Notwithstanding section 334, the rate of the earned  
12 income and net profits tax proposed to be levied and assessed  
13 for the fiscal year immediately following the year in which  
14 the tax is authorized may provide for an increase in revenue  
15 of not more than 2% of the estimated revenue from the earned  
16 income and net profits tax authorized under paragraph (2),  
17 which may be used for the operations of the school district.

18 [(c) Personal income tax.--

19 (1) After complying with section 331, a board of school  
20 directors may levy, assess and collect a tax on the personal  
21 income of resident individuals at a rate determined by the  
22 board of school directors.

23 (2) A school district which seeks to levy the tax  
24 authorized under paragraph (1) must comply with section 332  
25 and the following:

26 (i) The school district shall convert, in a revenue-  
27 neutral manner, any existing earned income and net  
28 profits tax rates levied pursuant to any other act to a  
29 personal income tax rate.

30 (ii) The 0.1% earned income and net profits tax

1 imposed pursuant to section 331 shall be converted to a  
2 personal income tax rate which generates the same amount  
3 of tax revenue and shall be used for funding exclusions  
4 for homestead and farmstead property.

5 (iii) A school district may, in accordance with  
6 section 332, levy an additional tax on the personal  
7 income of resident individuals for the purpose of further  
8 funding homestead and farmstead exclusions.

9 (iv) For purposes of the referendum question  
10 required under section 332, the personal income tax  
11 authorized under paragraph (1) shall be levied at a rate  
12 which, when combined with the revenue generated under  
13 subparagraph (ii), the school district's property tax  
14 reduction allocation under Chapter 5, all revenue  
15 received under section 324 and all other revenue  
16 currently collected to fund homestead and farmstead  
17 exclusions, does not exceed the tax rate required to fund  
18 exclusions for homestead and farmstead property equal to  
19 the maximum exclusion under 53 Pa.C.S. § 8586. The board  
20 of school directors shall round the rate of the personal  
21 income tax levied pursuant to this subparagraph to the  
22 nearest 0.1%. For purposes of calculating the combined  
23 tax rate, the portion of tax dedicated to the increase in  
24 revenue permitted under paragraph (6), if any, shall be  
25 excluded.

26 (3) All revenue generated by a school district pursuant  
27 to paragraph (2)(ii) and (iii) shall be used as provided in  
28 section 334 for the purpose of funding exclusions for  
29 homestead and farmstead property.

30 (4) If a board of school directors seeks to impose a

1 personal income tax under this subsection and the referendum  
2 under section 332 is approved by the electorate, the board of  
3 school directors shall have no authority to impose an earned  
4 income and net profits tax under subsection (b) or under any  
5 other act.

6 (5) A personal income tax imposed under the authority of  
7 this section shall be levied by the school district on each  
8 of the classes of income specified in section 303 of the Tax  
9 Reform Code and regulations under that section, the  
10 provisions of which are incorporated by reference into this  
11 chapter.

12 (i) Notwithstanding the provisions of section 353(f)  
13 of the Tax Reform Code, the Department of Revenue may  
14 permit the proper officer or an authorized agent of a  
15 school district imposing a personal income tax pursuant  
16 to this chapter to inspect the tax returns of any  
17 taxpayer of the school district or may furnish to the  
18 officer or an authorized agent an abstract of the return  
19 of income of any current or former resident of the school  
20 district, or supply information concerning any item of  
21 income contained in any tax return. The officer or  
22 authorized agent of the school district imposing a tax  
23 under this chapter shall be furnished the requested  
24 information upon payment to the Department of Revenue of  
25 the actual cost of providing the requested information.

26 (ii) (A) Except for official purposes or as  
27 provided by law, it shall be unlawful for any officer  
28 or authorized agent of a school district to do any of  
29 the following:

30 (I) Disclose to any other individual or

1 entity the amount or source of income, profits,  
2 losses, expenditures or any particular  
3 information concerning income, profits, losses or  
4 expenditures contained in any return.

5 (II) Permit any other individual or entity  
6 to view or examine any return or copy of a return  
7 or any book containing any abstract or  
8 particulars.

9 (III) Print, publish or publicize in any  
10 manner any return; any particular information  
11 contained in or concerning the return; any amount  
12 or source of income, profits, losses or  
13 expenditures in or concerning the return; or any  
14 particular information concerning income,  
15 profits, losses or expenditures contained in or  
16 relating to any return.

17 (B) Any officer or authorized agent of a school  
18 district that violates clause (A):

19 (I) May be fined not more than \$1,000 or  
20 imprisoned for not more than one year, or both.

21 (II) May be removed from office or  
22 discharged from employment.

23 (6) Notwithstanding section 334, the rate of the  
24 personal income tax proposed to be levied and assessed for  
25 the first fiscal year immediately following the year in which  
26 the tax is authorized may provide for an increase in revenue  
27 of not more than 2% of the estimated revenue from the  
28 personal income tax authorized under paragraph (2)(iii),  
29 which may be used for the operations of the school district.]

30 (d) Execution of tax rate.--[An earned income and net



1 profits tax rate or personal income tax rate authorized under  
2 this section and imposed pursuant to section 331 shall be self-  
3 executing and shall be effective beginning on the first day of  
4 the fiscal year in which a school district will receive a  
5 payment under section 505(b).] A tax authorized under section  
6 332 shall be self-executing and shall be effective beginning on  
7 the first day of the fiscal year which begins after the tax is  
8 authorized. A tax rate under this subsection shall continue in  
9 force on a fiscal year basis without annual reenactment except  
10 in a year in which the rate of the tax is changed or the tax is  
11 repealed.

12 Section 325. Exemption and special provisions.

13 \* \* \*

14 [(b) Applicability to personal income tax.--Section 304 of  
15 the Tax Reform Code shall apply to any personal income tax  
16 levied by a school district under section 321(c).]

17 Section 326. Regulations.

18 A school district that imposes[:

19 (1)] an earned income and net profits tax authorized  
20 under section 321(b) shall be subject to section 13 of the  
21 Local Tax Enabling Act and may adopt procedures for the  
22 processing of claims for credits or exemptions under sections  
23 323, 324 and 325.]; or

24 (2) a personal income tax authorized under section  
25 321(c) shall be subject to all regulations adopted by the  
26 Department of Revenue in administering the tax due to the  
27 Commonwealth under Article III of the Tax Reform Code.]

28 Section 327. Property tax limits on reassessment.

29 Notwithstanding any other provision of law, including this  
30 act, after any county makes a countywide revision of assessment

1 of real property at values based upon an established  
2 predetermined ratio as required by law or after any county  
3 changes its established predetermined ratio, a board of school  
4 directors in a school district located within that county [that  
5 has adopted a resolution imposing the tax under section 331 or]  
6 in which a referendum under section 332 has been approved by the  
7 electorate which, after the effective date of this section, for  
8 the first time levies its real estate taxes on that revised  
9 assessment or valuation shall for the first year reduce its tax  
10 rate, if necessary, for the purpose of having the percentage  
11 increase in taxes levied for that year against the real  
12 properties contained in the duplicate for the preceding year be  
13 less than or equal to the index for the preceding year  
14 notwithstanding the increased valuations of such properties  
15 under the revised assessment. For the purpose of determining the  
16 total amount of taxes to be levied for the first year, the  
17 amount to be levied on newly constructed buildings or structures  
18 or on increased valuations based on new improvements made to  
19 existing houses need not be considered. The tax rate shall be  
20 fixed for that year at a figure which will accomplish this  
21 purpose. The provisions of section 333 shall apply to increases  
22 in the tax rate above the limits provided in this section.

23 [Section 331. Qualifying contribution.

24 (a) General rule.--Except as set forth in subsection (b), a  
25 school district shall, by resolution, levy, assess and collect  
26 the 0.1% earned income and net profits tax authorized under  
27 section 321(b)(1) in order to qualify for a property tax  
28 reduction allocation under section 505. The board of school  
29 directors shall adopt the resolution by May 30 of the first year  
30 in which a certification under section 503(a) is made. Within

1 five days after adopting the resolution, the board of school  
2 directors shall notify the department in a form and manner  
3 prescribed by the department in order to establish the school  
4 district's eligibility to receive a property tax reduction  
5 allocation pursuant to Chapter 5.

6 (b) Exception.--Subsection (a) shall not apply if any of the  
7 following apply:

8 (1) A school district which does not, prior to May 30 of  
9 the year in which a school district will receive a payment  
10 under section 505(b), impose an earned income and net profits  
11 tax under the Local Tax Enabling Act or any other statute may  
12 qualify for a property tax reduction allocation under Chapter  
13 5 without levying the tax required under subsection (a) if  
14 the school district proposes a referendum required under  
15 section 332(e). The board of school directors shall adopt a  
16 resolution proposing a referendum by May 30 of the year in  
17 which a certification under section 503(a) is made. Within  
18 five days after adopting the resolution, the board of school  
19 directors shall notify the department in a form and manner  
20 prescribed by the department in order to establish the school  
21 district's eligibility to receive a property tax reduction  
22 allocation pursuant to Chapter 5. If a referendum proposed  
23 under section 332(e) is not approved by the electorate, a  
24 district shall enact by resolution the 0.1% earned income net  
25 profits tax authorized under section 321(b)(1) in order to  
26 maintain eligibility for a property tax reduction allocation  
27 under Chapter 5.

28 (2) A referendum proposed under section 332(d.1) is  
29 approved by the electorate.]

30 Section 332. Adoption of referendum.

1 (a) General rule.--A board of school directors [that  
2 complies with section 331] may levy, assess and collect an  
3 earned income and net profits tax authorized under section  
4 321(b)(2) [or a personal income tax authorized under section  
5 321(c),] only after obtaining the approval of the electorate of  
6 the school district in a public referendum.

7 (b) Submittal of referendum.--In addition to the referendum  
8 question required under subsection (e):

9 (1) A board of school directors may submit, at a  
10 municipal election, a referendum question to the electors of  
11 the school district seeking voter approval allowing the  
12 school district to levy, assess and collect an earned income  
13 and net profits tax [or a personal income tax] for the  
14 purpose of annually funding homestead and farmstead  
15 exclusions. Prior to placing a referendum question on the  
16 ballot, the board of school directors must adopt a resolution  
17 pursuant to this chapter. The board of school directors must  
18 give public notice of its intent to adopt the resolution in  
19 the manner provided by section 4 of the Local Tax Enabling  
20 Act and must conduct at least one public hearing on the  
21 resolution.

22 (2) The board of school directors shall submit the  
23 referendum question required under this section to the  
24 election officials of each county in which the school  
25 district is situate no later than 60 days prior to a  
26 municipal election. The election officials shall cause the  
27 referendum question to be submitted to the electors of the  
28 school district.

29 (3) The referendum question shall state the rate of the  
30 proposed earned income and net profits tax [or personal

1 income tax] to be levied, the reason for the tax, the  
2 estimated per homestead tax reduction and the current rate of  
3 earned income and net profits [or personal income tax] levied  
4 by the school district. The question shall be clear and in  
5 language that is readily understandable by a layperson and  
6 shall be framed in one of the following forms with the school  
7 district resolution enumerating the variable amounts  
8 represented by the terms X, Y and Z:

9 (i) Do you favor imposing an additional X% [(insert  
10 name of tax)] earned income tax? The revenue generated  
11 from the increased tax rate will be used to reduce taxes  
12 on qualified residential property by an estimated amount  
13 of \$Y. The current [(insert name of tax)] earned income  
14 tax for the school district is Z%.

15 [(ii) Do you favor converting the school district's  
16 current earned income and net profits tax into a personal  
17 income tax at X%? The revenue generated from the personal  
18 income tax will be used to reduce taxes on qualified  
19 residential property by an estimated amount of \$Y and to  
20 replace the revenue from the current school district's  
21 earned income and net profits tax, which is now levied at  
22 Z%.]

23 (4) The election officials of each county shall, in  
24 consultation with the board of school directors, draft a  
25 nonlegal interpretative statement which shall accompany the  
26 referendum question in accordance with section 201.1 of the  
27 act of June 3, 1937 (P.L.1333, No.320), known as the  
28 Pennsylvania Election Code. The nonlegal interpretative  
29 statement shall inform the voters of:

30 (i) the reason for the tax;

(ii) the estimated increase in revenue which the board has included in the proposed tax rate as authorized under section 321(b)(4) [or section 321(c)(6)];

(iii) the estimated per homestead tax reduction; and

(iv) the current rate of earned income and net profits tax or, if applicable, personal income tax levied by the school district.

(c) Proposed tax rate.--The proposed rate of the earned income and net profits tax [or personal income tax] shall be established by the board of school directors of the school district in accordance with the following:

(1) For the municipal election of 2007, the proposed tax rate shall not be less than the rate required to provide an exclusion for homestead property and farmstead property equal to 50% of the maximum exclusion under 53 Pa.C.S. § 8586 (relating to limitations) or an increase of 25% of the rate in effect on July 1, 2005, whichever is greater. The proposed tax rate shall not exceed the rate required to provide an exclusion for homestead property and farmstead property equal to the maximum exclusion under 53 Pa.C.S. § 8586. In calculating the proposed minimum tax rate under this paragraph, a school district shall include:

[(i) funds generated from the tax imposed under section 331;]

(ii) funds received pursuant to a property tax reduction allocation under Chapter 5;

(iii) funds received under section [324(b)] 324; and

(iv) any funds currently collected for the purposes of providing homestead and farmstead exclusions.

(2) For subsequent municipal elections, the proposed tax

rate shall not exceed the rate required to provide an exclusion for homestead property and farmstead property equal to the maximum exclusion under 53 Pa.C.S. § 8586.

(d) Effective date.--Where the referendum question under this section is approved by the electorate, the new rate of the earned income and net profits tax [or personal income tax] shall take effect pursuant to section 321(d).

[(d.1) Municipal election of 2005.--In accordance with subsection (b), a board of school directors may propose a referendum question at the municipal election of 2005. If a referendum question under this subsection is approved by the electorate, the school district shall be deemed to have satisfied the requirements of section 331. If a referendum question under this subsection is not approved by the electorate, all of the following apply:

(1) The board of school directors shall impose the earned income and net profits tax required under section 331 on residents of the school district.

(2) The tax under paragraph (1) shall take effect beginning on the first day of the fiscal year in which the school district receives a payment under section 505(b).]

(e) Municipal election of 2007.--In accordance with subsections (b) and (c)(1), a board of school directors shall propose a referendum question at the municipal election of 2007. If a board of school directors fails to propose a referendum question at the municipal election of 2007, the school district shall be ineligible to receive a property tax reduction allocation under section 505 until a referendum question pursuant to subsection (c)(1) is proposed in a subsequent general or municipal election.

1 [(f) Public referendum requirements to end participation  
2 under this chapter.--Subject to the notice and public hearing  
3 requirements in section 4 of the Local Tax Enabling Act and  
4 after a period of at least four full fiscal years of any tax  
5 authorized under section 321 being levied, a board of school  
6 directors may seek to end participation under this chapter by  
7 obtaining the approval of the electors of the school district in  
8 a public referendum at a municipal election.]

9 (g) Effect on certain school districts.--

10 This section shall not apply to:

11 (1) A school district of the first class.

12 (2) A school district which reaches the maximum  
13 homestead exclusion allowed under 53 Pa.C.S. § 8586 when  
14 combining the [tax imposed under section 331, the] property  
15 tax reduction allocation received under section 505, funds  
16 received under section [324(b)] 324 and any funds currently  
17 collected for the purpose of providing homestead exclusions.

18 (3) A school district that reaches 50% of the maximum  
19 homestead exclusion allowed under 53 Pa.C.S. § 8586 when  
20 combining the [tax imposed under section 331, the] property  
21 tax reduction allocation received under section 505, funds  
22 received under section [324(b)] 324 and any funds currently  
23 collected for the purpose of providing homestead exclusions.  
24 Nothing in this paragraph shall prohibit a school district  
25 from seeking voter approval to provide further homestead and  
26 farmstead exclusions should it elect to do so under  
27 subsection (b).

28 (h) School districts operating under 53 Pa.C.S. Ch. 87.--

29 (1) A school district which is subject to 53 Pa.C.S. Ch.  
30 87 (relating to other subjects of taxation) may adopt the



provisions of this chapter pursuant to this subsection.

[(2) A school district which currently levies an earned income and net profits tax under 53 Pa.C.S. § 8703 (relating to adoption of referendum) shall, by resolution, comply with section 331 in order to establish eligibility to receive a property tax reduction allocation under Chapter 5.]

(3) A school district under this subsection shall convert its earned income and net profits tax authorized under 53 Pa.C.S. § 8703 to an earned income and net profits tax authorized under this subsection at the same rate as the tax was levied under 53 Pa.C.S. § 8703 on the date of conversion. The tax authorized under this subsection shall be subject to the provisions of sections 323, 324, 325 and 326.

(4) A school district under this subsection shall combine all revenue generated for funding homestead and farmstead exclusions under 53 Pa.C.S. § 8703 with any revenue collected for the purposes of funding homestead and farmstead exclusions under this chapter.

(5) Unless subsection (g)(3) applies, a school district under this subsection shall be required to place a referendum question on the ballot pursuant to subsection (e). When calculating the proposed rate of earned income and net profits tax [or personal income tax] pursuant to subsection (c), the school district shall include any revenue collected for the purposes of homestead and farmstead exclusions.

(6) A school district taking action under paragraph (2) shall no longer implement any provisions of 53 Pa.C.S. Ch. 87.

(i) Election code provisions.--Proceedings under this section shall be in accordance with the provisions of the

1 Pennsylvania Election Code.

2 Section 333. Public referendum requirements for increasing  
3 certain taxes.

4 (a) Applicability.--

5 [(1)] This section shall apply to a board of school  
6 directors of a school district that has taken action under  
7 section [331] 332.

8 [(2) For school districts under paragraph (1), this  
9 section shall apply to fiscal years beginning with the 2006-  
10 2007 fiscal year.]

11 (b) Prohibitions.--Except as set forth in subsection (f),  
12 unless there is compliance with subsection (c), a board of  
13 school directors may not do any of the following:

14 (1) Increase the rate of a tax levied for the support of  
15 the public schools by more than the index. For purposes of  
16 compliance with this paragraph, a school district which is  
17 situated in more than one county and which levies real estate  
18 taxes under section 672.1 of the act of March 10, 1949  
19 (P.L.30, No.14), known as the Public School Code of 1949,  
20 shall apply the index to each separate rate of real estate  
21 taxes levied.

22 (2) Levy a tax for the support of the public schools  
23 which was not levied in the fiscal year in which a tax under  
24 section 321 was imposed.

25 (3) Raise the rate of the earned income and net profits  
26 tax if already imposed under the authority of the Local Tax  
27 Enabling Act, except as otherwise provided for under section  
28 332.

29 (4) Notwithstanding any other provision of this chapter  
30 to the contrary, the adoption of a referendum under section

1 332 confers on the board of school directors the authority to  
2 raise income taxes only to the extent contained in the  
3 language of the referendum, and any future increase of an  
4 income tax to be used for the purpose of property tax  
5 reduction shall be submitted to the electors of the school  
6 district at a subsequent municipal election pursuant to the  
7 provisions of section 332(c)(2).

8 (c) Referendum.--

9 (1) In order to take an action prohibited under  
10 subsection (b)(1), at the election immediately preceding the  
11 start of the school district fiscal year in which the  
12 proposed tax increase would take effect, a referendum stating  
13 the specific rate or rates of the tax increase must be  
14 submitted to the electors of the school district, and a  
15 majority of the electors voting on the question must approve  
16 the increase.

17 (2) In order to take an action under subsection (b)(2),  
18 at the election immediately preceding the start of the school  
19 district fiscal year in which the proposed tax would take  
20 effect, a referendum stating the proposed tax and the rate at  
21 which it will be levied must be submitted to the electors of  
22 the school district, and a majority of the electors voting on  
23 the question must approve the tax.

24 (3) Except as set forth in subsections (i) and (j), a  
25 school district acting pursuant to this subsection shall  
26 submit the referendum question required under this section to  
27 the election officials of each county in which it is situate  
28 no later than 60 days prior to the election immediately  
29 preceding the fiscal year in which the tax increase would  
30 take effect.

1           (4) The election officials of each county shall, in  
2       consultation with the board of school directors, draft a  
3       nonlegal interpretative statement which shall accompany the  
4       referendum question in accordance with section 201.1 of the  
5       act of June 3, 1937 (P.L.1333, No.320), known as the  
6       Pennsylvania Election Code. The nonlegal interpretative  
7       statement shall include information that references the items  
8       of expenditure for which the tax increase is sought and the  
9       consequence of the referendum being disapproved by the  
10      electorate.

11      (d) Failure to approve referendum.--

12           (1) If a referendum question submitted under subsection  
13      (c)(1) is not approved, the board of school directors may  
14      approve an increase in the tax rate of not more than the  
15      index.

16           (2) If a referendum question submitted under subsection  
17      (c)(2) is not approved, the board of school directors may not  
18      levy the tax.

19      (e) Tax rate submissions.--A school district that has  
20      adopted a preliminary budget proposal under section 311 that  
21      includes an increase in the rate of any tax levied for the  
22      support of public schools shall submit information on the  
23      increase to the department on a uniform form prepared by the  
24      department. The school district shall submit such information no  
25      later than 85 days prior to the date of the election immediately  
26      preceding the beginning of the school district's fiscal year.  
27      The department shall compare the proposed percentage increase in  
28      the rate of any tax with the index. Within ten days of the  
29      receipt of the information required under this subsection but no  
30      later than 75 days prior to the date of the election immediately

1 preceding the beginning of the school district's fiscal year,  
2 the department shall inform the school district whether the  
3 proposed tax rate increase is less than or equal to the index.  
4 If the department determines that the proposed percentage  
5 increase in the rate of the tax exceeds the index, the  
6 department shall notify the school district that:

7       (1) the proposed tax increase must be reduced to an  
8 amount less than or equal to the index;

9       (2) the proposed tax increase must be approved by the  
10 electorate under subsection (c)(1); or

11       (3) an exception must be sought under subsection (f).

12       (f) Referendum exceptions.--A school district may, without  
13 seeking voter approval under subsection (c), increase the rate  
14 of a tax levied for the support of the public schools by more  
15 than the index if all of the following apply:

16       (1) The revenue raised by the allowable increase under  
17 the index is insufficient to balance the proposed budget due  
18 to one or more of the expenditures listed in paragraph (2).

19       (2) The revenue generated by increasing the rate of a  
20 tax by more than the index will be used to pay for any of the  
21 following:

22           (i) Costs incurred in responding to or recovering  
23 from an emergency or disaster declared pursuant to 35  
24 Pa.C.S. § 7301 (relating to general authority of  
25 Governor) or 75 Pa.C.S. § 6108 (relating to power of  
26 Governor during emergency).

27           (ii) Costs to implement a court order or an  
28 administrative order from a Federal or State agency as  
29 long as the tax increase is rescinded following  
30 fulfillment of the court order or administrative order.

(iii) Costs associated with the following:

(A) To pay interest and principal on any indebtedness incurred under 53 Pa.C.S. Pt. VII Subpt. B (relating to indebtedness and borrowing) prior to the effective date of this section. In no case may the school district incur additional debt under this clause except for the refinancing of expenses related to such refinancing and the establishment of funding of appropriate debt service reserves. An increase under this clause shall be rescinded following the final payment of interest and principal.

(B) To pay interest and principal on any electoral debt incurred under 53 Pa.C.S. Pt. VII Subpt. B.

(C) To pay interest and principal on indebtedness for up to 60% of the construction cost average on a square-foot basis if all of the following apply:

(I) The indebtedness is for a school construction project under 22 Pa. Code Ch. 21 (relating to school buildings).

(II) The indebtedness to fund appropriate debt service reserves for the project is incurred after the effective date of this section.

(III) The increase sought under this clause is rescinded following final payment of interest and principal.

(IV) The indebtedness is incurred only after existing fund balances for school construction and any undesignated fund balances have been

1 fully committed to fund the project.

2 (V) The indebtedness is for an academic  
3 elementary or academic secondary school building.  
4 For purposes of this subclause, the following  
5 shall not be considered to be an academic  
6 elementary or academic secondary school building:  
7 natatorium, stadium bleachers, athletic field,  
8 athletic field lighting equipment and apparatus  
9 used to promote and conduct interscholastic  
10 athletics.

11 (VI) The project has been approved by the  
12 department under section 731 of the act of March  
13 10, 1949 (P.L.30, No.14), known as the Public  
14 School Code of 1949.

15 (D) To pay interest and principal on  
16 indebtedness for up to \$250,000 of the construction  
17 cost of a nonacademic school construction project, as  
18 adjusted annually by the percentage increase in the  
19 average of the Statewide average weekly wage and the  
20 employment cost index.

21 (iv) Costs to respond to conditions which pose an  
22 immediate threat of serious physical harm or injury to  
23 the students, staff or residents of the school district,  
24 but only until the conditions causing the threat have  
25 been fully resolved.

26 (v) Costs incurred in providing special education  
27 programs and services to students with disabilities if  
28 the increase in expenditures on special education  
29 programs and services was greater than 10%. The dollar  
30 amount of this exception shall be equal to the portion of

1 the increase that exceeds 10%.

2 (vi) Costs which:

3 (A) were incurred in the implementation of a  
4 school improvement plan required under section  
5 1116(b) of the Elementary and Secondary Education Act  
6 of 1965 (Public Law 89-10, 20 U.S.C. § 6316(b)); and

7 (B) were not offset by a State allocation.

8 (vii) Costs necessary to maintain:

9 (A) per-student local tax revenue, adjusted by  
10 the index, if the percentage growth in average daily  
11 membership between the school year determined under  
12 subsection (j)(4) and the third school year preceding  
13 the school year determined under subsection (j)(4)  
14 exceeds 7.5%; or

15 (B) actual instruction expense per average daily  
16 membership, adjusted by the index, if the increase in  
17 actual instruction expense per average daily  
18 membership between the school year determined under  
19 subsection (j)(4) and the school year preceding the  
20 school year determined under subsection (j)(4) is  
21 less than the index.

22 (viii) The maintenance of revenues derived from real  
23 property taxes, earned income and net profits taxes,  
24 personal income taxes, basic education funding  
25 allocations and special education funding allocations,  
26 adjusted by the index, for a school district where the  
27 percentage increase in revenues derived from real  
28 property taxes, earned income and net profits taxes,  
29 personal income taxes, basic education funding  
30 allocations and special education funding allocations



1           between the school year determined under subsection  
2           (j)(4) and the school year preceding the school year  
3           determined under subsection (j)(4) is less than the  
4           index.

5           (ix) Costs incurred for providing health care-  
6           related benefits which are directly attributable to a  
7           collective bargaining agreement in effect on the  
8           effective date of this section between the school  
9           district and its employees' organization if the  
10          anticipated increase in the cost of health care-related  
11          benefits between the current year and the upcoming year  
12          is greater than the index. The dollar amount of this  
13          exception shall be equal to the portion of the increase  
14          which exceeds the index. This subparagraph shall not  
15          apply to a collective bargaining agreement renewed,  
16          extended or entered into after the effective date of this  
17          section.

18          (g) Revenue derived from increase.--Any revenue derived from  
19          an increase in the rate of any tax allowed pursuant to  
20          subsection (f)(2)(iii) shall not exceed the anticipated dollar  
21          amount of the expenditure.

22          (h) Limitation on tax rate.--The increase in the rate of any  
23          tax allowed pursuant to an exception under subsection (f)(2)(i),  
24          (ii), (iv), (v), (vi), (vii), (viii) or (ix) or (n) shall not  
25          exceed the rate increase required as determined by a court of  
26          common pleas or the department pursuant to subsection (i) or  
27          (j).

28          (i) Court action.--

29                  (1) Prior to the imposition of a tax increase under  
30          subsection (f)(2)(i), (ii) and (iv) and no later than 75 days

1 prior to the election immediately preceding the beginning of  
2 the school district's fiscal year, approval by the court of  
3 common pleas in the judicial district in which the  
4 administrative office of the school district is located must  
5 be sought. The board of school directors shall publish in a  
6 newspaper of general circulation and on the district's  
7 publicly accessible World Wide Web site, if one is  
8 maintained, notice of its intent to file a petition under  
9 this subsection at least one week prior to the filing of the  
10 petition. The board of school directors shall also publish in  
11 a newspaper of general circulation and on the district's  
12 publicly accessible World Wide Web site, if one is  
13 maintained, notice, as soon as possible following  
14 notification from the court that a hearing has been  
15 scheduled, stating the date, time and place of the hearing on  
16 the petition. The following shall apply to any proceedings  
17 instituted under this subsection:

18 (i) The school district must prove by clear and  
19 convincing evidence that it qualifies for each exception  
20 sought.

21 (ii) The school district must prove by clear and  
22 convincing evidence the anticipated dollar amount of the  
23 expenditure for each exception sought.

24 (2) The court shall rule on the school district's  
25 petition and inform the school district of its decision no  
26 later than 55 days prior to the date of the election  
27 immediately preceding the beginning of the school district's  
28 fiscal year. If the court approves the petition, the court  
29 shall also determine the dollar amount of the expenditure for  
30 which an exception is granted, the tax rate increase required

1 to fund the exception and the appropriate duration of the  
2 increase. If the court denies the petition, the school  
3 district may submit a referendum question under subsection  
4 (c)(1). The question must be submitted to the election  
5 officials no later than 50 days prior to the date of the  
6 election immediately preceding the beginning of the school  
7 district's fiscal year.

8 (j) Department approval.--

9 (1) A school district that seeks to increase the rate of  
10 tax due to an expenditure under subsection (f)(2)(iii), (v),  
11 (vi), (vii), (viii) or (ix) or (n) shall obtain the approval  
12 of the department before imposing the tax increase. The  
13 department shall establish procedures for administering the  
14 provisions of this subsection, which may include an  
15 administrative hearing on the school district's submission.

16 (2) A school district proceeding under the provisions of  
17 this subsection shall publish in a newspaper of general  
18 circulation and on the district's publicly accessible World  
19 Wide Web site, if one is maintained, notice of its intent to  
20 seek department approval at least one week prior to  
21 submitting its request for approval to the department. If the  
22 department schedules a hearing on the school district's  
23 request, the school district shall publish notice of the  
24 hearing in a newspaper of general circulation and on the  
25 district's publicly accessible World Wide Web site, if one is  
26 maintained, immediately upon receiving the information from  
27 the department. The notice shall include the date, time and  
28 place of the hearing.

29 (3) The department shall approve a school district's  
30 request under this subsection if a review of the data under

1 paragraph (4) demonstrates that:

2 (i) the school district qualifies for one or more  
3 exceptions under subsection (f)(2)(iii), (v), (vi),  
4 (vii), (viii) or (ix) or (n); and

5 (ii) the sum of the dollar amounts of the exceptions  
6 for which the school district qualifies makes the school  
7 district eligible under subsection (f)(1).

8 (4) For the purpose of determining the eligibility of a  
9 school district for an exception under subsection (f)(2)(v),  
10 (vi), (vii) or (viii), the department shall utilize data from  
11 the most recent school years for which annual financial  
12 report data required under section 2553 of the act of March  
13 10, 1949 (P.L.30, No.14), known as the Public School Code of  
14 1949, has been received for all school districts. The  
15 department shall inform school districts of the school years  
16 determined under this subsection no later than 30 days prior  
17 to the date on which public inspection of proposed school  
18 budgets is required under section 311(c).

19 (5) The department shall rule on the school district's  
20 request and shall inform the school district of its decision  
21 no later than 55 days prior to the date of the election  
22 immediately preceding the beginning of the school district's  
23 fiscal year. If the department approves the request, the  
24 department shall determine the dollar amount of the  
25 expenditure for which the exception is sought and the tax  
26 rate increase required to fund the exception. If the  
27 department denies the request, the school district may submit  
28 a referendum question under subsection (c)(1). The question  
29 must be submitted to the election officials no later than 50  
30 days prior to the date of the election immediately preceding

1 the beginning of the school district's fiscal year.

2 (6) Within 30 days of the deadline under paragraph (5),  
3 the department shall submit a report to the President pro  
4 tempore of the Senate, the Minority Leader of the Senate, the  
5 Speaker of the House of Representatives and the Minority  
6 Leader of the House of Representatives enumerating the school  
7 districts which sought an exception under this subsection.  
8 The department shall also publish the report on its publicly  
9 accessible World Wide Web site. The report shall include:

10 (i) The name of each school district making a  
11 request under this subsection.

12 (ii) The specific exceptions requested by each  
13 school district and the dollar amount of the expenditure  
14 for each exception.

15 (iii) The department's ruling on the request for the  
16 exception.

17 (iv) If the exception was approved, the dollar  
18 amount of the expenditure for which the exception was  
19 sought and the tax rate increase required to fund the  
20 exception.

21 (v) A statistical summary of the information in  
22 subparagraphs (ii), (iii) and (iv).

23 (k) Objections.--Any person that resides within or pays real  
24 property taxes to the school district filing a petition under  
25 subsection (i) may file with the court written objections to any  
26 petition filed under this section.

27 (l) Index calculation.--No later than August 15, 2005, and  
28 each August 15 thereafter, the department shall calculate the  
29 index. The department shall publish the index by September 1,  
30 2005, and each September 1 thereafter in the Pennsylvania

1 Bulletin.

2 (m) Election interference prohibited.--

3 (1) No public funds may be used to urge any elector to  
4 vote for or against a referendum or be appropriated for  
5 political or campaign purposes.

6 (2) This subsection shall not prohibit the use of public  
7 funds for dissemination of factual information relative to a  
8 referendum appearing on an election ballot.

9 (3) As used in this subsection, the term "public funds"  
10 means any funds appropriated by the General Assembly or by a  
11 political subdivision.

12 (n) Treatment of certain required payments.--The provisions  
13 of subsections (f) and (j) shall apply to a school district's  
14 share of payments to the Public School Employees' Retirement  
15 System as required under 24 Pa.C.S. § 8327 (relating to payments  
16 by employers) if the actual dollar amount of payments between  
17 the current year and the upcoming year is greater than 7.5%. The  
18 dollar amount to which subsection (f) applies shall equal that  
19 portion of the increase which exceeds 7.5% of the actual dollar  
20 value of payments between the current year and the upcoming  
21 year.

22 Section 334. Disposition of income tax revenue and property tax  
23 reduction allocations.

24 (a) Earned income and net profits tax revenue.--All earned  
25 income and net profits tax revenue received by the school  
26 district pursuant to this chapter shall be used as follows:

27 [(1) In the fiscal year that the tax under section  
28 321(b)(1) is implemented, all revenue received by a school  
29 district that is directly attributable to that tax shall be  
30 used to fund exclusions for homestead and farmstead property.

1           (2) In the second fiscal year and each fiscal year  
2           thereafter, the revenue received by the school district shall  
3           be used to maintain the amount established in paragraph (1).  
4           All remaining revenue may be used for the operations of the  
5           school district.]

6           (3) Except as set forth in section 321(b)(4), in the  
7           fiscal year that a tax under section 321(b)(2) is implemented  
8           [or increased] and each fiscal year thereafter, all revenue  
9           received by a school district that is directly attributable  
10          to that tax increase shall be used to fund exclusions for  
11          homestead and farmstead property.

12          [(4) In the second fiscal year and each fiscal year  
13          thereafter, the revenue received by the school district shall  
14          be used to maintain the amount established in paragraph (3).  
15          All remaining revenue may be used for the operations of the  
16          school district.]

17          (b) Personal income tax revenue.--All personal income tax  
18          revenue received by the school district pursuant to this chapter  
19          shall be used as follows:

20               (1) Except as set forth in section 321(c)(6), in the  
21               fiscal year that the tax under section 321(c) is implemented  
22               or increased, all revenue received by the school district  
23               pursuant to section 321(c)(2)(ii) and (iii) shall be used to  
24               fund exclusions for homestead and farmstead property.

25               (2) In the second fiscal year and each fiscal year  
26               thereafter, all revenue received by the school district  
27               pursuant to section 321(c)(2)(ii) and (iii) shall be used to  
28               maintain the amount established in paragraph (1). All  
29               remaining revenue may be used for the operations of the  
30               school district.]

1 Section 351. Register for taxes.

2 (a) General rule.--The Department of Community and Economic  
3 Development shall maintain a continuing register updated  
4 annually of all earned income and net profits taxes [or personal  
5 income taxes] levied under Subchapter C.

6 \* \* \*

7 Section 354. Effect of nonfiling.

8 Employers shall not be required by any ordinance to withhold  
9 from the compensation of their employees any local earned income  
10 and net profits tax [or personal income tax] imposed under  
11 Subchapter C which is not listed in the register or to make  
12 reports of compensation in connection with taxes not so listed.  
13 If the register is not available by August 15, the register of  
14 the previous year shall continue to be effective for an  
15 additional period of not more than one year.

16 Section 502. Definitions.

17 The following words and phrases when used in this chapter  
18 shall have the meanings given to them in this section unless the  
19 context clearly indicates otherwise:

20 ["Allocation maximum." A numerical value of 0.4 plus the  
21 modifier calculated under section 503(c)(2). The value,  
22 including the maximum modifier, shall not exceed 0.6.

23 "Allocation minimum." A numerical value of 0.1 plus the  
24 modifier calculated under section 503(c)(1). The value,  
25 including the minimum modifier, shall not exceed 0.15.]

26 "Department." The Department of Education of the  
27 Commonwealth.

28 "Fund." As defined in section 302.

29 "Income tax." A tax on earned income and net profits [or a  
30 tax on personal income] pursuant to Chapter 3.



1 ["Property tax reduction index." A quotient equal to the sum  
2 of the numerical rank of a school district's personal income  
3 valuation per average daily membership, the numerical rank of  
4 its market value/income aid ratio, the numerical rank of its  
5 equalized millage and the numerical rank of its school tax  
6 ratio, divided by 1,000.

7 "Qualifying contribution." The revenue estimated to be  
8 collected from the imposition of the tax authorized under  
9 section 321(b)(1) in the first fiscal year that the tax is  
10 implemented.]

11 "Residential property tax." The dollar value of real  
12 property taxes paid by residential property owners in a school  
13 district, determined by multiplying the real property taxes  
14 collected by the school district times the percentage of the  
15 total property value in the school district classified as  
16 residential by the State Tax Equalization Board.

17 ["School tax ratio." The dollar value of local taxes  
18 collected by the school district or by a city of the first class  
19 for a school district of the first class divided by the personal  
20 income valuation of the school district.]

21 Section 503. Certification[; calculation of minimum and maximum  
22 modifiers].

23 (a) Secretary of the Budget certification.--

24 (1) No later than April 15, 2005, and April 15 of each  
25 year thereafter, the Secretary of the Budget shall certify  
26 all of the following:

27 (i) The total amount of revenue in the fund. In  
28 calculating the total amount of revenue in the fund, the  
29 secretary shall take into account all of the following:

30 (A) For the certification to be completed no

1 later than April 15, 2005, revenue which:

2 (I) has been deposited into the fund prior  
3 to the date of the certification;

4 (II) is reasonably projected to be deposited  
5 into the fund during the six months following the  
6 date on which the certification is made; and

7 (III) has been appropriated under section  
8 5002.

9 (B) For certifications in subsequent fiscal  
10 years:

11 (I) revenue which has been deposited into  
12 the fund during the six months prior to the date  
13 on which the certification is made; and

14 (II) revenue enumerated in clause (A)(II).

15 (ii) The total amount of revenue in the Property Tax  
16 Relief Reserve Fund established under section 504.

17 (iii) In certifying the amount available for  
18 distribution under subsection (e), the secretary shall  
19 only certify an amount that is sustainable in subsequent  
20 years.

21 (2) If the actual revenue deposited into the fund during  
22 the six months following the date on which the certification  
23 is made exceeds projections, any revenue in excess of  
24 projections shall remain in the fund and may be included in  
25 the certification for the subsequent fiscal year.

26 (b) School district certification.--

27 [(1) By December 15, 2004, each school district shall  
28 certify to the department the estimated amount of its  
29 qualifying contribution. The certification shall be based  
30 upon the previous year's earned income and net profits tax

1 revenues and cash flow experience. A school district which  
2 does not impose an earned income and net profits tax prior to  
3 the implementation of this chapter shall estimate the amount  
4 of its qualifying contribution based upon the most recent  
5 financial data forwarded to the department by the Department  
6 of Revenue. The department shall provide the data to the  
7 school district no later than December 1, 2004. Following  
8 receipt of the school district certifications, the department  
9 shall provide the certifications to the Secretary of the  
10 Budget no later than January 15.]

11 (2) By December 15, 2004, and December 15 of each year  
12 thereafter, each school district subject to section 324 shall  
13 certify to the department the total amount of tax credits  
14 under section 324(2).

15 [(c) Allocation modifiers.--The secretary shall calculate  
16 modifiers for the allocation maximum and the allocation minimum  
17 based on the amount certified under subsection (a)(1)(i).

18 (1) If the amount certified by the secretary for a  
19 fiscal year exceeds \$750,000,000, the minimum modifier for  
20 the allocation minimum shall be a value of .005 per  
21 \$50,000,000 in excess of \$750,000,000. The modifier for the  
22 allocation minimum shall not exceed 0.05.

23 (2) If the amount certified by the secretary for a  
24 fiscal year exceeds \$750,000,000, the minimum modifier for  
25 the allocation maximum shall be a value of .02 per  
26 \$50,000,000 in excess of \$750,000,000. The modifier for the  
27 allocation maximum shall not exceed 0.2.]

28 (d) Notification.--

29 (1) By April 20, 2005, and April 20 each year  
30 thereafter, the secretary shall notify the department whether

1 it is authorized to provide eligible school districts with  
2 property tax reduction allocations under section 505.

3 (2) The secretary shall not authorize the department to  
4 provide the first property tax reduction allocations until:

5 (i) the certification under subsection (a)(1)(ii) is  
6 no less than \$400,000,000; and

7 (ii) the certification under subsection (a)(1)(i) is  
8 equal to or greater than \$500,000,000.

9 (3) Subsequent property tax reduction allocations shall  
10 only be authorized when the balance required under section  
11 504(c)(1) is no less than \$400,000,000.

12 (e) Distribution.--In calculating the revenue available for  
13 distribution, the secretary shall, from the total amount  
14 certified under subsection (a)(1)(i), deduct all of the  
15 following:

16 (1) An amount sufficient to fund reimbursements to  
17 eligible school districts pursuant to section 324. The amount  
18 deducted pursuant to this paragraph shall be calculated based  
19 on the information provided by school districts pursuant to  
20 subsection (b)(2).

21 (2) An amount sufficient to fund the program under  
22 section 704.

23 Section 505. [State property] Property tax reduction  
24 allocation.

25 [(a) Administration.--The department shall do all of the  
26 following:

27 (1) Array the 2002 personal income valuation divided by  
28 the 2003-2004 average daily membership, the 2004-2005 market  
29 value/income aid ratio, the 2002-2003 equalized millage and  
30 the 2002-2003 school tax ratio of each school district in

rank order and assign each school district a discreet numerical rank for its personal income valuation per average daily membership, its market value/income aid ratio, its equalized millage and its school tax ratio. For the numerical rank of a school district's personal income valuation per average daily membership, the school district with the lowest personal income valuation per average daily membership shall have the highest numerical rank. For the numerical rank of a school district's market value/income aid ratio, the school district with the highest market value/income aid ratio shall have the highest numerical rank, provided that all school districts with a market value/income aid ratio equal to 0.15 shall receive a ranking of 1. For the numerical rank of a school district's equalized millage, the school district with the highest equalized millage shall have the highest numerical rank. For the numerical rank of a school district's school tax ratio, the school district with the highest school tax ratio shall have the highest numerical rank.

(2) Assign each school district a property tax reduction index.

(3) If the department receives authorization under section 503(d), allocate the property tax reduction for each school district as follows:

(i) Calculate the property tax reduction allocation as follows:

(A) Multiply the school district's 2003-2004 average daily membership by the school district's property tax reduction index.

(B) Multiply the product under clause (A) by the dollar amount necessary to allocate all of the money

1 in the fund as certified under section 503(a)(1)(i).

2 If the certification under section 503(a)(1)(i) is  
3 less than \$750,000,000, the dollar amount shall be  
4 the dollar amount necessary to allocate \$750,000,000.

5 (C) If applicable, provide for the allocation  
6 minimum or allocation maximum under subparagraph (ii)  
7 or (iii).

8 (ii) If the sum of the allocation under this  
9 paragraph and the qualifying contribution certified under  
10 section 503(b) on January 15, 2005, is less than the  
11 product of the residential property taxes collected  
12 during the 2001-2002 fiscal year and the allocation  
13 minimum for a school district, the school district shall  
14 receive an additional amount so that the sum of the total  
15 allocation under this paragraph and the qualifying  
16 contribution certified under section 503(b) on January  
17 15, 2005, is equal to the product of the residential  
18 property taxes collected during the 2001-2002 fiscal year  
19 and the allocation minimum.

20 (iii) Except as set forth in subsection (c), if the  
21 sum of the total allocation under this paragraph and the  
22 qualifying contribution certified under section 503(b) on  
23 January 15, 2005, is greater than the product of the  
24 residential property taxes collected during the 2001-2002  
25 fiscal year and the allocation maximum for a school  
26 district, the school district shall receive a total  
27 allocation such that the sum of the total allocation and  
28 the qualifying contribution certified under section  
29 503(b) on January 15, 2005, is equal to the product of  
30 the residential property taxes collected during the 2001-

2002 fiscal year and the allocation maximum.

(iv) If the certification under section 503(a)(1)(i) is less than \$750,000,000, each school district shall receive a pro rata share of the property tax reduction allocation calculated under this paragraph at \$750,000,000.

(4) Notify each school district of the amount of its property tax reduction allocation no later than May 1, 2005, and May 1 of each year thereafter.]

(a) Allocations to school districts.--One hundred percent of revenues, less administrative costs of no more than 3% and deductions under section 503(e), deposited in the fund shall be used to reduce residential property tax by means of a homestead and farmstead exclusion. The department shall distribute to each school district from the fund a portion of the total allocation to school districts which is equal to the total allocation to school districts multiplied by the ratio of average daily membership of the school district divided by the sum of the average daily membership of all school districts in this Commonwealth.

(b) Payment.--For the fiscal year commencing July 1, 2005, and July 1 of each fiscal year thereafter, except as set forth in subsection (c), the department shall pay to each eligible school district a property tax reduction allocation equal to the amount calculated under subsection [(a)(3)] (a). The property tax reduction allocation shall be divided into two equal payments, which shall be made on the fourth Thursday of August and the fourth Thursday of October.

(c) First class school districts.--The property tax reduction allocation for a school district of the first class

1 shall be paid by the department to a city of the first class.  
2 [The limitations set forth in subsection (a)(3)(iii) shall not  
3 apply to the calculation of the property tax reduction  
4 allocation for a school district of the first class.]

5 (d) Reduction of wage taxes in a city of the first class.--A  
6 city council of a city of the first class shall reduce any tax  
7 imposed on the wages of residents and nonresidents under the  
8 authority of the act of August 5, 1932 (Sp.Sess., P.L.45,  
9 No.45), referred to as the Sterling Act, in a manner consistent  
10 with Chapter 7 and in accordance with the following:

11 (1) For residents, by an amount equal to the amount of  
12 the property tax reduction allocation received from the  
13 Commonwealth pursuant to subsection (b) [in an amount not to  
14 exceed the limitations set forth in subsection (a)(3)(iii)  
15 had such limitations applied].

16 (2) For nonresidents, by any amount equal to the amount  
17 of the property tax reduction allocation received from the  
18 Commonwealth pursuant to subsection (b) [in excess of the  
19 limitations set forth in subsection (a)(3)(iii) had such  
20 limitations applied].

21 (3) If the certification under section 503(a)(1)(i) is  
22 less than \$750,000,000, the tax reductions under paragraphs  
23 (1) and (2) shall be a pro rata share of the property tax  
24 reduction allocation to a school district of the first class  
25 calculated under subsection (a) at \$750,000,000.

26 Section 4. This act shall take effect in 60 days.