

Meeting Format

- Opening Remarks - John Armato
- Act 72 Presentation - James Bush
- Statement by the Board – Robert Morgan
- Statement by Dr. James Goodhart, Executive Director of PLUS
- Panel Discussion Facilitated by John Armato
- Audience Questions and Comments

Additional Questions or Comments can be e-mailed to John Armato at jarmato@mciu.org or reached by phone at (610) 323-6274

Additional information is available on our website at www.pottstownschoools.com

Pottstown School District

The Reality of Act 72

Pottstown School District

- **Act 71** is known as The Pennsylvania Race Horse Development and Gaming Act
 - Act 71 was approved and signed into law on July 5, 2004 by Governor Rendell
 - Approved the use of Slot Machines at specific locations
 - Intended to provide a significant source of new revenue to the commonwealth to support property tax relief, wage tax reduction, economic development opportunities and other similar initiatives
- Presently the legality of Act 71 is being challenged in the Pennsylvania Supreme Court

Allocation of Total Gaming Funds

- Gaming Legislation Authorizes Three Types of Slots Venues
 - Category 1 – “Racinos” Seven or eight race tracks
 - Category 2 – “Stand-alone” Four or five
 - Category 3 – Resort hotels – two
- Proposed machine total is 61,000. Makes Pennsylvania second only to Nevada (for now)

Revenue Generator	One Time Revenue	Recurring Revenues
Licenses	\$550 - \$650 million	
Casino Operations		48% of gross revenues
Property Tax Relief		34% of gross revenues
Economic Development		5% of gross revenues
Host County/Contig. Juris.		2% of gross revenues
Horse Racing Dev. Fund		9% of gross revenues
Host Municipality		2% of gross revenues

Gaming Revenue for Property Tax Relief

- Initial sale of licenses estimated \$550 to \$650 million and 34% of gross revenue (estimated \$3 billion total annual gross revenue when slots fully implemented) is dedicated to property tax relief.
- Total property tax relief distribution pays for:
 - State allocation by district
 - Allocation to districts for Philadelphia wage tax credit
 - Philadelphia wage tax reduction
 - Philadelphia senior citizen property tax reduction
- Act 72 creates two funds to hold revenues from gaming:
 - Property Tax Relief Fund
 - Property Tax Relief Reserve Fund
- In order to make the first allocation to schools for property tax relief the Secretary of Budget must certify that:
 - Property Tax Relief Fund has at least \$500 million
 - Property Tax Relief Reserve Fund has \$400 million

Pottstown School District

- **Year 1**

- In order to generate \$900 million every resident in Pennsylvania age 21 or older would need to lose \$97

- **Year 2 and Beyond**

- In order to generate \$500 million every resident in Pennsylvania age 21 or older would need to lose \$169
- In order to generate \$1.0 billion every resident in Pennsylvania age 21 or older would need to lose \$333

(2000 census data used to determine PA population)

Pottstown School District

The Reality of Act 72

Summary

- Act 72 of 2004 was signed into law by the Governor on July 5, 2004 with an effective date of September 3, 2004
- Intent of Act 72 is to Shift the Burden of School Funding:
 - By reducing school district property taxes and replacing property tax revenue with:
 - Increased local earned or personal income taxes, and
 - Receipt of state gaming revenues
- School Districts have a choice of Opting-In or Opting-Out of Act 72

Pottstown School District

The Reality of Act 72

Summary

- School Districts may Opt-In by:
 - Adopting a resolution to increase the Earned Income Tax (“EIT”) levied by 0.1% on residents of their districts by May 30, 2005 in order to be eligible for state gaming revenue or
 - Adopt a resolution by May 30, 2005 authorizing a referendum at the 2005 municipal election to enact the 0.1% tax or more

- School District may not take a Wait and See Approach. School Board must act by May 30, 2005.

- Tax Shift
 - Reduction in property tax for residential property owners **BUT Increase in earned income tax for ALL** residents of the district

Pottstown School District

The Reality of Act 72

Summary

- If School District's Opts-In:
 - There will be fundamental changes in the governing and financial operations of the District
 - Voter referendums required for tax increases in excess of the state certified Index
 - Tax base shift from property taxes to income taxes, and
 - The budget process will dramatically change
 - School District's must petition county officials to hold a public referendum on November 7, 2007
 - A referendum is required to increase the earned income tax rate to fund the MINIMUM Homestead Exclusion allowed
- School Districts have the choice to Opt-Out of Act 72 by not taking any action
- School Districts are obligated to follow the requirements of Act 72 for a minimum of 4 years before voters would have the opportunity to Opt-out via a referendum

Pottstown School District

The Reality of Act 72

Tax Shifting

- Property tax reductions depend upon:
 - Increased **LOCAL** income tax;
 - Receipt of state distribution of gaming revenues; and
 - Number of qualifying residential homesteads/farmsteads within the District
 - Sterling Act credit
- Homestead/Farmstead exclusions are reflected on the property tax bill by reduction of the assessed value
 - Homeowners will **NOT** receive a refund check
 - Tax reduction is via an assessment exclusion; not a rate reduction

Pottstown School District

The Reality of Act 72

Sample Property Tax Invoice

E CHECKS PAYABLE TO:

R. Donmoyer Tax Collector
 (Rear) Jonestown RD
 Pottstown, PA 17109-1705

52-5555
 thru Friday 12 Noon - 6PM
 Holidays & Closed November 23

➤ **Tax reduction is via an assessment exclusion; not a rate reduction**

2001 REAL ESTATE TAX NOTICE FOR CENTRAL DAUPHIN SCHOOL DISTRICT

DATE July 1, 2001	BILL NUMBER 02668
PROPERTY LOCATION:	
PROPERTY IDENTIFICATION NO.: 35 027 378	
ASSESSMENT	
ORIGINAL ASSESSMENT \$	155,800
HOMESTEAD EXCLUSION \$	2,928
FARMSTEAD EXCLUSION \$	0
NET ASSESSMENT \$	152,872

Lower Paxton Twp

The annual assessment appeal filing deadline with the Board of Assessment Appeals for tax year 2002 is August 1, 2001.

IF YOUR TAXES ARE IN ESCROW PLEASE FORWARD THIS BILL TO YOUR MORTGAGE COMPANY.

ES	MILLAGE/TAX RATE	TAX AMOUNT		
DISTRICT	18.35 ML	\$2,805.20	DURING THIS PERIOD	PAY THIS AMOUNT

Pottstown School District

The Reality of Act 72

Tax Shifting

- Each qualifying residential property owner receives the **SAME** assessment reduction amount (the reductions are not distributed proportionately)
- For Example (Assuming \$500 million Gaming Revenue)
 - Home assessed in Pottstown School District at \$60,000 would receive \$217 tax reduction
 - Home Assessed in Pottstown School District at \$200,000 would receive \$217 tax reduction
- Property Tax savings may increase or decrease as State Gaming Funds increase or decrease
- Property Tax savings may decrease as more residential property owners qualify

Pottstown School District

The Reality of Act 72

Tax Shifting

- Income tax increases
 - 0.1% EIT is estimated to generate \$182,674
 - 0.1% EIT = \$50 more tax for a resident with \$50,000 earned income
 - Additional increases may be made with voter approval
 - All District residents will be subject to the increased EIT
 - Pension, social security income and investment income are not “earned” income and as such not subject to EIT
 - School District, via a referendum, may convert EIT to a Personal Income Tax (“PIT”)
 - PIT must only generate the same amount of revenue as the EIT
 - Investment income, such as interest, dividends, and capital gains are subject to PIT
 - Neither EIT or PIT taxes retirement income (Social Security, pensions, etc.)

ACT 72 MODEL
Pottstown School District

2006/2007 ESTIMATED HOMESTEAD/FARMSTEAD EXCLUSION CALCULATION @ 0.10% INCOME TAX
AT \$500 MILLION OF STATE GAMING DISTRIBUTION

Table 1

a. State Gaming Distribution		\$ 1,338,036	
b. Sterling Tax Credit		\$ 44,966	
c. Earned Income Tax @ 0.10% (1st Year Collections)		<u>\$ 182,674</u> *	
d. Total Available for Homestead/Farmstead Exclusion	a + b + c	\$ 1,565,676	
		At 100%	At 50%
		Application Rate	Application Rate
e. Homestead/Farmstead Properties (From SD Information)		7,226	3,613
f. Amount per Approved Homestead/Farmstead	d / e	\$ 217	\$ 433

* Projected 2006/2007 EIT Base:	\$ 308,050,000
Additional EIT at 59% Collections	<u>x 0.10% x 59.3%</u>
Earned Income Tax @ 0.10% (1st Year Collections)	\$ 182,674

Pottstown School District

The Reality of Act 72

Taxing Limitations of Act 72

- School Board's authority to increase the Property Tax Rate is limited to the state certified "Index"
- Voter referendum or PDE or Court approval is required to increase the Property Tax Rate in excess of the Index

Pottstown School District

The Reality of Act 72

The “Index”

- Index = Average of SAWW and ECI
 - SAWW – State Wide Average Weekly Wage
 - ECI – Employment Cost Index for elementary and secondary schools
 - According to Section 302 Definitions of Act 72, the Index is the average of the percent increase in the Statewide Average Weekly Wage and Employment Cost Index. However, for school districts whose market value/personal income aid ratios (AR) are greater than .4000, the Index is calculated as follows: $\text{Adjusted SD Index} = \text{Index} * (.75 + \text{Prior Year AR})$
 - Pottstown’s aid ratio above 0.4000 will qualify for modest increases above the Index
 - **Act 72** directs PDE to annually calculate the Index by August 15 and to annually publish the Index in the PA Bulletin by September 1. The SAWW for calendar year 2004 and the ECI for FY 2004-05 will be used to calculate the Index certified by the PA Department of Education in September 2005. **The resulting Index will be used in fiscal year 2006-07.**

Pottstown School District

The Reality of Act 72

Act 72 Index - Adjustments to School District Index

For Use <u>In</u>	Index (unadjusted)	Mkt. Value/ Personal Aid <u>Ratio</u>	Adjustment <u>Factor</u>	MV/PVAR + Adj. <u>Factor</u>	Adjusted Index	<u>Millage</u>	% Millage Increase	Back End Referendum
FY 00-01	3.8%	.5529	.75	1.3029	4.95%	21.9699	7.19%	Yes
FY 01-02	3.5%	.5450	.75	1.2950	4.53%	23.8749	8.67%	Yes
FY 02-03	3.5%	.5577	.75	1.3077	4.58%	25.9101	8.52%	Yes
FY 03-04	2.9%	.6008	.75	1.3508	3.92%	26.3896	1.85%	No
FY 04-05	3.3%	.5981	.75	1.3481	4.45%	27.0565	2.53%	No
FY 05-06	3.1%	.5869	.75	1.3369	4.14%			

Pottstown School District

The Reality of Act 72

Act 72 Index - Adjustments to School District Index

	Actual Millage	Allowable Millage	Difference Allowable & Actual Mills	Value of One Mill	Budgeting Impact of Difference in Millage
FY 00-01	21.9699	21.5104	.4595	\$762,976	\$350,587
FY 01-02	23.8749	22.4849	1.3900	\$764,779	\$1,063,043
FY 02-03	25.9101	23.5147	2.3954	\$755,778	\$1,810,391
FY 03-04	26.3896	24.4365	1.9531	\$755,795	\$1,476,143
FY 04-05	27.0565	25.5239	1.5326	\$780,368	\$1,195,992
Total			7.7306		\$5,896,156

Difference 2004-05 Allowable vs Actual Millage – 1.5326

% Difference 2004-05 Allowable vs Actual Millage – 5.7%

Pottstown School District

The Reality of Act 72

Mandatory Referendum

- If Pottstown Opts-In to Act 72, a public referendum must be held during the 2007 municipal elections (November 7, 2007)
- The referendum must propose an income tax rate required to provide a Homestead/Farmstead Exclusion equal to 50% of the maximum exclusion permitted
- Continued state distributions from the State Gaming Fund are contingent on holding the referendum
 - Whether the referendum is approved or rejected has no consequence on the receipt of State Gaming Funds
 - If a referendum is not held, the School District will be ineligible to receive State Gaming Funds until a referendum is held

Demographics

Pottstown School District	
2000 Census	Pottstown Borough
2003 Assessed Value	806,203,779
65 Years and Over Population	3,548
Owner Occupied Homes	21,859
Renter Occupied Homes	5,142
Median Household Income	4,004
	35,785.00

Pottstown School District Statistics	
Median Household Income	\$35,785.00
Owner Occupied Homes	56.22%
Renter Occupied Homes	43.78%
Population over the age of 65	16.23%

Pottstown School District

The Reality of Act 72

Act 72 Impact Minimum Homestead Exclusion 1.4% EIT Increase - Homeowners (Savings)/Cost

<u>Household Income Levels</u>	<u>Additional Income Tax 1.4%</u>	<u>Homestead Credit</u>	<u>(Savings)/Cost</u>
\$ 10,000	\$ 140	(\$567)	(\$427)
15,000	210	(567)	(357)
20,000	280	(567)	(287)
25,000	350	(567)	(217)
30,000	420	(567)	(147)
35,000	490	(567)	(77)
40,000	560	(567)	(7)*
43,000	630	(567)	63
50,000	700	(567)	133
55,000	770	(567)	203
60,000	840	(567)	273
65,000	910	(567)	343
70,000	980	(567)	413
75,000	1,050	(567)	483
80,000	1,120	(567)	553
85,000	1,190	(567)	623
90,000	1,260	(567)	693
95,000	1,330	(567)	763
100,000	1,400	(567)	833

*Break Even Point \$40,500

Pottstown School District

The Reality of Act 72

Act 72 Impact Maximum Homestead Exclusion 3.2% EIT Increase - Homeowners (Savings)/Cost

<u>Household Income Levels</u>	<u>Additional Income Tax 3.2%</u>	<u>Homestead Credit</u>	<u>(Savings)/Cost</u>
\$ 10,000	\$ 320	(\$1,053)	(\$ 733)
15,000	480	(1,053)	(573)
20,000	640	(1,053)	(413)
25,000	800	(1,053)	(253)
30,000	960	(1,053)	(93)*
35,000	1,120	(1,053)	67
40,000	1,280	(1,053)	227
43,000	1,440	(1,053)	387
50,000	1,600	(1,053)	547
55,000	1,760	(1,053)	707
60,000	1,920	(1,053)	867
65,000	2,080	(1,053)	1,027
70,000	2,240	(1,053)	1,187
75,000	2,400	(1,053)	1,347
80,000	2,560	(1,053)	1,507
85,000	2,720	(1,053)	1,667
90,000	2,880	(1,053)	1,827
95,000	3,040	(1,053)	1,987
100,000	3,200	(1,053)	2,147

*Break Even Point \$32,906

Homestead/Farmstead Exclusion Mandatory Notices and Application

- Residential property owners must complete a Homestead/Farmstead Exclusion application
 - Only owner occupied residential property owners eligible for exclusions
 - March 1, 2005 – Deadline to file a Homestead/Farmstead Exclusion application with the county by residential property owners

Pottstown School District

The Reality of Act 72

Conclusion

Act 72 is not a public school funding law. It does not provide any new state financial support for our students or schools. It is a taxation law that creates a school tax shift from property taxes to income based taxes. It does not address a fair, equitable, adequate, and predictable funding system for public education. The law creates new responsibilities for school districts while not producing new dollars for educational programming.

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