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Monthly
**REPORT TO THE PEOPLE**
*on the*
**Fiscal Status of the Commonwealth**

# Act 72

## Helping Homeowners & Supporting Education

Act 72, the Homeowner Tax Relief Act, provides the most extensive local tax relief in Pennsylvania history. It would use money generated from 14 state-licensed slot machine gambling facilities to reduce school district property taxes.

It fulfills a long-standing goal of significantly increasing the state share of funding for public education. Since the state paid for 50 percent of all public education costs during the Shapp administration in the 1970s, its portion of education funding has been gradually declining. It now stands at just 37 percent of total costs.

When all 14 casinos are up and running for a full year, the state will take an estimated $1 billion from the slots industry and spend that money on education, replacing support now provided by local property taxpayers. This would boost the state share of financial support for public education to 45 percent.

**Act 72 will increase the state share of public education funding to 45 %.**

### Trading income taxes for property taxes

A school district does not have to accept the gambling revenue, but if a district decides to participate, it would reduce its reliance on property taxes even further by enacting a one-tenth-of-one-percent increase in the earned income tax. The money raised by this 0.1 percent increase would also be used to reduce property taxes, in combination with the gambling money.

Although a district must decide by May 30 of this year to impose the 0.1 increase, it would not actually collect the additional money from taxpayers until it begins to receive gambling revenue.

Proceeds from gambling will probably become available in the 2007-08 fiscal year. Because all of the slots casinos will not open up at exactly the same time, the amount of money for tax relief is likely to be less than $1 billion in the first year. When all 14 locations are open for an entire year,

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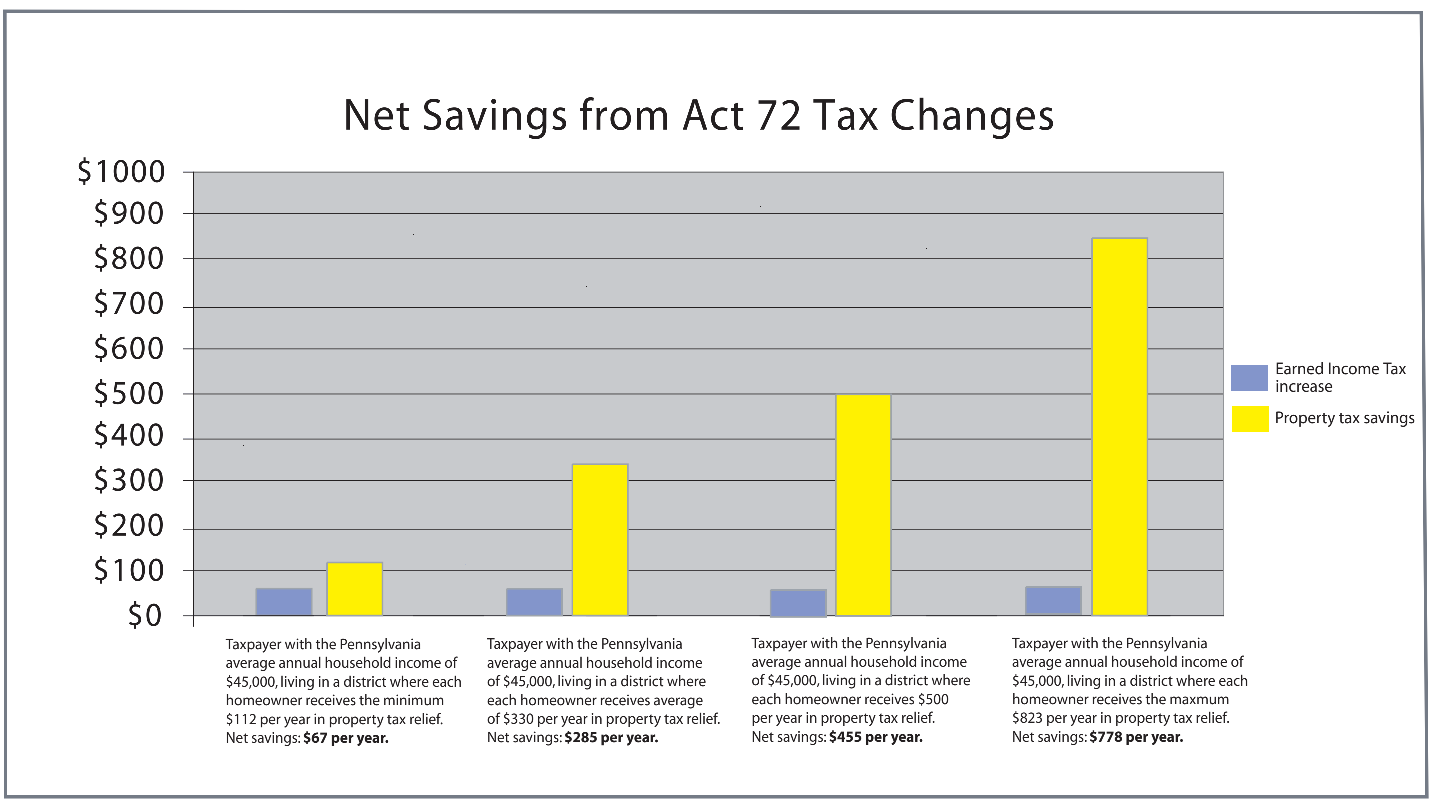
however, the amount should reach $1 billion, and even grow above that with inflation.

When the state revenue from slots wagering hits $1 billion, the average home-owner in the state will receive an annual tax cut of about $330. Depending on a variety of factors, the amount varies by school district. At the low end of the range, homeowners in some districts will receive a cut of $112 per year, but those in other districts will receive as much as $823 per year in property tax relief.

For example, a household earning $45,000 per year and receiving the average property tax cut would pay an additional $45 per year in earned income tax, but pay $330 less per year in property taxes, a net tax reduction of $285 per year. This is a savings that would be realized every year. The set of charts on this page shows other scenarios for taxpayers.

Renters would pay slightly more in earned income tax but would receive no property tax reduction. School districts can make their tax more progressive, however, by exercising their option to convert the earned income tax to a personal income tax. Because low-income taxpayers would receive the same poverty exemption that currently applies to the state income tax, a family of four earning less than $31,000 would pay no local personal income tax. (The exemption is scaled, based upon the size of the family.) Districts can switch to a personal income tax by putting the choice up for a voter referendum in November 2005 or 2007.

Once a district opts into Act 72, it does not have to abide by that decision forever. After four years, voters can elect to opt out in a referendum.



## Quality education and taxpayer rights

Act 72 attempts to strike a balance between tax relief for homeowners and the cost of a good education.  It requires school districts that opt in to adopt some spending controls, but at the same time gives them enough flexibility to ensure that they can raise enough money for their educational needs.

In future years, every school district would be allowed to raise property taxes only up to the rate of inflation without seeking voter approval in a referendum, but the bill also recognizes that different districts have different needs. Some districts may have a greater need to invest in their schools, so Act 72 gives them more flexibility. Districts with an aid ratio above .400 – and that is nearly 80 percent of the districts in the state – can raise millage rates without a referendum according to a sliding scale that ranges from 115 percent to 160 percent of the annual inflation rate.

*Districts could also raise property taxes without a voter referendum under a serious of exemptions designed to prevent them from being hurt financially by circumstances beyond their control. Among the most important exceptions are these two:*

1. *All districts can ensure that instructional  spending per student keeps pace with inflation. So fast-growing school districts can increase spending proportionately to their growth in student population.*
2. *All districts can make sure that their overall revenue – local taxes and state subsidies – keeps pace with the inflation index. So if state support for education should decline at some future time, districts are permitted to make up the difference locally.*

*There are other important exceptions that cover expenses related to:*

1. *Natural disasters;*
2. *Implementing a court order;*
3. *Alleviating the threat of immediate harm to students, faculty or the community;*
4. *Extraordinary special education costs;*
5. *A portion of school construction costs;*
6. *High retirement costs;*
7. *Unreimbursed costs of complying with the federal No Child Left Behind law;*
8. *Increased health care costs.*

## Philadelphia is treated the same, but will cut wage tax

Philadelphia is treated the same as any other school district when gambling revenue is divided according to the formula in Act 72. Contrary to inaccurate reports, Philadelphia does not get its money first, nor does its money come off the top.

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The only difference is that Philadelphia was not given a choice to opt in or out of Act 72, and its share of money under the formula will go toward wage tax reduction instead of property tax reduction.

Assuming that the first full calendar year of revenue distribution will be 2008, and assuming that $750 million in slots revenue will be available that year, Philadelphia's wage tax would decline from its scheduled level of 4.22 percent for residents to 3.81 percent, and from the scheduled level of 3.72 for none residents to 3.61.

## Charting the Commonwealth's Surplus

Through the end of March, tax collections are $143 million above official estimates. The current overage is 0.8% above estimate. March collections were disappointing, coming in $60 million below estimate.

We have now had two consecutive months of disappointing revenue collections and it appears that this committee's estimate of a $500 million surplus is not going to be realized. Corporate tax collections were dreadful in March. Most of the large corporate tax-payers make their estimated payments in March and it was essential to have those payments add about $70 million to the surplus. Instead there was a deficit of $100 million. The tax on long distance came in short again, since the gross receipts tax was the biggest drag on corporate collections.

On the positive side, PIT and realty transfer tax collections were above estimate by $30 million and $7.4 million respectively. As usual, cigarette tax and inheritance tax collections were below estimate.