



# **Pine-Richland School District**

## **Act 1 Tax Study Commission**

### **Summary and Recommendations**

**December 5, 2006**



# Agenda

- Overview of Act 1
- Purpose of the Act 1 Tax Commission
- Act 1 Tax Commission Recommendation
- Case Examples
- Act Tax Shift Schedule

# Overview of Act 1

Provision	Intent
Distribution of state gaming proceeds to the school districts	Reduce the overall tax burden of the each school district
Tax Increase Rules	Requires a voter referendum if budget growth exceeds an index
Increase the Senior Citizens Property Tax and Rent Rebate Program	Increases the tax rebate eligibility limit from \$15,000 to \$35,000.
Property tax to income tax shift	Base more of the school district tax revenue on income

The sole mission of the Act 1 Tax Commission is to recommend a tax shift referendum to the Pine Richland School Board

# Act 1 Tax Commission

## Pine Richland's Act 1 Tax Commission:

Chairman: Dr. James Werkmeister

Members: Larry Bridge

Hemanth Kapoor

Rick Sabo

Michael Dennehey

Neil Raine

Steve Leonard

John Gottschalk

Robert Vislosky

## The Act 1 Tax Commission Activities:

1. Held four public meetings to study and discuss Act 1 front-end referendum recommendation.
2. A public (televised) hearing was held on November 16, 2006.
3. Commission studied all available and relevant data including:
  - Historic and present rates of revenue.
  - Percentage of total revenues provided by currently levied taxes.
  - District Demographics and property use characteristics
  - Projected revenues.

# Act 1 Commission Recommendation

The Pine-Richland Act 1 Tax Commission Recommends that the May 2007 ballot referendum question include:

- Imposing an Earned Income Tax (EIT) increase of .8%
- To offset the \$839 decrease in property tax revenues per household that results from the minimum homestead exemption of \$41,500

This tax shift, if approved by the voters, would move \$5.5M from local property tax revenues to EIT revenues.

Assumes 100% application rate for the Homestead/Farmstead Exemption. Current rate is 77%.

# Recommendation Rationale

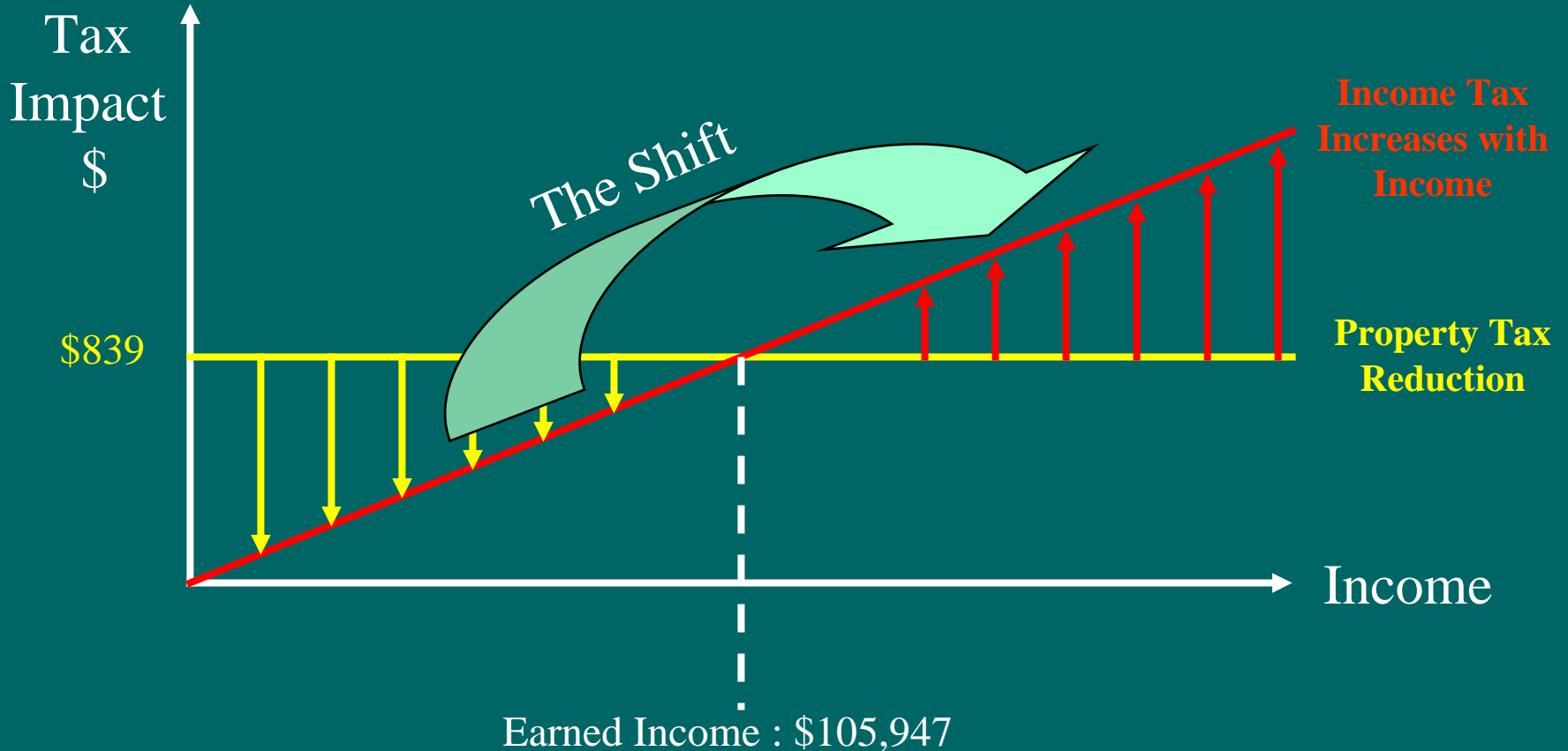
- EIT over PIT
  - Town administrative processes in place.
  - PIT increases the school tax on fixed income renters.
  - Adds additional tax formula/paperwork to all residents with personal income.
- Minimum Exemption
  - Transitional first step
  - Minimizes school tax increase for working renters.
- EIT at the Minimum appears to be in line with the thinking of other local school districts

# Income Tax Rate Impact

	Minimum	Middle	Maximum
<u>Property Tax Reduction</u>	\$839	\$1,258	\$1,677
<u>EIT</u>			
Current School EIT	0.5%	0.5%	0.5%
EIT School Increase	0.8%	1.2%	1.6%
New EIT School Rate	1.3%	1.7%	2.1%
New Total EIT Rate*	1.8%	2.2%	2.6%
<u>PIT</u>			
New School PIT Rate	1.2%	1.5%	1.9%

\* Includes Township EIT tax of 0.5%

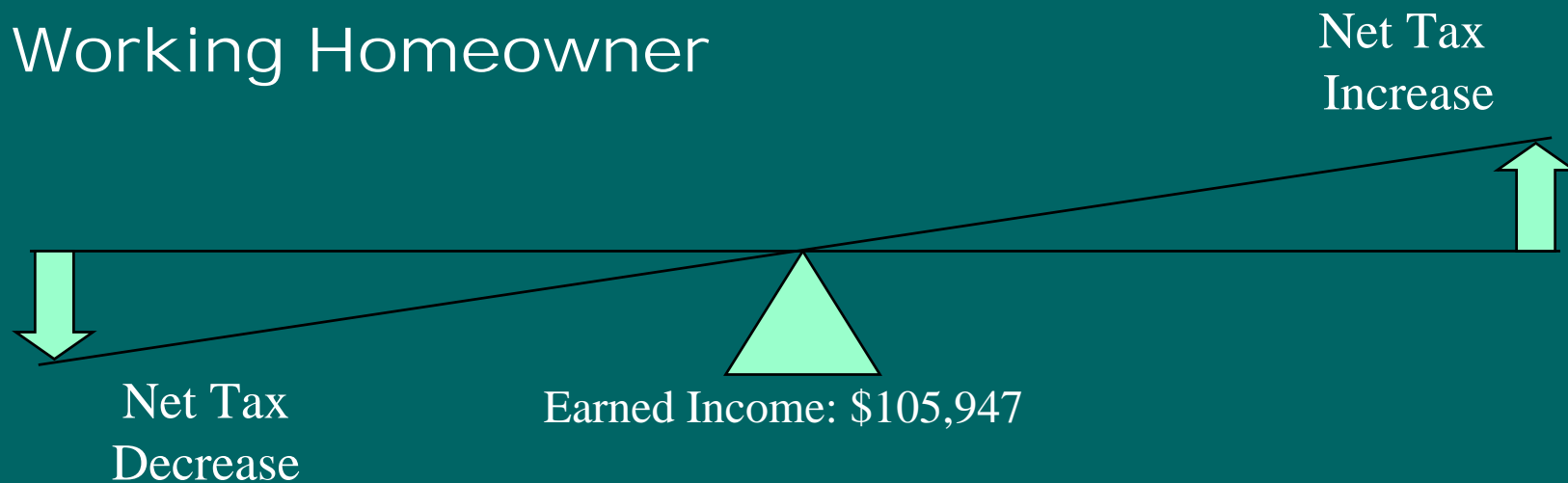
# Working Homeowner Shift



Note: this is a conceptual slide only, to gain a sense of the magnitude of these changes, please see case slides that follow

# Impact Summary

- Working Homeowner



	Estimated Number of Households 2006
Below \$105,947 in earned income	4436
Above \$105,947 in earned income	2652

# Impact Summary

- Retired Senior Citizen (Non-homeowner)
  - EIT - No Impact (Pension & Social Security Income)
  - PIT - New tax on dividends, interest, etc.
- Renters - tax increase: Increased Income tax (EIT or PIT) without property tax reduction benefit.

	Estimated 2006
Homeowners	7088
Renters	638

- High "other" income - Income tax increase greater with PIT than EIT.

# Case Example 1

## Homeowner

Property Assessed Value = \$172,500  
Household Earned Income = \$56,150  
Personal Income<sup>1</sup> = \$62,791  
Current Property Tax Bill = \$3,485  
Current EIT<sup>2</sup> = \$281  
Homestead/Farmstead Exclusion = Yes

	Minimum	Middle	Maximum
Property Tax Reduction	-\$839	-\$1,258	-\$1,677
EIT/PIT Increase	+\$443	+\$668	+\$887
Total School Tax <u>Decrease</u>	-\$395	-\$589	-\$789
Percentage <u>Decrease</u> in Total School Taxes	-10%	-16%	-21%

1 Personal Income to earned income ratio meets district averages

2 Excludes .5% EIT tax for Pine and Richland Townships

# Case Example 1 Modified Homeowner w/ No Exclusion

Property Assessed Value = \$172,500  
 Household Earned Income = \$56,150  
 Personal Income<sup>1</sup> = \$ 62,791  
 Current Property Tax Bill = \$3,485  
 Current EIT<sup>2</sup> = \$281  
 Homestead/Farmstead Exclusion = No

	Minimum	Middle	Maximum
Property Tax Reduction	-\$0	-\$0	-\$0
EIT/PIT Increase	+\$444	+\$668	+\$887
Total School Tax <u>Increase</u>	+\$444	+\$668	+\$887
Percentage <u>Increase</u> in Total School Taxes	+\$12%	+18%	+\$24%

1 Personal Income to earned income ratio meets district averages

2 Excludes .5% EIT tax for Pine and Richland Townships

# Case Example 2

## Homeowner

Property Assessed Value = \$355,250  
 Household Earned Income = \$104,800  
 Personal Income<sup>1</sup> = \$117,196  
 Current Property Tax Bill = \$7,176  
 Current EIT<sup>2</sup> = \$524  
 Homestead/Farmstead Exclusion = Yes

	Minimum	Middle	Maximum
Property Tax Reduction	-\$838	-\$1,257	-\$1,677
EIT/PIT Increase	+\$828	+\$1,247	+\$1,656
Total School Tax <u>Decrease</u>	-\$10	-\$10	-\$21
Percentage <u>Decrease</u> in Total School Taxes	-.1%	-.1%	-.3%

1 Personal Income to earned income ratio meets district averages

2 Excludes .5% EIT tax for Pine and Richland Townships

# Case Example 3

## Homeowner

Property Assessed Value = \$700,000  
 Household Earned Income = \$221,250  
 Personal Income<sup>1</sup> = \$247,419  
 Current Property Tax Bill = \$14,140  
 Current EIT<sup>2</sup> = \$1,106  
 Homestead/Farmstead Exclusion = Yes

	Minimum	Middle	Maximum
Property Tax Reduction	-\$838	-\$1,257	-\$1,677
EIT/PIT Increase	+\$1,748	+\$2,633	+\$3,496
Total School Tax <u>Increase</u>	+\$910	+\$1,375	+\$1,819
Percentage <u>Increase</u> in Total School Taxes	+6%	+9%	+12%

1 Personal Income to earned income ratio meets district averages

2 Excludes .5% EIT tax for Pine and Richland Townships

# Case Example 4

## Renter

Property Assessed Value = \$0  
 Household Earned Income = \$56,150  
 Personal Income<sup>1</sup> = \$62,791  
 Current Property Tax Bill = \$0  
 Current EIT<sup>2</sup> = \$281  
 Homestead/Farmstead Exclusion = No

	Minimum	Middle	Maximum
Property Tax Reduction	N/A	N/A	N/A
EIT/PIT Increase	+\$444	+\$668	+\$887
Total School Tax <u>Increase</u>	+\$444	+\$668	+\$887
Percentage <u>Increase</u> in Total School Taxes	+158%	+238%	+316%

1 Personal Income to earned income ratio meets district averages

2 Excludes .5% EIT tax for Pine and Richland Townships

# Case Example 5

## Retired Homeowner

Property Assessed Value = \$172,500  
 Household Earned Income = \$0 (Pension & Social Security)  
 Personal Income<sup>1</sup> = \$25,000 (\$500,000 savings)  
 Current Property Tax Bill = \$3,485  
 Current EIT<sup>2</sup> = \$0  
 Homestead/Farmstead Exclusion = Yes

	Minimum	Middle	Maximum
Property Tax Reduction	-\$839	-\$1,258	-\$1,677
EIT	N/A	N/A	N/A
PIT <u>Increase</u>	+\$295	+\$380	+\$465
Tax <u>Decrease</u> (EIT)	-\$839	-\$1,258	-\$1,677
Tax <u>Decrease</u> (PIT)	-\$543	-\$877	-\$1,212
Tax <u>Decrease</u> Percent (EIT)	-24%	-36%	-48%
Tax <u>Decrease</u> Percent (PIT)	-16%	-25%	-34%

1 Personal Income to earned income ratio meets district averages

2 Excludes .5% EIT tax for Pine and Richland Townships

# Case Example 6

## Retired Renter

Property Assessed Value = \$0  
 Household Earned Income = \$0 (Pension & Social Security)  
 Personal Income<sup>1</sup> = \$25,000 (\$500,000 savings)  
 Current Property Tax Bill = \$0  
 Current EIT<sup>2</sup> = \$0  
 Homestead/Farmstead Exclusion = No

	Minimum	Middle	Maximum
Property Tax Reduction	N/A	N/A	N/A
EIT	N/A	N/A	N/A
PIT <u>Increase</u>	+\$295	+\$380	+\$465
Tax Change (EIT)	\$0	\$0	\$0
Tax <u>Increase</u> (PIT)	+\$295	+\$380	+\$465
Tax Change Percent (EIT)	0%	0%	0%
Tax <u>Increase</u> Percent (PIT)	Significant	Significant	Significant

1 Personal Income to earned income ratio meets district averages

2 Excludes .5% EIT tax for Pine and Richland Townships

# Act 1 Tax Shift Schedule

Form local tax study commission

Hold Public Hearing

- Referendum Recommendation to school board at public meeting no later than 12/13/2006
- 12/31/06 Deadline for school board to notify property owners of the homestead/farmstead exclusion by first class mail
- 3/1/07 homestead/farmstead filing deadline
- 3/13/07 deadline for school board to accept or reject tax commission recommendation
- 3/31/07 Assessor notifies owner of approval or denial of homestead/farmstead application
- 5/15/07 Referendum included on May 15, 2007 primary election ballot
- 7/1/07 effective date of tax change if referendum passes

# Referendum Wording

As dictated by Act 1:

“Do you favor imposing an additional .8% earned income tax? The revenue generated from the increased tax rate will be used to reduce taxes on qualified residential properties by \$839. The current earned income tax rate is .5%.”



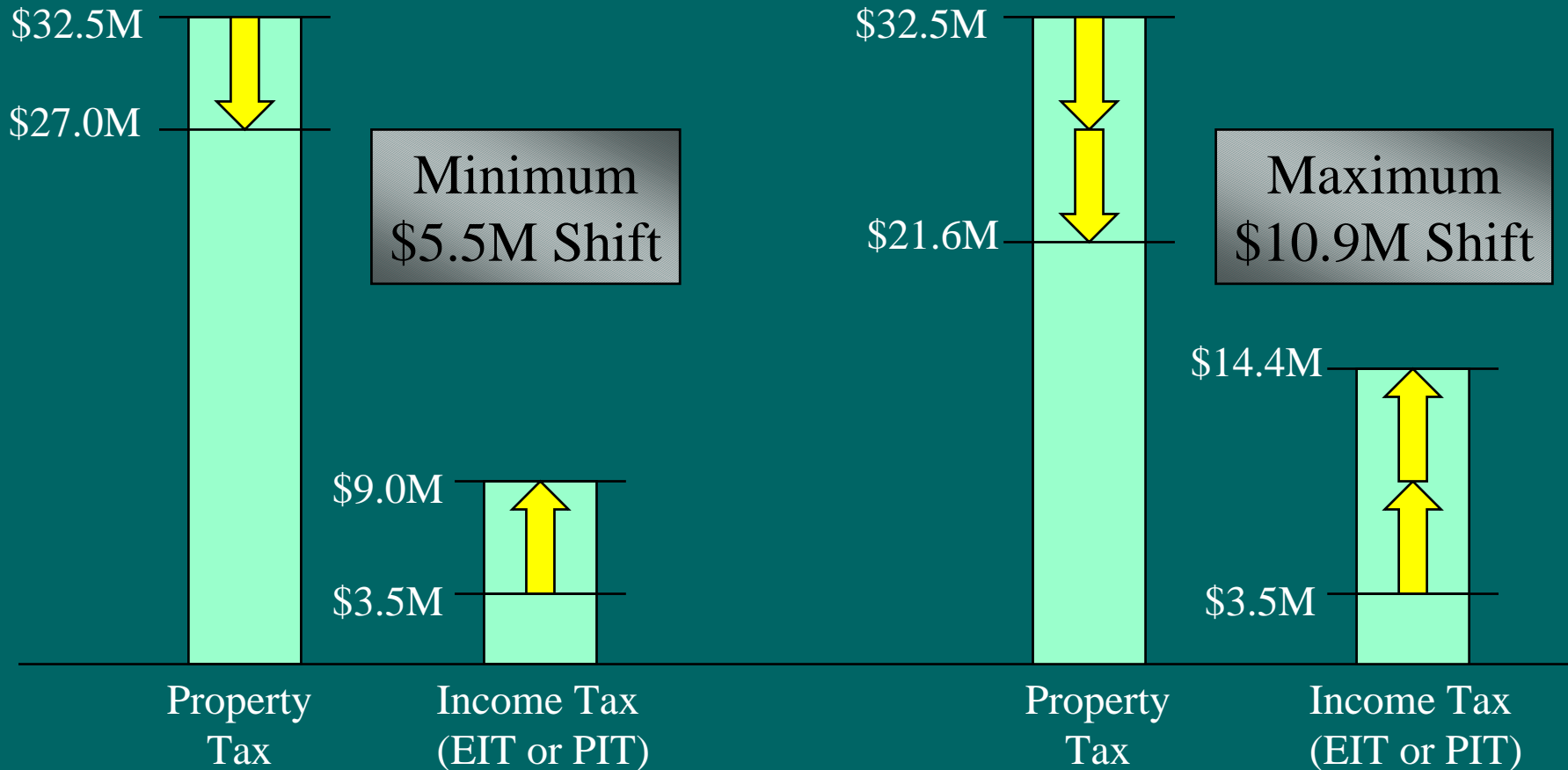
BACKUP

# Current Local Revenue Sources

	Revenue	Percent
Property Taxes	\$32.5M	79%
Earned Income Tax (EIT)	\$3.5M	9%
Other	\$5.0M	12%
Total	\$41.0M	100%

Note: Other sources including State Education Subsidy contribute to total Pine Richland School District Total Budget of \$48M.

# Property Tax to Income Tax Shift



Tax shift does not change the school district's revenue.  
It changes the source of some of that revenue.

# Property Tax to Income Tax Shift

- Provision reduces property tax and increases income tax
- Tax shift requires voter approval via referendum at the May 15, 2007 primary election.
- No net change to school district revenue
- Property tax reduction will be implemented via increase in Homestead/Farmstead Exclusion which reduces the taxable assessed value.
- Income tax increase will be implemented via increase in Earned Income Tax (EIT) or Personal Income Tax (PIT)

# EIT vs PIT

## Earned Income Tax (EIT):

- Current income tax base used by Pine and Richland Townships
  - 1.0% EIT tax rate in place
  - .5% or one half of the tax goes to the township
  - .5% or one half of the tax goes to the school
- EIT Income Taxed:
  - W-2 wages, tips, etc
  - Partnership and Sole Proprietorship Profits  
(Does not include Sub-chapter S corporate profits)

## Personal Income Tax (PIT):

- Not currently used by Pine or Richland
- PIT Income Taxed:
  - All wages and income taxed by EIT
  - Plus Interest, Dividends, Capital Gains, and Sub-chapter S corporate profits
- Essentially taxes same income categories as the state income tax





# What is Homestead/Farmstead Exclusion?

- It excludes an amount from the value of a residential property to reduce the tax burden.
- It is intended to benefit those that make Allegheny county and Pennsylvania their home.
- One must apply for the exclusion.
- 77% of Pine and Richland homeowners have applied.
- Without the Homestead/Farmstead Exclusion in place a homeowner will NOT see the property tax reduction that's part of the Act 1 tax shift.
- A letter will be mailed by 12/31/2006 to every residential homeowner who has not applied for the Homestead/Farmstead exclusion.
- One can check all property tax information at:  
[www2.county.allegheny.pa.us](http://www2.county.allegheny.pa.us)

# EIT vs PIT

	Pros	Cons
Earned Income Tax (EIT)	<ul style="list-style-type: none"><li>• Easy to implement for taxpayers and the town.</li><li>• Likely in line with surrounding towns.</li></ul>	<ul style="list-style-type: none"><li>• Places all the income tax burden on earned income.</li></ul>
Personal Income Tax (PIT)	<ul style="list-style-type: none"><li>• Moves some of the income tax burden off of wages.</li></ul>	<ul style="list-style-type: none"><li>• Working Residents will now have to submit both an EIT tax form (Township) and a PIT (School District)</li><li>• Seniors with no earned income will now have a new tax to pay (PIT).</li></ul>

Note: This framework is not finalized and is intended to promote comments by the public only

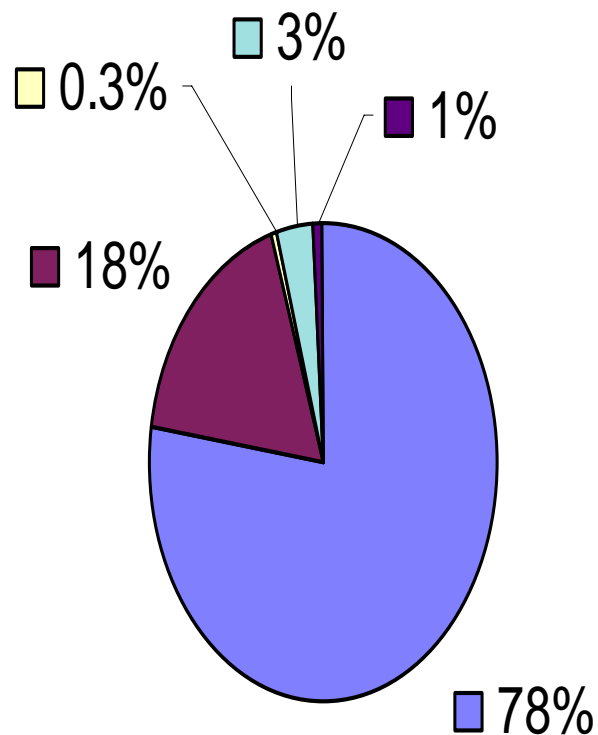
# Minimum vs Maximum or in Between

	Pros	Cons
Minimum Exclusion	<ul style="list-style-type: none"><li>• Imposes less of a shock to the taxpayer base.</li></ul>	<ul style="list-style-type: none"><li>• Minimizes the benefit to lower income homeowners.</li></ul>
Maximum Exclusion	<ul style="list-style-type: none"><li>• Increases the benefit to lower income homeowners.</li></ul>	<ul style="list-style-type: none"><li>• Renters realize the maximum tax increase based on income with no property tax relief.</li><li>• Could discourage newcomers to Pine-Richland if surrounding districts vote for minimum exclusion.</li></ul>

Note: This framework is not finalized and is intended to promote comments by the public only

# Sources of Funds

## Revenues by Source



- Local Sources
- State Sources
- Federal Sources
- Fund Balance
- Other Sources

# State/Federal Revenue

- Basic Ed Subsidy \$4,064,385
- Special Ed Subsidy \$1,403,050
- Transportation \$1,100,000
- Rental Reimburse \$ 822,054
- Payroll Tax Reimburse \$1,670,000
- Block Grant \$ 307,062
- Other state subsidy \$ 168,869
- Federal subsidy \$ 249,500
  - Includes Title I, II, IV, V

# Comparison of Similar Districts State Funding

District	92-93 Enroll.	Aid Ratio	04-05 Enroll.	04-05 Budget	Basic Ed Subsidy
Pine-Richland	2239	.3938	4226	\$48,070,494	\$3,617,269
Moon	3195	.3250	3819	\$43,342,478	\$5,534,223
Chartiers Valley	2667	.2766	3458	\$42,000,000	\$3,743,971
Hampton	2767	.3339	3240	\$34,775,000	\$4,321,925
Upper St. Clair	3924	.1579	4207	\$48,656,916	\$3,658,560

# Required Areas

- Historic and present revenues from current taxes levied.
- Percentage of total revenues provided by current taxes levied.
- Demographics of existing tax base.
- Projected revenues of current taxes levied and taxes not levied under Act 1 of 2006

# Current Taxes Levied

- Real estate millage = 20.2 mills
  - Home valued at \$100,000 will pay tax of \$2,020
- EIT = 0.5%
- Per Capita (Act 511) = \$5.00 per person age 18 and older
- Per Capita (Act 629) = \$5.00 per person age 18 and older
- Real Estate Transfer = 0.5% of sales price of property
- Interim Real Estate = pro rata share of 20.2 mils

# Assessments over Time

Year	Assessment	%Incr
1998-99	\$180,885,590	-
1999-00	\$196,452,397	8.6%
2000-01	\$216,983,673	10.5%
2001-02*	\$1,263,656,067	3.0%
2002-03	\$1,390,297,076	10.0%
2003-04	\$1,454,850,096	4.6%
2004-05	\$1,512,818,113	4.0%
2005-06	\$1,584,246,009	4.7%
2006-07	\$1,682,288,101	6.1%

# Assessment Values

- 2006 Assessments certified by County as 2002 base year
- 1087 appeals on file by March 31
  - 690 County appeals
  - 257 District appeals
  - 140 Owner appeals
- Anticipate receiving update of assessment values by Oct. 15, 2006

# EIT Collections

Year	EIT	%Incr
1998-99	\$1,940,413	-
1999-00	\$2,359,386	22%
2000-01	\$2,432,242	3.0%
2001-02	\$2,518,393	3.5%
2002-03	\$2,635,095	4.6%
2003-04	\$2,774,489	5.3%
2004-05	\$3,373,724	21.5%
2005-06	\$3,502,127	3.8%
2006-07	\$3,491,000	(0.3%)

# Local Revenue Percentages

REAL ESTATE	32,531,754	79.4%
INTERIM REAL ESTATE	1,550,000	3.8%
PURTA	53,484	0.1%
PER CAPITA	123,000	0.3%
EIT	3,491,000	8.5%
REAL ESTATE TRANSFERS	880,000	2.1%
DELINQUENT TAXES	955,000	2.3%
INTEREST EARNED	692,500	1.7%
OTHER SOURCES	715,212	1.7%
<b>TOTALS</b>	<b>40,991,950</b>	<b>100%</b>

# Demographics

- Websites:
  - <http://pasdc.hbg.psu.edu>
  - <http://nces.ed.gov/surveys/sdds/selectgeo.asp>
- Median income level = \$80,000 est.
- Median assessed value = \$164,400
- Max homestead exemption = \$82,200
- Min homestead exemption = \$41,100

# Homeowners by Age

Age	Number of Homeowners
Under age 25	35
Ages 25-34	630
Ages 35-44	1735
Ages 45-54	1380
Ages 55-64	745
Ages 65+	1235

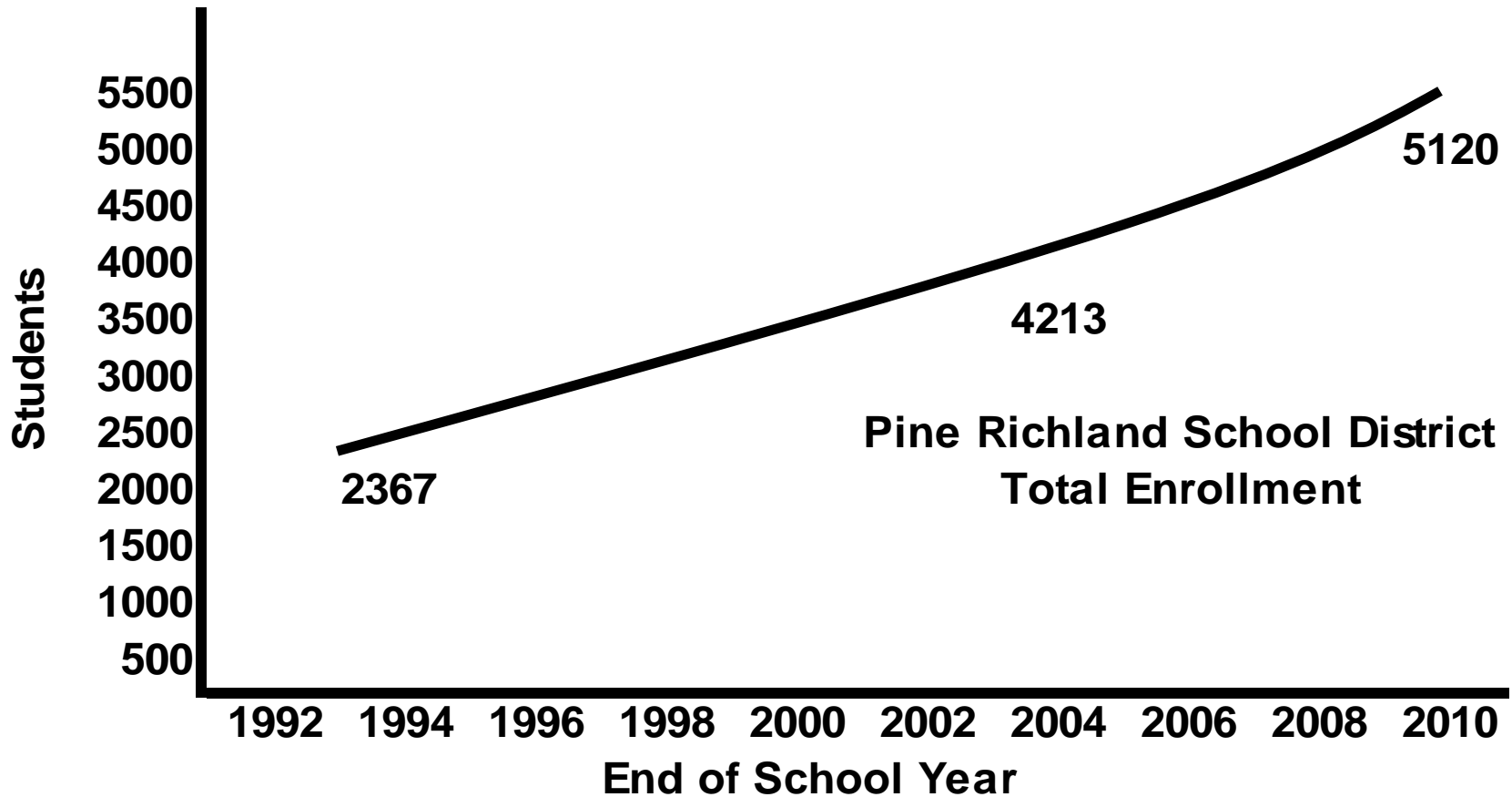
# Households by Income

## Revised Pine-Richland School District Income Levels

Household Income Estimated for 2006	2000 Percentage	2000 Percentage Subtotal	Est. 2006 Percentage	Est. 2006 Percentage Subtotal	Estimated Number Households
Less than \$10,000	4.5%		2.0%		142
\$10,000 to \$14,999	3.9%		2.0%		142
\$15,000 to \$24,999	8.1%		6.0%		425
\$25,000 to \$34,999	6.8%		4.0%		284
\$35,000 to \$49,999	11.9%	35.2%	6.0%	20.0%	425
\$50,000 to \$74,999	21.2%		18.0%		1276
\$75,000 to \$99,999	15.2%	36.5%	20.0%	38.0%	1418
\$100,000 to \$149,999	14.3%		18.0%		1276
\$150,000 to \$199,999	6.6%		12.0%		851
\$200,000 or more	7.5%	28.3%	12.0%	42.0%	851
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>7088</b>
% Below Median	52%		50%		
% Above Median	48%		50%		
<b>Median Income</b>	<b>\$70,995</b>	<b>\$90,000</b>			



# Enrollment - 1992 to 2010



# Data Sources

- <http://www.pasbo.org/ssact/resource.asp>
- [http://www.pde.state.pa.us/k12\\_finances](http://www.pde.state.pa.us/k12_finances)
- <http://psba.org>
- The above links will provide additional links for data and information.