

Muhlenberg School District Local Tax Study Commission

Report on findings and
recommendation to the Muhlenberg
School District Board of Directors

Commission Members

Ryan Conrad, Chairman
Cindy Mengle, Vice-Chair
Diane Benson, Secretary
Cynthia Kohl
Robert Moyer
Donald Raifsnider, Jr.
Wallace Schaeffer

Purposes of Act I:

1. Forces 2007 tax-shifting referendum.
2. Districts choose to increase earned income tax (EIT) or adopt a personal income tax (PIT) to be used for homeowner tax reduction.
3. Distributes part of Commonwealth gaming revenue to districts for homeowner tax reduction
4. Requires back-end voter referendum on future tax increases above an annual index.

Our Mission:

- To study the existing taxes levied by the school district and determine how the tax policies of the school could be improved by the imposition of a new income based tax.

- The Commission must consider:
 - Historical and present rates and the sources of revenue currently levied
 - The % of total revenue provided from each source
 - The age, income, employment and property use of the tax base
 - Projected revenue of current and prospective taxes

Our Goal:

To make a recommendation to the School Board of Directors for the type and rate of income-based tax that will provide a fair, realistic and equitable reduction to the real estate taxes in our community.

The Bottom Line:

- Which type of income tax should voters be asked to levy in order to reduce local property taxes: an Earned Income Tax (EIT) or a Personal Income Tax (PIT)?
- At what rate should the income tax offered to voters be set?

Please keep in mind:

- Act 1 is a tax shift, not a tax reduction.
- The LTSC had no guidelines, precedent or case law to follow.
- LTSC members, School District officials, attorneys, interest groups and lawmakers had and continue to have varying interpretations of the law. Provisions of the law are ambiguous and open for interpretation until it is challenged in court.
- LTSC members are not public policy makers. We were not charged with examining the merits of Act 1. We were also not charged with recommending changes to the law.

Facts the LTSC examined

Demographic Information of MSD: (U.S. Census Bureau Data – 2000)

	<u>Laureldale:</u>	<u>Muhlenberg:</u>	<u>Total:</u>	<u>Percent:</u>	
<u>AGE:</u>					
Under 5 Years	178	756	934	4.65%	
5 to 9 Years	227	901	1,128	5.62%	22.35%
10 to 14 years	230	1,042	1,272	6.33%	
15 to 19 years	198	949	1,147	5.71%	
20 to 24 years	144	653	797	3.97%	
25 to 34 years	471	1,689	2,160	10.76%	
35 to 44 years	544	2,605	3,149	15.69%	54.60%
45 to 54 years	520	2,189	2,709	13.50%	
55 to 59 years	217	839	1,056	5.26%	
60 to 64 years	197	889	1,086	5.41%	
65 to 74 years	433	1,938	2,371	11.81%	
75 to 84 years	336	1,321	1,657	8.25%	22.95%
85 years and over	73	525	598	2.89%	
Total Population: 3,759		16,305	20,064	100.00%	

Income Per Household in MSD: (U.S. Census Bureau Data – 2000)

<u>Income:</u>	<u># Of Households</u>	<u>Percent:</u>	
Less than \$10,000	475	5.74%	
\$10,000 to \$14,999	495	5.98%	
\$15,000 to \$19,999	550	6.64%	
\$20,000 to \$24,999	410	4.95%	44%
\$25,000 to \$29,999	595	7.19%	
\$30,000 to \$34,999	665	8.03%	
\$35,000 to \$39,999	520	6.28%	
\$40,000 to \$44,999	505	6.10%	
\$45,000 to \$49,999	385	4.65%	
\$50,000 to \$59,999	940	11.35%	48%
\$60,000 to \$74,999	1,055	12.74%	
\$75,000 to \$99,999	1,010	12.20%	
\$100,000 to \$124,999	410	4.95%	
\$125,000 to \$149,999	110	1.3%	
\$150,000 to \$199,999	85	1.02%	8%
\$200,000 or more	65	.78%	
TOTAL Households:	8,285	100%	
Median Household Income:	\$44,186 (in 1999)		

Local Revenue Sources for MSD:

(2005-2006)

<u>SOURCE:</u>	<u>AMOUNT:</u>	<u>PERCENT:</u>
Current RE Taxes	\$25,011,883	81%
Earned Income Tax	\$1,802,222	6%
<hr/>		
Other Taxes:	\$2,672,025	9%
<ul style="list-style-type: none"> ■ Interim RE Taxes ■ RE Transfer Tax ■ BPT ■ Delinquent RE Taxes 	<p style="text-align: right; margin-right: 20px;">348,307</p> <p>941,379</p> <p>905,167</p> <p>477,172</p>	<p style="text-align: right; margin-right: 20px;">1%</p> <p>3%</p> <p>3%</p> <p>2%</p>
<hr/>		
Other Revenue Sources:	\$1,303,087	4%
<ul style="list-style-type: none"> ■ Public Utility Taxes ■ Payments in Lieu of Taxes ■ OPT and EMST ■ Delinquent RE Taxes ■ Earning on Investments ■ Federal Revenue from Other LEAS ■ Rentals ■ Contributions ■ Tuition ■ Refund PY 	<p>43,783</p> <p>3,062</p> <p>103,533</p> <p>477,172</p> <p>589,634</p> <p>456,962</p> <p>32,286</p> <p>8,478</p> <p>30,218</p> <p>35,131</p>	<p>.14%</p> <p>0%</p> <p>.3%</p> <p>1%</p> <p>2%</p> <p>1%</p> <p>.1%</p> <p>0%</p> <p>.009%</p> <p>.008%</p>
<hr/>		
<u>TOTAL REVENUE:</u>	<u>\$30,789,217</u>	<u>100%</u>

Looking at the facts:

- **Median Assessed Value in MSD:** \$87,900
(Berks County Assessment Office as of May 2006)
- **Total Households:** 8,285
(U.S. Census Bureau Data – 2000)
- **Homeowners / Renters:** 6,950 / 1,325
(U.S. Census Bureau Data – 2000)
- **Total Homestead Eligible Properties:** 5,556 (subject to increase)
(Berks County Assessment Office as of May 2006)
- **Total EIT Base (70% Collection):** \$234,305,820
(MSD Business Office)
- **Total PIT Base:** \$262,422,518
(MSD Business Office)
- **Average Household Income (2005):** \$41,280
(Berks County EIT Bureau)
- **Current MSD Millage Rate:** 23.31
(MSD Business Office)

PIT Not Feasible:

- The Personal Income Tax (PIT) was examined.
- There is currently no mechanism or infrastructure in place to collect the PIT.
- Although the PIT covers a broader base of residents, there is little monetary difference between the PIT and EIT.
- Information does not exist to determine the impact of a PIT increase on the community.

Calculation of EIT Increase & Homestead Exclusion

Current EIT Rate (district share of Act 511 levy)	0.50%
Median Assessed Value	\$87,900.00
Total Homestead/Farmstead Eligible Properties	5,567
Estimated State Gaming Money	\$-
Estimated Sterling Act Credit Dollars	\$6,650
Current Real Estate Millage Rate (mills)	23.31
Earned Income Tax Base	\$234,305,820
Estimated Percent Collection for EIT	70.00%

MAXIMUM EXCLUSION:

Maximum Exclusion	50% of Median
Maximum Allowable Assessed Value Exclusion	\$43,950
Maximum Dollar Value of Exclusion per Homestead	\$1,024.47
EIT Rate Increase Necessary to Fund Max. Excl.	2.43%
Total SD EIT Rate	2.93%

MINIMUM EXCLUSION:

Minimum Exclusion	25% of Median
Minimum Allowable Assessed Value Exclusion	\$21,975
Minimum Dollar Value of Exclusion per Homestead	\$512.24
EIT Rate Increase Necessary to Fund Min. Excl.	1.21%
Total SD EIT Rate	1.71%

How would this effect you (1)?

Earned Income Tax Minimum/Maximum Compared to Exclusion (based on 70% worksheet; 5,566 Eligible Properties; 1.21% and 2.43% EIT)										
Assessed Value	Milage Rate	Tax	Min Exclusion	Max Exclusion	Adj Tax	Household Salary	Min EIT Increase	Max EIT Increase	Adj Tax	Savings/ Cost
30,000	0.02331	699.30	(512.24)		187.06	42,333	0.0121		512.23	0.01
			(512.24)			42,334	0.0121	512.24		(0.00)
			(512.24)			50,000	0.0121	605.00		(92.76)
			(512.24)			60,000	0.0121	726.00		(213.76)
			(512.24)			80,000	0.0121	968.00		(455.76)
			(512.24)			100,000	0.0121	1,210.00		(697.76)
				(1,024.47)	0.00	42,159		0.0243	1,024.46	0.01
				(1,024.47)		42,160	0.0243	1,024.49		(0.02)
				(1,024.47)		50,000	0.0243	1,215.00		(190.53)
				(1,024.47)		60,000	0.0243	1,458.00		(433.53)
				(1,024.47)		80,000	0.0243	1,944.00		(919.53)
				(1,024.47)		100,000	0.0243	2,430.00		(1,405.53)
87,900	0.02331	2,048.95	(512.24)		1,536.71	42,333	0.0121		512.23	0.01
			(512.24)			42,334	0.0121	512.24		(0.00)
			(512.24)			50,000	0.0121	605.00		(92.76)
			(512.24)			60,000	0.0121	726.00		(213.76)
			(512.24)			80,000	0.0121	968.00		(455.76)
			(512.24)			100,000	0.0121	1,210.00		(697.76)
				(1,024.47)	1,024.48	42,159		0.0243	1,024.46	0.01
				(1,024.47)		42,160	0.0243	1,024.49		(0.02)
				(1,024.47)		50,000	0.0243	1,215.00		(190.53)
				(1,024.47)		60,000	0.0243	1,458.00		(433.53)
				(1,024.47)		80,000	0.0243	1,944.00		(919.53)
				(1,024.47)		100,000	0.0243	2,430.00		(1,405.53)
125,000	0.02331	2,913.75	(512.24)		2,401.51	42,333	0.0121		512.23	0.01
			(512.24)			42,334	0.0121	512.24		(0.00)
			(512.24)			50,000	0.0121	605.00		(92.76)
			(512.24)			60,000	0.0121	726.00		(213.76)
			(512.24)			80,000	0.0121	968.00		(455.76)
			(512.24)			100,000	0.0121	1,210.00		(697.76)
				(1,024.47)	1,889.28	42,159		0.0243	1,024.46	0.01
				(1,024.47)		42,160	0.0243	1,024.49		(0.02)
				(1,024.47)		50,000	0.0243	1,215.00		(190.53)
				(1,024.47)		60,000	0.0243	1,458.00		(433.53)
				(1,024.47)		80,000	0.0243	1,944.00		(919.53)
				(1,024.47)		100,000	0.0243	2,430.00		(1,405.53)

How would this effect you (2)?

Earned Income Tax Minimum/Maximum Compared to Exclusion

(based on 70% worksheet; 8,076 Eligible Properties; 1.76% and 3.53% EIT)

Assessed Value	Milage Rate	Tax	Min Exclusion	Max Exclusion	Adj Tax	Household Salary	Min EIT Increase	Max EIT Increase	Adj Tax	Savings/ Cost
30,000	0.02331	699.30	(512.24)		187.06	29,104	0.0176		512.23	0.01
			(512.24)			29,105	0.0176		512.25	(0.01)
			(512.24)			50,000	0.0176		880.00	(367.76)
			(512.24)			60,000	0.0176		1,056.00	(543.76)
			(512.24)			80,000	0.0176		1,408.00	(895.76)
			(512.24)			100,000	0.0176		1,760.00	(1,247.76)
				(1,024.47)	0.00	29,021		0.0353	1,024.44	0.03
				(1,024.47)		29,022		0.0353	1,024.48	(0.01)
				(1,024.47)		50,000		0.0353	1,765.00	(740.53)
				(1,024.47)		60,000		0.0353	2,118.00	(1,093.53)
				(1,024.47)		80,000		0.0353	2,824.00	(1,799.53)
				(1,024.47)		100,000		0.0353	3,530.00	(2,505.53)
87,900	0.02331	2,048.95	(512.24)		1,536.71	29,104	0.0176		512.23	0.01
			(512.24)			29,105	0.0176		512.25	(0.01)
			(512.24)			50,000	0.0176		880.00	(367.76)
			(512.24)			60,000	0.0176		1,056.00	(543.76)
			(512.24)			80,000	0.0176		1,408.00	(895.76)
			(512.24)			100,000	0.0176		1,760.00	(1,247.76)
				(1,024.47)	1,024.48	29,021		0.0353	1,024.44	0.03
				(1,024.47)		29,022		0.0353	1,024.48	(0.01)
				(1,024.47)		50,000		0.0353	1,765.00	(740.53)
				(1,024.47)		60,000		0.0353	2,118.00	(1,093.53)
				(1,024.47)		80,000		0.0353	2,824.00	(1,799.53)
				(1,024.47)		100,000		0.0353	3,530.00	(2,505.53)
125,000	0.02331	2,913.75	(512.24)		2,401.51	29,104	0.0176		512.23	0.01
			(512.24)			29,105	0.0176		512.25	(0.01)
			(512.24)			50,000	0.0176		880.00	(367.76)
			(512.24)			60,000	0.0176		1,056.00	(543.76)
			(512.24)			80,000	0.0176		1,408.00	(895.76)
			(512.24)			100,000	0.0176		1,760.00	(1,247.76)
				(1,024.47)	1,889.28	29,021		0.0353	1,024.44	0.03
				(1,024.47)		29,022		0.0353	1,024.48	(0.01)
				(1,024.47)		50,000		0.0353	1,765.00	(740.53)
				(1,024.47)		60,000		0.0353	2,118.00	(1,093.53)
				(1,024.47)		80,000		0.0353	2,824.00	(1,799.53)
				(1,024.47)		100,000		0.0353	3,530.00	(2,505.53)

What does this mean?

- The EIT must be raised to 1.21% to fund the minimum property tax reduction of \$512.44 per eligible households (currently 5,566 households).
- The EIT must be raised to 2.43% to fund the maximum allowable property tax reduction of \$1,024.47 per eligible household (currently 5,566 households).
- HOWEVER: As more properties become eligible for the homestead/farmstead reduction, the less money will be available per household for property tax reduction and an increased EIT would be necessary. You can see this when you compare the chart on page 16 to the chart on page 15.

Alternative to recommending Min / Max Exclusion: How about a 1% EIT Increase?

- The Pennsylvania Department of Education informed the LTSC that we do not have to exceed an increase of 1% EIT.
- The LTSC examined the impact of a 1% EIT to see if it would have more equitable impact on all MSD residents. Here is what a 1% EIT increase would look like:

Assuming 5,667 Eligible Properties

Desired EIT Rate Increase	1.00%	
Eligible Properties for Exemption	5,567	
Dollar Tax Bill Reduction Per Eligible Property		\$422
Homestead/Farmstead Exclusion (Assessment Deduction)	\$18,107	

Assuming 8,077 Eligible Properties

Desired EIT Rate Increase	1.00%	
Eligible Properties for Exemption	8,077	
Dollar Tax Bill Reduction Per Eligible Property		\$291
Homestead/Farmstead Exclusion (Assessment Deduction)	\$12,480	

How would a 1% EIT increase effect you

(1)

Earned Income Tax Minimum/Maximum Compared to Exclusion (based on 70% worksheet; 5,566 Eligible Properties; 1% ET Increase)										
Assessed Value	Milage Rate	Dollar Tax	Exclusion	Adj Tax	Household Salary	1% EIT Increase	Adj Tax			Savings/Cost
30,000	0.02331	699.30	(422.00)	277.30	42,200	0.01	422.00			0.00
			(422.00)		42,201	0.01	422.01			(0.01)
			(422.00)		50,000	0.01	500.00			(78.00)
			(422.00)		60,000	0.01	600.00			(178.00)
			(422.00)		70,000	0.01	700.00			(278.00)
			(422.00)		80,000	0.01	800.00			(378.00)
			(422.00)		90,000	0.01	900.00			(478.00)
			(422.00)		100,000	0.01	1,000.00			(578.00)
			(422.00)		110,000	0.01	1,100.00			(678.00)
			(422.00)		120,000	0.01	1,200.00			(778.00)
87,900	0.02331	2,048.95	(422.00)	1,626.95	42,200	0.01	422.00			0.00
			(422.00)		42,201	0.01	422.01			(0.01)
			(422.00)		50,000	0.01	500.00			(78.00)
			(422.00)		60,000	0.01	600.00			(178.00)
			(422.00)		70,000	0.01	700.00			(278.00)
			(422.00)		80,000	0.01	800.00			(378.00)
			(422.00)		90,000	0.01	900.00			(478.00)
			(422.00)		100,000	0.01	1,000.00			(578.00)
			(422.00)		110,000	0.01	1,100.00			(678.00)
			(422.00)		120,000	0.01	1,200.00			(778.00)
125,000	0.02331	2,913.75	(422.00)	2,491.75	42,200	0.01	422.00			0.00
			(422.00)		42,201	0.01	422.01			(0.01)
			(422.00)		50,000	0.01	500.00			(78.00)
			(422.00)		60,000	0.01	600.00			(178.00)
			(422.00)		70,000	0.01	700.00			(278.00)
			(422.00)		80,000	0.01	800.00			(378.00)
			(422.00)		90,000	0.01	900.00			(478.00)
			(422.00)		100,000	0.01	1,000.00			(578.00)
			(422.00)		110,000	0.01	1,100.00			(678.00)
			(422.00)		120,000	0.01	1,200.00			(778.00)

How would a 1% EIT increase effect you

(2)

Earned Income Tax Minimum/Maximum Compared to Exclusion (based on 70% worksheet; 8,076 Eligible Properties; 1% EIT Increase)										
Assessed Value	Milage Rate	Dollar Tax	Exclusion	Adj Tax	Household Salary	1% EIT Increase	Adj Tax			Savings/ Cost
30,000	0.02331	699.30	(291.00)	408.30	29,100	0.01	291.00			0.00
			(291.00)		29,101	0.01	291.01			(0.01)
			(291.00)		30,000	0.01	300.00			(9.00)
			(291.00)		40,000	0.01	400.00			(109.00)
			(291.00)		50,000	0.01	500.00			(209.00)
			(291.00)		60,000	0.01	600.00			(309.00)
			(291.00)		70,000	0.01	700.00			(409.00)
			(291.00)		80,000	0.01	800.00			(509.00)
			(291.00)		90,000	0.01	900.00			(609.00)
			(291.00)		100,000	0.01	1,000.00			(709.00)
			(291.00)		110,000	0.01	1,100.00			(809.00)
			(291.00)		120,000	0.01	1,200.00			(909.00)
87,900	0.02331	2,048.95	(291.00)	1,757.95	29,100	0.01	291.00			0.00
			(291.00)		29,101	0.01	291.01			(0.01)
			(291.00)		30,000	0.01	300.00			(9.00)
			(291.00)		40,000	0.01	400.00			(109.00)
			(291.00)		50,000	0.01	500.00			(209.00)
			(291.00)		60,000	0.01	600.00			(309.00)
			(291.00)		70,000	0.01	700.00			(409.00)
			(291.00)		80,000	0.01	800.00			(509.00)
			(291.00)		90,000	0.01	900.00			(609.00)
			(291.00)		100,000	0.01	1,000.00			(709.00)
			(291.00)		110,000	0.01	1,100.00			(809.00)
			(291.00)		120,000	0.01	1,200.00			(909.00)
125,000	0.02331	2,913.75	(291.00)	2,622.75	29,100	0.01	291.00			0.00
			(291.00)		29,101	0.01	291.01			(0.01)
			(291.00)		30,000	0.01	300.00			(9.00)
			(291.00)		40,000	0.01	400.00			(109.00)
			(291.00)		50,000	0.01	500.00			(209.00)
			(291.00)		60,000	0.01	600.00			(309.00)
			(291.00)		70,000	0.01	700.00			(409.00)
			(291.00)		80,000	0.01	800.00			(509.00)
			(291.00)		90,000	0.01	900.00			(609.00)
			(291.00)		100,000	0.01	1,000.00			(709.00)
			(291.00)		110,000	0.01	1,100.00			(809.00)
			(291.00)		120,000	0.01	1,200.00			(909.00)

Winners & Losers if the EIT is increased:

Winners:

- Senior citizen homeowners with no earned income
- Lower income households (under \$29,100 total household income). This represents only 30% of MSD households.

Losers:

- Moderate to Higher income households (over \$29,001 total household income). This represents 70% of MSD households.
- Renters (16% of MSD households)
- Homeowners who do not file an application

Recommendation of LTSC:

**Recommend to the School Board
that they do not increase the EIT or
PIT and maintain the current levels
of income tax.**

Why recommend no income tax increase?

- 70% of MSD households would end up with a higher overall tax burden.
- Only 30% would potentially see a decreased overall tax burden.
- It is neither fair nor equitable for 30% of the community to benefit at the expense of the other 70%.
- Under this scenario, we create a massive divide within the MSD community – something that the LTSC wanted to avoid.
- Renters would have a higher tax burden

Winners & Losers under our recommendation:

Losers:

- None

Winners:

- Seniors who qualify for the Property/Rent Rebate Program (65% of seniors in MSD will qualify)
- All eligible homestead/farmstead properties. They will see a reduction in school property taxes as gaming revenue starts to come in. Currently 5,556 properties qualify, with over 8,000 expected to qualify by next spring.
- Renters
- Muhlenberg School District. It may become more attractive to new residents/ homeowners compared other school districts that have a higher income tax.