Pennsylvania Taxpayers Cyber Coalition
http://www.ptcc.us

Act 1 Explained

Here's the true story about this fraudulent law

FIRST, SOME HISTORY

In July 2004, after championing their passage in the Pennsylvania Legislature, Governor Ed Rendell signed into law two interrelated bills: Act 71, The Pennsylvania Race Horse Development and Gaming Act, and Act 72, The Homeowner Tax Relief Act.

Act 71 authorizes, among other items, slot machine gaming in Pennsylvania – a Rendell goal since he was Mayor of Philadelphia and he lobbied for riverboat casinos on the Delaware River. Rendell's gaming ambitions have deep roots, dating to at least 1991 when his first riverboat proposal was rebuffed.

Act 72 was billed as a property tax relief plan that was designed to save homeowners a few hundred dollars each year through gambling-funded property tax rebates and by a partial shift from property taxes to a local Earned Income Tax or a Personal Income Tax. It also included an exemption-laden worthless backend referendum that would allow voters to reject school budget increases over an inflation-indexed maximum. Act 72 was the justification for the passage of the expanded gaming authorized by Act 71. How could anyone possibly oppose gambling when it helped to fund the schools and reduced taxes for homeowners?

Act 72 was an abject failure. Since school boards were given the ability to opt out of the program, fully 80% of Pennsylvania school districts chose to not participate in the Act 72 scheme.

Governor Rendell reportedly was infuriated by this rejection. Not only did his worthless plan for property tax "relief" overwhelmingly receive the cold shoulder, but, more importantly, this rejection also removed the financial justification for casino gaming in Pennsylvania.

But the Governor was not to be denied. After much arm-twisting and the application of heavy-handed politics, a new bill now known as Act 1 was introduced in the Legislature. The Act 1 provisions are, for all intents and purposes, identical to Act 72, except this time the school boards have no option – they must accept the Act's requirements. Act 1 was passed by the House and signed by the Governor in June 2006. Casino gaming was safe again.

Like Act 72, Act 1 is also doomed to failure but this time for a different reason and most likely by design. Reasonable projections indicate that the 61,000 authorized slot machines in Pennsylvania will have to generate at least three billion dollars a year in revenue in order to provide the one billion dollars of tax relief that Governor Rendell and Act 1 promise. The likelihood of this happening is very small. In a very short time this will give the Governor and the Legislature the opportunity to expand the slots parlors into full-blown casino gaming, with the excuse that the slots alone are not generating enough money for the promised tax relief. This is the ultimate goal and the legacy of Act 1.

There is much gambling-related money in the campaign coffers of many Harrisburg politicians, as evidenced by the political chicanery surrounding the passage of Act 71, Act 72, and, in desperation, Act 1. Even though the legislators had other proposals available to them that would have given Pennsylvanians REAL property tax relief, they chose instead to pass Act 1 as payback to those interests that have been feeding their campaigns and to mollify the Governor's ire. The citizens of Pennsylvania once again were screwed by the politicians in favor of the special interests. Act 1 has NOTHING to do with true property tax relief and EVERYTHING to do with the money that is lining the politicians' pockets.

THE ACT 1 PROVISIONS

Act 1 is a very complex law which we'll try to break down in simple terms. This is a bit lengthy but explains all of the basic provisions of Act 1, the phony school property tax "relief" bill that was made law in June 2006.

There is a tax calculator at the end of this page to allow you to see how you will fare under the Act 1 provisions.

There are many components of Act 1, but the four main components are:

Tax Shift

Gaming Revenue

Expansion of the Property Tax/Rent Rebate Program (PTRR)

Backend Referendum

TAX SHIFT

This is the main contributor to property tax reduction under Act 1. You trade a local Earned Income Tax (EIT) or Personal Income Tax (PIT) for property tax – IT DOES NOT SOLVE FUNDING INEQUITIES. Part of the issue with funding PA schools is that rural or older districts do not have the assessed value to support education. If they do not have the assessed value, they will not have the aggregate income level either. The shift is almost meaningless in most districts. The shift is especially valueless in distressed districts and the overall tax increase in rich districts is smaller than in distressed ones.

A further problem is that the value of the pool of money that is established when a tax shift referendum is approved remains fixed in each district. As new homes are built that pool of money is divided further and diluted, resulting in less "relief" for each homeowner. Additionally, most taxpayers will see an increase in their income in future years and will thus be subject to more tax. Because the pool of money remains fixed, any extra tax money generated in future years because of increases in taxpayers' income and increases in population will go to the school districts. Hence, the school districts will have "found money" and taxpayers will pay higher overall taxes. The result is that this tax shift scheme is actually a tax increase for most homeowners.

The amount of EIT or PIT shift varies from school district to school district, as does the amount of "relief".

There was a question on the ballot in May 2007 asking voters if they want to increase their EIT or PIT in exchange for a few dollars of school property tax reduction. This referendum was soundly beaten down in 98% of Pennsylvania school districts; taxpayers saw through this deception and rejected the tax shift.

If they so choose, school districts can again place this referendum on the 2009 primary election ballot. But what's the point?

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Calculate your total tax liability inder the provisions of Act 1. Click here.

GAMING REVENUE

The Governor and many in the Legislature bandy about a number of $1 Billion for property tax relief. Most believe this will never happen. New Jersey takes in about $475 Million from full service casinos. Pennsylvania is expecting $1 Billion? PA's gambling tax rate is higher than NJ's but the higher you push the tax rate, the lower the payout rate on slots.

No money can be distributed for property tax relief until at least $400 Million is BANKED for property tax relief. But even before accumulating the first $400 Million, the following items need to be funded:

- $200 Million is being borrowed from the lottery fund and must be repaid when gaming revenue begins to flow
- After paying back the Lottery, the next $100 Million goes to further payments to residents of Philadelphia, Scranton, and Pittsburgh. SO NOW WE ARE $300 Million in the hole – but it's not over. After the $300 Million, the following must be funded FIRST:
    - The horse racing industry gets a cut for jockey pensions, increased purses and more;
    - Host communities will receive funds to help pay for increased cost associated with having slots parlors in the community;
    - Volunteer fire companies will receive increased funding due to slots parlors in the community;
    - Funding will be set aside for a compulsive gambling treatment fund;
    - The departments of Revenue, Community and Economic Development, the new Gaming Board, and other administrative bodies will be provided additional funding for increased administration costs;
    - Property tax per acre on state game land and parks was tripled – Recent legislation agreed to use gaming funds to pay for the increase to avoid increasing hunting and fishing fees;
    - $15 Million each year for 30 years to finance a new arena for the Pittsburgh Penguins hockey team;
    - AFTER all of this, the Property Tax Rent Rebate program for seniors needs to be funded (between $150 Million and $200 Million);
    - AND THEN, if anything is left, it accumulates for property tax relief for the rest of Pennsylvania's taxpayers.

EXPANSION OF PROPERTY TAX/RENT REBATE PROGRAM

This is for seniors, widows and widowers 50 and over, or people on disability. The initial Property Tax Rent Rebate cost, about $150M to $200M, will be funded through a loan from the Lottery. Future years will have to be funded from gaming revenue along with the items mentioned above EVERY YEAR before anything is left for property tax relief for the rest of the taxpayers. The

Property Tax Rent Rebate program changes the rebate from a graduated amount to a flat amount as follows:

$0 - $8,000: $650
$8,001 - $15,000: $500
$15,001 - $18,000: $350
$18,001 - $35,000: $250

It is important to note that the income level includes earned income, 50% of social security benefits, retirement benefits, interest and dividend income, and some other income. It is equally important to note that this represents no change for some. A person with $10,000 income probably received $500 under the prior law and will receive $500 under the new law. Most of the additional amounts are for income levels between 15,001 and 35,000 – between $250 and $350.

The amounts bandied around on government websites ARE NOT in addition to what is already being received.

BACKEND REFERENDUM

The backend referendum is supposed to give taxpayers some control over escalating school property tax by allowing taxpayers to vote on increases above a cost of living increase (which is different for each district). The allowable increase varies from 3.9% to 6.5% by school district.

In fact, the backend referendum does very little and is essentially valueless. The exceptions to the referendum are more generous than those under Act 72; only 1 of the 110 Act 72 school districts needed a voter referendum even though many exceeded the so-called "index."

This is not an attack on the Governor because Republicans and Democrats both contributed to passing this disaster, but, by the Governor's own admission on his website, he says:

[Act 1 has] "More flexible referendum exceptions. The new law wisely expands the exceptions for special education, health care costs and pension obligations. The 10 exceptions that school boards could seek in order to raise taxes faster than inflation because of emergencies or educational necessities are maintained – and they add greater flexibility where school districts need it the most. "

NOTE: On June 30, 2011, Governor Tom Corbett signed into law SB 330, legislation that reduces the number of exceptions from referendum to three from the original ten. The seven exceptions that were eliminated are highlighted in red below; the remaining allowable exceptions are in blue.

During the bill signing, Governor Corbett hailed the legislation as "meaningful property tax reform." The three exceptions that remain have accounted for almost 60% of all exceptions granted since 2006, essentially making this purported "reform" measure meaningless.

Further, it does nothing to stabilize the index. The largest allowable increase before referendum and without exceptions was 6.9% in the 2008-2009 school year. What's going to happen when inflation starts climbing and the index climbs with it? Will wages go up as much as the index? Not likely, and we'll again be nailed with huge property tax increases that we can't afford.

This is yet another example of the lawmakers doing as little as possible in an attempt to make the taxpayers believe that they've done something substantial about property taxes even when the "solution" is valueless.

The 10 referendum exceptions are:

- Special education costs that increase by more than the index – in Act 72, special education costs had to increase by more than 10% to be eligible;
- Health care benefits in contracts in effect on January 1, 2006, that rise faster than the inflation index;
- Increases in retirement payments that rise faster than the index – in Act 72, retirement payments had to increase by more than 7.5% to be eligible;
- Emergencies and disasters;
- Court orders;
- Conditions that pose an immediate threat of serious harm or injury;
- Ensuring that district revenue keeps pace with inflation;
- Ensuring that spending per student keeps pace with inflation;
- No Child Left Behind school improvement plans; and,
- School construction: Debt on an existing school construction project; on construction for academic purposes that costs less than a cost-per-square-foot threshold; or on up to $250,000 of construction costs for non-academic construction.

Note - April 6, 2007: 210 Pennsylvania school districts have applied for, and have been granted by the Department of Education, exceptions to raise property taxes above their state mandated index. That is 42% of the 501 Pennsylvania school districts that are raising taxes substantially without the need for taxpayer approval! As of this date there are NO tax increase referendums on the May ballot for any school district in Pennsylvania.

The exceptions available that allow school boards the ability to easily avoid voter referendum render the concept of taxpayers controlling property taxes meaningless, and the Legislature expects everyone to pay an increased local EIT or PIT for that meaningless right.

The PTCC and PCTA maintain that the most offensive statements about Act 1 are the false and misleading statements by the Governor's office that, "(Act 1) protects homeowners by limiting the property tax increases that school boards can approve without voter approval," as well as the assertion that the tax shift aspect under Act 1 represents "historic property tax relief." Neither could be further from the truth. Taxpayers in 210 school districts have already lost their right to control property taxes thanks to the loopholes deliberately placed in the Act, and in districts where taxpayers have heard little about Act 1, some voters may unknowingly approve the tax shift resulting in most taxpayers being subjected to even higher taxes, with no relief or control in sight.

The PTCC and PCTA predicted in July, 2006 that this is exactly what would happen. Not one piece of this egregious legislation represents property tax reform, and our predictions are being validated before your very eyes.

SUMMARY

Act 1 is a joke and a fraud, pure and simple. It was passed to say the Legislature and the Governor did SOMETHING about tax relief and, more importantly, to legitimize casino gaming. But what they did is almost worse than what we have now. Act 1 does nothing to solve funding inequities across school districts. It does NOT constitute tax reform or tax relief. It does NOTHING to address the spiraling costs and spiraling property taxes. There are literally NO cost controls other than a very weak backend referendum. Property taxes in many cases can still rise by 10% without voter approval.

Further, in a few years when the slots parlors do not generate enough revenue to fund the promised "relief", the door will be wide open to expand into full-blown casino gaming in Pennsylvania to fund the program. THIS is the true goal of Act 1.

The only TRUE property tax reform bill that contained cost controls – READ PROPERTY TAX RELIEF – was the Commonwealth Caucus Plan, now known as the *Plan for Pennsylvania's*

Future. Cost controls are inherent in the *Plan for Pennsylvania's Future* while almost no cost control is contained in Act 1. When voted on in June 2006, the then-known Commonwealth Caucus Plan received 74 votes out of 102 necessary and is still alive today as the *Plan for Pennsylvania's Future*. Polls in the southeastern part of Pennsylvania (close to Delaware) indicated a majority of those polled favored the provisions of this plan. Polls across the entire state of Pennsylvania are similar.

A Quinnipiac University Poll in June 2006 found that only 35% of respondents disagreed with expanding sales tax to reduce or eliminate school property tax.