

AARP MEETING

JULY 9, 2003

I. BUDGET PROCESS

- A. GOV'S PROPOSAL
- B. HEARINGS-APPROPRIATIONS HEARINGS
- C. NEGOTIATION/COMPROMISE
- D. DIFFERENT THIS YEAR
- E. R'S PASSAGE/GOV SAID DIDN'T WANT
- F. VETOED THE ED SIDE/SIGNED THE REST
- G. NO LEVERAGE/PRESSURE

*Classis Delaware  
 10/1/03 Comp.  
 Long term -*

II. WHAT THE GOVERNOR WANTED

A. PROPERTY TAX REFORM-REGRESSIVE/ESPECIALLY ON FIXED

- 1. REDUCE PROPERTY TAX BY AVERAGE OF 30%
- 2. REPLACE WITH PIT INCREASE FROM 2.8% TO 3.75%

3. SLOTS AT RACE TRACKS-MINIMUM OF \$300/ANNUALLY

*next year - to \$80M  
 300k yr.*

a. LICENCING FEE

*34% tax -  
 1% to host municipality*

b. EXPANSION

*8 tracks  
 4 new ones  
 article today  
 →*

B. EDUCATION REFORM-PA RANKS VERY LOW FOR DOLLARS

SPENT

1. PREKINDERGARTEN FOR FOUR YEAR OLDS
2. FULL DAY KINDERGARTEN
3. REDUCE CLASS SIZE FIRST TO FOURTH MAX OF 17

### III. ECONOMIC STIMULUS PACKAGE

- A. PA RANKS 47<sup>TH</sup> IN NEW JOB CREATION
- B. LOWERED CNI AND OTHER BUSINESS TAXES OVER \$5B
- C. LEAD NATION IN LOSING YOUNG PEOPLE
- D. CREATE \$3 BILLION PROGRAM
- E. USING BOND FINANCING
- F. CREATE BUSINESS READY SITES
- G. HELP TOURISM AND FARMING
- H. VENTURE CAPITAL/GROWTH COS AND REAL ESTATE

*Delaware  
Hotel min Co.  
Lump sum*

*R's personal  
1/2 of what  
you wanted -  
\$4 venture  
capital  
\$30 m vs. \$250*

### IV. WHERE ARE WE NOW?

- A. NEGOTIATIONS
- B. SLOTS/ SCOPE
  - a. PROBLEM IN 93
  - b. ALL GAMBLING INTERESTS WANT A PIECE OF ACTION
- C. TAX REFORM

- a. REFERNDUM/FRONT AND BACK
- b. SENATE BILL—TINKERED WITH ACT 50
- c. EARNED INCOME TAX
  - (1) POORER SCHOOL DISTRICTS
  - (2) NO INTEREST OF DIVIDEND INCOME COUNTED
  - (3) WHAT WAS WRONG WITH ACT 50?
- d. FRONT END REFERNDUM
- e. DOESN'T DEAL WITH EQUITY QUESTION
- f. DOESN'T HAVE ANY OF THE ED REFORMS THAT GOV  
PROPOSED

#### V. PACE AND PACE NET PROPOSED CHANGES

- A. PACE INCOME LIMITS INCREASED BY \$500
- B. SINGLE TO \$14,500 AND MARRIED TO \$17,700
- C. PACENET INCOME LIMITS INCREASED TO \$22,500 TO  
INDIVIDUALS AND \$30,500 FOR MARRIED
- D. FIRST \$10,000 OF ANY DEATH BENEFIT FOR WIDOW OR  
WIDOWER WOULD BE EXEMPT
- E. PACENET DEDUCTABLE WILL BE CALCULATED AT  
\$40/MONTH INSTEAD OF \$500 ANNUALLY.

F. ADD AN ADDITIONAL 100,000 SENIORS TO PROGRAM

G. EXAMPLE OF WORKING OUT COMPROMISE



Budget fix

## Questions & Answers

***Isn't the governor's \$3 billion proposal just too much money, especially when the economy is so bad?***

- This is not a \$3 billion dollar tax package. First, more than \$300 million comes from slot machines. That money is not taxes. If you factor in slots, the total amount of taxes proposed is \$2.7 billion. But \$1.5 billion of that money is for tax reduction. So Pennsylvanians are paying \$1.2 billion in new taxes. **A \$1.2 billion tax increase is one-third the size of the tax increase passed in 1991 when that tax increase is adjusted for inflation.** In today's dollars, the 1991 tax increase would be \$3.7 billion.
- **Pennsylvania ranks 31<sup>st</sup> nationally in terms of state revenue per individual.** What this means is that by person we are taxing ourselves lower than most of the nation. In fact, six of seven neighbor states have higher per capita revenue than does Pennsylvania.
- In February, the state's unemployment rate rose to 6.2% – the highest it has been since 1994 and well above the national average. If we choose to let history repeat itself, Pennsylvanians will keep losing out. During the last national recovery, we ranked 47<sup>th</sup> in long-term employment growth.

***How can Pennsylvania afford this plan? Won't the income tax increase hurt our competitiveness?***

- The real question is whether Pennsylvania can afford *not* to adopt the governor's plan.
- Pennsylvania's PIT rate will still be among the lowest. At 3.75%, Pennsylvania will have the third-lowest tax rate of the 40 states that have an income tax.
- A family of four that earns \$32,000 will pay no income taxes in Pennsylvania by 2005. That compares to \$842 in West Virginia, \$746 in Ohio, and \$394 in New Jersey. A family of four that earns \$75,000 will pay hundreds of dollars a year less than if they lived in New York or West Virginia, and more than \$50 less than if they lived in Maryland.
- Numerous Republican legislators advocate replacing the property tax with the income tax.
- A plan introduced in early April by Republican leaders seeks to make a similar shift within districts in a \$2.3 billion tax-shifting proposal from property taxes to earned income taxes.
- The governor's plan will make Pennsylvania *more* competitive. The economic stimulus program will help businesses grow and create jobs. This proposal gives companies greater access to capital so they can expand. And cutting the Philadel-

phia wage tax will make the southeastern region more attractive to companies and employees that are right now choosing to move to other states.

***What's wrong with the Republican plan to lower local property taxes in exchange for increasing other local taxes?***

- Their plan requires communities to increase their own taxes by \$2.3 billion. All of the cost of property tax reduction is borne by the wage earners of a community.
- The reason the voters rejected this plan when Mike Fisher proposed it is because the state can generate revenue from a broader pool of payers than localities are permitted to tax. This plan attempts to address the need for property tax relief at the local level, where the taxation options are the narrowest. As a result, this plan foolishly lays the burden of tax relief all on working families.
- The bill is cited as the Taxpayer Choice Plan – it simply provides for a tax shift and nothing else. But the choice given to the taxpayers is the narrowest possible choice – tax seniors or tax wagger earners. That's not much of choice.
- At a minimum, this plan requires a 100% increase in the local earned income tax in all but two school districts.
- This plan does not provide any new funds to school districts. This plan does nothing to address the disparity among school districts.
- And it pits working families against seniors in their own communities.

***Since renters do not get property tax relief, how do they fare under this plan?***

- A family of four that makes less than \$32,000 won't pay any state income tax.
- High property taxes make it hard for people to buy homes. The governor's plan brings property taxes down, making home ownership easier and more attractive.
- The proposal gives families that do pay income taxes an incentive to buy rather than rent. That's good for families and good for Pennsylvania.
- All Pennsylvanians will share in the economic growth, better schools and more jobs that come from the governor's plan.

***What happens to businesses that pay the PIT?***

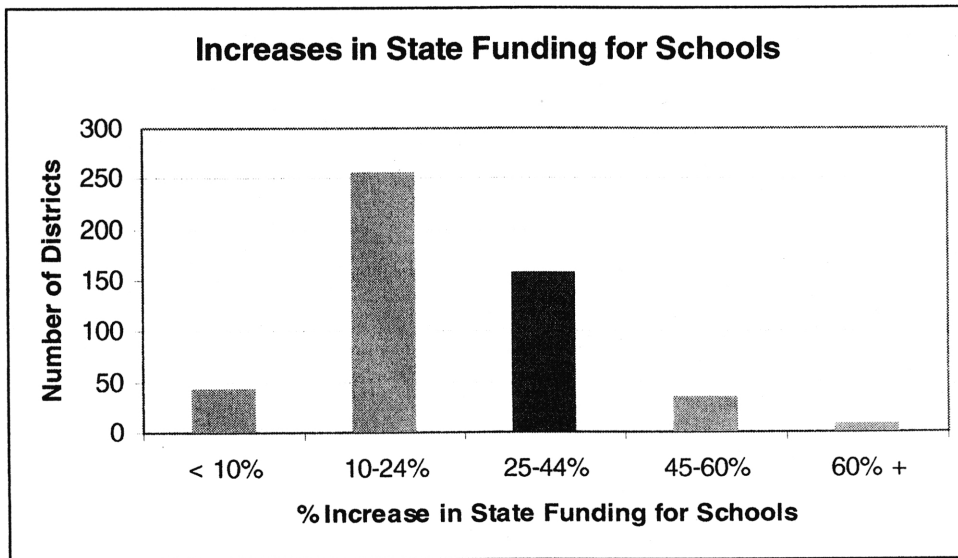
- Business owners also own homes. Their property tax reductions will offset the PIT increase.
- Businesses benefit from a stronger economy and better-educated labor force.
- Property taxes on businesses will not change.

***Will the plan help rural Pennsylvania?***

- Rural households – including farmsteads – make up 17% of the population and get 17% of the state’s property tax reductions.
- The governor’s proposal will send more than \$450 million to rural communities:
- Rural communities will receive \$232 million in local property tax relief.
- The governor’s economic stimulus plan invests tens of millions of dollars in rural areas to attract new companies, reinvigorate small towns, modernize agricultural technology and expand tourism.
- Rural school districts will see almost \$200 million in additional state funding – an average increase of 23%. Many of these schools are eligible for special teacher recruitment incentives so they can attract the best math and science teachers, in addition to the governor’s other investments in proven educational practices.

***What about Philadelphia?***

- Philadelphia’s share of state funds stays the same: Philadelphia received 18% of the state subsidy this year. Under the governor’s plan, Philadelphia will get 19% of the state’s money for schools.
- 12% of school districts get a larger percent increase in state school funding than Philadelphia does. As shown below, Philadelphia is one of 157 districts that receive increases between 25% and 44%.



- The Governor’s plan reduces the wage tax because it hurts Philadelphia’s economy far more than the property tax does.
- The county with the most tax relief is Allegheny County, at \$152 million. Philadelphia County receives \$129 million. Montgomery County will get \$114 million in tax reductions.

***Will the governor's plan gut teachers' union contracts?***

- Absolutely not. Pennsylvania teachers will always be able to bargain over salaries, benefits and working conditions. – No one is going to change that.
- The governor's plan only deals with management issues that aren't even in all union contracts.
- To hold principals accountable you also have to give them the authority to manage their schools. They should be able to make decisions about things like class size, student schedules and staffing. That shouldn't be dictated to them by the teachers' contract.

***Some people feel really strongly that Pennsylvania shouldn't have gambling. Are slots an important part of the governor's plan?***

- Banning slots won't decrease the number of Pennsylvanians who gamble. It just means that other states will get more revenue and Pennsylvania won't.
- Right now Pennsylvanians go to West Virginia, Atlantic City and Delaware to gamble. They'll soon have even more options. Other states are making about a billion dollars a year from our residents.
- The governor's plan relies on slot machines for \$300 million that goes straight to the Property Tax Relief Trust Fund next year alone.
- If the legislature refuses to allow Pennsylvanians to use slot machines in Pennsylvania, they'll have to find an alternative source for that \$300 million. All of the pieces of the governor's plan fit together. You can't just take part of it out and make the rest of it work.

***How will the governor's proposal change how much Pennsylvania spends per student on schools?***

- Pennsylvania ranks 36<sup>th</sup> in the nation on state spending per student. The governor's proposal will make Pennsylvania 12<sup>th</sup>.
- Property tax relief and funding for educational programs will increase average state spending by more than \$1,550 per student.
- That doesn't mean schools will be spending an additional \$1,550 per student – districts have to reduce their local school taxes by a big portion of that because of the dollar-for-dollar property reduction.

***Does the governor's proposal help close the school funding gap?***

- Yes. The plan will start closing the gap between what the wealthiest and poorest districts spend.

- All districts get more money for schools under the governor’s proposal. And the districts with the most poor kids get on average about \$1,000 more per student than the wealthier districts.
- Some districts choose to have low school spending and low taxes. That’s their choice and they’ll get some more state money, but not as much as low-income districts that are already working hard to raise money for their schools.
- **Just as important**, the governor’s proposal will help close the *achievement gap*. The plan provides categorical funding for proven educational programs. This will help all of Pennsylvania’s kids reach proficiency in math and reading.

***Talking Points on the Property Tax Reduction***

- \$1.5 billion will be available for property tax reduction.
- This infusion of state funds brings the state share of total school spending for instruction to 50%
- The property tax reduction will be a dollar for dollar swap – local property taxes will be reduced in exchange for additional state funds
- Districts have a choice about whether to participate in the state tax reduction program. Those that do not lower property taxes will not be able to draw down these new state funds for property tax relief.
- The county with the most tax relief is Allegheny County, at \$152 million. Philadelphia County receives \$129 million. Montgomery County will get \$114 million in tax reductions.
- The distribution of the funds ensures the following for each school district:
  - Minimum property tax reduction of 15% on average in districts
  - Districts that are poor – as measured by their “aid ratio” -- will receive a minimum of 30% property tax reduction on average in a district

**Q and A**

**Who are the biggest beneficiaries of this plan?**

Individuals who live in and own their home or farmstead are the direct beneficiaries of this planned property tax reduction. Even with the modest income tax increases proposed to fund this shift from property taxes to a statewide revenue source for schools, the majority of Pennsylvanians will end up coming out ahead.

The largest beneficiaries are senior citizens and others on limited incomes because they receive a tax reduction without any sort of comparable tax increase. In fact, as part of this overall tax reduction package is an expansion of the poverty exemption on the state income tax ensuring that a family of four earning less than \$32,000 does not pay any income tax.

It is important to also keep in mind that these local property tax reductions will increase the economic competitiveness of some of our most hard hit communities. These are the very communities that, due to declining wealth, have had to increase millage rates. Now they will have some relief and therefore become more attractive to new families. This plan also decreases school district reliance on property taxes so that over time the gap between wealthy and poor districts can begin to shrink.

**How did you determine how much each district should receive for local tax reduction?**

Currently all districts receive an annual education subsidy from the state. Over the last 25 years the state share of the total education costs has declined to an average of 35% of a district's actual instructional costs. To return the state share to 50%, the state is providing property tax relief in every district.

To ensure that districts receive the appropriate amount of property tax relief, the state had to update the school subsidy formula. These updates included bringing the student count from its former 1991 count to a 2001 count of all students in each district. In addition, the formula now standardizes the regular practice of adding a supplement for rural and poor school districts.

**Do all districts get the same amount of tax reduction?**

The formula distributes funds for property taxes just as it does to schools. The school funding formula starts from a base and then makes adjustments based on the wealth of the school district. Therefore, some districts get more property tax relief than other districts in direct relationship to the wealth of the community and the education challenges facing their students.

**Will each person in a district receive the same level of property tax relief?**

The way this works is that an average property tax reduction amount is identified for each school district. In the first year of the program, due to the timing of school district tax bills and county assessment processes, the property tax relief will be sent in the form of a rebate check from the state equal to at least 15% of the average taxpayers bill. The rebate will represent a smaller percentage of relief for wealth homeowners and a larger percentage for poor homeowners. As a result, within a school district the proportion of tax relief will vary by taxpayer.

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**What about businesses, do you lower their taxes?**

The local tax reduction is offset by an increase in the personal income tax. Because businesses do not pay this tax, they are not included in the pool of eligible entities for property tax reduction. Homesteads and farmsteads comprise the pool of the taxpayers eligible for the reduction.

**When will I receive my tax reduction?**

In the first year of the tax reduction program, the state will send a check to the eligible recipient directly. If the structure of the homestead provision permits, the reduction will be handled locally by the school districts. If not, other options including recurring state rebates can be implemented.

**How will you make sure my property taxes don't go back up?**

The legislature and the governor anticipate that when the final bills are passed language will be added to ensure that districts cannot make substantial tax increases. In addition, districts may face limitations on the size of local tax increases permitted for the 2003-04 school year in order to determine eligibility or level of participation in the tax reduction program.

**What about Philadelphia, why is their local wage tax reduced, are they getting more than they should?**

Philadelphia County's total tax reduction comes to \$129 million – compared to \$152 million Allegheny County. The total amount of tax relief going to Philadelphia was determined by the same formula used to calculate the amount of relief for all 501 districts. However, in the case of Philadelphia, the amount that would have gone to property tax relief will be sent back to its taxpayers in the form of wage tax reduction. More than \$40 million of the funds available for tax relief in Philadelphia are distributed to suburban residents who work in Philadelphia and also pay the wage tax.

**Why do individuals living in the Philadelphia suburbs get tax relief twice – property and wage?**

Suburban Philadelphia residents have been double taxed at higher rates than anywhere else in the state for decades. This formula ensures a fairer tax system for all Pennsylvanians.

**Can you tell me how you factored poverty into the formula?**

Pennsylvania has always had one of the most progressive school funding formula programs. The problem is that as the state's share of total school funding decreased – only three states now pay a smaller proportion of school costs – the state formula mattered less and less because even the poorest districts had to raise so much money locally. Still, the small amount the state does distribute is tilted in favor of poor districts. The formula in the governor's proposal maintains that system, which in legal parlance is called the "aid ratio." The updated formula takes into consideration the regular legislative process that adds even additional funds to poor districts by annualizing that amount in accordance with a simple calculation. The state annually calculates a figure called personal income by average daily membership – essentially the average income level in the district by student. If the income level is very low, the formula adds a supplement for each student and in comparing districts, if the income level is higher, the level of the supplement is smaller. In essence, the level of the supplement is on a sliding scale that increases as the income of the community decreases.

**How do you address the special needs of smaller districts?**

Costs are sometimes higher in small districts simply because of their scale. To ensure that small districts are able to meet their costs, the formula weighs students in these districts more heavily. The formula counts each student in these districts as 1.2 persons so that they receive a small additional supplement to help meet their needs. This special support is provided for all districts with fewer than 1,000 students.

**This isn't tax reduction at all since you are raising taxes**

In fact, Pennsylvanians on limited incomes and senior citizens will have real tax reduction. In addition tens of thousands of taxpayers will end up with greater property tax relief than they will pay in increased taxes.

This plan lowers taxes and it restructures them permanently to ensure a fairer tax system for Pennsylvania.