

**SPRING-FORD AREA SCHOOL DISTRICT
LOCAL TAX STUDY COMMISSION
RECOMMENDATION**

The Commission legally established by the Spring-Ford Area School District's Board of School Directors on August 28, 2006 through (Resolution 2006-15), has had four public meetings and held one formal public hearing. All four meetings and the public hearing were publicly advertised and had a legal quorum of members present. As required by the Act, we have presented you with all of our minutes, research information and other documents as well as our recommendation at a public meeting of the School Board.

Prior to deciding upon the tax rate, and pending input during the public hearing, we first tentatively agreed to propose an Earned Income Tax rather than a Personal Income Tax and agreed to defer a recommendation on the rate until after the public hearing.

We noted that despite the 100 pages of the Act and the references to other pre-existing statutes that further adds to the Act, Act 1 provides no guidance on whether gambling revenue may be included in the Earned Income Tax estimates or if less than a 25% reduction is allowed during the first or second years when gambling revenues are insufficient to fund either the Sterling reimbursement or general property tax reduction.

The District's attorneys, the Pennsylvania Department of Education's subsidy office, and others all disagree on these issues and it may take a court decision to obtain a definitive answer. Noting that an overestimate of collections would be disastrous for the District, the Commission opted to take a more conservative position and did not include gambling money in its calculation.

The other primary piece of the calculation to determine the per homestead exclusion was the number of homesteads. In this we were forced to use an estimate as the number of approved homesteads will not be determined until after the March 2007 deadline for applications. We relied upon our financial advisor and business manager for this estimate and chose to use 13,000 eligible homeowners. We also used a homeowner participation rate of 100% and a tax collection rate of 70% for year one and 100% thereafter.

In the end, we recommend to the Board a 0.9% increase to Spring-Ford Area School District's current Earned Income Tax for a total of 1.4% (1.9% including the municipality's portion). This increase will result in a estimated property tax reduction of \$860.25 or 25% of the median district property tax by the 2nd Year (see exhibit A). The first year property tax reduction is reduced by 70% for an estimated amount of \$602.17 due to Earned Income Tax collection delays. By recommending an Earned Income Tax, we reject the Personal Income Tax option given to us by the Act.

Using the numbers the Commission ultimately used, with a 0.9% Earned Income Tax, the breakeven point for taxpayers is a household earned income of \$90,000. Homeowners with less household earned income will pay less total school taxes (homeowners whose

assessed value is less than the exclusion will not breakeven at the same point). Homeowners who work in Philadelphia will see no increase in their Earned Income Tax. Every renter, about 24% of Spring-Ford's taxpayers, and homeowners who work outside Philadelphia whose earned income is greater than the breakeven point will see an increase in their total school taxes.

The Commission rejected a Personal Income Tax. The Commission members did not look favorably on the Personal Income Tax since there were no formal guidelines established by the Department of Revenue. Moreover, according to the Department of Revenue Income Range Distribution, the difference in income revenue was 4.6% more for the Personal Income Tax than the Earned Income Tax. The Tax Study Commission members expressed concern that this small variance of 4.6% could affect the senior population which is contrary to the purpose of this Act.

The Commission approved the following wording for the Referendum Question that is to appear on the May 2007 Primary Ballot:

“Do you favor *your school district* imposing an additional 0.9% Earned Income Tax? The revenue generated from the increased tax rate will be used to reduce taxes on qualified *owner occupied* residential properties by *approximately* \$860.25 which would be realized in the third year. Year 1 and year 2 are estimated to be approximately 50% and 70% of the 3rd year amount respectively. The current *school district* Earned Income Tax is 0.5% *and the current combined municipal/school district rate is* 1%. The *new combined tax* would be 1.9%”.