



# *The Communicator*

November 9, 2006

An official communication from the Superintendent's Office

## ACT 1 SPECIAL EDITION

The Act 1 Commission, appointed by the Allentown School District Board of Directors, will hold a public hearing Thursday, November 16, 2006 at 7:00 PM in the District Administration Center. At that time, the Commission will provide a preliminary recommendation to the public. Following the public hearing, the Commission will review the public comments and prepare a recommendation to present to the ASD Board of Directors at a Special Meeting December 7, 2006 at 7:00 PM. This *Special Edition of the Communicator* provides you additional notice and invitation to attend this hearing beyond the required advertising in the local newspapers. In addition a set of questions and answers have been provided to inform you more about Act 1 and the actions that must be taken between now and the May 2007 election.

### **ACT 1 HEARING**

**Thursday, November 16, 2006**

**7:00 PM**

**District Administration Center**

**ASD Board of Directors Conference Room**

**31 South Penn Street**

**Allentown, PA 18105**

### **AGENDA**

*Conducted by Dick Button, Chair*

*Consultant: Scott Shearer, Public Financial Management*

1. Introduction/Opening Remarks
2. Purpose of the Hearing
3. Act 1 Overview
  - a. General Overview
  - b. May 2007 Tax Shifting Referendum (Back-end Referendum)
  - c. Tax Study Commission Mandatory Non-Binding Recommendation Actions
4. Analysis of Options and Impacts
5. Tax Study Commission Preliminary Consensus

The Allentown School District Board of Directors was required to appoint a local tax study commission (Commission) in accordance with the Taxpayer Relief Act (Special Session Act 1 of 2006). The purpose of the Commission is to study the District’s tax structure and make a non-binding recommendation to the ASD Board of Directors regarding a front-end referendum question for the May 2007 primary election ballot. The referendum question will seek the voters input on tax shifting, from the homeowner real estate tax to a new or increased income tax. The recommendation will include the referendum question for a proposed increase in the Earned Income Tax or the imposition of a Personal Income Tax, and the related tax rate. The Commission had the responsibility to study the following:

- Historic and present rates of and revenue from taxes currently levied.
- The percentage of total revenues provided by taxes currently levied.
- The age, income, employment and property use characteristics of the existing tax base, and
- Projected revenues of currently levied taxes.

The public hearing will be the opportunity for the public to hear the findings of the Commission and to ask questions and provide further input.

## **Allentown School District Act 1 Commission**

Pam Bechtel	Executive Director of Meal on Wheels
Richard Button	Assistant Vice-President for Development – Kutztown University
Daniel Bosket	NAACP, Project Director
Agustin Cruz	Small Business Owner
Pat Hoffman	Retired Former Board Member, Retired
Danny Medina	Driver, (3 children)
Charles Versaggi	ASD Board Member

### **What is Act 1 and exactly how will it help the residents of the Allentown School District?**

Act 1, the Taxpayer Relief Act of 2006, is recent legislation that provides school district property tax reduction by shifting property taxes to either the Earned Income Tax (EIT) or Personal Income Tax (PIT). Future gaming revenue allocated by the state may possibly further reduce property taxes. It is important to note that Act 1 addresses a tax shift, and possibly a tax reduction, but it does not directly provide additional revenue to schools.

### **What exactly is the Act 1 Tax Study Commission?**

Required by Act 1, the District advertised and appointed a 7-member Tax Study Commission to study existing taxes and make a non-binding recommendation for the purpose of reducing property taxes through an increase in the existing EIT rate or the change to a PIT. The Commission’s goals were (1) to recommend either the use of an EIT or PIT as a basis for the tax shifting and (2) to recommend a percentage for the EIT/PIT.

## **If the District adopts the recommendation of the Act 1 Tax Study Commission, when and by how much will my property taxes be reduced?**

If the District accepts the recommendation of the Tax Study Commission, a front-end referendum for consideration by the voters will be placed on the ballot for the May 2007 Election. The amount of property tax reduction will be an amount between the minimum and maximum allowed by the Act and will be calculated by applying the District's millage rate to the median assessed value of all eligible homestead (primary residence) properties.

## **What is a homestead exclusion and its estimated value here in the Allentown School District?**

A homestead is most simply defined as one's primary residence. The estimated minimum homestead exclusion (25% of the median assessed value of all eligible homestead properties) is approximately \$400. The maximum homestead exclusion (50% of the median assessed value of all eligible homestead properties) is approximately \$800.

## **What happens if the taxpayers vote down the ballot question?**

The District's existing taxing structure--with primary reliance on property taxes--will remain unchanged. The District is limited to increasing property taxes up to a set cost-of-living index plus any exceptions authorized by the Pennsylvania Department of Education or the Court of Common Pleas in the County of Lehigh. Any new or altered tax sought in the referendum question cannot be levied.

## **What is the Earned Income Tax or EIT?**

This tax is technically known as an Earned Income and Net Profits Tax and is a tax on the salaries and wages of individuals and the net profits of certain corporations. The EIT does not tax pension or Social Security income.

## **What is the Personal Income Tax or PIT?**

This tax is on wages, salaries, interest, dividends, and other forms of income, except for pensions and Social Security income.

## **What are the differences or advantages/disadvantages of an EIT and PIT?**

The EIT focuses on salary and wage earners. A higher rate is needed because of a smaller base. It benefits residents who have no EIT (Seniors); it's unfavorable towards renters. There will be a cost to administer the new tax.

The PIT is more volatile, a lower rate is needed because of a larger base. The existing EIT must be converted if approved, and a tax collection system needs to be developed and implemented. There will be a cost to administer the new tax.

## **How do I ensure that I qualify for the homestead exclusion?**

The Lehigh County Assessment Office is responsible for certifying all homestead eligible properties. Homeowners in the Allentown School District should use the County of Lehigh Website ([www.lehighcounty.org](http://www.lehighcounty.org)) to gain information specific to the homestead application and its approval/disapproval. Homeowners who previously filed and have received a homestead approval under Act 72 will not be required to

file this application again. The Assessment Office will be conducting a mailing to only those homesteads that were previously disapproved or have recently been added to the property records in December 2006.

### **How is commercial property affected by Act 1?**

The homestead exclusion applications allowed by Act 1 only apply to a domicile; therefore, commercial property or industrial property would not qualify for the exclusion. An increased EIT or a new PIT are both income-based and would be paid by individuals. In essence, any increased or new taxes and tax relief are for individuals and homeowners only.

### **As a resident of the Allentown School District, will I pay more or less under Act 1?**

Well, it depends. If the District, through the approval of the front-end referendum by its voters, enacts and implements a partial shift in its tax structure away from property taxes to an increased EIT or new PIT, then some individuals will pay more, and others will pay less based on individual circumstances including income level and whether or not they have an approved homestead within the District boundaries. In general, with this particular tax shift, higher income individuals and individuals not eligible for homestead exclusion will pay more.

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## **What questions do you have?**

If you have any questions that have not been answered in this e-mail, please send them to the Board Secretary Debra Decaro at [decarod@allentownsd.org](mailto:decarod@allentownsd.org). The answers to the questions will then be placed on the ASD Web site.