

Appendix II

**A Review of Tax Income from the GBOD Ordinance
and Proposed Development of “The Market Place on Twenty-Two”**

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Introduction

On July 30, 2008 the Murrysville Municipal Council held a “Town Hall Meeting” to provide an educational opportunity for citizens and stakeholders related to Ordinance 771-08, the General Business Overlay District (GBOD). During that meeting a representative of Council made a Power Point presentation summarizing the Comprehensive Plan, the proposed GBOD ordinance and it’s potential impact on taxes and the budgets of the Municipality and the Franklin Regional School District (FRSD).

Slide 9 of that presentation indicates that 407 homes could be built within the area considered by the GBOD currently zoned R-R and R-2. Further, an estimated 407 homes would house 1,042 residents and it is estimated that 175 of those would be students of FRSD. The next bullet item on that slide suggests that \$1,302,000 in tax revenue will accrue to FRSD and \$336,000 in tax revenue will accrue to the Municipality under this residential building scenario.

To gain some insight as to what these number really imply, I have attempted to reconstruct the distribution of tax income across the various types of taxation employed by the Municipality and FRSD. Unfortunately, the Municipality’s budget summary lacks specificity in terms of tax income. However, the FRSD’s “Revenues for Expenditures” available as a part of their 2008-2009 Budget (FRSD, June 16, 2008) provides the detail needed to begin the investigation. The tax information in following table is extracted from that report.

**Table 1
Franklin Regional School District - Tax Analysis
from 2008-2009 Budget**

		2006-2007 Actual		2008-2009 Estimate	
		Amount	Persons	Amount	Persons
Real Estate	Tax Income	\$25,547,399		\$25,748,862	
	Millage	81.38		81.88	
	Common Level Ratio (CLR)	0.204		0.204	
	Transfer Taxes	\$449,064		\$500,000	
Per Capita	Sec 679	\$70,696	14,139	\$70,000	14,000
	Act 511	\$70,533	14,107	\$70,000	14,000
	Age18-21		33		0
Occ. Privilege Tax		\$47,192		\$47,000	
Earned Income Tax	Tax receipts @ 0.5%	\$3,218,844		\$3,305,000	
	Total Earned Income	\$643,768,800		\$661,000,000	
	Average Per Capita Income	\$45,531		\$47,214	
	Average Hourly Rate (2,080 Hrs per year)	\$21.89		\$22.70	
Total Tax Revenue Income & Real Estate		\$29,356,536		\$29,693,862	
Total Other Local Revenue		\$1,910,962		\$1,850,234	
Total Revenue - Local Sources		\$31,267,498		\$31,544,096	

Real Estate Taxes in 2006-2007 accrued to the FRSD at a rate of 81.38 mils applied to the assessed value of the property. Currently, the assessed evaluation is 20.4 percent of the market value. The current Act 511 Real Estate Transfer Tax generates monies for FRSD at a rate of 0.5 percent of the selling price of a piece of property. This tax is only levied at the time of sale and it is unclear as to whether it was considered in deriving the values given on Slide 9.

The Per Capita Tax under Section 679 is a \$5.00 per year per person tax on individuals over 18 years of age residing within the Municipality. Thus we can deduce that in the 2006-2007 tax year there were 14,139 person over 18 years of age in Murrysville that were subject to this tax. The Act 511 Per Capita Tax is a \$5.00 per year per person tax on individuals over 21 years of age residing within the Municipality. Therefore, it can be deduced that there were 14,107 such individuals within the Municipality during the 2006-2007 budget year. FRSD estimates for 2008-2009 are also given.

An interesting side light is obtained through comparing the Per Capita Tax payments for the 2005-2006 and 2006-2007 periods. This comparison indicates that there is only an 18 person increase between periods in the number of individuals 18 years old and older in the Municipality. The number of individuals between 18 and 21 years of age however has decreased by 236 between the two periods from 269 to 33. The inference is that the number of persons within the municipality and paying Per Capita Taxes is rather stationary but getting older.

The Occupational Privilege Tax is \$5.00 per year tax on all individuals employed within the Municipality during the year. The proceeds of this tax go to the FRSD. There were 9,438 individuals subject to this tax in 2006-2007 and the FRSD budget estimates 9,400 for 2008-2009. Residency is not a requirement and this tax is to be withheld by one's employer. This represents an increase of approximately 2,000 individuals employed within the Municipality since the 2005-2006 tax period. Compared to the minimal increase of 18 individuals paying the Per Capita tax between 2005-2006 and 2006-2007 periods it can be inferred that most of those newly employed within the Municipality reside outside the Municipality.

Related to the Occupational Privilege Tax, the Local Services Tax is a tax on all individuals employed within the Municipality during the year. The beneficiary of the tax is solely the Municipality. This tax generates monies for the Municipality at a rate of \$5 per annum for individuals making less than \$12,000 annually and \$47 per annum for individuals making \$12,000 or more annually. Municipal Resolution No. 508-06 includes the Occupational Privilege Tax as a part of the Local Services Tax. I will keep the two separated for this discussion to be consistent with FRSD budget line items.

The Earned Income Tax accruing to the FRSD is 0.5 percent of the earned income of anyone residing within the Municipality. One can deduce from the FRSD budget document that the total earned income for residents of the Municipality during the 2006-2007 tax year was \$643,768,800. Thus the average annual income for all residents over the age of 18 years is estimated to be \$45,531. The estimated average annual income of an individual over 18 years of age in 2008-2009 is \$47,214. This figure will be important in the consideration of various alternative business growth scenarios.

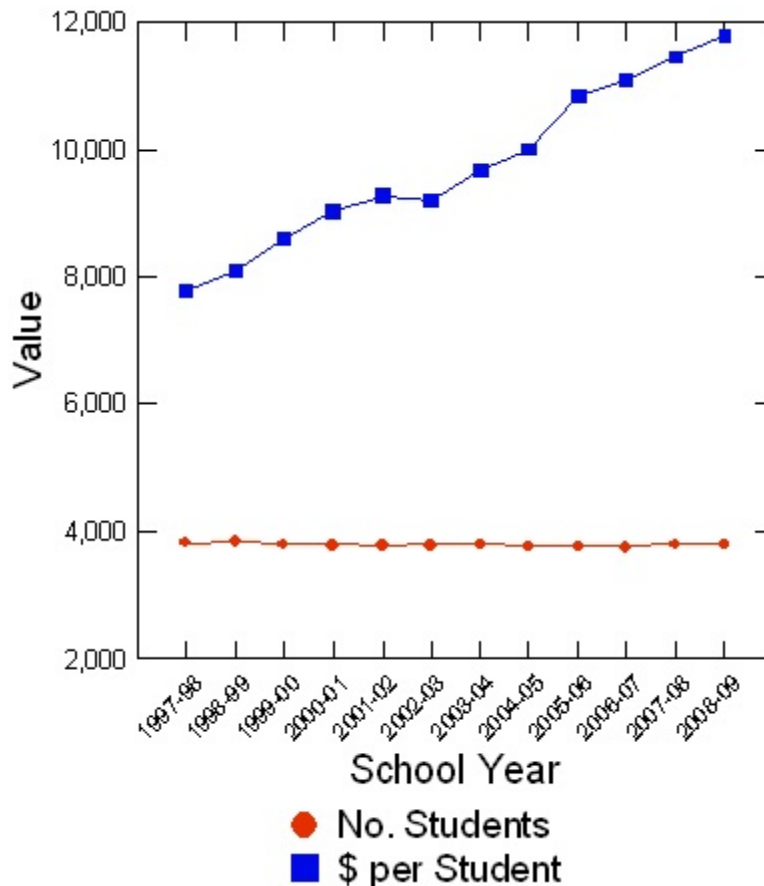
Incremental Cost to FRSD of Additional Students

Before evaluating the various build out scenarios for R-R and R-2 areas under the GBOD, the incremental cost of 175 additional students needs to be estimated. Slide 9 presents the total expected cost to FRSD as \$1,496,000, approximately \$8,500 per student. It is instructive to consider what may have gone into this estimate.

The FRSD 2008-2009 Budget begins with Superintendents Message. This Message contains the following statement.

The 2008-2009 annual budget for Franklin Regional is \$44,559,740. Based on last year's budget, the annual cost to educate each child is approximately \$11,437. Of the seventeen schools in Westmoreland County, Franklin Regional ranks 9th in per pupil cost.

This result is simply the total annual cost of FRSD operation divided by the total number of students enrolled during that year. While this provides a reasonable index for making comparisons among school districts, it provides no reasonable information in regard to the incremental cost to a school system of an additional student, or for that matter 100 students. Consider the following figure which presents the cost per student as well as the enrollment for the FRSD over the past 12 years.



Note that the cost per student has continued to rise even though the number of students appears to remain relatively constant. Actually the high enrollment occurred in the 1998-1999 school year with 3,839 students and the low during the 12 year period occurred during the 2006-2007 school year with 3,746 students. The reason is that the calculation of this index includes the **fixed costs** incurred by the FRSD.

The above quoted statement from the Superintendents Message continues with the following:

Approximately 88% of the school district budget is fixed cost at the outset of the budget planning (Salaries & Benefits-66%, Transportation-4%, Plant Operation-4%, and Debt Service-14%). The remaining 12% includes important items such as textbooks, computers, supplies, equipment, contracted services and other services.

The remainder of the quoted from paragraph goes on to describe the sources of revenue and the millage rate. Salient is that 71 percent of the revenue is locally generated.

In the budget report section entitled “Franklin Regional School District Expenditures” one finds the following statement:

The expenditure budget grows primarily from fixed costs (salaries, benefits, transportation, plant operations, debt, etc.) which have been described previously, and which represent 88% of the budget. The remaining portion of the budget provides the resources through which the school district can deliver instructional services to youngsters while maintaining its physical plant.

Therefore, it seems entirely reasonable to consider the results of the following as an estimate of the **incremental cost of an additional student**.

2008-2009 Budget	\$44,559,740
Fixed Cost @ 88%	\$39,212,571
Remaining @12%	\$5,347,169
No. Students	3,784
Cost Per Student	\$1,413

I have assumed that not all of the projected 175 additional students show up at the door of the FRSD wanting to enter the same grade in the same year. That obviously would necessitate consideration of additional staff and perhaps additional class room space. Given the growth observed in the Municipality during the last several years such a scenario seems unlikely. This figure may also be conservative in that it assumes that the total variable cost to FRSD is paid out of local tax monies.

So far this discussion has not answered the question regarding the origin of the approximately \$8,500 per student estimate used in Council's presentation. If one takes the budgeted Revenue From Local Sources (\$31,544,096 for 2008-2009) and divides by the projected number of students (3,784) one gets a value of \$8,336 per student cost estimate. Multiplying by 175 students yields an estimated cost of \$1,458,831. This is not too terribly different from the projected cost presented on Slide 9. Obviously, the estimates regarding the cost to FRSD presented on Slide 9 ignored the impact of fixed costs on the FRSD.

Impact of GBOD - Residential Scenario

While other estimates of the incremental cost of an additional student to the FRSD are certainly possible and perhaps better descriptive of the actual incremental cost, I will use the value of \$1,413 per student in the following analysis. I have also considered only the scenario in which none of the additional residents have employment within the Municipality. The following table presents the impact of the residential build out scenario for R-R and R-2 areas under the GBOD.

Table 2
Tax Analysis - Franklin Regional School District
Impact of 407 Homes & 1,042 Residents

		Organization	
		FRSD	Municipality
No. New Residents		1,042	1,042
No. New Students		175	175
No. New Residents 21 or Older		867	867
No. New Residents 18 -21		0	0
Per Capita	Sec 679	\$4,335	NA
	Act 511	\$4,335	\$4,335
Occ. Privilege Tax		\$0	\$0
Local Service Tax		\$0	\$0
Earned Income Tax	Tax receipts @ 0.5%	\$203,745	\$203,745
	Total Earned Income	\$40,749,000	\$40,749,000
	Average Per Capita Income	\$47,000	\$47,000
Real Estate	Tax Income	\$862,065	\$127,920
	Transfer Taxes	\$0	\$0
	Millage	81.88	12.15
	Assess Value	\$10,528,395	\$10,528,395
	Common Level Ratio	0.204	0.204
	Market Value	\$51,609,780	\$51,609,780
	No. New Homes	407	407
Average Market Value	\$126,805	\$126,805	
Total Tax Revenue Income & Real Estate		\$1,074,480	\$336,000
Total Other Local Revenue		\$227,520	\$0
Total Expected New Tax Revenue		\$1,302,000	\$336,000
Expected Cost Increase		\$247,275	\$321,000
Net Gain or (Loss)		\$1,054,725	\$15,000

Note that the millage rate for the FRSD during the 2008-2009 tax period is 81.88 mils. The millage rate used for the Municipality is 12.15 mils which includes the Hydrant Tax.

Impact of GBOD - Residential Versus Business Development

The detailed assessment of the tax implications due to business development is complicated by various factors to be considered in the next section dealing with the development of the GBOD parcel along Route 22 (the Manor Property). These factors are related to the number and type (full or part time) employees and where they reside. Absent the detail behind the values presented on Slide 10 (Business Development) of Council’s Power Point presentation, these values will be used without question.

Table 3
Business Versus Residential Development - Tax Comparison
R-R and R-2 Zoned Property Within the GBOD

		Organization	
		FSRD	Municipality
Business Development 730,000 sq. feet	Expected Tax Income	\$853,000	\$331,000
	Expected Cost	0	\$343,000
	Net Gain or (Loss)	\$853,000	(\$12,000)
Residential Development Net Gain (Table 2)		\$1,054,725	\$15,000
Incremental Tax Benefit of Residential Development		\$201,725	\$27,000

Impact Proposed Development “The Market Place on Twenty-Two”

Approximately 442,000 sq. feet of business development have been proposed for the property controlled by Manor Development II (the Manor Property). The proposed business development of the property is to be called “The Market Place on Twenty-Two.” The development of this parcel is part of the total 730,000 square feet of business development possible under the GBOD. It seems reasonable to estimate the expected tax income and expected costs associated with the development of The Market Place on Twenty-Two as the ratio of the square feet of business development for this parcel to the total square footage for business development under the GBOD times the total income or cost as appropriate. The ratio is 0.6055. This yields an expected tax income from business development of The Market Place on Twenty-Two of \$516,474 for FRSRD and \$206,468 for the Municipality.

This potential tax income accrues from two sources, Real Estate taxes, millage times the assessed value (RA), and taxes levied Per Capita and on Earned Income (EI). Note that EI includes taxes on Earned Income, Per Capita taxes, Occupational Privilege taxes and the \$47 increment associated with Local Services Tax. We can deduce the amount anticipated for RA and EI from the tax income values provided on Slide 10 from the following two relationships.

FRSD: \$516,474 = 0.08188 RA + EI
Municipality: \$206,468 = 0.01215 RA + EI

Solving this system of equations yields a value for the assessed value of real estate associated with The Market Place on Twenty-Two of \$4,445,720. Using the Common Level Ratio, the total market price of this development is estimated to be \$21,792,741. The total value of the Earned Income , Per Capita, Occupational Privilege and Local Services Tax must then be \$152,459. The following table presents this data in comparison with a residential build out of the area with 137 new homes as specified in the developer’s proposal. The number of new residents and new students associated with the residential build out are derived based upon the ratios implied in Council’s presentation.

**Table 4
Manor Property - Best Case Scenario
Business Versus Residential Development - Tax Comparison**

		The Market Place on Twenty-Two		R-2 Residential	
		FRSD	Municipality	FRSD	Municipality
No. New Homes		NA	NA	137	137
No. New Residents		NA	NA	351	351
No. New Students		NA	NA	59	59
No. New Residents 21 or Older		NA	NA	292	292
No. New Residents 18 -21		NA	NA	0	0
No. New Employees - Income GE \$12K		Unknown	Unknown	0	0
No. New Employees - Income LT \$12K		Unknown	Unknown	0	0
Per Capita	Sec 679	Unknown	NA	\$1,460	NA
	Act 511	Unknown	Unknown	\$1,460	\$1,460
Occ. Privilege Tax		Unknown	Unknown	\$0	\$0
Local Service Tax		NA	Unknown	\$0	\$0
Earned Income Tax	Average Per Capita Income	Unknown	Unknown	\$47,000	\$47,000
	Total Earned Income	Unknown	Unknown	\$13,724,000	\$13,724,000
	Tax receipts @ 0.5%	Unknown	Unknown	\$68,620	\$68,620
Total Income & Per Capita Tax		\$152,459	\$152,459	\$71,540	\$70,080
Real Estate	Estimated Market Value	\$21,792,741	\$21,792,741	\$27,400,000	\$27,400,000
	Common Level Ratio	0.204	0.204	0.204	0.204
	Assessed Value	\$4,445,719	\$4,445,719	\$5,589,600	\$5,589,600
	Millage	81.88	12.15	81.88	12.15
	Transfer Taxes	\$0	\$0	\$0	\$0
Tax Income		\$364,015	\$54,016	\$457,676	\$67,914
Total Tax Revenue Income & Real Estate		\$516,474	\$206,475	\$529,216	\$137,994
Expected Cost Increase		\$0	\$207,690	\$83,367	\$102,530
Net Gain or (Loss)		\$516,474	(\$1,215)	\$445,849	\$35,464

Of particular interest are the implications of the \$152,459 tax income from Income and Per Capita Taxes as a consequence of the development of The Market Place on Twenty-Two. The most likely largest component to this figure accrues from the Earned Income Tax. This translates into a total payroll of approximately \$30,000,000. However, there is a real question as to whether this income is “new income.” And, if it is new income will FRSD and the Municipality be the beneficiaries.

Assuming that the \$152,459 each of tax income do in fact benefit the FRSD and the Municipality then the income must be earned by those residing within the Municipality. If this means a shift in employer by existing workers residing within the Municipality then this is **not new income** and should not be included as a benefit of the proposed development. If this represents the income of workers not residing within the Municipality then the Earned Income Tax benefit would accrue to the community of residence, not FRSD or Murrysville. Again, such income should not be counted as a benefit of the proposed development.

A worst case scenario might be if all of the \$30,000,000 payroll was earned by those residing outside the Municipality and making less than \$12,000 per annum. This results in approximately 2,500 employees paying \$5 each to FRSD and the Municipality as the Local Services/Occupational Privilege Tax. The tax income from wages accruing to each of the FRSD and the Municipality would then be \$12,500 per annum, not \$152,459.

Table 5
Manor Property - Worst Case Scenario
Business Versus Residential Development - Tax Comparison

	The Market Place on Twenty-Two		R-2 Residential	
	FRSD	Municipality	FRSD	Municipality
Total Income & Per Capita Tax	\$12,500	\$12,500	\$71,540	\$70,080
Real Estate Tax Income	\$364,015	\$54,016	\$457,676	\$67,914
Total Tax Revenue Income & Real Estate	\$376,515	\$66,416	\$529,216	\$137,994
Expected Cost Increase	\$0	\$207,690	\$83,367	\$102,530
Net Gain or (Loss)	\$376,515	(\$141,274)	\$445,849	\$35,464

Obviously, the benefit of the proposed The Market Place on Twenty-Two is diminished under this scenario. Somewhere between this worst case and the scenario proposed by Council lies something that is realistic. More analysis needs to be conducted focusing on a realistic employment/residency issues before a meaningful comparison of alternatives can be made.

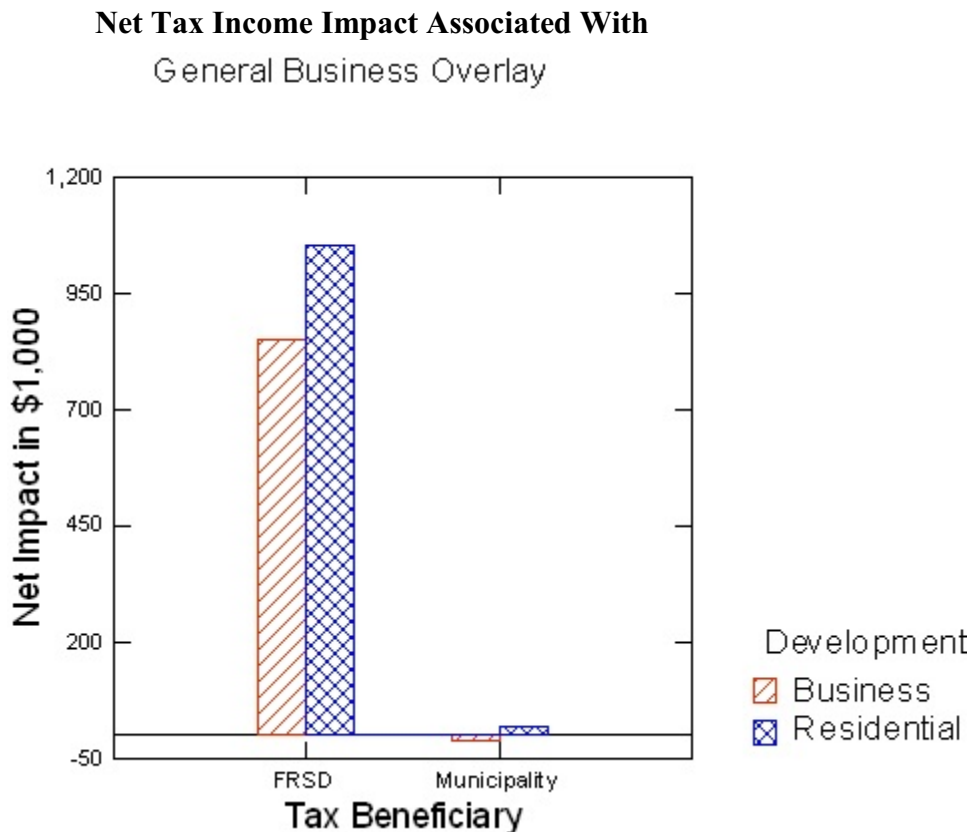
In addition to residency issues, a higher density housing scenario might be considered for the Manor Property. This might double the number of housing units with a development similar to Georgetown Commons. While such housing units might have a market value below the \$200,000 used in developing the R-2 scenario, the number of residents and, consequently the Earned Income and Per Capita tax revenue would likely increase.

Summary

This analysis of the tax consequence of the GBOD and the proposed development of The Market Place on Twenty-Two has focused on whether the values presented by Council at the Town Hall Meeting of July 30, 2008 are reasonable. And further, what these values imply in regard to the assumptions underlying their determination. The analysis uncovered two items of particular concern.

- The incremental cost of a student entering the FRSD was overestimated by Council at \$8,549 per student. A more realistic incremental cost per student is \$1,413.
- It appears that the estimated tax income from the proposed The Market Place on Twenty-Two includes values for the Earned Income tax and the Occupational Privilege/Local Services tax without a complete evaluation as to the residency of the employees of the proposed businesses.

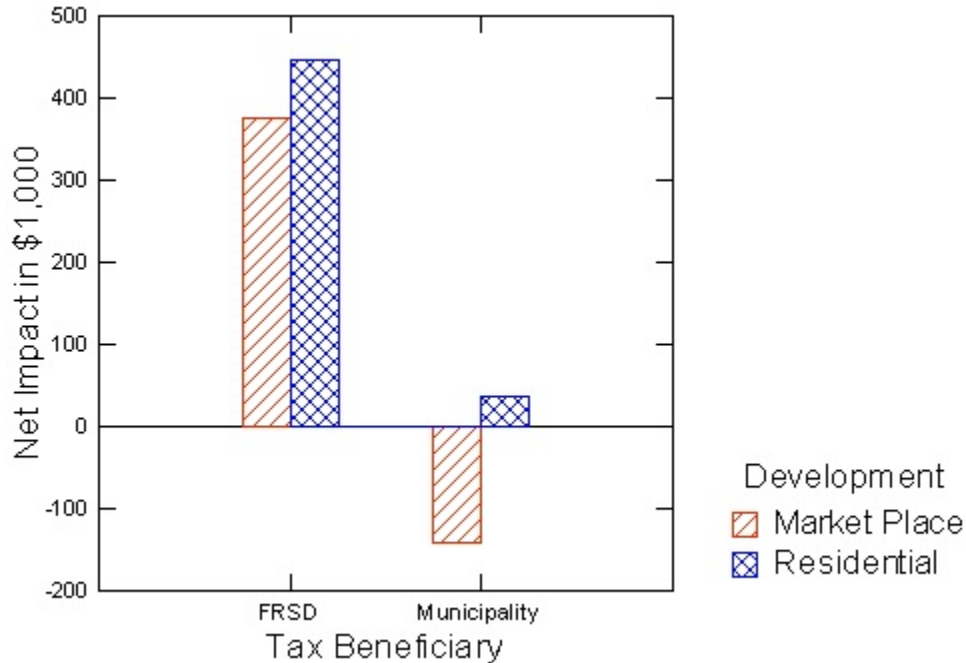
The following figure presents graphical comparison of the tax consequences of the business versus residential development scenarios under the GBOD ordinance.



Note that the residential development scenario yields the most tax income to both FRSD and the Municipality.

The following figure summarizes the tax assessment discussed above in regard to the development of the Manor Property. The business development scenario assumes that none of the employees of The Market Place on Twenty-Two reside within the Municipality and the residential scenario assume 137 homes on half acre lots consistent with R-2 zoning.

**Net Tax Income Impact Associated With Development
of the Manor Property - Worst Case Scenario**



Clearly, residential development of the Manor Property results in greater tax benefit to both the FRSD and the Municipality than does business development of The Market Place on Twenty-Two under the scenarios evaluated. Such benefits will aid at reducing the tax burden on the residents of Murrysville.

In summary:

- Residential development of R-R & R-2 districts in the General Business Overlay District would generate \$ 228,725 per year more tax revenue than the business development of these districts. (See Table 3)
- Residential and business development of the Manor Development II property would generate approximately the same tax revenue depending upon the residency of the business employees. (See Tables 4 & 5)
- A detailed analysis of The Marketplace on Twenty-Two tax revenues should be conducted by an unbiased independent consultant.