

Gambling tax relief falls short of expectations for struggling homeowners

By [Howard Frank](#)
Pocono Record Writer
September 30, 2012

The next time you pass a casino, say thank you. It just helped you pay for the equivalent of a couple of tires.

Pennsylvania's gaming industry, swept in on the coattails of property tax relief, is doing just that — reducing your school taxes.

DIVIDING THE PIE: The math behind sharing gambling revenue

For every dollar wagered in a Pennsylvania slot machine, about \$0.92 is paid out as winning and direct promotions.

The remaining \$0.08 is called the casino's gross terminal revenues.

There are adjustments that are made to this figure, but it's pretty solid from month to month.

The \$0.08 is then taxed at about 55 percent. That gives the state \$0.04 for every dollar wagered, or 55 percent of the gross terminal revenues.

Of the state's \$0.04 in tax revenues, about 62 percent of it, or 2.7 cents, goes toward property taxes.

Most, but not all of, that amount is collected into a statewide fund and is distributed each year to each school district based on a formula that's more complicated than a celebrity divorce.

In 2011-2012, the state fund was about \$627 million. Out of that, for instance, Stroudsburg Area School District received \$2,656,267. That's about 4/10s of 1 percent of the total state slots tax revenue for property tax relief.

There are 7,973 qualifying property owners in Stroudsburg's school district. That means each property got \$333.60 last year.

But they don't get it as a check. It's credited on their tax bill, with the actual bill net of the gaming funds benefit.

So, a review:

DollarsPercentage

of wagersFor every dollar

wagered on slotsWagers at slot machines\$23,246,155,687 Gross terminal
revenue\$1,845,072,433 7.94%\$0.08 State tax for property reduction\$627,324,627 2.70%\$0.03
Stroudsburg's portion\$2,659,774 0.01%\$0.0001

(one one-hundredth of a penny)Each qualifying property owner\$333 0.000001%\$0.00000001

(one millionth of a penny)

SASD property owners got \$1 for every \$70 billion wagered.

SASD property owners got \$1 for every \$5.5 million in gross terminal revenues.

Just not by that much.

As you pay your school taxes today, you will have saved from \$337 to \$447 on your bill, thanks to state taxes on slot machine revenues.

The median tax bill in Stroudsburg Area School District — with no tax increases this year — was \$4,187, according to Stroudsburg Area School District Business Manager Don Jennings.

That means gambling gave Stroudsburg district taxpayers an 8 percent savings.

'Getting hosed'

The legislation that determined the distribution of gaming funds was called The Taxpayer Relief Act of 2006.

Some call it false advertising.

"I told them, 'You are getting hosed,'" said state Rep. Mario Scavello, R-176, when school boards were first introduced to the legislation in 2004. "The most you're going to get is one year of no tax increases."

While former Gov. Ed Rendell predicted somewhere around a billion dollars in property tax relief a year once all of the casinos were open, that number has proven to be overly optimistic.

Less than two-thirds of that has been generated, with 11 of the state's 14 legislated casinos operating.

Yet the industry has been a tax-revenue-generating machine.

"Pennsylvania casinos generate more tax revenue from casino gaming than any other state, including New Jersey and Nevada," said Richard McGarvey, deputy director of communications for the Pennsylvania Gaming Control Board. "A 55 percent tax rate will do that."

Slots highly taxed

That tax rate, which is applied to slots revenues only, is the highest in the nation among states that don't own their own slot machines.

While slots were sold to the state on the basis of property tax reduction, table games were not.

Table games were legalized in 2010, almost overnight in legislative time.

The argument was to close a \$200 million budget gap that year. It did just that, thanks to the one-time up-front antes casinos paid as "certificate fees."

All of those funds go into the state's general fund. None goes to property tax relief.

One drop of a trickle

In fact, tax relief is a small drop in the sea of revenues generated by the casinos.

To put it into perspective, the state's casinos generated \$31 billion in bets and \$2.5 billion in slots revenues in the 2011-12 fiscal year.

Although more than half of slots revenues goes toward state taxes, only 34 percent goes to property tax reduction.

The rest is spread between economic development projects, the casinos' host communities and the horse racing industry, which gets 12 percent of slot revenues.

Much of the economic development money, 5 percent of gaming revenues, has gone to projects in Philadelphia and Pittsburgh, like the expansion of Philadelphia's convention center, and a hockey arena and airport debt in Pittsburgh, according to McGarvey.

That leaves about \$850 million for the taxpayer relief fund.

Formula is locked

But the fund is diluted further, with payouts to senior rent relief, problem gambling, fire department grants and forest reserves.

After being whittled down, the real property owner fund is closer to last year's \$616 million.

The state then divvies up the tax relief funds once a year to school districts with a formula that's more complicated than a celebrity divorce settlement.

The formulas are locked in on historical figures from 2002-05, including the school district's personal income, home market value, millage and taxes.

That prevents funding adjustments based on changes in a community.

By the time casino taxes get to property owners, there isn't much left.

Relief or reduction?

"There has been a misconception that gaming revenue would relieve homeowners of school property taxes, but it was a reduction," McGarvey said.

School districts were initially given an opportunity to opt out of the property relief program if they had philosophical difficulties accepting money from gambling.

"We aren't philosophically opposed to \$2.6 million," Stroudsburg's Jennings said.

Monroe County's four school district's ranked among the top 30 of the state's 499 school districts in estimated tax relief distributions to homeowners last year.

Pleasant Valley School District ranked fourth in the state, with \$447 per qualifying property.

East Stroudsburg was 11th with \$394; Pocono Mountain was 12th with \$338; and Stroudsburg came in 29th with \$322 per property owner.

The Chester-Upland School District ranked first at \$631 per property. The average homeowner in the state received about \$191 last year.

Reforms still sought

State Rep. Mike Carroll said that although the program has been somewhat helpful, additional measures are needed to satisfy the law's intended outcome.

"It is long past the time to provide substantial and meaningful school property relief for homesteads and farmsteads in this state by enacting legislation which shifts to a sales and income tax model and away from property taxes."

It's a model supported by Scavello and others, but has lacked the political clout to become a reality.

ARE YOU ELIGIBLE FOR PROPERTY TAX REDUCTION?

For a property owner to be eligible for the tax credit, the property must be an owner-occupied, full-time residence. Rentals, vacation homes and commercial properties do not qualify.

Property owners have to apply for a homestead/farmstead exemption. In the four Monroe County school districts, once you've qualified it's not necessary to re-apply.

You can tell if you've received the tax credit by looking at your current tax bill. A box called "less exclusion" appears in the Homestead row of the bill. It's the box that's second from the right. If that box has an amount, you're getting the credit. If it's empty, you're not.

School districts are required by the end of December to notify property owners of the homestead exclusion, and work with the assessor's office to notify people who aren't signed up yet, Stroudsburg Business Manager Don Jennings said.

HOW GAMBLING MONEY TRICKLES DOWN TO YOU

For every dollar fed into a slot machine, about 90 percent is paid out as winnings. The balance — the net slots revenues — is taxed at a rate of 55 percent, the highest in the nation among states that don't own their own slot machines.

Property tax relief is funded with 34 percent of all net slots revenues. Most, but not all, of these funds actually go to tax relief.

The state then applies a complicated formula based on income, market value, millage and local tax revenue from 2002 to 2005 to divide it up among the state's 499 school districts and Philadelphia. The formula does not take into account changes in the composition of a school district since that time.

It's similar to the "hold harmless" rule that married state tax school allocations to 1990 census figures and guarantees that slow-growing or contracting districts don't lose funding.

It also deprives growing counties like Monroe and Pike from its fair share of the gaming money.

Tim Eller of the Pennsylvania Department of Education said there was a reason for the gaming formula.

"The idea was to prevent potentially large fluctuations in each school district's distribution based on annual changes in the data elements," he said.

State Rep. Rosemary Brown, R-189, called them extremely complex and antiquated.

"We're looking at what those formulas would bring us now and see if it's hurting us," she said. "My guess is it's hurting us."

School districts, in turn, simply divide the pool of money they receive from the state by the number of approved homesteads and farmsteads in the school district. The result is the tax credit that shows up on your bill.

And here's something that may surprise you: Every property owner in a school district gets exactly the same amount of tax credit as their neighbors, regardless of the size of their property or appraised value. That's the way the 2004 law was written.