

January 12, 2017

ADVOCACY ALERT!



Update on Property Tax Elimination

There is growing concern that both chambers of the General Assembly (in particular the Senate) have indicated that school property tax elimination will be a priority issue in the new session. The Governor has also indicated his interest in school property tax reform.

In the Senate, which narrowly defeated a school property tax elimination bill last session by a single vote (a 24-24 tie vote, with the tie-breaking vote cast by Lt. Governor Stack), the prime sponsor of the legislation has indicated that the measure has sufficient support in the Senate to pass this session. Former senators that previously opposed the legislation have left the Senate and have been replaced by known supporters of school property tax elimination. **There is concern that the bill will pass the Senate and put pressure on the House of Representatives to pass it as well.**

It is our understanding that the prime sponsor of the legislation in the Senate (Senator Argall, R-Schuylkill) has written to all members of the Senate that his proposal (not yet introduced) will **ELIMINATE ALL SCHOOL PROPERTY TAXES EFFECTIVE JULY 1, 2017** (except for property taxes necessary to pay for debt service existing on December 31, 2016).

The previous version of this legislation, Senate Bill 76, would replace the current level of school property taxes collected by districts with new taxes. There is an exception for school districts to continue to levy some level of real estate taxes to pay EXISTING debt service only. The school property tax would be replaced with higher levels of Personal Income Tax and Sales and Use Tax (SUT). These new taxes would be collected by the state and distributed to school districts by a method that has not yet been explained. The basic concept is that districts would receive the same amount of money they collected in real estate taxes in the previous year from the higher personal income taxes and sales taxes, with an annual cost-of-living adjustment determined by the state.

If this legislation comes to pass, it could have a significant effect on your school district budgets. Therefore, **we highly recommend that you prepare your 2017-2018 district budget with a scenario that anticipates a prohibition on school property tax (except for the amount of millage you need to pay existing debt service).**

Reach Out to Your Senators!

There are many complications to this proposed legislation and many unknowns. WE STRONGLY URGE YOU TO CONTACT YOUR STATE SENATOR FOR GUIDANCE ON THESE ISSUES. [Click here for contact info for your state senator!](#) We also encourage you to have a conversation with your board members and your community about this proposal.

****ADDITIONAL INFORMATION FROM PASBO****

Q: When can my district anticipate receiving state PIT and SUT funds in lieu of my current property tax revenue?

A: We have no idea. The additional tax increases (PIT from 3.07% to 4.95% and SUT from 6% to 7%, plus expansion to previously exempt purchases including clothing, food and many services) are not in place yet. So there is NO funding in place for the state to provide property tax replacement funds to school districts. You should ask your state senator when you can expect to receive replacement funds from the state.

Q: When will I know the exact calculation for retaining the district's property tax for purposes of debt service so I can prepare our tax bills?

A: We are not sure exactly when the legislation will be introduced, but previous iterations of the bill did not contain any specific guidance. So we assume you should use your best judgment. Again, you should ask your state senator if he or she knows if there will be specific guidance in the legislation.

Q: If most of the district's property tax is eliminated, will it affect my tax collection costs?

A: If you are compensating your tax collectors on a per bill basis, your tax collection as a total percent of your property tax collections will increase significantly.

Q: If there is no property tax revenue and no state funding in place to replace the property tax revenue, how will we borrow funds for cash flow purposes?

A: You can't. The bill explicitly states that school districts will be PROHIBITED FROM INCURRING NEW DEBT without a referendum. Ask your senator how you should pay for your expenses in the absence of any state funding, and ask your Senator what you should do if you are planning to borrow funds in the near future for a construction project (or if you borrowed funds after December 31). If you borrow money now and the bill passes, you won't be able to retain a property tax to pay off the debt, since it was incurred after December 31, 2016.

Q: Will the district receive replacement funds on a regular basis from the state with our Uni-Pay?

A: We have no idea. There is **no** level of detail in previous versions of the bill. So we do not have any answer, much less a good answer.

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