January 20, 2017

UPDATE: Property Tax Elimination Legislation

We have received several calls from members expressing concerns as to how the Property Tax Elimination Bill pending in the Senate may affect their 2017-2018 budget, construction projects and the future funding of their districts. Following is an update and further information compiled from several sources.

TIMELINE

We have learned that the timeline for a Senate Republican discussion of the Property Tax Elimination Bill has been pushed back a few weeks. The Senate will discuss the proposed legislation as part of the Senate Republican Caucus Retreat on February 2 and 3. Earlier in the month there was talk that the Senate would caucus prior to January 23 and have legislation ready for processing when the Senate returns to session, beginning January 24. The legislation still could be brought to a vote early in the legislative session, but it will most likely not occur until after the governor's budget address on February 7. ***You are encouraged to contact your legislators and advocate for local control of district finances.***

IS THERE A VIABLE ALTERNATIVE TO A PROPERTY TAX ELIMINATION BILL?

Property taxes have long been an issue in most school districts across the state. They are often referred to as a "regressive" tax and place a burden on senior citizens and those on fixed incomes. **However**, property taxes are also a **very stable revenue source** for school districts and are controlled by locally elected school board members who are residents of the community. When it comes to school governance, the democratic process allows local communities to choose individuals who reflect their wishes on how the school system should be governed, including the management of property tax levels.

There are several alternative formulas that can reduce the reliance on property taxes to fund schools, alternatives that are not as extreme as the Property Tax Elimination Bill. For example, modest increases in either the PIT, SUT, or other new revenue streams could provide significant discounts to senior citizen's property tax bills and increase the homestead/farmstead credit for all property owners without taking financial control and stability away from local school districts. **Extreme legislation such as Property Tax Elimination creates a multitude of new problems and issues that most likely will create more problems than it attempts to solve.** There are more measured approaches to property tax reform that can maintain local control while providing relief to those who are in need.

IMPLICATIONS OF THE PROPOSED PROPERTY TAX ELIMINATION LEGISLATION

An IFO analysis reveals the impact of a tax shift on business and individual taxpayers.
According to a 2012 analysis by the Independent Fiscal Office, businesses will generate approximately 11 percent of the revenue from the increased personal income tax and about 10

percent of the revenue from the increased and expanded sales and use tax. As businesses are paying approximately $3 billion in school property taxes, this will result in a windfall to businesses of nearly $2 billion as their school property taxes will be eliminated – without any business tax or assessment to replace these dollars.

This shift away from businesses is at the direct expense of individual taxpayers. Individuals will not only need to replace their own property taxes through increased personal income and sales taxes, but will also be forced to subsidize the almost $2 billion windfall given to businesses. This shift from businesses to individuals will be most significant in those school districts with a large proportion of commercial property, especially in 199 school districts that generate more than 20 percent of their local revenue from businesses.

Some residents will continue to pay SIGNIFICANT amounts of school property tax. Despite the fact that the elimination proposal touts the elimination of school property taxes, it actually maintains school property taxes in most districts for a long period of time to pay off debt in existence on December 31, 2016. For those districts that receive significant state funding and have relatively low local revenue, the amount of property taxes residents will continue to pay is substantial. In 154 school districts, at least 25 percent of the current school property tax bill will continue to be levied to pay off these debts. In 33 school districts, at least 50 percent of the current school property tax bill will continue to be levied to pay off these debts. There are even some school districts in which local taxpayers will continue to pay 100 percent of their school property taxes for years until the debt is paid off.

Our poorest citizens will be hurt the most, with double taxation. The residents in some of Pennsylvania's poorest school districts will be hit the hardest by property tax elimination. Many districts will **not** have all their school property taxes eliminated. Many will maintain more than 50 percent of their current property taxes, but they will also be paying the increased PIT and SUT, which will be shipped out of their community to subsidize the education in some of the wealthiest school districts in the state.

The disparity in education funding will grow. Property tax elimination locks in the inequity in education funding across the state. Due to the dramatic differences in state support for education across districts, property taxes have had to generate revenue necessary to fund education. Some districts rely on local property taxes to provide local revenue of about $1,000 per student, while other districts more heavily reliant on property taxes generate nearly $24,000 per student at the local level. Property tax elimination locks in this discrepancy, requiring the state to distribute to each district the equivalent of their current local property tax revenue. Under elimination, if all the state and local dollars are collected and distributed by the state, the state will give more than $2,400 per student to one school district and nearly $28,000 per student to another.

Property tax elimination effectively abandons the new funding formula. After months of work by the Basic Education Funding Commission, a bipartisan recommendation and a nearly unanimous new formula enacted via Act 26 of 2016, property tax elimination would undo it before it had a chance to remedy the inequity it was designed to address. The entire structure of the new formula hinges on district factors, such as local tax effort and local tax capacity. With property tax elimination, these factors would be rendered meaningless, making the formula mathematically unworkable. Without a formula, we may exacerbate the inequity in school funding and go back to funding schools based on political whim.

Six counties get all the money. Unless your school district is in Allegheny, Bucks, Chester, Delaware, Montgomery or Philadelphia County, it's unlikely much of your increased PIT or SUT will actually find its way to your school district. To replace the property taxes levied by all school districts, the highest of which are generally levied in these counties (as a result of decades of inequity in funding—the very issue the new BEF formula is trying to address), the vast majority of all state dollars collected under an elimination proposal will flow to the school districts in just six counties. This means that education funding is no longer local, and your tax dollars are likely to be shipped across the state to benefit students hundreds of miles away.

The proposal poses significant district cash flow problems. With the expiration of a school district's ability to levy a property tax occurring on July 1, 2017 (with the exception of that for debt service), it will be nearly impossible for school districts to open their doors and pay their bills for 2017-18. School districts will face serious cash flow problems until the state is able to provide them with revenue from the increase PIT and SUT, a process which is likely to take 24 months. How will school districts operate in the absence of funding? Will the state provide all revenue necessary to ensure they can keep their doors open?

The prohibition on new debt makes cash flow even worse. The cash flow problems under elimination are bad enough (as the bill doesn't even provide a timeline for distribution of revenue to school districts), but the prohibition on the ability of a school district to incur any new debt makes it impossible for a district to respond to the financial chaos of elimination. This prohibits a district from borrowing money to keep its doors open while it waits for state revenue and prohibits a district from borrowing money for crucial repairs, such as fixing a dead HVAC system. Allowing new debt only with referendum may cause school districts of all shapes and sizes across the state to fall into financial distress. Will the state bail them all out?

Property tax elimination means no additional funding for new state mandates. With no ability to generate revenue to cover current costs, there is no way school districts will be able to cover new state mandates. Any bill requiring teacher training, program offerings, additional reporting, even health and safety measures will result in new state dollars needed to comply with the mandates, or districts will have to make unpleasant, if not critical, cuts in programs and/or personnel.

This proposal means that the state controls collective bargaining at the local level. Property tax elimination removes all local control and funding authority of a school district and its school board. This will diminish a district's ability to negotiate new contracts or fund existing contracts. The state will have to either change or eliminate collective bargaining rules and take over this role for each and every school district, which is likely to result in a significant cost to the state.

The proposal poses significant facility concerns. With the need for a referendum to raise revenue to cover needed construction projects, facility construction and renovations will be difficult to plan and implement. The state will have to consider a process to cover the cost of facility maintenance and needed renovation in school districts. Many districts are likely to defer maintenance under a referendum system, causing facilities to become dated and potentially unsafe.

The plan would necessitate cuts to programs and services just to cover mandated PSERS and other expenses. PSERS and other mandated costs such as charter school tuition and special education can increase significantly each year. Property tax elimination may not provide school districts with enough revenue to cover just these rising costs. If the new state allocations do not keep up with these increasing costs, districts will be forced to make cuts in personnel and/or programs for children.

Property tax elimination would mean a windfall to the feds. The elimination of property taxes will mean that approximately $600 million will be sent to the federal government each year through lost federal income tax deductions for real estate taxes. More Pennsylvania money will go to Washington D.C. than ever before, meaning that there will be hundreds of millions of dollars less to be used to generate additional sales tax revenue.

Any future recession would spell trouble for public schools. During the next severe recession, which eventually will occur, PIT and SUT revenues will take a hit, spelling disaster for school funding. Unlike the property tax, which is a stable base, PIT and SUT will be impacted negatively during and following a recession. Since school districts will have no ability to generate meaningful revenue to balance the impacts of a recession, or even to cut their way out of significant declines in PIT or SUT, the state will be required to find revenue to make school districts whole during any and all financial downturns.

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PASA is working in Harrisburg with our partners to bring all of these issues into the debate and ensure the discussion is informed with the actual facts. We urge you to continue your advocacy on the local level – and stay informed! Follow us on Twitter **@PASASupts**.

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