http://www.post-gazette.com/opinion/Op-Ed/2017/04/13/Pennsylvania-s-empty-promise-on-property-tax-reform/stories/201704130027

Don't be duped: school property tax reform won't lower taxes

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It happens every spring, when the governor's budget address spurs the Pennsylvania General Assembly into action. Like the sophisticated signaling network that enables plants to green and flower with the season, a perennial topic stirs within lawmakers and they begin to nurture the idea that resonates so well with their constituents: "Let's repeal the school property tax!"

And the buzz begins.

This would be amusing to witness if the consequences of property tax "reform" weren't so alarming and if the possibility of passage weren't so real: The bill by state Sen. David Argall, R-Schuylkill, failed by only one vote last year, and in the November election, the GOP widened its majority control of both the House and Senate. I use scare quotes with the word because it's not reform in the typical definition of improving upon a social, political or economic practice. Instead, this vow to relieve taxpayers' burden for the commonwealth's public schools is mere rhetoric, an empty promise.

The school property tax elimination bill gaining momentum at the Capitol — HB/SB 76 — would not deliver true tax elimination for most taxpayers. In fact, under the Property Tax Independence Act, you could end up paying more money to Harrisburg — in sales, personal income and, yes, even property taxes.

That's because the bill would not eliminate municipal or county property taxes, and school districts could continue to collect real estate taxes to pay off existing debt, which is typically issued as 20-year bonds. An analysis by the Pennsylvania Association of School Business Officials found that only 2 percent of school districts could totally cut their tax levies.

Moreover, the association warns that the $2.7 billion in property tax paid by businesses across Pennsylvania would shift to individuals in the form of higher personal income and sales taxes. That means Wal-Mart gets a free ride at your expense.

This scenario shows how the bill could cost a Pittsburgh family more money:

• The bill would raise the state sales tax from 6 to 7 percent — 8 percent in Allegheny County — and expand the tax to cover a broad range of products and services that are now exempt, including clothing items above $50 and food. Think about your weekly grocery bill, that date-night dinner for two, the cost of prescription drugs, new clothing for the school year or Christmas gifts. Do you pay for child care? That, too, would be subject to tax. Get out your calculator if you plan to buy big-ticket items such as appliances or a car.

• The personal income tax would go from 3.07 percent to 4.95 percent. So, if you earn $50,000, your state income tax would jump from $1,535 to $2,475.

• If you own a home assessed at $100,000, your current combined property taxes are $2,288 without homestead or senior exemptions. Even if the school property tax of $984 were eliminated, your $940 increase in state income tax would nearly equal that.

This bill has serious ramifications beyond economics. Chief among these is loss of local control. Eliminating school property tax does away with local control — school boards wouldn't have taxing authority. The state would oversee and second-guess the board members you carefully elected to make important decisions about running your child's school.

If the Legislature repeals the school property tax, starting July 1 districts would receive state reimbursements quarterly (with cost-of-living adjustment). That would lock in existing funding disparities among districts across the state.

It's important to speak out about this issue — even if you think it's a tired topic. Educate your neighbors, and make your concerns about the details of HB/SB 76 known to your legislators. Are you truly comfortable with wresting control of public school funding away from local communities?

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http://www.pottsmerc.com/article/MP/20170513/NEWS/170519887

Pa. lawmaker makes another push to eliminate school property taxes

State Sen. David Argall addresses the crowd at a rally in Harrisburg for the elimination of school property taxes. Digital First Media File Photo

By Michael Carroll, From Watchdog.org Many Pennsylvania homeowners and state lawmakers are now sounding the drumbeat to eliminate the school property

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Pennsylvania residents have held rallies in Harrisburg in support of property tax elimination. Digital First Media File Photo

Sen. David G. Argall, a Republican from Schuylkill County, has again proposed Senate Bill 76, which would eliminate the school property tax and make up the funding difference through a 1 percent increase in the sales tax and a hike in the personal income tax from 3.07 percent to 4.95 percent.

“Property owners would no longer rent their homes from school districts,” Argall’s spokesman, Jon Hopcraft, told Watchdog.org in an email. “The school property tax is the fastest growing tax in the state and not at all based on one’s ability to pay.”

Legislation to kill the school property tax narrowly went down to defeat two years ago when Democratic Lt. Gov. Mike Stack broke a 24-24 vote in the state Senate by voting against the plan.

“No one anticipated we would be that close,” Hopcraft said, “but that shows how much the people of Pennsylvania hate the school property tax.”

The legislature has attempted to tweak the tax over the past 20 years or so, but calls for its elimination continue to grow, he said. In 2011, Argall heard from residents who wanted to eliminate the tax and put in place a reform plan that had the support of more than 80 taxpayer groups from around the state, according to Hopcraft.

“It is truly the only tax that has the power to leave one homeless,” he said. Argall and representatives of the Pennsylvania Independent Fiscal Office, which analyzes proposals but does not make policy recommendations, have been giving presentations about the potential effects of such a tax shift.

Among the groups sponsoring their presentations is the Pennsylvania Economy League, a nonpartisan public policy think tank. League spokeswoman Lynn Shedlock said the organization has not advocated a position on the tax proposal but is making sure people are informed about it.

“Our role is more to educate people on these policy objectives,” Shedlock told Watchdog.org. The Independent Fiscal Office has crunched the numbers relating to the possible tax shift and is presenting them to audiences in different parts of Pennsylvania.

“There have been efforts to do this over the last 15 years or so,” Matthew Knittel, director of the Independent Fiscal Office, said.

An overview of possible school district property tax reform proposals created by Knittel’s agency indicates that demographic changes in the state are creating challenges for policymakers. Some seniors are outliving their savings accounts as life spans increase, the report said, and the over-65 population in Pennsylvania will rise 31 percent through 2025.

In turn, some seniors have struggled to pay their property tax bills as they have aged, Knittel said. Reducing or eliminating the school property tax would reduce their burden, though the tax burden on renters would likely go up, he said.

“For homeowners, we think for most of them, in particular for those who are retired, it would be a significant tax cut,” Knittel said. But he stressed that’s it’s unclear if such a tax reform would pass the legislature this year, since lawmakers are also working to close a $1 billion shortfall in the state budget.

“For the next few months, what will dominate the time for the General Assembly is probably budget issues,” Knittel said. And just how different segments of the population would be affected by such a tax will depend on housing markets, income levels and school enrollment fluctuations, he said.

“Across the state, the conditions are going to vary greatly,” Knittel said.

Some business groups have expressed concerns about the concept of eliminating the school property tax. The Pennsylvania Chamber of Commerce has released position statements opposing SB 76 over the last few years, arguing that some business owners who lease their property could face rising tax burdens as the result of such a shift.

A sales tax increase would also boost the cost of products overall, potentially hurting small businesses' profit margins, according to the chamber. And sales tax revenues might not be a dependable replacement for the property tax because they can fluctuate significantly relative to the strength of the state economy, the chamber said.

But Sen. Argall and others continue to press for a change. "I think this issue has gained more traction in the last few years than ever in its history," Hopcraft said. "It used to be a regional issue, but any public survey of the entire state shows the property tax as one of the top issues for Pennsylvanians."

http://www.timesherald.com/article/JR/20170128/NEWS/170129801

Analysis shows hidden snags in Pa. school property tax elimination bill

State Sen. David G. Argall, left, poses a question during a bipartisan roundtable discussion on school tax reform held at the state Capitol. Digital First Media File Photo

By Evan Brandt, ebrandt@21st-centurymedia.com, @PottstownNews on Twitter

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LOWER POTTSGROVE >> Most polls show voters in favor of any effort in Harrisburg to enact property tax reform, or eliminate them completely.

With legislators once again raising the hope it will be adopted this session, Pottsgrove School District officials putting together another budget took the time to see what that would look like had last year's school tax elimination bill been adopted.

And what they found is that there are indeed lots of devils in those details.

"A lot of people hear 'property tax elimination' and they think boom, their bill goes away, they save a lot of money and that's it," Pottsgrove Business Manager David Nester told the board Tuesday.

"But it's not that simple," he said.

State Sen. David Argall, R-Schuylkill, has proposed the same bill that failed by one vote last year, saying some changes in the makeup of the state Senate after the November election give him the votes he needs to get it passed.

The first thing people should know, Nester said, is that school property taxes would not be eliminated completely at first. Under Argall's bill, as much property tax as is necessary to pay down existing debts would remain until it was all paid.

In Pottsgrove's case, the annual debt payments add up to about $5 million, or 8 percent of the proposed $66.4 million budget for 2017-2018.

That means about 15 to 20 percent of the current school property tax levy would remain, said Nester, along with the municipal and county property tax levies, which are a much smaller proportion of your property taxes and not affected by Argall's proposal.

New debt, like that needed for school renovations or major building projects, would have to be approved by voters in the spring should the tax reform bill be adopted.

"And we all know no one is going to vote themselves a tax increase," at least not for the first few years, observed board member Ashley Custer.

That means any construction or capital projects at the schools could only be undertaken with whatever cash the district has on hand, Nester said — which is one reason he has been advocating for putting surpluses into the district's capital budget fund.

Argall's proposal also has the potential to lock in the funding disparity between rich and poor school districts with the difference being that instead of wealthy districts funding their own higher spending through their property taxes, the entire state would be paying for it under the "dollar-for-dollar" replacement provisions of the bill, according to Nester's analysis.

An Associated Press analysis of state data found that more than 70 percent of school property taxes were collected by the wealthiest half of school districts in 2014-15.

That means that a wealthy district like Lower Merion, which funds a higher level of spending mostly out of its own property tax pockets, would instead enjoy the same level of spending but now at the expense of all personal income taxpayers in Pennsylvania.

And none too soon, given that the high commercial and industrial property tax revenues on which districts like Lower Merion and Spring-Ford depend would be gone.

"No more King of Prussia Mall, no more Glaxo, Merck or Wal-Mart paying the bills," said Nester.

To make up for what the Associated Press calls a $14 billion tax shift from property owners and businesses to Pennsylvania consumers and workers, the state's personal income tax rate would be hiked from 3.07 percent — one of the lowest in the nation — to 4.95 percent.

Additionally, the state's sales tax would be increased from 6 to 7 percent and more things, including food and clothing, would be subject to the tax.

This is where the question of who benefits and who doesn't from the change gets murky, said Nester.

"A lot will depend on your spending habits and it will be hard to track, because it's a little more here, a little more there," said Nester.

One thing that is clear is that retirees who own their homes and whose primary income is pension and Social Security, will join property owning businesses as the clear winners in this tax shift, according to Nester's analysis.

On the other hand, residents of poorer districts — like Pottstown and Reading — would see little or no change in the gap between wealthy districts and poor ones under this plan, absent a decision by the legislature to increase state funding to those districts under the fair funding formula, Nester said.

In fact, he said, the Reading School District has so much debt that it would keep almost its entire property tax levy in place on top of its residents paying higher sales and income taxes if Argall's reform plan is adopted.

On the other hand, noted school board member Rick Rabinowitz, the elimination (or reduction) of local school property taxes would level the playing field in terms of attracting residents and businesses.

It also has the potential to make homes in Pottstown — traditionally less expensive but carrying a higher tax burden — more attractive to homebuyers.

As for future spending, all districts would only see an increase in funding based on whichever is lower — a percentage of income and sales tax projections, or the statewide average weekly wage — thus making school funding more varied from year to year and more dependent on the economy.

As Nester asked at the end of his presentation — "What happens if there's a recession?"

The answer could be program cuts or the deterioration of facilities, said Nester.

He also said there is currently no information about how this change would affect charter schools — if at all — and board member Bill Parker said funding constrictions at public schools under "this bill could have parents fleeing to charter schools with their children."

Eliminating property taxes under Argall's bill could have many implications, both short-term and long-term, said Nester, but one thing is clear: "This is not the windfall that most people anticipate."

https://www.psba.org/wp-content/uploads/2017/01/ACL_property-tx.pdf

Property tax elimination plan doesn't work for taxpayers or schools

The truth is that it is not a panacea for taxpayers or school districts. Instead, the elimination of the property tax merely serves to create additional, higher tax burdens for other taxpayers and destabilize funding for public education.

The General Assembly is expected to again consider The Property Tax Independence Act, a proposal to eliminate property taxes and shift a significant burden of funding public schools onto other taxing mechanisms, including higher personal income taxes as well as a higher sales tax with an expanded base of what goods and services are subject to tax. The proposal also includes a referendum component.

The plan, which was considered in the 2015-16 session, is being touted as a victory for homeowners and a better way of funding public education, but the truth is that it is *not* a panacea for taxpayers or school districts. Instead, the elimination of the property tax merely serves to create additional, higher tax burdens for other taxpayers and destabilize funding for public education. While PSBA supports the concept of diversifying the local tax base to reduce the burden of property taxes on local property taxpayers, the association does not support the total elimination of school property taxes as proposed under this plan.

How the plan works
(Note: As this report is published, the legislation has not been formally introduced.)

The proposal eliminates the authority of local school boards to levy real property taxes and allows school boards to impose a local personal income tax or an earned income tax at a rate determined by the district, upon voter approval. A state education funding account will be created with the following major revenue mechanisms:

• An increase in the current 6% state sales and use tax (SUT) to 7% and expands the list of goods and services that will be taxed;

• An increase in the state personal income tax (PIT) from 3.07% to 4.95%
As of July 1, 2017, school districts would lose their authority to levy, assess and collect any real property tax. However, if a school district has any annual debt service payments for its outstanding debt in existence on Dec. 31, 2016, it may continue to levy property taxes until the debt has been paid off. (Generally, school district bonds are paid back over 20 years.) Thus, the proposal places a majority of the responsibility for funding education in the hands of the state, and school districts would lose much of their local control to finance their schools. The state would make disbursements to districts on a quarterly basis with an annual cost-of-living adjustment.

Taxpayers pay more taxes
Taxpayers will be paying more taxes under this proposal. Here's why:

Taxpayers in 488 of the state's 500 school districts will continue to pay a portion of school property taxes to allow them to pay off their outstanding debt, with only 12 districts projected to be able to completely eliminate property taxes. There are 353 districts that will retain at least

25% of their existing school property tax, and 29 districts will keep at least 50% of their current property tax to pay for existing debt. A few school districts will still need all or nearly all of their current property tax levy to fund existing debt payments.

This chart (https://www.psba.org/debt-service-chart) shows the annual debt service payments for each school district in 2014-15 and the percentage of property taxes required to fund those debt service payments.

Also important to remember is the fact that other local property taxes are not eliminated. Taxpayers will continue to pay approximately $5 billion in property taxes to counties and other local governments. In addition, taxpayers will not be able to claim approximately $600 million in federal income tax deductions for school district property taxes that are eliminated, meaning that there will be hundreds of millions of dollars less to be used to generate additional sales tax revenue.

Meanwhile, taxpayers will be paying increased personal income and sales taxes. There will be a lengthy list of newly taxable goods and services. This could include food (not including items on the WIC list), personal hygiene products, diapers, textbooks, caskets and much more. Newly taxable services could include public transportation, theatre admission, services for buildings and homes, veterinary services, daycare, haircuts, non-tuition/housing charges imposed by colleges and professional schools, funeral home services and more.
These increases in personal income and sales taxes outweigh any minimal reduction in property taxes, with some of the poorest communities in the state the most impacted.

Tax burdens are shifted disproportionately
The use of income taxes shifts the local tax burden away from large businesses to individual taxpayers,
Property tax elimination plan doesn’t work for taxpayers or schools

The elimination of the property tax merely serves to create additional, higher tax burdens for other taxpayers and destabilize funding for public education.

allowing some businesses to benefit from the elimination of their school property taxes without paying a penny more. Across Pennsylvania, businesses are currently paying approximately $2.7 billion in property taxes, which will be shifted away from those businesses and onto individuals. Out-of-state vacation homeowners who live in our communities do not pay personal income tax and now will not pay property tax either.

The residents in some of Pennsylvania’s poorest school districts will be hit the hardest by property tax elimination. Most will continue to pay some property taxes. In fact, many will maintain more than 50% of their current property taxes, but they will also be paying the increased personal income and sales taxes, which will be shipped out of their community to subsidize the education in some of the wealthiest school districts in the state.

The plan doesn’t work for schools, students and local communities
The plan doesn’t really address the needs of schools, students and local communities either. Here’s why:

Under the proposal, the state will make payments to schools from one pot of funding that comes from the increased personal income and sales taxes. It's unlikely much of the increase in personal income or sales tax paid locally will go to the local school district because revenue collected would go to a state fund to be distributed statewide. This means that education funding is no longer local and tax dollars are likely to be shipped across the state to benefit students hundreds of miles away.

It does not address the factors driving school costs. Eliminating property taxes without addressing the factors driving districts' budgets does not help contain the cost of mandates such as pensions, charter school tuition payments, special education, health care and other areas. The provisions in the bill to send tax dollars back to districts do not take into consideration these mandated costs and are largely why this plan never will fully replace projected property tax revenue amounts needed by school districts. The state needs to provide mandate relief and reduce state-imposed costs for schools.

It removes all safety valves to cover unpredictable expenses or school construction. What happens when unexpected special education costs rise, or the roof needs to be repaired? Without the ability to raise taxes or if income tax revenues decline due to the unexpected economic factors, school districts will need to rely on the state to provide sufficient funds for all mandated costs, operations and even building construction or necessary maintenance. In the case of insufficient funding, school districts will be forced to make cuts to educational programs just to make ends meet.

By abolishing local ability to raise revenue or make financial decisions, the proposal effectively eliminates local control. School boards are accountable for spending decisions and student performance in their local communities. Will the state become responsible for the financial health of all 500 school districts? Will the state become accountable to students, parents, teachers and communities for the performance and safety of our schools?

Meeting the instructional needs of students, rising costs of mandates

Proponents of the legislation blame school boards for out-of-control spending. The truth is that over the past several years, many school districts have been forced to cut programs, educational opportunities, services and staff while increasing class sizes due to ongoing state budget woes. Districts make tough decisions with every budget, and continue to face increased costs. School districts have controlled spending as much as they can, which was especially challenging during last year's nine-month budget impasse. Districts are still absorbing those impacts while facing climbing costs for mandated pension, charter school and special education payments.

Two of the main culprits of rising costs are required pension contributions and charter school tuition payments. When compared to all other school district expenses, it becomes clear why school district costs have been rising.

Pensions – For school districts, pension costs are taking a greater and greater share of available state and local revenues. In 2014-15, school districts paid over $2.3 billion in pension contributions which represented 8.5% of all school district expenditures. In 2008-09, pension contributions were only $515 million, which was about 2.2% of all school district expenditures.

Charter schools – Each year, mandated charter school tuition payments continues to climb – from $717 million in 2008-09 to a staggering $1.49 billion in 2014-15. The General Assembly needs to enact changes in the law to control the spiraling costs of charter schools on school district budgets, particularly regarding special education students. Charter schools historically have received more money for some special education students than needed to meet the students' educational needs. An analysis of charter school annual financial reports showed that in 2014-15 charter schools received more than $295.8 million from school districts in special education tuition payments, yet charter schools only spent approximately $193.1 million on special education costs.

Special education – Federal and state mandates dictate that all students with disabilities be provided a free appropriate public education. In 2008-09, school districts spent $2.8 billion to provide special education programs and services to more than 271,000 eligible students. By 2014-15, special education spending had risen 33% to $3.7 billion and special education enrollment had increased to 276,000 eligible students.

Does the tax shift plan provide sufficient revenue to districts?

The tax shift that will be created under The Property Tax Independence Act does not create adequate or appropriate funding for the support of a thorough and efficient system of public education. On the contrary, it significantly underfunds schools.

In January 2017, the Pennsylvania Independent Fiscal Office (IFO) released a report showing that it would take almost $14 billion in alternative revenue sources to fill the void of eliminating property taxes in fiscal year 2016-17. That number is projected to reach $16.5 billion by 2021-22. That's how much would have to be collected in higher sales and income taxes to replace the lost local revenue. Analyses of prior versions of this legislation have concluded that the funds raised by other taxes never met the projected revenue needed. In fact, a 2013 study by the IFO projected that schools would receive $2.6 billion less in funding by 2018-19 than could be expected from the current system. The study also showed that while the revenues collected were sufficient in the first year, a widening "wedge" in revenue for districts is created in subsequent years as the grandfathered debt is paid and the property tax is retired.

Conclusion

Under the Property Tax Independence Act, school districts will be forced into a system that lacks financial equity and predictability, and robs them of local control. If mandated costs rise significantly, insufficient state funding is provided to school districts, or if revenues decline due to the unexpected economic forces, school districts will have no safety valve to generate additional revenue to meet their obligations, forcing school districts to make cuts to educational programs or face state takeover as financially distressed districts.

The current property tax system provides a stable foundation for local communities to use as needed to support their schools. School boards need to be able to use a mix of local taxes to fulfill their duty to provide quality educational programs and services for all of their students.

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