



# DRASTIC MEASURE

## The Bill That Would Eliminate School Property Tax in Pennsylvania

*By Denise-Marie Ordway*

**PROPERTY TAXES HAVE BECOME SUCH A CONTENTIOUS ISSUE IN PENNSYLVANIA** that residents from at least 84 different grassroots groups have banded together to push for changes that include eliminating the school property tax—even if it means funding education through other sources that might not be as reliable.

### A Decade of Failed Reform

Especially in more recent years, residents and other property owners in the nation's sixth-most populous state have filled meetings, written their legislators, and spoken out loudly against the tax that local governments levy on houses, land, and other property. Pennsylvanians shoulder one of the largest overall tax burdens in the country, and many frustrated home owners there complain that property taxes are too high. Property tax rates have risen even as median household incomes have remained stagnant or declined in most cities in the Keystone State. Meanwhile, a property tax reform bill passed by the state legislature in 2006 has failed to live up to expectations, partly by failing to give residents the control they wanted over the largest portion of their property tax bills—the part that funds public schools and, in some communities, makes up more than one-half of the total tax bill. Under the Taxpayer Relief Act, each school board is required to get voter approval before it can adopt a tax rate that exceeds a cap tied to inflation. For years, however, dozens of school districts have avoided a voter referendum by asking the state Department of Education for special exemptions.

These concerns are priorities for lawmakers. But state leaders acknowledge that changing their property tax system is much more complex than it seems. Cutting taxes for some groups of people means boosting them for others, unless leaders can identify new sources of revenue able to generate at least the same amount of money needed for public education, police protection, waste management, and other local government

services. Today, Pennsylvania school districts, counties, and municipalities rely heavily on property taxes. In fact, schools in the commonwealth rely on property taxes more than schools in most other parts of the United States. About 45 percent of the funds that pay for public schools in the commonwealth come from property taxes, according to data from the U.S. Census Bureau for fiscal year 2013. Nationwide, about 37 percent of school district revenue came from property taxes that year.

[Pennsylvania Senate Bill 76](#)—also known as the [Property Tax Independence Act](#)—aims to slash property tax bills by eliminating school property taxes. By a very narrow margin, the measure failed to garner enough votes last year to get through the Pennsylvania Senate, and its sponsors plan to push for another vote this year.

While Pennsylvania lawmakers acknowledge the need for reforms, they have not yet developed a plan that residents, local governments, the business community, and other stakeholders can agree upon.

### Property Tax Independence Act

During the last several years, multiple proposals have come forward and then been rejected. A controversial bill introduced in 2015 offers some of the most drastic changes of any property tax reform measure to come before a state legislature in recent years. Pennsylvania Senate Bill 76—also known as the Property Tax Independence Act—aims to slash property tax bills by eliminating school property taxes. By a very narrow margin, the measure failed to garner enough votes last year to get through the Pennsylvania Senate, and its sponsors plan to

push for another vote this year. The bill enjoys bipartisan support as well as backing from the Pennsylvania Association of Realtors and groups such as the TriCounty Campaign for Liberty and the Lower Bucks County Taxpayers Association. Under Senate Bill 76, school property taxes would be abandoned over time. Districts with debt would be able to continue charging a small amount, but only enough to finance the annual payments on their debt service, and only until that existing debt is paid off. The legislation does allow districts to levy a local Earned Income Tax or Personal Income Tax for specific projects and programs, but those plans would require voter approval.

Pennsylvanians have indicated property taxes are a key concern. A spring 2015 poll conducted by Franklin & Marshall College, in Lancaster, found that 77 percent of voters think the tax system needs to be overhauled. Most Pennsylvanians who participated in that poll—60 percent—said they would favor a plan that would increase the state income tax from 3.07 percent to 3.7 percent if it meant their property tax bill was chopped by \$1,000.

Among those who feel strongly about the issue is Kelly Sharp, of Grantville, who says she almost lost her house a few years ago because she was unemployed and could not pay her property taxes. At the time, she had enough money to cover her mortgage but not enough for her mortgage and property taxes. After battling her bank for months, Sharp finally was able to negotiate monthly payments she could afford. Today, the mother of five is manager of the canteen at her local VFW Post. Although she and her husband now work full-time, it still will be tough, she says, to come up with the \$6,814.80 she owes in property taxes this year on her five-bedroom home. Sharp says she wants to move to a less expensive state. “We just can’t afford it anymore,” she says. “These taxes are just crazy on so many different levels. Not just the amount, but the power and authority people have to destroy you with these taxes.”

There are multiple reasons why Senate Bill 76 has gained support among tens of thousands of property owners statewide, says David Baldinger, a spokesman for the Pennsylvania Coalition of Taxpayer Associations, an umbrella organization representing the grassroots groups that are fighting education taxes. While many people cite frustrations over rising property taxes and fears about losing their homes, a number of people also think it is more fair to fund schools using sales and income taxes—because a larger share of individuals pay those taxes, Baldinger says. He points out that residents can control the amount they pay in sales taxes, which are paid by the tens of millions of visitors traveling to Pennsylvania each year as well.

“Without question, [property owners] know they will save money by getting rid of education

property taxes,” says Baldinger, a retiree from Reading who said his total property tax bill is about \$8,000, with about \$6,500 levied by the local school district. No recent legislative analysis has been done, however, to gauge whether and how much property owners would save if the state were to replace education property taxes with a higher sales and income tax.

## Opposition to Senate Bill 76

Despite support from many property owners, Pennsylvania Governor Tom Wolf opposes Senate Bill 76, and dozens of organizations have rallied against the measure as well. Among them are advocacy groups for children and the poor, such as the Pennsylvania State Education Association, Public Citizens for Children and Youth, Pennsylvania Council of Churches, and Coalition Against Hunger. At least some opponents object because the bill would raise the personal income tax from the current 3.07 percent to 4.34 percent. The bill calls for increasing the state sales tax from 6 percent to 7 percent, as well as expanding the scope of taxable goods to include some clothing items, some types of food, child care services, and nonprescription medications.

The business community has spoken out against the measure, too. The Pennsylvania Chamber of Business and Industry has expressed concerns that increased sales taxes will affect local businesses, especially retail stores in communities that border Delaware, which has no sales tax, and Maryland, where the tax rate is 6 percent.

Kathy Swope, president of the Pennsylvania School Boards Association, criticized the bill for allowing large corporations and other businesses to stop paying education property taxes. A significant portion of school property taxes come from commercial and industrial property in the state. In the Philadelphia city school district, for example, more than 44 percent of property was assessed as either commercial or industrial in 2012, according to an analysis from the Pennsylvania Budget and Policy Center. “Taxation works best when it is spread across many contributors,” Swope says. “Completely relieving businesses of

the obligation of any contribution—I’m not sure that is the best way to approach this.”

In November 2015, Senate Bill 76 came up for a preliminary vote and almost passed the Senate. Following more than an hour of debate, legislators cast a tie vote of 24 to 24. The state’s lieutenant governor, Mike Stack, in his role as Senate president, broke the gridlock by casting an opposing vote, which made front-page news across the commonwealth. But the bill’s sponsors will try again. The primary sponsor, Senator David G. Argall, has said the close vote demonstrates how important tax cuts are to Pennsylvanians. A spokesman for Argall says Argall hopes the Senate will vote on the measure again in the coming months. And Senate Bill 76 might have a better chance of passing this time around. One of the cosponsors was absent for the last vote, as was a newly elected senator who is likely to favor the bill, according to local news reports. “Each session, we continue to pick up support in all parts of the state,” Argall, a Republican representing 95 municipalities in Berks and Schuylkill counties, says in a prepared statement. “I’ve got news for the governor and the lieutenant governor who voted against us: We are not giving up.”

It was not immediately clear how much support Senate Bill 76 has in the House. But Governor Tom Wolf has said he is concerned that

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School property taxes would be replaced by a higher sales tax, a higher personal income tax, and other changes. The bill’s sponsors expect these new funding sources to generate the billions of dollars a year needed to help pay teachers and staff and otherwise keep the state’s 500 public school districts running. This academic year, education property taxes will raise an estimated \$13.7 billion statewide, according to projections that the Legislature’s Independent Fiscal Office released in late 2014.

State Senator Mike Folmer, a father of two and grandfather of seven who is among the bill’s most vocal proponents, said a drastic change is needed because taxes have risen sharply in parts of Pennsylvania, leaving some residents struggling to pay their bills. Families want help. “When I go to houses and knock on everyday folks’ doors, and I say ‘Hi! I’m here to educate you about Senate Bill 76’, and I go into it with them . . . they say, ‘You know what? I’m with you. I get this,’” says Folmer, of Lebanon City. “They’re overwhelmingly in favor. Actually, I cannot remember a ‘no.’”



Children from Wellsboro, Pennsylvania, gather on the state Senate floor in Harrisburg during a tour of the Capitol. Credit: Hamilton-Gibson Children and Youth Choir.





Pennsylvania Governor Tom Wolf visits a classroom at Stonehurst Hills Elementary School in the Upper Darby School District in May 2015. Photo courtesy of the governor's office.

Senate Bill 76 would not bring in enough money, said Wolf's press secretary, Jeffrey Sheridan. While Wolf wants to offer residents property tax relief, he also wants to improve school funding—beyond the revenue raised through property taxes. The governor has spent the past year pushing to increase education funding in an effort to reverse the \$1 billion in cuts that were made to school budgets before he took office in early 2015. Sheridan says those budget cuts were, in large part, the reason why school districts have had to boost property tax rates as well as increase class sizes and cut teaching positions.

Last March, Wolf unveiled a budget proposal for 2015–16 that called for boosting the state's share of public school funding to 50 percent for the first time since the 1970s, a press release from his office states. Today, the state pays considerably less—about 36 percent, according to data collected in fiscal year 2013, the most recent available from the National Center for Education Statistics. A joint report issued last summer by the Pennsylvania Association of School Administrators and the Pennsylvania Association of School Business Officials indicates that the state's share of education funding has slipped since 2008–09, even as school districts must cover increases in the cost of such things as special education and employee pensions and health benefits. "The reason that, in Pennsylvania right now, we couldn't just eliminate property

taxes is because the state's share is inadequate," the governor's spokesman says. "That's something we inherited. It's unfortunate that districts are being forced to raise property taxes, and that's what he is trying to fix."

Wolf's original 2015–16 spending plan included changes to property taxes that would have resulted in tax cuts specifically for home owners. He had aimed to reduce property taxes by \$3.8 million statewide and shrink the average home owner's school tax bill by more than half. Nearly 300,000 senior citizens' households would not pay school property taxes. Like Senate Bill 76, Wolf's proposal would have relied on increases in sales and income taxes to cover the cost of the change. That spending plan, however, was taken off the table in the midst of tense, ongoing budget negotiations with the legislature. Wolf introduced a second state budget proposal in February that did not include changes to property taxes.

## The Dependability of the Property Tax

While Pennsylvania policy makers debate the best ways to revamp the state's property tax system, officials in other parts of the country are wrestling with similar issues. For example, a Texas Senate committee is holding meetings statewide to examine options for property tax relief before making recommendations to legislators. Nebraska Governor Pete Ricketts recently unveiled a property tax relief package that, among other things, aims to limit how much the value of agricultural and horticultural land can grow. Late last year, Florida's House Finance and Tax Committee briefly considered pursuing a plan to replace property taxes with a higher state sales tax.

As debates take place, economists and other experts have reached out to state leaders to help them understand the research behind tax strategies while also warning them of the consequences of cutting back on property taxes as a key revenue source, especially for public schools. Andrew Reschovsky, an economist and

fellow at the Lincoln Institute of Land Policy, says the property tax is generally a much more stable and reliable funding source during a recession than sales and income taxes. He advises against decoupling education funding and property taxes.

Reschovsky, who also is professor emeritus at the University of Wisconsin-Madison, has written extensively about property taxes. In a report published in 2014, he explores states' reliance on property taxes to fund public education and concludes that tax revenue data demonstrate "the abiding stability of the property tax." In addition, he and public finance consultant Daphne A. Kenyon, who is a Lincoln Institute fellow as well, coedited a special issue of the academic journal *Education Finance and Policy* on the property tax and school finance, which included several papers focusing on property tax changes in states such as Michigan, Massachusetts, New York, and Iowa.

For example, in 1996, Michigan reformed its school finance system by reducing reliance on residential property taxes while raising new state revenue primarily from the sales tax. The new system for financing education is highly centralized at the state level, with state revenue distributed relatively evenly across the state's 540 local school districts. In recent years, however, the richest 20 percent of districts have been receiving about \$600 per pupil more in state revenues than other districts. Substantial funding problems remain. Last September, a senior associate from the Citizens Research Council of Michigan reported that wide disparities exist in special education spending among the districts and that there are significant inequities in school construction spending.

South Carolina is another state that changed its tax system in response to demands from property owners. Under Act 388, passed in 2006, the state eliminated the school property tax on owner-occupied homes and replaced it with a new penny sales tax. Laura Dawson Ullrich, an economics professor at Winthrop University, says the trade has not been good for the state. "The sales tax increase has never made up for the reduction" in property taxes, Ullrich says. "Jurisdictions have increased taxes on business-

es and owners of non-owner-occupied homes to make up for the gap." According to *The Greenville News*, lawmakers blame a combination of factors, including the Great Recession, overly optimistic revenue projections, and reliance on a revenue source that is not as stable as the one it replaced.

## Circuit Breakers and Other Solutions

Reschovsky says that instead of abandoning school property taxes, Pennsylvania legislators should try to make the tax more attractive to property owners. One way to do that, he says, is through "circuit breaker" programs, which offer relief to individuals with high tax burdens in relation to their income. "Pennsylvania has a modest circuit breaker program that is available only to taxpayers over the age of 65 and to the disabled," Reschovsky says (figure 1, p. 14). "Making the circuit breaker available to all taxpayers, independent of age, who are facing high tax burdens would likely reduce opposition to the property tax."

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Expanding Pennsylvania's circuit breaker program is one of the recommendations made by the Pennsylvania Budget and Policy Center, a progressive policy research project based in Harrisburg that calls the elimination of school property taxes "an extreme response to a limited problem." It has been urging legislators to reform the tax system by making targeted changes that will not hurt schools. The center also suggests requiring counties to reassess property regularly.

This is important because property taxes are based both on the tax rates set by local govern-

