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Property Tax Elimination Bill Threatens Long-term Public School Funding

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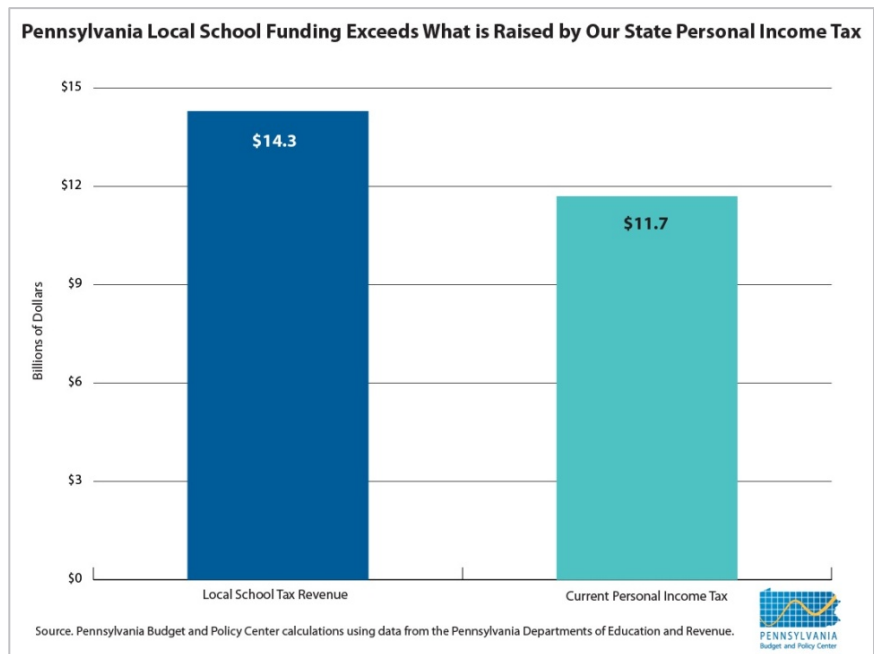
Pennsylvania contributes a smaller share of the cost of educating its students than most states, leaving local taxpayers to contribute more. This makes the resources available to public education highly dependent on local wealth and property taxes burdensome for some individuals.

Restoring the state's commitment to fund 50% of the cost of public schools would go a long way toward solving both problems — ensuring that students who live in modest and lower-wealth districts get the same high-quality education as their wealthier counterparts, and reducing the pressure on property taxpayers.

The school funding formula adopted by the General Assembly in 2008 began to relieve property tax concerns by providing more state funding to school districts with high property tax rates. Governor Tom Corbett and the General Assembly abandoned that formula in 2011. Cuts of close to \$1 billion in state education funding made the problem worse, falling disproportionately on low-wealth and high-tax-effort school districts.

Any policy to address property tax relief must not come at the expense of Pennsylvania's children or future. A well-educated workforce is critical to the state's long-term economic growth — and that begins with a high-quality public education system.

Property tax elimination proposals, including HB 76 and SB 76, pose a serious threat to stable, predictable education funding.



View additional charts at <http://pennbpc.org/propertytaxchartbook>

HB 76 and SB 76 would create a funding gap that leaves Pennsylvania's students permanently behind.

- The proposal makes permanent the state education funding cuts enacted two years ago. It would fund schools at the 2013-14 level, leaving close to \$1 billion in state cuts intact.

- It permanently caps education spending increases at a rate much lower than the actual needs of schools and students. Districts will be unable to keep up with pension, technology, and energy costs that grow faster than inflation.
- By 2018-19, it cuts \$2.6 billion in funding for school districts compared to the current local tax system, according to a new Independent Fiscal Office report.¹ This is due to artificially low limits HB 76 imposes on the growth of state funding distributions to schools.

HB 76 and SB 76 would deepen Philadelphia’s school funding crisis.

- The plan eliminates all local taxes but would only replace lost property tax revenue. Philadelphia would lose almost \$200 million in earned income, use and occupancy, and liquor by the drink tax revenue.

HB 76 and SB 76 would give a large tax cut to corporations.

- Property tax reform efforts to date have focused on making property taxes affordable for residential homeowners and farms. This plan takes a very different course, eliminating all property taxes — not just for homeowners but also for shopping malls, factories, skyscrapers, and other commercial enterprises. About 30% of current property tax revenue comes from non-homeowners.
- Since corporate taxes are not increased in the plan, this means that corporations will contribute far less — and individuals far more — to the cost of public education in Pennsylvania.

HB 76 and SB 76 rely too heavily on volatile funding sources.

- Income and sales tax revenue can drop significantly during a bad economy, meaning immediate cuts to schools. Income or sales tax collections — or both — have fallen seven times in the last 23 years. During this same period, local property tax revenue never once decreased from the prior year. Property taxes keep education funding more stable during recessions.

Pennsylvania can help people having trouble paying their property taxes without dismantling our public education system.

- Help with property taxes can come in two forms: additional resources to school districts with high tax rates and help to individuals who have difficulty affording their property taxes.
- A new education funding formula could allocate additional funding to those school districts, many of which are in struggling municipalities, that have a high tax effort. This would make those areas healthier economically while ensuring students get the resources they need.
- Pennsylvania could increase the homestead exemption for senior citizens. By targeting relief to people on fixed incomes rather than giving it to everyone — rich and poor — the value of the relief could be much greater.
- Pennsylvania could adopt a “circuit breaker,” which targets relief to individuals old and young who are paying a disproportionate share of their income in property taxes.

The Pennsylvania Budget and Policy Center is a non-partisan policy research project that provides independent, credible analysis on state tax, budget and related policy matters, with attention to the impact of current or proposed policies on working families.

¹ Independent Fiscal Office, “Analysis of House Bill 76 and Senate Bill 76,” October 15, 2013, http://www.ifo.state.pa.us/resources/PDF/HB-SB_76_IFO_Fiscal_Analysis.pdf