

September 9, 2013

Testimony to the Pennsylvania House Democratic Policy Committee Hearing on Education Funding Cuts and Property Taxes

By Sharon Ward

Thank you for the opportunity to speak today on the impact of budget cuts on local property taxes. I am Sharon Ward, Director of the Pennsylvania Budget and Policy Center, a nonprofit, nonpartisan research and policy organization based in Harrisburg. We track the impact of state budget and tax policies on low- and middle-income families and on the state's economy as a whole.

There is no more important responsibility of state government than to provide support for public schools. Education funding, in total, represents 35% of the state general fund budget, with good reason. A good system of public education is an absolute necessity if the state's economy is to grow. Pennsylvania is competing not only against its neighboring states but also China, India, and European nations to create jobs and build wealth. An educated workforce is critical to the jobs of the future, and the first step in that process is a high-quality public education system.

Good public schools are vital to our children and grandchildren as well as our economy. Academic standards are much more rigorous and high-paying jobs increasingly require some post-secondary education. In the past, young people could leave high school and get good-paying jobs in the mines or the mills, but that is no longer the case. The wage differential is significant; in 2012 Pennsylvania workers with a high school diploma earned an average of \$14.20 per hour, while those with a Bachelor's degree earned \$24.24 per hour. Although manufacturing is making somewhat of a comeback in Pennsylvania and the United States, the new manufacturing jobs are more sophisticated and require a higher level of skills than comparable jobs of 50 years ago. A good public education system is not a luxury; it is a necessity in today's economy.

Table 2.5
Median Hourly Wages by Education in Pennsylvania, 2010 and 2012

Age Group	2010	2012	Percent Change
All	\$17.23	\$16.77	-2.6%
Dropouts	\$10.74	\$10.01	-6.8%
High School	\$15.02	\$14.20	-5.4%
Some College	\$15.75	\$14.48	-8.1%
Some College, No Degree	\$14.53	\$12.75	-12.3%
Associate Degree	\$17.23	\$16.77	-2.6%
Occupational/Vocational	\$16.37	\$17.03	4.1%
Academic	\$17.86	\$16.99	-4.9%
Bachelor's Degree or Higher	\$25.91	\$25.76	-0.6%
Bachelor's Degree	\$24.12	\$24.24	0.5%
Advanced Degree	\$29.42	\$29.53	0.4%

Source. Keystone Research Center analysis of CPS ORG data

Education is funded by state, federal, and local taxpayers. The three-legged stool of education funding includes income and sales taxes at the state level, as well as property taxes at the local level. (Other local taxes, including earned income taxes, also contribute to school funding, but property taxes make up the vast majority — an average of 82% of all local taxes directed to schools.)

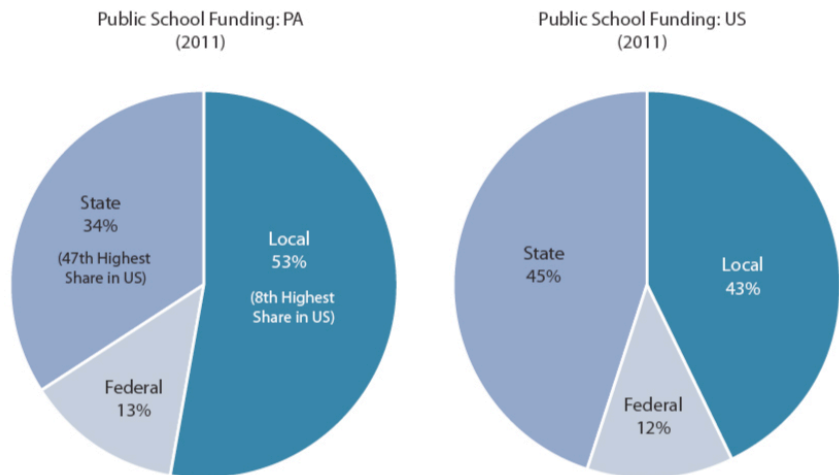
In an ideal world, the three-legged stool would provide a stable, growing source of funding for public education. Income taxes and sales taxes grow faster than inflation when the economy is good, keeping pace with growth in school costs. Property taxes are the most stable and predictable leg of the stool. Property values tend to grow slowly, but these taxes lack the volatility of state taxes.

All three legs of the stool are necessary, but overreliance on one type of tax creates real problems. That unfortunately is the case in Pennsylvania, which has historically left the bulk of school funding to local taxpayers.

Pennsylvania depends more on property taxes to fund schools than most states do. Nationally, in 2009, state funds accounted for 43.5% of school expenditures, all local funds accounted for 44%, and federal funds 12.5%. In Pennsylvania, 35.7% of education funding came from state sources and fully 53.1% were contributed by local taxpayers.

That problem has only gotten worse. In 2011, the last year for which we have national data, Pennsylvania ranked 47th out of 51 states and the District of Columbia in the share of state funding for schools, with the state contributing just 34% of funding compared to 45% for the nation as a whole. For at least a decade, Pennsylvania has fallen among the lowest 20% of states in contribution from state sources.

Pennsylvania Contributes Less to Education



Source: US Census Public Education Finance Report, May 2013

This over reliance on property taxes has two significant problems. The first is that it asks local taxpayers to contribute more. The second is that it contributes to significant inequities in school funding between districts. When this occurs, the quality of a child's education is determined by his or her zip code. That is unacceptable in the 21st century.

For a short period of time, Pennsylvania reversed this trend. The commonwealth had adopted, for the first time in 20 years, a formula to distribute state dollars that was based not on political whims or backroom deals, but on the needs of students and school districts. That formula acknowledged the

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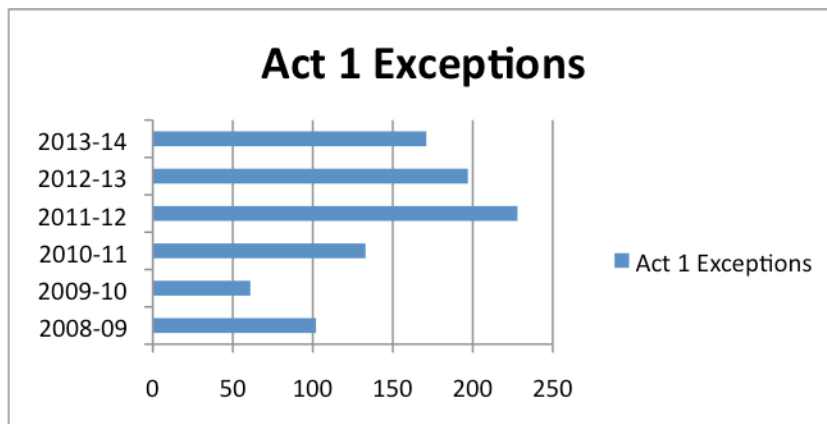
higher costs of growing districts, and the special demands of educating poor students and students for whom English is a not a primary language. It also provided additional funding for school districts with high tax effort. During this period, the state share of education funding was increasing rather than falling, beginning to relieve the pressure on local property taxpayers.

State budget cuts enacted in 2011-12 have largely undone this progress. The Governor proposed and the General Assembly adopted a budget that cut close to \$1 billion from the state’s share of education funding. The impact was almost immediate. Across the commonwealth, school districts were forced to make substantial cuts in services, raise taxes, or both.

School districts have cut music and art, sports, and Advanced Placement classes and have increased class sizes in the early grades. There is a generation of children who have the misfortune of being public school students in 2012 and 2013 with fewer resources to help them get a solid footing or to get into the college of their dreams. There is no second chance for these children.

School funding cuts also affected the state’s economy. The commonwealth lost 20,000 jobs in the education sector between 2010 and 2012, which is a significant contributor to Pennsylvania’s slow job growth coming out of the recession.

The cuts have also forced a record number of school districts to apply for and receive approval for exceptions to the caps placed on local tax increases by Act 1. In 2009 and 2010, 101 and 61 school districts, respectively, were approved for increases over the Act 1 index. In 2011-12, that number jumped to 228, and it has remained high during the two subsequent years. The share of districts filing preliminary budgets in February (signaling the possibility that an exception may be filed) that have subsequently applied for and been granted exceptions has increased from 65% in 2008-09 to 92% in 2013-14.



Source: Pennsylvania Department of Education

The addition of \$43 million in new funding in 2012-13 and \$122.5 million in 2013-14, although welcome, have not resolved the problem. We go into the 2013-14 school year with 81% of the dollar value of cuts remaining.

So what is the solution?

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First, the commonwealth should restore the remaining \$700 million in funding cuts to school districts made in 2011. Those dollars should be restored precisely where they were cut, which would bring school districts back to 2010-11 funding levels. While that is still not enough to ensure all children get the resources they need to meet strict state standards, it will undo the damage of the last three years.

Classroom Funding Changes (\$ thousands)								
	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2013-14
Program	Actual	Actual	Actual	Actual	Actual	Available	Gov. Budget	Final Budget
Basic Education Funding	5,294,112	5,226,142	4,868,741	4,733,523	5,354,629	5,403,629	5,493,629	5,526,129
ARRA - Fiscal Stabilization (Ed Jobs Money)	0	0	654,747	1,042,563	0	0	0	0
Basic Education for Rural Enhancements	0	2,000	2,000	1,946	14,000	2,500	2,500	2,500
Accountability Block Grants	0	271,425	271,425	254,526	100,000	100,000	100,000	100,000
Charter School Reimbursement	161,261	226,936	226,936	219,825	0	0	0	0
Education Assistance Program	0	65,142	55,342	46,701	0	0	0	0
School Improvement Grants	22,880	22,880	11,326	10,592	0	0	0	0
	5,478,253	5,814,525	6,090,517	6,309,676	5,468,629	5,506,129	5,596,129	5,628,629
						-841,047	-803,547	-713,547
								-681,047
							Classroom Cuts from 2011-12 remaining	81%
Source: PBPC analysis of Executive Budget			Estimated Cut Per Student		(\$475)	(\$454)	(\$403)	(\$385)

Second, the commonwealth should develop a school funding/property tax relief program that does the following:

1. Ensures adequate funding for schools;
2. Reduces the inequities between school districts;
3. Provides targeted property tax relief to individuals who face true hardship; and
4. Provides targeted relief to communities where high millage rates impede growth.

Below is a list of property tax relief strategies that could be adopted:

- A. Expand the Property Tax/Rent Rebate Program for seniors: Pennsylvania already has a program, the Property Tax/Rent Rebate (PTRR) Program, to address the cost of high property taxes for the poorest elderly Pennsylvanians. Currently, the program provides a modest state subsidy — \$250 to \$650, based on income of up to \$35,000 per year — for homeowners.ⁱ This program could be expanded to offset property taxes for seniors with limited incomes and for properties up to the median value in a school district — or the payments could be sent directly to the district to offset any tax an eligible senior would otherwise owe. The program expansion could be funded with more modest increases in the state’s personal income tax rate or a higher tax rate on unearned income.
- B. Enact a “circuit breaker” to target property tax relief to needy taxpayers, regardless of age: These programs compare property tax payments to a family’s income and, like an electrical circuit breaker, benefits activate once property taxes exceed a set threshold.ⁱⁱ A property tax “circuit breaker” would be means tested and accountable — no matter what school district you live in.
- C. Create a property tax deferral program: Like a reverse mortgage, property tax deferral plans allow specific groups of homeowners (typically, the elderly) to tap into the unrealized equity of their

homes to pay their property taxes. The taxes would be paid when the house is sold. Oregon and Washington currently offer such programs.ⁱⁱⁱ

- D. Increasing state funding for schools — and sticking with it: Pennsylvania’s higher-than-average dependence on local funds for schools could be addressed by increasing state funding for all districts. This cannot be a promise of convenience for the state, as has been the case in past years.
- E. Develop a new school funding formula that incorporates tax effort as a critical variable: Pennsylvania had a funding formula adopted in statute in 2009, which it has since largely abandoned. That formula could be modified to include a variable that better measures local tax effort and distributes a higher share of state dollars to districts with high tax effort as well as areas with high poverty.

Pennsylvania can afford to pay more for schools and property tax relief. There is some capacity in our tax system to shift to a greater reliance on state taxes, if there is the will. In 2010, Pennsylvania state taxes, as a share of personal income, ranked 27th of the 50 states. Pennsylvania’s income tax rate, at 3.07%, has the lowest top rate of 42 states with income taxes. The commonwealth could raise state taxes and remain comfortably within the range of our neighbors and competitors. A portion of the additional revenue should be made available, while a portion could be used for property tax relief either in high-tax-effort districts or for individuals.

The commonwealth could also enact a meaningful severance tax and dedicate a share of the revenue to these projects.

While the General Assembly took some steps toward closing corporate tax loopholes, beginning in 2015, much more could be done.

Finally, the commonwealth has cut corporate taxes by more than \$3 billion but has little to show for it in terms of new jobs. Maintaining the capital stock and franchise tax at its current rate, enacting a corporate minimum tax, and limiting further business tax cuts would stop the shift in taxing from businesses to local property taxes.

Thank you again for the opportunity to testify and I am happy to answer questions.

Endnotes

ⁱ Pennsylvania Department of Revenue, “Property Tax/Rent Rebate Program,” accessed May 28, 2012, http://www.portal.state.pa.us/portal/server.pt/community/property_tax__rent_rebate_program/11410.

ⁱⁱ Center on Budget and Policy Priorities, “Policy Basics: Property Tax Caps,” December 18, 2008, <http://www.cbpp.org/files/policybasics-taxcaps.pdf>.

ⁱⁱⁱ Washington State Department of Revenue, “Property Tax Deferral for Senior Citizens and Disabled Persons,” November 2011, http://dor.wa.gov/docs/pubs/prop_tax/seniordefs.pdf.