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School Property Tax Relief + Reform

**House Republican Policy Committee
Monday, August 30th, 2021 at 1:00 PM
Lebanon Valley Exposition Center**

On behalf of members of the Pennsylvania Association of School Business Officials (PASBO), thank you for your invitation to testify before you today on school property tax reform.

As you all may know, PASBO members are responsible for all aspects of school business operations, including finance, facilities and maintenance, human resources, technology, food service, transportation, safety, and procurement. Our members serve many types of schools, from school districts, intermediate units, and career and technical centers to cyber charter schools, brick & mortar charter schools and nonpublic and private schools across the Commonwealth.

Over the years, PASBO has taken part in numerous discussions regarding school property tax relief and reform, including elimination, and it is a subject with which we are very familiar. We believe that the 50+ year state policy of a growing reliance on local property taxes for school finance is just too burdensome for many homeowners.

Indeed, PASBO believes that significant property tax relief for the homeowner is needed and that providing this relief is something that can be achieved if we all work together. Any successful property tax relief proposal must consider the scope and complexity of implementation, the risk of collateral damage and the outcomes we cannot foresee. Furthermore, significant property tax relief must be targeted, sustainable and scalable.

On the other hand, PASBO cannot support total elimination nor could we support any tax relief plan that is simply just a dollar for dollar tax shift because these proposals simply fail to address the underlying cause of rising property taxes: significant state and federal mandated cost growth.

During the past decade, current state school finance policy has seen historical amounts of state and federal mandated cost growth sent downstream to the local tax base, at the same time state shares of support for special education, charter school tuition, transportation and infrastructure have all fallen. Many districts have seen mandated cost growth wipe out their entire yearly state funding increase, leaving the remainder and all other costs to fall on the local tax base.

PASBO believes significant, sustainable, and scalable relief to our Commonwealth's homestead homeowners and to school districts is both needed and is possible. However, any tax relief measure must be structured to not only provide universal property tax relief but must also include targeted relief and funding, buckets if you will, to address age/income thresholds for deeper relief to those in need, to lift and sustain state shares of funding for mandated costs, and provide an entry point into implementation with a scalable systemic approach. Such approach has a greater likelihood of enactment, it is sound, and uses many structures already in place to deliver significant homestead/homeowner property tax relief.

Current School Finance Policy

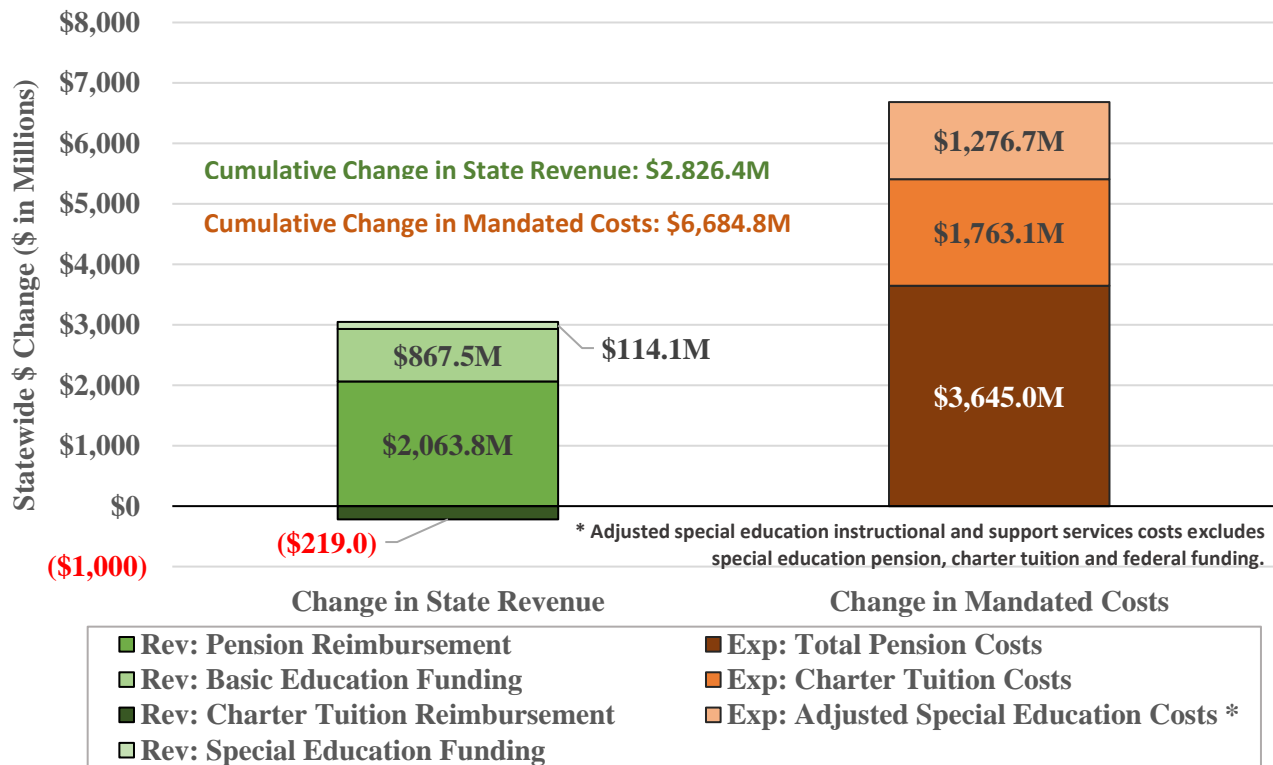
As our annual PASBO/PASA school district budget reports have highlighted, annually rising state and federal mandated costs for special education, charter school tuition and pension contributions, along with a heavy reliance on increasing property taxes and the resulting disparate impact on equity across school districts—are all symptoms of a faltering system of education funding.

From PASBO’s perspective, a comprehensive and sustainable solution needed for several school funding issues is the most critical education reform out there, and the expiration of the federal ESSER funding will accelerate the need to find solutions. The only way to address this issue, however, is to recognize the interconnectedness of each of the related elements and to understand that student equity and taxpayer equity are different sides of the same coin.

Again, each of these issues are all elements of the same conversation.

The Education Deficit provides a quick snapshot of the issue. Over the past ten years, mandated costs for special education, charter school tuition and employee pensions increased by almost \$6.7 billion. During that same timeframe, total state funding has increased by \$2.8 billion. That means that \$3.9 billion in school district mandated cost growth has been funded at the local level through property taxes or cuts in other areas of district budgets. See the figure below for this illustration.

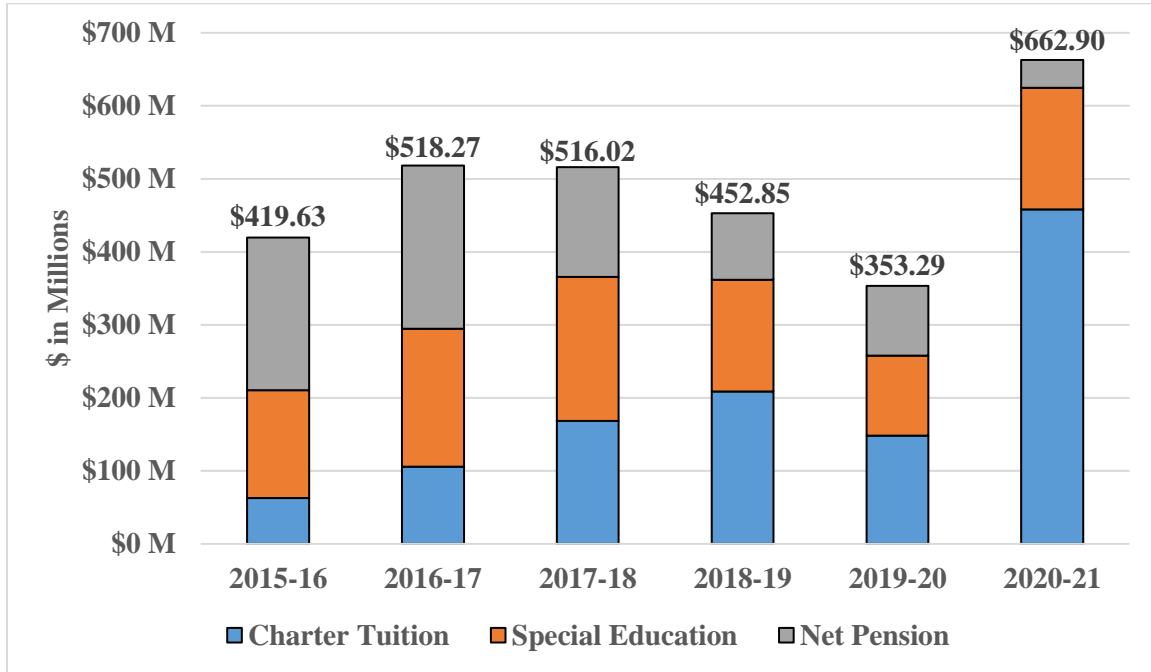
Figure 1 - Cumulative 10-Year Dollar Change in Mandated Costs and State Funding (2010-11 to 2020-21)



In other words, the increased state support provided over the past ten years has not actually gone into sustainably improving classroom technology nor creating innovative learning opportunities for approximately 77.9% of Pennsylvania children. Instead, it has been used to pay for state and federal mandated cost increases.

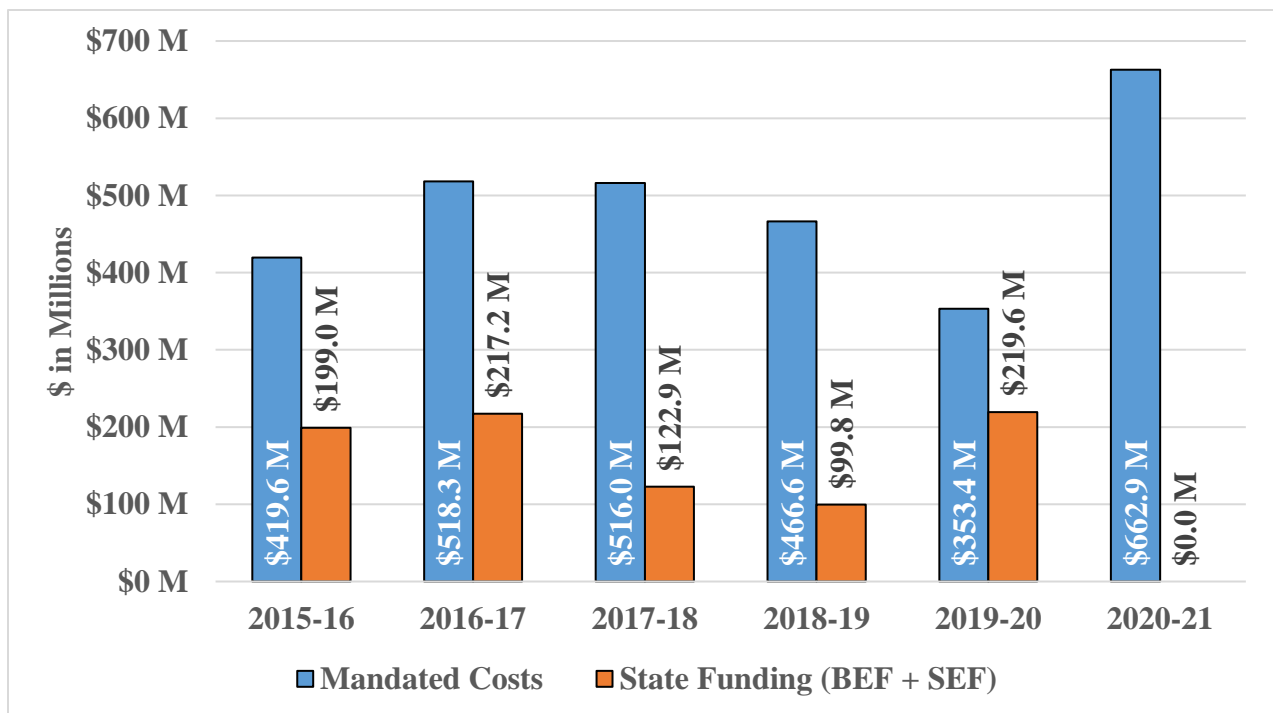
Another way to look at the growth in mandated costs is in the figure below, which highlights how each of the three biggest mandated cost drivers—charter school tuition, special education, and net pension costs (total pension less the state reimbursement)—impact school district budgets each year. In figure 2, it’s clear that two of the biggest cost drivers of school district budgets are charter school tuition and special education costs, which, in turn, are two of the biggest drivers of property tax increases.

Figure 2 – Annual Mandated Cost Growth



Furthermore, the graph below illustrates the annually growing structural Education Deficit, comparing that same mandated cost growth to additional state support in basic education and special education funding.

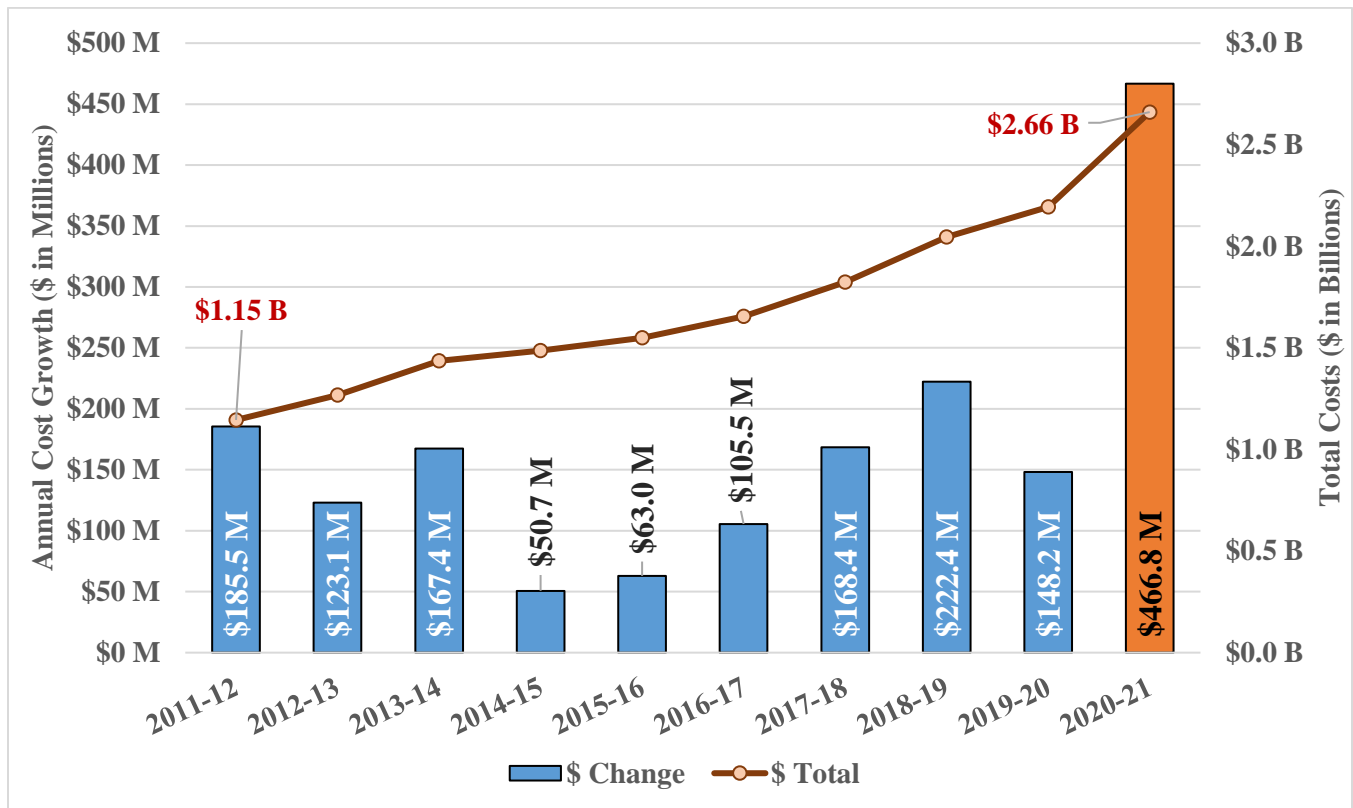
Figure 3 - Growth in Mandated Costs vs State Funding



On average, charter school tuition increases about \$150-200 million annually, which nearly every year directly offsets the state basic education subsidy increase. This annual charter school tuition increase is mostly due to the tuition calculation itself with increased enrollment playing a role in individual school districts.

This year, however, in addition to the normal growth in the tuition rate the calculation drives out, enrollment increases in cyber charter schools has resulted in an increase that is double the average increase. School districts are expected to pay charter schools about \$450-500 million more in 2020-21 than they did last year. See the figure below.

Figure 4 - Historical and Estimated Charter School Tuition Costs

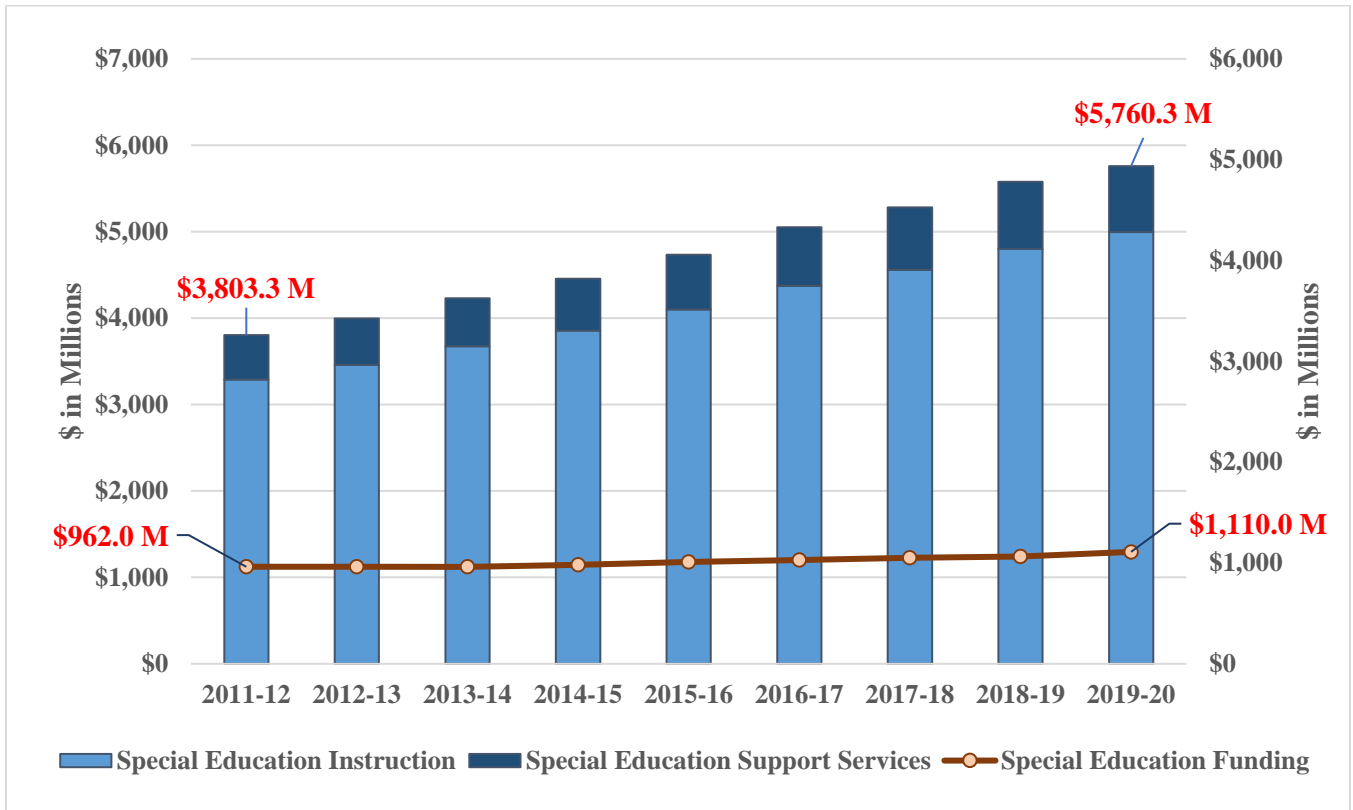


In addition to charter school tuition costs, mandated special education costs increase each year as well. Over the past five years (2013-14 to 2018-19—the five most recent years for which we have Annual Financial Report data), school district special education costs have increased by \$1.35 billion. This includes special education instructional costs, support services costs and special education charter school tuition costs.

During that same time period, state special education funding increased by only \$308 million, and local funding make up nearly \$800 million of the difference. Of the \$308 million in state funding directed to special education, only \$100 million was additional state funding through the special education funding formula; the majority of it was simply to pay the state’s share of the special education-related PSERS increase.

The figure below illustrates the difference between the state’s overall share of school district special education costs over time and the actual cost of providing school district special education services. While school district costs grow consistently each year, the state’s share has remained virtually level over the past several years. Said another way, this is a direct tax shift to increase burden on the local tax base while at the same time often requiring cuts to other district services.

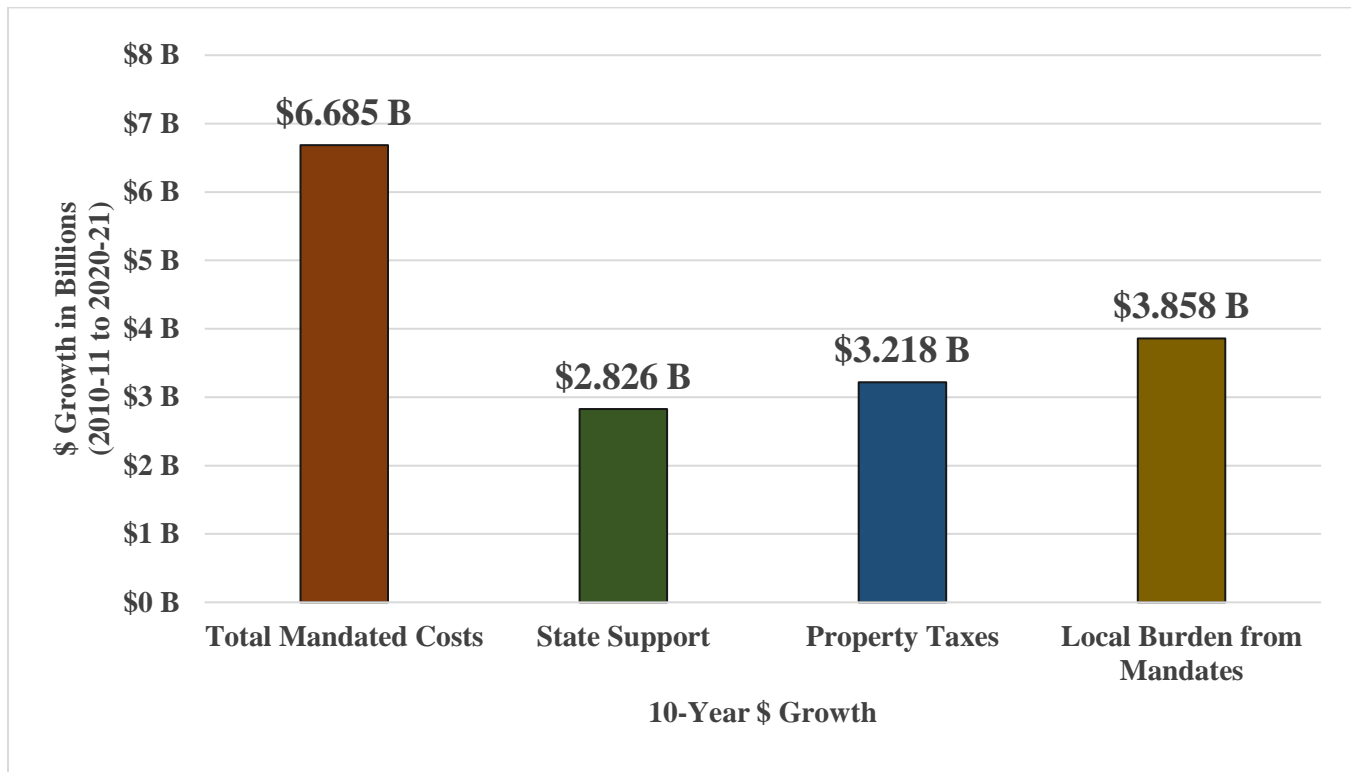
Figure 5 - Special Education Instruction and Support Services vs. State Special Education Funding



Likewise, the disparity in the value of basic education funding across school districts continues to grow, as more money flows from school districts annually to cover charter school tuition and special education costs than flows in increased state education funding. This serves to increase the resource imbalance between districts and increases local fiscal stress. As the state share in many line items declines, the problem only grows.

The figure below highlights this problem. Over the past ten years, mandated costs have increased far faster than state funding increases, creating the Education Deficit discussed above. This Education Deficit is largely paid for by local taxpayers—via property taxes; however, not all of the burden placed at the local level is paid for by property taxes.

Figure 6 - Growth Comparison of Mandated Costs to State & Local Funding (2010-11 to 2020-21)



In some school districts, other local revenue covers any remaining deficit between total mandated costs and state support and property taxes. In other school districts, however, the difference translates to cuts or reductions. Additionally, this calculation assumes that all the increased state support provided over the past ten years hasn't actually gone into the classroom for the vast majority of students that school districts educate—it has been used solely to pay for the charter school tuition increases and special education cost increases.

As a result, it's no surprise that the remedy in conversations about education reform, the school funding lawsuit and property tax reform are the same.

And while PASBO is relieved that significant federal funds are now available to provide needed resources to our children—they are one-time funds, and school districts have been reminded—most recently by Senate leadership—that they should not be used to cover ongoing costs—i.e. to cover this state and federal mandated cost growth.

Although some have been claiming districts already have plenty of money in fund balance, this characterization is wholly misguided. It is important to understand that fund balance is the difference between assets and liabilities and does not equal cash on hand or revenues less expenditures. School districts do not have some stockpile of money sitting around unused. Further troubling is that the statewide unassigned fund balance over the past five years has consistently represented just 22 days of operating capital – in other words, less than a month worth of emergency resources.

School Property Tax Relief and Reform

If state policy continues status quo, PASBO foresees property taxes continuing to increase substantially in the coming school years and worse yet, student and taxpayer equity to only get further out of balance.

The only way to address this issue is for policymakers to recognize that everything within the state's school finance policy is all one inter-connected conversation, and there cannot be any meaningful and long-term success for any proposed tax relief or reform unless you have a comprehensive effort to tackle these issues together—because the solution is interconnected and cannot be siloed.

Property tax reform in a vacuum will be unsustainable without simultaneous action to address the annual increases in mandated costs that drive property tax increases. Addressing the inequities in our education system cannot happen and won't get more dollars into the classroom until policies that are defunding classrooms are addressed.

Until then, ever-growing mandates will simply divert money out of our classrooms.

Fortunately, a stronger state effort to provide mandate relief coupled with effective tax relief can be done through state funding on a wider and more sustainable tax base that results in both student and taxpayer equity. By doing this, lawmakers can relieve school districts of increasing mandated costs, remedy the school funding lawsuit and provide substantial property tax reform.

The federal funding cliff creates the urgency for resolving these issues in the immediate future. As a result, PASBO has spent endless hours working to address each symptom of our broken education funding system with a comprehensive long-term solution that will work to resolve these issues and provide both student and taxpayer equity.

PASBO recognizes the need for a solution ... and we have in the past proposed our own legislative solution for common sense property tax relief and reform. It involves universal property tax relief to all taxpayers, targeted property tax relief to homeowners and additional funding to expand the Property Tax and Rent Rebate program.

Furthermore, our recommendation would sustain this tax relief into future school years by targeting additional state dollars at the major property tax drivers, mitigating the need to increase property taxes from year to year. It also focuses on moving the needle towards both student equity and taxpayer equity.

The highlights of our school property tax relief and reform proposal are the following:

- Our proposal would provide substantial property tax relief to renters and homeowners, especially our most vulnerable population such as seniors with fixed incomes struggling to pay their bills.
- Our proposal provides property tax relief to the local businesses who are currently trying to recover from losses experienced during the pandemic.
- Our proposal provides critically needed mandate relief for schools by helping them cover the growth in special education instructional and support services.
- Our proposal brings the state back to the funding table by reinstating and improving the previous state reimbursement to districts for charter school tuition.
- Our proposal begins to resolve the severe historical inequities that the school funding lawsuit aims to remedy by leveling up those schools with the most need and the least resources available.

PASBO believes it is possible to enact and implement effective school property tax relief and reform in this Commonwealth, it's just a big comprehensive discussion, and lawmakers have to approach it in way that they haven't before—as one issue and one conversation in school finance.

PASBO thanks the members of the House Majority Policy Committee for the opportunity to participate in your critically important discussion and for the opportunity to submit our ideas and recommendations for comprehensive school property tax relief and reform. We look forward to working with of the members in your caucus and welcome all questions and feedback.