



TESTIMONY OF THE

PENNSYLVANIA SCHOOL BOARDS ASSOCIATION

BEFORE THE PENNSYLVANIA

HOUSE REPUBLICAN POLICY COMMITTEE

REGARDING

PROPERTY TAX REFORM

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Property Tax Reform

Good morning members of the House Republican Policy Committee, my name is John Callahan and I am the Chief Advocacy Officer for the Pennsylvania School Boards Association. On behalf of our 4,500 elected members, as well as the 500 Administrators we represent, I can say that I have not heard one time where Directors were excited to raise property taxes or for that matter cut programs at their school district. School Boards are elected representatives who have the responsibility of making some incredibly difficult decisions for their local community. One decision that is not taken at all lightly is to increase property taxes.

School property taxes in Pennsylvania are a symptom of Pennsylvania's broken system of financing public education as well as the burdensome State and Federal mandates that increase school district budgets. With the current funding system, school boards are made to depend for the most part on property taxes for a significant share of their school district budgets. Further, school district budgets contain components that increase because of state mandates that drive their costs and are essentially outside of the control of administration. While there have been numerous attempts to provide local taxpayers with necessary relief, comprehensive local tax reform can only be achieved by stepping back and attacking the issue on multiple fronts. Today I will provide a review of the history of school funding in Pennsylvania, a overview of the pressures that push school district budgets and a evaluation of the structural challenges of the property tax system that should be addressed.

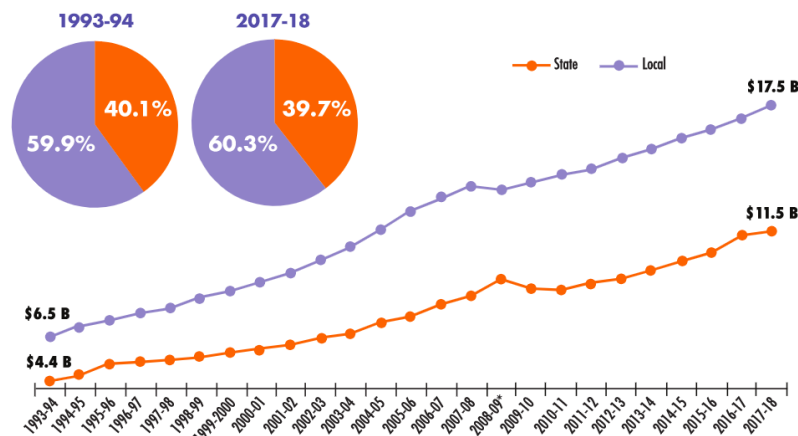
History of school funding and tax reform efforts

Over the years, dependence on local property taxes to fund education has grown while the state's share of funding has diminished. This is not to say that the legislative increases over the years have not been appreciated and needed. In 1993-94 Pennsylvania school districts received 76.4% of total local revenue from the property tax. By 2018-19, the state funded 38.2% of elementary and secondary education costs, while 58.8% came from local taxpayers. The national average for state funding for education is around 44%.

State/Local Shares Growing Further Apart

From an historical perspective, the percentage of revenue school districts receive from local and state sources are nearly identical to 1993-94 levels. However, in terms of dollars contributed, the difference between state and local shares had grown by nearly \$2.3 billion in inflation-adjusted dollars.¹⁹

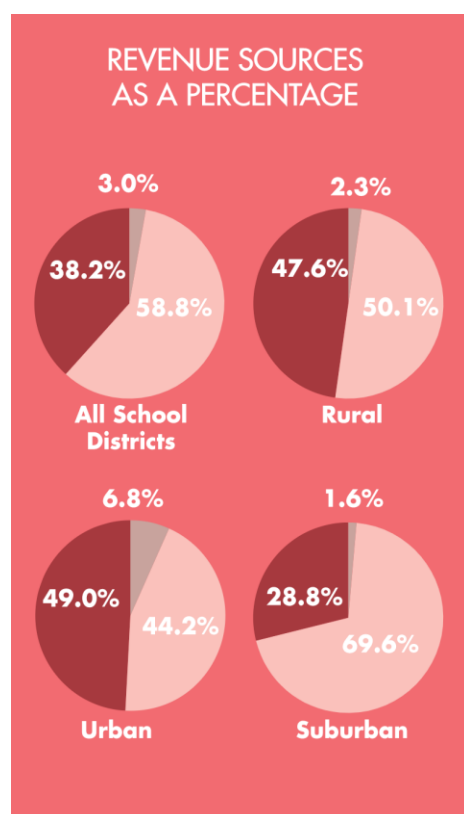
State/Local Revenue Shares – 1993-94 to 2017-18



* 2008-09 was the first year for state property tax reduction allocations under Act 1 of 2006.

Pennsylvania school districts are forced to rely too heavily on property taxes to fund an extraordinarily large portion of the costs of operating a school district, and this over-reliance ensures that school districts are forced to depend on increases in property taxes to generate the dollars necessary to fund school programs.

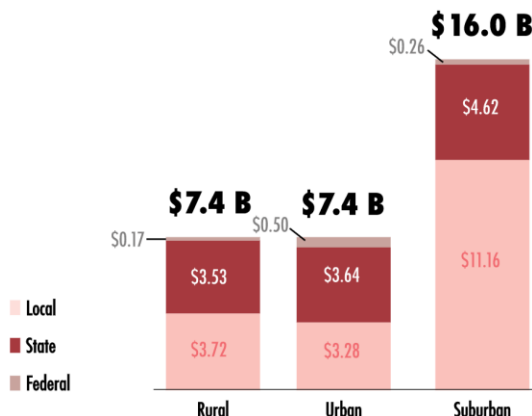
Act 145 of 1988 attempted to increase PIT to reduce overall residential property taxes; however, the voter referendum on the constitutional amendment failed overwhelmingly by a 3 to 1 margin with many senior citizens opposed to any increase in PIT. Then in 1998, Act 50 was passed, giving school districts the authority to decide if they wanted to increase EIT to reduce school property taxes. Only four school districts chose to participate in the shift. In 2004, Act 72 gave school districts the authority to implement an EIT or net profits tax to reduce school property taxes, and only 8 of 501 school districts elected to do so. Finally, in 2006, Act 1 required school districts to ask voters if they wanted to implement an EIT or PIT to reduce property taxes. Overwhelmingly across the state, these referenda failed by margins of 2 to 1 and 3 to 1 and not a single school district (other than the 8 currently implementing the EIT under Act 72) was able to implement an increased EIT or PIT.



Most school districts still reliant on local revenues

For a majority of school districts, especially those in suburban areas, the largest share of their revenues come from local sources. This makes any pandemic relief funding extremely valuable in terms of offsetting necessary local revenue increases.⁴

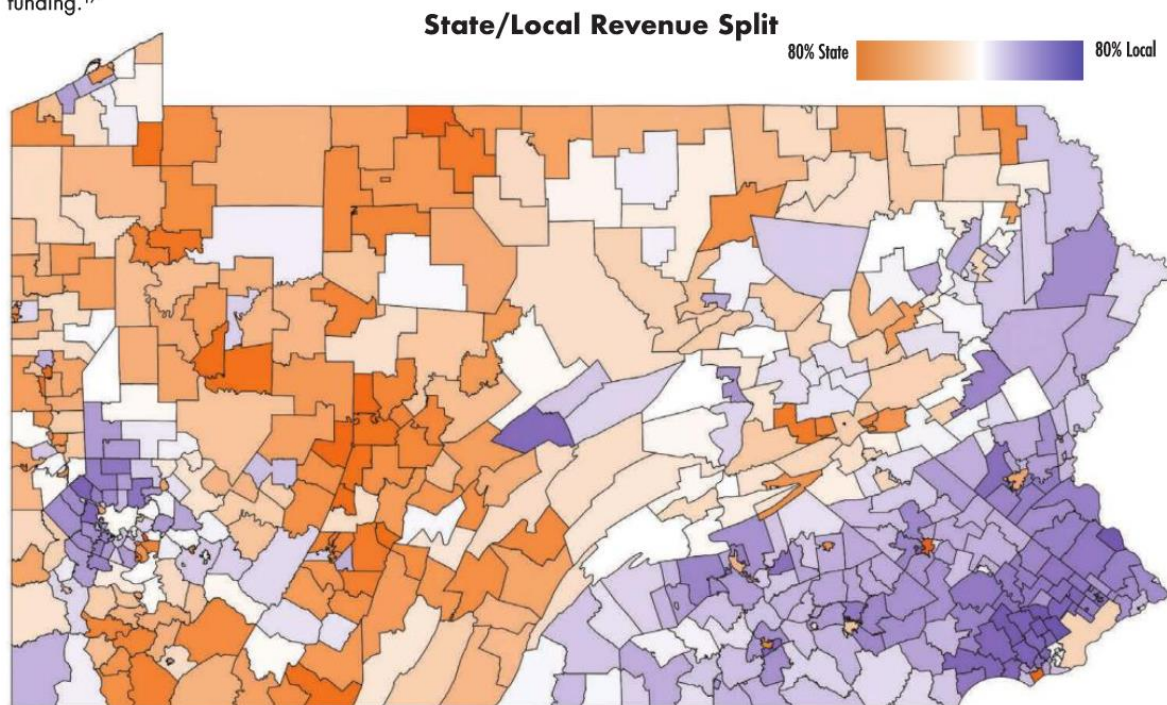
Amount and Source of Revenue (in Billions)



Shifting local revenues away from property tax will not, alone, provide significant relief from property tax. While PSBA supports legislation that allows school districts to assess their school district and community and use the proper mix of local taxes to fund education, reform plans that simply shift revenue sources from property taxes to alternatives, such as the sales and use tax, are not solutions to the problem. Attempts to reduce property taxes without focusing on costs and increased state funding ignore the underlying problem and ensure that new unfunded state and federal mandates will eventually result in either local tax increases or cuts to programs that are essential to high student achievement.

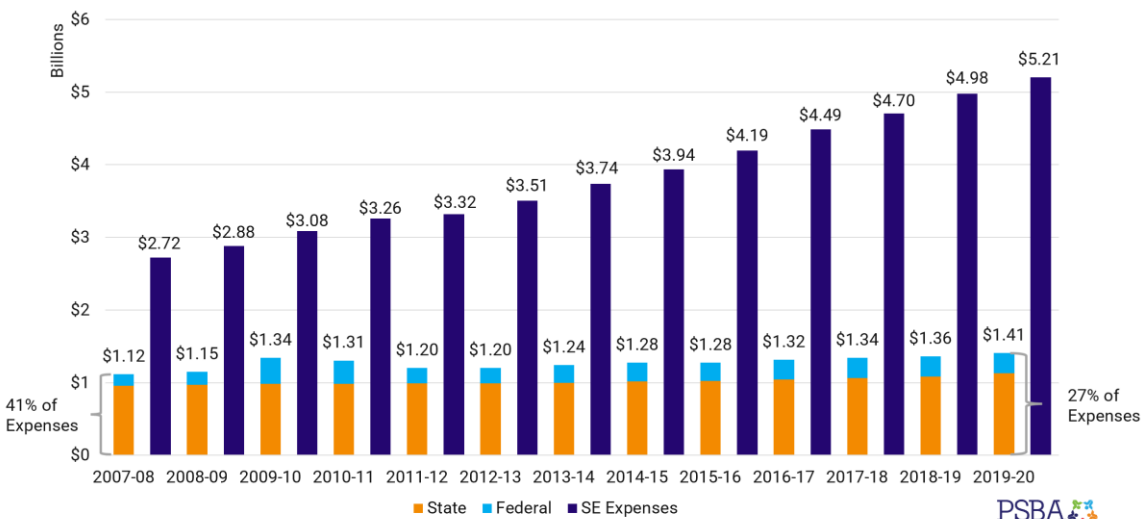
Revenue Shares Vary Widely Across Pennsylvania

Taking a closer look at the percentage of state and local funding for each school district reveals, in greater detail, the reliance on local revenue for suburban school districts and that many rural and urban school districts are more reliant on the state for funding.¹⁷



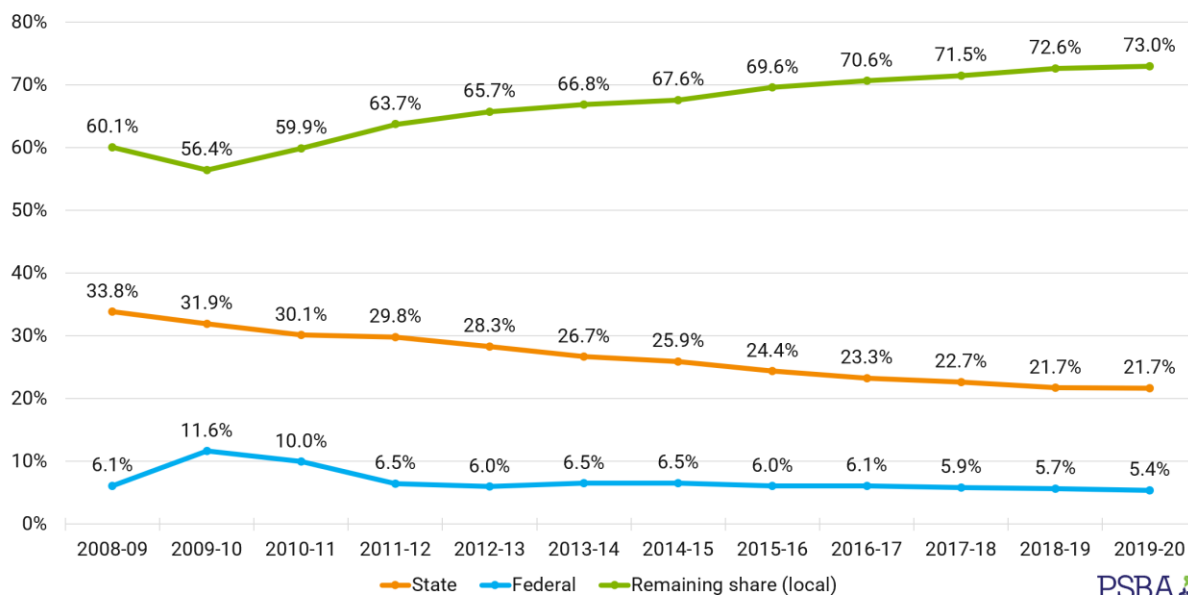
A comprehensive school funding reform plan must be created that addresses the factors driving school district costs. While PSBA understands the need to alleviate the burden of property tax on local taxpayers, to reach a comprehensive and lasting solution, action must be taken to examine and address the factors driving the cost of public education. The growth in mandatory expenses such as pension costs, charter school tuition payments and special education costs over the last decade have been the primary cause of increased school district spending across Pennsylvania. A comprehensive solution to the property tax problem would need to tackle the issue of funding for special education.

Special Education Revenue vs Expenses



% Special Education Revenue by Source

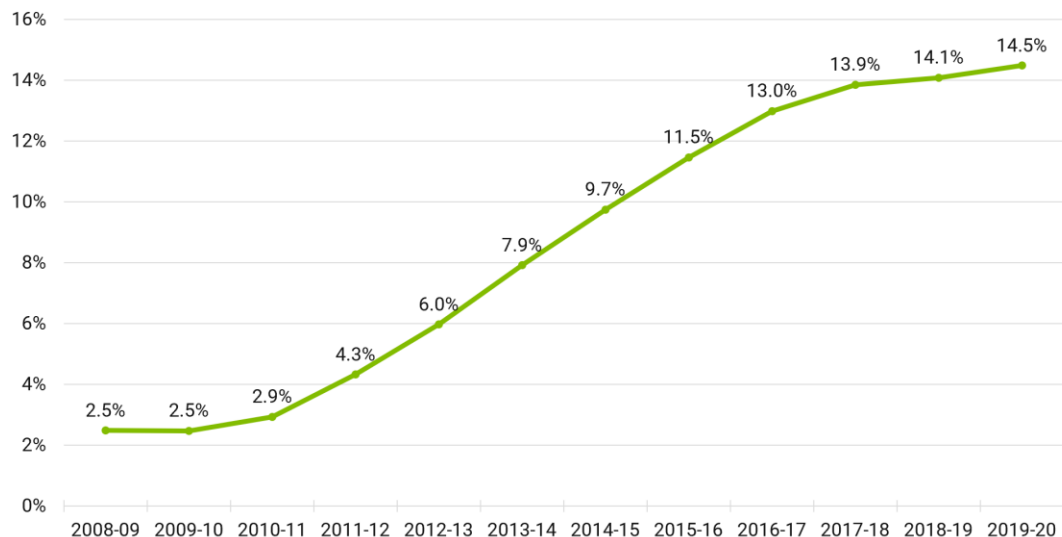
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Further, Pension Growth in PA Schools is starting to plateau, but the budget impacts will continue into the future. Between 2010-11 and 2017-18, the mandated employer contribution rate increased significantly. As a result, the percentage of school district budgets being consumed by pension costs has grown at a commensurate rate. Employer contribution rate growth is projected to slow in coming years, but will remain at historically high levels for the foreseeable future, providing no relief for school budgets.

Pensions as % of Current Expenses

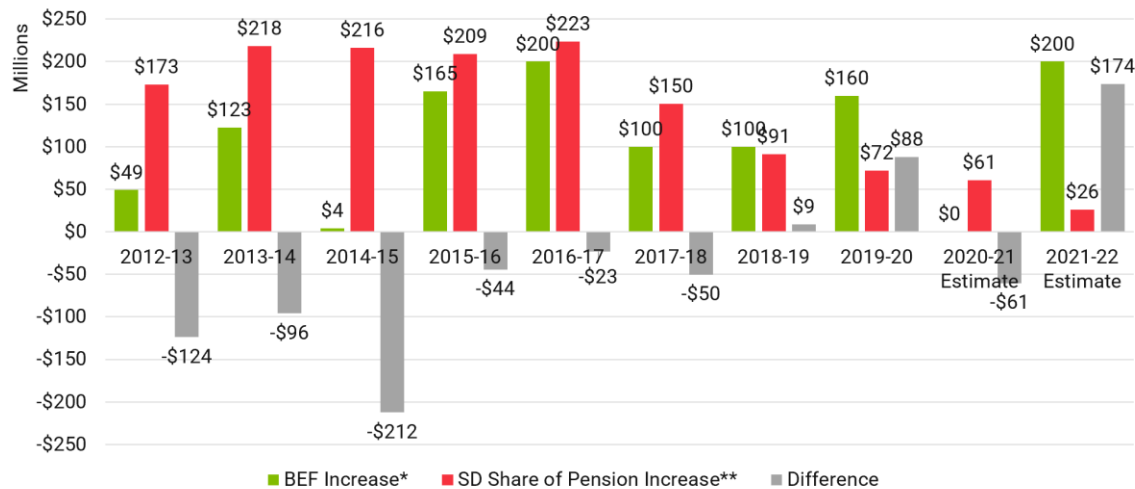
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BEF Increases vs Local Pension Increases

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As ECRs exploded local pension increases were greater than BEF increases, until recently.



* BEF amounts and increases based on actual/available budget line item looking back at the prior year.

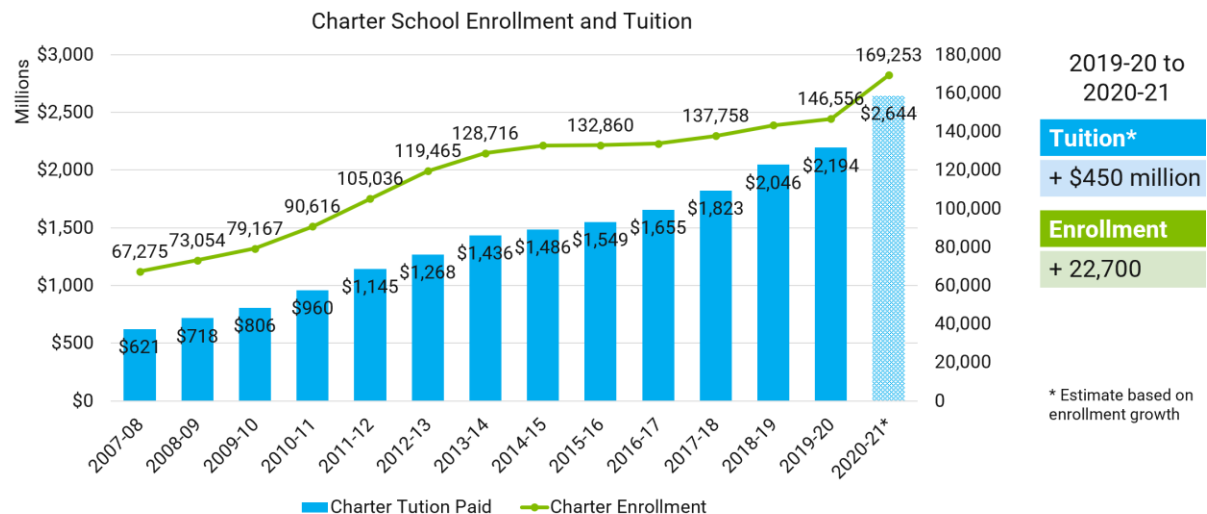
** Estimates based on increase in state share of pension costs.



One additional factor that must be addressed is the need to revise the funding formula for charter schools to ensure that school districts are not paying more to charter school than is necessary to educate the student.

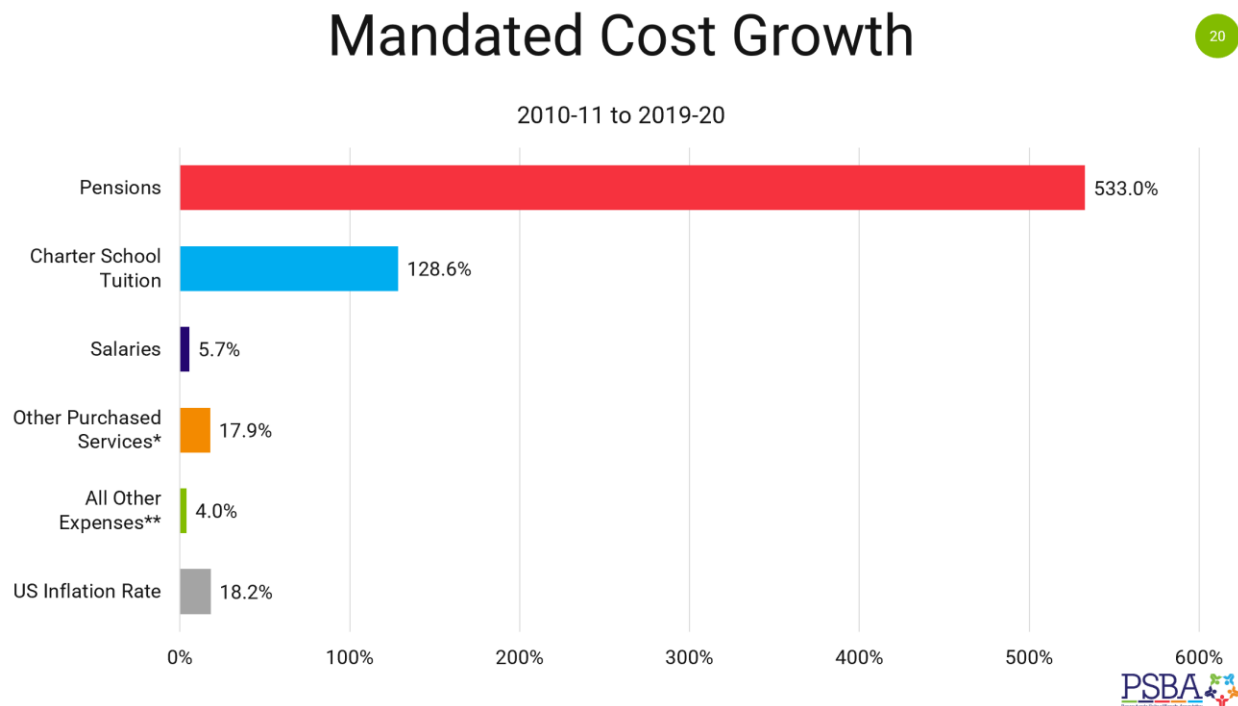
Charter School Cost Growth

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School districts must have relief from costly mandates to decrease their overall expenses. As it stands, property tax reform will be increasingly difficult to address due to the burden of the mandated expenditures noted above. For a broader view of the impact of these mandates on school district budgets, consider that between 2010 and 2019 the largest growth in budgets line items were pensions

and charters school tuition, while salary increases were held below the rate of inflation during that time period.



Flawed Property Assessment System

Finally, it is important to remember that underneath the issues with Pennsylvania's property tax system are Pennsylvania's broken property assessment laws, which give rise to unconstitutional inequities that inevitably result from the prolonged use of old and outdated assessment values in areas where property values have changed at divergent rates. Property tax reform cannot be complete without careful examination of the comprehensive problem with our assessment laws. Mechanisms must be put in place to ensure that property assessments are completed in a uniform and consistent manner, such as requiring uniform assessment and appeal practices, accurate and timely property valuation, additional training and certification for assessors, and increased transparency for the disclosure of how properties are valued and assessed.

Pennsylvania needs to adhere to one of the most basic principles of uniform taxation required by both the United States and Pennsylvania Constitutions – that a taxpayer pays no more or less than his or her proportionate share of the cost of government. In the crazy world of Pennsylvania property tax assessments, school districts utilize different methods to keep the playing field level. These methods only act as a band aid to a system that truly needs regular assessments.

Conclusion

As the legislature prepares to debate a variety of property tax reform measures, PSBA wants to provide information and resources on the comprehensive impacts of proposed reforms. While there have been numerous attempts to provide local taxpayers with necessary relief, comprehensive local tax reform can only be achieved by stepping back and attacking the issue on multiple fronts.