

School Property Tax Reform Brief

York County Policy Council

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Summary

Senate and House Bill 76, also referred to as the Property Tax Independence Act, is a bill that would replace property taxes in Pennsylvania by increasing the personal income tax from 3.07 to 4.95 percent and sales tax from 6 to 7 percent while expanding the levy to dozens of items that are exempt. The municipal property tax would not be affected.

The bipartisan bill is sponsored by Senators Argall (being the prime sponsor), Bartolotta, Baker, Folmer, Schwank, Alloway, Yudichak, Scavello, Rafferty, Aument, Wagner, Smucker, Boscola, Browne, Dinniman, Eichelberger, Mensch, Stefano, White, Brewster, and Wozniak.

Context and Analysis

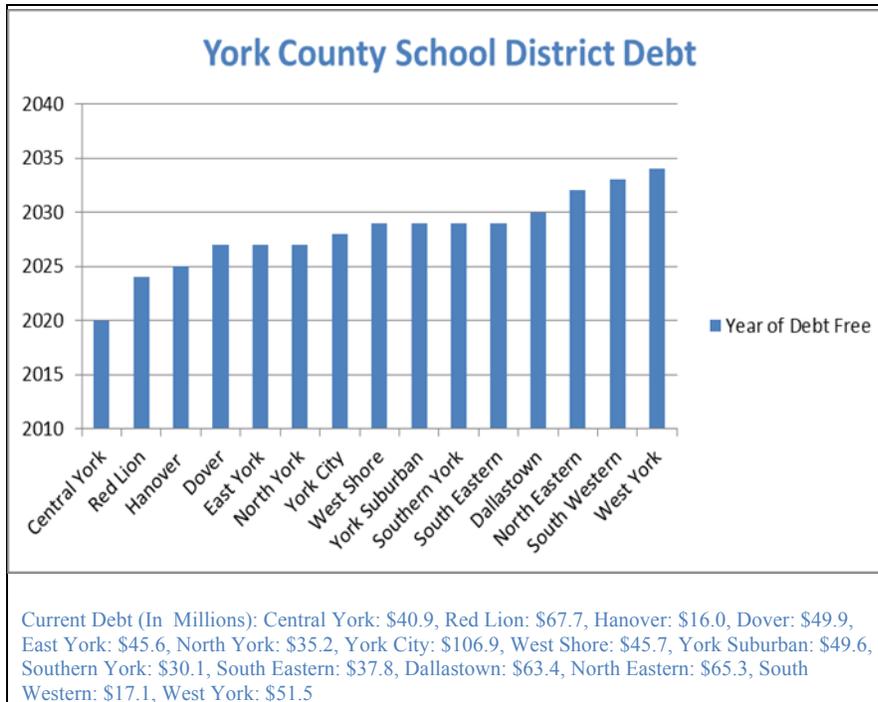
Property taxes in Pennsylvania make up a major source of revenue for the state. This \$14 billion makes up nearly 69% of local government revenue, and around 2/3 of the school district income for most districts. According to an Associated Press analysis, more than 70 percent of property taxes collected in 2014-2015 were collected from the wealthiest half of school districts. As a result, the question that this brief attempts to answer is whether school's will lose anything in their budget from this shift in tax policy, will this impact state or local budget deficits and who will be impacted by the shift the tax plan will have on revenue gathering.

Proponents of change typically suggest an increase in income or sales tax to help alleviate the burden of school property tax, without eliminating it. Currently, HB/SB76 expands sales tax drastically; the list of items and services to which the tax would apply will expand to include the majority of services (such as legal services and mental health services) as well as items such as most food and clothing.

The resulting tax, according to the ASBO (Association of School Business Officials), would be enough to finance each district as the Education Stabilization Fund requires. This means the current deficit will be covered by increased sales and income tax, as well as using the school district's emergency funds, as this is what they (emergency funds) were intended for. HB/SB76 will see a \$5 billion increase to state revenue from income tax. In a raw calculation, the sales tax is estimated to bring in \$10,143,000,000 after the 1% increase, in comparison to the \$9,166,842,000 pre-sales tax increase¹. This potentially leaves a \$1 billion deficit in the budget if sales tax revenue does not outperform the estimates or if the expansion of the tax to services fails to meet expectations. It is also probable that the increase in income tax will cover this potential gap.

¹ Independent Fiscal Office.

An issue facing this bill is that, if passed, school property tax might not disappear immediately as the bonds issued by most districts still needs to be repaid, and only eight of the state’s school districts are debt- free. The other 492 school districts have a total debt of about \$25 billion². This means that taxpayers not in those 8 districts would continue to pay what amount of property tax that is still owed(see chart for York County school districts’ debt load and estimated payoff rate). for the citizen who resides in 98% of districts still in debt, they would continue to make property tax payments that would be at least 20% of their current payment (in addition to tax increases) until that debt is paid off. If the school does not pay the debt off, or issues more it is possible that property tax payment will continue.



In addition to changing where schools get their money, there will be a de facto cap on budget growth, as it would be linked to sales tax and an average weekly wage. If a recession hits, there will be a reduction in income that schools see based on the reduced demand. This effect would be amplified if incomes also fell, as they tend to, during a recession. Opponents of HB/SB 76 argue that these changes would hurt lower and middle-class Pennsylvanians the most as the relief from property taxes would offer them only a slight increase in disposable income. Sales taxes are a regressive tax that disproportionately impacts those who earn less money, while a property tax is a progressive tax that impacts the richer more than other earning groups.³

Policy Options and Suggestions

The arguments for and against Senate and House Bill 76 have merit. In a time of public demand for economic stability and fiscal responsibility, all options should be weighed and properly considered

² Pennsylvania Institute Of Certified Public Accountants

³ <http://www.justharvest.org/sb-76-property-tax-scheme-will-hurt-low-income-and-middle-class-families/>

Governor Tom Wolf has proposed a plan to deal with the same issue. Wolf's plan would reduce the property tax of 311 of the school districts, eliminating the tax for the poorest school districts in some cases. The Wolf Plan, for the average Pennsylvanian (based on average income and property value and married with children)⁴, living in Central York School District would see around a \$708 dollar reduction in their tax bill. According to the Pennsylvania Taxpayers Cyber Coalition, a pro HB/SB 76 group, there would have been about a \$1700 decrease for the same Central York taxpayer in the tax bill per month under the proposed tax plan of HB/SB 76⁵.

Proportionally, property tax (and taxes in general) hits the lower-income individuals harder because they have less disposable income. According to the Institute on Taxation & Economic Policy, the poorest fifth of Americans will pay on average 10.9% of their income in state and local taxes, the middle fifth will pay 9.4% and the top 1 percent will average 5%.⁶ If policymakers want to address this gap, a more progressive property tax reform might be a better choice rather than an outright reduction in the tax rate itself. This might be an argument a Democratic policy maker could present that does in fact align with the proposal of Governor Wolf.

Proponents of elimination of the tax argue the decrease in property tax follows a needed trend: when times are tough or revenue scarce government must focus on their core issues and reduce spending like everyone else. Property owners who see a decrease in their income rarely see their property tax decrease as well, adding further stress to families and businesses in an economic downturn. With a sales or income tax based model, schools and municipalities would be forced to become more efficient to avoid stringent cuts in bad times.⁷ This might be an argument the Republican Party could use, the economy could benefit from a tax policy that frees up capital for investment or spending during a downturn.

While an elimination of property taxes is a sound idea for Pennsylvanians in the short term, there are long-term consequences that need to be addressed, such as any budgetary reduction in revenue. To make sure Pennsylvania's budget situation does not worsen, the tax revenue lost by property taxes needs to be made up in some fashion. This should be done in a way that fairly shifts the property tax burden rather than onto a different subset of the population, for instance those with lower income. Much of the budgetary dispute is a result of unavoidable expenses (teacher salaries, building maintenance and investment, testing and curriculum planning, sports programs, etc.). The voters have made it clear over the years that they expect these services for their children, thus cuts will be difficult to enact, and shift seems to be the more viable option. As this brief continues to point out, a serious problem with shifting from property tax to income and sales tax is the susceptibility to recessions. In times of economic downturn, schools will undoubtedly lose revenue from these taxes. This could jeopardize funding for schools against the wishes of many voters with children in public school.

Opinions are mixed on both sides of the metaphorical aisle. Two major Republican lawmakers, Sens. Tom Killion (R-9) of Middletown, and Tom McGarrigle (R-26) of Springfield, have come out against this bill, citing their grievances as the bill only shifted the tax onto other counties to pay for the reform.

⁴ <https://www.pennbpc.org/overview-gov-wolfs-proposed-2016-17-state-budget>

⁵ <http://www.ptcc.us>

⁶ <http://www.revenue.pa.gov/GeneralTaxInformation/News%20and%20Statistics/Pages/Reports%20and%20Statistics/PTRR%20Reports.aspx>

⁷ <http://timesleader.com/news/623582/pashinski-sees-problems-with-plan-to-eliminate-school-property-taxes>

According to the State Independent Fiscal Review of 2017, this reform of school property tax to increased sales tax and personal income tax is assured to be more than enough to offset the change, which concurs with statements made by Republicans like local activist Joel Sears.

For Democrats, the issue with this bill is the worry that it will affect too many lower and middle income individuals in a negative way, such as loss of disposable income. In an interview with the Representative Carol Hill-Evans (D- 95), “The single most talked-about issue I’ve encountered since taking this office has been elimination of property taxes. I’ve heard arguments both for and against and while the most desirable outcome is total elimination, I have yet to see how HB/SB76 is right for the Commonwealth. The Property Tax Independence Act, while eliminating property taxes, shifts the tax burden of funding our schools, to our most vulnerable citizens – those who already have less disposable income – by increasing both personal and state sales tax. Additionally, not only would there be an increase in tax but also the tax would be expanded to include items such as diapers, clothing, and legal as well as burial services....HB/SB76 is not the answer.”

The York County Policy Council believes that both parties have thoughtful arguments. However, given the experience of other states, such as California⁸, that experienced extreme cuts to public schooling during the Great Recession that started in 2008 we would counsel care in choosing a tax policy that moves to greater reliance on sales tax without clearly communicating the potential consequences to voters. If voters are willing to accept that taxes may rise to keep programs or that services may be cut during a recession then this reform is an acceptable reform.

⁸ http://www.lao.ca.gov/handouts/state_admin/2012/CA_Property_Tax_3_12_12.pdf