

Fall 2011



School District Property Tax Review

House Majority Policy Committee Property Tax Reform Policy Development Team

Representative Seth Grove
Team Co-Leader

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Property Tax Overview

Taxing Authorities

- Pennsylvania property taxes are paid at three different levels:

- **County**
- **Municipality**
- **School District**

→ While taxes are imposed at the local level, the authority to impose the taxes comes from the state.

→ Of the three aforementioned taxing authorities, school district taxes represent the most significant “problem” for homeowners.

School Property Taxes

Pennsylvania School District Property Taxes can be broken into two categories:

- **Residential Property Taxes**
 - **Commercial Property Taxes**
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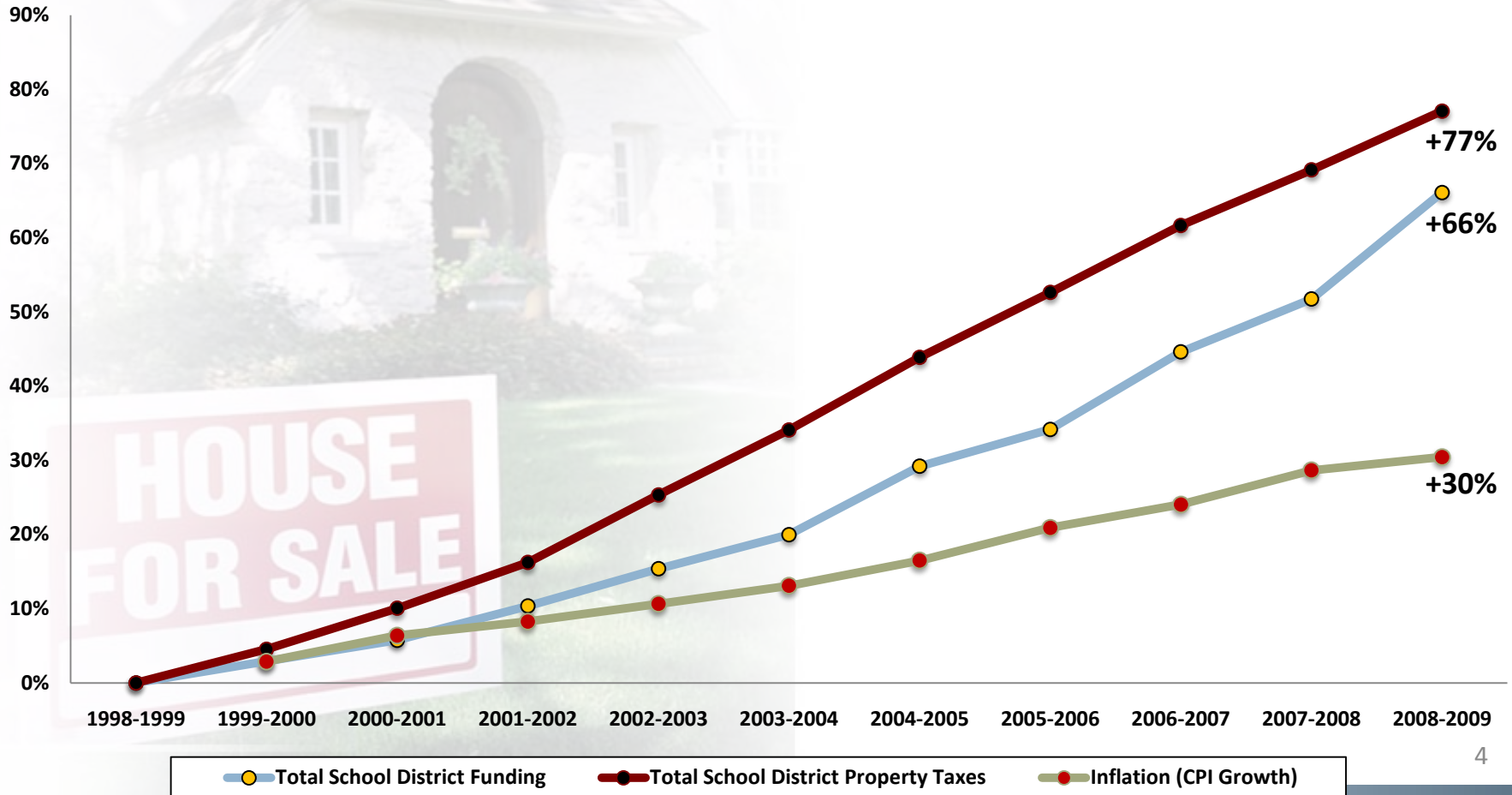
For the current year, these taxes are projected to generate nearly \$13 Billion for Pennsylvania schools:

- **Residential: \$9.1 Billion**
- **Commercial: \$3.8 Billion**

School Property Taxes

10-Year Tax Growth Rates

Property Taxes vs. Total School Funding from the State vs. Inflation



School Property Taxes

10-Year Growth Assessment

- School district property tax increases have far outpaced the state's continued increases in education funding.

FAST FACTS

- Total state funding to Pennsylvania schools increased by \$3.65 Billion (66%) from 1998-99 to 2008-09.
- Property taxes increased by \$4.77 Billion (77%) during this same period.
- ➔ • For every \$1 in new funding the state has given to local schools property taxes have subsequently increased by \$1.33.

Property Tax Reform

Recently Enacted Property Tax Relief Measures

A faded background image of a house with a 'HOUSE FOR SALE' sign in the foreground. The house is a two-story white building with a gabled roof and a small porch. The sign is white with a red border and the words 'HOUSE FOR SALE' in bold, white, sans-serif capital letters on a red background.

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FOR SALE**

School Property Taxes

Property Tax Relief Efforts

- Over the last 10 years, the General Assembly has enacted two prominent property-tax relief plans, neither of which has provided homeowners with significant tax relief:

- **Legalized Gaming – Slots (Act 71/72 of 2004)**
- **Taxpayer Relief Act (Act 1 of SS 2006)**

→ Neither proposal has generated the relief desired, which has prompted calls for additional property tax relief.

School Property Taxes

Legalized Gaming – “Slots” (Act 71/72 of 2004)

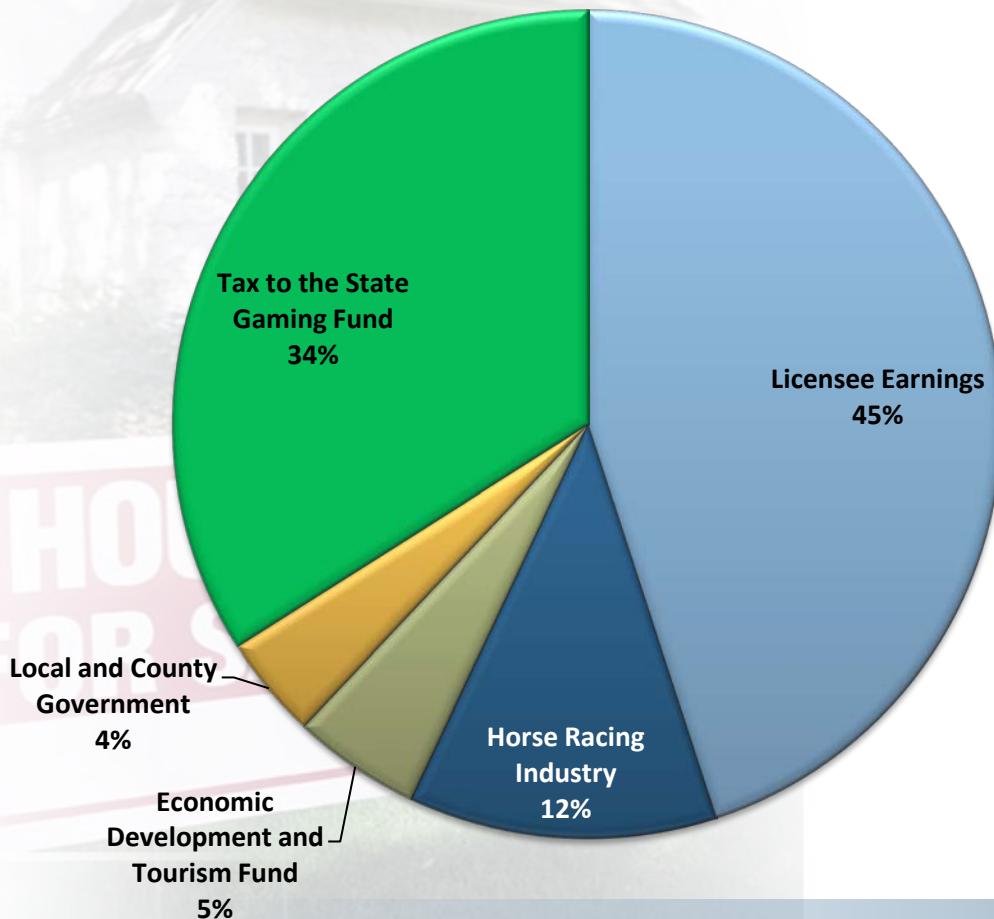
- This measure legalized gaming in Pennsylvania through slot machines. Funds generated from the gaming revenue were used for tax relief.
- While some tax relief has been provided, there are many people in the state whose property tax increases have outpaced any relief received.

→ Governor Rendell touted the slots law as an answer to the state’s property tax concerns. In 2011, the Office of the Budget has certified that \$776.2 Million will be available for property tax relief – an average of approximately \$200 per homeowner. It is important to note that table games revenue is not dedicated to property tax relief.

School Property Taxes

Act 71 Slots Revenue Breakdown

Distribution of Funds



State Tax Revenue

Of the 34% of slots revenue dedicated to the state, the majority goes to property tax relief.

School Property Taxes

The Taxpayer Relief Act – (SS Act 1 of 2006)

- **This measure was adopted during a special session on property taxes to provide additional relief for homeowners.**
- **This Act implemented some protections for taxpayers relative to school district budgets. However, exemptions were afforded to school districts.**

School Property Taxes

The Taxpayer Relief Act – (SS Act 1 of 2006)

- **Local Tax Study Commission**
 - School districts were authorized to create these commissions to evaluate their district's tax structure and impact of levying a local EIT or PIT to offset property taxes. Recommendations were made to school boards.
- **Front-End Referendum**
 - This provided for a local tax option (EIT or PIT) to offset property taxes. It failed overwhelmingly across the state during the May 2007 election.

School Property Taxes

The Taxpayer Relief Act – (SS Act 1 of 2006)

- **Property Tax Index**

- This provided a maximum tax increase that each school district could impose annually. Exemptions were provided.

- **Back-End Referendum**

- This offered voters the ability to approve a school district tax increase above the index (non-exemption).

→ The combination of the index and the back-end referendum prompted many school districts to increase property taxes up to the index year after year. In some cases, this was done to circumvent the index and accumulate funds in the event they would be needed in the future.

School Property Taxes

Recent Changes to SS Act 1 of 2006 (SB 330 – Act 25 of 2011)

- **Exemptions Removed**

- **SB 330 removed nearly all the exemptions that allowed school districts to increase property taxes above the Act 1 (2006) index.**

- **The only exemptions left are those relating to Special Education and Pension.**

→ This measure was signed into law by Governor Corbett along with the 2011-12 state budget.

School Property Taxes

Failed Referendum: May 16, 1989

- **House Bill 1 of the 1989-90 Legislative Session**
 - This measure presented voters with an opportunity to decide whether local taxing authorities should shift from property taxes to a personal income tax (dollar-for-dollar shift).
 - This option was rejected by votes nearly 3-to-1.



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Property Tax Reform

Property Tax Relief Concepts and Proposals

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School Property Taxes

Other Property Tax Relief Proposals

- **Property Tax Elimination:** Several proposals have been considered that would eliminate property taxes by replacing it with increased sales and/or income taxes. This has been deemed as a tax shift.
- **Other proposals considered include the following:**
 - **Senior Citizen Property Tax Freeze**
 - **Senior Citizen Property Tax Elimination**
 - **Property Tax Assessment Reforms**

Property Tax Reform

The Principles of Enacting Meaningful Relief



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Property Tax Reform

There are four fundamental factors that must be considered in order to enact meaningful relief:

- **Scope of Relief:** What is a reasonable and realistic level of relief?
- **Revenue:** How do we generate the revenue needed to provide the level of desired relief?
- **Distribution of Relief:** How are the property tax relief funds distributed?
- **Cost Controls:** How are the driving factors behind property tax increases best controlled?

Scope of Relief

For relief to be afforded to all Pennsylvania homeowners, the state would need to generate significant revenues.

* Figures account for school district property taxes only.

- Total Elimination: **\$9.0 Billion.**
- 50% Reduction: **\$4.5 Billion.**
- 30% Reduction: **\$2.7 Billion.**

→ The above school district property tax totals only account for residential properties and do not include commercial property taxes. All data is based on 2011-12 estimates.

Scope of Relief

For school district property relief to be afforded to both homeowners and commercial properties, the following funds would be needed:

- **Figures account for school district property taxes only.**
- **Total Elimination: \$14 Billion.**
- **50% Reduction: \$7 Billion.**
- **30% Reduction: \$4.2 Billion.**

→ Any tax shift proposal to provide property tax relief that excludes commercial properties would create an added tax burden on Pennsylvania's business community.

Revenue Sources

The state Personal Income Tax (PIT) and Sales and Use Tax are the two most likely sources of new revenue for property tax relief.

Revenue Source	Amount Generated Per 0.1 %	Amount Generated Per 0.5 %	Amount Generated Per 1 %
Personal Income Tax	\$352 Million	\$1.76 Billion	\$3.52 Billion
Sales and Use Tax*	\$144 Million	\$721 .6 Million	\$1.44 Billion

*Sales Tax data is based on the state's existing sales tax base.

Revenue Sources

Expanding the Sales and Use Tax has also been an option continually discussed to support property tax relief.

• Removing the Sales and Use Tax exemption from the following items and services would generate significant revenues:

- Food: **\$1.31 Billion**
- Clothing and Footwear: **\$755 Million**
- Prescription Drugs and Orthopedics: **\$698 Million**
- Advertising and PR Services: **\$729 Million**

➔ Currently, there are approximately \$17 Billion in Sales and Use Tax Exemptions (\$9 Billion in goods and \$8 Billion in services.)

Cost Controls

Without controlled spending, any relief plan would be neutralized.

School districts must be willing to control spending in order for property tax relief to be realized.

Distribution of Funds

Any revenues generated for property tax relief would have to be distributed through a formula.

• The current complex distribution formula for gaming revenue determines the gaming allocation to school districts and weighs these factors:

- District Wealth**
- Average Daily Membership (ADM)**
- Aid-Ratio**
- Equalized Millage**

• Assessments of this formula show that it favors poorer school districts with a high tax effort.

Property Tax Reform

The Challenges of Enacting Meaningful Relief

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Tax Relief Challenges

Pennsylvania's diverse communities and demographics have made it difficult to reach a consensus on a statewide property tax relief plan.

- The following issues are among those that have been raised when assessing property tax relief:
 - **Winners and Losers**
 - **Tax Shifts – Sales vs. PIT vs. EIT**
 - **Assessment Issues**
 - **Regional Dilemmas**
 - **Property Taxes vs. All School Taxes**

Tax Relief Challenges

Every tax relief plan will have “winners” and “losers.”

• Depending on the scope of relief, the manner in which revenues are raised and the distribution of revenue, there will be winners and losers among:

- **Counties.**
- **School Districts.**
- **Homeowners.**
- **Non-Homeowners (Commercial, Renters, Etc.)**

Tax Relief Challenges

Which tax shift is the most fair to support the revenues needed to provide property tax relief?

- Each tax shift option has an array of pros and cons:
 - **Personal Income Tax**
 - **Earned Income Tax**
 - **Sales Tax (Increase and/or Expansion)**



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Tax Relief Challenges

Property assessments play a key role in the existing concerns related to property taxes.

- **Why does assessment matter?**

- **Some counties have not been reassessed in decades, which leads to skyrocketing property tax increases when it occurs.**

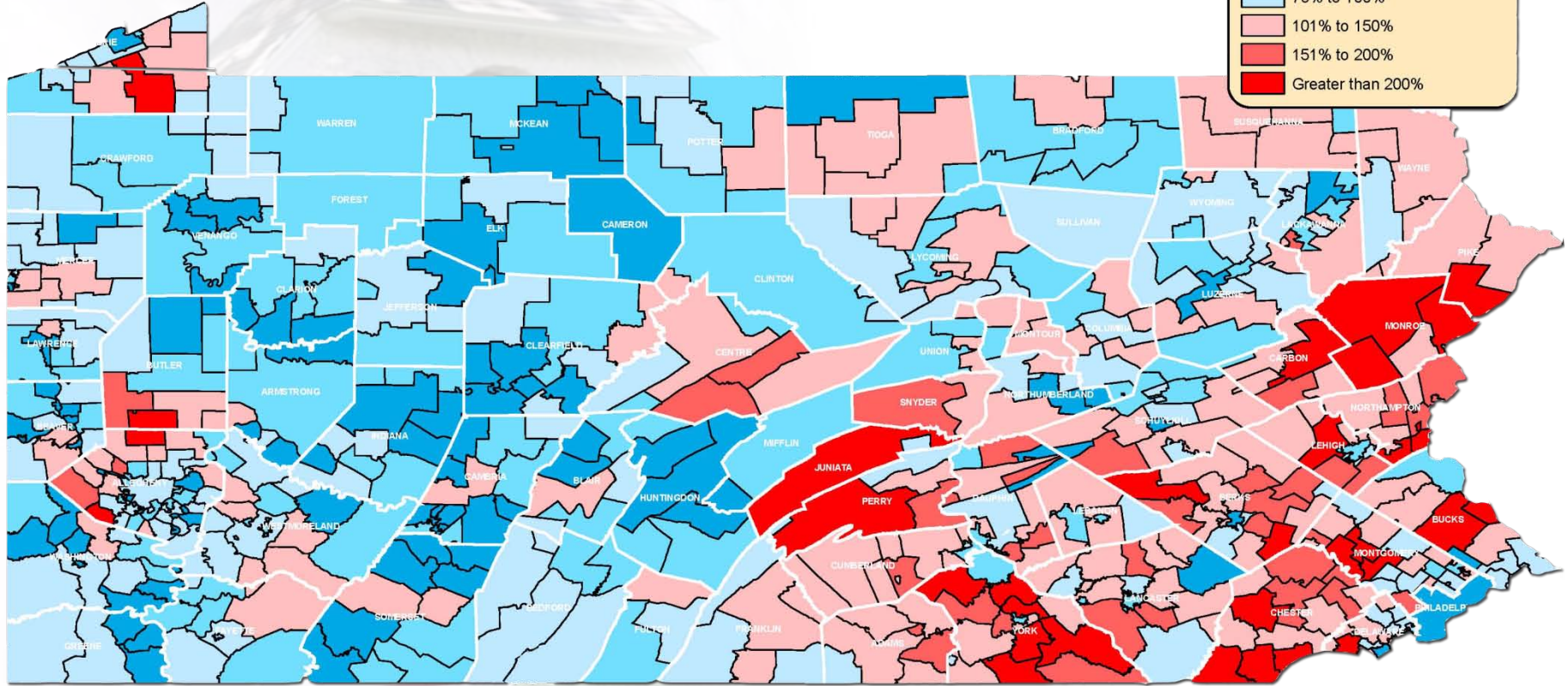
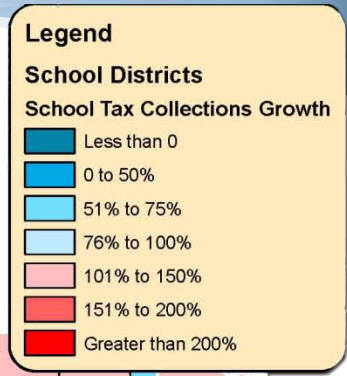
- This often is most costly for seniors.**

- **A standard reassessment period could mitigate huge property tax spikes. Reassessment also provides for a more fair and equitable level of taxation.**

- **Reassessments are expensive and often controversial.**

Tax Relief Challenges

School District Property Tax Collections Growth Rates: **1991-2005**



Tax Relief Challenges

Homeowners in school districts with a local EIT or PIT would receive less overall tax relief under a “property tax only” relief plan.

	School District A	School District B
Home Value	\$200,000	\$200,000
Property Taxes	\$2,000	\$3,000
Local EIT / PIT	\$1,000	0
Total SD Taxes	\$3,000	\$3,000
Property Tax Elimination	(\$2,000)	(\$3,000)
Revised SD Taxes	\$1,000	\$0

Property Tax Reform

House Majority Policy Committee Property Tax Reform Policy Development Team

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