Pennsylvania School Boards Association

Written Testimony of the
Pennsylvania School Boards Association
July 26, 2012
Property Tax Reform-Senate Bill 1400

The Pennsylvania School Boards Association (PSBA) thanks Chairman Brubaker, Chairman Wozniak, and committee members for allowing us to submit written testimony regarding Senate Bill 1400 (PN2123). PSBA believes that public education funding should be an equal partnership between local school districts and the state government. The diverse economy of our state requires a local mix of taxes to provide school districts with the greatest flexibility in providing their local financial contribution to this effort. This includes a variety of local taxes and the development of available funding bases that are suitable to each school district's unique economic capabilities and conditions. While PSBA supports the concept of diversifying the local tax base to reduce the burden of property taxes on local property taxpayers, PSBA does not support any proposal that totally eliminates school property taxes.

In 2009-10, the most recent year in which there is national census data, states paid, on average, 43.5% of elementary and secondary education costs, while local taxpayers were responsible for 44% of these costs[i]. During this time, however, the Commonwealth funded only 35.7% of elementary and secondary education costs, forcing school districts to look to their local taxpayers for 53.1% of their education expenses, far above the United States average[ii]. To alleviate the over-reliance on school property taxes, in addition to ensuring that the state pays its fair share of education funding, the diversification of the local tax base also has the potential to mitigate the property tax burden placed on individuals; however, PSBA recognizes that local school property tax must remain a portion of the local funding mix. Property tax needs to be part of local education funding because it is the most stable and reliable form of revenue for school districts: it has an immobile base and as property values increase over time, revenue grows with no rate change. Additionally, the elimination of property tax for funding education would, in essence, create a state operated system of public education in Pennsylvania and would entirely undermine Pennsylvania's historic principle of local control of education.

Additionally, while the goal of Senate Bill 1400 is revenue neutrality, it is nearly impossible to project the impact of the changes to sales and use tax (SUT) and whether the proposal will generate the necessary revenue to allow school districts to eliminate property taxes. It is also unclear how revenue neutrality can be achieved if SUT revenue is redirected from the general fund. Without crystal clear assurance that the increased and expanded SUT will actually generate enough revenue to mitigate a school district's reliance on property tax and that the shift of SUT revenue will not create a significant deficit in the general fund, PSBA believes that eliminating school property taxes and shifting entirely to SUT and income tax is far too risky and jeopardizes the ability of our school districts to provide students with a quality education.

Regarding the shift to the increased state personal income tax (PIT) and SUT, Senate Bill 1400 moves the local tax burden away from businesses and to individual taxpayers, allowing some businesses to benefit from the elimination of their school property taxes without contributing a dime to PIT or feeling the impact of an increased SUT. With an increased PIT, income received by individual taxpayers from a sole-proprietorship or as shareholders of a partnership, an S-corporation, or a limited liability company will be taxed as PIT; however, income to a C-corporation will not. As a result, some businesses will have their school property taxes eliminated without paying a penny more, making this proposal unreasonable to the individual taxpayers who are paying their fair share for the elimination.

Another of PSBA's concerns with Senate Bill 1400 is that it provides school districts with no safety valve to cover rising education costs. In situations where a school district is faced with declining state dollars, and dramatically increasing pension costs, special education costs, charter school costs, fuel costs, and employee health costs, just to name a few, school districts currently have only two options: cut programs or raise taxes, and on many occasions, districts must do both to balance the budget. There are no provisions for the increase of an earned income tax (EIT) or PIT other than through a voter referendum, and with the elimination of the property tax, Senate Bill 1400 eliminates a school district's ability to raise taxes under the Act 1 exceptions to cover mandatory employer contributions to school employee pension expenditures and special education obligations. If mandated costs such as pension contributions or special education expenditures rise significantly, insufficient state funding is provided to school districts, or if EIT or PIT revenues decline due to the economy, school districts will have no safety valve to generate additional revenue to meet their obligations, forcing school districts to make cuts to educational programs or face state takeover as distressed districts.

Additionally, Senate Bill 1400 prevents school districts from incurring any electoral debt, lease rental debt, or non-electoral debt, which will tie a school district's hands and significantly undermine its ability to respond to immediate district needs. If a school district roof needs essential repairs or a 30 year old HVAC system fails in the middle of the school year, it is unlikely that the district could move forward with any repairs or alterations without incurring debt. Even with the cost of living adjustment provided to school districts in Senate Bill 1400, which would likely not even begin to cover rising pension and special education costs, school districts would never be able to amass the funds necessary to take on necessary school building projects without incurring debt, and as a result, school facilities across the state would simply deteriorate.

Finally, 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. Eliminating property taxes without addressing cost containment and state funding fails to address the elephant in the room. The only way to ensure that a property tax reform plan has the intended impact on local property taxpayers and does not negatively impact the quality of education in the school district is to address those factors that continue to drive up the cost of education.

For example, a comprehensive solution would revise the funding formula for cyber charter schools to ensure that school districts are not paying more to each cyber charter school than is necessary to educate a cyber charter student. In fact, simply deducting retirement costs from the charter school funding formula to prevent a pension double dip would save school districts over $500 million by 2016-17 alone. A comprehensive solution to the property tax problem would also tackle the issue of funding for special education and provide a more fair formula that reflects the actual costs incurred and the actual number of students served, and it would alleviate the cost that comes with some mandates such as paying prevailing wage and complying with the Separations Act, which drive up the cost of education and keep dollars out of the classroom. A successful and effective property tax reform plan must diversify the tax base while simultaneously addressing the costs that drive a school district budget.

Thank you for accepting our written remarks and entering them into the committee's records.

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[i] U.S. Census Bureau, Public Education Finances: 2010, 2010 Annual Survey of Local Government Finances—School Systems, G10-ASPEF, Washington, D.C., Table 5 (Percentage Distribution of Public Elementary-Secondary School System Revenue by Source and State: 2009-2010 (June 2012).

[ii] Id.