



Testimony

PA Senate Finance Committee

Support of School Property Tax Elimination
Provided in SB 1400

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Offered by

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Thank you for the opportunity to address you this morning. I am Joel Rotz, State Governmental Relations Director, for the over 55,000 family members of the Pennsylvania Farm Bureau. I am here to speak in support of SB 1400, introduced by Senators Argall and Folmer.

For decades, Farm Bureau has expressed a consistent message that the current means for financing schools imposes serious financial burdens on farm families and needs to be changed. Unfortunately, the “current” system that existed thirty years ago remains in large measure today’s current system. And farm families in our Commonwealth continue to be unfairly burdened by the imposition of real property taxes.

Our current system of school taxation would appear to be based on two basic principles: (1) the property tax is the most reliable means for school districts to raise revenue, and (2) that property ownership is a reflection of wealth and ability to pay local taxes. It is hard to find fault with the first principle, since most property owners somehow find some way to pay their taxes, even when owners can’t afford to pay them. But Farm Bureau does find fault with the validity of the second principle with respect to Pennsylvania farmers. Farmers are most often land rich and cash poor.

The concept that property ownership is a reflection of wealth and ability to pay is arcane. The nature of farming itself does not provide any meaningful opportunity for farmers to reduce tax burdens. Farming is a land-intensive enterprise. Ownership and use of large amounts of land are necessary components to the viability of a farm operation. For a growing number of farm families, the “home farm” is not sufficient to keep their farm business viable. They must rent a significant portion of land from others to secure production levels needed to economically sustain their agricultural operations. The continued increases in property tax adversely affect the rental value that farm families pay to use these lands in agricultural production.

While Pennsylvania agriculture continues to be a core component of the commonwealth’s economic engine, the challenges of maintaining the economic viability of family farms in the state remain great. For many producers, the price they receive for their product is not keeping pace with the cost of the operation of the farm as the purchase of farm inputs continue to steadily increase.

Not only have farm families been struggling with securing a sustained income level that sufficiently provides for the family’s livelihood, farm families have been consistently hit with increasing school tax burdens, because of increased fiscal needs of school districts and a taxing system that makes property taxation the only real means to satisfy those increased needs.

Without change in our current system, farm families throughout the state will have even greater difficulty in earning a meaningful livelihood from their farm operations. Farm Bureau believes reducing property taxes also helps preserve farmland and save family farms because property taxes are one of the top reasons farmers sell land to be developed. A plan to shift more of the tax burden to income would benefit many in the

Commonwealth, not just farmers. Other beneficiaries include retired homeowners and others on fixed incomes at risk of being forced from their homes by escalating property tax bills.

According to the Commonwealth Foundation, it is estimated that the cost of public education for K-12 schools across the state is approximately 26 billion dollars. Adjusted for inflation, that is a 44% increase per student just since 1996. Because of our current taxing system, much of the burden of this dramatic increase in education cost is placed upon property owners. Shifting the total school property tax to sales and income is politically difficult because of the significant tax increases that are required in these other areas to eliminate property tax. This shifting of tax is touted by opponents as a tax increase rather than a more fair and equitable method in financing public education.

Farm Bureau members understand there is no “free lunch” when it comes to financing one of the most important and basic functions of government in providing public education. Eliminating the property tax requires a tax shift. SB 1400 places a large share of the burden of funding public schools on a local income and state sales tax expansion and increase. Pennsylvania Farm Bureau believes the shift from property tax proposed in SB 1400 provides a more fair and equitable manner to finance our public school system.

Pennsylvania Farm Bureau has repeatedly stressed that real property tax reform must be comprehensive and ultimately should lead to its total elimination. It must provide farmers and other property owners with true relief from current and future property tax burdens. It must also provide school districts with a reliable source of current and future revenue to meet reasonable costs of operation.

Pennsylvania Farm Bureau members have supported for several years eliminating the school property tax and replacing it with various sources including a mixture of income and sales tax as proposed in SB 1400. Switching to income and sales taxes for school funding provides the obvious benefits of spreading the burden of public education to all who benefit from the investment, not just landowners. It also better reflects ability to pay based upon income and the sale of items consumers choose to purchase. The consumer decides when and how much to pay by making purchasing decisions based on a more universal tax that comes with the purchase.

Pennsylvania Farm Bureau acknowledges and appreciates the efforts this legislative body and those in the past have made to provide some measure of property tax relief for farmers through passage of the Act itself and various amendments since its enactment to the state’s Clean and Green Program. While the program has been and continues to be a significant help in easing property tax burdens for many farmers across the state, it of course only shifts the property tax burden among landowners and does not address the overall concern of solely encumbering property owners with funding schools. Again, SB 1400, spreads the cost of school funding over a broader spectrum of the population and in a manner that better reflects the individual’s ability to pay than does are current archaic property tax approach.

Even with Clean and Green Programs in place in many counties across the state, studies continue to demonstrate how property taxes paid by farmers benefit local governments and school districts. The most recent study Pennsylvania Farm Bureau can cite on the cost of services verses revenue generated by the property tax was done in 2006 by Dr. Tim Kelsey of Penn State University and is attached to this testimony. The study demonstrates that farms only require pennies on the dollar in the cost of needed services verses taxes paid, while in stark contrast, residential housing requires slightly more to significantly more in costs of service than dollars provided to fund services such as public education.

Also cited in a separate study by Mr. Kelsey (also attached), are numbers demonstrating the inequitable distribution of burden to the individual farmer based upon their gross income. The study states that on average, farmers pay 6% of their gross income on property taxes. Of course gross income is not a dependable indicator of ability to pay. A farm, like any other business, may have a \$500,000 in gross income and still produce little to no net income. While the “average” cited in the study of percent of gross income paid by farmers in property tax is 6%, it is interesting to note that individual counties vary greatly across the state. In some counties, farmers pay as little as less than 3% of gross income to other counties where farmers are paying as much as 9%, 10%, 12% and even one county 18% of gross income. Acknowledging that there are many varying factors that these numbers are based upon, Pennsylvania Farm Bureau believes these numbers nonetheless point to the inequities created by taxing farmland to fund public schools.

Again, thank you for the opportunity to testify before you today. I will be happy to take your questions.