

Follow the Property Tax Money: The Wolf Plan and HB 504 Compared

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*If an elective republic is to endure for any great length of time, **every elector** must have sufficient information, not only to accumulate wealth and take care of his pecuniary concerns, but to direct wisely the Legislatures, the Ambassadors, and the Executive of the nation ... if then, the permanency of our government depends upon such knowledge, it is the **duty of government** to see that the means of information be **diffused to every citizen**. This is a sufficient answer to those who deem education a private and not a public duty – who argue that they are willing to educate their own children, but not their neighbor's children.*

– Thaddeus Stevens

Social programs may be a matter of ethics and generosity, but education and training are not. I am willing to pay for, indeed insist upon, the education of my neighbors' children not because I am generous but because I cannot afford to live with them uneducated.

– Lester Thurow, *The Zero Sum Solution*, 1985, p. 187.

Pennsylvania is highly reliant on local property taxes to fund its public schools, ranking near the bottom of all states (46th) for state share of education funding.¹ This reality has two serious and longstanding consequences. First, Pennsylvania has the most inequitable funding system in the nation, spending 33% more per pupil in its wealthiest school districts than in its poorest school districts.² Second, low state support puts more weight on local taxpayers to support education funding, a particular burden on seniors on fixed incomes, young families and lower-income homeowners.

To address these dual problems, Gov. Tom Wolf proposed a major property tax relief plan as part of his overall 2015-16 budget proposal released in March. The Pennsylvania House of Representatives passed its own property tax relief plan in May, HB 504.¹ Both plans rely on similar sales and income tax increases to pay for property tax relief and distribute over \$4 billion in total tax relief, including expansion of rent rebates (\$4.9 billion in the House proposal and \$4.23 billion in the Wolf proposal).

The overlap between these plans suggests that Pennsylvania has a once-in-a-generation opportunity for bipartisan reform to reduce property taxes where families and seniors struggle to pay them and to shift more responsibility for funding education from the local to the state level, thus enabling low- and middle-income districts to adequately fund their schools. This is a promising area of potential compromise in the budget debate.

One obstacle to realizing the potential for bipartisan consensus on property tax reform is the complexity of the issue in general and the challenge of unravelling the differences and similarities between these plans, in particular. This comparison brief and stand-alone briefs on each plan seek to make more transparent how each plan works, supporting efforts to achieve a consensus that increases the state share of education funding and provides property tax relief targeted to those areas that most need it.

¹ (HB) 504, Printer's Number 1560,
<http://www.legis.state.pa.us/cfdocs/billInfo/billInfo.cfm?sYear=2015&slnd=0&body=H&type=B&bn=0504>.

Among our findings:

- School districts with less income and wealth fare better under the Governor’s plan. School districts with greater wealth do better under the House plan.
- Renters benefit more from the Governor’s plan.
- The House plan dedicates a greater share of property tax relief for commercial and industrial property taxpayers; the Governor’s plan directs a greater share of property tax relief to homeowners.
- Typical homeowners in most school districts (343 out of 500) would receive a higher share of the total tax relief distributed under the Wolf proposal than the House proposal.
- Even though the Wolf plan provides fewer total dollars of property tax relief, typical homeowners in a third of school districts would receive a larger dollar amount of property tax relief under the Wolf proposal. Homeowners in over half of the school districts in rural Pennsylvania (128 of 238) would receive more property tax relief under the Wolf plan.
- In another third of school districts, typical homeowners would receive almost as much (within \$200 as much) property tax relief under the Wolf plan.
- Many school districts that would receive the largest amount of additional property tax relief under the House plan are wealthier suburban areas where high property taxes partly reflect local homeowners’ ability to pay and their preference to invest in area schools.
- There is no clear pattern in terms of which plan would provide homeowners with more tax relief when it comes to school districts where school property taxes are highest as a share of personal income.

The differences in the pattern of property tax relief distribution between the Wolf and House plans are driven partly by House plan provisions which ensure that even the wealthiest districts receive almost two-thirds as much percent property tax relief (and more relief in dollars) as the poorest districts.

As well as property tax relief, the overall Wolf budget proposal would provide additional revenues to address the state’s structural deficit and \$410 million more in school funding, substantially paid for by a proposed severance tax on gas drillers. This funding would improve the quality of schools and relieve pressure for future property tax increases. The budget passed by the House and Senate on June 30th would provide only \$100 million in basic education funding (\$8 million if you offset school funding by delays in Social Security and pension payments).³ The combination under the Wolf plan compared to the House plan of similar or greater property tax relief for homeowners, more help for renters, increased state education funding and a more fiscally sound budget – paid for by similar tax changes – should make many legislators who voted for HB 504 open to further negotiation towards a bipartisan compromise.

In the end, as the Republican statesman Thaddeus Stevens and economist Lester Thurow remind us in the quotes at the start of this brief, investing adequately and equitably in education is not only an issue of property tax rates and local school funding in each Pennsylvanian’s home district. For Pennsylvania and its businesses and workers to successfully compete in the world economy, students from all the state’s communities must finish high school career-ready and capable of excelling in postsecondary education. Quality education for all is also essential so that every child reaches her or his potential and becomes an active participant in our democracy. An education-funding system that tolerates and even exacerbates deep differences in resources for students is something that the commonwealth, its employers, and its citizens can no longer afford.

Comparing the House and Wolf Property Tax Proposals

As noted, one obstacle to capitalizing on the opportunity for a once-in-a-generation bipartisan reform of school funding and local property taxes is the complexity of the property tax issue. Nearly five months after Gov. Wolf released his proposal and over two months after HB 504 passed the House, the nuances of these two proposals and the differences between them are not widely understood. In this and the companion briefs on each proposal, the Pennsylvania Budget and Policy Center seeks to help fill this information gap. (This overview and comparison does not contain full detail on the formulas used to allocate tax relief under each plan. That information can be found in the companion briefs.)

Table 1 shows the similarities between the sales and income tax increases in the Wolf budget and HB 504. Both proposals would increase the state’s personal income tax to 3.7%. Both proposals would also increase the state sales tax, the Wolf proposal to 6.6% and the House proposal to 7.0%. The Wolf proposal would, in addition, broaden the sales tax to cover more items.

Property Tax Proposal	Income Tax Increase	Sales Tax Changes
Wolf proposal	3.07% to 3.7%	Rate increase to 6.6% plus sales tax broadening
HB 504	3.07% to 3.7%	Rate increase to 7%

Source. Pennsylvania Budget and Policy Center (PBPC), based on *Governor’s Executive Budget* and HB 504

The Distribution of Revenue Raised for Tax Relief vs. Other Needs

The House and Wolf property tax proposals differ in how they would spend the revenue raised. HB 504 would use all the money it raises for property tax relief, a total of \$4.9 billion (including \$125 million in property tax rent relief rebates and existing property tax relief paid for by gaming revenues) (Table 2).

Type of Tax Relief	Tax Relief (\$ millions)	
	Wolf Proposal	House Proposal
(1) Existing homestead property tax relief paid for w/state revenues from gaming	\$529	\$529
(2) Existing Philadelphia wage tax relief and existing PTRR expansion paid for by revenues from gaming	\$86	\$86
(3) New homestead property tax relief	\$1,560	\$1,448
(4) New property tax rate reduction	\$1,174	\$2,711
(5) New Philadelphia tax relief (wage tax relief, cigarette tax reduction)	\$450	
(6) Total Property Tax Relief (= (1) + (3) + (4))	\$3,263	\$4,688
(7) Total Tax Relief (= the sum of (1) to (5))	\$3,800	\$4,774
(8) Rent rebate expansion	\$426	\$125
(9) Total Cost of Each Plan (= (7) + (8))	\$4,226	\$4,899

Source . PBPC calculation based on House House Republican Caucus data on the Pennsylvania Legislative Services website and Pennsylvania Department of Education data on line at http://www.education.pa.gov/_layouts/download.aspx?SourceUrl=http://www.education.pa.gov/Documents/Teachers-Administrators/School%20Finances/Education%20Budget/EdBudget%202016-17%20proposed%20SPTRA%20Mar2015.xlsx

The Wolf proposal, by contrast, would provide \$4.23 billion in tax relief, which means that a portion of the revenues raised from the sales tax and income tax increases would be available to address the state's other needs, including its structural budget deficit. (The frequently cited figure of \$3.8 billion in total tax relief from the Wolf proposal does not include the \$426 million in additional rent rebates.)

The Distribution of Tax Relief

The two proposals differ, second, in how they would distribute revenue raised for tax relief (Table 2 again).

- The Wolf proposal would distribute 30% less in total property tax relief – \$3.3 billion versus \$4.7 billion.
- The Wolf plan would provide \$450 million in new wage and other local tax relief for the city of Philadelphia.
- Gov. Wolf's proposal expands rent relief for seniors and also for low-income families by an extra \$301 million (\$426 million versus \$125 million).
- The House proposal would distribute over half of its property tax relief (\$2.71 billion) through property tax rate reduction, which benefits all property owners, including homeowners and owners of factories, skyscrapers, malls, and golf courses.
- Since the Wolf proposal targets more of its property tax relief to homesteads under the Wolf proposal, a typical homeowner statewide would receive \$968 under the Wolf plan, 10% less than the \$1,076 under the House plan, despite a 30% gap in total property tax relief.

The Distribution of Median Homestead Relief

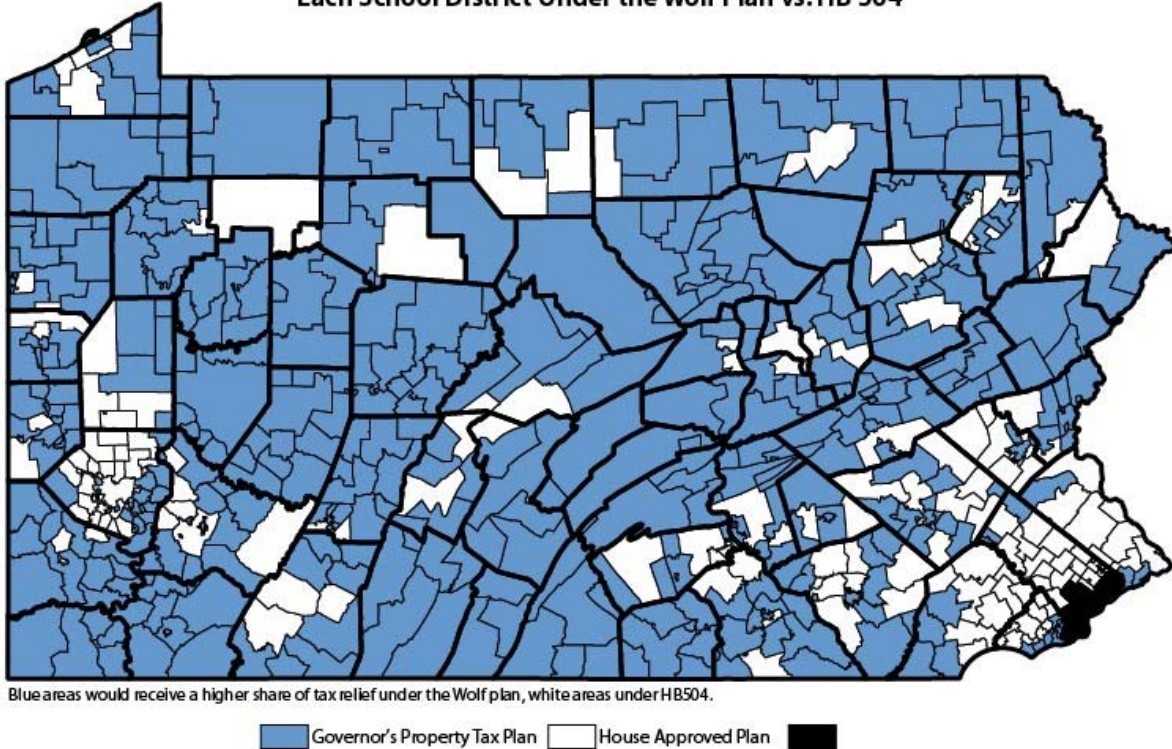
Within the portion of relief that would go to homesteads (including both the relief targeted only to homesteads and homesteads' share of property tax rate reductions), HB 504 targets more of its relief to high-wealth, high-income districts, and the Wolf plan more to lower-wealth, lower-income districts.

Both plans would "spread the relief" to a considerable extent, ensuring that all areas would receive some property tax reductions. Both plans would also include equity and income in their property tax relief distribution to different school districts. HB 504, however, would limit the variation in the allowed percent reductions in property tax rates and in homestead property taxes. By 2017-18, all districts would receive 14% to 23% reductions in residential property taxes and, on top of this, a further 20% to 30% reductions in all property tax rates. Limiting the variation in homestead and property tax rate reduction across districts means that more affluent districts receive more property tax relief than they would without these constraints.

Figure 1 compares the share of tax relief under each proposal that goes to typical homeowners in each district: that is the percent of the total amount of money shown on line 7 of Table 2. If homeowners would receive more of the tax relief under the House plan, it is shaded white; if a district would receive more of the tax relief under the Wolf plan, it is shaded blue. Most parts of the map are shaded blue: that is, typical homeowners in most districts across the state, including virtually all rural districts, would receive a higher share of tax relief under the Wolf plan than the House plan. The big exceptions are affluent Philadelphia and Pittsburgh suburbs, which would receive a higher share of total tax relief under the House plan.

Figure 1.

Share of Tax Relief Received by Typical Homeowners in Each School District Under the Wolf Plan vs. HB 504



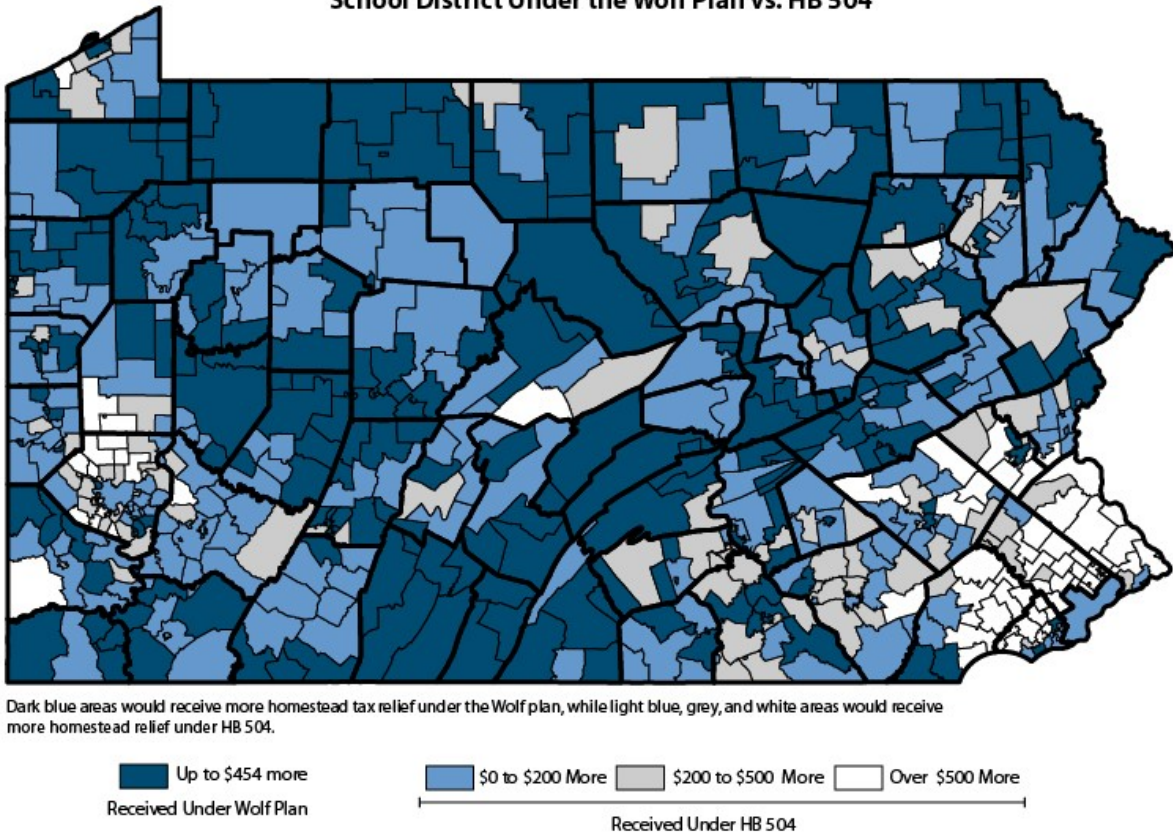
Note: Philadelphia is colored black because it is treated differently; it would receive \$400 million in wage and other local tax relief under the Wolf plan
Source: Pennsylvania Budget and Policy Center analysis of Pennsylvania Department of Education and House Republican Caucus data.

Another way to compare the two plans' property tax relief for typical homeowners is to look at the actual dollar amount of homestead relief that would be received under each plan. Because HB 504 would give out more total dollars of property tax relief to homesteads, one would expect that, in most school districts, the median homestead would receive more relief under SB 504. This turns out to be the case. (Appendix A and B compare median homestead property tax relief for each district under the two plans. Appendix B has the same information as Appendix A but is sorted from high to low based on the dollar difference in median homestead property tax relief under the Wolf plan versus HB 504. This makes it easier to see the characteristics of districts that do better under each plan.)

Figure 2 shows that in a third of school districts (173) – which we will label “group one” – typical homeowners would receive between \$0 and \$454 more in property tax relief under the Wolf proposal. Most of these districts are in rural Pennsylvania: in fact, within rural Pennsylvania (using the Center for Rural Pennsylvania definition), typical homeowners in 128 of 238 school districts (54%) would receive more tax relief from the Wolf proposal than the House proposal.

Figure 2.

Dollars of Property Tax Relief Received by Typical Homeowners in Each School District Under the Wolf Plan vs. HB 504



Source: Pennsylvania Budget and Policy Center analysis of Pennsylvania Department of Education and House Republican Caucus data.

Figure 2 and the appendices also shows that in roughly two thirds of districts (327) typical homeowners would receive more in property tax relief under the House plan. In roughly half of these (173 again), homeowners would receive up to \$200 more from the House plan (we call this second group of 173 districts group two). The final slightly-less-than-a-third-of districts (154) can be further divided into two groups. In 84 of these (group three) typical homeowners would receive between \$200 and \$500 more in property tax relief under HB 504 than they would under the Wolf proposal. In the final 70 school districts (group 4), typical homeowners would receive between \$500 and \$1,395 in property tax relief. (See Appendix B.) Most of these 70 districts are affluent districts outside Philadelphia and Pittsburgh.

Table 3 characterizes our four groups of districts based on their wealth and income (aid ratio), the share of children receiving free and reduced lunch in the districts, and their “tax effort” (equalized mills or total taxes for schools as a share of district income. The table shows that the Wolf plan is most generous (relative to the House plan) to less affluent (high aid ratio) districts while the House plan is most generous (relative to the Wolf plan) in more affluent (low aid ratio) districts.

Table 3. Characteristics of School Districts Receiving Based on How Much Property Tax Relief Typical Homeowners Receive Under the House and Wolf Property Tax Proposals			
	Average of School Districts in Each Group		
	2013-14 Equalized Mills ¹	2013-14 Free- and Reduced-Price Lunch Share ²	Aid Ratio ³
Median Homestead Property Tax Relief Under House Plan Compared to Wolf Proposal			
More Relief Under Wolf (173 districts)	18.2	56%	0.67
\$0-\$200 More in Relief Under House Plan (173 districts)	19.5	55%	0.58
\$200-\$500 more from House Proposal (84 districts)	19.8	31%	0.48
More than \$500 more from House Proposal (70 districts)	17.8	16%	0.29
¹ Equalized mills are calculated by multiplying total taxes divided by market value by 1,000.			
² Free- and reduced-priced lunch share are calculated by weighting their values by their respective importance in student shares, as measured by Average Daily Membership. The free- or reduced-priced lunch share for those households that receive \$0-\$200 more in relief under the House plan is nearly the same as those households that benefit greater under Wolf because Pittsburgh and Philadelphia are in the first category, inflating the student share. Without those two school districts the share would be 42%.			
³ Each aid ratio shown is the arithmetic average of the aid ratio of all the school districts in the group.			
Source. PBPC based on Appendix A.			

Another group of interest includes schools districts in which residential school property taxes are very high. Table 4 profiles the 10 school districts in which residential property taxes exceed 5% of personal

Table 4. The Impact of the Wolf Plan and House Plan on Median Homesteads in Districts with Residential Property Taxes Over 5 percent of School District Personal Income							
School District	County	2013-14 Equalized Mills ¹	Res. Prop Taxes as % of SD Personal Income ²	Aid Ratio ³	Median Homestead Property Tax Relief (\$).		
					Wolf Plan	House Plan	Wolf Minus House
Pocono Mountain	Monroe	24	8.2%	0.54	\$1,819	\$2,042	-\$223
East Stroudsburg	Monroe	30	7.8%	0.60	\$2,217	\$2,248	-\$31
Jim Thorpe	Carbon	20	6.6%	0.43	\$1,184	\$1,366	-\$182
Stroudsburg	Monroe	25	6.1%	0.56	\$2,130	\$1,676	\$454
Pleasant Valley	Monroe	23	5.7%	0.65	\$2,150	\$1,823	\$327
Wallenpaupack	Wayne	11	5.6%	0.35	\$661	\$762	-\$101
Chichester	Delaware	30	5.5%	0.59	\$1,964	\$2,007	-\$43
Southeast Delco	Delaware	28	5.3%	0.71	\$1,764	\$1,771	-\$7
Ridley	Delaware	29	5.1%	0.56	\$1,604	\$1,763	-\$159
Bristol Township	Bucks	24	5.1%	0.54	\$1,542	\$1,590	-\$48
Average (see notes)		24	6.2%	0.55	\$1,761	\$1,794	-\$33
¹ Equalized mills equals total taxes for schools in the district divided by the market value of all property in the district multiplied by 1,000. The average shown weights equalized mills in each of the 10 districts by that district's share of the total homesteads in all 10 districts.							
² The average shown for residential property taxes as a percent of school district personal income weights the same figure in each of the 10 districts by that district's share of the total homesteads in all 10 districts.							
³ The average shown for the aid ratio is the arithmetic mean.							
⁴ The average shown for median homestead property tax relief under each weights median homestead property tax relief in each of the 10 districts by that district's share of the total homesteads in all 10 districts.							
Source. PBPC based on Appendix A							

income. The six districts with the highest residential school property taxes relative to personal income are all in the Poconos region near New Jersey. The next four are all within suburbs not far from the city of Philadelphia, Chester City, or both. Table 4, extracted from Appendix A, profiles these districts. Across all 10 districts, the (unweighted) average of the median homestead property tax relief under the Wolf plan is \$1704 and the average under the House plan \$1,705. For this group of districts even more than for all school districts, what stands out is the similarity in property tax relief under the two plans.

Setting Aside Partisanship: Towards Property Tax, Education Funding Reform, and a Budget that Serves Pennsylvanians and Pennsylvania

Leadership for property tax reform in Pennsylvania comes from two distinct sources. For a decade or more, House leaders disproportionately from Republican-represented areas where incomes are moderate but school property taxes high as a portion of income have pushed hard for property tax relief (and sometimes for property tax elimination). This year, Pennsylvania's new Governor, sharing the view that property taxes are too high in some communities and also believing that the state should assume a larger share of responsibility for funding education, advanced his own property tax relief plan. As this brief shows, his plan directs a higher share of property tax relief to lower-income communities, one component of a strategy (school funding being a second) to revitalize older Pennsylvania cities and inner suburbs. As a result of its emphasis on equity, the Governor's plan also benefits most of rural Pennsylvania. And despite giving out less total property tax relief, the Governor's plan provides similar amounts of relief for homeowners to moderate-income districts from where some of the Republican leadership for property tax reform comes.

Governor Wolf's overall budget plan also provides additional school funding and would help address the state's structural budget deficit, using identical (in the case of the income tax) and similar (in the case of the sales tax) increases in taxes on individuals. In sum, the facts here show that in many areas that have spearheaded the push for property tax reform and in rural areas where legislators voted for the House plan, the Wolf plan looks similarly or more attractive. The information here on the benefits of the Wolf plan to Republican represented property-tax revolt and rural areas may not be fully recognized.

Both the House and the Governor's plans are better proposals than completely eliminating local property taxes, as proposed under Senate Bill 76 of the 2013-14 session. Property taxes are a critical and stable source of funding for schools. Last year, the Independent Fiscal Office found that SB 76 would reduce funding for schools by \$2.6 billion within five years.⁴

We hope that providing the objective information here can reinforce recognition of the potential for bipartisan property tax and school funding reform in this budget or not long after it. Wherever individual Pennsylvanians or lawmakers land on the merits of the Wolf plan, HB 504, or a compromise proposal, our goal in releasing this brief is to support a more fact-based discussion of property tax relief. When it comes to property tax relief, education funding, and the state budget more generally, Pennsylvania's deserve a discussion in which party label disappears and lawmakers ask, "What serves my constituents?" and "what serves all Pennsylvania children and all Pennsylvanians?" not "was the person who advanced this proposal a Republican or a Democrat?"

END NOTES

¹ Source: U.S. Census Bureau data for 2013, online at <http://www.census.gov/govs/school/>. See Table 5, "Percentage Distribution of Public Elementary-Secondary School System Revenue by Source and State: Fiscal Year

2013.” Pennsylvania ranks 46th for the state share of “Total Funding” and for the state share of “General Formula Assistance.”

²Emma Brown, “In 23 states, richer school districts get more local funding than poorer districts,” *Washington Post*, <http://www.washingtonpost.com/news/local/wp/2015/03/12/in-23-states-richer-school-districts-get-more-local-funding-than-poorer-districts/>

³ See Pennsylvania Budget and Policy Center, “Staying a Course That’s Not Working: Analysis of the House Republican 2015-16 Budget Proposal,” online at https://pennbpc.org/sites/pennbpc.org/files/PBPC_HB1192_Analysis.pdf

⁴ Pennsylvania Independent Fiscal Office, *Analysis of Proposal to Replace School Property Taxes: House Bill 76 and Senate Bill 76 of 2013*, Special Report 2013-7, October 1, 2013, <http://www.ifo.state.pa.us/download.cfm?file=/resources/PDF/SR2013-07.pdf>.