

Testimony of Sharon Ward, Director of PA Budget and Policy Center House Select Committee on Property Taxes September 24, 2012

Chairman Quigley and Chairman Briggs, members of the committee, I am Sharon Ward, director of the Pennsylvania Budget and Policy Center, a nonpartisan, nonprofit, research and policy organization based here in Harrisburg. We look at the impact of state budget and tax policies on services, citizens and communities, with an emphasis on the impact of those policies on low- and middle-income individuals and families. Thank you for the opportunity to testify today.

In my testimony today, I want to do four things:

- (1) make the case that property taxes are a limited rather than universal problem and should be addressed with targeted policy prescriptions;
- (2) discuss briefly where property taxes are a problem and why;
- (3) offer objectives that we believe should guide school property tax reform; and
- (4) provide some specific targeted options that can accomplish those objectives.

Property taxes rise to the level of a significant public policy issue (1) when tax levels present an unreasonable burden on individuals, or (2) when school districts (or municipalities) have high demand for services and low wealth, which can create a high tax effort that is an impediment to economic viability. Property tax relief efforts should be targeted to addressing those problems.

Property taxes are not universally high

Property taxes may be high for some individuals and some communities, but in general Pennsylvania does not have high property taxes. While property taxes are universally unpopular, public concern about property taxes is localized rather than universal.

According to the most recent data compiled by the U.S. Census Bureau, local property taxes in Pennsylvania (from all levels of government – including schools – and from all payers – businesses and individuals alike) are slightly lower than the national average. At 3% of personal income, Pennsylvania local property taxes ranked 26th among the 50 states in 2008-09 – slightly below the U.S. average of 3.3% of personal income.

Pennsylvania's property taxes are in the middle of the pack in Middle Atlantic states. New Jersey, New York, and Ohio have higher local property taxes (as a share of personal income), while West Virginia, Maryland, and Delaware have lower levels of local property taxes than Pennsylvania.

Pennsylvania Local Property Taxes in the Middle of the Pack (2008-09)		
	Local Property Taxes as a Share of Personal Income	Rank (1=highest)
New Jersey	5.2%	1
New York	4.4%	6
Ohio	3.1%	23
Pennsylvania	3.0%	26
West Virginia	2.3%	40
Maryland	2.3%	41
Delaware	1.8%	45
U.S. Average	3.3%	

Source. PBPC calculations using U.S. Census data.

One way to look at the property tax burden is to view personal property tax expenditures as a share of household expenditures, which we can do with data from the 2010 National Consumer Expenditure Survey. According to these data, Americans spent 34% of their income on housing, 13% on food, 16% on transportation and 7% on health care. The share spent on property taxes – 4% nationally, according to this survey – is less than the 5% Americans spent on entertainment.

School property taxes are high in specific areas and for specific reasons

In 2009-10, 26 districts (only 5.2% of the total) had property tax levels that exceeded 150% of the statewide average of 3.0% of personal income.ⁱ A list of these districts can be found at the end of our written comments (Appendix 1).

To arrive at appropriate solutions to concerns about property taxes, we need to better identify the problem. There are a variety of factors that can result in higher-than-average property tax rates, and factors that contribute to high tax effort in some municipalities and school districts. These include:

1. Population or employment growth. In-migration increases demand for services, including schools, roads and other infrastructure, which can lead to rapidly increasing property tax millage rates. We see these conditions in the Northeast counties bordering New York and New Jersey and in Southern York County, for example.
2. Urban sprawl. Over the past 20 years, the commonwealth has experienced a hollowing out of the cities and rapid conversion of farmland to subdivisions in some areas. This may contribute to concerns about property taxes in Western Chester County or in parts of Berks County.
3. Decline of inner ring suburbs and boroughs. This is also in many cases a result of urban sprawl. Many of our inner ring suburbs are characterized by high population density and low wealth. The fortunes of these communities have declined: businesses close, population declines and property values are lower than average. In these communities, even small increases in millage rates are burdensome because property values are not increasing. Some of the municipalities in Allegheny County have these characteristics. Other boroughs, like Upper Darby for example, have population in-migration, but high demand for services and low wealth force these communities to raise tax rates to keep up with the demand for services.

The data bear this out. The Select Committee was given information from the Pennsylvania Department of Education that shows property tax collections by county. We don't think that is a particularly useful way of looking at school taxes, as it masks variables such as population, wealth, and property values. We have prepared a comparison of school real estate taxes that we think is more useful and can illustrate some of the issues mentioned above.

The first table (end of testimony) shows real estate taxes as a share of total local taxes. You can see those counties that raise the bulk of their revenue from real estate taxes, and those that have a broader mix, such as income, business or occupancy taxes. Counties around Philadelphia and in the Northeast as well as York and Berks are more reliant on property taxes for school funding.

The second table (end of testimony) shows counties in which real estate taxes are a higher share of market value. While there isn't much variation in this statewide, property taxes are a concern in communities where property values are low and where values have stagnated or declined – inner ring communities in Allegheny County, for example.

The final table (end of testimony) shows property taxes as a share of personal income. The Monroe County numbers are somewhat misleading because the income of out-of-state residents with vacation homes is not counted in the total. But it is also true that the demand for vacation homes has driven up property values, which puts upward pressure on property tax rates. Still, there are differences: 21 of 67 counties have property tax burdens higher than the state average.

We can conclude from the data that there are unique factors that lead to a higher tax effort in some communities, and that there are counties in which the tax effort is low. There are many counties that rely on a broader mix of local taxes to pay for schools, have real estate taxes as a share of market value that are on the lower end, and taxes that as a share of personal income are well below the Pennsylvania average of 2.1%.

Pennsylvania relies more on local taxes than most states

Ironically, advocates for public school funding and for property tax elimination share some core beliefs. Both define the problem as an overreliance on local funds to pay for schools, and both would shift Pennsylvania to a greater reliance on state funding. We differ significantly, however, on the particulars.

Pennsylvania depends more on property taxes to fund schools than most states. Nationally, in 2009, state funds accounted for 43.5% of school expenditures, all local funds accounted for 44%, and federal funds for 12.5% of the total. In Pennsylvania, 35.7% of education funding comes from state sources and 53.1% is contributed by local taxpayers. We rank in the bottom 10 states annually for the share of education funding from state sources.

Reliance on local taxes also contributes to significant inequities in school funding between districts. When this occurs, the quality of a child's education is determined by his or her zip code, a problem that we believe should be addressed in any school funding/property tax discussion.

There is some capacity in our tax system to shift to a greater reliance on states taxes, if there is the will. In 2008-09, Pennsylvania state taxes and income taxes together, as a share of personal income, ranked 30th of the 50 states. Pennsylvania's income tax rate, at 3.07%, has the lowest top rate of 42 states with income taxes. Both factors suggest that the commonwealth could raise state taxes and remain comfortably within the range of our neighbors and competitors.

Principles to Guide Property Tax Reform in Pennsylvania

The General Assembly has been debating proposals to address property taxes for at least 15 years, with varying degrees of success. My own observation is that the debate has centered on the claim that the voters will pay less, but any plan that shifts from property to other forms of taxes can't make that guarantee to all, and it becomes a game of winners and losers. Modest changes are not sufficient, so recent proposals, by both Democrats and Republicans, have called for total elimination of school property taxes, which is probably not achievable and certainly not desirable.

In each of your districts, there will be individual winners and losers and municipal winners and losers. Hence, the stalemate. I would argue that the debate needs to center on a new set of principles, that make sense, seem fair, are clearly articulated and do not center on individual winners and losers.

The first is to ensure adequate funding for public schools. Pennsylvania has enjoyed reasonably high personal income, low rates of poverty and a lower uninsured rate than the nation. We have lagged in the share of college-educated individuals, which is now one of the key requirements for economic growth. We need good schools and will need them more in the future if our economy is to grow.

The second is that property tax/school funding reform should reduce the inequities between school districts. This can be done through the school funding formula. The most recently-used funding formula drove state aid to higher-poverty, lower-wealth districts; this formula can be improved.

Third, property tax relief should be targeted to individuals who face true hardship. Often reform efforts are directed most to individuals who yell the loudest, but lower-income people should not subsidize higher-income people. For example, one of the leaders of the property tax elimination group complains that high property taxes prevent him, a retiree with a pension, from opening a winery. A young family of renters shouldn't be working to subsidize a retiree's hobby farm.

The program must be fair, transparent and based on an individual's ability to pay, which means an income or means-tested program.

Fourth, property tax relief should be directed to those communities where property tax rates impede growth.

To accomplish this, the commonwealth could enact a mix of individual and school district-based property tax relief measures. We would suggest the following:

- A. Expand the Property Tax/Rent Rebate program for seniors – Pennsylvania already has the property tax/rent rebate (PTRR) program to address the needs of the poorest elderly Pennsylvanians. Currently, the program provides a modest state subsidy (\$250 to \$650, based on income up to \$35,000 per year) for homeowners.ⁱⁱ This program could be expanded to offset property taxes for seniors with limited incomes and for properties up to the median value in a school district – or the payments could be sent directly to the district to offset any tax an eligible senior would otherwise owe. The program expansion could be funded with more modest increases in the state's personal income tax rate, or a higher tax rate on unearned income.
- B. Enact a "circuit breaker" to target property tax relief to needy taxpayers, regardless of age – These programs compare property tax payments to a family's income and, like an electrical circuit breaker, the program

benefits activate once property taxes exceed a set threshold.ⁱⁱⁱ This would be means-tested and accountable – no matter what school district you live in. In 2008, 18 states had some form of a circuit breaker program – whether targeted to seniors or all homeowners.

- C. Create a property tax deferral program – Like a reverse mortgage, property tax deferral plans allow specific groups of homeowners (typically, the elderly) to tap into the unrealized equity of their homes to pay their property taxes. The taxes would be paid when the house is sold. Oregon and Washington currently offer such programs.^{iv}
- D. Increasing state funding for schools – and sticking with it – Pennsylvania’s larger-than-average dependence on local funds for schools could be addressed by increasing state funding for all districts. This cannot be a promise of convenience for the state, as has been the case in past years.
- E. Develop a new school funding formula that incorporates tax effort as a critical variable – Pennsylvania had a funding formula adopted in statute in 2009, which it has since largely abandoned. That formula could be modified to include a variable that better measures local tax effort and distributes a higher share of state dollars to districts with a high tax effort, as well as areas with high poverty, and other variables.

Let me make just a few comments on HB 1776.

Any program that would eliminate school taxes is simply too risky. Property tax funding is stable, protecting schools during economic downturns, which dramatically reduce more volatile taxes, such as income and sales taxes. Children need the same access to education in good times and in bad.

The bill imposes strict limits on school district spending. HB 1776 uses school funding in the 2011-12 fiscal year as a baseline and limits annual increases based on consumer price index (CPI) or sales tax growth, whichever is lower.^v While it does not prescribe funding levels for future years (a significant issue), continuing the bill’s initial funding cap would be problematic. In recessions, when consumption decreases, sales tax growth can be negative – which would translate into cuts to schools.

Had this formula been in place during the last recession, schools would have endured three straight years of “property tax replacement” cuts, as sales tax receipts dropped 1%, 4%, and 1%, respectively from 2007-08 through 2009-10. Over the three years, this would equate with a loss of over \$1.3 billion in school funding. This would have resulted in massive layoffs and fewer dollars being driven back into local communities.

HB 1776, in particular, shifts taxes from corporations to homeowners. Non-residential property accounts for 28% of the assessed value of property in Pennsylvania, according to 2009 data from the State Tax Equalization Board (STEB). Tax dollars that were previously generated from these properties would be shifted to individuals through higher personal income and sales taxes.

Local tax options

Some of our municipal colleagues argue that a greater range of local taxing options would be the answer. We disagree. It would be the answer for some communities, not all, as many don’t have great local wealth, an industrial base, or don’t generate much sales tax revenue. You can’t get blood from a stone. This would also exacerbate differences in school funding or municipal services.

I know we are going against the grain, but imposing an additional state sales tax or increasing the income tax rate, for example, could do three things. First, the commonwealth could collect the tax and distribute it to school districts, counties or municipalities in the form of revenue sharing. Second, it could create some incentives, such as municipal consolidation or more sharing of services. Third, the commonwealth could enact tax credits for the sales tax or expand the income tax forgiveness program to create a tax system that shields the lowest-income individuals from higher tax burdens and is truly based on ability to pay.

Thank you for this opportunity and I am happy to answer questions.

ⁱ Pennsylvania School Employees Association analysis of State Tax Assessment Bureau and Pennsylvania Department of Education data.

ⁱⁱ Pennsylvania Department of Revenue, "Property Tax/Rent Rebate Program," (accessed May 28, 2012) http://www.portal.state.pa.us/portal/server.pt/community/property_tax_rent_rebate_program/11410.

ⁱⁱⁱ Center on Budget and Policy Priorities, "Policy Basics: Property Tax Caps," December 18, 2008, <http://www.cbpp.org/files/policybasics-taxcaps.pdf>.

^{iv} Washington State Department of Revenue, "Property Tax Deferral for Senior Citizens and Disabled Persons," November 2011, http://dor.wa.gov/docs/pubs/prop_tax/seniordefs.pdf.

^v Page 166 of HB 1776.

Appendix 1

School District	County	Household Property Taxes % Personal Income 2009-10
Antietam SD	Berks	4.8%
Muhlenberg SD	Berks	4.8%
Bristol Township SD	Bucks	5.2%
Morrisville Borough SD	Bucks	4.6%
Jim Thorpe Area SD	Carbon	8.3%
Octorara Area SD	Chester	5.1%
Oxford Area SD	Chester	4.5%
Chichester SD	Delaware	5.7%
Garnet Valley SD	Delaware	4.7%
Ridley SD	Delaware	5.2%
Southeast Delco SD	Delaware	5.3%
Wallingford-Swarthmore SD	Delaware	5.0%
William Penn SD	Delaware	5.7%
Northern Lehigh SD	Lehigh	4.5%
East Stroudsburg Area SD	Monroe	9.7%
Pleasant Valley SD	Monroe	6.0%
Pocono Mountain SD	Monroe	10.4%
Stroudsburg Area SD	Monroe	6.1%
Cheltenham Township SD	Montgomery	5.0%
Pottsgrove SD	Montgomery	5.3%
Pottstown SD	Montgomery	5.0%
Easton Area SD	Northampton	4.8%
Saucon Valley SD	Northampton	4.5%
Delaware Valley SD	Pike	6.3%
Wallenpaupack Area SD	Pike	8.7%
Western Wayne SD	Wayne	6.2%
Statewide Average (2009-10):		3.0%

Source. Pennsylvania School Employees Association analysis of State Tax Assessment Bureau and Pennsylvania Department of Education data. "High tax" calculation made by the Pennsylvania Budget and Policy Center (set at 150% of the statewide average).

County Rankings of 2009-10 School Property Taxes:

Real Estate Taxes as a Share of Local Taxes			Real Estate Taxes Share of Market Value			Real Estate Taxes as Share of Personal Income		
Share School Taxes	Rank		Share MV	Rank		RE Taxes as Share of PI	Rank	
Delaware	93.6%	1	Monroe	2.1%	1	Monroe	5.4%	1
Pike	91.4%	2	Allegheny	2.0%	2	Pike	3.9%	2
Wayne	90.1%	3	Delaware	1.9%	3	Sullivan	3.2%	3
Chester	89.7%	4	Berks	1.9%	4	Northampton	3.0%	4
Montgomery	89.6%	5	Greene	1.8%	5	York	3.0%	5
Bucks	89.0%	6	Armstrong	1.7%	6	Carbon	2.9%	6
Lancaster	86.4%	7	Northampton	1.7%	7	Berks	2.9%	7
Sullivan	86.3%	8	York	1.7%	8	Bucks	2.8%	8
Lebanon	86.3%	9	Indiana	1.7%	9	Chester	2.7%	9
Lehigh*	85.3%	10	Carbon	1.6%	10	Delaware	2.5%	10
Northampton	85.0%	11	Montgomery	1.6%	11	Lancaster	2.5%	11
Monroe	84.9%	12	Lehigh*	1.6%	12	Lehigh*	2.5%	12
Greene	84.7%	13	Lancaster	1.6%	13	Montgomery	2.5%	13
Susquehanna	84.4%	14	Chester	1.6%	14	Wayne	2.5%	14
Berks	84.0%	15	PA Average	1.5%		Adams	2.3%	15
York	83.4%	16	Bucks	1.5%	15	Susquehanna	2.3%	16
PA Average	82.4%		Washington	1.5%	16	Greene	2.3%	17
Carbon	81.5%	17	Beaver	1.4%	17	Wyoming	2.2%	18
Washington	81.3%	18	Lebanon	1.4%	18	Columbia	2.2%	19
Juniata	80.8%	19	Westmoreland	1.4%	19	Lebanon	2.2%	20
Westmoreland	80.7%	20	Dauphin	1.4%	20	Forest	2.1%	21
Butler	80.7%	21	Luzerne	1.4%	21	PA Average	2.1%	
Wyoming	80.6%	22	Lackawanna	1.4%	22	Dauphin	2.0%	22
Fulton	80.5%	23	McKean	1.4%	23	Centre	2.0%	23
Mercer	79.9%	24	Warren	1.4%	24	Allegheny	2.0%	24
Somerset	79.7%	25	Crawford	1.4%	25	Armstrong	2.0%	25
Allegheny	79.6%	26	Bradford	1.4%	26	Potter	1.9%	26
Armstrong	79.4%	27	Clearfield	1.4%	27	Franklin	1.9%	27
Beaver	79.1%	28	Centre	1.3%	28	Cumberland	1.9%	28
Erie	78.7%	29	Wyoming	1.3%	29	Tioga	1.8%	29
Franklin	78.0%	30	Venango	1.3%	30	Fulton	1.8%	30
Crawford	77.8%	31	Erie	1.3%	31	Perry	1.8%	31
Indiana	76.5%	32	Susquehanna	1.3%	32	Bradford	1.8%	32
Centre	76.5%	33	Butler	1.3%	33	Clearfield	1.7%	33
Clearfield	76.1%	34	Philadelphia	1.3%	34	Butler	1.7%	34
Lawrence	75.7%	35	Schuylkill	1.3%	35	Westmoreland	1.7%	35
Venango	75.7%	36	Cumberland	1.3%	36	Snyder	1.7%	36
Bradford	75.6%	37	Mercer	1.3%	37	Indiana	1.6%	37
Adams	74.9%	38	Adams	1.3%	38	Erie	1.6%	38
Warren	74.5%	39	Pike	1.2%	39	Lackawanna	1.6%	39
Luzerne	74.5%	40	Perry	1.2%	40	Washington	1.6%	40
Cumberland	74.0%	41	Tioga	1.2%	41	Luzerne	1.6%	41
Potter	73.7%	42	Union	1.2%	42	Somerset	1.5%	42
Clarion	73.7%	43	Cambria	1.2%	43	Beaver	1.5%	43
Fayette	73.6%	44	Lawrence	1.2%	44	Lycoming	1.5%	44
Lackawanna	73.5%	45	Clinton	1.2%	45	Mercer	1.5%	45
Cambria	72.8%	46	Columbia	1.2%	46	Montour	1.5%	46
Forest	72.6%	47	Lycoming	1.1%	47	Crawford	1.4%	47
Bedford	72.5%	48	Potter	1.1%	48	Union	1.4%	48
Tioga	72.0%	49	Fulton	1.1%	49	Clinton	1.4%	49
Columbia	72.0%	50	Wayne	1.1%	50	Cameron	1.4%	50
Blair	71.8%	51	Franklin	1.1%	51	Bedford	1.4%	51
McKean	71.6%	52	Cameron	1.1%	52	Schuylkill	1.4%	52
Jefferson	70.8%	53	Mifflin	1.1%	53	Lawrence	1.3%	53
Dauphin	70.6%	54	Snyder	1.0%	54	Juniata	1.3%	54
Philadelphia	70.5%	55	Clarion	1.0%	55	Venango	1.3%	55
Cameron	68.9%	56	Fayette	1.0%	56	Clarion	1.3%	56
Schuylkill	68.6%	57	Northumberland	1.0%	57	Warren	1.3%	57
Mifflin	68.0%	58	Somerset	1.0%	58	McKean	1.2%	58
Clinton	68.0%	59	Elk	1.0%	59	Mifflin	1.2%	59
Huntingdon	67.8%	60	Montour	1.0%	60	Blair	1.1%	60
Perry	67.5%	61	Forest	1.0%	61	Elk	1.1%	61
Elk	66.5%	62	Sullivan	0.9%	62	Cambria	1.1%	62
Lycoming	66.5%	63	Jefferson	0.9%	63	Huntingdon	1.1%	63
Union	66.2%	64	Blair	0.9%	64	Northumberland	1.0%	64
Snyder	64.9%	65	Bedford	0.9%	65	Philadelphia	1.0%	65
Montour	64.6%	66	Juniata	0.8%	66	Fayette	1.0%	66
Northumberland	63.2%	67	Huntingdon	0.8%	67	Jefferson	1.0%	67

Source: Pennsylvania Budget and Policy Center calculations using US Bureau of Economic Analysis (personal income) and Pennsylvania Department of Education (school district taxes, real estate taxes, and market value) data.