ProPERty taxes have become such a CONTENTIOUS ISSUE IN PENNSYLVANIA that residents from at least 84 different grassroots groups have banded together to push for changes that include eliminating the school property tax—even if it means funding education through other sources that might not be as reliable.

A Decade of Failed Reform

Especially in more recent years, residents and other property owners in the nation’s sixth-most populous state have filled meetings, written their legislators, and spoken out loudly against the tax that local governments levy on houses, land, and other property. Pennsylvanians shoulder one of the largest overall tax burdens in the country, and many frustrated home owners there complain that property taxes are too high. Property tax rates have risen even as median household incomes have remained stagnant or declined in most cities in the Keystone State. Meanwhile, a property tax reform bill passed by the state legislature in 2006 has failed to live up to expectations, partly by failing to give residents the control they wanted over the largest portion of their property tax bills—the part that funds public schools and, in some communities, makes up more than one-half of the total tax bill. Under the Taxpayer Relief Act, each school board is required to get voter approval before it can adopt a tax rate that exceeds a cap tied to inflation. For years, however, dozens of school districts have avoided a voter referendum by asking the state Department of Education for special exemptions.

These concerns are priorities for lawmakers. But state leaders acknowledge that changing their property tax system is much more complex than it seems. Cutting taxes for some groups of people means boosting them for others, unless leaders can identify new sources of revenue able to generate at least the same amount of money needed for public education, police protection, waste management, and other local government services. Today, Pennsylvania school districts, counties, and municipalities rely heavily on property taxes. In fact, schools in the commonwealth rely on property taxes more than schools in most other parts of the United States. About 46 percent of the funds that pay for public schools in the commonwealth come from property taxes, according to data from the U.S. Census Bureau for fiscal year 2013. Nationwide, about 37 percent of school district revenue came from property taxes that year.

By Denise-Marie Ordway

The Bill That Would Eliminate School Property Tax in Pennsylvania

Pennsylvania Senate Bill 76—also known as the Property Tax Independence Act—aims to slash property tax bills by eliminating school property taxes. By a very narrow margin, the measure failed to garner enough votes last year to get through the Pennsylvania Senate, and its sponsors plan to push for another vote this year.

While Pennsylvania lawmakers acknowledge the need for reforms, they have not yet developed a plan that residents, local governments, the business community, and other stakeholders can agree upon.

Property Tax Independence Act

During the last several years, multiple proposals have come forward and then been rejected. A controversial bill introduced in 2015 offers some of the most drastic changes of any property tax reform measure to come before a state legislature in recent years. Pennsylvania Senate Bill 76—also known as the Property Tax Independence Act—aims to slash property tax bills by eliminating school property taxes. By a very narrow margin, the measure failed to garner enough votes last year to get through the Pennsylvania Senate, and its sponsors plan to...
Pennsylvanians have indicated property taxes are a key concern. A spring 2015 poll conducted by Franklin & Marshall College, in Lancaster, found that 77 percent of voters think the tax system needs to be overhauled. Most Pennsylvanians who participated in that poll—60 percent—said they would favor a plan that would increase the state income tax from 3.07 percent to 3.7 percent if it meant their property tax bill was chopped by $7,000.

Among those who feel strongly about the issue is Kelly Sharp, of Granvilleville, who says she almost lost her house a few years ago because she was unemployed and could not pay her property taxes. At the time, she had enough money to cough up her mortgage and property taxes. After battling her bank for months, Sharp finally was able to negotiate monthly payments she could afford. Today, the mother of five is manager of the canteen at her local VFW Post. Although she and her husband now work full-time, it still will be tough, she says, to come up with the $6,814.80 she owes in property taxes this year on her five-bedroom home. Sharp says she wants to move to a less expensive state. “We just can’t afford it anymore,” she says. “These taxes are just crazy on so many different levels. Not just the amount, but the power and authority people have to destroy you with these taxes.”

There are multiple reasons why Senate Bill 76 has gained support among tens of thousands of property owners statewide, says David Baldinger, a spokesman for the Pennsylvania Coalition of Taxpayer Associations, an umbrella organization representing the grassroots groups that are fighting education taxes. While many people cite frustrations over rising property taxes and fears about losing their homes, a number of people also think it is more fair to fund schools using income taxes, some types of food, child care services, and nonprescription medications.

The business community has spoken out against the measure, too. The Pennsylvania Chamber of Business and Industry has expressed concerns that increased sales taxes will affect local businesses, especially retail stores in communities that border Delaware, which has no sales tax, and Maryland, where the tax rate is 6 percent.

Kathy Swope, president of the Pennsylvania School Boards Association, criticized the bill for allowing large corporations and other businesses to stop paying education property taxes. A significant portion of school property taxes come from commercial and industrial property in the state. In the Philadelphia city school district, for example, more than 44 percent of property was assessed as either commercial or industrial in 2012, according to an analysis from the Pennsylvania Budget and Policy Center. “Taxation works best when it is spread across many contributors,” Swope says. “Completely relieving businesses of the obligation of any contribution—I’m not sure that is the best way to approach this.”

In November 2015, Senate Bill 76 came up for a preliminary vote and almost passed the Senate. Following more than an hour of debate, legislators cast a tie vote of 24 to 24. The state’s lieutenant governor, Mike Stack, in his role as Senate president, broke the gridlock by casting an opposing vote, which made front-page news across the commonwealth. But the bill’s sponsors will try again. The primary sponsor, Senator David G. Argall, has said the close vote demonstrates how important tax cuts are to Pennsylvanians. A spokesman for Argall says Argall hopes the Senate will vote on the measure again this coming session.

Despite support from many property owners, Pennsylvania Governor Tom Wolf opposes Senate Bill 76, and dozens of organizations have rallied against the measure as well. Among them are advocacy groups for children and the poor, such as the Pennsylvania State Education Association, Public Citizens for Children and Youth, Pennsylvania Association of Realtors and groups representing the grassroots groups that are fighting education taxes. While many people cite arguments for children and the poor, the bill’s sponsors believe a plan that would replace education property taxes with a higher sales and income tax.

Opposition to Senate Bill 76

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right now, we couldn’t just eliminate property taxes because the state’s share is inadequate,” the governor’s spokesman says. “That’s something we inherited. It’s unfortunate that districts are being forced to raise property taxes, and that’s what he is trying to fix.”

Wolf’s original 2015–16 spending plan included changes to property taxes that would have resulted in tax cuts specifically for homeowners. He had aimed to reduce property taxes by $3.8 billion statewide and shrink the average homeowner’s school tax bill by more than half. Nearly 300,000 senior citizens’ households would not pay school property taxes. Like Senate Bill 76, Wolf’s proposal would have relied on increases in sales and income taxes to cover the cost of the change. That spending plan, however, was taken off the table in the midst of tense, ongoing budget negotiations with the legislature. Wolf introduced a second state budget proposal in February that did not include changes to property taxes.

The Dependability of the Property Tax

While Pennsylvania policy makers debate the best ways to revamp the state’s property tax system, officials in other parts of the country are wrestling with similar issues. For example, a Texas Senate committee held hearings statewide to examine options for property tax relief before making recommendations to legislators. Nebraska Governor Pete Ricketts recently unveiled a property tax relief package that, among other things, aims to limit how much the value of agricultural and horticultural land can grow. Last year, Florida’s House Finance and Tax Committee briefly considered pursuing a modest circuit breaker program that is available to all taxpayers, including the circuit breaker available to all taxpayers, independent of age, who are facing high tax burdens who likely reduce opposition to the property tax.

Instead of abandoning school property taxes, Pennsylvania legislators should try to make the tax more attractive to property owners. One way to do that is through “circuit breaker” programs, which offer relief to individuals with high tax burdens in relation to their income. “Pennsylvania has a modest circuit breaker program that is available only to taxpayers over the age of 65 and to the disabled,” Reschovsky says (figure 1, p. 14). “Making the circuit breaker available to all taxpayers, independent of age, who are facing high tax burdens would likely reduce opposition to the property tax.”

Expanding Pennsylvania’s circuit breaker program is one of the recommendations made by the Pennsylvania Budget and Policy Center, a progressive policy research project based in Harrisburg that calls the elimination of school property taxes “an extreme response to a limited problem.” It has been urging legislators to reform the tax system by making targeted changes that will not hurt schools. The center also suggests requiring counties to reassess property regularly. This is important because property taxes are based both on the tax rates set by local govern...
ments and an assessment of the value of the land, structure, or other property on which the tax is being imposed. A report that the Pennsyl-
vania Budget and Policy Center released in 2014, when lawmakers were considering an earlier version of the Property Tax Independence Act, found that 43 percent of counties had not conducted reassessments in more than 20 years and that only one-third had reassessed property within the past decade.

“I’d say they feel the need to eliminate the property tax because they haven’t taken the more sober and precise measure of expanding their circuit breaker.”

The Pennsylvania Budget and Policy Center report also suggests that high property taxes are the exception in the commonwealth. The center’s analyses show that, for most counties, total property taxes average less than $2,000 a year, with tax bills ranging from a low of $850 annually in rural Forest County, which includes part of the Allegheny National Forest, to a high of $4,364 in Chester County, a wealthy suburb of Philadelphia. Data from the 2014 Census’ American Community Survey, however, indicate that a larger proportion of home owners pay high property taxes in Pennsylvania compared to the United States as a whole. Nationally, about 34 percent of home owners paid $3,000 or more in property taxes. Meanwhile, about 41 percent did in Pennsylvania. But tax bills are not always the best measure of property tax burden. Many economists prefer to look at property taxes as a percentage of personal income. In Pennsylvania, property taxes made up 3.0 percent of personal income in 2013, below the national average of 3.1 percent, according to the latest available Census data. Taxes are considered high in 30 of the state’s 500 school districts, as property taxes exceed 4 percent of the districts’ total taxable personal income. Meanwhile, an analysis released in December 2015 by the Pennsylvania State Data Center reports that median household income declined or stayed the same in 55 of the 57 Pennsylvania cities surveyed by the U.S. Census Bureau between 2005–2009 and 2010–2014.

Sarah Cordes, a professor of educational leadership policy at Temple University in Philadelphia, asserts that the most pressing problem in education finance is not funding sources. It is the fact that Pennsylvania is one of the few states that do not have an education funding formula that allocates state funds based on the current characteristics of a district—for example, a district’s wealth, student characteristics, and changes in different categories of enrollment. Cordes says Pennsylvania’s system for distributing state money to schools is “basically an automatic allocation,” based primarily on how much money schools received in the previous year. A 2015 report from the Center for American Progress notes that Pennsylvania’s highest-poverty districts spend more than 30 percent less per student than the lowest-poverty ones. But when comparing Pennsylvania to the rest of the country, Education Week’s Quality Counts 2016 report assigned Pennsylvania a grade of B in education spending and funding equity. Meanwhile, it gave the state a C in K–12 student achievement. Says Cordes: “If the goal is to produce better and more equitable educational outcomes for children across the state, then . . . the most important thing that needs to happen is that the state needs to come up with an education funding formula.”

The public finance consultant, recommends that policy makers address school funding and property tax reform as two separate issues. She suggests targeting state aid to needy school districts to tackle the biggest student achievement challenges. Meanwhile, she urges lawmakers to target property tax relief to those property owners with hefty property tax burdens. “The consensus among public finance research- ers is that property tax relief should be targeted to low- and moderate-income households through a mechanism such as a state-funded property tax circuit breaker program,” Cordes wrote in a 2007 report that summarizes some of the most pertinent research findings related to property taxes and school finance.

Kenyon, who served on New Hampshire’s State Board of Education and on the Education Commission of the States, would urge Pennsylva-

nian lawmakers to reconsider their property tax problem. “I’d say that they feel the need to eliminate the property tax because they haven’t taken the more sober and precise measure, which I would highly recommend, of expanding their circuit breaker,” she says.

Denise-Marie Ordway is a longtime education reporter and 2015 fellow of Harvard’s Nieman Foundation for Journalism. Currently, she is an editor at Journalist’s Resource, a project of Harvard’s Shorenstein Center on Media, Politics and Public Policy in Cambridge, Massachusetts. She can be reached by email at denisemordway@gmail.com or via Twitter at @DeniseOrdway.

REFERENCES


No Circuit Breaker
Elderly Only
All Ages Eligible

Circuit breakers target property tax relief to those taxpayers who face particularly high property tax burdens (property tax as a % of their income). A common form of circuit breaker provides tax relief equal to a share of the gap between a taxpayer’s property tax bill and a “threshold” tax burden, e.g., 5% of the taxpayer’s income.

FIGURE 1

STATE FUNDED CIRCUIT BREAKER PROGRAMS, 2014

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