



POLICY STATEMENT
EDUCATION AND ECONOMIC DEVELOPMENT FUNDING OPTIONS

Background

The property tax is a tax on the market value of privately owned property – all land and buildings excluding tax-exempt properties – and is the principal source of revenue for localities. In 2004, state and local governments across the United States collected an estimated \$318 billion in property taxes. Approximately 97 percent of this total, \$308 billion, was collected by local government units including counties, cities, and school districts.¹

Pennsylvania collects almost \$10 billion in property tax revenue which represents almost two-thirds of all local tax collections in the Commonwealth. School districts collect the largest amount – nearly 70 percent – while the rest is split between municipalities and counties in almost equal proportions.²

Good schools are a necessity for the economic development, prosperity and quality of life of a community. However, the property tax is a burden to the Commonwealth's citizens and reduces the affordability of home ownership. Increases in property taxes cause a strain on the Commonwealth's seniors and their ability to maintain home ownership, and also lessen the attractiveness for new business to move to Pennsylvania.

The lack of other broad-based local taxes to generate substantial revenues has led to significant reliance on the property tax to fund education. The Pennsylvania General Assembly continues to grapple with the issue of providing adequate funding to our schools while also supplying relief from the onerous burden of property taxes.

PAR Position

In order to assist state and local governments as they address the issue of property tax reform, PAR offers the following solutions to help address this critical issue.

Provide a Dedicated Funding Source

Until 1983, Pennsylvania was required to provide state aid equal to 50 percent of the median actual instructional expenses (AIE) per student of all districts. In 1983, the statutory goal was removed and there is currently no continuing formula to serve as the basis for annual adjustments to state aid for basic education. As a result, school districts have relied on the property tax to make up for the declining state share of education costs. While PAR believes that ultimate control of the schools should be maintained at the local level, PAR supports reinstatement of state aid up to 50 percent in

¹ The Tax Foundation, Research Area: Property Taxes, available from <http://www.taxfoundation.org/research/topic/89.html>; Internet; accessed August 9, 2007.

² IssuesPA, "The Property Tax: The Tax People Love to Hate", available from <http://www.issuespa.net/articles/3531>; Internet; accessed August 9, 2007.

order to create a dedicated funding source. To help the state meet this level of participation, PAR supports funding education through broad-based consumption and/or income taxes which are predictable and sustainable through various market conditions.

Provide an Equitable Distribution Formula

Reliance on the property tax to generate the dollars necessary to fund school programs is a primary cause of funding inequity among school districts. Districts with greater property values have more access to resources and tend to spend more dollars per student, pay their employees higher salaries and benefits, and can levy a relatively smaller millage rate to generate a specific amount of revenue. In contrast, districts with lower property values have fewer resources which make it difficult to retain teachers and provide adequate educational programs. PAR supports a formula that is equitable among districts and takes into consideration factors such as enrollment, district size, poverty, growth, transportation, and special needs.

Eliminate Unfunded Mandates

Local communities are burdened with meeting unfunded federal and state mandates, which, in the majority of cases, places the entire tax burden for schools on the homeowner in the form of property taxes. PAR supports measures to assure that all mandates are fully funded and a sunset review process is implemented to update the fiscal impact and determine the effectiveness of all mandated programs. Further, the legislature should review all state mandates and eliminate programs and statutes that are found to be out-of-date or ineffective.

Hold Schools Accountable for Spending

The cost of school construction, advanced technology, transportation requirements, after-school programs and other services continue to escalate. PAR believes in providing these services to our children, however, school districts must be held accountable for spending. PAR believes that revenue requirements must be based on a thorough analysis of the operating efficiency of a school and an examination of the necessity of services provided. Schools should be encouraged to consolidate services in order to be more cost effective and efficient. Models for school construction should also be developed to reduce costs and eliminate duplication.

Contain Health Care Costs

One of the biggest challenges facing schools today is how to provide adequate health care to employees without compromising quality or access to care. The Pennsylvania Health Care Cost Containment Council is an independent state agency responsible for addressing the issue of escalating health costs and increasing access to health care for all citizens. PAR believes the Council should conduct a study of health care coverage costs across school districts then make recommendations for economies of scale and cost containment including administrative and programmatic cost savings.

Implement Taxpayer Referendum on Future Increases

School districts are currently given the authority to increase taxes without voter approval. PAR believes that any proposal by a school district to increase taxes should be taken to a voter referendum. By allowing the electorate to either accept or reject the proposal, the process would hold the district accountable for any proposed tax increase as related to additional spending.

Reduce Taxes on Primary Residences

Pennsylvania currently allows participating school districts, counties and municipalities to offer property tax reductions to permanent residents of their jurisdiction. The homestead exclusion reduces the assessed values of single family homes, condominiums, and other places of primary residence, reducing the property taxes on the property. Likewise, farmstead exclusions are available for privately owned and operated farms. PAR supports expansion of these programs to provide additional tax relief.

Establish Countywide Property Assessment Guidelines

Pennsylvania provides for the authority of counties to conduct assessments, yet periodic countywide assessments are not required. This often results in inconsistent and unfair assessments of individual properties relative to one another. In order to attain property assessments that are fair, realistic and equitable, PAR recommends the state legislature initiate a study of other states' best practices and introduces legislation based on those findings. Improving assessment practices will ensure up-to-date and accurate assessed values for all properties.

*Approved by the PAR Board of Directors
January 2011*