



Implications of Property Tax Elimination

DISPARITY IN EDUCATION FUNDING. Property tax elimination locks in the inequity in education funding across the state. Due to the dramatic differences in state support for education across districts, property taxes have had to generate revenue necessary to fund education. Some districts rely on local property taxes to provide local revenue of about \$1,000 per student, while other districts more heavily reliant on property taxes generate nearly \$24,000 per student at the local level. Instead of addressing this disparity, however, property tax elimination locks it in, requiring the state to distribute to each district the equivalent of their local property tax revenue. Under elimination, if all the state and local dollars are collected and distributed by the state, the state will give more than \$2,400 per student to one school district and nearly \$28,000 per student to another. How does the state argue that some students are worth more than others?

SAY GOODBYE TO THE NEW FORMULA. After months work by the Basic Education Funding Commission, a bipartisan recommendation and a nearly unanimous new formula enacted via Act 26 of 2016, property tax elimination would undo it before it had a chance to remedy the inequity it was designed to address. The entire structure of the new formula hinges on district factors, such as local tax effort and local tax capacity. With property tax elimination, these factors would be rendered meaningless, making the formula mathematically unworkable. Without a formula, we'll exacerbate the inequity in school funding and go back to funding schools based on political whim.

SIX COUNTIES GET MOST OF THE MONEY. Unless your school district is in Allegheny, Bucks, Chester, Delaware, Montgomery or Philadelphia County, it's unlikely much of your increased PIT or SUT will actually find its way to your school district. To replace the property taxes levied by all school districts, the highest of which are generally levied in these counties, a large portion of the state dollars collected under an elimination proposal will flow to the school districts in just 6 counties. This means that education funding is no longer local and your tax dollars are likely to be shipped across the state to benefit students hundreds of miles away.

SCHOOL FUNDING LAWSUIT READY TO HAPPEN. While there is already one lawsuit awaiting a decision by the PA Supreme Court on the justiciability of school funding issues, should the court determine that the court can hear the case, the inequity in the current system alleged by the plaintiffs is nothing in comparison to what it would be if property taxes were eliminated when the state will be sending one district \$5,100 per student and another nearly \$28,000 per student. If the issue is determined to be justiciable, then expect more lawsuits to come.

SOME RESIDENTS WILL CONTINUE TO PAY SIGNIFICANT AMOUNTS OF SCHOOL PROPERTY TAX. Despite the fact that the elimination proposal touts the elimination of school property taxes, it actually maintains school property taxes in most districts for a long period of time to pay off debt in existence on December 31, 2016. For those districts that receive significant state funding and have relatively low local revenue, the amount of property taxes residents will continue to pay is substantial. In 215 school districts, at least 20% of the current school property tax bill will continue to be levied to pay off these debts. In 24 school districts, at least 50% of the current school property tax bill will continue to be levied to pay off these debts. There are even some school districts in which local taxpayers will continue to pay 100% of their school property taxes for years until the debt is paid off.

DOUBLE TAXATION ON THE POOREST CITIZENS. The residents in some of Pennsylvania’s poorest school districts will be hit the hardest by property tax elimination. Not only will they not have their property taxes eliminated—many will maintain more than 50% of their current property taxes—but they will also be paying the increased PIT and SUT, which will be shipped out of their community to subsidize the education in some of the wealthiest school districts in the state. This proposal is nothing more than robbing Peter to pay Paul.

DISTRICT CASH FLOW PROBLEMS. With the expiration of a school district’s ability to levy a property tax occurring on July 1, 2017 (with the exception of that for debt service), it will be nearly impossible for school districts to open their doors and pay their bills for 2017-18. School districts will face serious cash flow problems until the state is able to provide them with revenue from the increase PIT and SUT, a process which is likely to take 24 months. How will school districts operate in the absence of funding? Will the state provide all revenue necessary to ensure they can keep their doors open?

NO NEW DEBT MAKES CASH FLOW WORSE. The cash flow problems under elimination are bad enough (as the bill doesn’t even provide a timeline for distribution of revenue to school districts), but the prohibition on the ability of a school district to incur any new debt makes it impossible for a district to respond to the financial chaos of elimination. This prohibits a district from borrowing money to keep its doors open while it waits for state revenue and prohibits a district from borrowing money to fixing a dead HVAC system. Allowing new debt only with referendum will ensure that school districts of all shapes and sizes across the state fall into financial distress. Will the state bail them all out?

DISPROPORTIONATELY HARMS SCHOOL DISTRICTS WITH HIGH DELINQUENT TAXES. Under property tax elimination, school districts will receive an amount equal to the property taxes they collected in 2016-17—not an amount equal to what they levied in property taxes. As a result, those school districts with high proportions of delinquent taxes—some of the poorest school districts in the commonwealth—would be disproportionately harmed. For these school districts, they would receive no corresponding state funding for the amount of outstanding delinquent taxes, and would forever forego that revenue.

LETS DELINQUENT TAXPAYERS OFF THE HOOK. By prohibiting a school district from levying, assessing or collecting property taxes after June 30, 2017, delinquent taxpayers appear to be off the hook. In some school districts, it takes years to collect delinquent taxes, but the blanket prohibition means that those taxpayer would never have to pay and that school districts would never receive state funding to make up for those delinquent revenues.

TAX SHIFT FROM BUSINESSES TO INDIVIDUALS. Eliminating property taxes across the board means that the property tax burden carried by businesses will be shifted to individuals in the form of increased PIT and SUT. Across Pennsylvania, businesses are currently paying approximately \$2.75 billion in property taxes, which will be shifted away from those businesses. Property tax elimination gives Walmart a free ride at the expense of individuals and small businesses.

MAINTAINS \$5 BILLION IN COUNTY/MUNICIPALITY PROPERTY TAXES. This property tax elimination bill doesn’t actually eliminate property taxes. Instead, it eliminates only school property taxes (and not all at once, as taxes to pay outstanding debt remain in place), leaving approximately \$5 billion in other local government property taxes still on the table. In many areas across the state, property tax payers are

paying more in property taxes to other local governments than to their school districts. These county and other local property taxes will remain, and will increase, despite the elimination of school property taxes.

STATE MUST COVER COSTS OF ALL NEW MANDATES. The state will be unable to send even \$1 of additional costs to school districts without picking up the tab. With no ability to generate revenue to cover current costs, there is no way school districts will be able to cover new mandates. Any bill requiring teacher training, program offerings, additional reporting, even health and safety measures—anything—will result in additional school district costs. State dollars will need to accompany all new mandates or districts will have to cut programs, and with the comprehensive reforms required under ESSA on the horizon, this is a problem that the state will have to tackle sooner rather than later.

SCHOOL DISTRICTS LOSE MONEY ON TAX COLLECTION. While property taxes will be “eliminated,” most school districts will be sending out property tax bills to cover their outstanding debt service for several years. In those school districts with locally elected tax collectors that are paid per bill, the cost of tax collection just increased dramatically in comparison to the total amount being collected.

STATE CONTROLS COLLECTIVE BARGAINING. Property tax elimination removes all local control and funding authority of a school district and its school board. As a result, school districts will have no ability to hire new teachers, negotiate new contracts or fund an existing contract. The state will either have to change or eliminate collective bargaining rules and take over this role for each and every school district, which is likely to result in a significant cost to the state. Have fun fact-finding!

DETERIORATING PA SCHOOLS. With no ability to raise revenue to cover needed construction projects, roofs will leak, HVAC systems will fail, technology will fall far behind, parking lots will crumble and school districts will be unable to do anything about it. The state will be on the hook to cover the cost of all necessary maintenance and every needed renovation in school districts. While most districts are likely to defer maintenance under the unreasonable constraints of property tax elimination, what happens after 25 years of neglecting school facilities?

CUTS TO EDUCATION JUST TO COVER MANDATED PSERS AND CHARTER SCHOOL COSTS. PSERS and charter school costs increase significantly each year. Property tax elimination will not provide school districts with enough revenue to even begin to cover just these two rising costs. And with no ability to control these costs, let alone others such as special education, school districts will have to cut their way out of the annual increases, harming students to pay for these mandated costs.

WINDFALL TO THE FEDS. The elimination of property taxes will mean that approximately \$600 million will be sent to the federal government each year through lost federal income tax deductions for real estate taxes. More Pennsylvania money will go to Washington D.C. than ever before, meaning that there will be hundreds of millions of dollars less to be used to generate additional sales tax revenue.

NO MORE CLEAN AND GREEN. For years, taxpayers paid higher tax rates to fund the Clean and Green program, giving taxpayers with eligible properties a break on taxes to incentivize agriculture and green spaces, with the idea that the taxes would be paid in the future upon sale. What happens to these agreements? Are taxes due upon sales of these properties? If so, who are the taxes paid to? If these taxes are forgiven, will this result in sales of these properties and reductions of green spaces? Can we still incentivize such property maintenance without property taxes?

WHO NEEDS LOCAL CONTROL? With the elimination of property taxes, comes the total elimination of taxing authority by locally elected school boards and a total undercutting of local control. As a result, locally elected school board members—individuals locally elected by their communities to make the important decisions, including funding decisions, about how to run and operate the district's schools—will be rendered useless. The state will oversee and second guess every decision made by a school board. This elimination of local control and focus on big government for education flies in the face of over 100 years of PA tradition.

A RECESSION WILL SPELL TROUBLE. During the next severe recession, which eventually will occur, PIT and SUT revenues will take hit, spelling disaster for school funding. Unlike property tax, which is a stable base, PIT and SUT will be impacted negatively during and following a recession. Since school districts will have no ability to generate meaningful revenue to balance the impacts of a recession—or even to cut their way out of significant declines in PIT or SUT, the state will be required to find revenue to make school districts whole during any and all financial downturns.

UNJUSTIFIED COSTS FOR SCHOOL DISTRICTS. School districts that levy a per capita tax generally send those invoices with their property tax bills, and the collection process for those taxes is the same as the property tax collection process. Without property taxes, how can a school district justify a \$5 or \$10 per capita tax when the administrative costs per dollar will skyrocket? With no authority to replace the per capita tax revenue, school districts will lose even more than just property tax revenue through property tax elimination.

PA RESIDENTS PICKING UP THE TAB. There are many districts in which out-of-state residents pay a large portion of a school district's total property tax revenue. By eliminating property taxes across the board, the property tax dollars currently coming from non-PA residents will have to be made up by PA residents. In some districts, this means that a quarter or more of their total tax levy will need to be replaced by PA taxpayers.

SCHOOL DISTRICT BOND RATINGS TANK. With no ability to raise property tax revenue and complete dependence on the state for funding, school district bond ratings will decrease (S&P has already foreshadowed this). Additionally, as school districts are forced to spend down their fund balances to pay for rising costs not covered by state funding, bond ratings of every school district will tank.

VERY RAINY DAY FUND NEEDED. Under a property tax elimination plan, the state will need a very large rainy day fund to stabilize the greatly increased economic volatility that will be inherent with a switch to PIT and SUT. Without an enormous fund, the commonwealth's school finance policy will ride the whims and tide of the economy, making it unpredictable to deal with annually for the state and providing zero consistency for school districts—especially at a time where school districts are being asked to implement significant changes to education policy under ESSA.

STATE BUDGET TIMELINE DOESN'T WORK. Under property tax elimination, the state's budget process itself must change. Under elimination, a district will have no other options for funding once a state budget is passed, so districts must have time following the approval of the state budget to make necessary changes to educational programs and services for that year (which could include significant cuts). The current process, which requires districts to put together their budgets in winter and early spring is useless and no longer viable.

INCREASED COSTS FOR OTHER LOCAL GOVERNMENTS. With property tax elimination, there is no need for school districts to be involved in the process of assessments or assessment appeals. Those costs, which were mostly borne by school districts, will now be shifted to other local governments, placing a new and large cost on their plates, and potentially meaning that they have to increase their property taxes, the exact opposite of the intended effect of any elimination proposal.

TAX DOLLARS ARE BEING SIPHONED AWAY FROM EDUCATION. Under the elimination proposal, some of the dollars generated for the purpose of replacing local property taxes with the increased PIT and SUT will be siphoned away from school districts. Over \$250 million of the new revenue collected to replace school property taxes will actually be sent to the Transportation Assistance Fund and not to local school districts. How many other competing interests will siphon money away from education?