



TO: The Honorable Members of the Pennsylvania General Assembly

FROM: The PA Association of Elementary and Secondary School Principals, the PA Association of Intermediate Units, the PA Association of School Administrators, the PA Association of School Business Officials, the PA Association of Rural and Small Schools, the PA School Boards Association and the PA State Education Association

DATE: January 25, 2017

RE: Property Tax Elimination

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On behalf of our organizations and the more than 200,000 Pennsylvanians we represent, we urge you to oppose a plan to eliminate school property taxes (commonly referred to as SB 76). While we recognize an overreliance on property taxes for school funding exists, complete elimination has dangerous, unintended consequences, and simply goes too far. The proposal would destabilize our public education funding system, create greater inequities, and enhance the divide between state-determined winners and losers.

### **STABILITY**

The property tax is a stable and predictable source of funding for the schools. Unlike personal income or sales, the property tax base is less prone to fluctuate in response to short-term changes in the business cycle or economic recessions. According to the Independent Fiscal Office (IFO), during the Great Recession Pennsylvania's income tax revenue dropped by 6.5 percent in FY 2008-09. This was compounded by lost sales tax revenue during the same period. The same IFO report indicates that sales tax revenue declined 4.2 percent in FY 2008-09. Over the same period, school property tax revenue grew more slowly but did not decrease. Reliance only upon state taxes would have reduced the amount of money available to public schools to pay for necessary programs during a critical time when many children were facing economic upheaval within their families as well.

### **GREATER INEQUITIES**

A proposal to eliminate property taxes will further increase the disparities in our school funding system just when we are finally on the pathway toward working together to solve school funding inequities. The elimination of the property tax effectively means that we are discarding the new basic education funding formula. That formula not only hinges on a measure of local tax effort, but was designed to account for student and district characteristics. Those student and district inputs won't be necessary since SB 76 relies on an annual inflationary adjustment (statewide average weekly wage). The inflationary increase does not reflect a goal to achieve adequate school funding, nor will it resolve inequitable funding in some of our most financially challenged school districts. Property tax elimination would further entrench the inequities in our funding system.

## **WINNERS/LOSERS**

If the property tax is eliminated, not all communities will be winners. Taxpayers in some districts will pay simultaneous increases in the state personal income tax and sales and use tax while still paying school property taxes. In these districts, taxpayers will be subject to double taxation, paying significant state tax increases while continuing to pay some or all of their current school property tax bill and all of their county and municipal property taxes. Additionally, 215 school districts (43 percent of all districts statewide) will retain at least 20 percent of their existing school property tax, and 23 districts will keep at least 50 percent of their current property tax to pay for existing debt. A few school districts will still need all or nearly all of their current property tax levy to fund existing debt payments.

We understand that people generally hate the property tax and the threat it causes to people on fixed incomes. However, there are ways to address that problem without wholesale elimination.

## **LOCAL CONTROL**

This legislation will have the commonwealth assume virtually all the authority once held by local school boards, effectively eliminating local control. With no ability to raise revenue or make financial decisions at the local level, the state will be responsible for ensuring that districts have the resources to comply with all mandated costs. By removing a local school board's authority and ability to respond to the needs of its students and residents, the state will be responsible for the financial health of all 500 school districts. As a result, the state will own all cuts to school district programs, staff, and services that occur under this type of legislation.

Please consider the long-term implications of property tax elimination. Such a decision cannot be undone. Thank you for your consideration of our concerns.