



Pennsylvania Association of School Business Officials

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Public Hearing on HB 1776, P.N. 3369

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Chairman Benninghoff and members of the House Finance Committee, thank you for inviting the Pennsylvania Association of School Business Officials (PASBO) to testify on House Bill 1776. My name is Jeff Mummert and I am the Business Administrator of the South Western School District in York County. Effective July 1st, I will become a member of PASBO's Board of Directors as well as chair of its Legislative Committee, a committee on which I've served for eight years. PASBO's membership covers a wide spectrum of non-instructional disciplines required to support student achievement and classroom learning. More about our organization can be found at the end of my testimony.

House Bill 1776 will eliminate property taxes in Pennsylvania by increasing the personal income tax from 3.07% to 4% and the state sales tax from 6% to 7%. While I'm not 100% certain, I would guess that if you took a poll of likely voters in Pennsylvania, the vast majority of them would indicate they are in favor of eliminating property taxes. I would also bet that if you asked the same voters if they would be interested in paying more in total taxes, the vast majority of them would answer no. This is the quandary that we find ourselves in regarding the issue of property taxes in the state. What is the fairest and most equitable way of generating revenue to pay for public services?

Property taxes have historically funded local government services— they have been levied since the beginning of this country. Some people believe they are regressive in nature, although most economists would argue that a sales tax is more regressive, having a greater proportional negative impact on the poor. What we do know about property taxes is that they are a very consistent and stable way of funding public services at a relatively low cost to collect. Our district pays about \$36,000 to collect about \$30 million in property taxes – which is about 1/10th of 1%. Property taxes affect everyone – senior citizens on a fixed income, families and individuals who own a home, renters and businesses. Almost everyone pays property taxes for public services. Is it the only way to pay for public services? Probably not. But coming up with an alternative plan hasn't been easy either or I would guess that we would already have an alternative in place.

The plan in House Bill 1776 is a drastic and unworkable departure from our current method of funding education. It is drastic from the perspective that the local property tax base that gives local officials some degree of local discretion for addressing local priorities will be cast off and replaced with a state controlled tax base where local dollars are redistributed back to where they were collected. This legislation makes Harrisburg the big tax collector of all school district revenues. It is a big government solution that wrecks local discretion.

Currently property taxes are collected locally and the money stays local. I believe there is general distrust across the Commonwealth by schools when it comes to having the state collect and distribute education funds. The distribution method of state funds has always been a bone of contention in the central part of the state as many of us are convinced that much of our tax revenues are actually being diverted to the Philadelphia and Pittsburgh areas instead of coming back to Central Pennsylvania.

State collection and distribution also begs the question of how this plan could be possibly implemented just from a cash flow perspective. Increasing the state's Personal Income and Sales Tax will have to provide about \$11 billion in new revenues to replace existing school property taxes. House Bill 1776 calls for quarterly payments to be made to districts. So will the state guarantee that there will be nearly \$3 billion generated in the first quarter of the year or is the state willing to provide the funding from reserves or other sources? Even if the answer to either of these questions is yes, has there been any consideration to the drastic consequences of spreading out property taxes that are collected primarily in the first four months of the fiscal year to a system of quarterly state payments. Further is there any consideration to how districts should budget? Currently the property tax provides not only a fairly stable revenue base but a predictable one as well. I believe that a quarterly distribution of state funds replacing property taxes will create havoc for school budgets.

The other state distribution concern that I don't see specifically addressed in House Bill 1776 is related to whether the state will distribute those tax revenues to school districts when the General Assembly and Governor are unable to approve a state budget in a timely manner. It wasn't that long ago that school districts had to wait until October to get state revenues due to a budget impasse. We were able to make it through that disruption as we were still collecting property tax revenues in August and September.

Now while many people will hear about the elimination of property taxes, this bill is not about eliminating taxes but rather shifting taxes from one type to another. And when we say eliminate property taxes, let's be clear – we are only talking about eliminating school district property taxes, and only after two years and only completely after all outstanding debt has been paid. Evidently it is just fine to continue to pay county and municipality property taxes, many of which have seen double digit percent increases the past few years, as they are not part of this bill. As you know, school districts are limited in our property tax increase amounts as a result of Act 1 of 2006. So property taxes will not be eliminated in total – only school district property taxes will be eliminated. Property owners will still receive a property tax bill each year for their county and municipal property taxes over which there are no laws to control increases.

Anytime you have a shift in tax burden from one type of tax to another, you create winners and losers. You might think that eliminating school property taxes would make everyone a winner, but mathematically, that just isn't the case. Like most bills dealing with shifting of taxes, the intent of House Bill 1776 when it is all said and done, is to be tax neutral. Essentially, the amount of revenue generated by the increase in the personal income tax and the increase in the sales tax (and the expansion of goods and services covered by the sales tax) should be about the same as the amount lost from the elimination of the property taxes.

In reading House Bill 1776, I noticed a few things regarding this issue that raises a few operational questions. First, the elimination of the school property tax will occur over a two year period of time. And actually, if a school district has debt that it is paying for construction projects, they would be able to continue to have a property tax to cover that debt service cost until that debt service is paid off. So let me clarify this. House Bill 1776 proposes to eliminate school property taxes with a shift to higher personal income taxes and sales taxes – and yet if your school district has outstanding debt you will still be able to have a property tax that covers the cost of that debt service – until it is paid off. We will come back to this in a minute.

Let's get back to the math. It is a given that most individuals will pay more in total taxes as a result of House Bill 1776 than they do now. It is simple math, something we all learned in school. If we eliminate the school property tax, the big winners will be businesses and commercial property owners as they will have a decrease in taxes with no corresponding tax increase. Assuming that the financial need for funding education doesn't decrease, the revenues lost from the elimination of the property taxes for business and commercial properties will need to be made up. And that tax amount will come from individuals. So when you do the math, there is no question that under House Bill 1776 most of us will pay more in total taxes than we pay now. I found the examples of referendum questions contained in the bill to very interesting. On page 12 for example, the Bill gives us the sample referendum question: "Do you favor the imposition of a personal income tax of X%?" Similar referendum questions are outlined for an earned income and net profits tax. I would suggest that a more accurate referendum question for the voters would be: "do you dislike the current school district property tax so much that you are willing to pay more in total taxes to fund education?" To me – that is at the heart of this question.

Actually, what concerns me personally other than the concept of having to pay more in taxes than I pay now to cover the lost revenues from commercial and industrial property taxes that would be eliminated, is what I call the "double Whammy" effect. The double whammy I am referring to is the two-fold concern that not only will most people pay more in total taxes, but that when crafting this legislation the General Assembly will not make the tax rates high enough to provide sufficient revenues to make up for the lost school property taxes. Again, from an operational standpoint, will House Bill 1776 provide sufficient offsetting personal tax revenues in year 1 to cover the lost school district property taxes, or will that total revenue stream reach the total offset in year 2? As school districts with outstanding debt have their debt get paid in full, and they eliminate the remainder of their property tax, will there be a mechanism in place to provide for those additional offsetting revenues from personal taxes? What mechanism will be in place to provide that district with additional revenue? What happens when we go into a recession and personal tax collections decline – what provisions are included in House Bill 1776 to provide adequate funding for public education, at a time when the expectations of public education are increasing?

There is one more thing I would like to bring to the attention of the Committee. I have heard many people comment that the reason this significant shift in funding education is needed is that people across the Commonwealth are losing their homes as a result of rising school property taxes. While this makes for a powerful sound bite, I'm not sure the facts support this claim. I have done some research on this issue for both my school district and for York County. I'll start with my school district. We currently have 11,384 taxable properties on our tax rolls. This year – eight (8) of those properties were exposed to the tax upset sale, and of that number only 3 are actually going to the tax upset sale. And while I don't want to see anyone lose their property because of taxes – that is a very, very small number. That equates to 0.00026 or less than three one hundredths (0.03%) of one percent. The statistics in York County as provided by the County Tax Claim Bureau are equally compelling. Currently, there are 180 properties scheduled to go to the tax upset sale out of 181,347 taxable parcels in the county – and that number is likely to go down before the time of the sale. That equates to about 1/10th of 1% or 0.0009925. I'm guessing that some of you may have worked in factories at some point in your lives. I did one summer while I was going to college. Do you believe that there are any factories in the Commonwealth that would stop their assembly lines if 1/10th of 1% of the items they were making were flawed or if the bag or can was filled 1/10th of 1% from the top? Again – we are talking about 1 in a thousand. If you get a box of 1,000 apples and you find that one of them is bad – do you send them back? I don't think so.

Some other information to pass along from the Tax Claim Bureau....of the properties that do go to upset sale and are sold, the majority of those transactions get appealed and the people get their property back. One last item along these lines...according to the Prothonotary's Office there are any of a number of reasons why liens are placed on properties. It is not just because of school district property taxes. Interesting enough, if a person fails to pay their state income tax, while their wages usually get garnished first, the state also has the ability to place a lien on your property for failure to pay taxes. So I am left scratching my head...what are we accomplishing with this bill.

The last item I would like to address regarding House Bill 1776 is the referendum requirements. If my memory serves me correctly, it wasn't all that long ago that school districts were required under Act 1, to place a referendum question on the ballot to see if our residents wanted the school district to levy a higher Earned Income Tax (or collect a personal income tax) to help reduce property taxes. I believe the voters in only 8 or 9 school districts in the Commonwealth voted to approve that tax shift. What has changed in the last 6 years to lead us to believe there will be a different outcome?

Perhaps the fairest approach would be to continue to allow businesses and commercial properties to pay property taxes while shifting the residential and farm property taxes to the personal income tax. Farmers may have a bit of a problem with this as they do enjoy the tax benefits of the Clean and Green program. But this approach would shift the taxes within the same group of people so it would be less likely that most people would pay more in total taxes. I'm guessing it is discriminatory to just have commercial and industrial properties paying school property taxes, but I will let that up to you folks.

Thank you again for your time and for listening to my concerns.

ABOUT PASBO

www.pasbo.org

Smart Business + Informed Decisions = Great Schools

The Pennsylvania Association of School Business Officials (PASBO) is a statewide association, 3,000 members strong, devoted to helping the business of schools stay on the right track through education, training, professional development and timely access to legislative and policy news. Our membership base covers school professionals working in finance, accounting, operations, facilities, transportation, food service, technology, communications, human resources, purchasing and safety services. While diverse in areas of specialty, all members share a common goal - to support classroom learning in schools during good and bad economic times through smart business practices. PASBO helps make that goal a reality.