PCTA

Pennsylvania Coalition of Taxpayer Associations

Testimony of David Baldinger
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The Pennsylvania House of Representatives Finance Committee
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Good morning.

My name is David Baldinger and I am here today representing the Pennsylvania Coalition of Taxpayer Associations, an affiliation of sixty-eight grassroots taxpayer advocacy organizations from across the state. I want to express my thanks to the members of the House Finance Commitreefor giving me the opportunity to testifytoday on behalf of the PCTA about HB 2230.

In a recent public comment the prime sponsor of HB 2230 stated, "Property taxes are a local tax and should be dealtwith at the local level."

The PCTA agrees, at least in part, with this comment and fully supports the provision of HB 2230 that authorizes a local Earned Income Tax or Personal Income tax as an additional funding source for counties and municipalities. We also agree that, because of the great number of these entities and their widely varying needs, diversification to a variety of local taxes is appropriate and necessary.

However, while being a local tax may also be true for school property taxes today it was not always so, since property taxes were not permitted as an education funding source before the enactment of Act 481 of 1947. Prior to that time there were no local school property taxes and, therefore, no school property tax problem existed such as the one we face today.

Article III, Section 14 of the Pennsylvania Constitution states, "The General Assembly shall provide for the maintenance and support of a thorough and efficient system of public education to serve the needs of the Commonwealth." Please specifically note that the General *Assembly* is constitutionally and singularly responsible for the support of public education.

As the framers of the constitution understood, the funding needs of schools are, in general, far less diverse than those of counties and municipalities and can be addressed more efficiently and more equitably at the state level while still maintaining local control of curriculum and spending decisions.

In his co-sponsorship memorandum, the prime sponsor of HB 2230 titles this legislation "Local tax diversification for property tax reduction or elimination." While this proposal may reduce property taxes in some school districts by partially shifting to a different local funding source, the potential for total school property tax elimination is extremely limited, if not impossible, in the majority of school districts. Further, this legislation does nothing to solve the core problem of an antiquated and inequitable education finance system and can, in fact, exacerbate local school taxation difficulties and further aggravate funding inequities. It, in effect, trades relentlessly increasing school property taxes for relentlessly increasing local income taxes and provides no solution for mitigating Pennsylvania's education finance problems. The possibility of losing your home because you are unable to pay your property tax will be just as great under the provisions of this legislation as it is today.

A tax shift to a local EIT similar to that proposed in HB 2230 was authorized in 1998 with Act 50 and again in 2004 with Act 72, with school boards given the decision to implement. It was soundly rejected both times. Act 1 of 2006, the infamous property tax "relief" measure from gambling money also authorized a local tax shift to an EIT or PIT and mandated a voter referendum for implementation. The referendum, denounced by taxpayers and in newspaper editorials across the state, was held in May 2007 and was rejected by voters in 494 of 498 eligible Pennsylvania school districts. From these failures it is glaringly obvious that taxpayers do not favor a local tax shift for partial property tax reductions, yet certain members of the General Assembly insist on attempting something yet again that has proven to be a failure on three separate occasions. It is unfortunate that they have not learned from these rejections that partial local tax shift proposals are totally unacceptable to Pennsylvania taxpayers.

It is most likely, based on this tax shift history, that voters in few counties will approve the tax shift proposed in HB 2230. We will almost certainly see the same result we have seen with Act 1, where many years must pass before the plan is proven to be a failure and property tax elimination is again addressed. Unfortunately, by that time the level of property taxes could rise to a point that it will be impossible to fund the repiacement from a state-level source. We are nearingthat threshold right now.

School districts that do not have the cumulative community wealth to support themselves through property taxes will likely not have the wealth to fund themselves with other local taxes. As Dr. ferry Madonna and Dr. Michael Young, respected Pennsylvania academics, stated in an April 2007 essay, "There are only two broad based taxes with the capacity to raise enough revenue: the state sales tax and state income tax. There are no other ways that state or local governments can raise the money to pay for schools. The political leadership of the state continues to deny this fundamental truth and beguiles us into believing that local taxes can do the job, if we only get the right local taxes. But the truth is local tax bases simply won't stretch far enough to raise sufficient revenues to meet the needs of the schools." I have attached this essay as well a5 a similar one by Dr Mark Hendrickson, an economist at Grove City College, to my written testimony and respectfully request that the committee members read these essays to better understand the folly and negative consequences of local tax shifting schemes

Some southeast, south-central, and western counties have huge retail tax bases, with many malls and shopping centers that already generate much property tax revenue, lessening the burden on homeowners in those areas, and will provide even more school district revenue and lower property tax burdens with a local shift to a sales tax. But for residents of counties such as those in the northern tier and elsewhere that have little retail activity, only meager revenue can be generated from a shift to a local sales tax and will not have any significant impact on property taxes.

Research by one of the PCTA's member groups has found that twenty-three Pennsylvania counties have no significant retail activity in the form of shopping centers or malls, and that an additional thirteen counties have only one of these shopping venues. Residents of these counties will have no opportunity for property tax relief from a local sales tax shift. Even worse, as these homeowners do their shopping in neighboring counties with more retail activity and that have approved the shift, they will be contributing to property tax relief for those areas without any benefit for themselves.

And even counties that do have the advantage of a latge retail base will likely not generate sufficient revenue to completely ehminate the property tax. Taxpayers from various areas of the state are not treated equally or fairly under this proposal and inequity in the amount of relief is assured. This will cause a greater disparity between "rich" and "poor" school districts and can be better addressed with a more comprehensive, statewide approach.

And because county-to-county taxation inequities are virtually guaranteed, this plan would only aggravate the housing problem in Pennsylvania by encouraging people to locate in counties with lower property taxes and abandonrng areas where the property tax is higher or where the voters have not approved the referendum for the tax shift.

It is also worth noting that Pennsylvania has twenty cities that are under Act 47 restructuring plans with several more heading in that direction. For cities that are in that position because of the lack of a residential income tax base and a retail sales tax base, this approach only exacerbates their problems.

Finally, a massive increase in the infrastructure of both state and local government will be necessary to track and distribute a county-by-county sales tax, adding millions of dollars to the cost of administration and opening the door for a flood of new taxes.

In short, HB 2230, in the same manner as its failed predecessors, is yet another duplicitous and ill-conceived shell game that has little, if any, benefit and only cruelly serves to raise false hope for the beleaguered homeowners of Pennsylvania. The sixty-eight member groups of the Pennsylvania Coalition of Taxpayer Associations strongly oppose this valueless scheme and implore the members of the Finance Committee to reject this proposal in favor of more comprehensive and effective property tax replacement legislation.

Thank you for your time and attention.

Two essays *on school* property *taxes* and *local tax* shifting *for* property *tax relief*

Dr. G. **Terry** Madonna & Dr. Michael L. Young

BEEN THERE & DONE THAT

Originally published on April 25, 2007

On May 15, Pennsylvania primary voters in most school districts will cast ballots to determine if they will exchange local property tax reductions for either a local earned income tax or a local personal income tax. We don't know in advance how many voters will trade in lower property taxesfor higher focal income taxes, but we do know in advance that whatever the voters do, it won't matter. It won't matter for the same reason that it doesn't matter in a shell game which shell players look under. The game is fixed.

We know it's Fixed because we have played this game before. With respect to the long running property tax shell game, Pennsylvanians have been there and done that. Nevertheless, on May 15th, voters are being asked to go there and do it again.

Some brief background will be helpful. Three times over the last decade, challenged to find a solution for the state's festering property tax problem, the legislature has successively adopted legislation beginning with Act 50 in 1998, followed by Act 72 in 2004, and now Act 1 (2006). All three pieces of legislation have been premised on a single flawed premise, that local governments using local resources can solve the problem of school funding, that somehow if we just let school districts switch one kind of tax for another and cap property taxes, the school funding crisis will go away.

But it hasn't gone away, not in 1998, not in 2004, and not this time. It is still very much with us and it will remain with us until we confront the real problem.

Let's be dear just what that problem is

What we casually call the property tax problem is actually a bundle of interrelated problems that involve intergovernmental tax bases, inequities, and inadequacies in the property tax and problems funding public education.

The school funding problem is central here. Lawmakers have been funding local public education with a tax, the property tax, better suited to the America of the 19th century than to the 21st--a tax simply not capable of adequately or fairly funding the public schools.

Using the property tax to fund schools has produced an atmosphere of perpetual crisis in local public financing. Under existing law, relying on the property tax to fund local education means there will never be enough money raised to pay for education (tax inadequacy), and the burden of paying forschools will unfairly fall on those least able to pay (taxinequity). It also means we will always have a "property tax problem," that property taxes will continue to go up, and school districts will continue to struggle to control spending.

Spending control figures prominently in the problem. Local school districts possess little or no ability to control many school expenditures. Much of the "uncontrollable spending" is based on unfunded state mandates, such as special education, healthcare, teacher pensions, judicial orders, and shifting enrollments. The state, in effect, requires that local districts perform certain functions, even if state government won't provide sufficient resources for the function to be performed.

The magnitude of "uncontrollable spending" because of state mandates and related causes is starkly illustrated by a single statistic: the number of school districts this year that received exceptions to Act One's provision that tax increases be limited to the rate of inflation. Fully, 210 districts or 45 percent of the total number received exceptions, most for expenditures such as special education, healthcare, or pension costsover which local districts have little or no discretion.

For these districts this year, and for ail districts in any given year, hypothetical limits on propertytax increases are little more than a cruel joke,

Does this imply that there is no solution to the property tax problem? Not at all! in fact the solutions are clear and obvious: we can cut spending and/or increase revenues. There is no advanced math necessary here.

Consider the first option, spending cuts, Any meaningful spendingcuts would need to take place precisely in those areas of school spending carved out in Act One's exceptions. These include many of the majordrivers of increasedspending: special education, teacher pensions, school construction costs, healthcare, No Child Left Behind requirements, and other mandated items.

Spending cuts like these would indeed take pressure off the local property tax base. But it is Pollyannaish to believe this will happen. In fact', there is no popular support for large cuts in education spending, leaving policymakers with the second option--increasing revenues to pay for education.

The choices here are straightforward. There are only two broad based taxes with the capacity to raise enough revenue: the state sales tax and state Income tax. There are no other ways that state or local governments can raise the money to pay for schools. The political leadership of the state continues to deny this fundamental truth and beguiles us into believingthat local taxes can do the job, if we only get the right local taxes. But the truth is local tax bases simply won't stretch far enough to raise sufficient revenues to meet the needs of the schools. You can't get there from here.

And so, Pennsylvania voters continue to be ensnared in a long running shell game in which political leaders cynically provide us with choices that make no difference, while they perversely refuse to own up to the real problem or provide any real solution to the school funding problem.

Once again on May 15th, voters will go to the polls to pretend that they are making real decisions that will have real consequences. They won't. Nor wilt the charade conclude until the policymakers conclude they can't spoof the voters any longer. Sadly, there is no sign of that so far.

Politically Uncorrected is published twice monthly. Dr. G. Terry Madonna is Professor of Public Affairs at Franklin and Marshall College and Dr. Michael Young is Managing Partner of Michael Young Strategic Research. The article can be used in whole or in part with appropriate attribution. The views and opinions found in this article represent the authors' views and opinions, and not those of any institution or organization with which they are affiliated.

Dr. Mark W. Hendrickson

TIME TO ABOLISH ANTIQUATED PROPERTY TAX

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Property taxes in Pennsylvania appear locked into a long-term uptrend. In recent years, there have been huge increases in the portion of the property tax that finances counry governmenr. County officials have levied these increases to pay for the unfunded mandates imposed by the state government in Harrisburg .The largest share of the property tax funds the public school districts, and virtually nobody foresees a time when the expenditures of those districts will stop rising. These ongoing pressures for additional tax revenues raise the question: Is it politically and economically feasibteto continue raising property taxes in the coming years?

Some might look at the results of a recent ballot proposal in Lawrence County and conclude that Pennsylvanians prefer a property tax over others types of taxes, but this conclusion is unwarranted. When offered the opportunity to receive a modest reduction in the public-school portion of their property tax in exchange for a I percent increase in their earned income tax, voters in every school district in the county overwhelmingly voted against **it.** The context here is crucial Voters were not opposed to property tax relief, but to a package deal that represented an overall tax increase.

We have a political stalemate in Pennsylvania, because Harrisburg has mandated that the only permissible reform to public-school funding must be structured like the Lawrence County proposals. The psychology is all wrong. It's hard forvoters to get excited about a proposal that makes an obnoxious, already-high tax just a little less high (i.e., the property tax) at the price of ratcheting up another obnoxious tax -- the income tax -- when the federal/state/local taking of income is already at an uncomfortable level. If Harrisburg really wants reform, it needs to emulate the boldness of the Michigan government in the 1990s, when it totally scrapped the property tax for school funding, and replaced it with a 2 percent hike in the state sales tax. I suspect that Pennsylvania voters would be far more comfortable with an increase in one type of taxation if it were offset.by the complete removal of another type of taxation. If you give Pennsylvania voters the chance to eliminate one part of their tax bill completely, then tax reform has a fighting chance for approval.

The farger, more fundamental problem here is the property tax itself. This form of taxatron is totally antiquated, appropriate in America's 19th-century agrarian society, but out of place today. In the 1800s, when there was no income tax and it was considered none of the government's business how much money anybody made, the property tax served as a proxy for one's income. This made a lot of sense then, because it was logical to assume that the citizen farming 80 acres had a higher income than one farming only 40 acres. Today, though, the homesteads of most Americans are not their source of income, but merely where they live. Why, then, take more money from a citiren with a house of 1,500 square feet than one with 900? One of the elementary principles of prudent taxation is that, in order to avoid harming citizens, taxes should take into consideration the individual's ability to pay. Today, one's ability to pay depends far more on one's income than on the size of one's house. To continue taxing people as if their house were generating their income is absurd

An additional fault of the property tax is that it can jeopardize home ownership. On the surface, *it* appears that once a person has paid off the mortgage on his house, then he owns it free and clear, but this is not so. If the homeowner falls on hard times and can't pay his property taxes, the sheriff comes and confrscares the house. Under rhe present system, a person doesn't really "own" his home completely, but in effect rents it from the local government which permits him to keep it only so long as the "owner" continues to pay taxes on it. We have heard of senior citizens -- wonderful, law-abiding citizens who worked hard for decades to buy their own home -- having to sell their home because they couldn't afford the taxes. This is abominable. And how many of America's homeless persons became so because they fell on hard times and were evicted from their homes because they couldn't pay their property tax?

In an era when it has been the federal government's policy to facilitate home ownership as a central feature of "the American dream," it *is* anomalous for local governments to make it difficult for some citizens to keep their homes. The property tax is outmoded, unfair, irrational and destructive. It's time to abolish it.

Dr. Mark W. Hendrickson is a faculty member, economist, and contributing scholar with the Center for Vision and Values at Grove City College.