P. MICHAEL STURLA, CHAIRMAN
P.O. BOX 202096
HARRISBURG, PENNSYLVANIA 17120-2096

HOUSE DEMOCRATIC POLICY COMMITTEE
www.pahouse.com/policycommittee
PHONE: (717) 787-3555
FAX: (717) 705-1923

House of Representatives
COMMONWEALTH OF PENNSYLVANIA
HARRISBURG

HOUSE DEMOCRATIC POLICY COMMITTEE HEARING
Topic: Tax Fairness
King's College – Wilkes-Barre, PA
August 20, 2018

AGENDA

2:00 p.m. Welcome and Opening Remarks

2:10 p.m. Stephen Herzenberg
Executive Director
Keystone Research Center

2:40 p.m. Panel of Advocates:

- Jim Rodkey
Member
Pennsylvania Coalition of Taxpayer Association

- Ron Boltz
President
Pennsylvania Liberty Alliance

3:30 p.m. Tony Grieco
Executive Director
Luzerne IU 18

4:00 p.m. Closing Remarks

INDEPENDENT FISCAL OFFICE

August 16, 2018

The Honorable Eddie Day Pashinski
Pennsylvania House of Representatives
203 Irvis Office Building
Harrisburg, PA 17120

The Honorable P. Michael Sturla
Pennsylvania House of Representatives
414 Main Capitol Building
Harrisburg, PA 17120

Dear Representatives Pashinski and Sturla:

Your staff recently contacted the Independent Fiscal Office (IFO) with a request to update certain tables and graphs that have been published by the office. This letter contains updates to those tables and graphs. To provide context, a brief description follows. The original documents can be found on the IFO website.[1]

Table 1 provides the most recent breakdown of the revenue sources used by school districts. The data show that property taxes comprised 42.5 percent of school district funds for FY 2016-17.

Table 2 groups school districts into four quartiles based on the share of funding provided by property taxes. For the top quartile, property taxes provided nearly two-thirds of total funding (average across the 125 districts in that group). For the bottom quartile, the average share was less than one-fifth.

Table 3 displays estimates of school property taxes paid by homeowners age 60 or older, 65 or older, and 70 or older. The estimates assume that 54 percent of total school district property tax is paid by homeowners. The estimates show that homeowners age 60 or older remitted roughly 44 percent of homestead school property tax while those age 70 or older remitted roughly 20 percent. It should be noted that these percentages do not include any property tax burden that may be passed through from businesses to homeowners in their role as consumers.

Table 4 uses data from the U.S. Census Bureau to compare state and local tax burdens to the overall U.S. average for all fifty states. The ratios shown reflect total state and local taxes divided by state personal income. Overall, Pennsylvania ranked 19th for all state and local taxes, 39th for sales and use tax, 17th for personal income tax and 21st for property tax.

[1] The first document is a memo sent to Representative Cox on December 11, 2017. The second document is a presentation made to the Pennsylvania School Boards Association on January 19, 2017.

Graph 1 displays cumulative growth rates for personal income, sales-use, and school property taxes as well as a weighted average Pennsylvania Consumer Price Index (CPI) and Pennsylvania nominal Gross Domestic Product (GDP, includes inflation). Since FY 2004-05, the state economy has expanded by 62 percent, followed closely by school property tax (61 percent) and personal income tax (60 percent).

Graph 2 uses the same data as Graph 1 but displays annual growth rates for the three tax revenue sources. The data show that personal income tax has been more volatile than sales or property tax.

I hope that you find these updated tables and graphs useful. If you have any questions regarding this material, please do not hesitate to contact my office (717-230-8293).

Sincerely,

Matthew J. Knittel

Matthew Knittel
Director, Independent Fiscal Office

Enclosures

Table 1
Sources of Revenue for Pennsylvania School Districts in FY 2016-17

Revenue Source	Amount	Percent
Property Tax	$13,052	42.4%
State (exclude Act 1)	$10,779	35.1%
Other Local	$2,224	7.2%
Earned Income	$1,563	5.1%
Act 1 Allocations	$532	1.7%
Federal	$843	2.7%
Other (debt related)	$1,759	5.7%
Total	**$30,752**	**100.0%**

Note: dollar amounts in millions.

Source: Pennsylvania Department of Education.

Table 2
Reliance on Property Tax by School Districts in FY 2016-17

Quartile	Real Estate Tax Collections	Property Tax Percent of Total Revenue
1	$7,268	63.6%
2	$2,844	47.0%
3	$1,596	30.1%
4	$1,344	16.9%
	=====	===========
Total	**$13,052**	**42.4%**

Note: dollar amounts in millions. Quartile is based on real estate collections as a share of total revenue. The first quartile consists of the 125 districts with the highest share of real estate tax collections.

Source: Pennsylvania Department of Education. Computations by the IFO.

Table 3
FY 2016-17 School Property Taxes on Owner-Occupied Properties

Source	All Ages	Age 60+	Age 65+	Age 70+
Current & Interim	$7,048	$3,087	$2,206	$1,431
Act 1 Allocations	$532	$233	$167	$108
Delinquent Collections	$312	$136	$98	$63
Total	**$7,892**	**$3,457**	**$2,470**	**$1,602**

Note: dollar amounts in millions. Age groups are based on the age of the "reference person" (person 1) or that person's spouse, whoever is older. Does not include impact of Property Tax/Rent Rebate Program on homeowners. In 2016, homeowners received $155.8 million in rebates.

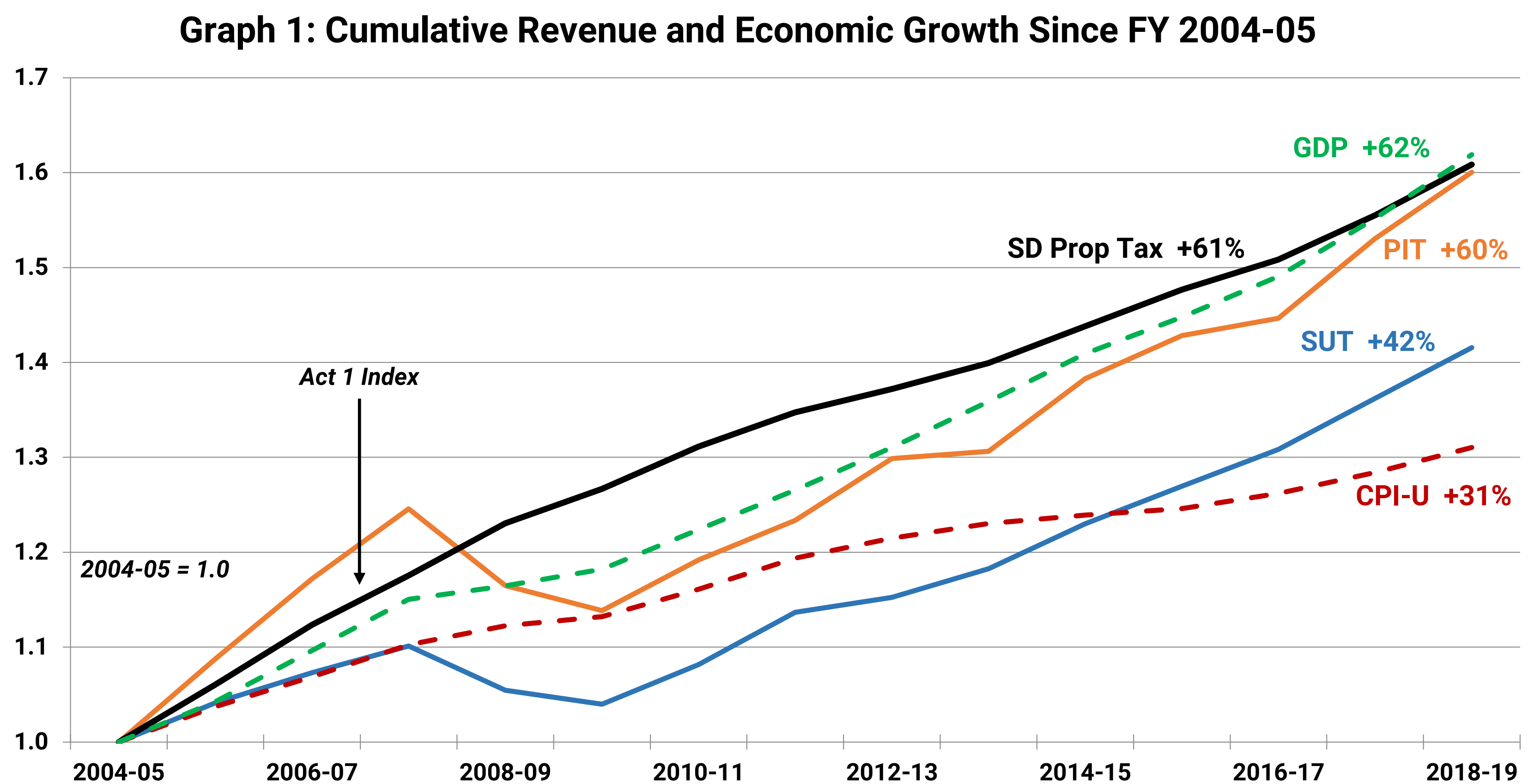
Source: Pennsylvania Department of Education. Computations by the IFO, based on data from the 2016 American Community Survey 1-Year Public Use Microdata Survey (PUMS).

Table 4: State and Local Tax Burdens
Ratio: Total State and Local Taxes / State Personal Income

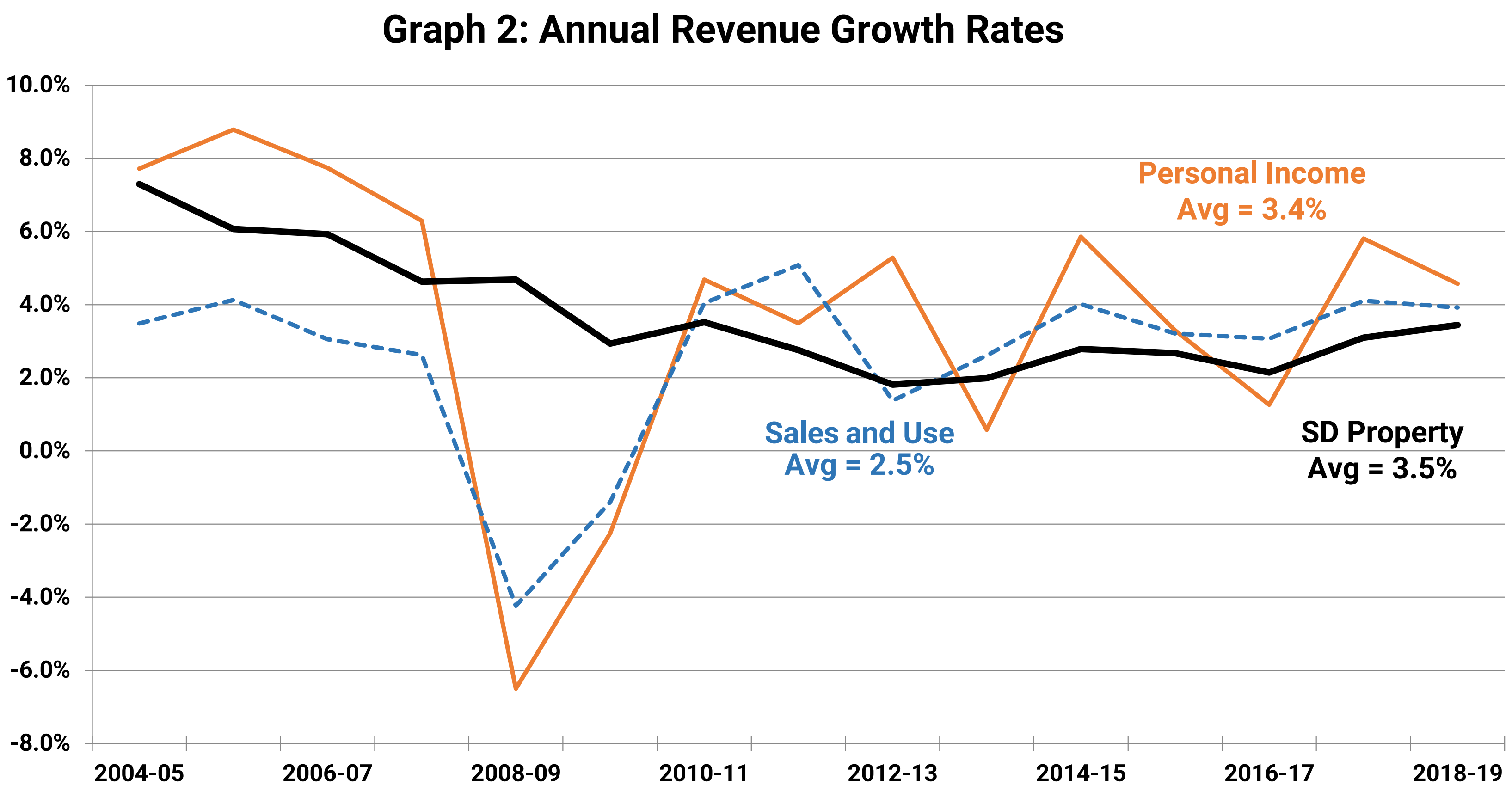
	Pennsylvania		U.S. Ratios	
	Ratio	Rank	Weighted	No Weight
Total State and Local Taxes	**10.42%**	**19**	**10.28%**	**9.93%**
General Sales Tax	1.97%	39	2.58%	2.45%
Personal Income Tax	2.66%	17	2.42%	2.16%
Property Tax	3.00%	21	3.16%	3.08%
Corporate Net Income Tax	0.48%	11	0.39%	0.40%
Gaming-Liquor-Tobacco	0.64%	8	0.37%	0.43%
Motor Vehicle Taxes	0.62%	13	0.49%	0.54%
All Other Taxes	1.05%	13	0.87%	0.87%

Note: Computations exclude any severance taxes. For unweighted U.S. figures, all states have the same impact on the average computation, regardless of size. For weighted U.S. figures, large states (California) have a much larger impact than small states (Rhode Island). Data are for FY 2014-15 (local) and FY 2015-16 (state).

Source: Tax Comparison Study, Independent Fiscal Office (February 2018). All source data for computations are from the U.S. Census Bureau and the U.S. Bureau of Economic Analysis.



Notes: PIT is personal income tax, SUT is sales-use tax. CPI-U is a weighted average CPI-U for Philadelphia and Pittsburgh. GDP is nominal state Gross Domestic Product. SUT includes various base expansion provisions such as digital downloads and reduced vendor discount, but includes transfers. Values for FY 2018-19 are projections by the IFO.



Notes: Sales and use tax includes various base expansion provisions such as digital downloads and reduced vendor discount, but excludes transfers. Values for FY 2018-19 are projections by the IFO.

Testimony of Stephen Herzenberg, Keystone Research Center
House Democratic Policy Committee, Hearings on Tax Fairness
King's College, Wilkes-Barre, August 20, 2018

My name is Stephen Herzenberg. I am the Executive Director of the Keystone Research Center (KRC) (www.keystoneresearch.org) and hold a PhD in economics from the Massachusetts Institute of Technology. KRC is an independent non-profit, non-partisan research and policy center, the mission of which is to promote more broadly shared prosperity in Pennsylvania. Most of our research on tax policy is conducted by our Pennsylvania Budget and Policy Center (www.pennbpc.org), the work of which I rely on in this testimony. In addition, tax fairness is one of the core priorities in a pro-active multi-issue campaign called "We the People Pennsylvania," which PBPC is leading this year with a team of great advocacy and labor partners (wethepeoplepa.org). We hope that legislators in this room will endorse our WTP PA agenda in the next few weeks and partner with us to help ensure that this fall's elections focus on issues, and on the best way to create a Pennsylvania economy and democracy that work for all.

The New Gilded Age

KRC labor economist Mark Price last month co-authored a new report for national audiences with updated numbers showing that the share of income received by the top 1% has grown in the United States in every single state since 1973.[1] In Pennsylvania, the top 1% income share equaled 8.1% in 1974 and 18% in the most recent year of data available, 2015. Over the entire 1973-2015 period, the top 1% received 46% of the increase in income Pennsylvania, versus 3.4% from 1945 to 1973.

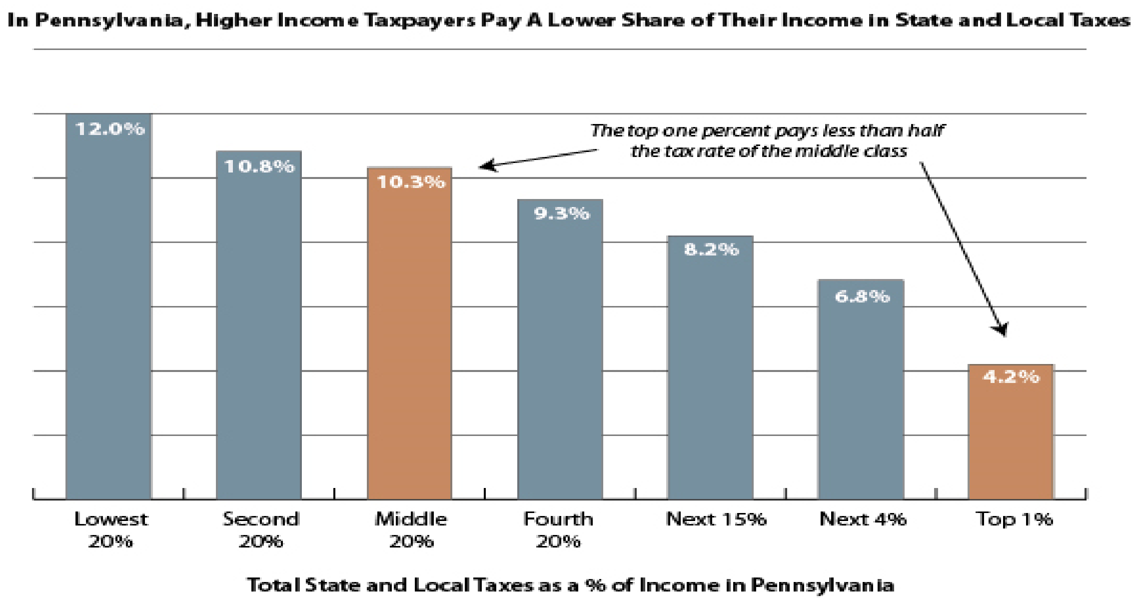
Gaping Inequality Makes Pennsylvania's Unfair, Upside-Down, Tax System an Even Bigger Problem

The fact that Pennsylvania, like the United States, is in a new gilded age makes the Pennsylvania state and local tax system, which strongly favors the very rich, an even bigger problem. In an age of inequality, our tax system could ameliorate the level of inequality before taxes and cut hard-working and low-income families a break. But Pennsylvania's tax system does exactly the opposite. As the next chart shows, top 1% families pay only 4.2% of their income in state and local taxes in Pennsylvania.[2] The middle fifth pay 10.3%. The poorest fifth pay 12%.

PBPC refers to the current Pennsylvania state and local tax system as "upside down"—because the top 1% pays a much smaller a share of its income in taxes rather than the reverse, as would be the case in a fair or "progressive" (in the analytical sense) tax system. A big reason that Pennsylvania has an unfair tax system—the sixth most unfair in the country the last time the Institute on Taxation and Economic Policy (ITEP) did this ranking—is its flat income tax. The two main sources of revenue for state and local

[1] Estelle Sommeiller and Mark Price, "The new gilded age: Income inequality in the U.S. by state, metropolitan area, and county," Economic Policy Institute, Washington, D.C., July 18 2018; https://www.epi.org/publication/the-new-gilded-age-income-inequality-in-the-u-s-by-state-metropolitan-area-and-county/. See also Mark Price and Estelle Sommeiller, "The New Gilded Age: It's Everywhere," August 14, 2018; http://prospect.org/authors/mark-price-estelle-sommeiller.

[2] The figures in these sentences and the next chart come from https://itep.org/whopays/pennsylvania/. The Institute on Taxation and Economic Policy is currently updating its numbers, possibly for release as early as mid-October.



Source. Institute on Taxation and Economic Policy, Who Pays? http://www.itep.org/whopays/

government besides income taxes are sales and property taxes. The sales tax takes more out of the income of lower-income families than of rich families because lower-income families spend a bigger share of their income on the (mostly) basic consumer goods subject to Pennsylvania's state (mostly) and local sales taxes. The property tax takes more out of the incomes of middle- and lower-income families because, which affluent families buy more expensive homes as their income rises, they don't do so in proportion to their income: there's only so much McMansion that you can buy. In addition, property tax rates tend to be higher in moderate- and low-income communities.

Since both sales and property taxes take a bigger bite out of the incomes of typical families than rich families, the only way any state achieves even a passably fair overall state and local tax system—one taxing rich families at comparable rates (relative to income) as other families—is with a highly graduated income tax. But Pennsylvania has a flat income tax, which takes exactly the share of income from rich families, 3.07%, as from families of modest means. Many Pennsylvania policymakers believe that the state's constitutional uniformity clause mandates (with exceptions for seniors and the poor) a flat overall state income tax. As a result, they fear, we're stuck with a highly unfair state and local tax system. But here's the good news: we're not stuck. That brings us to PBPC's fair share tax proposal.

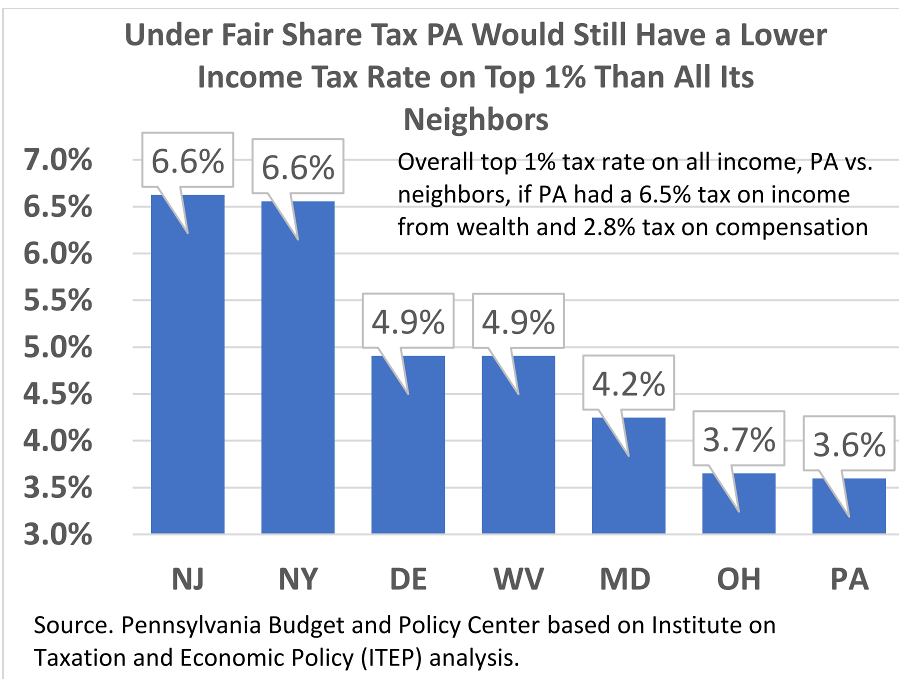
The Fair Share Tax

PBPC's fair share tax proposal seeks to inject more fairness into Pennsylvania's state tax system by capitalizing on the fact that the state's constitution, as interpreted by the courts, does NOT require that the overall state income tax be flat. Instead, it requires that taxes be flat on each kind—or "class"—of income. This makes it possible for Pennsylvania to enact a "fair share" tax which would tax income relied on by most working Pennsylvanians and seniors—wages and interest—at a lower rate, while taking other kinds of income (such as profits, capital gains, dividends, and royalties) at a higher rate.

Over the past few years, PBPC has published a series of briefs and made numerous presentations to advocates and citizen groups based on a specific "fair share" tax proposal that would tax income on wages and interest at 2.8% and tax other kinds of income at 6.5%.[3] In a forthcoming brief, we will present updated numbers on the impact of this proposal from the Pennsylvania Department of Revenue (PA DOR) and ITEP. In this presentation, I will give you some highlights from our updated analysis.

According to data from PA DOR and ITEP, with our proposed fair share tax (which decreases the tax rate on wages and interest from 3.07% to 2.8% and increases the tax rate on income from wealth from 3.07% to 6.5%):

- 59.3% of taxpayers would see their taxes go down, 25.7% will see no change in their taxes, and 14.9% would see their taxes go up.
- The Fair Share Tax would raise a projected $2.22 billion in new revenue in 2019. Of that $2 billion, 58.5% comes from the top 1%, 83.5% from the top 5%, and 95.5% comes from the top 20%. (These shares do not include the revenue from people out of state; if they did, the shares of revenue raised from each Pennsylvania income group would go down by about one seventh.)
- Out-of-state taxpayers will pay 16.1% of the $2.22 billion increase in revenues.
- There is little variation in the impact of the fair tax from one county to another or one legislative district to another. The percentage of taxpayers in a county that see a decrease or no change in their taxes ranges from 71% to 93%, with all but six counties in the 80% to 89% range. Rural and urban counties benefit similarly. Much the same is true in state legislative districts.
- Based on our earlier analysis (still to be updated), even after implementation of the Fair Share Tax, the effective rate on the top 1% of Pennsylvania taxpayers would be only 3.6%, less than that of any neighboring state and only 45% of the rate found in New York and New Jersey.



---

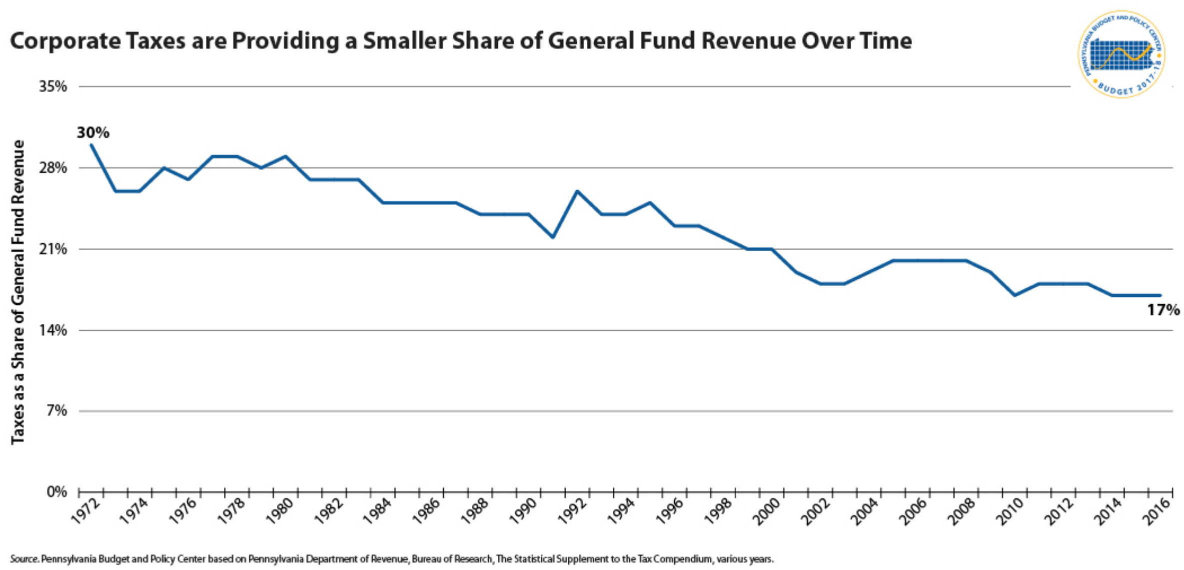
[3] See, for example, Marc Stier, "A Fair Share Tax to Support Public Investment in Pennsylvania," Pennsylvania Budget and Policy Center, March 22, 2017; http://www.pennbpc.org/sites/pennbpc.org/files/20170321_FairShareTaxReport.pdf

In sum, the Fair Share Tax would take a major step toward fixing Pennsylvania's broken tax system and raise revenues we need to invest in the public goods that are critical to creating thriving communities and individual opportunity in our state: education, infrastructure, protection for our air and water, and human services.

In a poll done this spring for the We the People Pennsylvania campaign, "making big corporations and the wealthy pay their fair share in taxes" was extremely popular, supported by 76% of Pennsylvanians with 23% opposed (see www.wethepeoplepa.org/polling). A more specific question about to "tax income stock sales, business profits, and dividends at a higher rate than income from wages…" was supported 58% to 36%—that margin could be increased, we think, with leadership from you and other lawmakers to make this idea more familiar. Pennsylvanians know our tax system is unfair and want it fixed. We should give them what they want.

Another Option to Increase the Fairness of the Pennsylvania Tax System: A Severance Tax

A second reason that Pennsylvania has an upside-down tax system is the declining contribution of corporate taxes to state revenues. On a bipartisan basis going back to the administration of Governor Tom Ridge in the mid-1990s, Pennsylvania has repeatedly cut corporate taxes, most of the benefits of which go to upper-income taxpayers such as executives and shareholders. Corporate taxes as a share of general fund revenue have fallen from about 25%-27% in 1992-1994 to 17% today.



One option to increase revenues from corporate taxes would be to enact a severance tax, as Governor Wolf has proposed in each of the past four years. In 2014, Pennsylvania became the second-largest natural gas producer in the U.S. and remains so today, behind only Texas.[4] In 2017, gas production exceeded 5.3 trillion cubic feet and continues to rise. Despite rising production, Pennsylvania remains the only major gas-producing state that allows companies to drill without paying taxes that increase with the volume of gas extracted.

[4] U.S. Energy Information Administration. "Pennsylvania State Energy Profile: Pennsylvania Quick Facts." Accessed at https://www.eia.gov/state/print.php?sid=PA.

Drilling companies do not make up for Pennsylvania's lack of a severance tax by paying the currently established impact fee, which is a "per well" amount independent of the volume of gas extracted from the well. As a result, while gas production has increased five-fold since 2011, impact fee payments have not increased five-fold as they would with a severance tax—instead, revenues raised from the impact fee have fluctuated between $173 and $227 million based on the number of wells drilled.

Governor Wolf proposed a severance tax as a part of his 2018-19 Executive Budget. The tax rate would be tied to the price of natural gas and the collected tax would increase with the amount of gas produced. Even though projections of future gas prices have fallen in the last year, Governor Wolf's proposal is projected to bring in more than $200 million next year and roughly $400 million starting in 2021-22.[5] Over the next five years, this severance tax would raise an additional projected $1.7 billion for the state. The funds raised from the severance tax would be an addition to the current impact fee, which would remain in place. Together, the impact fee and severance tax would put Pennsylvania's natural gas extraction taxes roughly on a par with other major gas-drilling states, with a lifetime effective tax rate of 4%. If Pennsylvania enacted a severance tax that, combined with the impact fee, would equal West Virginia's tax rate of 5%, it could raise a further roughly $150 million, or about $550 million by 2022.

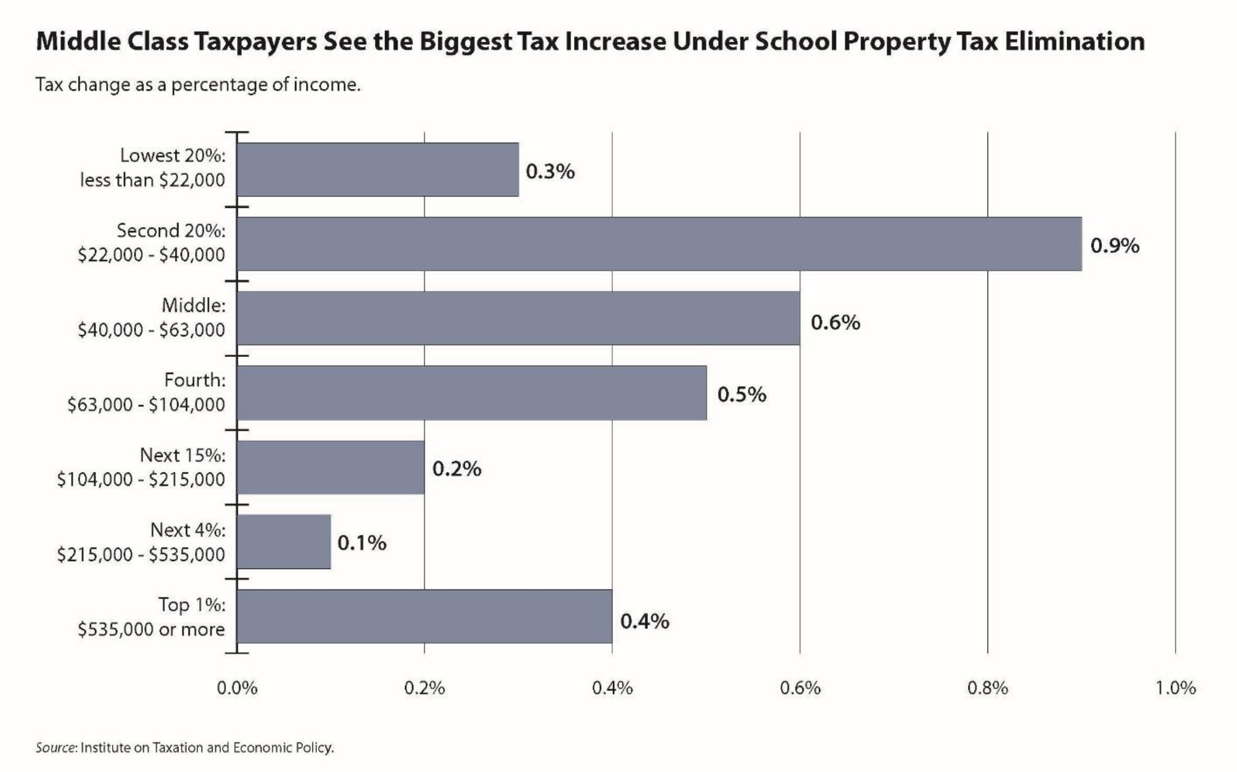
Pennsylvania cannot afford to leave this money on the table any longer, given the state's desperate need for revenue to invest in education, human services, environmental protection, and job creation.

Property Tax Elimination Would Make Pennsylvania's Tax System Even Less Fair

Last, let me say a few words about the idea of property tax elimination, a bad idea that has nonetheless garnered a great deal of attention in Harrisburg in the past few years.

In the context of a hearing on tax fairness, property tax elimination as outlined in Senate Bill 76 is a bad idea because it would raise taxes on net for middle- and lower-income taxpayers while raising them for upper-income taxpayers. It would do this largely because the biggest beneficiaries of property tax relief are upper-income taxpayers in affluent districts that have chosen to tax themselves at high rate to ensure that they have great schools. The chart below has the numbers.

[5] The IFO estimates that the governor's proposal would bring in $210 million in 2018-19, $400 million by 2021-22 and $420 million by 2022-23. See Independent Fiscal Office. "Analysis of Revenue Proposals FY2018-19 Executive Budget," April 2018, p. 8; http://www.ifo.state.pa.us/download.cfm?file=/Resources/Documents/Revenue-Proposal-Analysis-2018-04.pdf. The Wolf Administration estimates that the severance tax would bring in $248.7 million in 2018-19 and $393.5 million by 2022-23. See Governor Tom Wolf, "2018-19 Governor's Executive Budget"; p. C1-12; http://www.budget.pa.gov/PublicationsAndReports/CommonwealthBudget/Documents/2018-19%20Proposed%20Budget/2018-19%20Governor%27s%20Executive%20Budget%20-%20Web.pdf.



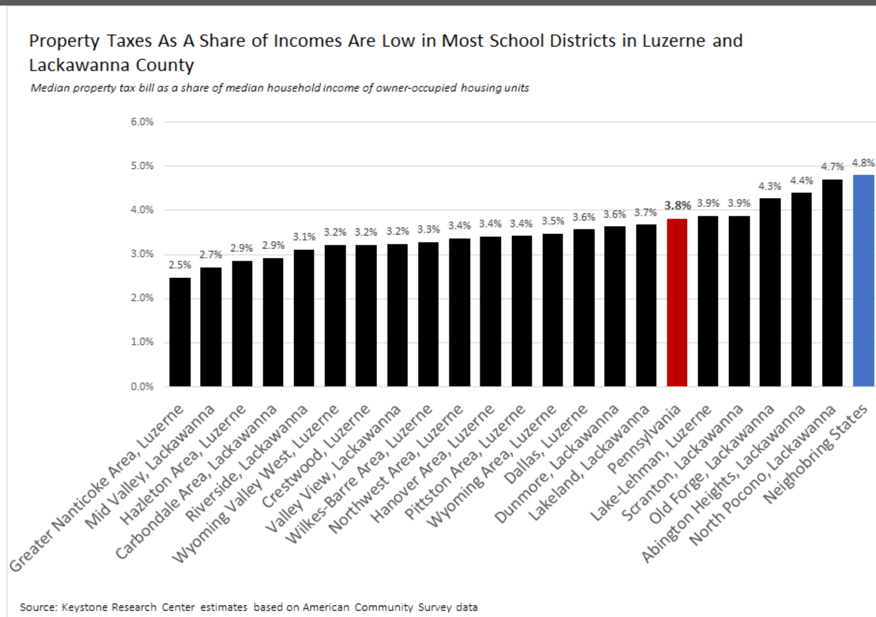
Attached to this testimony there is an excerpt of a presentation on this issue made recently to the Scranton and Wilkes-Barre Chambers of Commerce—which has some localized information on the issue of property elimination for Pennsylvanians and lawmakers from this region

Property Tax Elimination and School Funding

Stephen Herzenberg (herzenberg@keystoneresearch.org; 717-805-2318)

School Property Tax Elimination & Lackawanna-Luzerne – the Basic Story

- Your school property taxes are not that high
- So you don't get many $ from the state w/property tax elimination
- There is a problem with low state funding of schools
  - …in some places that leads to high property taxes
  - …in Lackawanna-Luzerne that mostly leads to low school funding
- Property tax elimination is a turkey for you – you pay more in income & sales tax that gets sent to rich suburban Philadelphia and Pittsburgh
- What you need is more school funding…
- …combining that w/targeted property tax relief could be a winner



3

The State's failure to fully fund our local schools pushes more of the burden of funding schools onto homeowners.

On average in the region the typical homeowner pays $1,289 in school property taxes. The statewide average is $1,863.

4

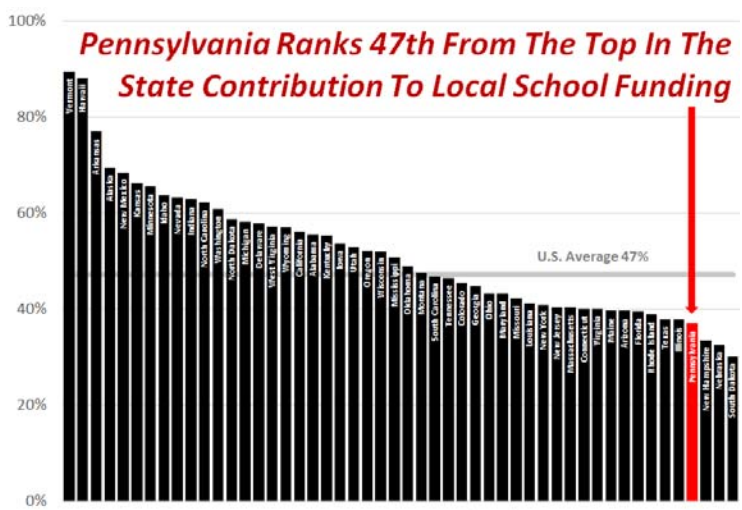
Property Tax Elimination Means the State Would Value Kids in Rich Districts a LOT More than Kids in YOUR Districts

School District, County	Instructional Expenses Per Student	Percent of students at or near poverty
Abington Heights, Lackawanna	$9,654	14%
Carbondale Area, Lackawanna	$7,819	62%
Crestwood, Luzerne	$8,679	17%
Dallas, Luzerne	$9,092	23%
Dunmore, Lackawanna	$9,054	51%
Greater Nanticoke Area, Luzerne	$8,006	55%
Hanover Area, Luzerne	$9,658	50%
Hazleton Area, Luzerne	$7,543	51%
Lakeland, Lackawanna	$9,557	22%
Lake-Lehman, Luzerne	$9,615	31%
Mid Valley, Lackawanna	$9,264	49%
North Pocono, Lackawanna	$10,562	24%
Northwest Area, Luzerne	$9,893	38%
Old Forge, Lackawanna	$9,685	33%
Pittston Area, Luzerne	$8,856	39%
Riverside, Lackawanna	$10,006	38%
Scranton, Lackawanna	$10,538	57%
Valley View, Lackawanna	$8,253	22%
Wilkes-Barre Area, Luzerne	$11,109	62%
Wyoming Area, Luzerne	$9,391	34%
Wyoming Valley West, Luzerne	$9,315	44%

School District, County	Instructional Expenses Per Student	Percent of students at or near poverty
Lower Merion, Montgomery	$21,127	5%
New Hope-Solebury, Bucks	$18,939	10%
Jenkintown, Montgomery	$18,049	24%
Cheltenham Township, Montgomery	$16,926	20%
Austin Area, Potter	$16,825	22%
Radnor Township, Delaware	$16,675	12%
Palisades, Bucks	$16,488	16%
Colonial, Montgomery	$16,146	11%
Wissahickon, Montgomery	$16,098	19%

5

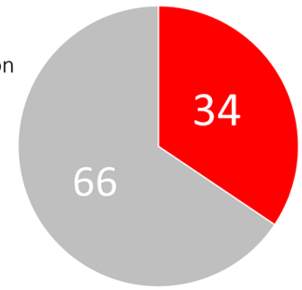
Pennsylvania Does Have a Problem with Low State School Funding



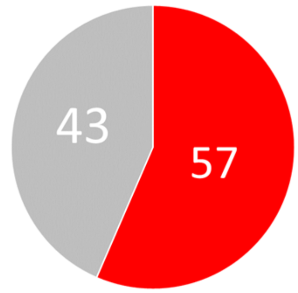
Source: U.S. Census Public Elementary-Secondary Education Finances, Fiscal Year 2015, https://goo.gl/3VfL9j

6

Currently the average state share of education spending in Luzerne and Lackawanna is 34%

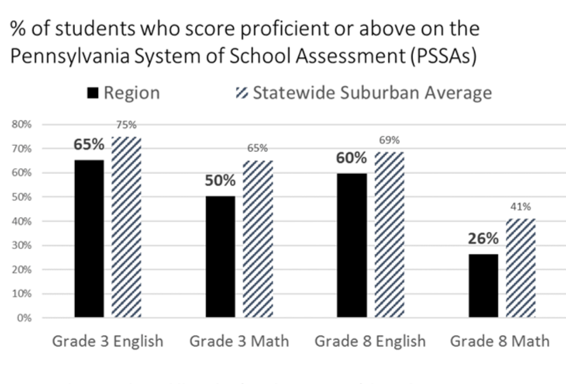


But the State share of education spending in the region should be 57%



For you, the State should pay $217 million more to reach an adequate level of achievement in the region

7



The State's failure to fully fund your schools hurts students by denying them the resources they need to achieve the academic performance we expect.

At current spending not all students meet state academic standards.

8

So how do we fix our school funding AND property tax problems?

Choice A:

The State Pays Its Fair Share of School Funding While Providing Property Tax Reductions

Choice B:

Property Tax Elimination

9

If You Think Property Tax Elimination Sounds Good, Consider This:

- A state takeover of school funding would lock in current spending levels, leaving districts in your region permanently underfunded by $217 million.
- It would strip decisions about your kids' schools out of your community's hands and give control to lawmakers in Harrisburg.
- Elimination provides much of its relief to affluent homeowners outside Philadelphia and in Allegheny County, while raising taxes for many middle-income homeowners.

10

The better solution:

If the State paid its fair share of local school funding that would make available $217 million to School Districts in your region:

- to decrease class size
- to update textbooks, materials, & computers
- and make other investments aimed at helping boost academic achievement

11

But We Must Also Lower Property Taxes Where They Burden Families

- A winning combination: more State resources devoted to lowering local property taxes, especially for working families community for whom property taxes are high relative to income.

12

Testimony

of

Ron Boltz

President PA Liberty Alliance

House Democratic Policy Committee Public Hearing on Tax Fairness

Kings College, Wilkes-Barre

August 20, 2018

For years I have been involved in the movement to find a different way to fund public education in Pennsylvania. For some of those who support school property tax elimination, this is simply a matter of dollars and cents. Property taxes have risen at twice the rate of inflation, according to the Independent Fiscal Office, and has outpaced income growth for many, so it's no wonder why this issue consistently rates as a top concern for so many Pennsylvanians.

There is, however, an equally important, and to some even more important, aspect of this discussion, and that is the issue of tax fairness. After many years of studying this topic, we have found that the property tax is by far the most unfair tax we have, and there is no way to "fix it" or make it fair. Unfortunately, the Legislature's reluctance to shift away from this revenue source has resulted in attempts to just reduce the property tax, and we always hear talk of "targeted relief" for only certain groups of Pennsylvanians. This only serves to exacerbate the problem, as the property tax continues to grow, and the burden is placed on fewer people.

One of the ways the property tax is unfair is its regressivity. It is in no way based on the homeowner's ability to pay, and in many cases, our middle and lower earners pay a far higher percentage of their income than do our wealthier residents.

For example, a good friend of mine who lives in the same school district has a salary of more than double what I earn. He owns a 48 acre farm, but he is not a farmer, he is in upper management at a large pharmaceutical company. Like his income, his property is also worth about twice what my home is worth, and yet his school property tax is less than mine.

Not only is the property tax regressive and not based on anyone's ability to pay, it's also unfair when comparing equal valued homes in different parts of the state, and with the recent rise in "spot assessments" (reverse appeals), it's not uncommon for one home to be taxed up to four times that of an equal value home located within the same school district.

During a town hall meeting in Monroe County, we met a single mother who informed us that she earns $50,000/year, and her school property tax bill is nearly $7,000. Her effective rate is 14% of her income, while the friend I used in my example is contributing slightly less than 1% of his salary toward the cost of public education. These examples are not cherry-picked outliers. This is the unfair nature of the property tax, and these situations are repeated in every school district across the state.

The taxpayer, however, is not the only victim of the unfairness of the property tax. Our schools and students are victims as well. We currently have a case in front of the Supreme Court regarding fair education funding. The reason we have this problem is quite clearly due to the use of the property tax, but yet the conversations around fair funding always seem to leave out this basic fact.

The reason some districts can spend $25,000 or more per student while others struggle to spend $9000 is quite clearly because some districts have a large property tax base to draw from while others do not. We hear about "solutions" of different funding formulas and more state revenue, but those ideas have never worked and they never will. They will be temporary at best, and the inequities will continue to grow.

The solution is to eliminate the school property tax entirely and use other state level sources, such as the income tax and the sales tax, to fund our schools. While some may consider these two sources to be regressive, the rates are evenly applied to every taxpayer, unlike the far more regressive school property tax.

Pennsylvania has Income Tax Forgiveness for our lower income earners, and those on public assistance are often also sales tax exempt on many purchases, making the regressivity of these sources of less concern. The other advantage of the income and sales tax is that both grow naturally over time without the need for constant rate increases.

Consider that the income tax in Pennsylvania has only been raised one time (0.12 pct points) over the past 26 years, and the sales tax has remained at 6% since 1968, yet these sources produce consistent natural growth. Even during economic downturns, they have both historically remained above the rate of inflation on average.

As we discuss unfairness in taxation, we find it unfair that the State uses these far better sources for its budget while forcing the schools to constantly raise property taxes on their communities, all while sending unfunded mandates down to the local level as well.

I certainly appreciate the opportunity to present this testimony, and I'm honored to do so. I sincerely hope this can lead to a long overdue, honest conversation filled with meaningful dialogue, research and facts. The status quo is clearly not working. The school property tax is rising faster than many homeowners' ability to pay, and many of the cost drivers continue to go unaddressed.

We need to discuss things, such as cost drivers, and the relative stability of the various revenue sources, but we also need to include the taxpayer in those discussions, not just the school districts. Homeowners who pay the property tax also have many of the same cost drivers to deal with in their personal lives, and while the school districts like to tout the "stability" of the property tax, they only look at it through the lens of the tax collector, while not considering the instability it creates for those who pay the tax.

Detailed discussions are certainly necessary for any change, such as school tax elimination, but our goal is actually quite simple...to replace the current system which creates "winners and losers" by taxing people based on where they live and arbitrarily assessed home values, rather than what they earn. Programs like KOZ's and LERTA's, which give tax breaks to big businesses, add even more unfairness to the current system.

The current system makes programs like "Clean and Green" necessary to keep our farmers viable, but unfortunately passes even more burden to the homeowner whose home does not generate revenue and who cannot pass the tax on to anyone else like a business can with their consumers.

While these programs may be well-intentioned, and in the case of C&G, are necessary, they really point out what should be obvious...that our property tax system is irreparably broken. These programs only attempt to treat the symptoms of rising property taxes, while we should be fixing the problem for good by eliminating the root cause.

By shifting to an income and sales tax, we then treat every individual taxpayer exactly the same way and we fix the "winners and losers" scenario the current scheme creates. By doing this, we would lay the foundation for more equity in school funding, offer relief to the majority of homeowners in the state by broadening the tax base, and perhaps most importantly, it would prevent the tragic loss of one's home and equity at a sheriff sale simply due to the inability to pay this antiquated tax.

This absolutely can and should be done. We just need to stop protecting the status quo and become less fearful of making a big change. We need to find the political will to create the best system we can for everyone involved, including the individual taxpayer, and not just those with the biggest lobbying power and deepest pockets.

Your copies of the written testimony also include information gathered from PA Liberty Alliance member and York Suburban School Director Joel Sears' study of the property tax.

-The first set of data are from various school districts in Lancaster County before and after the countywide reassessment.

-The data includes sales prices of actual properties that were sold during the same timeframe as the reassessment and compares the selling price to the assessed value both before and after the reassessment. This gives a real life look at the large variation of assessed values both above and below the actual Fair Market Value. It also demonstrates that disparities of assessed values after multi-million dollar countywide reassessments still exist, and those disparities are even worse in some cases. More proof that the property tax system cannot be "fixed".

-The second set of data includes information from the Upper Darby school district which shows the disparity between assessed and actual sale price of properties valued from $30k to $228k. It also shows the property tax burden as a percentage of a normal mortgage payment. The two lowest valued homes would have property tax payments twice that of the mortgage payment.

-The third set of data shows the effective millage rate in a tax study of the Southern York County School District. What this study makes evident is that even within the same school district, some homes are taxed at greater than 2.5 times the rate of other homes. This district is not an outlier.

-Also of interest is that the millage rate of York City is the highest, while income levels in the city are the lowest. This is common among our third class cities across the entire State, making the property tax double regressive.

Pequea Valley and Solanco Explanation of Data

Handouts show the impossibility of assessments that support the constitutional mandate for uniform taxes:

PA Constitution Article 8 Section 1:
All taxes shall be uniform, upon the same class of subjects, within the territorial limits of the authority levying the tax, and shall be levied and collected under general laws.

Taxes **cannot** be uniform if the same tax rate is applied to a non-uniform basis (e.g., real estate assessed value).

The exhibits show snapshots of 15 recent sales in each of 3 Lancaster County school districts: Pequea Valley, Solanco and Hempfield. In a "uniform" system, the relationship between the assessed values and market values would be the same for all properties and should be close to 100% after a countywide reassessment. You can clearly see the lack of uniformity, even after the reassessment.

To further illustrate the futility of achieving fairness through a countywide reassessment, please look at the first page of the Pequea Valley exhibit. The exhibit shows before and after values for 15 recent sales in the district.

Reading from left to right, you can see information related to the old and new assessments, the current school taxes and the "revenue neutral" school taxes derived from the Pequea Valley School District valuation increase, and the estimated impact of an Act 1 tax increase to set the 2018-19 millage for school taxes.

If the school district increases the tax rate by 3.5% homes in this sample will see changes varying from a reduction of 5.4% to an increase of 18.1%.

Before the countywide reassessment, the ratio of assessed value to sales price ranged from 50.8% to 88.1%. Afterward, the ration ranged from 67.7% to 106.1%. The variation actually increased for these homes.

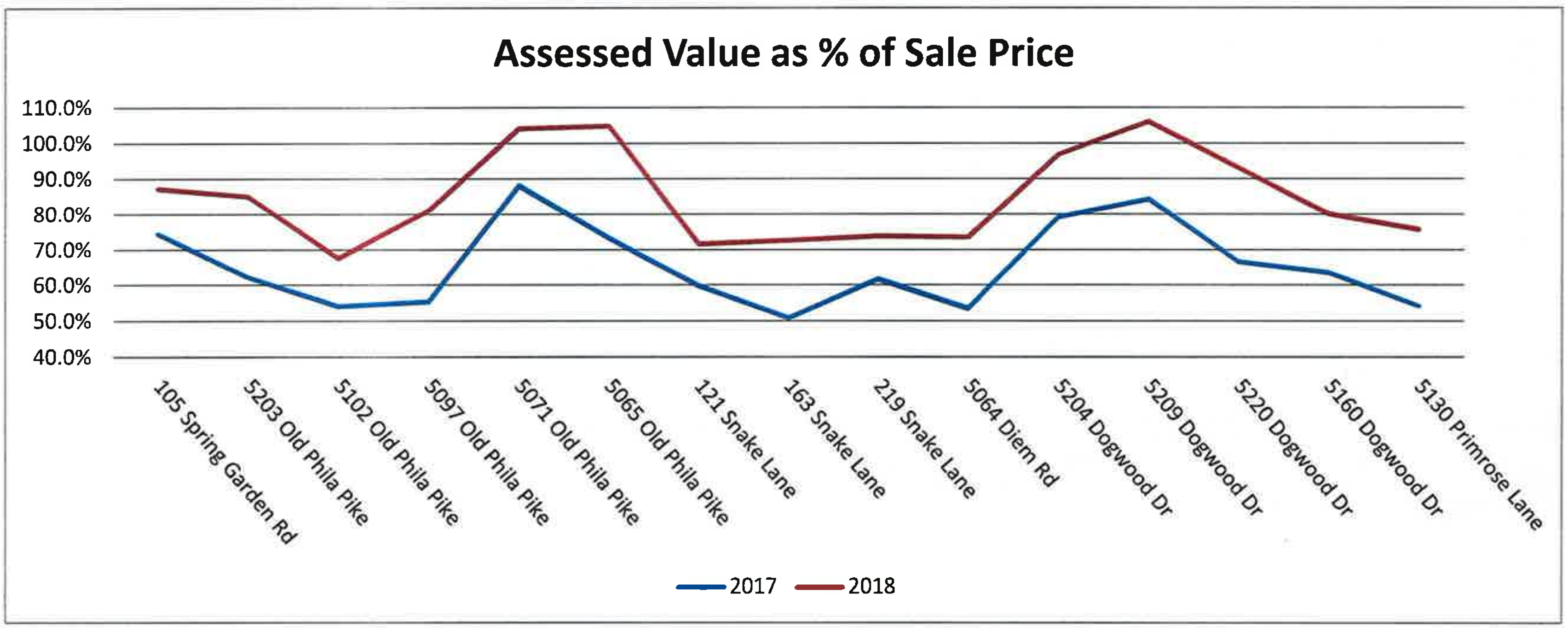
Bottom line: the foundation of our property tax system (school, county, municipal) clearly violates the uniformity clause in our constitution. Furthermore, it cannot be made uniform as illustrated whenever a countywide reassessment has been conducted.

Pequea Valley School District

Impact of Countywide Reassessment on Recently Sold Properties

Address	Sales Data		Assessment		AV as % of Sale	
	Date	Price	2017	2018	2017	2018
105 Spring Garden Rd	6/15/2017	200,000	148,900	174,500	74.5%	87.3%
5203 Old Phila Pike	4/27/2017	275,000	171,100	234,100	62.2%	85.1%
5102 Old Phila Pike	11/7/2016	265,000	143,400	179,300	54.1%	67.7%
5097 Old Phila Pike	1/19/2016	295,000	163,500	239,300	55.4%	81.1%
5071 Old Phila Pike	10/23/2015	160,000	141,000	166,500	88.1%	104.1%
5065 Old Phila Pike	8/14/2015	210,000	153,900	220,100	73.3%	104.8%
121 Snake Lane	3/16/2015	270,000	161,300	193,300	59.7%	71.6%
163 Snake Lane	4/17/2017	275,000	139,700	199,700	50.8%	72.6%
219 Snake Lane	4/29/2016	265,000	163,400	195,700	61.7%	73.8%
5064 Diem Rd	1/7/2016	525,000	280,700	386,000	53.5%	73.5%
5204 Dogwood Dr	1/2/2017	375,000	297,200	363,300	79.3%	96.9%
5209 Dogwood Dr	9/17/2014	257,000	217,000	272,600	84.4%	106.1%
5220 Dogwood Dr	11/18/2016	300,000	200,000	279,400	66.7%	93.1%
5160 Dogwood Dr	5/13/2017	310,500	197,400	249,100	63.6%	80.2%
5130 Primrose Lane	11/22/2016	290,000	157,300	219,600	54.2%	75.7%
Totals		**4,272,500**	**2,735,800**	**3,572,500**	**64.0%**	**83.6%**

Summary Stats - AV as % of SP		
Item	**2017**	**2018**
Average AV %	64.0%	83.6%
Minimum AV %	50.8%	67.7%
Maximum AV %	88.1%	106.1%
Dispersion	**37.3%**	**38.4%**



Pequea Valley School District

Impact of Countywide Reassessment on Recently Sold Properties

Address	Assessment 2017	Assessment 2018	Change Amount	Change Percent	Revenue Neutral School Property Tax 2017	Revenue Neutral School Property Tax 2018	Change Dollars	Change Percent	Impact of Act 1 Increase: Tax	Impact of Act 1 Increase: Change Dollars	Impact of Act 1 Increase: Change Percent
105 Spring Garden Rd	148,900	174,500	25,600	17.2%	2,752	2,514	(238)	-8.6%	2,602	(150)	-5.4%
5203 Old Phila Pike	171,100	234,100	63,000	36.8%	3,163	3,373	211	6.7%	3,491	329	10.4%
5102 Old Phila Pike	143,400	179,300	35,900	25.0%	2,651	2,584	(67)	-2.5%	2,674	23	0.9%
5097 Old Phila Pike	163,500	239,300	75,800	46.4%	3,022	3,448	426	14.1%	3,569	547	18.1%
5071 Old Phila Pike	141,000	166,500	25,500	18.1%	2,606	2,399	(207)	-7.9%	2,483	(123)	-4.7%
5065 Old Phila Pike	153,900	220,100	66,200	43.0%	2,845	3,171	327	11.5%	3,282	438	15.4%
121 Snake Lane	161,300	193,300	32,000	19.8%	2,981	2,785	(196)	-6.6%	2,883	(99)	-3.3%
163 Snake Lane	139,700	199,700	60,000	42.9%	2,582	2,878	295	11.4%	2,978	396	15.3%
219 Snake Lane	163,400	195,700	32,300	19.8%	3,020	2,820	(200)	-6.6%	2,919	(102)	-3.4%
5064 Diem Rd	280,700	386,000	105,300	37.5%	5,188	5,562	373	7.2%	5,757	568	10.9%
5204 Dogwood Dr	297,200	363,300	66,100	22.2%	5,493	5,235	(259)	-4.7%	5,418	(75)	-1.4%
5209 Dogwood Dr	217,000	272,600	55,600	25.6%	4,011	3,928	(83)	-2.1%	4,065	54	1.4%
5220 Dogwood Dr	200,000	279,400	79,400	39.7%	3,697	4,026	329	8.9%	4,167	470	12.7%
5160 Dogwood Dr	197,400	249,100	51,700	26.2%	3,649	3,589	(59)	-1.6%	3,715	66	1.8%
5130 Primrose Lane	157,300	219,600	62,300	39.6%	2,908	3,164	257	8.8%	3,275	367	12.6%
Totals	**2,735,800**	**3,572,500**	**836,700**	**30.6%**	**50,569**	**51,477**	**908**	**1.8%**	**53,278**	**2,710**	**5.4%**

Analysis Parameters		School Taxes			SB 76 Summary	
Item	Amount	Year	Mills	Increase	Item	Amount
2017 Millage	**18.4841**	2012-13	16.8898		Annual School Taxes	21,300,000
2017 Taxes	**50,569**	2013-14	17.3866	2.94%	Annual Debt Service	3,960,000
School District Value Increase	**28.28%**	2014-15	17.4735	0.50%	DS as % of ST	18.6%
2018 Millage (revenue neutral)	**14.4092**	2015-16	17.4735	0.00%	**SB 76 ST reduction %**	**81.4%**
Act 1 Index	**3.5%**	2016-17	18.1217	3.71%	**Years to 100% Elim**	**5.4**
2018 Millage (with Act 1 Increase)	**14.9135**	2017-18	18.4841	2.00%		

Solanco School District

Impact of Countywide Reassessment on Recently Sold Properties

Address	Assessment 2017	Assessment 2018	Change Amount	Change Percent	Revenue Neutral School Property Tax 2017	Revenue Neutral School Property Tax 2018	Change Dollars	Change Percent	Impact of Act 1 Increase Tax	Impact of Act 1 Increase Change Dollars	Impact of Act 1 Increase Change Percent
492 Center Rd	134,800	194,100	59,300	44.0%	1,727	1,953	226	13.1%	2,012	285	16.5%
20 W State St	149,800	189,900	40,100	26.8%	1,919	1,911	(8)	-0.4%	1,968	49	2.6%
104 W State St	148,900	233,000	84,100	56.5%	1,908	2,345	437	22.9%	2,415	507	26.6%
137 Marlton Lane	198,100	239,500	41,400	20.9%	2,538	2,410	(128)	-5.0%	2,482	(56)	-2.2%
244 Greystone Ln	219,700	210,300	(9,400)	-4.3%	2,815	2,116	(698)	-24.8%	2,180	(635)	-22.6%
211 Greystone Ln	200,100	244,900	44,800	22.4%	2,563	2,464	(99)	-3.9%	2,538	(25)	-1.0%
210 Greystone Ln	203,000	231,000	28,000	13.8%	2,601	2,324	(276)	-10.6%	2,394	(206)	-7.9%
309 Slate Ln	195,400	210,000	14,600	7.5%	2,503	2,113	(390)	-15.6%	2,177	(327)	-13.1%
149 Summit Ave	276,200	243,800	(32,400)	-11.7%	3,538	2,453	(1,085)	-30.7%	2,527	(1,011)	-28.6%
312 Northview Ln	199,000	211,400	12,400	6.2%	2,549	2,127	(422)	-16.6%	2,191	(358)	-14.1%
415 Groffdale Rd	135,500	172,400	36,900	27.2%	1,736	1,735	(1)	-0.1%	1,787	51	2.9%
41 Evans Dr	98,300	141,200	42,900	43.6%	1,259	1,421	162	12.8%	1,463	204	16.2%
200 S Summit	145,400	207,100	61,700	42.4%	1,863	2,084	221	11.9%	2,147	284	15.2%
201 S Summit	151,100	193,200	42,100	27.9%	1,936	1,944	8	0.4%	2,002	67	3.4%
217 Circle Dr	145,500	184,400	38,900	26.7%	1,864	1,856	(8)	-0.5%	1,911	47	2.5%
Totals	**2,600,800**	**3,106,200**	**505,400**	**19.4%**	**33,319**	**31,257**	**(2,062)**	**-6.2%**	**32,195**	**(1,124)**	**-3.4%**

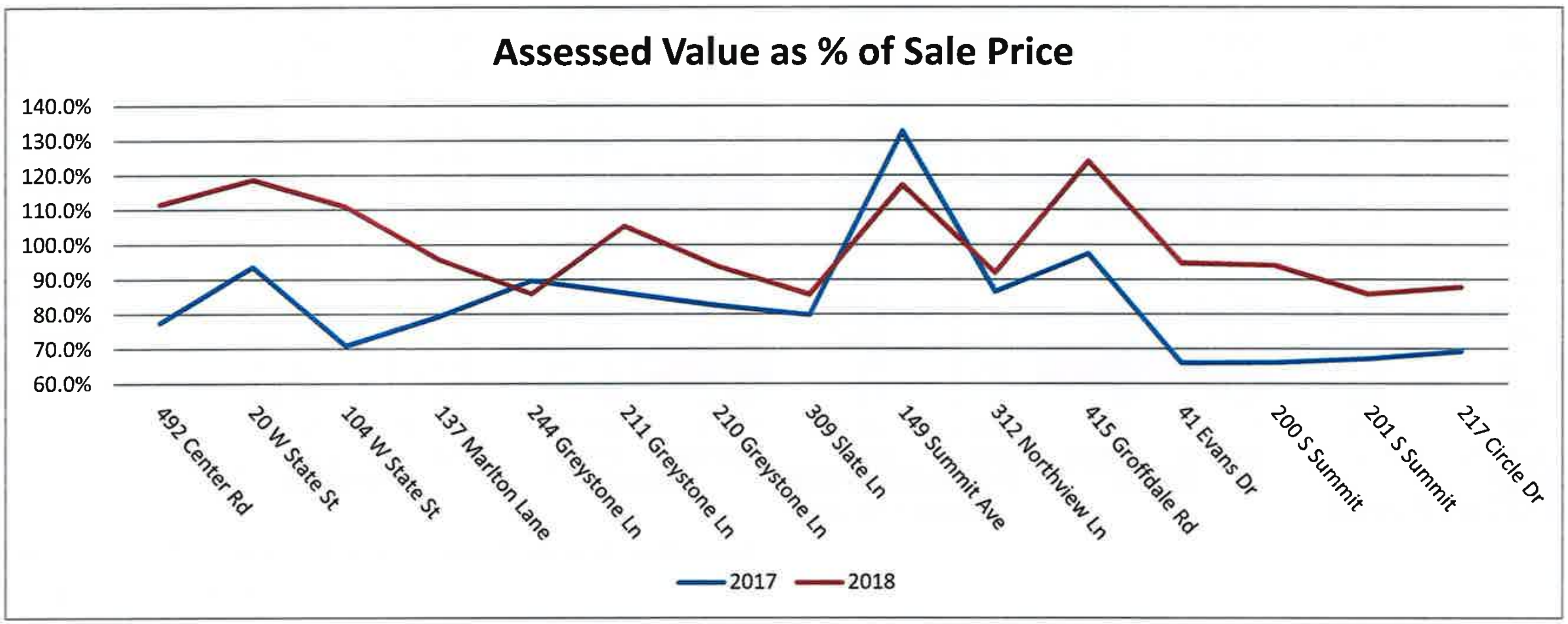
Analysis Parameters Item	Amount	School Taxes Year	Mills	Increase	SB 76 Summary Item	Amount
2017 Millage	**12.8109**	2012-13	11.2243		Annual School Taxes	21,400,000
2017 Taxes	**33,319**	2013-14	11.5161	2.60%	Annual Debt Service	-
School District Value Increase	**27.31%**	2014-15	11.8040	2.50%	DS as % of ST	0.0%
2018 Millage (revenue neutral)	**10.0628**	2015-16	12.0991	2.50%	**SB 76 ST reduction %**	**100.0%**
Act 1 Index	**3.0%**	2016-17	12.4499	2.90%	**Years to 100% Elim**	**-**
2018 Millage (with Act 1 Increase)	**10.3646**	2017-18	12.8109	2.90%		

Solanco School District
Impact of Countywide Reassessment on Recently Sold Properties

Address	Sales Data: Date	Sales Data: Price	Assessment: 2017	Assessment: 2018	AV as % of Sale: 2017	AV as % of Sale: 2018
492 Center Rd	3/31/2017	174,000	134,800	194,100	77.5%	111.6%
20 W State St	12/2/2014	160,000	149,800	189,900	93.6%	118.7%
104 W State St	6/16/2016	210,000	148,900	233,000	70.9%	111.0%
137 Marlton Lane	7/31/2017	250,000	198,100	239,500	79.2%	95.8%
244 Greystone Ln	1/29/2015	245,000	219,700	210,300	89.7%	85.8%
211 Greystone Ln	8/13/2015	232,500	200,100	244,900	86.1%	105.3%
210 Greystone Ln	8/24/2015	246,000	203,000	231,000	82.5%	93.9%
309 Slate Ln	8/31/2015	245,000	195,400	210,000	79.8%	85.7%
149 Summit Ave	7/19/2016	208,000	276,200	243,800	132.8%	117.2%
312 Northview Ln	9/28/2015	230,000	199,000	211,400	86.5%	91.9%
415 Groffdale Rd	1/31/2016	139,000	135,500	172,400	97.5%	124.0%
41 Evans Dr	3/22/2017	149,000	98,300	141,200	66.0%	94.8%
200 S Summit	8/22/2016	220,000	145,400	207,100	66.1%	94.1%
201 S Summit	6/29/2017	225,000	151,100	193,200	67.2%	85.9%
217 Circle Dr	4/27/2017	210,000	145,500	184,400	69.3%	87.8%
Totals		**3,143,500**	**2,600,800**	**3,106,200**	**82.7%**	**98.8%**

Summary Stats - AV as % of SP

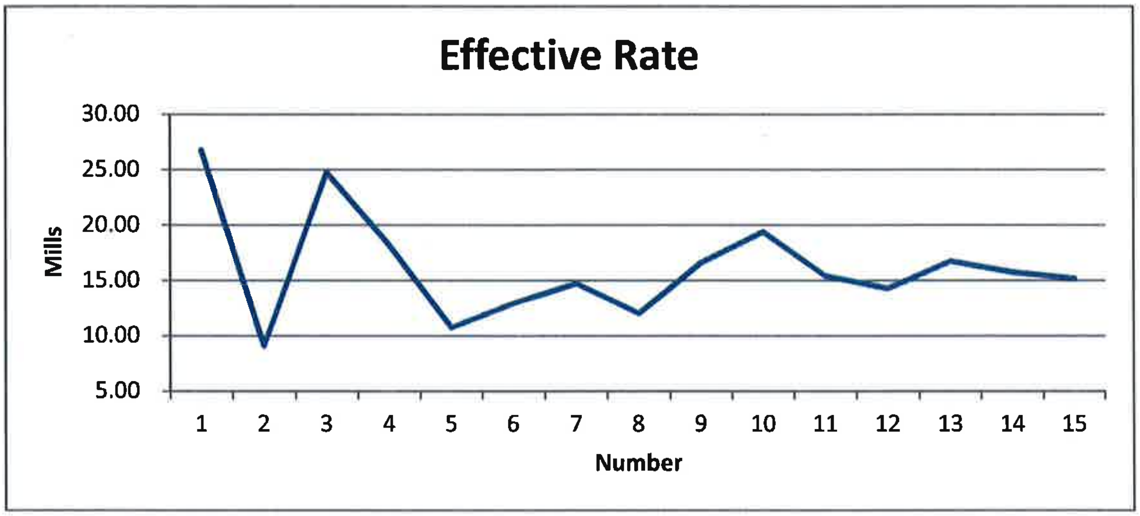
Item	2017	2018
Average AV %	82.7%	98.8%
Minimum AV %	66.0%	85.7%
Maximum AV %	132.8%	124.0%
Dispersion	**66.8%**	**38.3%**



Southern York County School District Tax Analysis
Showing School Taxes and Effective Rate Variation

Actual Tax Rate (mills) --> 18.92

Number	Sale Date	Sale Price	Assessment	School Tax	Effective Rate
1	12/26/2014	102,900	145,790	2,758.35	26.81
2	7/12/2017	115,000	55,440	1,048.92	9.12
3	2/29/2016	128,500	168,270	3,183.67	24.78
4	10/31/2016	159,000	153,060	2,895.90	18.21
5	9/30/2015	169,000	96,110	1,818.40	10.76
6	11/2/2015	177,500	121,690	2,302.37	12.97
7	1/28/2016	200,000	155,880	2,949.25	14.75
8	2/21/2017	224,900	143,160	2,708.59	12.04
9	10/27/2017	250,000	219,730	4,157.29	16.63
10	10/13/2015	300,000	308,000	5,827.36	19.42
11	11/17/2015	360,000	294,010	5,562.67	15.45
12	10/24/2016	375,000	283,290	5,359.85	14.29
13	6/15/2017	425,000	376,760	7,128.30	16.77
14	9/16/2016	464,900	387,950	7,340.01	15.79
15	7/6/2017	515,000	414,340	7,839.31	15.22



District	Millage
West Shore	14.2244
Northern	16.4848
Southern	**18.9200**
Central	19.3500
Southwestern	19.4300
Dover	21.9340
Hanover	21.9900
West York	22.2238
Southeastern	22.2503
Red Lion	22.2791
Spring Grove	22.6768
York Suburban	22.7495
Eastern	23.2600
Dallastown	**23.6600**
Northeastern	26.0900
York City	33.7310

Testimony

Jim Rodkey, Pennsylvania Property Rights Association

Monday, August 21, 2018

Thank you for the opportunity to testify this afternoon. My name is Jim Rodkey and I am a member of the Pennsylvania Taxpayers Cyber-Coalition but I am also founder and chair of the Pennsylvania Property Rights Association, a citizen advocacy group that looks at multiple issues related to Property Rights in the Commonwealth of Pennsylvania. I am here today to represent the voice of that Association.

Property Rights is one of the essential cornerstones of liberty. Property Rights are defended in our Pennsylvania Constitution in Article 1, especially within the realm of Sections 1, 8 and 11. As I look at what property taxation has become, I believe that we have crossed the line of those protections and that our protected rights to property are being routinely violated to support a system of taxation that is antiquated, unfair and egregious.

Education funding is important and the future security of the teachers who teach those children should matter to all of us, but I fear that the path we are on, regarding education funding through the property tax, is an unsustainable path. If we continue down this path of property taxation, we will continue to see rising numbers of working families who are going to be wondering how much longer they can stay in their own homes. The number of people who have already lost their homes because of an inability to pay the property tax is startling to me, and it's a problem that reaches to every level of our society.

Yes, it's a senior problem but it's not limited to seniors and some of those children, who are our future, have to face wondering where they are going to live when the taxes exceed their parent's ability to pay.

It's also a problem that reaches beyond homeowners. We know that the rise in rent is tied directly to the rise of property taxation. Landlords, after all, must adjust rent to provide for the property tax increases on their properties and this creates an instability for those who rent.

How many families who rent in our third class cities, have to resort to doubling up leading to overcrowded housing. They become more transient, constantly moving because of rising rent that exceeds their ability to pay. Do we consider the instability or the fairness of that type of lifestyle for the children in those rented homes?

Those are families who will never establish roots in their communities and their schools; roots, that I believe, would make our schools, our communities and our Commonwealth better places to be.

We already know that the property tax isn't fair. That is evidenced by the many attempts that have been made to make it more so but those attempts continue to fail and we keep attempting this band aid approach to a problem that is more serious than many seem to want to admit.

As well-meaning as the relief efforts are, the relief efforts are temporary means that do little to change the inevitable. For many working families in this Commonwealth, the inevitable has already happened. As a result, home-ownership declines, we see blight increasing where taxation is making it harder for people to do necessary maintenance on their homes, and, in the worst-case scenario, a family is forced to surrender the very sanctity of their home. That inevitable, to my way of thinking, should also be considered unconscionable. During these tax seizures, they can lose their investment in that home, as their homes can be sold for pennies on the dollar where only the interest of the tax collector and the bank matters and we call this justice. I disagree.

An article from the Times Leader on August 20 of this year reported that 81 properties were sold on tax auctions in Luzerne County. Using the figures provided by the article, the properties sold for an average of less than $8,000 per property. How is any tax considered fair that can take our homes and our business properties and sell them for pennies on the dollars of their worth? [1]

Adding insult to injury, a December 14, 2017 article in the Philadelphia Inquirer, where they looked at only four counties, they estimated that over 210,000 homes in just those four counties were over-assessed. This results in people paying more taxes in assumed property worth. That's not tax fairness. [2]

I looked at a local business that sells ice cream. They are paying $21,624 in property taxes. If they were a few blocks to the east in a different school district their property taxes would be higher by $8,500 dollars. In speaking with the owner of this business, we estimate that in order to meet the tax obligation on that property they have to sell about 50,000 ice cream cones after compensating for the cost of materials, employees and other operating expenses. The sale of those 50,000 ice cream cones would not generate a single dollar in business profit which is necessary to keep the doors open. If that business was located in the neighboring school district, just a few blocks away, they would have to sell an additional 14,000 ice cream cones without earning any business profit. How is that tax stability or fairness?

As I've gone across this state talking to people about this issue: I've met many small business owners who are either facing closing their doors or have already done so because they can't keep up with the property tax. I've met farmers who are selling off their land, acre by acre, just to meet the property tax. I've met seniors who have watched their own investment in their own retirement eaten away by property tax increases, some of whom eventually lost their homes. I've talked to home owners who are unable to do necessary upkeep on their properties because can't afford the taxes and the maintenance needed on those properties. I've talked to individuals who must choose between providing for necessary food, clothing and medical needs or paying their property taxes so they can keep their homes.

These aren't the opinions of some think tank, isolated from the realities that many people in the Commonwealth face in their daily lives. These are real people facing real problems as the property tax continues to exceed their ability to pay at rates much higher than the rate of inflation. That's not tax fairness.

We often hear that the property tax is a progressive tax, that wealthier people pay more because their homes often cost more. However, our homes do not generate the income necessary to pay the tax. Education Funding must be measured by a personal ability to pay that tax through their own income and when we actually study this, we find that the property tax is, in reality, the most regressive tax we have. Education funding through property tax is not based on ability to pay.

Lower income family's total property tax bill may be less, but they are often paying a much higher percentage of their income towards this unjust, unequal and egregious tax: As much as 10 to 15 percent more. Is that tax fairness? I would say no!

We need a system of education funding that works for everyone.

I believe we owe the children, working families and seniors of this Commonwealth much better. I believe that we are smart enough to come up with a plan that eliminates the property tax so it can never rear its ugly head again while providing the necessary funding that our schools and the children in those schools need. After all, these children are the future of our country and I believe that we can leave them a better legacy than we were given through a broken and antiquated system of taxation.

Thank You!

1 (http://www.philly.com/philly/news/pennsylvania/pennsylvania-property-taxes-assessment-20171214.html)

2 (https://www.timesleader.com/news/715302/luzerne-countys-september-back-tax-sale-roster-at-2545-properties)

CCAP
COUNTY COMMISSIONERS
Association of Pennsylvania

TO: Members, House Democratic Policy Committee

FROM: Lisa Schaefer, Director of Government Relations

DATE: August 20, 2018

SUBJECT: CCAP Comments on Local Tax Reform

On behalf of the County Commissioners Association of Pennsylvania, a non-profit, non-partisan association providing legislative, education, research, insurance, technology, and other services on behalf of all of the Commonwealth's 67 counties, thank you for the opportunity to offer counties' recommendations to improve the local taxation system.

For counties, our only source of locally generated general fund revenues is the property tax. Counties also have a unique role to play in the entire property tax system, as we are responsible for, or affected by, all of its administration from assessment to delinquent property tax collection. Thus, we are able to offer a number of perspectives and recommendations about the local tax system.

Diversifying the County Tax Base
Local governments rely mostly – and in the case of counties only – on property taxes as their source of locally generated general fund revenues. Yet when the public and the General Assembly talk about property tax reform, the discussion instinctively focuses on school property taxes, and county tax issues have not been included in the reform programs adopted over the past 20 years. While counties understand that school property taxes represent the largest portion of an individual's property tax burden, the reality is that Pennsylvania must look at the entire local tax system in order to achieve true, comprehensive property tax reform.

Pennsylvania's counties have long advocated for the ability to diversify their tax base beyond the property tax, including support for alternatives such as the earned income, personal income and sales taxes to proportionally reduce reliance on the property tax. Local governments must be able to use a balanced portfolio of local taxes, and allowing options will give counties the ability to decide locally what revenue sources work best and most equitably for their communities. For instance, they might consider factors such as the balance between commercial and residential payers, income demographics and the economic base – and that balance will likely look different from one county to the next.

Homestead Exclusion Implementation
Our recommendation to give counties local taxing options comes into sharper focus following last fall's approval of a constitutional amendment to expand the homestead exclusion from one-half of the median assessed value of the homestead properties in a taxing district to 100 percent of the assessed

value of each homestead property in a taxing district. However, the constitution also specifically states that a local government cannot increase its millage rate to pay for these exclusions. Thus, few if any counties had the ability to authorize a homestead exclusion under the previous threshold – having no other taxing options to pay for it – much less to expand it under the recent constitutional amendment. In order to take advantage of the tools being offered, the General Assembly needs first to update the laws that implement the constitutional provisions to reflect the new threshold, and then offer local governments the flexibility to use those tools.

Assessment Reform

Counties are responsible for maintaining assessed values of properties, and these assessment rolls form the basis of property taxation for the counties, municipalities and school districts. Several reports have been completed in the last decade, including a Legislative Budget and Finance Committee (LBFC) report and recommendations on the status of, and improvements to, the property assessment system, released in 2010. CCAP and its affiliate Assessors' Association of Pennsylvania (AAP) were also active participants in late 2011 and early 2012 on the HR 343 and HR 344 task forces, which reviewed assessment standards, assessment contracting and reform of the State Tax Equalization Board (STEB).

Those reports prompted the Local Government Commission to form an Assessment Reform Task Force in late 2016 to address these recommendations to make the assessment process more modern, efficient, transparent and fair. In the past year and a half, a considerable amount of work has been undertaken – numerous pieces of legislation are now before the General Assembly, and several projects have been completed, including a model RFP and contracting guidelines for county reassessment services, data collector standards, and a self-evaluation tool to help counties understand when a reassessment may be needed.

Any commissioner who has gone through the countywide reassessment process can tell you that it can be a confusing and frustrating process for everyone involved, including property owners. The Task Force's work on these tools will go a long way in assisting our counties in better understanding their role in the process, how to assure data is properly obtained and managed and working with the public to help them understand the process and their rights.

If this subcommittee is interested in learning more about the assessment process and the Task Force work, I strongly encourage you to reach out to the Local Government Commission, and to take a closer look at all of their work products on the Commission's website at www.lgc.state.pa.us.

Tax Exemptions

Tax-exempt state and federal lands, preferential assessment under the Clean and Green program, and exemptions for purely public charities all take their toll on the tax base of local governments and on taxpayers – when one property does not pay taxes, those who continue to pay effectively take on a greater share of the tax burden. For an example of this, the Allentown Morning Call recently did a detailed series of articles on the impacts Clean and Green Law that may be of interest to this committee.

While many legislative proposals to expand exemptions are well-intended, the underlying revenue needs of local governments remain unchanged and so are spread across a smaller tax base. The impact of these policies is felt by all local governments, but it is particularly significant for county government whose local revenues are based solely on the taxability of properties. Counties would also like to see the Clean and Green statute updated to better reflect and ensure the statute continues to meet its original intent to provide a preferential assessment to those properties that are truly agricultural use, agricultural reserve or forest reserve, and have several detailed ideas that we would be happy to discuss further.

Property Tax Collection

In some of our counties, the current property tax collection system – where property taxes are collected by elected tax collectors in each municipality – has not kept pace with the needs of their taxpayers. Counties recommend giving local governments options to use the local elected tax collector or to pursue other means of collection.

Local options for property tax collection are actually not a new concept, and in fact are already used in a patchwork and piecemeal fashion under current laws throughout the state. For instance, the Local Tax Collection Law allows municipalities to enter into an agreement to have the county bill for and collect its taxes in the event there is a vacancy in the office of tax collector. There are several counties performing this role for their municipalities, particularly in areas of the state where it has become difficult to find an individual who is willing to step up to run for the office. In these situations, counties have reported cost-effective results while maintaining taxpayer satisfaction with collection administration.

Further, under special legislation, county taxes in Allegheny County are collected by the county treasurer. Other special local laws enacted in the nineteenth century and which are still in effect make the county treasurer the collector of county taxes in Beaver, Chester, Greene, Lawrence and Washington counties. Counties adopting home rule charters may opt to collect their own taxes, and Delaware, Lackawanna and Northampton counties currently collect their own taxes under their home rule authority.

However, not every local government in every part of the state has the ability to review its local tax collection system in conjunction with the needs of its taxpayers. To better recognize the diversity of our 67 counties, we recommend legislation to offer options to all of our local governments. This would mean that in communities where taxpayers prefer to have a local tax collector with whom to transact their business, they can continue to do so. At the same time, if counties, municipalities or school districts would like to explore options to an archaic system that could streamline the process and provide more efficient services to their taxpayers, they could also do so.

County Budget Drivers and Mandate Reform

We would be remiss if we failed to note the underlying issues that drive county taxing decisions. More than 80 percent of county budgets are dedicated to services they are mandated to provide – human services programs, courts and correctional facilities, and emergency response planning, for example. But while state and federal governments provide funding assistance for many of these programs, counties have dealt with more than a dozen straight years of stagnant or decreased funding for a wide range of county-provided programs. At the same time, mandates, service demands and caseloads continue to increase. Counties have done all they can to cut administrative costs and operate programs more efficiently, but in the face of inadequate funding, many have nowhere else to turn and thus are making the difficult decision to raise county property taxes.

In addition to supporting adequate and durable state and federal funding for county programs and services, county government and the commonwealth must develop and maintain the close working relationship necessary to cooperatively meet the state's challenges, looking for solutions that better reflect needs, reduce cost, increase local flexibility and assure quality services.

Conclusion

We look forward to working with you on matters affecting county government and the way we fund the critical programs and services we provide in our communities every day, and would be happy to discuss these comments further and answer any questions you may have at your convenience.