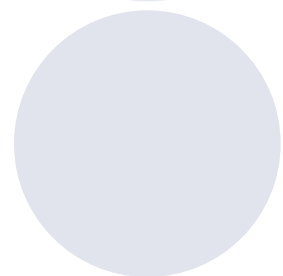
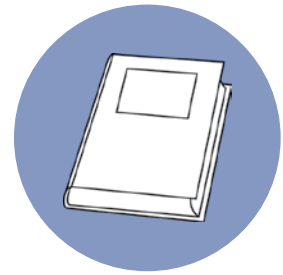
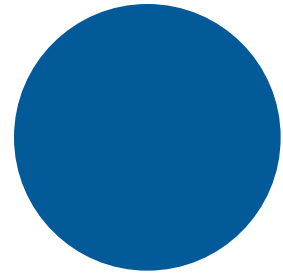


Reform, Not Repeal:

Pennsylvania Can Provide
Property Tax Relief *and*
Protect Public Schools

by
Michael Wood
and
Sharon Ward



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Overview



Property taxes in Pennsylvania are generally affordable. They fund local services, including public schools, first responders, libraries, child protection services, and community colleges.

Eliminating school property taxes, as some lawmakers propose, would harm Pennsylvania's public schools, and would be a radical step unjustified by the facts. Instead, lawmakers should ensure that property taxes are applied more uniformly, and provide targeted tax relief for seniors and working families with higher-than-average property taxes.

Property taxes are the most reliable and stable source of funding for these services, preventing cuts to schools, police, fire, and jails during economic downturns, and they are easy for local governments to administer.¹

Despite critics' claims, property taxes are not high in Pennsylvania. In fact, in some areas property taxes, including school property taxes, are low. In one Pennsylvania county, the average homeowner's property tax is just \$850 per year. In 45 of Pennsylvania's 67 counties, total average property taxes – including school, county and municipal taxes – are less than \$2,000 per year. That equals \$167 or less per month.²

In one of every four school districts, 129 in all, school property taxes on homes can be considered low, or less than 1.5% of all taxable personal income in the district. In only 30 of Pennsylvania's 500 school districts can property taxes be considered universally high, exceeding 4% of the districts' total taxable personal income. In the remaining districts, taxes are moderate, ranging between 2% and 3.99% of district personal income.

Efforts to eliminate Pennsylvania's property taxes and raise other taxes, such as Senate Bill 76 would do, take a sweeping approach to a limited problem. That legislation would cost public schools \$2.6 billion in lost funding within five years, according to the Independent Fiscal Office.³

Although overall property taxes are not high in Pennsylvania, some people have trouble affording them, particularly senior citizens. Pennsylvania's property tax rebate program has eliminated property taxes for more than 35,000 households, and reduced taxes for 250,000 more households, but the amount of relief offered is small and hasn't kept pace with inflation.⁴ Additionally, no property tax relief is available for non-disabled, working-age adults.

Pennsylvania has also increased its reliance on property taxes to fund schools over time, and asks more of local taxpayers in this regard than all but a handful of states. Increasing the share of state funding, and distributing more state funds to those communities where local taxes are comparatively high, would go a long way in addressing legitimate property tax concerns.

1 John Mikesell and Daniel Mullins, "Local Property Tax Yields and Burden: Into the Great Recession and Beyond," *State Tax Notes*, March 3, 2014, [http://services.taxanalysts.com/taxbase/magdailydfs.nsf/PDFs/71ST0547.pdf/\\$file/71ST0547.pdf](http://services.taxanalysts.com/taxbase/magdailydfs.nsf/PDFs/71ST0547.pdf/$file/71ST0547.pdf).

2 Benjamin Harris and Brian David Moore, *Residential Property Taxes in the United States*, The Urban Institute-Brookings Institution Tax Policy Center State & Local Finance Initiative, November 13, 2013, <http://www.taxpolicycenter.org/publications/url.cfm?ID=412959>.

3 Pennsylvania Independent Fiscal Office, *Analysis of Proposal to Replace School Property Taxes: House Bill 76 and Senate Bill 76 of 2013*, Special Report 2013-7, October 1, 2013, <http://www.ifo.state.pa.us/download.cfm?file=/resources/PDF/SR2013-07.pdf>.

4 Pennsylvania Department of Revenue, Bureau of Individual Taxes, *Property Tax/Rent Rebate Program 2012 Statistical Report*, May 2014, http://www.revenue.pa.gov/GeneralTaxInformation/News%20and%20Statistics/Documents/PTRR%20Stats/2012_ptrr_stats.pdf.

Pennsylvania has made some modest property tax reforms over the years. Voters amended the state constitution in 1997 to authorize a homestead exemption to reduce residential property taxes. In 2006, the General Assembly adopted Act 1, which allocated funds from casino gambling to support local homestead exemptions and expand senior property tax relief. In 2014-15, this state relief totals \$779 million.⁵ Act 1 also imposed caps on the amount school districts could raise local property taxes and, in 2011, the General Assembly made the caps even more restrictive. The caps have slowed the growth of property tax hikes, but without corresponding increases in state funds, school districts have had to significantly reduce personnel and services to students.⁶

Counties have done a poor job keeping up on property tax reassessments. Without regular reassessments similar properties can have very different property taxes, which makes the system unfair. Seventeen counties haven't reassessed property in more than 35 years.

Because a limited number of school districts have high property taxes, reforms should target those communities and the people having trouble paying them. A "one size fits all" approach is costly and creates more problems than it solves.

Targeted and commonsense reforms that could address specific property tax issues include:

- Increasing the dollar value of the state's property tax and rent rebate program and indexing it to inflation;
- Increasing state funding for schools to lower dependence on local revenue;
- Focusing extra state funding on areas with high local "tax effort";
- Modernizing assessment practices to ensure fairness and uniformity;
- Adopting a property tax circuit breaker program for working families.

This report examines property tax levels across Pennsylvania, by county and school district, and compares them to levels in other states. We review Pennsylvania's tax relief programs and make recommendations for targeted tax relief to help individuals who have difficulty paying these taxes.

Local Property Taxes in Pennsylvania Are in Line with Other States



Local governments in Pennsylvania collected \$16.6 billion in property taxes in 2011. Nationally, state and local property tax collections topped \$442 billion.⁷ Pennsylvania, with the sixth largest population, ranked seventh in total property tax collections.⁸

Like other states, Pennsylvania relies on property taxes to pay for most local services. However, the commonwealth is less reliant on local property taxes to fund all levels of local government than the nation as a whole. In 2011, property taxes made up 71% of local tax revenue in Pennsylvania, compared to 74%

5 Pennsylvania Department of Education, "Property Tax Reduction Allocations: 2014-2015 Fiscal Year," Accessed September 17, 2014, http://www.portal.state.pa.us/portal/server.pt/community/property_tax_relief/7452/property_tax_reduction_allocations/510335.

6 Pennsylvania Association of School Administrators & Pennsylvania Association of School Business Officials, *Continued Cuts: The Fourth Annual PASA-PASBO Report on School District Budgets*, June 2014, http://www.pasbo.org/blog_home.asp?Display=24.

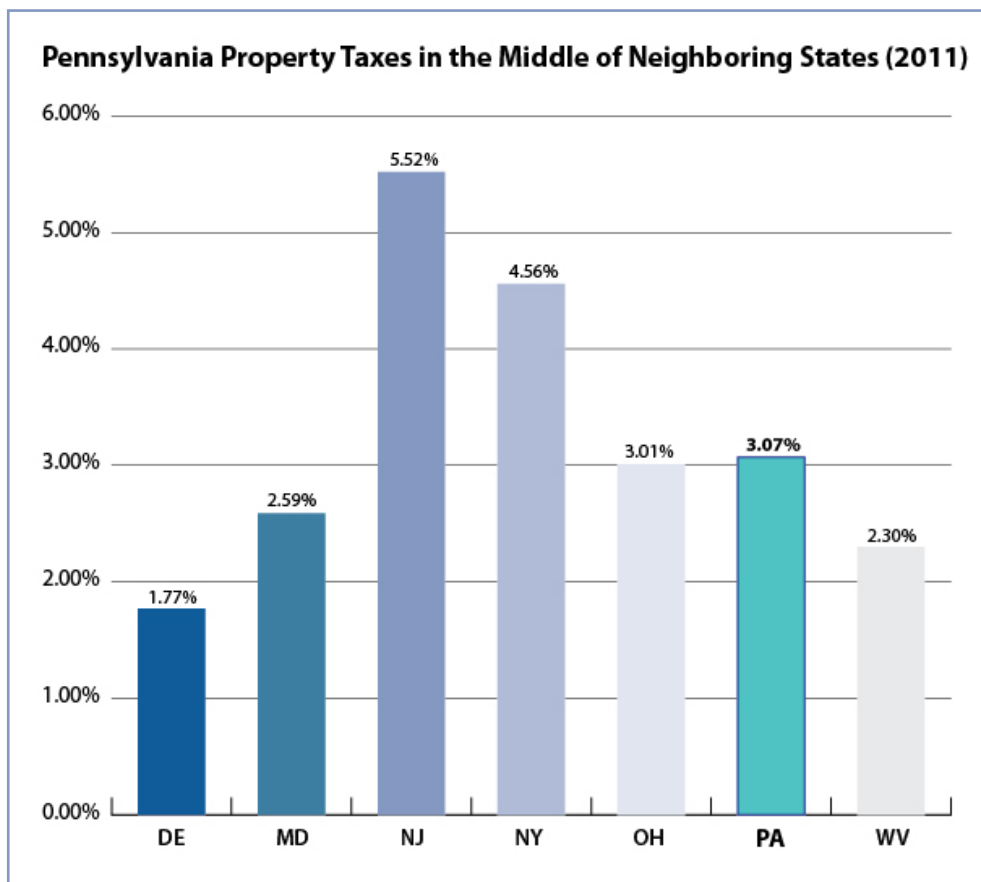
7 The Urban Institute-Brookings Institution Tax Policy Center, State & Local Government Finance Data Query System, Data from U.S. Census Bureau, Annual Survey of State and Local Government Finances, Government Finances, Volume 4, and Census of Governments (2011), <http://www.taxpolicycenter.org/slf-dqs/pages.cfm>.

8 U.S. Census, 2010 Census, http://factfinder2.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=DEC_10_SF1_P1&prodType=table.

of local taxes nationwide.⁹ Most Pennsylvania school districts, 466 of 500, have adopted local earned income taxes, which likely accounts for much of the difference with other states.¹⁰ In 60 of these districts, the school earned income tax rate is 1% or more.

Property taxes in Pennsylvania are also less than property taxes across the nation when measured as a share of total personal income.¹¹ Nationally, property taxes equalled 3.31% of personal income in 2011, compared to 3.07% in Pennsylvania.¹²

The story is the same when Pennsylvania is compared to neighboring states. Property taxes as a share of personal income are markedly lower here than in New Jersey and New York, and roughly the same as in Ohio. Pennsylvania's property taxes are higher than those in the much smaller states of Delaware, Maryland, and West Virginia as a share of personal income.



Source: Tax Policy Center tabulation of U.S. Census data.

9 The Urban Institute-Brookings Institution Tax Policy Center, State & Local Government Finance Data Query System, Data from U.S. Census Bureau, Annual Survey of State and Local Government Finances, Government Finances, Volume 4, and Census of Governments (2011), <http://www.taxpolicycenter.org/slf-dqs/pages.cfm>.

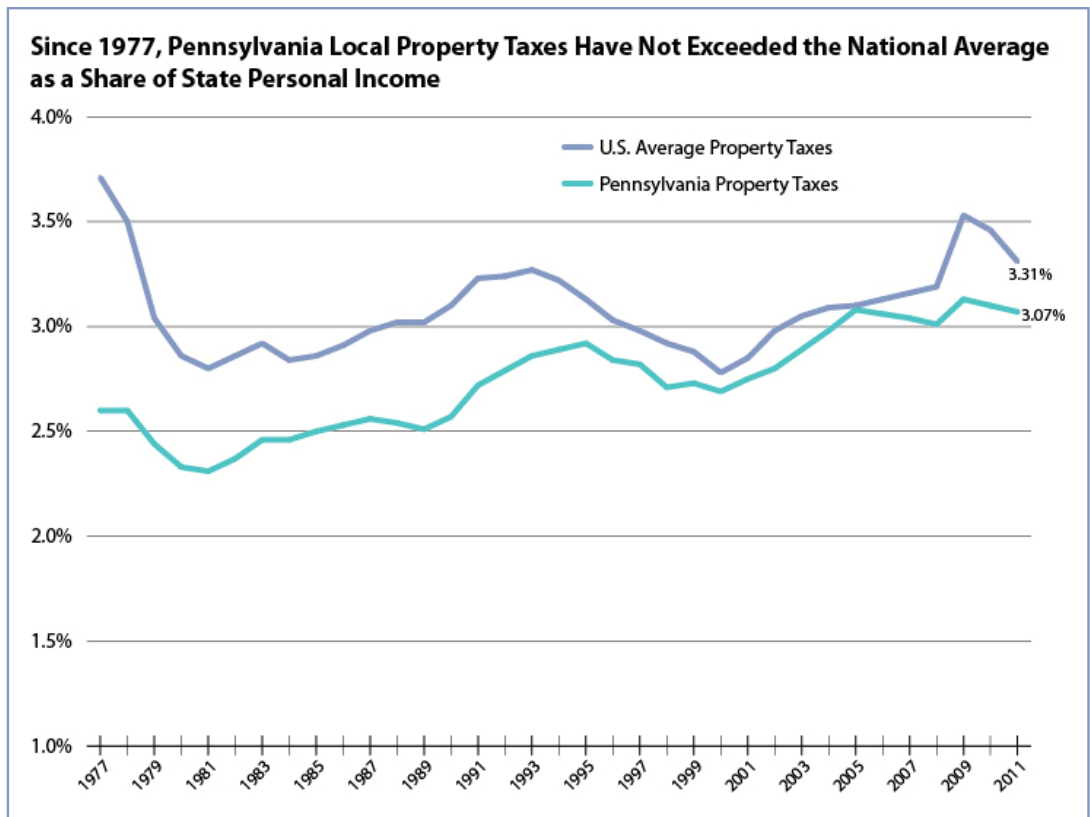
10 Pennsylvania Department of Community and Economic Development, 2014 Municipal Tax Register, <http://munstatspa.dced.state.pa.us/Registers.aspx>.

11 Personal income measures the combined earnings of state residents including wages, interest, dividends, rents, profits, proprietors income and transfer payments (e.g. social security).

12 The Urban Institute-Brookings Institution Tax Policy Center, State & Local Government Finance Data Query System, Data from U.S. Census Bureau, Annual Survey of State and Local Government Finances, Government Finances, Volume 4, and Census of Governments (2011), <http://www.taxpolicycenter.org/slf-dqs/pages.cfm>.

Pennsylvania property taxes, when measured as a share of income, have never exceeded the national average over the last 33 years.¹³

When compared on a per capita, or per person basis, the story is, again, the same. Pennsylvania's local property taxes equaled \$1,300 per person in 2011, compared to \$1,377 for the United States.¹⁴



Source: Tax Policy Center tabulation of U.S. Census data.

Although property taxes may not be as high in Pennsylvania as in other states, home owners here may pay a larger share of the total tax bill. That's because Pennsylvania's constitution requires that business and residential property owners pay the same tax rate, while in other states it is common for residential taxpayers to pay lower rates. (The Homestead Exemption has reduced the residential share of property taxes by a small amount). In addition, businesses in other states pay property taxes on inventories and equipment, and oil and gas companies pay property taxes on the value of energy deposits, both of which increase the business share of total property tax collections.

Total Local Property Taxes by the Numbers:

	Pennsylvania	U.S.
Total local property taxes	\$16.6 billion	\$429.1 billion
As a share of state personal income	3.07%	3.31%
Per capita	\$1,300	\$1,377
Share of local tax revenue	71%	74%
Source: Tax Policy Center (2011 U.S. Census data)		

13 All comparison figures come from the Urban Institute-Brookings Institution Tax Policy Center, State & Local Government Finance Data Query System, Data from U.S. Census Bureau, Annual Survey of State and Local Government Finances, Government Finances and Census of Governments (1977-2011), <http://www.taxpolicycenter.org/slf-dqs/pages.cfm>.

14 The Urban Institute-Brookings Institution Tax Policy Center, State & Local Government Finance Data Query System, Data from U.S. Census Bureau, Annual Survey of State and Local Government Finances, Government Finances, Volume 4, and Census of Governments (2011), <http://www.taxpolicycenter.org/slf-dqs/pages.cfm>.

Property Tax Assessments Vary Across the Commonwealth

Counties administer property tax systems for local governments, including school districts. This includes determining property values, periodically reassessing those values, managing property records, and collecting delinquent taxes. Counties, municipalities and school districts determine their own property tax rates.

While 15 states have state-assessed property taxes,¹⁵ Pennsylvania's decentralized approach has created 67 different tax systems - one for each county - across the state. This lack of uniformity in property tax rates and property valuations across Pennsylvania means that property tax bills can be very different on similarly priced homes in different counties.

Average property assessments were 58% of market value in Pennsylvania in 2012, according to the State Tax Equalization Division, which compiles property assessment data and market values from every county. But this average masks wide variations between counties. For example, property in Adams County is assessed at 122% of market value, while in neighboring Franklin County assessed values equal only 14.5% of market value.¹⁶

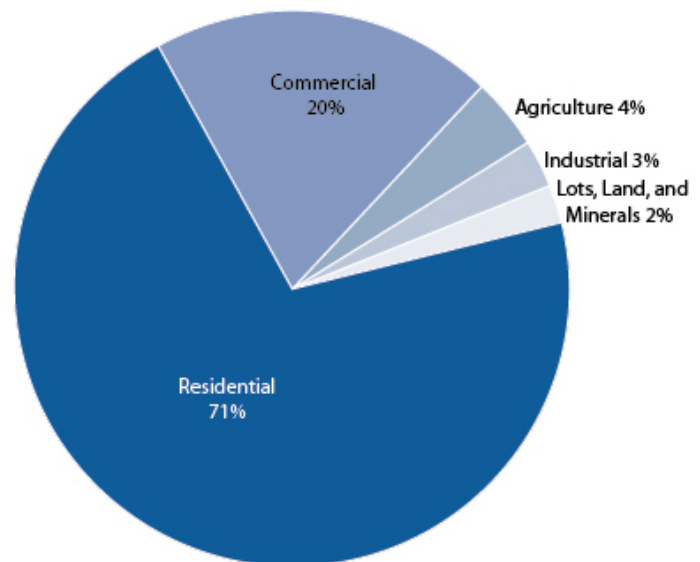
Counties Vary Widely in Property Types

Statewide, residential property makes up the lion's share of property that is taxed. More than 70% of the assessed value of all property in the state is residential, while the rest (just under 30% of assessed value) is business property.

Residential property is defined as houses, apartments or other multifamily housing. Business property consists of commercial property (20% of assessed value), farming and industrial properties (7%), and other property types, including vacant land and minerals (less than 3%).¹⁷

Source. Tax Equalization Division of the Pennsylvania Department of Community and Economic Development, 2012 Land Report.

Residential Properties are 71% of Total Assessed Value in Pennsylvania



¹⁵ National Conference of State Legislatures, *Property Tax Compendium*, September 1, 2006, <http://www.ncsl.org/print/educ/PROPERTYTAXCOMPENDIUMIL.pdf>.

¹⁶ Pennsylvania Department of Community and Economic Development Tax Equalization Division, *2013 Common Level Ratios Report*, http://www.newpa.com/sites/default/files/uploads/TED/data/common_ratio/TED_RATIO_2013.pdf.

¹⁷ Pennsylvania Department of Community and Economic Development Tax Equalization Division, *2012 Land Use Report*, http://www.newpa.com/webfm_send/3507.

These averages mask significant differences in who pays property taxes in each county. Some counties have mostly residential properties, while others have large commercial or industrial taxpayers that can help lighten the load for residential owners. For example, the residential share of the property tax base varies from 27.2% in mineral-rich Greene County to 85.3% in Pike County, a growing commuter county bordering New Jersey and New York.

At the school district level, the residential share of the property tax base varies even more, from a low of 5.6% in Greene County's West Greene School District¹⁸ to 93.5% in Wallingford-Swarthmore School District in Delaware County.¹⁹ A breakdown of assessed property types for each county can be found in Appendix 1, and for each school district (by county) in Appendix 2.

Eight of the ten school districts with the greatest dependence on residential property for their tax bases are in suburban areas outside Pittsburgh and Philadelphia. These bedroom communities have little commercial property to share funding of local schools. Six of the ten are wealthy districts with higher than average per pupil spending.

Top 10 School Districts with Largest Residential Share of Assessments		
Wallingford-Swarthmore	Delaware	93.5%
South Park	Allegheny	93.1%
Mt Lebanon	Allegheny	90.1%
Baldwin-Whitehall	Allegheny	90.0%
Haverford Township	Delaware	89.9%
Shaler Area	Allegheny	89.1%
Westmont Hilltop Area	Cambria	88.2%
Jim Thorpe Area	Carbon	87.9%
Perkiomen Valley	Montgomery	87.5%
Hampton Township	Allegheny	87.5%

Not surprisingly, the districts with the largest shares of agricultural land in their property tax bases are in northern and central Pennsylvania (often referred to as the "T"). Agricultural land is often assessed at reduced rates – reflecting its value for farming use, rather than its development value. This creates a higher effective tax rate for other types of property in a district.

Top 10 School District with Largest Agricultural Share of Assessments		
Northeast Bradford	Bradford	49.1%
Southern Fulton	Fulton	46.6%
Elk Lake	Susquehanna	46.5%
Northern Potter	Potter	44.9%
Troy Area	Bradford	40.8%
Wyalusing Area	Bradford	39.0%
Mountain View	Susquehanna	38.2%
Wattsburg Area	Erie	37.3%
Forbes Road	Fulton	36.5%
Commodore Perry	Mercer	35.7%

¹⁸ Over 67% of West Greene's property tax base is in the "mineral" category.

¹⁹ Both county and school district distributions were based on the Pennsylvania Department of Community and Economic Development Tax Equalization Division's (TED – formerly STEB) 2012 Land Use report, http://www.newpa.com/webfm_send/3507.

Communities with large shares of commercial assessments often have business districts or shopping centers. This helps to spread the responsibility for paying for local services and schools. King of Prussia Mall, the largest mall in the United States in terms of leasable retail space, helps support the local schools in Upper Merion, where it is based. But this is not always the case. Harrisburg City's high share of commercial assessments is partly a result of its low residential property values.

Top 10 School Districts with Largest Commercial Share of Assessments		
Harrisburg City	Dauphin	52.6%
Upper Merion Area	Montgomery	46.6%
Steel Valley	Allegheny	41.9%
Pittsburgh	Allegheny	41.4%
Washington	Washington	40.7%
Gateway	Allegheny	40.1%
Richland	Cambria	40.1%
Fort LeBoeuf	Erie	39.9%
Clarion Area	Clarion	39.9%
Montour	Allegheny	39.4%

Districts with the largest shares of industrial property tend to have large power plants or factories. The presence of these facilities, which can have assessed values greater than many homes, spreads the cost of education onto industrial taxpayers. However, if a plant closes it can leave a big gap in a school district's budget.

Top 10 School Districts with Largest Industrial Share of Assessments		
South Side Area	Beaver	36.1%
Berwick Area	Columbia	30.0%
Southeastern Greene	Greene	29.2%
Northeastern York	York	22.9%
Farrell Area	Mercer	22.8%
Middletown Area	Dauphin	20.6%
Catasauqua Area	Lehigh	20.3%
Homer-Center	Indiana	17.0%
Parkland	Lehigh	16.4%
Midland Borough	Beaver	15.5%

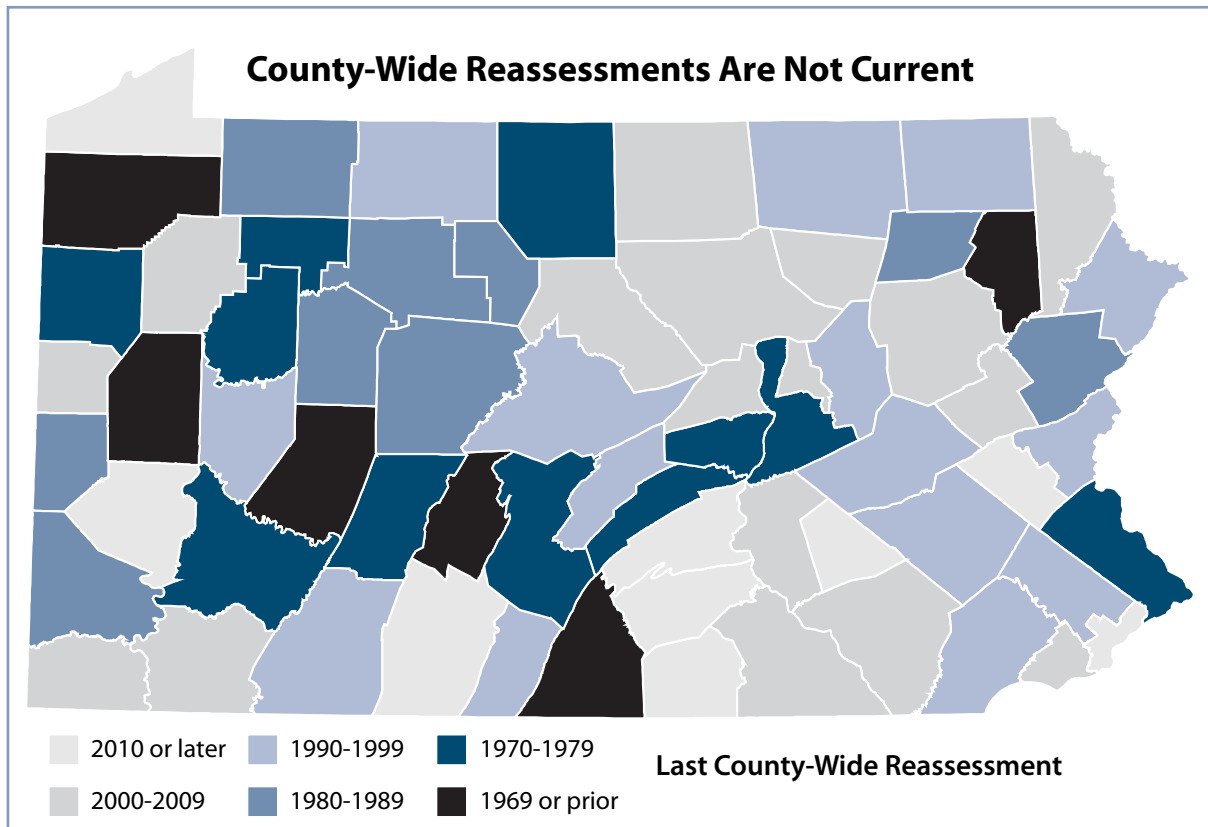
Pennsylvania assesses property taxes on minerals (gravel, coal, and other mined materials). In a handful of school districts, largely in the southwest corner of the state, coal properties are a significant portion of the tax base. Since a 2002 state court ruling, oil and gas deposits are no longer subject to local property taxes in Pennsylvania. If the General Assembly made them subject to property taxes, they could add to the tax bases of many districts across the state.

Top 10 School Districts with Largest Mineral Share of Assessments		
West Greene	Greene	67.2%
McGuffey	Washington	29.2%
Central Greene	Greene	25.0%
Avella Area	Washington	11.3%
Jefferson-Morgan	Greene	7.6%
Southeastern Greene	Greene	3.8%
Harmony Area	Clearfield	3.4%
Purchase Line	Indiana	3.4%
Trinity Area	Washington	3.1%
Mount Carmel Area	Northumberland	2.9%

Property Assessments Are Not Current in Many Parts of the State



Property assessments are far from up-to-date in more than two-thirds of Pennsylvania counties, in fact one in four haven't reassessed in 35 years. This means homes of the same value in the same county may be taxed at a very different rates depending on when they were last valued for tax purposes. In 48 of the state's 67 counties, the last county-wide reassessment was 10 or more years ago, and in 29 of the 48 counties it was more than 20 years ago.²⁰



Sources: Pennsylvania Department of Revenue and county assessor websites

Wide timing differences in valuations create a host of problems. Properties that were once of similar value can see their values diverge dramatically over time, yet their owners continue to pay the same amount of tax.

Failure to reassess also leaves counties open to assessment challenges, which can reduce the property tax bill for a particular taxpayer. These reductions can come at great cost to local governments and lead to cuts in services, or force local officials to raise overall tax rates more than would otherwise be necessary.

Regular assessment schedules can improve assessment quality and uniformity – making property tax bases more in line with actual property values, according to the Lincoln Institute of Land Policy, which monitors local property taxation across the country.²¹

20 PBPC's review of Pennsylvania Department of Revenue January 2014 Realty Transfer Tax Common Level Ratio (CLR) Real Estate Valuation Factors (http://www.portal.state.pa.us/portal/server.pt/document/628207/clr_factor_historical_pdf), county assessor websites, and telephone confirmation of last date of countywide reassessment.

21 Jane Melme, *Policies and Practices That Promote Assessment Equity: Case Studies of Alternative Models*, Lincoln Land Institute of Land Policy, August 1991, http://www.lincolninst.edu/subcenters/property-valuation-and-taxation-library/dl/malme_1.pdf.

In Pennsylvania, counties are responsible for property reassessments, but many fail to take on the challenge on a regular basis. This is due, in part, to the cost, which runs in the millions of dollars and is paid for locally. In addition, many county officials see reassessments as a political minefield, guaranteed to be unpopular, even by those who may see their taxes ultimately reduced.

Greater state involvement could make property tax administration more uniform and current in Pennsylvania. This could include mandating periodic reassessments, state funding of reassessments, and offering technical assistance to local governments.

Total Property Taxes Paid are Moderate but Variation is High



Pennsylvania homeowners paid an average of \$2,407 per year in total property taxes from 2007 to 2011, according to a nationwide analysis by the non-partisan Urban Brookings Tax Policy Center.²² That amount was 15th highest in the nation.²³

Average property tax payments are largely determined by housing prices rather than property tax rates, the Tax Policy Center (TPC) noted. High home values may lead to higher average tax levels even if tax rates are low. The TPC argues that comparing average property tax burdens “can be deceiving as they are mostly driven by variation in housing prices, rather than variation in tax rates.”²⁴

Average property taxes in Pennsylvania counties range widely, from a low of \$850 per year in rural Forest County, to a high of \$4,364 in suburban and wealthy Chester County. Chester County’s average property tax was the 58th highest in the nation in the time period studied.²⁵ This is not unexpected, as Chester County ranked 32nd highest in median household income of 814 U.S. counties in 2012.²⁶

The following figure demonstrates that aggregate property tax payments are higher in areas with higher costs of living – the ring counties around Philadelphia, border counties with New Jersey and metro New York City, the Pittsburgh region, and regions around Harrisburg, Erie, and State College.

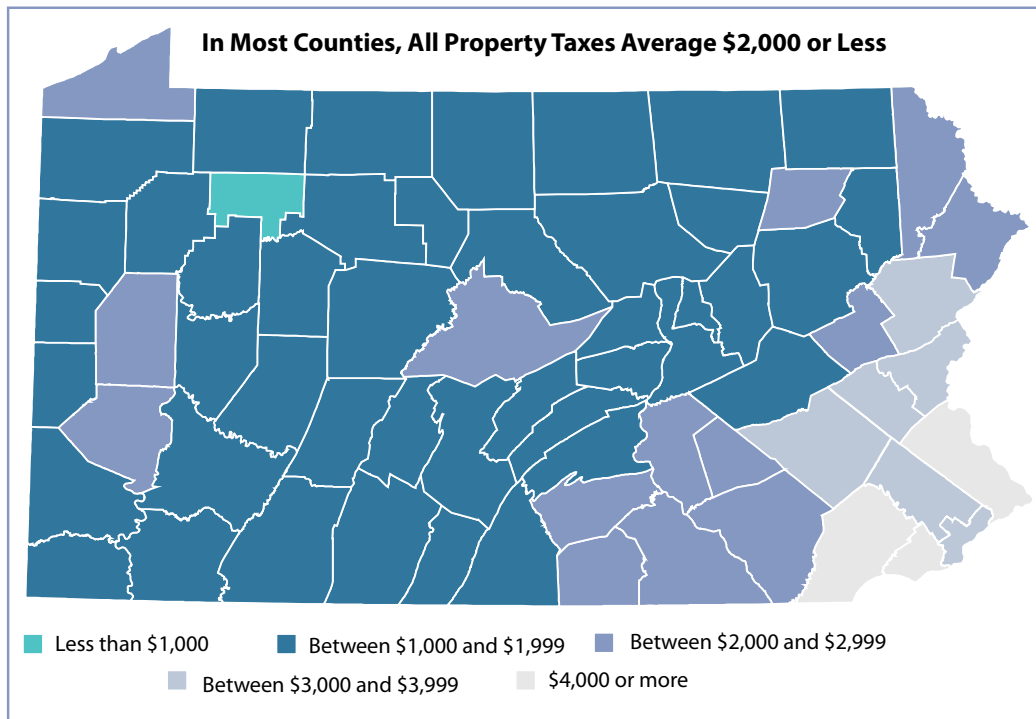
22 Actually a weighting of county medians based on the number of housing units.

23 PBPC calculations using Table 1 from the Harris and Moore (Tax Policy Center) publication. <http://www.taxpolicycenter.org/publications/url.cfm?ID=412959>.

24 Harris and Moore, Page 7.

25 Harris and Moore.

26 U.S. Census Bureau, 2012 American Community Survey (one-year estimates), B19013, Median Household Income in the Past 12 Months (in 2012 inflation-adjusted dollars), Universe: Households, accessed May 22, 2014, http://factfinder2.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=ACS_12_1YR_B19013&prodType=table.



Source: Tax Policy Center

Average Residential Property Taxes	No. of Counties
Less than \$1,000	1
\$1,000-\$1,999	44
\$2,000 – \$2,999	14
\$3,000 - \$3,999	5
\$4,000 of More	3

The Tax Policy Center also compared annual property taxes to housing values. Property tax bills as a share of a home's value averaged 1.45% in Pennsylvania, ranking it 13th highest among the states. We are higher in this measure than the others used in this analysis. This is due, in part, to the fact that Pennsylvania, like other large and economically diverse states such as New York, Michigan, and Texas, showed greater variance between counties in this measure than smaller, less diverse states.²⁷

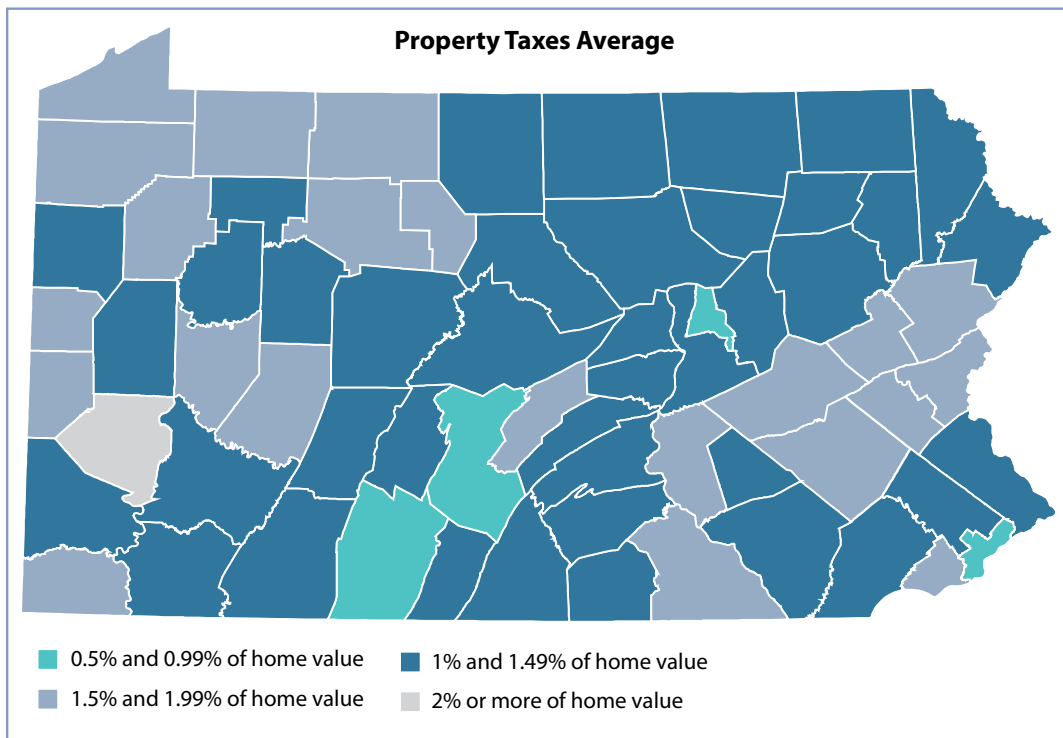
A closer look at the Tax Policy Center data shows on the one end, urban Philadelphia and largely rural Bedford, Huntingdon, and Montour counties had annual property taxes of less than 1% of reported home values. At the other end, Allegheny County residential property taxes were more than 2% of housing values. Both Philadelphia²⁸ and Allegheny²⁹ counties have since completed reassessments, which should bring taxes more in line with values. The majority of counties (40) had property taxes between 1.0% and 1.49% of property values, while 22 counties had median annual property taxes between 1.5% and 1.99% of median reported home values.

It is important to note that complaints about high property taxes are the most common in Pennsylvania counties with property taxes greater than 1.5% of values: Berks, Carbon, Delaware, Lehigh, Monroe, Northampton, Schuylkill, and York counties. In Warren, McKean, Crawford, and Venango counties, property taxes are generally low but property values are also below average.

²⁷ Harris and Moore.

²⁸ City of Philadelphia, Office of Property Assessment, "How IPA Assesses Property," <http://www.phila.gov/OPA/Assessments/Pages/HowOPAAssessProperty.aspx>.

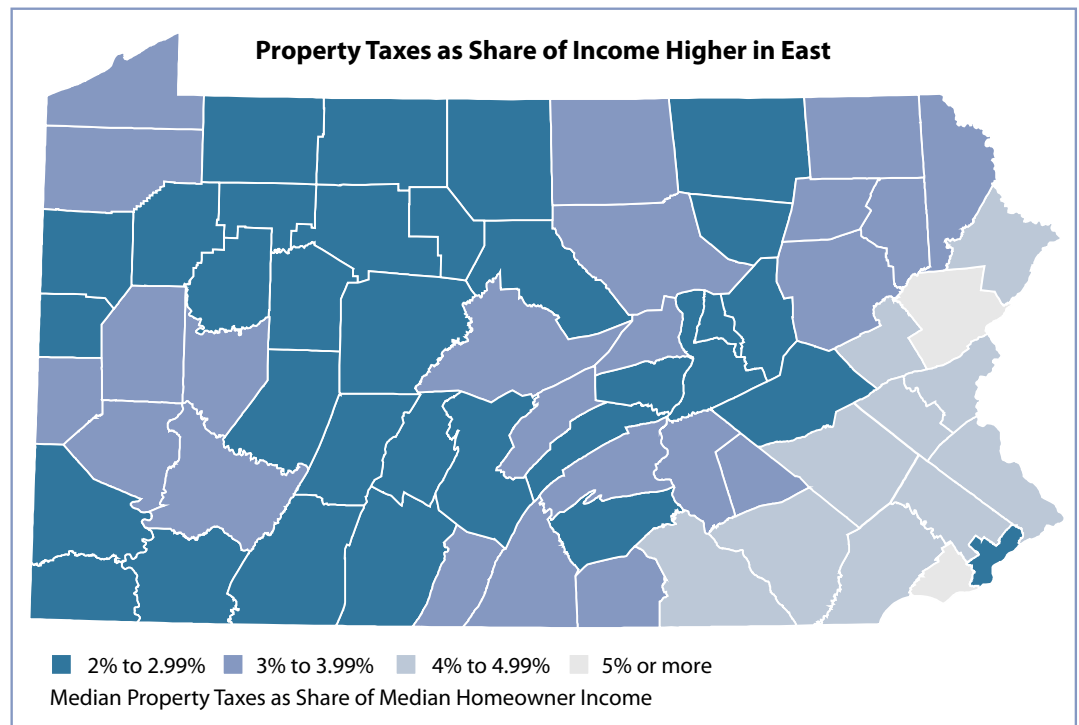
²⁹ Allegheny County, "2013 Court-Ordered Reassessment Average Increases in Value," <http://www.alleghenycounty.us/averageinc.aspx>.



Source: Tax Policy Center

A third way to measure property taxes is to compare them to income. Many analysts would argue that property taxes at 5% or more of income could be considered high. Nationally, residential taxes are 3.12%³⁰ of household income.

In almost half of all Pennsylvania counties, 32 of the 67, median total property taxes were between 2% and 2.99% of median household income for homeowners. In 23 counties, property taxes were between 3% and 3.99% of household income, and in 10 counties, property taxes ranged from 4% to 4.99% of household income. Only Delaware and Monroe counties had median property taxes that were 5% or more of median household income.³¹



Source: PBPC Analysis of U.S. Census data.

Data by county can be found in Appendix 3.

³⁰ PBPC analysis using U.S. Census, 2008-2012 American Community Survey, tables B25103 and S2503 comparing median real estate taxes and median owner-occupied income by county, based on the Tax Policy Center methodology.

³¹ PBPC analysis using U.S. Census, 2008-2012 American Community Survey, tables B25103 and S2503.

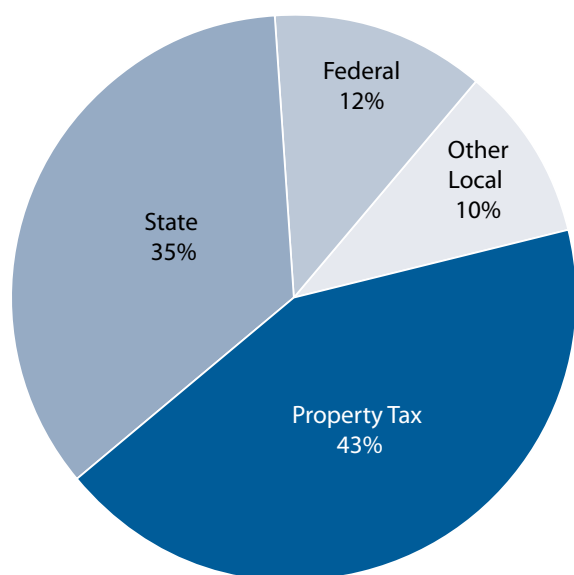
Property Taxes are High in Only a Handful of School Districts

Pennsylvania public schools educate nearly 1.8 million students each year. Local taxes are the biggest source of PreK-12 education funding in the state and are made up largely of property taxes.

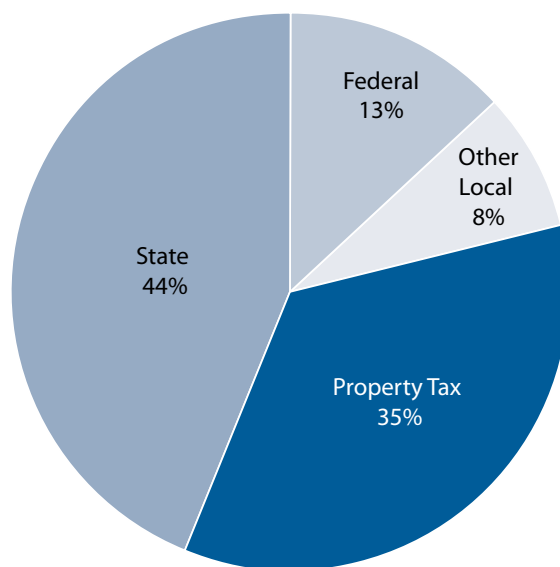
For the 2010-11 school year, school property tax revenue totaled \$11.6 billion, comprising 43% of total public school revenue. Other local taxes contributed 10% , while state funds accounted for 35% of total school revenue.

Pennsylvania is much more reliant on local taxes to fund education than the nation as a whole, ranking 11th highest among states in 2010-11. Nationwide, schools get 35% of their funding from property taxes, on average, 8% from other local taxes, and 44% from state sources.³²

Local Taxpayers Contribute Most to School Funding



Across the Nation, States Contribute Largest Share of School Funding



Pennsylvania's reliance on local taxes is not new. A 2002 report by the Pennsylvania Legislative Budget and Finance Committee noted that in 1998-99, 42% of school funds were derived from property taxes, compared to a national average of 34%.³³

Compared to neighboring states, only New Jersey and New York rely more on property tax revenue for funding schools than Pennsylvania. Conversely, Pennsylvania has the lowest state share of support for schools of any state in the region.³⁴

³² U.S. Department of Education, National Center for Education Statistics, Common Core of Data (CCD), "National Public Education Financial Survey," 2010-11, http://nces.ed.gov/programs/digest/d13/tables/dt13_235.20.asp.

³³ Pennsylvania Legislative Budget and Finance Committee, *Approaches Used in Other States to Provide School Property Tax Relief and Possible Options for Pennsylvania*, July 2002, <http://lbfc.legis.state.pa.us/Resources/Documents/Reports/121.pdf>.

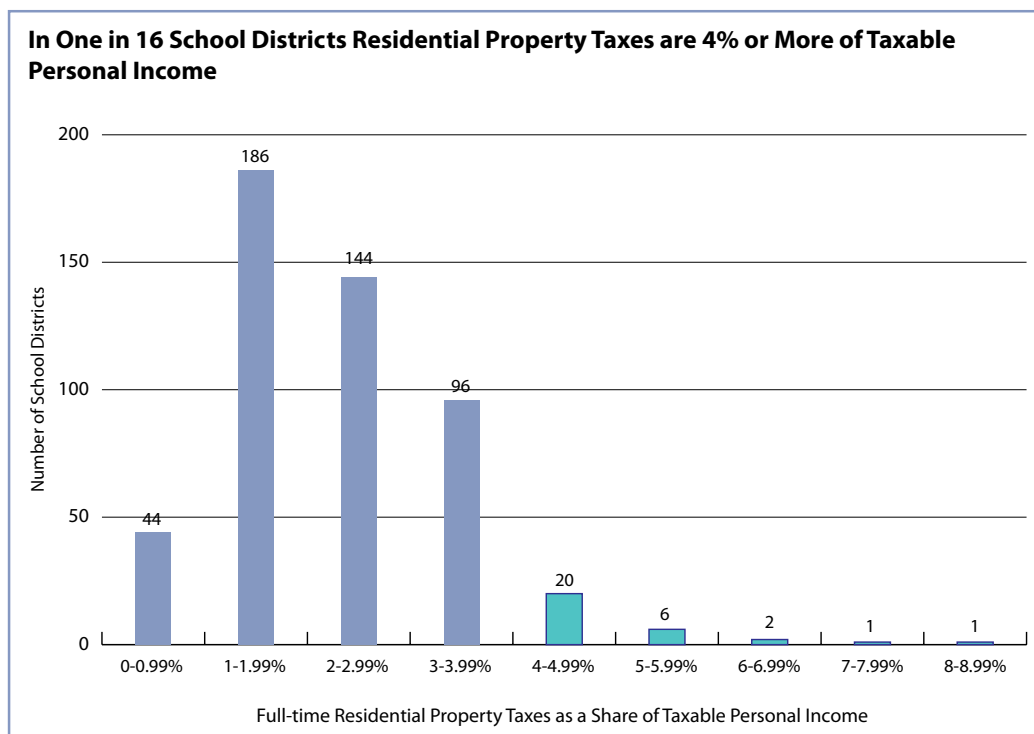
³⁴ U.S. Department of Education, National Center for Education Statistics, Common Core of Data (CCD), "National Public Education Financial Survey," 2010-11, http://nces.ed.gov/programs/digest/d13/tables/dt13_235.20.asp.

Pennsylvania's reliance on local funding is growing, as the state share declines. In 1988-89, Pennsylvania schools received 44% of their funding from the state, nearly 10 percentage points more than the 34.5% they received in 2010-11. Nationally, state funding decreased from 47% to 44% in this same period.³⁵

Greater reliance on local revenue has created significant inequities in funding among school districts. Pennsylvania received a "D" in education equity on a national report card issued by the Education Law Center of New Jersey, an education advocacy organization. In 2011, for every dollar available to low-poverty school districts in Pennsylvania, high-poverty districts had just \$0.91.³⁶

Some districts have more diverse sources of local revenue. In 34 districts property taxes make up more than 90% of local tax revenue, while in 15 districts they make up 60% or less.³⁷

Advocates of property tax elimination in Pennsylvania argue that school property taxes are high for most people in most communities. However, in only 30 of Pennsylvania's 500 school districts (6%) do property taxes exceed 4% of the taxable income in the district, according to a PBPC analysis. In contrast, in 374 of 500 districts (almost 75%) property taxes paid by full-time residents are 3% or less of district taxable personal income. To put this in perspective, the average consumer in the United States spent 3.1% of income on shoes and clothing.³⁸



Source. PBPC calculations using TED and PDE data.

Data by school district in Appendix 4.

35 PBPC analysis of school finance data from the National Center for Education Statistics.

36 Bruce Baker, David Sciarra, and Danielle Farrie, *Is School Funding Fair? A National Report Card*, Education Law Center, January 2014, http://www.schoolfundingfairness.org/ia_reports_2014.htm.

37 PBPC analysis of school finance data reported by the Pennsylvania Department of Education, http://www.education.state.pa.us/portal/server.pt/community/summaries_of_afr_data/7673.

38 PBPC analysis of 2011 Consumer Expenditure Survey data from the Bureau of Labor Statistics. Data represents expenditures of consumer groups in the middle fifth of income for the U.S. <http://www.bls.gov/cex/csxshare.htm#2011>.

It is true that incomes vary widely within districts. Some individuals, often seniors or people who have lost a job, may have property taxes that exceed what they can comfortably pay. But the notion that all communities have property taxes that are high for all individuals is not borne out in the data.

Why are taxes high in these 30 districts?

This report finds that school property taxes can be considered high in only 30 school districts. But why are taxes high in these particular districts? We have identified several factors that contribute to higher-than-average taxes in these communities:

Little diversity of local taxes. Many school districts – particularly those in Delaware, Bucks and Montgomery counties – do not impose earned income taxes, which help to reduce reliance on property taxes. These school districts are less likely to impose local income taxes, in part because many residents work in the City of Philadelphia and pay the Philadelphia wage tax.³⁹

Of the 36 districts in the state without a local earned income tax, 24 are in those three counties. Fourteen of the 30 school districts with the highest property taxes as a share of taxable income do not have earned income taxes. Those districts are all in the Philadelphia suburbs or the Pocono region.

Population growth. Several of the higher tax districts are in areas that experienced significant population growth – and growing student enrollment – between 2000 and 2010. These include districts in southern York County along the Maryland border, Berks County, and Monroe, Pike and Wayne counties, which border New York and New Jersey. Because Pennsylvania's education funding system does not consistently count student enrollment growth, these districts are left to rely on local resources. The Pocono region has seen an influx of suburban and vacation development, but both were hit hard by the recession.

Exporting the tax. Some areas of the state have a large number of seasonal and vacation properties. Taxes levied on these properties are, in a sense, exported out of the local community.

Economic decline. Concern about property taxes is high in communities that have lost population and industry over the past 20 years. Many are located in Pennsylvania's anthracite coal belt, particularly Schuylkill and Carbon counties and, to a lesser degree, Luzerne and Lackawanna counties. Population loss, aging populations, lower-than-average incomes, and low or declining property values contribute to make property taxes harder to afford.

The following map shows residential school property taxes as a share of Pennsylvania taxable income reported in each of the state's 500 school districts. The 30 districts with the highest school taxes as a share of taxable income (shades of blue on the map) are in suburban Philadelphia, the Poconos region bordering metro New York City and Northern New Jersey, and along the state's border with suburban Baltimore.

In 129 of Pennsylvania's school districts (shaded in gray on the map), roughly one of every four districts, school property taxes on residential property were less than 1.5% of taxable income in the district. These districts span much of the state's northern border and southwestern corner, as well as a large swath running north and south in the center region of the state. Much of this area is rural – agricultural or sparsely developed. But it also includes the cities of Pittsburgh and Philadelphia, both of which use other taxes, in addition to property taxes, to fund their schools. In Philadelphia, property taxes make up 71% of local school tax revenue, while in Pittsburgh, property taxes make up 60% of local school tax revenue.⁴⁰

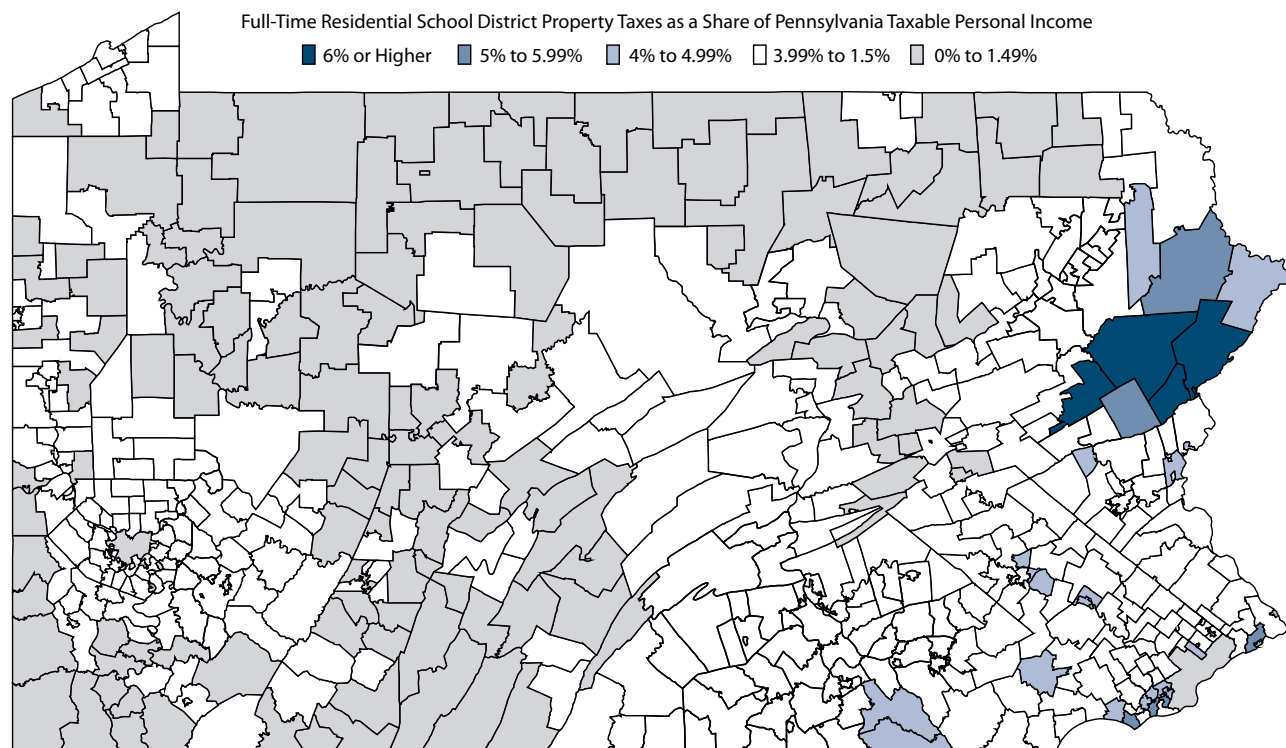
³⁹ Philadelphia, like some other large cities, imposes a tax on wages earned in the city, regardless of where the worker lives. This makes it difficult for nearby areas to impose income taxes.

⁴⁰ PBPC analysis of 2011-12 school district tax data reported by the Pennsylvania Department of Education, http://www.portal.state.pa.us/portal/http://www.portal.state.pa.us:80/portal/server.pt/gateway/PTARGS_0_123706_1335912_0_0_18/Finances%20AFR%20Revenues%202011-2012.xlsx.

Most of the state's school districts (341), or two out of every three, fall in between, with residents paying 1.5% to 3.99% of taxable personal income in property taxes. This group includes most urban and suburban districts.

One thing is clear. School property taxes, as a share of taxable income, vary widely across the state, and in only a handful of districts can property taxes be considered high as a share of income.

In 3 of 4 School Districts, Property Taxes Are Moderate



Source: Pennsylvania Budget and Policy Center calculations using PA Department of Education, PA Department of Revenue, Tax Equalization Division, and US Census data.

While PBPC's measure is a first step toward evaluating how school property taxes vary between districts, there are a number of limitations to the data.

For instance, the measure includes all residential property – not just single-family homes. This means that the value of rented residential property, such as apartment buildings and complexes, is included in the calculation, although the income that the rental property produces may not be counted within the income figures of the school district.

Income in some districts may be understated because Pennsylvania does not count retirement income in its personal income tax calculations. As a result, this analysis likely overstates property taxes as a share of personal income, and the total is probably lower across the board.

This overstatement could be substantial: In the 2011 tax year, Pennsylvanians reported \$43 billion in retirement income to the Internal Revenue Service, which is about 12% of all federally taxable income reported in the state.⁴¹ The calculated values could be most distorted in districts with substantial senior populations.

41 United States Department of Treasury, Internal Revenue Service, Statistics of Income Division, *Individual Income Tax Returns 2011*, Table 2. *Individual Income and Tax Data, by State and Size of Adjusted Gross Income, Tax Year 2011: Pennsylvania*, August 2013, <http://www.irs.gov/pub/irs-soi/11in39pa.xls>.

Property data limitations may also cause an overstatement of the property taxes paid by full-time residents. The state's Tax Equalization Division (TED) reports the share of assessed residential property that is seasonally used (vacation homes, hunting cabins, etc), but data is limited by county practices. For example, 26 of the state's 67 counties report no seasonal property⁴² – including Monroe, Northampton, Erie, and Bucks (each of which have more than 1,000 seasonal properties according to the 2012 American Community Survey).⁴³ PBPC made an adjustment for 45 districts where the seasonal properties were under-reported by TED.

State has Increased Property Tax Relief Since 1997



Over the last 20 years, Pennsylvania governors and legislatures have taken steps to provide local property tax relief to taxpayers. In 1997, voters approved a constitutional amendment permitting differential property tax treatment for owner-occupied homestead and farm (farmstead) property. Local taxing districts were permitted to exempt from taxation a portion of the assessed value of homes and farms, up to 50% of the median home value within the jurisdiction, beginning in 2000.

Pennsylvania took an approach that made property tax relief optional, to be determined by local officials and local voters. Act 50 of 1998 allowed school districts, with the approval of voters, to impose (or raise) local income taxes or net profits taxes to fund property tax reductions for owner-occupied properties or to eliminate other local taxes. Districts agreeing to this income or property tax swap would also have to gain voter approval for property tax increases above a certain threshold. Act 50 also authorized local governments to create property tax deferral programs for senior citizens.⁴⁴ Only four school districts took advantage of the tax swap, and few created tax deferral programs.⁴⁵

Act 1 of 2006, The Property Tax Relief Act, took several steps to address concerns about rising property tax bills. It used revenue from casino gambling to fund homestead and farmstead property tax exemptions in all school districts except Philadelphia, which used the funds to reduce its wage tax rate. Funds are distributed through a formula that takes into consideration local wealth and tax effort. Property tax relief provided by the law in 2012-13 ranged from a low of \$50 per residence in one school district to a high of \$641 per residence in another. A total of \$615.6 million in tax relief payments were distributed to school districts that year. Since 2008, Pennsylvania has distributed \$4.3 billion in homestead and farmstead exemptions.⁴⁶

Act 1 also increased income limits for the Property Tax and Rent Rebate program, which provides a credit for property tax payments to senior citizens, certain widows and widowers, and individuals with disabilities.

42 PBPC analysis of Tax Equalization Division's 2012 *Land Use Report*, http://www.newpa.com/webfm_send/3507.

43 U.S. Census Bureau, 2012 *American Community Survey*, B2500: Vacancy Status, http://factfinder2.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=ACS_12_1YR_B25004&prodType=table.

44 Act 50 of 1998, <http://www.legis.state.pa.us/cfdocs/legis/li/uconsCheck.cfm?yr=1998&sessInd=0&act=50>.

45 William Hartman, Impact and Analysis of Act 50, The Center for Rural Pennsylvania, September 2007, <http://www.rural.palegisla-ture.us/Act50-07.pdf>.

46 Pennsylvania Department of Education, "Property Tax Reduction Allocations," http://www.portal.state.pa.us/portal/server.pt/community/property_tax_relief/7452/property_tax_reduction_allocations/510335.

The law made mandatory the property tax caps first authorized in Act 50, requiring voter approval for tax rate increases that exceeded a yearly calculated standard.⁴⁷ Act 1 authorized a certain number of exceptions to the cap and gave the Department of Education authority to approve rate increases above the Act 1 index, but those exceptions were severely limited by Act 25 of 2011.⁴⁸

Pennsylvania's Property Tax Relief Programs



Property Tax Rent Rebate Program

Pennsylvania established the Property Tax Rent Rebate Program (PTRR) in 1971 to help senior citizens, widows and widowers age 50 and over, and adults with disabilities pay for housing costs. Both homeowners and renters can qualify for PTRR.

Renters with annual household incomes of up to \$8,000 can receive a rebate of up to \$650. Those with annual incomes from \$8,001 to \$15,000 can receive a rebate of \$500.⁴⁹ Although the rebate amounts have increased, the income eligibility for renters has not been raised since 1985.⁵⁰

Income eligibility for homeowners is higher, up to \$35,000 a year. The base maximum rebate available to homeowners is \$650 for individuals with annual incomes up to \$8,000. Homeowner benefits decrease in steps as income rises. Those earning between \$18,001 and \$35,000 a year can receive a rebate of \$250.⁵¹

In addition to the base amount, homeowners earning up to \$30,000 a year who either live in certain higher cost areas (Philadelphia, Scranton and Pittsburgh), or who pay more than 15% of their income in property taxes, receive an additional 50% rebate payment – increasing the total rebate to a maximum of \$975.

Although Pennsylvania does not tax retirement income, the PTRR counts retirement income and 50% of Social Security and railroad retirement income when calculating eligibility. As this income is not reported on Pennsylvania income tax returns, applicants for PTRR must complete an application and document their income.

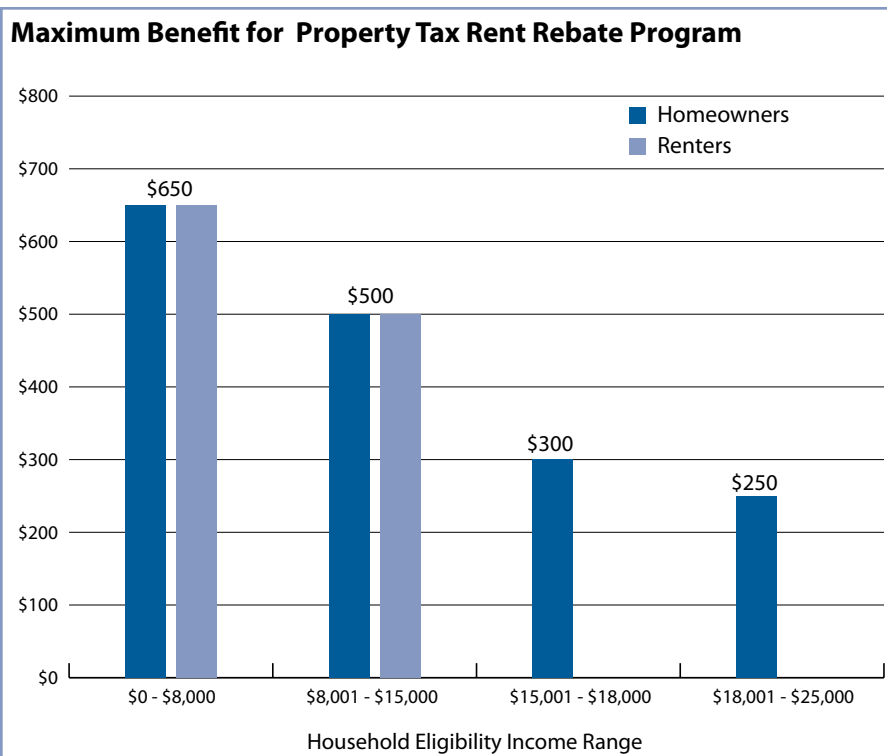
47 The Act 1 Index was based on the growth of school employment costs and the statewide average weekly wage. Pennsylvania Department of Education, “The Act 1 Index,” http://www.portal.state.pa.us/portal/server.pt/community/property_tax_relief/7452/act_1_index/510332.

48 Act 25 of 2011, <http://www.legis.state.pa.us/CFDOCS/Legis/PN/Public/btCheck.cfm?txtType=PDF&sessYr=2011&sessInd=0&billBody=S&billTyp=B&billNbr=0330&pn=1459>.

49 Pennsylvania Department of Revenue, Bureau of Research, *Report to the Pennsylvania General Assembly on the Property Tax Rent Rebate (PTRR) Program for Property Taxes or Rent Paid in 2012*, September 30, 2013, http://www.portal.state.pa.us/portal/server.pt/document/1372592/2013_ptrr_report_pdf.

50 Act 53 of 1985, <http://www.legis.state.pa.us/cfdocs/billinfo/billinfo.cfm?year=1985&sind=0&body=H&type=B&bn=0171>.

51 Pennsylvania Department of Revenue, Property Tax/Rent Rebate Program, accessed May 21, 2014, <http://www.portal.state.pa.us/portal/server.pt?open=512&objID=11410&mode=2>.



In 2012, more than 582,000 claimants received rebates, with 129,000 homeowners receiving supplemental payments. Just under two-thirds of the claimants (65%) were homeowners. Rebates and supplements totaled \$276 million.⁵²

Note. Homeowners in Philadelphia, Pittsburgh, Scranton, and those paying more than 15% of their income in property taxes can receive an additional 50% rebate from the figures listed above.

Rebate program has several weaknesses

Despite years of outreach by legislators, other state officials, and numerous groups that work with elderly Pennsylvanians, many seniors who may be eligible for rebates fail to apply. Roughly 496,500 home-owning households in Pennsylvania headed by people aged 62 or older had household incomes of less than \$35,000 (the cutoff for PTRR benefits) in 2011, according to the U.S. Department of Housing and Urban Development.⁵³ Yet that same year, 338,087 applications were received for PTRR benefits from senior homeowners and their spouses, indicating that only 68% of eligible households applied.⁵⁴

The program has several weaknesses that may be responsible for the low participation. Benefits for those with annual incomes over \$15,001 are limited: a maximum of \$300 for households with incomes between \$15,001 and \$18,000 and only \$250 for those with incomes between \$18,001 and \$35,000. Many elderly homeowners may not feel the rebate amounts are worth the effort required to file for benefits – particularly since the program requires retirement and Social Security income verification.

52 Pennsylvania Department of Revenue, Bureau of Research, *Report to the Pennsylvania General Assembly on the Property Tax Rent Rebate (PTRR) Program for Property Taxes or Rent Paid in 2012*, September 30, 2013, http://www.portal.state.pa.us/portal/server.pt/document/1372592/2013_ptrr_report.pdf.

53 U.S. Department of Housing and Urban Development (HUD), Economic and Market Analysis Division, 2011 Special Tabulations of 2011 ACS 5-Year Survey Data: Households by Income, Tenure, Age of Householder, and Conditions, Geography: Pennsylvania, Owners, Householder Age: 62+ Years, Accessed May 21, 2014, http://www.huduser.org/ast/odb/Select_Parameters.odb.

54 Pennsylvania Department of Revenue, Bureau of Individual Taxes, *Property Tax/Rent Rebate Program 2011 Statistical Report*, May 1, 2013, http://www.portal.state.pa.us/portal/server.pt/document/1334924/2011_ptrr_stats.pdf.

The application must be filed annually. Paper returns and other verification documents must be mailed to the Department of Revenue.⁵⁵ Potential beneficiaries may file intermittently, or not at all, because of the annual application requirements.

A third problem is that rebates are no longer based on actual property tax payments, as they were prior to 2006. This means that rebates are the same, regardless of whether applicants live in higher-tax or lower-tax communities. Supplemental payments address this issue to a certain extent, but the share of taxes rebated varies considerably between counties and school districts.

While program benefits are limited to seniors and the disabled, other Pennsylvanians also have difficulty affording property taxes. When property tax millage rates increase, they increase for all property owners. Many low- to middle-income, working-age taxpayers could have as much difficulty as older homeowners paying the additional amount. And younger homeowners in Pennsylvania are nearly three times more likely than seniors to have mortgages on top of property taxes to pay.⁵⁶

Local property tax deferral programs

Act 50 of 1998 authorized counties, school districts and municipalities to enact local property tax deferral programs, although it appears that only a handful of local governments have done so. The deferral is available to any individual, regardless of age, who meets the income qualifications for the PTRR program. Once enrolled in the program, a homeowner must make an annual property tax payment equal to that due the year of enrollment. Any increases in property taxes would be deferred as a lien against the property until the homeowner sells the home or passes away.⁵⁷

Property Tax Elimination

Legislation to swap school property taxes for higher sales and income taxes has been introduced in every General Assembly session in Pennsylvania since 2009, but no state has enacted such a tax swap since Michigan did a generation ago (and they replaced local property taxes, in part, with a state property tax for schools). Senate Bill 76, currently under discussion, has significant flaws that should be considered in evaluating the legislation:

- School property taxes would be eliminated, but state funding to replace lost tax revenue is capped, which would leave schools with \$2.6 billion less in five years than under current law;
- SB 76 eliminates property taxes for commercial and industrial properties and large residential developments, shifting approximately 30% of school property taxes to individuals and small businesses who would pay the replacement taxes;
- Most food and many services (including child and home health care) would be subject to sales tax, making Pennsylvania's tax system much more regressive;
- Wealthy homeowners with expensive properties would receive a windfall, financed by young families and renters who would pay higher taxes but receive no benefits;
- Existing inequities in funding would be continued as wealthy, high-spending districts would receive considerably more funding than low-wealth districts.

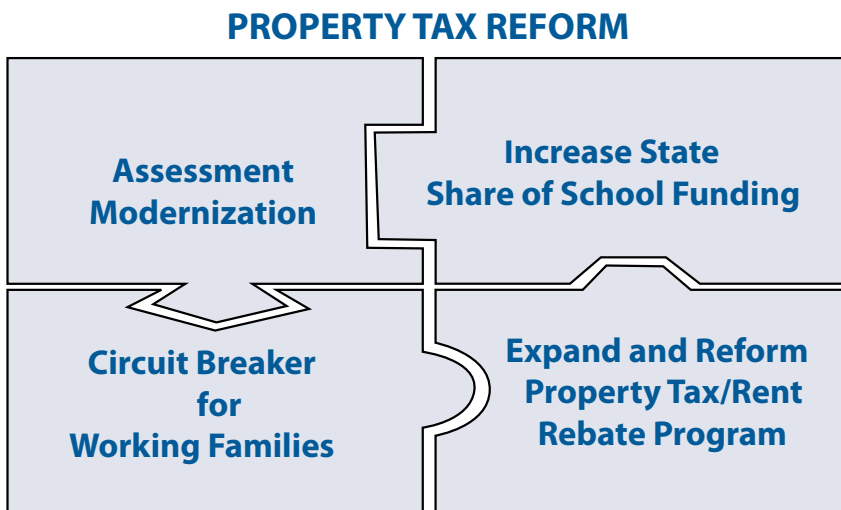
55 Pennsylvania Department of Revenue, 2013 PA Property Tax Rent Rebate Instruction Booklet (PA-1000 Instructions), accessed May 21, 2014, http://www.revenue.state.pa.us/portal/server.pt/document/1396079/2013_pa-1000_book_pdf.

56 U.S. Census Bureau, 2012 American Community Survey, B25027: Mortgage Status by Age of Householder - Universe: Owner-occupied housing units, Pennsylvania, http://factfinder2.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=ACS_12_1YR_B25027&prodType=table.

57 Dauphin County describes its tax deferral program here: <http://www.dauphincounty.org/onlineforms/Act%2050%20Real%20Prop-erty%20Tax%20Deferral.pdf>.



Policymakers could enact a number of reforms to improve property tax administration across the state and help homeowners who pay an excessive share of their total income in property taxes.



Assessment Modernization

In Pennsylvania, counties are responsible for property reassessments, including determining when they should occur. Nationally, 31 states leave the timing of reassessments to local officials; in the other 19 states reassessments are prescribed in some manner, required by state law or constitutional provision.⁵⁸

Property assessments (whether in terms of values or currentness) are not uniform across Pennsylvania, and county officials have little political or financial incentive to update them on a regular basis. The Pennsylvania General Assembly could require counties to reassess properties every three to five years and provide resources to finance such activities.

A 2010 Legislative Budget and Finance Committee (LBFC) report offered a number of recommendations to improve the reassessment process, including:⁵⁹

- Having a state agency oversee county reassessments;
- Creating a new state agency to conduct all property assessments in the state;
- Sharing the cost of reassessments with other levels of government (municipalities and school districts);
- Devoting a portion of the state's realty transfer tax revenue to fund reassessments;
- Amending the state constitution to allow housing and other real property to be assessed at different rates.

The County Commissioners Association of Pennsylvania (CCAP) has endorsed all of the smaller scale recommendations,⁶⁰ and provided varying degrees of support for the larger structural changes, according to the LBFC report.

⁵⁸ National Association of Counties, Property Taxes: A Look at Exemptions, Tax Limits and Assessment Cycles, July 2012, <http://www.naco.org/newsroom/pubs/Documents/County%20Management%20and%20Structure/Property%20Taxes%20A%20Look%20at%20Exemptions,%20Tax%20Limits%20and%20Assessment%20Cycles.pdf>.

⁵⁹ Legislative Budget and Finance Committee, Pennsylvania's System for Property Valuation and Reassessment, July 2010, <http://lbfc.legis.state.pa.us/reports/2010/48.PDF>.

⁶⁰ County Commissioners Association of Pennsylvania, 2012 County Government Priorities: Assessment Reform, <http://www.pa-counties.org/GovernmentRelations/Documents/2012PrioritiesAssessmentReform.pdf>.

The General Assembly has taken steps to improve assessment practices. Act 93 of 2010 addressed a number of inconsistencies, such as clarifying spot assessments and standardizing reassessment windfall rules, but it was only a first step in larger assessment reform.⁶¹

Implementing the LBFC's recommendations could fundamentally improve the uniformity and quality of property assessments across the commonwealth.

Some counties have been diligent in keeping assessments current with market prices, while others have not made wholesale reappraisals since the 1950s and 1960s. Changes in property value, and value relative to other taxable properties, are inevitable over such a long time period. This leads to some properties being over-valued compared to similar properties, while others are under-valued. More frequent reassessments would help improve equity and better reflect changes in value.

State government involvement could help ensure more uniformity in assessment practices across the commonwealth. State administrative and financial assistance has a number of potential benefits. County officials would be freed from having to make such politically sensitive decisions, and county governments would no longer be expected to pay the entire cost of reassessments.

Michigan collects a small state property tax, which gives the state a vested interest in the accuracy of assessments.⁶²

Increasing State Funding of Public Schools

Pennsylvania school children and Pennsylvania property taxpayers are the losers under the current school funding system. Reduced state funding; rising pension, health care and other costs; and more restrictive Act 1 limits on property tax increases have led to large cuts in classroom programs. Since 2011, 90% of school districts have reduced staff, and 64% have increased class size, according to a 2014 survey of school districts published by the Pennsylvania Association of School Administrators (PASA) and the Pennsylvania Association of School Business Officials (PASBO). Districts reduced or eliminated 783 programs – including foreign language classes, summer offerings, and music/theater programs -- before 2014 and expected to eliminate another 370 programs in the 2014-15 school year.⁶³

Increasing state funding for schools, particularly as a share of overall school costs, would make districts less reliant on local property taxes, and strengthen educational programs.

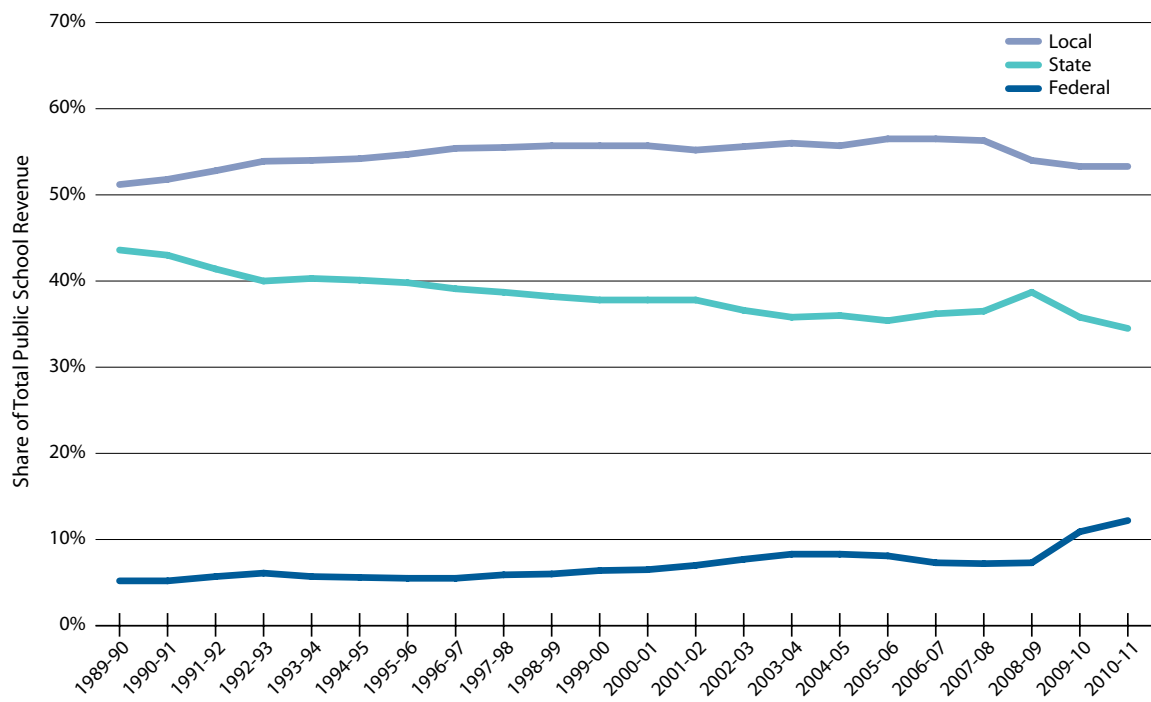
Increasing the state share of funding is one important step, but improving the distribution of those funds is equally important. Currently, Pennsylvania has no formula for distributing dollars to school districts. In the past local tax effort, including property taxes, was a variable included in the funding formula. A tax effort factor should be considered in any new adequacy funding formula.

61 Kevin Reid and Avery Smith, "Pennsylvania's New Consolidated Assessment Law: So Where Do We Stand Now?" King, Spry, Herman, Freund & Faul, LLC, *School Law Bullet*, Number 59, February 7, 2011, http://www.kingspry.com/images/stories/documents/law_bullets/slb59-2011.pdf

62 The Pennsylvania Independent Fiscal Office (IFO) issued a report on Michigan property tax reforms, including the state-wide property tax in 2013, <http://www.ifo.state.pa.us/resources/PDF/SR2013-06.pdf>.

63 Pennsylvania Association of School Administrators & Pennsylvania Association of School Business Officials, *Continued Cuts: The Fourth Annual PASA-PASBO Report on School District Budgets*, June 2014, http://www.pasbo.org/blog_home.asp?Display=24.

State Dollars Providing a Smaller Share of Pennsylvania Public School Resources Over Time



Source: U.S. Department of Education, National Center for Education Statistics.

Reforming the Property Tax/Rent Rebate Program

While PTRR provides important property tax relief to some of Pennsylvania's most vulnerable residents, lawmakers could make a number of improvements, including:

- Increasing the base rebate for the first time since 2006 and indexing future increases to inflation;
- Stepping up outreach efforts to encourage more people to apply;
- Using tax records to identify non-applicants who may be eligible for program benefits;
- Allowing electronic filing of applications;
- Making future rebate payments automatic once enrolled, subject to audit;
- Linking rebates more closely to property tax liability. Benefits could vary to ensure that property taxes do not exceed a specific share of income.

Keeping up with property taxes can be difficult for seniors, even in communities with average property taxes. Making the program easier to access and improving the benefits would greatly benefit these individuals. Because property tax relief would be targeted, it would be less costly than across the board tax exemptions.

Institute a Property Tax Relief Program for Non-Elderly Households

Thirty-three states offer a form of individual tax relief known as a property tax circuit breaker. These programs are designed to help individuals whose property taxes payments are a high share of their household income.

In 21 of the states, including Pennsylvania, eligibility is largely limited to seniors, but in 12 states and the District of Columbia, working-age households are also eligible. The 12 states are Montana, Minnesota, Michigan, Wisconsin, West Virginia, Maryland, New York, New Jersey, Massachusetts, Maine, Rhode Island and Vermont.⁶⁴

⁶⁴ John Bowman, Daphne Kenyon, Adam Langley, and Bethany Paquin, *Property Tax Circuit Breakers: Fair and Cost-Effective Relief for Taxpayers*, Lincoln Institute of Land Policy, 2009, https://www.lincolninstitute.edu/pubs/1569_Property-Tax-Circuit-Breakers.

Expanding property tax relief to the non-elderly would help low- and middle -income families whose incomes have fallen because of job loss, retirement, or divorce. These families are often paying mortgages as well as property taxes, and may be paying 30% of their income or more in housing costs.

State circuit-breaker programs have annual income limits and caps on the rebate amount. Income limits range considerably from \$5,500 in Arizona to \$75,000 for working families in New Jersey.⁶⁵

Circuit-breaker programs provide targeted tax relief to individuals, and in many states the rebate amounts are generous. Because the program is a credit rather than a tax program, it would likely not violate the uniformity clause of Pennsylvania's constitution.

Property Tax and Assessment Freezes

In twelve states property tax assessment freezes are offered by state or local governments. Eligibility is limited to senior citizens, veterans or individuals with permanent disabilities, and most programs have income limits, or exclude properties over a certain market value. This approach tends to benefit individuals where reassessments are regular and property values are rising.⁶⁶

Senate Bill 299, introduced by Senate Majority Leader Dominic Pileggi, would redirect gaming revenue from casinos (currently used for general homestead property tax relief) to finance a school property tax freeze for seniors, beginning in 2013. To be eligible, seniors must have lived in their homes for at least five years and be up-to-date on their school property tax payments. Once eligible, a senior's school property taxes would be frozen at the current level, with any increase paid by the state from the Property Tax Relief Fund.

The proposal has two significant flaws. By redirecting revenue currently used for homestead exemptions, the bill would increase property taxes for other taxpayers. While the first-year cost is low, it would grow rapidly, from \$47 million in year one to \$274 million in year five for the initial cohort of eligible seniors, according to an analysis by the Independent Fiscal Office. Program costs would increase substantially as newly eligible cohorts of seniors would be able to freeze their taxes each year.

65 Tax Credits for Working Families, "State Resources: New Jersey," <http://www.taxcreditsforworkingfamilies.org/state/new-jersey/>.

66 Lincoln Institute of Land Policy, *Significant Features of the Property Tax*, Residential Property Tax Relief Programs, https://www.lincolnst.edu/subcenters/significant-features-property-tax/Report_Residential_Property_Tax_Relief_Programs.aspx.

Conclusion



While property taxes are almost universally disliked, they are not universally high. This analysis offers clear evidence that in only a small number of Pennsylvania school districts, where property taxes exceed 4% of personal income, can they be considered high. What is surprising is that in a larger number of school districts, one out of every four, school property taxes are generally low.

These findings suggest that Pennsylvania should approach property tax reform with a scalpel rather than a chain saw. Efforts to completely replace school property taxes with higher sales and income taxes are unnecessary and dangerous. Unnecessary because property taxes are not universally high across the state, and dangerous because such a plan would result in significant reductions in the funding available to support public schools.

It is also true that some individuals have difficulty affording their property taxes, even in districts where those taxes are lower than average. The commonwealth should invest more in targeted property tax relief programs to help these individuals.

Pennsylvania's property tax system has significant room for improvement. Property tax reform efforts should, at minimum, include the following:

- Increasing the Property Tax Rent Rebate Program (PTRR) base grant and indexing it to inflation;
- Creating a property tax circuit breaker program for working families whose property taxes are a high share of their income;
- Requiring counties to conduct regular property assessments, and providing state funding to defray the costs;
- Increasing state education funding to reduce reliance on local property taxes and considering directing additional funds, through a tax effort weight or factor in any new funding formula, to districts with high property taxes.