

# Approaches Used in Other States to Provide School Property Tax Relief and Possible Options for Pennsylvania

## Report Highlights

In January 2002, the Pennsylvania House and Senate passed identically worded resolutions calling on the LB&FC to study the elimination or significant reduction of property taxes as a source of funding for Pennsylvania school districts, to review actions taken in other states that have eliminated property taxes as a source of school funding, and to make recommendations on alternative funding sources.

### Study Findings:

- *Tax Distribution and Burden.* PA is significantly more reliant on local property taxes to fund K-12 public schools than most states; 42% of school funds in PA were derived from property taxes versus 34% nationally. The Commonwealth also contributes a lower percentage (38%) of state funds to school districts than the national average (49%). Overall, PA state taxes are slightly below the national average (\$1,800 per capita in PA vs. \$1,835 nationally), and local taxes (includes both municipal and school taxes) are 15% below the national average.
  - *Equity.* School finance equity is generally understood to mean equal spending for similarly situated students. Numerous statistical methods have been created to assess the equity of a state's school funding system. Pennsylvania ranks poorly on these measures, rating a D- in the most recent *Quality Counts* equity ratings.
  - *Adequacy of Spending.* In 2002, PA spent an average of \$8,117 per pupil compared to the national average of \$7,079, thereby ranking 14<sup>th</sup> in the nation. *Quality Counts* graded the overall adequacy of PA's education spending as a B+.
  - *Actions taken in other states.* Many states, including PA, have taken steps to reduce the burden of property taxes, particularly for the poor or elderly. The report describes how these programs (e.g., homestead exemptions, tax credits and rebates, "circuit breakers", assessment reforms, growth restraints, tax deferrals) operate in selected states. We found, however, that no state has completely eliminated property taxes as a source of school taxes, and only two states (Michigan and Oregon) have significantly reduced property taxes.
- Three Plans for PA.** Based on the concepts used in Michigan, we developed three alternative school funding plans:
- *Plan A* is the plan that most closely follows the approach used in Michigan. The plan establishes a minimum foundation allowance of \$5,300 per pupil, with districts receiving increases of \$190 to \$300 per student. Total operating revenues would increase from \$14.10 billion in 2000-01 to \$14.84 in 01-02. Plan A would eliminate all Act 511 taxes and reduce local residential property taxes by an average of 72%. The plan would require a \$6.54 billion increase in state funds to be derived from a 3-mill state property tax, a 1.7-point increase in the state personal income tax, and several other tax increases. Plan A would result in a 21% local/75% state funding ratio.
  - *Plan B.* Plan B maintains the \$5,300 minimum foundation allowance, but provides less generous increases in other areas. Plan B would provide total operating revenues of \$14.45 billion. Plan B eliminates all Act 511 taxes and results in an average 18% reduction in residential property taxes, with total local taxes decreasing by 30% on average. Plan B would require a \$3.19 billion increase in state funds to be derived primarily from a 1.0-point increase in the state PIT. This plan would result in a 40% local/56% state funding ratio.
  - *Plan C.* Plan C was designed primarily to improve school equity. It would increase operating revenues to \$15.67 billion. Plan C also eliminates Act 511 taxes, with an average 29% decrease in residential property taxes and an average 38% decrease in total local taxes. Plan C would require \$5.06 billion in state funds to be derived primarily from a 1.7-point increase in the state PIT. Plan C would result in a 34% local/63% state funding ratio.