

HOW IS STATE FUNDING FOR SCHOOLS AFFECTING YOUR PROPERTY TAXES?

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Inadequate state funding for public schools in Pennsylvania affects more than just the quality of education our children receive, it also impacts school property taxes. Because the state does not cover its appropriate share of the state/local funding partnership, many districts must rely on local funding to balance their budgets. Yet many taxpayers are unaware of how decisions made in Harrisburg can drive up property taxes in their communities.

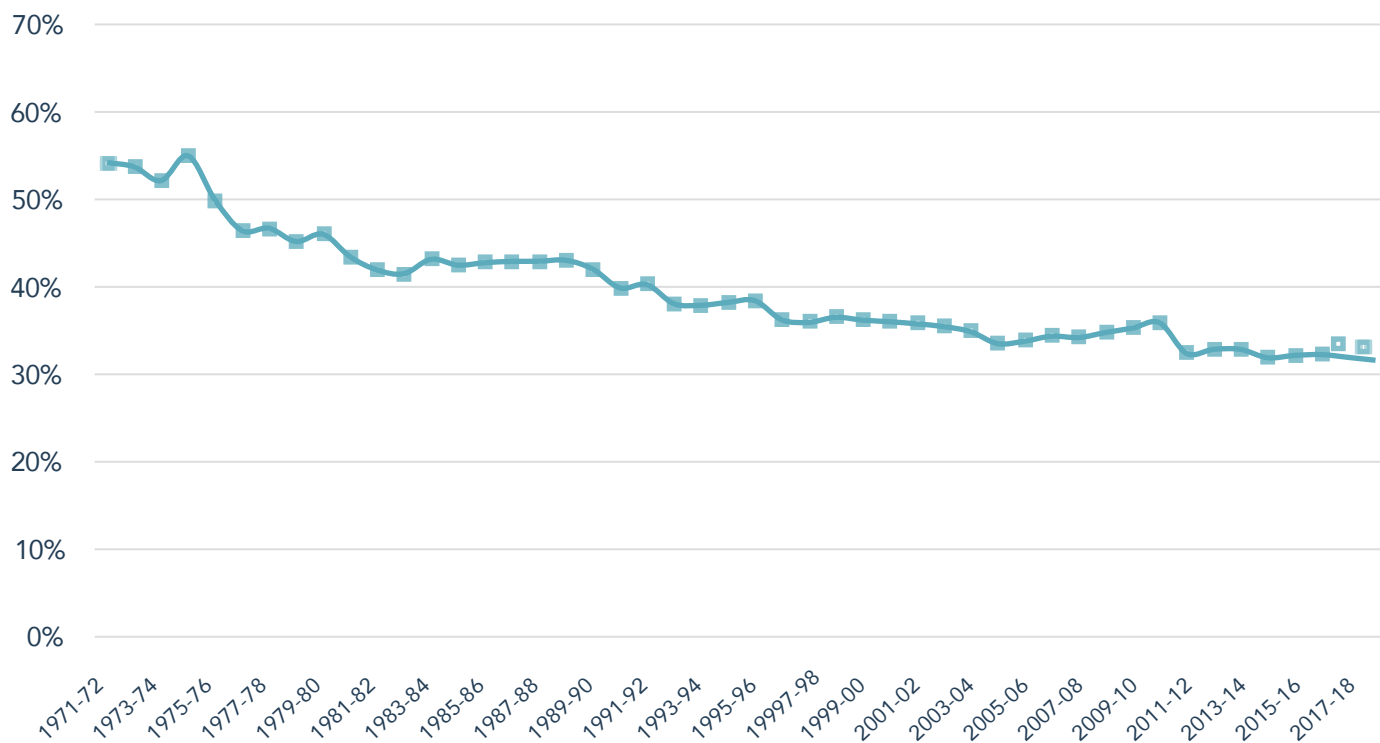
The State Does Not Cover Its Appropriate Share

In the early 1970s, the state, on average, provided 54 cents of every dollar that went into local classrooms in Pennsylvania¹. Today, the state accounts for less than 33 cents of every dollar of classroom expenses (Figure 1).

Figure 1.

Over Time, The State Has Shirked More And More Of Its Responsibility To Fund Our Schools

State appropriations for basic education funding as a share of actual instructional expenses



Source: Keystone Research Center based on Pennsylvania Department of Education data.

*Thanks to Charlie Lyons, Donna Cooper, Kelli Thompson, Hannah Barrick, Andrew Armagost, Reynelle Staley, Patrick Dowd, Tom Gluck, Morgan Plant, Michael Churchill and John Neurohr for comments and revisions.

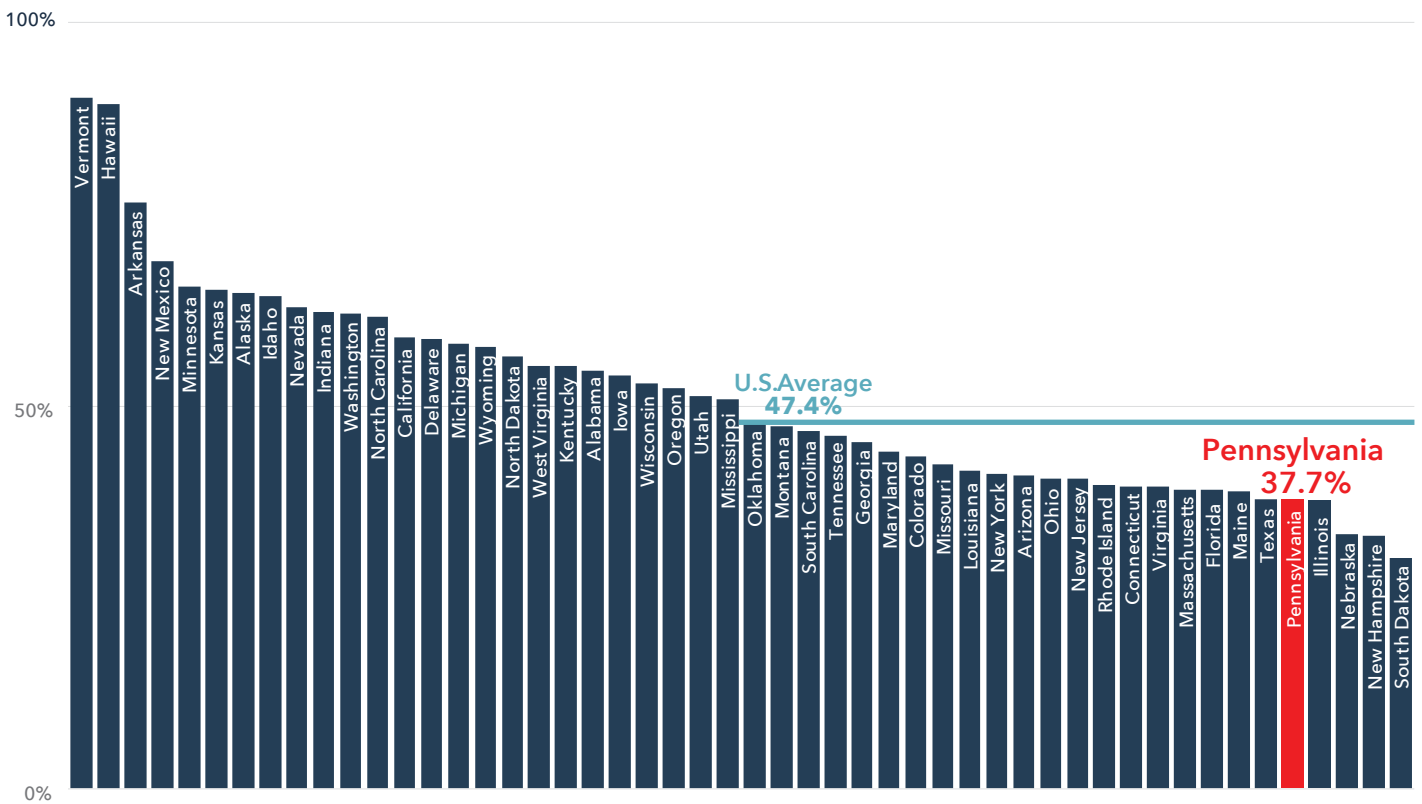
¹ These estimates divide actual instructional expense by state funding through the basic education funding line item in the state budget. Actual instructional expenses is an approximation the cost of educating students summed across each school district and after excluding costs covered by categorical grants (like student transportation funding, state pension contributions, etc.).

Even taking into account all state revenues going to public schools—including expenditures like school bus transportation and other investments—the state contribution climbs to just 37.3 cents of every dollar dedicated to our schools. That ranks Pennsylvania 46th in the country for state share of school revenues (Figure 2).

As a result of this failure to do its part to fund our public schools, 441 of Pennsylvania’s 500 school districts are not getting enough state support.²

Figure 2.

Pennsylvania Ranks 46th From The Top In The State Contribution To Local School Funding



Source: Keystone Research Center based on U.S. Census Public Elementary-Secondary Education Finances, Fiscal Year 2016, <https://goo.gl/qJMNXb>

² Based on estimates for 2018-19 based on Michael Churchill. 2016. "PA Basic Education Funding Commission Formula Means Districts Need At Least \$3.2 Billion More in State Funding." Public Interest Law Center. https://www.pubintlaw.org/wp-content/uploads/2016/05/BEFC-Adequacy-Calculation_FINAL.pdf

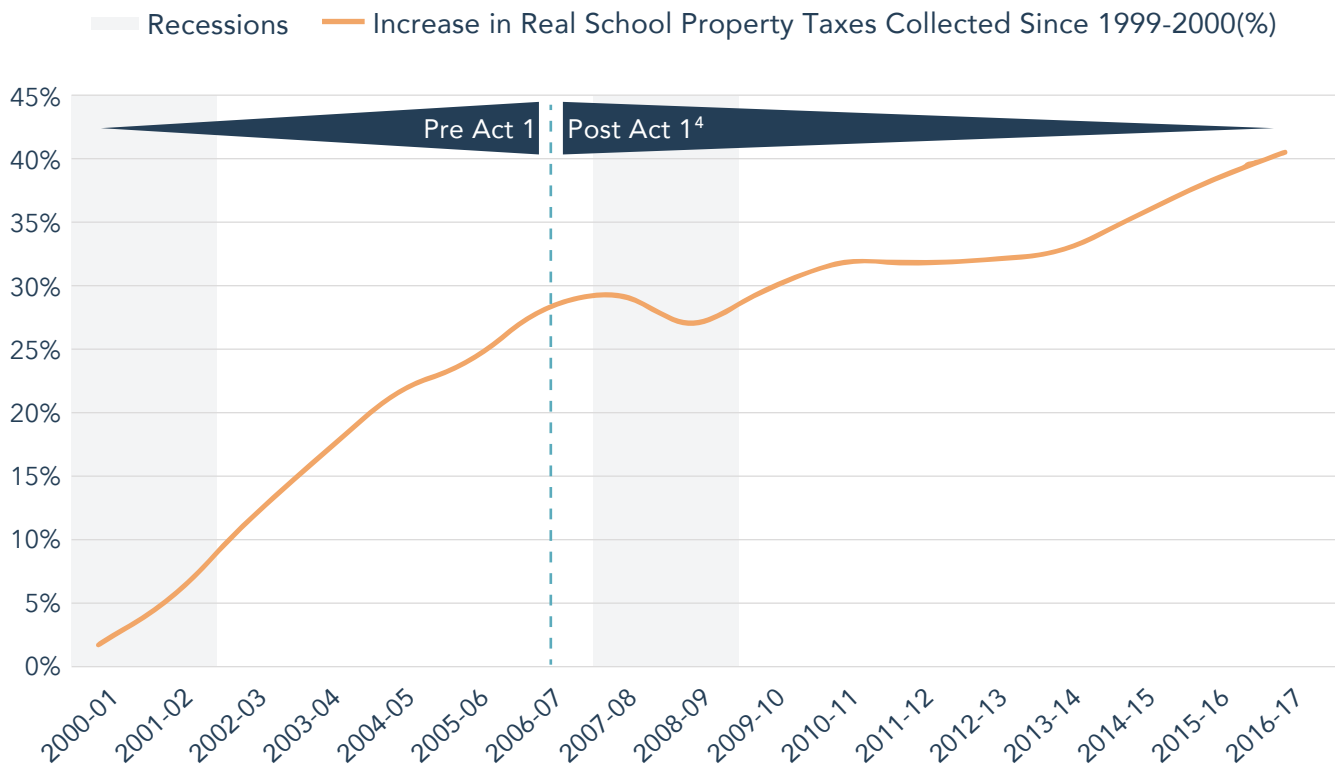
State Underfunding Drives Up Property Taxes

The overreliance on local funding to cover the bulk of the cost of educating our children is the primary driver of rising school property taxes in communities across the Commonwealth (Figure 3).

With 77% of school districts reporting earlier this year that they planned to increase property taxes for 2018-19,³ it is clear that the modest state funding increases for K-12 education over the last several years, while helpful, have not relieved the pressure on local school districts to raise additional revenue to cover increased costs—most of those costs being mandated by the state.

Figure 3.

A Low State Share In Education Funding Drives Property Taxes Higher



Source: Keystone Research Center based on Pennsylvania Department of Education data.

³ [PASBO-PASA School District Budget Report, June 2018, <http://file2.pasbo.org/Budget%20Report%202018%20FINAL.pdf>; 2018 State of Education, Pennsylvania School Boards Association, April 2018, <https://www.pasba.org/wp-content/uploads/2018/04/2018-StateofEducation.pdf>]

⁴ Act 1 of 2006 limited the growth in property tax rates.

In fact, from 2010-11 to 2016-17, while school district salaries fell, cost increases for line items over which school districts have little to no control like pensions, special education and charter school tuition outpaced state funding by nearly \$2 billion (Table 1).⁵ As a result, school districts had to rely on property taxes to fill that gap.

Large differences in local school property taxes have emerged across districts in Pennsylvania. On average, the share of income that homeowners pay in school property taxes is more than twice as high in the highest property tax districts (3.9%) as in the lowest property tax districts (1.5%) (Figure 4).

Table 1.
School Funding Changes: 2010-11 to 2016-17

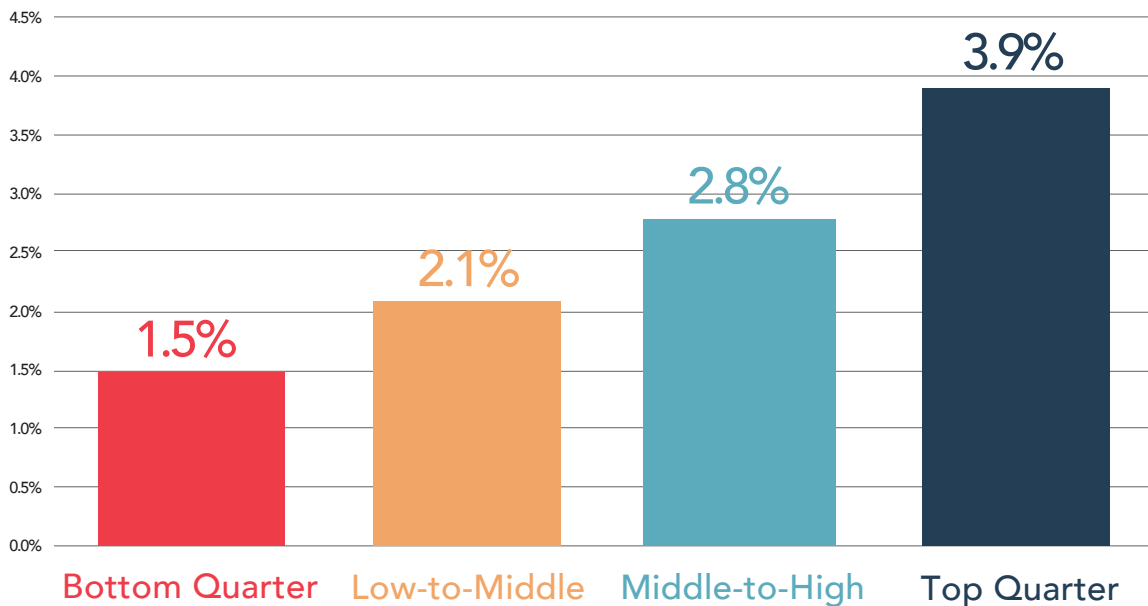
Total Public School Expenditure Increase‡	\$3,963.0 Million
State Subsidy Increase‡	\$1,904.9 Million
Net Increase in Local Share of Costs	\$2,058.0 Million

Notes: See footnote 5 for additional detail on the derivation of these estimates.

Figure 4.

In School Districts With The Highest Property Taxes, The Property Tax Burden Is More Than Twice As High As In the Lowest Property Tax Districts

Median school property tax bill as a share of median household income of owner-occupied housing units (statewide average 2.7%) by quartile



Source: Keystone Research Center estimates based on American Community Survey data.

⁵ The total change in costs for pensions (\$2.73 Billion), charter school tuition payments (\$695.8 Million), and special education (\$541.4 Million) was calculated using reported expenditure data from annual finance reports; the calculations for special education costs exclude reported expenditures for pension (Object 230) and charter school tuition (Object 562) under the special education function (Function 1200) to prevent overlapping of expenditures already calculated in the separate pensions and charter school cost calculations. Additionally, the calculations for special education costs also exclude federal pass through funds (Revenue 6832). The total change in state subsidies for pensions (\$1,551.3 Million), basic education funding (\$506.7 Million), special education funding (\$66.0 Million) and the elimination of the charter school subsidy (-\$219.0 Million) was calculated using reported revenue data from annual financial reports; the basic education funding includes basic education funding distributed to school districts in 2010-11 using federal ARRA funds.

Many of these high property tax districts—home to 774,348 students and 1.4 million homeowners—now face a one-two punch of high property taxes and insufficient per-student spending levels. Spending per-student in these districts falls short of what is necessary to educate all students adequately. These 175 school districts have, on average, raised property tax millage rates in six out of the last eight years.⁶

Curing Our Property Tax Problems

A rational and bipartisan approach to addressing our joint school funding and property tax challenges strikes a good balance between keeping local control of our schools and ensuring property taxes are affordable for families. Pennsylvania must strive to increase state funding for schools to ensure all students' educational needs are met while simultaneously working to lower property taxes. Lawmakers looking to address school funding and property taxes should be guided in their actions by the following principles:

- **Meet student needs now and in the future.** To work effectively, the Commonwealth must appropriate sufficient amounts of recurring revenue, and school districts must retain the ability to raise revenue from local sources, including from the property tax, to ensure that overall revenues keep up with the costs of delivering a quality education for all students. Targeted property tax relief can ensure that districts are able to raise funds needed for the classroom without asking too much of residential taxpayers. Investing in public education excellence is the path to thriving communities, a stable economy and successful students.
- **Address property tax reform only as a part of a broader school funding strategy.** Property tax reform, by itself, will not resolve Pennsylvania's long-standing challenge to provide adequate and equitable school funding in a fiscally responsible manner. State government must relieve the current pressure on school districts that drives property tax increases. It must put in place a multi-year plan to provide school districts with more state funding, securing new equitably-raised, recurring state revenues to increase the state's commitment to adequate and equitable public-school funding. The state should address property tax reform as part of a broader strategy to increase basic, special and career and technical education funding.
- **Preserve local control and stable local revenue.** When addressing local property taxes, lawmakers must preserve local control and retain the predictability and stability of local revenues. While shifting some of the load carried by local property taxes to adequate, fair and recurring state sources makes sense, it is important that any property tax reduction proposal maintain the use of property taxes to some degree to preserve stability for school districts.

⁶ Estimate is the median number of years in which property tax millage rates were increased in the eight years from 2011-12 to 2018-19 based on analysis of Pennsylvania Department of Community and Economic Development and Department of Education data.

- **Help taxpayers most in need.** State money for property tax reform should be targeted to school districts with the highest tax efforts, and to families devoting high percentages of their incomes to property taxes (especially senior citizens and others on low, fixed incomes). Funds for property tax reduction should be distributed in a manner that works in tandem with the distribution of state aid to achieve both school funding adequacy and a reduction in property taxes.

Efforts to “eliminate” school property taxes outright, as proponents of HB/SB 76 have suggested, would shift funding responsibility to increased state income and sales taxes. Doing this would jeopardize classroom resources and throw Pennsylvania’s public education system into a tailspin. Specifically, property tax elimination (HB/SB 76) would:

- **Lock in education funding inequities and dismantle the state’s fair funding formula.** HB/SB 76 would fail to resolve the problems associated with how state government funded schools for over two decades. It would send more state dollars to affluent school districts where local property taxes are high but students have great educational opportunities. Meanwhile, school districts with struggling tax bases that couldn’t raise local revenue and didn’t get enough state money would still struggle to provide students with a fair and adequate education. These bills would widen, rather than narrow, the spending gaps that now exist between schools and in the process would dismantle the Commonwealth’s bipartisan fair funding formula.
- **Lead to cuts in the classroom.** Property tax “elimination” proposals leave school districts with no ability to raise needed revenue to respond to changing needs or mandated cost increases. Mandated costs increase beyond the rate of inflation and the state is already failing to keep up with its responsibility. Putting the state completely in control of school funding would only exacerbate that problem.
- **Kill local control of schools.** By removing a local school board’s authority and ability to respond to the needs of its students and residents, the state will be responsible for the financial health of all 500 school districts. School boards, parents, and communities will no longer have any authority to make many of the most important decisions that impact the educational, extracurricular or other programming at the school district. Locally-elected school boards will often not be able to add new academic programs, increase staffing or implement extracurricular programs to respond to the needs of their students.
- **Fail to “eliminate” school property taxes.** HB/SB 76 allows school boards to keep school property taxes to help with the cost of individual district debt obligations. Therefore, it would be DECADES before all school property taxes are gone under these bills. In the meantime, Pennsylvania taxpayers will be subject to double taxation. Even after paying higher personal income and sales taxes, taxpayers in more than 400 school districts will continue to pay school property taxes on construction and other debt.