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HOUSE DEMOCRATIC POLICY COMMITTEE

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House of Representatives
COMMONWEALTH OF PENNSYLVANIA
HARRISBURG

HOUSE DEMOCRATIC POLICY COMMITTEE HEARING

Topic: Property Taxes

Radisson Lackawanna Station Hotel – Scranton, PA

November 1, 2017

AGENDA

- 10:00 a.m. Welcome and Opening Remarks
- 10:10 a.m. Dr. Michael Mahon
Superintendent
Abington Heights School District
- 10:40 a.m. Ronald Koldjeski
Deputy Director
Lackawanna County Tax Claim Bureau
- 11:10 a.m. Brian Rinaldi
Business Manager
Old Forge School District
- 11:40 a.m. Closing Remarks

House Democratic Policy Committee

November 1, 2017

Respectfully Submitted:

Michael Mahon, Ph.D., M.B.A.

Superintendent, Abington Heights School District

It is a privilege to participate in today's hearing regarding property taxes and their impact on public schools. This issue is of great importance to the Abington Heights School District and its community. The Democratic Policy Committee deserves tremendous credit for joining us here in Lackawanna County. Your presence requires both time away from your offices and time away from your homes and families. Your efforts not only to address an important public policy issue but also to include us in the discussion are a great testament to your commitment to the people of Pennsylvania and our region.

Pennsylvania is flat broke by almost any measure and getting more broke by the minute. The Commonwealth's short term budget is structurally imbalanced. Our medium and long term liabilities are immense and growing. Perhaps worst of all, our demographics are shifting at a rapid rate with a spike in elderly Pennsylvanians in need of services occurring in tandem with an alarming decrease in younger citizens who generate revenue to support those services. If Pennsylvania were a public company, make no mistake, its board would be looking for a buyer.

It is encouraging, however, that members of the Democratic Policy Committee are here today because you know that Pennsylvania is not a company. Its leaders cannot simply walk away blaming prior generations for their poor decisions. Together we must work to rebuild Pennsylvania's ability to serve the needs of its citizens by delivering on its statutory, constitutional, and aspirational obligations especially as those obligations relate to public education.

It is well known that our public schools are struggling. Tens of thousands of public school employees are out of work. A generation of teachers is being lost. Talented young people are not entering the field as

evidenced by the cratering of enrollment in Pennsylvania's teacher preparation programs. Taxpayers are being squeezed through their property tax assessments, many of which have not been updated for decades. Lackawanna County, for example, finds itself nearly 50 years removed from its last reassessment.

Recently, Pennsylvania's political leadership courageously reformed its perpetually troubled pension system, freeing future generations from the obligations that are currently and will continue to stifle the capacity of Pennsylvania's public schools to deliver the services so greatly needed by its students.

According to the Pennsylvania School Boards Association, since 2008-2009 charter school tuition has increased 107%. Pension has increased 352%. In contrast, all other expenses have increased by 6%.

In Abington Heights School District the pension increase during that period amounts to approximately \$4.5 million dollars. This added cost does not buy a single pencil or book. It doesn't buy a single gallon of gas for a school bus or put a single teacher in front of the classroom. This added pension burden is in addition to the increasing costs associated with running a school district, especially the cost of providing medical benefits to our employees.

How is Abington Heights responding to this challenge? Some in our region may view Abington Heights as an affluent district with significant financial resources. The reality is that in total revenue per student Abington Heights ranks 465 of Pennsylvania's 500 districts. Abington Heights has taken drastic steps in an effort to remain a sustainable organization. Since 2008-2009 we have reduced our professional staff from 271 to 249 teachers, a reduction that was partially enabled by a decrease in student enrollment. The district privatized the management of its cafeteria operation. Employees who have been hired in recent years and all new employees work for a food service company and not our school district. We began privatizing our custodial staff years ago, replacing retiring employees with people who work for an outside vendor. Currently, the maintenance and cleaning in two of our six school buildings is handled entirely by an

outside firm and its employees. This company's role will only expand as Abington Heights custodians and maintenance staff leave or retire and are not replaced. In addition to cafeteria and custodial functions, Abington Heights also contracts out for its clerical staff. A little over half of the secretarial positions in the district are staffed by district employees, a percentage that will decrease as current employees leave for other opportunities or retire.

Abington Heights has not made the decision to shift to subcontractors without serious consideration. The harsh reality is that there is a savings of over \$20,000 for each secretary or custodian who is replaced by an employee from another firm.

Abington Heights has also reduced the size of its administrative staff. The district reorganized and re-bid all of its bus routes. Class sizes have increased. Maintenance projects have been delayed.

Controlling and eliminating costs is a critically important district goal. It is an important goal, however, only in that it allows us to focus our scarce resources where they belong, in our classrooms. Abington Heights significantly exceeds the state average and average of its peers in the percentage of its budget devoted to instruction.

In addition to controlling costs, Abington Heights has regularly increased property taxes in each of the last two years. While the percentage increase in any particular year was not large, any increase is unmanageable for the many who struggle to pay their current tax bills, much less a higher one.

In spite of all efforts, Abington Heights experienced a structural deficit in each of its last two audited years. The cost and demand for our services keeps increasing. All districts will continue to do what is possible to maintain services while delaying their arrival at insolvency's door.

As a practical matter, Pennsylvania is not in the position to offer substantial increases in subsidy to its districts since the pension and other fiscal constraints faced at the local level are equally acute for the Commonwealth. There are, however, some policy initiatives that would

assist school districts in addressing their challenges. There are also other policy initiatives that would make those challenges more difficult.

According to a 2015 report by the Washington Post, Pennsylvania's poorest school districts spend 33% less per student than its wealthiest districts.

The elimination of property taxes is an appealing concept, yet, as presented in Act 76, the distribution of revenue is misguided. Act 76 would result in a great shift of state subsidies from poorer communities to more affluent ones. In support of this point, the following Lackawanna County school districts rank in the bottom fifth of the state's 500 districts in total revenue per student: Carbondale (413 of 500), Abington Heights (465 of 500), Mid Valley (467 of 500), Lakeland (469 of 500), Dunmore (493 of 500) and Valley View (495 of 500). In exchange for the elimination of local property taxes in Lackawanna County, our districts, on average, would receive \$6000 in state subsidy per student. Other more affluent counties would receive double that amount. Act 76 expands and perpetuates the already profound inequity that exists in the way Pennsylvania funds its schools.

Thoughtful consideration should be given by our political leadership to Pennsylvania's collective bargaining laws. At a time when many districts are struggling to keep their doors open, "status quo" can no longer be the default way we run our schools. Our current collective bargaining law rewards the party most skilled at and most willing to engage in attritional warfare. Pennsylvania needs a collective bargaining scheme that is fair to its employees but also allows school districts the flexibility to adapt to rapidly changing economic environments.

School districts must be empowered and encouraged to re-invent themselves. They must find new ways to leverage technology and partnerships. They must have the courage to be ruthlessly efficient in delivering high quality instructional opportunities to our students. In order to build these efficiencies, there must be a shift in focus at the state and federal level from regulation to innovation. Our conversations and resources have been far more centered on data collection, accountability

models and compliance than on building the foundation for excellence in a challenging fiscal environment. Our administrators in Abington Heights, for example, would much rather devote their attention to building partnerships with industry and higher education than a statewide conversation on how to comply with the PIMS manual. In this area credit must be given to Governor Wolf and the legislature for your attention to the many hours we spend administering tests. Secretary Pedro Rivera has also made great strides in making the Pennsylvania Department of Education more effective in serving the needs of students. There is, however, much more to be done to encourage creative innovation at the local level in response to a rapidly changing educational and fiscal environment.

A great public education is a precious gift bestowed by a community on its children. Our districts are either on the brink or heading toward it. Drastic and immediate action is now necessary. It is my hope that the Democratic Policy Committee will use both its authority and its standing to inspire the difficult decisions necessary to sustain our public school mission.

Thank you, again, for the honor of being able to present to the Committee today.

RONALD J. KOLDJESKI
HOUSE DEMOCRATIC POLICY COMMITTEE HEARING
NOVEMBER 1, 2017, RADISSON HOTEL SCRANTON, PA

I AM RONALD J. KOLDJESKI, DEPUTY DIRECTOR OF THE LACKAWANNA COUNTY TAX CLAIM BUREAU. I COME BEFORE THIS BODY TODAY TO SPEAK ABOUT THE NEED FOR PROPERTY TAX REFORM IN OUR COMMONWEALTH. I SPOKE TO THIS BODY FOUR YEARS AGO ON THIS TOPIC TO HELP INSTILL SOME IDEAS THAT WOULD MAKE PROPERTY TAXATION IN THIS COMMONWEALTH MORE EQUITABLE FOR ALL PROPERTY OWNERS.

IT WAS MY BELIEF THEN, AND IS MY BELIEF NOW FROM OVER THIRTY YEARS OF BEING A PRACTITIONER IN THE FIELD OF REAL ESTATE, APPRAISAL, ASSESSMENT AND TAXATION THAT WE HAVE A TAX SYSTEM THAT IS IN DESPERATE NEED OF REFORM. NOT ONLY DOES THE CURRENT SYSTEM NEED IT THE ENTIRE COMMONWEALTH BEGS FOR IT.

LET ME BEGIN BY SAYING THAT THE CURRENT ASSESSMENT LAWS OF THE COMMONWEALTH, THAT PROHIBIT ARMS LENGTH TRANSACTIONS FROM BEING USED AS A MEANS TO SET CURRENT MARKET VALUATIONS ON REAL ESTATE ARE COUNTERPRODUCTIVE TO THE MEANING OF FAIRNESS. THESE "SPOT ASSESSMENT" PROHIBITIONS SHOULD BE AMENDED. ALL TRANSACTIONS THAT ARE REPORTABLE TO THE STATE TAX EQUALIZATION BOARD AND USED AS VALUATION FACTORS IN PROMULGATING THE ANNUAL COUNTY VALUATION FACTORS KNOWN AS S.T.E.B. RATES SHOULD ALSO BE THE DRIVING FACTOR FOR ASSESSMENT CHANGES FOR A SPECIFIC PROPERTY WITHIN A RESPECTIVE COUNTY. THIS WOULD ACT AS AN EQUALIZING FACTOR WITHIN THE COUNTY REGARDLESS OF THE PRE DETERMINED RATIO BEING USED AT THE TIME. IT WILL ALSO AIDE IN KEEPING THE PROPERTY ASSESSED AT A FAIR MARKET VALUE WHICH IN ITSELF IS THE OBJECTIVE OF THE PREMISE "TAX FAIRNESS".

LET ME ALSO SAY THAT AS A MATTER OF PRACTICALITY, WHEN A COUNTY DOES A COMPREHENSIVE REVALUATION OF PROPERTY FOR TAXATION PURPOSES AND VALUES ARE CERTIFIED AS THE AGGREGATE VALUES WITHIN A COUNTY UNDER THE CURRENT SYSTEM IT ONLY TAKES WEEKS FOR IT TO BE OUT OF UNITY. THIS HAPPENS BECAUSE OF STRUCTURAL CHANGES IN THE PROPERTIES, CHANGE OF USE OF THE PROPERTY AND "ARMS LENGTH" PROPERTY SALES. BY GIVING COUNTIES THE ABILITY TO CHANGE ASSESSMENTS ON AN "ARMS LENGTH" TRANSACTION WOULD ACT AS A POSITIVE FACTOR IN PROMOTING FAIRENESS AND UNITY.

ANOTHER AREA OF CONCERN IS THAT OF SENIOR CITIZENS PAYING PROPERTY TAXES FOR SCHOOL DISTRICT OPERATIONS. CURRENTLY THE PROPERTY TAX SYSTEM ASSIGNS MILLAGE RATES TO ASSESSED PROPERTIES FOR MUNICIPAL, COUNTY AND SCHOOL DISTRICTS TAXES. MANY SENIORS ON FIXED INCOMES ARE LOSING THE ABILITY TO PAY THEIR TAXES ON A CURRENT BASIS DO TO INCREASING PROPERTY TAX MILLAGES. MILLAGES ARE INCREASING NOT ONLY FOR MUNICIPAL SEERVICES BUT FOR SCHOOL OPERATIONS. WE ARE SEEING ON AN ANNUAL BASIS WHERE PROPERTY TAX MILLAGES ARE INCREASING 3-5% AND SENIOR CITIZENS TRANSFER PAYMENTS FROM PENSIONS OR SOCIAL SECURITY ARE NOT INCREASING AT ALL OR AT LESS THAN 2%. THIS IS CAUSING MANY SENIORS TO BECOME DELINQUENT IN PAYING THEIR PROPERTY TAXES WHICH COULD RESULT IN A TAX SALE OF THE PROPERTY UNDER THE REAL ESTATE TAX SALE LAW. IT CAN ALSO RESULT IN THE SAME PROPERTY OWNER BEING INELIGIBLE FOR PARTICIPATION IN THE DEPARTMENT OF REVENUE PROPERTY TAX REEBATE PROGRAM. MANY SENIORS RELY ON THE REBATE PROGRAM TO HELP STABILIZE THEIR DAILY QUALITY OF LIFE ISSUES WITH LIMITED PERSONAL ASSETS.

THAT BRINGS ME TO A POINT OF RECONCILIATION.

I HAVE REVIEWED THE EIGHTEEN PIECES OF LEGISLATION THAT ARE CURRENTLY WORKING THEIR WAY THROUGH THE HOUSE THAT DEAL WITH PROPERTY TAX REDUCTIONS, SENIOR CITIZEN SCHOOL TAX FREEZES, THE PROHIBITING OF PROPERTY TAXES, AND THE DEFERRAL OF PROPERTY TAXES ETC. THE LIST CAN GO ON AND ON. THE POINT IS THAT IT HAS BEEN RECOGNIZED BY MANY MEMBERS OF THE HOUSE THAT THE PROBLEMS I OUTLINED EARLIER ACTUALLY EXIST AND SHOULD BE ADDRESSED. HOWEVER SOME OF THE BILLS LIKE HB 1396 SEEM TO BE IN COMPETITION WITH TAX LAW PROVISIONS ALREADY EXISTING. FOR INSTANCE UNDER SECTION 502 AND 503 OF THE PA REAL ESTATE TAX SALE LAW. DEFERRALS CAN BE GIVEN TO ELDERLY AND DISABLED PROPERTY OWNERS, BY THE COUNTY COMMISSIONERS PASSING AN ORDINANCE TO EMBRACE THE EXISTING RETSL PROVISIONS. IN LACKAWANNA COUNTY WE HAVE PASSED SUCH LEGISLATION AND ARE CURRENTLY IMPLEMENTING A PROGRAM THAT INCLUDES APPLICATION REVIEWS BY THE AREA AGENCY ON AGING AND THE SCRANTON LACKAWANNA HUMAN DEVELOPMENT AGENCY IN CONJUNCTION WITH THE COUNTY TAX CLAIM BUREAU FOR PROGRAM PARTICIPATION. THE DEFERRALS THAT HB 1396 CONTEMPLATES CAN CURRENTLY BE IMPLEMENTED ON A PER COUNTY BASIS.

ALL THIS BEING SAID I WOULD LIKE BRING YOUR ATTENTION TO A PROGRAM CURRENTLY BEING IMPLEMENTED IN THE STATE OF NEW YORK CALLED THE S.T.A.R.S PROGRAM. IT DEALS PRIMARILY WITH SCHOOL TAXES BEING ELIMINATED OR REDUCED FOR PROPERTY OWNERS OVER THE AGE OF 65. IT IS A SLIDING SCALE PROGRAM AND YOU PAY SCHOOL TAXES BASED ON YOUR INCOME. A PROPERTY OWNER WITH LOW INCOME MAY PAY NO SCHOOL TAXES WHILE SENIOR WITH A HIGH INCOME WOULD PAY 100% OF THE SCHOOL TAX. THOSE PROPERTY OWNERS CONTINUE TO PAY FOR LOCAL PUBLIC SAFETY AND PUBLIC HEALTH SERVICES AND COUNTY SOCIAL SERVICES ETC. THEY DO HOWEVER GET AN EQUITABLE CONSIDERATION FOR SCHOOL TAXES BASED ON THEIR INCOME.

I AM ACUTELY AWARE OF THE IMPORTANCE EDUCATION HAS IN OUR SOCIETY IT IS ONE OF THE MOST IMPORTANT RESPONSIBILITY WE HAVE IN PREPARING OUR CHILDREN AND GRANDCHILDREN FOR THE FUTURE, WE MUST ENDEAVOR TO GIVE THEM ALL THE RESOURCES NECESSARY TO HELP THEM BECOME A WELL ROUNDED INDIVIDUAL BOTH ACADEMICALLY AND SOCIALLY. THE PUBLIC EDUCATION EXPERIENCE PROVIDES THAT VENUE AND WE SHOULD DO NOTHING TO INHIBIT THAT EXPERIENCE.

HOWEVER WE MUST ALSO DEAL WITH THE "EQUITABLE DISTRIBUTION" OF THE TAX OBLIGATIONS ASSOCIATED WITH IT. SCHOOL TAXES MAKE UP THE HIGHEST PERCENTAGE OF THE INDIVIDUAL PROPERTY TAX BILL, IN LACKAWANNA COUNTY SCHOOL TAXES RANGE FROM 46.9 TO 66.4% OF THE TOTAL TAX BILL. NO SENIOR CITIZEN IS GETTING A DIRECT BENEFIT FROM THE TAXES THEY ARE CURRENTLY PAYING. TO CONSIDER A PROGRAM SIMILAR TO THE NEW YORK STATE S.T.A.R.S PROGRAM COULD BE ANOTHER STEP IN THE QUEST FOR TAX FAIRNESS IN OUR COMMONWEALTH.

SO I HAVE TOUCHED ON TWO POINTS BOTH WITH A CENTRAL THEME OF TAX FAIRNESS AND EQUITABLE TREATMENT TO PROPERTY TAX PAYERS.

THE FIRST IS ADDING TO THE CURRENT TAX ASSESSMENT PROCESS TO INCLUDE PROPERTY ASSESSMENT VALUATION CHANGES BASED ON ARMS LENGTH SALE TRANSACTIONS AND ALSO THE VOIDING OF THE

"SPOT ASSESSMENT" PROVISIONS THAT CURRENTLY EXIST. THIS WILL HELP PROMOTE A FAIRER AND MORE EQUITABLE TAX SYSTEM IN PENNSYLVANIA.

THE SECOND IS DEALING WITH A WAY TO MAKE SCHOOL TAXES LESS BURDENSOME ON THE ELDERLY AND MORE EQUITABLE FOR THE ELDERLY BASED ON THEIR ANNUAL INCOME.

ALTHOUGH THE FIRST IS RELATIVELY BUDGET NEUTRAL AND BASICALLY AN ADMINISTRATIVE AND LEGISLATIVE FIX TO THE EXISTING LAW THE SECOND IS NOT BUDGET NEUTRAL AND MERITS A DISCUSSION OF HOW CAN THIS SLIDING SCALE S.T.A.R.S. LIKE PROGRAM BE PAID FOR.

THEREFORE THE QUESTION MUST BE DISCUSSED AS TO HOW TO CLOSE "THE GAP" IF THIS TYPE OF PROGRAM IS IMPLEMENTED.

AS I SAID IN 2013, CONSIDERING REINTRODUCING HB 2018 OF 2007 AS PRESENTED BY REP. ROBERT FREEMAN 136TH DISTRICT AND EXPAND IT TO INCLUDE ALL SCHOOL DISTRICTS IN THE COMMONWEALTH TO SHARE IN A PORTION OF THE LIQUOR TAXES IMPOSED DURING THE CLEAN UP AND REBUILDING OF JOHNSTOWN DUE TO FLOODING. IN 2016-17 THERE WAS \$ 361.8 MILLION DOLLARS COLLECTED IN PENNSYLVANIA ON LIQUOR TAXES AND \$ 24.6 MILLION COLLECTED IN MALT BEVERAGE TAXES IN PENNSYLVANIA FOR A TOTAL OF \$ 386.4 MILLION . (Tax Compendium Dept. of Revenue). THE TAX ON MALT BEVERAGES HAS NOT BEEN RAISED SINCE 1947 AND CURRENTLY LEVIES A 1 CENT TAX ON 16 OZ. MALT BEVERAGES IN PA. IN 2016-17 YEAR THERE WERE 2 BILLION 16 OZ MALT BEVERAGES SOLD IN THE COMMONWEALTH. THIS GENERATED APPROXIMATELY \$ 20 MILLION DOLLARS OF REVENUE BASED ON THE CURRENT TAX RATE. POSSIBLY THAT TAX RATE CAN BE RAISED TO 5 CENTS AND \$ 100 MILLION DOLLARS CAN BE RAISED. THAT PORTION OF THE NEW TAX RATE COULD THEN BE EAR-MARKED FOR A SCHOOL DISTRICT SLIDING SCALE REBATE PROGRAM. ANOTHER POSSIBILITY IS THAT A PORTION OF THE LIQUOR TAXES COULD ALSO BE USED TO FUND THE "GAP" CREATED BY THE PROGRAM. ALSO NOW THAT THE LEGISLATURE HAS PASSED THE EXPANSION OF GAMBLING TO AIRPORTS, TRUCK STOPS AND 10 NEW SATELLITE CASINOS AND ON LINE WAGERING POSSIBLY A PERCENTAGE OF THAT NEW MONEY CAN BE USED TO CLOSE THE GAP CAUSED BY THE SLIDING SCALE TAX PROGRAM FOR THE ELDERLY. CURRENTLY I AM NOT INCLUDING HB 230 IN THIS SCENARIO. HOWEVER PROPERTY TAX REDUCTION AND AN INCREASE ON A COUNTY BY COUNTY BASIS IN INCREASING AND LEVING OF SALES, USE AND EARNED INCOME TAXES MAY BE ANOTHER WAY TO HELP PAY FOR THE PROGRAM ON A COUNTY WIDE BASIS.

SO HERE ARE SOME POSSIBLE VEHICLES THAT MAY BE VIEWED AS WAYS TO FUND THE REVENUE GAP CAUSED BY THE PROGRAM AND AT THE SAME TIME PRESERVE THE EDUCATIONAL QUALITY WE HAVE ALL COME TO EXPECT FROM A PUBLIC SCHOOL SYSTEM.

FINALLY PROPERTY TAXATION SHOULD ALWAYS BE VIEWED WITH FAIR AND EQUITABLE TREATMENT FOR ALL TAXPAYERS. THAT IS AND MUST BE THE CORNERSTONE OF ANY TAX REFORM INITIATIVE. THE CHANGES IN THE ASSESSMENT LAWS AS SET FORTH EARLIER AND A PROGRAM THAT CAN AIDE THE ELDERLY WITH AN EQUITABLE WAY TO PAY FOR SCHOOLS ARE TWO BURNING ISSUES OF COMPREHENSIVE TAX REFORM. I TRULY BELIEVE THESE TWO ISSUES MERIT IMMEDIATE

CONSIDERATION BY THE LEGISLATURE. AS I SAID EARLIER, THIS IS AN AREA THAT NOT ONLY NEEDS REFORM IT, BEGS FOR IT.

I WILL NOW TAKE ANY QUESTIONS THIS BODY MAY HAVE.

THANK YOU,

Brian Rinaldi's Testimony for 11/1/17 House Democratic Policy Committee Hearing

Good morning. My name is Brian Rinaldi and I am the Business Manager at the Old Forge School District. I would like to thank Representative Flynn and all of the Legislators in attendance for giving me the opportunity to be here this morning. For those of you that don't know, Old Forge School District is one of the few one-town, one-school districts remaining in the Commonwealth. Like most other schools in Pennsylvania, we face many funding challenges each year in the effort to provide our students with a quality education. My testimony this morning will be from the School Business Manager's perspective. As a Lackawanna County resident and owner of multiple properties in Northeast Pennsylvania, I am personally in favor of property tax reform. Who wouldn't want their property tax reduced or eliminated? But as a School Business Official struggling to meet budgetary requirements, the rising cost of healthcare, PSERS, Special Education expenses, upgraded technology, core curriculum aligned text book series, aging infrastructure and other student/faculty needs, I can recognize the struggles that face many school districts when dealing with funding issues while considering property tax reform/elimination.

Although the challenges differ from district to district based on many factors including size, geographic location and socioeconomic status, some of the factors are common to most districts in Pennsylvania. Take, for example, the one that I am most familiar with. In the 2016-2017 school year, the Old Forge School District realized \$5,570,897 in collected property tax revenue and \$645,904 in delinquent real estate tax revenue. This represents 46% of all revenue and equates to \$6,350 per student. With the PA Department of Education calculated tuition rate of about \$9,062 per student, 70% of the tuition cost falls squarely on the local property owner and 30% from all other sources, including the PA Department of Education subsidy payments. Since around 2010, many school districts in Pennsylvania had to rely on property taxes to generate the additional revenue needed to fund education. According to the Pa Association of School Business Officials (PASBO), some districts rely on property taxes to general about \$1,000 in revenue per student, while others call for taxed property owners to provide revenue of over \$20,000 per student. Property tax elimination will require the state to distribute other tax revenue to schools and determine which students deserve more revenue than others.

In a 2016-2017 PASBO survey of 355 PA school districts, 85% planned to raise taxes. PASBO called the results of this survey of 500 school districts the "worst outlook for public schools of any of our previous surveys." 36% of those districts petitioned PDE to exceed the Act 1 Index. The reason for the need to increase taxes, according to the Association, was to cover the increasing costs of mandates.

What affect would property tax elimination have on Act 51 of 2014? In a statement released in June of 2015, the Basic Education Funding Commission said that "the lack of a permanent state funding formula for education has provided an unbalanced distribution of state funding to school district and does not match the needs to educate students." The Commission recommended that the General Assembly adopt a new formula for distribution of state funding for basic education. The new formula used three specific factors relevant to each district that consider the differences throughout the many schools in PA. Those factors are; Sparsity Size Adjustment, Median

Household Income and Tax Effort Capacity Index. The Tax Effort Capacity Index, according to the Commission, recognizes a district's ability to generate local tax revenue compared to the state median. It seems that property tax elimination would nullify the school funding formula.

The Basic Education Funding Commission's work towards a "fair funding formula" is grown from the obvious inequity evident in the disparity of state funding to school districts. The Old Forge School District received \$3,735,263 or 28% of total revenue from State Subsidies, including Basic Education, Special Education and Ready to Learn Block Grant. Some districts receive as much as 75% or more of their tuition rates in state funding while others are fortunate to get 10% of their per student tuition needs from state subsidies. Property tax elimination would likely perpetuate this issue. The state would have to determine how to distribute the increased Personal Income Tax and Sales and Use Tax revenue to school districts, propagating the school funding inequity. This would likely open the door for more lawsuits like that filed in 2014 by seven parents and six school districts challenging the state's school funding system. In 2015, the Pennsylvania Commonwealth Court unanimously rejected the suit, but in September of 2017, in a 4 -2 vote, the Pennsylvania Supreme Court reinstated the suit, enabling a trial court to hear the arguments. There will likely be more suits to follow, especially if the fair funding formula is abolished and the state relies further on the past funding inequities.

Switching gears a bit, I will now focus on the probable cash flow issue that property tax elimination poses for many school districts, especially those with little or no fund balances to draw from. Removing a district's ability to levy taxes, except to cover current debt service, can make it very difficult for districts to open their doors and begin paying their bills in the new school year beginning in July. June, July and some of August are lean times for most school districts in PA. Many districts must rely on Tax Anticipation Notes (TAN) to get through those months since subsidies dry-up in early June and don't begin again until September (hopefully). Meanwhile, payroll, healthcare, life insurance, etc. must be paid. With property tax elimination, TANs will no longer exist, at least as they are today, and districts will have to wait for the state to begin releasing funds. If the House, Senate and Governor find themselves in another Budget Impasse, many districts will be forced to shut down until a resolution occurs.

There are many other topics to discuss and points to make concerning the challenges of eliminating property taxes in PA, including the effect on collective bargaining, mandated PSERS increases and Charter School Costs, shifting the tax burden from businesses to individuals, Bond Ratings nose dives, the remaining county and municipal taxes and the local effect of the proposed Lackawanna County Reassessment. While many of these issues can be argued by either side, it is important to be aware of these challenges and use them to arrive at an acceptable solution that works for every district in Pennsylvania.

Again, thank you to Representative Flynn and all members of the House in attendance today for allowing me the opportunity speak with you. Regardless of the direction of the current property tax proposal, I am confident that together we can find an equitable way.