

## Summary of the Property Tax Elimination Bill and its Impact on WCASD January 20, 2017

- Property tax reform remains an important focus for the legislature in 2017-18.
- Currently a property tax elimination proposal is being discussed. The proposal is similar to that presented in the fall, 2016 legislative session. That proposed bill failed by a vote of 24/25.
- Will prohibit school districts from levying a property tax on or after July 1, 2017
  - Will allow a levy to fund the debt service existing in a school district as of December 31, 2016.
  - Will allow county government and local municipalities to levy a property tax but school districts will no longer be able to do so.
- The bill also prohibits school districts from incurring any new debt without a voter referendum tied to an increase in local Earned Income Tax (EIT) or Personal Income Tax (PIT). EIT is income earned from wages. PIT includes wages and investment income.
- The statewide PIT would increase from 3.07% to 4.95%
- Statewide sales and use tax would increase from 6% to 7% and the list of items and services to which the tax would apply would expand (such as legal services and mental health services) as well as items such as most food and clothing.
- The revenue raised as a result of the increase of the PIT and sales tax will be distributed in the form of a funding calculation determined by the state legislature.
- Does not eliminate property taxes. In the first year of implementation, the state would provide each school district with the same amount of funding as their local property tax revenue in 2016-17 minus the amount of property tax revenue still allowed to be collected by the district for its outstanding debt (\$25.5 million for WCASD). For WCASD, this would mean that property owners would still be paying about 14% of their current property tax. In addition, property owners would also pay county and municipal property taxes.
- The bill also provides for an annual adjustment in funding to school districts. The state will use a cost of living formula to do this.
- Property tax elimination shifts the burden from business to individuals - WCASD collects \$41 million in tax revenue from commercial/industrial property owners. This will be shifted to Pennsylvania residents through increased sales tax and personal income tax.
- Federal deductions for property taxes will be reduced resulting in increased federal tax liability for property owners.

**Issues relevant to the WCASD educational program:**

- Will result in cuts to programs at all levels – Property tax elimination will create significant challenges. With no ability to raise the revenue needed to respond to the needs of the District (special education, pension, charter school tuitions, enrollment fluctuations, transportation, facility needs, etc.) the District will be forced to cover these costs with cuts to other programs.
- State dollars will need to accompany mandates, without a revenue source, Districts will be forced to cut existing programs to fund mandates. There is no provision to provide state funding for state mandates.
- Removes all local control and funding authority of School Boards. School Boards, parents, and communities will no longer have the authority to make decisions that impact their school district.
- School Properties will deteriorate – the health and safety of students and staff is at risk with property tax elimination. Districts will not have the financial ability to respond to the most critical of building maintenance needs.
- WCASD Elementary renovation plan is at risk – Voter referendum will be required for all future construction projects funded with bond borrowings.
- Bond ratings will be negatively affected – resulting in higher costs to borrow money