



TESTIMONY ON HOUSE BILL 2329 – PROPERTY TAX REFORM AND HOMESTEAD EXCLUSION

PRESENTED TO THE HOUSE FINANCE COMMITTEE

BY

LISA SCHAEFER

DIRECTOR OF GOVERNMENT RELATIONS

SEPTEMBER 6, 2018

Good morning. I am Lisa Schaefer, Director of Government Relations for the County Commissioners Association of Pennsylvania. The CCAP is a non-profit, non-partisan association providing legislative, education, research, insurance, technology, and other services on behalf of all of the Commonwealth's 67 counties. Thank you for the opportunity to be here today to discuss how House Bill 2329 fits into the broader discussion on property taxes of which counties hope to be a part.

In general, our Association has not taken a position on House Bill 2329, as it focuses on requirements for school districts to provide a 100 percent homestead exclusion that would be funded by an increase in the state's personal income tax. While the bill does not have a direct impact on county government, it offers an opportunity to talk about how tools like the expanded homestead exclusion approved by Pennsylvania voters last fall could have benefits for counties if they had access to them and the resources to implement them.

All local governments rely mostly – and in the case of counties only – on property taxes as their source of locally generated general fund tax revenues. Yet over the past four decades, the phrase "property tax reform" has come to really mean "school property tax reform" in Pennsylvania parlance. Counties have not been included in the discussions regarding property taxes, much less included in any of the reform programs that have been approved.

As counties continue to advocate to be included in the property tax debate, we have heard all the arguments for focusing solely on schools: Legislators aren't getting calls from homeowners complaining about their county property taxes. We need to focus on fixing school property taxes first, and then we can look at the counties. School property taxes don't reflect a homeowner's ability to pay and they place an unfair burden on many property owners. And so on.

While we recognize that school property taxes are the largest part of an individual's burden, the truth is that these arguments actually make the case for taking a more holistic look at property taxes. Forcing local governments to rely on property taxes as a local source of revenue is unfair no matter which local government we are talking about. Along those same lines, we need to stop talking about school property taxpayers and county property taxpayers as if they are two different sets of individuals – a property taxpayer is a property taxpayer regardless of whether it is the school district that levies that tax or the county. That means that if Pennsylvania wants to talk about real, comprehensive property tax reform, Pennsylvania must look at the entire local tax system. And that in turn means bringing counties to the table now as part of these discussions.

For many years, counties have sought a menu of local taxing options like local earned income taxes, personal income taxes or sales taxes to offset their reliance on the property tax. This follows conventional wisdom that any financial adviser would give his clients to diversify their portfolios, or, as the adage goes, not to put all of their eggs in one basket. Right now, counties have all their eggs in one basket, since they only have the property tax as a source of local revenue. So when costs and mandates go up, and state and federal funding go down, they have nowhere else to go but the property taxpayer to fund critical programs and services. As with individuals managing investment portfolios, though, there is no one “best” mix of taxes for all of our 67 counties. Our counties are rural and urban, their residents have different demographics and incomes, and their communities are built around different economies and different balances between residential and commercial properties. Thus, having options will give each county the ability to decide what portfolio of local taxes works most equitably for their constituents.

CCAP has prepared estimates of what a one percent sales, earned income or personal income tax could generate in each county, compared to their county property tax collections, which is attached for your information. Just a quick glance will illustrate how diverse the tax burden is spread among county residents from one end of the commonwealth to the other, and underscores our point about the need for each county to have options that best meet their needs – which may in fact still include the property tax.

The committee’s review of HB 2329 also gives us an opportunity to talk about the effects of implementing the constitutional amendment to expand the homestead exclusion that was approved last fall. Under the previous standard (and as remains under current state law), all eligible homesteads received an exclusion that is the same dollar amount – up to 50 percent of the median value of the homesteads in that taxing district. This means that lower-value homesteads receive a greater percentage reduction from the exclusion, while higher-value homesteads receive a lower percentage reduction.

However, the constitutional amendment was structured to allow, and HB 2329 seeks to implement, a percentage-based exclusion – that is, everyone would see the same percentage reduction in their property tax bill, regardless of the value of their property. In this scenario, lower-value homesteads would receive a lower reduction in actual dollars from the exclusion, while higher-value homesteads receive a higher reduction in actual dollars.

And although HB 2329 anticipates a full 100 percent homestead exclusion for school property taxpayers, if funding under this legislation is not sufficient to fully fund a 100 percent exclusion (or should the General Assembly choose to allow a percentage-based exclusion that does not reach 100 percent), the committee should understand how that will impact taxpayers.

Using real school district information, CCAP has run an analysis on several different scenarios, provided in the attachment. For instance, in School District A, there are a little more than 6,000 homesteads, with a median value of \$53,100. While District A could offer a homestead exclusion under current law of up to \$26,550 (50 percent of the median), with the resources it has available it is able to exclude \$15,273 from each homestead's value. Added together, this results in about 26.6 percent of all total homestead value in the district being excluded.

If the exclusion were changed to allow for a percentage-based exclusion, with no change in the amount of funding available to offer the exclusion, the district would be able to offer a 26.6 percent exclusion to every homestead. In that case, 45 property owners who do not currently pay property taxes (since the current flat-rate exclusion is enough to eliminate their tax obligation) would actually be paying property taxes for the first time. Another 3,900 or so homesteads would be paying more than they currently pay – anywhere from pennies more up to \$320 dollars more. Almost 150 of those property owners would pay at least double what they currently pay. On the other side, more than 1,400 higher-value property owners would see at least a 10 percent reduction in their current bills. We have also shown the impact to property owners if enough funding were available to fund a 50 percent exclusion or a 75 percent exclusion for every homestead. You can see similar scenarios for the other school districts we analyzed.

Our point here is not to take a position on whether the exclusion should be a flat rate or percentage-based, but simply to make sure the General Assembly understands how taxpayers could be affected. In addition, the examples offered here show that this impact would vary from district to district.

At the beginning of this testimony, we also mentioned that the expanded homestead exclusion could have benefits for counties *if* they had access to them and the resources to implement them. Right now, few if any counties can offer a homestead exclusion under even the 50-percent-of-median threshold, since the constitution specifically prohibits local governments from increasing their millage rates to pay for exclusions. Any expansion of the exclusion is irrelevant for counties if they have no way to pay for it, but authorizing county taxing options would put another tool in their toolbox as they look for the most effective ways to operate county government and serve their taxpayers.

Certainly, property tax reform is a complex issue and as history has demonstrated, there are no easy answers. But Pennsylvania's taxpayers need local government and the commonwealth to work together to find solutions that better reflect their needs, improve stewardship of taxpayer dollars and increase local flexibility. Counties are willing to be an active partner with you to find

those solutions. Thank you for your attention to these comments, and I will be pleased to answer your questions.