

Understanding School Tax Change Under Act 50 of 1998



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Because school taxes typically account for the largest share of local tax bills, they are of great interest to most taxpayers in Pennsylvania. In May, 1998, the General Assembly and the Governor approved a bill that makes major changes to school taxes. Called Act 50 of 1998, the act offers the opportunity for school districts to shift the local tax burden away from the real property tax (sometimes called the “real estate” or “property” tax) and toward the earned income tax. It also provides taxpayers new rights and abilities that they previously have not had.

Several of Act 50 of 1998’s most significant changes will take place in specific school districts only if they are approved locally by voters in what is called a “front-end” referendum. This means that voters in many Pennsylvania school districts will have to learn about the benefits and limitations of their school district’s existing local tax structure, as well as the changes possible with Act 50. This bulletin is intended to help you understand the context for Act 50 of 1998, what it does and does not do, and how some of the tax changes it describes can be implemented in your own community.

Why the concern about school taxes?

School taxes are the largest local tax bill faced by most taxpayers in Pennsylvania, accounting for 57 percent of all local taxes in 1995. The majority of school tax revenue statewide, 87 percent, comes from the real property tax (see Figure 1). Another 8 percent comes from the earned income tax. (For definitions of local taxes, see Table 1.) Because school taxes and the real property tax have such a predominant local role, changes to these taxes have important implications for local residents.

The size of school tax collections has been increasing dramatically over the past 10 years, rising 103 percent between 1985 and 1995 (PA Department of Education). Inflation and workers' wages increased only 44.8 percent and 50.1 percent, respectively, during the same time period (PA Senate Policy Development and Research Office). Many taxpayers, particularly those on fixed incomes, have expressed concern about how quickly school taxes have been rising and have felt powerless to do anything about it. Under Pennsylvania law up until now, the only way residents could influence school budgets was to elect school board members. Act 50 gives taxpayers the opportunity to have more control over the way they are taxed.

Why the concern about the real property tax?

The real property tax has received a lot of attention from tax reform advocates, who argue that it places an undue burden on some taxpayers. Because the amount of property tax owed is based on the value of property owned and not on income, the tax can be difficult for people living on a fixed income. It may not reflect their ability to pay the tax.

Reliance on the real property tax also creates inequities across school districts. Because the amount of real property tax revenue that any one millage rate will collect depends upon the size of the real property tax base, school districts that have a relatively large tax base (often because they contain industrial, commercial, or expensive residential properties) can use lower tax rates to get the same amount of revenue than can a district with a smaller tax base. These differences due to tax base can be significant; in 1989, Pennsylvania's 53 wealthiest school districts raised nearly four times the amount of local revenue per student than did the poorest 53 districts, almost entirely because of the larger relative size of their tax bases. In fact, the poorer districts used higher tax rates than did the wealthier districts, but received less revenue

Figure 1. Sources of School District Local Tax Revenue, 1994-95.

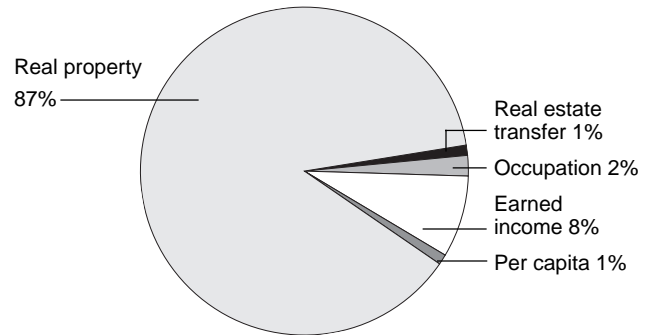


Table 1. Taxes available to local governments and school districts in Pennsylvania.

Local governments and school districts can levy a variety of taxes, not all of which are available to counties. The most important ones include:

Real Property Tax

Tax levied on the value of real estate.

Occupation Tax

Tax levied on residents' occupations. Can be levied as a flat rate tax or as a millage.

Per Capita Tax

Tax levied on adults who live in the jurisdiction.

Earned Income Tax

Tax on residents' earned income and net profits. Unearned income such as dividends, pensions, and social security is exempt. People who work in the jurisdiction but live elsewhere pay if their home municipality or school district doesn't levy this tax.

Realty Transfer Tax

Tax on the sale price of real estate.

Occupational Privilege

Tax on the privilege of working in the jurisdiction.

Amusement Tax

Tax levied on the admissions prices to places of amusement, entertainment, and recreation. Only schools using the amusement tax before June 30, 1997, are allowed to use this tax.

Mechanical Devices Tax

Tax levied on coin-operated machines, such as jukeboxes, pinball machines, and video games.

Mercantile Tax

Tax levied on the gross receipts of businesses. Since December 1, 1988, no new municipalities have been allowed to levy this tax.

Personal Property Tax

Tax levied on the value of mortgages, other interest-bearing obligations and accounts, public loans, and corporate stocks.

because of their smaller tax bases (Center for Rural Pennsylvania, 1991). The size of the school district tax base affects the amount of real property tax revenue collected per pupil, the tax rates, and the per-pupil spending (see Table 2).

These differences are one justification for state support of local education. Many people consider it unfair for taxpayers in less wealthy districts to face higher school tax burdens through no fault of their own. Similarly, people also are concerned that less wealthy school districts may have more difficulty providing a quality education to their students than do wealthier districts. Many consider it unfair for students to receive different qualities of education, based simply on where they happen to live.

Another concern about the real property tax in Pennsylvania is how properties are valued for tax purposes. The tax can be no fairer than the fairness of the assessment process that sets these values. But concerns have been raised about the infrequency with which reassessment occurs in Pennsylvania, which can cause assessments to be out of date and some property owners to pay more or less than they should. If reassessment occurred more regularly, property values would be set more fairly and the real property tax would be fairer.

Despite these concerns about the real property tax, it remains one of the most important in the United States because it has some advantages over other local taxes. The real property tax is a relatively stable revenue source, fluctuating little during economic upturns and downturns. This makes it easier for local officials to develop budgets and provide services throughout the year. Similarly, despite its unpopularity, most taxpayers understand how it works. It is easily administered, compared to its alternatives, and is almost impossible to avoid.

In addition, the real property tax may not be as unfair as some people claim. Some economists argue that *lifetime* income, not just annual income, should be considered when judging someone's ability to pay local taxes. The value of a house, for example, reflects its owner's *lifetime* income, not the income he or she makes in any one year. Simply comparing a property tax bill in any one year to income in that year may be unfair because it ignores overall wealth and ability to pay.

Finally, special state programs can reduce some of the worst effects of the real property tax on people with fixed incomes. For example, Pennsylvania has a program called the Senior Citizens Property Tax and Rent Rebate Program that helps low-income seniors pay their real property taxes so they won't be forced from their homes.

Table 2. Influence of tax base on real estate taxes in Pennsylvania, 1990–91 (excludes Pittsburgh and Philadelphia).

	1990–91 Property Wealth per Pupil Decile									
	Lowest	Second	Third	Fourth	Fifth	Sixth	Seventh	Eighth	Ninth	Highest
Market value per pupil	\$65,138	\$80,862	\$93,196	\$106,757	\$124,741	\$143,107	\$167,884	\$198,236	\$238,464	\$368,639
Personal income per pupil	\$39,968	\$48,761	\$54,924	\$61,295	\$71,469	\$74,557	\$82,539	\$97,877	\$102,623	\$155,824
Real estate taxes per pupil	\$1,149	\$1,429	\$1,543	\$1,734	\$2,033	\$2,411	\$2,732	\$3,238	\$4,056	\$5,208
Local tax effort (mills)	23m	24m	23m	21m	21m	21m	20m	20m	19m	16m
Total spending per pupil	\$4,667	\$4,904	\$4,982	\$4,996	\$5,191	\$5,330	\$5,524	\$5,980	\$6,600	\$7,354

Source: National Conference of State Legislatures, 1992.

Are local concerns about the amount of tax monies needed, or which taxes are used?

In local school tax debates, it is important to determine whether the issue of concern to taxpayers is the total *amount* of tax dollars required by the school district, or *which* local taxes the school district uses to get those monies. Sometimes it is a little of both. If the concern largely is the *amount* of taxes needed, simply shifting from one local tax to another more fair local tax will not solve local concerns because it doesn't address the main issue, which is costs and expenditures. If local taxpayers' concerns instead are more about the *fairness* of the specific taxes used, shifting to a more equitable tax system under the provisions of Act 50 may help to resolve local issues.

What tax changes from Act 50 of 1998 require local approval?

The school tax aspects of Act 50 of 1998 are intended to *shift* the source of local taxes, not *change* the total amount of tax dollars generated locally. Increased revenues from the new structure *must* be used to eliminate and/or reduce other taxes. Although some important changes from Act 50—including a reduction in the school debt limit, a taxpayer's bill of rights, and changes in the amusement and mercantile taxes—go into effect automatically without local approval, two of the major school tax changes in the act apply to a specific school district only if they are approved in that district. These two changes include:

1. Increase reliance on the earned income tax
 - a. Eliminate nuisance taxes and reduce the real property tax
 - b. Target real property tax reductions via a homestead exclusion
 - c. Require voter approval of future real property tax increases
2. Allow low-income residents to defer taxes

Note that the first change, the earned income tax increase, clearly specifies how the revenues will be used, and places control of future real property tax increases in the hands of local voters (letters a, b, and c). The second change can be implemented independently of the first. The changes are described below.

1. Increase reliance on the earned income tax

Under the act, school districts can levy a higher earned income and net profits tax rate, up to a maximum of 1.5 percent. Formerly, they were allowed a maximum of 1 percent, but this had to be shared equally with local governments if the municipalities also levied the tax. The earned income and net profits tax is a tax on wages, salaries, net profits, or other compensation people receive, and already is used (with a lower tax rate) in most school districts.

a. Eliminate nuisance taxes and reduce the real property tax

In exchange for the higher earned income tax limit, school districts adopting the tax structure under Act 50 of 1998 are required first to use the new revenues to eliminate nuisance taxes (the occupation, occupational privilege, and per capita taxes) and reduce the real property tax with a homestead exclusion, which also is authorized by Act 50. The homestead exclusion targets tax reductions to permanent residents by reducing their homes' assessed values for tax purposes. Act 50 clearly specifies the order of how school districts should use new tax monies gained from a change to the new tax structure:

- 1) Eliminate nuisance taxes
- 2) Keep a nominal amount of the increase (The total tax increase cannot exceed the percentage increase in the statewide average weekly wage in the previous year.)
- 3) Reduce real property taxes with a homestead exclusion
- 4) If the size of the homestead exclusion would exceed the constitutionally set maximum, use all remaining new revenues to reduce the real property millage rate

b. Target real property tax reductions via a homestead exclusion

The homestead exclusion is a way to target real property tax relief to homeowners who have their permanent residence in the taxing jurisdiction (school district, county, or municipality). The homestead exclusion reduces the assessed values of homestead properties, thereby reducing the property tax on these homes. The homestead exclusion provides the same dollar tax break to all eligible homestead properties in the taxing jurisdiction, including houses on farms, condominiums, single-family homes, and other places of permanent residence.

The homestead exclusion is necessary because any tax shift from the real property tax to local income taxes without it could provide a windfall to some business and nonresident property owners while increasing the tax burden on homeowners. If real property tax rates simply were reduced for all taxpayers because of the new income tax revenue, business and nonresident property owners would pay less overall in local taxes

because they do not pay earned income tax and would not be affected by the increased rates. Supporters of homestead exclusions say that this is unfair, because tax reform wasn't intended to provide tax breaks paid for by homeowners to local businesses or nonresidents.

Act 50 of 1998 also authorizes a farmstead exclusion, which targets real property tax reductions to buildings on farms not already exempt from real property taxation. By law, if the homestead exclusion were implemented in a community, the farmstead exclusion also must be implemented. The size of the farmstead exclusion could not exceed the size of the homestead exclusion. (For more information on the homestead or farmstead exclusions, see the Penn State Cooperative Extension bulletin "Understanding the Homestead and Farmstead Exclusions," available through your local Penn State Cooperative Extension office.)

c. Require voter approval of tax increases

The most significant change under Act 50 of 1998 is that school districts adopting the new tax structure would be required to get voter approval of any future noninflationary increases in real property tax rates. Pennsylvania taxpayers previously have not had the ability to vote directly on local tax increases. Any tax rate increase greater than the previous year's inflation rate (as measured by the percentage increase in the average weekly wages in Pennsylvania) would have to be approved by local voters through these "back-end" referenda.

There are six exceptions to this referendum requirement. Taxes could be increased without a referendum (1) for an emergency declared by the governor; (2) to implement a court order or an administrative order from the state or federal government; (3) to pay interest and principal on existing debt; (4) to respond to conditions that pose a threat of serious physical harm to students or staff; (5) for special-purpose taxes authorized by voters; or (6) to maintain per-student tax revenue for those districts with enrollments growing faster than 10 percent over a 3-year period.

If a ballot proposal to increase the real property tax rate fails at the polls, the real property tax rate stays at the rate already in effect at the time of the referendum.

2. Allow low-income taxpayers to defer tax increases

Low-income taxpayers could be allowed to defer real property tax increases on their homestead if the school district, county, or municipal government decides to allow such deferrals. For a taxpayer to qualify, his or her income must be less than the income requirements defined for the Senior Citizens Property Tax and Rent Rebate program (\$15,000 in 1997). Any tax increase above what the taxpayer paid in the year before signing up would be deferred until the taxpayer either sells the homestead or passes it on to heirs. The amount of deferred taxes, other unpaid liens, and outstanding mortgage on the property could not exceed 85 percent of the market value of the homestead. Similarly, a taxpayer could not participate if his or her outstanding mortgage exceeds 70 percent of the property's market value. A taxpayer wishing to defer real property tax increases must submit an application to the school district, county, or municipal government.

How can these tax changes be implemented in my school district?

School districts are not required to change to the new tax structure, but can stay with their current structure if they prefer. School districts must use a local referendum to adopt the new local tax structure. The referendum must be written in clear language that is readily understood by a layperson, such as:

“Do you favor the imposition of an earned income and net profits tax of X% to be used to replace (NAMES OF LOCAL NUISANCE TAXES TO BE REPEALED), reduce real property taxes by X% by means of a homestead exclusion, and provide for a one-time revenue increase of X% over the preceding fiscal year?”

The referendum question can be placed on the local ballot either through a decision by the school board, or if the school board does not act within two years, through a series of petitions and actions by residents. If the referendum fails at the polls, regardless of how it was placed on the ballot, the existing local tax structure will continue to be used in the school district.

The decision regarding whether or not to offer the low-income tax deferral program is a separate one that the school board can make on its own, regardless of whether other tax changes from Act 50 are adopted. The homestead exclusion, similarly, can be implemented separately from these broader tax changes. If schools choose to adopt the higher earned income tax, they are *required* to use the homestead exclusion; but they also can choose to offer a homestead exclusion without adopting the other changes, as long as they do not raise real property taxes to pay for it. The amount of revenue needed to pay for a homestead exclusion, however, makes it unlikely that most school districts, counties, or municipalities will be able to offer it without new revenues from tax reform.

How can residents put the referendum on the ballot?

If your school board does not act within two years to place a referendum question about Act 50 of 1998 on the ballot, school district residents can attempt to place it on the ballot through a series of petitions and steps. These include:

1. Circulating a petition requiring the school board to establish a local tax study commission. If the petition is signed by 2 percent of the number of residents who voted for the office of governor in the last gubernatorial election, the school board must create such a commission to study the current local tax structure and possible effects of Act 50 on the school district. The local tax study commission is required to make a recommendation to the school board about whether Act 50 reforms should be adopted. Commissions are composed of five residents or taxpayers, chosen to reflect the age, socioeconomic, and occupational diversity of the district. Only one member can be a member of the school board, and none of the other four can be an official or employee of the district, or be related to an official or employee of the school district.
2. The local tax study commission then will conduct a study of local taxes, following general guidelines laid out in Act 50. These include considering the historic and present use of taxes by the school district; the age, income, employment, and property use characteristics of the existing tax base; and the projected revenues from different taxes. Within 90 days of the appointment of the commission, it is required to make a recommendation to the school board about whether or not to adopt the new tax structure. The recommendation is nonbinding. The local tax study commission is required to publish a final report of its findings, and to make all of its records available to the public.
3. If the local tax study commission recommends that the school district adopt the new system, the school board can place the referendum on the ballot. If the school board fails to do so, residents can circulate another petition requesting the referendum. If the petition is signed by 5 percent of the number of residents who voted for the office of governor in the last gubernatorial election, the petition compels the referendum to be placed on the ballot. If the local tax study commission does not recommend adoption of the new system, the board is not required to place a referendum on the ballot, nor can it be compelled to do so via petition.

Table 3. Estimated change in 1995 school district real property taxes from residential land, based on proposed tax changes under Act 50 of 1998.

County	Average Reduction Among School Districts in County	Number of School Districts in County Affected by Tax Changes				Increase in Real Property Tax
		Reduction in Real Property Tax*				
		0 to 15%	15.1 to 25%	25.1 to 50%	Greater than 50%	
Adams	8.0%	3	2	0	0	1
Allegheny	23.2	2	28	13	0	0
Armstrong	17.2	2	1	1	0	0
Beaver	24.1	0	10	5	0	0
Bedford	24.1	0	4	1	0	0
Berks	26.0	1	6	11	0	0
Blair	33.0	0	1	6	0	0
Bradford	8.9	3	2	1	0	1
Bucks	28.8	2	2	8	1	0
Butler	29.7	0	1	6	0	0
Cambria	30.6	0	4	8	0	0
Cameron	25.3	0	0	1	0	0
Carbon	14.4	3	2	0	0	0
Centre	6.6	3	0	0	0	1
Chester	31.9	0	5	5	2	0
Clarion	14.0	2	2	2	0	1
Clearfield	28.9	1	1	6	0	0
Clinton	6.3	1	0	0	0	0
Columbia	7.9	1	2	1	0	2
Crawford	29.0	0	1	2	0	0
Cumberland	6.2	7	1	0	0	1
Dauphin	2.1	4	1	0	0	5
Delaware	41.8	2	2	6	4	1
Elk	64.5	0	0	0	2	1
Erie	103.7	3	0	0	6	4
Fayette	64.1	0	1	3	1	1
Forest	7.2	1	0	0	0	0
Franklin	23.4	1	0	4	0	0
Fulton	21.7	0	3	0	0	0
Greene	20.0	1	3	1	0	0
Huntingdon	36.9	0	0	4	0	0
Indiana	7.6	6	1	0	0	0
Jefferson	9.2	1	1	0	0	1
Juniata	81.9	0	0	0	1	0
Lackawanna	33.2	1	1	7	1	0
Lancaster	26.5	0	4	9	1	2
Lawrence	30.1	0	1	7	0	0
Lebanon	25.3	1	1	4	0	0
Lehigh	28.4	1	2	6	0	0
Luzerne	30.8	0	3	8	0	0
Lycoming	-3.4	2	0	0	0	6
McKean	30.9	0	1	4	0	0
Mercer	33.5	0	2	8	1	1
Mifflin	15.6	0	1	0	0	0
Monroe	13.0	3	1	0	0	0
Montgomery	53.3	1	6	10	5	0
Montour	10.4	1	0	0	0	0
Northampton	20.4	1	6	1	0	0
Northumberland	6.8	2	3	0	0	1
Perry	-2.5	1	0	0	0	3
Philadelphia	57.1	0	0	0	1	0
Pike	12.5	1	0	0	0	0
Potter	22.7	2	0	3	0	0
Schuylkill	25.2	1	2	7	1	1
Snyder	-24.5	0	0	0	0	2
Somerset	23.8	0	5	5	0	1
Sullivan	13.6	1	0	0	0	0
Susquehanna	34.1	0	2	4	0	0
Tioga	-0.1	2	0	0	0	1
Union	-16.2	0	0	0	0	2
Venango	25.8	0	3	2	0	0
Warren	36.6	0	0	1	0	0
Washington	27.5	0	4	10	0	0
Wayne	14.5	2	1	0	0	0
Westmoreland	28.1	0	6	11	0	0
Wyoming	23.3	0	2	0	0	0
York	30.4	0	7	8	0	0
TOTALS (n = 501 school districts)	27.3%	73 (15%)	151 (30%)	210 (42%)	27 (5%)	40 (8%)

* The estimates assume that school districts will increase their tax rates the maximum amount allowed in the first year. If increases are less, the real property tax reductions will be greater.

How might Act 50 affect my community?

An analysis using Pennsylvania school district data suggests that the tax change aspects of Act 50 would have provided an average 27 percent reduction in residential property taxes in Pennsylvania school districts in 1995. These savings would have varied significantly across the districts, however (see Table 3). Forty school districts actually would have had to *raise* their real property taxes under the plan, because it would have cost them more to eliminate nuisance taxes than they would have gained from the higher earned income tax rates. These estimates assume that school districts increased total revenues the maximum possible in the implementation year; if the increase were less, the real property tax reductions would have been greater.

The effect of tax change on individual taxpayers (particularly those with high earned income) is difficult to estimate because so much depends upon (1) how much they already pay in nuisance taxes, (2) in which school district they live, (3) the size of the earned income tax increase, and (4) the size of the homestead exclusion. In general, however, property owners with little earned income, such as seniors and others on fixed incomes, should end up paying less in school taxes as a result of the reforms.

Renters likely will pay more in earned income tax, but are unlikely to benefit from the real property tax reductions because they are not eligible for the homestead exclusion. The reform will have little short-term effect on owners of businesses, vacation homes, camps, or second homes because they are not affected by the earned income tax and similarly will not receive reductions in real property taxes. In the long run, however, they should benefit if the referendum requirement for future tax increases reduces the growth of school tax bills.

What doesn't Act 50 of 1998 address?

Act 50 of 1998 does not address some important local tax reform issues that might affect the appropriateness of the new local tax structure for specific school districts. Voters in many school districts will have to evaluate whether they believe the reforms are good or bad.

1. *Equity across districts*

Act 50 would do nothing to improve fairness *across* school districts. Most poor districts would remain poor after Act 50, and most rich districts would remain rich. Individual taxpayers lucky enough to be living in a rich school district, in general, would continue to pay lower real property taxes than individual taxpayers who happen to live in poorer districts. This occurs because Act 50 addresses only the mix of taxes *within* each district, and does nothing to address the revenue inequities *across* districts.

This approach to local school tax reform contrasts with the approach recently used by several other states, which deliberately increased the state share of local school revenues to reduce local reliance on the real property tax and to correct inequities across districts. Kansas and Michigan increased state taxes to get the needed revenues, while South Carolina and Wisconsin promised to raise the money without increasing state taxes. Their approach reduced total local school taxes instead of merely shifting them to a different local tax within each district. This makes the tax burden fairer *across* districts instead of just *within* districts. On the other hand, some argue that increasing reliance on state revenues reduces local ownership and control of schools.

2. *Importance of the real property tax to most school districts*

Although the tax changes under Act 50 of 1998 reduce real property taxes, the real property tax would remain the most important local tax for most school districts, and may increase as school districts continue to use it to balance their budget each year. The earned income tax could not be used for this purpose because after the initial tax system changeover, Act 50 allows future earned income tax increases only for the purpose of reducing the real property tax.

Concerns about the fairness of the real property tax would remain important in many school districts because it would continue to play a central local role. The tax deferral parts of Act 50, if approved by school boards,

should reduce the likelihood that participating low-income homeowners would be forced from their homes by tax increases. But other concerns about the real property tax, such as property assessment and administration, are not addressed by Act 50.

3. Limited options for some school districts

The only new local tax option Act 50 of 1998 provides school districts is a higher earned income tax rate. This may be useful in many school districts, but not in all, because local conditions vary across Pennsylvania. An estimated 40 school districts, for example, wouldn't even be able to implement Act 50 without raising their real property tax rates because the amount of money they would lose from their nuisance taxes is greater than the amount they would gain from the higher income tax. The amount that school districts along the border with New York and New Jersey (which have many residents who work out of state) would collect would be restricted because they would be required by state law to credit the income tax their residents pay out of state. More options would have allowed communities to develop and choose the new tax structure that is best for their unique situation.

4. Shortcomings of the earned income tax

The earned income tax itself is subject to concerns about sufficiency and fairness, which means that it might not be the best alternative for some school districts. Because the amount of revenue coming from the earned income tax depends directly upon how much income residents earn, the earned income tax is susceptible to business cycles. Collections boom when the economy is good, but they fall when the economy declines. This makes the earned income tax a less steady and reliable source of tax revenue, and makes it difficult for school districts to accurately predict earned income tax revenues at the beginning of each year. On the other hand (and unlike the real property tax), earned income tax collections grow naturally because of inflation, as wages increase.

The earned income tax also suffers from criticisms about its fairness because it discriminates against certain types of income. Wealthy taxpayers may have a high percentage of income coming from dividends or interest, but because the earned income tax is based only on earnings and net profits, this income is not taxed. As a result, wealthy residents who get most of their income from investments are affected less from the earned income tax than are their lower-income wage-earning neighbors.

5. No additional options and tools for school districts to control spending

Cost control clearly is an important issue for taxpayers and school districts. Higher costs lead to either further tax increases, program cuts, or a mixture of both. The reforms under Act 50, however, would do nothing to give school districts additional ability to control their costs. The referendum requirement for future tax increases likely would make it more difficult for school districts to raise their tax rates, placing school boards between a rock and a hard place, with no way out. Cost control is vitally important if taxpayers are concerned about both the size of tax burdens and the quality of local education. Without a greater ability to control costs, revenue restrictions may create severe challenges for school districts.

6. Future flexibility of school districts

Act 50 of 1998 might make it more difficult for school districts to adapt to future needs because of the local referendum requirement. Many people would agree in principle that local referenda on tax rates are good, because they provide additional local control over taxation. They also, however, create the opportunity for the prohibition of needed revenue increases. Because Pennsylvania has the second largest percentage of elderly residents of any state, and has other large population segments that do not have a direct link to local schools, it may become difficult to pass local school tax referenda. Several other states with local referenda already have found that they make passage of needed tax changes difficult. The highly publicized difficulties in Michigan's Kalkaska School District in 1993, for example, when the school closed in March because a budget could not be approved, served as a major impetus for that state's takeover of local school finance.

In addition, the restrictions on tax rate increases are not tied to the needs of the school district. Act 50 does allow a school district to avoid the referendum if the number of students has grown more than 10 percent over the past 3 years, but the Senate Policy Development and Research Office estimates that only 38 Pennsylvania school districts currently would qualify under that criterion. There is little guarantee that schools with lower but steady growth in the student population would be able to maintain their per-pupil revenues, or that school districts would be able to adapt to changing educational needs.

Time and experience with local tax referenda in Pennsylvania will demonstrate whether the referendum requirement merely stops school tax increases altogether, or if it instead controls tax increases while at the same time ensuring quality schools.

In Summary

Act 50 of 1998 gives Pennsylvania school districts another major choice in local taxation. It is not a comprehensive local tax reform package, as some would have preferred, because it provides only one new tax option to school districts, does little to address fairness issues *across* school district boundaries, and provides no major tax reforms for county and municipal governments. But Act 50 does give more choices to school districts, allowing many to reduce real property taxes and target real property tax relief to homeowners and farmers. It also potentially gives local taxpayers more voice in tax increases, giving them greater control over their taxes.

The local referendum components of Act 50 (both front- and back-end) provide an exciting opportunity for Pennsylvania voters. With that opportunity comes responsibility, however. Voters will need to examine carefully and thoughtfully the potential effects of Act 50 on their own community, or they might unintentionally make local taxes in their community worse. Especially important in this decision will be considerations about educational quality, local tax fairness, who will pay more and who will pay less in the school district under Act 50, and the potential impact of “back-end” referenda on the school district’s ability to adapt to changing conditions and needs. Local decisions about whether to stay with the current local tax system or adopt Act 50 will have major consequences for local tax fairness, citizen control, and the quality of public schools.

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