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**Pennsylvania's Property Tax Reform: A Mixed Bag**

The General Assembly recently enacted the long-anticipated and highly contentious slot machine legislation. In a companion bill, the Assembly passed a provision providing for school property tax relief through the use of the Commonwealth's 34 percent tax on gross gambling revenues at the slots venues.

The slots proponents argue that the state can expect a billion dollars from the gaming tax in a couple of years when there are 30,000 slot machines up and running. If that questionable forecast turns out to be accurate, the billion dollars will be returned to school districts that opt to participate in the tax reform program. It is important to note that the tax reform will not result in a reduction of millage rates, but a homestead exemption. Based on a complicated formula, the amount of state money returned to each district will result in homestead exemptions ranging from 12.5 to 50 percent of the average appraised value of homes in the district.

For example, North Allegheny School District would receive \$3,854,622 in state funds with the total tax savings per owner-occupied residence amounting to \$362, which represents a 12.5 percent homestead exemption. Meanwhile, McKeesport schools would receive \$3,958,137 from the state producing a total savings of \$440 per homeowner, a 50 percent homestead exemption.

If the billion dollars fails to materialize, the tax reduction payments from Harrisburg to the school districts will be lowered proportionally to the gaming revenue shortfall—assuming the revenues are sufficient to cover the mandated \$400 million that must be held in reserve. Moreover, given the time it will take to get slot licenses issued and the 30,000 machines up and running, it could be 2007 before taxpayers receive any significant help from the slot machines.

Bear in mind, that in order to “qualify” for the gaming dollars, a school district must first raise the earned income tax by 0.1 percent. Those revenues will contribute to the homestead exemption. This helps to lower property taxes by shifting some additional burden to earned income. The total savings per homestead referred to in the examples above include the revenues from the 0.1 percent earned income hike. In the North Allegheny School District, the matching state gaming dollars amount to \$2.63 for each dollar of increased income tax. In McKeesport, the match is \$11.15 in state money for each dollar of increased income tax revenue.

Clearly, the program is designed to allocate the gaming money in a way that preferentially helps less well-to-do communities. Moreover, since the tax reduction is based on all homeowners getting the same exemption, the tax reduction program is aimed at giving relatively more help to owners of less expensive homes. Owners of more expensive homes will get smaller percentage reductions in taxes.

School districts will be allowed to raise the earned income tax beyond the initial mandated 0.1 percent hike to provide further property tax relief as long as the shift is put to the voters through a referendum. The bill allows a tax shift from property to income up to a 50 percent homestead exemption.

One of the other weaker points of the plan is that it provides no relief for business owned property or for owners of residential rental property. Given the need to reduce the cost of doing business in Pennsylvania, it is a shame that there has been no initiative to cut property taxes for business.

On the other hand, one of the strongest selling points of the reform package is the requirement that the voters must approve any property tax increase beyond the annual rise in Pennsylvania's wage costs. This is a good first step in forcing school boards to rein in their spending appetites. However, the number of exceptions to the referendum requirement compromises this important breakthrough. In combination, these spending exceptions provide school boards an opportunity to avoid restraining expenditures in areas not covered by the exceptions, and then use the rise in costs in the excepted categories to justify raising taxes beyond the level permitted by the wage cost index.

Finally, also of concern, school districts will be allowed to raise property tax rates by the amount of the wage cost index every year regardless of the growth in tax base that might be generating significant revenues. This is not a desirable situation owing to the compounding effect of yearly increases over time. Furthermore, permission to raise property tax rates willy-nilly fails to put adequate constraints on school board spending decisions. Boards should be forced to make choices and set priorities.

In conclusion, while the property tax reform bill is a start, it does not go nearly far enough to address the critical issue of spiraling education costs. After all, the best tax reform is to cut taxes and that means keeping expenditure growth rate below the increase in the tax base. This is a lesson the state and the school boards must eventually learn.

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