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School Tax Reform a Critical Issue for State, This Region

In Pennsylvania “school taxes” make up the bulk of most homeowners’ total property taxes. This is especially true in Allegheny County, which has over the years seen its population decline, while communities in border counties have seen their populations grow. However, regardless of the county of residence, school property taxes represent the largest component of property taxes facing the average Pennsylvania family.

Whether one owns or rents their home, property taxes absorb a significant portion of a family’s income either directly or indirectly. Moreover, property taxes are based on the value of property and not income. Thus families with rising incomes are better able to pay their taxes than those whose incomes are stagnant or falling. Property taxes often become unfairly regressive after a taxpayer retires and can create a significant hardship for retirees and other elderly homeowners whose only option may be to sell their home late in life. Allegheny County, with its large number of elderly citizens and high taxes, is particularly vulnerable on this point.

Allegheny County’s combined property taxes are not just significantly higher than neighboring counties, but also higher than many metropolitan areas elsewhere in the nation. The following table illustrates that compared to other areas in the United States, Allegheny County's combined property taxes are among the highest tax rates in the country. In addition, the table shows that Allegheny County's taxes of \$3 per \$100 of valuation do not compare well with cities experiencing growth such as Charlotte (\$1.00) and Denver (\$0.78) or even Houston (\$1.40) or Chicago (\$1.41).

Combined Property Tax Rate per \$100 Valuation

Selected Cities

Source: US Statistical Abstract 2000

<u>City</u>	<u>Effective tax rate per \$100</u>
Bridgeport, CT	\$4.59
Newark, NJ	3.99
Milwaukee, WI	3.00
<i>Allegheny County</i>	<i>3.00</i>
Philadelphia, PA	2.64
Chicago, IL	1.41
Houston, TX	1.40
Albuquerque, NM	1.20
Charlotte, NC	1.00
Denver, CO	0.78

The great disparity between the combined tax rate per \$100 of valuation for Allegheny County and the observed rates in other metropolitan regions is alarming. Perhaps, the explanation may be that Allegheny County is collecting and expending the same amount of funds, but has a lower average valuation than, say Denver, Colorado. But that, and other issues, would require further investigation and explanation. One likely explanation is that Pennsylvania schools rely on heavy local taxation for a majority of their funding.

At nearly \$8,000, Pennsylvania's average per pupil expenditure is 10th highest in the nation. Pennsylvania's local spending per student, at nearly \$4,400 per year, ranks 9th, well above the national average of \$3,000. On the other hand, the state share of K-12 education expenditures in Pennsylvania is 38.7 percent, which is significantly below the national average of 48.4 percent.

We are all aware of the complaints from school districts with lower property valuations that they are at a disadvantage when it comes to providing a quality education in comparison to those districts where property values are higher. This is especially relevant when it comes to federal or state-mandated requirements that can force those districts least able to afford them to raise taxes in order to meet their responsibilities.

Pennsylvania's method of funding public education which relies heavily on property taxes is not universally applied elsewhere, and certainly not structured the same in other states. Michigan, for example, has all but eliminated residential school property taxes and replaced the revenue with an increase in the state sales tax. Michigan's state share of funding is now at 66 percent. An obvious question to be studied is whether Pennsylvania's educational system would benefit from such a restructuring. A corollary question is whether a different taxing mechanism would be more equitable to taxpayers.

It seems clear, particularly in light of the controversy surrounding the recent reassessment in Allegheny County that a study of the property tax system for funding Pennsylvania schools is in order. Obviously, there are many factors and interest groups that have to be considered. There is no doubt, however, that tax reform in Pennsylvania, as a front burner issue, is long overdue.

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