

POLICY BRIEF

An electronic publication of
The Allegheny Institute for Public Policy

June 2, 2006

Volume 6, Number 27

Reducing Property Taxes

Year after year, government officials in Harrisburg talk about the need for property tax reform and year after year taxpayers wait for meaningful change. The problem largely revolves around the fact that most of the proposals to reduce property taxes involve some form of shifting to other taxes. It is finding the “acceptable” other tax that has been the problem. Slots tax revenues were to provide some relief but only a handful of schools agreed to the terms required to get the money. So another plan that uses gaming money will have to be approved. One can only guess where that will end up.

A recent IssuesPA survey of Pennsylvanians points to a reason for the difficulty in shifting property taxes to another tax. Poll results show there is little acceptability of any of the suggested alternative taxes with respondents not leaning heavily toward any of the options. The leading vote getter was the option to increase the sales tax with a mere 24 percent saying that alternative was most acceptable. The increased sales tax alternative was slightly more acceptable than the alternative of expanding the sales tax to more items. The alternatives of increasing either the state income tax or local wage tax were rated most acceptable by only 15 percent and 13 percent respectively.

Note that the question posed to the survey respondents was couched in terms of which tax would be most acceptable, not which tax is actually acceptable. So, in reality we cannot say for sure what the results mean. The point is that even in terms of the “most acceptable” there is no tax that gets more than 24 percent of respondents favoring it. Thus, it is little wonder the legislature has such a hard time finding a tax to shift the property tax burden to.

One of the problems with property tax discussions is that legislators talk about wanting reform when what taxpayers really want is lower property taxes. There are only two ways to achieve reductions in property taxes: Shift to other taxes or cut the spending which drives the need for burdensome property taxes. Since the shift is proving so difficult and does not result in lower total tax burdens faced by taxpayers, a better approach would be to take steps to decrease government expenditures--especially the category having the largest effect on property taxes, namely, school spending.

We will know that elected officials have decided to provide real relief for property taxpayers when they begin to enact legislation that will help school districts cut

expenditure growth. They should start with eliminating the right of teachers to strike and then impose severe financial penalties on unions when a walkout occurs. There is no more important remedial step in the effort to curb school expenditure growth than to create more balance in the bargaining process, something most states have already done. And in a related action, state statutes should be changed to prevent teachers from serving on school boards since union members are likely to have greater allegiance to union members, even in other districts, than to the taxpayers they are elected to represent.

Second, prevailing wage laws for public construction should be scrapped. Lifting this requirement would allow schools and other government entities to save 10 to 20 percent on construction costs. Statewide, that represents potential savings in the hundreds of millions of dollars a year. About 80 percent of construction workers in Pennsylvania are not members of a union. What sense does it make to set the “official” prevailing wage at the union rate? Obviously, in Pennsylvania, the “actual” prevailing wage is the market-based, non-union wage. The effect of the state’s prevailing wage law is to raise construction costs well above what they should be and require unnecessarily high taxes to fund those costs.

Third, there should be a referendum for all tax increases, for any spending rise that exceeds the pace of inflation-adjusted per pupil spending, and for all bond issues. Unless and until the taxpayers have control over the amount of money school districts and local governments have to spend, elected officials will have a strong bias toward ever higher spending and taxes. If a good enough case can be made for spending and tax hikes, then voters will approve them. The onus must be on those who want to raise taxes to make a strong case to convince the electorate. Referendum requirements are used all over the nation. Pennsylvania, to its great discredit, stands virtually alone in its unwillingness to adopt such a sensible policy. Clearly, the state needs to get in step with the *20th century*.

Fourth, Pennsylvania should adopt a very liberal voucher system that grants parents 80 percent of the per pupil state education cost for each child enrolled in K through 12 classes. The vouchers could be used at any reputable private or public school that will accept their child. The plan should also include generous stipends for home schooling parents to help cover the costs they incur in buying educational materials, supplies, computers, and so forth.

Once it becomes clear that as good or better education can be achieved with less money, public schools will have to learn to compete in terms of cost and quality. All children should have an opportunity to be educated where it best suits them and their parents without having to move, which is the case now for too many families.

Fifth, the state should never impose a mandate on schools unless it provides for the funding to pay for the additional activities.

And while Harrisburg is in a reform mood, they should amend Act 111 so that public safety employees are not able to bankrupt the state’s municipalities through the favored treatment they receive in the binding arbitration process. Most states do not require

binding arbitration for public safety employees. But as a first step, Pennsylvania can look to New York and Ohio for guidance as to the type of changes that are needed. As it stands now, Act 111 creates an extremely one-sided bargaining process to the detriment of the fiscal health of municipal governments.

No one would suggest that enacting any of these reforms will be easy. However, if Pennsylvanians are to ever get a reduction in property taxes, that does not involve having to pay higher sales or income taxes, the reforms laid out above must be put in place. It is time to make the substantive reforms that will put Pennsylvania closer to the mainstream in the country. It is time for taxpayers to demand lower taxes and increased government accountability along with a cost structure that reflects market realities.

Or we can depend on gambling and economic policies that have failed over and over again to bring about the level and breadth of growth that will keep Pennsylvania's children from seeking greener pastures and better opportunities elsewhere.

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