

## **About Property Taxes**

*By David F. Conn*

Property taxes remain the primary funding mechanism for public education in Pennsylvania. While it is certainly fair to ask whether public education could be funded more equitably, at the end of the day, public education remains one of the core governmental functions that all Pennsylvania citizens have come to expect. As such, it must be funded, by one tax or another.

First, it is important to understand the basics. Owners of real property in the Commonwealth typically have their real property taxed by two entities: the county and the local school district. In both instances, the tax revenue remains exclusively with the taxing entity. Property taxes collected within each school district stay with that school district, and property taxes collected by the county stay with that county. There is no revenue sharing in the Commonwealth.

All real property is potentially subject to taxation. The Pennsylvania Constitution permits, but does not require, the General Assembly to designate certain kinds of property as tax exempt. As a general rule, property used for religious or charitable purposes and property owned by government entities (including school districts) is tax exempt. All other property, such as residential, multi-family and commercial, is taxed. However, if you rent, you do not pay a property tax, but the owner of the building in which you are renting does.

Every tax is based on an assessed value. Each county is responsible for determining the assessed value of all property within its boundaries. The assessment covers land and improvements. It is established with a "base year," representing the market value of each property in the last year the county did a full re-assessment. The actual real property tax is determined by applying the "millage rate" to the assessed value. A "mill" represents \$1.00 of tax for every \$1,000 of assessed value. The county and the local school district each fix their millage rate each year, and that rate is applied to every property in the taxing district.

The assessed value of a property changes over time. The assessment may be changed by the county automatically, such as when a property is subdivided or a home is destroyed by fire. Alternatively, a property owner may file an assessment appeal and argue that the assessed value does not accurately reflect the current value of the property. A successful appeal will result in a change in the assessment. Also, many counties, though certainly not all, have conducted county-wide reassessments in the past three decades. Ironically, the State Tax Equalization Board uses two different measures to try to track how closely assessments match market value, and there does not appear to be a strong correlation between recent county-wide reassessments and accuracy. The Pennsylvania Constitution requires that all property within a county must be uniformly assessed so that all properties of the same value are assessed at the same value. However, that uniformity requirement is limited to within each county.

The millage rate itself is determined by each county and school district based on its planned budget. In other words, each county and school district determines the total assessed value of all taxable property within the taxing district and then figures out the millage rate to

apply to that number in order to fully fund their respective budgets. Every tax dollar has already been allocated to a budgeted expenditure before the tax is collected.

With the basics out of the way, how important are real property taxes to education funding in Pennsylvania? The numbers are compelling. In Bucks County, for example, for the 2006-2007 school year, the thirteen school districts combined to collect total revenue of \$1,308,356,332.38. Of that staggering total, just over 75%, or \$983,879,855.75, came from real property taxes. Federal contributions to that revenue, by contrast, came in at just over 1% or \$15,422,244.62. The Commonwealth contributed \$261,515,364.72, or 20% of the total revenue collected by Bucks County school districts in the 2006-2007 school year.

The statewide numbers were somewhat more even, but still dramatic. The Commonwealth contributed roughly 36% of all revenue to all school districts and the federal government contributed 3.65%. Pennsylvania is well below the national average in terms of direct state funding for public schools. As a result, local school districts were still left nearly 60% of the funding responsibility. The vast majority of that revenue was generated by real property taxes. When all is said and done, in the 2006-2007 school year, local school districts collected \$12,276,768,382.37 in tax revenue. To put this number in perspective, in the 2007-2008 school year, the Commonwealth of Pennsylvania budgeted a total of \$27.3 billion for General Funds and had a total budget of \$59.1 billion. Pre-K through 12 education accounted for 34% of the state budget, which was by far the single largest area of expenditure. Federal contributions were also below the national average. Considering the breadth and variety of federal regulations with which school districts must comply (No Child Left Behind, IDEA and FERPA, just to name a few), public education in America may be the most underfunded federal mandate in history.

This, then, is the challenge facing Pennsylvania taxpayers. While it is possible that budget tightening might reduce the total funding necessary for public education, even the most aggressive approach to budgeting will only slow the rate of increase. Gambling revenue may also help in the coming few years; however, even if the total gambling revenue allocated to property tax relief is as high as everyone hopes, it will still only reach roughly 10% of the total funding requirement. Public education is expensive, it is getting more expensive and it must be funded. Legitimate questions can be asked: Should assessments be uniform across the Commonwealth, and should revenue be shared among all taxing districts? Does the use of a "base year" for setting assessment values lead to unfair taxes for some property owners? Should the state provide more direct funding for public education, as many other states do? Is it fair for renters with children to escape any tax burden for education, while seniors without school age children see property taxes go up? Regardless of how these questions are answered, the basic framework of funding education through property tax remains the only game in town.

Clients who have questions regarding issues discussed in this article, or any education law matter, should feel free to call us at 215-345-9111.