



# POLICYPOINTS

Quick Facts from the Commonwealth Foundation

## Property Taxpayer Protections

The Pennsylvania General Assembly is in the midst of discussing what to do about school property taxes. The discussion is an old one in Harrisburg. The complexity of this issue and the variety of legislative proposals (from carving out exemptions for certain classes of citizens to using future gambling money for rebates to eliminating school property taxes entirely by increasing the sales or income taxes) suggest that lawmakers are no closer to a resolution today than they were decades ago.

Nevertheless, as the General Assembly continues to debate if, how, and where to shift the school funding burden, lawmakers should not miss the opportunity to substantively protect property taxpayers from additionally onerous school tax increases in 2006. At the very least, policymakers should seek to hold taxpayers harmless in the coming year by:

- ◆ **Requiring voter approval through ballot referendum for any school tax increase, and**
- ◆ **Waiving the Prevailing Wage Law as it applies to school districts to reduce tax increases necessary for construction projects.**

Combined, these two measures will help to better protect property taxpayers from the unlimited power of school boards to raise taxes, while reducing the cost of constructing new facilities or remodeling existing structures.

### **VOTER REFERENDUM ON SCHOOL TAX INCREASES**

According to an Education Commission of the State, Pennsylvania is the only state in the nation that allows school boards to raise taxes and spending with no practical limits.

- ◆ Nine states do not give school boards any taxing authority.
- ◆ An additional 28 states set a limit to the amount a school board may tax.
- ◆ Another 10 states require voter approval via referendum for tax increases or for school district budgets.
- ◆ Two states place limits only on the amount a school district may spend.
- ◆ Only Pennsylvania allows school boards to increase both taxes and spending without limit or voter referendum.

Frequently, opponents of school tax referendums suggest that empowered taxpayers will always say “NO” at the ballot box. However, that is not the experience of other states in the Pennsylvania region. The following chart demonstrates that taxpayers have indeed been willing to raise their own taxes when school districts have been able to convince the community of the need for additional tax revenue.

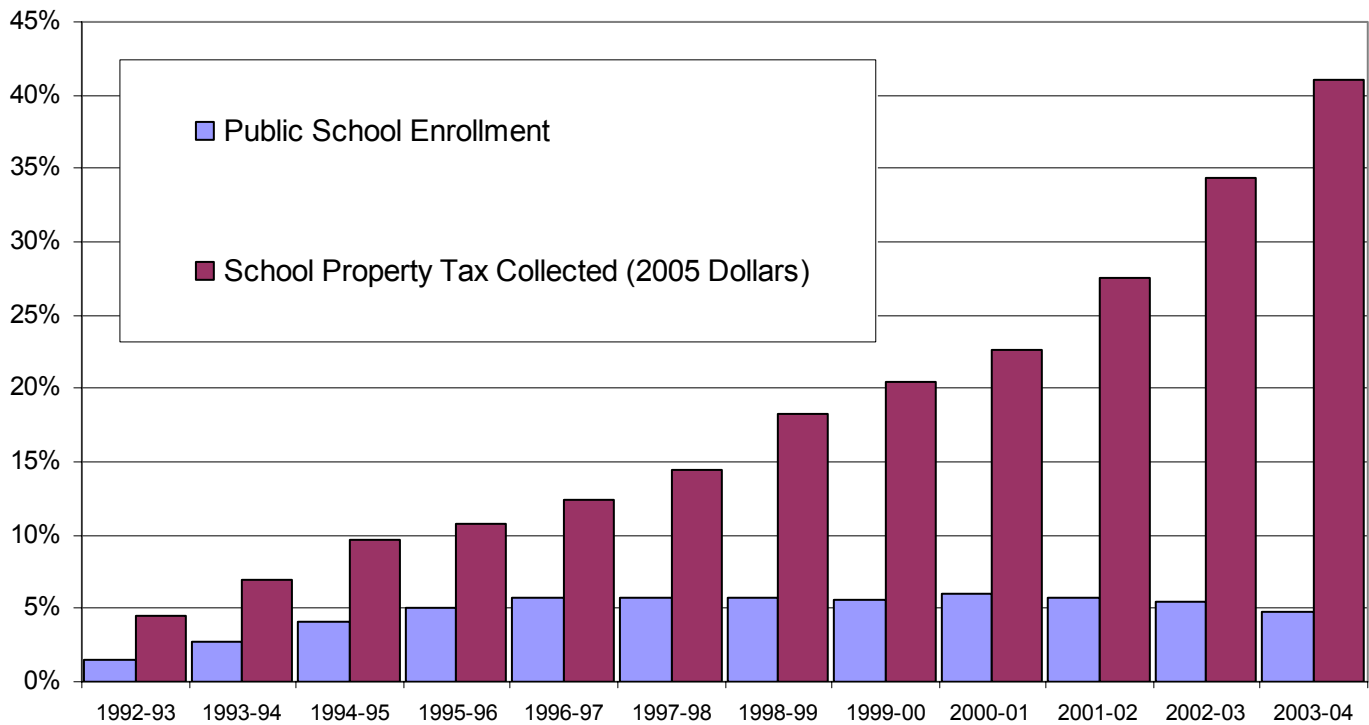
### Taxpayer Protections in Other States

State	Taxpayer Protections	Experience
<b>Ohio</b>	Referendum for any property tax above 10 Mills – levy must be renewed.	Voters approved 53% of 2,287 “issues” in past 5 years.
<b>New Jersey</b>	Both a total spending cap for school districts and mandated voter approval of budgets exist. An increase above the spending cap requires an additional ballot question.	Voters approved between 62-71% of the base budgets in each of the past four years and about half of the ballot questions.
<b>Michigan</b>	School districts cannot increase property taxes for operating purposes. All districts must receive voter approval for tax increases for facility improvements.	More than 60 percent of school capital bond proposals passed in the 2002-03 school year.
<b>New York</b>	Voters must approve budget on 1 <sup>st</sup> vote or revote, or else budget increase is capped.	Passage on first vote exceeded 83% each of last two years.
<b>West Virginia</b>	Local districts cannot assess property above state property tax limit. Issuance of bonds requires voter approval.	NA
<b>Maryland</b>	Counties and the City of Baltimore are responsible for determining local school taxes.	
<b>Pennsylvania</b>	- NONE -	- NONE -

This unlimited power of Pennsylvania’s local school boards to tax and spend has resulted in dramatic increases in school property taxes—exceeding both inflation and student enrollment growth.

Between 1991-92 and 2003-2004 property tax revenue increased from \$4.4 billion to \$8.3 billion—an 89 percent increase. During this same period, inflation increased by 34 percent and public school enrollment increased only 5 percent. The dramatic increase in school taxes (in inflation adjusted dollars) relative to student enrollment is represented in the following chart.

**Change in Public School Enrollment and Real School Property Taxes as a Percentage of 1991-1992 School Year**



On per capita basis, the property tax increased between 1991-92 and 2003-04 from \$498 (in 2004 dollars) to \$669 for every man, woman, and child in the commonwealth. This represents an inflation adjusted increase of \$171 per person.

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## **PREVAILING WAGE LAW COSTS TAXPAYERS MILLIONS**

According to the Pennsylvania School Boards Association (PSBA), “Perhaps no law has done more to increase the costs of school construction than the Prevailing Wage Act of 1961, an entitlement established for the benefit of construction workers.”

The PSBA further notes in its March 1997, White Paper on Relief from Mandates:

“These ‘prevailing wages,’ determined by the Pennsylvania Department of Labor and Industry (L&I) for the locality in which the work is to be done, historically have been identical to union scale rates in a few large metropolitan areas and not reflective of actual wage rates in most communities. *As a result, the cost of all public works construction has been inflated, forcing local taxpayers to pay more taxes for school construction projects, with no evidence of enhanced level of service and no direct benefit to students.*” (emphasis added)

The PSBA continues:

“While the overall cost of complying with this entitlement varies from project to project, *studies have shown that the act may inflate construction outlays for school districts anywhere between 9% and 30%*. Even if that added cost averages only 15%, based on total estimated expenditures of about \$600 million for such projects per year, *school districts have been spending about \$90 million annually just to comply with this single mandate*. The final cost is actually several times that amount, considering that most construction projects are financed over many years.” (emphases added)

## **TAXPAYER PROTECTION PROPOSALS DYING IN COMMITTEE**

Currently, legislative proposals that would provide voter referendum on all school property tax increases, as well as waiving local prevailing wage requirements on school districts, are sitting committees awaiting action.

- ▶ **House Bill 188**, which would require voter approval through a referendum for any increase in property taxes, has been sitting in the House Finance Committee since February 8, 2005.
- ▶ **House Bill 272** and **Senate Bill 878**, which would make the prevailing wage requirement optional for local governments (including school districts), have been sitting in the House Labor Relations Committee and in the Senate Labor and Industry Committee since February 8, and September 26, 2005 respectively.
- ▶ **House Bill 947**, which would make the prevailing wage requirement optional for school districts only, has been sitting in the House Labor Relations Committee since March 14, 2005.
- ▶ **House Bill 948**, which would change the way the prevailing wage is calculated to include private sector construction wages, has been sitting in the House Labor Relations Committee since March 14, 2005.

As a first step toward property tax reform, the legislature should give property taxpayers the protection they deserve. Waiving the prevailing wage law for school construction projects would also go a long way in reducing the need for higher property taxes. While comprehensive property tax reform remains elusive for lawmakers, these reforms are both feasible and needed to better protect property taxpayers.

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