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Proposal to 'eliminate' property taxes concerns Bucks, Montgomery school officials

By Gary Wechselblatt, staff writer 8 hrs ago

As they wrestle with budgets for the 2017-18 school year, business administrators have been told by the state group that represents their interests to prepare a separate spending plan — one that significantly limits property taxes.

The Pennsylvania Association of School Business Officials is also advising its members to contact state lawmakers about legislation that's expected to be submitted as soon as this week to eliminate most property taxes in favor of increased sales and income taxes.

That measure, sponsored by state Sen. David Argall, R-29, of Berks and Schuylkill counties, has bipartisan support and failed in the last legislative session by one vote.

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On his [website](#), in an [audio link](#) from December, Argall said, "The issue I hear the most about is property tax elimination. I hear it in Schuylkill County. I hear it in Berks County. I hear it every single day. ... I don't believe that people want their property taxes reformed. I don't think that people want their property taxes tweaked. I don't think they want their property taxes temporarily reduced. They want them eliminated. They know that the property tax system is old. It's archaic. It's rotten at the core. The only way to fix it is to eliminate it, and that is our number one goal for next year."

That goal has education advocates in a panic as Argall's [co-sponsorship memoranda](#) states that the new plan will go into effect July 1.

"There are just so many uncertainties right now, so many unanswered questions," said Robert Reichert, the business manager for the Hatboro-Horsham School District. "There are so many potential problems with the potential property tax reform. To even discuss the issue, there are so many problems and uncertainties to be answered before you can really get your hands around it."

Neshaminy School District Superintendent Joseph Jones III said: "We'll keep an eye on this, but for right now we're staying on the same course. At this point, we're putting this aside and staying on the same path (of budget preparation)."

Pennridge, on the other hand, is following PASBO's recommendation. "Pennridge is preparing for both scenarios due to the uncertainty of the situation," Superintendent Jacqueline Rattigan said.

Argall's legislation would increase the state's income tax from 3.07 percent to 4.95 percent and raise the sales tax from 6 percent to 7 percent. Additionally, to make up the nearly \$14 billion needed to fund the commonwealth's 500 school districts, the sales tax would expand to items now exempted, including groceries, clothing, beer, liquor, financial, funeral and salon services, and non-prescription drugs.

The new revenue sources would replace dollar-for-dollar the revenues lost by the school property tax elimination, Argall's memo states. A portion of the school property tax would remain only to pay off debt service.

Districts would continue to collect the property tax until June 30, 2017. After that, districts would receive their reimbursement from the State Treasury on a quarterly basis with a cost-of-living adjustment.

Act 1 of 2006, the state's property tax law that allows tax increases based on an inflation formula, plus exceptions for items like retirement and special education costs, would end. Under Argall's plan, any district seeking to spend above the allotment from the state would need to seek a voter referendum. Districts could increase the local personal income tax or earned income tax if approved by the voters in that district.

"There can be property tax reform, but to eliminate it altogether is not the solution," said Neale Dougherty, president of the New Hope-Solebury school board. "There should be a blend of property, income and sales taxes, not this whiplash from one to the other."

Dougherty said that while "traditional property taxes stay in the community and help support education," under the legislation "local tax dollars won't stay local."

His long-term concern is that income and sales taxes fluctuate with the economy, and should the funding take a hit in a recession, "I don't trust Harrisburg to maintain education funding in that kind of situation," Dougherty said.

Property taxes, on the other hand, have been a more predictable and stable revenue, where districts have been able to anticipate cash flow.

Dougherty's thoughts were echoed in a meeting of the Central Bucks Finance Committee last week, where those members contended the new basic education funding formula would be eliminated, taxes would shift from businesses to individuals and local control would cede to the state.

Central Bucks business manager David Matyas said instead of collecting \$218 million in property taxes as the district does now, the district would be limited to \$15 million for debt payments.

"That's a pretty big change," Matyas said. "It would be a totally new revenue stream."

School board member Karen Smith questioned the July 1 start of the new plan, when "There hasn't been any time for them to accumulate this money, and they're currently running a deficit. ... They're going to take away the funding source, and the other funds aren't there yet."

School officials have legitimate concerns when it comes to state government meeting its obligations. The state treasury is \$600 million short of anticipated revenue this year. Last year, the budget was nine months late, forcing several districts to borrow money while awaiting state funding.

Then there's the state mandated items like standardized tests and charter school payments that squeeze already tight budgets. And, of course, the challenge of escalating district retirement costs, exacerbated by previous legislation, has been the primary reason for rising property taxes, school officials said.

In an op-ed, Quakertown Community School District Superintendent William Harner called the legislation "short-sighted."

"Before considering such a major shift in school funding, our elected leaders in Harrisburg need to make the 'heavy lifts' first, which they haven't done yet. They need to first solve the PSERS crisis, then start controlling expenses, reduce or eliminate unfunded mandates, and balance their own budget. ... There is no doubt tax reform is needed badly! Let's do it systematically! ... Before we simply hand over \$15 billion of our hard earned money to leaders in Harrisburg, we should expect them to get their own financial house in order. Building trust is important! The consequences of not approaching tax reform thoughtfully and in the right order could be devastating to public schools and our economy throughout the Commonwealth."

State Sen. Bob Mensch, R-24, whose district includes part of Berks, Bucks and Montgomery counties, voted for the measure in the last session. Other state senators representing Bucks and Montgomery counties, Stewart Greenleaf, R-12, Chuck McIlhinney, R-10, and Tommy Tomlinson, R-6, voted against it.

Mensch said opponents of the proposal "have not sat in the kitchen of an elderly couple on a fixed income who are losing their home because of property taxes — and I have. And I'll argue on the side of the taxpayer every time."

He said property taxes have risen by \$2 billion in the last two years, and school pensions are the big driver of the increase. "We have the education industry fighting us on any attempt at reform," he said.

While he described Argall's memo as "vague," Mensch said he didn't anticipate property taxes being eliminated for another year or two. He did admit to concern over a potential loss of control by local school boards. "If this shift would occur, that money would have to go into a restrictive fund."

He warned that "a taxpayer revolt is coming on this. This is becoming taxpayer versus education funding."

One of those taxpayers is David Baldinger, who leads the Pennsylvania Coalition of Taxpayer Associations. He has been advocating for the elimination of the property tax for several years.

He said his opponents "are in absolute panic mode" and are using "exaggeration and lies by omission."

On loss of local control, he said the Argall legislation "removes the ability of some five school board members to raise property taxes at will. School districts are free to use money any way they wish. For them to say the sky is falling and Harrisburg is going to control our schools is just an out and out lie."

Baldinger said the measure calls for a "dollar for dollar replacement for all property taxes eliminated in any district. It gets back every penny. They're using that as an excuse to fight the bill."

"I'll be glad to debate anyone on the truth, but don't lie."

Mark Miller, president of the Pennsylvania School Boards Association and a Centennial School District board member, said: "No school board member enjoys imposing a tax on their next door neighbor. But the state doesn't give us any other option."

He said if the state gave school boards "more control over the money we do have and how we spend it, we might not need as much. Unfunded mandates and what we pay the charter schools are coming out of our neighbors' homes."

Staff writer Chris English contributed to this story.

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