

Introduction

Thank you BEFC co-chairs, Senator Phillips-Hill, Representative Sturla and the entire commission for inviting us to testify today to discuss a school funding change that we feel you will find very intriguing. As previous testimony has confirmed, school funding is an extremely complex issue. Our team, the bipartisan Property Tax Elimination Working Group, has gone through a tremendous amount of analytics, and we feel that our solution provides the best way to do a transition from the current system and accounts for the need of school districts to evolve over time.

Throughout these hearings, we've heard a lot of evidence and stories from all parts of the state on what is and is not working well with school funding but few have touched on the sources of funding. Today, I am sharing our bipartisan, grassroots-driven solution that can provide NOT ONLY the funding that may be needed now AND, in the future, but would also eliminate the most hated unjust tax in Pennsylvania, the School Property Tax."

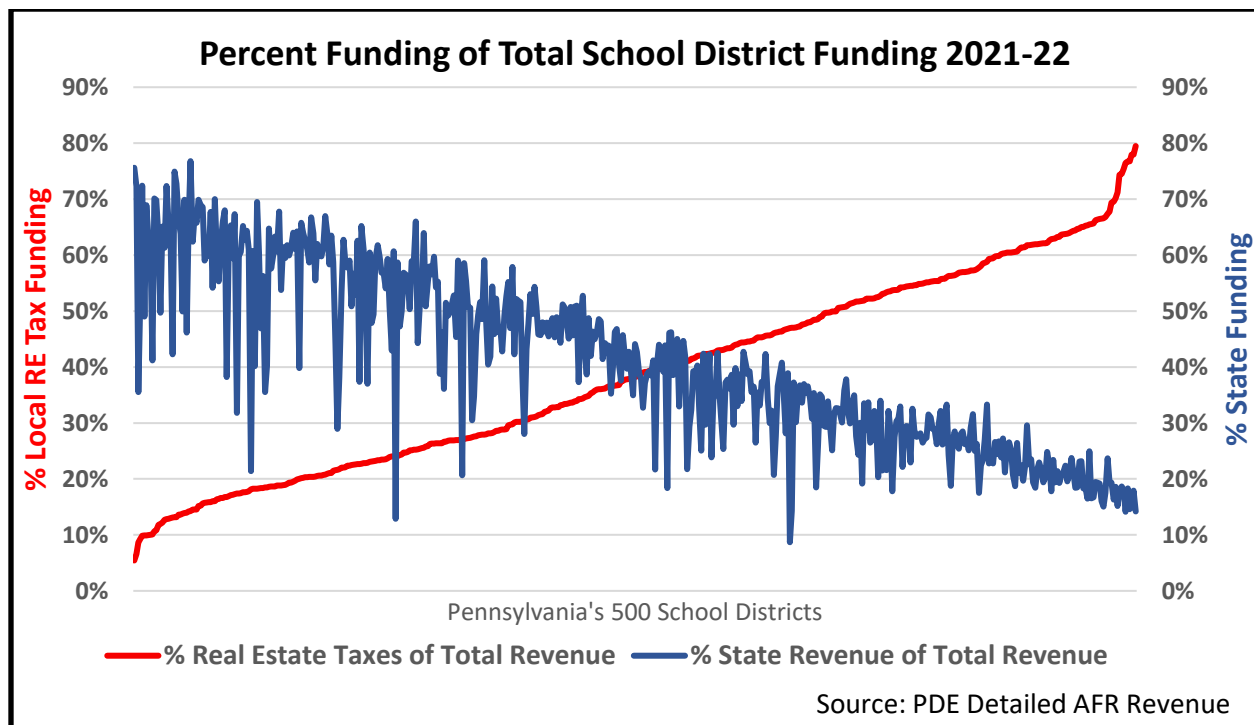
My name is Robert Kistler. I am a retired engineer having worked for Air Products, Western Electric, AT&T, Bell Labs, Lucent Technologies, Agere Systems, and LSI. Late in my career I took advantage of the Trade Adjustment Act (TAA) obtaining a Medical Technology degree from Penn State and subsequently obtained employment as a medical technologist.

During 2010, I attended a property tax meeting where three of the speakers shared how they were blindsided by reassessments of their recently purchased homes, resulting in property taxes tripling or quadrupling. What I heard that day seemed unbelievable. Subsequently, listening to and learning about the struggles so many Pennsylvanians experience with finding the means to pay their property taxes couple with the profound inequality of local school real estate property taxes, I quickly became a resilient property tax activist, primarily driven by the desire to find a better system and end the injustice.

Worst in Nation Funding Model

Previous speaker, Mr. Bob Stilwell shared compelling arguments about the troubling unfairness of school funding. He touched upon the two book-end school districts with regard to local real estate property tax funding. One school district, Duquesne City, the taxpayers pay roughly 6% of total school funding, while at the other end of the spectrum, Lower Merion School District taxpayers pay 80% of total school funding. Please note, PASBO Executive Director Hannah Barrick stated a similar range during her testimony to the BEFC on September 28, 2023."

Graph 1 shows the percentage of local real estate tax funding expressed as a percentage of all funding sources. As you can see, the range is from approximately 6% to 80%. If all local funding were considered, our numbers would be nearly identical to Director Barrick's figures. While these two school districts lie at the extremities of the data range, they are not outliers.



Graph 1

The second data set contained in **Graph 1** is the percent state funding expressed as a percentage of all funding sources. The deviations are due to the variation in the other funding sources for each school district. Pennsylvania Department of Education Annual Financial Report (PDE AFR) revenue data includes four categories, Local, State, Federal, and Other. Local revenue data includes both real estate tax revenue and a myriad of other local taxes, for example, EIT. All of these vary by school district.

The highly irrational disparities quantified here clearly show that funding from local real estate taxes cannot be fixed. The extreme variation of local tax bases coupled with Hold Harmless policy effectively lock in this extremely unjust and unfair local funding. Even if Hold Harmless were to be vacated, the local tax bases across the state would keep the horrendous disparity locked in. The Commonwealth Court order clearly discusses that Pennsylvania relies far too heavily on property taxes for funding schools, something that has been overlooked in most if not all BEFC testimony to date. Applying a system of funding that meets student adequacy intrinsically demands that those funding the system (many parents and grandparents) be treated with evenhandedness.

Robust Solution

We have a plan that will achieve this while satisfying the biggest concerns of the Commonwealth Court order. The plan is known as the “School Property Tax Elimination Act.” It is a robust, grassroots, bipartisan solution that has been refined over the last decade.

As you are aware, school real estate property taxes are collected in advance. Because of this, in the base year of implementing the “School Property Tax Elimination Act”, schools will realize a one-time cash infusion of roughly 75% of annual school real estate taxes collected. For the year 2019 when the “School Property Tax

Elimination Act” was first introduced, that number was approximately \$9 billion. Today, this number is roughly \$11.5B. Much of the BEFC testimony has expressed the need for significant money in order to achieve adequacy. If it is determined that additional funding is needed, the Court has made it clear that property taxes are not the answer. Our plan not only provides a formula that eliminates dependency on school property taxes, but it can be easily adapted for additional revenue if deemed necessary.

In addition to the cash infusion, in an attempt to understand the post implementation impact of the “School Property Tax Elimination Act” we ran a “backtest” analysis. If this legislation had been passed and implemented for the 2015-16 school year, we estimate that our solution would have provided schools with an **estimated \$7.7B** over what was actually collected in school real estate property tax revenue. Had our plan been passed then, it would have resulted in fewer challenges for the BEFC committee to tackle.

This analysis used Pennsylvania Independent Fiscal Office (IFO) revenue data applied to the funding spelled out in the “School Property Tax Elimination Act”. While we are not the IFO, the analysis is not rocket science and could be duplicated by anyone in this room. We do encourage the BEFC to add a request to verify our analysis in the IFO study approved by the commission at the October 5, 2023 Hazleton meeting.

The “School Property Tax Elimination Act” would fund schools by increasing Sales and Use Tax (SUT) as well as Personal Income Tax (PIT). The IFO publishes revenue for both on a monthly basis. These reports include annual revenue collected. Thus, it is a simple matter of applying the tax rates specified in the “School Property Tax Elimination Act” to obtain the revenue that would be generated.

Table 1 is the “backtest” analysis estimating the impact of implementing the “School Property Tax Elimination Act” in school year 2015-16. The table shows that the “School Property Tax Elimination Act” would have generated slightly more than **\$7.7B** (backtest estimate) over what school real estate taxes generated for the same time frame.

School Property Tax Elimination Act (HB13) - Estimated Impact on School District Property Taxes									
School Fiscal Year	15-16	16-17	17-18	18-19	19-20	20-21	21-22	22-23*	
School District Revenue - RE Taxes (PA AFR Data)	\$12,614,952,889	\$13,052,096,839	\$13,510,873,698	\$13,929,896,489	\$14,285,757,568	\$14,576,408,407	\$14,998,408,154	\$15,448,360,399	
SUT Annual Revenue (PA IFO Data)	\$9,795,200,000	\$10,005,200,000	\$10,381,400,000	\$11,099,600,000	\$10,817,800,000	\$12,834,900,000	\$13,914,300,000	\$14,024,400,000	
Each 1% SUT Revenue	\$1,632,533,333	\$1,667,533,333	\$1,730,233,333	\$1,849,933,333	\$1,802,966,667	\$2,139,150,000	\$2,319,050,000	\$2,337,400,000	
2% SUT Revenue Increase to Base (HB13)	\$3,265,066,667	\$3,335,066,667	\$3,460,466,667	\$3,699,866,667	\$3,605,933,333	\$4,278,300,000	\$4,638,100,000	\$4,674,800,000	
PIT Annual Revenue (PA IFO Data)	\$12,506,000,000	\$12,664,400,000	\$13,399,000,000	\$14,095,500,000	\$12,835,000,000	\$16,283,400,000	\$18,125,700,000	\$17,628,100,000	
Each 1% PIT Revenue	\$4,073,615,635	\$4,125,211,726	\$4,364,495,114	\$4,591,368,078	\$4,180,781,759	\$5,304,039,088	\$5,904,136,808	\$5,742,052,117	
1.85% PIT Revenue Increase to Base (HB13)	\$7,536,188,925	\$7,631,641,694	\$8,074,315,961	\$8,494,030,945	\$7,734,446,254	\$9,812,472,313	\$10,922,653,094	\$10,622,796,417	
Subtotal HB13 Revenue - SUT & PIT ONLY	\$10,801,255,592	\$10,966,708,360	\$11,534,782,628	\$12,193,897,611	\$11,340,379,587	\$14,090,772,313	\$15,560,753,094	\$15,297,596,417	
HB13 SUT/PIT Revenue Compared to School District Revenue - RE Taxes	(\$1,813,697,297)	(\$2,085,388,478)	(\$1,976,091,070)	(\$1,735,998,878)	(\$2,945,377,980)	(\$485,636,095)	\$562,344,940	(\$150,763,982)	
Additional HB13 Revenue Generator - Clothing and Food (WIC and SNAP excluded)									
2% SUT on Food	\$506,085,333	\$516,935,333	\$536,372,333	\$573,479,333	\$558,919,667	\$663,136,500	\$718,905,500	\$724,594,000	
2% SUT on Clothing	\$222,024,533	\$226,784,533	\$235,311,733	\$251,590,933	\$246,203,467	\$290,924,400	\$315,390,800	\$317,885,400	
Subtotal HB13 Revenue SUT/PIT Base Clothing	\$11,529,365,458	\$11,710,428,227	\$12,306,466,694	\$13,018,967,878	\$12,144,502,721	\$15,044,833,213	\$16,595,049,394	\$16,340,076,817	
HB13 SUT/PIT Base Clothing, Food Compared to School District Revenue - RE Taxes	(\$1,085,587,430)	(\$1,341,668,612)	(\$1,204,407,003)	(\$910,928,611)	(\$2,141,254,847)	\$468,424,805	\$1,596,641,240	\$891,716,418	
Additional HB13 Revenue Generator - Retirement Tax									
PIT Extension	\$1,220,862,606	\$1,236,325,954	\$1,308,039,186	\$1,376,033,013	\$1,252,980,293	\$1,589,620,515	\$1,769,469,801	\$1,720,893,020	
HB13 Revenue Total - 2% Base, Clothing, Food SUT/PIT, RIT Revenue (HB13)	\$12,750,228,064	\$12,946,754,182	\$13,614,505,880	\$14,395,500,891	\$13,397,483,014	\$16,634,453,727	\$18,364,519,196	\$18,060,969,836	
HB13 School Property Tax Replacement Impact	\$135,275,175	(\$105,342,657)	\$103,632,182	\$465,104,402	(\$888,274,554)	\$2,058,045,320	\$3,366,111,041	\$2,612,609,437	
Cumulative HB13 School Property Tax Replacement Impact								\$7,747,160,348	

Potential School Property Tax Replacement Revenues				
	22-23	23-24	24-25	25-26
Raise SUT by 1.5 ppt (0.75%)	\$3.21	\$3.32	\$3.43	\$3.54
Raise SUT by 2.0 ppt (to 0.9%)	\$4.26	\$4.40	\$4.55	\$4.69
2.0% SUT on Food (exclude SNAP-WIC)	0.66	0.68	0.70	0.73
2.0% SUT on Clothing	0.29	0.30	0.31	0.32
Raise PIT from 3.07% to 4.92%	9.17	9.57	10.00	10.43
Tax Retirement Income at 4.92% (see notes)	1.69	1.58	1.67	1.78
TOTAL	15.86	16.53	17.22	17.93

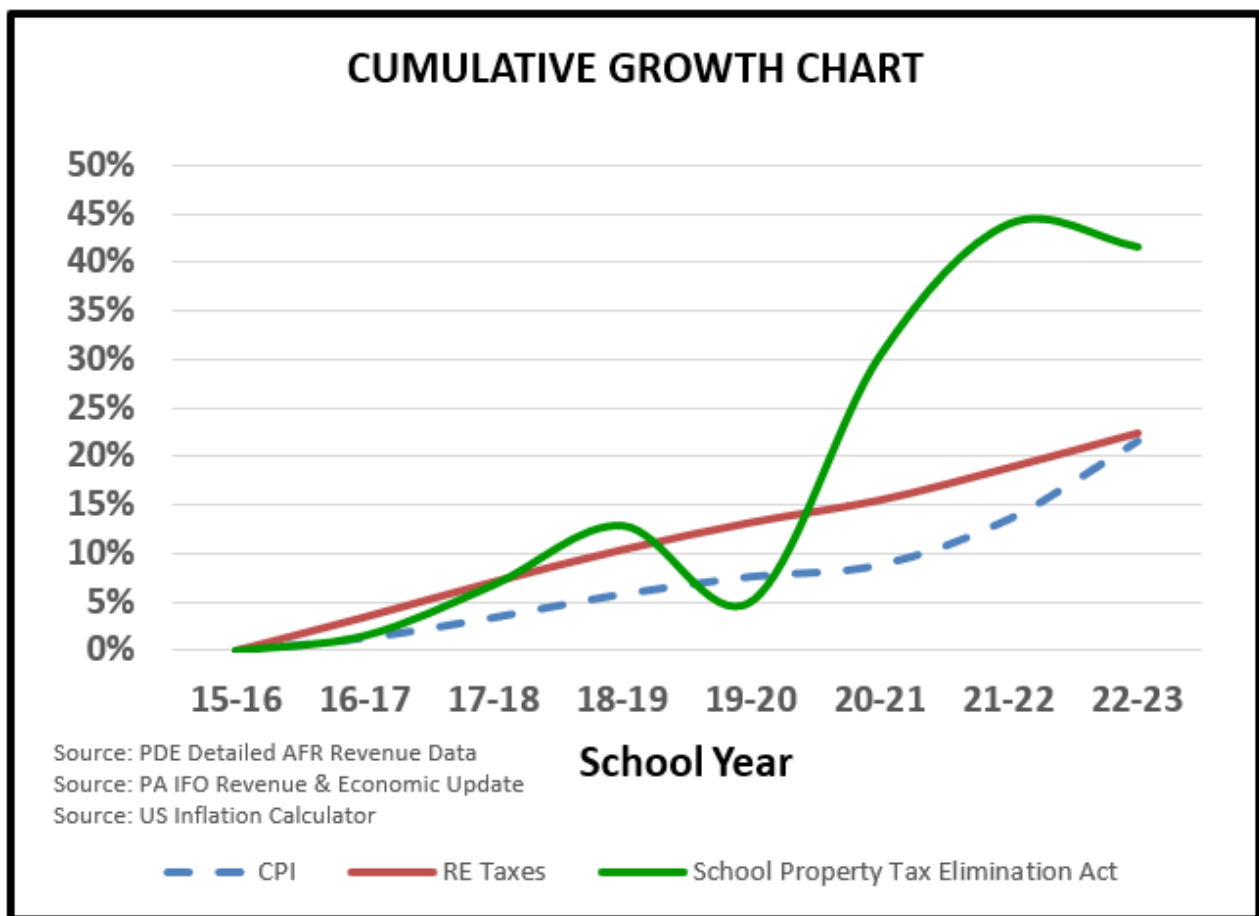
Clothing Multiplication Factor determined from above table 0.29/4.26	0.068
Food Multiplication Factor determined from above table 0.66/4.26	0.155
22-23 numbers in ball park with IFO 22-23 numbers and would be expected to be higher since SUT and PIT revenues higher than were projected when above table created by IFO.	
RIT Multiplication Factor determined from above table 1.49/9.17	0.162

* School District Revenue - RE Taxes estimated for school year 22-23. PDE AFR revenue data published in April of following year.
 Note: IFO PIT and SUT presented in \$M, converted to \$B so direct compare to RE taxes
 Source SUT/PIT Revenue <http://www.ifo.state.pa.us/releases/type/1/Revenue-&Economic-Update/>
 Source School District Revenue (R) <https://www.education.pa.gov/teachers%20-%20Administrators/School%20Finances/Finances/AFR%20Data%20Summary/Pages/AFR-Data-Detailed-.aspx>

Table 1

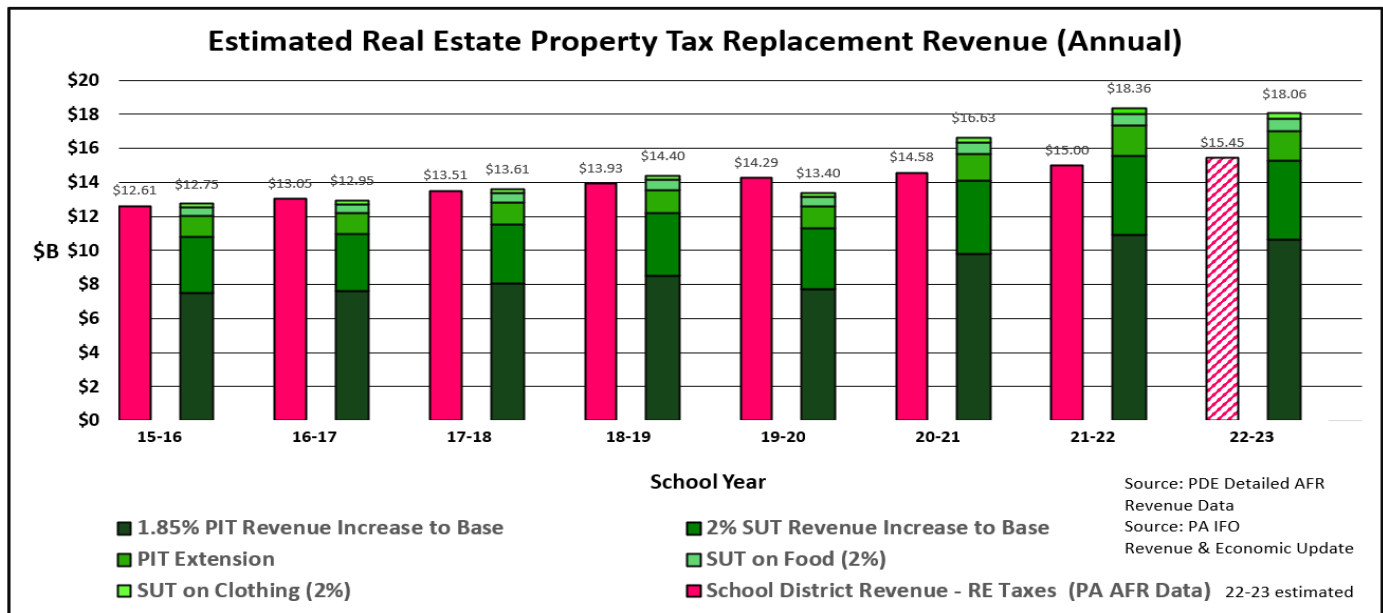
The yellow highlighted lines in the table show revenue from the sources listed in the table. The light blue headers breakout out the revenue generators contained within the “School Property Tax Elimination Act”. The bulk of the revenue, about 85%, is generated by SUT and PIT base tax rate increases. Additional revenue generators are a 2% SUT on food and clothing (WIC and SNAP items excluded), and the extension of PIT to some retirement income. Military pensions and Social Security (or equivalents like Railroad Retirement, State Police “in lieu of” Social Security are not taxed up to the full Social Security entitlement. The embedded table on the right with dark blue header was provided by the IFO to former Representative Frank Ryan. This table can be found on the PA IFO website under the “Economics And Other” category. The report date is August 30, 2021 (Property Tax Update).

Graph 2 shows the estimated percent cumulative growth of the school replacement revenue generated by the “School Property Tax Elimination Act” along with actual school real estate property tax revenue growth and inflation.



Graph 2

Graph 3 shows the estimated annual dollars generated by “School Property Tax Elimination Act” along with actual school real estate property tax revenue.



Graph 3

PIT Extension - Financial Windfall

As previously mentioned, one of the revenue generators for the “School Property Tax Elimination Act” is an extension of PIT to some retirement income. There is no arguing that when the “School Property Tax Elimination Act” was first introduced in 2019, it created quite a stir and for some, an immediate but unfounded rejection of the Act.

The reality is, “School Property Tax Elimination Act” is expected to raise about \$1.49B per the IFO while senior property owners would experience roughly \$3.34B in tax savings. That is a statewide windfall of roughly \$1.84B (refer to **Table 2 and 3** - PA IFO data). The actual windfall would be slightly higher if 2022-23 data was available in **Table 2**. Because most seniors would actually experience a financial win, our members began educating the public and we created a property tax estimator where any individual can determine their personal estimated impact. Between the education and the calculator (found at www.noprop.tax) when the “School Property Tax Elimination Act” was reintroduced during the 2021 legislative session, there was very little push back. The extension of PIT to some retirement income is a financial windfall for a large percentage of seniors, especially those living solely on Social Security.

Table 2: Revenues by Property Type

	2019-20	2020-21	2021-22	Avg. Share
SD Property Taxes - Total	\$15.32	\$15.70	\$16.08	100%
Non-Senior Homeowner	\$5.92	\$6.07	\$6.21	39%
Senior Homeowner	\$3.19	\$3.27	\$3.34	21%
Rental/Commercial	\$6.21	\$6.37	\$6.53	41%

Note: Dollar amounts in billions. Share represents the percentage of total school district property taxes.

Source: PA IFO - ECONOMICS AND OTHER - PROPERTY TAX UPDATE - August 30, 2021

Table 2

Potential School Property Tax Replacement Revenues

	22-23	23-24	24-25	25-26
Raise SUT by 1.5 ppt (7.5%)	\$3.21	\$3.32	\$3.43	\$3.54
Raise SUT by 2.0 ppt (to 8.0%)	\$4.26	\$4.40	\$4.55	\$4.69
2.0% SUT on Food (exclude SNAP-WIC)	0.66	0.68	0.70	0.73
2.0% SUT on Clothing	0.29	0.30	0.31	0.32
Raise PIT from 3.07% to 4.92%	9.17	9.57	10.00	10.43
Tax Retirement Income at 4.92% (see note)	1.49	1.58	1.67	1.78
TOTAL	15.86	16.53	17.22	17.93

Note: Billions of dollars. SUT is sales and use tax. PIT is personal income tax. Retirement income excludes Social Security. Estimates assume other Retirement Income will be taxed upon distribution such as DB and DC pensions, IRA withdrawals and annuities. Assumes that income previously taxed via the inability to deduct from gross income are not taxed a second time.
Source: Independent Fiscal Office.

Source: PA IFO - PROPERTY TAX - SCHOOL DISTRICT PROPERTY TAX UPDATE - June 28, 2023

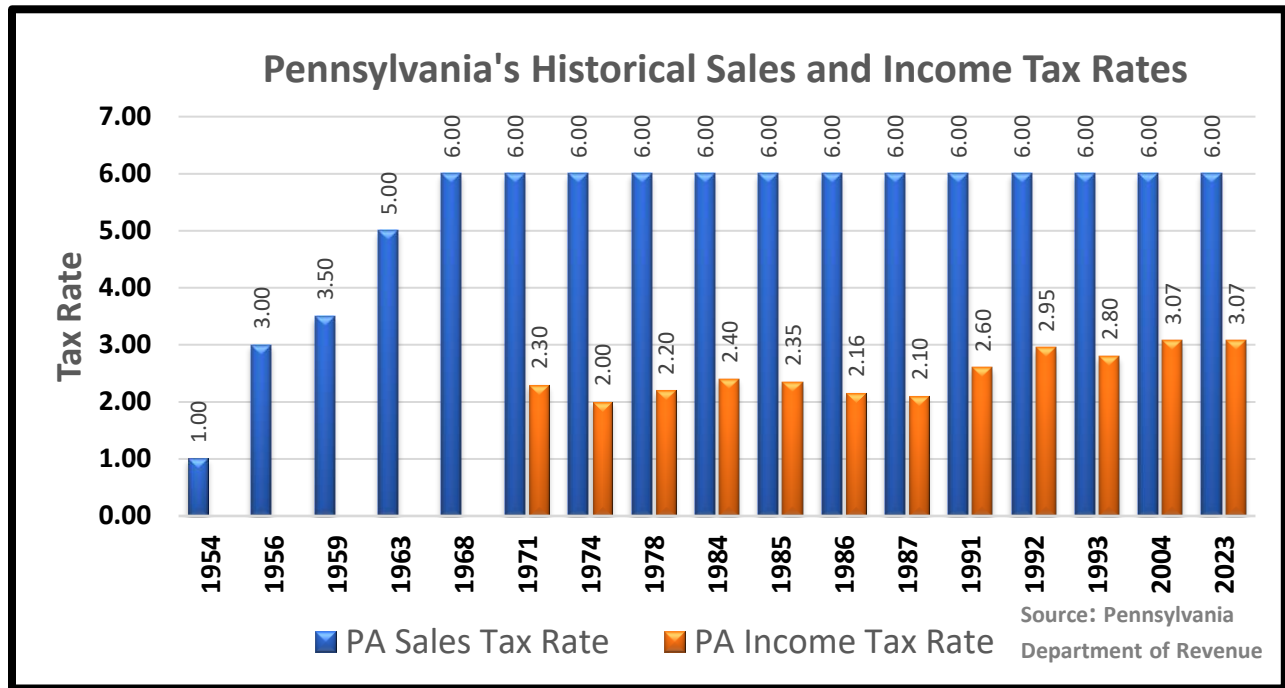
Table 3

Tax Shift Stability

Some will argue that this just trades one tax for another and that SUT and PIT will have to be increased annually just as school real estate property taxes are now. This is decidedly not the case. SUT and PIT revenue “intrinsicly” increases annually. This occurs due to job creation, wage growth, and product and services cost increases. This “natural” revenue increase is so dependable that SUT has remained flat for 55 years and PIT for 19 years (**See Graph 4**). Historically, PIT has decreased and increased multiple times since inception. If SUT and PIT can partially fund an annually increasing state budget without the need for periodic tax increases, it certainly can run a subset of the budget, school funding using the same funding sources.

A previous PA IFO analysis of HB1776 titled “Analysis of SB1776 and HB 1400 of 2012” dated September 25, 2012 states, “The elimination of property taxes would significantly reduce the property tax share and would clearly increase the attractiveness of the Commonwealth for business location and expansion. (Page 25).

Creating a business friendly environment would generate additional sales and income revenue. Moving to a SUT / PIT funding model would also result in non-resident revenue, both which would serve to further enhance stability.



Graph 4

Because school funding would be moved to SUT and PIT revenue with no need for annual increases, those that are on the negative side of implementation will eventually flip to the positive side. Our calculator estimates the number of years needed for this to occur. Thus, over time, those experiencing a financial win will continue to increase.

Additional Considerations

A [Retirement Security Task Force Report](#) issued by Joseph M. Torsella, Pennsylvania State Treasurer stated that 40% of Pennsylvania retirees are forced to survive on Social Security ALONE as their sole source of income, averaging approximately \$22,000 in year 2023 before Medicare cost is subtracted. Social Security is not taxable income under PA law, thus if an income tax replaces school property tax by schools, approximately 40% of retirees would have \$0 to tax.

In 2017, 44% of businesses offered no retirement plan, and of those who did, only 77% of their employees participated. Employees who left such employers without meeting vesting requirements risked losing any financial nest egg they had made. Among all other workers, including sole proprietors and immigrants with no access to an employer plan, only 5% opened an IRA on their own. Many, lacking training, gambled on a simple savings account with a paltry 0.01% annual interest rate, which would take 7,200 years to double their investment. The median worker today, of all ages, has literally saved \$0 for retirement or unexpected events.

To retire, the task force recommended that an individual needs to accumulate a minimum of 12 times their final year's earnings in an IRA investment. When combined with Social Security, this can provide the funds needed to meet one's basic needs until age 100. For employees who managed some retirement savings, the average saved was about one year's salary. What will your earnings be per year at age 67 times 12?

Families prioritize their financial obligations, and IRAs are ultimately delayed and dangerously underfunded. 401Ks or any savings may have been needed to pay the bills during the COVID crisis. Decades of retirement investment and years of compounding gains have been lost for many. What will the plight of seniors look like in 20-30 years?

Our proposed bill aims to eliminate school property taxes for a fairer way of funding, increasing school revenue naturally using inflation and discipline, with a tax system that can go decades without rate increases. No more school property taxes will be paid out of a Social Security check, rent, or monthly mortgage payment. Families, therefore, have a better chance to save seriously again.

Moody's, in 2006, vetted a previous elimination bill and predicted that most of the billions of dollars remaining in residents' pockets would be spent on local businesses throughout the state, increasing business start-ups, jobs, salaries, and expanding the taxpayer base, which would increase state as well as school tax revenue.

Pennsylvania Commonwealth Court Judge Renée Cohn Jubelirer court order criticized Pennsylvania's current funding system for schools as being unconstitutional for over a decade and called for Harrisburg to replace it, not just offer another funding formula that will simply follow the same footsteps as the many past failures.

Closing

I want to thank the commission for inviting us and giving us the opportunity to share our plan. This plan elegantly solves today's problems with school funding, tomorrow's revenue growth, while satisfying the Commonwealth Court Order.

Respectfully,

Robert Kistler for the Property Tax Elimination Working Group.