

Testimony of the Pennsylvania School Boards Association
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Good morning, I am Tim Allwein with the Pennsylvania School Boards Association. Thank you for the opportunity to provide remarks with regard to the Institutions of Purely Public Charity Act.¹ When asked to testify today, I initially limited my remarks to the issue of charitable property tax exemptions and our recommendations for policy changes. But this issue like the elimination of amusement taxes, changing EMS tax collection periods, or any other property taxes issue in Pennsylvania, must not take place in a vacuum. Every tax policy discussion should consider the state's ongoing fiscal challenges and a fairer and more effective system of funding an adequate public education.

Property tax revenue is important to both local governments and school districts. Last year's political debate about property taxes made a lot to do about Pennsylvania's high real property taxes. In fact, in 2006, Pennsylvania residents paid an average of \$4,057 in combined state and local taxes, lower than New Jersey (\$5,234), New York (\$5,734), and Maryland (\$4,996) and slightly less than the United States average of \$4,072.² In fact as measured as a proportion of income, the total state and local tax burden of Pennsylvania is about average (PA ranks 24th). In 2006, state and local taxes consumed 10.4% of personal income in Pennsylvania, this is below the national average of 10.6% and only slightly below New Jersey (10.8%).³

Charitable property tax exemptions do not reduce the total tax burden for citizens of the Commonwealth. They do, however, profoundly change who pays and how the tax system affects local government operations, land use, and the economy. The obvious rub is that property tax exemptions for nonprofits are really property tax shifts. They eliminate taxes for one party and transfer them to other taxpayers. The fact is that every time that taxable property is taken off the tax rolls, one of two things happens:

¹ 10 P.S. § 371.

² Facts & Figures, How Does Your State Compare? Tax Foundation, Table 32.

³ Id. at Table 33.

homeowners must pay more school property taxes or education services suffer. In the case of school districts, they are transferred overwhelmingly to homeowners.

One of the main problems of charitable property tax exemptions is not so much the large number of nonprofits in Pennsylvania, but their distribution in either large urban areas, such as the cities of Philadelphia and Pittsburgh, or in county seats. Tax exempt organizations are allowed to saturate urban localities with no recourse. These urban districts are often the ones who can least afford such concentrations of tax exempt organizations⁴ as they are home to many impoverished people. In many instances, there is no public benefit to the host community of the exempt group. Rather, the property tax exemption status is attached to some sort of “intrinsic” nonprofit status not based on the services that they provide.

Although it is customary to exempt certain property from taxation,⁵ there has been no exhaustive survey on the burden of property tax exemptions on Pennsylvania and its political subdivisions. Determining how charitable property tax exemptions have affected Pennsylvania’s economic performance and municipal services and tax rates is a complex exercise. It is timely now for the Pennsylvania General Assembly to advance such a study. Not only should the fiscal health of the Commonwealth’s local jurisdictions be considered, there a number of factors that warrant attention such as:

1. The total value of property that is exempted from property tax;
2. The purpose for which that charitable exempt property is being used;
3. The degree of the charitable services being rendered to municipal residents versus those outside the municipality’s borders;
4. The concentration of the charitable property exemptions;
5. The percentage of property taxes not paid by charities;
6. The degree that tax rates are increased, if at all, due to the amount and distribution of tax exempt properties;

⁴ According to David B. Glancey’s report *PILOTS: Philadelphia and Pennsylvania. In Property Exemptions for Charities (2002)*, in 1999, 25.25 percent of Philadelphia’s assessed value was non-governmental tax-exempt nonprofits worth \$55.1 million in school property taxes. In 2001, Philadelphia had 22 participants in its voluntary programs whose total contributions were approximately \$800,000.

⁵ Pennsylvania Constitution specifically exempted property taxes in Article VIII, Section 2(a).

7. The intersection of low income municipalities, high charitable property exemptions and high taxes as well as high income, low charitable property exemptions and low taxes;
8. Historical trend information about the extent to which Pennsylvania property is becoming exempt from taxes and future projections;
9. A review of the justification for tax exemptions; and
10. An analysis of the payment in lieu of tax programs currently in place.

More specifically, PSBA recommends restructuring Act 55 of 1997 in accordance with the following principles:

1. Provide a separate stream of state funding for local political subdivisions most impacted by high concentrations of nonprofit organizations or the presence of state-owned land in any particular county. These political subdivisions face distinct challenges that can only be overcome through additional funding. This funding stream must be reliable and predictable.
2. Allow political subdivisions the flexibility to assess a modified real property tax on nonprofits. We don't propose that charitable organizations should pay the full tax load. We would argue that a partial payment would be a positive incremental step. This taxation process could provide a basic level of property tax exemption for nonprofits – a homestead exemption of sorts. It would provide for an exemption of property for example the first \$100,000 of assessed value, but then tax any value on the property above the base. This tax base theory is not unlike Pennsylvania's tax policy for homestead and farmstead owners. Phasing in this policy over a few years will enable nonprofits to transition to the corresponding assessment as they come online.
3. Allow state authorized exemptions, whenever possible, to be granted at local option. Local preferences are not given any consideration by most state laws.
4. Require regular re-evaluation to maintain accurate and timely data on the value of real property tax exemptions and property assessments. Property owned by charities should be subject to review at least once every five years to confirm the continuation of the property's exemption status. The county

assessor should be responsible to confirm the continuation of the exemption from real estate taxes and valuation in general. This includes requiring the Commonwealth to periodically review its state land holdings and sell property no longer needed for state purposes. It defies common sense for upper levels of government to not pay local property taxes. For example, if a national park serves a national recreational function and not just a local purpose, then shouldn't the federal government pay its share of the local tax burden? The same can be said for the Commonwealth of Pennsylvania. Therefore, the Commonwealth should be required to take a regular review of its land banking policies and determine what future needs are being served and what communities are being disserved.

While nonprofits often do good work and do it well, the Pennsylvania General Assembly should ensure that these nonprofits are providing critical services to the public and that the finite real property tax base is protected. Legitimate charities provide significant community benefits – we are not here to argue that point – but that rationale is insufficient to provide a wholesale exemption for paying for their fair share of the costs of local government. We think a fairer balance needs to be struck and that they pay a portion of the cost of real property taxes to avoid further distress to school districts under an Act 1 landscape of referenda and state-set indexes. Thank you for your attention to this matter.