



School proposal helps cities, too

05/18/2008

Many of the problems facing municipal governments statewide are the result of population trends — the movement of the middle class to the suburbs and beyond, and the inability of the state as a whole to provide enough economic opportunities for young college graduates who find their fortunes elsewhere.

There is a background issue that also has a deeply negative impact on the ability of local governments, especially those in cities, to fund themselves. Due to the state government's failure to provide an adequate amount of money to fund public education, school districts and city governments have been forced to compete for the same limited pool of property tax money. Ever since the state began scaling back the percentage of education that it funds, about 40 years ago, school districts have made up the difference by consuming ever-larger portions of the local property tax pie. In some jurisdictions, school districts receive up to 80 percent of the total property taxes collected for school, municipal and county governments.

City governments thus have been starved for adequate revenue. According to the Pennsylvania Economy League, the average Pennsylvania taxpayer actually would pay \$113 less per year in property taxes than in the 1970s, in inflation-adjusted dollars, if school property taxes were eliminated from the mix.

Reducing pressure, creating flexibility

Now, Gov. Ed Rendell's budget proposal poses the opportunity not only to stabilize and more equitably distribute school funding, but to help beleaguered municipal governments in the process.

Mr. Rendell's proposal would increase the state's share of education funding by \$2.6 billion over six years, with the money coming from the state government's projected revenue growth. As a percentage of total education funding, that would increase the state share from 36 percent to about 44 percent, thus substantially relieving the pressure on local school districts to increase local property taxes.

At the same time, the state soon will begin to distribute to districts about \$900 million, the state share of proceeds from the new gambling industry. That money will not increase the budget of any school district, but will be used instead to reduce district property tax rates. (By law, the Scranton School District may use some of its share to reduce the wage tax.)

The additional money proposed by the governor, along with the unrelated gambling proceeds, will be distributed in accordance with income statistics by school district. In effect, that means that school districts in bigger cities, with high percentages of low-income residents, will be able

to reduce property taxes by the largest amounts.

If all of the gambling money to be received in Scranton when all 14 casinos are in operation were to be directed to property tax reduction, the district could reduce its share of the property tax by 60 percent, for example. And the governor's proposal would increase the state's basic contribution to the district by nearly 10 percent.

At the end of the day, the stressed municipal government would have access to more tax revenue without adversely affecting the school district's operations, and taxpayers still would receive a major property tax decrease.

Diversify local tax base

The governor's proposal is the right thing to do for education itself because it would establish a firmer foundation for every school district while helping to eliminate vast funding disparities between poor and affluent districts.

As noted in a major study last year by the Brookings Institution with support from the Pennsylvania Economy League and several experts from Penn State, the answer for struggling municipal governments is for the state government to diversify the mix of taxes at the local level. That would free them from over-reliance on property and wage taxes.

No comprehensive plan to achieve that is on the table in Harrisburg, however.

Now, local lawmakers should get behind the governor's proposal for its intended purpose — school funding. But they also should back it because it would provide far greater flexibility within the local tax base to ensure more effective delivery of important services such as public safety and public works.