

Pennsylvania Allow Local Taxing Authorities to Exempt Full Value of Homestead Amendment (2017)

A Report Prepared for the Montgomery County Tax Collectors Association Meeting 2/26/2017

The question was designed to give the PA General Assembly the authority to amend the State Constitution. It appeared on the November 2017 ballot legislatively referred constitutional amendment. By a slim margin of 54%-to-46% it was approved.

A "yes" vote supported this amendment to allow the state legislature to increase the amount of a home's assessed value that local taxing authorities—counties, municipalities, and school districts—are permitted to exempt from taxes. *The amendment increased the amount from up to 50 percent of the median value of all homesteads within their jurisdictions to up to 100 percent of the assessed value of each homestead.*

A "no" vote opposed this amendment to allow the legislature to permit local taxing authorities to exempt up to 100 percent of the assessed value of each homestead from taxes. Rejection of the amendment *would have kept the amount that local taxing authorities are permitted to exempt at up to 50 percent of the median value of all homesteads within their jurisdictions.*

Overview

Amendment Design

In 1997, constitutional amendment **Resolution 1** allowed counties, municipalities, and school districts to exempt up to 50% of the **median** value of all homesteads within their jurisdictions from taxes. The value amount exempted from taxes became known as the *Homestead Exemption*.

With the passage of this new constitutional amendment, the taxing authorities keep the Homestead Exemption but the way it calculates the amount to exempt has changed dramatically.

Under Resolution 1, the Homestead Exemption was calculated based on the *median* value of all eligible homestead properties. The median value is defined as the middle number in a list of numbers sorted from low to high.

For example, let's say that we have five properties, and their assessments are as follows:

Parcel	Assessed Value
100 Bonny Drive	\$115,000
202 Sam Circle	\$119,000
1022 Tina Terrace	\$125,000
6554 Robert Lane	\$188,000
4656 Matthew Court	\$2,688,000

In this imaginary scenario, the median value is \$125,000, so the amount of the Homestead Exemption would be based on a percentage of that median assessed value. Every homestead property gets break. Some get to pay no taxes because their assessment is below the threshold, but everyone above that threshold gets the same reduction.

This is because by the current law, the taxing authority can set the amount of the Homestead Exemption to be decreased, up to the 50% allowed.

How the formula worked before the election:

Under Resolution 1 the taxing authorities could to exempt up to 50 percent of the median value of all homesteads within their jurisdictions from taxes. In the example, let’s say that the school district allows a 10% homestead reduction. The median value of \$125,000 is multiplied by that percentage to get the actual homestead exemption, which in this case would be \$12,500. All those properties who meet the requirement for the Homestead Exemption would see their assessment decreased by \$12,500.

Parcel	Assessed Value	Homestead Exemption	Modified Assessment
100 Bonny Drive	\$115,000	-\$12,500	\$102,500
202 Sam Circle	\$119,000	-\$12,500	\$106,500
1022 Tina Terrace	\$125,000	-\$12,500	\$112,500
6554 Robert Lane	\$188,000	-\$12,500	\$175,500
4656 Matthew Court	\$2,688,000	-\$12,500	\$2,675,500
TOTALS	\$3,235,000	-\$62,500	\$3,172,500

How the formula could work in the future according to the Amendment:

The 2017 constitutional amendment was designed to allow those same taxing authorities, to exempt the homestead property based on its own assessment, not the median of all properties.

It would be possible under this new amendment to exempt up to 100 percent of the assessed value of each homestead.

Unlike the previous Resolution 1, there is no median value. The full value of each eligible homestead property would be affected by its assessment. So, if a parcel is assessed at \$156,000, the amount that could be used to calculate the homestead exemption would be \$156,000.

Under the amendment, a school district, for example, would be granted the ability to exempt the full value of a home. If a home is valued at \$200,000, up to \$200,000 – 100% - could be exempted from its taxable value.

Using the example, let’s say that the Homestead Exemption is set at 10%. That would require each eligible homestead to have their assessment lowered by an amount of 10% of their assessed value.

Parcel	Assessed Value	Homestead Exemption	Modified Assessment
100 Bonny Drive	\$115,000	-\$11,500	\$103,500
202 Sam Circle	\$119,000	-\$11,900	\$107,100
1022 Tina Terrace	\$125,000	-\$12,500	\$112,500
6554 Robert Lane	\$188,000	-\$18,800	\$169,200
4656 Matthew Court	\$2,688,000	-\$268,800	\$2,419,200
TOTALS	\$3,235,000	-\$323,500	\$2,911,500

Implementing legislation

This 2017 amendment required implementing legislation—a bill or set of bills designed to carry out the amendment's stated intent. As of October 26, 2017, implementing legislation had not been passed for this amendment. After voters approved Resolution 1 in 1997, the Pennsylvania General Assembly passed **Act 50**, which included implementing legislation for Resolution 1.

Act 50 provided a method for school districts to make up lost revenue from enacting Resolution 1's homestead exemption. Districts implement an earned income tax at a maximum of 1.5 percent in exchange for reducing property taxes, that is, if voters approved the income tax in a local referendum. New implementing legislation is needed for the 2017 amendment.

Text of Measure

Ballot title

The official ballot title was as follows:

“

Proposed Constitutional Amendment
Amending the Homestead Property Tax Assessment Exclusion

Shall the Pennsylvania Constitution be amended to permit the General Assembly to enact legislation authorizing local taxing authorities to exclude from taxation up to 100 percent of the assessed value of each homestead property within a local taxing jurisdiction, rather than limit the exclusion to one-half of the median assessed value of all homestead property, which is the existing law?

”

Ballot summary

The following was the PA Attorney General's summary of the amendment:

- The ballot question amends Article VIII, Section 2(b)(vi) of the Pennsylvania Constitution.
- The General Assembly could then pass a law authorizing local taxing authorities to exclude up to one-hundred percent (100%) of the assessed value of each

homestead property when calculating the real estate tax owed on homestead property.

- Local taxing authorities may not increase the millage rate of its real property tax to pay for homestead property exclusions.
- The ballot question, by itself, does not authorize local taxing authorities to exclude up to one-hundred percent (100%) of the assessed value of each homestead property from real estate taxation. Local taxing authorities could not take such action unless and until the General Assembly passes a law authorizing them to do so. The ballot question authorizes the General Assembly to pass that law.

Constitutional changes

See also: [Article VIII, Pennsylvania Constitution](#)

The measure amended [Section 2\(b\)\(vi\) of Article VIII](#) of the [Pennsylvania Constitution](#). The following underlined text was added, and ~~struck through~~ text was deleted:^{[1][2]}

§ 2. Exemptions and special provisions.

...

(b) The General Assembly may, by law:

...

(vi) Authorize local taxing authorities to exclude from taxation an amount based on the assessed value of homestead property. The exclusions authorized by this clause shall not exceed ~~one-half of the median assessed value of all~~ 100% of the assessed value of each homestead property within a local taxing jurisdiction. A local taxing authority may not increase the millage rate of its tax on real property to pay for these exclusions.

Support

Supporters

Twenty-two (22) Republicans and five (5) Legislators supported this bill in 2016, 2017, or both years.

Arguments

Rep. David Maloney (R-130), the measure's primary sponsor in the state Legislature, said, "While this is the current mechanism to provide residential property tax relief, it is inadequate as it caps the amount of relief that can be provided. ... There is a need to fund the core functions of government – roads, schools, public safety – but I do not believe that a tax that would take a person's home after working their whole life to pay for it is a 'core' function of government – in fact, it is immoral."

Sen. Mario Scavello (R-40) stated, "We can all agree that any tax that would take a person's home after working their entire life to pay for it is wrong and immoral. No individual should have to choose between paying for prescription medications, taking care of their health and paying for property taxes. People should be able to own their property and enactment of this constitutional amendment will protect and safeguard that constitutional right."

Opposition

Sen. Michele Brooks (R-50) and Sen. Scott Hutchinson (R-21) voted against the amendment in the state Legislature in 2016 and 2017.

Opponents

West Chester Area School Board

Arguments

Sen. Michele Brooks (R-50), one of the two legislators who voted against referring the amendment to the ballot, said:

“ I know people are struggling with their property tax bills, and this is an important conversation to have, but all the facts must be part of the conversation. People need to hear the whole story. This is a major policy shift. The only piece people are talking about seems to be that it may remove property taxes. But, this homestead exemption legislation is the first piece to raising the personal income tax, increasing the sales tax, or taxing things that are not currently taxed. It's a bit disingenuous to omit that part of the conversation. We need to call it what it is. People are tired of being misled. They need all the information. ”

Chris McCune, president of the West Chester Area School Board, stated:

“ I firmly believe that our school funding formula and system of taxation needs significant reform. However, I am strongly convinced that this kind of backdoor legislative change is not the kind of positive, sustainable solution that we need. It deserves a much longer, more thorough review, with more equitable and sustainable solutions.^[6] ”

Media editorials

Philadelphia Daily News said: "Naturally, most will have an irresistible urge to press the “Yes” button. After all, who likes to pay property taxes? But stop for a minute and consider the reality behind this simply worded question. ... Property taxes are used to fund public schools. They cannot be abolished without replacing that money. There are bills in the state legislature today to increase the state income tax from 3.07 percent to 4.95 percent to partly fill in the hole. Another would increase the state sales tax from 6 percent to 7 percent (and from 8 percent to 9 percent in Philadelphia) and remove exemptions on such items as food, nonprescription drugs, and some clothing. Depending on your income and current property taxes, you could end up paying more."

Background

Resolution No. 1

In 1995, Senate Bill 284 was introduced into the Pennsylvania General Assembly. The bill was designed to refer a constitutional amendment to voters that would allow local taxing authorities—counties, municipalities, and school districts—to exempt up to 50 percent of the median value of all homesteads within their jurisdiction from taxes.^[15] The amendment created Section 2(b)(vi) of Article VIII of the Pennsylvania Constitution, which the 2017 amendment sought to amend.

On June 27, 1996, the Pennsylvania Senate voted 49-0 to pass SB 284. On June 28, 1996, the Pennsylvania House of Representatives voted 198-0 to pass the bill. As the Pennsylvania Constitution requires that amendments be passed during two legislative sessions, the bill was referred to the next regular session in 1997.

The amendment was reintroduced as Senate Bill 65 in 1997. The state Senate approved the bill 47-0 on February 10, 1997. The state House of Representatives passed the bill 201-0 on March 12, 1997. The amendment was enrolled as Resolution No. 1 and was referred to the ballot for the election on November 4, 1997.^[16] State Sen. Michael O'Pake described the amendment as "the linchpin of any meaningful and fair local tax reform in Pennsylvania."

Voters approved Resolution No. 1, with 61.45 percent voting yes and 38.55 percent voting no.

Act 50

As Resolution No. 1 was a constitutional amendment, the Pennsylvania General Assembly needed to pass a statute, known as *implementing legislation*, to provide local taxing authorities with a law allowing them to begin using the homestead exemption. Act 50 contained a provision to implement Resolution No. 1. New implementing legislation would be needed for the 2017 amendment.

In 1998, the state General Assembly passed and Gov. Tom Ridge (R) signed an omnibus tax policy bill, which was enacted as Act 50. Pennsylvania was a Republican trifecta in 1998, with the GOP controlling the governor's office, state House, and state Senate.

Like Resolution No. 1, Act 50 allowed counties, municipalities, and school districts to provide homestead exemptions up to 50 percent of the median assessed value of homesteads within their jurisdictions. The median assessed value of homesteads is the middle value in a distribution of homestead values in order from lowest to highest value. For example, the median assessed value of three homesteads with the values \$100,000, \$200,000, and \$900,000 would be \$200,000 because that number is in the middle. Act 50 stated that homestead exemptions needed to be a fixed-dollar amount.^[3]

And like Resolution No. 1, Act 50 prohibited local taxing authorities from increasing their property tax rates to make up for lost revenue from an exemption. The bill provided a method for school districts, but not counties or municipalities, to make up the lost revenue from enacting a homestead exemption.^[19] Districts were allowed to tax earned income at 1.5 percent or less in exchange for reducing property taxes if voters approved in a referendum.

2017 Implementing Legislation

This 2017 amendment requires implementing legislation. As of October 2017, the state General Assembly had not passed implementing legislation for the amendment.

to replace. I have no idea where you could come up with enough from a different source to replace all that property tax revenue."

Referred amendments on the ballot

From 1996 through 2016, the Pennsylvania General Assembly referred fifteen (15) constitutional amendments to the ballot. Voters approved all 15 of the referred amendments. Most of the amendments (8 of 15) were referred to the ballot during even-numbered election years. The average number of amendments appearing on the ballot during an odd-numbered election year was between zero and one. Two amendments appeared on the ballot in 2016. Before 2016, the last time an amendment appeared on

the ballot was in 2008. As of 2017, the last time an amendment appeared on an odd-year ballot was in 2003.

Path to the ballot

In Pennsylvania, an amendment can go on the ballot after just one legislative session, but only if the Pennsylvania State Legislature declares an emergency. In the absence of an emergency, the amendment must be considered in two separate legislative sessions. An amendment must receive a simple majority vote in each legislative chamber.

2015-2016 legislative session

The amendment was introduced during the 2015-2016 legislative session as House Bill 147 (HB 147). On February 24, 2015, the Pennsylvania House of Representatives passed HB 147 in a vote of 200 to 0 with two members not voting and one seat vacant. The Pennsylvania Senate approved HB 147 on June 13, 2016. The bill was passed 45-2 with three members not voting. The first-session approval was filed with the secretary of state on June 16, 2016.

2017-2018 legislative session

During the 2017-2018 legislative session, the amendment was reintroduced as House Bill 1285 (HB 1285). On June 12, 2017, the Pennsylvania House of Representatives passed the bill 190 to 0 with 13 members not voting. On July 11, 2017, the Pennsylvania Senate voted 46 to 2, with two senators not voting, to pass the amendment. As the amendment was approved during the previous legislative session, the votes of approval in June and July 2017 referred the amendment to the ballot for the election on November 7, 2017.

SUMMARY, or Future Plans to Consider:

- To whom do these actions serve?
- The implementation of an individual homestead exemption does less to help the underprivileged than the old method because by the old method their property could see zero assessment, hence no property tax due.
- Changing the way the homestead exemption is calculated will hurt the properties with lower assessments while providing huge relief to properties with higher assessments.
- Reducing the reliance on real estate taxes will force local school districts to lose the ability to self-govern and rely more on state and federal funding, as is currently the case in the large city schools.
- Why does the legislature want to reduce real estate taxes in the first place? They attempted to reduce the reliance on property taxes by enacting an earner income tax, thus in theory spreading out the tax base. The plan back-fired when surrounding municipalities enacted their own EIT.
- The General Assembly claims to have a large portion of their state budget allocated to the state workers pension plan. As more eligible public employees retire, more money coming from the pension fund must be replenished. This impacts all public works projects, like roads & infrastructure, welfare, and debt repayment just to name a few. If the supporters of this amendment, including our local Senator Mensch, have their way, they would see the school districts change their Homestead Exemption plans now for the upcoming fiscal year.
- I urge each and every one of us to look to PASBO and to support the efforts of our local school districts and school boards in keeping our districts firmly in our control. Encourage your friends and neighbors to do the same. There are legislators who are on the fence about the issue. Those are the people we need to get to.

- There are at least two, outspoken opponents to the plan, Senator Michele Brooks (R-50) and Senator Scott Hutchinson (R-21), and we should be able to identify a few more. This is an election year for some of these legislators, including our very own Representative Kate Harper. Senator Mensch is also running for re-election, but he is a co-sponsor of this measure.
- **In unity we have strength.** This measure not only threatens our jobs, it threatens how our local schools are financed. I, for one, am not in favor of adopting a budgeting plan based on the Philadelphia School District model.
- We must encourage all tax collectors and school board officials across the state to fight this. The MCTCA and the PSCTA must take up an active role and be more than information gatherers. The Pennsylvania Association of School Board Officials, commonly referred to as PASBO, led the way to bringing this to our attention. If we had just a little more time, we might have had a better chance to get the word out to the voters. As it is, we did pretty good as the proponents of this measure expected an 80/20 positive response, when in fact it turned out to be a much closer contact.

Thank you for allowing me to bring this to your attention, and, please, let's come together for the common good.