**Critical Risk Factors on Property Taxes**

A critical success factor is anything the presence or absence of which could lead to the success or failure of an individual, a school, a community, or an organization. I am a CPA who specialized in keeping companies out of bankruptcy. We use critical success factors as a means of focusing energies on those areas most likely to produce immediate results to avoid financial disaster.

Analyzing critical economic reasons affecting property taxes helps focus on those issues that will likely lead to success and avoid failure.

The first critical economic issue is that property taxes are a fixed expense for the property owner. This seemingly innocuous statement is the crux of the problem. In other words, the person who is paying the tax has no flexibility in reducing their taxes when their income drops.

In describing the problem, I often use the expression that a senior citizen is but one life event away from losing their home. Should a couple be retired and a spouse should pass away, the income reduction from the death is immediate but property taxes remain unchanged.

By the same token, school districts are perhaps some of the most fixed cost intensive businesses I have observed. The very nature of the fixed cost for the school district means that they seek stability in funding – hence the attractiveness of property taxes.

The very predictability and certainty of the property tax for the school district is at the heart of the problem for the homeowner.

Property taxes are problematic for working families as well. Young working families are bearing the brunt of funding the state with the income tax, exploding health care coverage costs, and day care expenses that are mind-numbing.

Another critical risk factor is our tax structure and limited job creation except in social services because Pennsylvania is facing an exodus of young working families and have been for quite some time.

The tax code in Pennsylvania is specifically geared to taxation of income from working citizens. Retirement income is not taxed.

The Independent Fiscal Office report indicates that Pennsylvania is attracting seniors because of the tax status in the Commonwealth of retirement income particularly when compared to neighboring states. That same tax structure is having the exact opposite effect on young working families who are leaving the state because of the unfavorable nature of the tax structure.

The combination of the exodus of younger people and migration in of older people is a financial disaster. Combine this trend with the fixed income of an increasing senior base and the fixed cost of the school districts a financial collusion is difficult to avoid.

A third critical success factor relates to the nature of the fixed costs of schools.

The unfunded pension obligations of the school districts in the tens of billions of dollars and the extremely high unfunded healthcare costs makes controlling spending at the school districts extremely difficult. In 2019 the average school district will budget over 30% of its payroll for pension contributions up from under 15% a decade ago.

Compounding the problem of unfunded pension obligations and postemployment costs for healthcare are the exploding costs of unfunded mandates from Harrisburg and Washington DC as well as the costs of special education.

These critical success factors of fixed cost to the homeowner, fixed expenses of the school district, demographic changes to an older population, our Pennsylvania tax structure, unfunded pension liabilities, unfunded mandates, and cost of special education all point to an ever increasing burden on property owners. The trends of these critical risk factors are not good and point to a pending financial meltdown.

There are many who have opposed property tax elimination in the past. For those of you who may feel that eliminating property taxes is not important, I would encourage you to consider how your would react if the definition of property were expanded to include the present value of your Social Security and pension, your 401-K/IRA, and any other property you may own.

For example, if your school had a millage rate of 14.237 per $1000 of assessed value and if your pension assets (401-K) of $250,000 were defined as property, your ANNUAL tax on your pension would be over $3500.

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