Testimony

PA House Finance Committee

Support of School Property Tax Elimination Provided in HB 1776

June 4, 2012
Harrisburg, Pennsylvania

Offered by

Joel Rotz
Director
State Governmental Relations

Pennsylvania Farm Bureau

Thank you for the opportunity to address you this morning. I am Joel Rotz, State Governmental Relations Director, for the over 53,000 family members of the Pennsylvania Farm Bureau. I am here to speak in support of HB 1776, introduced by Representative Jim Cox.

For decades, Farm Bureau has expressed a consistent message that the current means for financing schools imposes serious financial burdens on farm families and needs to be changed. Unfortunately, the "current" system that existed thirty years ago remains in large measure today's current system. And farm families in our Commonwealth continue to be unfairly burdened by the imposition of real property taxes.

Our current system of school taxation would appear to be based on two basic principles: (1) the property tax is the most reliable means for school districts to raise revenue, and (2) that property ownership is a reflection of wealth and ability to pay local taxes. It is hard to find fault with the first principle, since most property owners somehow find some way to pay their taxes, even when owners can't afford to pay them. But Farm Bureau does find fault with the validity of the second principle with respect to Pennsylvania farmers. Farmers are most often land rich and cash poor.

The concept that property ownership is a reflection of wealth and ability to pay is arcane. The nature of farming itself does not provide any meaningful opportunity for farmers to reduce tax burdens. Farming is a land-intensive enterprise. Ownership and use of large amounts of land are necessary components to the viability of a farm operation. For a growing number of farm families, the "home farm" is not sufficient to keep their farm business viable. They must rent a significant portion of land from others to secure production levels needed to economically sustain their agricultural operations. The continued increases in property tax adversely affect the rental value that farm families pay to use these lands in agricultural production.

While Pennsylvania agriculture continues to be a core component of the commonwealth's economic engine, the challenges of maintaining the economic viability of family farms in the state remain great. For many producers, the price they receive for their product is not keeping pace with the cost of the operation of the farm as the purchase of farm inputs continue to steadily increase.

Not only have farm families been struggling with securing a sustained income level that sufficiently provides for the family's livelihood, farm families have been consistently hit with increasing school tax burdens, because of increased fiscal needs of school districts and a taxing system that makes property taxation the only real means to satisfy those increased needs.

Without change in our current system, farm families throughout the state will have even greater difficulty in earning a meaningful livelihood from their farm operations. Farm Bureau believes reducing property taxes also helps preserve farmland and save family farms because property taxes are one of the top reasons farmers sell land to be developed. A plan to shift more of the tax burden to earned income would benefit many in the

Commonwealth, not just farmers. Other beneficiaries include retired homeowners and others on fixed incomes at risk of being forced from their homes by escalating property tax bills.

According to the Commonwealth Foundation, it is estimated that the cost of public education for K-12 schools across the state is approximately 26 billion dollars. Adjusted for inflation, that is a 44% increase per student just since 1996. Because of our current taxing system, much of the burden of this dramatic increase in education cost is placed upon property owners. Shifting the total school property tax to sales and income is politically difficult because of the significant tax increases that are required in these other areas to eliminate property tax. This shifting of tax is touted by opponents as a tax increase rather than a more fair and equitable method in financing public education.

Farm Bureau members understand there is no "free lunch" when it comes to financing one of the most important and basic functions of government in providing public education. Eliminating the property tax requires a tax shift. HB 1776 places a large share of the burden of funding public schools on a local income and state sales tax expansion and increase. Pennsylvania Farm Bureau believes the shift from property tax proposed in HB 1776 provides a more fair and equitable manner to finance our public school system.

Pennsylvania Farm Bureau has repeatedly stressed that real property tax reform must be comprehensive and ultimately should lead to its total elimination. It must provide farmers and other property owners with true relief from current and future property tax burdens. It must also provide school districts with a reliable source of current and future revenue to meet reasonable costs of operation.

Pennsylvania Farm Bureau members have supported for several years eliminating the school property tax and replacing it with various sources including a mixture of earned income and sales tax as proposed in HB 1776. Switching to income and sales taxes for school funding provides the obvious benefits of spreading the burden of public education to all who benefit from the investment, not just landowners. It also better reflects ability to pay based upon income and the sale of items consumers choose to purchase. The consumer decides when and how much to pay by making purchasing decisions based on a more universal tax that comes with the purchase.

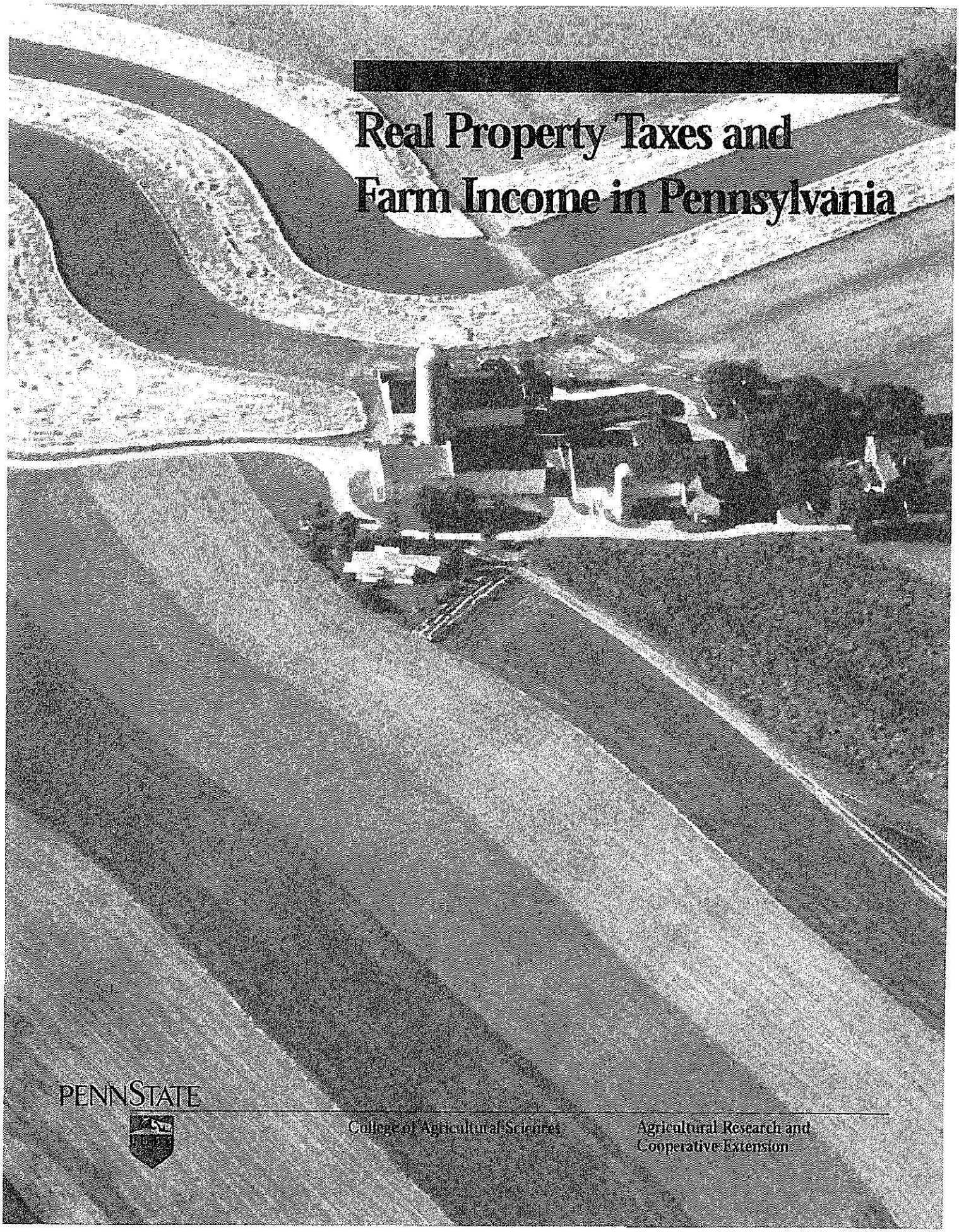
Pennsylvania Farm Bureau acknowledges and appreciates the efforts this legislative body and those in the past have made to provide some measure of property tax relief for farmers through passage of the Act itself and various amendments since its enactment to the state's Clean and Green Program. While the program has been and continues to be a significant help in easing property tax burdens for many farmers across the state, it of course only shifts the property tax burden among landowners and does not address the overall concern of solely encumbering property owners with funding schools. Again, HB 1776, spreads the cost of school funding over a broader spectrum of the population and in a manner that better reflects the individual's ability to pay than does are current archaic property tax approach.

Even with Clean and Green Programs in place in many counties across the state, studies continue to demonstrate how property taxes paid by farmers benefit local governments and school districts. The most recent study Pennsylvania Farm Bureau can cite on the cost of services verses revenue generated by the property tax was done in 2006 by Dr. Tim Kelsey of Penn State University and is attached to this testimony. The study demonstrates that farms only require pennies on the dollar in the cost of needed services verses taxes paid, while in stark contrast, residential housing requires slightly more to significantly more in costs of service than dollars provided to fund services such as public education.

Also cited in a separate study by Mr. Kelsey (also attached), are numbers demonstrating the inequitable distribution of burden to the individual farmer based upon their gross income. The study states that on average, farmers pay 6% of their gross income on property taxes. Of course gross income is not a dependable indicator of ability to pay. A farm, like any other business, may have a $500,000 in gross income and still produce little to no net income. While the "average" cited in the study of percent of gross income paid by farmers in property tax is 6%, it is interesting to note that individual counties vary greatly across the state. In some counties, farmers pay as little as less than 3% of gross income to other counties where farmers are paying as much as 9%, 10%, 12% and even one county 18% of gross income. Acknowledging that there are many varying factors that these numbers are based upon, Pennsylvania Farm Bureau believes these numbers nonetheless point to the inequities created by taxing farmland to fund public schools.

Again, thank you for the opportunity to testify before you today. I will be happy to take your questions.

Real Property Taxes and Farm Income in Pennsylvania



PENNSTATE

College of Agricultural Sciences

Agricultural Research and Cooperative Extension

Real property taxes often are cited as one reason for the loss of farmland. Stories of farmers forced under because of rising tax bills abound, and in several studies, people who have quit farming identified high taxes as one reason for having done so. The real property tax (sometimes called the "real estate tax") is the most important source of tax revenue for local jurisdictions in Pennsylvania, providing 66 percent of total tax collections in 1998 to all governments and school districts in the Commonwealth (excluding Philadelphia). This included 79 percent of school district tax revenue, 97 percent of county tax revenue, and 32 percent of township, borough, and city tax revenue.

Real property taxes generally are unpopular with farmers, because the value of their business is land-based (and thus more subject to the real property tax), unlike many other local businesses. Because the size of a real property tax bill is based on the value of the land owned and not the amount of money earned on that land, it is not based on the landowners' ability to pay. This can create special hardships for farmers and others with land but relatively low cash flow.

In response to these concerns, Pennsylvania has a major farmland protection program, Clean and Green, which is intended to save farmland by reducing taxes on that land. Clean and Green bases real property taxes on the farm income potential of the land rather than on the land's often higher market value. All states have legislation that lowers real property taxes for farmland. Pennsylvania tax assessment rules also exempt certain structures on farms, such as silos and corn cribs, from taxation.

Despite the anecdotes and interviews with farmers who have quit, there has been little direct study of the real property tax burden on farms. Some farm management experts have suggested that if the real property tax burden is enough to drive a farm out of business, the farm likely was suffering deeper financial problems.

This extension bulletin examines the relationship between gross farm income and real property taxes in Pennsylvania, using results from a study commissioned by the Pennsylvania Department of Agriculture. It is intended to help you better understand farming in Pennsylvania, local taxes, and the impact of real property taxes on farms.

What Are Pennsylvania Farms Like?

The number and productivity of Pennsylvania's farms make it the leading agricultural state in the northeastern United States. In 1997, there were 45,457 farms in the Commonwealth, with almost 7.2 million acres of land devoted to farming. Cash receipts from all crops and livestock production were just about $4 billion in 1997, exceeding the next state (New York) by more than $1.1 billion. Farming is an integral part of Pennsylvania's economy, communities, and history.

Pennsylvania's farms produce a variety of crops and animal products. Dairy farms produce about 36 percent of Pennsylvania's cash receipts from farming, while poultry farms (including eggs, broilers, and turkeys) account for another 19 percent of total receipts. Greenhouses, nurseries, and mushroom farms produce about 16 percent of total receipts from farming, while beef farms, hog farms, and cash grain farms each account for 6 percent.

Farm size varies significantly in Pennsylvania. Almost one-fourth of the farms (22.6 percent) have less than $2,500 in annual sales, while 45.9 percent have less than $10,000 in annual sales. These small farms are predominantly part-time or hobby farms, and of the approximately 21,000 such farms, only about 22 percent made a profit in 1997 (U.S. Census of Agriculture). Although they are the most numerous, these small farms account for only 7.8 percent of the value of annual sales of agricultural products.

About one-third of Pennsylvania farms (31.3 percent) have $50,000 or more in sales per year. Farms with more than $250,000 in annual sales account for only 7.1 percent of all Pennsylvania farms, yet they produce 59.4 percent of the total value of Pennsylvania's agricultural products.

How Can Residential Development Affect Farmers' Tax Bills?

Residential development can increase farmers' tax bills in two ways. First, development can increase the demand for land, raising its price. When the assessed value of that land for tax purposes is increased because of the higher land prices, tax bills will increase. Note, however, that assessed values are changed only during reassessments, which generally occur infrequently in Pennsylvania counties. Except during the year a reassessment occurs, rising land prices by themselves thus have little direct impact on farm tax bills. Second, development can increase farm taxes if it forces the local government or school district to increase spending on public services and raise tax rates to pay for these new expenditures. In Pennsylvania, tax pressures on farms from development usually result from

a community's need to provide new or expanding public services such as schools, roads, sewerage, and police.

Real Property Taxes and Farm Income

Real property taxes averaged about 6 percent of gross farm income in Pennsylvania between 1995 and 1999 (see the Appendix for calculation methods). Of this amount, five percent went to school districts, 0.2 percent went to townships and boroughs, and about 0.8 percent to county governments. The average farm with $10,000 or more in gross farm revenue averaged $172,030 in gross income during this time period (gross farm income includes money from the sale of agricultural products, rental of agricultural land, and custom farm work). These calculations do not include other sources of farm household income such as off-farm jobs, which are very important to many Pennsylvania farm families. If off-farm sources of income were included, the percentage of total farm household income going to real property taxes would be lower than the estimates presented here.

Table 1 illustrates that the impact of real property taxes varied across farm types in Pennsylvania. (Note that these are farms with $10,000 or more in annual sales.) Horse farms had the largest burden, with property taxes averaging 15 percent of their gross farm income. Poultry farms had the smallest burden, with property taxes averaging 1.3 percent of their gross income. Even though the amount of real property tax paid by the average poultry farm was larger than that paid by the average horse farm ($5,477 compared to $4,458), the average poultry farm's gross income was much higher ($745,596 compared to $84,408), making the real property tax burden relatively smaller. (Note that these are averages, so the results for any individual farm will vary from these.)

Farms with higher gross incomes generally faced a smaller relative real property tax burden (Table 2). This shouldn't be surprising, because the real property tax in Pennsylvania is based on the value of the land and not on the value of the farmer's production. (Remember that the real property tax is a fixed cost to farmers, unaffected by the income of the farm—in other words, it is not based on the farmer's "ability to pay.") Here again, because smaller farms are more likely to rely on off-farm income, the percentage of their household income going to the real property tax generally will be lower than these estimates, which are based solely on gross farm income.

Because the size and type of Pennsylvania's farms vary across counties, as do the quantity and quality of public services (which affect tax rates), the average proportion of gross farm income going to the real property tax also varied across counties (Table 3). In counties with a high average gross income or low average property tax, this proportion tended to be lower. The average farm in Bradford County, for example, had $185,195 in gross income and a property tax bill of $2,655, so had a proportion of 3.3 percent. The average farm in Elk County, in contrast, had a lower property tax bill of $2,540 but a much higher ratio of 9.3 percent, because it had only $56,056 in gross income. (More detailed county-level results are available on-line at http://cax.aers.psu.edu/farmtaxes/). It is interesting to note that there was no statistical difference between the counties with farms enrolled in Clean and Green and those without.

There were regional differences in the relation between farm income and real property taxes (Figure 1 and Table 4). Farms in the southeast (Bucks, Chester, Delaware, Montgomery, and Philadelphia counties) generally had the highest average proportion of income going to real property taxes. This resulted from the generally higher real property tax bills in this region. Farms in the central and northwestern parts of Pennsylvania generally faced smaller tax burdens, though this varied by farm type.

Table 1. Average gross farm income,* property taxes paid, and property taxes as a percentage of gross farm income, by farm type in Pennsylvania (farms with $10,000 or more in farm income).

Farm type	Average gross farm income	Average property taxes paid	Property taxes as a % of gross farm income	Number of farms
Animal specialities (e.g., fur-bearing animals, rabbits, bees)	$304,086	$7,248	10.5%	157
Beef	91,400	2,909	8.0	2,566
Cash grains (e.g., wheat, corn, soybeans, oats, other small grains)	75,421	3,743	10.5	2,831
Dairy	185,486	3,819	2.5	8,018
Field crops (e.g., alfalfa, clover, potatoes)	44,032	2,835	10.6	2,302
Forestry	67,941	3,129	8.4	436
Fruits	165,994	3,851	4.5	603
General crops (crop-based, but less than 50% of income from any one type)	59,078	3,235	9.0	687
General livestock (livestock-based, but less than 50% of income from any one type)	175,483	4,127	4.4	237
Horses	84,408	4,458	15.0	272
Mushrooms	1,887,439	13,733	2.5	134
Ornamentals (e.g., bedding plants, bulbs, flowers, nursery stock)	209,427	3,689	5.1	1,197
Other livestock (e.g., hogs, sheep, goats)	251,042	3,474	6.1	1,099
Poultry (e.g., eggs, chickens, turkeys)	745,596	5,477	1.3	855
Vegetables	75,156	2,743	7.8	576

*Gross farm income includes market value of sales, farm rent, government payments, and custom farm work. Does not include non-farm sources of household income.

Summaries were derived by the authors using data collected in the 1997 Census of Agriculture by the National Agricultural Statistics Service, United States Department of Agriculture.

Table 2. Average property taxes paid in Pennsylvania as a percentage of gross farm income,* by farm type and gross income level (farms with $10,000 or more in farm income).

	Gross farm income				
Farm type	**<$25,000**	**$25,000–49,999**	**$50,000–99,999**	**$100,000–249,999**	**≥$250,000**
Animal specialities	21.5%	9.8%	(D)	4.1%	0.8%
Beef	10.8	6.4	4.9	2.9	1.2
Cash grains	15.7	9.6	5.3	3.3	2.1
Dairy	5.7	3.2	2.5	2.3	1.7
Field crops	13.9	8.5	6.0	2.8	2.1
Forestry	12.5	6.8	5.8	2.5	1.9
Fruits	6.9	5.3	3.1	3.1	2.0
General crops	10.6	8.6	7.1	5.5	2.1
General livestock	14.9	4.1	4.0	2.8	1.8
Horses	21.5	9.1	5.4	3.2	4.6
Mushrooms	11.1	(D)	(D)	2.4	1.2
Ornamentals	10.0	5.1	3.5	2.6	1.4
Other livestock	11.4	10.3	2.6	2.1	1.1
Poultry	3.0	5.0	2.3	2.3	0.8
Vegetables	10.5	5.9	5.1	1.4	1.7

*Gross farm income includes market value of sales, farm rent, government payments, and custom farm work. Does not include non-farm sources of household income.

(D) Data is based upon such a small number of farms that release of the information would violate NASS confidentiality and disclosure rules.

Summaries were derived by the authors using data collected in the 1997 Census of Agriculture by the National Agricultural Statistics Service, United States Department of Agriculture.

Table 3. Average gross farm income,* property taxes paid, and property taxes as a percentage of gross farm income, by county in Pennsylvania (farms with $10,000 or more in farm income).

County	Average gross farm income	Average property taxes paid	Property taxes as a % of gross farm income	Number of farms
Adams*	$ 263,834	$ 4,053	4.8%	477
Allegheny	50,016	2,712	10.7	105
Armstrong*	77,087	2,654	7.0	228
Beaver*	68,063	3,761	12.4	146
Bedford	136,114	3,275	5.1	410
Berks*	262,645	5,186	7.2	913
Blair	184,618	3,387	3.7	252
Bradford*	185,195	2,655	3.3	672
Bucks*	173,732	5,483	10.7	338
Butler*	63,852	2,789	7.5	371
Cambria*	103,811	2,878	6.4	191
Cameron*	48,694	1,157	4.5	5
Carbon	99,643	2,985	9.7	72
Centre*	122,225	3,618	6.5	428
Chester*	414,655	7,041	8.2	732
Clarion	76,442	2,919	9.5	173
Clearfield*	74,222	2,176	4.9	126
Clinton*	145,863	4,820	5.8	114
Columbia*	126,588	2,727	5.3	296
Crawford	122,695	2,883	4.2	512
Cumberland*	167,113	3,246	5.3	477
Dauphin*	150,087	4,094	7.5	316
Delaware*	285,795	5,830	9.8	25
Elk*	56,056	2,540	9.3	39
Erie*	134,080	3,752	5.1	569
Fayette*	78,783	2,252	4.9	243
Forest	76,477	2,323	6.6	14
Franklin	269,296	3,816	2.9	736
Fulton*	123,551	2,892	6.1	164
Greene*	58,102	3,231	9.6	115
Huntingdon*	146,928	2,755	4.3	271
Indiana	125,042	3,639	7.8	363
Jefferson	81,531	2,305	5.6	149
Juniata*	175,608	2,244	3.5	353
Lackawanna	92,897	3,666	11.3	106

continued on next page

Table 3, continued.

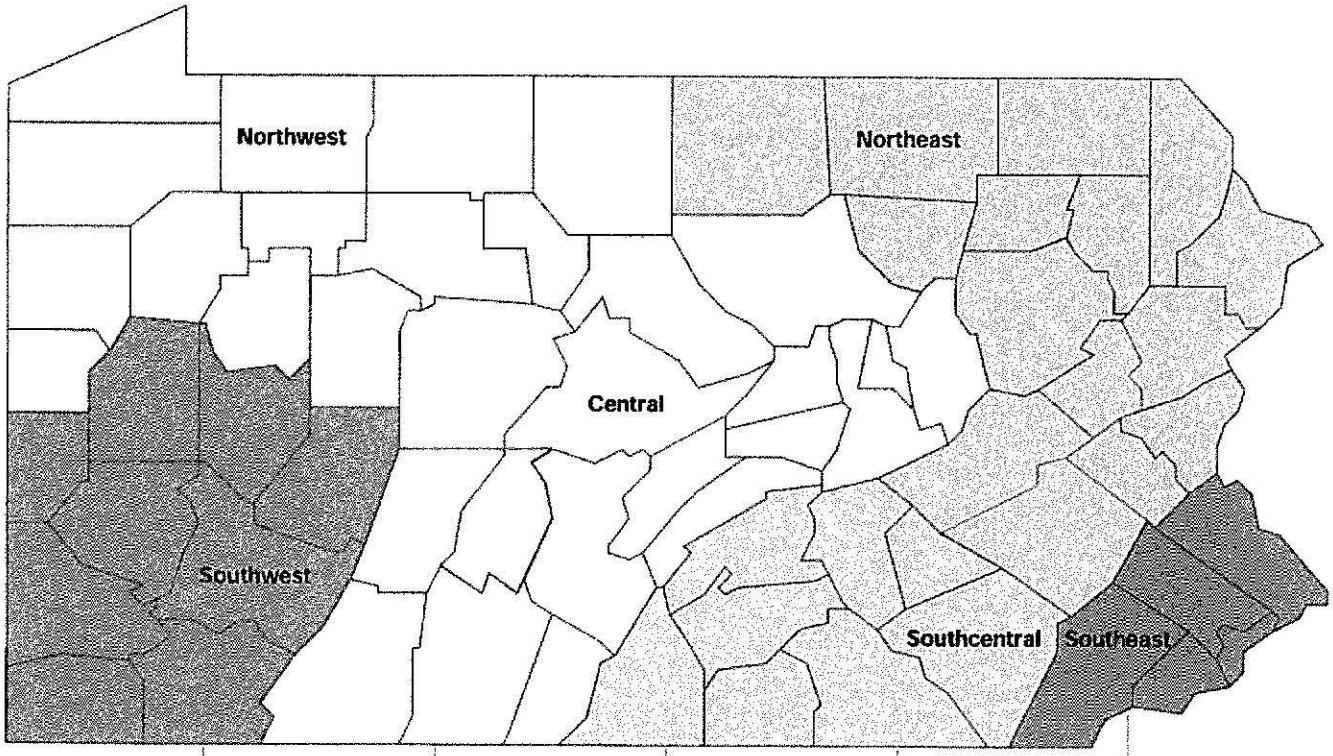
County	Average gross farm income	Average property taxes paid	Property taxes as a % of gross farm income	Number of farms
Lancaster+	$ 231,445	$ 4,297	4.9%	3,056
Lawrence	103,988	2,894	5.7	260
Lebanon	291,899	5,678	8.8	517
Lehigh+	223,145	5,046	8.6	216
Luzerne	91,986	2,881	8.7	193
Lycoming+	111,495	3,018	7.8	411
Mckean+	67,367	2,435	6.1	67
Mercer	106,350	2,702	5.9	479
Mifflin	140,876	2,718	3.5	335
Monroe+	74,743	4,683	18.4	67
Montgomery+	122,109	4,295	8.9	217
Montour	110,615	2,321	5.1	136
Northampton+	132,294	5,997	12.8	186
Northumberland	189,703	2,938	4.3	332
Perry+	171,785	3,910	8.0	318
Philadelphia	125,093	7,915	7.6	5
Pike+	100,585	3,766	7.6	17
Potter+	145,903	2,906	4.1	131
Schuylkill+	160,250	3,136	6.8	301
Snyder+	165,135	2,514	3.9	399
Somerset	127,479	2,778	4.2	515
Sullivan+	130,940	3,007	5.4	61
Susquehanna+	148,381	2,503	4.5	385
Tioga+	129,909	3,016	5.5	421
Union+	155,963	2,928	3.7	296
Venango	68,125	2,463	5.5	110
Warren+	107,468	2,134	4.1	143
Washington+	75,680	3,183	9.2	367
Wayne+	113,121	3,294	5.7	246
Westmoreland+	85,578	3,436	9.0	399
Wyoming+	227,472	6,231	5.0	144
York+	163,742	3,708	6.4	739

* Gross farm income includes market value of sales, farm rent, government payments, and custom farm work. Does not include non-farm sources of household income.

+ County had at least one farm participating in Clean and Green.

Summaries were derived by the authors using data collected in the 1997 Census of Agriculture by the National Agricultural Statistics Service, United States Department of Agriculture.

Figure 1. Pennsylvania counties grouped by region.



Northwest
Cameron
Clarion
Clearfield
Crawford
Elk
Erie
Forest
Jefferson
Lawrence
McKean
Mercer
Potter
Venango
Warren

Southwest
Allegheny
Armstrong
Beaver
Butler
Fayette
Greene
Indiana
Washington
Westmoreland

Central
Bedford
Blair
Cambria
Centre
Clinton
Columbia
Fulton
Huntingdon
Juniata
Lycoming
Mifflin
Montour
Northumberland
Snyder
Somerset
Union

Northeast
Berks
Bradford
Carbon
Lackawanna
Lehigh
Luzerne
Monroe
Northampton
Pike
Schuylkill
Sullivan
Susquehanna
Tioga
Wayne
Wyoming

Southcentral
Adams
Cumberland
Dauphin
Franklin
Lancaster
Lebanon
Perry
York

Southeast
Bucks
Chester
Delaware
Montgomery
Philadelphia

Table 4. Average property taxes as a percentage of gross farm income,* by region and farm type in Pennsylvania (farms with $10,000 or more in farm income).

Farm type	Southeast	Northeast	Southcentral	Central	Southwest	Northwest
Animal specialities	13.8%	5.5%	4.8%	4.3%	66.3%	4.4%
Beef	4.2	6.9	8.0	6.2	11.1	8.4
Cash grains	16.7	11.3	10.4	7.4	10.8	9.5
Dairy	3.1	2.5	2.5	2.2	3.1	2.5
Field crops	18.4	12.7	8.9	10.2	11.2	8.9
Forestry	8.0	13.8	9.7	6.2	4.8	5.8
Fruits	10.0	3.8	4.4	2.1	2.0	5.8
General crops	7.2	9.3	11.4	6.5	8.7	6.1
General livestock	2.5	4.3	5.4	3.0	3.5	2.3
Horses	19.6	20.3	7.9	7.5	13.8	13.0
Mushrooms	1.5	3.6	2.9	(D)	9.4	na
Ornamentals	5.5	5.4	5.4	4.2	6.1	2.9
Other livestock	16.8	7.5	3.9	8.1	7.8	7.4
Poultry	2.5	1.4	1.3	1.0	1.7	0.8
Vegetables	9.2	10.2	11.1	5.3	5.9	5.2

(D) Data is based upon such a small number of farms that release of the information would violate NASS confidentiality and disclosure rules.

* Gross farm income includes market value of sales, farm rent, government payments, custom farm work. Does not include non-farm sources of household income.

Summaries were derived by the authors using data collected in the 1997 Census of Agriculture by the National Agricultural Statistics Service, United States Department of Agriculture.

Real Property Taxes Versus Other Farm Expenses

Statewide, real property taxes averaged 2.7 percent of total production expenses on all farms with $10,000 or more in annual sales (Table 5). Feed for livestock and poultry was the largest single production expense, accounting for about one-third of total farm expenses. Other large expenses included hired farm labor (12.2 percent), livestock and poultry purchased (9.6 percent), and repair and maintenance expenses (9.6 percent). Real property taxes were higher than cash rents (2.6 percent), electricity (2.5 percent), agricultural chemicals (2.5 percent), custom work and machinery hire (1.3 percent), and contract labor (0.9 percent).

Discussion

These results suggest several important implications about the real property tax and farming in Pennsylvania. Farm types with less farm-based income tend to pay proportionally more in real property tax than do farms with greater farm income. This occurs because the amount farmers owe in real property tax is based on the value of their land, rather than on the amount of income they can generate on that land. When all sources of household income such as off-farm jobs are considered, however, the differences are likely to level out somewhat because smaller farms tend to earn a higher percentage of their income from off-farm sources.

The results suggest that the real property tax is more burdensome to farmers in some counties than in others. Also, although property taxes can be significant for some farms, they generally are not large relative to other farm expenses. It is important to note that the real property tax is a business expense for farms, deductible from self-employment and income taxes. It is not subject to federal, state, and local income tax.

It also is important to recognize that the analysis in this bulletin is based on averages. Individual farms may have gross farm incomes and tax bills that are higher or lower than these averages, and they may be affected very differently by the real property tax. In addition, the analysis focuses on gross farm income, not net farm income (which includes the impact of real property taxes on farm profits). Calculating the impact of property taxes on net farm income was not possible because of data limitations in the 1997 Census of Agriculture.

Table 5. Farm production expenses in Pennsylvania (farms with $10,000 or more in annual sales).

Expense	Percent of total expenses
Feed for livestock and poultry	32.5%
All other farm production expenses	12.2
Hired farm labor	12.2
Livestock and poultry purchased	9.6
Repair and maintenance	6.1
Interest	4.6
Commercial fertilizer	3.5
Petroleum	3.4
Seeds, bulbs, plants, and trees	3.3
Property taxes	2.7
Cash rent	2.6
Electricity	2.5
Agricultural chemicals	2.5
Custom work, machine hire	1.3
Contract labor	0.9

Source: 1997 Census of Agriculture, United States Department of Agriculture.

Appendix: Calculation Methods

The information in Tables 1 through 4 was calculated using individual farm-level data reported by Pennsylvania farmers in the 1997 U.S. Census of Agriculture, combined with a five-year average of yield and price information from Pennsylvania. A five-year average was used to even out seasonal fluctuations caused by weather and market conditions. The farm-level estimates included separate calculations for all principal commodities produced in Pennsylvania including 16 grains and oilseeds, 13 vegetables, 13 fruits, and 10 types of livestock and poultry. These calculations were made for each individual farm, and then the farm-specific results were averaged at the county, region, and state levels.

Because the analysis was conducted using primary farm-level data from the Census, which is subject to confidentiality concerns, the researchers conducted the analysis under special authorization at the National Agricultural Statistics Service (NASS) data lab in Washington, D.C. Any interpretations and conclusions derived from the data represent the author's views and not necessarily those of NASS. Farms with less than $10,000 in annual sales were omitted from the analysis.

The results include taxes paid on the farmer's home, which often are difficult to separate from taxes on the farm operation itself. Because farm homes are included, the proportions calculated here are not directly comparable to the amount paid by other businesses in which the owner lives off the business location.

References

Kelsey, T. W. and K. Kreahling. *Farmland Preservation in Pennsylvania: The Impact of "Clean and Green" on Local Governments and Taxpayers.* Extension Circular 411. University Park, PA: Penn State Cooperative Extension. 1994.

U.S. Department of Agriculture, National Agricultural Statistics Service. *1997 Census of Agriculture: Geographic Area Series. Pennsylvania State and County Data.* Washington, D.C.: Government Printing Office.

Prepared by Timothy W. Kelsey and Jayson K. Harper, associate professors of agricultural economics, with financial support from the Pennsylvania Department of Agriculture.

Summaries were derived using data collected in the 1997 Census of Agriculture by the National Agricultural Statistics Service, United States Department of Agriculture. Any interpretations and conclusions derived from the data represent the authors' views and not necessarily those of NASS.

Visit Penn State's College of Agricultural Sciences on the Web: http://www.cas.psu.edu

Penn State College of Agricultural Sciences research, extension, and resident education programs are funded in part by Pennsylvania counties, the Commonwealth of Pennsylvania, and the U.S. Department of Agriculture.

This publication is available from the Publications Distribution Center, The Pennsylvania State University, 112 Agricultural Administration Building, University Park, PA 16802. For information telephone (814) 865-6713.

Issued in furtherance of Cooperative Extension Work, Acts of Congress May 8 and June 30, 1914, in cooperation with the U.S. Department of Agriculture and the Pennsylvania Legislature. T. R. Alter, Director of Cooperative Extension, The Pennsylvania State University.

This publication is available in alternative media on request.

CAT UA346 3M5/01ps4428

PENNSTATE

The Public Finance Implications of Land Uses and Community Services:

Antrim Township, Franklin County

Prepared for Antrim Township
October 4, 2006

Timothy W. Kelsey
Penn State Cooperative Extension
105A Armsby Building
The Pennsylvania State University
University Park, PA 16802
(814) 865-9542

Michael W-P Fortunato
Penn State Cooperative Extension
c/o Armsby Building
University Park, PA 16802
(412) 480-4974

INTRODUCTION

The different land uses in a community have major implications for local governments. Land uses affect the types of services residents demand and which local governments must provide, and impact the tax base from which local governments raise their revenue.

This paper presents the results from a land use and community service study conducted in Antrim Township (Franklin County), which investigated the relationship between land uses and local government expenditures and revenues. It compares the local government and school district revenues provided by different land uses with the cost of providing services to those land uses.

The study followed the methodology of similar studies by the American Farmland Trust. Four land uses were considered: Residential land, Industrial land, Commercial land, and Agricultural land. The definitions follow Pennsylvania tax assessment conventions, with one exception. The buildings and homes on farms (the homestead) were treated as residential properties. Land without buildings on farms was categorized as Agricultural land. This was done to make the study consistent with the earlier American Farmland Trust studies.

Township and school district finances were examined in the analysis. These included Antrim Township and the Greencastle-Antrim School District.

STUDY METHODS

The ratios between local government revenues and expenditures for each land use were calculated by breaking down the township and school district budgets for 2005 by the land uses providing the revenue or using the services.

Real property taxes were broken down using Franklin County Tax Assessment Office records, splitting the assessed value of farm properties into the value of the land and of the buildings. The values of the farm homesteads were added to the residential component of the tax base (see Figure 1).

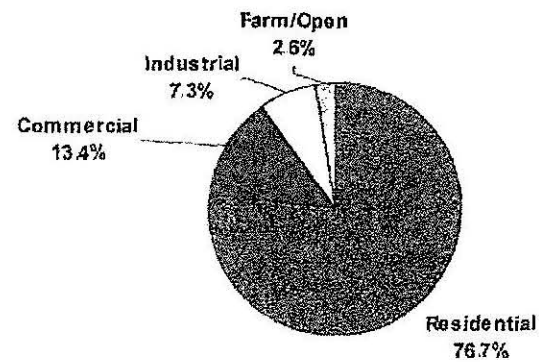


Figure 1 Share of Real Property Tax Base in Antrim Township

The earned income tax is by far the most important local tax for the Antrim Township government, providing nearly three out of every five local tax dollars. The real estate transfer tax provides a prominent 27% of all revenue. The real property tax only provides 10.7% of all revenue. The per capita, EMS/OPT, and amusement taxes provide a combined 4.5% of the township's revenue (see Figure 2).

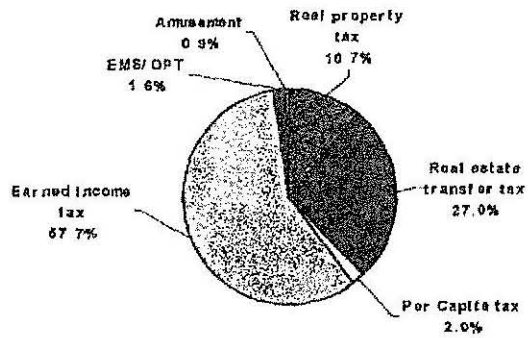


Figure 2 Sources of Antrim Township Tax Revenue

These tax revenues were broken down by the land type providing them. Non-tax revenues which could not be connected to specific land uses were allocated by using the percentages from all taxes as a default (see Figure 3). Because the township government relies very heavily upon the earned income tax, which is paid by residential land, a large portion of local tax revenue comes from such land.

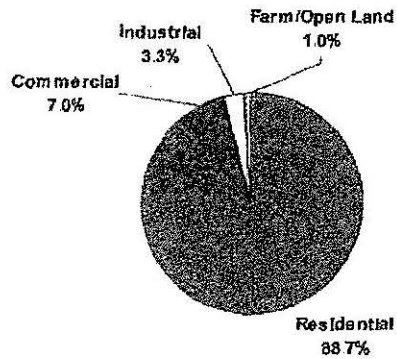


Figure 3 Antrim Township local tax revenues by land use

Township spending was allocated to land uses when possible, otherwise they were broken down using the percentages from all revenue as a default. Because most township expenditures were not specific to land uses, most expenditures were allocated by this default.

School district revenues specific to Antrim Township were broken down in a similar manner (see Figure 4). All school expenditures were allocated to residential land

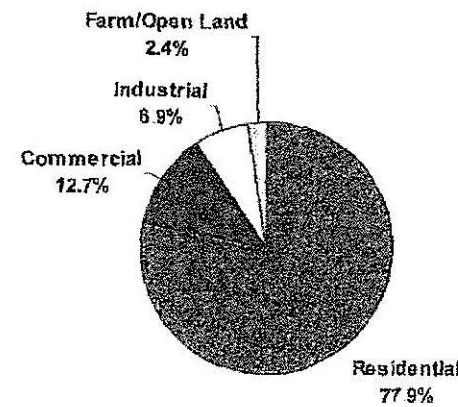


Figure 4 Greencastle-Antrim school district tax revenues for Antrim Township, by land use

RESULTS

The results of the study show that different land uses in Antrim Township have dissimilar impacts on local government finances. From the perspective of taxpayers who live in Antrim Township (who receive services from and pay taxes to the township government and the school district), residential land (including farm residences) requires more in services than it contributes in revenues.

For every dollar of revenue that residential land contributes to Antrim Township and the Greencastle-Antrim School District, it costs $1.03 to provide services to residential land. Commercial and agricultural land provide more in local government revenue than they demand. For every dollar of revenue agricultural land contributes, for example, it only costs $0.07 to provide services to that land. Commercial and agricultural land thus help subsidize the needs of residential land. The ratios of revenue to expenditures in Antrim Township illustrate this (see Table 1).

Table 1. Cost of Community Service Ratios by Land Use, Antrim Township

	Residential	Commercial	Industrial	Agricultural
Revenues: Expenditures	1 : 1.03	1 : 0.43	1 : 0.18	1 : 0.07

These results are consistent with those from similar studies in Adams County, Bucks County, Lebanon County, Perry County, and Potter County (see Table 2)

Table 2 Cost of Community Service Ratios, Pennsylvania Communities

Township	Residential	Commercial	Industrial	Farm & Open Land	Camps & Forest Land
Bedminster Township (Bucks County)	1 : 1.12	1 : 0 06	1 : 0 04	1 : 0 04	-
Buckingham Township (Bucks County)	1 : 1 04	1 : 0 16	1 : 0.12	1 : 0.08	-
Bethel Township (Lebanon County)	1 : 1 08	1 : 0 07	1 : 0.27	1 : 0.06	-
Walker Township (Centre County)	1 : 1.08	1 : 0 03	-	1 : 0 01	-
Strabane Township (Adams County)	1 : 1 10	1 : 0.17	1 : 0 05	1 : 0 06	-
Carroll Township (Perry County)	1 : 1.03	1 : 0.06	-	1 : 0 02	-
Maiden Creek Township (Berks County)	1 : 1.28	1 : 0 14	1 : 0.07	1 : 0 06	-
Richmond Township (Berks County)	1 : 1.24	1 : 0 11	1 : 0 06	1 : 0 04	-
Allegheny Township (Westmoreland County)	1 : 1.06	1 : 0.15	1 : 0.14	1 : 0 13	-
Bingham Township (Potter County)	1 : 1 56	1 : 0 26	-	1 : 0.15	1 : 0 15
Stewardson Township (Potter County)	1 : 2 11	1 : 0 37	-	1 : 0 12	1 : 0 31
Sweden Township (Potter County)	1 : 1 38	1 : 0 07	-	1 : 0 07	1 : 0 08

Pop. 66

The results are also consistent with studies in other states. These include studies in Connecticut, Massachusetts, and New York (see Table 3).

Table 3. Summary of Ratios from Other Studies

	Residential	Commercial & Industrial	Farm & Open
Hebron, CT	1 : 1.06	1 : 0.42	1 : 0.36
Agawam, MA	1 : 1.05	1 : 0.41	1 : 0.30
Deerfield, MA	1 : 1.16	1 : 0.37	1 : 0.29
Gill, MA	1 : 1.15	1 : 0.34	1 : 0.29
Beekman, NY	1 : 1.12	1 : 0.18	1 : 0.48
North East, NY	1 : 1.36	1 : 0.29	1 : 0.21
Median Ratios	**1 : 1.14**	**1 : 0.36**	**1 : 0.30**

Much of this result occurs because school related revenues and expenditures far outweigh township government revenues and expenditures in the township (see Figure 5). From local taxpayers' perspective, schools have a much greater impact on their taxes. All land uses contribute revenue to the school district, even though all school district expenses are directly related to residential land

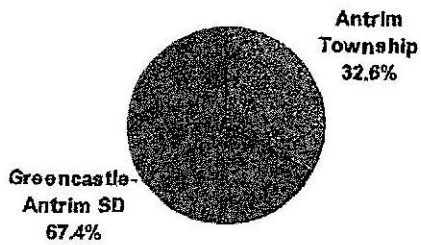


Figure 5 Proportion of local spending in Antrim Township

IMPLICATIONS

1. Implications for Antrim Township

Antrim Township has been experiencing growth pressures which impact the type and quantity of services it must provide residents. Residential land can require extensive service infrastructure, such as sewer and water lines. It also contributes to school tax expenses by increasing the number of children enrolled in the public schools.

Agricultural and open land can play an important role in local land uses. Farms provide employment, livelihood, recreation, and quality food to residents. Such land, through the scenic views it often provides, helps create the aesthetic nature

of a community and a link to the community's cultural heritage The results of this study also suggest that agricultural and open land provide fiscal benefits to the community by providing tax and other revenues without also making large (and costly) demands on services.

The results also demonstrate the advantage of having a wide tax base, with a variety of different land types. Without agricultural, commercial, and industrial land types, it would be more difficult to generate the revenues necessary to provide services to residential land.

2. Implications for Local Taxpayers

School finances have the largest impact upon taxpayers in Antrim Township. The size of Antrim Township's portion of the Greencastle-Antrim School District budget far outweighs the size of the Antrim Township government budget. Despite the large role residential land plays in the tax base, other land uses end up contributing towards school expenses.

Agricultural land provides clear economic benefits to all residents of the township by providing more in revenue than it requires in local expenditures. Agricultural land in Antrim Township, for example, provided approximately $243,486 in real property taxes towards school district expenses. This is above and beyond the property taxes farmers paid for their buildings and homes.

If growth must occur and farm land must be lost, commercial and industrial development have a potentially beneficial impact on the tax base as long as they do not dramatically raise the demand for services. The large assessed valuation increases from such development can expand property tax revenues, potentially paying for any new service demands.

This is in strong contrast to residential development, which in general does not pay for itself. Because of the potential increases in school expenses, all land uses can end up paying for this growth.

APPENDIX

Table 4 Calculation of Cost of Community Service Ratios, Antrim Township (township government and township's share of school district)

	Total	Residential	Commercial	Industrial	Agriculture/ Open
Revenues					
General Fund Municipal Tax Revenues	$2,378,078	$2,110,398	$166,738	$78,606	$23,336
General Fund Municipal Nontax Revenues	$745,482	$674,360	$45,453	$19,783	$5,886
Special Fund Municipal Revenues	$6,031,655	$4,102,631	$1,667,164	$298,071	$8,627
School district revenues	$17,781,225	$13,855,457	$2,262,280	$1,231,168	$431,721
Total revenues	**$26,937,441**	**$20,742,846**	**$4,142,235**	**$1,627,628**	**$469,569**
Expenditures					
General Fund Municipal Expenditures	$1,946,742	$1,761,469	$116,199	$53,256	$15,817
Special Fund Municipal Expenditures	$5,656,476	$3,778,955	$1,654,655	$236,686	$16,415
School District Expenditures	$15,732,036	$15,732,036	$0	$0	$0
Total expenditures	**$23,335,254**	**$21,272,461**	**$1,170,854**	**$289,942**	**$32,232**
Ratios	**1 : 0.87**	**1 : 1.03**	**1 : 0.43**	**1 : 0.18**	**1 : 0.07**