



## INDEPENDENT FISCAL OFFICE

Second Floor, Rachel Carson State Office Building  
400 Market Street  
Harrisburg, Pennsylvania 17105

December 12, 2014

The Honorable David G. Argall  
171 Main Capitol  
Harrisburg, PA 17120

The Honorable Judy Schwank  
457 Main Capitol  
Harrisburg, PA 17120

The Honorable Mike Folmer  
337 Main Capitol  
Harrisburg, PA 17120

The Honorable John T. Yudichak  
458 Main Capitol  
Harrisburg, PA 17120

Dear Senators Argall, Folmer, Schwank and Yudichak:

This letter responds to your request for an updated forecast of Pennsylvania school district property tax revenues. In addition, the Independent Fiscal Office (IFO) has provided updated General Fund baseline forecasts for personal income tax (PIT) revenues and sales and use tax (SUT) revenues, the main revenue sources used in prior proposals to replace school district property taxes.

Table 1 presents two school district property tax forecasts. The first is an updated forecast of school district property tax revenues through fiscal year (FY) 2019-20. The second is the IFO's October 2013 forecast of school district property tax revenues from *Analysis of Proposal to Replace School Property Taxes: House Bill 76 and Senate Bill 76*. The forecasts include current, interim and delinquent property tax revenues as well as Act 1 property tax allocations provided to school districts from the Property Tax Relief Fund.

**Table 1: School District Property Tax Forecasts**  
(\$ millions)

	2013-14 <sup>1</sup>	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
December 2014	\$12,907	\$13,281	\$13,702	\$14,149	\$14,573	\$15,013	\$15,469
October 2013	<u>13,141</u>	<u>13,683</u>	<u>14,292</u>	<u>14,824</u>	<u>15,323</u>	<u>15,864</u>	<u>n.a.</u>
Difference	-234	-402	-590	-675	-750	-851	-
Percent Difference	-1.8%	-2.9%	-4.1%	-4.6%	-4.9%	-5.4%	-

<sup>1</sup> FY 2013-14 revenues are estimates. Actual revenues have yet to be reported by the Pennsylvania Department of Education.

The downward revision in school district property tax revenues is primarily due to a reduction in the Act 1 base index. Additionally, school districts utilized fewer referendum exceptions to raise property taxes above their adjusted Act 1 indexes in FY 2013-14. A detailed version of the updated school district property tax forecast is enclosed.

Tables 2 and 3 present updated General Fund baseline forecasts for PIT revenues and SUT revenues, respectively. The November 2014 updated baseline forecasts are from *Pennsylvania's Economic & Budget Outlook: Fiscal Years 2014-15 to 2019-20*. The October 2013 baseline forecasts were used to inform the revenue estimates in *Analysis of Proposal to Replace School Property Taxes: House Bill 76 and Senate Bill 76*. Estimates of revenues to replace school district property taxes would be affected by the updated baseline forecasts.

**Table 2: Personal Income Tax Forecasts<sup>1</sup>**  
(\$ millions)

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
November 2014	\$11,437 <sup>2</sup>	\$12,027	\$12,563	\$13,097	\$13,677	\$14,279	\$14,897
October 2013	<u>11,682</u>	<u>12,277</u>	<u>12,864</u>	<u>13,441</u>	<u>14,021</u>	<u>14,602</u>	n.a.
Difference	-245	-250	-301	-344	-344	-323	-
Percent Difference	-2.1%	-2.0%	-2.3%	-2.6%	-2.5%	-2.2%	-

<sup>1</sup> Forecasts reflect the current PIT rate (3.07 percent) and tax base.

<sup>2</sup> Actual revenues collected.

**Table 3: Sales and Use Tax Forecasts<sup>1</sup>**  
(\$ millions)

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
November 2014	\$9,130 <sup>2</sup>	\$9,463	\$9,773	\$10,116	\$10,462	\$10,799	\$11,143
October 2013	<u>9,239</u>	<u>9,616</u>	<u>10,022</u>	<u>10,414</u>	<u>10,779</u>	<u>11,109</u>	n.a.
Difference	-109	-153	-249	-298	-317	-310	-
Percent Difference	-1.2%	-1.6%	-2.5%	-2.9%	-2.9%	-2.8%	-

<sup>1</sup> Forecasts reflect the current SUT rate (6.0 percent) and tax base.

<sup>2</sup> Actual revenues collected.

The downward revision in the PIT and SUT forecasts is primarily due to the fact that base year revenues (FY 2013-14) were below estimate. Additionally, economic variables such as gross domestic product and wages were revised downward through FY 2019-20.

I hope you find this information useful. Consistent with IFO policy, this letter will be posted to the office's website no later than the third business day following transmittal. Please do not hesitate to contact me if you have any further questions or comments.

Sincerely,



Matthew J. Knittel  
Director

Enclosure

**December 2014 School District Property Tax Forecast (Detail)**

(\$ millions)

	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>
Property Tax – Prior Year <sup>1</sup>	\$12,495	\$12,865	\$13,278	\$13,712	\$14,122	\$14,548
Revenue from Assessment Growth	<u>125</u>	<u>129</u>	<u>133</u>	<u>137</u>	<u>141</u>	<u>145</u>
<b>Prior Year Adjusted for Growth</b>	<b>12,620</b>	<b>12,994</b>	<b>13,411</b>	<b>13,849</b>	<b>14,263</b>	<b>14,693</b>
<b>Act 1 Index Growth</b>						
Aggregate Index Growth – Amount	298	288	331	355	407	426
Index Utilization Factor	70%	70%	70%	70%	65%	65%
<b>Net Index Growth</b>	<b>209</b>	<b>202</b>	<b>232</b>	<b>249</b>	<b>265</b>	<b>277</b>
<b>Act 1 Exceptions</b>						
Pension Exception	74	115	89	4	2	-
Special Education Exception	44	45	46	47	48	49
Debt Exception	<u>3</u>	<u>3</u>	<u>2</u>	<u>2</u>	<u>1</u>	<u>1</u>
<b>Exceptions Subtotal</b>	<b>121</b>	<b>163</b>	<b>137</b>	<b>53</b>	<b>51</b>	<b>50</b>
<b>Exceptions Utilization Factor</b>	<b>30%</b>	<b>50%</b>	<b>50%</b>	<b>45%</b>	<b>40%</b>	<b>40%</b>
<b>Net Exceptions</b>	<b>36</b>	<b>82</b>	<b>69</b>	<b>24</b>	<b>20</b>	<b>20</b>
<b>Total Act 1 Revenue Growth</b>	<b>245</b>	<b>284</b>	<b>301</b>	<b>273</b>	<b>285</b>	<b>297</b>
Property Tax Collections – Current Year	12,865	13,278	13,712	14,122	14,548	14,990
Property Tax Collections – Delinquent	<u>416</u>	<u>424</u>	<u>437</u>	<u>451</u>	<u>465</u>	<u>479</u>
<b>Property Tax Forecast (Current &amp; Delinquent)</b>	<b>13,281</b>	<b>13,702</b>	<b>14,149</b>	<b>14,573</b>	<b>15,013</b>	<b>15,469</b>

<sup>1</sup> Does not include delinquent property tax collections. FY 2013-14 delinquent property tax collections estimated at \$412 million.

Note: This table is a reproduction of Table C.1 on page 52 of *Analysis of Proposal to Replace School Property Taxes: House Bill 76 and Senate Bill 76 of 2013*.