



INDEPENDENT FISCAL OFFICE

February 22, 2019

The Honorable David G. Argall
Senate of Pennsylvania
171 Main Capitol Building
Harrisburg, PA 17120

The Honorable Mike Folmer
Senate of Pennsylvania
337 Main Capitol Building
Harrisburg, PA 17120

The Honorable Judith Schwank
Senate of Pennsylvania
457 Main Capitol Building
Harrisburg, PA 17120

The Honorable Lisa Boscola
Senate of Pennsylvania
458 Main Capitol Building
Harrisburg, PA 17120

Dear Senators Argall, Folmer, Schwank and Boscola:

This letter responds to your request that the Independent Fiscal Office (IFO) provide updated projections of the school district property tax collections that would be eliminated and subject to replacement under the proposed Property Tax Independence Act. The IFO generally refers to these projections as the school property tax replacement baseline, or baseline. Your letter specified certain parameters of the proposal that are relevant to the computation of the baseline:

- Except as noted below, school property taxes would be eliminated for school district fiscal years beginning after June 30, 2019.
- After the elimination date, school districts would be allowed to retain a portion of the property tax to pay principal and interest on debt issued before January 1, 2019.
- The Act 1 property tax reduction allocations (from slots revenues) that currently are received by school districts for homestead property tax relief would be redirected to the new Education Stabilization Fund (ESF) and redistributed back to school districts as part of financing the proposal. To the extent that the Act 1 allocations increase over the forecast period, it would increase the property tax replacement baseline, but also increase the income to the ESF. Hence, there would be no net impact to the funds needed to replace property taxes.
- The various revenues intended to replace the school property taxes being eliminated would be deposited in the ESF for distribution to school districts.

The IFO's updated current-law forecast of school district property tax collections is shown in Table 1 on the next page. Collections for fiscal year (FY) 2017-18 and FY 2018-19 are estimated based on millage rates published by the Pennsylvania Department of Education (PDE). Revenues throughout the rest of the forecast period are projections by the IFO.

Table 1
School Property Tax Forecast

Fiscal Year	Actual	Estimate		Forecast				
	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Current & Interim	\$13,052	\$13,467	\$13,803	\$14,220	\$14,640	\$15,140	\$15,680	\$16,270
Act 1 Allocations ¹	532	533	533	530	530	530	530	530
Delinquent	552	546	541	535	530	525	520	515
Total	14,136	14,546	14,877	15,285	15,700	16,195	16,730	17,315

Note: dollar amounts in millions.

¹ Actuals through FY 2018-19. Estimated at \$530 million thereafter.

Table 2 translates the current-law forecast to a school property tax replacement baseline using the parameters outlined in your letter. This baseline projects the revenues required by the ESF to replace the property tax-related revenues that would be eliminated or reduced.

Table 2
School Property Tax Replacement Baseline

Fiscal Year	2019-20	2020-21	2021-22	2022-23	2023-24
Current & Interim Forecast	\$14,220	\$14,640	\$15,140	\$15,680	\$16,270
Offset: Debt Service Retention	<u>-2,294</u>	<u>-2,159</u>	<u>-2,032</u>	<u>-1,912</u>	<u>-1,800</u>
Net Current & Interim Replacement	11,926	12,481	13,108	13,768	14,470
Act 1 Allocation Replacement	530	530	530	530	530
Delinquent Collection Replacement	<u>0</u>	<u>238</u>	<u>420</u>	<u>520</u>	<u>515</u>
Total Replacement Baseline	12,456	13,249	14,058	14,818	15,515

Note: dollar amounts in millions.

An explanation for each line in Table 2 follows:

Current & Interim Forecast is the current-law forecast of revenue from taxes assessed and levied upon real property, including taxes levied on new construction not appearing on the current real estate tax rolls. Beginning with FY 2019-20, these amounts are the same as the first line in Table 1, and they are consistent with the elimination of school property tax starting with that year.

Debt Service Retention is the forecast of current and interim property tax revenue that would be retained in order to pay principal and interest on debt issued prior to January 1, 2019. Those projections include school district debt service payments of \$2.437 billion for FY 2018-19, which the IFO assumes would not be affected by the cut-off date. The amount of debt service is reduced by an equal amount in each subsequent year to account for the retirement of debt and a prohibition on new debt. The analysis assumes that all debt in existence on December 31, 2018 will be retired in roughly 17 years and that the retirement of such debt is uniformly spread over those years.

Net Current & Interim Replacement is the current and interim property tax revenue that would be eliminated and subject to replacement after deducting the amount retained for debt service.

Act 1 Allocation Replacement is the projected \$530 million in Act 1 property tax reduction allocations. Under the proposal, these allocations would be redirected to the new ESF and redistributed back to school districts. Redirection of the funding increases the property tax replacement baseline, but also increases the income to the ESF. Hence, there is no net impact from the redirection of funds even though it initially increases the baseline.

Delinquent Collection Replacement is the revenue from the collection of delinquent property taxes that would be eliminated and subject to replacement. The analysis assumes that (1) delinquent collections would continue for taxes levied before July 1, 2019 and (2) elimination would have no effect on delinquent collections that would be received in FY 2019-20. Beginning in FY 2020-21, the analysis assumes that delinquent property tax collections would begin to decline, reflecting elimination of the tax. By FY 2022-23, delinquent collections would cease and the entire amount forecasted under the current-law forecast would be eliminated and subject to replacement.

Total Replacement Baseline is the revenue that would be eliminated and subject to replacement under the proposed Property Tax Independence Act. It is the total of the Net Current & Interim Replacement, the Act 1 Allocation Replacement and the Delinquent Collection Replacement lines.

Table 3 displays the projected amount of revenue that would be subject to replacement if school property taxes were eliminated for homestead properties only.

Table 3
Homestead Property Tax Replacement Baseline

Fiscal Year	2019-20	2020-21	2021-22	2022-23	2023-24
Current & Interim	\$7,679	\$7,906	\$8,176	\$8,467	\$8,786
Act 1 Allocation	530	530	530	530	530
Delinquent Collection	<u>0</u>	<u>129</u>	<u>227</u>	<u>281</u>	<u>278</u>
Homestead Replacement Baseline	8,209	8,565	8,932	9,278	9,594

Note: dollar amounts in millions.

An explanation for each line in Table 3 follows:

Current & Interim is equivalent to 54 percent of the forecasted Current & Interim collections from Table 2. It is assumed that approximately 54 percent of current-year property taxes are paid by homestead property owners. This figure is based on the findings of a survey of county assessment offices coordinated by the County Commissioners Association on behalf of the IFO in 2017.¹

Act 1 Allocation is the projected \$530 million in Act 1 property tax reduction allocations. These allocations are used to offset property taxes for homestead properties, and this estimate includes 100 percent of such allocations.

¹ Additional details regarding the homestead share of property taxes are available in Table 3 of the November 6, 2017 letter to Representative Francis X. Ryan. See <http://www.ifo.state.pa.us/Resources/Documents/SR2017-05.pdf>.

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Delinquent Collection is the revenue from the collection of delinquent property taxes from homestead property owners that would be subject to replacement. This estimate applies the same 54 percent assumption that is used for current-year collections.

I hope that 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 questions or comments.

Sincerely,



Matthew J. Knittel
Director, Independent Fiscal Office