



INDEPENDENT FISCAL OFFICE

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

April 6, 2017

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

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

Dear Senators Argall and Folmer:

This letter responds to your request that the Independent Fiscal Office (IFO) project the school district property tax collections that would be eliminated and subject to replacement under your 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, 2018.
- 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, 2018.
- 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 and redistributed back to school districts as part of the financing of the proposal.
- The various revenues intended to replace the school property taxes being eliminated would be deposited in the Education Stabilization Fund (ESF) for distribution to school districts.

Previously, the IFO published projections for school property tax collections under current law. That forecast is reproduced in Table 1 on the next page. Additional information about the IFO's current-law forecast can be found in its January 4, 2017 letter to Representative Jim Cox.¹

¹ See: "Updated School District Property Tax Forecast," Independent Fiscal Office (January 2017).
<http://www.ifo.state.pa.us/download.cfm?file=/Resources/Documents/SR2017-01.pdf>

**Table 1
School Property Tax Forecast**

Fiscal Year	Actual	Estimate		Forecast				
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Current & Interim	\$12,285	\$12,627	\$12,907	\$13,325	\$13,802	\$14,325	\$14,867	\$15,427
Act 1 Allocations ¹	530	530	532	530	530	530	530	530
Delinquent ²	<u>417</u>	<u>422</u>	<u>429</u>	<u>439</u>	<u>450</u>	<u>464</u>	<u>480</u>	<u>498</u>
Total	13,232	13,579	13,868	14,294	14,782	15,319	15,877	16,455

Note: dollar amounts in millions.

¹ Actuals through FY 2016-17. Estimated at \$530 million annually thereafter.

² Delinquent property taxes are not reported separately. All years are estimated by the IFO.

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 by the proposal.

**Table 2
School Property Tax Replacement Baseline**

Fiscal Year	2018-19	2019-20	2020-21	2021-22
Current & Interim Forecast	\$13,802	\$14,325	\$14,867	\$15,427
Offset: Debt Service Retention	<u>-2,344</u>	<u>-2,194</u>	<u>-2,044</u>	<u>-1,894</u>
Net Current & Interim Replacement	11,458	12,130	12,822	13,532
Act 1 Allocation Replacement	530	530	530	530
Delinquent Collection Replacement	<u>0</u>	<u>214</u>	<u>388</u>	<u>498</u>
Replacement Baseline	11,987	12,874	13,740	14,560

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 fiscal year (FY) 2018-19, 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, 2018. The debt service amounts are based on projections in the IFO's January 4, 2017 letter to Representative Cox. Those projections include school district debt service payments of \$2.494 billion for FY 2017-18, 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, 2017 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.

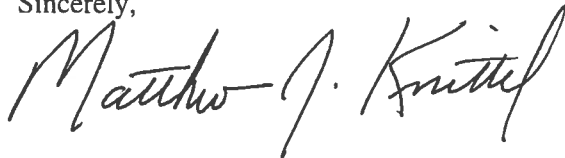
Act 1 Allocation Replacement is the projected \$530 million in Act 1 property tax reduction allocations. Under the proposal, these allocations would be redirected to the new ESF and redistributed back to school districts. Redirection of the funding increases the property tax replacement baseline, but also increases the income to the ESF. Therefore, there is no net impact to redirecting the funds in this manner 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, 2018 and (2) elimination would have no effect on delinquent collections that would be received in FY 2018-19. Beginning in FY 2019-20, the analysis assumes that delinquent property tax collections would begin to decline, reflecting elimination of the tax. By FY 2021-22, delinquent collections would cease and the entire amount forecasted under the current-law forecast would be eliminated and subject to replacement.

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.

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,

A handwritten signature in black ink that reads "Matthew J. Knittel". The signature is written in a cursive style with a large, sweeping initial "M".

Matthew J. Knittel
Director