

Overview of School District Property Tax Elimination

Presentation to the Pennsylvania School Boards Association

Independent Fiscal Office

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Background and Overview

- ▶ **Independent Fiscal Office started September 2011.**
 - Provide budget projections: November, May/June and January.
 - Special reports at request of General Assembly.
- ▶ **First: Provide some context on property taxes.**
 - School district reliance on property tax.
 - Compare PA and US average state-local tax structures.
- ▶ **Next: Consider our last analysis: SB 76 of 2013.**
- ▶ **Conclude: Consider current proposal and forecasts.**

FY14-15 School District Revenues

<u>Source</u>	<u>Amount</u>	<u>Percent</u>
Property Tax	\$12,285	44.5%
Earned Income	\$1,476	5.4%
Other Local Sources	\$2,126	7.7%
Act 1 Allocations (slots)	\$530	1.9%
State (exclude Act 1)	\$9,492	34.4%
Federal	\$815	3.0%
Other (debt related)	<u>\$855</u>	<u>3.1%</u>
Total	\$27,578	100.0%

Note: dollar amounts in millions.
Source: Pennsylvania Department of Education.

State and Local Tax Burdens

Ratio: State and Local Taxes / State Personal Income

	<u>PA</u>	<u>US</u>	<u>Diff</u>
Total State and Local Taxes	10.40%	10.50%	-0.10%
General Sales Tax	1.96%	2.64%	-0.68%
Personal Income Tax	2.69%	2.49%	0.20%
Property Tax	2.96%	3.18%	-0.22%
Corporate Net Income Tax	0.51%	0.43%	0.08%
Gaming-Liquor-Tobacco Taxes	0.66%	0.39%	0.27%
All Other Taxes	1.62%	1.38%	0.24%

Notes: Personal income adjusted to (1) include capital gains, IRA withdrawals and pensions received and (2) exclude imputed interest and employer contributions to health-pension plans. Sales tax includes utility taxes (e.g., gross receipts tax). US totals exclude severance taxes. Gaming includes Lottery and Liquor Store profits. PA excludes \$400 million of one-time escheats gains and a \$227 million transfer. Sources: US Census Bureau (tax revenues), US Bureau of Economic Analysis (personal income). Data for FY 2013-14 and FY 2014-15.

Last Analysis of Property Tax Elimination

▶ **SB 76 of 2013 (IFO analysis on website).**

- Eliminates school district property taxes over time.
- Increases personal income tax: 3.07% to 4.37%.
- Increases sales tax rate: 6.0% to 7.0%. Expands tax base.
- Distributions to school districts increase with inflation (~+2.0%).

▶ **New revenues sufficient in first year, but increasing “wedge” over time.**

- Analysis assumes the property tax that finances grandfathered debt service is phased out and not retained.

SB 76 of 2013: Fiscal Summary

(\$ billions)

	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>
Increase Sales Tax Rate	\$1.58	\$1.65	\$1.71	\$1.77	\$1.83
Expand Sales Tax Base	<u>\$4.10</u>	<u>\$4.32</u>	<u>\$4.55</u>	<u>\$4.77</u>	<u>\$5.01</u>
Total Sales Tax Revenues	\$5.69	\$5.97	\$6.26	\$6.54	\$6.83
Increase Income Tax Rate	\$4.74	\$4.92	\$5.14	\$5.36	\$5.59
All Other Revenues	<u>\$0.76</u>	<u>\$0.84</u>	<u>\$0.88</u>	<u>\$0.90</u>	<u>\$0.93</u>
New Revenues Available	\$11.18	\$11.74	\$12.28	\$12.81	\$13.35
SD Prop. Tax Replacement	\$11.19	\$12.13	\$12.96	\$13.70	\$14.38
DIFFERENCE	\$0.00	-\$0.39	-\$0.69	-\$0.89	-\$1.03

Projected Sales Tax Impact: FY 2018-19

	<u>Amount</u> <u>(\$ millions)</u>	<u>Share</u> <u>of Total</u>
Increase Sales Tax Rate	\$1,828	26.8%
Certain Foods (<i>exclude WIC & SNAP</i>)	\$1,500	22.0%
Clothing and Footwear >\$50 (<i>single item</i>)	\$519	7.6%
All Other Goods (<i>hygiene products, non-prescription drugs</i>)	\$348	5.1%
Healthcare Services (<i>exclude gov't and tax-exempts</i>)	\$915	13.4%
Recreational Services (<i>movies, sporting events</i>)	\$700	10.2%
Professional Services (<i>lawyers, accountants, engineers</i>)	\$449	6.6%
Personal Services (<i>massage, nail care, personal trainers</i>)	\$285	4.2%
All Other Provisions	<u>\$289</u>	<u>4.2%</u>
Total	\$6,833	100.0%

Source: IFO Analysis of SB 76 of 2013, October 2013.

Recent Proposal to Eliminate SD Property Tax

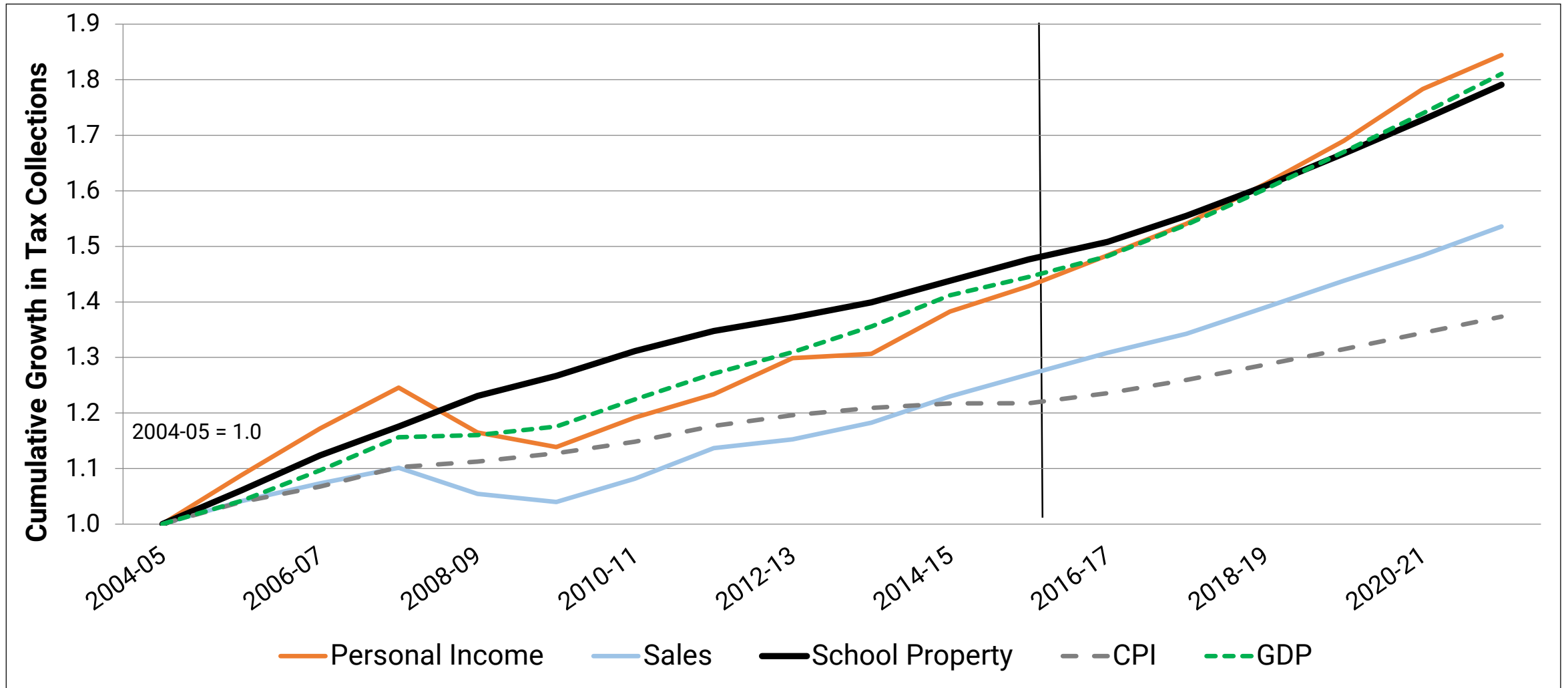
▶ **Recent proposal largely the same. Two major changes.**

- Increases personal income tax: 3.07% to 4.95%.
- Distributions to school districts increase by lesser of annual growth in (1) sales tax revenues or (2) statewide average weekly wage (SAWW) (~+2.5% to 4.0%).

▶ **Some important considerations:**

- How will “baseline” school district property taxes grow?
- How will the new replacement revenues grow?
- How will both respond to economic conditions?

Long-Term Revenue Growth Trends

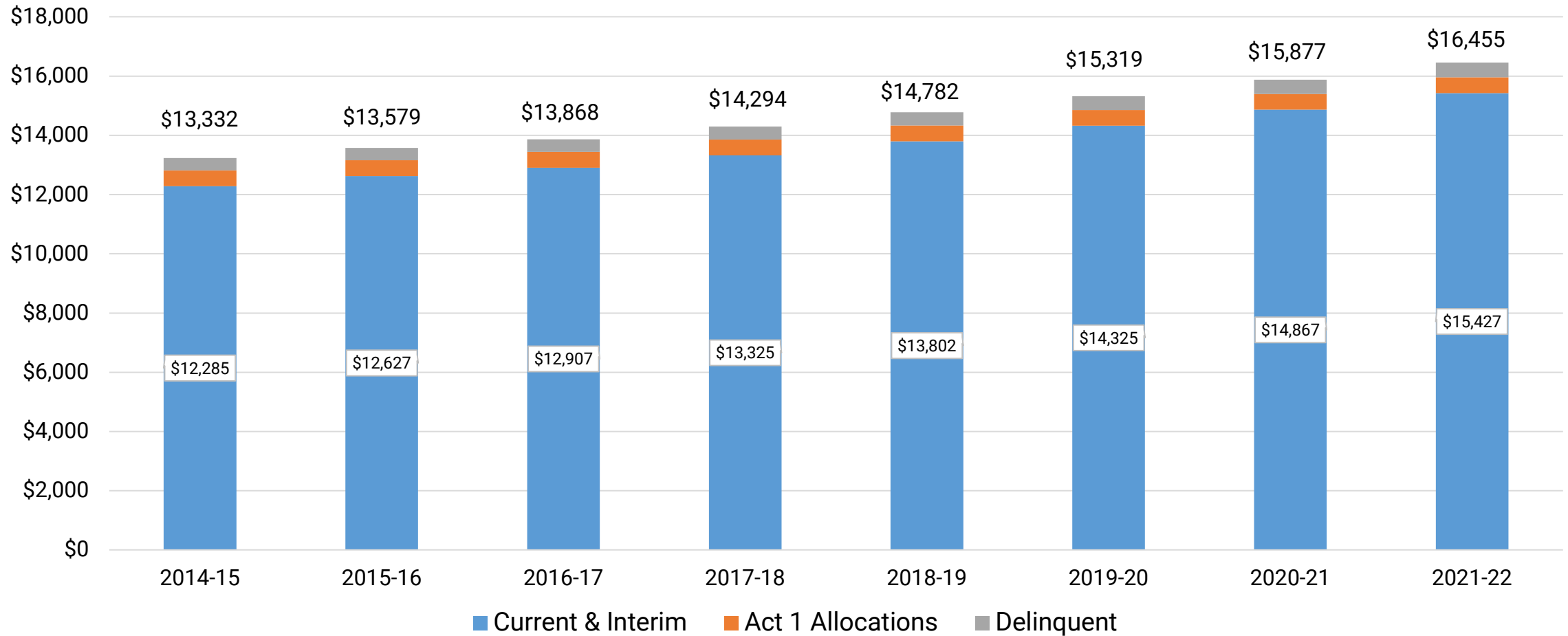


Reliance on Property Tax Varies

<u>Group</u>	<u>FY 14-15 Property Tax Collections</u>	<u>Property Tax Percent of Total Revenue</u>
Top 25%	\$6,785	65.0%
Second 25%	\$2,767	46.9%
Third 25%	\$1,536	30.5%
Bottom 25%	<u>\$1,196</u>	<u>19.3%</u>
Total	\$12,285	44.5%

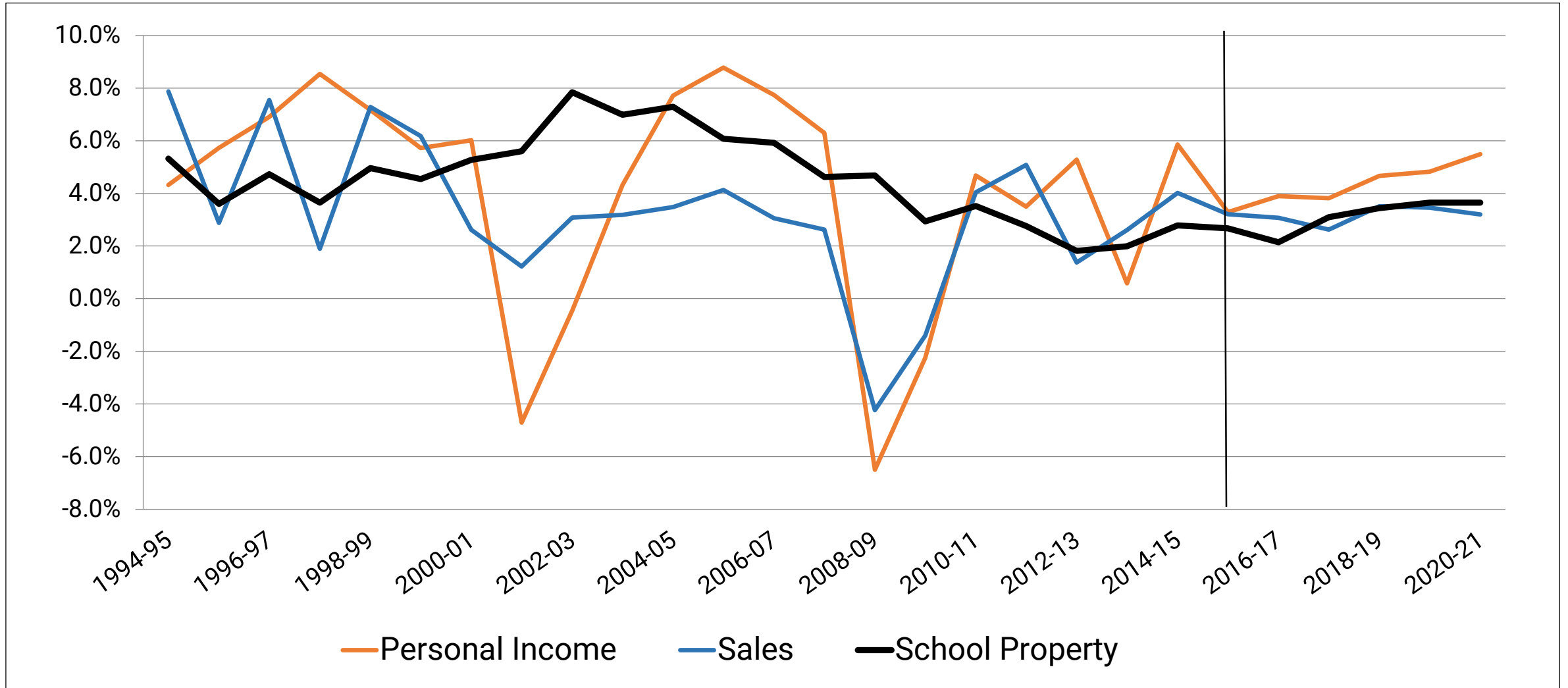
Note: dollar amounts in millions. School districts were ranked from highest to lowest based on property tax collections as a percentage of total revenue. For example, the top 25% contains the school districts with the greatest reliance on the property tax. There are 125 school districts in each group.

School Property Tax Forecast



Note: dollar amounts in millions. Act 1 allocations are \$530 million. Delinquent taxes are \$417 million in FY 14-15, increasing to \$498 million in FY 21-22.

Annual Revenue Growth Rates



Property Tax Retained for Debt Service

- ▶ **Prior proposals permitted the retention of property tax to pay debt service for debt outstanding as of a date certain (e.g., June 30, 2017).**
 - Debt issued after the effective date would require a referendum.
 - Property tax would not be retained to service the new debt.
- ▶ **The remaining property tax is phased down, and then eliminated, as the grandfathered debt is retired.**
- ▶ **This feature initially reduces the property tax to be replaced, but the replacement amount increases each year as debt is retired and debt service declines.**

Distribution of Replacement Funds

- ▶ **Under prior proposals, funds for property tax replacement are distributed from a new state fund.**
- ▶ **The annual distribution for each school district is based on its receipts in the prior year plus a cost-of-living increase (if applicable).**
 - First-year distribution uses property tax collections in the prior year, less grandfathered debt service payments.
 - Subsequent years start with the distribution from the prior year.
 - Cost-of-living increase is the lesser of the percentage increase in the (1) statewide average weekly wage or (2) sales tax.

Thank you

Presentation to be posted at IFO website.

www.ifo.state.pa.us