

Analysis of House Bill 76 and Senate Bill 76

Independent Fiscal Office

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October 15, 2013



Today's Presentation

- Discuss the objectives of the analysis.
- Provide a brief overview of the proposal.
- Summarize the results. Detail the fiscal impact by fund or local entity.

Analysis Objectives

- Compare revenues under the proposal to revenues under current law.
- Examine the volatility of sales, personal income and property taxes.
- Review the impact of the proposal using a historical simulation.

Overview of Proposal

Generally seeks to replace school property taxes with personal income and sales taxes.

- Prohibits the issuance of new debt.
- Retains property taxes to service debt incurred on or before 12/31/2012.

School Property Tax Replacement

Calculation of amount to be replaced:

1. Revenues received under current law.
2. Reduced by delinquent taxes collected.
3. Reduced by property tax retained to service debt incurred on or before 12/31/2012.

School Property Tax Replacement

(fiscal year, \$ millions)	<u>2014-15</u>	<u>2018-19</u>
School Property Tax Forecast	\$13,683	\$15,864
Less: Delinquent Taxes (Prior Years)	-459	0
Less: Property Tax for Debt Service	<u>-2,039</u>	<u>-1,483</u>
School Property Tax Replacement	11,185	14,381

Replacement Revenue

Revenue sources to replace school district property taxes:

1. Sales tax: expanded base and higher rate.
2. Personal income tax: higher rate.
3. Transfers from other funds.

Sales and Use Tax

- Proposal increases rate from 6% to 7%.
- Expands the tax base to include many untaxed goods and services, including:
 - Most food, certain clothing, recreation, non-prescription drugs, health care, nursing and other services. (Detail in Appendix A of the full report.)

Sales and Use Tax

Two major assumptions deal with conflicting or ambiguous language in the proposal:

1. Treatment of new revenues from the rate increase and base expansion.
2. Transfers supporting public transportation.

Sales and Use Tax

(fiscal year, \$ millions)	<u>2014-15</u>	<u>2018-19</u>
Rate Increase (from 6% to 7%)	\$1,583	\$1,828
Base Expansion	4,312	5,242
Secondary Effects	53	78
Transfers (public transportation)	<u>-262</u>	<u>-315</u>
Net Sales Tax	5,686	6,833

Personal Income Tax

- Proposal increases the rate from 3.07% to 4.34%.
- The tax base remains unchanged.
- Assumes tax refunds are paid from General Fund.

Personal Income Tax

(fiscal year, \$ millions)	<u>2014-15</u>	<u>2018-19</u>
Rate Increase (3.07% to 4.34%)	\$4,908	\$5,834
Secondary Effects	<u>9</u>	<u>13</u>
Total Personal Income Tax	4,917	5,847
Tax Refunds (General Fund)	-180	-261

PTRF Transfers

Redirect monies from the Property Tax Relief Fund (PTRF).

- Property Tax / Rent Rebate (Lottery Fund).
- Philadelphia resident and nonresident wage tax.
- General school district property tax relief.

PTRF Transfers

(fiscal year, \$ millions)	<u>2014-15</u>	<u>2018-19</u>
Property Tax / Rent Rebate	\$168	\$172
Philadelphia Wage Tax	86	86
School District Property Tax Relief	529	529
Unallocated Property Tax Relief Fund	<u>41</u>	<u>37</u>
Total Transfer from Property Tax Relief Fund (PTRF)	824	824

Distributions to School Districts

- FY 2013-14 property tax collections serve as the base for distributions.
- Reduced by FY 2013-14 debt service.
- Grows by lesser of CPI or sales tax in prior calendar year.

Distributions to School Districts

(fiscal year, \$ millions)	<u>2014-15</u>	<u>2018-19</u>
Base Year / Prior Year	\$10,963	\$11,602
Cost of Living Factor	<u>1.0%</u>	<u>1.6%</u>
Distributions	11,073	11,788

Education Stabilization Fund

(fiscal year, \$ millions)	<u>2014-15</u>	<u>2018-19</u>
Sales and Use Tax (net)	\$5,686	\$6,833
Personal Income Tax	4,917	5,847
Transfers (Property Tax Relief Fund)	824	824
Distributions to School Districts	<u>-11,073</u>	<u>-11,788</u>
Net Impact on ESF	354	1,716

School Districts

(fiscal year, \$ millions)	<u>2014-15</u>	<u>2018-19</u>
Distributions from the ESF	\$11,073	\$11,788
Property Tax to be Replaced	<u>11,185</u>	<u>14,381</u>
Net Impact on School Districts	-112	-2,593

Lottery Fund

(fiscal year, \$ millions)	<u>2014-15</u>	<u>2018-19</u>
Property Tax / Rent Rebate Funding	-\$138	-\$142
Supplemental Rebate Funding	-30	-30
Reduction in Rebates	<u>0</u>	<u>47</u>
Net Impact on Lottery Fund	-168	-125

Other Fiscal Impacts

(fiscal year, \$ millions)	<u>2014-15</u>	<u>2018-19</u>
Philadelphia (wage and non-property)	-\$278	-\$306
Property Tax Relief Fund	-41	-37
General Fund	76	110
Public Transportation Transfers (net)	<u>166</u>	<u>204</u>
Total Other Impacts	-77	-29

Fiscal Impact Summary

(fiscal year, \$ millions)	<u>2014-15</u>	<u>2018-19</u>
Education Stabilization Fund	\$354	\$1,716
School District Property Tax Replacement	-112	-2,593
Lottery Fund	-168	-125
Other	<u>-77</u>	<u>-29</u>
Fiscal Impact	-3	-1,031

Alternative Summary

FY 2018-19

(\$ millions)

Current School Funding	-\$14,381	New School Distributions	\$11,788
Philadelphia	-306	ESF Accumulation	1,716
Lottery Fund	-125	Transportation Funding	204
Property Tax Relief Fund	<u>-37</u>	General Fund	<u>110</u>
Total	-14,849	Total	13,818

Net Fiscal Change	-\$1,031
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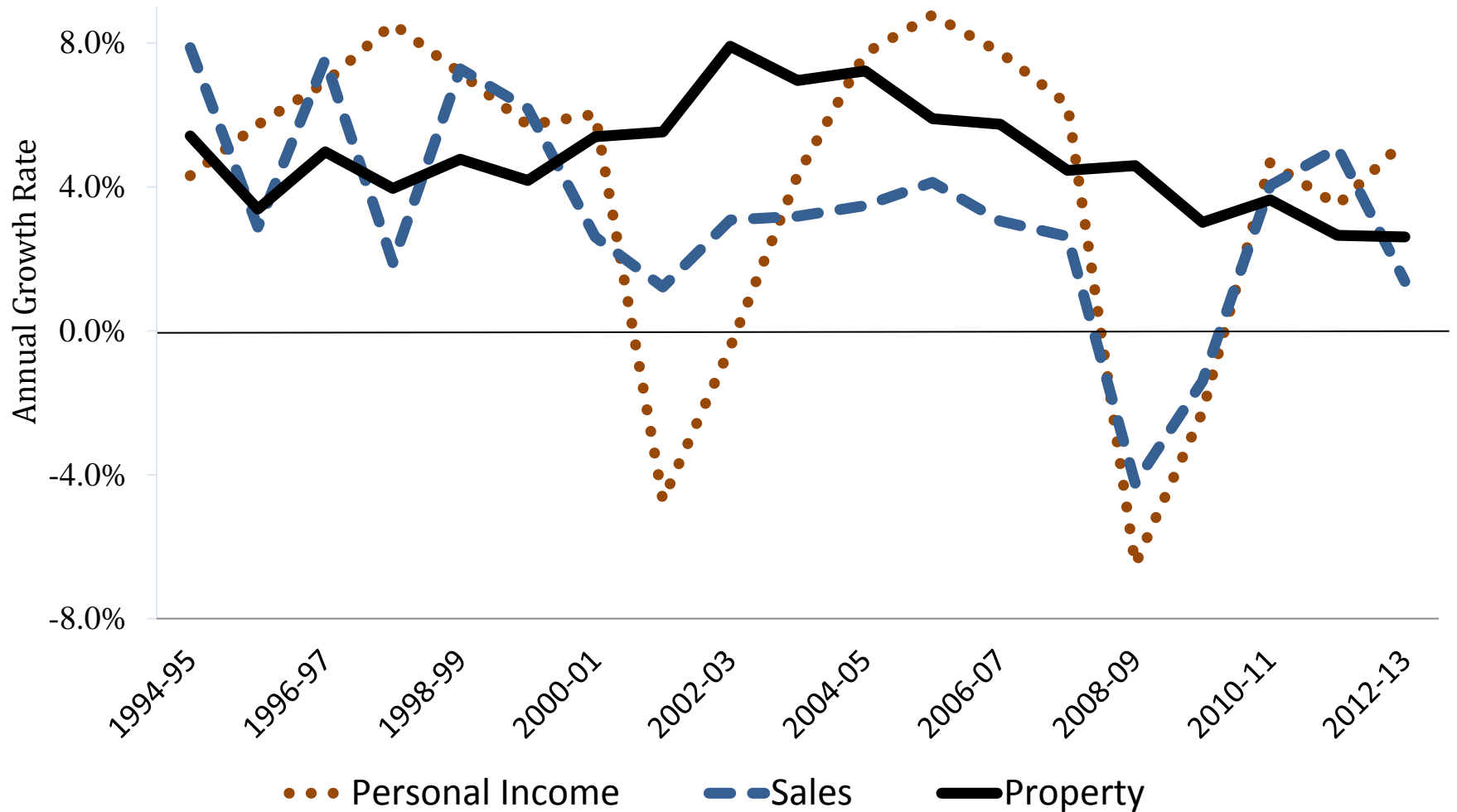
Other Effects (FY 2014-15)

- Higher federal income taxes.
 - \$300 million individuals; \$290 million pass-through entities.
- Expansion of local sales tax base.
 - Allegheny County (\$57 m) and Philadelphia (\$86 m).
- Local realty transfer taxes.
 - Tax cut capitalized into real estate prices (\$10 m).

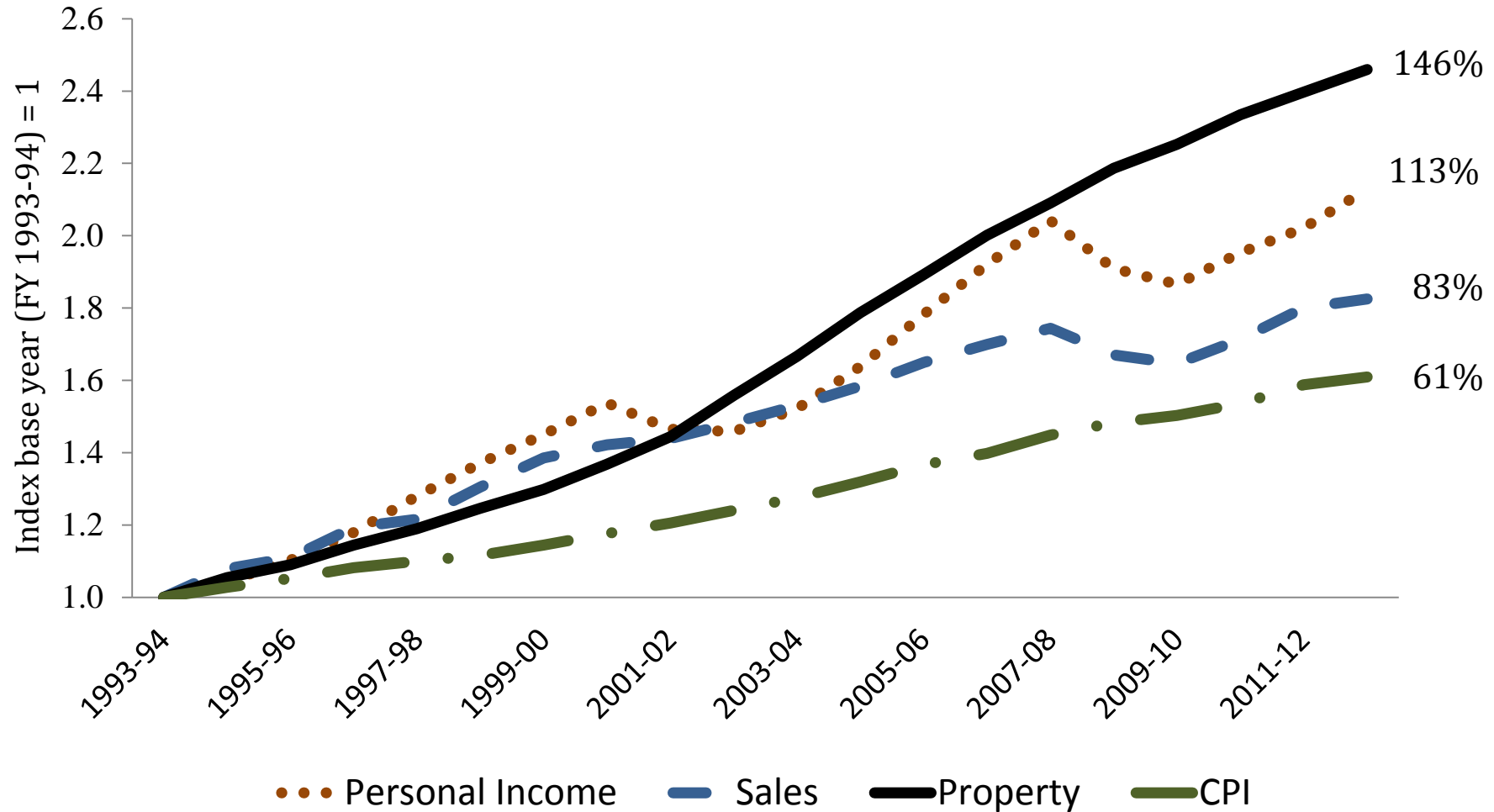
Volatility Analysis

- Compares the annual growth rates of personal income, sales and property taxes.
- Displays the cumulative growth in these taxes compared to CPI.

Annual Growth Rates



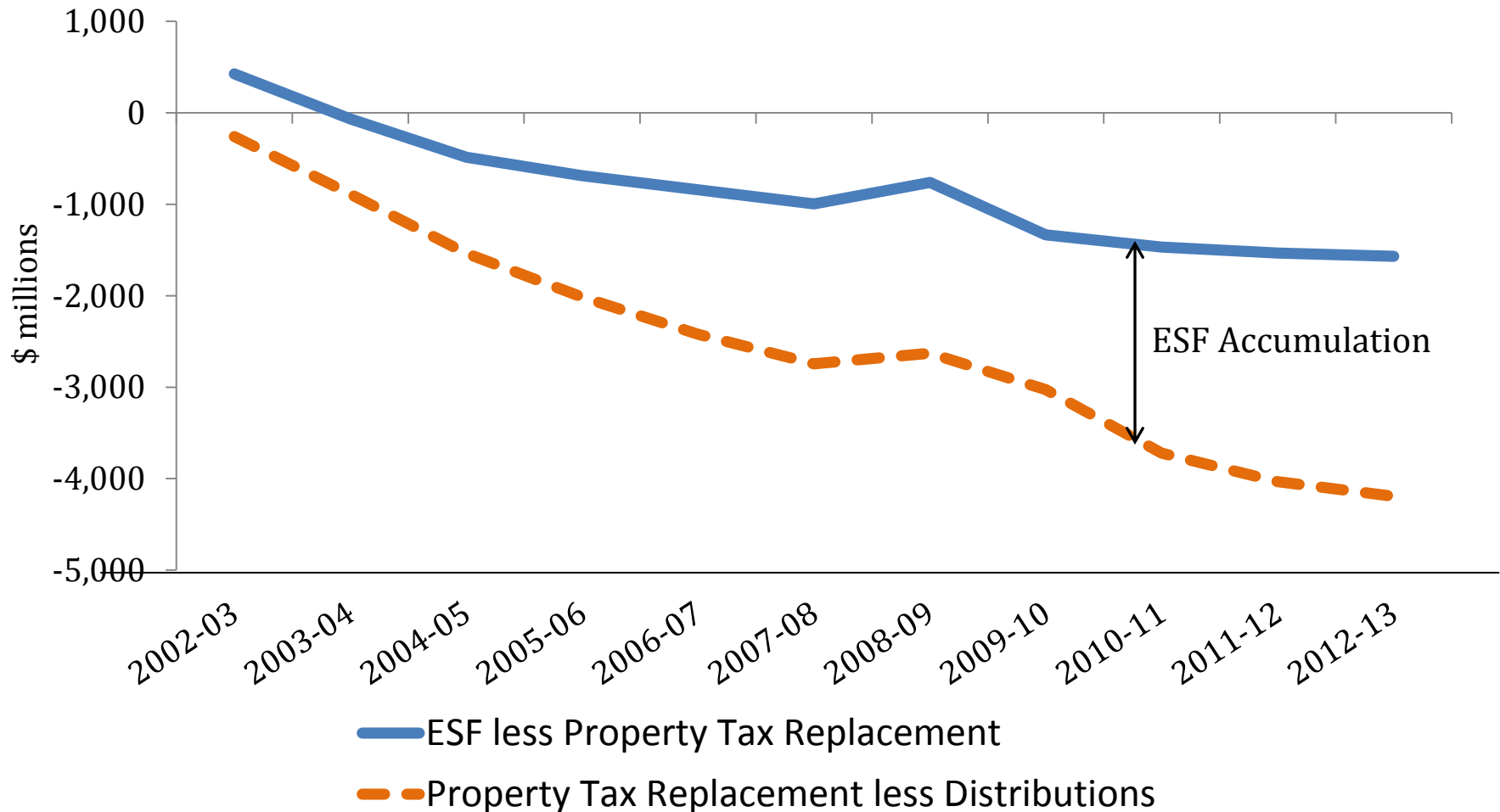
Cumulative Growth Rates



Historical Simulation

- Reviews impact of proposal as if it were fully implemented for FY 2002-03.
- Confirms trends revealed in the forecast.
- Structure of the proposal contributes to a negative fiscal impact that grows over time.

Historical Simulation



Cost of Living Factor

