Analysis of the purported HB/SB 76 "Revenue Shortfall"

On Monday, October 7, 2013, several members of the General Assembly along with a representative of the grassroots organizations that support House Bill 76 and Senate Bill 76 met for about 90 minutes with the Director and Deputy Director of the Independent Fiscal Office (IFO) to discuss their analysis of HB/SB 76, the Property Tax Independence Act, that was released on October 1.

Although the IFO analysis spans sixty pages and is extremely detailed, a bottom line fiscal summary of the report can be stated through the two charts below.

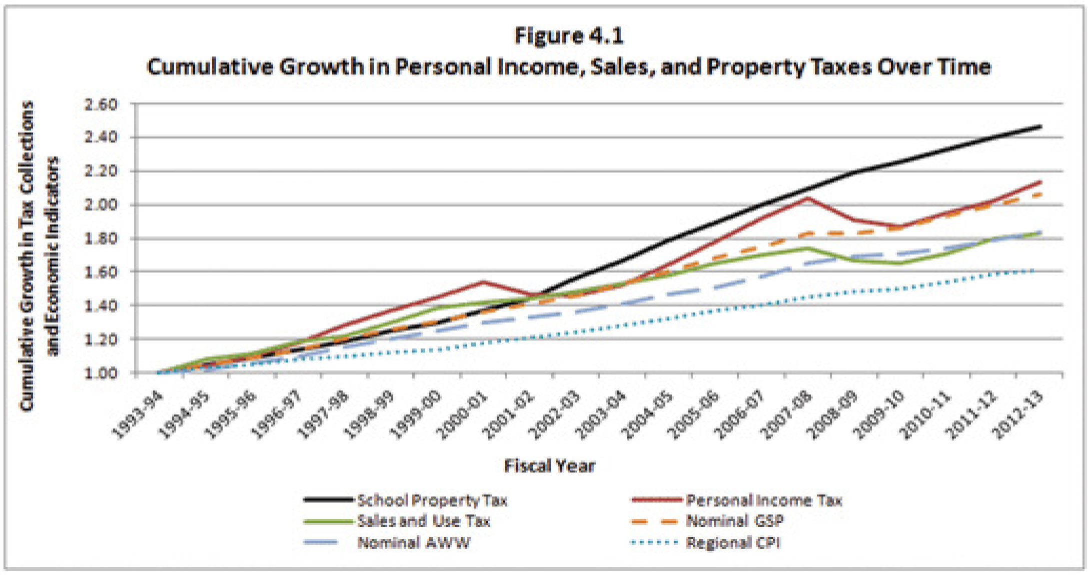

Table 1.1
Net Fiscal Impact of House Bill 76 / Senate Bill 76
(fiscal year, $ millions)

	2014-15	2015-16	2016-17	2017-18	2018-19
Education Stabilization Fund	$354	$720	$1,056	$1,380	$1,716
School Districts[1]	-304	-1,098	-1,761	-2,311	-2,813
Other Impacts[2]	-53	-15	17	41	66
Net Fiscal Impact	**-3**	**-393**	**-688**	**-890**	**-1,031**

[1] Includes the impact of replacing property taxes for all school districts and eliminating non-property taxes levied to fund the School District of Philadelphia.
[2] Includes the impact on the General Fund and special funds.

Figure 4.1 from page 28 of the analysis (with Average Weekly Wage [AWW] and Gross State Product [GSP] added) shows the growth of the property tax, the income tax, and the sales tax over time compared to the Consumer Price Index (CPI), a measure of inflation. Note that all three taxes grow faster than inflation but that the growth in property taxes exceeds the growth of both the income tax and the sales tax and FAR exceeds the rate of inflation. Note, too, that while the growth in both income and sales taxes is due to increasing economic activity, not rate increases, the growth in property taxes is due SOLELY to increasing the rate and the burden on homeowners – economic activity has no bearing on property tax increases. This is why property taxes have become such a problem and why this must end as quickly as possible. There's one other note about this figure: Since both the sales and income taxes historically increase at a pace greater than inflation and HB/SB 76 relies on them as a funding source, the schools will still receive increases that exceed the CPI under HB/SB 76.

The report indicates that since 1993-94, the beginning of the reference period shown in Figure 4.1, school property taxes have increased by 146%. In contrast, the Pennsylvania average weekly wage (AWW) has increased by only 80% - just a bit more than half the increase in the school property tax – and inflation, as measured by the Consumer Price Index (CPI) has increased a mere 59% since 1994. The acceleration in the increase in property taxes and the widening gap as compared to the income indicators simply will not be sustainable in the long term and the system will eventually fail.

Table 1.1 is from page 2 of the analysis. It is a high-level view of HB/SB 76 and demonstrates the legislation's effect on school funding for the years mentioned. This is the chart that opponents are using to claim a $1 billion shortfall. The only line in which we are interested is "Net Fiscal Impact."

Note that for 2014-15 the shortfall is $3 million against $11.07 billion, the amount the IFO has calculated as necessary for replacement of the property tax. That shortfall is .0003% of the total, and is essentially rounding error. HB/SB 76 hits the required amount on the nose and fully funds the schools at their current level.

The numbers for the out years (2015-16, 2016-17, 2017-18, 2018-19) are the differences between what the property tax will generate if it is still in effect and the amount of replacement revenue from HB/SB 76. You'll notice that the deficit increases each year until in 2018-19 it reaches just over $1 billion, the amount the opponents are using as an argument against the legislation by claiming that the schools are being underfunded. Those who say this either are mistaken or are intentionally misrepresenting the numbers.

The "Net Fiscal Impact" line actually tells us two things:

- One of the primary goals of HB/SB 76 is to reduce the acceleration in the property tax or its replacement revenue as demonstrated by the black line in Figure 4.1. The increasing year-over-year deficit actually demonstrates that what HB/SB 76 is attempting to do is working, slowing the growth of education funding and flattening the black line in chart 4.1 to bring annual increases closer to the level of inflation. The $1.031 billion for 2018-19 is the cost savings, NOT a shortfall in funding.

- On the flip side, the "Net Fiscal Impact" line is also a warning. The deficit amount for each year is roughly the increased amount of revenue necessary from the state level to eliminate the property tax. For example, if HB/SB 76 is not enacted until 2018-19, the legislation will have to find an additional $1 billion in state-level taxes to eliminate the school property tax, a difficult proposition because of the higher tax rates that will be necessary. The "Net Fiscal Impact" line strongly emphasizes the need to eliminate the school property taxes NOW; any delay makes the problem harder to solve in the future.

That's the bottom line on the analysis. The details in the remainder of the analysis are the supporting data that eventually lead to the conclusions in Table 1.1.

It's also worth mentioning that even though they are not included in this analysis, the IFO representatives confirmed that the benefits to Pennsylvania that were outlined in the original IFO analysis from September 25, 2012, are still valid:

- The elimination of school property taxes increases the disposable income of property taxpayers. The analysis assumes that 70% of the property tax cut goes to individuals. It further assumes that homeowners spend 80% of the increase in disposable income. (Pages 17-18) *(This would be a huge stimulus for Pennsylvania's economy.)*

- The analysis indicates that HB 1776 will cause home values to increase, on average, by more than 10% statewide. (Page 23) *(This will restore a large amount of the equity that was lost to homeowners during the 2008 housing downturn.)*

- (Regarding business entities) … the income flows through to individuals as higher disposable income. For pass through entities, the analysis assumes that owners and shareholders spend 80 percent of the increase and 70 percent is spent on taxable goods and services, yielding another secondary effect of $34 million in increased sales taxes for FY 2013-14. (Page 18)

- Working age homeowners realize a tax cut. The analysis finds that the increase in federal income tax (through lower itemized deductions), state income tax, and sales tax is more than offset by the reduction in property taxes. (Page 21)

- Retired homeowners realize a significant reduction in taxes. The analysis finds that the property tax reduction easily offsets any increase from the higher sales tax. (Page 21)

- Benefits would also accrue to home builders, home developers, and other land owners who convert current land holdings into new housing plots. Employment would increase in the construction sector as well. (Page 23)

- The elimination of property taxes would significantly reduce the property tax share and would clearly increase the attractiveness of the Commonwealth for business location and expansion. (Page 25) *(Expansion of existing businesses and attracting new businesses to the Commonwealth will generate jobs for Pennsylvanians.)*

If you have a Representative, Senator, or other group or entity that is using "funding shortfall" as an excuse to oppose HB/SB 76, feel free to send this to them.