I wanted to personally thank BEFC co-chairs, Senator Phillips-Hill, Representative Sturla and the entire commission for permitting us to testify today to discuss a school funding change in light of a recent Commonwealth Court Decision.

Our team, the bipartisan Property Tax Elimination Working Group came about as a result of an August 2019 policy hearing in Lebanon, PA. After years of abject frustration in studying potential solutions to the property tax elimination and the funding formula, I had asked that the policy meeting on property taxes be held. I had planned on summarizing the work that had been done, the complexity of the issues at hand, the economic interrelationships with the issue and pronouncing that the issue was not solvable and to announce my retirement from the legislator so that I could work with citizens to build consensus.

However, during that meeting, the Executive Director of the Independent Fiscal Office responded to a question concerning a property tax elimination bill that I had introduced previously. His response, indicating the fiscal soundness of the plan, breathed new life into our efforts and the bipartisan Property Tax Elimination Working Group came about.

Clearly, as a retired legislator and someone deeply involved in this particular effort, I understand completely how difficult your job is. I applaud ALL of you for your efforts and the efforts of your staff.

In 2021, I introduced HB-13 with the following co-sponsorship memo which stated:

"This is a unique co-sponsorship memo concerning property tax elimination.

I would humbly ask that you NOT cosponsor this bill on property tax elimination until we meet personally to discuss all of the nuances in this very complex piece of legislation. My hope is that you will agree with me to meet to discuss and then hopefully cosponsor.

Currently, there is a case before the Pennsylvania Commonwealth Court concerning the fair funding of schools in the Commonwealth. It is virtually impossible to determine how a court will rule; however, Pennsylvania's education funding is so complex and archaic that a judicial decision would likely be reams of paper in the making. It is also very likely that the Court will direct the legislature to fix the system of funding.

HB-13 provides the needed legislative solution to modernize education funding as well as eliminate school property taxes. It will end the archaic reliance on property taxes, and transition to fair and equitable funding sources for our education system.

As background, property tax elimination has been discussed for decades with no end in sight.

After an extensive number of meetings with stakeholders over the past four years to determine why property tax elimination has not been achieved, it became apparent that the complexity of the funding model is so intertwined and convoluted that any previous solution would have created havoc for a protracted period of time. Candidly, the solutions were, in essence, worse than the problem being solved in the minds of those affected."

As a result, in our property tax elimination bill, we have attempted to address a wide range of stakeholder concerns by incorporating balanced solutions in my bill to eliminate the school property tax.

The critical issues that my thousands of hours of personal research and a lifetime personally in the classroom and administering a school for children with emotional and behavioral problems, causes me to encourage you to consider these complexities.

First, I was relatively certain that the Commonwealth Court was not going to provide a solution but rather have the legislature develop the solution. This is apparent because the difficulties I encountered would have also been uncovered by the Courts. Our state is just too diverse to proscribe an easy solution.

Our research indicates the following:

1. The school funding crisis took decades, if not centuries to develop and, as such, solutions must be far-reaching and will take 5-10 to implement to preclude massive disruptions to our diverse state and economies.
2. The current rate of increase in school property taxes is unsustainable. Unchanged, Pennsylvania residents will continue to lose their homes to this hostile school property tax or choose to leave the Commonwealth to avoid it. The most recent Demographics Outlook shows a rapidly expanding retiree (age 65+) population whose growing costs fall on a contracting working-age (age 20-64) population. This bill must move forward because it eliminates the unsustainable school property tax yet ensures that no single segment of population in this Commonwealth shoulders the entire burden.
3. The cost drivers of education costs include:
   a. PSERS pension contributions
   b. Parental involvement or lack of involvement in their child's education.
   c. Transfers in and out of the classroom during the course of an academic year
   d. Mandates, either self-imposed or directed legislatively or by the executive branch or federal government
   e. Needs of children with disabilities since federal funding has fallen massively short of the IDEA Act levels of 40%
   f. Facilities maintenance
   g. Capabilities of the specific educator.
   h. Hold harmless agreements
   i. Lack of internal controls for school districts under the COSO standards
   j. Lack of effective measures of effectiveness for determining success (ie statewide assessments may not be effective)
4. School debt is a direct liability of ALL of the property tax base in a district
5. As referenced in our Financial Rescue Caucus (see youtube for series), the sales and income taxes are more predictable and sustainable than previously mentioned.
6. The inability to deal with the hold-harmless programs set up complicates any solution.
7. Any solution, not well balanced, will lead to further lawsuits and likely suboptimal solutions.

8. Many school business officers lack the experience necessary to deal with a rapidly changing economic funding model without severe disruptions.

Co-chair and committee, the information in my handouts to you also include the IFO letters on the property tax elimination bill, the impact of out-migration of younger people in PA and the in-migration of older citizens, the “effective lien” of school debt on the tax bases of each school district, a reference source for specific aspects of the bill as well as other background documents relating to the points above.

Finally, my deep gratitude to you all for your willingness to tackle this difficult task and I look forward to answering any questions you might have.

2019-2020 Basic Education Funding

The enacted budget includes $6,742,838,000 for the 2019-2020 Basic Education Funding appropriation. This amount includes a $160,000,000 (2.6%) increase over the 2018-2019 Basic Education Funding appropriation. In addition, the enacted 2019-2020 Basic Education Funding appropriation includes $487,759,000 previously appropriated as School Employees' Social Security, which must be used for School Employees' Social Security payments to school districts.

The Basic Education Funding allocation for 2019-2020 is calculated as follows:

1. Each school district will receive an amount equal to its Basic Education Funding base allocation.
2. Each school district will receive a distribution in the student-weighted basic education funding formula determined as follows:

A prorata share of $698,667,194 based on the school district's student-weighted average daily membership multiplied by its median household income index and its local effort capacity index.

- Student-weighted average daily membership equals the sum of:
  - (a) the average of the school district's three most recent years' average daily membership, plus
  - (b) the acute poverty average daily membership calculated by multiplying the school district's average daily membership by its acute poverty percentage and 0.6, plus
  - (c) the poverty average daily membership calculated by multiplying the school district's average daily membership by its poverty percentage and 0.3, plus
  - (d) the concentrated poverty average daily membership for qualifying school districts with an acute poverty percentage equal to or greater than 30% calculated by multiplying the school district's average daily membership by its acute poverty percentage by 0.3, plus
  - (e) the number of the school district's limited English-proficient students multiplied by 0.6, plus
  - (f) the average daily membership for the school district's students enrolled in charter schools and cyber charter schools multiplied by 0.2, plus
  - (g) the sparsity/size adjustment for qualifying school districts with a sparsity size ratio greater than the 70th percentile calculated by: dividing the school district's sparsity/size ratio by the ratio at the 70th percentile; subtracting 1; multiplying by the sum of (a) through (f); multiplying by 0.7.

  Sparsity/size ratio is calculated as follows:
  - Calculate the sparsity ratio: divide the school district's average daily membership per square mile by the state total average daily membership per square mile; multiply by 0.5; subtract from 1.
  - Calculate the size ratio: divide the school district's average daily membership by the average of the average daily membership for all school districts; multiply by 0.5; subtract from 1.
  - Calculate the combined sparsity/size ratio by weighting the sparsity ratio at 40 percent and the size ratio at 60 percent.

- Median household index is calculated for each school district as follows: divide 1 by its median household income divided by the State median household income.

- Local effort capacity index equals the sum of the local effort index and the local capacity index.
  - (a) Local effort index equals the local effort factor multiplied by the lesser of 1 or the excess spending factor.
    - Local effort factor is calculated for each school district as follows: divide its local tax-related revenue by its median household income multiplied by its number of households; multiply by 1,000; divide by the Statewide median.
    - Excess spending factor is calculated for each school district as follows: divide 1 by its net current expenditures per student-weighted average daily membership divided by the Statewide median.
  - (b) Local capacity index is calculated as follows:
    - If the school district's local capacity per student-weighted average daily membership is less than the Statewide median, divide its local capacity per student-weighted average daily membership by the Statewide median. If the school district's local capacity per student-weighted average daily membership is equal to or greater than the Statewide median, the local capacity index is zero.
    - Local capacity per student-weighted average daily membership for each school district is calculated as follows: multiply the sum of its market value and personal income by the Statewide median local effort rate; divide by its student-weighted average daily membership.
    - Local effort rate for each school district is calculated as follows: divide its local tax-related income by the sum of its market value and personal income.

INDEPENDENT FISCAL OFFICE

April 16, 2021

The Honorable Francis X. Ryan
Pennsylvania House of Representatives
149A East Wing, Main Capitol Building
Harrisburg, PA 17120

Dear Representative Ryan:

Thank you for your recent request that asks the Independent Fiscal Office (IFO) to provide updates to prior requests that were published November 2017 and September 2019.[1] This letter uses the same data sources and methodologies used in those analyses to provide updated estimates. The updated tables are as follows.

Table 1 provides the latest IFO baseline for school district property taxes. This baseline was released by the office in February 2021.

Table 2 provides detail on the estimated costs of major programs that provide services to Pennsylvania seniors from FY 2018-19 to FY 2020-21. The major program costs include (1) the portion of Medicaid and long-term living appropriations administered by the Department of Human Services attributable to residents age 65 and older, (2) additional Lottery-funded programs administered by the Departments of Aging, Revenue and Transportation and (3) funding for Veterans Homes in the Department of Military and Veterans Affairs. The cost estimates are broken out by type of funding (state, federal or lottery funds). This analysis does not include any state or federal expenditures for non-Medicaid programs without age restrictions (e.g., public safety, state parks, food and nutrition assistance). These programs generally benefit seniors along with the overall population. Also excluded are state funds for the Public School Employees' Retirement System (PSERS) and state employee pension and retiree healthcare benefits.

The analysis estimates that total senior program spending for all funds was $8.20 billion in FY 2018-19 and is projected to grow to $10.19 billion in FY 2020-21. Federal funds in FY 2019-20 and FY 2020-21 reflect the temporary increase in the Federal Medical Assistance Percentage (FMAP) used to reimburse states for Medicaid program costs (effective January 1, 2020 until the termination of the national public health emergency declaration related to the COVID-19 pandemic). Likewise, federal funding for DMVA in these two fiscal years include COVID relief funds that total $5.0 million and $5.8 million, respectively. In the Lottery Fund, the transfer for the Property Tax Rent Rebate (PTRR) program that would have occurred in

[1] See http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/Response_Letter_9_23_2019.pdf, http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/Response-Letter-9-30-2019.pdf and http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/SR2017-05.pdf.

FY 2020-21 was shifted into FY 2019-20. These factors contribute to the increase in the federal share of senior program expenditures from 46.4% in FY 2018-19 to 54.2% in FY 2020-21 (projected).

Table 3 provides updates for estimates of General Fund revenues remitted by seniors by major tax type. For this purpose, the IFO did not consider indirect taxes that are levied on a business and passed through to shareholders, workers or consumers (e.g., corporate net income, insurance premiums and financial institutions), mid-sized or smaller tax types (e.g., realty transfer) and taxes not based on income or consumption (e.g., inheritance). The analysis also did not consider local earned income or sales taxes. Based on these criteria, Table 3 includes the following General Fund taxes: (1) state personal income tax, (2) state sales and use tax, (3) gross receipts taxes, (4) all tobacco product taxes and (5) liquor and malt beverage taxes. For all consumption taxes, the analysis assumes that taxes are passed through to final consumers via higher prices.

Because they are part of the larger request, the analysis also displays estimated school district property taxes remitted by senior homeowners, and those amounts are itemized separately in Table 3. Senior renters would also effectively remit property tax, but it is not clear how much of the property tax is passed through to renters. Moreover, the analysis did not assume that businesses pass property taxes through to final consumers, when in fact some portion would be effectively borne by senior consumers. Other major General Fund tax revenues are also displayed in Table 3 but are not apportioned to senior residents.

The analysis estimates that seniors remitted between $4.6 to $5.4 billion of General Fund revenues for these five revenue sources for FY 2018-19. For FY 2020-21, the projected range is $4.8 to $5.6 billion (excludes tax revenues shifted into the year). Those dollar amounts comprise 16.3% to 19.3% of taxes included in this analysis. The bottom of Table 3 lists other taxes not directly included in the analysis. Based on data from the American Community Survey (ACS) and Pennsylvania Department of Education, the analysis assumes that homeowners remit 57.5% of total school district property taxes. Of that amount, the analysis assumes that seniors remit 29% to 32%. If those assumptions hold, then senior homeowners remitted $2.4 to $2.7 billion of school district property taxes (excludes Act 1 allocations) for FY 2018-19 and the same amounts for FY 2020-21.[2]

It is noted that school district property tax effectively remitted by senior renters is excluded. To provide context regarding a potential order of magnitude for those payments, a hypothetical example is as follows: If owners of residential rental units remit 10% to 15% ($1.5 to $2.2 billion) of all school district property tax and if all property tax on rental units was passed through to renters, then Consumer Expenditure Survey (CEX) data suggest that senior renters might effectively pay one-fifth of that amount ($290 to $440 million) for FY 2020-21.

Table 4 provides Pennsylvania net migration data across seven age groups from 2013 to 2019. The data reflect both international and domestic net migration. For all years, net international migration was positive (inflows exceed outflows) while net domestic migration was negative. The data from Table 4 are computed as a residual based on published U.S. Census data. For example, total net migration for 2017 was computed as follows: 2017 population less 2016 population less 2017 births plus 2017 deaths. It is noted that these data are preliminary and will be revised after the Census Bureau has completed the 2020 Census.

[2] These amounts are prior to any deductions through the Property Tax Rent Rebate program. Data for 2018 show that 260,000 elderly homeowners claimed $109.4 million of property tax rebates.

Table 5 provides a summary of state income tax treatment of retirement income for 2021. As shown by the table, Pennsylvania is one of 28 states with a personal income tax that do not tax Social Security income and one of three states that do not tax public and private pensions.

Table 6 provides updated estimates for potential revenue sources that could replace school district property taxes if they were eliminated. Language for this proposal was submitted to our office in 2019. Relevant notes for the estimates are as follows:

- As with the prior analysis, the estimates should be viewed as approximations only. They do not incorporate effective dates or a compliance phase-in. In addition, the estimates are not reduced for administrative costs, which would likely be significant under this proposal.
- The estimates include the impact of changes in behavior and compliance at full implementation for each of the proposed tax rates.
- The additional sales and use tax (SUT) would be imposed at the local level, similar to the existing local SUT in Philadelphia and Allegheny counties. Unlike the state tax, which is imposed at the point of use, the local taxes are imposed at the point of sale and only apply to purchases originating in those counties. Local tax is not collected on sales shipped into those counties by out-of-state (or out-of-county) sellers. Imposing the tax with the same local situs could materially reduce collections (10% to 15%). The projections included in the enclosed table assume the new SUT (including that imposed on food and clothing) is imposed at the state level.
- The SUT estimates assume that any increase in the SUT rate would coincide with a revenue neutral adjustment to the SUT transfers for public transportation. In other words, public transportation would not receive a funding windfall from an increase in the tax rate.
- The SUT estimates for clothing and food assume that the new 2% tax is only imposed on those items not subject to the current 6% tax.
- The additional personal income tax (PIT) would be collected at the local level, similar to the existing local earned income tax (EIT). The Department of Revenue devotes significant resources to ensuring compliance with PIT laws, including the matching of state returns with federal tax data. Since local collectors lack these resources, imposing the tax at the local level would likely produce reduced collections. The PIT estimates included in the enclosed table are calculated using the current state tax base and assume that the tax would be collected at the state level.
- Under current Pennsylvania law, employee contributions to qualified retirement accounts are subject to PIT, but qualified distributions from those accounts (including employer contributions and earnings) are exempt from tax. If Pennsylvania were to impose PIT on retirement income (excluding Social Security), employee contributions already subject to tax under prior law would be deductible. Assuming that under the proposal, contributions to retirement accounts would now be exempt and distributions would be taxable (consistent with federal tax law), Pennsylvania would immediately lose the PIT paid on new employee contributions (tax is now delayed until retirement). These transition issues are incorporated into the Retirement Income forecast (see table) and will resolve slowly over the next 30 to 40 years.

If you have any questions regarding the tables or estimates provided, please do not hesitate to contact my office (717-230-8293). Per the policy of the IFO, this letter will be posted to the office website three days after transmittal to your office.

Sincerely,

Matthew J. Knittel

Matthew J. Knittel
Director, Independent Fiscal Office

Attachments

Table 1
School District Property Tax Forecast

	Actual	Estimate		Forecast				
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Current-Year	$13,930	$14,301	$14,109	$14,595	$15,155	$15,795	$16,405	$16,985
Act 1 Allocations[1]	533	534	535	535	535	535	535	535
Delinquent[2]	551	565	488	616	618	622	645	668
Total	**15,014**	**15,400**	**15,131**	**15,746**	**16,308**	**16,952**	**17,585**	**18,188**

Note: Dollar amounts in millions.

1 Actuals through FY 2020-21. Estimated at $535 million thereafter.

2 Reported by PDE for FY 2018-19. Estimated by IFO thereafter.

Table 2
Program Funding for Pennsylvania Seniors ($000s)

	2018-19 Actual	2019-20 Actual	2020-21 Enacted
Department of Aging:			
State[1]	$25,771	$2,056	$2,108
Lottery[2]	520,470	465,464	474,398
Federal[3]	158,702	174,564	105,261
Department of Human Services:			
State[4]	3,043,345	3,239,239	3,554,224
Lottery[5]	372,355	337,513	352,466
Federal[6]	3,581,971	4,537,251	5,334,755
Department of Revenue:			
Lottery[7]	155,343	288,372	0
Department of Transportation:			
Lottery[8]	165,429	170,907	170,907
Department of Military and Veterans Affairs:			
State[9]	116,356	112,461	109,803
Federal[9,10]	62,614	78,153	86,768
Total State	3,185,472	3,353,756	3,666,135
Total Lottery	1,213,597	1,262,256	997,771
Total Federal	3,803,287	4,789,968	5,526,784
Total All Funds	**8,202,356**	**9,405,980**	**10,190,690**

1 Includes appropriations from the Tobacco Settlement Fund (TSF) and the Pharmaceutical Assistance Fund.

2 Includes funding to administer PENNCARE, Pre-Admission Assessment, Caregiver Support, Alzheimer's Outreach, Pharmaceutical Assistance Fund and Grants to Senior Centers appropriations.

3 Includes appropriations from the TSF.

4 Includes General Fund and TSF funding for MA - Long-Term Care, MA - Community HealthChoices, MA - Capitation, MA - Fee-for-Service, Home and Community-Based Services, Long-Term Care Managed Care and Payment to Federal Government - Medicare Drug Program appropriations.

5 Includes MA - Long-Term Care, Home and Community-Based Services, MA - Community HealthChoices and MA - Transportation Services.

6 Includes MA - Long-Term Care, MA - Community HealthChoices, MA - Home and Community-Based Services and MA - Long-Term Care Managed Care.

7 Estimated Property Tax Rent Rebate (PTRR) funding attributable to recipients age 65 and older is based on Department of Revenue PTRR statistical report data. The transfer to the Lottery Fund for the PTRR program that would have occurred in FY 2020-21 was shifted into FY 2019-20.

8 Includes Transfer to Public Transportation Trust Fund and Older Pennsylvanians Shared Rides appropriations.

9 Veterans Homes funding attributable to residents age 65 and older.

10 FY 2019-20 and 2020-21 include COVID relief funds that total $5.0 million and $5.8 million, respectively.

Table 3
Pennsylvania Senior Share of Tax Revenues

Revenue Source	Share Age 65+ Low	Share Age 65+ High	FY 2018-19 Total Amount	FY 2018-19 Estimated Senior Low	FY 2018-19 Estimated Senior High	FY 2020-21 (Estimate) Total Amount	FY 2020-21 (Estimate) Estimated Senior Low	FY 2020-21 (Estimate) Estimated Senior High
State Personal Income	13.0%	16.0%	$14,096	$1,832	$2,255	$14,472	$1,881	$2,316
State Sales and Use	20.0	23.0	11,100	2,220	2,553	12,167	2,433	2,798
Gross Receipts	21.0	24.0	1,250	263	300	1,002	210	240
All Tobacco	15.0	18.0	1,249	187	225	1,066	160	192
Liquor and Malt Beverage	19.0	22.0	405	77	89	435	83	96
Total or Weighted Average	**16.3**	**19.3**	**28,100**	**4,579**	**5,422**	**29,142**	**4,768**	**5,642**
Other Major Taxes								
Homeowner SD Prop Tax	29.0%	32.0%	$8,327	$2,415	$2,665	$8,393	$2,434	$2,686
Corporate Net Income	n.a.	n.a.	3,398	n.a.	n.a.	3,400	n.a.	n.a.
Insurance Premiums	n.a.	n.a.	444	n.a.	n.a.	424	n.a.	n.a.
Bank Shares	n.a.	n.a.	380	n.a.	n.a.	382	n.a.	n.a.
Realty Transfer	n.a.	n.a.	534	n.a.	n.a.	585	n.a.	n.a.
Inheritance	n.a.	n.a.	1,054	n.a.	n.a.	1,128	n.a.	n.a.

Note: Millions of dollars. FY 2020-21 revenues adjusted for monies shifted into year due to delayed due dates. Only direct and consumption taxes included. Business taxes such as corporate net income, bank shares and insurance premiums were not included for the purpose of this analysis. Analysis assumes all sales-use and gross receipts taxes remitted by businesses are fully passed forward to consumers. Property taxes remitted by businesses are not included. School district property tax excludes Act 1 allocations and assumes 57.5% of tax is remitted by homeowners.

Source: Tax revenues from IFO Official Revenue Estimate and do not include amounts transferred to special funds. Data used to inform shares are from various sources including: federal tax data published by state (Internal Revenue Service), Consumer Expenditure Survey for northeast consumers and consumers age 65 or older (U.S. Bureau of Labor Statistics) and the American Community Survey (U.S. Census Bureau).

Table 4
Pennsylvania International and Domestic Net Migration

Age Group	2013	2014	2015	2016	2017	2018	2019
	Census Year Ending July 1						
0 to 17	7,775	8,707	8,434	7,817	12,161	13,550	9,825
18 to 24	-6,894	-7,656	-9,538	-9,282	-8,437	-6,501	-7,710
25 to 34	4,882	3,221	2,063	4,361	6,864	8,496	6,970
35 to 44	1,939	1,587	627	1,080	2,916	4,306	2,636
45 to 54	-1,100	-1,397	-2,414	-3,477	-2,592	-1,357	-1,306
55 to 64	-2,898	-3,287	-4,456	-5,861	-3,955	-3,049	-3,750
65+	-6,233	-3,511	-6,652	-3,821	-3,795	-3,084	-3,152
Total	**-2,529**	**-2,336**	**-11,936**	**-9,183**	**3,162**	**12,361**	**3,513**

Source: IFO computations based on U.S. Census Bureau data.

Table 5
State Income Tax Treatment of Retirement Income

State	Private Pensions	Gov't Pensions	Social Security
Alabama	limited exemption	exempt	exempt
Alaska	n.a.	n.a.	n.a.
Arizona	fully taxable	$2,500	exempt
Arkansas	$6,000	$6,000	exempt
California	fully taxable	fully taxable	exempt
Colorado	$20,000/$24,000	$20,000/$24,000	$20,000/$24,000
Connecticut	limited exemption/42%	limited exemption/42%	income dependent
Delaware	$2,000/$12,500	$2,000/$12,500	exempt
District of Columbia	fully taxable	fully taxable	exempt
Florida	n.a.	n.a.	n.a.
Georgia	$35,000/$65,000	$35,000/$65,000	exempt
Hawaii	limited exemption	exempt	exempt
Idaho	fully taxable	$34,332	exempt
Illinois	exempt	exempt	exempt
Indiana	fully taxable	limited exemption	exempt
Iowa	$6,000	$6,000	exempt
Kansas	fully taxable	exempt	income dependent
Kentucky	$31,110	$31,110/exempt	exempt
Louisiana	$6,000	$6,000/exempt	exempt
Maine	$10,000	$10,000	exempt
Maryland	$33,100	$33,100	exempt
Massachusetts	fully taxable	exempt	exempt
Michigan	limited exemption	limited exemption	exempt
Minnesota	fully taxable	limited exemption	income dependent
Mississippi	exempt	exempt	exempt
Missouri	$6,000	$38,437	income dependent
Montana	$4,370	$4,370	income dependent
Nebraska	fully taxable	limited exemption	income dependent
Nevada	n.a.	n.a.	n.a.
New Hampshire	n.a.	n.a.	n.a.
New Jersey	$75,000	$75,000	exempt
New Mexico	fully taxable	fully taxable	same as federal
New York	$20,000	exempt	exempt
North Carolina	fully taxable	limited exemption	exempt
North Dakota	fully taxable	limited exemption	income dependent
Ohio	$200 credit	limited exemption	exempt
Oklahoma	$10,000	$10,000	exempt
Oregon	limited exemption	limited exemption	exempt
Pennsylvania	**exempt**	**exempt**	**exempt**
Rhode Island	$15,000	$15,000	income dependent
South Carolina	$3,000/$10,000	$3,000/$10,000	exempt
South Dakota	n.a.	n.a.	n.a.
Tennessee	n.a.	n.a.	n.a.
Texas	n.a.	n.a.	n.a.
Utah	$450 credit	$450 credit	same as federal
Vermont	fully taxable	fully taxable	income dependent
Virginia	fully taxable	fully taxable	exempt
Washington	n.a.	n.a.	n.a.
West Virginia	fully taxable	limited exemption/$2,000	income dependent
Wisconsin	$5,000	limited exemption/$5,000	exempt
Wyoming	n.a.	n.a.	n.a.

Note: Reflects tax year 2021 maximum allowable deductions for single filer or head of household aged 65 or older. States that have no personal income tax on wages are denoted as n.a. Where applicable, lower deduction limit reflects amount for residents under age 65.

Source: National Conference of State Legislatures, Bloomberg BNA State Tax and CCH Smart Charts as of Feb 2021.

Table 6
Options to Fund School District Property Tax Elimination

		2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Additional SUT[1]	1.50%	$2,794	$3,003	$3,112	$3,213	$3,313	$3,416	$3,522
	2.00%	3,706	3,984	4,128	4,262	4,395	4,532	4,672
Food[2]	2.00%	575	607	638	660	682	705	729
Clothing[3]	2.00%	252	265	278	287	297	306	316
Additional PIT[4]	1.85%	8,019	8,107	8,428	8,844	9,235	9,638	10,056
Retirement Income[5]	4.92%	1,246	1,323	1,383	1,471	1,561	1,652	1,751
State Share	*3.07%*	*778*	*825*	*863*	*918*	*974*	*1,031*	*1,092*
Local Share	*1.85%*	*469*	*497*	*520*	*553*	*587*	*621*	*658*

Note: Millions of dollars. Estimates are long-term and assume an effective date prior to FY 2019-20.

1 New statewide SUT rates would be 7.5% or 8.0% respectively. The new rates for Philadelphia would be 9.5% or 10.0%. The new rates for Allegheny County would be 8.5% or 9.0%. Estimates are calculated using the current state SUT base. The existing local SUTs are point of sale taxes and are only imposed on sales originating in those counties. If the new tax is imposed with the same situs, tax collections will be materially lower (approximately 5% to 10%) because tax would not be collected on e-commerce purchases from out of state sellers. Estimates assume that all transfers from SUT are adjusted to a revenue neutral rate, i.e., special funds do not receive a windfall from the increased tax rate and are not reduced for Department of Revenue administrative costs.

2 Excludes food purchased with Supplemental Nutrition Assistance Program (SNAP) and Women, Infants and Children (WIC) benefits. Assumes foods already subject to the 6% state tax are excluded.

3 Assumes clothing and footwear already subject to the 6% state tax are excluded.

4 New PIT tax of 1.85% calculated using the existing state PIT base. The Department of Revenue devotes significant resources to ensuring taxpayer compliance, including the matching of state returns with federal tax data. Since local collectors lack these resources, actual collections would likely be lower than the provided estimates by an unknown amount.

5 Retirement income tax of 4.92% (3.07% state tax and 1.85% local) net of previously taxed employee contributions and excluding Social Security. Moving forward, assumes that all retirement income will be taxed upon distribution.

School Property Tax Elimination Act

(House Bill 13)

All School Property Taxes Eliminated

Why eliminate property taxes?

- With property taxes we are all one life event away from losing our homes
- The value of your home goes up immediately
- Reverses loss of jobs in PA - the whole state becomes an opportunity zone
- Reverses loss of young workers out of the state

Who Benefits?

SENIORS

Seniors on average save 75% of taxes

RENTERS

All renters who get passed-on savings of property tax reductions of landowners

PROPERTY OWNERS

No longer rent your home from the school district

SCHOOL DISTRICTS

School districts because they share the benefit of economic growth

How Schools Will be Funded

NEW TAXES STAY LOCAL

- 1.85% local PIT goes to school districts directly
- 2% local sales tax allocated to school districts
- No Tax on Social Security income
- Retirement income tax - 4.92%
  - 1.85% - local
  - 3.07% - state

PENNSYLVANIA HOUSE OF REPRESENTATIVES

Facebook.com/RepFrankRyan

OFFICIAL STATEMENT

NEW ISSUE
BOOK-ENTRY ONLY

S&P Rating: Underlying: "A" (Stable Outlook)
Insured: "AA" (Stable Outlook)
MAC Insured

In the opinion of Bond Counsel, interest on the Bonds is not includable in gross income for purposes of federal income taxation under existing statutes, regulations, rulings and court decisions, subject to the condition described in "TAX MATTERS" herein and interest on the Bonds is not treated as an item of tax preference under Section 57 of the Internal Revenue Code of 1986, as amended (the "Code") for purposes of the federal alternative minimum tax. Under the laws of the Commonwealth of Pennsylvania, the Bonds are exempt from personal property taxes in Pennsylvania, and interest on the Bonds is exempt from Pennsylvania personal income tax and the Pennsylvania corporate net income tax. For a more complete discussion, see "TAX MATTERS" herein.

The School District has designated the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Code. For a more complete discussion, see "TAX MATTERS - Deduction for Interest Paid by Financial Institutions to Purchase or Carry Tax-Exempt Obligations" herein.

$9,980,000
MONTOURSVILLE AREA SCHOOL DISTRICT
Lycoming County, Pennsylvania
General Obligation Bonds, Series of 2019

Dated: Date of Delivery
Due: June 1, as shown on inside cover
Denomination: Integral multiples of $5,000

Interest Payable: June 1 and December 1
First Interest Payment: December 1, 2019
Form: Fully Registered Book-Entry Only

Payable: The General Obligation Bonds, Series of 2019, in the aggregate principal amount of $9,980,000 (the "Bonds") will be issued as fully registered bonds and when issued, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Purchases of beneficial ownership in the Bonds will be made in book-entry only form, and purchasers will not receive certificates representing their interests in the Bonds. So long as DTC, or its nominee, Cede & Co., is the registered owner of the Bonds, payments of the principal of and interest on the Bonds will be made by the Paying Agent directly to Cede & Co as nominee for DTC for redistribution by DTC to its participants. Payment to DTC Participants is the responsibility of DTC, and disbursement of such payments to Beneficial Owners of the Bonds is the responsibility of the DTC Participants and the Indirect Participants. See "BOOK-ENTRY ONLY SYSTEM" herein. Interest on the Bonds is payable initially on December 1, 2019, and thereafter semiannually on June 1 and December 1 of each year. The interest on the Bonds will be payable by check mailed to the registered owner thereof. The principal of the Bonds will be payable upon surrender thereof at the corporate trust office of the Paying Agent, Manufacturers and Traders Trust Company, located in Harrisburg, Pennsylvania.

Redemption: The Bonds stated to mature on or after June 1, 2025, are subject to redemption prior to maturity, at the option of the School District, in whole or, from time to time, in part (in order of maturity or portion of each maturity as may be designated by the School District and within a maturity by lot) at any time on or after December 1, 2024 upon payment of a redemption price of 100% of the principal amount of the Bonds, plus accrued interest to the date fixed for redemption.

Purpose: Proceeds of the Bonds will be used to provide funds to: (1) currently refund the School District's outstanding General Obligation Bond, Series A of 2015; and (2) pay the costs of issuing and insuring the Bonds.

Security: The Bonds are payable from tax and other general revenues of the School District. The School District has covenanted that it will provide in its budget in each year, and will appropriate from its general revenues in each such year, the amount of the debt service on the Bonds for such year and will duly and punctually pay or cause to be paid from funds in the sinking fund established in the Resolution or from any other of its revenues or funds, the principal of every Bond and the interest thereon on the dates, at the place and in the manner stated in the Bonds, and for such budgeting, appropriation and payment the School District irrevocably has pledged its full faith, credit and taxing power, which taxing power includes the power to levy *ad valorem* taxes on all taxable property within the School District, within limitations provided by law (see "SECURITY FOR THE BONDS" and, in Appendix A, "TAXING POWERS OF THE SCHOOL DISTRICT" and "PENNSYLVANIA ACTS AFFECTING CERTAIN LOCAL TAXING POWERS OF SCHOOL DISTRICTS" herein).

Bond Insurance: The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by MUNCIPAL ASSURANCE CORP.

MUNICIPAL ASSURANCE CORP.

The Bonds are offered for delivery when, as and if issued by the School District and received by the Underwriter and subject to the approving legal opinion of Saul Ewing Arnstein & Lehr LLP, Philadelphia, Pennsylvania, Bond Counsel to the School District. Certain legal matters will be passed upon by Thomas C. Marshall, Esquire, Williamsport, Pennsylvania, Solicitor for the School District and for the Underwriter by McNees Wallace & Nurick LLC, Lancaster, Pennsylvania, Limited Scope Underwriter's Counsel. It is expected that the Bonds in definitive form will be available for delivery through the facilities of the Depository Trust Company in New York, New York on or about August 21, 2019.

RBC Capital Markets

The date of this Official Statement is July 25, 2019.

SECURITY FOR THE BONDS

The Bonds are general obligations of the School District and are payable from the general taxes and revenues of the School District. The taxing powers of the School District are described more fully herein. The School District has covenanted in the Resolution that it will provide in its budget for each fiscal year, and will appropriate in each such year, the amount of the debt service on the Bonds for such year and will duly and punctually pay, or cause to be paid, the principal of every Bond and the interest thereon on the dates, at the place and in the manner stated in the Bonds, and for such budgeting, appropriation and payment, the School District has irrevocably pledged its full faith, credit and taxing power, which taxing power presently includes the power to levy *ad valorem* taxes on all taxable property within the School District, within limitations provided by law. (See Appendix A – "TAXING POWERS OF THE SCHOOL DISTRICT" and "PENNSYLVANIA ACTS AFFECTING CERTAIN LOCAL TAXING POWERS OF SCHOOL DISTRICTS" discussing recent legislation subjecting the School District's taxing power to certain limitations). The Act presently provides for enforcement of debt service payments as hereinafter described (see "Actions in the Event of Default" herein) and the Public School Code (herein defined) presently provides for the withholding and application of subsidies in the event of failure to pay debt service (see "Security for General Obligation Bonds Under Section 633 of the Public School Code of 1949" herein).

Sinking Fund

In the Resolution, the School District has set forth that a "Sinking Fund - General Obligation Bonds, Series of 2019" (the "Sinking Fund"), shall be created and maintained with the Paying Agent, as sinking fund depository and segregated from all other funds of the School District. The School District shall deposit in the Sinking Fund a sufficient sum no later than June 1 and December 1 of each year beginning December 1, 2019, the debt service payable on the Bonds on such dates or such greater or lesser amount as at the time shall be sufficient to pay interest and principal on the Bonds as they become due and payable.

The Sinking Fund shall be held by the Paying Agent, as sinking fund depository, and invested by the Paying Agent in such securities or shall be deposited in such funds or accounts as are authorized by the Act, upon direction of the School District. Such deposits and securities shall be in the name of the School District, but subject to withdrawal or collection only by the Paying Agent, as sinking fund depository, and such deposits and securities, together with the interest thereon, shall be a part of the Sinking Fund.

The Paying Agent, as sinking fund depository, is authorized without further order from the School District to pay from the Sinking Fund the principal of and interest on the Bonds when due and payable.

Actions in the Event of Default

Subject to the exclusive representation of Bondholders by a trustee appointed under the Act as described in the following paragraph, if the School District fails or neglects to pay principal of or interest on any of the Bonds as it becomes due and payable, and such failure continues for thirty (30) days, the holder of such bond may bring suit in the Court of Common Pleas of the county in which the School District is located (Lycoming County) and any judgment recovered shall have an appropriate priority upon the money next coming into the treasury of the School District, all as provided in the Act. The Act also provides other remedies to Bondholders to enforce the School District's covenants in respect of payment of the Bonds.

In the event the School District defaults in the payment of the principal of or the interest on any of the Bonds after the same shall become due, whether at the stated maturity or upon call for prior redemption, and such default shall continue for thirty (30) days, or if the School District fails to comply with any provision of the Bonds or the Resolution, the Act provides that the holders of 25% in aggregate principal amount of the Bonds then outstanding may, upon appropriate action, appoint a trustee to represent the Bondholders. The trustee may, and upon request of the holders of 25% in principal amount of the Bonds then outstanding and upon being provided with indemnity satisfactory to it, shall, take such action on behalf of the Bondholders as is more specifically set forth in the Act. Such representation by the trustee shall be exclusive.

State Reimbursement Intercept Program under Section 633 of the Public School Code of 1949

Section 633 of the Public School Code of 1949, as amended (the "Public School Code") presently provides that in all cases where the board of school directors of any school district fails to pay or to provide for the payment of any indebtedness, at the date of maturity or mandatory redemption, or any sinking fund deposit date, or any interest due on such indebtedness on any interest payment date or any sinking fund deposit date, in accordance with the schedule under which the bonds or notes were issued, the Secretary of Education of the Commonwealth shall notify the board of school directors of its obligation and shall withhold from any Commonwealth appropriation due such school district, or sinking fund deposit due by such school district, and shall pay over an amount equal to the sum of such principal or interest due and shall pay such amount directly to the bank acting as sinking fund depository for the bond issue.

The withholding provisions of Section 633 are not part of any contract with the registered owners of the Bonds and may be amended or repealed by future legislation. The effectiveness of Section 633 may be limited by the application of other withholding provisions contained in the Public School Code, such as provisions for withholding and paying over of appropriations for payment of unpaid teachers' salaries. Enforcement may also be limited by bankruptcy, insolvency, or other laws or equitable principles affecting the enforcement of creditors' rights generally.

Pennsylvania Budget Adoption

Over the past several years the Commonwealth of Pennsylvania has, from time to time, started its fiscal year without a fully adopted state budget. Under the law, the budget is enacted when the Governor signs the state budget or if the Governor fails to sign and does not veto it, the budget is automatically adopted 10 days after receipt by the Governor. In the state's 2015 fiscal year, a final budget was not enacted until March 27, 2016, which was 270 days into that fiscal year, when the Governor failed to sign or veto the state budget that was adopted by the General Assembly on March 17, 2016.

For the 2016-17 fiscal year, the state budget became law, known as Act 16A of 2016, on July 12, 2016, when the Governor failed to sign or veto the state budget that was adopted by the General Assembly on July 1, 2016. On July 13, 2016, the General Assembly adopted and Governor signed into law additional tax and revenue package, known as Act 85 of 2016, that was needed to balance the 2016-17 state budget.

For the 2017-18 fiscal year, the state budget became law, known as Act 1A of 2017, on July 11, 2017 when the Governor failed to sign or veto the state budget that was adopted by the General Assembly on June 30, 2017. Act 1A of 2017 did not have any accompanying legislation regarding the potential revenue that would be needed to fund the balance of the 2017-18 Budget at the time of its enactment. On October 25, 2017, the General Assembly adopted House Bill 542 which contained the necessary revenue to fund the balance of the previously adopted 1A of 2017. On October 30, 2017 the Governor approved and signed House Bill 542 and it became known as Act 43 of 2017.

For the current 2018-19 fiscal year, the Governor signed the budget on June 22, 2018.

During a state budget impasse, school districts in the Commonwealth cannot be certain that state subsidies and revenues owed them from the Commonwealth will become available. This includes many of the major state subsidies, and overall revenues, that a Pennsylvania school district receives including basic education funding, special education funding, PlanCon reimbursements, and certain block grants, among many others. **Recent legislation included in Act 85 of 2016 has attempted to address the timeliness of the withholding provisions of Section 633 of the Public School Code during any future budget impasses. See "Act 85 of 2016" below.**

Act 85 of 2016

On July 13, 2016, the Governor of the Commonwealth signed into law Act No. 85 of 2016, (P.L. 664, No. 85) ("Act 85 of 2016"), an amendment to the Act of April 9, 1929 (P.L. 343, No. 176), known as the Fiscal Code ("Fiscal Code"). Act 85 of 2016 adds to the Fiscal Code Article XVI-E.4, entitled "School District Intercepts for the Payment of Debt Service During Budget Impasse", which provides for intercept of subsidy payments by PDE from a school district subject to an intercept statute or an intercept agreement in the event of a Commonwealth budget impasse in any fiscal year.

Act 85 of 2016 includes in the definition of "intercept statutes" Sections 633 of the Public School Code. The School District's General Obligation Bonds and Notes, including these Bonds, are subject to Section 633 of the Public School Code.

Act 85 of 2016 provides that the amounts as may be necessary for PDE to comply with the provisions of the applicable intercept statute or intercept agreement "shall be appropriated" to PDE from the General Fund of the Commonwealth after PDE submits justification to the majority and minority chairs of the appropriations committees of the Pennsylvania Senate and House of Representatives allowing ten (10) calendar days for their review and comment, if, in any fiscal year:

TAXING POWERS OF THE SCHOOL DISTRICT

Subject to certain limitations imposed by the Taxpayer Relief Act, Act No. 1 of the Special Session of 2006 (see below), the School District is empowered by the School Code to levy the following taxes:

1. A basic annual tax on all real property taxable for school purposes, not to exceed 25 mills on each dollar of assessed valuation, to be used for general school purposes.

2. An unlimited ad valorem tax on the property taxable for school purposes to provide fund s:

   a. to pay minimum salaries and increments of the teaching and supervisory staff;

   b. to pay rentals due any municipality authority or non-profit corporation or due the State Public School Building Authority;

   c. to pay interest and principal on any indebtedness incurred pursuant to the Local Government Unit Debt Act, or any prior or subsequent act governing the incurrence of indebtedness of the School District; and

   d. to pay for the amortization of a bond or note issue which financed the construction of a school building prior to the first Monday of July, 1959.

3. An annual per capita tax on each resident or inhabitant over 18 years of age of not more than $5.00

The School District may also levy additional taxes subject to division with other political subdivisions authorized to levy similar taxes on the same person, subject, business, transaction or privilege, under Act No. 511, enacted December 31, 1965, as amended ("The Local Tax Enabling Act"). These taxes, which may include, among others, an additional per capita tax, wage and other earned income taxes, real estate transfer taxes, gross receipts taxes, and occupation taxes, shall not exceed, in the aggregate, an amount equal to the product of the market valuation of real estate in the School District (as certified by the State Tax Equalization Board of the Commonwealth – "STEB") multiplied by twelve mills. All local taxing authorities are required by the Local Tax Enabling Act to exempt disabled veterans and members of the armed forces reserve who are called to active duty at any time during the tax year from any local services tax and to exempt from any local services tax levied at a rate in excess of $10 those persons whose total income and net profits from all sources within the political subdivision is less than $12,000 for the tax year.

The Local Tax Enabling Act was amended by Act 222 of 2004 to authorize all taxing authorities to exempt from per capita, occupation, emergency and municipal service or earned income taxes any person whose total income from all sources is less than $12,000 per year. (Which includes full-time college students with respect to the per capita tax).

PENNSYLVANIA ACTS AFFECTING CERTAIN LOCAL TAXING POWERS OF SCHOOL DISTRICTS

The Taxpayer Relief Act (Act 1)

Under Pennsylvania Act No. 1 of the Special Session of 2006, as amended by Act 25 of 2011 (the "Taxpayer Relief Act" or "Act 1"), a school district may not, in fiscal year 2007-08 or in any subsequent fiscal year, levy any tax for the support of the public schools which was not levied in the previous fiscal year, raise the rate of any earned income and net profits tax if already imposed under the authority of the Local Tax Enabling Act (Act 511), or increase the rate of any tax for school purposes by more than the Index (defined below), unless in each case either (a) such increase is approved by the voters in the school district at a public referendum or (b) one of the exceptions summarized below is applicable and the use of such exception is approved by the PDE:

1. to pay interest and principal on indebtedness incurred (i) prior to September 4, 2004, in the case of a school district which had elected to become subject to the provisions of the prior Homeowner Tax Relief Act, Act 72 of 2004, or (ii) prior to June 27, 2006, in the case of a school district which had not elected to become subject to Act 72 of 2004; to pay interest and principal on any indebtedness

approved by the voters at referendum (electoral debt); and to pay interest and principal on debt refunding or refinancing debt for which one of the above exceptions is permitted, as long as the refunding or refinancing incurs no additional debt other than for costs and expenses related to the refunding or refinancing and the funding of appropriate debt service reserves;

2. to pay costs incurred in providing special education programs and services to students with disabilities, under specified circumstances; and

3. to make payments into the State Public School Employees' Retirement System when the increase in the estimated payments between the current year and the upcoming year is greater than the Index, as determined by PDE in accordance with the provisions of Act 1.

Any revenue derived from an increase in the rate of any tax allowed under the exception numbered 1 above may not exceed the anticipated dollar amount of the expenditure, and any revenue derived from an increase in the rate of any tax allowed pursuant to any other exception enumerated above may not exceed the rate increase required, as determined by the court or PDE, as the case may be. If a school district's petition or request to increase taxes by more than the Index pursuant to one or more of the allowable exceptions is not approved, the school district may submit the proposed tax increase to a referendum.

The Index (to be determined and reported by PDE by September of each year for application to the following fiscal year) is the average of the percentage increase in the statewide average weekly wage, as determined by the State Department of Labor and Industry for the preceding calendar year, and the employment cost index for elementary and secondary schools, as reported by the federal Bureau of Labor Statistics for the preceding 12-month period beginning July 1 and ending June 30. If and when a school district has a Market Value/Income Aid Ratio greater than 0.40 for the prior school year, however, the Index is adjusted upward by multiplying the unadjusted Index by the sum of 0.75 and such Aid Ratio.

The Index applicable to the School District for the current and previous fiscal years is as follows:

2019-20	3.0%
2018-19	3.1%
2017-18	3.2%
2016-17	3.1%
2015-16	2.5%
2014-15	2.7%
2013-14	2.2%
2012-13	2.2%

In accordance with Act 1, the Board of School Directors of the School District placed a referendum on the ballot for the May 15, 2007 primary election seeking voter approval to levy (or increase the rate of) an earned income tax or personal income tax and use the proceeds to reduce local real estate taxes by a homestead and farmstead exclusion. The referendum was not approved by a majority of the voters at the primary election.

A board of school directors may submit, but is not required to submit, a future referendum question to the voters at any municipal election seeking approval to levy or increase the rate of an EIT or a PIT for the purpose of further funding homestead and farmstead exclusions, but the proposed rate of the EIT or PIT shall not exceed the rate which, when combined with any tax rate authorized at the 2007 primary election, is required to provide the maximum homestead and farmstead exclusions allowable under law.

Act 1 also provides for gaming revenues received by the Commonwealth to be accumulated in the Property Tax Relief Reserve Fund ("Fund"). When the Fund has sufficient money according to a formula, the Secretary of the Commonwealth announces that funds are available for distribution to school districts. The money received by school districts from the Fund may only be used to provide a reduction in real estate taxes to qualified homestead/farmstead properties. To qualify for a homestead and/or farmstead tax reduction, the property must be owner-occupied and used for residential purposes. The money received by the local school district from the Fund are offset on a dollar for dollar basis by reductions in the local real estate tax payments from owners of qualified homestead and farmstead properties.

This summary is not intended to be an exhaustive discussion of the provisions of Act 1 nor a legal interpretation of any provision of Act 1, and a prospective purchaser of the Bonds should review the full text of Act 1 as a part of any decision to purchase the Bonds.

Application of Act 1 to the Bonds (Not eligible for the exception for debt incurred prior to the Act 1 effective date)

The Bonds were authorized after the effective date of Act 1. Therefore, the School District cannot be granted the pre-existing debt exception to the Act 1 referendum requirement if a tax increase greater than the Index is required in order to pay debt service on the Bonds. The School District expects to be able to absorb the annual debt service payments on the Bonds within revenue increases permitted by the state Index limitations under Act 1.

Act 130 of 2008

Act 130 of 2008 of the Commonwealth amended the Local Tax Enabling Act so as to authorize school districts levying an occupation tax to replace that occupation tax with an increased earned income tax or, if the school district has implemented a personal income tax in accordance with the Taxpayer Relief Act, an increased personal income tax, in a revenue neutral manner. To so replace an occupation tax, the board of school directors must first hold at least one public hearing on the matter and then place a binding referendum question on the ballot at a general or municipal election for approval by the voters.

The School District's occupation tax was replaced with an increased earned income tax under the provisions of Act 24 of 2001. Effective July 1, 2005, the School District's earned income tax was adjusted to 1.15% which continues to be the School District's rate.

SET FORTH ABOVE IS A SUMMARY OF PORTIONS OF ACT 130. THIS SUMMARY IS NOT INTENDED TO BE AN EXHAUSTIVE DISCUSSION OF THE PROVISIONS OF ACT 130 NOR A LEGAL INTERPRETATION OF ANY PROVISION OF ACT 130. A PROSPECTIVE PURCHASER OF THE BONDS SHOULD REVIEW THE FULL TEXT OF ACT 130 AS A PART OF ANY DECISION TO PURCHASE THE BONDS

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OFFICIAL STATEMENT

NEW ISSUE – BOOK ENTRY ONLY

Rating: S & P Rated "AA-" (stable outlook)
AGM Insured
Underlying Rating (Based on State Intercept Program) "A"
See "**Rating**" and "**Bond Insurance**" herein

In the opinion of Bond Counsel, under existing statutes, regulations and judicial decisions, interest on the Series A Bonds and Series B Bonds is excluded from gross income for purposes of federal income taxation and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although in the case of corporations (as defined for federal income tax purposes) such interest is taken into account in determining adjusted current earnings for purposes of such alternative minimum tax. This opinion of Bond Counsel is subject to continuing compliance by the School District with its covenants in the Resolution and other documents to comply with requirements of the Internal Revenue Code of 1986, as amended, and applicable regulations thereunder.

Bond Counsel is also of the opinion that under the laws of the Commonwealth of Pennsylvania as presently enacted and construed, the Bonds are exempt from personal property taxes in the Commonwealth of Pennsylvania and the interest on the Bonds is exempt from the Commonwealth of Pennsylvania Personal Income Tax and the Commonwealth of Pennsylvania Corporate Net Income Tax. This summary of Bond Counsel's opinion and the summary of Bond Counsel's opinion set forth under the caption "Opinion of Bond Counsel" does not purport to be and should not be construed to be a complete recitation of Bond Counsel's opinion. The full text draft of Bond Counsel's opinion is appended hereto in Appendix "D" and reference is made hereto.) For further information concerning federal and state tax matters relating to the Bonds, see "Tax Exemption and Other Tax Matters" herein.

$79,300,000
Pocono Mountain School District
(Monroe County, Pennsylvania)
$7,860,000 General Obligation Bonds, Series A of 2013
$60,820,000 General Obligation Bonds, Series B of 2013
$10,620,000 General Obligation Bonds, Taxable Series C of 2013

Dated: Date of Delivery
Interest Due: June 15 and December 15

Principal Due: June 15, (as shown on inside cover)
First Interest Payment: December 15, 2013

Pocono Mountain School District's General Obligation Bonds, Series of 2013 (the "2013 Bonds" or the "Bonds") in the aggregate principal amount of $79,300,000 consisting of $7,860,000 aggregate principal amount of General Obligation Bonds, Series A of 2013 (the "Series A Bonds") and $60,820,000 aggregate principal amount of General Obligation Bonds, Series B of 2013 (the "Series B Bonds") and $10,620,000 aggregate principal amount of General Obligation Bonds, Series C of 2013 (the "Series C Bonds" and together with the Series A Bonds and the Series B Bonds, the "Bonds" will be issued as fully registered Bonds. The Bonds will be registered in the name of Cede & Co., as the registered owner and nominee of The Depository Trust Company ("DTC"), New York, New York. Beneficial ownership of the Bonds may be acquired in denominations of $5,000 or any integral multiple thereof only under the book-entry system maintained by DTC through its brokers and dealers who are, or act through, DTC Participants. The purchasers of the Bonds will not receive physical delivery of the Bonds. For so long as any purchaser is the beneficial owner of a Bond, that purchaser must maintain an account with a broker or a dealer who is, or acts through, a DTC Participant to receive payment of principal of and interest on the Bonds. See "BOOK-ENTRY ONLY SYSTEM" herein. If, under the circumstances described herein, Bonds are ever issued in certificated form, the Bonds will be subject to registration of transfer, exchange and payment as described herein. The principal of the Bonds will be paid to the registered owners or assigns, when due, upon presentation and surrender of the Bonds to Manufacturers and Traders Trust Company, ("Paying Agent"), acting as paying agent and sinking fund depository, at its designated corporate trust office in Harrisburg, Pennsylvania. Interest on the Bonds is payable initially on December 15, 2013, and thereafter, semiannually on June 15 and December 15 of each year, until the principal sum thereof is paid. Payment of interest on the Bonds will be made by check drawn on the Paying Agent mailed to the registered owners of the Bonds as of the Record Date (see "THE BONDS" herein).

The Bonds are subject to redemption prior to maturity.

The Bonds are general obligations of the Pocono Mountain School District (the "School District" or "District") payable from its tax and other general revenues. The School District has covenanted that it will provide in its budget in each year, and will appropriate from its general revenues in each such year, the amount of the debt service on the Bonds for such year and will duly and punctually pay or cause to be paid from the sinking fund established under the Resolution (as hereinafter defined) or any other of its revenues or funds the principal of every Bond and the interest thereon on the dates, at the place and in the manner stated in the Bonds, and for such budgeting, appropriation and payment the School District irrevocably has pledged its full faith, credit and all available taxing power, which taxing power includes the power to levy ad valorem taxes on all taxable real property within the School District, subject to the limitations of Act 1. ***(See "Security" and "Act 1 Special Session of 2006 (The Homeowner Tax Relief Act)" herein).***

The proceeds from the sale of the Series A Bonds will be used to: (1) currently refund all of the District's outstanding General Obligation Bonds, Series of A of 2004; (2) currently refund all of the District's outstanding General Obligation Notes, Series C of 2008 and all of its General Obligation Notes, Series D of 2008; and (3) pay the costs of issuing the Series A Bonds. The proceeds from the sale of the Series B Bonds will be used to: (1) currently refund all of the District's outstanding General Obligation Notes, Series A, of 2004, Series, C of 2004 and Series E of 2004; (2) currently refund all of the District's outstanding General Obligation Notes, Series of 2006; (3) currently refund all of the District's outstanding General Obligation Notes, Series of 2008; (4) fund various capital projects of the District; and (5) pay the costs of issuing the Series B Bonds. The proceeds from the sale of the Series C Bonds will be used to: (1) fund a portion of an unfunded actuarial accrued liability; and (2) pay the costs of issuing the Series C Bonds.

The Bonds are an authorized investment for fiduciaries in the Commonwealth of Pennsylvania pursuant to the Pennsylvania Probate, Estate and Fiduciaries Code, Act of June 30, 1972, No. 164, P.L. 508, as amended and supplemented.

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by ASSURED GUARANTY MUNICIPAL CORP.

ASSURED GUARANTY® MUNICIPAL

MATURITIES, AMOUNTS, RATES AND YIELDS/PRICES
See Inside Cover

The Bonds are offered for delivery when, as and if issued by the School District and received by Boenning & Scattergood Inc. (the "Underwriter") and subject to the approving legal opinion of King, Spry, Herman, Freund & Faul, LLC, Bethlehem, Pennsylvania, Bond Counsel. Certain legal matters will be passed upon for the School District by John E. Freund, III, Esquire of Bethlehem, Pennsylvania, Solicitor for the School District. Certain legal matters will be passed upon for the Underwriter by Reed Smith LLP, Philadelphia, Pennsylvania and Pittsburgh, Pennsylvania, Counsel for the Underwriter. It is expected that the Bonds in definitive form will be available on or about May 29, 2013.

Boenning & Scattergood Inc.

Dated: April 24, 2013

SECURITY

The Bonds are general obligations of the School District, payable from its tax and other general revenues. The School District has covenanted that it will provide in its budget for each year, and will appropriate from its general revenues in each such year, the amount of the debt service on the Bonds for such year, and will duly and punctually pay or cause to be paid from its Sinking Fund, as hereinafter defined, or any other of its revenues or funds, the principal of each of the Bonds and the interest thereon at the dates and place and in the manner stated on the Bonds, and for such budgeting, appropriation and payment the School District irrevocably has pledged its full faith, credit and all available taxing power, which taxing power includes the power to levy ad valorem taxes on all taxable property within the School District within the limits provided by law. (See "Taxing Powers and Limits" herein). The Act presently provides for enforcement of debt service payments as hereinafter described (see "Defaults and Remedies" herein), and the Public School Code presently provides for the withholding and application of subsidies in the event of failure to pay debt service (see "Commonwealth Enforcement of Debt Service Payments" above).

Commonwealth Enforcement of Debt Service Payments

Section 633 of the Pennsylvania Public School Code of 1949, as amended (the "Public School Code"), presently provides that in all cases where the board of school directors of any school district fails to pay or to provide for the payment of any indebtedness at date of maturity or date of mandatory redemption, or any interest due on such indebtedness on any interest payment date, in accordance with the schedule under which the Bonds or Bonds were issued, the Secretary of Education shall notify such board of school directors of its obligation and shall withhold out of any state appropriation due such school district an amount equal to the sum of the principal amount maturing or subject to mandatory redemption and interest owing by such school district, and shall pay over the amount so withheld to the bank or other person acting as sinking fund depository for such Bonds or Bonds (known as the "State Intercept Program"). These withholding provisions are not part of any contract with the holders of the Bonds, and may be amended or repealed by future legislation.

There can be no assurance, however, that any payments pursuant to this withholding provision will be made by the date on which such payments are due to the Bondholders.

The effectiveness of Section 633 of the Public School Code may be limited by the application of other withholding provisions contained in the Public School Code, such as provisions for withholding and paying over of appropriations for payment of unpaid teachers' salaries. Enforcement may also be limited by bankruptcy, insolvency, or other laws or equitable principles affecting the enforcement of creditors' rights generally.

Sinking Fund

A sinking fund for the payment of debt service on the Series A Bonds Series B Bonds and Series C Bonds, designated the Series A Bonds Sinking Fund, Series B Sinking Fund and Series C Bonds Sinking Fund (collectively, the "Sinking Funds"), have been created under the Resolution, and is maintained by the Paying Agent, as sinking fund depository. The School District shall deposit in the respective Sinking Fund a sufficient sum not later than the date when interest and/or principal is to become due on the respective Bonds so that on each payment date the respective Sinking Funds will contain an amount which, together with any other funds available therein, is sufficient to pay, in full, interest and/or principal then due on the respective Bonds.

The Sinking Funds shall be held by the Paying Agent, as sinking fund depository, and invested by the Paying Agent in such securities or shall be deposited in such funds or accounts as are authorized by the Act, upon direction of the School District. Such deposits and securities shall be in the name of the School District, but subject to withdrawal or collection only by the Paying Agent, as sinking fund depository, and such deposits and securities, together with the interest thereon, shall be a part of the Sinking Fund.

The Paying Agent, as sinking fund depository, is authorized without further order from the School District to pay from the respective Sinking Fund the principal of and interest on the respective Bonds, as and when due and payable.

BOOK-ENTRY ONLY SYSTEM

The information in this section has been obtained from materials provided by DTC for such purpose. The School District (herein referred to as the "Issuer") and the Underwriter do not guaranty the accuracy or completeness of such information and such information is not to be construed as a representation of the School District or the Underwriter.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or in such other name as may be requested by an authorized representative of DTC. One fully-registered certificate for the Bonds of each maturity will be issued in principal amount equal to the aggregate principal amount of such maturity, and will be deposited with DTC.

DEFAULTS AND REMEDIES

In the event of failure of the School District to pay or cause to be paid the interest on or principal of the Bonds, as the same becomes due and payable, the holders of the Bonds shall be entitled to certain remedies provided by the Act. Among the remedies, if the failure to pay shall continue for 30 days, holders of the Bonds shall have the right to recover the amount due by bringing an action in assumpsit in the Court of Common Pleas of the county in which the School District is located. The Act provides any judgment shall have an appropriate priority upon the funds next coming into the treasury of the School District. The Act also provides that upon a default of at least 30 days, holders of at least 25 percent of the Bonds may appoint a trustee to represent them. The Act provides certain other remedies in the event of default, and further qualifies the remedies hereinbefore described.

TAX EXEMPTION AND OTHER TAX MATTERS

Bond Counsel Opinion

The information which follows is a summary of Bond Counsel's opinion. This summary does not purport and should not be construed to be a complete recitation of Bond Counsel's opinion. The full text draft of Bond Counsel's opinion is appended hereto in Appendix "D" and reference is made hereto. On the date of delivery of the Tax Exempt Bonds, King, Spry, Herman, Freund & Faul, LLC, as Bond Counsel, will issue an opinion to the effect that under existing statutes, regulations and judicial decisions, interest on the Tax Exempt Bonds is excluded from gross income for purposes of Federal income taxation and is not an item of tax preference for purposes of the Federal alternative minimum tax imposed on individuals and corporations, but that in the case of corporations (as defined for Federal income tax purposes) such interest is taken into account in determining adjusted current earnings for purposes of such alternative minimum tax. This opinion of Bond Counsel will assume the accuracy of certifications made by the School District and will be subject to the condition that the School District will comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Tax Exempt Bonds in order that the interest thereon be, and continue to be, excluded from gross income for Federal income tax purposes. The School District has covenanted to comply with all such requirements. Failure to comply with such requirements could cause interest on the Tax Exempt Bonds to be included in gross income retroactive to the date of issuance of the Bonds. In the opinion of Bond Counsel, under the law of the Commonwealth of Pennsylvania, the Tax Exempt Bonds, their transfer and income therefrom shall at all times be free from taxation for state and local purposes within the Commonwealth of Pennsylvania but such exemption does not extend to gift, succession, or inheritance taxes, taxes on gain on the same or transfer thereof, or other taxes not levied or assessed directly on the Bonds or the transfer thereof. All other discussions concerning the Code or tax consequences discussed within the Official Statement are not statements or comments of Bond Counsel and are not matters to which Bond Counsel will opine.

From time to time, there are Presidential proposals, proposals of various federal committees, and legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to herein or adversely affect the marketability or market value of the Tax Exempt Bonds or otherwise prevent holders of the Tax Exempt Bonds from realizing the full benefit of the tax exemption of interest on the Tax Exempt Bonds. Further, such proposals may impact the marketability or market value of the Tax Exempt Bonds simply by being proposed. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could aversely affect the market value, marketability or tax status of the Tax Exempt Bonds.

Other Federal Tax Matters

Accruals of the original issue discount with respect to a Tax Exempt Bond allocable to an owner of a Tax Exempt Bond under a constant yield method of accrual (a) are not included in gross income for federal income tax purposes, and (b) are added to such owner's tax basis in the Tax Exempt Bond for the purpose of determining gain or loss for federal income tax purposes upon sale, exchange, redemption and other disposition of the Tax Exempt Bond. The opinions set forth in the preceding two sentences are subject to the condition that the School District complies with all the requirements of the Code that must be satisfied subsequent to the issuance of the Tax Exempt Bonds in order that interest on and accruals of original issue discount with respect to the Tax Exempt Bonds be (or continue to be) excluded from gross income for federal income tax purposes.

Failure to comply with such requirements could cause the interest on and accruals of original issue discount with respect to the Tax Exempt Bonds to be included in gross income retroactively to the date of issuance of the Tax Exempt Bonds. The School District has covenanted to comply with all such requirements.