

# School District Property Tax Forecast

## INTRODUCTION

The Independent Fiscal Office (IFO) has issued periodic school district property tax forecasts in response to legislative requests and public interest. This report provides an updated forecast to facilitate discussion of proposals that contemplate changes to school property taxes. The most recent school property tax data published by the Pennsylvania Department of Education (PDE, or department) is for fiscal year (FY) 2017-18. For that year, current-year collections were \$13.5 billion, Act 1 allocations were \$533 million and delinquent collections were \$535 million, resulting in a total of \$14.6 billion for school district revenues related to the property tax.<sup>1</sup> The department plans to release actual collections for FY 2018-19 in late Spring 2020. This report provides estimates for that year and FY 2019-20 based on an IFO analysis of millage rate and property tax assessment data. Projections for FY 2020-21 through FY 2024-25 are made based on the statutory, economic and structural factors that affect growth rates of school property taxes.

## FORECAST OVERVIEW

**Table 1** provides the IFO’s estimate of school property taxes for FY 2018-19 and FY 2019-20, as well as projections for FY 2020-21 to FY 2024-25. The estimated total property tax collections for FY 2018-19 and FY 2019-20 are \$15.0 billion and \$15.3 billion, respectively. Collections are projected to increase by roughly 3.9 percent per annum during the forecast period, reaching \$18.6 billion in FY 2024-25.

The estimates for FY 2018-19 and FY 2019-20 generally are based on individual school district tax rate and tax base data. After the beginning of each fiscal year, PDE publishes the millage rates adopted by school districts for that year. The IFO utilizes that information, along with taxable assessed values published by the State Tax Equalization Board (STEB), to estimate current-year collections for school districts. Data on Act 1 allocations are released by PDE each fiscal year, and the amounts for FY 2018-19 and FY 2019-20 are actual amounts. The estimates for delinquent collections in these years are based on recent trends. Forecasts of current-year collections for FY 2020-21 through FY 2024-25, which comprise approximately 93 percent of receipts related to the school property tax, are based on projected revenue growth from (1) tax base expansion (also referred to as economic growth) and (2) millage rate increases as limited under Act 1.<sup>2</sup>

**Table 1: School Property Tax Forecast**

|                                | Actual        | Estimate      |               | Forecast      |               |               |               |               |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                                | 2017-18       | 2018-19       | 2019-20       | 2020-21       | 2021-22       | 2022-23       | 2023-24       | 2024-25       |
| Current-Year                   | \$13,511      | \$13,878      | \$14,248      | \$14,745      | \$15,335      | \$15,965      | \$16,635      | \$17,345      |
| Act 1 Allocations <sup>1</sup> | 533           | 533           | 534           | 535           | 535           | 535           | 535           | 535           |
| Delinquent <sup>2</sup>        | <u>535</u>    | <u>549</u>    | <u>564</u>    | <u>582</u>    | <u>605</u>    | <u>629</u>    | <u>655</u>    | <u>682</u>    |
| <b>Total</b>                   | <b>14,579</b> | <b>14,961</b> | <b>15,346</b> | <b>15,862</b> | <b>16,475</b> | <b>17,129</b> | <b>17,825</b> | <b>18,562</b> |

Note: Dollar amounts in millions.

<sup>1</sup> Actuals through FY 2019-20. Estimated at \$535 million annually thereafter.

<sup>2</sup> Reported by PDE for FY 2017-18, estimated by IFO thereafter.

The tax base expands when new properties are added to the assessment rolls or current properties are reassessed based on improvements, and it contracts when appeals reduce the assessed value. The forecast projects that the net tax base expansion will be 1 percent annually through FY 2024-25. Act 1 allows school districts to increase millage rates within certain limits, and the following two sections (Act 1 Index and Act 1 Exceptions) discuss those portions of the forecast.

Forecasts of Act 1 allocations and delinquent collections, which comprise approximately seven percent of receipts related to the school property tax, are based on recent trends. Act 1 allocations, which have been stable since their inception, are held constant at \$535 million annually. The growth rate for delinquent property tax collections is based on recent trends in collections. **Table 2** provides additional detail on the projections for current-year collections, including the amounts attributable to economic growth, the Act 1 index and Act 1 exceptions.

## ACT 1 INDEX

Act 1, which took effect in FY 2007-08, limits the increase to a school district’s millage rate based on an index, with certain exceptions. This analysis employs the index to estimate the additional revenues school districts could raise through millage increases and then applies a utilization factor to reflect index usage. In general, most school districts do not increase millage rates to the full extent permitted by the index.

The maximum percentage increase in the school district millage rate is equal to the base index or an adjusted index, depending upon the district’s aid ratio.<sup>3</sup> The base index is calculated by averaging the percentage increase in the Pennsylvania statewide average weekly wage (SAWW) and the employment cost index (ECI) for elementary/secondary schools.<sup>4</sup> School districts with an aid ratio less than 0.4000 utilize the base index. All other districts utilize an adjusted index that is computed by multiplying the base index by the sum of 0.75 and the district’s aid ratio.

For this forecast, a statewide weighted average Act 1 index is calculated using the index applicable to each school district (base or adjusted) and weighting it by FY 2017-18 property tax collections. The weighted average index serves as a statewide maximum percentage increase in property tax collections due to higher millage rates. The index utilization rate is based on historical collections and Act 1 indexes. A utilization rate of 75 percent, which is consistent with recent trends, is applied throughout the forecast.

| <b>Table 2: Current-Year Collections Forecast Detail</b>                        |                |                |                |                |                |
|---|----------------|----------------|----------------|----------------|----------------|
|   | <b>2020-21</b> | <b>2021-22</b> | <b>2022-23</b> | <b>2023-24</b> | <b>2024-25</b> |
| Prior Year Base (includes Act 1 Allocations)                                    | \$14,780       | \$15,280       | \$15,870       | \$16,500       | \$17,170       |
| Revenue Growth—Current-Year   |                |                |                |                |                |
| Economic Growth (from changes in assessed value)                                | 148            | 153            | 159            | 165            | 172            |
| Act 1 Index   | 332            | 421            | 451            | 482            | 517            |
| Act 1 Exceptions  | <u>17</u>      | <u>17</u>      | <u>18</u>      | <u>17</u>      | <u>17</u>      |
| Subtotal—Current-Year Revenue Growth  | 497            | 591            | 627            | 665            | 706            |
| Current-Year Collections and Act 1 Allocations                                  | 15,280         | 15,870         | 16,500         | 17,160         | 17,870         |
| Less: Act 1 Allocations from the Property Tax Relief Fund                       | <u>-535</u>    | <u>-535</u>    | <u>-535</u>    | <u>-535</u>    | <u>-535</u>    |
| <b>Current-Year Property Tax Collections</b>                                    | <b>14,745</b>  | <b>15,335</b>  | <b>15,965</b>  | <b>16,625</b>  | <b>17,335</b>  |
| Note: Dollar amounts in millions. Detail may not sum to totals due to rounding. |                |                |                |                |                |

**Table 3** displays historical detail and the forecast of the Act 1 index (base and weighted average) and its components (SAWW and ECI). The base index and its two components are based on data published by PDE through FY 2020-21 and they are forecast by the IFO for subsequent years. The weighted average index is calculated by the IFO for all years.

During the forecast period, the base index increases from 3.2 percent in FY 2021-22 to 3.5 percent in FY 2024-25. The SAWW, which is projected by the Pennsylvania Department of Labor and Industry, increases from 3.3 to 3.7. The annual SAWW increase is calculated using the growth rate between two overlapping three-year (calendar) periods. For example, the increase for FY 2020-21 is equal to the growth in the SAWW between January 2015 – December 2017 and January 2016 – December 2018. The significant increase in the SAWW for FY 2021-22 occurs because calendar year 2016, which exhibited weak wage growth, becomes part of the three-year period in the baseline for computing the growth rate. For the ECI, there are no available projections for education-specific employment costs for Pennsylvania, so the general nationwide ECI projection from IHS Markit is used, with adjustments by the IFO. This component of the index increases more modestly, from 3.1 in FY 2021-22 to 3.3 in FY 2024-25. These two projections assume that the economy does not experience a recession or significant slowdown during the forecast period.

## ACT 1 EXCEPTIONS

A school district that seeks to increase its millage rate beyond its Act 1 index (base or adjusted, as applicable) may seek approval for an exception.<sup>5</sup> The statute currently authorizes four exceptions: pension obligations, special education expenditures, grandfathered debt service and electoral debt service.<sup>6</sup> The exceptions process is administered by PDE, which reviews the data submitted by the school district and validates that the request complies with the law. If the request is approved, the school district is permitted to increase the millage rate sufficient to generate revenues up to the amount approved.

The forecast projects that school districts will qualify for exceptions valued between \$57 million and \$59 million annually. The value of the pension exception moderately increases similar to the projected school district employer contribution rates. The exception for special education expenditures is projected to remain flat throughout the forecast. The value of that exception is affected by state funding, and the value increases if state funding for special education does not keep pace with the costs incurred by school districts. The remaining exceptions (pertaining to debt service) contribute small amounts to the forecast.

School districts are not required to utilize approved exceptions, and many do not use the full amount. PDE issues annual reports that detail the exceptions approved and exceptions used in the previous year. For

**Table 3: Act 1 Index History and Forecast**

| Fiscal Year | SAWW <sup>1</sup> | ECI <sup>2</sup> | Base Index <sup>3</sup> | Weighted Index <sup>4</sup> |
|-------------|-------------------|------------------|-------------------------|-----------------------------|
| 2007-08     | 2.8%              | 4.0%             | 3.4%                    | 4.3%                        |
| 2008-09     | 4.3               | 4.5              | 4.4                     | 4.9                         |
| 2009-10     | 4.6               | 3.6              | 4.1                     | 4.6                         |
| 2010-11     | 2.7               | 3.0              | 2.9                     | 3.3                         |
| 2011-12     | 0.9               | 1.9              | 1.4                     | 2.0                         |
| 2012-13     | 2.1               | 1.3              | 1.7                     | 1.9                         |
| 2013-14     | 2.0               | 1.4              | 1.7                     | 1.9                         |
| 2014-15     | 2.6               | 1.6              | 2.1                     | 2.5                         |
| 2015-16     | 2.4               | 1.4              | 1.9                     | 2.5                         |
| 2016-17     | 2.5               | 2.2              | 2.4                     | 2.7                         |
| 2017-18     | 2.6               | 2.3              | 2.5                     | 2.9                         |
| 2018-19     | 2.2               | 2.6              | 2.4                     | 2.7                         |
| 2019-20     | 2.2               | 2.4              | 2.3                     | 2.6                         |
| 2020-21     | 2.2               | 2.9              | 2.6                     | 3.0                         |
| 2021-22     | 3.3               | 3.1              | 3.2                     | 3.6                         |
| 2022-23     | 3.4               | 3.1              | 3.3                     | 3.8                         |
| 2023-24     | 3.6               | 3.2              | 3.4                     | 3.9                         |
| 2024-25     | 3.7               | 3.3              | 3.5                     | 4.0                         |

<sup>1</sup> Statewide Average Weekly Wage.  
<sup>2</sup> Employment Cost Index.  
<sup>3</sup> Average of the SAWW and ECI.  
<sup>4</sup> Average of the index for each school district weighted by property tax collections.  
Sources: Pennsylvania Department of Education, Pennsylvania Department of Labor and Industry and IHS Markit. Weighted index calculated by the IFO.

example, exceptions valued at \$54.3 million were approved for FY 2018-19, but \$19.8 million (36.4 percent) was actually used by school districts to exceed their index. For FY 2019-20, the amount of approved exceptions is \$52.9 million.<sup>7</sup>

Over the past ten fiscal years, the average share of approved exceptions that were used was roughly 30 percent. This percentage is applied as the utilization rate to project the amount of exceptions that will be used to increase property tax revenues beyond the limit set by the index. **Table 4** provides detail of how the Act 1 index and exceptions contribute to projections of current-year collections during the forecast period. Utilized exceptions are projected to add approximately \$17 million to the forecast each year.

| <b>Table 4: Act 1 Index and Exceptions Detail</b>   |                |                |                |                |                |
|---|----------------|----------------|----------------|----------------|----------------|
|   | <b>2020-21</b> | <b>2021-22</b> | <b>2022-23</b> | <b>2023-24</b> | <b>2024-25</b> |
| <b>Detail: Act 1 Index Growth</b>                   |                |                |                |                |                |
| Baseline Collections (Prior Year + Economic Growth) | \$14,930       | \$15,430       | \$16,030       | \$16,670       | \$17,340       |
| Weighted Average Index                              | 3.0%           | 3.6%           | 3.8%           | 3.9%           | 4.0%           |
| Potential Revenue Growth from Index                 | \$443          | \$561          | \$601          | \$643          | \$689          |
| Index Utilization Rate                              | 75.0%          | 75.0%          | 75.0%          | 75.0%          | 75.0%          |
| Forecast Growth from Index                          | \$332          | \$421          | \$451          | \$482          | \$517          |
| <b>Detail: Act 1 Exceptions</b>                     |                |                |                |                |                |
| Pension Exception                                   | \$1            | \$2            | \$3            | \$2            | \$2            |
| Special Education Exception                         | \$51           | \$51           | \$51           | \$51           | \$51           |
| Debt Exception                                      | \$5            | \$5            | \$5            | \$5            | \$5            |
| Subtotal—Exceptions                                 | \$57           | \$58           | \$59           | \$58           | \$58           |
| Exception Utilization Rate                          | 30.0%          | 30.0%          | 30.0%          | 30.0%          | 30.0%          |
| Forecast Growth from Exceptions                     | \$17           | \$17           | \$18           | \$17           | \$17           |
| Note: Dollar amounts in millions.                   |                |                |                |                |                |

## **HOMESTEAD/OWNER-OCCUPIED ESTIMATES**

A recent amendment to the Pennsylvania Constitution revised the homestead exclusion by removing the limitation that the exclusion shall not exceed one-half of the median assessed value of all homestead property in a local taxing jurisdiction. The revised language permits the exclusion to be up to 100 percent of the assessed value of each homestead property within a jurisdiction.<sup>8</sup>

Generally, property that is used as the primary residence of its owner(s) qualifies as homestead property.<sup>9</sup> In order to receive the exclusion, the property owner(s) must file an application with the county assessment office, which maintains the records for eligible properties. School districts currently use the homestead exclusion to distribute property tax relief allocated from slots proceeds (Act 1 allocations). A few school districts also increased their earned income taxes under Act 1 to provide for additional homestead exclusions. **Table 5** (next page) provides estimates of FY 2017-18 through FY 2024-25 school property tax collections associated with homestead properties. The estimates are consistent with the school property tax forecast in Table 1 and are based on properties for which an application has been submitted and approved. Therefore, they do not include properties that meet the qualifications for homestead property, but for which an application has not been submitted. If school property taxes were to be eliminated through the homestead exclusion, it is likely that those qualified properties that have not applied would then apply for a homestead exclusion. In order to estimate the funds needed to implement a full statewide school property tax elimination, the estimated amount of school district property taxes remitted by all owner-occupied properties must be utilized. The bottom half of Table 5 provides estimates for those properties.

In general, the homestead estimates in Table 5 utilize results from a survey of county assessment offices coordinated by the County Commissioners Association on behalf of the IFO.<sup>10</sup> The estimates for Philadelphia are based on data from the Philadelphia Department of Revenue regarding locally funded tax relief programs for homestead properties. These programs include the homestead exemption, the Longtime Owner Occupants Program (LOOP) and the ten-year abatements for residential units that have been rehabilitated or newly constructed.

Based on the survey and data provided, the IFO estimates that approximately 54 percent of current-year school property tax collections are from homestead properties.<sup>11</sup> The same percentage is applied to delinquent tax collections. The Act 1 allocations are used to offset property taxes for homestead properties, and the homestead estimates include 100 percent of such allocations. Table 5 does not include Philadelphia’s locally funded property tax relief for owner-occupied residential properties. The IFO estimates that 40 percent of taxable property in the city is homestead property, but that 34 percent of property tax collections are from homesteads after applying the local tax relief. The differential of six percentage points represents the impact of the local relief. Proposals to replace property taxes on homesteads may either include or exclude the value of the local relief when determining the dollar value targeted for replacement.

Table 5 also displays the estimated school property taxes associated with owner-occupied properties for FY 2017-18 to FY 2024-25. Based on data provided by the U.S. Census Bureau’s American Community Survey and statewide property tax revenue reported by PDE and the Department of Community and Economic Development, the IFO estimates that owner-occupied households remit approximately 58 percent of statewide property taxes. That assumption is applied to current-year school property tax collections. The same percentage is applied to delinquent tax collections. The Act 1 allocations are used to offset property taxes for homestead properties, and the homeowner estimates include 100 percent of such allocations.

| <b>Table 5: School Property Tax - Homestead and Owner-Occupied Estimates</b> |                |                |                |                |                |                |                |                |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
|  | <b>2017-18</b> | <b>2018-19</b> | <b>2019-20</b> | <b>2020-21</b> | <b>2021-22</b> | <b>2022-23</b> | <b>2023-24</b> | <b>2024-25</b> |
| <u>Homestead</u>   |                |                |                |                |                |                |                |                |
| Current-Year   | \$7,296        | \$7,494        | \$7,694        | \$7,962        | \$8,281        | \$8,621        | \$8,983        | \$9,366        |
| Act 1 Allocations  | 533            | 533            | 534            | 535            | 535            | 535            | 535            | 535            |
| Delinquent   | <u>289</u>     | <u>297</u>     | <u>304</u>     | <u>315</u>     | <u>327</u>     | <u>340</u>     | <u>353</u>     | <u>368</u>     |
| <b>Total</b>   | <b>8,118</b>   | <b>8,324</b>   | <b>8,532</b>   | <b>8,812</b>   | <b>9,143</b>   | <b>9,496</b>   | <b>9,866</b>   | <b>10,264</b>  |
| <u>Owner-Occupied</u>  |                |                |                |                |                |                |                |                |
| Current-Year   | \$7,836        | \$8,049        | \$8,264        | \$8,552        | \$8,894        | \$9,260        | \$9,648        | \$10,060       |
| Act 1 Allocations  | 533            | 533            | 534            | 535            | 535            | 535            | 535            | 535            |
| Delinquent   | <u>311</u>     | <u>319</u>     | <u>327</u>     | <u>338</u>     | <u>351</u>     | <u>365</u>     | <u>380</u>     | <u>395</u>     |
| <b>Total</b>   | <b>8,680</b>   | <b>8,901</b>   | <b>9,125</b>   | <b>9,425</b>   | <b>9,780</b>   | <b>10,160</b>  | <b>10,563</b>  | <b>10,990</b>  |
| Note: Dollar amounts in millions.  |                |                |                |                |                |                |                |                |

Despite being included in the estimates throughout this report, the Act 1 allocations would not necessarily be subject to replacement under school property tax elimination. These allocations could be redirected for other purposes or used to offset the net cost of elimination. The treatment of the Act 1 allocations would depend on proposed legislation. Also, other forms of property tax relief provided to homeowners should be considered when calculating the funds necessary for elimination. In 2017, the Property Tax Rent Rebate (PTRR) Program provided \$150.7 million to homeowners. That figure includes all types of property taxes (school, county and municipal), and the IFO estimates that school property taxes account for roughly 70 percent of the total. If the PTRR Program was maintained, then this amount could be subtracted from the net funds necessary to eliminate school property taxes. Finally, it should be noted that property tax paid by renters is not included in the computations in Table 5.

## Endnotes

1. Current-year collections, also referred to as “current and interim collections,” are receipts from non-delinquent property taxes levied for the current fiscal year. Act 1 allocations are distributions of slots revenue from the Property Tax Relief Fund to reduce property taxes collected from homestead properties. Delinquent collections are receipts from property taxes levied in a prior fiscal year.
2. Act of June 27, 2006, Special Session 1, P.L. 1873, No. 1, known as the “Taxpayer Relief Act.”
3. The aid ratio is the market value/personal income aid ratio (MV/PI AR) calculated in accordance with section 2501(14) and (14.1) of the Public School Code of 1949. It is used in the calculation of various state subsidies for school districts, including the basic education subsidy. The minimum MV/PI AR is 0.1500. For FY 2019-20, 409 districts had an MV/PI AR of 0.4000 or above, with the maximum being 0.8980. Those 409 school districts represented approximately 60 percent of the current-year taxes collected in FY 2017-18.
4. The SAWW is reported by the Pennsylvania Department of Labor and Industry. The ECI is reported by the U.S. Bureau of Labor Statistics.
5. The statute also permits a school district to exceed the index by seeking approval of the voters in a referendum. The forecast does not include any millage increases approved by referendum.
6. Generally, a school district may establish eligibility for an exception if its costs for an eligible expenditure increase by more than its index.
7. Report on Referendum Exceptions, Pennsylvania Department of Education, April 2019. See <https://www.education.pa.gov/Documents/Teachers-Administrators/Property%20Tax%20Relief/ReferendumExceptions/2018-19%20Report%20on%20Referendum%20Exceptions.pdf>
8. The text of Article VIII, Section 2(b)(vi) of the Pennsylvania Constitution provides that the General Assembly may, by law: “[a]uthorize local taxing authorities to exclude from taxation an amount based on the assessed value of homestead property. The exclusions authorized by this clause shall not exceed 100% of the assessed value of each homestead property within a local taxing jurisdiction. A local taxing authority may not increase the millage rate of its tax on real property to pay for these exclusions.”
9. The statutory definition of “homestead” can be found at 53 Pa.C.S. §8401.
10. Additional details regarding the survey are available in the December 6, 2017 letter to the County Commissioners Association of Pennsylvania. See <http://www.ifo.state.pa.us/Resources/Documents/SR2017-06.pdf>
11. Additional details are available in Table 3 of the November 6, 2017 letter to Representative Francis X. Ryan. See <http://www.ifo.state.pa.us/Resources/Documents/SR2017-05.pdf>

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