

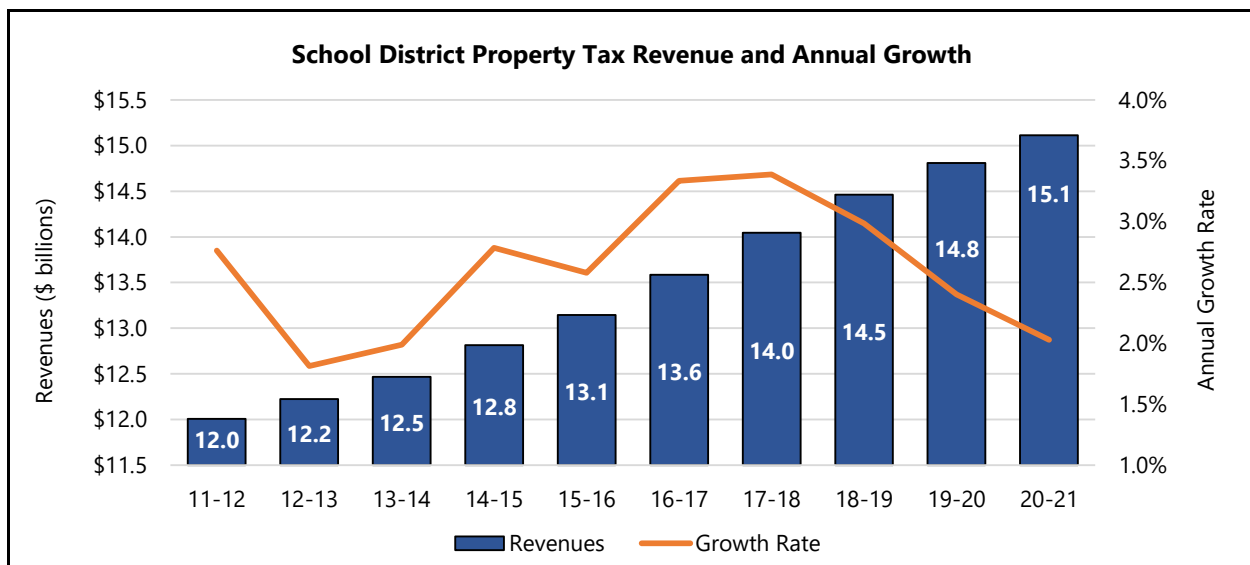
School District Property Tax Update



Independent Fiscal Office | August 2022

This update provides an overview of statewide school district (SD) property tax collections as published by the Pennsylvania Department of Education (PDE) and an outlook for future collections based on the latest available data and economic projections by the Independent Fiscal Office (IFO). The latest data published by PDE show that SD property tax collections were \$15.7 billion in FY 2020-21. The total includes \$14.6 billion in current-year collections, \$535 million in Act 1 allocations and \$591 million in delinquent collections.¹

The **figure below** displays a 10-year history of SD property tax collections and the annual growth rate of those collections. The data exclude delinquent collections because those amounts were not publicly reported for the entire period shown.



Key trends in SD property tax collections over the last 10 years include:

- FY 2020-21 collections (excluding delinquent) increased \$301 million (2.0%) over the prior year, the smallest year-over-year increase since FY 2013-14. This was due to stable millage rates from FY 2019-20 to FY 2020-21 in response to the COVID-19 pandemic. For FY 2019-20 to FY 2020-21, roughly 45% of school districts held millage rates flat, nearly double the rate of the prior year (25%).
- Collections increased by \$3.10 billion from FY 2011-12 to FY 2020-21, an average rate of 2.6% per annum.
- The annual growth rate of SD property taxes decelerated significantly over the last four years after reaching 3.4% in FY 2017-18, which was the highest rate since FY 2010-11 (not shown).

¹ Current-year collections (current and interim) 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 paid by homestead properties. Delinquent collections are receipts from property taxes levied in a prior fiscal year.

Forecast

The IFO forecast of SD property tax collections for FY 2021-22 through FY 2026-27 is based on (1) millage rates published by PDE for FY 2021-22 and (2) various economic projections to forecast revenues for FY 2022-23 and beyond. For years without published millage rates, the IFO forecast is based on three primary factors/assumptions:

- Weighted average Act 1 Index. This metric is calculated to project the upper limit that property tax collections can increase each year due to millage rates. See **technical detail** at the end of this update for more detail on the calculation of the weighted Act 1 index.
- Act 1 index utilization factor. In general, most school districts do not increase millage rates to the full extent permitted by the index. This factor determines the extent to which school districts utilize the full authorization allowed under statute. The utilization rate averaged approximately 75% in recent years. The forecast assumes that rate will increase to 85% in FY 2022-23 and 80% in FY 2023-24 and FY 2024-25 as school districts respond to inflationary pressures. For remaining years, the rate is assumed to be 75%.
- Economic growth. Annual tax revenue growth reflects three factors: millage rate increases, reassessments and new construction. Based on historical trends, the forecast assumes that reassessments and new construction cause the underlying tax base to expand by 1% per annum.

Table 1 displays the IFO's forecast of SD property tax revenues and the Act 1 index (base and weighted) from FY 2021-22 to FY 2026-27.

	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
<u>Revenues</u>						
Current-Year	\$14,940	\$15,570	\$16,320	\$17,150	\$17,900	\$18,660
Act 1 Allocations	\$535	\$535	\$535	\$535	\$535	\$535
Delinquent	\$619	\$644	\$674	\$707	\$737	\$768
Total	\$16,094	\$16,749	\$17,529	\$18,392	\$19,172	\$19,963
Growth Rate	2.5%	4.1%	4.7%	4.9%	4.2%	4.1%
<u>Act 1 Index</u>						
Base	3.0%	3.4%	4.2%	4.5%	4.0%	3.8%
Weighted Average	--	3.8%	4.8%	5.1%	4.3%	4.1%
Note: Dollars in millions. The Act 1 base index is reported by PDE through FY 22-23, forecasted by the IFO thereafter.						

Key trends in forecasted revenues are as follows:

- Revenues are projected to be \$16.1 billion in FY 2021-22, an increase of 2.5% from the prior year. The PDE data show an uptick in the number of school districts that raised millage rates compared to those that did in FY 2020-21.
- Revenues are forecast to reach \$20.0 billion in FY 2026-27, growing by 4.4% per annum during the forecast period.
- The Act 1 base index is projected to be 4.2% in FY 2023-24 and 4.5% in FY 2024-25, the highest levels since FY 2008-09. This is largely due to very strong growth in the Statewide Average Weekly Wage (SAWW), which accounts for half of the base index. See the technical detail for a brief description regarding the computation of the index.

Demographic and Geographic Trends

Based on data from the U.S. Census Bureau’s American Community Survey (ACS) and statewide property tax revenue reported by PDE and the Department of Community and Economic Development (DCED), the IFO estimates that owner-occupied households remit approximately 58% of statewide property taxes (see technical detail for methodology). That parameter applies to current-year and delinquent school property tax collections. Act 1 allocations are used to offset property taxes for homestead properties, and the homeowner estimates include 100% of such allocations. The same data sources show that senior homeowners (age 65 or older) remitted approximately 30% of homeowner property taxes in 2018. That share is assumed to increase to 31% by FY 2020-21 due to (1) the rapidly expanding share of seniors in the state population and (2) the increase in seniors who elect to remain in their homes. **Table 2** displays the estimate of SD property taxes remitted by (1) non-senior homeowners, (2) senior homeowners and (3) non-homeowners over the last three fiscal years. In FY 2020-21, non-senior homeowners remitted an estimated \$6.4 billion in SD property taxes, senior homeowners remitted an estimated \$2.9 billion, and the remaining \$6.4 billion was remitted by certain residential rental and other commercial properties.

	2018-19		2019-20		2020-21	
	Amount	Share	Amount	Share	Amount	Share
SD Property Taxes - Total	\$15.01	100.0%	\$15.32	100.0%	\$15.70	100.0%
Non-Senior Homeowner	\$6.25	41.6%	\$6.33	41.3%	\$6.44	41.0%
Senior Homeowner	\$2.68	17.8%	\$2.78	18.1%	\$2.89	18.4%
Rental/Commercial	\$6.08	40.5%	\$6.21	40.5%	\$6.37	40.6%

Note: Dollar amounts in billions. Share represents the percentage of total school district property taxes.

Table 3 displays current, interim and delinquent school district property tax revenue per capita by county for FY 2020-21. The table shows the top and bottom five counties based on revenue per capita. These data show that all top five counties are in the eastern portion of the state. Three counties (Montgomery, Chester, Bucks) include suburbs that surround Philadelphia. The other two counties (Monroe and Pike) border each other in the northeast portion of the state. For comparison, the statewide average school district property tax revenue per capita was \$1,209 and the median was \$869. The bottom five counties are all rural counties located in the north-central region of the state. Overall, current-year property taxes as a share of statewide total local school district revenue was 77.5% in FY 2020-21. (Other primary revenue sources included earned income taxes (9.2%) and delinquent taxes (all types, 3.5%)). The average for the top five counties shown was 85.8%, while the average for the bottom five was 66.4%. For historical detail for all counties, see the appendix.

County	Rank	Amount
Monroe	1	\$2,089
Montgomery	2	\$2,035
Chester	3	\$1,971
Bucks	4	\$1,827
Pike	5	\$1,766
State Weighted Average	--	\$1,209
State Median	--	\$869
McKean	63	\$529
Elk	64	\$524
Huntingdon	65	\$479
Cambria	66	\$423
Jefferson	67	\$422

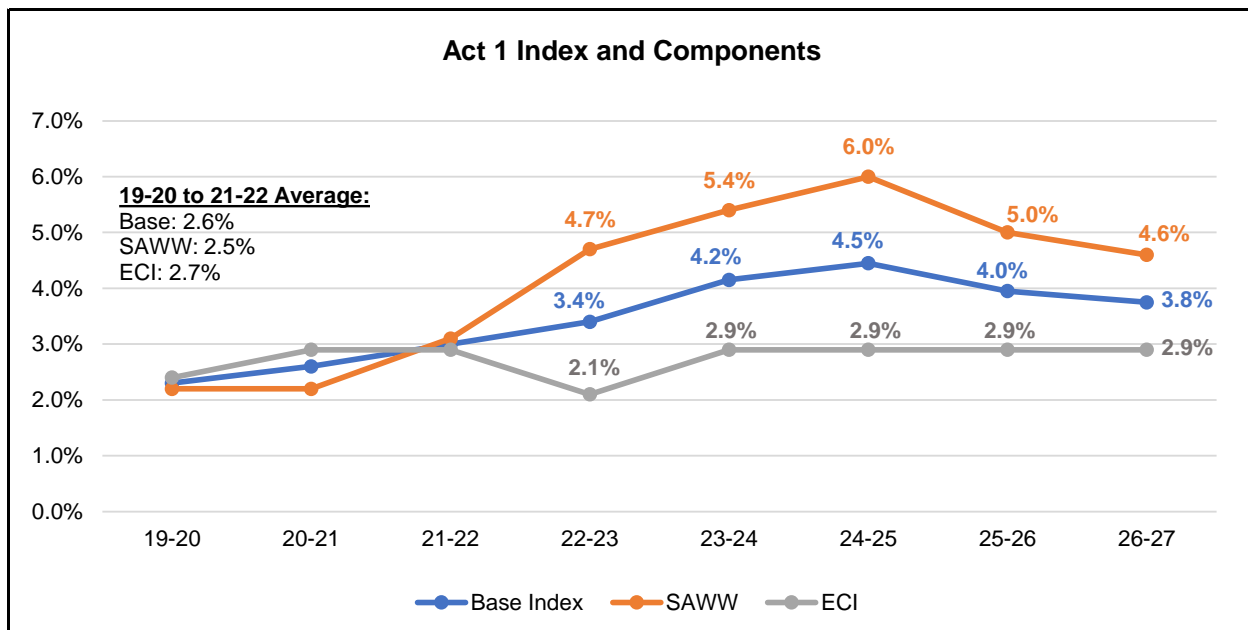
Technical Detail

Act 1 Index

Act 1 of 2006 limits the increase to a school district's millage rate based on an index, with certain exceptions. 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. 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. The minimum MV/PI AR is 0.1500. For FY 2021-22, 412 districts had an MV/PI AR of 0.4000 or above, with the maximum being 0.8967. Those 412 school districts represented approximately 65% of the current-year taxes collected in FY 2020-21.

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. The SAWW is reported by the Pennsylvania Department of Labor and Industry. The ECI is reported by the U.S. Bureau of Labor Statistics. 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 report, a statewide weighted average Act 1 index is calculated using the index applicable to each school district (base or adjusted) and weighting it by property tax collections. The weighted average index serves as a statewide maximum percentage increase in property tax collections due to higher millage rates.

The base index and its components through FY 2022-23 are based on data published by PDE and are forecast by the IFO for subsequent years. The weighted index is calculated by the IFO for all years. The **figure below** displays the Act 1 Index and its components from FY 2019-20 to FY 2026-27.



From FY 2019-20 to FY 2021-22, the base index was relatively stable, increasing by 0.3 to 0.4 percentage points each year. During this period, the base index averaged 2.6%, while the SAWW and ECI averaged 2.5% and 2.7%, respectively. Due to the method in which the base index is calculated, this period was characterized by the relatively moderate wage gains during calendar years 2017 through 2019, prior to any effects of the COVID-19 pandemic.

The annual SAWW increase is calculated using the growth rate between two overlapping three-year (calendar) periods. For example, the increase for FY 2021-22 is equal to the growth in the SAWW between January 2016 – December 2018 and January 2017 – December 2019. In FY 2022-23, the final actual year published by PDE, the base index increased from 3.0% to 3.4%, due entirely to a significant gain in the SAWW component. The significant increase in the SAWW for FY 2022-23 was largely driven by job losses for low-wage workers in CY 2020 due to the COVID-19 pandemic and related mitigation efforts. The FY 2022-23 ECI factor declined notably from 2.9% in the prior year to 2.1%.

During the forecast period, the base index is 4.2% in FY 2023-24 and 4.5% in FY 2024-25, the strongest growth rate since FY 2008-09. The high base index in these two years is due to very strong wage gains in CY 2021, which drive the SAWW to 5.4% in FY 2023-24 and 6.0% in FY 2024-25. The ECI is projected to be 2.9% for both years. The index is projected to decline in FY 2025-26 and FY 2026-27, as the SAWW declines to 4.6% by the end of the forecast period, while the ECI remains stable at 2.9%. The forecast reflects the following growth rates for the SAWW for specific calendar years: 3.4% (2019); 7.9% (2020); 4.9% (2021); and 5.4% (2022). For the ECI, there are no available projections for education-specific employment costs, so the forecast uses the U.S. ECI for all private workers from IHS Markit, with adjustments by the IFO for sector-specific factors.

Estimates by Property Type

The estimates for revenues remitted by property type are based on the Public Use Microdata Sample (PUMS) data provided by the U.S. Census Bureau's American Community Survey. The amounts reported as property taxes paid by owner-occupied households in that dataset are adjusted by the IFO and compared to the sum of annual school district, county and municipal property tax revenues reported by PDE and DCED to arrive at a statewide percentage. The adjustment made to the ACS data by the IFO includes an upward adjustment to households that report an unusually low property tax amount (e.g., less than \$500).

Appendix

Per Capita SD Property Tax Revenue by County									
County	20-21 Rank	Revenue			County	20-21 Rank	Revenue		
		16-17	20-21	AAGR			16-17	20-21	AAGR
Monroe	1	\$2,037	\$2,089	0.6%	Potter	35	\$743	\$868	4.0%
Montgomery	2	1,923	2,035	1.4%	Luzerne	36	743	842	3.2%
Chester	3	1,837	1,971	1.8%	Tioga	37	707	812	3.5%
Bucks	4	1,746	1,827	1.1%	Erie	38	702	802	3.4%
Pike	5	1,684	1,766	1.2%	Montour	39	758	799	1.3%
Delaware	6	1,544	1,688	2.3%	Fulton	40	721	780	2.0%
Northampton	7	1,512	1,637	2.0%	Lycoming	41	667	770	3.7%
Sullivan	8	1,246	1,473	4.3%	Indiana	42	689	752	2.2%
York	9	1,343	1,429	1.6%	Snyder	43	695	741	1.6%
Berks	10	1,300	1,388	1.7%	Clearfield	44	689	733	1.6%
Lehigh	11	1,236	1,352	2.3%	Union	45	588	704	4.6%
Carbon	12	1,191	1,274	1.7%	Clarion	46	604	704	3.9%
Allegheny	13	1,147	1,235	1.9%	Schuylkill	47	587	683	3.9%
Wyoming	14	1,063	1,235	3.8%	Mercer	48	601	681	3.2%
Lancaster	15	1,140	1,231	1.9%	Cameron	49	595	674	3.2%
Wayne	16	1,104	1,227	2.7%	Clinton	50	567	665	4.0%
Susquehanna	17	929	1,130	5.0%	Lawrence	51	570	637	2.8%
Lebanon	18	1,016	1,110	2.2%	Juniata	52	546	636	3.9%
Adams	19	984	1,101	2.9%	Somerset	53	588	634	1.9%
Cumberland	20	971	1,079	2.7%	Crawford	54	555	614	2.6%
Washington	21	903	1,040	3.6%	Venango	55	539	613	3.3%
Greene	22	959	1,028	1.7%	Bedford	56	541	613	3.2%
Dauphin	23	983	1,018	0.9%	Mifflin	57	546	588	1.9%
Centre	24	888	1,006	3.2%	Warren	58	540	586	2.1%
Butler	25	946	1,006	1.5%	Northumberland	59	479	558	3.9%
Franklin	26	810	960	4.3%	Philadelphia	60	459	548	4.6%
Westmoreland	27	851	952	2.8%	Fayette	61	472	547	3.7%
Armstrong	28	872	941	1.9%	Blair	62	469	535	3.4%
Columbia	29	827	938	3.2%	McKean	63	477	529	2.6%
Bradford	30	783	910	3.8%	Elk	64	498	524	1.3%
Forest	31	745	892	4.6%	Huntingdon	65	421	479	3.2%
Lackawanna	32	786	877	2.8%	Cambria	66	448	423	-1.4%
Perry	33	784	872	2.7%	Jefferson	67	387	422	2.2%
Beaver	34	762	869	3.3%	Statewide	--	1,064	1,209	3.2%

Notes: Includes current, interim and delinquent school district property taxes. AAGR is average annual growth rate.

Staff Acknowledgements

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