

School District Property Tax Forecast



Independent Fiscal Office | November 2021

This report provides an updated forecast of statewide school district property taxes based on the latest published revenue data and economic projections by the Independent Fiscal Office (IFO). The most recent school district property tax data published by the Pennsylvania Department of Education (PDE, or the department) is for fiscal year (FY) 2019-20. For that year, current-year collections were \$14.3 billion, Act 1 allocations were \$534 million and delinquent collections were \$506 million, for a total of \$15.3 billion.¹ The department plans to release actual collections for FY 2020-21 in late Spring 2022. This report provides estimates for that year and FY 2021-22 based on an IFO analysis of millage rate and property tax assessment data. Projections for FY 2022-23 through FY 2025-26 are made based on the statutory, economic and structural factors that affect growth rates of school property taxes.

This report updates the forecast that the IFO published in February 2021 and includes (1) actual FY 2019-20 current-year property tax collections, (2) the impact from FY 2021-22 millage rates and (3) new wage projections that increase the statewide average weekly wage (SAWW) portion of the Act 1 Index projection.

Forecast Overview

Table 1 provides the IFO’s estimate of school district property taxes for FY 2020-21 and FY 2021-22, as well as projections for FY 2022-23 to FY 2025-26. The estimated total property tax collections for FY 2020-21 are \$15.3 billion, the same amount as the prior year. In February, the IFO estimated that FY 2020-21 collections would fall by 1.3% due to anticipated impacts from the COVID-19 pandemic, but this estimate assumes no decline in current-year collections.² This revision is due to additional federal stimulus provided to Pennsylvania residents after release of the previous forecast that offset the reduction in the property tax collection rate initially anticipated. Estimated delinquent collections in FY 2020-21 are essentially flat, due to the assumption that \$60 million, 12% of prior year collections, is shifted into the next two years.

Table 1: School District Property Tax Forecast

	Actual	Estimate		Forecast			
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Current-Year	\$14,276	\$14,280	\$14,630	\$15,215	\$15,875	\$16,605	\$17,305
Act 1 Allocations ¹	534	535	535	535	535	535	535
Delinquent ²	<u>506</u>	<u>500</u>	<u>610</u>	<u>620</u>	<u>630</u>	<u>650</u>	<u>680</u>
Total	15,316	15,315	15,775	16,370	17,040	17,790	18,520

Note: Dollar amounts in millions.

1 Actuals through FY 2021-22. Estimated at \$535 million thereafter.

2 Reported by PDE for FY 2019-20. Estimated by IFO thereafter.

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 The decline projected in February was based on a research brief that the IFO released in June 2020 on the impact of COVID-19 on local revenues. See <http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/RB-2020-COVID-19%20Local%20Revenue%20Impact.pdf>.

The estimate for FY 2021-22 collections is based on millage rates published by PDE and assumed economic growth. Economic growth is assumed to be 1.5% in FY 2021-22, which is somewhat higher than previous analyses, due to increases in assessed values resulting from strong growth in home prices. During the forecast period, current-year collections are based on projected revenue growth from (1) typical tax base expansion (also referred to as economic growth) and (2) millage rate increases as limited under Act 1.³ Act 1 allocations, which have been stable since their inception, are held constant at \$535 million per annum. Delinquent tax collections in FY 2021-22 and FY 2022-23 include monies shifted from FY 2020-21, while the remaining years are based on historical trends. Overall collections are projected to increase by roughly 4.3% per annum during the forecast period, reaching \$18.6 billion in FY 2025-26.

Act 1 Index

Act 1 of 2006, 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 projects the index to estimate the additional revenues school districts could raise through millage increases and then applies a utilization factor, ranging from 65% to 75%, 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.⁴ 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.⁵ 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.

Table 2 provides detail on the projections for current-year collections during the forecast period, including the amounts attributable to economic growth, the Act 1 index and Act 1 exceptions. 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 2019-20 property tax collections. The weighted average index serves as a statewide maximum percentage increase in property tax collections due to higher millage rates.

	2022-23	2023-24	2024-25	2025-26
Prior Year Base (includes Act 1 Allocations)	\$15,170	\$15,750	\$16,410	\$17,140
Revenue Growth - Current-Year				
Economic Growth (from changes in AV)	190	160	160	170
Act 1 Index and Exceptions	<u>386</u>	<u>504</u>	<u>566</u>	<u>531</u>
Subtotal - Current-Year Revenue Growth	576	664	726	701
Current-Year Collections and Act 1 Allocations	15,750	16,410	17,140	17,840
Less: Act 1 Allocations	<u>-535</u>	<u>-535</u>	<u>-535</u>	<u>-535</u>
Current-Year Property Tax Collections	15,215	15,875	16,605	17,305

Note: Dollar amounts in millions. AV is assessed value.

³ Act of June 27, 2006, Special Session 1, P.L. 1873, No. 1, known as the “Taxpayer Relief Act.”

⁴ 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 2020-21, 413 districts had an MV/PI AR of 0.4000 or above, with the maximum being 0.8909. Those 413 school districts represented approximately 60 percent of the current-year taxes collected in FY 2018-19.

⁵ The SAWW is reported by the Pennsylvania Department of Labor and Industry. The ECI is reported by the U.S. Bureau of Labor Statistics.

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 through FY 2022-23 are based on data published by PDE and 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 decreases from 4.3% in FY 2023-24 to 3.6% in FY 2025-26, and the weighted index decreases from 4.9% to 4.1%. The SAWW, which is projected by the IFO, reaches historically high levels in FY 2023-24 and FY 2024-25 before declining in the final forecast year. 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 –

Fiscal Year	SAWW ¹	ECI ²	Base Index ³	Weighted Index ⁴
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	3.1	2.9	3.0	3.4
2022-23	4.7	2.1	3.4	3.9
2023-24	5.7	2.9	4.3	4.9
2024-25	5.6	3.0	4.3	4.9
2025-26	4.1	3.0	3.6	4.1

1 Statewide Average Weekly Wage.
 2 Employment Cost Index.
 3 Average of the SAWW and ECI.
 4 Average of the index for each school district weighted by property tax collections.

December 2018 and January 2017 – December 2019. 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 SAWW increases further in FY 2023-24 and FY 2024-25 due to very strong wage gains in CY 2021.⁶ For the ECI, there are no available projections for education-specific employment costs, so the U.S. ECI for all private workers from IHS Markit is used, with adjustments by the IFO. This component of the index remains relatively flat, increasing from 2.9% in FY 2023-24 to 3.0% in FY 2025-26. This forecast was not updated from the prior projection.

Table 4 (next page) provides detail of how the Act 1 index contributes to projections of current-year collections during the forecast period. The utilization rate of 75% reflects historical trends in actual school district millage rates and Act 1 indexes. The rate is reduced for FY 2021-22 through FY 2024-25 to account for (1) school districts’ potential sensitivity to millage rate increases after the COVID-19 pandemic and (2) the artificial growth in the SAWW related to the COVID-19 job losses. Not included in the table are utilized Act 1 exceptions, which are projected to add \$15 million to the forecast each year. A school district can utilize Act 1 exceptions to increase its millage rate beyond its Act 1 index.⁷

⁶ The forecast reflects the following growth rates for the SAWW for specific calendar years: 3.4% (2019); 8.0% (2020); 5.5% (2021); and 3.6% (2022).

⁷ The statute currently authorizes four exceptions: pension obligations, special education expenditures, grandfathered debt service and electoral debt service. The forecast projects that school districts will qualify for exceptions valued between \$40 million and \$50 million annually, but school districts are not required to utilize approved exceptions. For example, exceptions valued at \$44.9 million were approved for FY 2020-21, but \$6.0 million (13.4%) in exceptions was actually used by school districts to exceed their index. The forecast assumes that the utilization of referendum exceptions will have a minimal impact on the forecast.

Table 4: Act 1 Index Detail

	2022-23	2023-24	2024-25	2025-26
Baseline (PY + Economic Growth)	\$15,360	\$15,910	\$16,570	\$17,310
Weighted Average Index	3.9%	4.9%	4.9%	4.1%
Potential Growth from Index	\$594	\$776	\$808	\$709
Index Utilization Rate	65%	65%	70%	75%
Forecast Growth from Index	\$386	\$504	\$566	\$531

Note: Dollar amounts in millions.

Elimination of School Property Tax for Homeowners

An 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% of the assessed value of each homestead property within a jurisdiction.⁸

Generally, property that is used as the primary residence of its owner(s) qualifies as homestead property.⁹ To receive the exclusion, the property owner(s) must file an application with the county assessment office, which maintains 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 2019-20 to FY 2025-26 school property tax collections from homestead properties (top half of table). 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 exclude properties that meet the qualifications for homestead property, but an application has not been submitted. If school property taxes were eliminated through the homestead exclusion, it is likely that qualified properties that have not applied would then apply for a homestead exclusion. To estimate the impact from 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.

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.¹⁰ 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% of current-year school property tax collections are from homestead properties.¹¹ The same percentage is applied to delinquent tax collections. The Act 1 allocations are used to offset property taxes for homestead properties,

⁸ The text of Article VIII, Section 2(b)(vi) of the Pennsylvania Constitution provides that the General Assembly may "[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>.

and the homestead estimates include 100% of those allocations. Table 5 does not include Philadelphia’s locally funded property tax relief for owner-occupied residential properties. The IFO estimates that 40% of taxable property in the city is homestead property, but that 34% of property tax collections are from homesteads after applying the local tax relief. The differential of 6 percentage points represents the impact of the local relief.

Table 5: School Property Tax - Homestead and Owner-Occupied Estimates

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
<u>Homestead Exclusion</u>							
Current-Year	\$7,709	\$7,711	\$7,900	\$8,216	\$8,573	\$8,967	\$9,345
Act 1 Allocations	534	535	535	535	535	535	535
Delinquent	<u>273</u>	<u>270</u>	<u>329</u>	<u>335</u>	<u>340</u>	<u>351</u>	<u>367</u>
Total	8,517	8,516	8,765	9,086	9,448	9,853	10,247
<u>Owner-Occupied</u>							
Current-Year	\$8,280	\$8,282	\$8,485	\$8,825	\$9,208	\$9,631	\$10,037
Act 1 Allocations	534	535	535	535	535	535	535
Delinquent	<u>293</u>	<u>290</u>	<u>354</u>	<u>360</u>	<u>365</u>	<u>377</u>	<u>394</u>
Total	9,108	9,107	9,374	9,719	10,108	10,543	10,966

Note: Dollar amounts in millions.

Proposals to replace property taxes on homesteads may either include or exclude the value of the local relief to determine the revenues that must be replaced. 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% of statewide property taxes. That parameter is applied 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.

Although included in the estimates throughout this report, Act 1 allocations would not necessarily be subject to replacement under school property tax elimination. Those allocations could be redirected for other purposes or used to offset the net cost of elimination. The treatment of 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 2019, the Property Tax Rent Rebate (PTRR) Program provided \$131.3 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% 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 implicitly paid by renters is not included in the computations in Table 5.

Staff Acknowledgements

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