

School District Property Tax Forecast



Independent Fiscal Office | June 2024

This report provides an overview of statewide school district (SD) property tax collections as published by the Pennsylvania Department of Education (PDE) and an outlook for current and future collections based on the latest published data and economic projections by the Independent Fiscal Office (IFO). A summary of recent trends in SD funding sources is also included on the next page. The **table below** displays recent data and the IFO forecast of (1) SD property tax collections and (2) the Act 1 index, which limits the rate at which schools can raise millage rates.

School District Property Taxes						
	Actual			Estimate	Forecast	
	20-21	21-22	22-23	23-24	24-25	25-26
<u>Revenues</u>						
Current-Interim	\$14,594	\$15,023	\$15,473	\$16,020	\$16,700	\$17,400
Act 1 Allocations	535	535	673	668	800	800
Delinquent	<u>591</u>	<u>544</u>	<u>492</u>	<u>480</u>	<u>500</u>	<u>520</u>
Total	\$15,719	\$16,102	\$16,637	\$17,168	\$18,000	\$18,720
Growth Rate	2.6%	2.4%	3.3%	3.2%	4.8%	4.0%
<u>Act 1 Index</u>						
Base	2.6%	3.0%	3.4%	4.1%	5.3%	4.0%
Weighted Average	3.0%	3.4%	3.8%	4.7%	5.9%	4.5%
Note: Dollars in millions.						
Sources: Revenues through FY 2022-23 reported by PDE, projected by the IFO thereafter. Act 1 Index reported by PDE through FY 2024-25, projected by the IFO thereafter. Weighted index calculated by the IFO for all years.						

Recent collection and forecast trends include:

- Collections totaled \$16.64 billion for FY 2022-23, an increase of \$535 million (3.3%) over the prior year and the largest increase since FY 2018-19. The Philadelphia School District impacted revenue growth, as current-year property taxes increased by \$127 million (14.9%). This outcome was largely due to a county reassessment, which caused a median increase of 31% in assessed value for single-family residential properties.¹
- Act 1 Property Tax Reduction Allocations increased from \$535 million in FY 2021-22 to \$673 million in FY 2022-23. This increase of \$138 million (25.8%) represents additional property tax relief distributed from gaming revenues to owners of homestead and farmstead properties. For FY 2024-25, allocations will increase again to \$800 million, \$132 million (19.8%) higher than the current amount. Allocations are projected to be flat for FY 2025-26.
- Due to strong wage gains, the Base Act 1 Index for FY 2024-25 is 5.3%, a record high (see page 3 for technical detail). The forecast projects revenue growth of 4.8%, the largest increase since the inception of Act 1 (2007).

¹ Source: Philadelphia Office of the Controller. See <https://controller.phila.gov/philadelphia-audits/tax-year-2023-assessment-changes/>.

The **table below** displays a five-year history of total SD revenues by funding source and certain estimates for FY 2023-24. For FY 2022-23, SD funding was \$36.7 billion, and property taxes (current-interim and delinquent) comprised 43.5% of the total. That share has decreased over the last five years, as other funding sources increased significantly. Specifically, federal funding increased by \$1.5 billion (160.3%) from FY 2018-19 to FY 2022-23. This was due to temporary COVID-19 relief funds, which totaled \$3.5 billion from FY 2019-20 to FY 2022-23. The bottom row shows the statewide unassigned general fund balances for all school districts, which increased by 60.6% from FY 2018-19 to FY 2022-23. These funds have not been committed or assigned by school districts, and are available for future use.

School District Funding Sources						
Funding Source	18-19	19-20	20-21	21-22	22-23	23-24
Property taxes	\$14,481	\$14,791	\$15,184	\$15,567	\$15,964	\$16,500
Earned income tax	1,657	1,674	1,739	1,892	2,019	2,100
Other local sources	2,018	1,960	1,924	2,137	2,376	--
State (excluding Act 1)	11,253	11,617	11,635	12,014	13,018	--
Act 1 Allocations	533	534	535	535	673	668
Regular federal	926	926	1,040	1,369	1,001	--
Temporary federal	--	23	622	1,440	1,411	--
Other (debt related)	<u>546</u>	<u>1,513</u>	<u>1,072</u>	<u>940</u>	<u>221</u>	--
Total	31,415	33,039	33,751	35,894	36,682	--
Growth Rate	3.7%	5.2%	2.2%	6.3%	2.2%	--
Property tax share	46.1%	44.8%	45.0%	43.4%	43.5%	--
Unassigned funds	\$1,944	\$1,975	\$2,197	\$2,588	\$3,122	--

Note: Millions of dollars.
Sources: Pennsylvania Department of Education. FY 23-24 is estimated by the IFO.

Methodology

Property Tax Forecast

The forecast of SD property tax collections for FY 2023-24 through FY 2025-26 is based on (1) millage rates published by PDE for FY 2023-24 and (2) various economic projections for FY 2023-24 and beyond. For years without published millage rates, the forecast is based on three factors/assumptions:

- **Base and weighted average Act 1 Index.** These parameters represent the upper limit that property tax millage rates can increase annually.
- **Act 1 Index utilization factor.** Most school districts do not increase millage rates to the full extent permitted by the index. This parameter reflects the historical statewide school district utilization rate. The average utilization rate was approximately 80% for FY 2022-23, an uptick from recent years (70% average). The forecast assumes that rate will remain elevated as school districts manage increased personnel costs and reduced federal support.
- **Economic growth.** Annual tax revenue growth reflects three factors: millage rates, reassessments and new construction. Based on historical trends, the forecast assumes that reassessments and new construction cause the underlying tax base to expand by 1.5% per annum.

Earned Income Tax Forecast

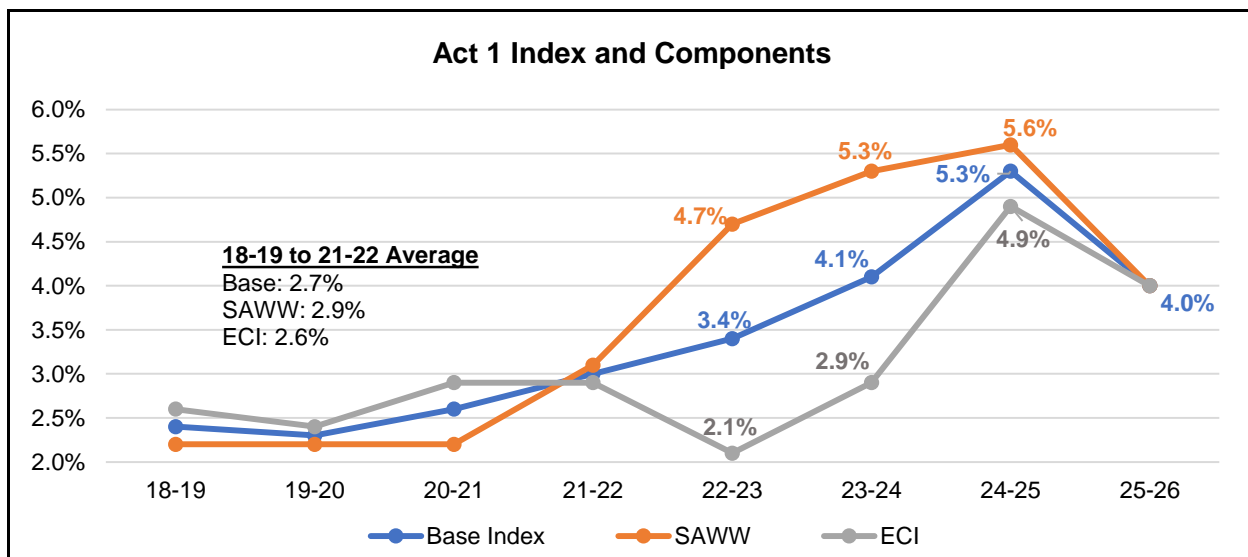
Earned Income Tax revenues for FY 2023-24 are forecast by the IFO based on projected growth in gross compensation and net profits for state personal income tax.

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 SD 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) based on 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 2022-23, 412 districts had an MV/PI AR of 0.4000 or above, with a maximum of 0.9000, and those school districts comprised approximately 66% of current-year taxes collected in FY 2022-23.

The base index is calculated by averaging the percentage increase in the Pennsylvania Statewide Average Weekly Wage (SAWW) and the U.S. 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 for each school district (base or adjusted) and weighting it by property tax collections. The weighted average index is the statewide maximum percentage increase in property tax collections due to higher millage rates.

The **figure below** displays the Act 1 base index and its components from FY 2018-19 to FY 2025-26. The annual SAWW growth rate is calculated using two overlapping three-year (calendar) periods. For example, the growth rate for FY 2022-23 is equal to the growth in the SAWW from January 2017 – December 2019 to January 2018 – December 2020. For FY 2024-25, the final actual year published by PDE, the Act 1 base index increased from 4.1% to a record high of 5.3%, due to significant gains in the SAWW and ECI components. The increase in the SAWW for FY 2024-25 (5.6%) was largely driven by (1) job losses for low-wage workers in CY 2020 (which raises the average wage of those working) due to the COVID-19 pandemic and (2) strong wage gains in CY 2021. The ECI growth rate is 4.9% for FY 2024-25, the strongest rate since the inception of Act 1. The base index is projected to fall to 4.0% for FY 2025-26, as the SAWW and ECI both fall dramatically. The forecast reflects the following growth rates (not shown in figure) for the SAWW for specific calendar years: 8.0% (2020); 4.3% (2021); 3.9% (2022) and 3.8% (2023). 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 S&P Global, with adjustments by the IFO.



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