Coronavirus’ impact on school district tax revenue

Summary: School districts have been closed since March due to the coronavirus and were permitted to reopen on July 1 after approval of a health and safety plan. July 1 was the start of the fiscal year for most districts in the state, including 42 of the 43 districts in Allegheny County (Pittsburgh Public Schools budgets on a calendar year basis). What do 2020-21 budgets show as the possible effect of the virus and economic shutdown on property and earned income (wage) taxes?

In April, the Pennsylvania Association of School Business Officials produced an estimated coronavirus impact on local revenue of the state’s 500 school districts. The estimate predicted a loss between $850 million to just over $1 billion in 2020-21 based on the $18 billion in local revenue raised in recent years. The estimate utilized a best- and worst-case scenario of how long it would take the economy to rebound.

In the time since that estimate was produced, school boards have approved 2020-21 budgets. The main local revenue sources are property and wage taxes. According to 2018-19 Annual Financial Data from the Pennsylvania Department of Education (DOE), the 42 districts raised $1.6 billion in local revenue and those two taxes accounted for $1.4 billion (89 percent) of the total.

Act 1 of 2006 limits property tax increases based on the annual index for the district. Increases greater than the index have to receive an exception from the DOE (school construction debt, special education expenditures and pension obligations are the allowable exceptions) or go on the ballot for voters to decide. Wage tax rates for most school districts are 0.5 percent unless increased by a ballot measure to provide property tax relief or to eliminate other taxes.

Districts are required to present budgets in a uniform template (PDE-2028). By comparing 2019-20 and 2020-21 final PDE-2028 templates, it is possible to see what districts expect the virus’ budgetary impact to be. Our sample covers 26 school districts in Allegheny County.
Property tax millage rates will stay the same in 14 districts. With no change in the tax rate, an increase or decrease in revenue could be related to expectations about taxpayers’ ability to pay due to job losses or furloughs, as well as the relatively regular occurrences of tax appeals, new construction, improvements, demolitions and other factors related to the real estate market. Nine of these districts expect greater property tax revenue (ranging from 1.1 percent to 3.2 percent over 2019-20 tax revenue), and five expect less (ranging from 1.5 percent to 6.5 percent lower than 2019-20 tax revenue).

The other 12 districts will increase millage. Three districts’ (Bethel Park, Carlynton and Chartiers Valley) increases are greater than their Act 1 index. Based on the 2020-21 report on Act 1 exceptions from the DOE, all three districts’ exceptions were for special education expenditures. Five districts will increase millage up to their index. All but three districts (Clairton, Moon Area and Penn Hills) expect property tax revenue to rise as a result of the millage hike (ranging from 1 percent to 6.6 percent over 2019-20 tax revenue).

It is not known if districts will extend discount(face) periods the way some counties and municipalities did with their due dates. School property taxes are typically paid in full by the end of October or by December if paid in installments. Of local property taxes, the school share is typically the largest.

All districts are maintaining the 0.5 percent wage tax rate in 2020-21. Only one district (Chartiers Valley) is budgeting for an increase in wage tax revenue from 2019-20’s budget (up by $261,444 or 5 percent). This might be due to attracting new taxpayers that are subject to the wage tax or an expectation of higher wages from current taxpayers. Two districts (Riverview and Upper St. Clair) budgeted the identical amount in 2019-20 and 2020-21.

The remaining 23 districts expect wage tax revenue to fall next year. The range of losses goes from 3 percent to 19.1 percent. With economic activity shut down for much of the spring, it is probable that districts started seeing a decline in collections during those months. If workers were furloughed or laid off from businesses, it will have an impact on the collection of this tax in 2020-21.

When adding the budgeted change in property tax revenue with the budgeted change in wage tax revenue to produce a net result, the 26 districts are evenly split with 13 districts expecting a negative net result and 13 expecting a positive net result.

Most of the components of state revenue, including the subsidies for basic education and special education, are funded for an entire year at 2019-20 amounts. The employer contribution rate for school employees’ retirement will increase from 34.29 percent to 34.51 percent and the budgeted amount for that line item will increase from $2.62 billion to $2.70 billion. Contracted salary and benefit increases, keeping the same number of employees or adding more leads to growth in personnel costs and pension expense. School districts will receive additional federal revenue from the CARES Act. In all,
$28.8 million will go to districts in Allegheny County; $9.6 million to the 26 districts in the sample. The range is from a low of $60,379 to a high of $1.6 million.

Comparing 2019-20 expenditures to 2020-21 expenditures, 17 districts show an increase in year-over-year spending while nine show a decrease. Expenditures are classified as instruction, support, non-instruction, facilities and other (this includes debt service). For example, Highlands shows salaries and benefits under instruction falling but debt service increasing and overall expenditures growing as a result.

North Hills shows instruction and other increasing but support and non-instruction falling, but total expenditures growing. Fox Chapel Area shows instruction expense falling, and salaries and benefits in that category as well, and will see total expenditures fall.

Moon Area will see a total expenditure decrease that appears to be from other, specifically transfers between funds.

Of the 26 districts, 21 show expenditures exceeding revenues in 2020-21. Districts where planned spending exceeds revenue requires them to take from fund balances, which is money that could be needed down the road depending on how things rebound. Several mentioned an element of “uncertainty” and the “unknown” as the 2020-21 budget year progresses, so taking a hard look at spending would be advisable.

With Pennsylvania’s per-pupil spending amount exceeding the U.S. average ($16,395 to $12,612 based on 2018 Census data) and taxpayers looking for relief from school taxes, districts should look at how to become more efficient to reduce costs. They should not pass tax increases as residents see their incomes fall in the face of record layoffs, business shutdowns and an economic recession caused by the pandemic.

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