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Local Revenue Impact Estimate Methodology

To estimate the local revenue impact, PASBO used Annual Financial Report (AFR) data for each school district to extrapolate an estimated 2019-20 local revenue base. We then created two assumptions of the potential local revenue impact—both informed by review of the actual impacts felt by school districts following the 2008 recession and using AFR data from 2006 through 2018, and we applied each assumption to the estimated 2019-20 local revenue base for each school district. This provided us with a potential range of total local revenue impact for each school district, and while this method creates variation among individual school district estimates, we believe the aggregated statewide trends are less volatile. Again, these assumptions are estimates based on local revenue trends in each school district. We would anticipate that the actual impact in each school district will vary.

While our review of 2006 through 2018 school district AFR data is extremely informative to help understand the scope of the 2008 recession over time, the speed and levels of this COVID-19 economic impacts are not entirely comparable to the 2008 recession. The total impact observed in the 2008 recession occurred over 3-4 years in many cases, and in this case, many impacts are already larger in scope and are likely to impact within a 1-2 year period, assuming recovery begins this year.

Property taxes: We began with an estimated property tax revenue base of $15.1 billion for 2019-20, and our two assumptions were applied to that. The assumptions for the property tax revenue reduction include a net combination of lower collection rate, assessment growth and decline, no millage increases, and to whatever degree extended discount and base periods provide lower collection amounts from historic district patterns. Our first assumption, A1, projects a net 2.25% reduction in overall property tax collection rate, our second assumption, A2, projects a 1.95% reduction. In A1, the reduction in local property tax revenue is $326 million, and in A2 the reduction is $283 million. While we expect to see a surge in assessment appeals statewide as a result of COVID-19, those assessment reductions via the appeal process will not take effect until 2022.

Earned Income Taxes: We began with an estimated base of $1.54 billion for 2019-20, and our two assumptions were applied to that base. The assumptions for earned income tax (EIT) revenue reduction are based on historic unemployment numbers reached in a historic time period, and they assume slow economic recovery beginning in the late 3rd quarter of 2020 through the 2nd quarter of 2021. We recognize that business sector profit impact and their ability to recover, as well as overall wage and working hour reductions all will impact these numbers. Additionally, the duration of unemployment compensation will impact this revenue as well, as it is not taxed as wage income. A1 projects an annualized 17.5% reduction in EIT revenue or a$269.8 million reduction in EIT tax collection, and A2 projects an annualized 15% reduction in EIT revenue or $231.2 million.

Real estate transfer tax: In 2005-06, school districts received $279.2 million in realty transfer taxes, however, by 2011 that number fell nearly 50% to $141 million. It is expected that the volume of home sale activity drops significantly, and the total value of the transactions will be impacted as well, as this tax is a percent of the sale price. As a result, A1 projects an annualized reduction of 40% in realty transfer tax revenue or $108.5 million, and A2 is at a 28% reduction in realty transfer tax revenue or $76 million.

Delinquent taxes: We anticipate that delinquent tax collections will fall as the amount of delinquent amounts increase, however, there is a 6-8 month lag during the process to turn over a property to county or private collection agencies. It is highly likely that delinquent collections will drop in 2020-21 even as actual delinquent counts increase. These accounts will be pushed out to 2022, 2023 or perhaps beyond. The impact for 2020-21 will be a reduction with recovery in later fiscal years only as economic conditions and recovery allow. Our A1 projects a 35% reduction in delinquent tac collection or $199 million, and our A2 projects a 25% reduction or $142 million. Eventually, significant portions of these funds are recovered as county tax claim bureaus collect and remit in the out years.

Interims: Not all counties process interims, however, it is clear building and development activity has been, and will remain, greatly impacted by COVID-19. Over a four-year period during the 2008 recession, interims fell by nearly 50%. Current activity in lending and construction has already collapsed, and recovery will eventually lift this back up. The estimated interim base revenue is $77.1 million for 2019-20. Both assumptions A1 and A2 project a 50% or $36.6 million reduction in interim revenue.

Investment Earnings: In 2005-06, school districts earned $353 million dollars in interest revenue to offset operational costs and mitigate tax needs. By 2014, that number fell to $25 million. The estimated 2019-20 base number for investment earnings is $131.5 million. With the Federal Reserve actions taken in March and April, rates have dropped by over 200 basis points. Additionally, school districts will face significant changes and outright reductions in cash flow during the second and third quarters, which will reduce fund levels and time for investment. Our projections for both A1 and A2 assume an 80% reduction in investment earnings, as there will be no rate recovery for perhaps the next two fiscal years. This result is a reduction of $105 million.