

Education Fund Outlook - March 2022 w/ updated school budgets

<i>(millions of dollars)</i>		FY2021	FY2022	FY2023
		<i>Actual</i>	<i>Projected</i>	<i>Projected (With no allocation of surplus funds)</i>
a	Average Homestead Property Tax Rate	\$1.538	\$1.523	\$1.406
b	Average Tax Rate on Household Income	2.50%	2.50%	2.36%
c	Uniform Non-Homestead Property Tax Rate	\$1.628	1.612	\$1.488
d	Property Yield Per Equalized Pupil	\$10,998	\$11,317	\$13,117
e	Income Yield Per Equalized Pupil	\$13,535	\$13,770	\$15,703
f	Equalized Pupil Count	87,304	86,944	85,806
g	Statewide Education Spending Growth	3.9%	1.3%	5.4%
h	Statewide Education Grand List Growth	2.7%	3.0%	7.5%

Sources

1a	Homestead Education Property Tax	633.7	649.3	644.5
1b	Property Tax Credit	(171.5)	(172.0)	(170.0)
2	Non-Homestead Education Property Tax	735.2	747.7	738.0
3	Sales & Use Tax	507.6	538.7	556.1
4	Purchase & Use Tax - <i>one-third of total</i>	44.7	47.1	47.5
5	Meals & Rooms Tax - <i>one-quarter of total</i>	36.0	49.4	51.6
6	Lottery Transfer	32.5	32.3	32.9
7	Medicaid Transfer	7.4	10.0	10.2
8	Other Sources (Wind & Solar, Fund Interest)	2.9	2.2	2.2
9	Total Sources	1828.5	1904.7	1913.0

Appropriations

10	Education Payment	1,483.7	1,502.0	1,578.5
11	Special Education Aid	223.7	229.0	208.1
12	State-Placed Students	18.0	17.0	17.5
13	Transportation Aid	20.5	20.5	21.8
14	Technical Education Aid	14.8	15.5	15.5
15	Small School Support	8.2	8.1	8.1
16	Essential Early Education Aid	7.0	7.1	7.5
17	Flexible Pathways	8.3	8.2	8.4
18	Teachers' Pensions (Normal Cost Only)	6.9	37.6	40.8
19	Other Uses (Accounting & Auditing, Financial Systems)	3.4	3.4	3.4
20	Total Uses	1,794.5	1848.3	1,909.6

Allocation of Revenue Surplus/(Deficit)

21	Revenue Surplus/(Deficit)	34.0	56.4	\$3.4
22	Prior-Year Reversions	(14)	(11.7)	0.0
23	Transfer to/(from) Stabilization Reserve	5.2	1.1	2.9
24	Transfer to/(from) additional Reserve	14.0		-
25	Transfer to/(from) Unreserved/Unallocated	28.7	67.0	0.5

Stabilization Reserve

26	Prior-Year Stabilization Reserve	33.0	38.2	39.3
27	Current-Year Stabilization Reserve	38.2	39.3	42.2
28	Percent of Prior-Year Net Appropriations	5%	5%	5%
29	Reserve Target	38.2	39.3	42.2

Additional Reserve

30	Additional Reserve for Other Post Employment Benefits	14.0	14.0	14.0
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Available Funds

31	Prior-Year Unreserved/Unallocated	0.0	28.7	95.7
32	Current-Year Unreserved/Unallocated	28.7	95.7	96.2

Considerations for the FY2022 Surplus

The General Assembly sets the homestead, nonhomestead, and income yields each fiscal year to ensure that the correct amount of revenue is raised to fully fund education expenses in the Education Fund plus the 5% stabilization reserve.

For FY2023, the Legislature could take any number of options about how to use the surplus FY2022 surplus. A list of uses that have been discussed in the Legislature (not exhaustive):

- Smooth transitions to changes in the system:
 - Implementation of a different pupil weighting (S.287)
 - Mitigate funding impacts of Act 173 (Special Education)
 - Income-based property tax payment system (S.212)
- School construction and maintenance
- Career and Technical Education (CTE)
- Return to taxpayers in FY2023

There are other proposals that would introduce long-term liabilities into the Education Fund that could make use of the surplus, although permanent funding would be needed in the future (not exhaustive):

- Universal school meals
- Modifications to the teacher's pension system (S.286) and teacher's OPEB

Another consideration is that the surplus does not need to be used completely in FY2023 and could be reserved for future years, similar to what was done last year with the funding of Teacher's OPEB (line 30)

The Administration has proposed using half of the Education Fund surplus to fund workforce development in the CTE system. The other half would be returned to FY2022 property taxpayers using a rebate.

FY2023 Yield Bill: House Version

H.737 is on the House floor March 23. It does the following construct with the surplus:

- \$36 million to reduce tax rates in FY2023
- \$36 million reserved for as a potential funding source for universal school meals.

The yield bill also assumes the passage of some bills that would introduce liabilities in the Education Fund:

- S.286, pension reform, which would create a net new liability of \$7 million in the Education Fund and uses the FY2022 reserved \$14 million for prefunding teachers OPEB.
- H.716, which increases the special education grant (line 11) but reduces the education payment line (line 10)
- H.703, which allocates \$15 million to CTEs