

Factors that Determine a School District's Homestead Property Tax Rate

A school district's homestead property tax rates equals:

$$\frac{\text{District's Education Spending}}{\text{District's Equalized Pupils}} \div \text{Statewide Property Yield}$$

- (1) The district's education spending
- (2) The district's equalized pupil count
- (3) The statewide property yield

How Does State Categorical Aid Affect a School District's Homestead Property Tax Rate?

What is "education spending"?

$$\begin{array}{r} \text{School District Budget} \\ - \text{"Offsetting Revenue"} \\ \hline \text{"Education Spending"} \end{array}$$

What is "offsetting revenue"?

- Federal Categorical Aid
- State Categorical Aid
- Tuition Revenues
- Prior-Year Surpluses or Deficits
- Reserve Funds

$$\frac{\text{Education Spending}}{\text{Equalized Pupils}} / \text{Property Yield}$$

Illustration

Voters in this hypothetical school district approved a \$10 million budget for 500 equalized pupils. Assume that the property yield is \$11,000 per equalized pupil.

- If the district receives \$1 million in offsetting revenue, its education spending is \$9 million and its homestead property tax rate is \$1.73:

\$10,000,000
-1,000,000
\$9,000,000

$\$9,000,000 / 500 = \$18,000$ per
equalized pupil

$\$18,000 / \$11,000 = \mathbf{\$1.64}$

- If this district receives an *additional* \$1 million in categorical aid, its education spending is reduced to \$8 million and its homestead property tax rate is reduced by 9 cents to \$1.64:

\$10,000,000
- 2,000,000
\$8,000,000

$\$8,000,000 / 500 = \$16,000$ per
equalized pupil

$\$16,000 / \$11,000 = \mathbf{\$1.45}$

How is State Categorical Aid Paid For?

Categorical aid affects the state's education finance system in two ways:

- First, state categorical aid lowers homestead property tax rates in school districts that receive the aid – lowering statewide education property tax revenues.
- Second, state categorical aid increases statewide education spending by the cost of the categorical aid program.

These two impacts create a shortfall in the Education Fund that must be offset with additional revenue.

Assuming no change in current-law nonproperty tax revenue or education spending, under our education finance system a shortfall in the Education Fund is addressed by increasing statewide property taxes by lowering the property yield.

$$\frac{\text{Education Spending}}{\text{Weighted Pupils}} / \text{Property Yield}$$

Illustration

The statewide cost of additional categorical aid can be covered by increasing both homestead and nonhomestead tax rates:

- First, the property yield* is reduced so that homestead property tax rates are increased in all school districts:

$$\begin{aligned} \text{Per-Pupil Education Spending / Yield} \\ = \text{Homestead Tax Rate} \end{aligned}$$

$$\$18,000 / \$11,000 = \mathbf{\$1.64}$$

$$\$18,000 / \$10,000 = \mathbf{\$1.80}$$

- Second, the uniform nonhomestead property tax rate is increased.**

* Think of the yield as the total amount of per-pupil spending that the Education Fund can support if all school districts had a homestead property tax rate of \$1.00.

** Generally, the nonhomestead property tax rate is set so that the average increase in the homestead and nonhomestead property tax bills are the same.

How Does Pupil Weighting Affect a School District's Homestead Property Tax Rate?

When a school district's equalized pupil count increases or decreases, its homestead property tax also increases or decreases:

$$\frac{\text{Education Spending}}{\text{Equalized Pupils}} / \text{Property Yield}$$

ADM and Equalized Pupils:

Long-term average daily membership (ADM) is weighted to account for differences in costs across school districts.

The weighted pupil count is then adjusted so that the equalized pupil count and long-term average daily member is the same.

As a result, a school district's equalized pupil count will be higher or lower than its actual ADM.

Illustration

Voters in this hypothetical school district approved a \$10 million budget. Assume that the property yield is \$11,000 per equalized pupil.

- If the district equalized pupil count is 500, its homestead property tax rate is \$1.82:

$$\$10,000,000 / 500 = \$20,000$$

$$\$20,000 / \$11,000 = \mathbf{\$1.82}$$

- If this district equalized pupil count increases to 525 because of changes to weighting, its homestead property tax rate is reduced by about 9 cents to \$1.73:

$$\$10,000,000 / 525 = \$19,048$$

$$\$19,048 / \$11,000 = \mathbf{\$1.73}$$

How Does a Pupil Weighting Change Affect the Education Fund?

A change in pupil weighting increases or decreases homestead property tax rates across school districts.

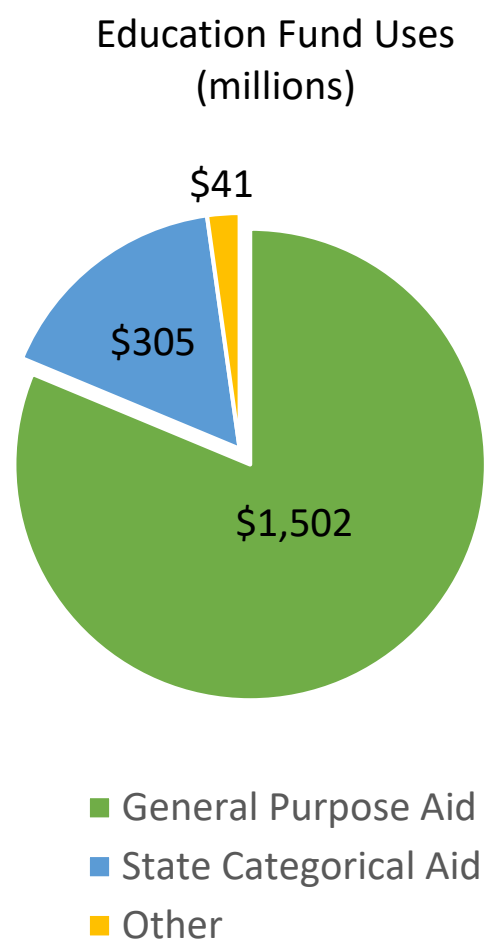
When new homestead property tax rates are applied to each district's grand list, statewide homestead property tax collections may increase or decrease from current-law levels creating a surplus or shortfall in the Education Fund.

This difference is accounted for by increasing or decreasing the property yield.

$$\frac{\text{Education Spending}}{\text{Weighted Pupils}} / \text{Property Yield}$$

Education Fund Uses in FY2022

In FY2022, Education Fund uses amounted to over \$1,848 million. More than 80% of these funds provide general purpose aid to school districts. School districts decide how general purpose aid is spent.



Current-Law Categorical Aid Programs

- Special Education Aid
- Aid for State-Place Students
- Transportation Aid *
- Technical Education Aid
- Small School Support Grant
- Essential Early Education Aid
- Flexible Pathways

Current-Law Pupil Weighting

- Low-Income Pupils
- English Language Learners
- Secondary Pupils
- Prekindergarten Pupils

* Prior to the enactment of Act 60 in 1997, differences in the cost of providing transportation across school districts were addressed through pupil weighting, rather than categorical aid.

**Preliminary Education Fund Outlook for FY2022
September 2021**

<i>(millions of dollars)</i>	FY2021 Actual	FY2022 Forecast
a Average Homestead Property Tax Rate	\$1.538	\$1.523
b Average Tax Rate on Household Income	2.50%	2.50%
c Uniform Non-Homestead Property Tax Rate	\$1.628	\$1.612
d Property Yield Per Equalized Pupil	\$10,998	\$11,317
e Income Yield Per Equalized Pupil	\$13,535	\$13,770
f Equalized Pupil Count	87,304	86,944
g Statewide Education Spending Growth	3.9%	1.3%
h Statewide Education Grand List Growth	2.7%	3.0%
Sources		
1a Homestead Education Property Tax	633.7	649.3
1b Property Tax Credit	(171.5)	(183.0)
2 Non-Homestead Education Property Tax	735.2	747.7
3 Sales & Use Tax	507.6	538.6
4 Purchase & Use Tax (one-third of total)	44.7	46.5
5 Meals & Rooms Tax (one-quarter of total)	36.0	45.0
6 Lottery Transfer	32.5	31.2
7 Medicaid Transfer	7.4	10.0
8 Other Sources (Wind & Solar, LUCT, fund interest)	2.9	2.2
9 Total Sources	1,828.5	1,887.5
Appropriations		
10 Education Payment	1,483.7	1,502.1
11 Special Education Aid	223.7	229.0
12 State-Placed Students	18.0	17.0
13 Transportation Aid	20.5	20.4
14 Technical Education Aid	14.8	15.5
15 Small School Support	8.2	8.1
16 Essential Early Education Aid	7.0	7.1
17 Flexible Pathways	8.3	8.3
18 Teachers' Pensions (normal cost only)	6.9	37.6
19 Other Uses (accounting & auditing, financial systems)	3.4	3.4
20 Total Uses	1,794.5	1,848.4
Allocation of Revenue Surplus/(Deficit)		
21 Revenue Surplus/(Deficit)	34.0	39.1
22 Prior-Year Reversions	(14.0)	(11.7)
23 Transfer to/(from) Stabilization Reserve	5.2	1.1
24 Transfer to/(from) Additional Reserve	14.0	-
25 Transfer to/(from) Unreserved/Unallocated	28.7	49.7
Stabilization Reserve		
26 Prior-Year Stabilization Reserve	33.0	38.2
27 Current-Year Stabilization Reserve	38.2	39.3
28 Percent of Prior-Year Net Appropriations	5.0%	5.0%
29 Reserve Target	38.2	39.3
Additional Reserve		
30 Additional Reserve for Other Post Employment Benefits	14.0	14.0
Available Funds		
31 Prior-Year Unreserved/Unallocated	0.0	28.7
32 Current-Year Unreserved/Unallocated	28.7	78.4