Recommended Education Tax Rates for FY2022

- On December 1st, the Tax Commissioner submitted a letter to the Legislature that recommended a significant increase in education property tax rates for FY2022.

	FY2021	FY2022	Increase
Average rate on homestead property	$1.538	$1.635	$0.097
Average rate on household income	2.51%	2.74%	0.23%
Uniform rate on nonhomestead property	$1.628	$1.730	$0.102

- At these recommended tax rates, education property tax bills will increase approximately 9 percent.

- The Commissioner's letter is intended to provide guidance to school boards currently preparing budgets for submission to their voters for approval in March.

- Although these tax rates are based on the most recent information available, the Commissioner's recommendation is largely a ministerial task prescribed by law. Consequently, there are several important caveats to note when using them for planning purposes:

    - These tax rates are based primarily on estimated education spending in FY2022, which is projected to grow by 3.8% over FY2021. Board-approved budgets will not be available before the end of January.

    - Nonproperty tax revenue estimates for both FY2021 and FY2022 are based on the most recent consensus revenue forecast prepared in August. A revised, and likely improved, forecast will be available by mid-January.

    - These tax rates do not yet account for prior-year reversions, which are currently expected to exceed $6 million for FY2022 which will help to lower tax rates. The Administration will present their recommendation in their proposed Budget Adjustment Act in January.

    - The Legislature may enact education and tax policy reforms during the upcoming session that could raise or lower tax rates.

- Significant cost drivers for FY2022 include:

    - 9.8% increase in teachers' health insurance premiums;

    - $30.3 million increase in the normal cost of teachers' pensions; and

    - $11.5 million increase in the property tax credit.

Education Fund Shortfall in FY2021

The Education Fund is currently carrying a projected $58 million shortfall in FY2021 that is not accounted for in the Commissioner's tax rate recommendations. This shortfall is comprised of full funding of the stabilization reserve at $38.2 million and a projected $19.8 million deficit.

- Following the outbreak of the pandemic, projected revenues from consumption taxes dedicated to the Education Fund fell dramatically below January consensus projections for both FY2020 and FY2021.

- Normally, tax rates are set high enough to support voter-approved spending and to maintain a full stabilization reserve. However, doing so in FY2021 would have resulted in an increase in education taxes that the Legislature deemed unacceptable.

- Consequently, in Act 122 of 2020, the Legislature set tax rates based on: (1) the school budgets that voters approved in March and (2) the pre-pandemic consensus revenue forecast in January.

- Initially, the projected shortfall in June was $105.4 million. That shortfall has now dropped to $58 million following the FY2020 closeout, a revised consensus revenue forecast in August, and the use of the State's Coronavirus Relief Fund allocation.

In Act 122, the Legislature expressed its intent to eliminate this projected shortfall by using additional Federal Funds, drawing down the stabilization reserve, borrowing, or finding other sources of revenue rather than constraining education spending or further increasing the education tax burden in the midst of an economic downturn.