

Factors contributing to the increase in FY2015 education tax rates

Under current law, education tax rates are projected to increase significantly in FY2015. The most important statewide factors driving this increase are summarized below:

- A \$19.3 million EF surplus was available in FY2014; however, these one-time funds are no longer available for FY2015. Even if education spending did not increase, school tax rates would have to go up next year to raise an additional \$19 million.
- Although the total number of pupils continues to decline, statewide education spending is projected to increase by 3.8% or about \$46.5 million. Other EF uses, primarily the special education reimbursement, are projected to increase total EF spending by an additional \$10 million.
- Non-property tax revenues, primarily the GF transfer to the EF, are growing more slowly than school spending even with the addition of \$1.25 million to the GF transfer from the Supplemental Property Tax Relief Fund.
- The statewide education grand list is projected to decline for the fourth consecutive year by about 0.4% due to continuing depreciation and a lack of new construction – consequently, tax revenue must be raised from a smaller tax base.
- The base education amount will increase to \$9,382 from \$9,151 per pupil. All else equal, this reduces spending-adjusted homestead tax rates and requires higher base homestead and non-homestead *property* tax rates to raise the same amount of tax revenue.
- The 1.8% base tax rate on household income will increase for the first time since FY2005 to 1.84%. In previous years, the calculated base tax rate on household income remained below the 1.8% floor, so it did not increase.

At the municipal level, other factors may come into play that cause education tax rates to increase at a faster rate than school budgets:

- Although the statewide grand list is still declining, in individual municipalities property values may be increasing. In that case, the municipality would assume a larger share of the statewide education tax. To account for this, we adjust school tax rates.
- School taxes are based on education spending although it is school budgets that are presented to voters for their approval. Reductions in federal aid, depletion of reserves, and loss of other revenue sources that are deducted from budgets to arrive at education spending may also drive up rates.
- Many districts continue to face declining enrollments. In small districts, even a small reduction in the number of pupils can have a significant impact on education tax rates. Additional special needs students enrolling in small districts may also drive up school tax rates.

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