



H.B. 604

123rd General Assembly
(As Introduced)

Rep. Peterson

BILL SUMMARY

- Prohibits school boards from replacing inside millage levied for current expenses with inside millage levied for some other purpose.
- The primary effect of the bill is to preclude school boards near the 20-mill floor from increasing total property tax collections by reducing overall current expense millage to 20 effective mills but continuing to collect the same amount from inside millage.

CONTENT AND OPERATION

Current law

"Inside mills"

(secs. 5705.01, 5705.04, 5705.05, and 5705.06)

Taxing authorities, including school boards, are authorized to levy so-called "inside millage"--property taxes that do not have to be approved by voters before they are levied. School boards may levy inside millage for current expenses, permanent improvements, repaying debt, and school district libraries.

The total number of inside mills levied on any article or parcel of property by all overlapping taxing authorities cannot exceed 10 mills per dollar of the property's taxable value.¹ The amount of inside millage allocated to a particular taxing authority is based primarily on the taxing authority's historical share of inside millage at the time the 15-mill limitation on unvoted millage was decreased

¹ A mill is one-tenth of a cent; thus, a tax rate of 10 mills per dollar of taxable value is equivalent to 1% of taxable value.

Additional unvoted millage may be levied by a municipal corporation if its charter permits.

to the current 10-mill limitation (1934); each taxing authority is entitled to a minimum of two-thirds of the millage it levied before the decrease took effect (subject to some exceptions). The allocation is made by the county budget commission.

Revenue raised from inside millage is not limited by the H.B. 920 revenue limitation law; the revenue is permitted to increase in proportion to property value appreciation.

Public hearings when inside millage is altered to raise more revenue

(sec. 5705.314)

Current law requires school boards to hold a public hearing before changing its inside millage "in a manner that will result in an increase in the amount of real property taxes." The public hearing must be held solely on the subject of the change, and two notices must be published to publicize the meeting and the reason it is being held.

H.B. 920 revenue limitation

(sec. 319.301)

The "H.B. 920" property tax revenue limitation law limits the amount of revenue that can be collected from each of two classes of real property (i) residential and agricultural real property, and (ii) all other real property (commercial and industrial). Generally, the amount of tax charged against each class of property is not permitted to increase in response to property value appreciation in that class. Taxes charged may increase only in proportion to the value of additions of property to the class (either through new construction or reclassification). As the value of property in a class appreciates, the amount of taxes raised under the H.B. 920 limitation becomes a smaller percentage of the value of that property. Thus, the implicit or "effective" tax rate is reduced. To illustrate, 10 mills raises \$1,000 from \$1 million in taxable property. If the value of that property appreciates to \$1.25 million, the H.B. 920 law allows only \$1,000 to be charged; the effective tax rate therefore is 8 mills (\$1,000/\$1.25 million). But the actual calculation of tax may be further affected by the operation of another mechanism, known as the 20-mill floor and discussed later in this analysis, which may counter the tax-reduction effects of H.B. 920 with regard to 20 mills of current expense levies.

Converting inside millage for current expenses prohibited

(sec. 5705.061)

The bill prohibits school boards from replacing inside millage levied for current expenses with inside millage levied for any other purpose (i.e., paying for permanent improvements, debt, or school district libraries). Under the bill, a tax levy is to be considered as replacing an existing current expense levy if the authority to levy the new tax begins when the authority to levy the existing tax ends. Since property taxes are levied on an annual basis, the bill applies to any new unvoted tax that is levied in the year immediately following the last year an existing unvoted tax is levied.

Effect of the bill

In the case of school districts, changing the purpose for which inside millage is levied may result in more total revenue being raised. This is an effect of how the 20-mill floor is determined. The 20-mill floor guarantees that each school district can collect at least 2% of its taxable property valuation for current expenses (equivalent to an effective tax rate of 20 mills), including increases in valuation that have occurred since the taxes were originally levied. This is so even though the H.B. 920 revenue limitation calls for a lower effective tax rate.² In determining whether a school district raises 20 mills for current expenses, revenue from both voted and unvoted current expense levies is counted.

If a school board raises a little over 20 mills' worth of current expense revenue from both voted and unvoted levies, it might be able to increase the amount of revenue it raises from the voted levies without voter approval by converting unvoted current expense millage into unvoted millage for some other purpose, such as permanent improvements. Adopting a resolution levying inside millage for permanent improvements and repealing the resolution levying inside millage for current expenses is the only action necessary to accomplish this. The result is that the school board levies the same amount of unvoted millage as it previously had and collects the same amount of revenue from its unvoted millage. But the total of voted and unvoted millage for current expenses decreases. If this decrease is sufficient to reduce current expense revenue to 20 mills, the school board can charge more in *total* taxes than if it did not convert the unvoted millage: it charges the same amount from inside millage, and it charges *more* from its voted current expense millage. It charges more from voted current expense millage because less unvoted current expense millage is counted toward the 20 mills that is

² *This assumes a school board actually levies at least 20 mills for current expenses. If a school district's voted and unvoted current expense levies total less than 20 mills before the H.B. 920 limitation is applied, then the school district is guaranteed the actual millage levied for current expenses. Only a few, if any, school districts currently levy less than 20 mills for current expenses before the H.B. 920 limitation is taken into account.*

guaranteed; in this way, the voted current expense millage is less affected by the H.B. 920 reduction, and more revenue is raised from voted millage.³

The revenue effect of converting inside current expense millage to another purpose can be illustrated with the example of a school district levying 4 inside mills for current expenses, 1 inside mill for permanent improvements, and 23 voted mills for current expenses; having taxable real property value of \$100 million; and having a composite tax reduction factor of 0.35 (i.e., on average, all voted current expense levies are reduced by 35% under the H.B. 920 law).

Suppose the school district then converts 3 of the inside current expense mills to 3 inside mills for permanent improvements:

	Revenue before conversion		Revenue after conversion	
Current expenses				
Inside mills	\$ 400,000		\$100,000	
Voted mills	\$1,600,000*		\$1,900,000*	
Total		\$2,000,000*		\$2,000,000*
Perm. improvements		\$ <u>100,000</u>		\$ <u>400,000</u>
Total		\$ <u>2,100,000</u>		\$ <u>2,400,000</u>

*These figures are derived from the computation of the 20-mill floor, as follows:

Before conversion:

Gross revenue from voted C.E. millage = 23 mills (0.023) x \$100 million = \$2,300,000

Apply H.B. 920 factor:

$\$2,300,000 - (\$2,300,000 \times 0.35) = \$1,495,000$ revenue from C.E. millage

Apply 20-mill floor:

$\$1,495,000 + \$400,000$ from inside mills + F = 20 mills (0.02) x \$100 million

(F is the amount of revenue that escapes the H.B. 920 limit in order to allow the district to raise 20 mills for current expenses)

So, F = \$105,000

Therefore, net current expense revenue from voted levies after applying H.B. 920 factor and 20-mill floor is: $\$1,495,000 + \$105,000 = \$1,600,000$

³ Of course, to accomplish this, a school board must be able to justify in its budget the need to spend the additional permanent improvement revenue it will collect. For the purposes of property taxes, "permanent improvement" means "any property, asset, or improvement with an estimated life or usefulness of five years or more, including land ... and reconstructions, enlargements, and extensions thereof having an estimated life or usefulness of five years or more."

After conversion:

Gross revenue from voted C.E. millage = 23 mills (0.023) x \$100 million = \$2,300,000

Apply H.B. 920 factor:

$\$2,300,000 - (\$2,300,000 \times 0.35) = \$1,495,000$

Apply 20-mill floor:

$\$1,495,000 + \$100,000 \text{ from inside mills} + F = 20 \text{ mills } (0.02) \times \100 million

So, $F = \$405,000$

Therefore, net current expense revenue from voted levies after applying H.B. 920 factor and 20-mill floor is: $\$1,495,000 + \$405,000 = \$1,900,000$

Thus, the school board gains an additional \$300,000 in revenue from converting inside millage from current expenses to permanent improvements.

HISTORY

ACTION	DATE	JOURNAL ENTRY
Introduced	03-15-00	p. 1649

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