
Detailed Fiscal Analysis

Notification of the Date a Tax Levy First Applies

For most property tax levies, the ballot language does not state the year the tax will first be levied. Property tax bills are calculated at the end of December for the current year and are generally collected in two payments during the next year. The bill that is printed at the end of December will include most tax levies that were adopted during the current year. Therefore, a levy that is adopted in February and one adopted in November will appear for the first time on the January tax bill for real property taxpayers. This can create confusion among the taxpayers since the first tax payment after the February election does not increase while the first payment after the November election will increase. This bill attempts to alleviate that confusion by requiring ballot language indicating whether a levy applies in the same year the tax is voted on. This change in ballot language does not have a fiscal impact.

Notice of Plans to Change Inside Millage

Under current law, real property tax rates are reduced to insure that increases in the value of property due to inflation do not result in unvoted tax increases. Therefore, property tax rates can be measured by the effective tax rate. In the case of school districts, the effective tax rate for operating levies can not fall below 20 mills. This is commonly referred to as the 20 mill floor and is applied to certain inside (unvoted) and outside (voted) operating millage. School districts may use inside millage for the payment of current operating expenses, debt service, or the purchase of permanent improvements. However, only those inside mills used for the payment of current expenses will be included in the school district's floor. The bill would require school districts that are shifting inside millage away from operating expenses to hold a public hearing devoted to that topic. In addition, the district would be required to publish the date and time of the hearing in the local newspaper with a statement that the proposal may result in an increase in the amount of real property taxes levied.

If a school district is at the 20 mill floor and is currently paying for permanent improvements or debt service from its operating millage, the district can realign its inside millage and apply all or a part of it to permanent improvement or debt service expenses. Since the sum of inside and outside operating millage can not fall below the 20 mill floor, the result of such an action is an increase in the total effective tax rate. The table below outlines changes in the effective rate from such a realignment.

	Beginning Effective Rates	After Adjustment	New Effective Rates
Outside Operating Millage	15	15	16
Inside Operating Millage	5	4	4
Debt Service or Permanent Improvement Inside Millage	2	3	3
Total Effective Millage Rate	22	22	23

In order to benefit from such a plan, a school district must meet the following criteria: it is at, or slightly above, the 20 mill floor and has expenses for permanent improvements or debt

service paid for with revenues from current operating mills. There are a total of 194 school districts at the 20 mill floor. Of these, fifteen districts have voted millage that is below the 20 mill floor¹, and a shift of inside millage cannot generate more than the voted rate. Of the remaining 180 districts, it is not possible to determine how many are paying for permanent improvements or debt service from current operating expenses. Therefore it is not possible to determine the number of districts that would need to hold hearings due to this bill.

□ *LBO staff: Barbara Mattei Smith, Economist*

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¹ Districts must have a total of 20 voted mills to qualify for foundation aid. However, qualifying millage includes levies that are excluded from the floor for the calculation of tax reductions factors. A good example is an emergency levy. These levies are passed to raise a certain dollar amount each year - the voted rate is the same as the effective rate needed to generate that revenue. Therefore a district with 12 voted mills of continuing operating levies, 8 mills of emergency levies and 5 inside mills qualifies for foundation aid even though total millage for the calculation of the floor is only 17 mills.