

Detailed Fiscal Analysis

The state grants property tax relief on owner occupied dwellings in the amount of 2.5 percent of the taxpayer's real property tax bill. The bill would increase the 2.5 percent rollback to 22.5 percent for residences located in a school district where the tax reduction factor is suspended because of the 20-mill floor guarantee. This tax reduction applies to the total property tax bill for the taxpayer, not just the school district portion. For residences located in a school district not at the 20-mill floor, the percentage reduction would remain at 2.5 percent. The state reimburses local governments and school districts for the 2.5 percentage rollback out of the General Revenue Fund.

Determining school districts at the 20-mill floor is a contentious task because choosing different decimal places as a cutoff yields more or fewer school districts at the 20-mill floor. Using a cutoff of 20.1 mills, there are 238 districts that may be considered at the 20-mill floor in 1996. The state reimbursed \$20 million for the 2.5 percent rollback to local governments and school districts located in the boundaries of these 238 school districts (the school district share was \$12.6 million). If the 2.5 percentage rollback were increased to 22.5 percent, then the state cost would have been \$180 million in 1996, or an increase of \$160 million. Table 1 shows forecasted current law and proposed rollback amounts through tax year 2005.

Table 1			
Estimated State Cost to Increasing the 2.5 Percent Rollback to 22.5 Percent			
<u>Tax Year</u>	<u>2.5 Percent Rollback</u>	<u>22.5 Percent Rollback</u>	<u>Addition Cost</u>
1999	\$24.5 million	\$220.5 million	\$196.0 million
2000	\$26.2 million	\$235.9 million	\$209.7 million
2001	\$28.1 million	\$252.5 million	\$224.4 million
2002	\$30.0 million	\$270.1 million	\$240.1 million
2003	\$32.1 million	\$289.0 million	\$256.9 million
2004	\$34.4 million	\$309.3 million	\$274.9 million
2005	\$36.8 million	\$330.9 million	\$294.1 million

The bill also provides an incentive for other school districts to "fall" to the 20-mill floor because their residents will receive a large property tax break and local taxing jurisdictions are reimbursed by the state. In tax year 1996, there were 315 school districts below 23 effective operating mills and a 15 percent update or reappraisal would put these school districts at the 20-mill floor (if no additional millage is voted). Repeating the above calculations, the additional cost would be \$267.6 million for tax year 1999, which is forecasted to grow about 7 percent annually.

Over 5 to 10 years, it would be possible for school districts with up to 30 mills to rearrange tax levies and allow their H.B. 920 millage to fall to the 20-mill floor by switching their revenue stream to emergency, permanent improvement, and school district income tax levies, three levy types not included in the 20-mill floor. There are 289 additional school districts above the 20-mill floor and under 30 mills that could qualify in future years by readjusting their revenue stream.

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