MEMORANDUM

JOINT BUDGET COMMITTEE

TO	Joint Budget Committee Members
FROM	Craig Harper, JBC Staff (303-866-3481)
DATE	March 1, 2017
SUBJECT	Policy Questions Associated with the Uniform Mill Levy Proposal

During the FY 2017-18 Joint Budget Committee Staff Briefing for the Department of Education on December 7, 2016, staff recommended that the General Assembly refer a measure to the voters instituting a uniform mill levy for school finance. The Committee has asked staff to prepare a memo outlining significant policy questions that the General Assembly may wish to consider related to the uniform mill levy recommendation.

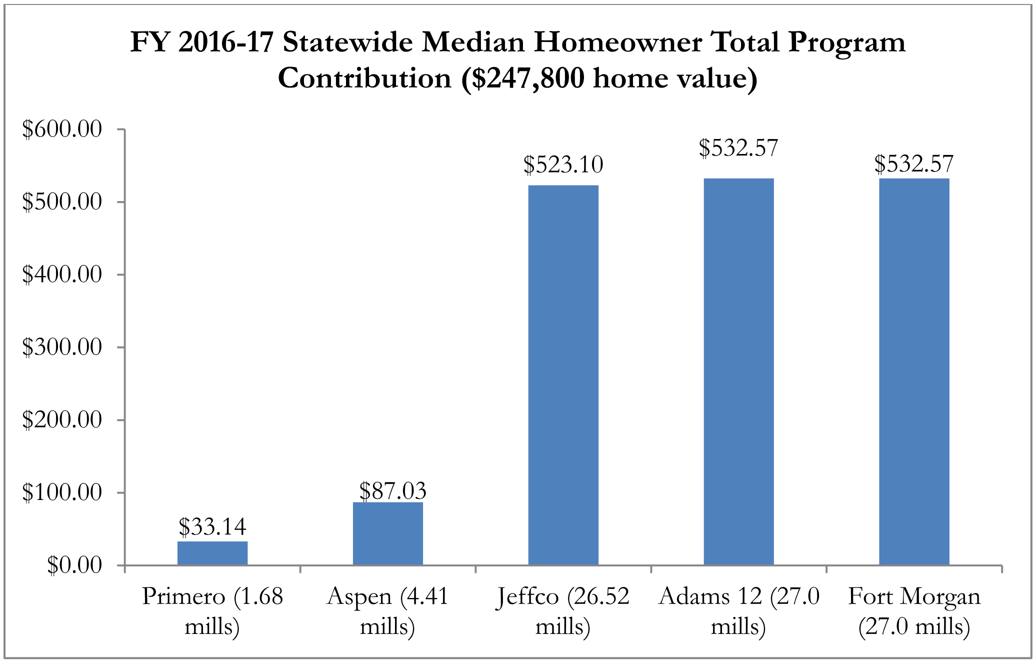
BACKGROUND: Staff recommended that the Committee act to address the current inequities in the school finance property tax system by referring a statewide measure to the voters that would:

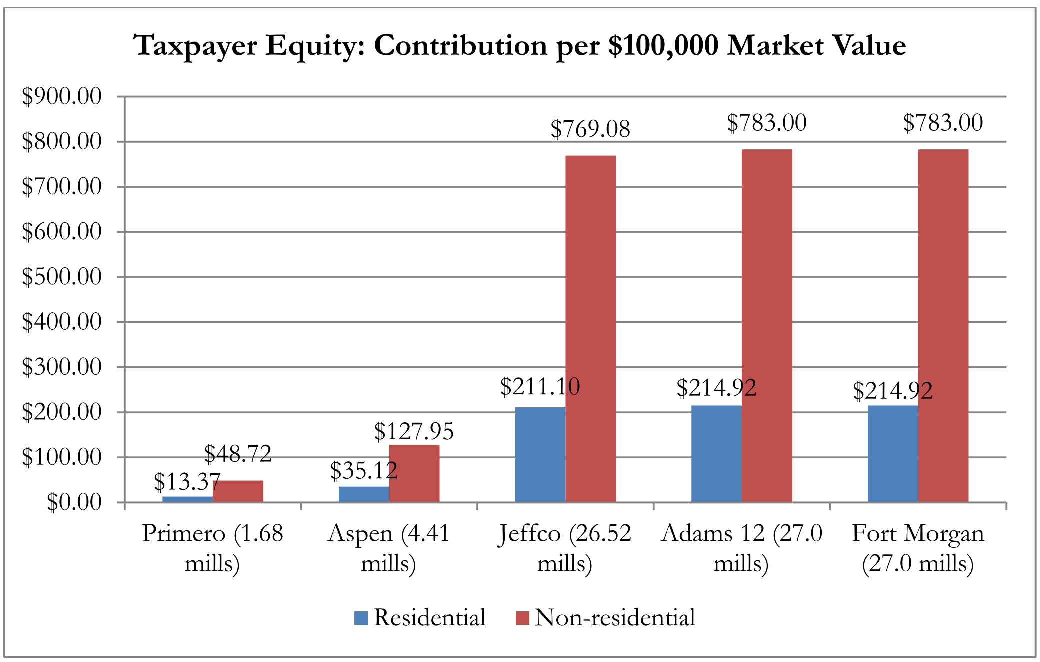
- Return the state to a uniform (statewide) mill levy for school finance property taxes such that each school district's total program mill levy would be the lesser of the statewide mill levy *or* the mill levy necessary to fully fund the district's total program with local revenues.
- Allow mill levies in districts that are fully locally funded (at less than the statewide mill levy) to "float" on an annual basis below the uniform mill levy to continue to fully fund the district without requiring state funds.
- In effect the recommendation, would institute a uniform mill levy <u>for districts that are receiving a state share of total program funding.</u>

POLICY QUESTIONS: The Committee requested a discussion of potential policy questions that the General Assembly may wish to consider regarding the uniform mill levy proposal. Staff is providing the following list of illustrative questions, including brief discussions of issues that the Committee and General Assembly may wish to consider related to each question.

1. Is the current system of *total program* mill levies (local property tax rates dedicated to total program funding under the school finance act) inequitable?

- The JBC Staff Briefing provides information detailing potential taxpayer inequity in the system, in that taxpayers in different school districts are paying significantly different tax rates while the State is covering shortfalls in school districts with low mill levies (that is, the State is backfilling shortfalls in revenue caused by reduced mill levies). For illustrative purposes, the following graphs compare the total program property taxes that would be paid by identical residential and non-residential property owners in five illustrative school districts. The first graph shows FY 2016-17 property tax payments by a homeowner in the statewide median value of home ($247,800 in 2015) in each district. The second graph shows the contribution by residential and non-residential taxpayers *per $100,000 of home/commercial value*. In both graphs, the illustrated property values are equal among the taxpayers, while the property tax contribution to school finance varies. The state then fills any shortfalls relative to total program funding.





2. Does the General Assembly wish to increase the total amount of local revenue available for school finance? Alternatively, would the General Assembly prefer to make the policy change revenue neutral (increasing taxpayer equity but offsetting any revenue increases in low mill levy districts with rate/revenue reductions in districts currently paying higher mill levies)?

- As shown in information previously provided to the Committee, a "revenue neutral" option would allow the uniform mill levy to be set at 22.4 mills, representing a significant rate decrease for many districts. However, as was also shown in those scenarios, the revenue neutral option actually *decreases* total program funding for nearly all school districts. Any uniform mill levy below

22.4 mills would *decrease* total local revenues and increase pressure on the state budget; any mill levy above that amount would increase total local revenues.

3. If the uniform mill levy increases the total amount of local revenues available, should the General Assembly maintain state funding (that is, leave "new" money in the system)?

- Leaving "new" money in the school finance system (not decreasing the state share to account for the increase in local revenues) increases total program funding and prevents the creation of "losers" among school districts. Conversely, reducing state funding to account for new revenues would reduce pressure on the state budget but would result in reductions in total program funding for some (or most) districts. Staff notes that a third option is possible: the General Assembly could reduce state funding to account for *some* of the additional local revenue, leave some new money in the system, and avoid decreases in total program for districts.

4. Given the potentially significant increase in mill levies for the limited number of districts that are currently paying very low levies but do not have the necessary property tax base to "fully fund" at such low levels, how should the General Assembly phase in mill levy increases over time?

- Staff assumes that the General Assembly would phase in significant increases over a period of time – the duration of the phase in period would be a policy decision for the General Assembly. The General Assembly could also consider allowing such districts to target a lower total program funding amount to be considered fully funded (such as targeting total program after the application of the negative factor). Doing so would mitigate some of the necessary increase in the mill levy to "fully fund" such districts.

5. The Committee has discussed the impact of tax increment financing (TIF) on the state budget, as the State backfills total program property taxes that are diverted from school districts as a result of TIF. Should the General Assembly address potential changes in TIF to reduce the impact of TIF backfills on the state budget?

- Short of either stopping the (prospective) use of TIF or barring the diversion of total program property taxes for TIF, staff is not certain what options are available to the General Assembly to reduce the pressure on the State budget. However, TIF does represent another potential source of inequity/subsidization in the school finance system and could be part of a package including the uniform mill levy proposal.