

Fiscal Estimate Narratives

DOR 3/27/2008

LRB Number	07-3750/1	Introduction Number	SB-564	Estimate Type	Original
Description Distribution of a portion of the school levy tax credit					

Assumptions Used in Arriving at Fiscal Estimate

CURRENT LAW

The school levies credit is based on school levies, defined as levies for K-8, Union High, and K-12 school districts, and levies for county-operated schools for children with disabilities. The credit is allocated to each municipality based on its share of the prior three years' statewide school levies. The 2008/09 credit will be based on school levies for 2005/06, 2006/07, and 2007/08.

Municipalities are notified by December 1 of the credit payment they will be paid on the fourth Monday in the following July. The credit is allocated to individual taxpayers in proportion to the taxpayer's share of the municipality's total assessed value. The school levies credit appropriation for the 2008/09 tax year (FY10) is \$747,400,000.

PROPOSED LAW

The bill creates a one-time adjustment to the school levies credit for the 2008/09 tax year only. Under this adjustment, \$668,050,000 would be distributed based on the current formula. The distribution of the other \$79,350,000 would be based on the change in general equalization aid, compared to current law, that would have occurred had this amount been added to general equalization aid formula for the 2007/08 school year. For school districts whose aid would have increased, the increase would be allocated to underlying municipalities as the district's tax levy for 2008/09 is allocated (equalized value for 2008 excluding positive incremental values of tax incremental districts).

As under current law, municipalities will be notified of the credit payment by December 1, the credit will be paid on the fourth Monday in July, and the municipality's total credit is to be distributed to taxpayers in proportion to the taxpayer's share of the municipality's total assessed value.

ADMINISTRATIVE EFFECT

The bill requires the Department of Public Instruction to notify the Department of Revenue (DOR) of the calculated school aid increases, which DOR will then allocate to each district's underlying municipalities. DOR will need to make a one-time change to its credit calculation program to track amounts distributed under the school aid increase. The increase in DOR's costs can be absorbed within current resources.

LOCAL FISCAL EFFECT

Although the school levies credit is paid to municipalities, the funds are not to be taken into consideration when municipalities develop their budgets and set their tax levies. In effect, the credit payment is not the revenue of the municipality to which it is paid. Instead, the municipality acts as the state's agent for allocating the credit to local taxpayers.

Since the distribution of school equalization aid is inversely proportional to a school district's equalized value per pupil, distributing a portion of the school levies credit based on this formula may generally result in more tax relief being directed to taxpayers in municipalities with territory in school districts with low equalized values per pupil.

Long-Range Fiscal Implications