

During public hearings, the Commission heard testimony regarding funding for the school levy tax credit.

General school aids and the school levy tax credit are two of the main methods of state support for school districts. A major objective of the general aid formula is tax base equalization. The formula operates under the principle of equal tax rate for equal per pupil expenditures. In pure form, this means that a school district's property tax rate does not depend on the property tax base of the district, but rather on the level of expenditures. The provision of state aid through the formula allows a district to support a given level of per pupil expenditures with a similar local property tax rate as other districts with the same level of per pupil expenditures, regardless of property tax wealth. There is an inverse relationship between equalization aid and property valuations. Districts with lower per pupil property values receive a larger share of their costs through the formula than districts with higher per pupil property values.

The school levy tax credit is distributed based on each municipality's share of statewide levies for school purposes during the three preceding years. These amounts are apportioned within municipalities based on each property's assessed value as a percent of the corresponding municipality's total assessed value. The school levy tax credit could be characterized as neutral with regard to equalization, given that the levy reduction under the credit generally is proportionate for all districts and produces a similar reduction in tax rates.

Relative to general aid, school levy tax credit funding could be viewed as favoring taxpayers in districts with relatively higher spending levels and higher per pupil property values. Because these districts receive relatively less equalization aid, more of the cost of operating these districts is funded from property tax levies. Because the school levy tax credit is allocated based on each district's school levy in proportion to statewide levies, these districts receive relatively more school levy tax credit funding than districts that have more of their costs supported from general aid.

In 2017-18, \$4,584.1 million was provided in the general school aids appropriation, while \$940 million was appropriated for the school levy tax credit for the 2017-18 property tax year. If the school levy tax credit funding for 2017-18 had instead been provided in the general school aids appropriation, 287 districts would have received more total state support funding (general aid and levy credit), while 135 districts would have received less funding. A total of \$98.0 million in funding would have been redistributed among districts, which is 1.8% of the total funding appropriated.

General school aids are paid on a current year basis, except for \$75 million that is paid annually in July of the following fiscal year. The school levy tax credit is paid on a delayed basis

in the July of the following fiscal year. To be neutral to the general fund, the delayed general aid payment would have to be increased accordingly under such a proposal.

Such a proposal would represent a redistribution of property tax relief to school districts. Under revenue limits, the amount of general aid received by a district reduces the gross amount the district is able to levy. The school levy credit appears on property tax bills after the levy has been set, reducing the net levy paid by property owners. Absent a change in revenue limits, school district spending would not be directly affected by the funding shift, assuming districts levy to the maximum in either case.

ALTERNATIVES

1. Recommend that future increases in state support funding be provided through the general school aid formula rather than through school levy tax credit.
2. Recommend that future increases in state support funding be provided through the school levy tax credit rather than through the general school aid formula.
3. Recommend that future increases in state support funding be provided equally through the school levy credit and the general school aid formula.