

SUMMARY OF BILL DRAFT TO PROVIDE PROPERTY TAX RELIEF THROUGH ALLOCATIONS TO SCHOOL DISTRICTS

This memorandum was requested to provide a summary of the bill draft attached as Appendix A, which has been revised since the June 1, 2006, Finance and Taxation Committee meeting.

The bill draft would serve two primary functions. The first two sections of the bill draft provide an appropriation and provide for allocation of the appropriated amount among school districts. Sections 3 through 6 of the bill draft provide adjustments to reduce school district property tax levy authority by the amount of property tax relief received by each school district, for most school districts.

The bill draft does not provide enhanced funding to school districts. However, to the extent a school district has authority to increase its levy because it currently levies less than 185 mills or has unlimited levy authority, a school district could derive enhanced funding by receiving property tax relief and raising its property tax levy. The bill draft addresses equity funding issues by providing a greater measure of property tax relief to school districts levying at higher mill rates and to school districts having below average taxable valuation per student.

APPROPRIATION AND ALLOCATION

Section 1

Section 1 provides an appropriation of \$74,054,859 to the Tax Commissioner. This amount is to be allocated \$35,897,132 in the first year and \$38,157,727 in the second year of the 2007-09 biennium.

Section 2

Section 2 of the bill draft would require the Tax Commissioner to allocate appropriated funds among school districts following a six-step allocation process. The six steps of the process are:

1. **Determination of an adjusted combined education mill rate for each school district.** The "combined education mill rate" for a school district is the total number of mills levied for the general fund and high school tuition and transportation. The school district's combined education mill rate from the previous year must be reduced by an unspecified percentage (60 percent and 75 percent are the amounts used in the attached examples) of the maximum number of mills that may be levied by a school district under North Dakota Century Code Section 57-15-14. The maximum number of mills under Section 57-15-14 is 185 mills for 2006 and that amount would be reduced to

165 mills for 2007 under Section 5 of the bill draft.

For example, using a 60 percent reduction rate would result in subtraction of 111 mills in the first year (185 mills x 60 percent) and 99 mills in the second year (165 mills x 60 percent). A school district levying 111 mills or less in the first year would have an adjusted combined education mill rate of zero mills and would not receive a property tax relief allocation. Subtracting 111 mills from the mill rate for each school district means that only the amount levied by a school district in excess of 111 mills will be included in computing a property tax relief allocation. The 75 percent reduction rate used in the other attached example would result in subtraction of 138.75 mills in the first year (185 mills x 75 percent) and 123.75 mills in the second year (165 mills x 75 percent).

2. **Determine an adjusted combined education levy in dollars for each school district.** The adjusted combined education mill rate for each school district is multiplied times the taxable valuation of property in the school district to determine the number of dollars in property taxes levied by the school district that will be eligible for consideration in allocation of property tax relief.
3. **Determine the percentage of appropriated funds for each school district.** The adjusted combined educational levies in dollars for all school districts are totaled and divided into the adjusted combined education levy for each school district. The resulting percentage is the school district's share of the total amount to be allocated for the year.
4. **Determine property tax relief in dollars for each school district.** The percentage determined in step 3 for each school district is multiplied times the amount of property tax relief available for the year to determine the annual amount of property tax relief for each school district in dollars.
5. **Adjust property tax relief amounts to reflect taxable valuation per student.** The property tax relief allocation for each school district is adjusted by multiplying it times a factor determined by dividing statewide average taxable valuation per student by the taxable valuation per student for the school district. This adjustment will increase property tax relief payments to districts with below average taxable valuation per student and

reduce payments to school districts with above average taxable valuation per student. The adjustment factor is limited to no more than 1.25 and no less than .75. Because the adjustment factors will make total payments either more or less than 100 percent of the amount available, the Tax Commissioner must prorate payments to allocate the full amount among eligible districts. The Tax Commissioner is required to transfer property tax relief allocations to school districts no later than April 15 of the budget year, which would mean that the first allocation to school districts under the bill draft would be received on or before April 15, 2008.

6. **Certification to school districts of property tax relief for the next budget cycle.** By August 1 the Tax Commissioner must certify to each school district the amount of property tax relief for the next budget year. Under the bill draft, the first certification would be due not later than August 1, 2007. The information is also required to be provided for each county auditor.

PROPERTY TAX REDUCTION

Section 3

Section 57-15-01.1 is the statute that allows taxing districts the option of basing property tax levy limitations on property taxes levied in dollars in the base year for the taxing district. For most school districts levying more than 185 mills, this section provides the authority for the levy in an amount over 185 mills. School districts are removed from this section.

Section 4

Section 57-15-01.2 is created by the bill draft to create a provision identical to Section 57-15-01.1 except that it applies only to school districts and in subdivision d of subsection 3, it requires a reduction of levy authority in dollars in the amount of property tax relief allocated to the school district for the budget year to the extent that amount exceeds the property tax relief allocation of the school district in the base year.

Section 5

Section 57-15-14 currently allows a school district to levy up to 185 mills and to increase its levy in dollars by 18 percent per year until the 185-mill limit is reached. Beginning in taxable year 2007, the bill draft would reduce the maximum levy to 165 mills and would reduce the maximum annual increase for school districts levying less than 165 mills to two percentage points more than the consumer price index increase for the Midwest region.

Section 57-15-14 also currently allows voter approval of unlimited levy authority for school districts. The bill draft would eliminate the option of voter approval of unlimited levy authority and allow voter approval of an increase of up to 5 percent more than the maximum levy otherwise allowed by law. The bill draft would not terminate unlimited levy authority for a school district in which voters have previously approved an unlimited levy. During the 2004-05 school year, Bismarck, Grand Forks, and Williston School Districts had unlimited levy authority.

Section 6

Section 57-15-31 is amended by the bill draft and would require subtraction of the property tax relief allocation for a school district from the school district budget in determining the property tax levy for the district.

EXAMPLES OF EFFECTS OF THE BILL DRAFT FOR SCHOOL DISTRICTS

Attached as Appendix B is a computation prepared by the Department of Public Instruction to illustrate the effect of the bill draft using a 60 percent reduction in the maximum statutory mill rate to determine the adjusted combined education mill rate for each school district. Attached as Appendix C is information prepared by the Department of Public Instruction to illustrate the effect of a 75 percent reduction in the maximum statutory mill rate to determine the adjusted combined education mill rate for each school district.

ATTACH:3