



IASB

Iowa Association
of School Boards

Vision & Voice for Public Education



School Aid Formula – Property Tax Inequities

Presentation to the School Finance
Inequities Study Committee

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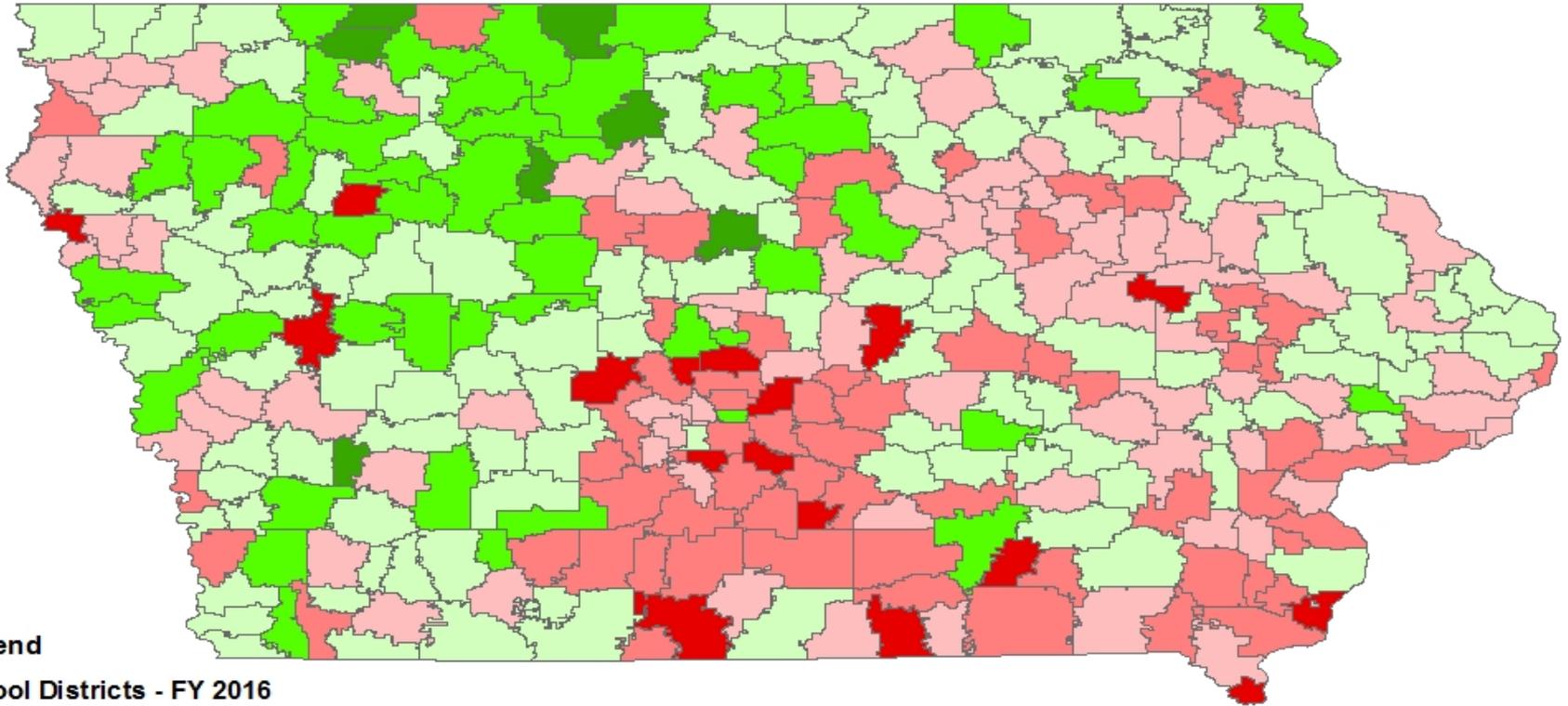
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Issue

Property tax wealth of a district leads to differences in the effort for school districts to levy taxes



Iowa Association of School Boards FY 2016 School District Taxable Valuations per Pupil



Legend

School Districts - FY 2016

Taxable Valuations Per Pupil

- Below \$200,000 (17 Districts)
- \$200,001 - \$275,000 (67 Districts)
- \$276,000 - \$339,539 (84 Districts)
- \$339,540 - \$500,000 (111 Districts)
- \$500,001 - \$799,999 (50 Districts)
- \$800,000 and over (7 Districts)

Sources:
Iowa Department of Management, School Aid file
IASB analysis and calculations

Note: Limitations on Estimates and Options

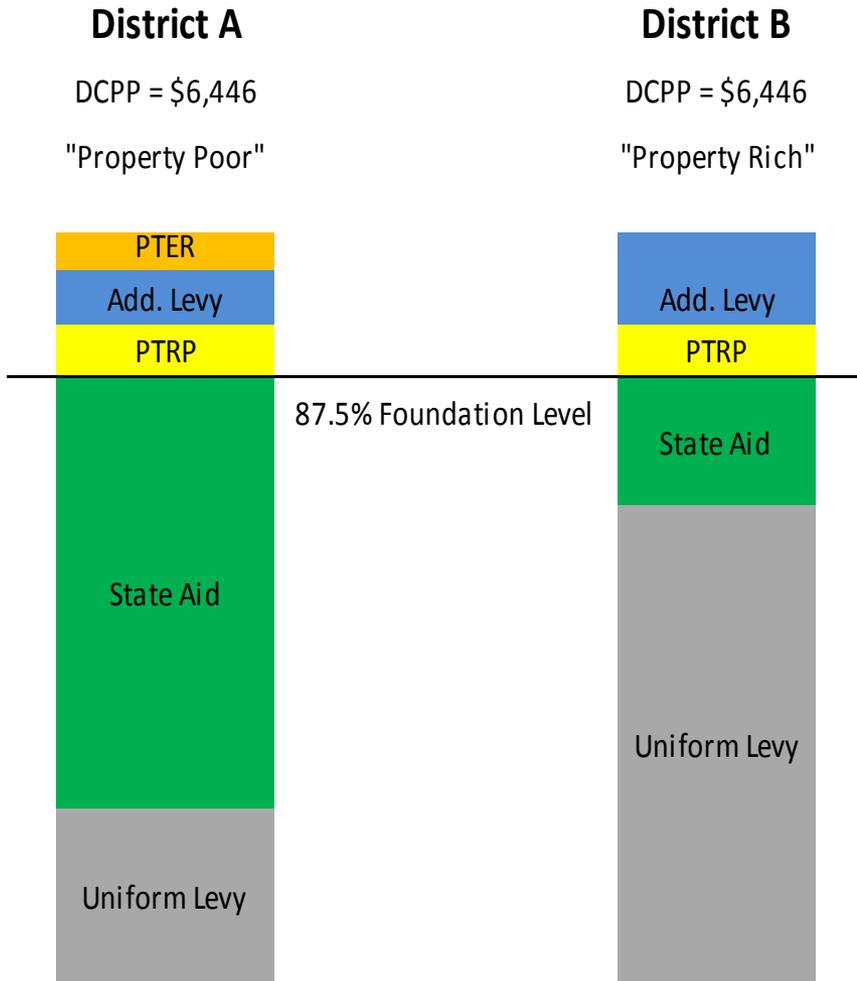
Cost estimates provided in these options are based on a variety of assumptions, policy variables that may change, and the most currently available data. Variations in any of these factors will have an impact on estimates.

Additionally, the IASB has not endorsed any of the options provided in this presentation.



Currently – Per Pupil Funding

FY 2016 - Current Law Example



District A:

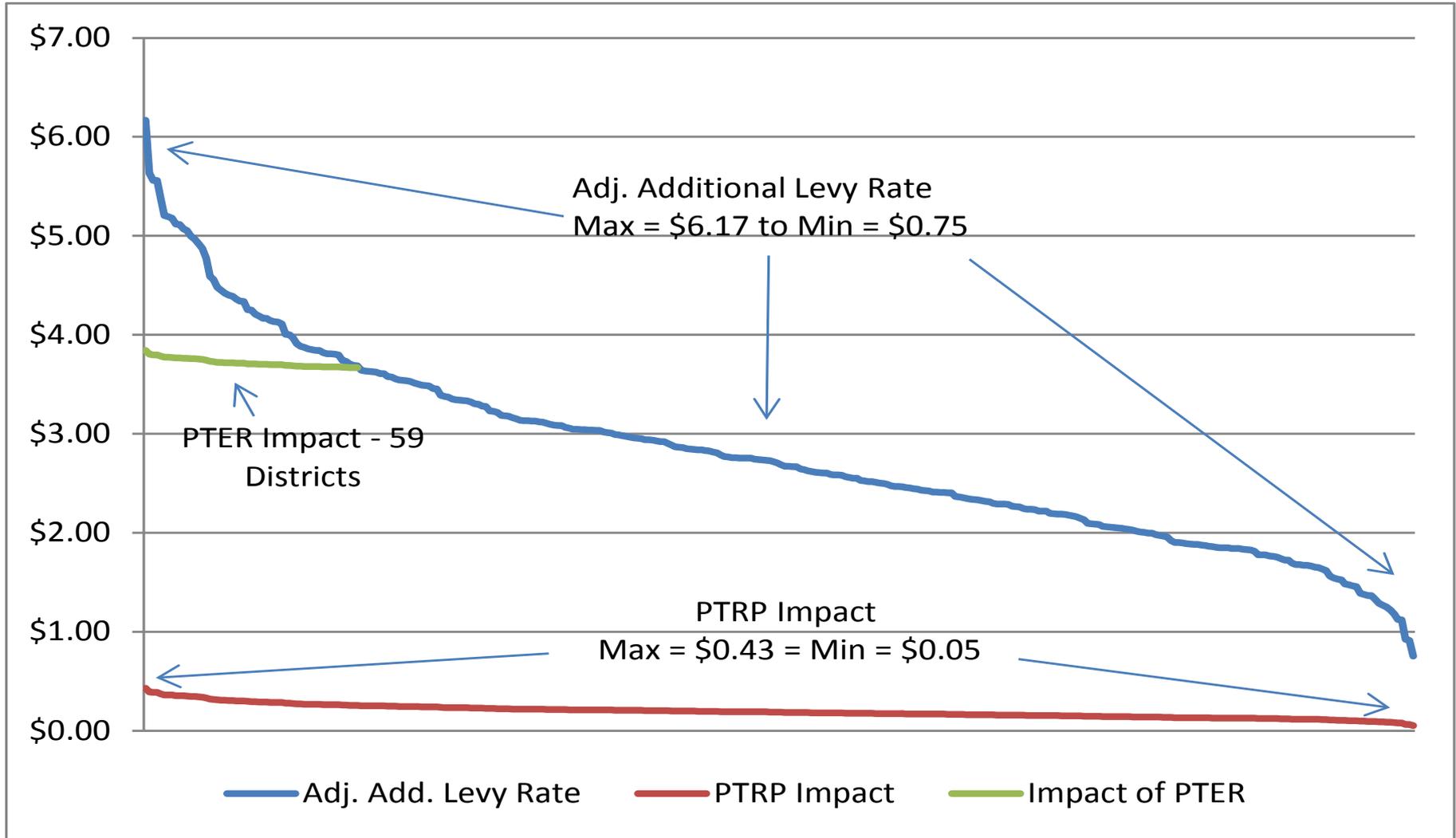
- Uniform Levy = \$1000 per pupil
- State Aid = \$4640 per pupil
- PTRP = \$56 per pupil
- Additional Levy = \$446 per pupil
- PTER = \$304 per pupil
- **DCPP = \$6446**

District B:

- Uniform Levy = \$5000 per pupil
- State Aid = \$640 per pupil
- PTRP = \$56 per pupil
- Additional Levy = \$750 per pupil
- PTER = \$0
- **DCPP = \$6446**

Example only – amounts not to scale

FY 2016 – Property Tax Relief



- After property tax relief provisions: rates ranged from \$3.41 to \$0.70
- PTER = \$30.3 Million (59 Districts impacted)
- PTRP = \$31.1 Million (all districts impacted)

Options (not IASB Proposals)

- **Option 1:** Freeze the foundation level where it currently is for FY 2016 (about 88.4% due to the SSA pick-up, referred to as property tax replacement payment - PTRP) and add the additional SSA pick-up approved for FY 2017 to PTER Fund
- **Option 2:** Freeze the foundation level where it currently is for FY 2017 (will depend on FY 2017 SSA) and increase the percentage (currently at 2.1%) of SAVE excess that flows into PTER Fund
- **Option 3:** Freeze the foundation level where it currently is for FY 2017, increase the uniform levy rate to \$6.40, and use the resulting state aid savings to increase the foundation level further

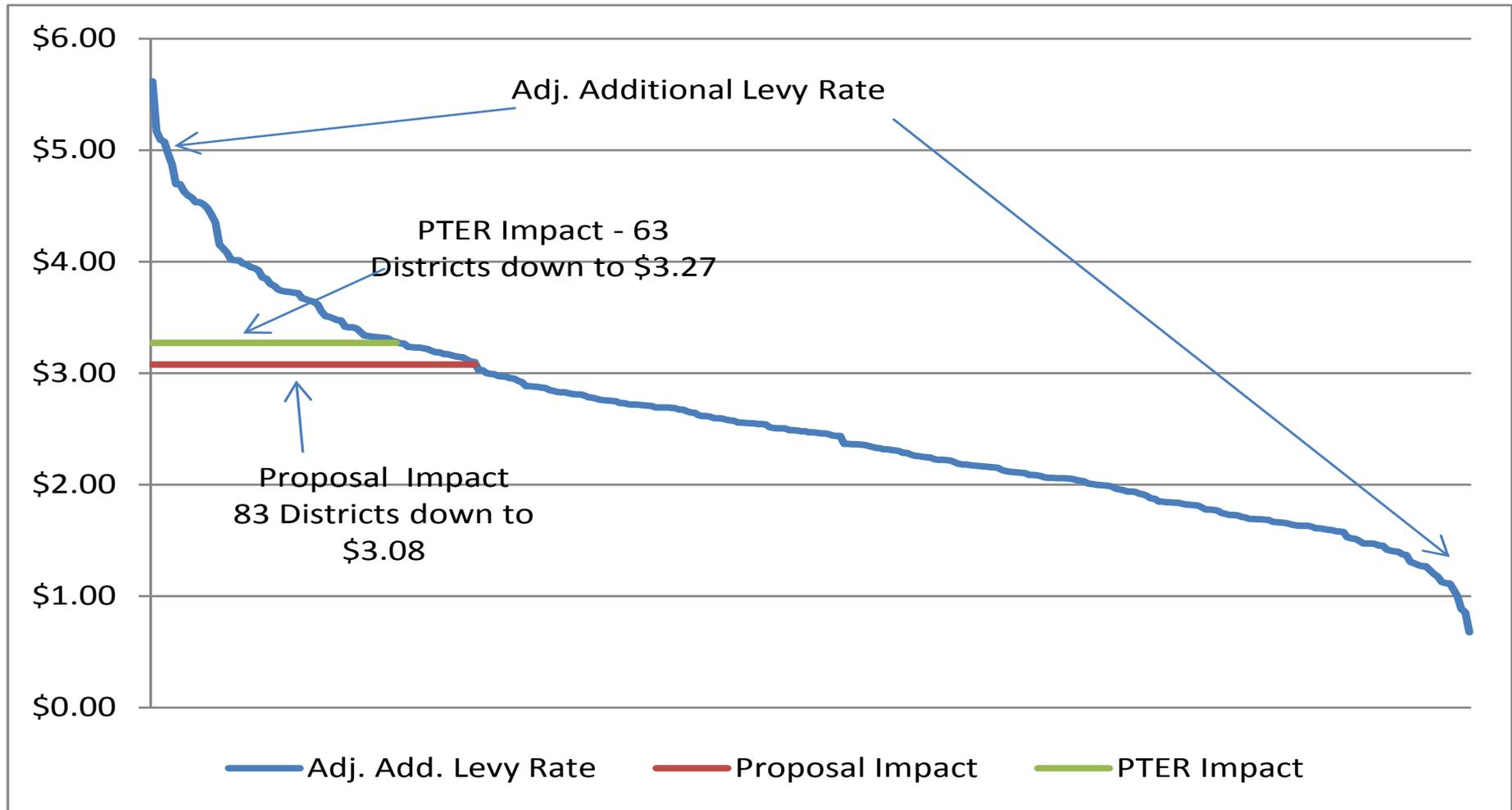


Option 1

- Freeze the foundation level at 88.36% (this is the FY 2016 effective level)
- Use the funding that would have gone to PTRP (Each 1.0% SSA = \$4.5 Million) and apply to PTER
- This will provide property tax relief to property poor school districts
- So, option for PTER is:
 - \$24 Million from General fund
 - \$9.5 Million excess from SAVE fund
 - Proposal – Use \$9.0 Million from PTRP for FY 2017 (assumes 2.0% SSA)
 - Total = \$42.5 Million



Option 1: How it works (FY 2017 Estimates)



- Proposal provides a total \$42.5 Million for PTER
- 83 districts benefit – rate down to \$3.08
- Statewide average rate = \$2.77 (need an additional \$17.5 Million to get there)

Option 1 – Pros and Cons

- Pro: Generally, no added fiscal impact on state budget (funds are already built-in)
- Pro: Provides property tax relief to districts that need it the most
- Con: Not all districts receive this property tax relief
- Con: Deviates from the proposed FY 2017 property tax replacement payment

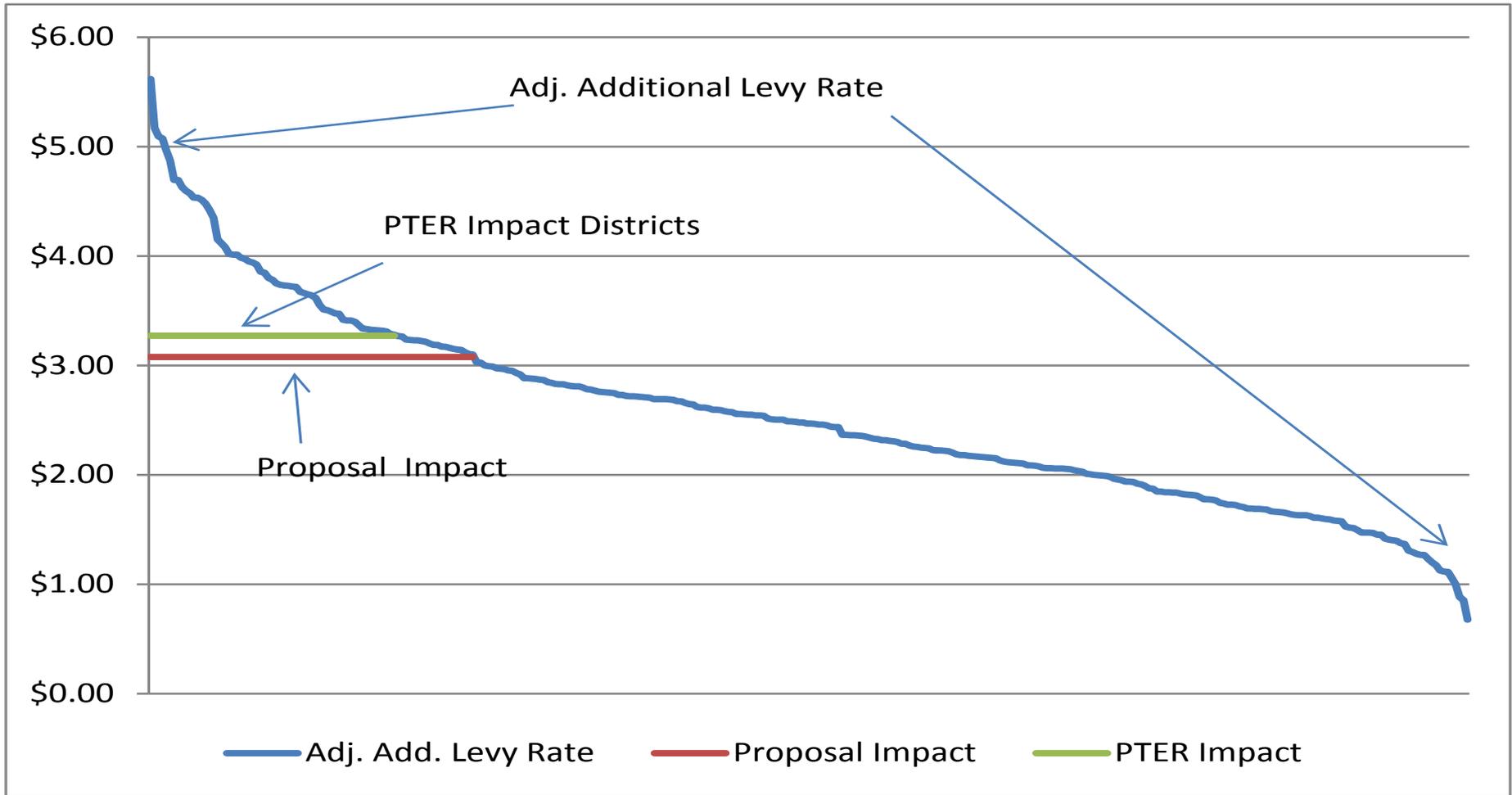


Option 2

- Freeze the foundation level at 88.59% (this is the FY 2017 effective level assuming 2.0% SSA)
- Divert funding from SAVE to PTER beginning in FY 2018 (each 1.0% from SAVE Fund = \$4.5 million)
- This will provide property tax relief to property poor school districts
- So, option for PTER in FY 2018 is:
 - \$24 Million from General fund
 - \$9.5 Million excess from SAVE fund (estimated)
 - Proposal – increase SAVE fund percentage to PTER from 2.1% to 4.1%)
 - Total = \$42.5 Million



Option 2: How it works (FY 2018 Estimates)



This generally mimics results from Option 1, only additional funds for PTER are from SAVE and initial year is FY 2018

Option 2 – Pros and Cons

- Pro: Generally, no added fiscal impact on state budget (funds are coming from the SAVE Fund)
- Pro: Provides property tax relief to districts that need it the most
- Con: Not all districts receive this property tax relief
- Con: This reduces the amount of SAVE funds for all districts - \$9 million reduction in SAVE = \$19 per pupil reduction



Option 3

- Freeze the foundation level at 88.59% (this is the FY 2017 effective level assuming 2.0% SSA) beginning in FY 2018
- Increase the Uniform Levy rate from \$5.40 to \$6.40
- Use state aid savings from uniform levy increase to increase foundation level (estimated at \$160 million)
- Use the \$160 Million to increase the foundation level (estimated at 92.9%)
- Optional hold-harmless provision (state funded) for districts that would have property tax increase (estimated at \$22.6 million)



Option 3: How it works (FY 2018 Estimates)

FY 2018 - Current Law Example

FY 2018 - Option 3 Example

District A

District B

District A

District B

DCPP = \$6,707

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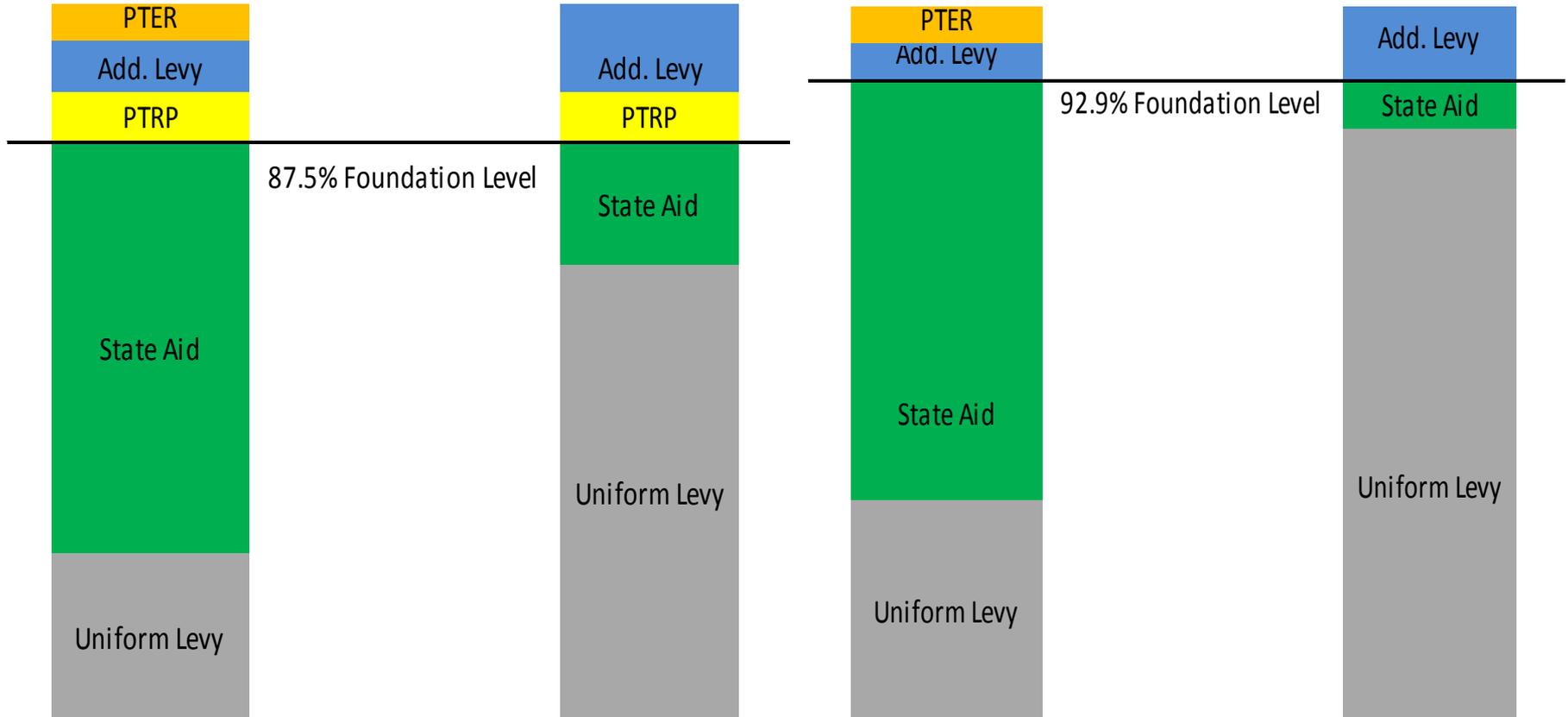
DCPP = \$6,707

"Property Poor"

"Property Rich"

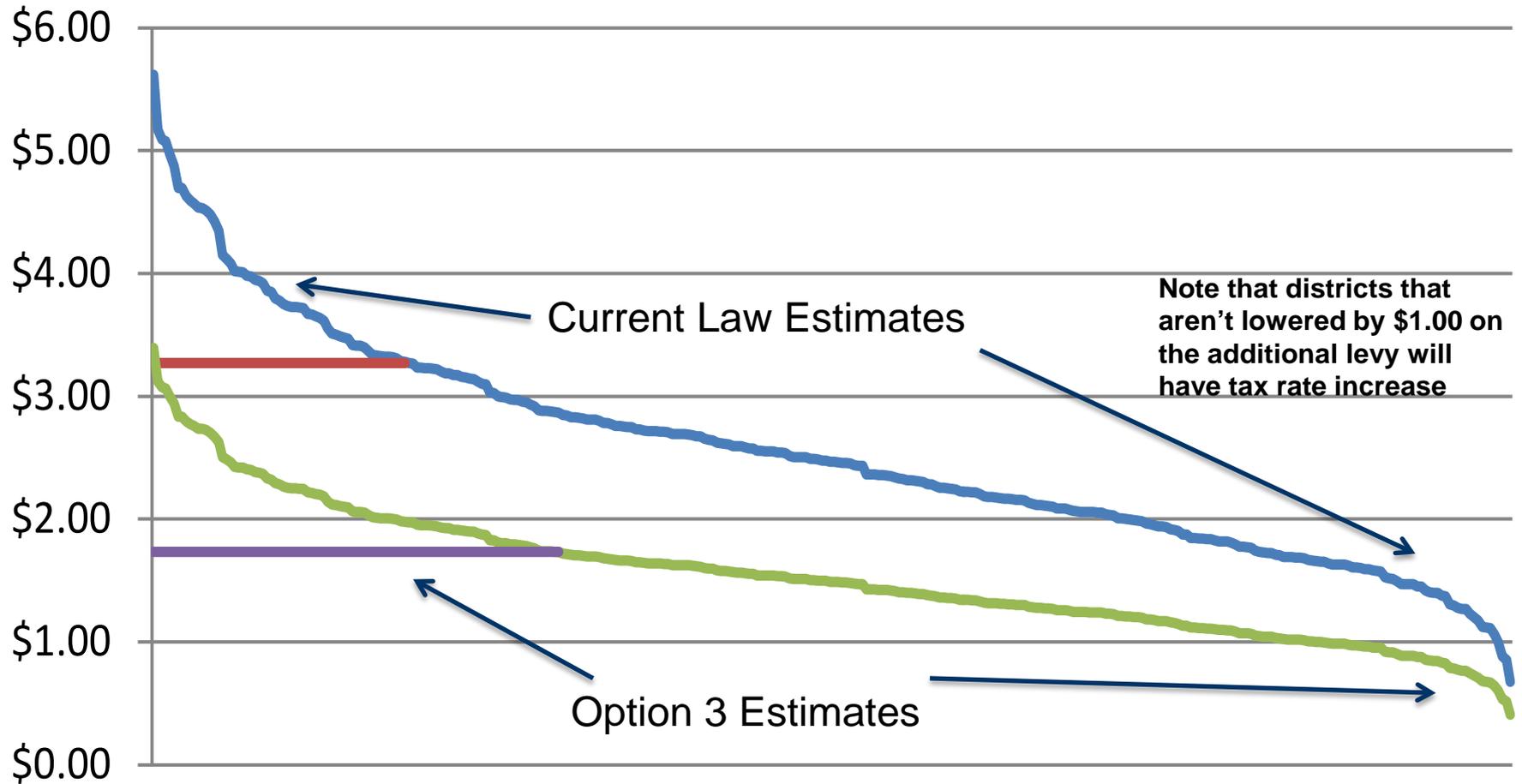
"Property Poor"

"Property Rich"



Example only – amounts not to scale

Option 3: How it works (FY 2018 Estimates)



— Current Law Est.

— Current Law Est. w/PTER

— Option 3

— Option 3 w/PTER

Option 3 – Pros and Cons

- Pro: Provides for an equalization of tax levy rates through the school aid formula
- Pro: Revenue neutral unless there is a hold harmless provision (costs \$22.6 million under this scenario)
- Con: Not all districts receive this property tax relief and some would have property tax increase (generally property rich districts)



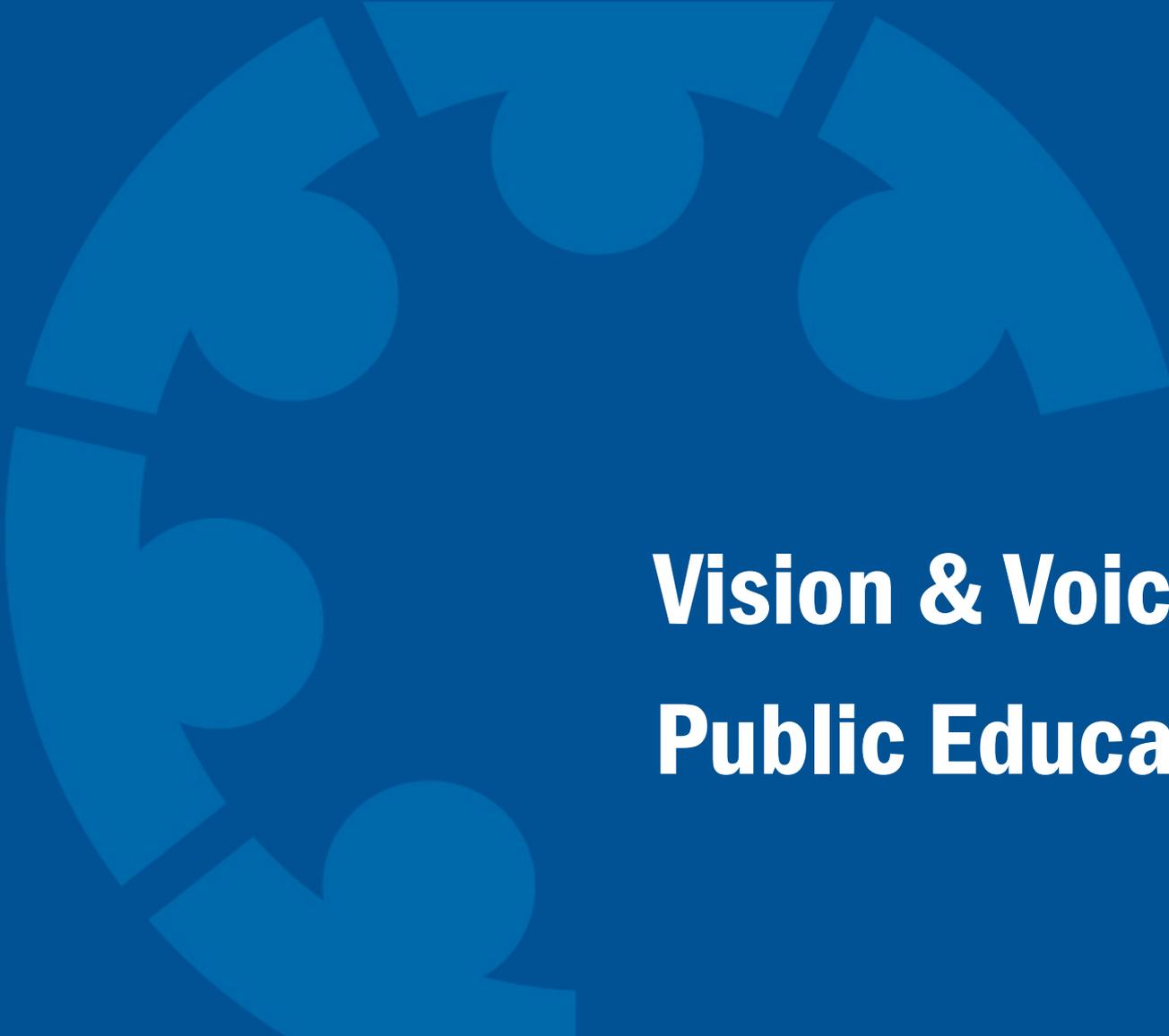
Options – Final Thoughts

- These aren't the only options and these options can be modified
- These options only address small portion of school district levies
- Districts that are property poor still require a more significant effort to levy for other programs
- It's important to note that providing for additional property tax relief does not increase school district operational budgets



Questions?





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