

How does the new property tax law impact MSD?

By David Goodwin (Thursday, May 22, 2008)

We have spent a number of hours in meetings since the legislature adjourned concerning the recent property tax legislation and the impact on public schools. A few things are becoming clear. First of all is that it depends on who and where you are as to how you see this legislation. The legislation has a very different impact on cities and towns than it has on schools. In fact, it has a very different impact from school district to school district.

I will only speak to how I see this legislation impacting Metropolitan School District of Steuben County. The primary change is that this legislation takes property taxes completely out of the general fund as a source of revenue. In the case of MSD, about half of our general fund revenue came from property taxes. On a statewide basis about fifteen percent of general fund support came from property taxes. The difference is found in the funding formula and local tax rates and assessed values. Without getting too specific, suffice it to say that no public school district general fund will have any property tax revenue in the future.

The state decided to remove property taxes as a source of revenue to school district general funds as a way to reduce property taxes. The shortfall is to be made up by increasing the sales tax from six to seven percent. This is a fairly straight forward exchange of property taxes for sales taxes. School district general funds will continue to be funded by the funding formula set by the state legislature. The major difference will be that this formula will no longer factor in property taxes. It will be funded primarily by sales tax and income tax.

As you might imagine, I do have a concern with this arrangement. My education and experience has taught me that property tax is a stable tax. That is, it is the one tax that is the most isolated from economic ups and downs. Sales tax and income tax will vary from year to year as the economy ebbs and flows. Property tax remains stable. Obviously, public opinion thought it was time for a change. So, the legislature reasoned and we have a change. My concern remains. As the economy is in a downward trend, the collection of sales and income tax may well decline. I do not think this bodes well for the public school general fund. The legislature did establish a rainy day fund to safeguard against such a problem. It will be up to the legislature to determine any increases in funding for the general fund. Again, this is the fund that pays for salaries, benefits, insurance and utilities.

You have probably heard more about the circuit breakers. These are really just caps on what you have to pay on your property taxes. The caps are one percent on residential property, 2 percent on rental property, and three percent on commercial and business property. Most of us will be most concerned about the 1 percent cap. A very simplified explanation is that if your home is assessed at \$125,000, your property tax cannot exceed \$1,250 per year for all purposes combined. This would include the school district tax rate, city tax rate, county tax rate, township tax rate, library tax rate, etc. This legislation also allows for what is called trending. That means your assessed value will increase each year as the value of similar residences increases. So your actual dollar limit can increase as your assessed value increases but will never be more than 1 percent of that assessed value. As an example, if your assessed value increases to \$130,000, your 1 percent limit will increase to \$1,300.

Please note that this legislation takes property taxes out of school district general funds. As such, the circuit breakers or caps have no impact on our general fund. Any impact will be to our capital projects fund, transportation fund, and school bus replacement fund. These funds may only collect as the caps allow. Keep in mind that the caps will impact all taxing units. That is why cities, towns, counties, libraries and other taxing units may be concerned about the impact on their budgets. It is certainly why I am concerned about the potential impact on the capital projects fund budget, transportation budget, and school bus replacement budget. As you may know, our debt service budget is also funded from property taxes. Indiana statute requires us to pay this debt before addressing any other expenditure.

The difference in impact varies widely from school district to school district. The lower the property tax rate compared to the assessed valuation in a particular school district the smaller the impact. The projected impact on MSD in 2009 and 2010 combined is approximately \$30,000. While that is a significant amount of money, it is not great when compared to the total budget for two years. An example on the other end is Southwest Allen County Schools. The projected loss of property tax revenue for the same time period is over \$2.5 million for that school district. In fact, there are some fifteen school districts in Indiana that are projected to see a loss greater than one million dollars. While I hope those projections are incorrect for them, I hope the projections are correct for MSD.

Our major current concern with property taxes is the continuing problem the county has in collecting them. The county has the responsibility of collecting property taxes for all taxing units in the county. This includes school districts, cities and towns, libraries, townships, etc. The county must first collect these taxes before the taxes can be properly distributed to the various taxing units. This process has been delayed many times over the past several years for a number of reasons. In a normal year, the first installment of property taxes would have been due on May 10. These bills have yet to be issued much less collected.

Our budget is built and approved based on the timely distribution of property taxes. Our expenses continue even though the taxes are not being distributed. This sometimes causes us and other taxing units to have to borrow money. We have found the most efficient and lowest cost way to do this is through the Indiana Bond Bank. This entity packages the debt of many units of government and consequently can realize the economies of scale. Our interest rate for current borrowing is just over two percent.

The problem with borrowing, of course, is that it must be paid back. In the case of schools, this debt is added to the current debt in the debt service fund. You will recall that this is the fund that pays the debt that we have incurred over the years to build and/or

remodel our school buildings. So, the taxpayers end up paying the interest on the money we have to borrow due to the late distribution of property tax dollars.

Changes in assessment procedures, trending, etc., have caused most of these problems. Hopefully, the Legislature will allow our county officials to catch up with the current requirements before adding more. As always, the cost of all of these changes is borne by the local taxpayer.

I apologize if some of this is a bit technical. Several have asked how this legislation will impact MSD and this is my response.

DAVE GOODWIN is the superintendent of the Metropolitan School District of Steuben County. His columns appear periodically in the Herald-Republican.