

Better knowledge.
Better choices.

Statewide Property Tax for Schools

REFERRED QUESTION NO. 1

(Referred to the People by the General Assembly)

POPULAR NAME: To increase the statewide uniform rate of ad valorem property tax for maintenance and operation of schools by three (3) mills, from twenty-five (25) mills to twenty-eight (28) mills.

BALLOT TITLE:

To increase the established uniform rate of ad valorem property tax under amendment 74(b)(1) of the Arkansas Constitution by three (3) mills from twenty-five (25) mills to a total of twenty-eight (28) mills by amending Arkansas Code Title 26, chapter 80, subchapter 2 to add a new section to read as follows:

26-80-208. Uniform rate of ad valorem property tax.

- (a) (1) There is established a uniform rate of ad valorem property tax of twenty eight (28) mills to be levied on the assessed value of all taxable real, personal, and utility property in the state to be used solely for maintenance and operation of the schools.
- (2) The established uniform rate of ad valorem property tax of twenty-eight (28) mills is equal to the twenty-five (25) mills levied under Arkansas Constitution, Amendment 74, and an additional three (3) mills levied under this section.

- (3) (A) Except as provided in this subdivision (a)(3) the additional three (3) mills levied under this section shall not be an additional levy for maintenance and operation of the schools but shall replace a portion of the existing rate of tax levied by each school district available for maintenance and operation of schools in the school district. The rate of tax available for maintenance and operation levied by each school districts on the effective date of this section shall be reduced to reflect the levy of the uniform rate of tax.
- (B) (i) If the rate of tax available for maintenance and operation levied by a school district on the effective date of this section exceeds twenty-eight (28) mills, the excess rate of tax shall continue to be levied by the school district until changed pursuant to Amendment 74 of the Arkansas Constitution.

- (ii) If the rate of tax available for maintenance and operation levied by a school district on the effective date of this section is less than twenty-eight (28) mills, the uniform rate of tax of twenty-eight (28) mills shall nevertheless be levied in the district.

(b) (1) This section shall be effective January 1, 2005.

- (2) The uniform rate of ad valorem property tax of twenty-eight (28) mills shall apply beginning with the assessment of property in 2004 for which taxes are collected in 2005.

FOR increasing the established uniform rate of ad valorem property tax by three (3) mills from twenty-five (25) mills to a total of twenty-eight (28) mills.

AGAINST increasing the established uniform rate of ad valorem property tax by three (3) mills from twenty-five (25) mills to a total of twenty-eight (28) mills.

Why is this Referred Question on the November ballot?

Both houses of the Arkansas General Assembly passed House Bill 1162 which is Act 89 of the 2nd Extraordinary Session of the 84th General Assembly. This Act asks for voter approval to increase the uniform rate of property tax millage for maintenance and operation of public schools from 25 to 28 mills. The Arkansas Constitution, Amendment 74(b)(4) authorizes the General Assembly to propose an increase in the uniform rate of tax and submit the question to the voters at a general election.

By passing House Bill 1162 legislators determined that there is an immediate need for additional funding to maintain and operate Arkansas' public schools as mandated by the Arkansas Supreme Court. The Supreme Court said that Arkansas' public schools are inadequately and inequitably funded and that the State is required to provide an adequate and equitable education for public school students in Arkansas.

What does the Referred Question do?

If passed by a majority of the voters in November, all school districts would be required to collect a unified property tax of 28 mills on assessed property to go towards the maintenance and operation of public schools. This is an additional three mills from the current law requiring school districts

to collect a unified property tax of 25 mills. Since some school districts already collect 28 mills or more for maintenance and operation of public schools, all school districts would not be required to increase their millage rate. Only those school districts that currently collect less than 28 mills for maintenance and operation of public schools would be required to increase their millage rates.

How much additional revenue would be generated?

The Arkansas Assessment Coordination Department estimates that the increase in the uniform property tax rate from 25 to 28 mills would increase state revenue for schools by \$85M in 2005. The amount of additional property tax revenue paid by taxpayers would likely be less than \$85M since some school districts already assess more than 25 mills for maintenance and operations. Therefore, taxpayers in these school districts may see their property tax rates stay the same or increase by less than 3 mills.

How are school districts affected?

Currently 31 of the 308 school districts assess 28 mills or more for maintenance and operations and would not have to increase their millage rate to be in compliance with this proposed increase in the unified property tax rate. Another 42 school districts currently assess more than 25 mills, but less than 28 mills. Therefore, 235 school districts will be required to raise their property tax rate for maintenance and operations by three mills, another 42 districts will be required to raise their rates, but less than 3 mills, and 31 school districts will not be required to raise their rates.

Some school districts that are not required to raise their tax rates to meet the requirements of Referred Question #1 may lose some revenue if they don't raise tax rates while other school districts will receive more funding than they collect from the 3 mills. Some districts would lose revenue if they do not receive back from the state the same amount of local revenue they are currently generating that stays in the school district.

For example, consider a wealthy school district with a large per capita tax base that has a 28 mill property tax rate for maintenance and operations. This district sends the revenue generated from 25 mills to the state for redistribution back to school districts based on the legislatively approved funding

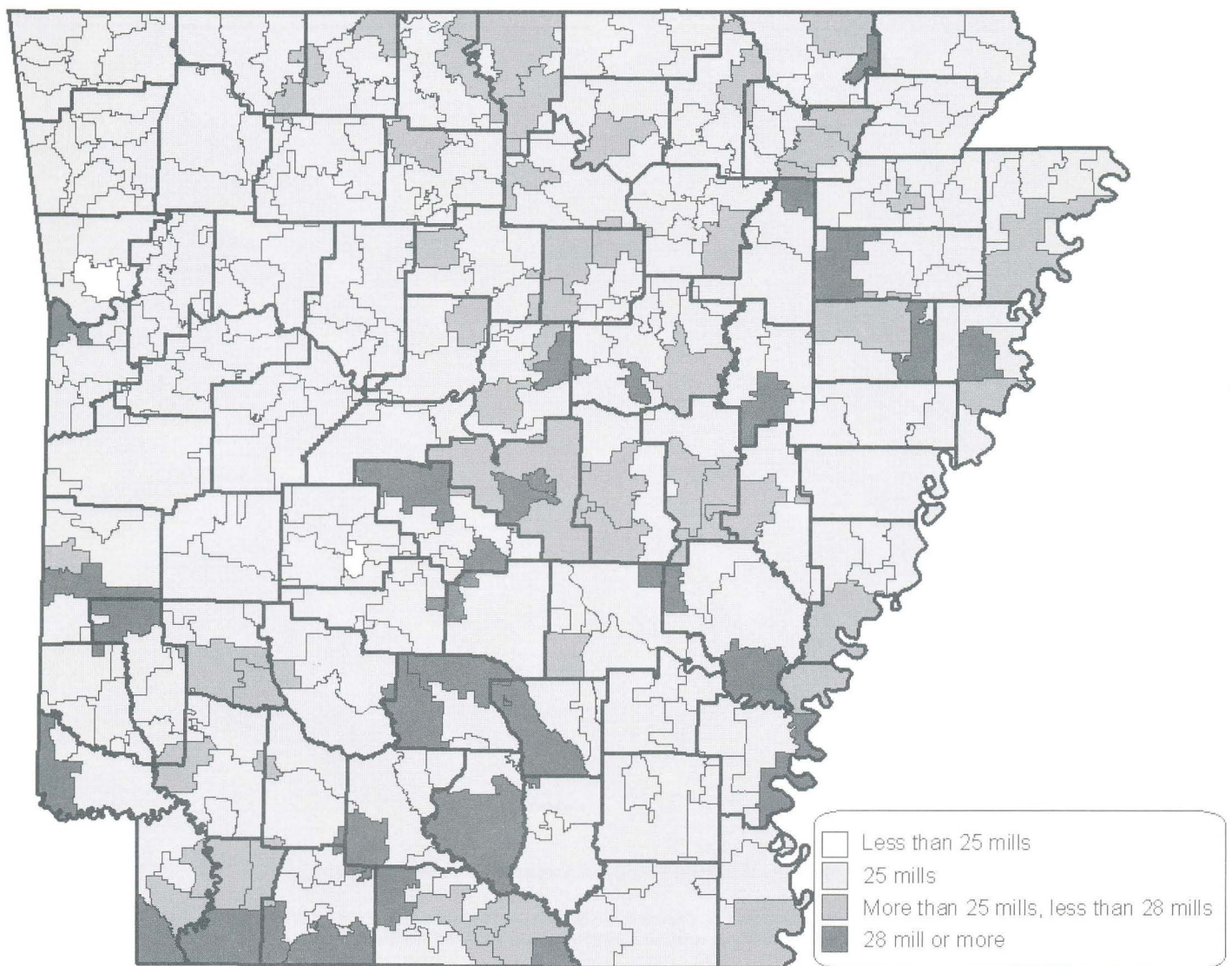
formula. The district keeps the revenue generated from 3 mills for maintenance and operation of schools in its district. If the uniform tax rate increases to 28 mills, then this school district would send the revenue from the entire 28 mills to the state for redistribution to school districts in Arkansas based on the legislatively approved funding formula. If the additional revenue the school district receives from the funding formula is less than the revenue from the three mills sent to the state, then the school district would have less funding for maintenance and operations of its schools.

However, since **all** funds received by the state from the uniform property tax rate must be redistributed to school districts, if some school districts lose revenue other school districts will receive more revenue than they collect locally. This feature is built into the school district funding

formula to help satisfy the court mandated requirement that the state provide an adequate and equitable education to all public school students. School districts in less affluent regions of the state do not have the tax base to generate the revenue needed for schools without imposing extremely high tax rates.

Also, school districts receive more funds from the property tax than generated locally because of the property tax credit for homesteads. People who own their homestead receive up to \$300 in property tax credits. Although the homeowners receive this credit, the school district does not lose this revenue. The state passed a 0.5% sales tax that took effect January 2001 to generate revenue to reimburse school districts and local governments for the funding they would lose from the property tax credit.

School District Millage for Maintenance and Operation, December 2003



Source: Arkansas Department of Education data.

Who would pay the additional tax?

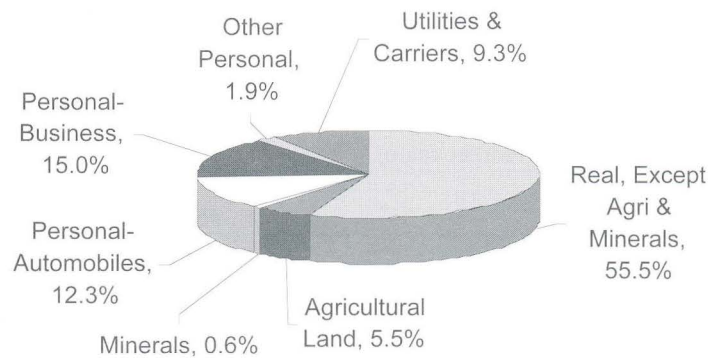
Property tax is paid on real, personal and utility property. Real property is all tangible real estate that is fixed, immovable property that includes land and all improvements such as commercial buildings, homes and mobile homes. Personal property is tangible and movable such as cars, boats, recreational vehicles, livestock and business inventory. Real and personal property taxes are collected from both commercial and residential property. Utilities and carriers pay real and personal property taxes on property used or held for use. Currently about 62 percent of property tax revenues are collected from real property, 29 percent from personal property and 9 percent from utilities. Using these relative shares, approximately \$52M of the expected revenue of \$85M is estimated to be generated from real property, \$25M from personal property and \$8M from utilities and carriers. A more detailed estimate of the source of the additional property tax is presented in the graph (above right).

How would property owners be affected?

Property owners in school districts that currently assess 28 mills or more for maintenance and operations will not see an increase in their property tax from this Referred Question unless the school district decides that they need to raise additional funds for their school district. Property owners living in school districts that currently impose less than 28 mills for maintenance and operations will experience an increase in their property taxes if they currently receive the entire \$300 property tax credit on their homestead. Homeowners who currently receive less than the \$300 in property tax credits may not have to pay additional taxes on their homestead. However, they will have to pay an additional 3 mills or less on the assessed value of their personal property. Personal property consists of automobiles, boats, etc.

To help property owners calculate the additional property tax that they may be required to pay we provide three examples (in table on page 5) using assumptions that can be changed to fit your particular situation. To illustrate how you can calculate the additional property taxes you may owe we explain example 1 in the following table. The homestead in example 1 has a market value of

Estimated Source of Additional Property Tax Revenue



Source: Computed from Arkansas Assessment Coordination Department and Arkansas State Treasury data.

\$30,000 and an assessed value of \$6,000 (20% of market value). We assume this homestead is located in an area with a total property tax rate of 45 mills. Multiplying the assessed value of the homestead (\$6,000) times the tax rate (45 mills) yields a property tax of \$270 on this homestead. However, since a homeowner can claim a property tax credit on their homestead of up to \$300, no property taxes are owed on this homestead. However, this homestead owes property taxes on their personal property. Assuming this homeowner has personal property worth \$10,000, the homeowner must pay \$90 in property taxes (\$2,000 times 45 mills).

Increasing the property tax millage rate by three mills raises the property tax rate to 48 mills for this homeowner. This homeowner would still not owe any property taxes on the homestead because the amount of the property tax (\$288) is less than the allowed property tax credit of \$300. Therefore, the only additional property tax this homeowner would be required to pay is the additional tax owed on personal property which is \$6. You can use a similar process for evaluating examples 2 and 3 in the following table and for computing the additional taxes owed in your circumstance.

Administration of revenue

The additional revenue collected by increasing the uniform rate of property tax by three mills is estimated to be \$85 million in 2005.

This additional revenue would be remitted to the State Treasurer and distributed by the State to the school districts as provided by law. No portion of the revenues from the uniform rate of tax can be retained by the State.

Examples of Additional Property Tax Owed if Uniform Tax Rate Increases by 3 Mills						
	Example 1		Example 2		Example 3	
	Current	Proposed	Current	Proposed	Current	Proposed
Real Property						
Homestead (Market Value)	\$30,000	\$30,000	\$60,000	\$60,000	\$120,000	\$120,000
Assessed Value (20% of market value)	\$6,000	\$6,000	\$12,000	\$12,000	\$24,000	\$24,000
Total Property Tax Rate*	45 mills	48 mills	45 mills	48 mills	45 mills	48 mills
Property Tax on Homestead	\$270	\$288	\$540	\$576	\$1,080	\$1,152
Property Tax Credit	\$270	\$288	\$300	\$300	\$300	\$300
Property tax owed on homestead	\$0	\$0	\$240	\$276	\$780	\$852
Personal Property						
Personal Property (Market Value)	\$10,000	\$10,000	\$20,000	\$20,000	\$40,000	\$40,000
Assessed Value (20% of market value)	\$2,000	\$2,000	\$4,000	\$4,000	\$8,000	\$8,000
Total Property Tax Rate*	45 mills	48 mills	45 mills	48 mills	45 mills	48 mills
Property Tax on Personal Property	\$90	\$96	\$180	\$192	\$360	\$384
Property Tax Credit	\$0	\$0	\$0	\$0	\$0	\$0
Property tax owed on homestead	\$90	\$96	\$180	\$192	\$360	\$384
Total Property Tax on Homestead and Personal Property	\$90	\$96	\$420	\$468	\$1,140	\$1,236
Additional Property Tax		\$6		\$48		\$96

*This **Total Property Tax Rate** is for illustrative purposes only. It is an approximate average of total property tax rates in the state. By substituting the total property tax rate of your tax district and applying it to the assessed value of your real and personal property, you can determine the actual effect of this Referred Question on your taxes owed.

The following statements are what supporters and opponents of the act report in their literature and on their web sites. By presenting these statements the University of Arkansas does not endorse or in any way validate the statements.

What do supporters say?

- Additional funding is required to provide a quality education for Arkansas schoolchildren.
- Increasing the uniform rate of property tax millage is the best way to raise additional revenue for public schools.
- It will make the distribution of State Foundation Aid to schools more equitable. Raising the uniform rate of property tax to 28 mills will generate additional revenue for the

State to redistribute to schools through the education funding formula which benefits poorer schools.

What do opponents say?

- Additional funding without major structural changes will not improve public education.
- Current funding for public education is adequate.
- Other options for raising revenue should be considered.

When does the legislation take effect if passed?

If passed by a majority of votes in the state of Arkansas, the additional three mills will be levied in all school districts beginning in 2005 on 2004 assessed property.

What does a “yes” vote mean?

All school districts in Arkansas will be required to collect a unified property tax of 28 mills on assessed property to go towards the maintenance and operation of public schools.

What does a “no” vote mean?

School districts will continue to be required to collect a unified property tax of 25 mills on assessed property to go towards the maintenance and operation of public schools.

Where can I find more information?

The complete and official text of each ballot measure can be obtained through the Arkansas Secretary of State’s office:

- Phone: 501-682-1010
- Web site: http://www.sos.arkansas.gov/elections_proposed_amendments.html

For other information, including major support and opposition groups, please visit our web site (<http://piec.uaex.edu>) or contact your county Cooperative Extension Service office.

Exercise your voting privilege.

We live in a democratic society where voting is both an obligation and a privilege of citizenship. Democracy works best when informed citizens exercise their voting privilege. Please vote November 2, 2004.

The University of Arkansas Cooperative Extension Service gives permission for individuals or organizations to copy and/or reproduce this fact sheet. UofA CES is to be appropriately cited as the source and the user will refrain from altering the content in any way that might be construed to suggest that the Extension Service is a proponent or opponent of the issue.