

Arkansas Property Tax: A Local Tax Supporting Local Services

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Property taxes have long been an important source of revenue for Arkansas school districts, cities and counties. They provide a substantial portion of funding for services provided by local governments, such as education, roads, hospitals, libraries and public safety. The purpose of this publication is to inform citizens about which local services property taxes fund, who pays property tax and how much property tax Arkansans pay compared to residents of other states.

The property tax is a local tax collected by local county government officials and distributed to local school districts and county and city governments. The exception is the 25 mill uniform property taxⁱ for K-12 schools. Revenue from this tax is collected by county governments and given to the state, which sends this money back to school districts, based on the K-12 foundation funding formula.

Local voters must approve all millage (property tax rate) increases, except for city and county general funds, county road funds and the statewide uniform property tax. The county quorum court may approve millage leviesⁱⁱ for county general and road funds up to the maximum allowed by state law. City governments may approve millage levies for the city general fund up to the maximum allowed by state law.

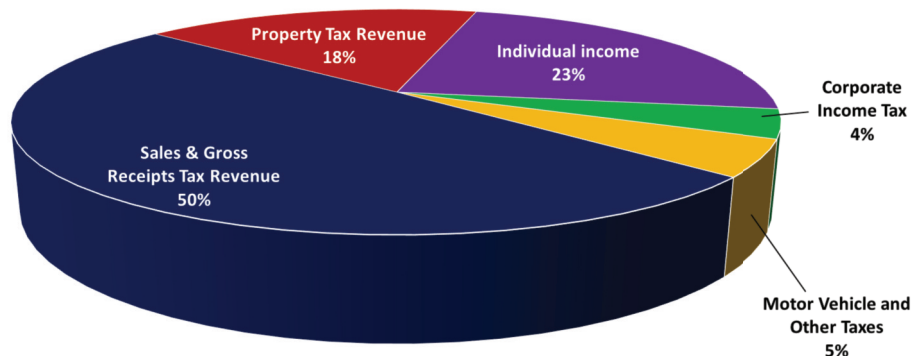
Revenue Generated by the Property Tax

Although local governments increasingly turn to alternative sources of revenue to fund critical services, property tax revenue remains key for many of Arkansas' county and city governments. Property taxes generated only 18 percent of total state and local tax revenue in 2015 in Arkansas (Figure 1). However, because the property tax only



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Figure 1. Arkansas State and Local Tax Revenue by Source, 2014-15



Source: State and Local Government Finances by Level of Government and by State (2015), U.S. Census Bureau Governments Division.

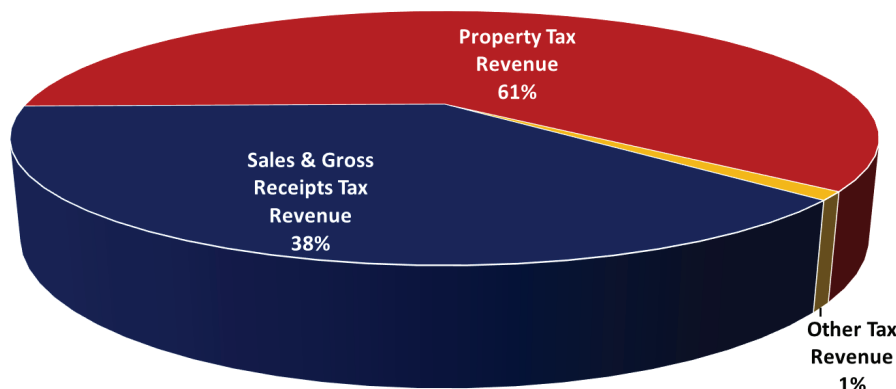
generates revenue for local governments in Arkansas, it represents a much larger share of local government tax revenue. In 2015, property tax revenue represented 61 percent of local government tax revenue, totaling \$2.1 billion (Figure 2).¹ This revenue is used to fund schools, county roads and streets, public safety and other local services.

Property taxes generated the largest share of local government tax revenue during the 20-year period from 1994-95 to 2014-15 (Figure 3). Property tax's share of local government tax revenue was between

60 percent and 70 percent during the 1990s then declined to approximately 57 percent during the next decade before increasing to around 61 percent from 2010 to 2015. During the 20-year period, the share of local sales tax revenue increased from 33 percent to 38 percent, reaching a high of 43 percent in 2006-07.

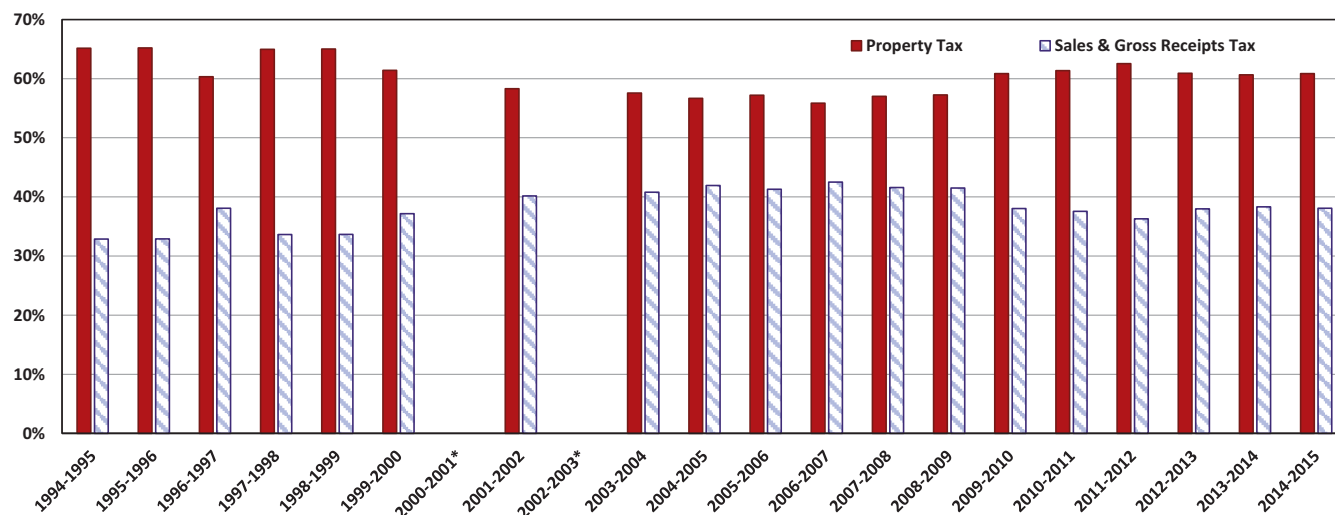
The property tax remains a vital source of revenue for county and city governments in Arkansas and is the primary source of local tax revenue for school and special assessment districts.

Figure 2. Arkansas Local Tax Revenue by Source, 2014-15



Source: State and Local Government Finances by Level of Government and by State (2015), U.S. Census Bureau Governments Division.

Figure 3. Arkansas Property and Sales Tax Revenue as a Share of Total Local Government Revenue, 1995-2015



*U.S. Census Bureau Governments Division finance data not available by state.

Source: State and Local Government Finances by Level of Government and by State (1995-2015), U.S. Census Bureau Governments Division.

¹The census data report statewide collections of property taxes, such as the statewide uniform property tax and tax on utilities and carriers, as state revenue. However, since these are really local taxes in which all revenue collected is returned to local governments, this revenue has been included as local tax in the figures in this publication.

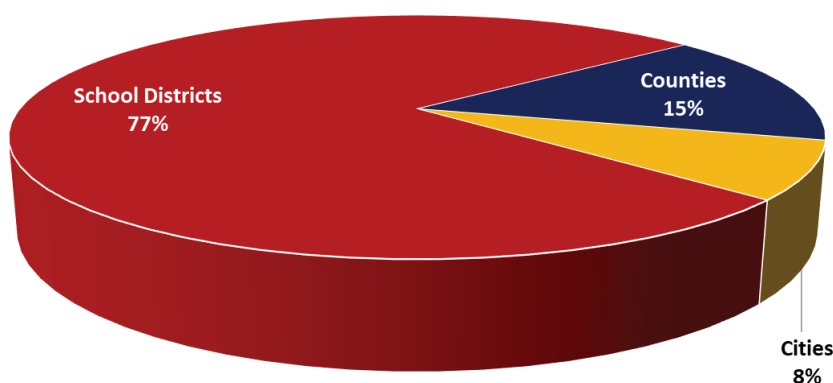
Local Services Supported by Property Tax Revenue

School districts received a little more than three-fourths (77 percent) of property tax revenue in the 2016-2017 school year (Figure 4). County governments received 15 percent and cities received 8 percent. The share of property tax revenue received by school districts, county and city governments in Arkansas' 75 counties varies depending on the mix of local taxes. In 2016, school districts received between 68 percent (Prairie County) and 91 percent (Fulton County) of the property tax revenue generated in their county.

Local Schools – Primary and Secondary Education

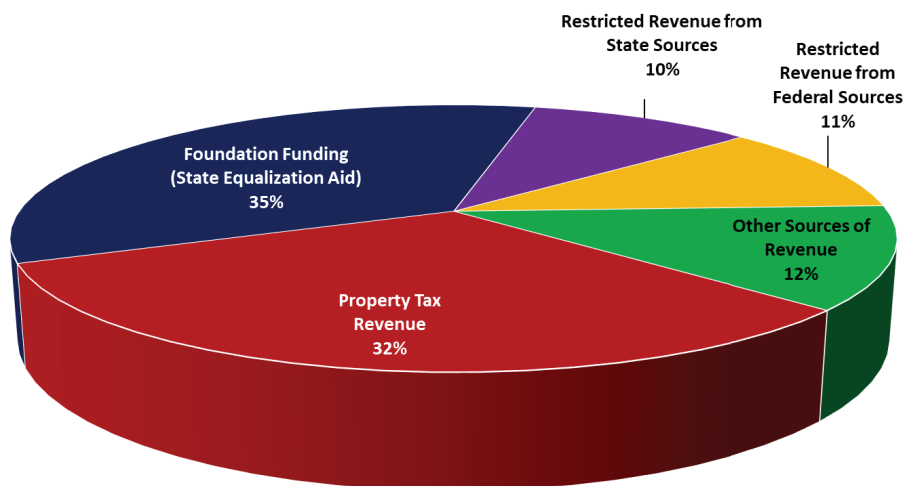
Although the largest share of public school district funding comes from state aid, property tax revenue generates a significant portion of revenue for K-12 schools. In the 2016-17 school year, property tax revenue contributed 32 percent of total school district funding (Figure 5).² With oversight from locally elected school boards, school districts administer property tax revenue for schools. The funds are used to pay teacher salaries, purchase school supplies and equipment, purchase and maintain school buses, build and maintain classrooms and fund other operating expenses.

Figure 4. Estimated Property Tax Revenue Statewide by Taxing Unit, 2016



Source: Computed from Millage Book 2015 (Payable 2016) and Assessed Values 2015 (Payable 2016) from the Arkansas Assessment Coordination Department.

Figure 5. Arkansas School District Revenue by Source, 2016-17



Source: Computed from the 2016-17 Annual Statistical Report, Arkansas Department of Education.

²Each school in Arkansas is entitled to a minimum amount of per student funding from the state (\$6,646 in 2017). These funds are generated by the uniform rate of tax (the state mandated 25 mill property tax that is levied and distributed locally to schools) and state equalization aid. State equalization aid is the amount of funding required after distribution of the property tax to meet the minimum required per student funding. Funds generated by the uniform rate of tax are included in property tax.

While property taxes fund only a portion of local school expenses, it is a revenue source that local voters can increase to ensure adequate funding for their schools. During the 2016-17 academic year, property tax revenue funded as little as 8 percent to as much as 83 percent of the cost of running schools in Arkansas (Figure 6). Nearly 200 school districts received between 10 percent and 40 percent of their funding from local property taxes, and 37 school districts received 40 percent or more. Only one school district received less than 10 percent of total funding from local property tax revenue.

County Governments

County governments in Arkansas use property taxes to raise a substantial portion of their revenue. They use this revenue to construct and maintain county roads, provide for the public safety of county residents, administer justice through courts, administer the property tax, manage and maintain court and public records and provide other services, some of which are prescribed by state law. Examples of other services provided by county governments may include county libraries; public health and hospital services; emergency medical service; solid waste collection, waste disposal and recycling; and agricultural, youth, family and consumer science and community development services.

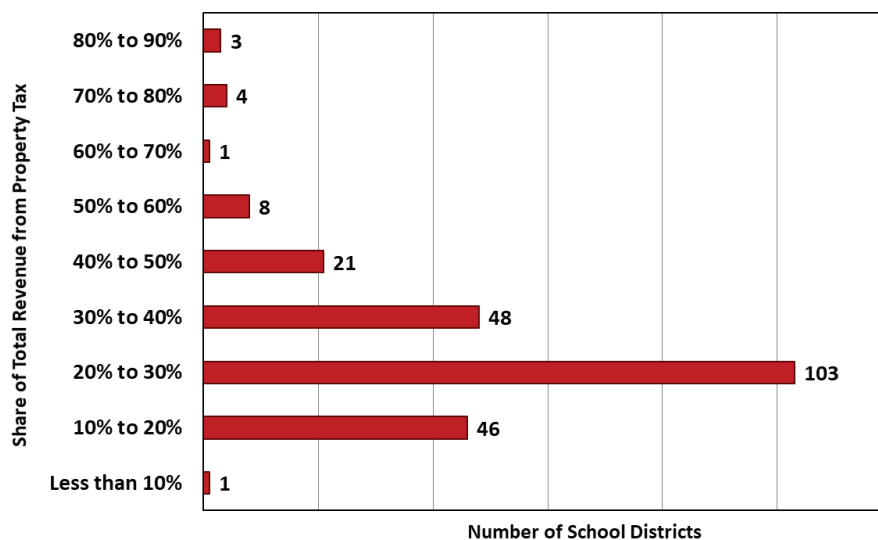
In 2011-12, property taxes accounted for 21 percent of total county revenue and 26 percent of locally generated revenue (Figure 7).^{3,4} However, counties vary greatly on how much they rely on property tax revenue. For example, property tax revenue made up 5 percent of Crittenden County's revenue compared to Saline County, where property tax was 44 percent of the county's revenue in 2011-12.⁵

While the share of county government revenue generated from property tax revenue has increased over time for many counties, nearly two-thirds of Arkansas counties receive a smaller share of revenue from property tax today than they did in the past. This is because all Arkansas counties, except Monroe and Saline counties, used the local sales tax to generate revenue, reducing their reliance on property tax.⁶

City Governments

City governments depended less on property tax as a source of revenue than school districts and county governments. In 2011-12, property tax revenue accounted for just 7 percent of revenue for city governments in Arkansas (Figure 8). City governments obtained a larger share of their revenue from the local county and city sales taxes, franchise taxes and fees for services than school districts and county governments. City governments received 28 percent of total revenue from sales and gross receipts tax in 2011-12.

Figure 6. Share of School District Revenue from Property Tax, 2016-17



Source: Computed from the 2016-17 Annual Statistical Report, Arkansas Department of Education.

³While local government finance data is available on an annual basis, disaggregated figures (i.e., county only or city only) are only available every fifth year with the government census.

⁴Locally generated revenue excludes intergovernmental revenue, which is defined as revenue from federal, state and other local governments.

⁵Share by county is calculated using data from Arkansas Legislative Audit.

⁶Counties and cities levying sales taxes, and their tax rates, can be found at <https://www.dfa.arkansas.gov/excise-tax/sales-and-use-tax/>.

Cities provide public safety and fire protection, construct and maintain city streets and parks and recreation facilities and provide other services demanded by city residents and businesses.

How Does Arkansas Compare to Other States?

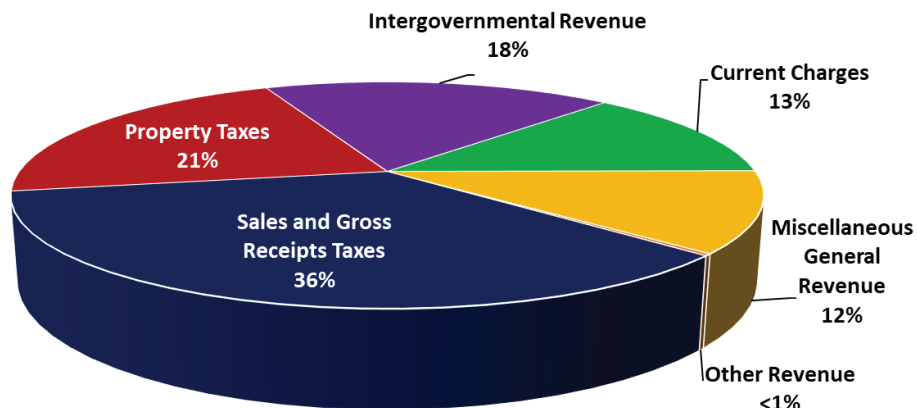
Although all states use the property tax to generate local and/or state revenue, Arkansas relies less on property tax revenue than most states.

The property tax generated 18 percent of tax revenue in Arkansas in 2014-2015 compared to a national average of 31 percent (Figure 9). This translates to about \$699 in property tax revenue per Arkansan, ranking it 49th among states in per capita property tax revenue generated. Alabama's per capita

property tax revenue was the lowest nationally (\$540) while New Jersey's (\$3,074) was the highest. The national average was \$1,518 per person.

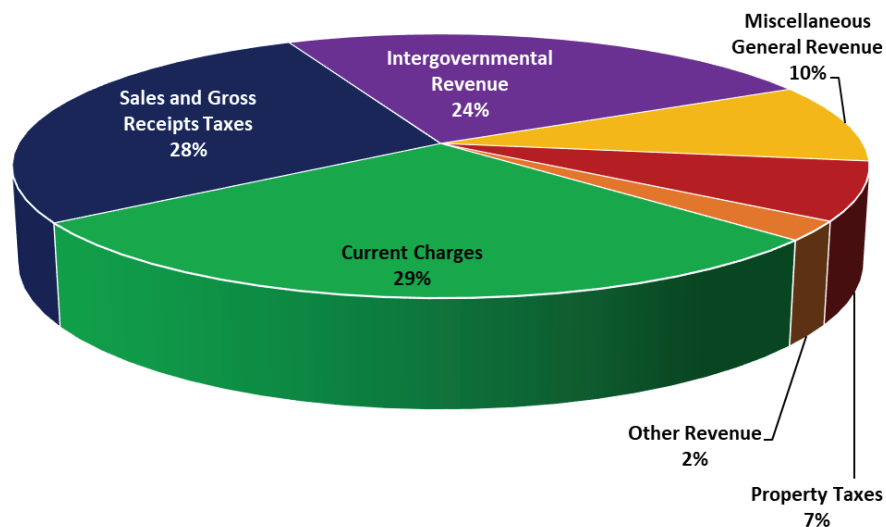
When comparing Arkansas to other states, you can also look at the amount of property tax revenue collected as a share of personal income. Arkansas counties collected nearly \$2.1 billion in property tax revenue in 2015, amounting to 1.8 percent of personal income (Figure 10). Only Alabama (1.4 percent) and Oklahoma (1.5 percent) had smaller shares in 2015. New Hampshire's property tax revenue as a share of personal income was 5.6 percent, more than any other state in 2015. The national average was 3.1 percent. Thus, property tax revenue generated in Arkansas was comparatively low, even taking into account personal income levels.

Figure 7. Arkansas County Government General Revenue by Source, 2011-12



Source: State and Local Government Finances by Level of Government and by State (2012), U.S. Census Bureau Governments Division.

Figure 8. Arkansas City Government General Revenue by Source, 2011-12



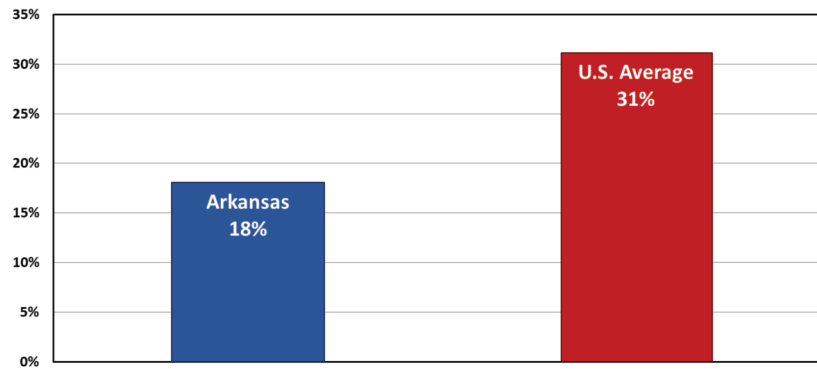
Source: State and Local Government Finances by Level of Government and by State (2012), U.S. Census Bureau Governments Division.

Who Pays Property Taxes?

Property taxes are collected from commercial and industrial establishments, utilities and farms, as well as from owners of residential properties and individuals who pay personal property taxes, on items such as cars, trucks, trailers and boats.

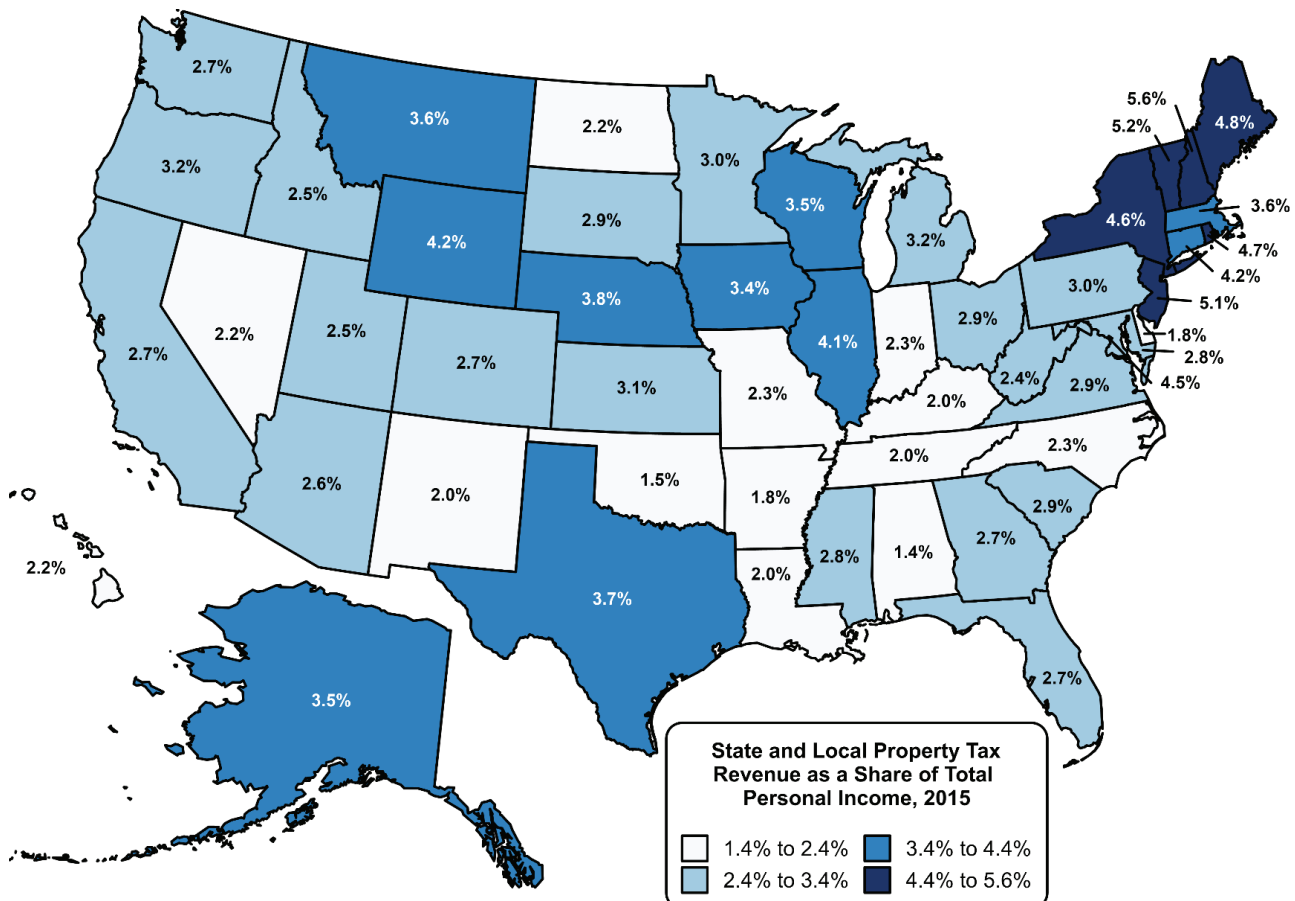
In Arkansas, there are four major categories of property on which taxes are collected: real, personal, mineral and utility and carrier. The assessed value of property owned in Arkansas provides the base on which property taxes are collected.

Figure 9. Property Tax Revenue as a Share of Total State and Local Tax Revenue, 2014-15



Source: State and Local Government Finances by Level of Government and by State (2015), U.S. Census Bureau Governments Division.

Figure 10. State and Local Property Tax Revenue as a Share of Total Personal Income, 2014-15



Source: State and Local Government Finances by Level of Government and by State (2015), U.S. Census Bureau Governments Division; Regional Economic Accounts, Personal Income Estimates, U.S. Bureau of Economic Analysis.

Real estate property accounts for the largest share of property assessments in Arkansas. In 2015, real estate was 68 percent of total assessments (Figure 11). Personal property made up 22 percent of property assessments and minerals were 2 percent. Property owned by utilities and carriers is assessed separately from real and personal property and accounted for 8 percent of total property assessments.

Real estate property includes agriculture, residential and commercial/industrial properties. Residential real property accounted for the largest share of total assessments in 2015 at 44 percent, while commercial/industrial and agricultural real property were 17 percent and 7 percent of assessments, respectively (Figure 12). Therefore, owners of residential property paid the largest share of property taxes in 2015.

Personal property assessments include business inventories, automobiles and other personal property such as boats, motorcycles and camper trailers. Business and automobile assessments were each about 11 percent of total assessments in 2015. Other personal property accounted for less than 1 percent of assessments.

Summary

Historically, property taxes have played a significant role in funding schools and county and city governments in Arkansas. Property taxes are collected locally by county governments and distributed to local taxing units to provide local services benefiting local citizens. They play an important role in maintaining a diverse tax base for Arkansas.

Community members and officials decide how much property tax revenue is desired and how collected revenues are allocated among local governments, school districts and special assessment districts.

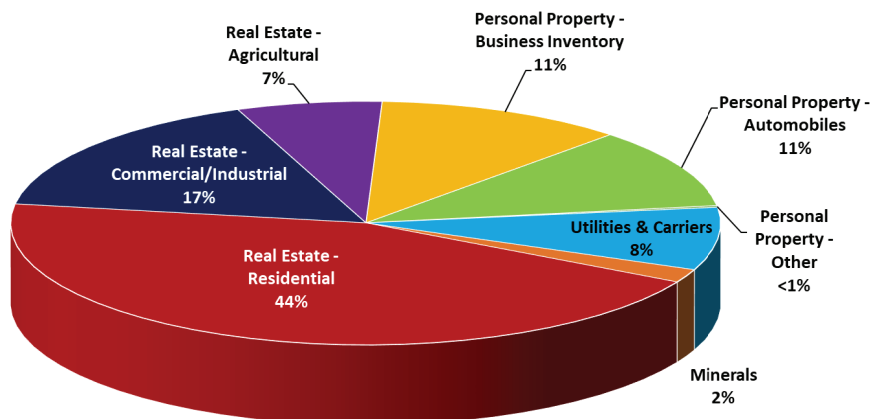
The majority of property tax revenue generated in a county is distributed to school districts, providing critical funding for operating and maintaining public primary and secondary schools in Arkansas. Property taxes are also an important source of revenue for county and city governments and community colleges to pay for community infrastructure and services. County and city governments use the revenue to build and maintain streets and roads, provide public safety, maintain public libraries and enhance the quality of life for local residents.

Figure 11. Property Assessments by Source in Arkansas, 2015



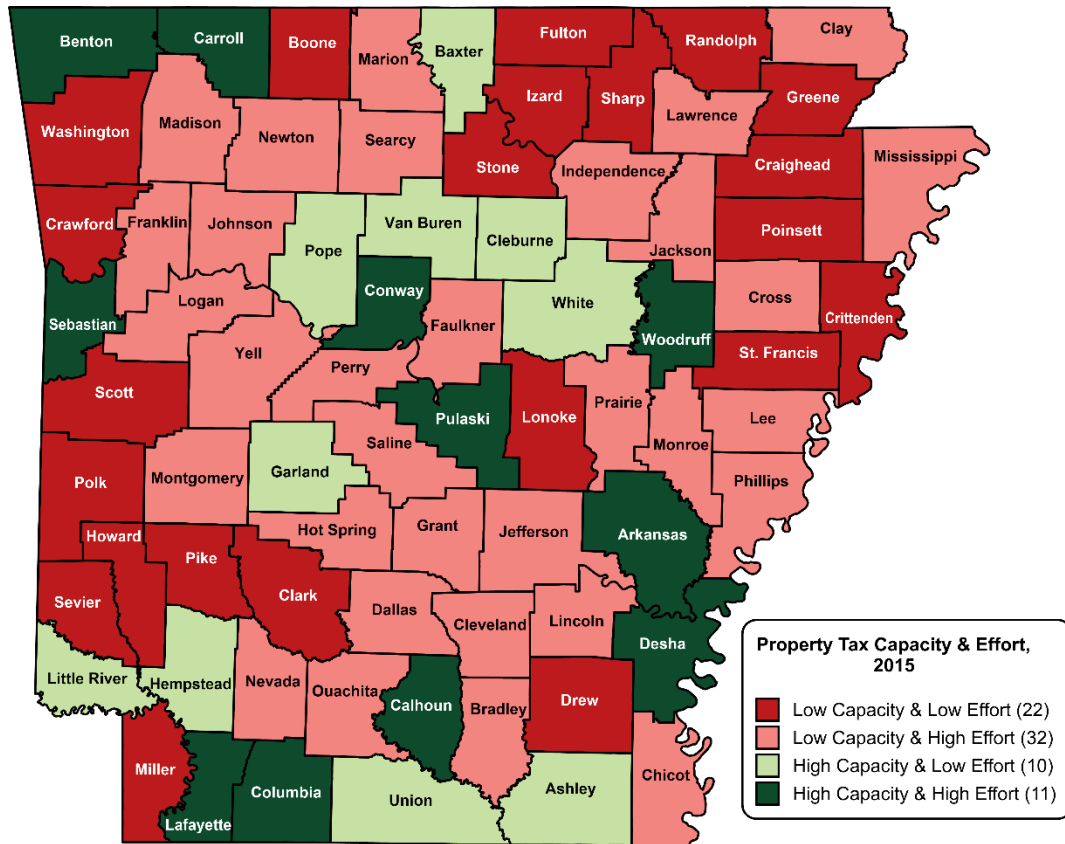
Source: Assessed Values 2015 (Payable 2016), Arkansas Assessment Coordination Department.

Figure 12. Sources of Property Tax Collections in Arkansas, 2015



Source: Assessed Values 2015 (Payable 2016), Arkansas Assessment Coordination Department.

How does your county compare to other counties in Arkansas in 2015?



High v. Low Capacity

High capacity: County's per capita property assessments were above the state average

Low capacity: County's per capita property assessments were below the state average

High v. Low Effort

High effort: County's millage rate was above the state average

Low effort: County's millage rate was below the state average

End Notes

ⁱ The statewide Uniform Property Tax is a 25 mill tax for the maintenance and operation of K-12 Arkansas schools that is collected by county governments, given to the state to allocate to school districts based on the foundation funding formula.

ⁱⁱ Millage levies are property taxes that may be imposed on real and personal property by the Quorum Court to collect revenue to pay for infrastructure and services provided by the county. There are maximum levies that may be imposed by the Quorum Court.

This publication was updated and revised from the original version by Wayne Miller, Vuko Karov and Stacey McCullough last published in 2012. It is part one of a three-part series.

For more information about Arkansas' property tax see *Arkansas' Uniform System of Real Property Assessments* (FSCED18) and *Administration of Arkansas' Property Tax* (FSCED19) available at www.uaex.uada.edu/propertytaxes.

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