

School Finance Act. The bill will increase expenditures under the school finance act by approximately \$1.4 million in FY 2009-10 and FY 2010-11, rising to \$4.3 million in FY 2011-12 and higher amounts in following years. The assessed value of locally assessed personal property will drop under the bill, reducing school district operating property taxes, which the state is required to backfill. In 2009 and 2010, the assessed value of locally assessed personal property is estimated at \$6.6 billion and \$6.8 billion, respectively. Exempting 1 percent of personal property in those years will result in a loss of assessed value of \$65.6 million and \$67.6 million, respectively. At an average school operating mill levy of 20.566, the state would be required to backfill \$1,350,000 in FY 2009-10 and \$1,390,000 in FY 2010-11. If the business personal property exemption were fully phased-in, the school backfill requirement would be an estimated \$202 million.

Local Government Impact

Local governments will lose property tax revenue because of the bill's provision to exempt an increasing percentage of business personal property. For local governments that do not reach their revenue limit or have voted to exempt themselves from revenue limits, the bill will reduce property taxes. If no local governments reach their revenue limit, the bill will reduce property taxes by \$4.7 million in FY 2010, \$4.9 million in FY 2011, and \$15.0 million in FY 2012. If the exemption were fully phased-in, the annual property tax loss could amount to about \$706 million.

For local governments that consistently reach their revenue limit due to high assessed value growth, the bill will not reduce property taxes. Instead, the impact will be felt through smaller decreases in the mill levy. A portion of the money that would have been received from taxpayers will instead be spread out over the remaining tax bills in the form of higher mill levies than would have occurred without the bill.

State Appropriations

For FY 2009-10, the School Finance Act will require an appropriation of \$1,350,000 from either the General Fund or the State Education Fund.

Departments Contacted

Local Affairs

Technical Issues

The bill excludes state assessed personal property, which could pose constitutional issues related to the uniform taxation of property. If state-assessed property were included, the fiscal impact would be larger than estimated in the fiscal note.