

2006 Property Tax Relief Plan (Act 388)

Summary

Local school operation property taxes. Property taxes for school operations on owner-occupied homes are eliminated after 2006. School operation property taxes on vehicles and business property remain. School debt-service property taxes on all property remain. Reinstatement of school operation property taxes on owner-occupied homes will require a two-thirds vote by both the House and Senate.

State sales tax. The state sales tax on everything except groceries and accommodations is increased by 1 cent from 5 cents to 6 cents beginning June 1, 2007. The sales tax on groceries will be reduced from 5 cents to 3 cents starting October 1, 2006. *(The sales tax on groceries was eliminated in the 2007 legislative session.)*

Use of 1-cent sales tax revenue. The additional 1-cent sales tax is estimated to generate \$585 million in the first year. Most of the increased sales tax revenue (an estimated \$500 million) must go to school districts to replace the lost property tax revenue.

Secondly, additional payments must be made to ensure that no county receives less than \$2.5 million in property tax reimbursement for the school districts in their county. This payment floor will help 18 rural school districts at an estimated cost of \$28.7 million.

Any remaining revenue from the 1-cent sales tax (estimated at \$57.2 million) will be used to provide property tax relief for county operations on owner-occupied homes. This tax relief is not required by the law and will occur only to the extent that revenue is available after meeting the first two mandatory uses of the revenue.

If revenue from the 1-cent sales tax is not sufficient to meet the first two mandatory reimbursements, the additional funding to meet this obligation must be paid from the state general fund.

Note: The provision to meet any revenue deficit through general fund money does not ensure that school districts won't lose money. General fund money used for this purpose could very well be money taken from other general fund money allocated for public education.

Distribution of one-cent sales tax revenue to school districts. In the first year, the 1-cent sales tax revenue will be used to reimburse school districts for lost local property taxes on a dollar-for-dollar basis.

In subsequent years the distribution will be based on a formula for determining the total statewide amount of money available for all school districts and a second formula specifying how the statewide amount is distributed to each school district.

The total statewide amount will equal the first year's amount of sales tax revenue required for the dollar-for-dollar reimbursement to all school districts increased every year by a percentage equal to the percentage increase in state population plus the rate of inflation.

The amount each school district will receive from this statewide fund will be the first year's dollar-for-dollar reimbursement increased by the district's proportionate share of the increase in the state-wide amount. A district's proportion is based on the district's weighted-pupil enrollment as a percentage of statewide weighted-pupil enrollment plus an add-on weighting for students in poverty. The extra revenue received due to the poverty weighting must be used by the district to help impoverished students.

With this distribution formula, the plan is not a true tax swap. After the first year it is not a dollar-for-dollar swap of sales tax revenue for lost local property tax revenue. Instead it should be seen as an extension of the current homestead exemption (the state currently pays the local school operation property taxes on the first \$100,000 of owner-occupied homes).

Impact on other state funding for public education. The Education Improvement Act (EIA) has been funded through a 1-cent sales tax. The reduction in sales tax on groceries will reduce EIA funding. Under this legislation, the lost EIA funding in fiscal 2006-07 will be restored with funding from the state general fund. Future years are not addressed.

Millage increases. School districts will still be allowed to increase property tax millage on the remaining taxable property (mainly business property and vehicles). Under the law an annual millage rate increase cannot exceed the year's rate of inflation plus the percentage increase in the population residing in the school district. The millage rate limit can be exceeded only by a two-thirds vote of the governing body (the School Board) under circumstances specified in the legislation. (This millage rate limit also applies to cities and counties.)

However, the law provides that millage-rate restrictions set by a legislative delegation still apply. In the case of Greenville County Schools, our legislative delegation has set an increase limit of 4 mills per year. *Note: The value of a mill will decrease significantly when owner-occupied property is exempted.*

Special funding plans for school construction. The plan includes a provision to end the use of installment purchase plans for school construction such as the BEST operation Greenville County Schools is currently using. However BEST and other special funding plans currently in process will be grandfathered in and can continue.

Addressing school funding equity. The plan addresses school funding equity in two ways. First, all school districts are assured of at least \$2.5 million from the distribution of the 1-cent sales tax revenue. This will currently help 18 rural school districts in counties where homeowner property tax revenue for school operations is below this amount. Secondly, an extra weighting for poverty will be used to determine the distribution of the 1-cent sales tax revenue after the first year.

Local Option Sales Tax. Through a referendum, counties have the ability to repeal an existing local option sales tax or implement one. In implementing such a tax, any tax rate can be put forth for approval. Revenue from an approved local option sales tax must be used to reduce property taxes on all classes of property for a particular political subdivision.