
CONCERN:

Consider 2024-25 Tax Levy

DISCUSSION:

The major portion of funding for Kentucky public school districts is from the state level. The Kentucky Education Reform Act (KERA) included significant changes in the state funding program and established a new funding program for elementary and secondary education, the Fund to Support Education Excellence in Kentucky (SEEK).

Under SEEK; every local school district is required to make a uniform tax effort equivalent to 30 cents (KRS 160.470). Local boards may utilize a combination of property tax, utility tax, occupational tax, or an excise tax on income. The yield from the required local effort is deducted from the basic SEEK appropriation. Required local effort is designed to assure that the taxable wealth per pupil of the local district is rendered neutral as a funding factor in the SEEK base. Districts with relatively high taxable wealth per pupil pay a larger share of the base than those with lower taxable wealth per pupil. The 2024-25 Tentative Budget included the combination of property and 3% utility tax levy.

Local districts may supplement basic SEEK program funding, within reasonable limits, under a two-tiered process. The first level is called Tier 1. Funding in Tier 1 is at the discretion of the local school board. The maximum level of funding permitted in Tier 1 is 15% above the base, including local effort (KRS 157.440). In the event a local board levies a general tax in Tier 1, the state is to equalize the levy to assure the local district will receive a yield equal to 150% of the mean assessment per pupil for the state. For the 2024-26 biennium the state calculated the equalization level at \$1,211,000 assessed value. Taxes up to the Tier 1 level may be levied by a local board of education and are not subject to recall. Elizabethtown's Tentative Budget approved by the board in May 2023 included a projected tax rate sufficient for the maximum level of Tier 1.

The second level is called Tier 2. The maximum level of funding permitted in Tier 2 is 30% above the base SEEK plus Tier 1. Funding in Tier 2 is allowed if the district already has a tax rate at this level. However, any new (higher than the 1989/90 equivalent level) tax at this level must be approved by the voters in a referendum. No state equalization is available in Tier 2. Thus, for the most part, the local school board cannot approve an increase in their general fund tax in Tier 2. Elizabethtown's combined levy in 2024-25 included a small Tier 2 levy that was allowed because of provisions of KRS 160.470.

A local school board must be in receipt of the Kentucky Department of Revenue's certification of the value of property subject to taxation before approval of a tax levy. The certification was received August 2, 2024. The 2024-25 Tentative Budget was based on projected assessment of property subject to school tax in the amount of \$1,002,351,743. The value certified by the Kentucky Revenue Cabinet was \$1,063,258,024. Table A provides more detail on the 2024-25 certification compared to the three (3) prior years.

Table A
Assessment of Taxable Property Certified by Kentucky Revenue Cabinet

Item	<i>Actual 2021-22</i>	<i>Actual 2022-23</i>	<i>Actual 2023-24</i>	<i>Actual 2024-25</i>
Real Property - New Property	\$9,203,029	\$2,720,322	\$7,465,271	\$24,755,970
<i>Percentage Of Total Real Property</i>	1.36%	.39%	.91%	2.88%
Real Property - Reassessment Less Homestead	\$13,089,000	\$25,820,600	\$110,402,710	\$22,821,750
<i>Percentage Of Total Real Property</i>	1.93%	3.66%	13.4%	2.66%
<i>Total Assessment - Real Property</i>	\$677,837,340	\$706,308,840	\$823,695,650	\$858,988,500
<i>Percentage Change Of Real Property</i>	3.38%	4.20%	16.62%	4.28%
Personal Property	\$39,623,175	\$50,125,136	\$47,524,712	\$51,344,242
<i>Percentage Change</i>	(1.75)%	26.50%	(5.19)%	8.04%
Public Service Real Property	\$1,177,196	\$1,246,618	\$1,727,789	\$14,012,659
<i>Percentage Change</i>	13.53%	5.9%	38.6%	711.02%
Public Service Personal Property	\$34,993,932	\$35,492,988	\$40,303,752	\$47,979,691
<i>Percentage Change</i>	8.34%	1.43%	13.55%	19.05%
Motor Vehicle	\$66,279,435	\$78,369,491	\$89,099,840	\$90,932,932
<i>Percentage Change</i>	1.23%	18.24%	13.69%	2.06%
Grand Total	\$818,911,078	\$871,543,073	\$1,002,351,743	\$1,063,258,024
<i>Percentage Change</i>	3.16%	6.30%	15.01%	6.08%
Less Motor Vehicles	\$753,631,643	\$793,173,582	\$913,251,903	\$972,325,092
<i>Percentage Change</i>	3.33%	5.25%	15.14%	6.47%

As noted above the actual assessed value of property was higher than projected in the Tentative Budget. Because of the equalizing features of SEEK, this means that required local effort from the 30 cent levy and the local share of Tier 1 will be higher; which will decrease projected receipts from the state through SEEK. Projected 2024-25 general fund state SEEK revenue to Elizabethtown Schools in the May Tentative Budget, excluding Capital Outlay and the FSPK match, was \$11,453,447.

The May 2024 projection was based on \$4,326 SEEK base value per pupil with 2,280 ADA.

The Kentucky Revenue Cabinet submits the certified assessment for each local district to the Kentucky Department of Education (KDE). Upon receipt of the certified assessment KDE calculates permissible tax levies pursuant to two different statutes. The first permissible tax rate calculation is pursuant to KRS 160.470 (HB 44) and generates three possible tax levies.

First, KRS 160.470 provides that a local taxing authority may levy a tax rate that will produce the same revenue as received the prior year, exclusive of new property, without conducting a public hearing and not subject to recall. This is referred to as the **Compensating Rate**.

Second, KRS 160.470 provides that a local taxing authority may levy a tax rate that will produce 4% more revenue than was received the prior year, exclusive of new property. The taxing authority may levy a rate that will generate a 4% increase in revenue, exclusive of new property, that is not subject to recall. This is referred to as the **4% Increase Rate**.

The third rate allowed by KRS 160.470 is pursuant to subsection (1) of the statute. This rate is essentially based on the rate that could have been levied in 1978/79 to the 1978/79 assessment.

If the Subsection (1) rate is higher than the 4% rate, it may be levied under the public hearing requirements for the above 4% rate. However, the levy is subject to recall and the taxing authority levying such a rate is required to follow statutory requirements for public notice that a rate subject to recall has been levied. The notice must include instructions on how a recall may be obtained. This rate is referred to as the **Subsection (1) Rate**.

The final permissible tax rate is pursuant to KRS 157.440 (HB 940), the law that established the SEEK program. Application of KRS 157.440 generates the required equivalent tax levy for base SEEK and permissible equivalent tax rates for Tier 1 of SEEK and the school facility tax (FSPK). No public hearing is required to levy the tax rates allowed pursuant to KRS 157.440 and the levy is not subject to recall even if the rates are higher than the subsection (1) rate. This rate is referred to as the **SEEK Rate**.

Sometimes the district has the option to levy a small tax to offset lost revenue from exonerations of the prior year. The exoneration allowance also permits the district to recover from higher local effort because exonerations were included in the equivalent rate used to calculate prior year required local effort. Elizabethtown does have the option in 2024-25 for a .4 cents recovery rate. The 2024-25 rates calculated by KDE for Elizabethtown are displayed in Table B

Table B
Permissible Tax Rates Certified by Kentucky Department of Education

Item	Compensating	Proposed rate
Real Estate Rate	0.809	00841
Real Estate Revenue	\$7,062,579	\$7,341,940
Personal Property (Tangible) Rate	0.809	0.841
Personal Property (Tangible) Revenue	\$803,531	\$835,314
Subtotal Revenue	\$7,866,110	\$8,177,254
Recover Exonerations Rate	0.004	0.004
Revenue	\$38,893	\$38,893
Motor Vehicle Rate	0.00538	0.00538
Motor Vehicle Revenue	\$489,219	\$489,219
Total Revenue	\$8,394,222	\$8,705,366

The highest permissible tax rate not subject to recall for Elizabethtown in 2024-25 is the **4% Increase Rate**. The proposed rate does not require a hearing subject to KRS160.470.

How does projected 2024-25 revenue from Real Property and Personal Property compare to actual 2023-24 revenue from the same sources? Table C provides a comparison of 2024 actual revenue from Real Property, Personal Property & Motor Vehicles to 2025 projected revenue from the same sources. The district’s historical collection rate trend for local revenue from real property is 98% and tangible property is 70%. Estimated 2024-25 Local Revenue (using the historical collection rate) from these sources is projected to increase by \$249,783 compared to 2023-24 actual revenue.

**Table C
2023-24 Actual Revenue Compared to 2024-25 Projected Revenue**

4% Increase Tax Rate		Tax Rate Calculation**			
Revenue Code	Description	Actual FY2024	FY2025	\$ Change	% Change
1111-GF-1*	General	\$6,161,697	\$6,280,452	\$118,7552	1.93
1113-GF-1*	PSC	\$342,549	\$375,891	\$33,342	9.73
1115-GF	DELINQUENT	\$40,759	\$40,000	(\$759)	(1.86)
1117-GF-1*	MV	\$501,513	\$489,219	(\$12,294)	(2.45)
1121-GF	UTILITIES	\$838,397	\$890,000	1,080	6.15
Subtotal General Fund		\$7,884,915	\$8,075,560	\$190,647	2.42
1111-BF-320	General	\$1,002,352	\$1,061,488	\$59,136	5.9
1113-BF-320	PSC	\$0	\$0	0	0
1117-BF-320	MV	\$0	\$0	0	0
Subtotal Building Fund		\$1,002,352	\$1,061,488	\$59,136	5.9
Total Local Tax Revenue		\$8,887,297	\$9,137,050	\$249,783	2.81

**Based on Increase Tax Rate* on Real Estate & 45 % collection rate on Tangible Property

State law prescribes the methodology for the possible gross revenue in the public notice. However, no district ever collects 100% of possible revenue. In 2024-25 Elizabethtown collected about 95% General Property Tax, with a 40% collection in PSC tax. The Board may direct a higher projected level of collection be used in the 2024-25 Working Budget forecast.

KDE also calculates the minimum building tax levy necessary to receive state equalization on the building tax. The calculation for 2024-25 was 5.6 cents for each equivalent nickel of building tax (5.6x 2 = 11.2 total). The Tentative Budget was based on an 11.2 cent building tax levy.

The 2023-24 tax levy was \$0.830(cents) per \$100 assessed value for Real Property and \$0.886(cents) for Personal Property. The Proposed Rate for 2024-25 is \$0.841 (cents) per \$100

assessed value of Real Property and \$0.841(cents) of Personal Property excluding the exoneration allowance.

Local tax revenue for Elizabethtown Schools in 2024-25 from all sources is projected to be \$9,137,050 based on a \$0.845 (cents) tax rate on Real Property, \$0.845(cents) on Personal Property, which includes .004 exoneration allowance, \$0.538 (cents) on motor vehicles, and projected 3% utility tax revenue.

With this tax levy, projected 2024-25 local tax revenue from all sources would increase \$249,783 over 23-24 actual tax revenue. The projected increase is due to real property tax.

Equalization on the school facility (building fund) tax is expected to be \$850,341 for each equivalent nickel of building tax eligible for state equalization. State equalization is projected be \$1,700,682.

The Working Budget will be presented at a September regular meeting with changes in revenue based on the tax levy approved by the board and adjustments in expense based on salary schedule improvements and staff changes since approval of the Tentative Budget in May. Other expense adjustments may be recommended based on actual prior year expense or other information that was not available in May.

What is the impact of the proposed tax rate on residents? Table D illustrates the effect of the proposed tax rate for a resident owning property with a taxable value of \$100,000 last year and this year. The proposed tax rate would result in an increase property taxes per \$100,000 assessed value as compared to last year. Table D includes exoneration rate.

Table D
Projected Impact of 2024-25 Proposed Tax Rate

	<i>2023-24</i>	<i>2024-25</i>	<i>\$ Change</i>	<i>% Change</i>
Property Value	\$100,000	\$100,000	\$0	0.00%
Tax Rate	0.831	0.845	.014	1.68%
Property Tax (Increase/Decrease)	\$831	\$845	\$14	1.68%

Aircraft and watercraft are exempt from taxation because of the equalizing features of SEEK. With a higher overall assessment that would result from taxing aircraft and watercraft, the revenue received from equalization on the facility tax would be lower. In order to maximize state equalization revenue, this property should continue to be exempt from taxation.

The recommended tax rate **does include** a rate subject to recall.

Recommendation:

The Board may approve a tax levy per \$100 of assessed value for 2024-25 up to the following:

	<u>Real Estate</u>	<u>Personal Property</u>
General Purposes (<i>excluding exonerations allowance</i>)	\$0.729 cents)	\$0.729(cents)
Exoneration Allowance	\$0.004 (cents)	\$0.004 (cents)
<u>Building Fund</u>	<u>\$0.112 (cents)</u>	<u>\$0.112 (cents)</u>
Total Property Tax Levy	\$0.845 (cents)	\$0.845 (cents)

Motor Vehicle Tax of \$0.538 (cents)
 Three Percent (3%) Utility Tax

Aircraft and watercraft exempt from property tax.