

# BGR Report

A Report of the Bureau of Governmental Research

March 2004

## APRIL 17, 2004 BALLOT ISSUE FOR THE RENEWAL OF PROPERTY TAX FOR JEFFERSON PARISH PUBLIC SCHOOL SYSTEM

### Introduction

Jefferson Parish voters will decide April 17 whether to renew seven mills of property tax for the Jefferson Parish Public School System. The seven-mills renewal would extend the tax another 10 years, beginning in 2005.

The millage was originally approved decades ago at 12 mills. Successive Jefferson Parish School Board decisions rolled it back to the present seven. Voters most recently renewed it in 1994.

The School System expects the tax levy to generate \$13.3 million in its first year, or approximately 4% of the School System's operating budget. The money can be used for virtually any operating and maintenance expense.

If the levy is renewed, property owners will continue to pay school property taxes at the same rate that they are paying now. Currently, the seven-mills levy costs \$21 per year for the owner-occupant of a \$100,000 house on land worth \$5,000. If the same property is used as residential rental property, the cost is \$73.50. If the property is commercial, the owner pays \$108.50.

### Background

The Jefferson Parish Public School System has projected general fund revenue of approximately \$314 million for 2003-04. Approximately 53.8% of that revenue is locally generated, and 45.7% comes from the State. Most of the state share is distributed on a per pupil basis under the Minimum Foundation Program.

The School System draws from four different property taxes: a permanent one of 2.91 mills, and three voter-approved, renewable levies of seven, four, and nine

### PROPOSITION

SUMMARY: AUTHORITY FOR THE CONTINUED LEVY AND COLLECTION OF AN AD VALOREM TAX OF SEVEN (7) MILLS FOR A PERIOD OF TEN (10) YEARS, BEGINNING WITH THE YEAR 2005 AND ENDING WITH THE YEAR 2014, FOR PAYING THE COSTS OF OPERATING AND MAINTAINING THE PUBLIC SCHOOL SYSTEM IN THE PARISH.

Shall the Parish School Board of the Parish of Jefferson, State of Louisiana (the "Board"), under the provisions of Article VI, Section 30 of the Constitution of the State of Louisiana of 1974 and other constitutional and statutory authority, be authorized to continue to levy and collect, for a period of ten (10) years, beginning with the year 2005 and ending with the year 2014, an ad valorem tax of seven (7) mills (the "Tax") on all property subject to taxation in the Parish of Jefferson (the "Parish") for the purpose of paying costs of operating and maintaining the public school system in the Parish?

mills. The seven- and four-mill taxes are used for general maintenance and operations, while the nine-mill tax is dedicated to teacher salaries. The nine-mill tax passed in October 2003.

A high proportion of local support for education comes via the sales tax. Sales tax income, totaling \$122 million, makes up 72.2% of locally generated revenue and 38.8% of the \$314 million total operating budget revenue. In contrast, at a projected \$43.3 million, property tax produces 25.7% of the locally generated revenue and 14% of total operating revenue.

### JPPSS LOCAL TAX SOURCES, 2003-04

Rate	Projected Gross Revenue	Expiration	Use
<i>Property Taxes</i>			
7 mills	\$13.3 million	12/31/04	Maintenance and Operation
4 mills	\$ 7.6 million	2/31/08	Maintenance and Operation
9 mills	\$17.0 million	12/31/13	Teacher Salary Increase/Fringe Benefits
2.91 mills	\$5.5 million	Permanent	Any Purpose
<i>Sales Taxes</i>			
½ %	\$36.4 million	Permanent	Teacher Salaries/Operating Expenses
½ %	\$36.4 million	Permanent	Debt Service, Capital Improvements, and Operating Expenses
¼ %	\$18.2 million	Permanent	Capital Improvements and Related Maintenance and Operating Expenses
¼ %	\$18.2 million	Permanent	Employee Salary Increase and Fringe Benefits
½ %	\$36.4 million	12/31/12	Employee Salary Increase, Guidance Programs, Debt Service, and Instruction and Maintenance Expenses

Sources: Projected revenue based on JPPSS Proposed General Operations Fund Budget, FY 2003/04; JPPSS Finance & Accounting Department.

The renewal occurs at a time of escalating health insurance costs. A change in the contribution formula for the state plan in which the School System participates increased the employer's contribution for employee premiums. The plan mandated a gradual increase during the last three years from 50% to 75%. Simultaneously, insurers have raised rates. This one-two punch has sent the School System's health insurance costs skyward, from \$20.3 million in 2000-01 to a projected \$34.4 million in 2003-04. In 2003-04, benefits consume 23% of the budget, up from 17.5% in 2000.

The budget for the 2003-04 school year shows belt-tightening amounting to \$2,352,000, following cuts of \$14 million in the two previous years. As a result, class sizes have increased, foreign language classes in elementary school have been dropped, and special education services have decreased. School officials maintain that there's nothing left to cut.

## Analysis

The seven-mill property tax is an established component of the School System's budget. School System officials consider its renewal a key to maintaining quality education and averting harmful budget cuts.

If voters do not approve the seven-mill tax, the School System will also lose money from the State's Minimum Foundation Program. MFP funds are allocated according to a complex formula that incorporates tax capacity and tax effort. A reduction in taxes would cause Jefferson Parish's tax effort component to fall relative to other parishes. Based on the current-year model, the School System projects a decrease of about \$560,000 of state money would occur if the millage renewal fails.

Property owners, who benefit from the boost to property values that good schools can yield, pay school property taxes at the lowest rate in the metropolitan area. The current 22.91 mills is less than

half of the metropolitan average, and approximately one-fourth of the rate paid in St. Tammany.

<b>School Millage Rates</b>	
Jefferson	22.91
Orleans	52.83
Plaquemines	24.70
St. Bernard	46.25
St. Charles	58.83
St. John	46.59
St. Tammany	87.10
Average	48.46

Source: BGR telephone survey of school officials

Jefferson Parish is disproportionately reliant on sales taxes, which are regressive and tend to be more volatile than property tax revenues. Decreasing the millage for more stable property taxes would exacerbate the existing imbalance in the sources and the regressive nature of the current, sales-tax based system.

Last year, BGR took a position against the nine-mill property tax for teacher salaries, which voters approved in October. BGR was concerned that a dedicated revenue stream intended for across-the-board raises would limit the School System's ability to meet its most pressing needs. In this case, the concern does not apply, since the revenues from the seven-mill levy are available for a wide variety of uses.

## Where BGR stands

FOR. The seven-mill property tax is a long-standing component of the School System's funding. A failure to renew the tax would increase the School System's financial challenges and exacerbate the School System's dependence on sales tax revenues.

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