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PROGRAM REVIEW AND INVESTIGATIONS COMMITTEE

The Impact Of Industrial Revenue Bonds On Property Taxes And School Funding

Research Report No. 401

Prepared By

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The Impact Of Industrial Revenue Bonds On Property Taxes And School Funding

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Abstract

Cities and counties may issue industrial revenue bonds to purchase or construct industrial buildings for private entities. Ownership of the property may be transferred to the city or county for the duration of the bond. During this time, the property may be subject to a reduced state tax rate and may be exempt from local taxes. This reduces the tax base for these districts. Some districts receive a payment in lieu of taxes to compensate for the reduced tax base. A local taxing district might also adjust its real and personal property tax rate to offset the lower tax base. The property transfer can also affect the distribution of funds under the Support Education Excellence in Kentucky school funding formula, which is based on school districts' property tax base. As property is removed from a district's tax base, the school district is required to contribute less funding under the school funding formula and the state will contribute more. By statute, the effect that some types of industrial revenue bonds have on local governments must be reviewed by at least one of three state agencies. The report recommends that the General Assembly consider requiring state review of all types of industrial review bonds.

Foreword

Project staff thank Commissioner Donna Duncan and Deputy Commissioner Katie Smith of the Cabinet for Economic Development; Executive Director Wendell Townsend, staff attorney Andrew Hartley, and executive staff adviser and hearing officer Todd Kirby of the Department for Local Government; Robert Ramsey of the Finance and Administration Cabinet's Office of Financial Management; and Executive Director David Gordon and Tom Crawford of the Department of Revenue's Office of Property Valuation for their valuable assistance.

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Robert Sherman
Director

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Summary

KRS 103.200 to 103.286 allows cities and counties to issue industrial revenue bonds (IRBs) to finance industrial buildings for private entities. The statutory definition of industrial buildings includes a variety of projects and activities such as manufacturing, water infrastructure, education, health care, recreation, and downtown redevelopment. In some instances, the private entity may transfer ownership of the property to the city or county until the bonds mature. During this time, the city or county leases the property to the private entity. While the city or county holds the deed to the property, the property may be subject to a reduced state property tax rate based on the value of the lease and the property may be exempt from local property taxes. This can also reduce the property tax base of other local taxing districts such as school districts. If the property is exempt from school district property taxes, it can affect the school funding formula under Support Education Excellence in Kentucky (SEEK).

Cities and counties may issue taxable bonds and tax-exempt bonds to finance industrial buildings or projects. With tax-exempt bonds, the interest income received by those purchasing the bonds is not subject to federal income tax. The federal government caps the amount of tax-exempt bonds that may be issued within each state to finance the activities of private entities. There is no federal limit on the amount of taxable bonds a city or county may issue. Ownership of the property can be transferred to the city or county with either type.

By statute, three state agencies are involved in the approval and review of some IRBs. The Kentucky Private Activity Bond Allocation Committee determines which projects to fund with tax-exempt bonds. It must also review IRBs that are issued by the Kentucky Economic Finance Authority to finance specific types of industrial buildings. The State Local Debt Officer with Kentucky's Department of Local Government is responsible for reviewing IRBs to finance certain types of industrial buildings. During the reviews, the committee and the debt officer look for documentation of support from school districts and local taxing districts that may be negatively affected by the IRB and property transfer. This documentation typically consists of a letter of support or a payment in lieu of taxes. These payments are designed to reimburse these districts for lost tax revenue. The Kentucky Economic Development Finance Authority is responsible for approving the reduced state tax rate. The authority requires documentation of support from school districts and other local taxing districts that might be affected. These agencies are not required to review all IRBs. Instead the statutes specify the types that must be reviewed.

Recommendation 1.1

If the General Assembly would like to better monitor the extent to which industrial revenue bonds are issued to finance property that is transferred to a city or county, it should require the state local debt officer and/or the Kentucky Private Activity Bond Allocation Committee to review all projects that are financed in this manner. A review of all projects could provide information on the extent to which these financial arrangements occur, the impact they have on state and local taxes, and the impact they have on state and local education funding.

Effects On State And Local Property Taxes

Local taxing districts may adopt any real property tax rate, but the compensating rate and 4 percent rate set thresholds that determine the actions districts must take to adopt a specific rate. The compensating rate is the rate that would allow a district to obtain the same amount of revenue from real property that existed in the prior year. The 4 percent increase rate is the rate that allows the district to obtain a 4 percent increase in revenue from real property that existed in the prior year. A district must have a public hearing to adopt a rate above the compensating rate up to the 4 percent increase rate. To adopt a rate above the 4 percent rate, a district must hold a hearing and the rate could be recalled by voters.

Transferring real property to a city or county reduces the property tax base for the taxing district. This can increase the compensating and 4 percent rates for the local taxing districts, which allows them to adopt higher rates before the public hearing is required, and the rate is subject to voter recall. Generally, the impact that the property transfer has on real property tax rates and revenues depends on whether the district adopts higher rates than it would otherwise would to offset the lower tax base. The personal property tax base may also be reduced due to the property transfers. As with real property taxes, the impact on personal property tax rates and revenues depends on whether the district adopts higher personal property tax rates to offset the lower tax base. If the amount of real property transferred is large enough, the transfers could also affect the state's real property tax rate.

In the course of this study, staff identified six IRBs issued in 2008 that could affect state and local property tax rates. For at least five of the IRBs, an agreement for payment in lieu of taxes was in place to compensate one or more of the local taxing districts for lost revenue from removing the property from the tax rolls.

Effects On School Districts

The exemption of property from taxation affects school finance by lowering the property assessments in the district. Lower property assessments affect the tax rates that are certified to the district and the amount of SEEK funding a district receives from the state.

The House Bill 44 property tax rates for a school district are affected by lower property assessments in the same way that state and municipal tax rates are affected. When the property assessment declines, the rate required to generate the same amount of revenue as in the prior year increases. The effect of lower property assessments on the HB 940 tax rate depends on the current tax rate and the mix of property taxes and permissive taxes, such as utility or occupational taxes, levied by the district.

The SEEK calculation is used to allocate school funds based on property assessments, student counts, local tax rates, and transportation costs. Changes to these factors can affect the amount of state SEEK funding to districts. SEEK provides more state funding to districts with less property wealth and less state funding to districts with more property wealth.

Each district must provide a tax equivalent to 35 cents per $100 of property assessments in order to participate in SEEK and the Facilities Support Program of Kentucky (FSPK). When property assessments decline, the required local effort declines and state funding will increase on a dollar-for-dollar basis. If a district qualifies for additional funding from the state, called Tier I funding, then a lower per-pupil assessment leads to a higher amount of Tier I funding from the state.

Combined with a payment in lieu of taxes that may be in place, the net effect of these changes will vary between districts. Typically, districts with a lower property assessment collect less tax revenue and receive more state SEEK and FSPK funding.

Chapter 1

Overview Of Industrial Revenue Bonds

Counties and cities may issue industrial revenue bonds (IRBs) to finance the purchase or construction of industrial buildings for a private business. In some instances, the county or city may purchase the property and lease it to the business. In these situations, the property may be exempt from local property taxes and subject to a reduced state property tax.

To assist with economic development, KRS 103.200 to 103.286 authorize Kentucky cities and counties to issue bonds to fund the purchase or construction of industrial buildings. To finance the construction or renovation of an industrial building, a city or county may issue industrial revenue bonds (IRBs) for a private business. The private entity may transfer ownership of the property to the city or county for the length of the bond and lease the property from the city or county. While the city or county owns the property, the property may be taxed at a reduced state rate and may be exempt from state and local property taxes.

These arrangements can affect property tax rates, property tax revenues, and school district funding.

Because the property can be exempt from property taxes, these arrangements may also affect the school funding formula under Support Education Excellence in Kentucky (SEEK). The funding that school districts must provide and the amount they receive from the state are based in part on the total value of property assessments within the districts. Generally, districts with higher total assessments are required to provide more local funds. Removing property from the total district assessments could reduce the amount of local funds required and increase the amount of state funds provided through SEEK.

The first chapter discusses the objectives and major findings of this report. It also summarizes the processes involved with cities and counties issuing IRBs to fund industrial buildings and describes how often these arrangements occur. The second chapter describes how this type of funding arrangement affects state and local property tax rates and revenues. The final chapter discusses the effect that these arrangements and the property transfers can have on school district funding through school district property taxes and the SEEK formula.

Major Conclusions

This report has seven major conclusions.

This report has seven major conclusions.

- By statute, some types of IRBs must be reviewed by three state agencies. The agencies must obtain documentation showing support from local governments and school districts whose tax revenue could be reduced.

- The value of IRBs issued in 2008 was not high enough to affect the state real property tax rate in 2009 or 2010, but the value of IRBs issued over several years could be. It is also possible that in any given year the value of IRBs issued might be sufficiently high to affect the state tax rate.

- Excluding an IRB-financed property from the local tax base can allow local taxing districts to adopt higher real property tax rates before a public hearing is required or the rate is subject to voter recall.

- Whether excluding an IRB-financed property from the local tax base affects real and personal property tax rates and revenues depends on the choices of the local taxing districts. A district could select higher tax rates to offset the revenue lost from excluding the property, which would shift the tax burden to other taxpayers in the district. If the rate is not increased due to the exclusion of the property, the district might collect lower tax revenues than it would otherwise.

- Some taxing districts receive payments in lieu of taxes to offset at least part of the property tax revenues lost due to a property transfer.

- When property financed through an IRB is transferred to local government and the property is no longer subject to the school property tax, the required funding from the school district is lower under SEEK and the state will contribute more funding.

- The effect of lower property assessments on school district tax rates depends on the circumstances of each district. Excluding an IRB-financed property from the school district tax base may allow the school district to also adopt a higher tax rate before a public hearing is required or the rate is subject to voter recall. However, excluding property from the tax base may lower the minimum tax rate that the district must levy to qualify for maximum education funding from the state.

Industrial Revenue Bonds

Kentucky statutes allow cities and counties to assist private economic development projects by issuing industrial revenue bonds on behalf of private entities. These bonds are referred to as private activities bonds. The proceeds received from selling the bonds are used to fund industrial buildings.

The statutory definition of *industrial building* is real and personal property used for specified types of activities.

KRS 103.200 defines *industrial building* as land, buildings, real property, and personal property that is suitable for various types of activities. Personal property can include operating equipment and machinery. The types of facilities and activities included in the definition of *industrial building* are detailed in KRS 103.200(1). They are

a) manufacturing facilities,
b) transportation infrastructure,
c) health care facilities,
d) education facilities,
e) recreation and cultural facilities,
f) agricultural facilities,
g) incidental facilities for industrial sites,
h) water facilities,
i) mineral resource processing facilities,
j) convention and trade show facilities,
k) hotels and motels,
l) residential neighborhood preservation activities,
m) historic buildings, and
n) downtown business district redevelopment activities.

KRS 103.200 is in Appendix B.

The city or county may own the property being financed by the IRB until the bond is paid off.

The city or county issuing the IRB may purchase or construct the industrial building. In these cases, the cities and counties issuing the IRBs own the property as long as the bond is outstanding but might lease the property to the private entity. Once the bond has been paid off, the ownership of the property is transferred to the private entity. Alternatively, cities and counties may lend the proceeds from the bonds to the private entity. In this case, the private entity owns the property rather than the city or county.

Debt service on the bonds is paid from the revenue generated by the industrial building or project. The IRB is not an obligation of the city or county issuing the IRB.

The proceeds from the development are used to pay the debt service on the bonds. Because the city or county is merely acting as a conduit for financing, it is not responsible for making debt service payments, and the debt is not typically considered a debt of the city or county. KRS 103.230(2) states that

> the bonds shall be payable solely from the revenue derived from the building, and shall not constitute an indebtedness of the city or county within the meaning of the Constitution. It shall be plainly stated on the face of each bond that it has been issued under the provisions of KRS 103.200 to 103.280 and that it does not constitute an indebtedness of the city or county within the meaning of the Constitution.

The two general types of IRBs are tax exempt and taxable.

The two general types of bonds that cities and counties may issue to fund industrial buildings are tax-exempt and taxable bonds.

Tax-Exempt Bonds

The income bondholders receive from tax-exempt bonds is not subject to the federal income tax. As a result, those purchasing tax-exempt bonds are typically willing to accept lower interest rates, which reduces the cost of financing the project.

In some instances, private businesses fund industrial buildings using tax-exempt bonds that are issued through a city or county. This allows the business to use the tax-exempt status of the local government to issue tax-exempt bonds.

Because the interest income earned by those purchasing the bonds is not subject to federal income taxes, institutions or individuals purchasing bonds are willing to accept lower interest rates than they would for similar taxable bonds. As a result, borrowers pay a lower interest rate and incur lower financing costs.

Tax-exempt private activity bonds became a popular way to fund industrial projects. Businesses were able to borrow money at lower interest rates than they could without these bonds, and cities and counties were able to encourage local economic development. Because the cities and counties are not obligated to pay the debt service on these bonds, they incur little cost from acting as a conduit for the businesses. The total volume of tax-exempt bonds, including bonds for both private and government activities, issued in the nation increased from more than $42 billion in 1979 to more than $204 billion in 1985. The growth was attributed to greater use of private activity bonds (Bland).

The federal government limits the amount of tax-exempt bonds that can be issued to finance private projects such as an industrial building. An amount is allocated to each state annually based on its population.

The use of tax-exempt bonds reduces federal income tax revenue. As businesses made greater use of this type of financing, the impact on federal income taxes grew. In 1986, Congress limited the dollar amount of tax-exempt private activity bonds that may be issued each year. This limit is referred to as the Private Activity Bond Cap.

Once the total cap on tax-exempt private activity bonds is set for the nation, the federal government allocates the cap to each state annually based on its population. Kentucky's allocation for 2010 is $388.3 million (Commonwealth. Finance).

The Kentucky Private Activity Bond Allocation Committee is responsible for allocating the amount of tax-exempt private activity bonds to various projects in Kentucky. At least 60 percent of the annual cap is allocated to state bond issuers.

The Private Activity Bond Allocation Committee is responsible for distributing the allocation to various projects and activities. KRS 103.286 requires that the committee allocate at least 60 percent of the annual private activity cap to state bond issuers during the first 6 months of each year. This portion of the cap, referred to as the state issuer pool, typically goes to the Kentucky

Higher Education Student Loan Corporation to finance student loans and to the Kentucky Housing Corporation to finance mortgage loans for low-income home buyers. During the last 6 months of each year, the remaining portion of the cap, the local issuer pool, can be allocated to local issuers.

The remaining portion of Kentucky's allocation of tax-exempt private activity bonds is used for local projects.

Local governments may apply for an allocation from the local issuer pool. Applicants must indicate the amount of allocation requested. If the total amount requested by all applicants exceeds the amount available in the local pool, the committee will score applications based on a formula that considers the number of jobs created from the project, the average annual wages and benefits paid to employees of the project, the amount of capital invested for the project, the unemployment rate of the county in which the project will be located, and whether the private company received other forms of state incentives. An application in which the private company already received state incentives within the past 10 years will receive a lower score than if the company had not received state incentives. The committee allocates the local issuer pool to the projects with the highest scores until the full amount of the cap is allocated. A local government that receives an allocation may issues tax-exempt bonds in an amount up to the allocation.

In some years, a portion of the state's allocation on private activity cap may not have been used. This may occur if the total amount requested by applicants was less than the state's cap or if some projects required less of the cap than originally anticipated. Any remaining cap is made available for other projects and is distributed through a lottery system or distributed to the Kentucky Higher Education Student Loan Corporation and the Kentucky Housing Corporation.

Taxable Bonds

There is no limit on the amount of taxable bonds that may be issued. Private entities may choose to issue taxable bonds through a city or county to gain from their knowledge and experience.

Private entities have limited opportunities to finance projects using tax-exempt bonds issued through local governments, but they can also use taxable bonds issued through local governments. There is no federal limit on the amount of taxable bonds that may be issued.

Taxable bonds do not result in lower interest rates, but they do offer potential advantages for the private entity. In these situations, private entities with little experience issuing bonds may gain from the knowledge and experience of the local governments' personnel.

Approval Process

Local Approval

According to KRS 103.210, a city or county may issue an IRB only after its legislative body adopts an ordinance or resolution approving the financial arrangement.

KRS 103.210 specifies that a city or county may issue an IRB only after its legislative body adopts an ordinance or resolution that specifies the project and the financing. The title of the ordinance or resolution and a statement describing it must be published in a newspaper that is authorized to publish official advertisements for the city or county. The city or county must also make the ordinance or resolution available for public inspection.

Generally, cities and counties do not appear to have specific guidelines for selecting projects to finance with an IRB.

Staff interviewed officials at cities and counties that have approved IRBs to finance industrial buildings. The cities and counties do not appear to have specific criteria for evaluating which projects should be funded using IRBs. In most instances, a private business seeking this type of funding applies for consideration to the mayor, an economic development office, or legislative body.

State Approval

Three state agencies are responsible for reviewing and approving certain types of IRBs: the state local debt officer, the Private Activity Bond Allocation Committee, and the Kentucky Economic Development Finance Authority (KEDFA).

Three state agencies are involved in the approval and reporting process for IRBs. The statutes do not require state approval for all IRBs. KRS 103.2101 assigns the primary responsibility for reviewing projects to the state local debt officer and the Kentucky Private Activity Bond Allocation Committee. The statute indicates which projects these agencies must review and specifies the minimum information that must be considered in the reviews. The Kentucky Economic Development Finance Authority (KEDFA) is also involved in some aspects of the review process.

The state local debt officer with Kentucky's Department for Local Government is responsible for reviewing

- hotels, motels, and related facilities;
- residential neighborhood preservation projects;
- historic commercial or residential building preservation projects;
- downtown business district redevelopment projects;
- off-street parking facilities; and
- cable television and mass communications facilities.

The Private Activity Bond Allocation Committee is required to review certain projects funded by IRBs that are issued by KEDFA:

- Hotels, motels, and related facilities
- Residential neighborhood preservation projects

- Historic commercial or residential building preservation projects
- Downtown business district redevelopment projects

The state local debt officer and the committee are required to review how a project affects long-term economic growth, whether it places existing business at a competitive disadvantage, whether it could be financed using normal commercial financing, whether it complies with the intent of KRS 103.200 to KRS 103.285, and whether it is economically sound. For IRBs that must be reviewed by these two agencies, the statutes specify that the bonds cannot be issued until the projects have been approved.

In some instances, the property transferred to a city or county might reduce the revenues of other taxing districts and school districts. In these cases, the state local debt officer and the Private Activity Bond Allocation Committee must document that these districts support the project. The documentation can include an agreement that the private entity will make payment in lieu of taxes to the district. However, this review occurs only for projects that the debt officer and the committee are required to review.

Revenues Of Local Governments And School Districts. If a city or county takes ownership of the property, the property might not be subject to local taxes. When this occurs, it reduces the tax base for the local taxing districts in addition to the city or county. For example, a city might issue IRBs to purchase and develop property that is currently subject to state, county, city, school district, and water district taxes. KRS 103.2101(6) requires the committee and the state local debt officer to document that the county judge/executive, mayor, or school superintendent agrees with the financial arrangement. In practice, some of these arrangements include provisions for the private entity to make a payment in lieu of taxes to the taxing districts that would experience reduced property tax revenues. The amount of the payment is based on the estimate of the lost tax revenue.

Property financed through an IRB and leased to a private entity may be taxed at a reduced state property tax rate. KEDFA is responsible for approving the reduced rate.

Reduced State Property Tax Rate. Property financed using IRBs that are issued by tax-exempt governmental units may be taxed at a reduced rate. KEDFA requires the governmental unit and the private company requesting the bonds to apply for the reduced rate. KEDFA considers

- the number of new full-time jobs created or existing full-time jobs retained;
- the average salary of new jobs created or existing jobs retained;
- the amount of capital investment;
- the unemployment rate of the county in which the project will be located;
- the tax incentives, grants, and loans that the project has received or might receive;
- the amount of new tax revenue generated; and
- the documentation indicating local support.

The documentation of local support can be resolutions passed by the local governments or payment in lieu of taxes. KEDFA considers the impact of these arrangements on local tax revenue in its review procedures but is not required by statute to do so.

Table 1.1 summarizes which state agency reviews projects under which conditions and whether the agencies consider the impact on the revenue collected by local governments and school districts. Projects that meet definitions k) through n) are reviewed by the state local debt officer. By statute, the review must consider the impact on revenues of local governments and school districts. These projects may also be reviewed by KEDFA if the business is seeking the reduced state property tax rate. If so, the review will include the impact on revenues of local governments and school districts.

Table 1.1
State Review Of Projects That Are Funded Using Industrial Revenue Bonds

KRS 103.200(1) Industrial Building Definitions	Review by Kentucky Private Activity Bond Allocation Committee (KyPABAC), State Local Debt Officer, and Kentucky Economic Development Finance Authority (KEDFA)
a) manufacturing facilities b) transportation infrastructure c) health care facilities d) education facilities e) recreation and cultural facilities f) agricultural facilities g) incidental facilities for industrial sites h) water facilities i) mineral resource processing facilities j) convention and trade show facilities	KyPABAC reviews tax-exempt bonds to determine whether the project receives an allocation from the private activity bond pool. Review does not include the impact on local tax revenue. KyPABAC does not review taxable bonds. Tax-exempt and taxable bonds are reported to the state local debt officer, but there is no review. KEDFA reviews tax-exempt and taxable bonds only if the reduced state property tax rate is requested. Review includes the impact on local tax revenue.
k) hotels and motels l) residential neighborhood preservation activities m) historic buildings n) downtown business district redevelopment activities	KyPABAC reviews tax-excempt bonds to determine whether the project receives an allocation from the private activity bond pool. If the bond is issued by KEDFA, review includes the impact on local tax revenue. KyPABAC reviews taxable bonds issued by KEDFA. Review includes the impact on local tax revenue. The state local debt officer reviews tax-exempt and taxable bonds. Review includes the impact on local tax revenue. KEDFA reviews tax-exempt and taxable bonds only if the reduced state property tax rate is requested. Review includes the impact on local tax revenue.

Source: KRS 103.210.; KRS 103.2101; Duncan; Ramsey; Townsend.

Projects meeting definitions a) through j) will be reviewed only if the business requests the reduced state tax rate. In these cases, KEDFA must approve the reduced rate and will consider the impact on local governments and school districts. However, if the business does not seek the reduced rate or if it makes a payment in lieu of taxes to the state, KEDFA would not necessarily review the project. Projects that fall into this situation would receive little or no review by a state agency. The Private Activity Bond Allocation Committee would review the project to determine whether it would receive a portion of the private activity bond pool, but this review would not consider the revenues of local governments and school districts. It is unknown how often this occurs. Staff's review of the IRBs reported to the state local debt officer suggests that it occurs infrequently.

Recommendation 1.1

Recommendation 1.1

If the General Assembly would like to better monitor the extent to which industrial revenue bonds are issued to finance property that is transferred to a city or county, it should require the state local debt officer and/or the Kentucky Private Activity Bond Allocation Committee to review all projects that are financed in this manner. A review of all projects could provide information on the extent to which these financial arrangements occur, the impact they have on state and local taxes, and the impact they have on state and local education funding.

Because these financial arrangements affect the total value of property assessments, they can affect the property tax rates, property tax revenues, and state and local funding under SEEK.

Chapter 2

Effects On State And Local Property Taxes

Property Tax Rates And House Bill 44

When industrial buildings are financed by a city or county issuing IRBs, the property may be deeded to the city or county. Transferring ownership of the property to a local government can affect state and local property tax rates and the amount of property tax revenue collected. How taxing districts set property tax rates under House Bill 44 affects how the transfer of property impacts property taxes. Enacted in 1979, HB 44 limits the state's real property tax revenue growth to 4 percent per year on the value of real property existing in the prior year. The law affects local tax rates by setting ranges of real property tax rates. These ranges do not necessarily limit the tax rates that local taxing districts may adopt, but they do determine what actions a district must take in order to adopt a certain rate. Statutes also limit the personal property tax rates local districts may adopt.

Property Valuation In The Rate-Setting Process

Property valuation administrators (PVAs) compile property tax rolls that are eventually certified by the Kentucky Department of Revenue to be used in the property tax rate setting process. The PVA assessment contains valuations for real estate, personal property, public service real estate and personal property, and motor vehicles.

Determining the value of property in a given locality is the responsibility of the local property valuation administrator (PVA) and the Kentucky Department of Revenue. The PVA's role is to assemble the local tax roll, which is given to the department for final certification of property assessments each year.

Property taxes are levied on the value of all real and personal property unless there is a specific exemption in the Kentucky Constitution. In the case of personal property, the General Assembly may also grant a specific exclusion.

The property assessment provided by the PVA contains property valuations for all classes of property including real estate, personal property, public service real estate and personal property, and motor vehicles. The certified property assessments are used by state and local governments to set property tax rates.

House Bill 44 Real Property Tax Rates

State

The real property tax rate for the state is calculated based on the total assessed, current value of real property in the state and the revenues allowed in the prior year. The rate for real property is determined by allowing up to a 4 percent increase over the prior year's allowable revenues.

The state real property tax rate for the current year is calculated based on the assessed, current value of real property in the state, and the revenues allowed in the prior year. Taxable real property is divided into property that existed in the prior year and new property that was added during the past year. The rate for the current year is determined by allowing up to a 4 percent increase over the prior year's allowable tax revenue from existing property. In a year in which existing assessments increase more than 4 percent, the state real property tax rate must decrease so that revenues on existing property do not grow by more than 4 percent. The existing property assessments are used to set property tax rates for the following year, but the rates are applied to both new and existing property. Therefore, while revenues from existing real property can increase by only 4 percent, total real property revenue collections can increase by more than 4 percent due to the revenue from new property.

Local

Local taxing districts may adopt any real property tax rate, but the compensating and 4 percent increase rates define ranges that determine what a district must do to adopt a rate. HB 44 details the calculation of the compensating and 4 percent increase rates.

The compensating tax rate for local governments produces an amount of revenue in the current year, when applied to existing property, that approximately equals revenue in the preceding year.

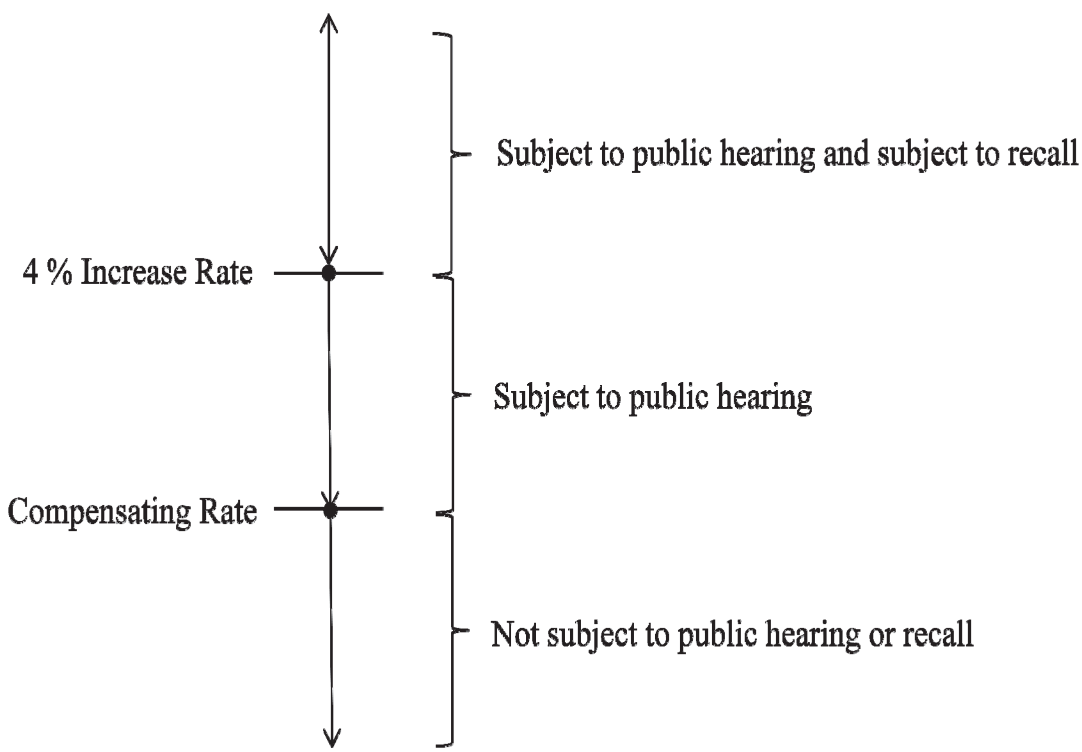
Compensating Tax Rate. The compensating tax rate is the rate that when applied to the current year's real property assessments, excluding new property, produces an amount of revenue equal to that produced in the preceding year. If the total assessed value of existing real property has increased, the compensating tax rate will be lower than the previous year's rate. Likewise, if the total value of existing property decreased, the compensating rate would increase. The compensating tax rate must also be high enough that when applied to real and personal property assessments it produces at least as much revenue as what was produced by real and personal property taxes in the previous year. If the local government adopts a real property tax rate equal to the compensating rate, the rate is also applied to existing and new property, allowing total revenue to be higher than what was produced in the previous year.

The 4 percent increase rate is the rate that produces 4 percent more revenue than the compensating rate.

4 Percent Increase Tax Rate. The 4 percent increase rate is the rate that generates 4 percent more revenue than the compensating rate. If the local government selects this rate, it is also applied to new property, and thus, total revenue produced from real property can exceed 4 percent.

Figure 2.A shows the range of real property tax rates available to local taxing districts and what districts must do to adopt different rates. Per KRS 132.017, if a taxing district wishes to adopt a rate above the 4 percent increase rate, it must hold a public hearing and the rate is subject to recall by voters. Per KRS 132.023, if a taxing district wishes to adopt a rate above the compensating rate, up to the 4 percent increase rate, it must hold a public hearing on the rate, but the rate is not subject to recall. Districts wishing to adopt a rate at or below the compensating rate are not required to hold a public hearing, and the rate is not subject to recall.

Figure 2.A
Real Property Tax Rates And Hearing And Recall Provisions



Local Government Personal Property Tax Rates

Local taxing districts may adopt a personal property tax rate up to either the same rate that was adopted for real property or a rate that yields the same percentage increase in revenue as the real property tax.

Local taxing districts are subject to a maximum rate that can be applied to personal property taxes. The maximum rate is determined by comparing

- the growth rate in revenues that could be obtained by applying the real property tax rate to personal property and
- the growth rate expected from the real property tax revenue.

If applying the real property tax rate to personal property yields a higher growth rate, the district may set its personal rate equal to the real rate or lower. Otherwise, the maximum personal property tax rate a district may adopt is one that results in the same percentage growth from personal property taxes as the percentage growth expected from the real property tax revenue. The personal property tax rates are not directly subject to a public hearing or voter recall; however, if a real property tax rate is recalled by voters, then the personal property tax might have to be reduced.

Effects Of Deeded Property Associated With IRBs On Property Tax Rates And Revenues

When a local government issues tax-exempt or taxable IRBs, the property can be deeded to the local government and leased back to a company. This can include both real and personal property. This property can be exempted from local property taxes and may qualify for a reduced state property tax rate. As such, this arrangement can affect tax revenues and rates at the state and local level. Affected taxing entities include the state, school districts, fire districts, water districts, libraries, and health departments.

State And Local Property Tax Abatement On KEDFA-Approved Projects

Private companies seeking an exemption from the state property tax as a result of an IRB-financed project must seek approval from KEDFA.

According to KRS Chapter 103, any private company seeking IRB financing and wishing to have the property taxed at the reduced state property tax rate must seek approval through the Kentucky Economic Development Finance Authority. In 2010, the state's real property tax rate was 12.2 cents per $100 of assessed property value; the personal property rate was 45 cents per $100 of assessed value.[1] If approved for the reduced rate, the leasehold value of both real and personal property would be taxed at 1.5 cents per $100 of value.

[1] Some classes of personal property are taxed at a different rate.

Companies may apply to have the lower rate applied to the full or partial value of the property, although data provided by KEDFA indicate that the nearly all companies involved in these financial arrangements apply and are approved for the reduced rate on the full value of the property.[2]

Twenty-three of 26 KEDFA-approved projects since 2003 have had 100 percent abatements of the state ad valorem tax on property for the term of the project's bonds.

IRB-financed projects approved through KEDFA for the reduced state property tax rate typically are also exempted from local property taxes including school taxes. According to the same KEDFA data, 23 of the 26 approved projects since 2003 received the reduced state tax rate on the full value of the property for the term of the bonds. Of the 26 projects, 21 had 100 percent of the local property taxes abated for the term of the bonds.

A local payment in lieu of taxes (PILOT) is often negotiated to compensate local taxing districts that stand to lose tax revenue from the exemption of property.

Often, however, with KEDFA-approved IRB issues, the local governments, school system, and other special taxing districts are not left without the revenues they would have received had the property remained on the tax rolls. A local payment in lieu of taxes (PILOT), while not mandated by KEDFA, can be negotiated between the interested parties at the local level. Under a PILOT, the private business seeking the IRB agrees to replace all or part of the tax revenues the local taxing entities, including school districts, would have received on the property. According to KEDFA data, 21 of 26 KEDFA-approved projects since 2003 had a local PILOT. In 19 of the 21 cases, the negotiated payment was supposed to replace 100 percent of the reduced tax revenue.

A PILOT is not necessarily required for KEDFA approval. If the local government or school system decides that the property transfer has no effect on its tax collections, it may waive the PILOT agreement. KEDFA does, however, require documentation of local support for the IRB issue from other local taxing districts and school districts.

Local Property Tax Abatement On Non-KEDFA Projects

Local governments may also issue IRBs without going through KEDFA when an abatement of state property taxes is not being sought. These IRBs must, per KRS 147A.020, be reported to the state local debt officer.

IRB issues through KEDFA are not the only means by which a company may receive property tax abatement through property transfer. IRBs issued by local governments for which the reduced state property tax rate is not requested are not subject to the jurisdiction of KEDFA. These IRBs are reported to the state local debt officer per KRS 147A.020 as part of the reporting requirements for bond issuance by a local government.

[2] The company applying for state property tax abatement may request, or KEDFA may approve, abatement for only a portion of the total tax bill. Based on data provided by KEDFA, this appears to have happened infrequently.

Local governments may not issue bonds or obligations, except as provided by KRS 65.940 to 65.956, without first informing the state local debt officer. The bond notification must include the maturity schedule, interest rate, date of issue, purpose, paying agent, and any other information the state local debt officer may require.

IRBs issued by local governments are reported in the State Local Debt Report. Pertinent information is reported to the state local debt officer on the bond summary form.

This information is included in the State Local Debt Report maintained by the Department for Local Government. This information is generally submitted on the bond summary form found on the webpage of the Department for Local Government. Notification of the state local debt officer is not required for bonds issued by school districts or on behalf of school districts. These may include revenue bonds being issued by cities or counties that are acting on behalf of the school district.

In certain situations, there is no statute or regulation requiring that affected local taxing districts be a party to the IRB negotiation and issuing process. The state local debt officer must only obtain documentation of local support for those projects meeting the definitions in KRS 103.200 (k) to (n). As a result, it is possible that special taxing districts and school districts in particular could be unaware of the shrinking of their tax base due to a property transfer associated with an IRB.

Effects Of Property Transferred

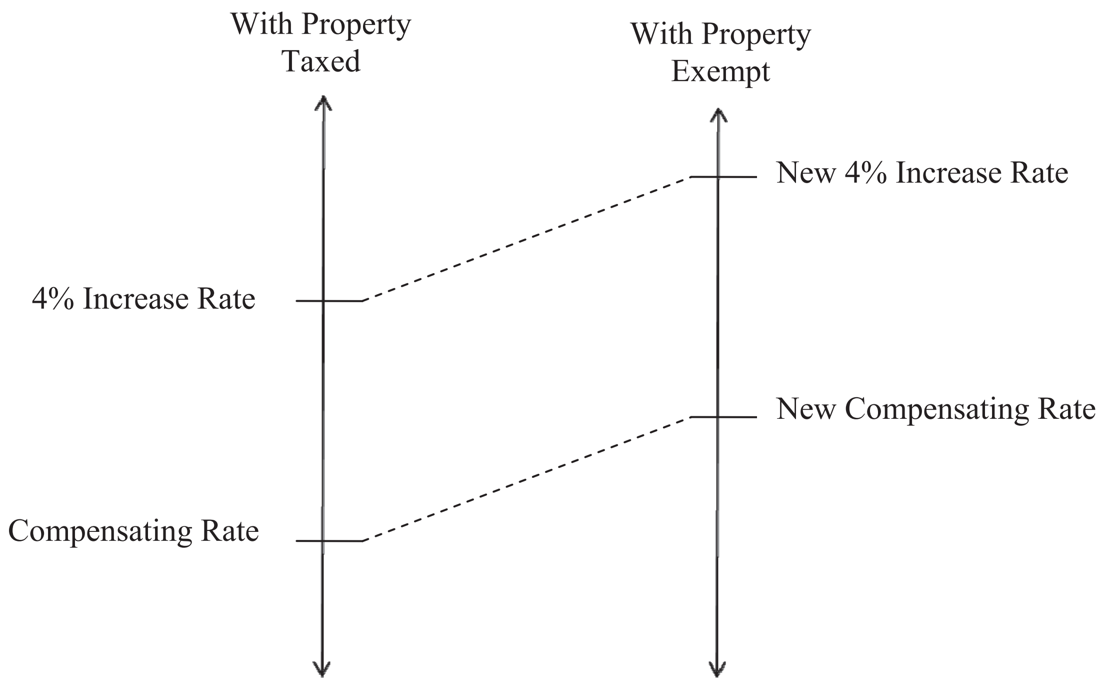
Property deeded to a local government during the IRB process could affect property tax rates and revenue at the state and local level.

When a private entity seeks to finance a project by having a local government issue IRBs and deeds the property to a local government, property tax rates or property tax collections at the state and local level may be affected. The impact on tax rates and revenues depends on each district's circumstances and the district's choices.

Transferring the ownership of property to a local government reduces the tax base of districts that taxed the property. The lower tax base can result in higher compensating and 4 percent increase rates for the local districts.

Generally, when property is exempt from a district's property tax, the district's total value of assessments is lower than it would be otherwise. For real property taxes, this means that as property is exempted, the compensating rate and the 4 percent increase rate would also be higher than they would be if the property were not exempt. With higher compensating and 4 percent increase rates, the ranges of real property tax rates that a district may adopt before a public hearing is required and voter recall is possible are increased. This is shown in Figure 2.B. In part, the compensating rate is designed in a manner to allow the district to collect the same level of revenue even as assessments decline.

Figure 2.B
Effect Of Property Exemption On Compensating Rate And 4 Percent Increase Rate



If the value of the property transferred is small, it may be insufficient to affect the compensating and 4 percent rates due to rounding.

The impacts on the compensating and 4 percent increase rates also depend on the total value of the real property being transferred. If the value of the property transferred is not large enough relative to the tax base in the area in question, the compensating and 4 percent rates may not change. Because these rates are rounded to the nearest one-tenth of a cent, they are unlikely to be affected.

The impact that transferring the property has on local real property taxes depends on the rates adopted. Districts might adopt higher rates to offset the smaller tax base.

The impact of transferring the property to the local government on tax rates or tax revenues depends on whether the district chooses to increase rates to offset the lower tax base. If the district adopts a higher rate than it would have without the property transfer, revenues from existing property could be unaffected. In this case, the tax burden would be shifted away from the exempt property and to the remaining real property tax base. However, the rate would be higher to offset the lower tax base, so revenues from existing property would not decrease as a result. There could be a loss of revenue from new property, but this is limited to the year the property is added. This adjustment in rates would not necessarily cause rates to increase, but rates would be higher than they would have been if the property was not transferred. If the district chooses not to adjust rates to offset the lower tax base, the district's tax revenues would be lower as a result of the transfer.

The transfer of property can also reduce the personal property tax base.

The transfer and exemption of property can also affect local personal property tax rates. The exemption of personal property will reduce the personal property tax base from what it would have been. Whether the exemption affects a district's personal property tax rates, revenues, or both, depends on whether the district adopts rates that offset the smaller tax base.

Potential Effects Of Six IRBs Issued In 2008

To demonstrate how these property transfers could affect state and local real property taxes, Legislative Research Commission (LRC) staff recalculated the state's real property tax rate and the local compensating and 4 percent increase rates assuming that the property had been developed but remained in the tax base.

To demonstrate how these property transfers could affect state and local real property taxes, Legislative Research Commission (LRC) staff recalculated the state's real property tax rate and the local compensating and 4 percent increase rates assuming that the property had been developed but remained in the tax base. The actual impact of these property transfers on local districts depends on the decisions districts would make. Staff have attempted to make reasonable assumptions about what rates the local districts might have adopted if the property were not exempt to illustrate the types of impact the exemptions might have on rates and revenues. These assumptions are not intended to indicate the rates the districts would have adopted.

A 2-year time horizon is considered. Industrial projects often result in new property being added to an existing site. In the first year, the value of any additions would be considered new property. In the second year, this same property would be considered existing property.

The nature of the original property transaction also affects the rate calculation. Property owned by a local government is already tax exempt and not part of the base. If the private entity in the bond issue purchases the property from a local government, both the value of the existing property and any improvements made by the private entity would represent new property in the tax rate calculation in the first year of the calculation. However, if the property were purchased from another private entity, only the value of improvements to the real property would represent new property in the tax rate calculation because the property was already part of the tax base. In the second year, the full value of the excluded property would be included in the base, and would therefore potentially affect the calculated property tax rates.

Staff identified six IRBs issued in 2008 that could affect state and local property tax rates. The IRBs where property was transferred were issued in Fort Wright, Jefferson County (two IRBs), Laurel County, Newport, and Shelbyville.

Staff interviewed officials with the Kentucky Economic Development Finance Authority and the Kentucky Department for Local Government in an effort to identify IRB issues that could involve property transfers. Staff identified six IRB issues that could affect state and local property tax rates and that were relevant to this study. Bond issues from 2008 were selected to allow time for project completion and property values to adjust accordingly.

In conversations with parties familiar with the IRBs examined, staff learned that local officials in the taxing districts were not always knowledgeable about the details of the property transfer. In some cases, the official with knowledge of the IRB was no longer employed in that position. As a result, obtaining information about the IRB was often difficult.

Staff contacted parties involved with the IRB issues listed in Table 2.1 in an attempt to ascertain the value of the real property transferred to the local government. The table displays the value of these properties as assessed by the local property valuation administrator in 2008 and 2010.[3] The figures for 2008 reflect the values of real property prior to the project. The figures for 2010 show the most recent value of the real property after any additions or improvements.

[3] For the purposes of calculating the effect of the transferred property on the state rate, it was assumed that the total value of the transferred property was accurately accounted for in the PVA's 2009 and 2010 assessments. Staff's conversations with concerned parties revealed that while the property was typically removed from the property tax rolls in an appropriate time frame, the reassessment of the property was not always done quickly. In one case, the value of the property was not reassessed in 2009 due to a clerical oversight. In another case, the property had not been reassessed at the time of this report despite the completion of the project on the property.

Table 2.1
Industrial Revenue Bond Issues From 2008 Examined In This Study

Issuer	Lessee	Value of Real Property (in Millions of $) 2008	Value of Real Property (in Millions of $) 2010	2010 Value of All Real Property in County (in Millions of $)
KEDFA-Approved Projects				
Shelbyville	Nifco North America Inc.	$0.44	$4.95	$2,626.4
Laurel County	Bluegrass Holdings LLC	2.45	16.0	2,186.8
City of Newport	South Beach #1 LLC	Not available	39.1	5,263.9
Non-KEDFA Projects				
Jefferson County	Phenix, Louisville LP	0.9	2.5	51,504.2
Jefferson County	University Residences – Louisville LLC	5.1	38.8	51,504.2
City of Fort Wright	The Wessels Company LLC	Not available	6.73	9,658.1

Source: Kentucky Economic Development Finance Authority, Kentucky state local debt officer, and property valuation administrators.

Potential Effects On State Real Property Tax Rate And Revenue

The six projects had a value of approximately $108.1 million in 2010. The value of the three projects approved by KEDFA for a reduced state tax rate totaled $60.05 million in 2010.

When a business seeks abatement of the state ad valorem tax on property, the IRB comes under the jurisdiction of KEDFA. There were three IRB issues approved by KEDFA in 2008 in which the bonds were issued that year. The total assessed value of the property in question was approximately $60.05 million in 2010. The other three projects were local-issue IRBs that did not involve a state abatement of property taxes, although they did result in removal of the property from the tax rolls. In each of these cases, the companies involved in the projects were responsible for making a payment to the state in an amount equal to the ad valorem property taxes due on that property. In 2010, the assessed property value of these three projects was $48 million. In total, all six projects had an assessed value of approximately $108.1 million in 2010. For the four projects for which assessed values were available both years, the total assessed value was approximately $62 million in 2010 and $9 million in 2008.[4]

[4] City officials could not provide 2008 assessed values for the Fort Wright and Newport projects.

With statewide assessments of real property exceeding $200 billion in 2009 and 2010, the $108.1 million value of the excluded property in 2010 would not have a detectable effect on the state's real property tax rate.

In the absence of any other changes, transferring these properties to the local governments would not have affected the state real property tax rates. In 2009 and 2010, total real property assessments for the entire state were more than $200 billion. In 2010, the amount exempted was approximately $108.1 million, or 0.05 percent of the state's total real property. The additional assessments were not large enough to affect the rate given the rounding.

Given that the value of excluded property was not large enough to affect the tax rate, the decrease in real property assessments represents a revenue loss to the state. Staff estimated the loss from KEDFA-approved projects to be less than $73,300 in 2010.

Since the real property tax rate did not move to compensate for the loss in property tax value in the base, the decrease in real property assessments represents a revenue loss to the state. In the absence of these IRB issues, the state might have received approximately $131,900 more in revenue than it actually did in 2010 from the real property ad valorem tax.[5] The lost revenue was replaced in the non-KEDFA-approved projects. The private entities made payments to the state amounting to approximately $58,600. Only the KEDFA-approved projects represent a real revenue loss to the state. In 2010, that would have been approximately $73,300. In addition, the state would have received some revenue from taxing the value of the lease.

LRC staff estimate that removal of more than $600 million from the tax rolls would have been needed in order to affect the state ad valorem real property tax rate by one-tenth of one cent in either 2009 or 2010.

LRC staff estimate that removal of more than $600 million from the tax rolls would have been needed in either 2009 or 2010 to affect the state real property tax rate calculation such that the impact is evident after rounding to the nearest one-tenth of a cent.[6] The amount of property needed to affect the rate could vary each year depending on the circumstances.

While the IRBs issued in 2008 were not significant enough in magnitude to affect the state real property tax rate in 2009 or 2010, it is conceivable that a cumulative total over several years could impact the tax rate. It is also possible that an IRB might be large enough to impact the tax rate in any given year.

[5] This is calculated by dividing the excluded property by 100 and then multiplying by the current state real property tax rate of 12.2 cents per $100 of valuation.
[6] This assumes the state would have used a rate that would result in 4 percent growth in revenues from existing property.

Potential Effects On Local Property Tax Rates And Revenues

Local governments may issue IRBs on behalf of private entities. In these instances, the property involved in the IRB can also be transferred to the local government, making the property exempt from local property taxes.

Local governments that issue IRBs for private entities and take ownership of the property financed by the IRBs forgo the tax revenue that would have derived from that property had it not been removed from the tax rolls. In this section, the real property tax rate implications are examined in an effort to quantify what, if any, effect the transfer of property associated with an IRB might have on local government property tax rates and revenue collections. Although staff asked cities and counties for the information necessary to examine the impact of each of the identified IRBs' property transfers on local tax rates, the information was not always available.

As an example of the implications of removing property from the tax rolls at the local level, a 2008 IRB in Laurel County is examined in detail. Laurel County issued a $16 million IRB in 2008 for Bluegrass Holdings, LLC.

Laurel County. Laurel County issued a $16 million IRB in 2008 for Bluegrass Holdings LLC. The property was transferred to the county. According to the PVA, the property was valued at $2.45 million in 2008 and 2009. The property was to be reassessed at a value of $16 million for 2009, but an oversight resulted in the assessed value remaining unchanged in 2010.

For the purpose of this analysis, it is assumed that the correct assessment for the property was $16 million in 2010. According to the PILOT agreement associated with the IRB, the company is also exempt from personal property taxes. Staff were unable to determine the value of the personal property associated with this project.

Assessed property values for 2008 through 2010 were used to estimate the potential impact on property tax rates of removing the $16 million property from the tax rolls.

In 2009, Laurel County adopted a real property tax rate of 6.1 cents per $100 of valuation. Using this information and detailed property value data provided by the Kentucky Department of Revenue, staff calculated the 2009 and 2010 compensating and 4 percent rates with and without the $16 million property included in the calculation. Table 2.2 shows the results of adding back the assessed value of the excluded property in 2009 and 2010. In 2009, the assessed value was $2.45 million. This amount was added back to the existing real property base; the remaining $13.55 million was considered new property. The result is that both the compensating rate and the 4 percent increase rate would have been one-tenth of a cent lower had the property been subject to the real property tax.

In 2009, it was estimated that by including the property in the tax base the Laurel County's compensating and 4 percent increase rates would have been one-tenth of a cent lower.

In 2010, the $13.55 million that was new property in 2009 is added to the base. Because Laurel County actually adopted the compensating rate in 2009, it was assumed that they would also have adopted the lower compensating rate based on the property being taxed. Given this assumption, the 2010 compensating rate would have also been one-tenth of a cent lower had the property been taxed rather than being exempt. The 2010 real property tax rate for Laurel County has not been published by the Kentucky Department of Revenue at the time of this report.

These potential changes in the real property tax rates could also affect the personal property rate in the county. The personal property tax rate calculation relies on both the current and past year's real property tax rates to arrive at the current year's personal property rate. As such, any change in the real property tax rate could change the personal property rate in that taxing district.

Table 2.2
Laurel County 2009 And 2010 Real Property Tax Rates

		2009	2010
Adopted Rate		6.1	*
IRB Property Taxed	Compensating Rate	6.0	6.0
	4% Rate	6.2	6.2
IRB Property Exempt	Compensating Rate	6.1	6.1
	4% Rate	6.3	6.3

Note: Rates are in cents per $100.
*This rate was not yet published by the Kentucky Department of Revenue.
Source: Staff calculations, using property tax rates for 2008, 2009, and 2010 and property values from the Kentucky Department of Revenue, Office of Property Valuation.

A payment in lieu of taxes agreement exists for the Laurel County IRB. The company makes annual payments to the East Bernstadt Independent School District equal to what the company would have paid in the given year had the property not been deeded to the local government.

The Laurel County IRB has a payment in lieu of taxes agreement. The company will make annual payments to the East Bernstadt Independent School District Board of Education while the bonds are outstanding. The PILOT states that the payments will equal what the company would have paid in the given year had the property not been deeded to the local government and made tax exempt.

Other Cities And Counties. The other relevant IRBs identified in this study cannot be examined with the same level of detail as Laurel County due to a lack of information. However, given the information in Table 2.1, the size of the IRBs issued relative to the total real property valuations in each county can provide information about potential impacts.

In Jefferson County, a $32.5 million IRB was issued in 2008 for Phenix Louisville LP/The Bellamy at Louisville and a $40 million IRB was issued for University Residences – Louisville LLC. Both properties were transferred to Jefferson County and were exempt from local property taxes in 2009 and 2010. According to the PVA, the Bellamy property was valued at $0.9 million in 2008 and the University Residences property was valued at $5.1 million. After the IRBs were issued, the Bellamy property was reassessed at a value of $0.9 million in 2009 and $2.5 million in 2010. The University Residences property was reassessed at a value of $5.1 million in 2009 and $38.8 million in 2010. The total value of real property in Jefferson County was more than $50 billion in 2010. Therefore, the potential impact on tax rates of these two projects is moderated by the very large property base.[7] PILOT agreements exist for both projects, but staff were unable to obtain copies of them.

The City of Newport issued several smaller IRBs in 2008 that totaled $23.435 million for one project. These bonds were issued by the city for South Beach #1 LLC to acquire land and construct a residential condominium complex and parking garage in Newport. Staff contacted officials in Campbell County but were unable to obtain documentation for this project.

The city of Fort Wright issued an IRB in the amount of $18 million for the Wessels Company LLC, to construct commercial office buildings. A PILOT agreement was in place to compensate the city for lost tax revenue. However, no PILOT agreement exists with Kenton County, the local school district, or any other special taxing district.

The city of Shelbyville issued an IRB in the amount of $19.5 million in 2008 for Nifco North America Inc. The property was transferred to the city and was exempt from city property taxes in 2009 and 2010.

The company agreed to make PILOT payments to Shelby County and the Shelby County School District in the amounts equal to what the company would have paid in ad valorem taxes had the

[7] The Jefferson County PVA's office confirmed that the Bellamy at Louisville office has not been properly revalued since the construction of the IRB-financed project has been completed. A revaluation of the property would most likely have the effect of increasing the property's value, potentially increasing the effect the tax-exempt properties have on the calculated tax rates in Jefferson County.

property not been tax exempt. The tax-exemption agreement was for a 5-year period.

The transfer of property associated with IRBs may also affect the tax rates and revenue collections of special taxing districts such as school, fire, and water and sewer districts.

Special Taxing Districts. In addition to the potential impact on the state real property tax rate and collections and the county or local government, the transfer of property from private owners to the local government has the potential to impact local and special taxing districts such as school, fire, and water and sewer districts.

Leasehold Interest Tax

Unless otherwise exempted in the IRB agreement, the company leasing back the land from the local government is responsible for the leasehold interest tax on the property. This tax is assessed at a state rate of 1.5 cents per $100 of valuation, which is typically the value of the bond amortized over the life of the bond.

While the local government in each of these agreements holds title to the property, which makes them exempt from state and/or local property taxation, the company leasing back the land holds a leasehold interest on the property. As such, the company is responsible for paying a state tax at the rate of 1.5 cents per $100 valuation. The value of the leasehold interest is calculated as the value of the bond amortized over the life of the bond.

For example, in Laurel County, the value of the bond issue is $16 million, and the term of the bonds is 25 years. In year 1 of the bond issue, the company would have been assessed 1.5 cents per $100 valuation on one-twenty-fifth of the full value of the bonds. In year 2 of the bond issue, the company would be assessed 1.5 cents per $100 valuation on two-twenty-fifths of the full value of the bonds. This assessment would continue until the final year of the bond term when the leasehold interest of the company would be assessed at the full value of the bond issue.

This method of assessing the leasehold interest tax would apply to all IRB issues in which the property was transferred from the private company to the local government, thus making the property exempt from state ad valorem property tax, and leased back to the private company.

Chapter 3

Effects On School Districts

Lower property assessments affect both the tax rates that are certified to the district and the amount of funding a district receives from the state.

The exemption of property from taxation as the result of an industrial revenue bond affects the school district by lowering its total property assessment. Lower property assessments affect the tax rates that are certified to the district and the amount of funding a district receives from the state.

The East Bernstadt Independent school district is used to illustrate the potential effect of an exemption of property from taxation. The net effect for this district is additional funding available for both the 2009-2010 and 2010-2011 school years.

In this chapter, the East Bernstadt Independent school district in Laurel County is used to illustrate the potential effect on school district tax rates and state funding when $16 million in real property is transferred to the county as a result of an IRB. Since this property has been transferred to the county and is currently exempt from taxation, tax rates and state funding amounts are recalculated for East Bernstadt Independent to illustrate what may have happened if that property had not been exempt from taxation. As a result of the exemption, the total property assessment in East Bernstadt Independent school district is $16 million lower, and the per-pupil assessment is $35,000 lower than it would have been. Each year, these changes have resulted in East Bernstadt providing $48,000 less in total local effort under the state funding formula and receiving $73,000 more in state funding. In this example, the net effect from that transfer of property is potentially lower district tax revenue, a payment in lieu of taxes from the private business, and additional state funding that may have resulted in the school district having an additional $84,000 in funds available in the 2009-2010 school year and almost $60,000 in additional funding in the 2010-2011 school year.[1]

Support Education Excellence in Kentucky

Education funding in the state is distributed through Support Education Excellence in Kentucky (SEEK), which provides more state funding to districts with less property wealth and less state funding to districts with more property wealth.

Education funding in the state is distributed each year through the Support Education Excellence in Kentucky (SEEK) funding formula, which was created in 1990 by the Kentucky Education Reform Act. The SEEK calculation is used to allocate school funds based on property assessments, student counts, and transportation costs. Changes to these factors can affect the amount of state SEEK funds given to districts. State SEEK funds combine with money raised through local taxes to provide total per-pupil funds

[1] The time period for a school year is the same as for a fiscal year—for example, July 1, 2009, to June 30, 2010.

available to the school district. One goal of SEEK is to equalize per-pupil spending among districts. In order to do this, SEEK provides more state funding to districts with less property wealth and less state funding to districts with more property wealth.

Overview Of SEEK Calculation

SEEK provides a guaranteed amount of funds per pupil, with additional funds for certain classifications of students and other adjustments.

As shown in Figure 3.A, the state sets a guaranteed amount of funding per pupil in each biennial budget, plus additional funds to each district for low-income students who qualify for free lunch, students with disabilities, students receiving education at home or in the hospital, students with limited English language skills, and transportation costs. A minimum amount of funding, based on the property assessment, is required from the local district. The local effort funding is subtracted from the guaranteed funding, and the remaining amount is provided by the state. Districts with lower property assessments will therefore provide less required local effort and receive more funding from the state. Additional state funds are available for districts that raise revenue above the required minimum, called Tier I funding. Because funding is also guaranteed to not drop below the per-pupil funding level from the 1991-1992 school year, additional funding may be allocated to ensure that level is reached. Finally, school districts may qualify for additional state building funds by implementing higher tax rates specifically for capital construction.

SEEK funding is calculated based on the school districts' total property assessment for all classes of property.

The SEEK calculation uses the school districts' total property assessment, which includes all classes of property: real, personal, and motor vehicles. For the SEEK calculation in this chapter, a change in property assessments is discussed without regard to which class of property has been exempted from taxation.

Effect On SEEK Of Removing Property From The Tax Base

A lower property assessment would affect SEEK through local effort and through Tier I, as well as facilities funding through Facilities Support Program of Kentucky (FSPK).

When property is removed from the tax base, the total property assessment in a school district is lowered. A district's property assessment directly enters SEEK through local effort and through Tier I. Property assessments are also used when calculating capital project funding through the Facilities Support Program of Kentucky (FSPK). Additionally, a change in the property assessment in the current year could affect the estimated statewide average property assessment used in the SEEK calculation for all districts in future years.

Figure 3.A
SEEK And FSPK Calculations

SEEK

Guaranteed base funding for students (set in budget) + Additional funding for at-risk students + Additional funding for home and hospital students + Additional funding for exceptional students +

Additional funding for limited English proficiency students + Transportation funding = Adjusted SEEK base

Adjusted SEEK base − 30-cent local effort = State portion

State portion + State Tier I funding + Hold harmless funds +/− Adjustment to appropriation = Total state SEEK

Total state SEEK +/− Prior year adjustment = Total state funds

FSPK

Local portion + State portion = Total FSPK

Note: At-risk students are those from low-income households who qualify for free lunch. Home and hospital students are those being taught outside the school due to a medical condition. Exceptional students are those with disabilities with funding weighted based on the severity of the disability. Hold harmless funding is additional funding a district may receive to ensure that the funding level per pupil does not drop below 1991-92 levels.
Source: Staff adaptation of district SEEK calculations obtained from the Kentucky Department of Education.

Each district must provide the equivalent of 35 cents per $100 of taxable property assessments in order to participate in SEEK and FSPK. When property assessments decline, the required local effort declines and state funding will increase.

Minimum Local Effort. Each district is required to provide the funding equivalent of a tax of 30 cents per $100 of taxable property assessments in order to qualify for state SEEK funds. The 30-cent local effort is subtracted from the adjusted SEEK base, and the state contributes the remainder. When a district's total property assessment is lower, its required 30-cent local effort is lower and the state portion of SEEK base funding is higher. Because the state is funding the amount of the adjusted base that is not funded through the district's local effort, in this portion of SEEK a decrease of $1 in funding from the district leads to an increase of $1 in funding from the state. For example, for every $1 million decline in the property assessment, the local district is required to generate $3,000 ($1 million times 0.0030) less in local tax revenue and the state contributes $3,000 more in SEEK funds.

Districts are also required to provide the funding equivalent of 5 cents per $100 of taxable property assessments in order to participate in the Facilities Support Program of Kentucky, which is used for school facilities. For example, a $1 million decline in the property assessment would mean the school district is required to generate $500 ($1 million times 0.0005) less in local tax revenue and the state would contribute $500 more in FSPK funds.

Therefore, when property financed through an IRB is transferred to a local government, the decline in property assessments means the district is required to raise a total of 35 cents less for every $100 in property value transferred.

Tier I funding is the funding over the required local effort of 35 cents and up to 15 percent of adjusted base funding. The state contributes Tier I funding to the district if the per-pupil assessment is less than 150 percent of the estimated statewide per-pupil assessment. The amount of Tier I funding depends on the mix of taxes levied by the district.

Tier I. The state uses the SEEK funding formula to provide incentives for local school districts to raise more local revenues. Tier I funding is the funding over the required minimum local effort and up to 15 percent of adjusted base funding.[2] The state contributes Tier I funding in districts whose per-pupil assessment is less than 150 percent of the estimated statewide average per-pupil assessment, which is called the equalization level. How much the state contributes is determined by the total amount of tax revenue collected in the district divided by total assessments. This levied equivalent rate is used to compare total taxing effort between districts. The levied equivalent rate is compared to the rate that determines whether a district would receive the maximum amount of Tier I funding: the maximum Tier I equivalent rate.[3] If the levied equivalent rate is higher than the maximum Tier I rate, which indicates the district has raised sufficient revenue above the required minimum, the state will provide maximum Tier I funding to the district. If the levied equivalent rate is lower than the maximum Tier I rate—that is, the district is not raising sufficient revenue above the required minimum—the state will provide only partial Tier I funding to the district.

If a district qualifies for Tier I funding, a lower per-pupil assessment leads to a higher amount of Tier I funding from the state regardless of whether a district receives maximum or partial Tier I funding.

The exemption of real property from the tax base, which would lead to a lower per-pupil property assessment, could factor into Tier I funding for the current year in two ways. First, districts with a per-pupil assessment below the equalization level qualify for Tier I funding. Second, a lower per-pupil assessment lowers the local share of Tier I funding required from districts that receive maximum Tier I funding. Therefore, a lower per-pupil assessment resulting from a property transfer to a tax-exempt entity makes it more likely that a district will qualify for Tier I funding and

[2] In addition to the adjustments listed above, base funding for Tier I purposes is adjusted by the difference between the district's transportation funding calculation and the amount funded by the state.
[3] The maximum Tier I equivalent rate is found by dividing 15 percent of adjusted base funding by the number of students in the district, then by the higher of the per-pupil assessment or state equalization level. Finally, 35 cents is added to represent the 30 cents required local effort plus 5 cents of required capital funds effort.

increases the state's share of Tier I funding. Regardless of whether a district receives maximum or partial Tier I funding, if a district qualifies for Tier I funding, then a lower per-pupil assessment leads to a higher amount of Tier I funding from the state.

A change in the tax rate may affect a district's eligibility for Tier I funding. A district already receiving maximum Tier I funding will not see a Tier I effect from raising its tax rate.

To the extent that a change in property assessments affects the tax rates levied by the district, exempting additional property may affect Tier I funding for a district through the tax rate as well. If a lower property assessment results in higher tax rates certified to the district, and the district levies a higher rate, the higher tax rate may cause a district to qualify for maximum state Tier I funding when it would otherwise have qualified for only partial Tier I funding. In the 2009-2010 school year, only six districts were not receiving maximum Tier I funding due to lower levied equivalent rates, so the effect of this type of shift from partial to full funding would be limited to these six districts. A district that is already receiving maximum Tier I funding will not see a Tier I impact from raising its tax rate further above the maximum Tier I rate.

Tier II funding is the revenue that is raised by the district in excess of Tier I. Maximum Tier II funding is not affected by a change in property assessments, but actual Tier II revenue may be affected if the levied tax rate applied to lower property assessments brings in less revenue.

Tier II. Tier II funding is the revenue that is raised by the district in excess of Tier I. Districts with levied equivalent rates that are higher than the maximum Tier I rate are raising Tier II funds. Tier II funding is raised by the district only and is not matched or contributed to by the state. Tier II revenue is capped at 30 percent of the amount of revenue raised through base funding and Tier I.[4] Since property assessments are not accounted for in base funding, and there is no state funding in Tier II, Tier II funding would be affected by a lower property assessment only to the extent that the district's tax base is smaller. Therefore, the maximum Tier II funding amount allowed to the district is not affected by a change in property assessments, but Tier II funds raised by the district would be smaller if property assessments are lower since the district's tax rate is applied to a smaller tax base. If lower assessments cause the district to levy a higher tax rate, the net effect will vary.

Capital Funding

A decrease in property assessments would lead to a decrease in the local portion of FSPK and an increase in the state portion of FSPK dollar for dollar.

Facilities Support Program Of Kentucky. The Facilities Support Program of Kentucky requires districts to levy a 5-cent equivalent tax to qualify for facilities funding, which is provided by way of a formula that equalizes districts based on property assessments. To the extent property is exempted from taxation and total property assessments decline, the required local portion of FSPK would

[4] Some districts exceed Tier II through grandfathered tax rates or through the HB 44 rate.

decline and the state portion of FSPK would increase in a dollar-for-dollar trade-off. For example, if $1 million in property were removed from the tax base of a district, the district would be required to raise $500 less in FSPK funding, and the state would contribute $500 more in FSPK funding. The total amount of FSPK funding would not change.

Any additional equalized nickels levied by the district would be affected the same as FSPK.

Additional Equalized "Nickels." Districts may levy additional 5-cent equivalent taxes—known as "nickels"—to meet other capital funding needs. While these other nickels have different requirements, purposes, and criteria, the state funding calculation is the same for the nickels that are equalized by the state, and the effect of a property assessment decline would be the same as described above for FSPK. That is, when a district exempts property from taxation, the district is required to raise less local funds, and the state is required to contribute more funds.

Effect In Future Years

A change in the levied equivalent rate affects SEEK only when it changes the smaller of either the current-year levied equivalent rate or the levied equivalent rate in the year prior to the budget biennium.

When a tax rate change or property assessment change affects the levied equivalent rate, the effect on SEEK would depend on the timing of those changes. Any tax rate or property assessment change would affect the current-year levied equivalent rate. The current-year levied equivalent rate is compared with the levied equivalent rate in the year prior to the budget biennium, and the lowest rate is used in SEEK. [5] Therefore, changes to the levied equivalent rate in the current year may not affect SEEK funding if the levied equivalent rate in the year prior to the biennium was still the smaller rate.

The estimated statewide average per-pupil property assessment, which is used in the SEEK calculation for all districts, may be affected in future years by a property exemption in one district.

Another potential effect in future years is the state equalization level of 150 percent of the estimated statewide average per-pupil property assessment. If property is removed from the tax base in one district, it lowers the equalization level for all districts. A lower equalization level would mean that, all else held constant, other districts appear to have relatively more property wealth per pupil, which could then be higher than the state equalization level. Should that happen, the district would not qualify for state Tier I or state FSPK funds.

[5] For example, the levied equivalent rate in the 2009-2010 school year is used in the SEEK formula for 2010-2011 and 2011-2012 if it is smaller than the levied equivalent rate for the district in 2010-2011 and 2011-2012.

SEEK Funding Level

SEEK is funded in the biennial budget based on estimated property assessments and estimated student counts for the state. If those estimates incorrectly estimate students or property, an unanticipated increase in the SEEK funding to one district would negatively affect all other districts. If there are excess funds, additional funding to one district would not affect other districts.

SEEK is funded through an appropriation in the biennial budget that is based on estimated property assessments and estimated student counts for the state. If the initial forecast of SEEK underestimates student counts or overestimates property assessments, the amount of money appropriated to SEEK for distribution to the districts may not be enough to fund final SEEK calculations made on actual student counts and assessment data.

When there are more than sufficient funds to cover all districts' final SEEK calculations, actions by one district that result in an increase in state SEEK funding for that district would not affect other districts. If one district were to have a decline in its property assessment and therefore have a higher SEEK appropriation, other districts would not be affected as long as sufficient funding existed in the SEEK budget appropriation to cover the increase to one district. When SEEK funds are insufficient to cover a higher than estimated allocation to one district, every district receives a prorated decrease in SEEK funding.

School District Ad Valorem Property Taxes

Based on property assessments provided by local property valuation administrators and certified by the Department of Revenue, the Department of Education certifies four real and personal property tax rates to each district every year.

Local property valuation administrators are responsible for reporting the assessed value of property to the Kentucky Department of Revenue, which then certifies property assessments to the Kentucky Department of Education. The certified property assessments provided to the Department of Education are used in the SEEK calculation and to calculate the real and personal property tax rates.

The property tax rates provided by the Department of Education provide thresholds that determine hearing and recall requirements.

A local school board may levy any tax rate, but the rates provided by the Department of Education establish thresholds that determine hearing and recall requirements. Rates that generate no more revenue than was generated last year do not require a public hearing on the rate and are not subject to recall by the voters. Rates that generate more revenue are subject to a public hearing as defined in KRS 132.023; rates that generate an increase in revenue of more than 4 percent for existing property are subject to a hearing and recall.

Compensating Tax Rate

The compensating tax rate is the rate that when applied to the current year's property assessment, excluding new property, produces an amount of revenue equal to that produced in the previous year. Any rate up to this rate may be levied without a public hearing and is not subject to recall. The compensating tax rate I calculation is based on real property; the compensating tax rate II calculation is based on both real and personal property. The higher of these two rates is certified to the district.

Subsection (1) Tax Rate

The subsection (1) tax rate, which refers to subsection (1) of KRS160.470, is the rate that produces no more revenue than what would have been generated by the highest rate certified to the district in the previous year. This rate is subject to the hearing and recall provisions. The rate is based on prior-year maximum revenue from both real and personal property.

4 Percent Increase Tax Rate

The 4 percent increase tax rate is the rate that produces 4 percent more revenue than was generated by the compensating tax rate. This rate is subject to the hearing provisions.

Tier I Tax Rate

The Tier I tax rate, also called the HB 940 tax rate, is the minimum tax rate that a district may levy and still qualify for maximum Tier I equalization funding from the state. This tax rate is based on all taxes levied in the district (ad valorem and permissive) and any rate up to this rate may be levied without hearing and recall.[6]

For rates calculated under HB 44, when property assessments are lowered the rates are higher. For the tax rate calculated under HB 940, the effect of a lower property assessment depends on the current mix of taxes in the district.

The HB 44 property tax rates for a school district are affected by lower property assessments in the same way that state and municipal tax rates were affected as described in Chapter 2. When the property assessment declines, the rate required to generate the same amount of revenue as in the prior year increases. The effect of lower property assessments on the Tier I tax rate depends on the current tax rate as well as the mix of property taxes and permissive taxes, such as utility or occupational taxes, levied by the district.

[6] The hearing and recall provisions of HB 940 supersede the hearing and recall provisions of HB 44.

School districts are allowed to add additional tax levies for facilities funding and to collect money lost due to refunds in the prior year.

In addition to the rates described above, in the first year levied, a school district is allowed to add to its property tax rate an extra amount that generates revenue equivalent to a 5-cent property tax to meet capital funding needs.[7] School districts are also permitted to add an exoneration rate every year, which is an additional tax to collect for prior-year tax refunds in real and personal property. For example, in 2010-2011 East Bernstadt Independent school district levied a real property tax rate of 32.7 cents per $100, plus a new 5-cent equivalent of 6.2 cents per $100 for capital funding, plus a 0.3-cent exoneration rate to recover property tax refunds given in the prior year. The total levied rate in the district in 2010 was 39.2 cents per $100.

Example: East Bernstadt Independent School District In Laurel County

To illustrate how school tax rates can change when property is transferred to a local government, the tax rates certified to the East Bernstadt Independent school district are recalculated below assuming the Laurel County property had not been exempted from taxation. While this provides an example of the potential effect of a lower property assessment, the tax rate decision is ultimately made by the district.

To illustrate how school tax rates change when property is transferred to a local government, staff recalculated the tax rates certified to the East Bernstadt Independent school district in years 2009-2010 and 2010-2011 assuming the property had not been exempt from taxation. Assumptions were made regarding the tax rate the district would have chosen given an alternate set of circumstances. This alternate scenario for one particular district does not necessarily mean that this is what would have happened in this district or any other.

Additionally, staff calculated the potential revenue that may have been raised from these alternate tax rates. In the example provided below, the exemption of $16 million of real property in the East Bernstadt school district may have resulted in the district receiving approximately $36,000 less in local tax revenue in the 2009-2010 school year and $75,000 less in local tax revenue in 2010-2011.

For the purpose of this analysis, staff calculated what the school tax rate thresholds certified to the district would have been if the land had been developed and assessed as it actually was, but remained a taxable piece of real estate. (Appendix C shows the detailed calculation.) The increase in assessed value from the development was $13.55 million. This additional amount would have been considered new property the first time it appeared in the assessment for a taxing district. Therefore, for the recalculation of

[7] These 5-cent equivalent taxes are greater than 5 cents per $100 in assessments because they take into account that the tax is not applied to motor vehicles, and the calculation corrects for a collection rate of less than 100 percent. The rate is added on top of the levied property rate in the first year and then incorporated into the rate calculation in following years.

rates in 2009-2010, the existing property amount of $2.45 million was added back into the existing property tax base and $13.55 million was added in the form of new property. For 2010-2011, the entire $16 million was added back into the existing tax base.

2009-2010 Tax Rate

If $16 million in real property had not been exempted from taxation, the compensating tax rate certified to the district in 2009, which was adopted by the district as the levied rate, would have been 2.1 cents lower.

For the 2009-2010 school year, the East Bernstadt Independent School District adopted the compensating tax rate for real property of 29.3 cents per $100 of property plus a 0.2-cent exoneration rate for a total real property tax rate of 29.5 cents. As shown in Table 3.1, if the assessment had been $16 million higher, the compensating tax rate would have been 27.4 cents, which is 2.1 cents lower than the adopted compensating rate. For this analysis, staff assumed that the district would have still taken the compensating rate since both rates, when applied to their respective tax bases excluding new property, would have generated approximately as much revenue as was generated in the previous year.

Table 3.1
Actual And Hypothetical Tax Rates And Potential Revenue
For East Bernstadt Independent School District
2009-2010 School Year

	Actual	Hypothetical	Difference
Total real property x	$32,628,962	$48,628,962	$16,000,000
Tax rate =	29.5	27.4	(2.1)
Potential revenue	$96,255	$133,243	$36,988
Total tangible property x	$5,221,632	$5,221,632	–
Tax rate =	29.5	27.4	(2.1)
Potential revenue	$15,404	$14,307	($1,097)
Motor vehicles x	$3,482,338	$3,482,338	–
Tax rate =	27.4	27.4	–
Potential revenue	$9,542	$9,542	–
Total property tax revenue	$121,201	$157,092	$35,891

Note: The hypothetical scenario assumes that $16 million in real property was not transferred to the county as the result of an IRB and is not exempt from taxation. Tax rates are expressed in cents per $100 of assessed property. Permissive taxes are not included in the table. Additional personal property revenue may have been generated and is not estimated in this table.
Source: Staff calculations based in information received from the Kentucky Department of Education and the Department of Revenue.

After assuming that additional personal property would have been reported if not tax exempt, the 2009 personal property tax rates could have still been set equal to real property tax rates.

Personal property tax rates are permitted to increase in order to generate the same percentage increase in personal property revenue as in real property revenue. In this example, all real and tangible property purchased with the proceeds of the bond was tax exempt. Staff were unable to determine the true value of personal property that was exempted but assumed the value was high enough to generate sufficient personal property revenue so that the personal property revenue percent increase would be at least as much as real property. The value of property necessary for this to happen is approximately $2.4 million. If the property value were not that high, the personal property tax rate would have risen. Therefore, for the 2009-2010 school year, staff assumed the personal property taxes would be set based on HB 44 calculations, and the personal property tax rate would have also dropped to 27.4 cents. It was not possible to estimate the actual value of personal property for the revenue calculations.

A real property tax rate of 27.4 cents per $100 could have generated almost $36,000 more revenue to the district.

The real property tax rate of 27.4 cents would have been applied to the larger existing base and the additional new property, so this lower rate could have generated almost $36,000 more revenue to the district.

2010-2011 Tax Rate

In 2010, East Bernstadt Independent school district adopted the HB 940 tax rate, plus a 5-cent equivalent tax and the exoneration rate.

For the 2010-2011 school year, the East Bernstadt school district adopted the HB 940 real property tax rate of 32.7 cents. It also adopted a new 5-cent equivalent tax and an additional exoneration rate to recover prior year refunds, bringing the total property tax adopted to 39.2 cents.

If $16 million in real property had not been exempted from taxation, the HB 940 tax rate certified to the district in 2010, which was adopted by the district as the levied rate, would have been 2.3 cents higher.

As shown in Table 3.2, if the assessment had been $16 million higher, the HB 940 rate certified to the district would have been 35.5 cents. Assuming the district still adopted the additional 5-cent equivalent tax and the exoneration rate, which were both recalculated using the higher total property assessment, the HB 940 property tax rate under this scenario would be 41.5 cents, which is 2.3 cents higher than the adopted HB 940 rate.

Table 3.2
Actual And Hypothetical Tax Rates And Potential Revenue
For East Bernstadt Independent School District
2010-2011 School Year

	Actual	Hypothetical	Difference
Total real property x	$32,712,943	$48,712,943	$16,000,000
Tax rate =	39.2	41.5	2.3
Potential revenue	$128,235	$202,159	$73,924
Total tangible	$5,674,283	$5,674,283	–
Tax rate =	39.2	41.5	2.0
Potential revenue	$22,243	$23,548	$1,305
Motor vehicles x	$4,395,936	$4,395,936	–
Tax rate =	27.4	27.4	–
Potential revenue	$12,045	$12,045	–
Total property tax revenue	$162,523	$237,752	$75,229

Note: The hypothetical scenario assumes that $16 million in real property was not transferred to the county as the result of an IRB and is not exempt from taxation. Tax rates are expressed in cents per $100 of assessed property. Permissive taxes are not included in the table. Additional personal property revenue may have been generated and is not estimated in this table.
Source: Staff calculations based in information received from the Kentucky Department of Education and the Department of Revenue.

Districts must levy tax rates high enough to generate a minimum level of taxing effort in order to qualify for maximum education funding from the state. In this instance, the addition of $16 million in property assessments would have required the district to increase property tax rates in order to still qualify for maximum state funding.

A higher property assessment causing a higher tax rate is opposite from the usual effect. When tax rates are calculated under HB 44, they are calculated to raise an amount of revenue that is based on the revenue generated in the prior year. Therefore, when assessments increase, the rates necessary to generate the same amount of revenue decline. In contrast, the HB 940 rate is dependent on prior-year collections and the mix of taxes levied by the district (real estate, personal property, motor vehicle, and permissive taxes). The rate is calculated to determine a minimum level of taxing effort a district must levy based on property assessments. In this instance, holding all other tax collections constant, the addition of real property would have required this particular district to *raise* the property tax rate from its previous level in order to still qualify for maximum state funding. Other districts that started with higher property tax rates or more revenue from other sources might not have experienced this result.

The HB 940 tax rate applies to both real and personal property.

When a district chooses to levy the HB 940 tax rate, that rate is used for both the real and personal tax rate. Therefore, if East Bernstadt still adopted the HB 940 rate in 2010-2011, with the additional $16 million in the base the 2010 personal property tax rate for East Bernstadt would have also been 41.5 cents.

The real property tax rate of 41.5 cents applied to the larger real tax base could have resulted in an additional $75,000 in property tax revenue to the district.

Net Effect: Tax Revenue, PILOTs, And SEEK Funding

The total net effect from the exemption of real property through the issuance of an industrial revenue bond includes the tax revenue, SEEK and FSPK funding, and a PILOT agreement.

The total net effect from the exemption of real property through the issuance of an industrial revenue bond includes the change in tax revenue generated through the adopted tax rate applied to the tax base, the amount of SEEK funding distributed by the state, and a payment in lieu of taxes agreement in place with the school district. A PILOT is in place with the East Bernstadt Independent school district that requires the private entity to pay the school district an amount equal to the current assessed value of the property times the current levied tax rate for the district. This payment is intended to equal the taxes the district would have otherwise received. PILOTs are not accounted for in the SEEK calculation.

Because 2009 total assessments in East Bernstadt excluded $16 million of property, the district received more than $84,000 in additional funding from state and local sources.

2009-2010 School Year. As shown in Table 3.3, because the property assessment was lowered, and assuming the district would have adopted the lower compensating rate of 27.4 cents in the 2009-2010 school year, the local district raised almost $36,000 less in property taxes than it would have. However, this difference is offset by the PILOT in effect with the recipient of the property tax abatement. If the property were not exempt, the taxes would have been paid through local property tax collections at the lower rate. Since the property is exempt, the district receives the funds through the PILOT at the higher rate. After also accounting for the difference in SEEK and FSPK funding, the net difference in funding to the district as a result of the lowered total assessment is $84,000 more revenue from state and local sources, including the PILOT.

Table 3.3
Net Effect Of Property Exemption For East Bernstadt Independent School District
2009-2010 School Year

	Actual	Hypothetical	Difference
Potential property tax revenue	$121,201	$157,092	($35,891)
Payment in lieu of taxes	47,200	0	47,200
State SEEK funds	2,236,466	2,171,385	65,081
State FSPK funds	142,511	134,511	8,000
Total state and local funds available	$2,547,378	$2,462,988	$84,390

Note: The hypothetical scenario assumes that $16 million in real property was not transferred to the county as the result of an IRB and is not exempt from taxation. Permissive taxes are not included in this table.
Source: Staff calculations based in information received from the Kentucky Department of Education and the Department of Revenue.

Because 2010 total assessments in East Bernstadt excluded $16 million of property, the district received almost $60,000 in additional funding from state and local sources.

2010-2011 School Year. As shown in Table 3.4, because the property assessment was lowered, and assuming the district would have adopted the higher HB 940 rate in the 2010-2011 school year, the district raised approximately $75,000 less in property taxes than it would have. The potential tax revenue is greater in 2010 due to the district adopting the higher HB 940 rate instead of the compensating rate. This is again partially offset by the PILOT that is received if the property is exempt. As a result of the lowered assessment, the school district received almost $60,000 more revenue from state and local sources, including the PILOT.

Table 3.4
Net Effect Of Property Exemption For East Bernstadt Independent School District
2010-2011 School Year

	Actual	Hypothetical	Difference
Potential property tax revenue	$162,523	$237,752	($75,229)
Payment in lieu of taxes	62,720	0	62,720
State SEEK funds	2,287,831	2,223,345	64,486
State FSPK funds	148,225	140,225	8,000
Total state and local funds available	$2,661,299	$2,601,322	$59,977

Note: The hypothetical scenario assumes that $16 million in real property was not transferred to the county as the result of an IRB and is not exempt from taxation. Permissive taxes are not included in this table.
Source: Staff calculations based in information received from the Kentucky Department of Education and the Department of Revenue.

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Appendix A

How This Study Was Conducted

On December 10, 2009, the Program Review and Investigations Committee directed staff to study the financing of industrial buildings through industrial revenue bonds that involve transferring property to cities or counties. The study has three major objectives:

- Describe the processes associated with deeding private property to a local government to qualify for tax-free bonds.
- Examine the effect on tax revenues and rates of deeding private property to local government to qualify for tax-free bonds.
- Describe how deeding private property to local governments to qualify for tax-free bonds affects the distribution of SEEK funds.

Initial research indicated that property transfers also occurred with taxable bonds. Because the objectives of the study were to understand how these property transfers affect taxes and SEEK funding, this report also examines transfers involving taxable bonds.

Staff reviewed the statutes and regulations associated with industrial revenue bonds and interviewed officials in agencies that review these bond issues. Staff also examined a sample of bond issues from 2008. Staff reviewed the process by which state and local tax rates are determined to see how transferring property from a private entity to a local government could affect tax rates. Finally, staff reviewed the SEEK formula and examined a specific bond issuance in more detail.

Appendix B

KRS 103.200 Definitions Of Industrial Buildings

1) As used in KRS 103.210 to 103.285, "building" or "industrial building" means any land and building or buildings (including office space related and subordinate to any of the facilities enumerated below), any facility or other improvement thereon, and all real and personal properties, including operating equipment and machinery deemed necessary in connection therewith, whether or not now in existence, which shall be suitable for the following or any combination thereof:

   (a) Any activity, business, or industry for the manufacturing, processing or assembling of any commercial product, including agricultural, mining, or manufactured products, together with storage, warehousing, and distribution facilities in respect thereof;

   (b) Any undertaking involving the construction, reconstruction, and use of airports, mass commuting facilities, ship canals, ports or port facilities, docks or wharf facilities or harbor facilities, off-street parking facilities or of railroads, monorails, or tramways, railway or airline terminals, cable television, mass communication facilities, and related facilities;

   (c) Any buildings, structures, and facilities, including the site thereof and machinery, equipment, and furnishings suitable for use as health-care or related facilities, including without limitation hospitals, clinics, nursing homes, research facilities, extended or long-term care facilities, including housing for the aged or the infirm and all buildings, structures, and facilities deemed necessary or useful in connection therewith;

   (d) Any nonprofit educational institution in any manner related to or in furtherance of the educational purposes of such institution, including but not limited to classroom, laboratory, housing, administrative, physical educational, and medical research and treatment facilities;

   (e) Any facilities for any recreation or amusement park, public park, or theme park, including specifically facilities for the use of nonprofit entities in making recreational and cultural benefits available to the public;

   (f) Any facilities involving manufacturing and service industries which process raw agricultural products, including timber, provide value-added functions, or supply ingredients used for production of basic agricultural crops and products;

   (g) Any facilities incident to the development of industrial sites, including land costs and the costs of site improvements thereon, such as grading, streets, drainage, storm and sanitary sewers, and other facilities and structures incidental to the use of such site or sites for industrial use;

(h) Any facilities for the furnishing of water, if available on reasonable demand to members of the general public;

(i) Any facilities for the extraction, production, grading, separating, washing, drying, preparing, sorting, loading, and distribution of mineral resources, together with related facilities;

(j) Any convention or trade show facilities, together with all related and subordinate facilities necessary to the development and proper utilization thereof;

(k) Any facilities designed and constructed to be used as hotels and/or motels, together with all related and subordinate facilities necessary to the operation thereof, including site preparation and similar facilities;

(l) Any activity designed for the preservation of residential neighborhoods, provided that such activity receives approval of the heritage division and insures the preservation of not fewer than four (4) family units;

(m) Any activity designed for the preservation of commercial or residential buildings which are on the National Register of Historic Places or within an area designated as a national historic district or approved by the heritage division; and

(n) Any activity, including new construction, designed for revitalization or redevelopment of downtown business districts as designated by the issuer.

Appendix C

School Finance Calculations

SEEK Calculations

The SEEK calculation is used to allocate state education funding based on property assessments, student counts, local tax rates, and transportation costs. The calculations for the 2009-2010 and 2010-2011 school years for East Bernstadt Independent School District are shown below, for both a hypothetical example illustrating the SEEK state funding if $16 million in assessments had remained taxable property and the SEEK state funding based on the actual level of assessments.

Table C.1
SEEK Calculation For East Bernstadt Independent School District
2009-2010 School Year

	Calculation Inputs	**Actual**	**Hypothetical**	**Difference**
	Total assessments	$41,332,932	$57,332,932	($16,000,000)
	Per-pupil assessment	$90,302	$125,257	($34,955)
	Base-year levied equivalent rate	57.4	57.4	0
	Current-year levied equivalent rate	49.4	47.6	1.8
	Adjusted average daily attendance plus growth	457.72	457.72	0
	Transportation	$105,725	$105,725	$0
	Prorated transportation	$73,595	$73,595	$0
	SEEK			
	Guaranteed base funding for students	$1,769,549	$1,769,549	$0
+	Add on: at-risk students	170,036	170,036	0
+	Add on: home and hospital students	2,181	2,181	0
+	Add on: exceptional students	274,834	274,834	0
+	Add on: limited English proficiency students	371	371	0
+	Transportation funding	73,595	73,595	0
=	Adjusted SEEK base	2,290,566	2,290,566	0
−	30-cent local effort	123,999	171,999	(48,000)
=	State portion	2,166,567	2,118,567	48,000
+	State Tier I funds	304,279	287,198	17,081
+	Hold harmless funds	0	0	0
+/−	Adjustment to appropriation	(234,380)	(234,380)	0
=	Total state SEEK	2,236,466	2,171,385	65,081
+/−	Prior-year adjustment	0	0	0
=	Total state SEEK funds	$2,236,466	$2,171,385	$65,081
	Facilities Support Program of Kentucky			
	Local portion	$20,666	$28,666	($8,000)
+	State portion	142,511	134,511	8,000
=	Total FSPK	$163,178	$163,178	$0
	SEEK			$65,081
	FSPK			8,000
	Total			$73,081

Note: The hypothetical scenario assumes that $16 million in real property was not transferred to the county as the result of an IRB and is not exempt from taxation. Tax rates are in cents per $100.
Source: Staff analysis based on information from the Kentucky Department of Education.

Table C.2
SEEK Calculation For East Bernstadt Independent School District
2010-2011 School Year

Calculation Inputs		**Actual**	**Hypothetical**	**Difference**
Total assessments		$42,783,162	$58,783,162	($16,000,000)
Per-pupil assessment		$92,822	$127,536	($34,714)
Base year levied equivalent rate		49.4	47.6	1.8
Current-year levied equivalent rate		51.1	51.0	0.1
Adjusted average daily attendance plus growth		460.92	460.92	$0
Transportation		$105,725	$105,725	$0
Prorated transportation		$73,501	$73,501	$0
	SEEK			
	Guaranteed base funding for students	$1,782,819	$1,782,819	$0
+	Add on: at-risk students	154,312	154,312	0
+	Add on: home and hospital students	968	968	0
+	Add on: exceptional students	286,000	286,000	0
+	Add on: limited English proficiency students	371	371	0
+	Transportation funding	73,501	73,501	0
=	Adjusted SEEK base	2,297,971	2,297,971	0
−	30-cent local effort	128,349	176,349	(48,000)
=	State portion	2,169,622	2,121,622	48,000
+	State Tier I funds	305,448	288,962	16,486
+	Hold harmless funds	0	0	0
+/−	Adjustment to appropriation	(187,145)	(187,145)	0
=	Total state SEEK	2,287,925	2,223,439	64,486
+/−	Prior-year adjustment	(94)	(94)	0
=	Total state SEEK funds	$2,287,831	$2,223,345	$64,486
	Facilities Support Program of Kentucky			
	Local portion	$21,392	$29,392	($8,000)
+	State portion	148,225	140,225	8,000
=	Total FSPK	$169,617	$169,617	$0
SEEK				$64,486
FSPK				8,000
Total				$72,486

Note: The hypothetical scenario assumes that $16 million in real property was not transferred to the county as the result of an IRB and is not exempt from taxation. Tax rates are in cents per $100.
Source: Staff analysis based on information obtained from the Kentucky Department of Education.

School District Tax Rate Calculations

The Kentucky Department of Education certifies tax rates to each district that establish thresholds to determine hearing and recall requirements. The adopted tax rates for East Bernstadt Independent school district for the 2009-2010 and 2010-2011 school years are shown below for the actual level of assessments and an example illustrating the potential tax rates if $16 million had remained taxable property. In 2009-2010, the district adopted the compensating tax rate plus the exoneration rate. In 2010-2011, the district adopted the HB 940 tax rate, a 5-cent equivalent rate, and the exoneration rate.

2009-2010 School Year

Compensating Tax Rate. The compensating tax rate, when applied to the current year's property assessment, excluding new property, produces revenue equal to that produced in the previous year. Any rate up to this rate may be levied without a public hearing and is not subject to recall. There are two compensating tax rate calculations. The compensating tax rate I calculation is based on real property. The compensating tax rate II calculation is based on real and personal property. The higher of the two rates is certified to the district.

Table C.3
Calculation Of East Bernstadt Compensating Tax Rates
2009-2010 School Year

		Actual	Hypothetical
	Prior-year real estate property assessment	$35,200,620	$35,200,620
×	Prior-year real estate rate	0.00272	0.00272
=	Prior-year revenue from real estate property	$95,746	$95,746
÷	Current-year real estate property assessment, excluding new property	$32,873,020	$35,323,020
=	Compensating tax rate I (rounded to next higher one-tenth cent)	0.00292	0.00272
	Prior-year personal property assessment	$4,043,456	$4,043,456
×	Prior-year personal property tax rate	0.00369	0.00369
=	Prior-year revenue from personal property	$14,920	$14,920
+	Prior-year revenue from real estate property	$95,746	$95,746
=	Total prior-year revenue	$110,666	$110,666
÷	Current-year total valuation of property	$37,850,594	$53,850,594
=	Compensating tax rate II (rounded to next higher one-tenth cent)	0.00293	0.00206

Note: The hypothetical scenario assumes that $16 million in real property was not transferred to the county as the result of an IRB and is not exempt from taxation.
Sources: Staff analysis based on information from the Kentucky Department of Education; Commonwealth of Kentucky. Legislative Research Commission. Office of Education Accountability. *Understanding How Tax Provisions Interact With the SEEK Formula.* Table A.1. Research Report No. 354. Frankfort: LRC, 2007. Web. May 10, 2010.

Exoneration Tax Rate. The exoneration rate allows districts to add an amount to the adopted tax rate to collect for prior-year tax refunds in real and personal property. The higher of either the exoneration rate I or exoneration rate II calculation is certified to the district.

Table C.4
Calculation Of East Bernstadt Exoneration Rates
2009-2010 School Year

		Actual	Hypothetical
	Prior-year real estate property assessment	$35,200,620	$35,200,620
+	Real estate exonerations assessment	$306,800	$306,800
=	Prior-year real estate property assessment with exonerations	$35,507,420	$35,507,420
×	Prior-year real estate rate	0.00272	0.00272
=	Prior-year revenue from real estate property with exonerations	$96,580	$96,580
÷	Current-year real estate property assessment, excluding new property	$32,873,020	$35,323,020
=	**Exoneration recovery rate I** (rounded to next higher one-tenth cent)	**0.00294**	**0.00274**
−	Compensating tax rate I	0.00292	0.00272
=	Difference (add on allowed)	0.00002	0.00002
	Prior-year personal property assessment	$4,043,456	$4,043,456
+	Personal property exonerations assessment	$0	$0
=	Prior-year real estate property assessment with exonerations	$4,043,456	$4,043,456
×	Prior-year personal property rate	0.00369	0.00369
=	Prior-year revenue from personal property with exonerations	$14,920	$14,920
+	Prior-year revenue from real estate property with exonerations	$96,580	$96,580
=	Prior-year total property revenue with exonerations	$111,501	$111,501
÷	Current-year total valuation of property	$37,850,594	$53,850,594
=	**Exoneration recovery rate II** (rounded to next higher one-tenth cent)	**0.00295**	**0.00208**
−	Compensating tax rate II	0.00293	0.00206
=	Difference (add on allowed)	0.00002	0.00002

Note: The hypothetical scenario assumes that $16 million in real property was not transferred to the county as the result of an IRB and is not exempt from taxation.
Sources: Staff analysis based on information from the Kentucky Department of Education; Commonwealth of Kentucky. Legislative Research Commission. Office of Education Accountability. *Understanding How Tax Provisions Interact With the SEEK Formula.* Table A.7. Research Report No. 354. Frankfort: LRC, 2007. Web. May 10, 2010.

Total Tax Rate. The total levied tax rate in the district is the sum of the adopted levied rate and any additional rate the district adopts, such as the exoneration rate or additional 5-cent equivalent taxes. The total tax rate levied in the East Bernstadt Independent school district in the 2009-2010 school year is the sum of the compensating tax rate and the exoneration rate.

Table C.5
East Bernstadt Total Tax Rates
2009-2010 School Year

		Actual	Hypothetical
Real property	Real property tax rate	29.3	27.2
	Exoneration rate	0.2	0.2
	Total	29.5	27.4
Personal property	Personal tax rate	29.3	27.2
	Exoneration rate	0.2	0.2
	Total	29.5	27.4

Note: Tax rates are in cents per $100.

2010-2011 School Year

HB 940 Tax Rate. The HB 940 tax rate, also known as the Tier I tax rate, is the minimum tax rate that a district may levy and still qualify for maximum Tier I equalization funding from the state. This tax rate is based on all taxes levied in the district (ad valorem and permissive) and any rate up to this rate may be levied without hearing and recall.

As shown in Table C.6, staff first recalculated 2009 "actual revenue collected" in the district by assuming that the property tax on the additional $16 million would be paid in full. This figure is used to calculate the hypothetical 2010-2011 HB 940 rate that is shown in Table C.7.

Table C.6
Calculation Of Total Hypothetical Prior Year (2009) Revenue Collected For East Bernstadt

2009 actual real property with 92.1% collection rate	$82,340
Additional $16 million real property with 100% collection rate	43,840
Personal property with 92.1% collection rate	13,177
Motor vehicles with 92.1% collection rate	8,788
Permissive tax revenue	71,203
Total	$219,348

Note: The tax rate is 27.4 cents per $100. Figures are rounded to the nearest $1.

Table C.7
Calculation Of East Bernstadt HB 940 Tax Rate
2010-2011 School Year

		Actual	Hypothetical
	Estimated full adjusted SEEK base funding	$2,336,312	$2,336,312
×	Maximum Tier I participation	0.15	0.15
=	Maximum Tier I revenue	$350,447	$350,447
÷	Estimated ADA with growth	458	458
=	Maximum Tier I revenue per pupil	$765	$765
÷	Higher of state equalization level or per pupil assessment	$736,000	$736,000
=	Tier I equivalent rate (rounded to next higher one-tenth cent)	0.00104	0.00104
+	Required 30-cent local effort	0.00300	0.00300
+	Required 5-cent FSPK	0.00050	0.00050
=	Maximum Tier I equivalent rate	0.00454	0.00454
	Prior-year potential property tax	$121,201	$157,092
+	Prior-year permissive tax	$71,203	$71,203
=	Total allowed revenue (see Table 3.1)	$192,404	$228,295
	Actual prior-year revenue (see Table C.6)	$177,207	$219,348
÷	Total allowed revenue	$192,404	$228,295
=	Collection rate	0.921	0.961
	Actual prior-year revenue (see Table C.6)	$177,207	$219,348
÷	Actual prior-year total assessment	$41,332,932	$57,332,932
=	Annualized equivalent rate* (rounded to next lower one-tenth cent)	42.8	38.2
	Maximum tax revenue	$192,404	$228,295
÷	Annualized equivalent rate* (calculated above)	42.8	38.2
=	"One cent revenue"	$4,495	$5,976
×	Tier I rate* (calculated above)	45.4	45.4
=	Total revenue required to meet Tier I	$204,092	$271,325
−	Permissive revenue last year	$71,203	$71,203
−	Motor vehicle revenue last year at 96%	$9,161	$9,161
=	Revenue required from property tax to meet Tier I	$123,728	$190,960
÷	Prior-year property assessment	$37,850,594	$53,850,594
=	HB 940 tax rate (rounded to next higher one-tenth cent)	0.00327	0.00355

Note: The hypothetical scenario assumes that $16 million in real property was not transferred to the county as the result of an IRB and is not exempt from taxation.
*Cents per $100.
Sources: Staff analysis based on information obtained from the Kentucky Department of Education; Commonwealth of Kentucky. Legislative Research Commission. Office of Education Accountability. *Understanding How Tax Provisions Interact With the SEEK Formula.* Table A.8. Research Report No. 354. Frankfort: LRC, 2007. Web. May 10, 2010.

5-Cent Equivalent Tax Rate. A district is permitted to levy an additional rate to meet capital funding needs. The rate is calculated to generate the equivalent of a 5-cent tax rate. The rate is greater than 5 cents because it takes into account that the tax is not applied to motor vehicles, and the calculation accounts for a collection rate of less than 100 percent on property taxes.

Table C.8
Calculation Of East Bernstadt 5-Cent Equivalent Tax Rate
2010-2011 School Year

		Actual	Hypothetical
	Current-year property assessment	$38,387,226	$54,387,226
+	Current-year motor vehicle assessment	$4,395,936	$4,395,936
=	Current-year total assessment	$42,783,162	$58,783,162
×	Required nickel	0.0005	0.0005
=	Amount generated by local FSPK	$21,392	$29,392
÷	Prior-year property collection rate*	0.91	0.935
÷	Current-year property assessment	$38,387,226	$54,387,226
=	5-cent equivalent tax (rounded to next higher one-tenth cent)	0.00062	0.00058

Note: The hypothetical scenario assumes that $16 million in real property was not transferred to the county as the result of an IRB and is not exempt from taxation.
*This collection rate is different from the rate calculated in Table C.7 because it does not include permissive taxes or motor vehicle taxes.
Sources: Staff analysis based on information obtained from the Kentucky Department of Education; Commonwealth of Kentucky. Legislative Research Commission. Office of Education Accountability. *Understanding How Tax Provisions Interact With the SEEK Formula.* Table A.6. Research Report No. 354. Frankfort: LRC, 2007. Web. May 10, 2010.

Exoneration Rate. The exoneration rate allows districts to add an amount to the adopted tax rate to collect for prior-year tax refunds in real and personal property. The higher of either the Exoneration Rate I or Exoneration Rate II calculation is certified to the district.

Table C.9
Calculation Of East Bernstadt Exoneration Rate
2010-2011 School Year

		Actual	Hypothetical
	Prior-year real estate property assessment	$32,628,962	$48,628,962
+	Real estate exonerations assessment	$387,000	$387,000
=	Prior-year real estate property assessment with exonerations	$33,015,962	$49,015,962
×	Prior-year real estate rate	0.00295	0.00274
=	Prior-year revenue from real estate property with exonerations	$97,397	$134,304
÷	Current-year real estate property assessment, excluding new property	$32,497,262	$48,497,262
=	**Exoneration recovery rate I***	**0.003000**	**0.002770**
−	Compensating tax rate I	0.00297	0.00275
=	Difference (add on allowed)	0.00003	0.00002
	Prior-year personal property assessment	$5,221,632	$5,221,632
+	Personal property exonerations assessment	$0	$0
=	Prior-year real estate property assessment with exonerations	$5,221,632	$5,221,632
×	Prior-year personal property rate	0.00295	0.00274
=	Prior-year revenue from personal property with exonerations	$15,404	$14,307
	Prior-year revenue from real estate property with exonerations	$97,397	$134,304
+	Prior-year revenue from personal property with exonerations	$15,404	$14,307
=	Prior-year total property revenue with exonerations	$112,801	$148,611
÷	Current-year total valuation of property	$38,387,226	$54,387,226
=	**Exoneration recovery rate II***	**0.00294**	**0.00274**
−	Compensating tax rate II	0.00291	0.00272
=	Difference (add on allowed)	0.00003	0.00002

Note: The hypothetical scenario assumes that $16 million in real property was not transferred to the county as the result of an IRB and is not exempt from taxation.
*The rate is rounded to the next higher one-tenth cent.
Sources: Staff analysis based on information from the Kentucky Department of Education; Commonwealth of Kentucky. Legislative Research Commission. Office of Education Accountability. *Understanding How Tax Provisions Interact With the SEEK Formula.* Table A.7. Research Report No. 354. Frankfort: LRC, 2007. Web. May 10, 2010.

Total Tax Rate. In the 2010-2011 school year, the total tax rate levied in the East Bernstadt Independent school district is the sum of the HB 940 tax rate, the 5-cent equivalent rate, and the exoneration rate.

Table C.10
East Bernstadt Total Tax Rate
2010-2011 School Year

	Actual	Hypothetical
Real tax rate	32.7	35.5
5-cent equivalent	6.2	5.8
Exoneration rate	0.3	0.2
Total real rate	39.2	41.5
Personal tax rate	32.7	35.5
5-cent equivalent	6.2	5.8
Exoneration rate	0.3	0.2
Total personal rate	39.2	41.5

Note: The hypothetical scenario assumes that $16 million in real property was not transferred to the county as the result of an IRB and is not exempt from taxation. Tax rates are in cents per $100.