

COMMISSION ON
SCHOOL FUNDING

K12 FUNDING CONSIDERATIONS



Tax Systems Are Built on Foundational Principles

NEUTRALITY
EASE OF ADMINISTRATION
STABILITY
INTEGRATION
FLEXIBILITY
SIMPLICITY

EQUITABLE & EFFECTIVE TAX SYSTEM

REVENUE SUFFICIENCY
HORIZONTAL EQUITY
COMPETITIVENESS
PREDICTABILITY
EASE OF COMPLIANCE
TRANSPARENCY
UNIFORMITY
EXPORTABILITY
VERTICAL EQUITY

Commission-Agreed Top Priority Tax Principles

1

Revenue Sufficiency

Revenue sources are sufficient to address the identified funding needs



2

Revenue Stability

Revenue sources are more predictable and exhibit lesser levels of volatility over time, helping to better ensure consistent funding levels



3

Competitiveness

Selected revenue sources do not create competitive imbalances across jurisdictional or state boundaries








Transparency

Equity

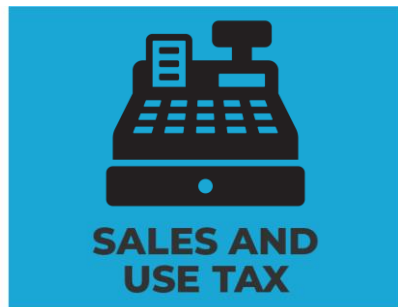
Political
Palatability

Additional high
priority principles

Revenue Alternative Discussion Highlights

 <p>AD VALOREM (PROPERTY) TAX</p>	 <p>SALES AND USE TAX</p>	 <p>GAMING/TOURISM TAXES</p>	 <p>BUSINESS TAXES</p>	 <p>MINING TAXES</p>
<p>Current Tax Base \$139.8 B</p>	<p>Current Tax Base \$59.8 B</p>	<p>Current Tax Base \$10.7 B</p>	<p>Current Tax Base \$166.2 B</p>	<p>Current Tax Base \$8.2 B</p>
<p>Current Tax Rate \$3.19/\$100</p>	<p>Current Tax Rate 6.85%</p>	<p>Current Tax Rate 8.1%</p>	<p>Current Tax Rate 0.5%</p>	<p>Current Tax Rate 5.0%</p>
<p>Current Tax Yield \$3.4 B</p>	<p>Current Tax Yield \$4.8 B</p>	<p>Current Tax Yield \$863.1 M</p>	<p>Current Tax Yield \$813.4 M</p>	<p>Current Tax Yield \$156.0 M</p>

Revenue Alternative Discussion Highlights 1



Conclusion #1

Industry-specific taxes are a less attractive solution, unless included as part of a blended solution.

Revenue Alternative Discussion Highlights 2



AD VALOREM
(PROPERTY) TAX



SALES AND
USE TAX



GAMING/TOURISM
TAXES



BUSINESS
TAXES



MINING
TAXES

Conclusion #2

Property Tax and Sales and Use Tax revenues are traditional funding sources for the state, including K-12 education.

Revenue Alternative Discussion Highlights 3



**AD VALOREM
(PROPERTY) TAX**



**SALES AND
USE TAX**



**GAMING/TOURISM
TAXES**



**BUSINESS
TAXES**



**MINING
TAXES**

Conclusion #3

Significant revenue capacity exists in property valuation and the application of Sales and Use Tax to retail sales, which may avoid the need to create new revenue sources.

Revenue Alternative Discussion Highlights 4



**AD VALOREM
(PROPERTY) TAX**



**SALES AND
USE TAX**



**GAMING/TOURISM
TAXES**



**BUSINESS
TAXES**



**MINING
TAXES**

Conclusion #4

It has been many years since the Property Tax and Sales and Use Tax systems have been reformed to reflect changing economic conditions and population needs.

Revenue Alternative Discussion Highlights 5



AD VALOREM
(PROPERTY) TAX



SALES AND
USE TAX



GAMING/TOURISM
TAXES



BUSINESS
TAXES



MINING
TAXES

Property Tax and Sales and Use Tax are recommended for further consideration in developing ten-year funding plan

Conclusion #4

It has been many years since the Property Tax and Sales and Use Tax systems have been reformed to reflect changing economic conditions and population needs.

Reform Opportunities | Property Tax

▶ Abatements |

- Eliminate abatement caps
- Remove secondary caps
- Cap annual abatement

▶ Depreciation |

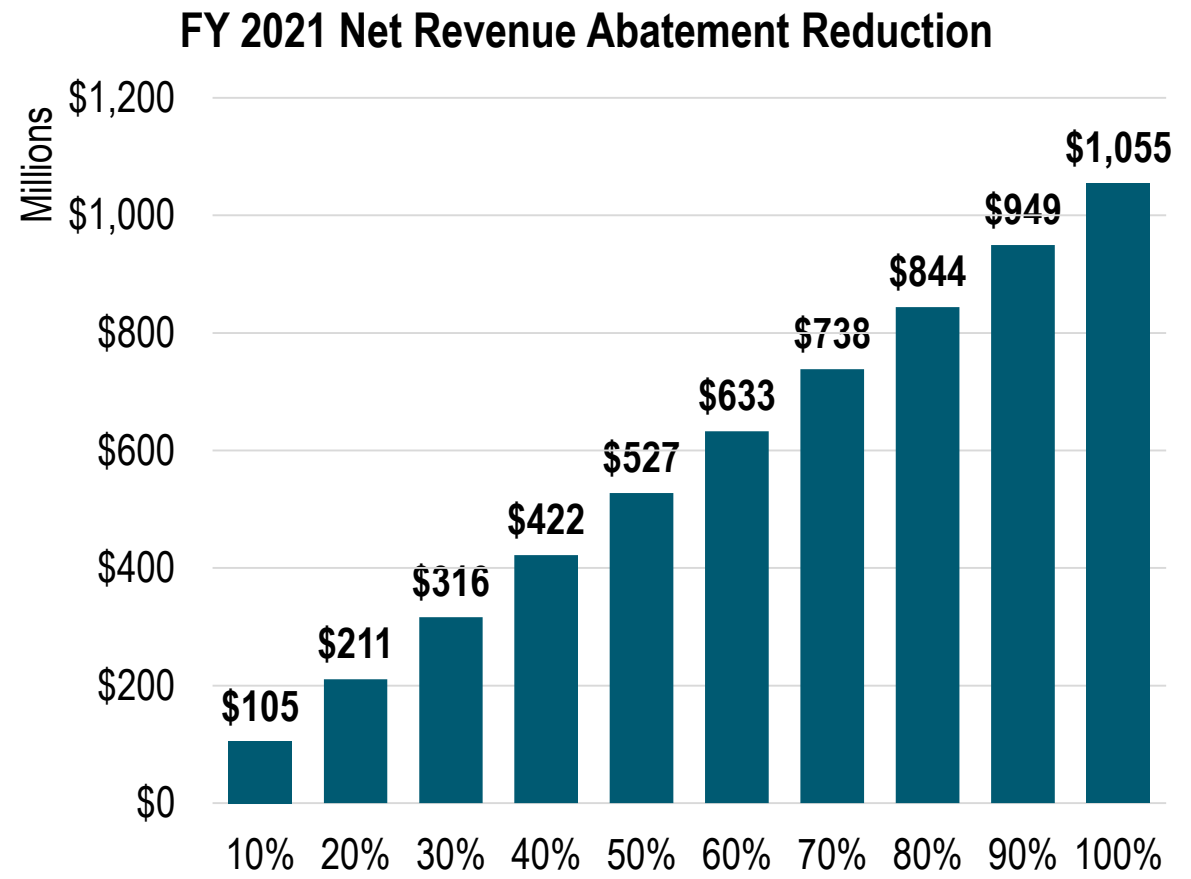
- Reduce 1.5% depreciation rate
- Phase out depreciation
- Eliminate depreciation

▶ Valuation |

- Change current property valuation system to one that reflects actual market valuation

▶ Comb. Rates |

- Soften combined tax rate impacts if increases are in support of education



Reform Opportunities | Sales and Use Tax



Revisions to Implicit & Explicit Assumptions

Expand Sales and Use Tax base without increasing current tax rates by recognizing exemptions that exist for sales of services and which have been exempted through voter approval and legislative action

Remaining Tasks



10-Year Needs Schedule

Develop schedule of needs required to meet restorative and adequate funding for the next 10 years

Quantify Alternatives

Quantify proposed funding alternatives and match to identified needs

Finalize Recommendations

Based on needs schedule and quantified funding alternatives, forward funding source recommendations to the Legislature for review

COMMISSION ON SCHOOL FUNDING

