Alabama Association of School Business Officials

February 9, 2016

Elements of Taxation:
Understanding Your Local Taxes

Issuance of Debt:
How to Borrow Money

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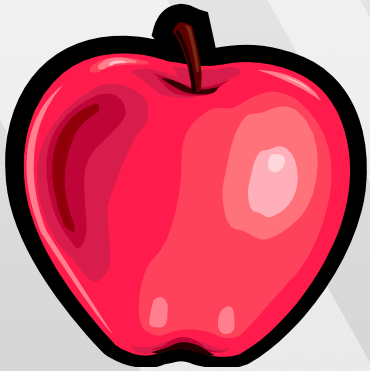
BRADLEY ARANT BOULT CUMMINGS LLP

Things a Chief School Financial Officer Ought to Know About School Revenues

ORIENTATION

Oh, no.
Death AND
taxes.
©DeCeti.

Don't be afraid to ask !



✶✶✶ State Revenues ✶✶✶

Education Trust Fund (formerly known as “Special Education Trust Fund” or “ASETF” – now known as “ETF”)

Created by the Legislature of Alabama in 1927

“…for educational purposes only”

“…for the support, maintenance and development of public education and capital improvements relating to educational facilities…”

Major Sources of Revenue for Education Trust Fund

- State income tax
- State sales tax – 4% basic rate

- State utility tax (levied by the State on the gross sales of electricity, water, gas, telegraph and telephone services)
- State use tax – 4% basic rate

ETF allocation is distributed monthly – in 12 equal monthly payments – to local school systems.

Table 16.

Education Trust Fund
Summary of Receipts and Disbursements (Cash Basis)
For the Last Five Fiscal Years
(in thousands)

	2013	2012	2011	2010	2009
REVENUES					
General Sales Tax	$1,542,580	$1,650,924	$1,580,394	$1,565,128	$1,465,847
General Use Tax	219,225	274,449	256,999	237,871	237,459
Income Tax	3,452,404	3,297,903	2,984,083	2,896,869	3,037,529
Utilities Tax	385,244	367,022	394,045	421,752	410,862
Insurance Companies	30,993	30,993	30,993	31,040	30,946
Tobacco & Cigarette Taxes					
Beer Tax	22,311	22,368	22,814	22,147	22,771
Leasing/Rental Personal Property					
Hydroelectric Companies					
Public Library Service					
Veterans Affairs	52,025	39,017	45,824	20,383	26,146
ETF Direct Disbursements	12,037	12,127	12,129	13,624	20,424
Debt Service And Reserve	10,813	9,006	7,586	6,006	2,398
Serve Alabama	89	79	85	101	119
Postsecondary Education	318,346	370,288	365,776	358,233	411,507
Children's Affairs	18,295	17,590	17,655	17,397	16,040
Rehabilitation Services	37,872	38,355	30,954	33,530	37,182
Drug Education/Awareness Oversight Council					
High School Of Math and Science	5,991	5,678	5,816	5,624	6,300
Legislative Oversight Committee on Community Service					
State Executive Community Serv. Grants					
Commission	3,000	4,092	8,217	10,507	7,874
Knight vs. Alabama Financial Obligation	1,751	1,682	4,236	8,218	9,116
Sickle Cell Oversight Commission	1,403	1,172	1,397	1,225	1,466
Alabama Innovation Fund	5,670	980			
Educational Television Commission	4,281	5,500	7,451	7,064	8,253
Alabama Law Institute	553	267	262	224	234
Council On The Arts	3,498	3,545	4,450	4,493	5,223
Commission On Higher Education	17,280	17,766	17,696	17,105	17,133
Nursing Board	166	171	228	238	229
Physical Fitness Commission	949	896	994	794	868
Peace Officer Standards and Training	570	643	629	651	797
State Law Enforcement	238				

✶✶✶ Local Revenues ✶✶✶

Sales Taxes	Ad Valorem Taxes

✶✶✶ Local Revenues ✶✶✶

Ad Valorem Taxes

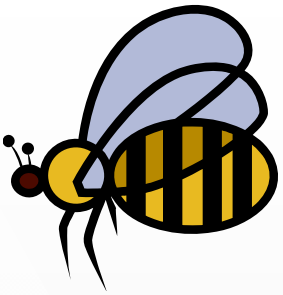
ad valorem – Latin, according to the value of

A "mill" is equal to 1/10 of one cent; one mill is equal to ten cents on each $100 of assessed value of taxable property. A single-family owner-occupied home with a fair market value of $100,000 has an assessed value of $10,000 and, per mill, will produce $10 of tax revenue per year.

1/10 of

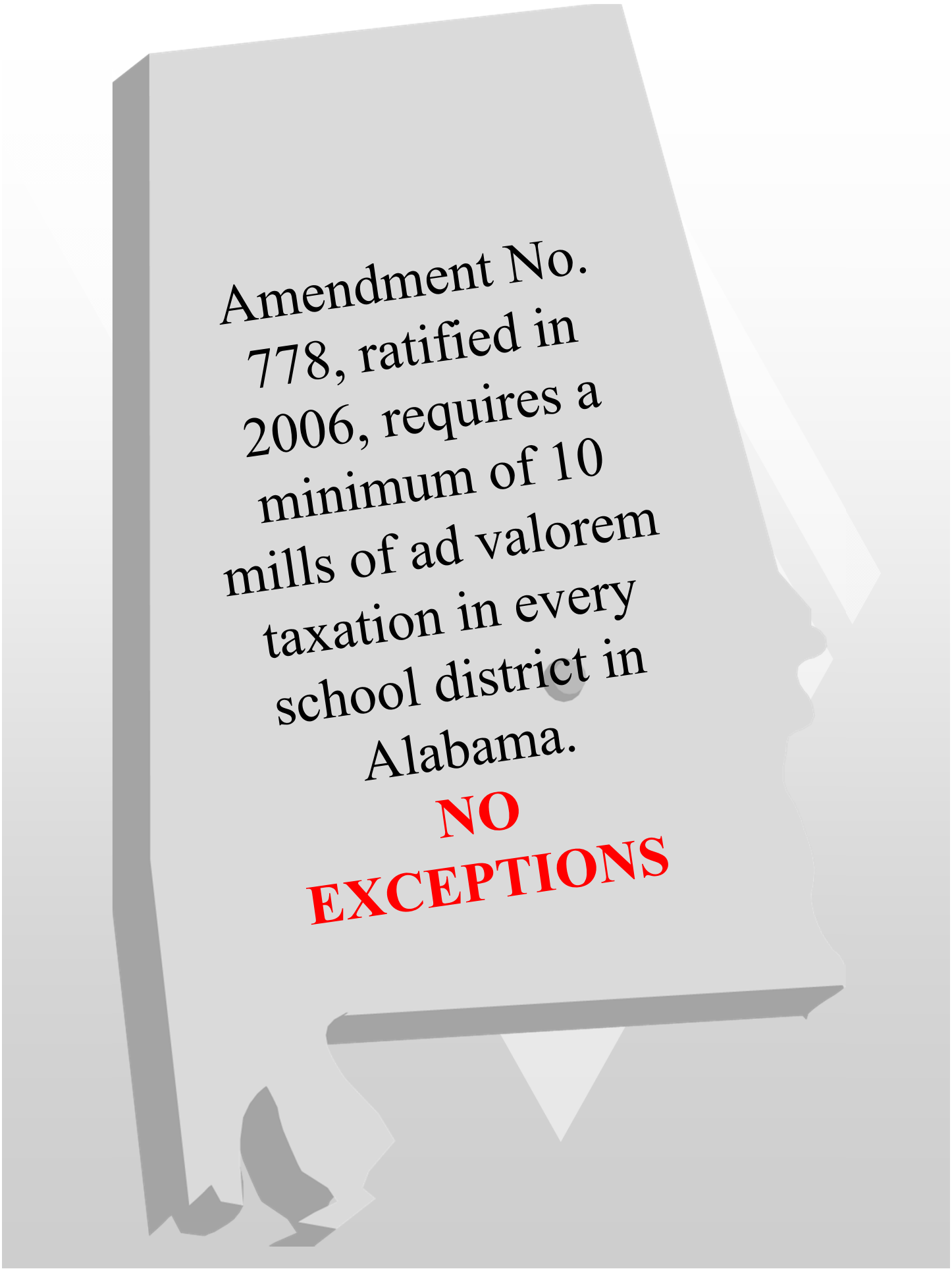
Property - real and personal, including motor vehicles

SPELLING BEE



m i l l

A B C D E F G H I
J K L M N O P Q R
S T U V W X Y Z


Amendment No. 778, ratified in 2006, requires a minimum of 10 mills of ad valorem taxation in every school district in Alabama.
NO EXCEPTIONS

Four Classes of Property as set out in the Constitution of Alabama of 1901

Class	Type of Property	Assessment Ratio (in terms of fair market value)

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Class I	Utilities	30%

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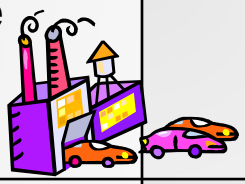
Class II	"All property not otherwise classified." Generally: business, commercial 	20%

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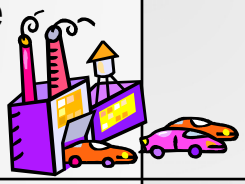
Class II	"All property not otherwise classified." Generally: business, commercial 	20%
Class III	Agricultural, forest and single-family owner-occupied residential property *Amendment No. 373 allows agricultural property to be valued at "CURRENT USE" – not fair market value*.	10%

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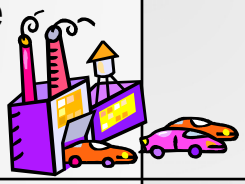
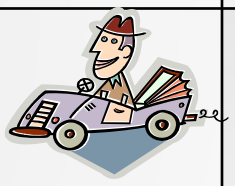
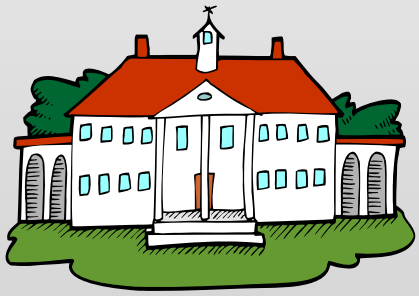
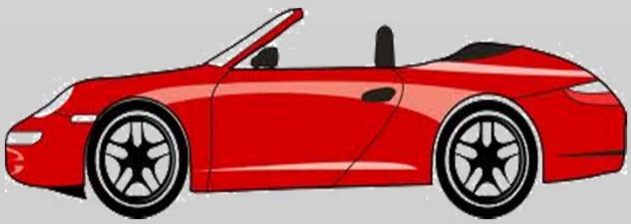
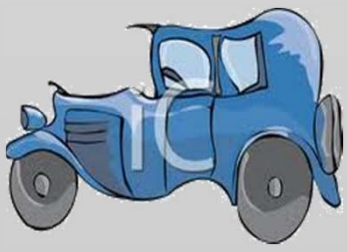
Class II	"All property not otherwise classified." Generally: business, commercial 	20%
Class III	Agricultural, forest and single-family owner-occupied residential property *Amendment No. 373 allows agricultural property to be valued at "CURRENT USE" – not fair market value*.	10%
Class IV	Private motor vehicles 	15%

Q.	**How are property taxes calculated?**				
A.	Assessed Value of Property (expressed as a per-centage of fair market value)	**X**	Millage Rate	=	Tax Revenues







Q. How are property taxes calculated?

A. Start with fair market value

x (times)

assessment ratio

x (times)

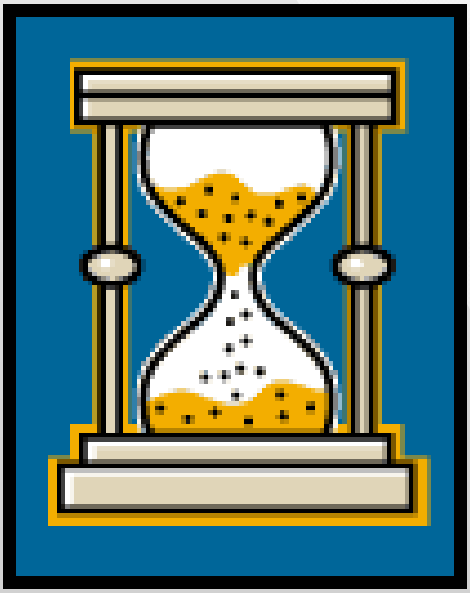
millage rate

=

amount of tax

Big Question

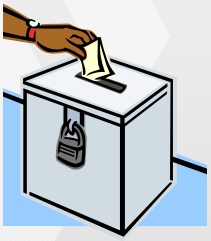
My school district has ten (10) voted mills that are about to expire – what should I do?



Three-Step Increases Under Lid Bill Amendment

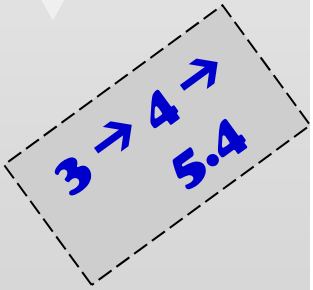
Step 1 public hearing by local taxing authority

Step 2 approval by Legislature of Alabama through the passage of a local act

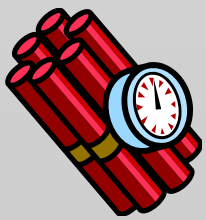


Step 3 approval by electorate – referendum

Result: A "3 mill tax" might actually be levied and collected at the rate of 5.4 mills, for example.



Consider duration issue: Most ad valorem school taxes (particularly those levied by counties) are voted for a specific duration, usually not more than 30 years.



- Countywide taxes are allocated and distributed on Foundation Program ("ADM") basis; district taxes stay in the district in which collected.

- **In connection with every mill of tax levied locally for your board, you should know:**

  - **the constitutional authority for levying the tax;**

  - **who levies the tax (i.e., the City or the County);**
  - **are there any restrictions on the use of tax proceeds (such as capital, not salaries);**

  - **what indebtedness might be payable from the tax; and**
  - **the duration (unless the tax is levied without limit as to time).**

Motor Vehicles

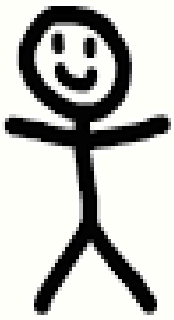
Month	First Letter of Last Name
January	A, D
February	B
March	C, E
April	F, G, N
May	H, O
June	M, I
July	P, L
August	J, K, R
September	Q, S, T
October	U, V, W, X, Y and Z Trucks, mobile homes, commercial & fleet vehicles
November	Trucks, mobile homes, commercial & fleet vehicles

Judge of Probate
or
License Commissioner

Amendment 373
“The Lid Bill Amendment”

Class I	66.66 mills
Class II	75.00 mills
Class III	83.33 mills
Class IV	100.00 mills

Track Your Tax Dollar



Mary B. Taxpayer receives tax bill before October 1 -- *"Taxes due on October 1 and delinquent after December 31"* -- mails check to County Tax Collector/Revenue Commissioner

State
6.5 mills

County Taxes and County-levied School Taxes

Municipal Taxes to City Clerk

What Is the Constitutional Authority for Levying Ad Valorem Taxes?

Section 216 of the Constitution of Alabama of 1901 plus general and local amendments

What Is the Constitutional Authority for Levying the Tax?

Section 269	Countywide	1 mill

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Amendment No. 202	Countywide	5 mill

What Is the Constitutional Authority for Levying the Tax?

Section 269	Countywide	1 mill
Amendment No. 3, § 1	Countywide	3 mill
Amendment No. 3, § 2	District	3 mill
Amendment No. 202	Countywide	5 mill
Amendment No. 382	District	3 mill

What Is the Constitutional Authority for Levying the Tax?

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Amendment No. 3, § 2	District	3 mill
Amendment No. 202	Countywide	5 mill
Amendment No. 382	District	3 mill
		15 mills (the "basic" 15)

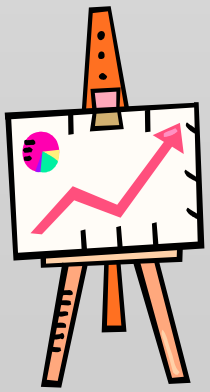
- County-levied taxes are levied by the County Commission and the net proceeds are paid over to the Board of Education.
- City-levied taxes are levied by the City and the net proceeds are paid over to the Board of Education.

- Various "local" constitutional amendments - specific to your county and/or city
- Adjustments under Amendment No. 325 ("Reclassification Amendment")

  Non-voted increases (upward adjustments in rates) would have occurred in 1973

- Adjustments under Amendment No. 373 ("Lid Bill Amendment")

  Non-voted increases would have occurred in
  1978, 1979 and 1980



- Remember Amendment No. 778 – the ten mill minimum!!!
- Be familiar with YOUR local revenue sources!!!
- Public Affairs Research Council of Alabama – PARCA - studies on school ad valorem taxes and sales taxes

Don't forget the ten mill match!!!

- Sales Taxes – based on gross sales or receipts of businesses

A "one cent sales tax" means one cent per dollar of gross sales.

- County-levied – Alabama Code section 40-12-4 authorizes County Commissions to levy sales tax for public school purposes countywide; net collections are allocated on Foundation Program basis.

Sales tax also may be levied pursuant to local law which prescribes distribution or allocation formula.

- City-levied – levied at discretion of the City Council; proceeds often used to fund long-term capital borrowing or paid to City Board to fund operations

Part II

Issuance of Debt

— or —

How to Borrow Money

Reasons to Borrow Money

- Capital Projects

- Refunding

- Operating Expenses

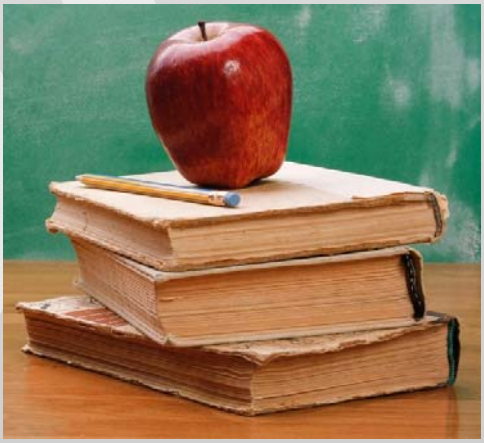
How Do We Get There?

Who is the Borrower?

- City on behalf of City Board of Education?

- County on behalf of County Board of Education?

- Board of Education directly?



When the BOE is Borrower

✶✶✶Act 2011-631 Establishes the Rules of the Road. ✶✶✶

Summary of Act 2011-631

Authorizes boards of education to issue and sell warrants for the following purposes:

- Costs of "public school facilities"

- Refunding "all or any portion" of debt incurred for school purposes (both Board and non-Board debt)

Summary of Act 2011-631 (cont'd)

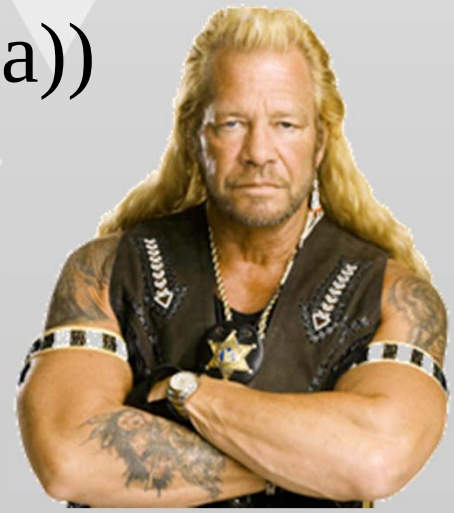
- Extraordinary items (e.g. casualty losses, legal judgments, etc.)

- Operating expenses (often issued on a taxable basis)

Summary of Act 2011-631 (cont'd)

Source of Repayment – Pledge of Tax(es) or Revenues

"Warrants issued under [Act 2011-631] shall **not be general obligations** of the board issuing such warrants but shall be payable solely from the designated revenues or tax proceeds of the board…." (§ 16-13-303(a))

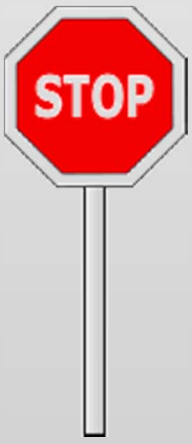


Summary of Act 2011-631 (cont'd)

Permissible Sources of Repayment:

Can pledge one or more of these

1. Ad valorem taxes (one or more)
2. Privilege, license or excise ("Sales") taxes
3. Any other revenues that may be available to the Board



EXCEPT:

- Neither Foundation Program Fund moneys nor any other revenues paid over by the State of Alabama may be pledged

Summary of Act 2011-631 (cont'd)

- Details of Warrants Issued Under 2011-631:
  - Maximum maturity = 30 years
  - Fixed or (with ALSDE approval) floating rate
  - Signed by BOE President and Secretary (Superintendent)
  - **Big change: can be sold at public or private sale**

Summary of Act 2011-631 (cont'd)

Very Important

"A board shall obtain the <u>prior written approval</u> of the State Superintendent for the issuance of any warrants under [Act 2011-631]."

Q & A Between Superintendent/CSFO and a Bond Lawyer

Question #1 (CSFO):

I just learned that we have 30 school buses being delivered next month and we do not have the money to pay for them. What do we do?

Q & A Continued

Question #2 (Superintendent):

We issued warrants in 2007 to build a gymnasium and one of my board members asked last week if we should consider refinancing the debt. How do I know if that would be a good idea?

Q & A Continued

Question #3 (CSFO):

Our City Council appropriates $1,000,000 to us annually. We read in the newspaper the other day that the Council is working on the budget for next year and is considering decreasing that amount and using the money saved to pay for street paving projects. Can they do that?

Q & A Continued

Question #4 (Superintendent):

Our long-range capital plan calls for a new elementary school to be built and open in four years. Is it too soon to start thinking about how we will fund this?

Q & A Continued

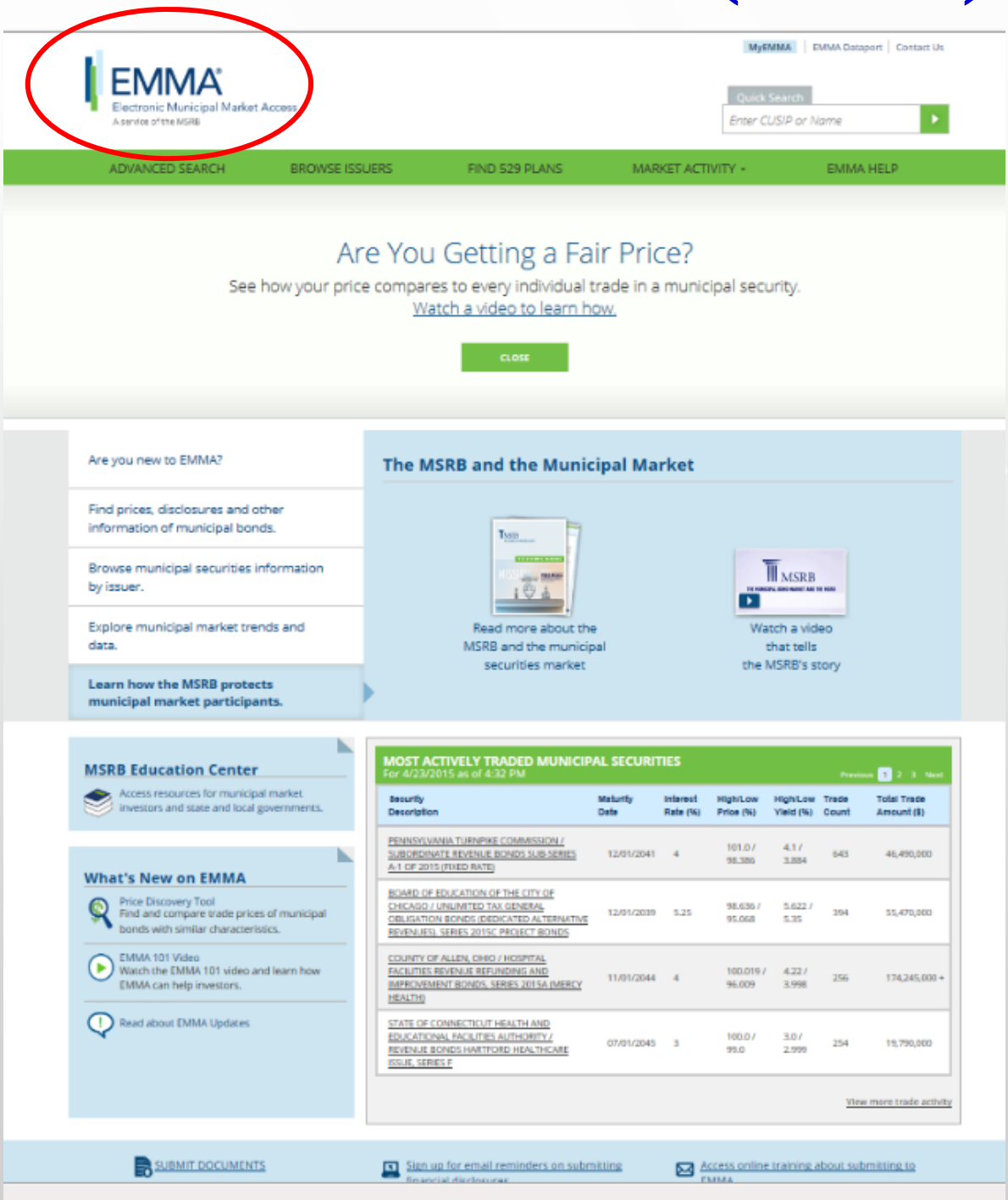
Question #5 (CSFO):

Our school bus vendor proposed that we lease our new school buses rather than purchase them. Is that a good idea?

Good Reasons to Call Bond Counsel

- I think some of our ad valorem taxes will expire soon. What should I do?
- Is there a particular tax the Board should pledge for an upcoming financing?
- We received a letter from the IRS about the warrants we issued back in 2006. How should we respond?
- I've heard I'm supposed to file our audited financial statements and some other documents with something called "EMMA." What is that?

Good Reasons to Call Bond Counsel (cont'd)



http://emma.msrb.org

Good Reasons to Call Bond Counsel (cont'd)

We issued warrants a few years ago to buy land for the new high school. Now we are going to sell a small parcel of the land to a neighboring homeowner. Is that okay?

Call Bond Counsel (C.B.C.)

Good Reasons to Call Bond Counsel (cont'd)

Shoe Company, Inc., wants to lease the football stadium in the summer to hold athletic camps. We could use the extra revenue. Any problems with this?

Questions?