

Overview of CLA Change in H.887

Senate Committee on Finance

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Overview of CLA Change in H.887

- Change would make the pre-CLA property tax rates closer to the post-CLA property tax rates
 - This is done by comparing local CLAs to the statewide average CLA
- Except in cases when a district has an per pupil spending below the yield, these changes would not impact property tax rates after the CLA is applied
- For the impact to be neutral, several math functions need to be applied



Example of Property Tax Rate Calculation Under Current Law and with Proposed Change

- Recall the calculation of a local homestead property tax rate as it is applied on district tax bills:

$$\text{Actual local homestead property tax rate} = \frac{\text{District's per pupil spending}}{\text{HS yield}} / \text{Local CLA}$$

- Let's assume:
 - *Statewide homestead yield = \$10,000*
 - *Statewide average CLA = 0.75*
 - *District A has the following parameters:*
 - *Per pupil spending = \$15,000*
 - *Local CLA = 0.60*



Example of Property Tax Rate Calculation Under Current Law

- Using these parameters, solve for District A's equalized (pre-CLA) homestead property tax rate
 - *District A's per pupil spending = \$15,000*
 - *Statewide homestead yield = \$10,000*

$$\text{Equalized local homestead property tax rate} = \frac{\text{District's per pupil spending}}{\text{HS yield}}$$

$$\text{District A's equalized local homestead property tax rate} = \$1.50 = \frac{\$15,000}{\$10,000}$$



Example of Property Tax Rate Calculation Under Current Law

- Next, apply the District's CLA to its equalized rate to get the actual tax rate that is seen on property tax bills:
 - *District A's equalized HS tax rate = \$1.50*
 - *District A's local CLA = 0.60*

Actual local homestead property tax rate = $\frac{\text{District's equalized HS tax rate}}{\text{District's local CLA}}$

$$\text{Actual local homestead property tax rate} = \$2.50 = \frac{\$1.50}{0.60}$$



Example of Property Tax Rate Calculation with Proposed Change

- Recall the calculation of a local homestead property tax rate as it is applied on district tax bills:

$$\text{Actual local homestead property tax rate} = \frac{\text{District's per pupil spending}}{\text{HS yield}} / \text{Local CLA}$$

- For the impact to be neutral, some adjustments need to be made, specifically:

$$\text{Actual local homestead property tax rate} = \frac{\text{District's per pupil spending}}{(\text{HS yield} * \text{Statewide Average CLA})} / \left(\frac{\text{Local CLA}}{\text{Statewide Average CLA}} \right)$$



Example of Property Tax Rate Calculation with Proposed Change

- Using these parameters, solve for District A's equalized (pre-CLA) homestead property tax rate:

- *District A's per pupil spending = \$15,000*
- *Statewide average CLA = 0.75*
- *Statewide homestead yield = \$7,500 = \$10,000 * 0.75*

$$\text{Equalized local homestead property tax rate} = \frac{\text{District's per pupil spending}}{\text{HS yield}}$$

$$\text{District A's equalized local homestead property tax rate} = \$2.00 = \frac{\$15,000}{\$7,500}$$



Example of Property Tax Rate Calculation with Proposed Change

- Next, apply the District's CLA to its equalized rate to get the actual tax rate that is seen on property tax bills:
 - *District A's equalized HS tax rate = \$2.00*
 - *Statewide average CLA = 0.75*
 - *District A's adjusted local CLA = 0.80 = 0.60 / 0.75*

Actual local homestead property tax rate = $\frac{\text{District's equalized HS tax rate}}{\text{District's local CLA}}$

$$\text{Actual local homestead property tax rate} = \$2.50 = \frac{\$2.00}{0.80}$$



Summary of District A Example

Comparison of Current Law to Proposed Change

- Change would make the pre-CLA property tax rates closer to the post-CLA property tax rates
- After all calculations are applied, the tax rate would be the same

	Current Law	Proposed change
District per pupil spending	\$15,000	\$15,000
HS property yield	\$10,000	\$7,500
Pre-CLA tax rate	\$1.50	\$2.00
CLA seen on tax bill	0.60	0.80
Post-CLA tax rate	\$2.50	\$2.50

