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This is a support document for the upcoming SUBSTITUTE LEVY placed on the ballot November, 2009. It is proposed that we convert our three existing Emergency Levies (limited to 5 years each) to a Substitute levy that will be continuous (forever) for the same initial amount of money.

The purpose of this document is to attempt to explain how a substitute levy works in relationship to substitute levies.

Understanding the need to convert:

This issue, issue #18 on the upcoming ballot, if approved can benefit the schools and their need to fund day-to-day resources without continually coming back to the voters in five year cycles for raising the funds necessary to operate the school day-to-day (General Fund).

The new Substitute Levy is initially set at the same level as previously approved emergency levies. This means that the value being voted on is equal to the dollar value of the emergency levies it will replace. With new construction, additional funds can be captured by the school.

The issues and questions –

What is an Emergency Levy?

Rather than attempting to explain an emergency levy in my words, let me use the words of the actual law:

Emergency levy (Ohio Revised Code - O.R.C. 5705.194)

The board of education [...] at any time may declare by resolution that the revenue that will be raised by all tax levies which the district is authorized to impose, when combined with state and federal revenues, will be insufficient to provide for the emergency requirements of the school district or to avoid an operating deficit, and that it is therefore necessary to levy [...] If the levy is proposed to renew all or a portion of the proceeds derived from one or more existing levies imposed pursuant to this section, it shall be called a renewal levy and shall be so designated on the ballot.

The question now is, 'so what does that mean?'

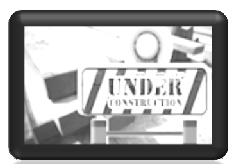
It means that an emergency levy is a property tax that serves as a limited operating levy (maximum of five years) proposed for a specific dollar amount. That dollar amount can never change from year to year – it stays constant. Because ***the dollar amount of taxes charged by the levy must stay constant***, the actual millage rate will either increase or decrease based on the property values of the taxing authority [school district].

How does an Emergency Levy work?

Since it is set for a specific amount of money, the County auditor's office determines the millage rate necessary to collect the fixed dollar value. In the case of Monroe's three emergency levies ($3.55 million), the millage rate has decline each year as the overall property values have increased. In 2006 the millage rate for the three levies was set at 14.04 mills; 2007 it was 13.65; 2008 it was 12.90. So the actual millage rate changes to assure the collection of the total value of the money approved by the tax papers.

The following tries to explain how emergency levies work and why the county auditor needs to set new millage rates each year –

Emergency Levy Revenue (3 levies fixed at $3,549,698 per year)

 +  = $3.55 million

Existing Properties + New Construction = same total income year after year NO RAISE

The $3.55 million collected is shared by all existing properties owners and new owners. As new business and homes are built, their values are added into the total property values. In theory this lowers each existing property values share (minimally). This is true if existing owner's property value stays the same year after year or goes down in value.

If my property value goes up, will my taxes go up from Emergency Levies?

As long as the growth in your individual property value is equal to or less than the overall property value growth of the school district, the answer "NO."

However, if your individual property value goes up faster than the overall property value growth of the district, the answer is "YES." It is important to note that the amount it will go up is very small.

An example may help here. The total amount of money collected for the schools is $3,549,698 (approximately $3.55 million). The table below shows how much tax a person would pay during each year toward the emergency levies; based on the actual millage rate.

Using the table, it shows the year, actual millage rate, property values (100K, 150K, 200K) and the amount of taxes paid that year for those property values.

After year one, there are additional property values (*in italics*) below each main property value (100K, 150K, 200K). These new property values are the property value increase that is necessary to pay the same amount of taxes as in the first year (2006).

The following table shows the taxes paid (Emergency Levy) based on the property value:

Year	Millage	Property Value	Taxes paid
2006	14.04	$ 100,000	$ 491.40
		$ 150,000	$ 737.10
		$ 200,000	$ 982.80
2007	13.65	$ 100,000	$ 477.75
		*$ 102,857 ***	*$ 491.39*
		$ 150,000	$ 716.63
		*$ 154,285 ***	*$ 737.09*
		$ 200,000	$ 955.50
		*$ 204,714 ***	*$ 982.79*
2008	12.90	$ 100,000	$ 451.50
		*$ 108,837 ***	*$ 491.40*
		$ 150,000	$ 677.25
		*$ 163,255 ***	*$ 737.10*
		$ 200,000	$ 903.00
		*$ 217,674 ***	*$ 982.80*

Using the above table, if your property value was $100,000 in 2006, you paid $ 491.40 in taxes for the emergency levies.

Following along, if you property value went up to $ 102,857 in 2007 you would pay the same exact amount that you paid in 2006. If your property value was more, you would pay more than the year before; if it was less you would pay less. If you property value stayed stagnant at $ 100,000 you would actually pay less in 2007 than in 2006 ($477 vs. $491).

So you can see that if your property value rises, there is some point where the amount of taxes paid is equal to previously paid amounts. If the value is different, you may pay slightly less each year or more depending upon the new value.

It is important to note that there is more to the issue than the simple example as stated above – percentage of taxes paid is actually determined by the millage rate set by the auditor each year; however, new growth is included in the amount spread across all tax payers.

What is a Substitute Levy?

The Ohio Secretary of State, Jennifer Brunner, notified all boards of election in August 2008 about the new law that created Substitute levies, “On June 24, 2008, Amended Substitute House Bill No. 562 [affecting School District Tax Levies] was signed into law. The new law affects, among other things, two provisions of Revised Code Chapter 5705 relating to school district tax levies. These legislative changes will become effective on September 23, 2008.”

She went on to explain the "Enactment of R.C. 5705.199 - "Substitute levy" – R.C. 5705.119(A) – "R.C. 5705.199, […] provides for a new tax levy. Under this new provision, the board of education of a […] school district may propose at any time to levy a tax for the purpose of providing for the necessary requirements of the school district. Such a levy is required to be proposed as a substitute for all or a portion of one or more existing levies imposed under R.C. 5705.194 to 5705.197, or under R.C. 5705.199, subject to the following requirements:

> "(1) In the initial year the levy is in effect, the levy shall be in a specified amount of money equal to the aggregate annual dollar amount of proceeds derived from the levy or levies, or portion thereof, being substituted.
>
> (2) In each subsequent year the levy is in effect, the levy shall be in a specified amount of money equal to the sum of the following:
>
>> (a) The dollar amount of the proceeds derived from the levy in the prior year; and
>> (b) The dollar amount equal to the product of the total taxable value of all taxable real property in the school district in the then-current year, excluding carryover property as defined in section 319.301 of the Revised Code, multiplied by the annual levy, expressed in mills for each one dollar of valuation, that was required to produce the annual dollar amount of the levy under this section in the prior year; provided, that the amount under division (A)(2)(b) of this section shall not be less than zero."

"The resolution proposing the substitute levy shall specify the annual dollar amount the levy is to produce in its initial year; the first calendar year in which the levy will be due; and the term of the levy expressed in years, which may be any number not exceeding ten, or for a continuing period of time. […] If two or more existing levies are to be included in a single substitute levy, but are not scheduled to expire in the same year, the resolution shall specify that the existing levies to be substituted shall not be levied after the year preceding the year in which the substitute levy is first imposed."

What does all of this legal ease mean?

The Substitute levy will be set dollar-for-dollar at the initial value set for the emergency levies – $3.55 million dollars. So for the first year, the schools will set the ***initial*** value of the substitute levy for $3.55 million. Then if there is any new construction – homes or businesses within the school district, that new construction will bring additional income into the school district. New construction allows the $3.55 million value to grow.

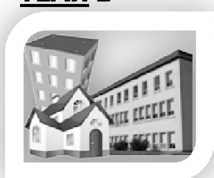
Let me use a graphic to attempt to explain this:

Substitute Levy Revenue

1 Substitute Levy is created by converting 3 Emergency levies

Year 1 - $3,550,000 from existing properties AND more from New Construction
Year 2 – Total of taxes from past year [now existing] plus new construction added
Year 3 – same as year 2 – previous amount plus new construction

<u>YEAR</u> 1



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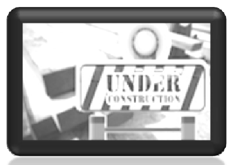


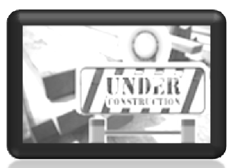
= $3.55 M + $ YR 1 new

[NEW VALUE "A"]

Existing Properties + New Construction = total income increases each year

<u>YEAR</u> 2

+



= *[NEW VALUE "A"]* + $ YR 2 new

Existing Properties + New Construction = total income increases each year

<u>YEAR</u> 3

The CYCLE repeats – previous year tax revenues become the base for the next year.
These revenues are derived from the CURRENT year existing properties.
Any New CONSTRUCTION brings in additional income!

Following the above graphics, in year one, the start value is $3.55 million for all the **<u>existing property owners</u>**. Then as new homes and businesses are built in the Monroe school district, they will be assessed at the same rate of taxation as the existing home owners. This means that new homes and businesses will add additional taxes to the amount being collected and the base value for the next year will grow above the $3.55 million.

The (year two) existing property owners include all the new construction from year one. The base amount of money that the Substitute levy will collect in year two is the total of the initial $3.55 million PLUS new money collected from the new business/homes built in year one [New Value "A"]. Added to this base value [New Value "A"], is taxes that will be collected from new homes and business that are constructed in year two.

This cycle repeats year after year.

NOTE:

Of course, the amount of money collected from the new construction will depend upon existing tax abatements and any TIFs that the City of Monroe has in place. However, it does mean new money for the schools as new construction occurs.

> [If you need to know more about TIFs and abatements you can read what I wrote in my notes for the questions asked on the Voice for election.]

The bottom line is clear – the schools can receive additional funds by converting the existing emergency levies to a single substitute levy; without increasing the existing taxpayers' obligation beyond the initial value of the emergency levies.

How many Emergency Levies do we have?

There are three emergency levies

What are the values of these levies and when are they up for renewal?

1. $1,500,000 (to be renewed by December, 2010)
2. $ 930,418 (to be renewed by December, 2011)
3. $1,119,280 (to be renewed by December, 2011)

It is important to note that levies one and two were initially approved by the taxpayer when we were still part of Middletown School District. Only levy three is new money voted in by the taxpayers. (Source: Treasurer, Monroe Local Schools.)

The amounts of money collected from all three of these levies have remained constant since they were first approved. This means that Monroe Local Schools have received the same total of $2,430,418 from levies one and two for the past nine and a half years. They have also received the same $1,119,280 from levy three for the past three years.

Why is the school asking us to approve this substitute levy now since none of the three emergency levies are up for another year or more?

The short answer is because of the new construction growth that was just completed in 2009 will be placed on the tax rolls January 2010. This construction includes the Home Depot distribution center and the Outlet mall that have both opened August, 2009.

The new construction value will be placed on the tax rolls effective January 2010. Both properties are in the Monroe school district taxing authority. If we don't convert our emergency levies into a substitute levy this November, we will lose the potential new tax revenues from these properties. Instead, the property values will be absorbed into the existing emergency levies – limiting the schools to the same total of $3.55 million in revenues.

If the taxpayers approve the conversion from emergency levies to a single substitute levy, the school will capture new money, in addition to the original $3.55 million, from the new Outlet mall and the Distribution center.

Should the substitute levy fail to pass, the school will lose the opportunity to get some badly needed funds from a source other than the existing taxpayers.

This is a one time opportunity for the schools.

If the substitute levy is not approved, what happens to the three emergency levies?

Should the substitute levy fail, the three emergency levies still exist and will still collect the $3.55 million dollars that they generate.

The schools will have to put the first emergency levy back on the ballot in 2010 for renewal by the taxpayers. The other two levies will need to be placed on the ballot in 2011 for renewal as well.

If the substitute levy is approved, what happens to the three emergency levies?

The emergency levies would be replaced by the substitute levy when it is effected, or when it is first used. During a meeting this summer, the Board of Education, upon my making a motion to clearly state that when the substitute levy, if passed, takes effect (January 2010), the three emergency levies would be nullified immediately. It passed unanimously.

Will it cost me more money having a substitute levy versus emergency levies if my property values go up or go down?

The amount of money collected from the existing property owners (as of October 1, 2009) for the substitute levy would remain at a constant value of $3.55 million. Just like emergency levies your share could be more or less than the previous year based on the new valuation of your property from the year before.

> NOTE: See the section labeled "**If my property value goes up, will my taxes go up from Emergency Levies?**" earlier in this paper to see an example of how much a typical homeowner of a $100,000 to $200,000 home would pay toward the emergency levy values.

The millage rate for the properties throughout the school district would continue to be set by the county auditor and they would go up and down based on the total valuation of the school district versus the amount of monies collected.

Since the initial property values tend to go up at a rate slower than the overall property values, most taxpayers would pay the same or slightly less than the previous year – just like they do with the existing emergency levies.

Will the substitute levy cost me more if my property values go up?

This is similar to the question before. If you property value goes up more than the average of the school district's overall property value increase, yes it is possible that you may pay more. However, this is also true for the three emergency levies that are in effect.

Understand the value of the substitute levy can only grow with new construction. The actual amount of money collected can be no more than the amount of money collected the year before – based on the base value and new construction value of the previous year.

So there must be something different that affects existing taxpayers?

There is a difference that must be considered. This type of levy does not add the valuation of property from new construction into the base property value that is used to calculate the millage rate from year-to-year. As new houses and businesses come into the district, they will not be added to the $3.55 million levy obligation. The value from new construction is outside of the existing emergency levy value (year one that is $3.55 million). The new property valuation for this new construction is taxed at the same millage rate as the initial $3.55 million rate.

This means that the original (existing) property owners will be responsible for the entire $3.55 million obligation each year. In the emergency levy scenario, adding new properties adds their new property values into the total district wide valuation of all properties.

To understand how this could potentially raise your taxes slightly, consider this. The total school district property valuation was $311,000,000 (311 million dollars) last year (2008). This means that if your home is valued at $100,000 dollars, your share of the $3.55 million emergency levy is equal to ($100,000 / $311,000,000) times $3.55 million or 1/3110 obligation. If the total overall property values rise to $320,000,000 and your property value remained at $100,000 your new fractional share of $3.55 million is 1/3200 or a change so small that you are talking pennies on a $1,000.00.

New construction will generate new money and that will generate new revenue for the schools without seriously impacting existing taxpayers.

How will converting from an Emergency levy to a Substitute levy benefit the schools?

Obviously, the school will receive more moneys from those new properties that are constructed in the school district.

It will take at least one year before the schools realize the new money raised by new properties coming onto the tax rolls. This is because taxes are paid in the rears – the year after you live in your home. So new homes or businesses will have taxes assessed the year they are built; but not paid until the next year.

In addition, the schools can forecast for the amount of money they will receive from the new substitute levy. This new money should means that the school district won't need to reach out to the taxpayers for additional funding due to cost of living issues for quite a while.

Why is the Substitute levy set for Continuous (forever?) instead of 5 or even 10 years?

Several board members will blame me for pushing for the Substitute levy being adopted for a continuing period of time. I admit it! I am responsible and proud that I am.

The new laws that approve the creation and passage of substitute levies allow substitute levies (and emergency levies) to be set for a period of up to 10 years (versus five years previously for emergency levies).

So why would Mike Irwin want the substitute levy continuous? Why should the board make this a forever levy that will never give a say-so to the public?

Some in the community and school district are saying that taxpayers have levy fatigue needing to renew levies year after year. By extending the levy to 10 years or even continuous the school would not have to come back to the taxpayers, year-after-year to ask them to renew levies. That is true!

But that is NOT why I wanted to have this levy set to continuous. It all comes down to a basic philosophy, my philosophy – ***Ultimate control of all monies used by schools should always fall to the taxpayers who are paying those taxes***.

Let me quote section R.C. 5705.199(F) of the new law concerning the length of time a levy is voted in –

> Division (F) of R.C. 5705.199 provides that a levy for a continuing period of time may be decreased pursuant to R.C. 5705.261. [...] In contrast, a levy proposed under R.C. 5705.199 that is approved for a specified number of years is not subject to reduction.

So what does this mean? It means that if the school creates a substitute levy for a specific number of years, say ten years (10), the public has no right to change or address the amount of money being funded. However, if the substitute levy is set for a continuous time period, the taxpayers can, through the petition process, put the issue back on the ballot to lower the amount of money being levied.

So why am I so strongly pushing for a continuous substitute levy? I want to make sure that the public has the right to modify the levy if they believed it needs to be adjusted. In other words, place the ultimate control of the levy in the hands of the taxpayers, where it belongs!

The public can come back years later and request a change in the amount of monies being collected by this levy if it is continuous. There is no public control if the levy is set for 10 years. Of course, the taxpayers can vote to not renew a 10 year levy in another 10 years.

In the paper it says something like, "Converting to a Substitute Levy will not raise taxes this year;" will my taxes go up every year after the first year?

This was said in the paper and is accurate. The first year of the new Substitute Levy is set at the same exact value as the Emergency levies it will replace. This means that the initial value of the levy is set to $3.55 million (9.51 mills). If there is any new construction that comes onto the tax rolls for 2010 (which there was – Home Depot and the Mall) it will generate new taxes that are ***added*** to the base amount of the Substitute Levy to be collected. So the next year, the NEW base amount of money collected will be the initial $3.55 million from the year before and any NEW money that was generated from the new construction.

The amount of money collected by the initial taxpayers is solely based on the $3.55 million obligation. The amount of money collected from an individual taxpayer who was paying taxes, will not go up. Their share will always be based on the initial value - $3.55 million.

As for paying higher taxes, please see the question "**If my property value goes up, will my taxes go up from Emergency Levies?**" It is possible that they may – but by a slight amount.

So are the Substitute levy and Emergency levy basically the same?

The Substitute levy is exactly like the Emergency levies, in that it is set for a fixed dollar value and the county auditor must adjust the millage rate to assure that only the set dollar value is collected. The difference is that new construction brings additional money into the formula at the same millage rate as the initial base value. So the fixed base dollar value can grow each year by adding new construction values into the previous year's base. Existing taxpayers are only responsible for their share of the fixed dollar value that was set when they started paying taxes.

Is this Substitute levy conversion only advantageous to the schools?

No, it should mean that the schools should be able to obtain additional funding increases from year-to-year beyond the increase in income from the permanent levies imposed on the taxpayers. As new businesses come into Monroe, so do new homes and more students. This means the need for additional income. This income, if used wisely, should allow the school to grow and stay within their budget, while obtaining additional funds from the new growth.

It could also mean that the school will finally be able to set funds aside for those rainy-day expenses that arise from time-to-time.

Will it help the tax payers and how?

If the schools receive sufficient income through capturing new tax revenues generated by the new construction, they should not have to reach out as often to the taxpayers of Monroe for additional General Fund monies. Remember, general fund moneys are those that are used for day-to-day expenses.