

Arkansas Property Tax: A Local Tax Supporting Local Services

Introduction

Property taxes have long been an important source of revenue for Arkansas school districts, cities and counties. They provide a substantial portion of funding for services provided by local governments, such as education, roads, hospitals, libraries and public safety. The purpose of this publication is to inform citizens about what local services the property tax funds, who pays the property tax and how much property tax we pay compared to residents of other states.

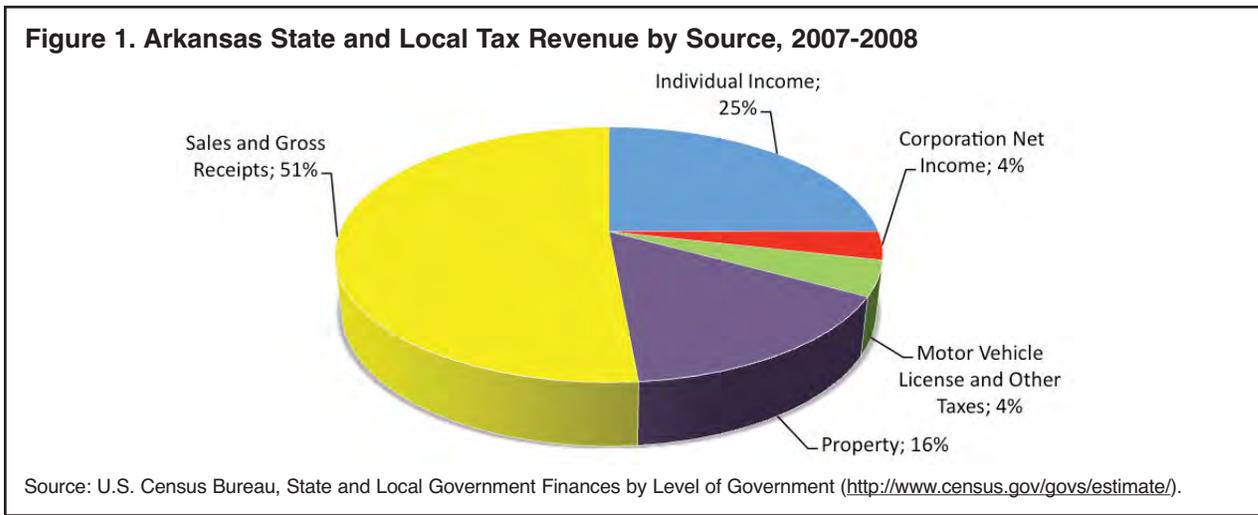
Property taxes provide a substantial portion of funding for services provided by local governments.

The property tax is a local tax collected by local county government officials and distributed to local school districts and county and city governments. Local voters must approve all increases in millage rates except for city and county general funds, county road funds and the statewide uniform

property tax. The county quorum court may approve millage levies for county general and road funds up to the maximum allowed. City governments may approve millage levies for the city general fund up to the maximum allowed. Increases in the statewide uniform property tax must be approved by a majority of Arkansas voters. Revenue from the statewide uniform property tax is collected by local government officials, remitted to the State Treasurer and distributed back to school districts as required by law.

Revenue Generated by the Property Tax

In Arkansas, the property tax generates just 16 percent of total state and local tax revenue (Figure 1). However, because it is a local tax, it represents a much larger share of tax revenue for local governments. In 2007-2008, property tax revenue represented 57 percent of local government tax revenue, totaling over \$2.5 billion (Figure 2).¹ This money is used to fund local



¹The census data report statewide collections of property taxes, such as the statewide uniform property tax and tax on utilities and carriers, as state revenue. However, since these are really local taxes in which all revenue collected is returned to local governments, this revenue has been included as local tax revenue in the figures shown in this publication.

schools, county roads and streets, public safety and other local services.

Although the property tax generates the largest share of local government revenue, its share of total local tax revenue is shrinking (Figure 3). However, since 2004, the share has remained fairly constant

While county and local governments are increasingly looking at alternative sources of revenue, the property tax remains a critical source of revenue for many county and city governments.

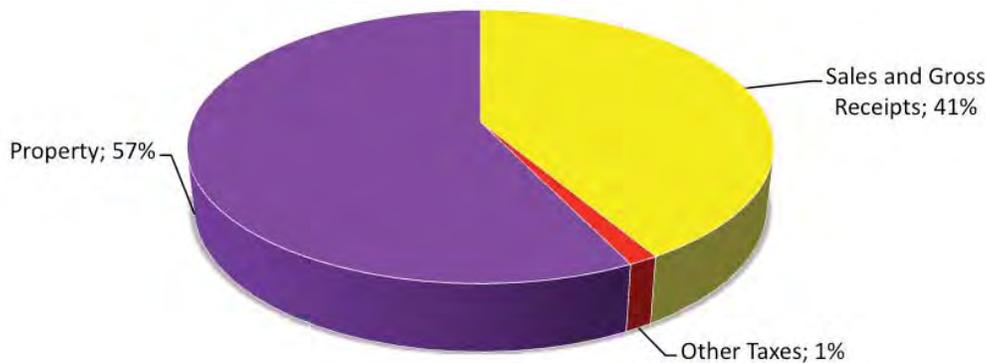
between 56 percent and 58 percent. The share of property tax revenue has declined from 72 percent in 1988-89 to 57 percent in 2007-08. This has occurred because many county and municipal governments now use the sales tax to generate an increasing share of their local revenue. During the same time period,

the share of local sales tax revenue has increased from 26 percent to 41 percent. While local governments are increasingly looking at alternative sources of revenue, the property tax remains a critical source of revenue for many county and city governments. Also, the property tax remains the primary source of local tax revenue for special assessment districts and school districts.

Local Services Supported by the Property Tax

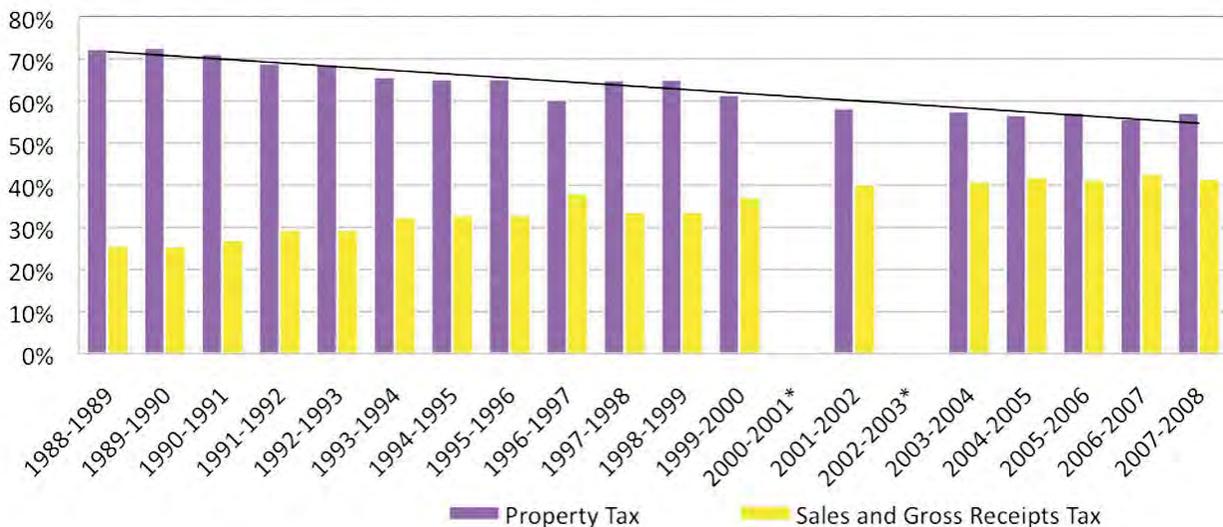
A little more than three-fourths (77%) of the property tax revenue generated in 2008 went to school districts (Figure 4). Fifteen percent went to county governments and the remaining 8 percent to cities. The allocation of property tax revenue among school districts and county and city governments in Arkansas' 75 counties varies somewhat depending on the local tax mix. In 2008, school districts received

Figure 2. Local Tax Revenue by Source, 2007-2008



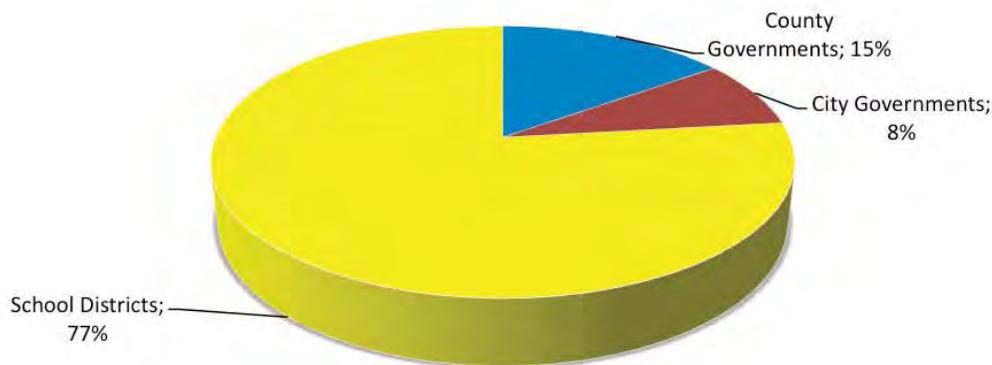
Source: U.S. Census Bureau, State and Local Government Finances by Level of Government (<http://www.census.gov/govs/estimate/>).

Figure 3. Property and Sales Tax Revenue (Percent of Local Government Tax Revenue), 1988-2008



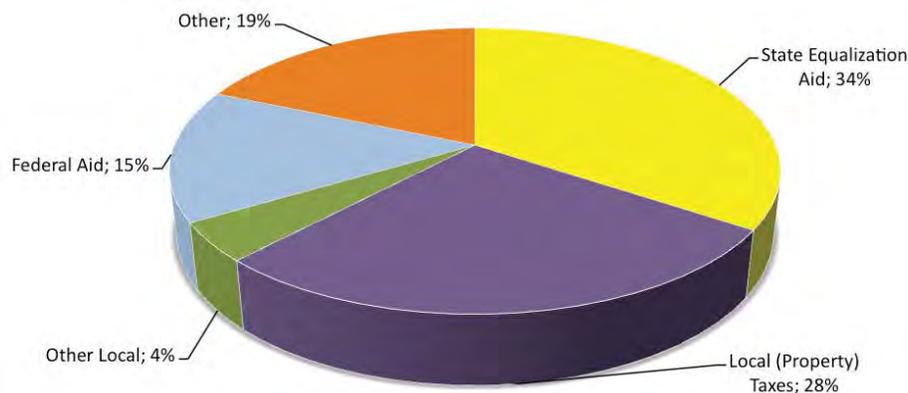
Source: U.S. Census Bureau, State and Local Government Finances by Level of Government (<http://www.census.gov/govs/estimate/>).

Figure 4. Property Tax Revenue by Taxing Unit, 2007-2008



Source: 2. Arkansas Assessment Coordination Department (http://www.arkansas.gov/acd/estimated_taxes/08_EstimatedTaxes_School.pdf).

Figure 5. Arkansas School District Revenue by Source, 2009-2010



Source: Arkansas Department of Education, 2009-2010 Annual Statistical Report of the Public Schools of Arkansas and the Education Service Cooperatives (<http://www.apscn.org/reports/hld/asr/caja/0910/asr0910.pdf>).

between 66 and 92 percent of property tax revenue generated in their county.²

Local Schools – Primary and Secondary Education

Although the largest share of public school district funding overall comes from state aid, the property tax generates a significant portion of public school revenue. In the 2007-08 school year, property taxes accounted for nearly 28 percent of total school district funding (Figure 5). With oversight from locally elected school boards, school districts administer property tax revenue for schools. School districts use property tax revenue to pay teachers' salaries, purchase school supplies and equipment, purchase and maintain school buses, build and maintain classrooms and fund other operating expenses.

While the local property tax funds only a portion of local school expenses, it is a revenue source that local voters can increase to ensure adequate funding for their local schools. Property tax revenue accounts for a low of 8 percent to a high of 79 percent of the cost of running local schools in Arkansas. Seventy-seven percent of school districts receive between 10 and 30 percent of their revenue from the property tax (Figure 6). However, one in five school districts receive more than 30 percent of their revenue from local property taxes.

County Governments

Like schools, county governments in Arkansas use the property tax to raise a substantial portion of their revenue. In 2006-07, the property tax accounted for 20 percent of general revenue (Figure 7). Of the revenue generated locally, the property tax accounts

²Property tax data for Arkansas school districts, cities and counties is available from the Arkansas Assessment Coordination Department.

for 24 percent of county government revenue.³ However, reliance on the property tax to generate county government revenue varies greatly among counties, ranging from 4 percent in Crittenden County to 38 percent in Pulaski County.

In 2006-2007 the property tax accounted for 20 percent of Arkansas' county general revenue.

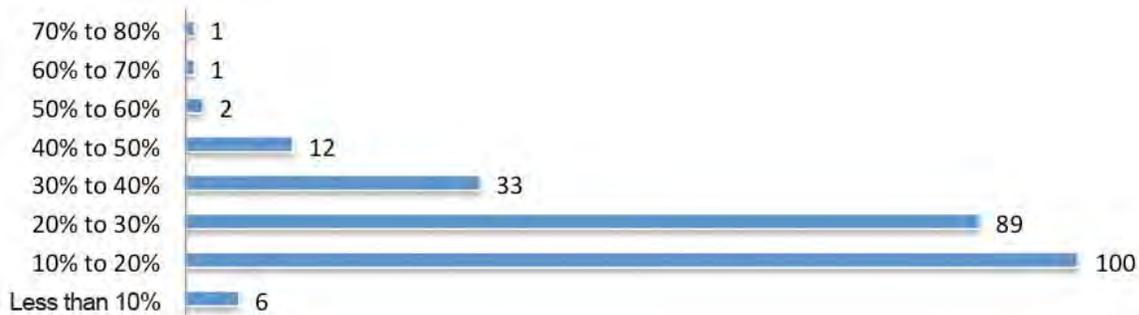
While property tax revenue for some county governments has increased over time, many counties receive a smaller percentage of revenue from the property tax today than they did in the past. This is because all Arkansas counties, except Monroe and Saline counties, now use the local sales tax as a source of revenue, reducing their reliance on the property tax.⁴ In 2006-07, Arkansas counties generated 38 percent of

their general revenue from the sales tax compared to 31 percent in 2001-02.

City Governments

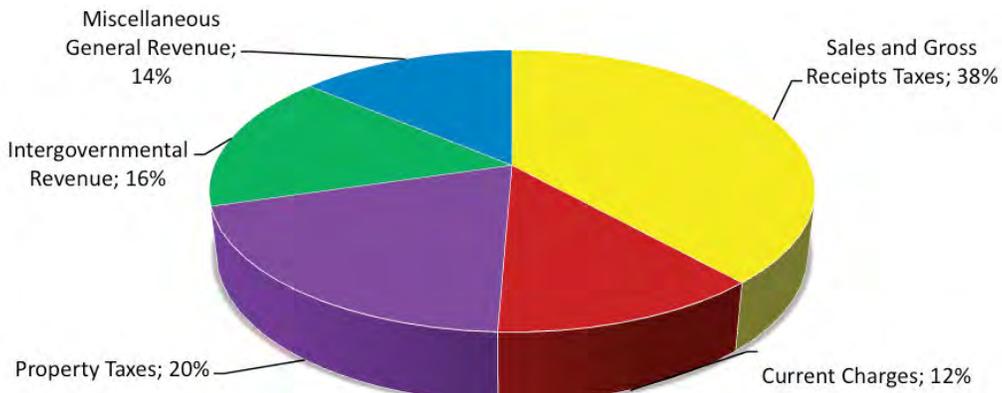
City governments depend less on the property tax as a source of revenue than school districts and county governments. In 2006-07, the property tax accounted for just 6 percent of general revenue for city governments in Arkansas (Figure 8). As with counties, Arkansas cities rely less on the property tax to generate revenue today than they did in past years. The trend continues to be an increasing reliance on the sales tax to generate a larger share of local revenue for city governments. The number of cities with a city sales tax has increased from 122 in the late 1980s to 280 in August 2011. City sales tax rates range from 0.5 to 3.5 percent on taxable goods and services with 55 percent of these Arkansas cities having a city sales tax of 1 percent.

Figure 6. Share of School District Revenue From Local Property Tax, 2009-2010



Source: Arkansas Department of Education, 2009-2010 Annual Statistical Report of the Public Schools of Arkansas and the Education Service Cooperatives (<http://www.apscn.org/reports/hld/asr/caja/0910/asr0910.pdf>) (<http://www.apscn.org/reports/hld/asr/asr.htm>).

Figure 7. Arkansas County General Revenue by Source, 2006-2007

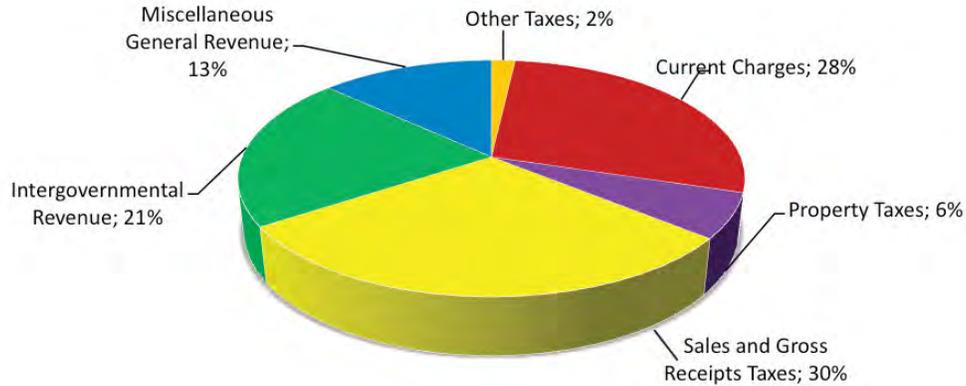


Source: U.S. Census Bureau, Local Government Finances by Type of Government and State (http://www.census.gov/govs/estimate/historical_data_2007.html).

³Locally generated revenue excludes intergovernmental revenue, which is defined as revenue from federal, state and other local governments.

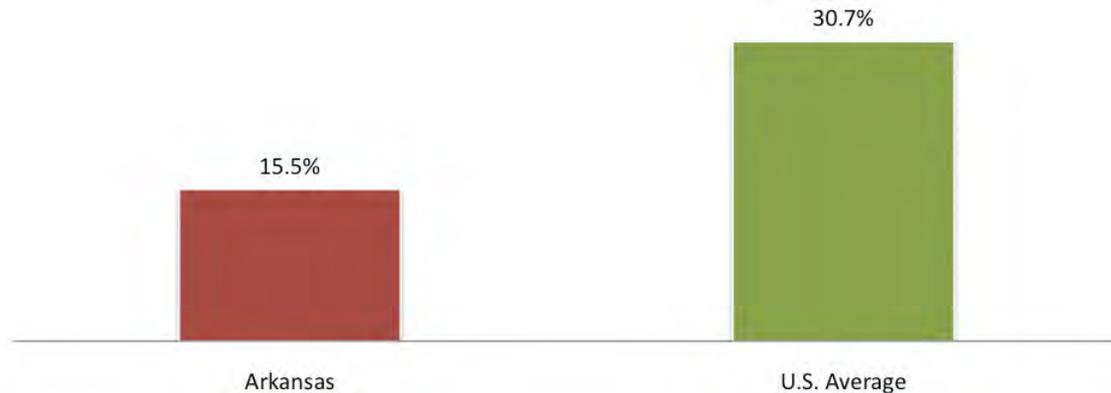
⁴City and county sales tax data are available from the Arkansas Department of Finance and Administration web site (<http://www.state.ar.us/dfa/taxes/salestax>). As of December 2004, 73 counties are listed as having a county sales tax.

Figure 8. Arkansas City General Revenue by Source, 2006-2007



Source: U.S. Census Bureau, Local Government Finances by Type of Government and State (http://www.census.gov/govs/estimate/historical_data_2007.html).

Figure 9. Property Tax Revenue as Share of Total Tax Revenue (State and Local Tax Revenue), 2007-2008



Source: U.S. Census Bureau, State and Local Government Finances by Level of Government (<http://www.census.gov/govs/estimate/>), and Population Estimates (<http://www.census.gov/popest/states/states.html>).

Comparisons With Other States

Every state in the nation has a property tax. While a few states have toyed with the idea of eliminating the property tax, none has done so. Arkansas relies less on the property tax to generate revenue than most states.

The property tax generated nearly 16 percent of the tax revenue in Arkansas compared to a national average of 31 percent in 2007-08 (Figure 9). This translates to about \$510 per person in Arkansas, ranking it 49th among states in the amount of property tax revenue generated per person. Alabama collected a low of \$493 per capita in property tax revenue compared to New Jersey which collected a high of \$2,621 per person. The national average during this time period was \$1,343 per person.

Another comparative measure is the amount of property tax revenue collected as a percent of personal income. Arkansas collected nearly \$1.5 billion in property tax revenue in 2007-08, which was 1.6 percent

of total personal income. The national average was 3.3 percent. Property tax revenue as a percentage of personal income collected in the 50 states ranged from a low of 1.5 percent in Alabama to a high of 5.3 percent in New Hampshire (Figure 10). Arkansas ranked 49th among the states in property tax revenue collected as a percent of personal income. Thus, the amount of revenue generated by the property tax in Arkansas is low when compared to other states, even taking into consideration personal income levels.

Who Pays the Property Tax?

Property taxes are collected from commercial and industrial establishments, utilities and farms as well as from owners of residential establishments and individuals who pay personal property taxes.

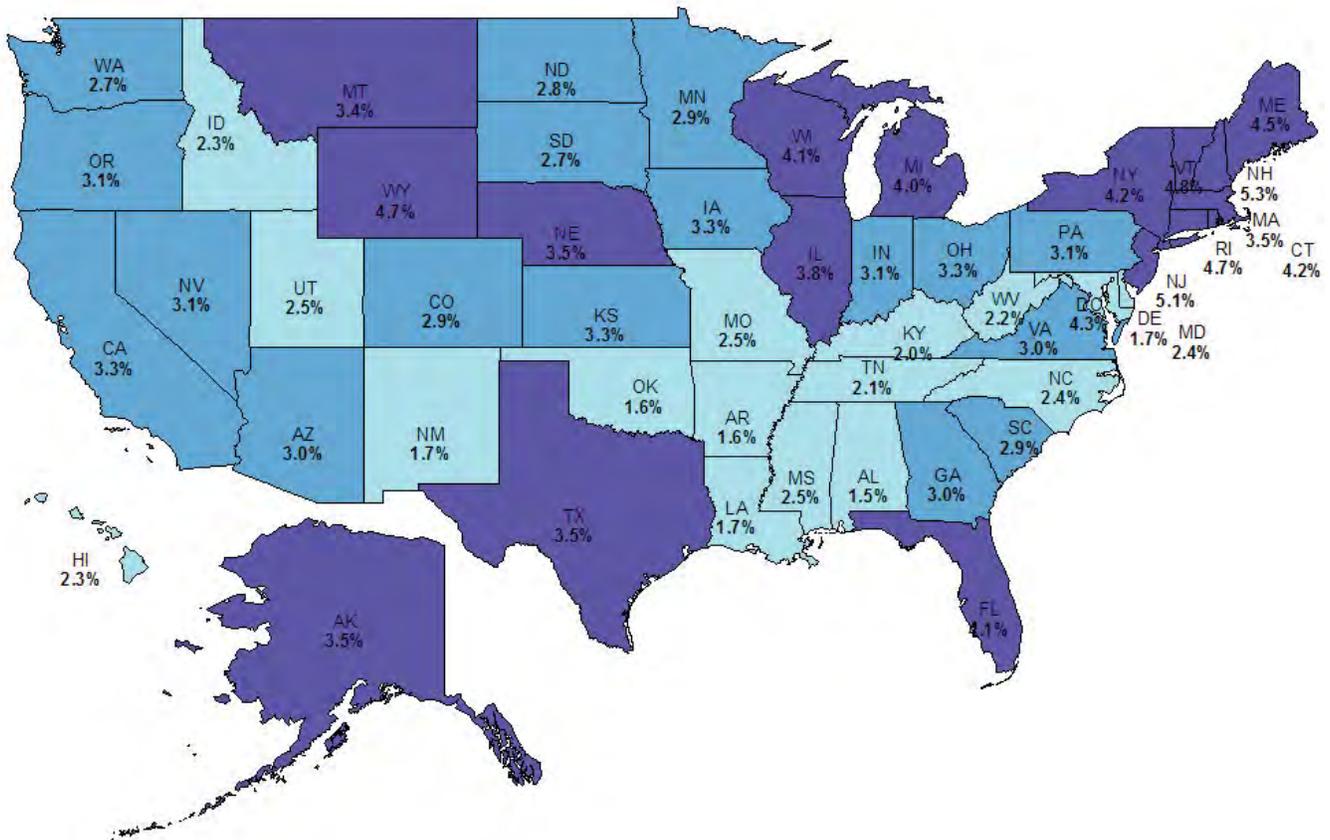
The assessed value of property owned in Arkansas provides the base on which property taxes are collected. In Arkansas, there are four major categories of property for which taxes are collected. Real property

accounted for 70 percent of Arkansas' property tax base in 2010 (Figure 11).

Personal property accounted for 21 percent of property tax base and minerals 2 percent. Property owned by utilities and carriers is assessed separately from all other real and personal property and represented 7 percent of the tax base.

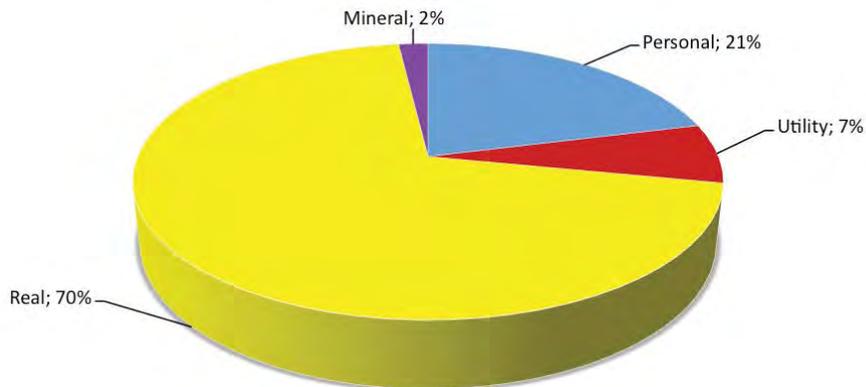
Real and personal property can be disaggregated by type of property to reveal the source of property tax revenue. Real property includes commercial/industrial, residential, agriculture and minerals. Residential real property accounted for the largest share (47%) of the property tax base in 2010 followed by commercial/industrial (17%), agriculture (6%) and minerals (2%) (Figure 12).

Figure 10. Property Tax Revenue as a Percent of Personal Income, 2007-2008



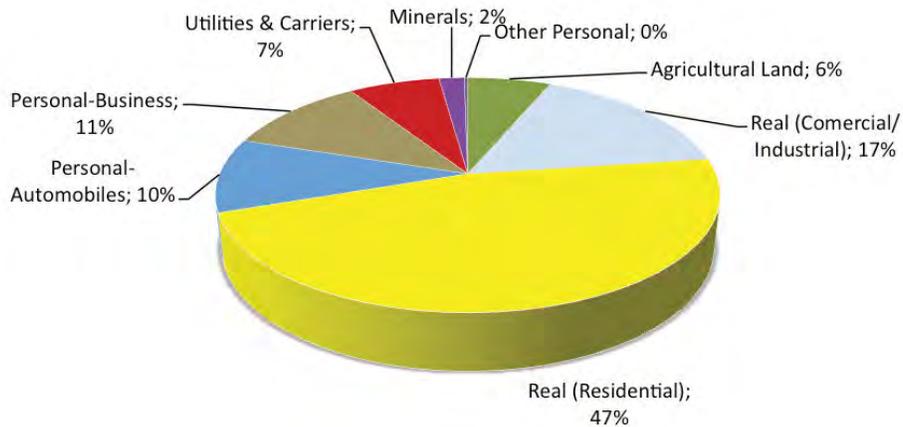
Source: U.S. Census Bureau, State and Local Government Finances (<http://www.census.gov/govs/estimate/>), and U.S. Department of Commerce, Bureau of Economic Analysis, State Annual Income Estimates (2008) (<http://www.bea.gov/index.htm>).

Figure 11. Property Assessment by Source in Arkansas, 2010



Source: Arkansas Assessment Coordination Department (<http://www.arkansas.gov/acd/>).

Figure 12. Source of Property Tax Collections in Arkansas, 2010



Source: Arkansas Assessment Coordination Department (<http://www.arkansas.gov/acd/>).

Personal property can also be disaggregated into that owned by businesses, automobiles and other personal property. Personal property owned by businesses accounted for 11 percent of property tax base, while automobiles accounted for 10 percent and other personal property less than 1 percent.

Property owned by utilities and carriers accounted for another 7 percent of the property tax base.

Summary

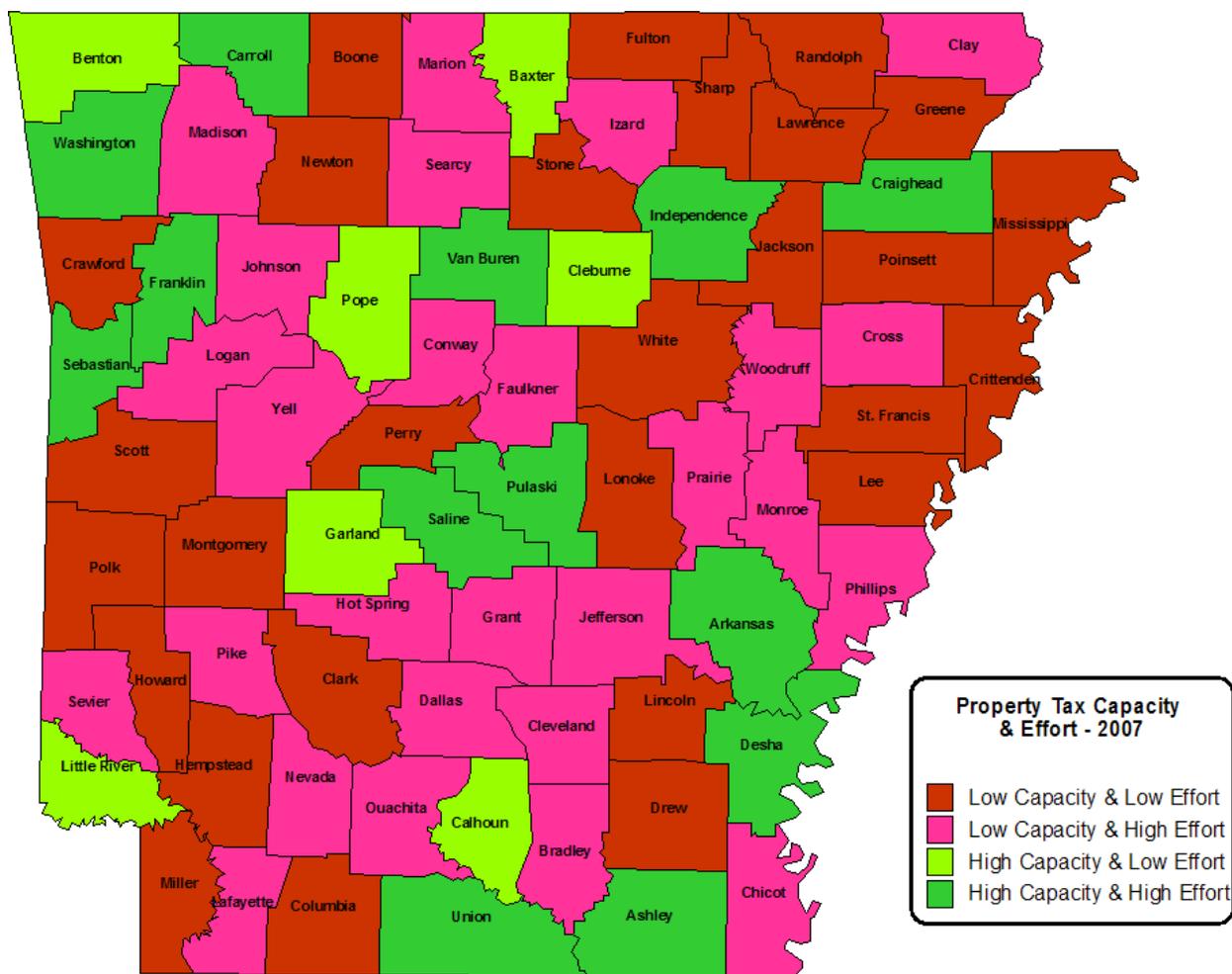
Historically, the property tax has played a significant role in funding schools and county and city governments. It is a tax collected by local county governments to provide local services benefiting local citizens. The property tax also plays a key role in maintaining a diversified tax base for Arkansas.

The property tax is administered, collected and distributed by local governments. Local citizens and officials decide how much property tax revenue is desired and how it will be allocated among local governments, school districts and special assessment districts.

Local schools use most of the property tax revenue for operating and maintaining primary and secondary public schools in Arkansas. The property tax is a major source of revenue for Arkansas' school districts.

County and city governments and local community colleges also use some of the property tax revenue to pay for community infrastructure and services. County and city governments use the money to build and maintain streets and roads, provide for public safety, maintain our public libraries and enhance the quality of life in Arkansas.

Property Tax Capacity and Effort 2007



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Printed by University of Arkansas Cooperative Extension Service Printing Services.

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