rections (25 percent reported cuts).

Naake said NACo leadership and members will continue to work with Congress and the Administration to address the troubled economy.

"Despite the local budget challenges, counties are ideally situated to lead the way back toward economic growth and opportunity in communities across the country," Naake said. "We pledge to continue to work in partnership with our federal leaders to meet these great challenges in these most difficult times."

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New 'Point of Sale' Legislation Allows Local Governments to Use 'Millage Banking'

By Gary T. Pope, Jr., Associate, Pope Zeigler Law Firm

Under Act 388 of 2006, local governments faced a hard choice: raise millage every year in lock step with increases in the Consumer Price Index (CPI) and population growth, or permanently lose access to allowed millage. This is no longer the case. Since June of this year, Act 57 of 2011, the Point of Sale legislation, has allowed local governments to use "millage banking."

Millage banking allows local governments to raise millage in the current tax year to take advantage of increases that were "allowed but not imposed during the three property tax years preceding the year to which the current limit applies." For example, local governments may increase millage in tax year 2011 in addition to the increase allowed for tax year 2011 based on increases that were allowed but not imposed in tax years 2010, 2009 and 2008. Allowable increases in 2011 millage include the effect of CPI and population growth for calendar years 2010, 2009, 2008 and 2007.

To take advantage of millage banking, a local government must first determine the baseline millage subject to adjustment. This baseline is the operational millage imposed in the fourth tax year prior to the current tax year. For example: In setting operating millage for tax year 2011, a local government would look to the operating millage imposed for tax year 2007. Let's assume that millage imposed in fall 2007 was 100 mills. Let's also assume that the combined increase in population growth and CPI was 3 percent for 2007, 2 percent for 2008, and 1.5 percent for 2009, and zero or negative in calendar year 2010. Using millage banking, a local government could still increase millage from its current level to 106.636 mills, or any lesser amount, for tax year 2011.

If a local government increased millage in the relevant prior years, but did not take the full amount allowed each time, or only adjusted millage in some of the years but not others, the above analysis still applies. In short, a local government may look back four tax years (counting the current tax year), calculate the allowed millage for each year based on the allowed millage for the prior year (being sure not to count negative growth or deflation years), and then adjust accordingly from the baseline.

One common misperception in applying millage banking is that you add, rather than compound, growth in CPI and population. Compounding is the rule, and it increases the allowable millage. Adding allowable increases based on the example above would result in a 6.5 percent increase over the 2007 baseline. Compounding results in a total allowable increase of 6.636 percent.[1]

Millage banking is a helpful tool that local governments fought hard to include in the recent Point of Sale legislation. As this analysis shows, applying it correctly is complicated, but can return some much needed flexibility to local government financial operations.

[1]The calculation in this case would be: 1.03 x 1.02 x 1.015 x 1.00 = 1.06636, for a total increase from 2007 of 6.636 percent.