

# Independent School District 318

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Grand Rapids, MN 55744  
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# Independent School District 318

## Public Hearing for Taxes Payable in 2021

DECEMBER 7, 2020

PRESENTED BY:

KARA LUNDIN, CPA

BUSINESS MANAGER

# Hearing Agenda

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- Levy Statutes
- District's Actual and Budgeted Information for FY20 and FY21
- District's Proposed Tax Levy for Taxes Payable in 2021
- Public Comments

# Minnesota State Law Requires:

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## A Public Meeting...

- Between November 24th & December 30th
- After 6:00 PM
- May be part of regularly scheduled meeting
- May adopt final levy at same meeting
- Must allow for public comments

## ...and Presentation of:

- Current year budget
- Prior year actual revenue & expenditures
- Proposed property tax levy including % change
- Specific purposes & reasons taxes are changing

# MN Legislature Must Set Funding for Minnesota Public Schools

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Minnesota Constitution ARTICLE XIII

Uniform System of Public Schools

Section 1

**“UNIFORM SYSTEM OF PUBLIC SCHOOLS.** The stability of a republican form of government depending mainly upon the intelligence of the people, it is the duty of the legislature to establish a general and uniform system of public schools. The *legislature shall make such provisions by taxation or otherwise* as will secure a thorough and efficient system of public schools throughout the state.”

As a result...

## Funding is Highly Regulated

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### State Sets:

- Formulas which determine revenue; most revenue based on specified amounts per pupil
- Tax policy for local schools
- Maximum authorized property tax levy (districts can levy less but not more than amount authorized by state, unless approved by voters)

State also authorizes school board to submit referendums for operating and capital needs to voters for approval

# School District Property Taxes

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- Each school district may levy taxes in over 40 different categories
- “Levy limits” (maximum levy amounts) for each category are set by
  - State law
  - Voter approval
- Minnesota Department of Education (MDE) calculates detailed levy limits for each district
- Board of Education adopted proposed max levy in September, final levy to be adopted December 21st

# Property Tax Background

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Every owner of taxable property pays property taxes to various “taxing jurisdictions” (county, city/township, school district, special districts) in which the property is located

Each taxing jurisdiction sets own tax levy, often based on limits in state law

County sends bills, collects taxes from property owners, and distributes funds back to other taxing jurisdictions

# School District Levy Cycle Differs from City/County Levy Cycle

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## City/County:

- Budget Year same as calendar year
- 2021 taxes provide revenue for 2021 calendar year budget

## Schools:

- Budget year begins July 1st and coincides with school year
- 2021 taxes provide revenue for 2021-22 school fiscal year
- Budget will be adopted in June 2021



# Budget Information

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Because approval of school district budget lags certification of tax levy by six months, state requires only the current year budget information and prior year actual financial results are presented at this hearing. The Fiscal 21-22 budget will be set in June 2021.

All school district budgets are divided into separate funds, based on purposes of revenue, as required by law

Our District's Funds:

- **General** – Levy to support education and maintenance expenditures
- **Food Service** – Only food service activities, self-sustaining
- **Community Service** – Taconite funds instead of Levy
- **Building Construction** – bond proceeds for construction of new schools and roofing projects
- **Debt Service** – Levy to support debt service payments for construction bonds
- **Custodial Fund\*** – Scholarship proceeds & disbursements
- **Internal Service\*** – Insurance Premiums support Insurance Expenditures
- **OPEB Trust** – Funds held for retirees, Income is interest revenue
- **OPEB Debt Service** – Levy to support debt service payments for OPEB Trust

\*Annual budgets are not prepared for these funds

# 2019-20 Expense and Revenue Actuals

|                            | 6/30/19 Audited      |                      | Projected             | 6/30/20 Audited        |                      |
|----------------------------|----------------------|----------------------|-----------------------|------------------------|----------------------|
|                            | Fund Balances        | Revenues             | Expenditures          | Surplus/(Deficit)      | Fund Balances        |
| General Fund               | \$ 7,784,925         | \$ 54,876,542        | \$ 54,988,714         | \$ (112,172)           | \$ 7,672,753         |
| Food Service Fund          | \$ 538,125           | \$ 1,721,101         | \$ 1,724,292          | \$ (3,191)             | \$ 534,934           |
| Community Service Fund     | \$ 376,346           | \$ 1,336,184         | \$ 1,307,121          | \$ 29,063              | \$ 405,409           |
| Building Construction Fund | \$ 65,088,099        | \$ 5,520,329         | \$ 60,899,553         | \$ (55,379,224)        | \$ 9,708,875         |
| Debt Redemption Fund       | \$ 624,875           | \$ 3,028,574         | \$ 3,067,897          | \$ (39,323)            | \$ 585,552           |
| Custodial Fund             | \$ 18,563            | \$ 24,855            | \$ 25,650             | \$ (795)               | \$ 17,768            |
| Internal Service Fund      | \$ 3,882,774         | \$ 11,458,306        | \$ 12,073,586         | \$ (615,280)           | \$ 3,267,494         |
| OPEB Revocable Trust Fund  | \$ 18,374,022        | \$ 1,519,151         | \$ 3,261,055          | \$ (1,741,904)         | \$ 16,632,118        |
| OPEB Debt Service Fund     | \$ 739,017           | \$ 4,800,756         | \$ 4,665,865          | \$ 134,891             | \$ 873,908           |
| <b>Total All Funds:</b>    | <b>\$ 97,426,746</b> | <b>\$ 84,285,798</b> | <b>\$ 142,013,733</b> | <b>\$ (57,727,935)</b> | <b>\$ 39,698,811</b> |

~ Audit to be presented at the December 14, 2020 board workshop

# 2020-21 Expense and Revenue Budgets

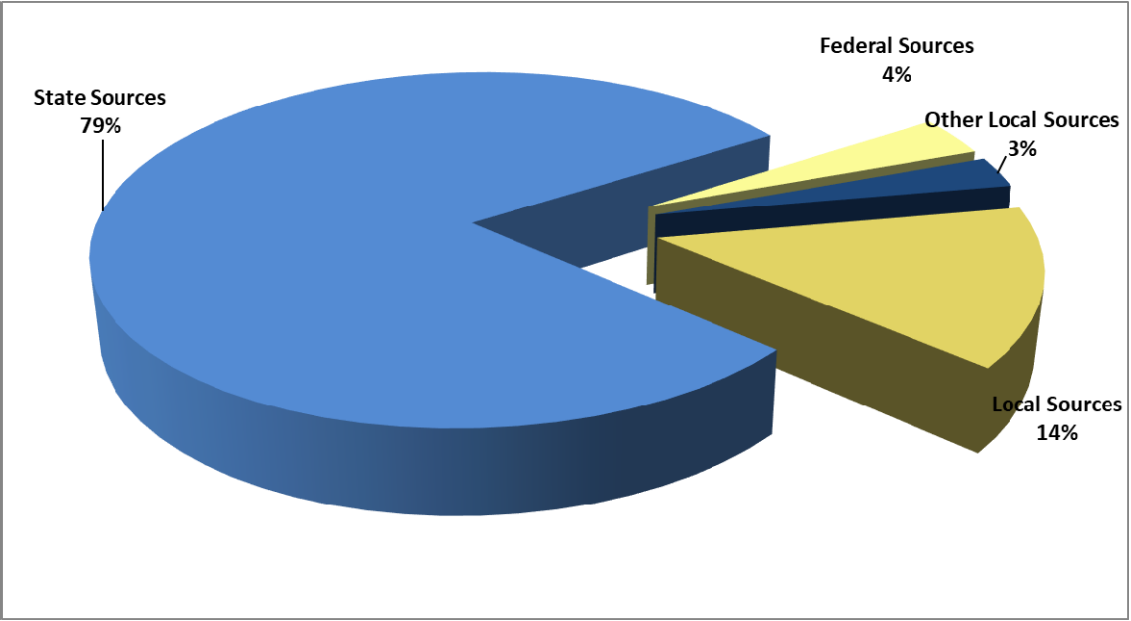
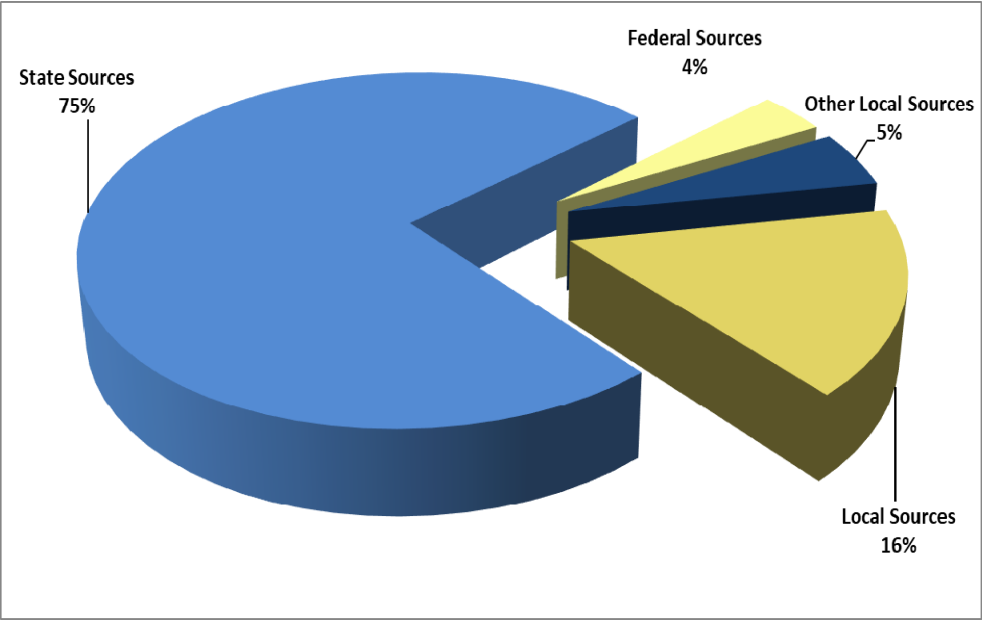
|                            | 6/30/20 Audited      |                      |                      | Projected              | 6/30/21 Projected    |
|----------------------------|----------------------|----------------------|----------------------|------------------------|----------------------|
|                            | Fund Balances        | Revenues             | Expenditures         | Surplus/(Deficit)      | Fund Balances        |
| General Fund               | \$ 7,672,753         | \$ 54,331,731        | \$ 56,648,400        | \$ (2,316,669)         | \$ 5,356,084         |
| Food Service Fund          | \$ 534,934           | \$ 1,733,870         | \$ 1,865,183         | \$ (131,313)           | \$ 403,621           |
| Community Service Fund     | \$ 405,409           | \$ 1,117,834         | \$ 1,160,188         | \$ (42,354)            | \$ 363,055           |
| Building Construction Fund | \$ 9,708,875         | \$ 4,144,368         | \$ 13,853,243        | \$ (9,708,875)         | \$ -                 |
| Debt Redemption Fund       | \$ 585,552           | \$ 3,223,208         | \$ 2,861,475         | \$ 361,733             | \$ 947,285           |
| Custodial Fund             | \$ 17,768            | \$ -                 | \$ -                 | \$ -                   | \$ 17,768            |
| Internal Service Fund      | \$ 3,267,494         | \$ 12,145,804        | \$ 12,472,553        | \$ (326,749)           | \$ 2,940,745         |
| OPEB Revocable Trust Fund  | \$ 16,632,118        | \$ 1,550,000         | \$ 3,456,718         | \$ (1,906,718)         | \$ 14,725,400        |
| OPEB Debt Service Fund     | \$ 873,908           | \$ 4,771,849         | \$ 4,670,190         | \$ 101,659             | \$ 975,567           |
| <b>Total All Funds:</b>    | <b>\$ 39,698,811</b> | <b>\$ 83,018,664</b> | <b>\$ 96,987,950</b> | <b>\$ (13,969,286)</b> | <b>\$ 25,729,525</b> |

~ Budgeted amounts approved at the June 15, 2020 board meeting

# General Fund Sources of Revenue

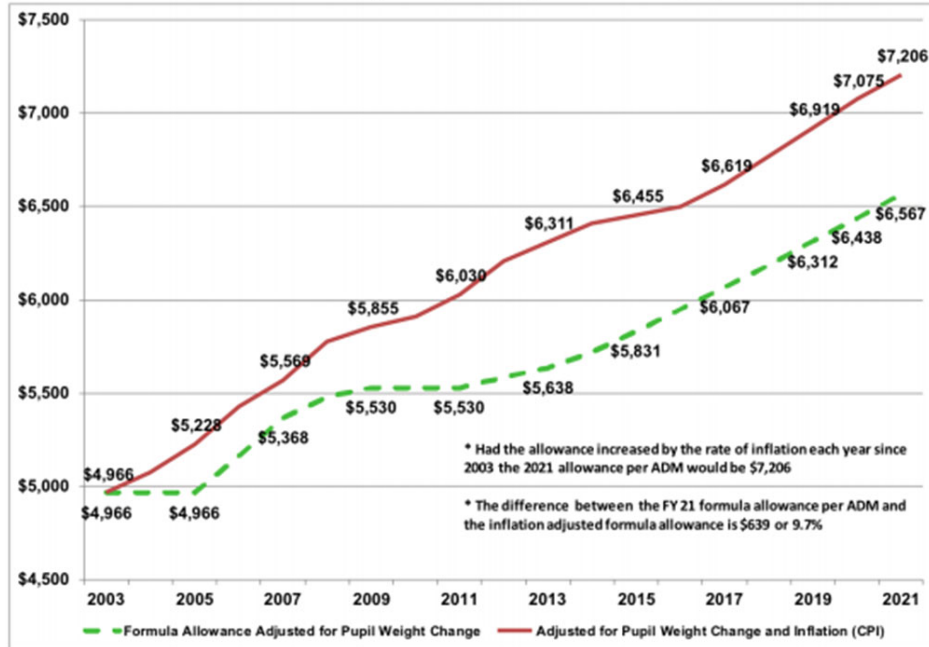
FY 2019 -2020, Actual

FY 2020 -2021, Original Budget



# Challenge: State Set Basic General Education Formula Lags Inflation

General Education Formula Allowance, 2003-2021  
Adjusted for Pupil Weight Change and Inflation (CPI)



Funding trails inflation by **\$639 per pupil unit** since 2003, **\$568 million annually**.

Source: MDE August 2019 Inflation Estimates

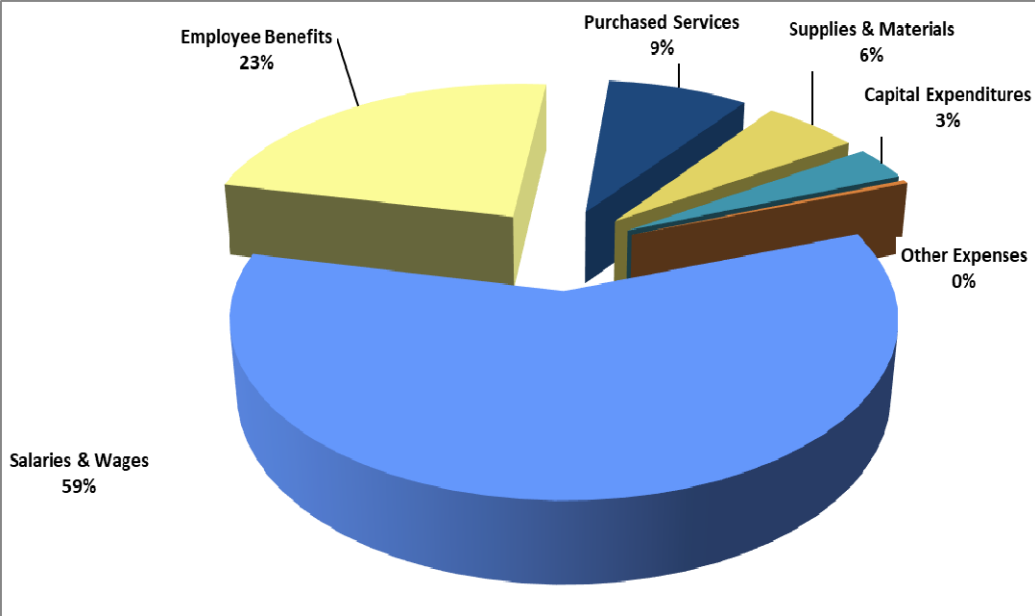


Association of Metropolitan School Districts

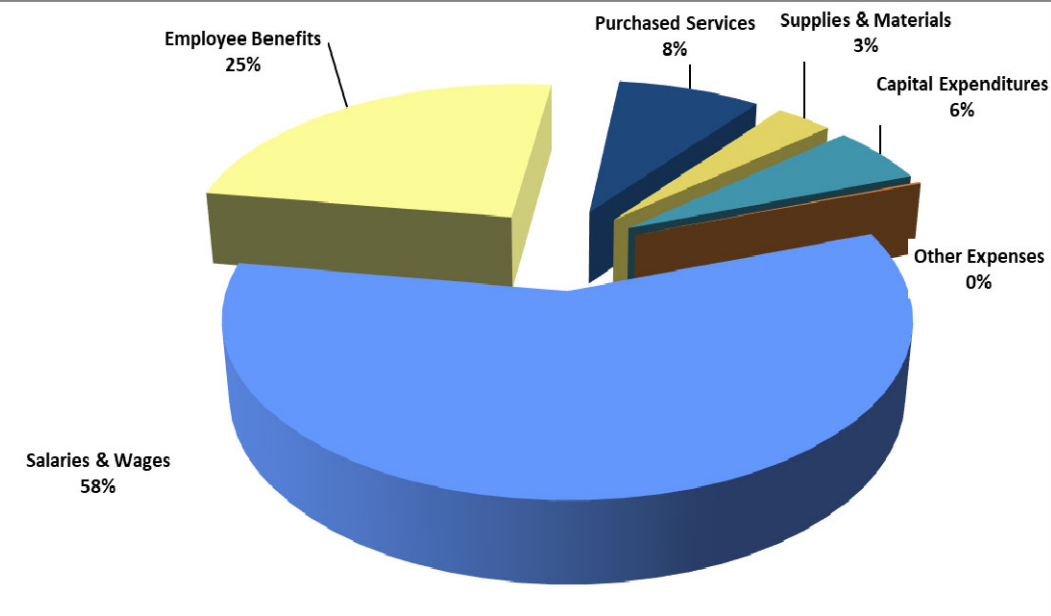


# General Fund Expenditures by Object

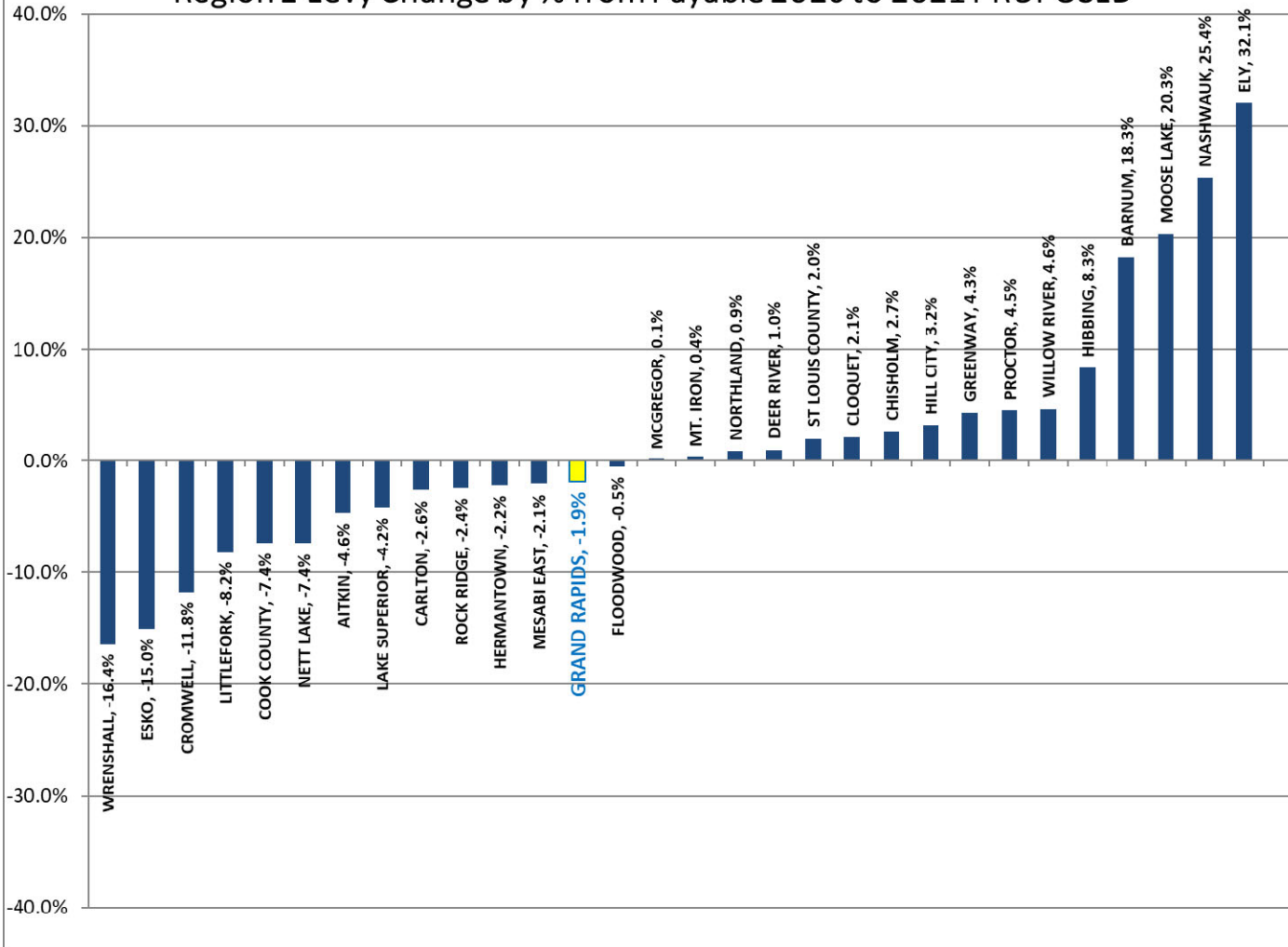
FY 2019 -2020, Actual



FY 2020 -2021, Original Budget



Region 2 Levy Change by % from Payable 2020 to 2021 PROPOSED



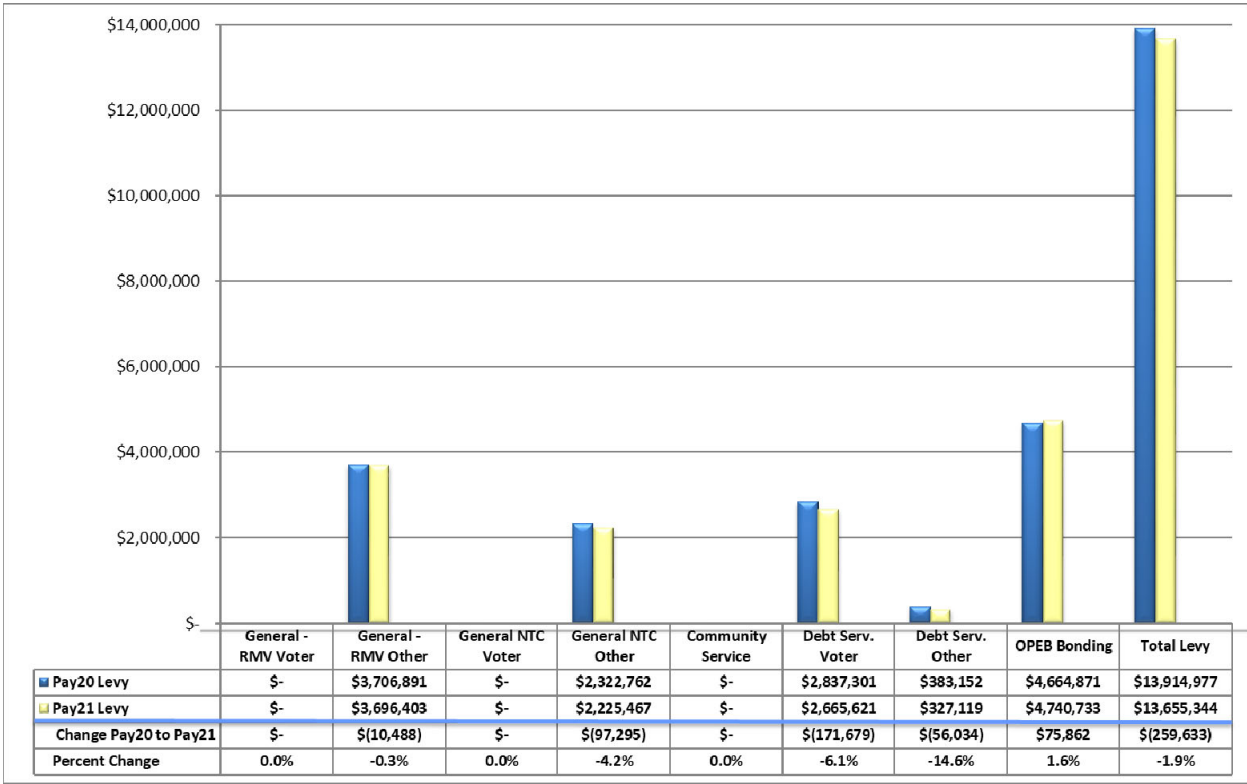
The three largest levy increases in our region:

1. Ely
2. Nashwauk
3. Moose Lake

The three greatest levy decreases in our region:

1. Wrenshall
2. Esko
3. Cromwell

# 19 Pay 20 Levy Compared to 20 Pay 21 Levy, to be Certified



|                                    | 19 Pay 20            | 20 Pay 21            | Change       |
|------------------------------------|----------------------|----------------------|--------------|
| Voter-Approved Debt Service Levies | \$ 3,220,453         | \$ 2,665,621         | -17.2%       |
| Other Debt Service Levies          | \$ 4,664,871         | \$ 5,067,851         | 8.6%         |
| <b>Total Debt Service Levies</b>   | <b>\$ 7,885,324</b>  | <b>\$ 7,733,472</b>  | <b>-1.9%</b> |
| Other                              | \$ 6,029,653         | \$ 5,921,870         | -1.8%        |
| <b>Total Levied</b>                | <b>\$ 13,914,977</b> | <b>\$ 13,655,342</b> | <b>-1.9%</b> |
| Voter-Approved Levies              | \$ 3,220,453         | \$ 2,665,621         | -17.2%       |
| Other                              | \$ 10,694,524        | \$ 10,989,721        | 2.8%         |
| <b>Total Levied</b>                | <b>\$ 13,914,977</b> | <b>\$ 13,655,342</b> | <b>-1.9%</b> |

Based on the FY20 Pay 21 Levy calculations, the total levy will decrease 1.9%.



# Explanation of Levy Changes

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Category: Operating Referendum and General Fund Levies

Change:  \$108,000

Use of Funds: \$60,000 Operating and LTFM expenditures, \$48,000 General operating expenditures

Reason for Change:

- These revenues are partially based on the number of students in the district which is estimated to decrease
- No change in authorized levy per pupil for voter and board approved amounts

# Explanation of Levy Changes

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Category: Debt Service and OPEB Debt Service

Change: Net ↓ \$152,000

Use of Funds: Annual required payments of principal & interest on voter approved bonds

Reason for Change:

- Districts are required to levy at 105% of debt service payment amounts to cover delinquencies in tax collections
- Since delinquencies are generally less than 5%, most districts gradually build up fund balances in debt service funds
- The debt service funds are only allowed to have a certain fund balance to cover the next year's obligations. If that amount is exceeded then the amount levied is lowered.

## Minnesota School District Property Taxes - Key Steps in the Process

**Step 1.** The **City or County Assessor** determines the estimated market value for each parcel of property in the county.

**Step 2.** The **Legislature** sets the formulas for tax capacity. (E.g., for homestead residential property, tax capacity = 1% of first \$500,000 in value + 1.25% of value over \$500,000.) These formulas determine how much of the tax burden will fall on different types of property.

**Step 3.** The **County Auditor** calculates the tax capacity for each parcel of property in the county (based on values from step 1 and tax capacity formulas from step 2), as well as the total tax capacity for each school district.

**Step 7.** The **County Auditor** divides the final levy (determined by the school board in step 6) by the district's total tax capacity (determined in step 3) to determine the tax rate needed to raise the proper levy amount. The auditor multiplies this tax rate times each property's tax capacity, to determine the school tax for that property.\*

**Step 4.** The **Legislature** sets the formulas which determine school district levy limits. These are the maximum amounts of taxes that school districts can levy in every category.

**Step 5.** The **Minnesota Department of Education** calculates detailed levy limits for each school district, based on the formulas approved by the Legislature in step 4. These limits tell districts the exact amounts that can be levied in every category.

**Step 6.** The **School Board** adopts a proposed levy in September, based on the limits set in step 5. After a public hearing, the board adopts a final levy in December. Final levy cannot be more than the preliminary levy, except for amounts approved by voters.

\* For certain levy categories (referendum, equity and transition levies), tax rates and levy amounts are based on **referendum market value**, rather than **tax capacity**.

# Factors Impacting Individual Taxpayers' School Taxes

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Many factors can cause tax bill for an individual property to increase or decrease from year to year

- Changes in value of individual property
- Changes in total value of all property in District
- Increases or decreases in levy amounts caused by changes in state funding formulas, local needs and costs, voter-approved referendums, and other factors
- *Enrollment Changes*

# Who you can contact for answers:

## District Specific Levy Questions:

Kara Lundin, Business Manager

[klundin@isd318.org](mailto:klundin@isd318.org) (218).327.5775

## Questions regarding your Property Value:

Itasca County Assessor's Office

[assessorinfo@co.Itasca.mn.us](mailto:assessorinfo@co.Itasca.mn.us) (218).327.7343

Public Comments?