

Independent School District 318

820 NW 1st Avenue
Grand Rapids, MN 55744
218-327-5700

Independent School District 318

Public Hearing for Taxes Payable in 2020

DECEMBER 2, 2019

PRESENTED BY:

BEN HAWKINS,

INTERIM BUSINESS MANAGER

Minnesota State Law Requires:

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 % increase
- Specific purposes & reasons taxes are being increased

Hearing Agenda

- Background on School Funding
- District's Budget
- District's Proposed Tax Levy for Taxes Payable in 2020
- Public Comments

MN Legislature Must Set Funding for Minnesota Public Schools

Minnesota Constitution ARTICLE XIII

MISCELLANEOUS SUBJECTS

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

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

Challenge: State Set Basic General Education Formula Lags Inflation

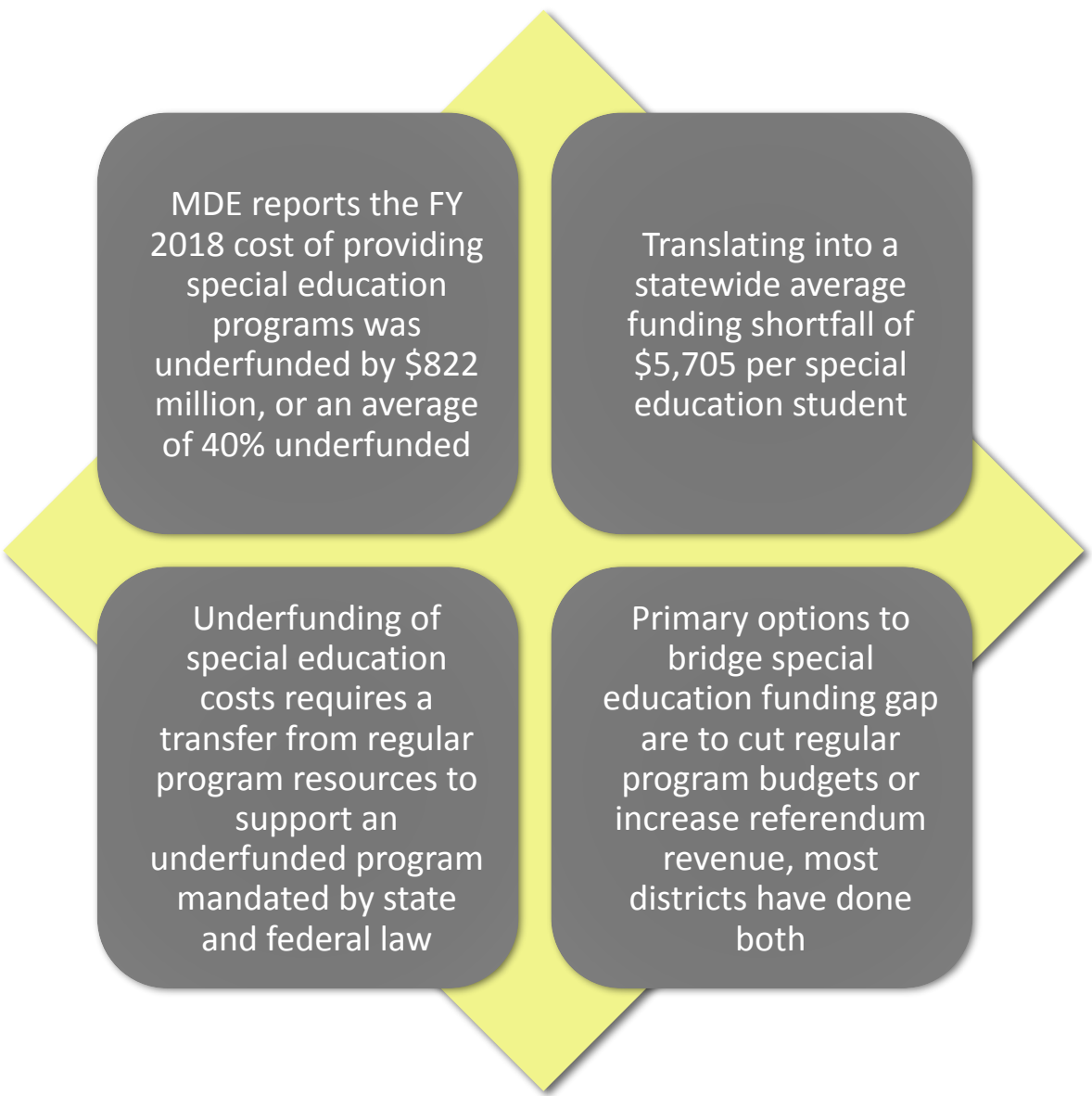
Since 2002-03, state General Education Revenue formula has not kept pace with inflation

For Fiscal Year 2019-20, Legislature approved an increase of 2% or \$126 per year, and for Fiscal Year 2020-21 an increase of 2% or \$129 was approved

Per-pupil allowance for Fiscal Year 2020-21 of \$6,567 would need to increase by another \$639 (9.7%) to have kept pace with inflation since 2002-03

Basic General Education Formula Lags Inflation

Underfunding of Special Education



MDE reports the FY 2018 cost of providing special education programs was underfunded by \$822 million, or an average of 40% underfunded

Translating into a statewide average funding shortfall of \$5,705 per special education student

Underfunding of special education costs requires a transfer from regular program resources to support an underfunded program mandated by state and federal law

Primary options to bridge special education funding gap are to cut regular program budgets or increase referendum revenue, most districts have done both

Result: Growing Dependence on Referendum Revenue

In 1992-93, 65% of districts had operating referendum revenue averaging \$332 per pupil

For 2020-21, all Minnesota districts have referendum revenue and/or local optional revenue levy authority averaging \$1,475 per pupil

- Referendum revenue including Local Optional Revenue (LOR) provides 13.2% of General Fund operating revenue
- Of this amount, \$751 is a voter approved operating referendum, and \$724 is Local Optional Revenue (LOR)

Change in Tax Levy Does not Determine Change in Budget

1

Tax levy is based on many state-determined formulas plus voter approved referendums

2

Some increases in tax levies are revenue neutral, offset by reductions in state aid

3

Expenditure budget is limited by state-set revenue formulas, voter-approved levies, and fund balance

4

An increase in school taxes does not always correlate to an equal increase in budget

School District Levy Cycle Differs from City/County Levy Cycle

City/County:

- Budget Year same as calendar year
- 2020 taxes provide revenue for 2020 calendar year budget

Schools:

- Budget year begins July 1st and coincides with school year
- 2020 taxes provide revenue for 2020-21 school fiscal year
- Budget will be adopted in June 2020

Budget Information

Because approval of school district budget lags certification of tax levy by six months, state requires only current year budget information and prior year actual financial results be presented at this hearing. The Fiscal 20-21 budget will be set in June 2020.

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

Our District's Funds:

- General
- Food Service
- Community Service
- Building Construction
- Debt Service
- Trust
- Internal Service*
- OPEB Trust
- OPEB Debt Service

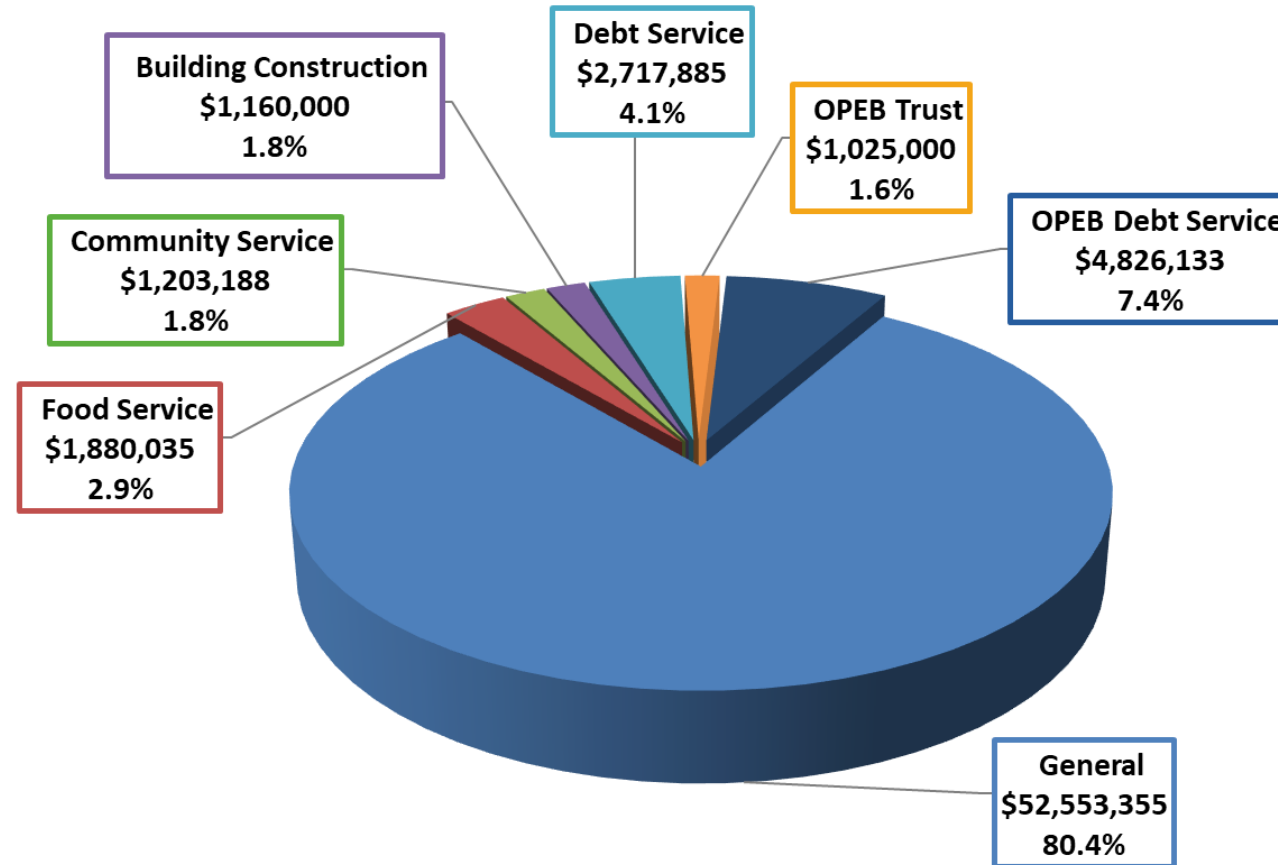
**Annual budgets are not prepared for these funds*

District Revenues and Expenditures
Actual for FY 2019, Budget for FY 2020

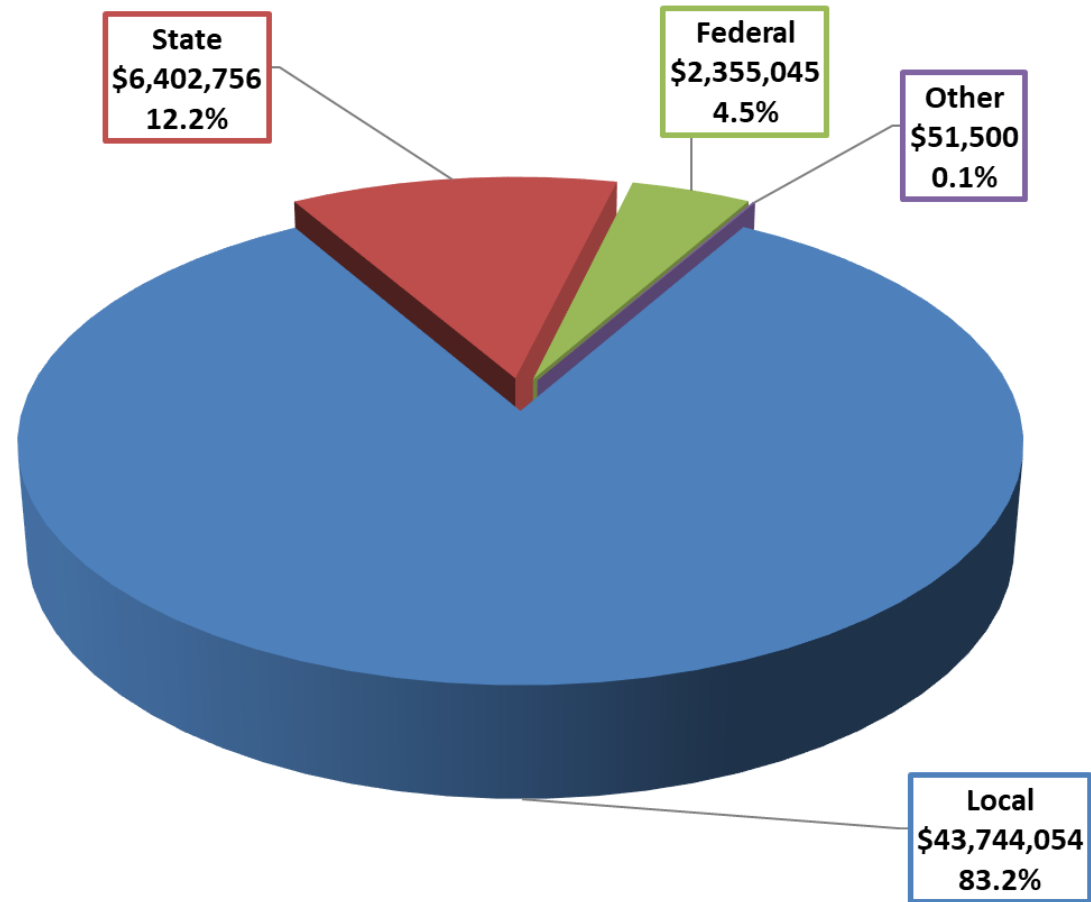
FUND	FISCAL 2019 BEGINNING FUND BALANCES	2018-19 ACTUAL REVENUES AND TRANSFERS IN	2018-19 ACTUAL EXPENDITURES & TRANSFERS OUT	JUNE 30, 2019 ACTUAL FUND BALANCES	2019-20 BUDGET REVENUES AND TRANSFERS IN	2019-20 BUDGET EXPENDITURES & TRANSFERS OUT	JUNE 30, 2020 PROJECTED FUND BALANCES
General/Restricted	\$8,935,140	\$52,820,199	\$53,970,413	\$7,784,926	\$52,553,355	\$52,385,028	\$7,953,253
General/Other	-	-	-	-	-	-	-
Food Service	539,795	1,829,760	1,831,430	538,125	1,880,035	1,879,468	538,692
Community Service	423,991	1,292,414	1,340,058	376,347	1,203,188	1,161,680	417,855
Building Construction	68,630,035	7,239,171	10,781,108	65,088,098	1,160,000	60,999,702	5,248,396
Debt Service	2,236,937	16,360	1,628,421	624,876	2,717,885	2,750,225	592,536
Trust	20,295	28,768	30,500	18,563	-	-	18,563
Internal Service	4,923,704			3,882,776			3,544,655
OPEB* Revocable Trust	20,093,316	1,444,329	3,163,623	18,374,022	1,025,000	3,297,000	16,102,022
OPEB* Irrevocable Trust	-	-	-	-	-	-	-
OPEB* Debt Service	658,268	4,745,939	4,665,190	739,017	4,826,133	4,666,315	898,835
Total All Funds	\$106,461,481	\$69,416,940	\$77,410,741	\$97,426,750	\$65,365,596	\$127,139,418	\$35,314,808

*Other Post Employment Benefits

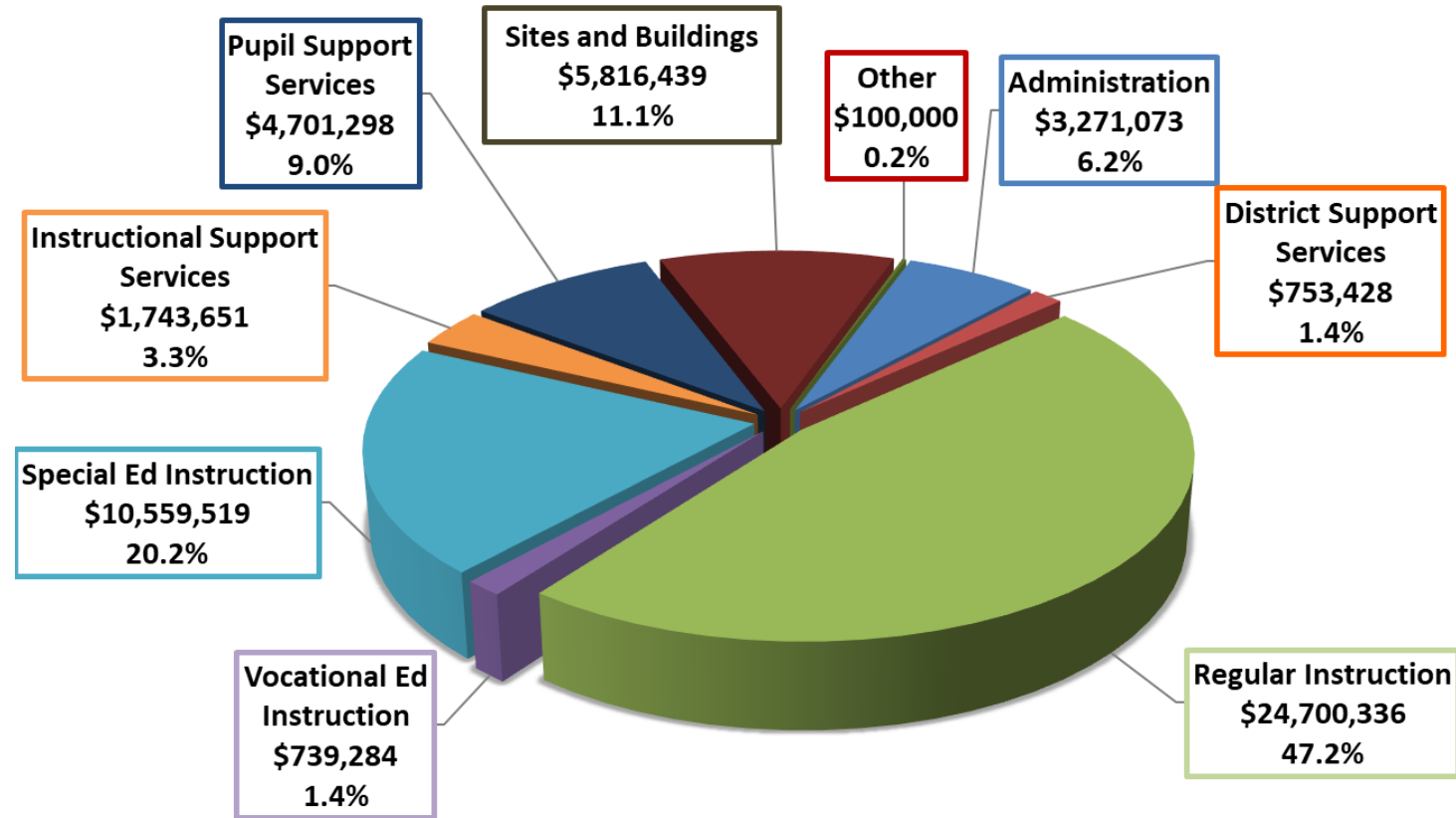
ISD #318
Revenue - All Funds
2019-20 Budget \$65,365,596



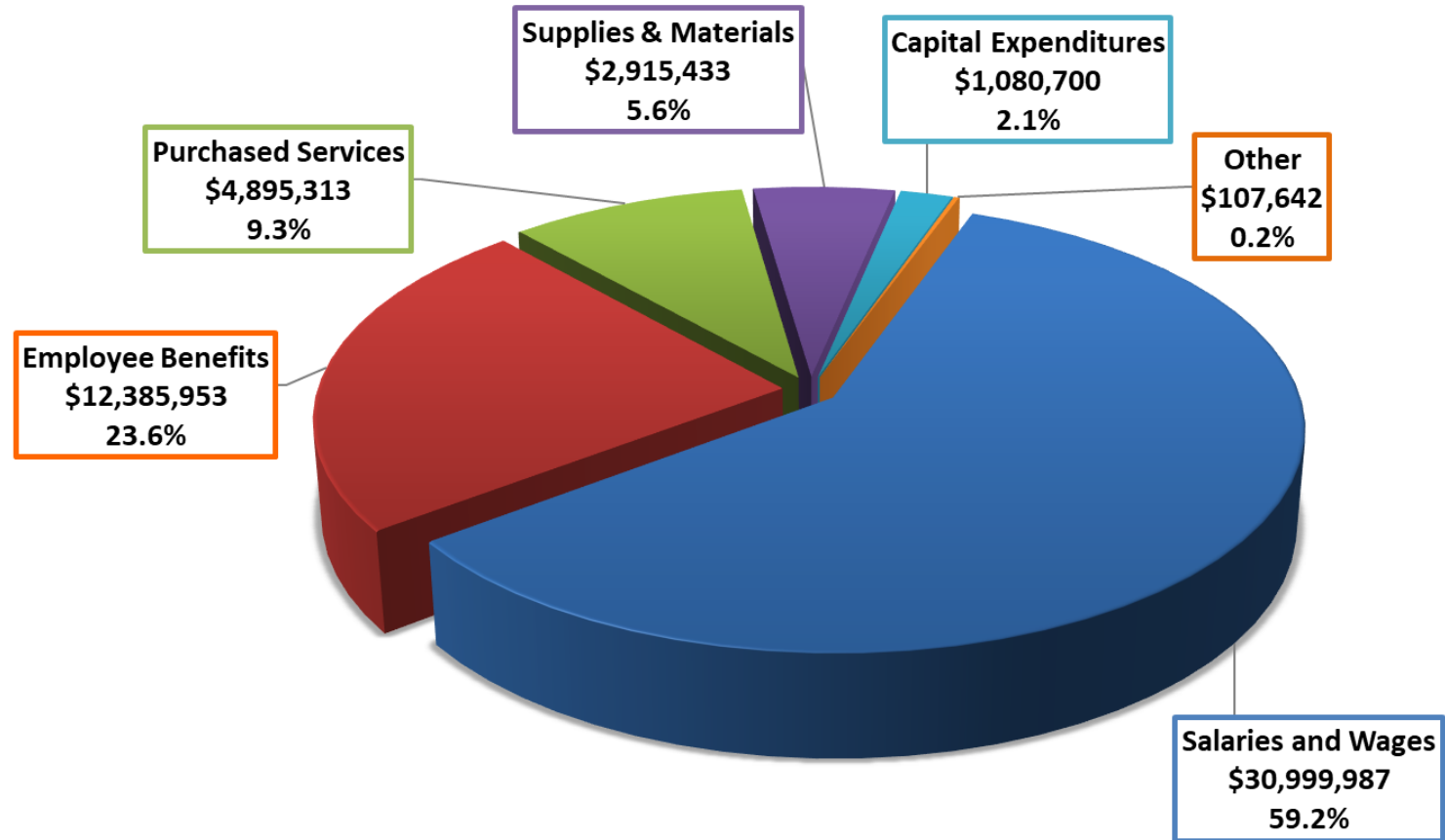
ISD #318
General Fund Revenue
2019-20 Budget \$52,553,355



ISD #318
General Fund Expenditures by Program
2019-20 Budget \$52,385,028



ISD #318
General Fund Expenditure by Object
2019-20 Budget \$52,385,028



Payable 2020 Property Tax Levy

- Determination of levy
- Comparison of 2019 to 2020 levies
- Specific reasons for changes in tax levy
- Impact on taxpayers

Property Tax Background

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

Parcel Specific Notice:

This is a sample of the notice mailed to every property owner between November 11-24 with information on the impact of the Proposed 2020 levy on their property.

Contents:

- Proposed property tax compared to last year
- By voter approved and other
- By taxing jurisdiction
- Contains time and place of public meeting



Spruce County
Jane Smith, Auditor-Treasurer
345 12th Street East, Box 78
Spruceville, MN 55555-5555
(555) 345-6789
www.co.spruce.mn.us

TAXPAYER(S):

John and Mary Johnson
123 Pine Rd S
Spruceville, MN 55555-5555

Property Information

PIN Number: 01.234.56.789.R1 Property Address: 789 Pine Rd S
Spruceville, MN 55555

Property Description:
Lot 1, Block 1, Spruce Acres Subdivision

PROPOSED TAXES 2020

THIS IS NOT A BILL. DO NOT PAY.

VALUES AND CLASSIFICATION			
Step		2019	2020
1	<u>Taxes Payable Year</u>		
	Estimated Market Value	\$125,000	\$150,000
	Homestead Exclusion	\$	\$23,800
	Taxable Market Value	\$125,000	\$126,200
	Class	Res NHmstd	Res Hmstd
PROPOSED TAX			
2	Property Taxes before credits	\$1,562.46	
	School building bond credit	\$ 12.00	
	Agricultural market value credit		
	Other credits		
	Property Taxes after credits	\$1,550.46	
PROPERTY TAX STATEMENT			
3	Coming in 2020		
The time to provide feedback on PROPOSED LEVIES is NOW			

Proposed Property Taxes and Meetings by Jurisdiction for Your Property

Contact Information	Meeting Information	Actual 2019	Proposed 2020
State General Tax	No public meeting	\$0	\$0
County of Spruce Spruce County Courthouse 123 Spruce St Spruceville, MN 55555 www.co.spruce.mn.us (555) 123-4567	December 5, 7:00 PM	\$438.06	\$484.18
City of Spruceville Mayor's Office 456 Spruce St Spruceville, MN 55555 www.ci.spruceville.mn.us (555) 123-7654	December 3, 6:30 PM Spruceville City Hall	\$273.79	\$312.06
Spruceville School District 999 150 1st St N Spruceville, MN 55555 www.spruceville.k12.mn.us (555) 123-6789 Voter Approved Levies Other Levies	December 10, 7:00 PM Spruceville High School Cafeteria	\$289.35 \$340.11	\$296.68 \$374.60
<i>Your school district was scheduled to hold a referendum at the November general election. If the referendum was approved by the voters, the school district's voter approved property tax for 2020 may be higher than the proposed amount shown on this notice.</i>			
Metro Special Taxing Districts		\$57.76	\$58.70
Spruceville Metropolitan Council www.spruce.metrocouncil.org (555) 555-5555 Spruceville, MN 55055	December 12, 7:30 PM Spruce Park Centre 500 Pine St.		
Other Special Taxing Districts Tax Increment Tax	No public meeting No public meeting	\$12.80 \$10.15	\$13.02 \$11.22
Total excluding any special assessments		\$1,422.02	\$1,550.46 9.0%

School District Property Taxes

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

Property Tax Background

School District Property Taxes

- Key steps in process are summarized on next slide
- Any of these steps may affect the taxes on a parcel of property, but district has control over only 1 of the 7 steps

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.*

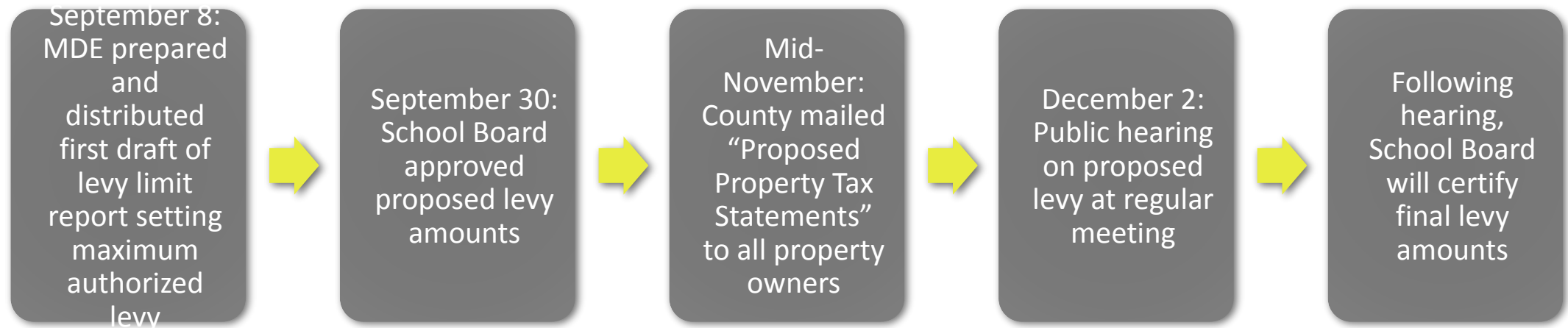
Step 4. The **Legislature** sets the formulas which determine school district levy limits. These are the maximum amounts of taxes that school districts can levy in every category.

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**.

Schedule of Events in Approval of District's 2019 (Payable 2020) Tax Levy



Overview of Proposed Levy Payable in 2020

Total 2020 proposed property tax levy is a decrease from 2019 of \$525,681 (3.64%)

State law requires that we explain reasons for major increases in levy

Some decreases in specific levies will also be explained

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Comparison of Actual Tax Levy Payable in 2019 to Proposed Levy Payable in 2020

Fund Levy Category	Actual Levy Payable in 2019	Proposed Levy Payable in 2020	\$ Change	% Change
General				
Voter Approved Referendum	\$0	\$0	\$0	
Board Approved Referendum	988,527	0	(988,527)	
Local Optional Revenue (LOR)	1,847,792	2,880,434	1,032,642	
Total Referendum and LOR	2,836,319	2,880,434	44,115	
Equity	722,230	730,537	8,308	
Operating Capital	436,271	422,273	(13,997)	
Safe Schools	156,888	158,645	1,757	
Long Term Facilities Maintenance	1,656,040	865,451	(790,589)	
Instructional Lease	694,878	620,922	(73,956)	
Other	461,166	584,365	123,199	
Prior Year Adjustments	(67,152)	(232,975)	(165,824)	
Total, General Fund	\$6,896,640	\$6,029,653	(\$866,987)	-12.6%
Community Service				
Basic Community Education	\$207,075	\$207,075	\$0	
Early Childhood Family Education	130,249	124,214	(6,035)	
School-Age Child Care	10,000	10,000	0	
Other	2,870	2,926	57	
Prior Year Adjustments	(350,194)	(344,216)	5,979	
Total, Community Service Fund	\$0	\$0	\$0	0.0%
Debt Service				
Voter Approved	\$2,715,624	\$2,884,062	\$168,438	
Long-Term Facility Maintenance	0	389,462	389,462	
Other Post Employment Benefits	4,899,159	4,903,700	4,541	
Reduction for Debt Excess	(74,845)	(292,609)	(217,764)	
Prior Year Adjustments	4,080	710	(3,370)	
Total, Debt Service Fund	\$7,544,018	\$7,885,324	\$341,306	4.5%
Total Levy, All Funds	\$14,440,658	\$13,914,977	(\$525,681)	-3.6%
Subtotal by Truth in Taxation Categories:				
Voter Approved	2,717,885	2,837,301	119,416	
Other	11,722,773	11,077,676	(645,097)	
Total	\$14,440,658	\$13,914,977	(\$525,681)	-3.6%

Explanation of Levy Changes

Category: Operating Referendum, Local Optional and Equity Revenue

Change: + \$44,115 (Operating Referendum and Local Optional)
+ \$8,308 (Equity)

Use of Funds: General Operating Expenses

Reason for Change:

- All of these revenues are based on the number of students in the district, which is estimated to increase by 49 pupil units
- No change in authorized levy per pupil for voter and board approved amounts
- Legislature moved \$300 per pupil from Operating Referendum to Local Optional, resulting in the approximate \$1 million transfer between those two levies

Explanation of Levy Changes

Category: General Fund - Long Term Facilities Maintenance (LTFM)

Change: - \$790,589

Use of Funds: Deferred Facility Maintenance

Reason for Change:

- Levy based on student count and ten-year maintenance program approved by district and MDE
- General Fund LTFM Revenue was moved to Debt Service for bond
- Average building age decreased due to voter authorization of new construction

Explanation of Levy Changes

Category: General Fund Adjustments

Change: -\$165,824

Use of Funds: General Operating Expenses

Reason for Change:

- Initial levies are best estimates with prior year levy adjustments calculated by state for up to three years
 - For taxes payable 2019, the levy adjustments in the general fund were \$67,152 negative
 - For taxes payable 2020, the levy adjustments in the general fund were \$232,975 negative
 - The net result is an increase in the reduction from year to year of \$165,824
- Combination of 13 prior year levy adjustments and abatement levies

Explanation of Levy Changes

Category: Debt Service

Change: \$341,306

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
- General Fund LTFM shifted to Debt Service

Factors Impacting Individual Taxpayers' School Taxes

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

Minnesota Homestead Credit Refund “Circuit Breaker”

Has existed since 1970s

Available **each year** to owners of homestead property

(applies to taxes paid on house, garage and one acre for ag homestead property)

Annual income must be approximately \$113,150 or less

(income limit is higher if you have dependents)

Sliding scale - refund based on income and total property taxes

Maximum refund for homeowners is \$2,770

Also available to renters

Complete state tax form M-1PR (www.revenue.state.mn.us)

Minnesota Special Property Tax Refund

Available each year to owners of homestead properties with a gross tax increase of at least 12% and \$100 over prior year

Helpful in first year after referendum

Refund is 60% of amount by which tax increase exceeds greater of 12% or \$100, up to a maximum of \$1,000

No income limits

Complete state tax form
M-1PR
(www.revenue.state.mn.us)

Senior Citizen Property Tax Deferral

Allows people age 65 and older with household income of \$60,000 or less to defer a portion of property taxes on their home

You have lived in, owned your home, and had it homesteaded for the last 15 years

Limits maximum amount of property tax paid to 3% of household income

Additional taxes are deferred, not forgiven

Provides predictability; amount of tax you pay will not change for as long as you participate in the program

Deferred property taxes plus accrued interest must be paid when home is sold or homeowner(s) dies

Next Steps

1

Board will accept public
comments on proposed levy

2

Board will certify 2020
property tax levy

Total Proposed School Tax Levy

General Fund	\$6,029,653
Community Service	\$0
Debt Service	<u>\$7,885,324</u>
Total Proposed Levy	<u><u>\$13,914,977</u></u>

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Public Comments