Independent School District 318

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

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
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

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

* Had the allowance increased by the rate of inflation each year since 2003 the 2021 allowance per ADM would be $7,206
* The difference between the FY 21 formula allowance per ADM and the inflation adjusted formula allowance is $639 or 9.7%

Source: MDE August 2019 Inflation Estimates
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.
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
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

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.
# District Revenues and Expenditures

*Actual for FY 2019, Budget for FY 2020*

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

*Other Post Employment Benefits*
ISD #318
Revenue - All Funds
2019-20 Budget $65,365,596

- Building Construction $1,160,000 1.8%
- Debt Service $2,717,885 4.1%
- OPEB Trust $1,025,000 1.6%
- OPEB Debt Service $4,826,133 7.4%
- Food Service $1,880,035 2.9%
- Community Service $1,203,188 1.8%
- General $52,553,355 80.4%
ISD #318
General Fund Revenue
2019-20 Budget $52,553,355

- State $6,402,756 12.2%
- Federal $2,355,045 4.5%
- Other $51,500 0.1%
- Local $43,744,054 83.2%
ISD #318
General Fund Expenditures by Program
2019-20 Budget $52,385,028

- Pupil Support Services
  - $4,701,298
  - 9.0%
- Instructional Support Services
  - $1,743,651
  - 3.3%
- Sites and Buildings
  - $5,816,439
  - 11.1%
- Other
  - $100,000
  - 0.2%
- Administration
  - $3,271,073
  - 6.2%
- District Support Services
  - $753,428
  - 1.4%
- Vocational Education Instruction
  - $739,284
  - 1.4%
- Regular Instruction
  - $24,700,336
  - 47.2%
ISD #318
General Fund Expenditure by Object
2019-20 Budget $52,385,028

- Employee Benefits: $12,385,953 (23.6%)
- Salaries and Wages: $30,999,987 (59.2%)
- Purchased Services: $4,895,313 (9.3%)
- Supplies & Materials: $2,915,433 (5.6%)
- Capital Expenditures: $1,080,700 (2.1%)
- Other: $107,642 (0.2%)
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
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 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.

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.*

* 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

September 8: MDE prepared and distributed first draft of levy limit report setting maximum authorized levy

September 30: School Board approved proposed levy amounts

Mid-November: County mailed “Proposed Property Tax Statements” to all property owners

December 2: Public hearing on proposed levy at regular meeting

Following hearing, School Board will certify final levy amounts
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
## Independent School District 318
Comparison of Actual Tax Levy Payable in 2019 to Proposed Levy Payable in 2020

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

Subtotal by Truth in Taxation Categories:

<table>
<thead>
<tr>
<th>Fund Levy Category</th>
<th>Actual Levy Payable in 2019</th>
<th>Proposed Levy Payable in 2020</th>
<th>$ Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Voter Approved</td>
<td>2,717,885</td>
<td>2,837,301</td>
<td>119,416</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>11,722,773</td>
<td>11,077,676</td>
<td>(645,097)</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$14,440,658</td>
<td>$13,914,977</td>
<td>($525,681)</td>
<td>-3.6%</td>
</tr>
</tbody>
</table>
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
Explaination 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: $7,885,324
- Total Proposed Levy: $13,914,977