

White Bear Lake Area Schools



Public Hearing for Taxes Payable in 2018

DECEMBER 11, 2017

PRESENTED BY: TIM WALD, ASSISTANT SUPERINTENDENT FOR
FINANCE & OPERATIONS

THOMAS WIECZOREK, DIRECTOR OF FINANCE

Tax Hearing Presentation

State Law Requires Public Meeting:

- Between November 24th and December 28th
- After 6:00 PM
- May be part of regularly scheduled meeting
- May adopt final levy at same meeting

State Law Requires Presentation of:

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

**State Law also requires the district allow for public comment*

Agenda for Hearing

- A. Background on School Funding, Property Tax Levies, and Budgets
- B. Information on District Budget
- C. Information on District's Proposed Tax Levy for Taxes Payable in 2018
- D. Public Comments and Questions

Background Information

Minnesota Public Education is Strong

- State law requires all juniors and seniors be offered the ACT at no cost, but test is no longer mandatory
- In 2017, 90% of Minnesota graduates took the ACT with an average composite score of 21.5,
 - Highest score among 17 states where every eligible student takes exam
- National composite score for 2017 is 21.0 based on 60% of 2017 graduating seniors taking the ACT

Public Schools Established by 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...

School funding is highly regulated by the state

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)

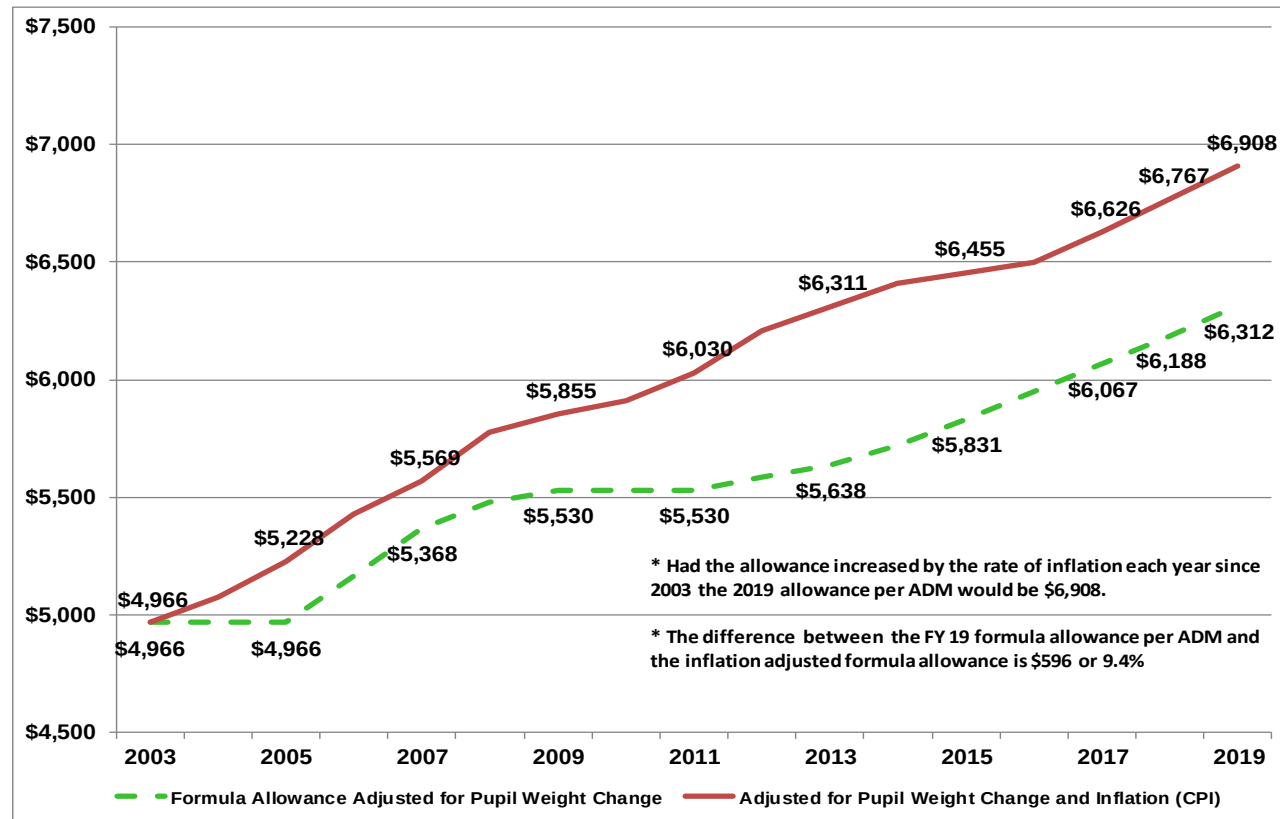
State also authorizes school board to submit referendums for operating and capital needs to voters for approval

Challenge: State Set Basic General Education Formula Lags Inflation

- Since 2003, state General Education Revenue formula has not kept pace with inflation
- For FY 2018 and FY 2019, Legislature approved an increase of 2% per year
 - \$121 per pupil unit in FY 2018
 - An additional \$124 for FY 2019
- Per-pupil allowance for Fiscal Year 2019 would need to increase by another \$596 (9.4%) to have kept pace with inflation since 2003

Basic General Education Formula Lags Inflation

General Education Formula Allowance, 2003-2019
Adjusted for Pupil Weight Change and Inflation (CPI)



Source: MDE January 2017 Inflation Estimates

Underfunding of Special Education

- MDE reports cost of providing special education programs was underfunded by \$697 million, or an average of 40% underfunded
- Translating into a statewide average funding shortfall of \$5,783 per special education student
- Underfunding of special education costs necessitates 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 1993, 65% of districts had operating referendum revenue averaging \$332 per pupil
- For 2017-18, all Minnesota districts have referendum revenue and/or local optional revenue levy authority averaging \$1,296 per pupil
 - 20.5% of general education formula allowance
 - Of this amount, \$879 is board approved or voter approved operating referendum, and \$417 is Local Optional Revenue

Change in Tax Levy Does not Determine Change in Budget

- Tax levy is based on many state-determined formulas plus voter approved referendums
- Some increases in tax levies are revenue neutral, offset by reductions in state aid
- *Expenditure budget is limited* by state-set revenue formulas, voter-approved levies, and fund balance
- 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
- 2018 taxes provide revenue for 2018 calendar year budget

Schools:

- Budget year begins July 1st and coincides with school year
- 2018 taxes provide revenue for 2018-2019 school fiscal year
- Budget will be adopted in June 2018

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.

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

Our District's Funds:

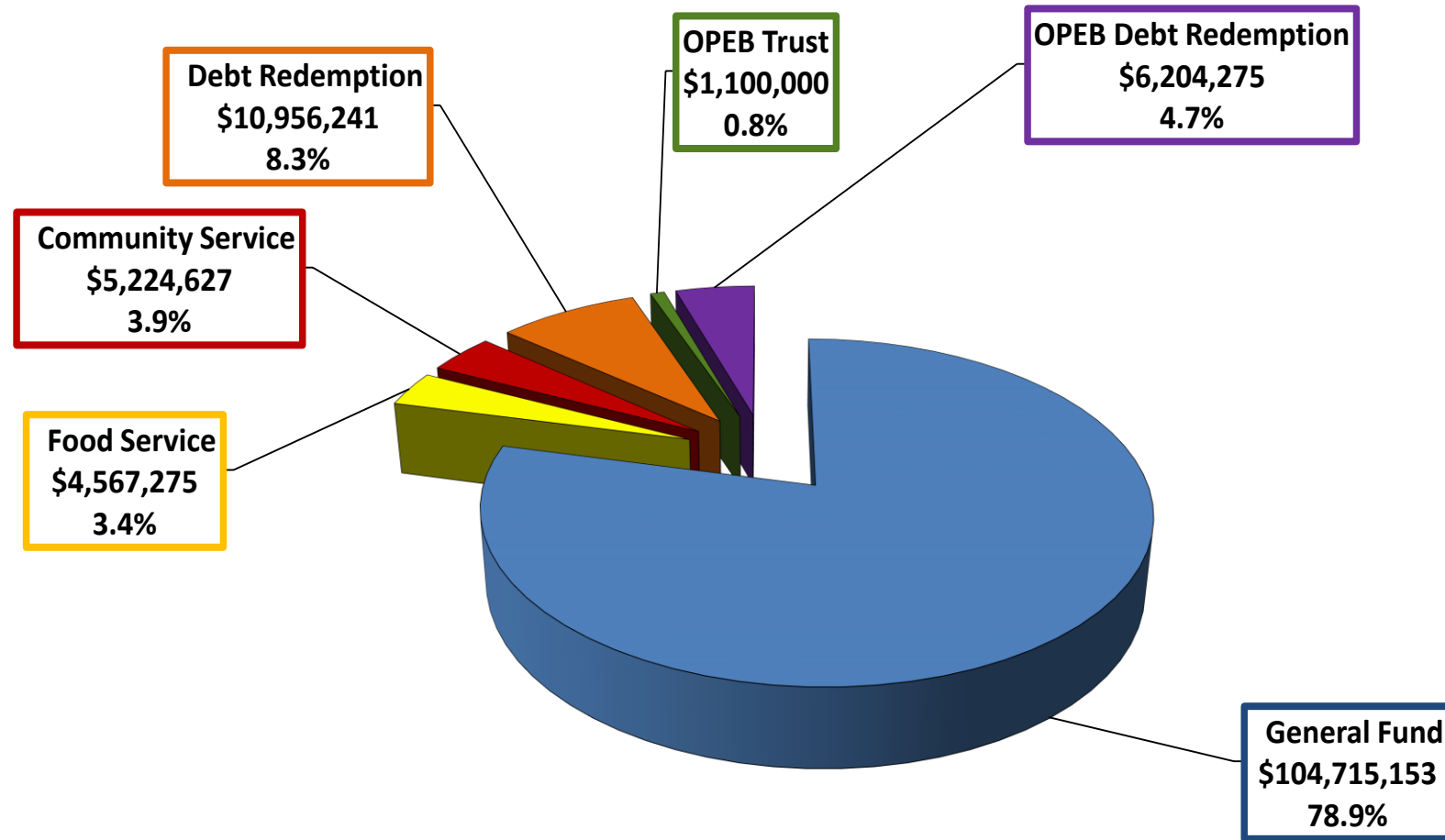
- General
- Food Service
- Community Service
- Capital Projects
- Debt Service
- Trust *
- Internal Service *
- OPEB Trust Fund *
- OPEB Debt Fund

**Annual budgets are not prepared for these funds*

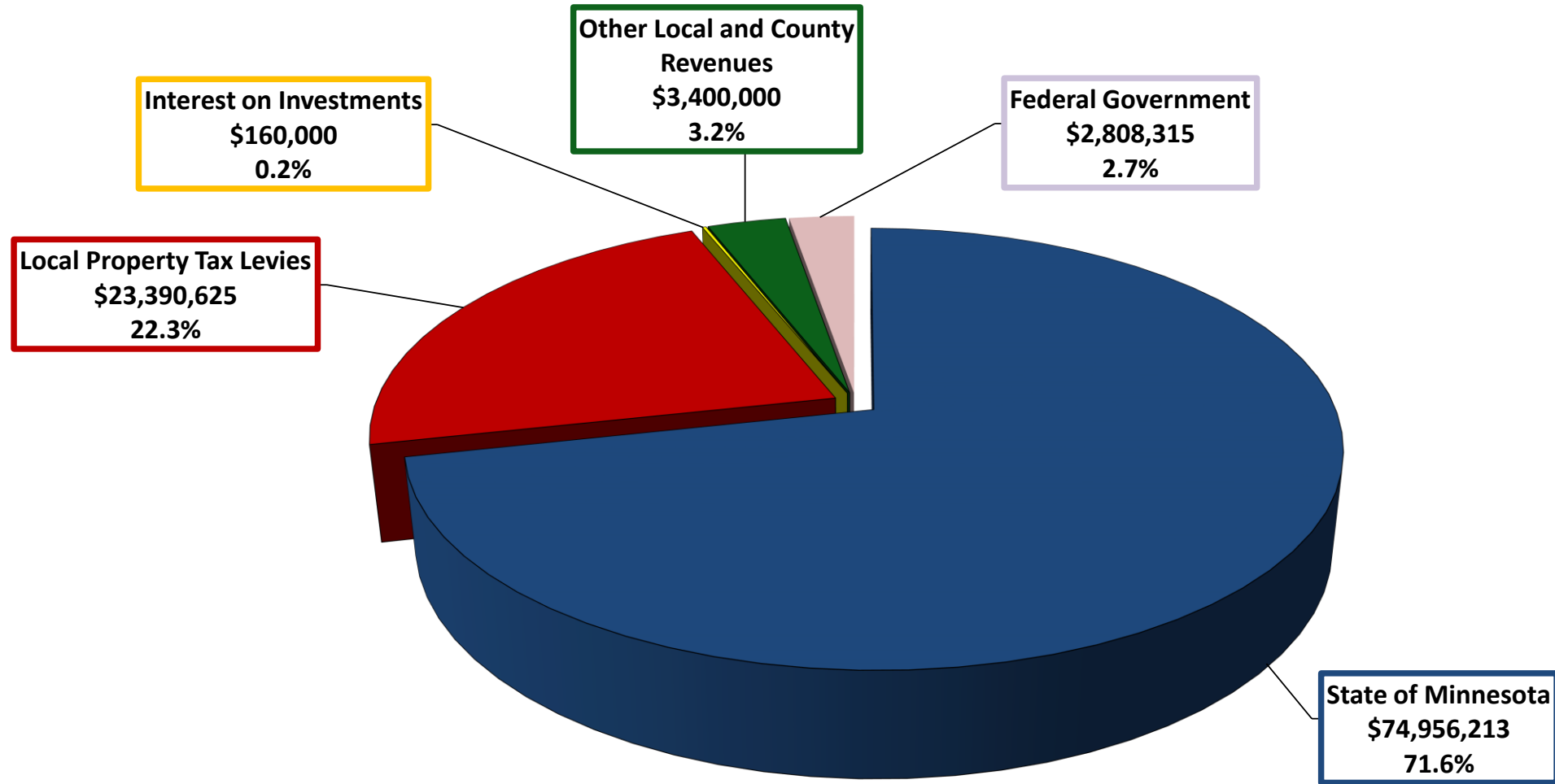
White Bear Lake Area Schools ISD No. 624
District Revenues and Expenditures
Actual for FY 2017, Budget for FY 2018

FUND	FISCAL 2017 BEGINNING FUND BALANCES	2016-17 ACTUAL REVENUES AND TRANSFERS IN	2016-17 ACTUAL EXPENDITURES & TRANSFERS OUT	JUNE 30,2017 ACTUAL FUND BALANCE	2017-18 BUDGET REVENUES AND TRANSFERS IN	2017-18 BUDGET EXPENDITURES & TRANSFERS OUT	JUNE 30,2018 PROJECTED FUND BALANCE
General Fund/Restricted	\$1,231,387	\$7,221,340	\$6,038,629	\$2,414,098	\$8,210,908	\$6,879,904	\$3,745,102
General Fund/Other	26,273,756	96,482,436	100,130,687	22,625,505	96,504,245	99,176,851	19,952,899
Food Service Fund	320,440	4,607,261	4,426,363	501,338	4,567,275	4,555,196	513,417
Community Service Fund	1,470,731	5,647,653	5,470,711	1,647,673	5,224,627	5,303,400	1,568,900
Building Construction Fund	6,447,156	20,549	4,784,117	1,683,588	-	-	1,683,588
Debt Service Fund	1,388,384	4,927,273	5,061,953	1,253,704	10,956,241	10,956,241	1,253,704
Trust Fund	166,269	185,264	203,569	147,964	-	-	147,964
Internal Service Fund	599,388			(970,064)			500,000
OPEB Irrevocable Trust Fund	31,104,825	1,080,628	1,890,826	30,294,627	1,100,000	1,900,000	29,494,627
OPEB Debt Service Fund	821,954	6,176,884	5,887,663	1,111,175	6,204,275	6,204,275	1,111,175
Total All Funds	\$69,824,290	\$126,349,288	\$133,894,518	\$60,709,608	\$132,767,571	\$134,975,867	\$59,971,376

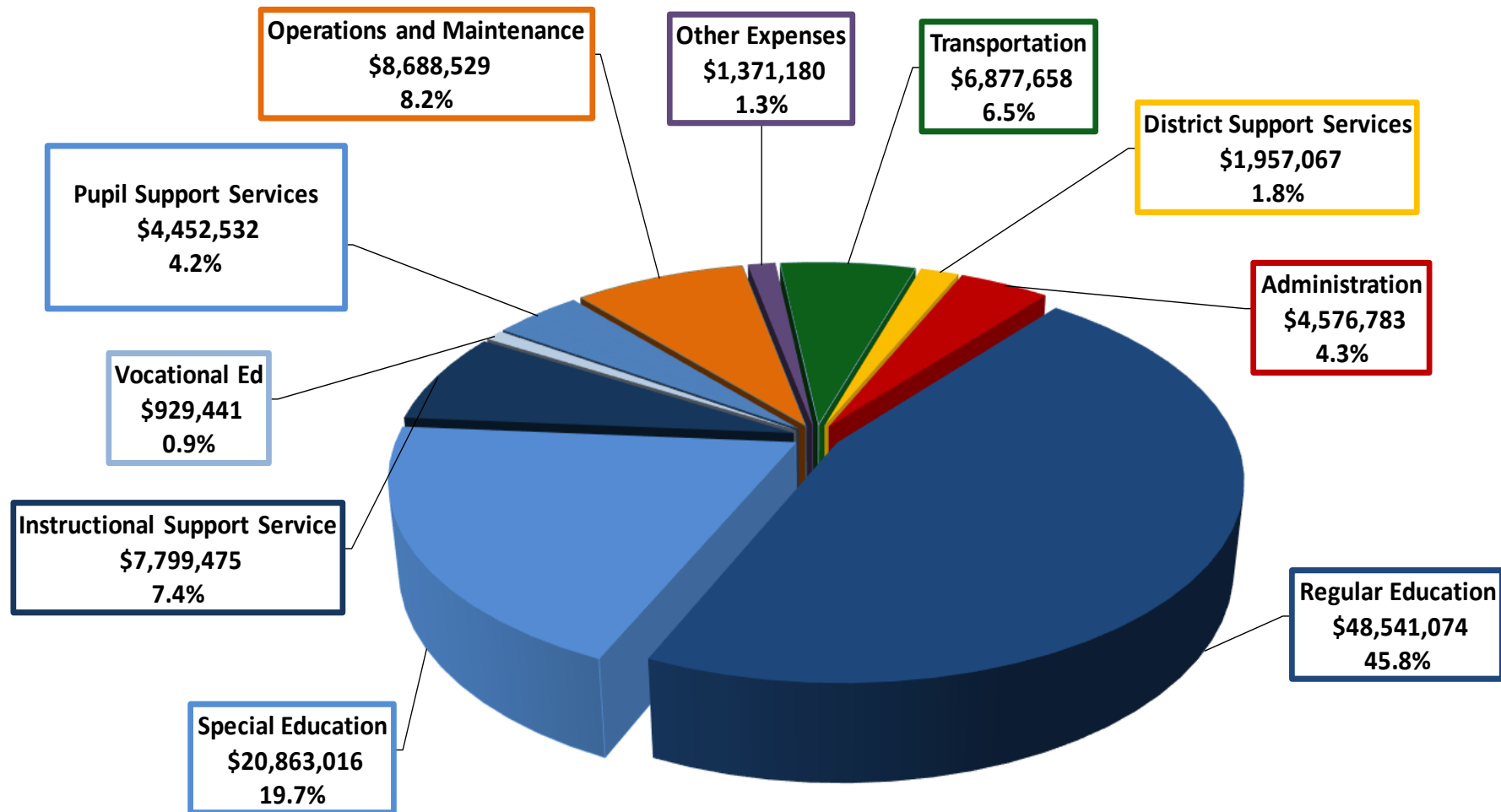
White Bear Lake ISD 624
Revenue all Funds
2017-18 Budget \$132,767,571



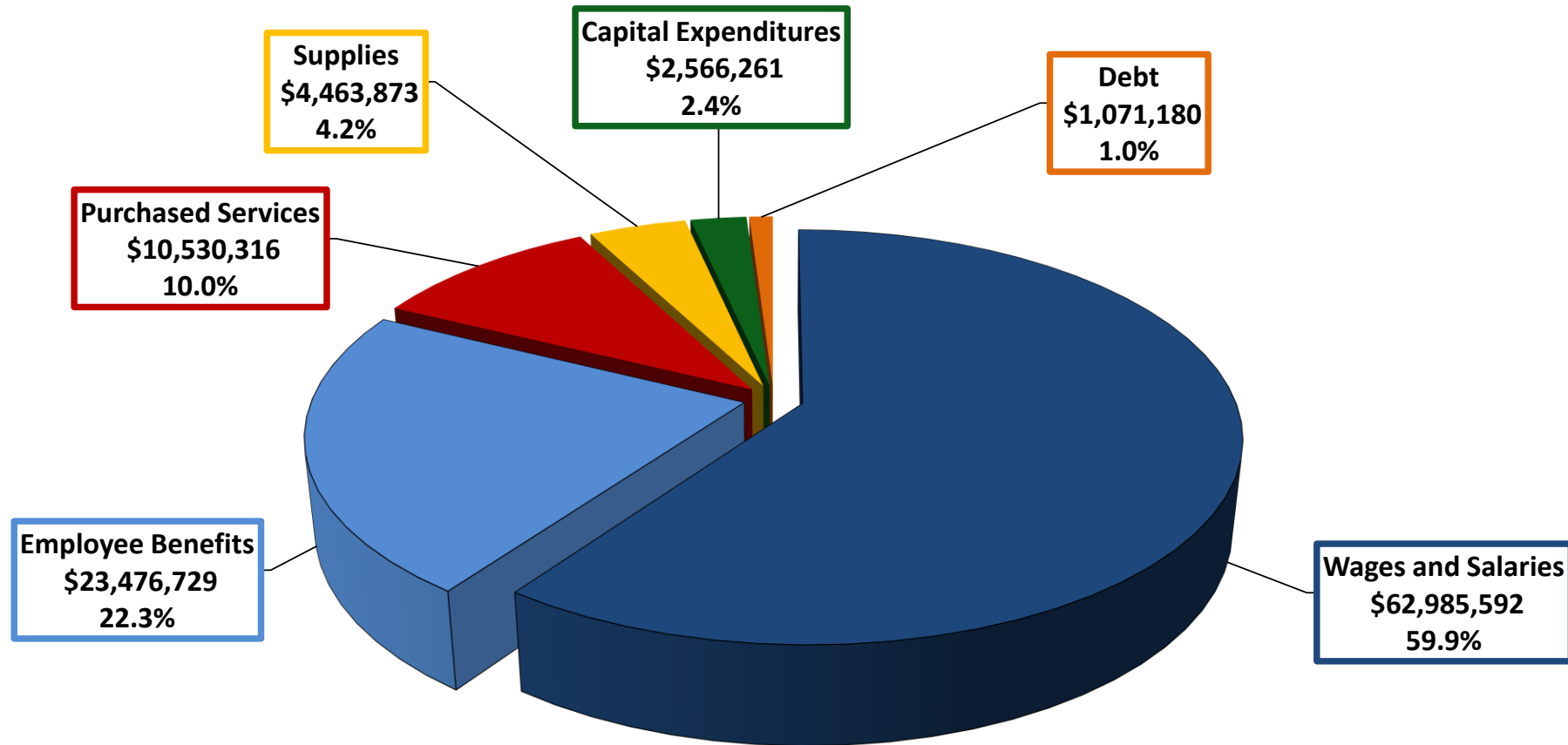
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General Fund Revenue
2017-18 Budget \$104,715,153



White Bear Lake Area Schools District 624
General Fund Expenditures by Program
2017-18 Budget \$106,056,755



White Bear Lake Area Schools District 624
General Fund Expenditure by Object
2017-18 Budget \$106,056,755



Payable 2018 Property Tax Levy

- Determination of levy
- Comparison of 2017 to 2018 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



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 2018

THIS IS NOT A BILL. DO NOT PAY.

VALUES AND CLASSIFICATION			
Step	Taxes Payable Year	2017	2018
1	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			
Step 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	
Step 3	PROPERTY TAX STATEMENT Coming in 2018		
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 2017	Proposed 2018	
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 7, 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 4, 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	December 5, 7:00 PM Spruceville High School Cafeteria			
Voter Approved Levies		\$289.35	\$296.68	
Other Levies		\$340.11	\$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 2018 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 8, 7:30 PM Spruce Park Centre 500 Pine St.			
Other Special Taxing Districts	No public meeting	\$12.80	\$13.02	
Tax Increment Tax	No public meeting	\$10.15	\$11.22	
Total excluding any special assessments		\$1,410.02	\$1,550.46	9.0%

School District Property Taxes

- Each school district may levy taxes in over 30 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 2017 (Payable 2018) Tax Levy

- September 8: MDE prepared and distributed first draft of levy limit report setting maximum authorized levy
- September 25: School board approved proposed levy amounts
- Mid-November: County mailed “Proposed Property Tax Statements” to all property owners
- December 11: Public hearing on proposed levy at regular meeting
- Following hearing, School Board will certify final levy amounts

Overview of Proposed Levy Payable in 2018

- The total 2018 proposed property tax levy will increase from 2017 by \$2,518,824, or 7.0%
- State law requires that we explain the reasons for the major increases in the levy
- Some decreases in specific levies will also be explained

White Bear Lake Area Schools ISD 624**Comparison of Proposed Tax Levy Payable in 2018 to Actual Levy Payable in 2017**

Fund	Levy Category	Actual Levy Payable in 2017	Proposed Levy Payable in 2018	\$ Change	% Change
General Fund					
	Voter Approved Referendum	\$13,016,707	\$13,497,255	\$480,548	
	Local Optional Levy	3,854,711	3,883,586	28,874	
	Equity	791,284	847,130	55,846	
	Student Achievement Levy	104,719	0	(104,719)	
	Capital Projects - Technology Levy	1,598,135	1,704,570	106,435	
	Operating Capital	871,658	783,218	(88,440)	
	Long Term Facilities Maintenance	1,354,091	2,096,871	742,780	
	Instructional Lease Levy	1,706,027	1,927,951	221,924	
	Safe Schools	445,474	467,129	21,656	
	Other	1,039,115	1,233,719	194,604	
	Levy Adjustments	(484,642)	61,352	545,994	
	Total, General Fund	\$24,297,278	\$26,502,781	\$2,205,503	9.1%
Community Service Fund					
	Basic Community Education	\$450,353	\$450,353	\$0	
	Early Childhood Family Education	245,047	254,092	9,045	
	School-Age Child Care	275,000	300,000	25,000	
	Other	11,383	11,695	313	
	Levy Adjustments	(74,334)	7,463	81,796	
	Total, Community Service Fund	\$907,449	\$1,023,603	\$116,154	12.8%
Debt Service Funds					
	Voter Approved Debt Service	\$3,640,350	\$3,224,550	(\$415,800)	
	LT Facility Maintenance Debt Service	1,261,995	1,313,902	51,907	
	Other Post Employment Benefits	6,514,489	6,901,165	386,676	
	Reduction for Debt Excess	(697,658)	(411,934)	285,724	
	Levy Adjustments	144,582	33,243	(111,339)	
	Total, Debt Service Fund	\$10,863,758	\$11,060,925	\$197,167	1.8%
Total Levy, All Funds		\$36,068,485	\$38,587,309	\$2,518,824	7.0%
Subtotal by Truth in Taxation Categories:					
	Voter Approved Levies	17,941,576	18,427,627	486,051	
	Other Levies	18,126,909	20,159,682	2,032,773	
	Total	\$36,068,485	\$38,587,309	\$2,518,824	7.0%

Explanation of Levy Changes

Category: Voter Approved Referendum

Change: +\$480,548

Use of Funds: General education expenses

Reason for Change:

- Funding for this program is a per pupil formula provided through a combination of state aid and local tax levies
- Because the district's total property value increased, share of funding provided through tax levy increased
- Revenue increased due to projected enrollment increases
- Revenue also increased due to voter-authorized inflation in the revenue per pupil

Explanation of Levy Changes

OPERATING CAPITAL

Change: -\$88,440

Use of Funds: Technology, facility maintenance, other capital expenses

Reason for Decrease:

- Revenue neutral – offset by state aid increase
- State set decrease to partially offset levy increase for long term maintenance

STUDENT ACHIEVEMENT

Change: -\$104,719

Use of Funds: General operating expenses

Reason for Decrease:

- Legislature phased out levy for 2018
- State set decrease to partially offset levy increase for long term maintenance

Explanation of Levy Changes

Category: Long Term Facilities Maintenance (LTFM) Revenue

Change: +\$742,780

Use of Funds: Deferred maintenance expenses

Reason for Change:

- District is eligible for LTFM revenue based on approved project costs; project costs have increased
- Revenue phased-in over three years; increased from \$292 to \$380 per pupil unit
- Increase partially offset by reductions in other levy categories (Student Achievement and Operating Capital)

Explanation of Levy Changes

Category: Lease Levy

Change: +\$221,924

Use of Funds: Contracted lease payments on instructional space

Reason for Change:

- Increase in contracted annual lease payments for instructional space

Explanation of Levy Changes

ADJUSTMENTS FOR PRIOR YEARS – GENERAL FUND

Change: +\$545,994

Use of Funds: General operating expenses

Reason for Increase:

- Initial levies are based on estimates of enrollment, values and costs
- Reflects net of prior three year levy adjustments to 18 levies

OTHER GENERAL FUND LEVIES

Change: +\$194,604

Use of Funds: General operating expenses

Reason for Increase:

- Net change of eleven state formula levies
- Larger changes occurred in safe schools levy and career technical levy

Explanation of Levy Changes

Category: Debt Service Levy

Change: +\$197,167

Use of Funds: Principal and interest payments on bonds

Reason for Change:

- Net reduction of \$88,557 in levy for scheduled debt retirement payments
- Levy reduction for debt excess fund balance was lower resulting in a levy increase of \$285,724

Factors Impacting Individual Taxpayers School Taxes

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

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

Four Year School Levy Comparison

The following are tables and graphs showing examples of changes in the school district portion of property taxes from 2015 to 2018

Examples include school district taxes only

All examples are based on a 11.9% increase in property value over this period

- Actual changes in value may be more or less than this for any parcel of property
- Figures are intended to provide a fair representation of what has happened to school district property taxes over this period for typical properties

Impact on Taxpayers

- Examples for property in the City of White Bear Lake, for commercial-industrial property, school taxes in other parts of the district may be slightly higher or lower due to variations in the impact of the Fiscal Disparities Program
- Figures for 2018 are preliminary estimates, based on the best data available now – final figures could change slightly
- Estimates prepared by Ehlers, district's municipal financial advisors

White Bear Lake Area Schools ISD No. 624

Estimated Changes in School Property Taxes, 2015 to 2018

Based on 11.9% Cumulative Changes in Property Value from 2015 to 2018 Taxes

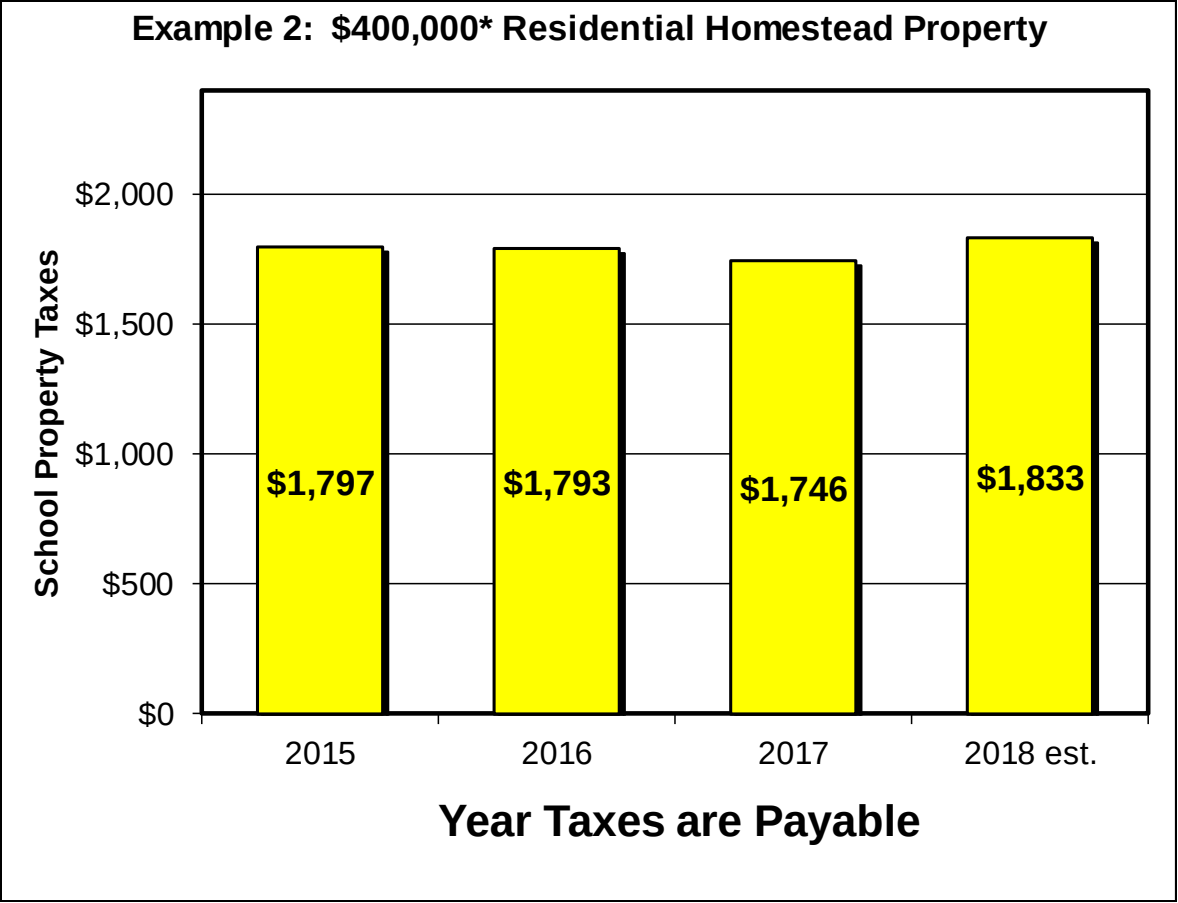
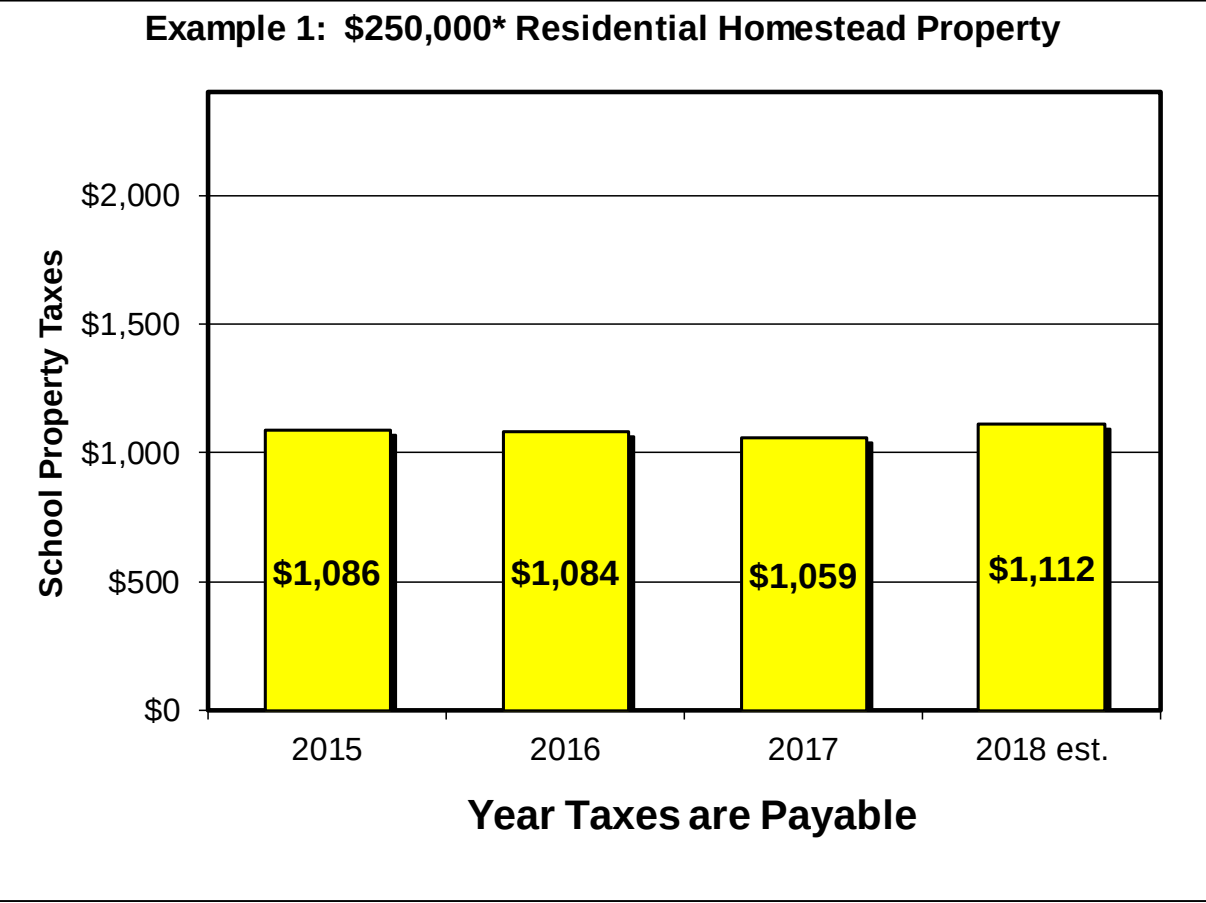
Type of Property	Estimated Market Value for 2015 Taxes	Actual Taxes Payable in 2015	Estimated Market Value for 2016 Taxes	Actual Taxes Payable in 2016	Estimated Market Value for 2017 Taxes	Actual Taxes Payable in 2017	Estimated Market Value for 2018 Taxes	Estimated Taxes Payable in 2018	Change in Taxes 2015 to 2018	Change in Taxes 2017 to 2018
Residential Homestead	\$134,078	\$612	\$135,993	\$611	\$141,509	\$600	\$150,000	\$632	\$20	\$32
	178,771	849	181,324	848	188,679	829	200,000	872	23	43
	223,463	1,086	226,655	1,084	235,849	1,059	250,000	1,112	26	53
	268,156	1,323	271,987	1,320	283,019	1,288	300,000	1,352	29	64
	312,849	1,560	317,318	1,557	330,189	1,517	350,000	1,593	33	76
	357,541	1,797	362,649	1,793	377,358	1,746	400,000	1,833	36	87
	402,234	2,034	407,980	2,029	424,528	1,973	450,000	2,065	31	92
	446,927	2,263	453,311	2,256	471,698	2,192	500,000	2,294	31	102
	491,619	2,489	498,642	2,482	518,868	2,423	550,000	2,553	64	130
	536,312	2,740	543,973	2,736	566,038	2,669	600,000	2,812	72	143
Commercial/ Industrial #	\$134,078	\$657	\$135,993	\$666	\$141,509	\$647	\$150,000	\$684	\$27	\$37
	446,927	2,440	453,311	2,476	471,698	2,398	500,000	2,554	114	156
	89,385	438	90,662	444	94,340	431	100,000	456	18	25
	1,340,780	7,570	1,359,933	7,682	1,415,094	7,422	1,500,000	7,896	326	474
	1,787,707	10,135	1,813,243	10,286	1,886,792	9,934	2,000,000	10,567	432	633
Apartments and Res. Non-Homestead (2 or more units)	\$670,390	\$3,841	\$679,966	\$3,830	\$707,547	\$3,704	\$750,000	\$3,885	\$44	\$181
	893,854	5,122	906,622	5,107	943,396	4,938	1,000,000	5,180	58	242
	1,787,707	10,244	1,813,243	10,214	1,886,792	9,876	2,000,000	10,359	115	483
Tax Rates										
Tax Capacity Rate		26.660		26.236		23.476		23.631		
Referendum Market Value Rate		0.23976		0.23536		0.23000		0.22258		

For commercial-industrial property, figures above are for property in the City of White Bear Lake. Taxes for commercial-industrial property in other municipalities may be slightly different, due to the impact of the Fiscal Disparities Program.

General Notes

1. The figures in the table are based on school district taxes only, and do not include taxes for the city or township, county, state, or other taxing jurisdictions.
2. Estimates of taxes payable in 2018 are preliminary, based on the best data available as of the date above.
3. For all examples of properties, taxes are based on changes in taxable market value of 1.4% from 2015 to 2016 taxes, 4.1% from 2016 to 2017, and 6.0% from 2017 to 2018.

White Bear Lake Area Schools ISD No. 624
Estimated Changes in School Property Taxes, 2015 to 2018
Based on 11.9% Cumulative Changes in Property Value from 2015 to 2018 Taxes

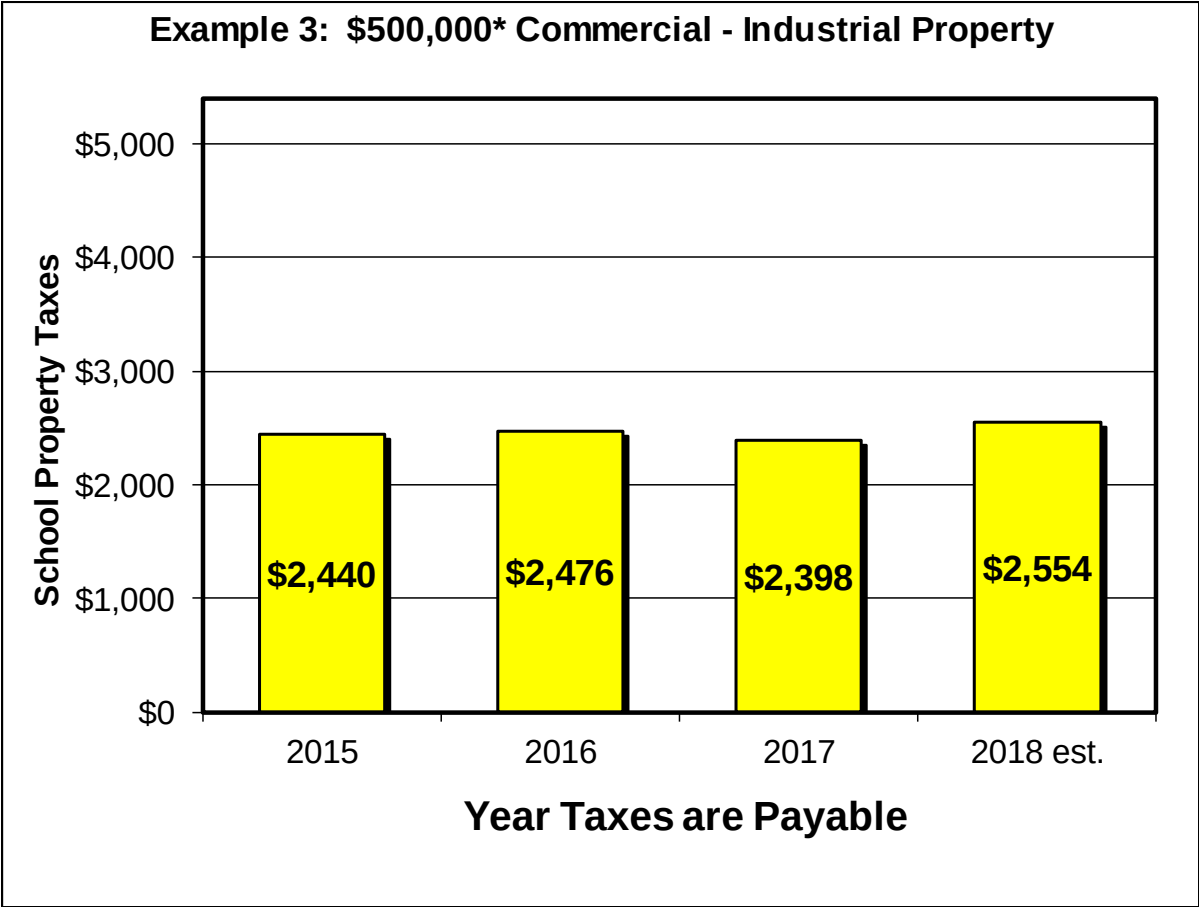


* For all four examples of properties, the value shown in the title of the chart is the estimated market value for taxes payable in 2018. Taxes are calculated based on changes in market value of 1.4% from 2015 to 2016 taxes, 4.1% from 2016 to 2017, and 6.0% from 2017 to 2018.

White Bear Lake Area Schools ISD No. 624

Estimated Changes in School Property Taxes, 2015 to 2018

Based on 11.9% Cumulative Changes in Property Value from 2015 to 2018 Taxes



* For all four examples of properties, the value shown in the title of the chart is the estimated market value for taxes payable in 2018. Taxes are calculated based on changes in market value of 1.4% from 2015 to 2016 taxes, 4.1% from 2016 to 2017, and 6.0% from 2017 to 2018.

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 \$108,660 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 \$2,660
- Average refund was \$847 for property tax in year 2015
- Also available to renters

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
- 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

- Board will accept public comments and questions on proposed levy
- Board will certify the 2018 property tax levy



Public Comments & Questions?
