



# South Washington County Schools, ISD 833

## Public Hearing for Taxes Payable in 2020

DECEMBER 12, 2019

PRESENTED BY:

DAN PYAN,

DIRECTOR OF FINANCE &  
OPERATIONS

# 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 % increase
- Specific purposes & reasons taxes are being increased

# Hearing Agenda

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- Background Information 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

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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

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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

# Challenge: State Set Basic General Education Formula Lags Inflation

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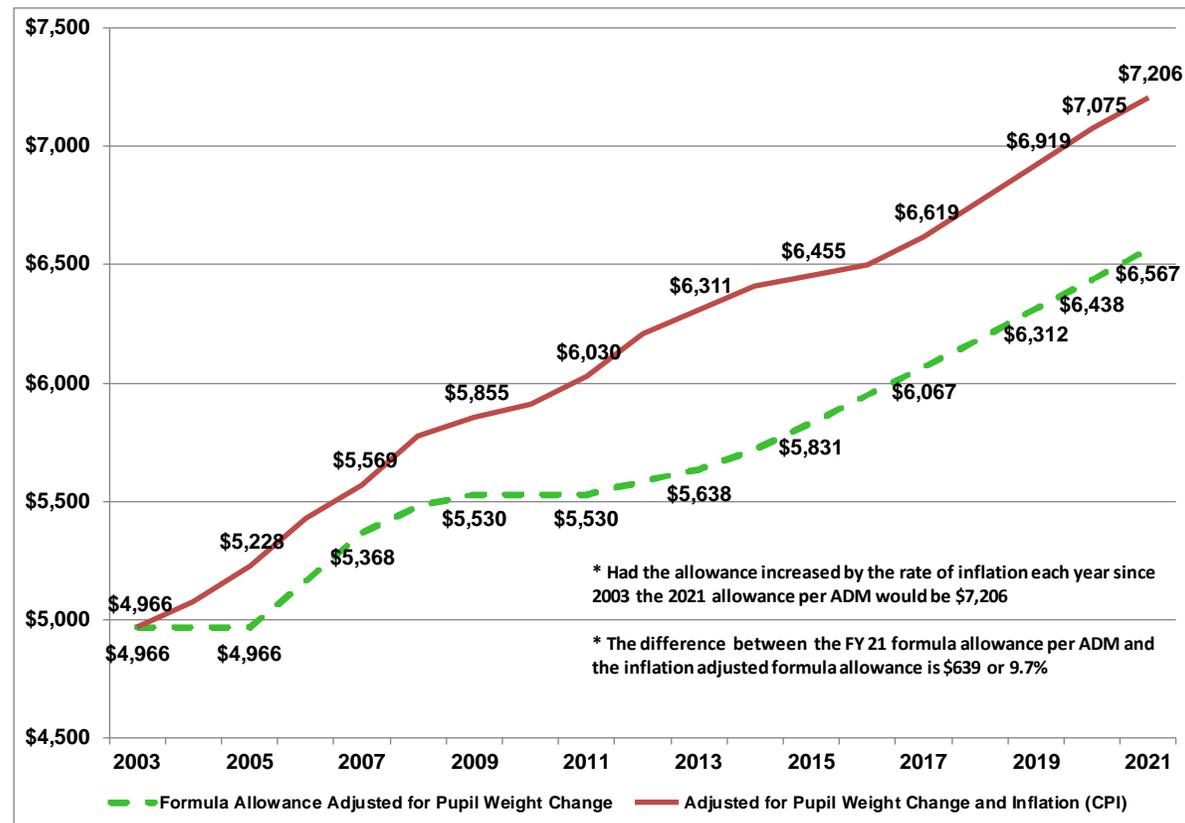
Since 2002-03, state General Education Revenue formula has not kept pace with inflation

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)



Source: MDE August 2019 Inflation Estimates

# Underfunding of Special Education

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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

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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

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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

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## **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

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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 2020-21 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

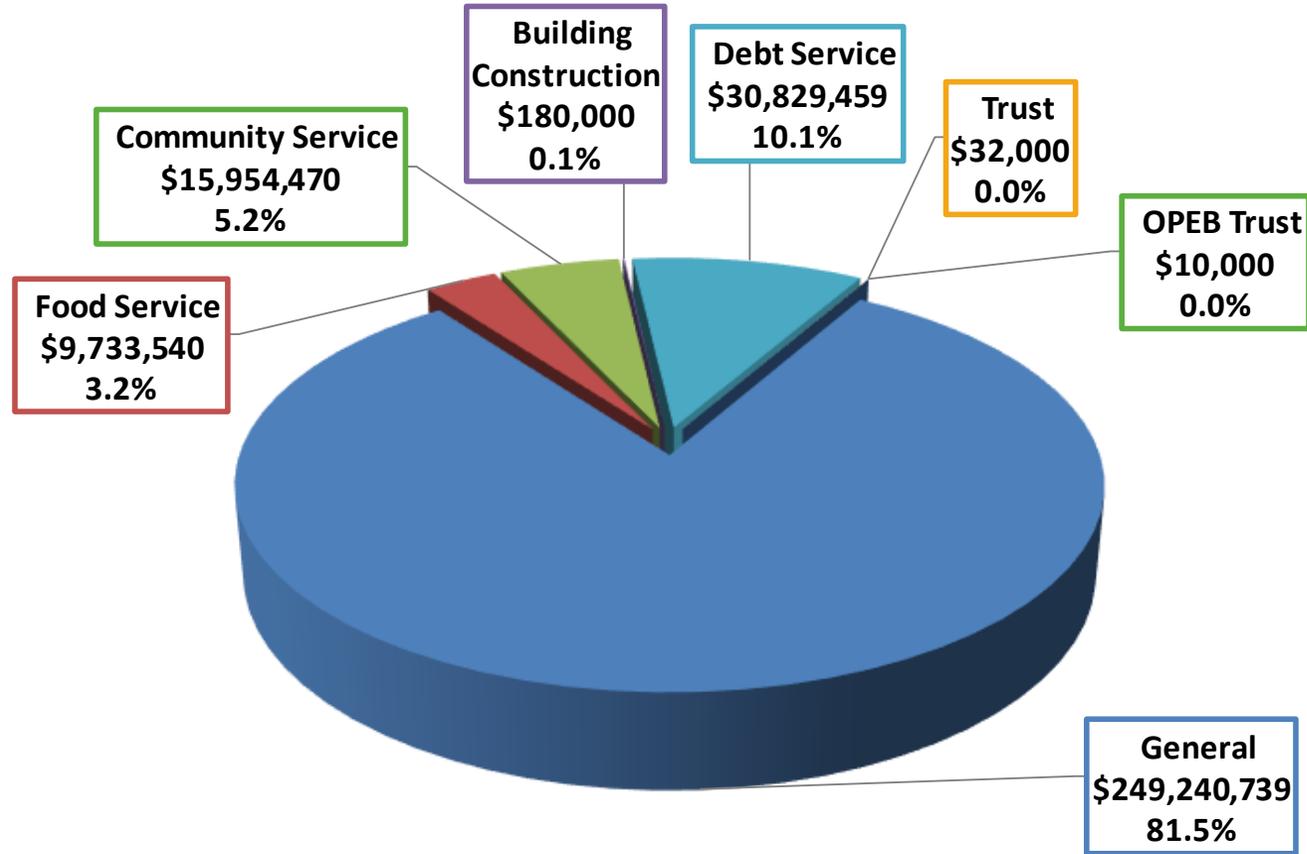
*\* Other Post-Employment Benefits*

**South Washington County Schools  
District Revenues and Expenditures  
Actual for FY 2019, Budget for FY 2020**

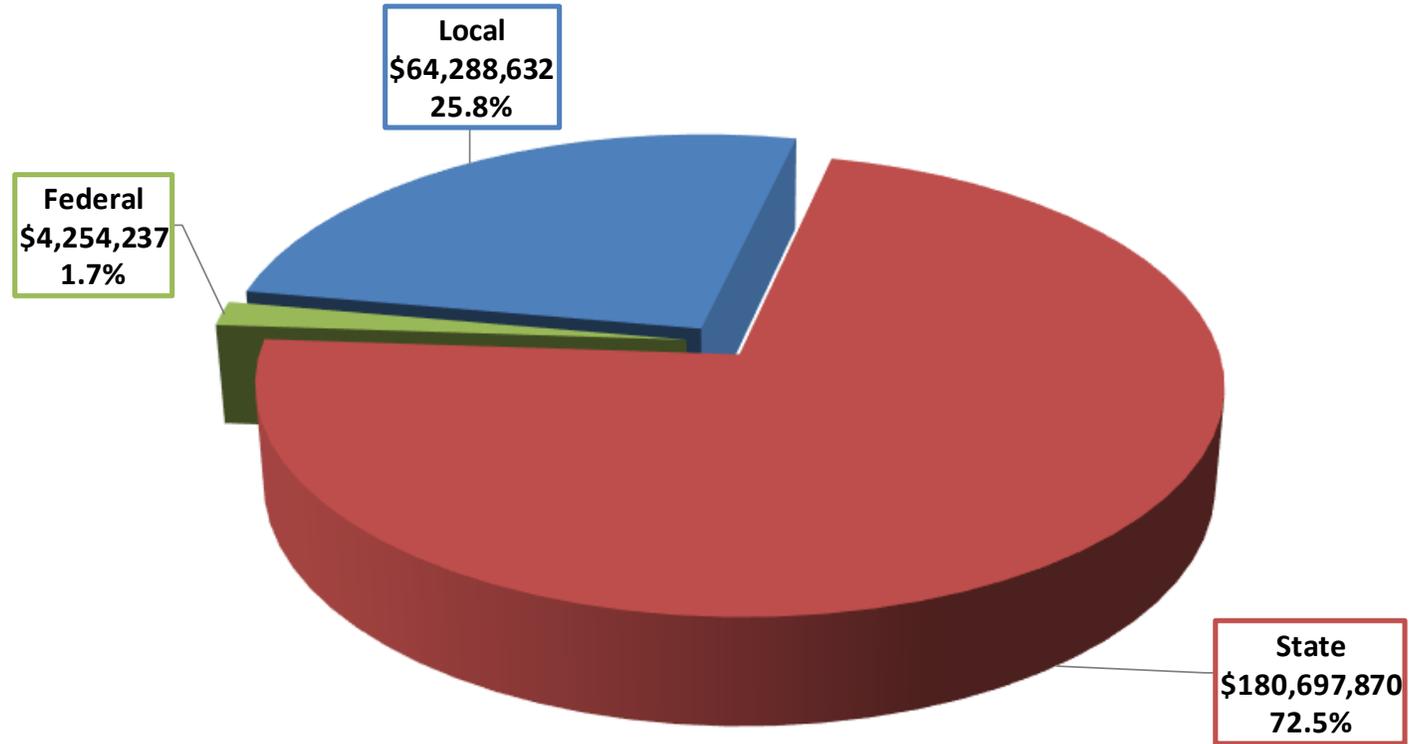
FUND	FISCAL 2019 BEGINNING FUND BALANCES	2018-19 ACTUAL REVENUES AND TRANSFERS IN	2018-19 ACTUAL EXPENDITURES & TRANSFERS OUT	JUNE 30, 2019 ACTUAL FUND BALANCES	2019-20 BUDGET REVENUES AND TRANSFERS IN	2019-20 BUDGET EXPENDITURES & TRANSFERS OUT	JUNE 30, 2020 PROJECTED FUND BALANCES
General/Restricted	\$6,340,938	\$24,495,853	\$23,627,645	\$7,209,146	\$26,097,295	\$30,233,145	\$3,073,296
General/Other	2,071,311	218,669,319	211,981,160	8,759,470	223,143,444	220,155,281	11,747,633
Food Service	1,299,704	9,643,403	9,697,034	1,246,073	9,733,540	9,837,139	1,142,474
Community Service	24,626	15,273,962	14,782,748	515,840	15,954,470	15,599,328	870,982
Building Construction	59,314,025	1,174,780	40,854,353	19,634,452	180,000	14,249,000	5,565,452
Debt Service	5,379,219	57,279,181	57,912,539	4,745,861	30,829,459	26,250,750	9,324,570
Trust	43,847	37,535	30,500	50,882	32,000	32,000	50,882
Internal Service	2,614,432			644,093			-
OPEB* Irrevocable Trust	3,098,281	118,217	12,653	3,203,845	10,000	921,073	2,292,772
<b>Total All Funds</b>	<b>\$80,186,383</b>	<b>\$326,692,250</b>	<b>\$358,898,632</b>	<b>\$46,009,662</b>	<b>\$305,980,208</b>	<b>\$317,277,716</b>	<b>\$34,068,061</b>

\*Other Post Employment Benefits

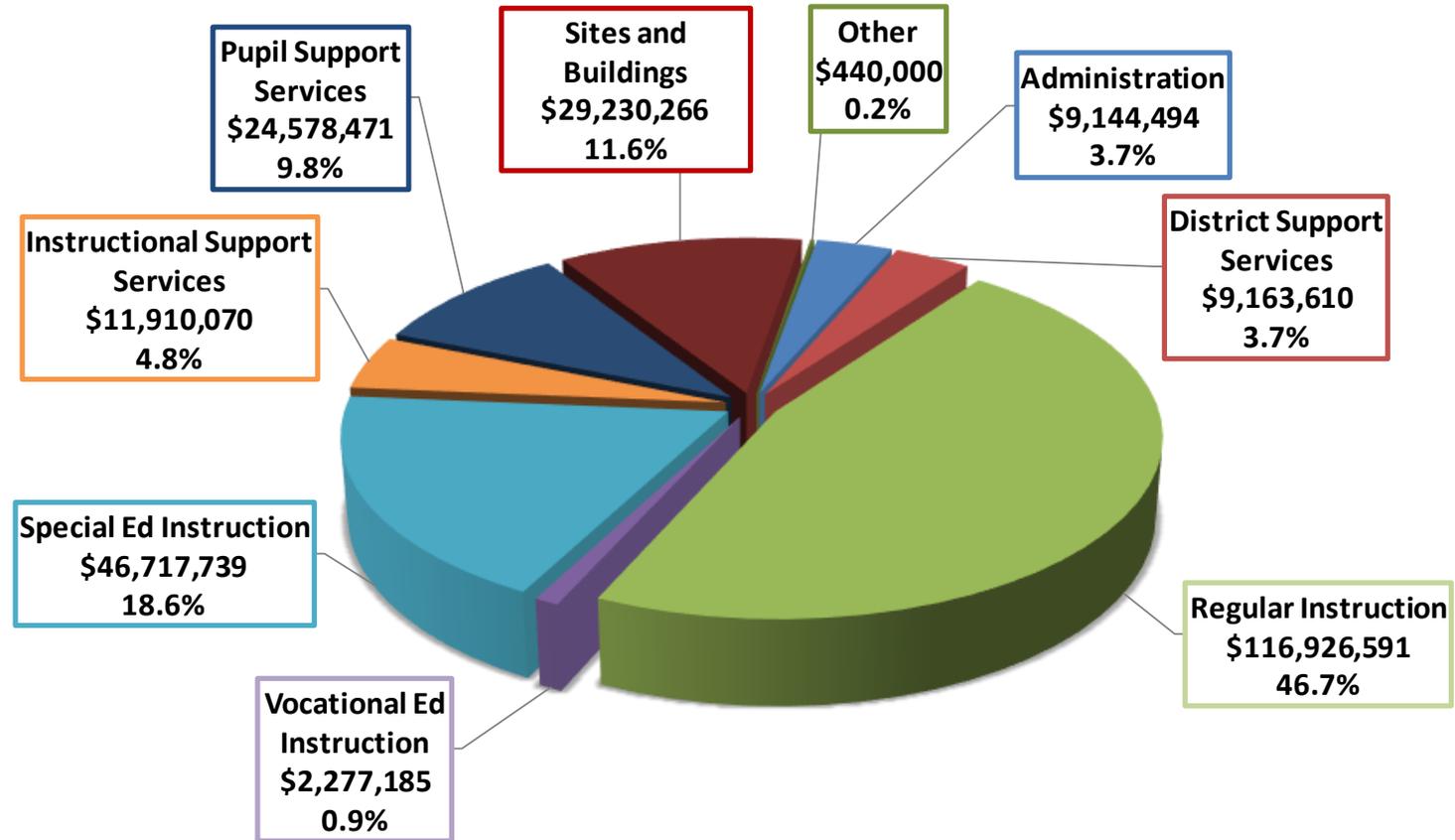
**South Washington County Schools  
Revenue - All Funds  
2019-20 Budget \$305,980,208**



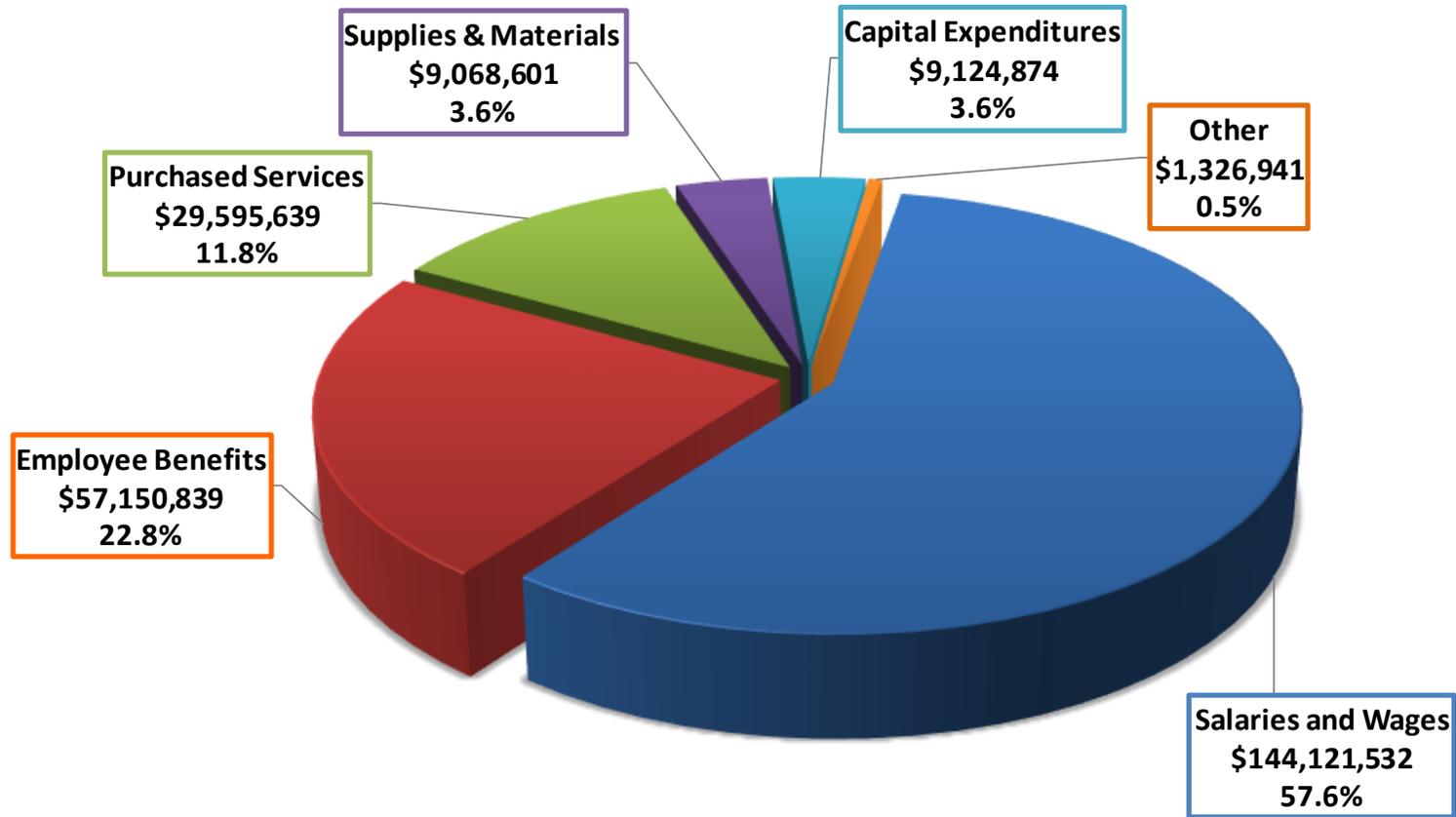
**South Washington County Schools  
General Fund Revenue  
2019-20 Budget \$249,240,739**



**South Washington County Schools  
General Fund Expenditures by Program  
2019-20 Budget \$250,388,426**



**South Washington County Schools  
General Fund Expenditures by Object  
2019-20 Budget \$250,388,426**



# Payable 2020 Property Tax Levy

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

# 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 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 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

# Property Tax Background

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## **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

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# Overview of Proposed Levy Payable in 2020

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Total 2020 proposed property tax levy is an increase from 2019 of \$3,410,273 (3.8%)

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

Some decreases in specific levies will also be explained

### South Washington County Schools, ISD 833

#### 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
<b>General</b>				
Voter Approved Operating Referendum	\$34,759,280	\$30,802,178	(\$3,957,102)	
Local Optional Revenue (LOR)	8,235,346	12,358,384	4,123,038	
Total Referendum and LOR	42,994,625	43,160,562	165,937	
Equity	1,587,343	1,721,321	133,977	
Capital Project - Technology Referendum	2,159,287	2,322,705	163,418	
Operating Capital	1,211,022	1,231,649	20,627	
Alternate Teacher Compensation	1,500,000	1,550,000	50,000	
Safe Schools	1,063,381	1,050,559	(12,821)	
Long Term Facilities Maintenance	3,060,926	6,488,004	3,427,077	
Instructional Lease	3,853,091	3,722,295	(130,796)	
Other	895,775	988,217	92,442	
Prior Year Adjustments	(427,054)	(288,410)	138,644	
Total, General Fund	\$57,898,397	\$61,946,901	\$4,048,505	7.0%
<b>Community Service</b>				
Basic Community Education	\$686,767	\$686,767	\$0	
Early Childhood Family Education	365,637	370,065	4,429	
School-Age Child Care	583,950	530,000	(53,950)	
Other	15,298	15,966	668	
Prior Year Adjustments	85,069	57,317	(27,752)	
Total, Community Service Fund	\$1,736,721	\$1,660,116	(\$76,605)	-4.4%
<b>Debt Service</b>				
Voter Approved	\$26,837,726	\$27,311,105	\$473,379	
Other	640,185	639,240	(945)	
Long-Term Facility Maintenance	1,870,549	1,824,569	(45,980)	
Reduction for Debt Excess	(426,487)	(1,359,825)	(933,338)	
Prior Year Adjustments	36,654	(18,089)	(54,742)	
Total, Debt Service Fund	\$28,958,627	\$28,397,000	(\$561,627)	-1.9%
<b>Total Levy, All Funds</b>	<b>\$88,593,745</b>	<b>\$92,004,018</b>	<b>\$3,410,273</b>	<b>3.8%</b>
<b>Subtotal by Truth in Taxation Categories:</b>				
Voter Approved	63,176,023	59,337,056	(3,838,967)	
Other	25,417,722	32,666,962	7,249,240	
<b>Total</b>	<b>\$88,593,745</b>	<b>\$92,004,018</b>	<b>\$3,410,273</b>	<b>3.8%</b>

# Explanation of Levy Changes

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**Categories:** Voter Approved Operating Referendum and Local Optional Revenue (LOR)

**Changes:** -\$3,957,102 and +\$4,123,038 (net change +\$165,937)

**Use of Funds:** General Operating Expenses

**Reason for Changes:**

- Legislative change subtracted \$300 per pupil from voter approved operating referendum authority and added it to LOR formula
- Revenue for these categories is provided through a combination of local tax levy and state aid
- Because District's total property value increased, share of funding provided through tax levy increased

# Explanation of Levy Changes

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**Category:** General Fund – Long Term Facilities Maintenance

**Change:** +\$3,427,077

**Use of Funds:** Facilities Maintenance

**Reason for Change:**

- District is eligible for LTFM revenue based on state-approved project costs
- Revenue provided through a combination of property tax levy and state aid
- Projects are financed through a combination of annual levy and bond issues, to maintain a level tax rate for capital and debt levies

# Explanation of Levy Changes

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**Category:** Debt Service - Reduction for Debt Excess

**Change:** -\$933,338

**Use of Funds:** Annual required levy for payments of principal & interest on 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
- Formulas in state law determine adjustments to tax levy for debt excess balances
- Debt Excess levy reduction for 2020 is greater than 2019 resulting in a levy decrease

# 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

# Four Year School Levy Comparison

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Following are a table and graphs showing examples of changes in school district portion of property taxes from 2017 to 2020

Examples include school district taxes only

All examples are based on a 14.7% increase in property value over this four year period

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

# Impact on Taxpayers

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Amounts for 2020 are preliminary estimates, based on best available data – final amounts could change slightly

For commercial-industrial property, examples are for property in City of Woodbury; school taxes in other parts of the District may be slightly higher or lower due to variations in impact of Fiscal Disparities Program

Estimates prepared by Ehlers, District's municipal financial advisors

## South Washington County ISD #833

### Estimated Changes in School Property Taxes, 2017 to 2020

Based on 14.7% Cumulative Changes in Property Value from 2017 to 2020 Taxes

Type of Property	Estimated Market Value for 2017 Taxes	Actual Taxes Payable in 2017	Estimated Market Value for 2018 Taxes	Actual Taxes Payable in 2018	Estimated Market Value for 2019 Taxes	Actual Taxes Payable in 2019	Estimated Market Value for 2020 Taxes	Estimated Taxes Payable in 2020	Change in Taxes 2017 to 2020	Change in Taxes 2019 to 2020
Residential Homestead	\$87,214	\$471	\$91,575	\$548	\$95,238	\$565	\$100,000	\$569	\$98	\$4
	130,822	771	137,363	884	142,857	913	150,000	916	145	3
	174,429	1,070	183,150	1,220	190,476	1,260	200,000	1,263	193	3
	218,036	1,370	228,938	1,556	238,095	1,608	250,000	1,611	241	3
	261,643	1,669	274,725	1,892	285,714	1,955	300,000	1,958	289	3
	305,250	1,969	320,513	2,227	333,333	2,303	350,000	2,305	336	2
	348,857	2,268	366,300	2,563	380,952	2,650	400,000	2,652	384	2
	436,072	2,860	457,875	3,222	476,190	3,326	500,000	3,321	461	-5
	523,286	3,452	549,451	3,908	571,429	4,054	600,000	4,070	618	16
654,108	4,422	686,813	4,989	714,286	5,176	750,000	5,193	771	17	
Commercial/ Industrial #	\$87,214	\$563	\$91,575	\$633	\$95,238	\$651	\$100,000	\$647	\$84	-\$4
	436,072	3,132	457,875	3,492	476,190	3,617	500,000	3,607	475	-10
	872,144	6,431	915,751	7,145	952,381	7,400	1,000,000	7,374	943	-26
	1,308,216	9,729	1,373,626	10,797	1,428,571	11,184	1,500,000	11,141	1,412	-43
	1,744,287	13,028	1,831,502	14,450	1,904,762	14,968	2,000,000	14,908	1,880	-60

# For commercial-industrial property, amounts above are for property in the City Woodbury. Taxes for commercial-industrial property in other municipalities may be slightly different, due to the impact of the Fiscal Disparities Program.

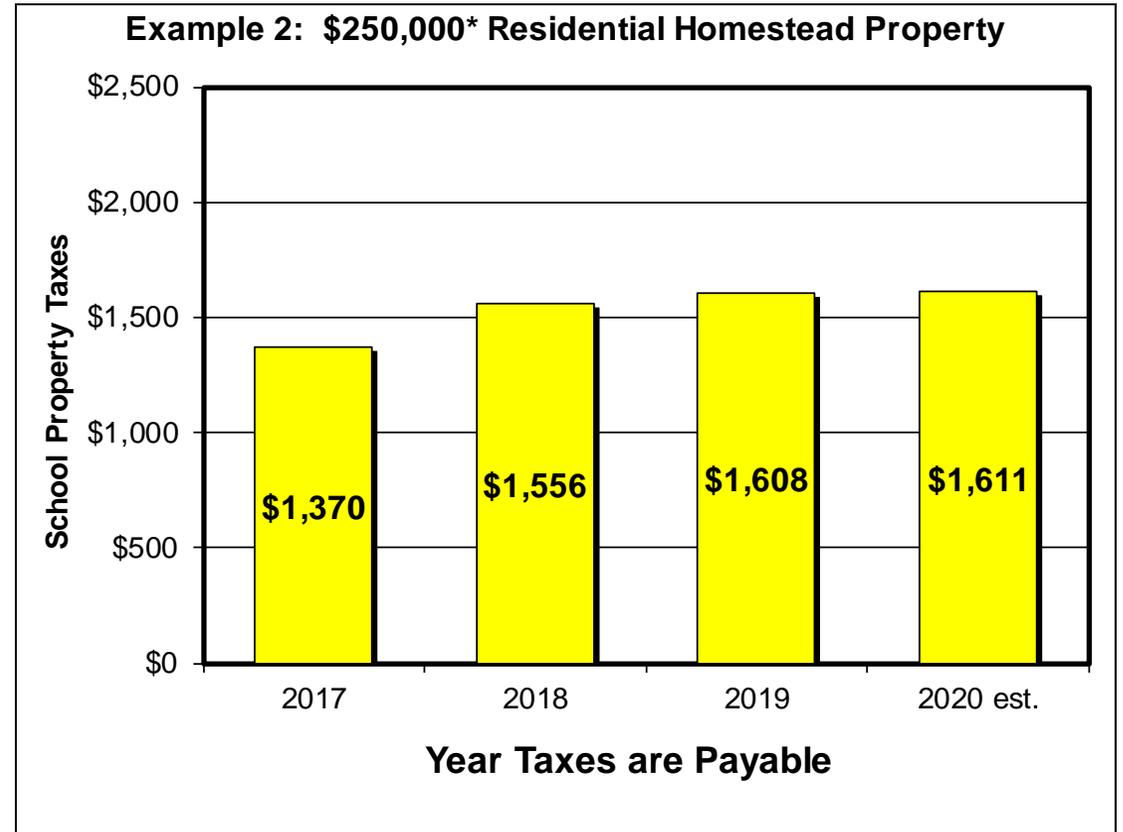
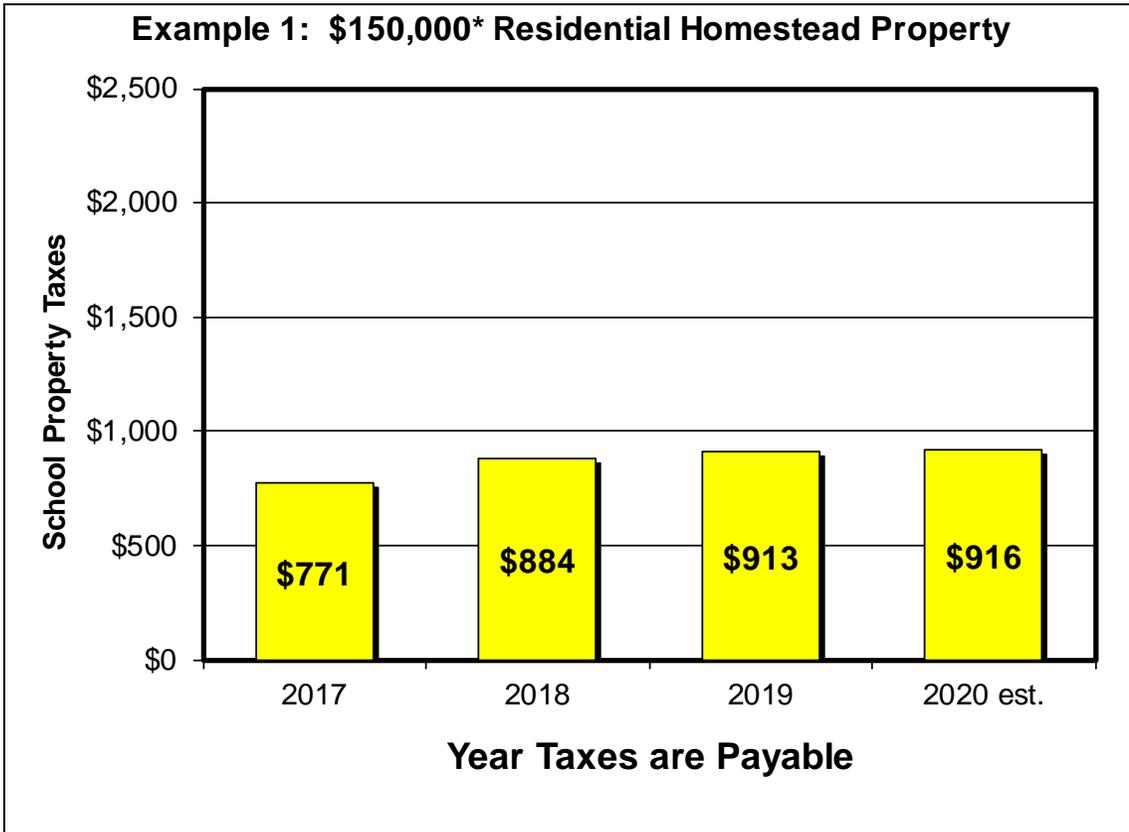
#### General Notes

1. Amounts 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 2020 are preliminary, based on the best data available.
3. Taxes are based on changes in estimated market value of 5.0% from 2017 to 2018 taxes, 4.0% from 2018 to 2019, and 5.0% from 2019 to 2020.

**South Washington County ISD #833**

**Estimated Changes in School Property Taxes, 2017 to 2020**

*Based on 14.7% Cumulative Changes in Property Value from 2017 to 2020 Taxes*

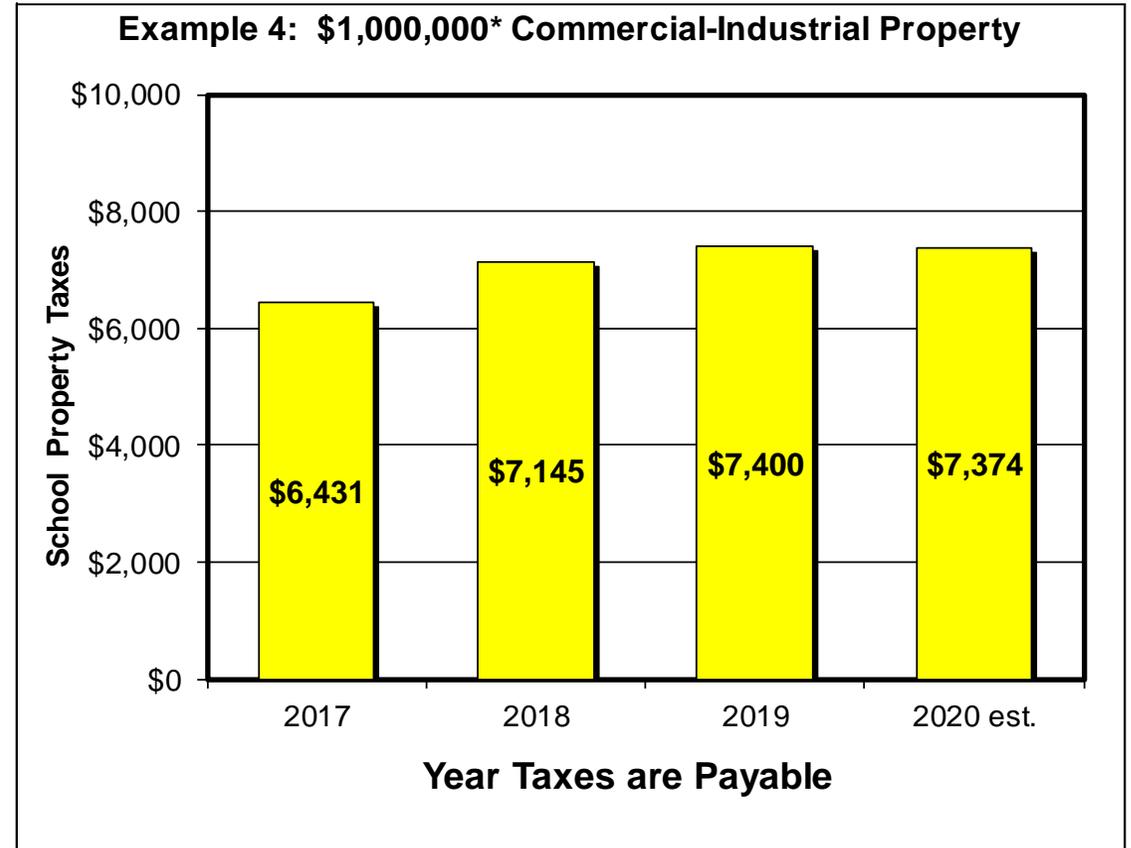
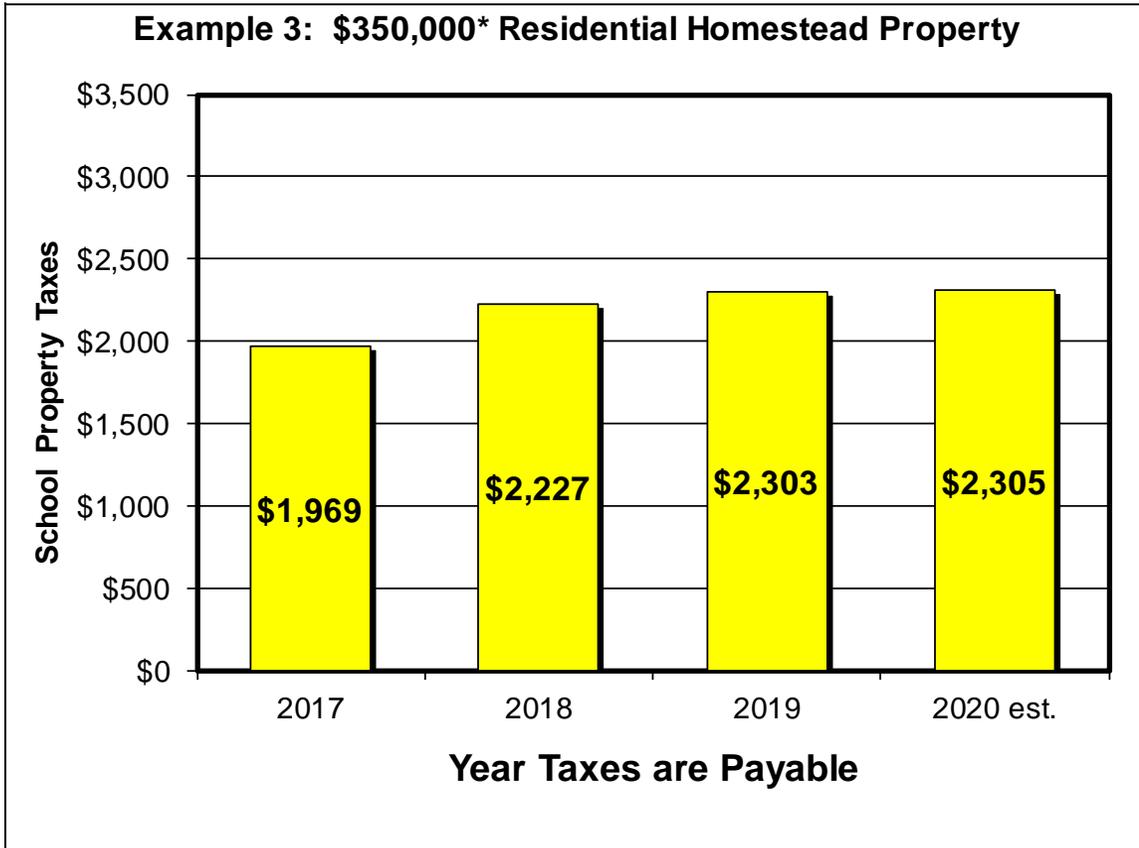


\* The value shown in the title of the chart is the estimated market value for taxes payable in 2020. Taxes are calculated based on changes in market value of 5.0% from 2017 to 2018 taxes, 4.0% from 2018 to 2019, and 5.0% from 2019 to 2020.

**South Washington County ISD #833**

**Estimated Changes in School Property Taxes, 2017 to 2020**

***Based on 14.7% Cumulative Changes in Property Value from 2017 to 2020 Taxes***



\* The value shown in the title of the chart is the estimated market value for taxes payable in 2020. Taxes are calculated based on changes in market value of 5.0% from 2017 to 2018 taxes, 4.0% from 2018 to 2019, and 5.0% from 2019 to 2020.

# Minnesota Homestead Credit Refund “Circuit Breaker”

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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](http://www.revenue.state.mn.us))

# Minnesota Special Property Tax Refund

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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](http://www.revenue.state.mn.us))

# Senior Citizen Property Tax Deferral

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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

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1

Board will accept public comments on proposed levy

2

Board will certify 2020 property tax levy



# Public Comments