

 Igniting a passion



South Washington County Schools

Public Hearing for
Taxes Payable in 2019

DECEMBER 13, 2018

PRESENTED BY: DAN PYAN,
DIRECTOR OF FINANCE AND
OPERATIONS

Tax Hearing Presentation

State Law Requires Public Meeting:

- Between November 25th 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 comments*

Agenda for Hearing

1. Background on School Funding
2. District's Budget
3. District's Proposed Tax Levy for Taxes Payable in 2019
4. Public Comments

Constitution Assigns Legislature Responsibility to 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...

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)

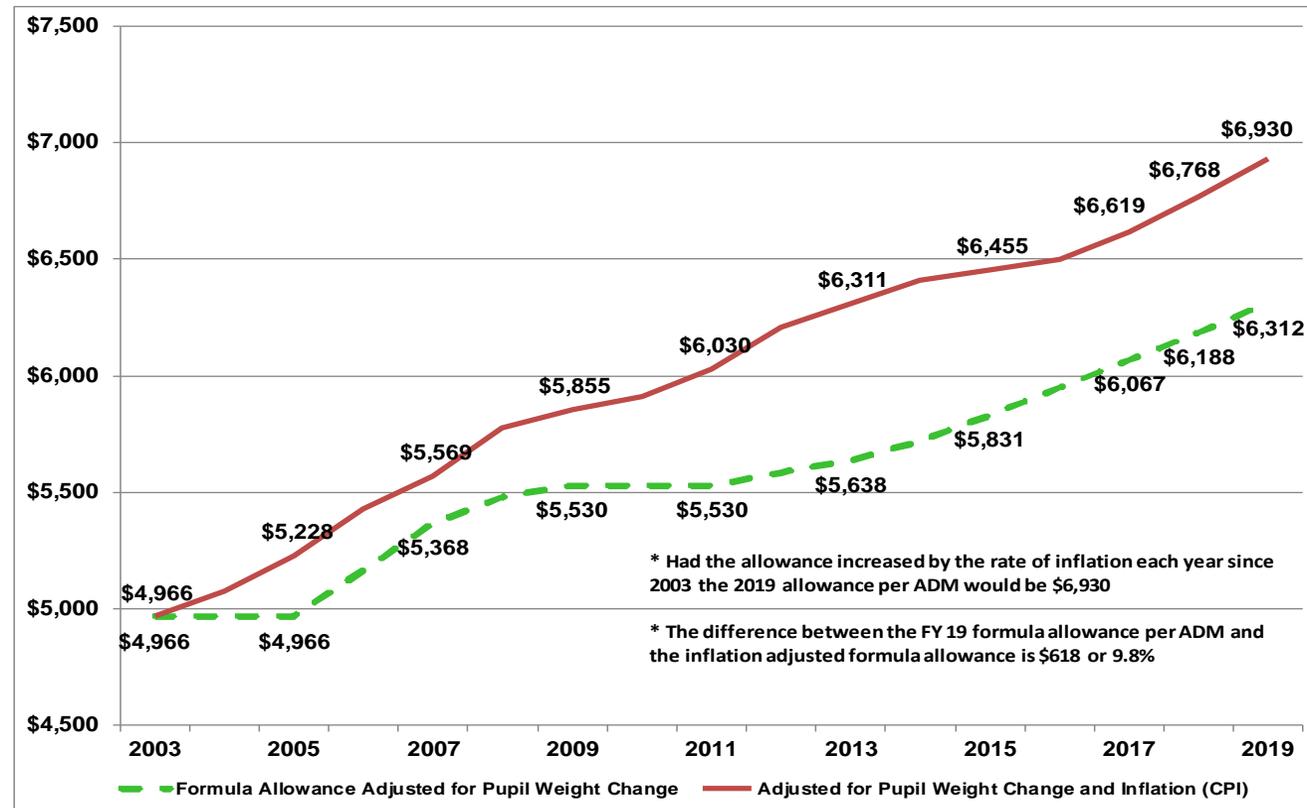
State also authorizes school board to submit referendums for operating and capital needs to voters for approval

Challenge: State Set Basic General Education Formula Lags Inflation

- Since 2002-03, state General Education Revenue formula has not kept pace with inflation
- For Fiscal Year 2018-19, Legislature approved an increase of 2% or \$124 per year
- Per-pupil allowance for Fiscal Year 2018-19 would need to increase by another \$618 (9.8%) to have kept pace with inflation since 2002-03

Basic General Education Formula Lags Inflation

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



Source: MDE June 2018 Inflation Estimates

Underfunding of Special Education

MDE reports the FY 2016 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 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 2018-19, all Minnesota districts have referendum revenue and/or local optional revenue levy authority averaging \$1,371 per pupil
 - Referendum revenue provides 13% of General Fund operating revenue
 - Of this amount, \$951 is a board approved or voter approved operating referendum, and \$420 is Local Optional Revenue

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
- 2019 taxes provide revenue for 2019 calendar year budget

Schools:

- Budget year begins July 1st and coincides with school year
- 2019 taxes provide revenue for 2019-20 school fiscal year
- Budget will be adopted in June 2019

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 2019-20 budget will be set in June 2019.

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

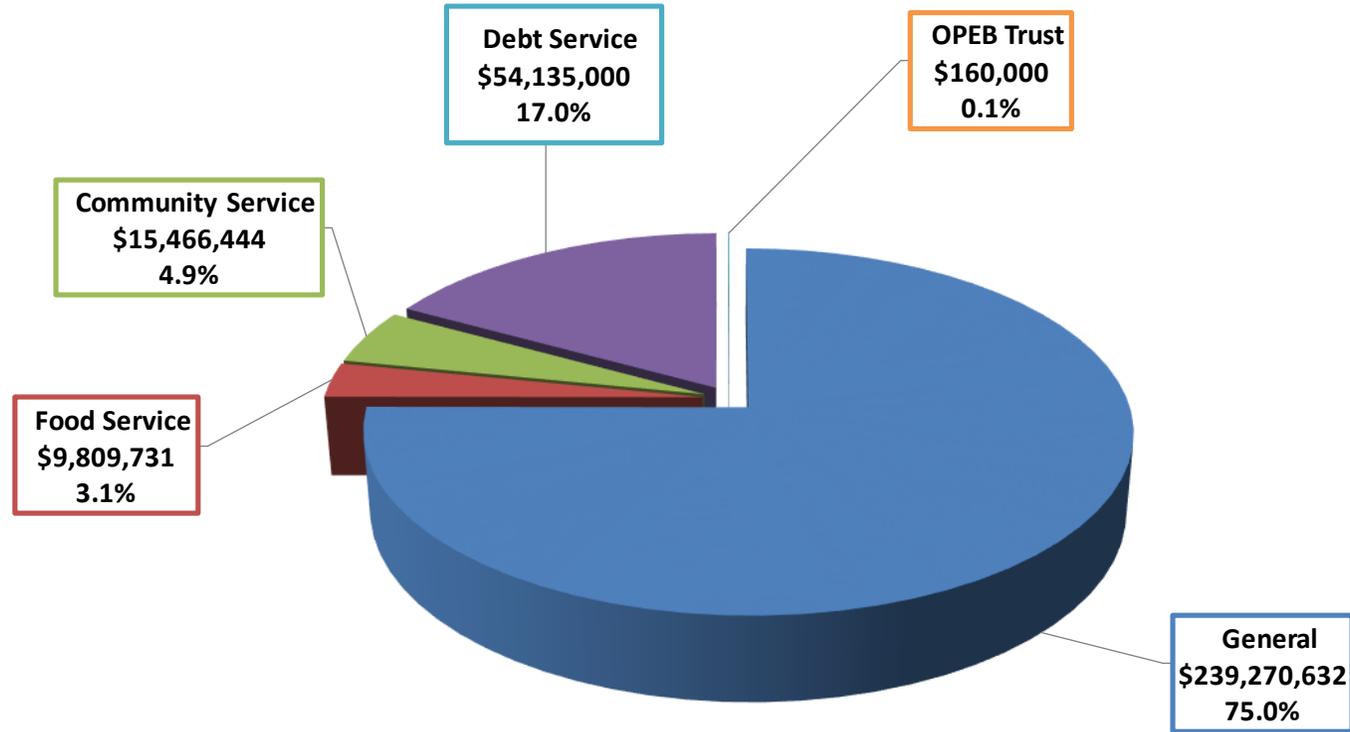
**Annual budgets are not prepared for this fund*

South Washington County Schools - ISD #833
District Revenues and Expenditures
Actual for FY 2018, Budget for FY 2019

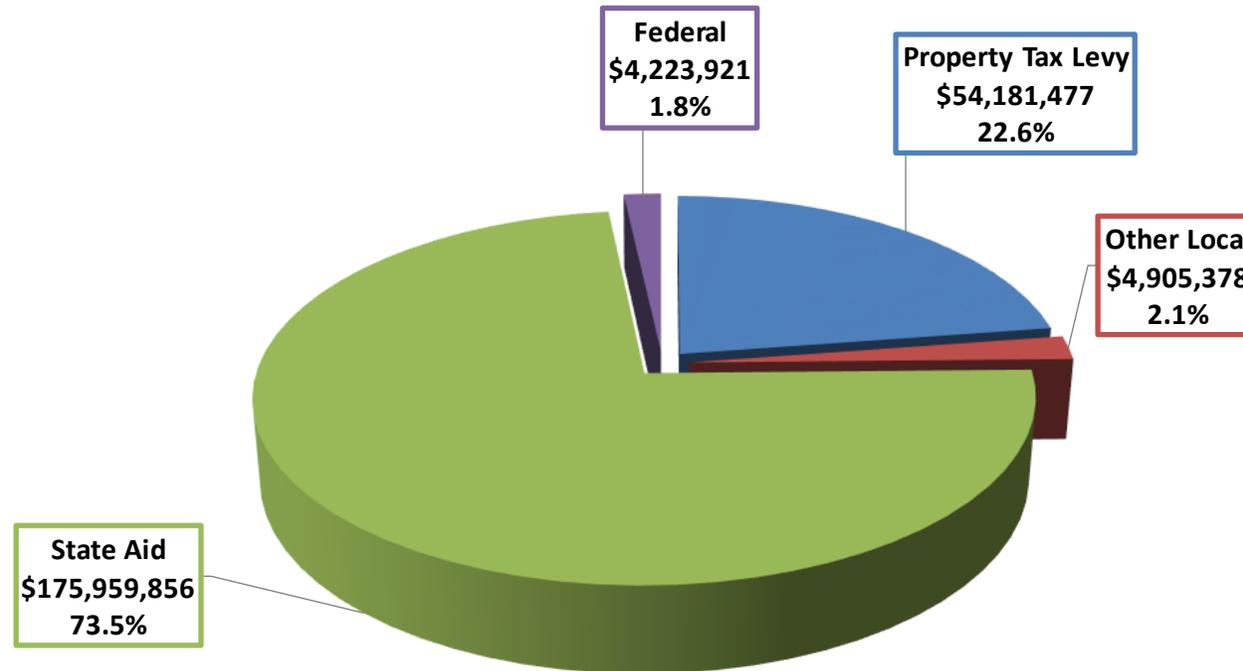
FUND	FISCAL 2018 BEGINNING FUND BALANCES	2017-18 ACTUAL REVENUES AND TRANSFERS IN	2017-18 ACTUAL EXPENDITURES & TRANSFERS OUT	JUNE 30, 2018 ACTUAL FUND BALANCE	2018-19 BUDGET REVENUES AND TRANSFERS IN	2018-19 BUDGET EXPENDITURES & TRANSFERS OUT	JUNE 30, 2019 PROJECTED FUND BALANCE
General/Restricted	\$4,102,168	\$27,593,948	\$25,207,476	\$6,488,640	\$28,322,097	\$26,456,319	\$8,354,418
General/Other	3,315,529	198,874,309	200,266,232	1,923,606	210,948,535	210,222,237	2,649,904
Food Service	834,629	9,934,583	9,469,507	1,299,705	9,809,731	9,796,991	1,312,445
Community Service	17,430	14,456,295	14,449,097	24,628	15,466,444	15,117,449	373,623
Building Construction	92,801,646	24,419,933	57,907,554	59,314,025	-	49,137,643	10,176,382
Debt Service	126,746,536	30,650,671	152,017,988	5,379,219	54,135,000	29,460,550	30,053,669
Trust	76,247	29,500	61,900	43,847	32,000	32,000	43,847
Internal Service	3,549,170			2,614,432			2,019,432
OPEB* Irrevocable Trust	-	4,000,584	902,303	3,098,281	160,000	1,191,073	2,067,208
Total All Funds	\$231,443,355	\$309,959,823	\$460,282,057	\$80,186,383	\$318,873,807	\$341,414,262	\$57,050,928

*Other Post Employment Benefits

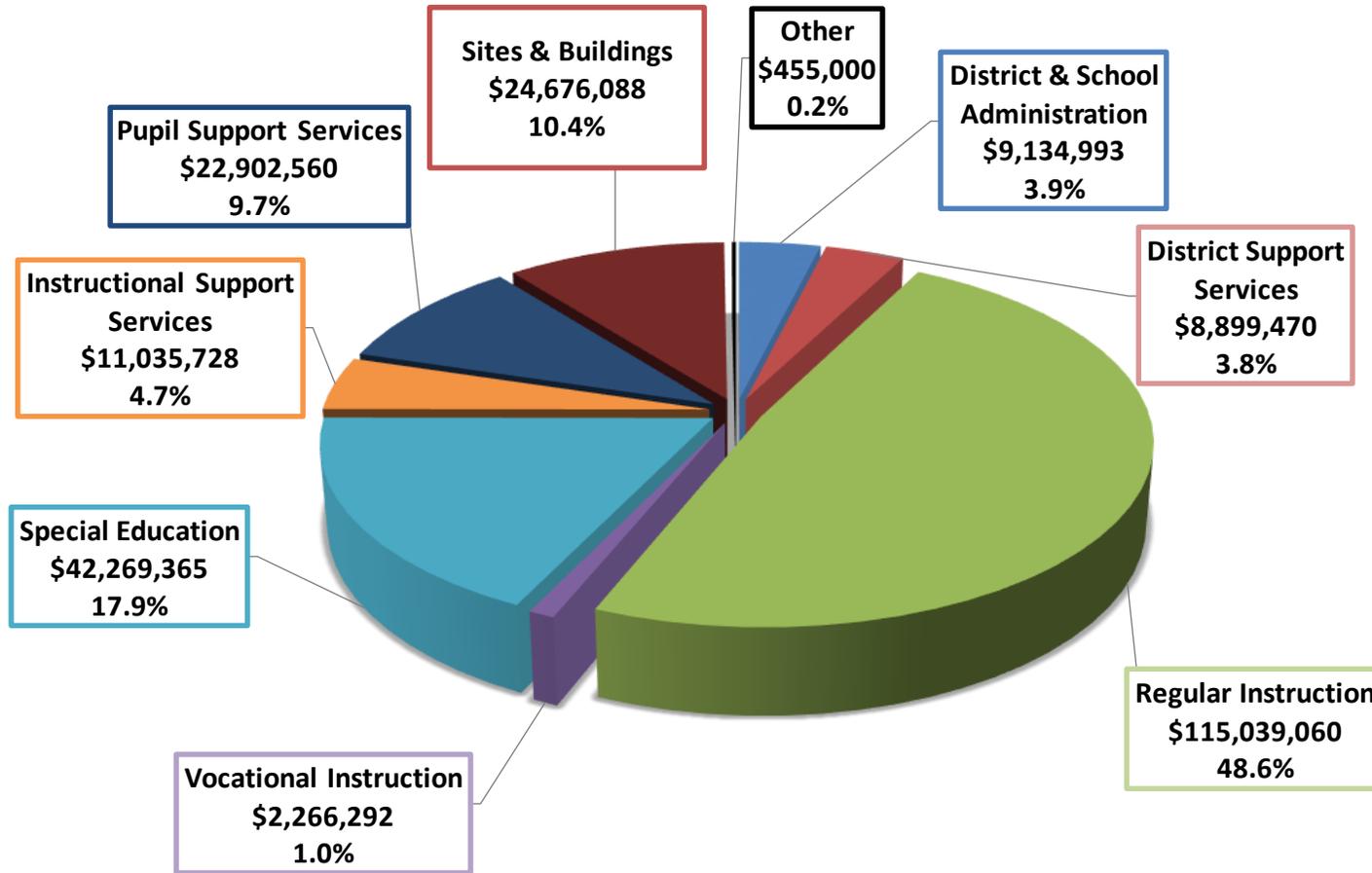
South Washington County Schools - ISD #833
Revenue - All Funds
2018-19 Budget \$318,873,807



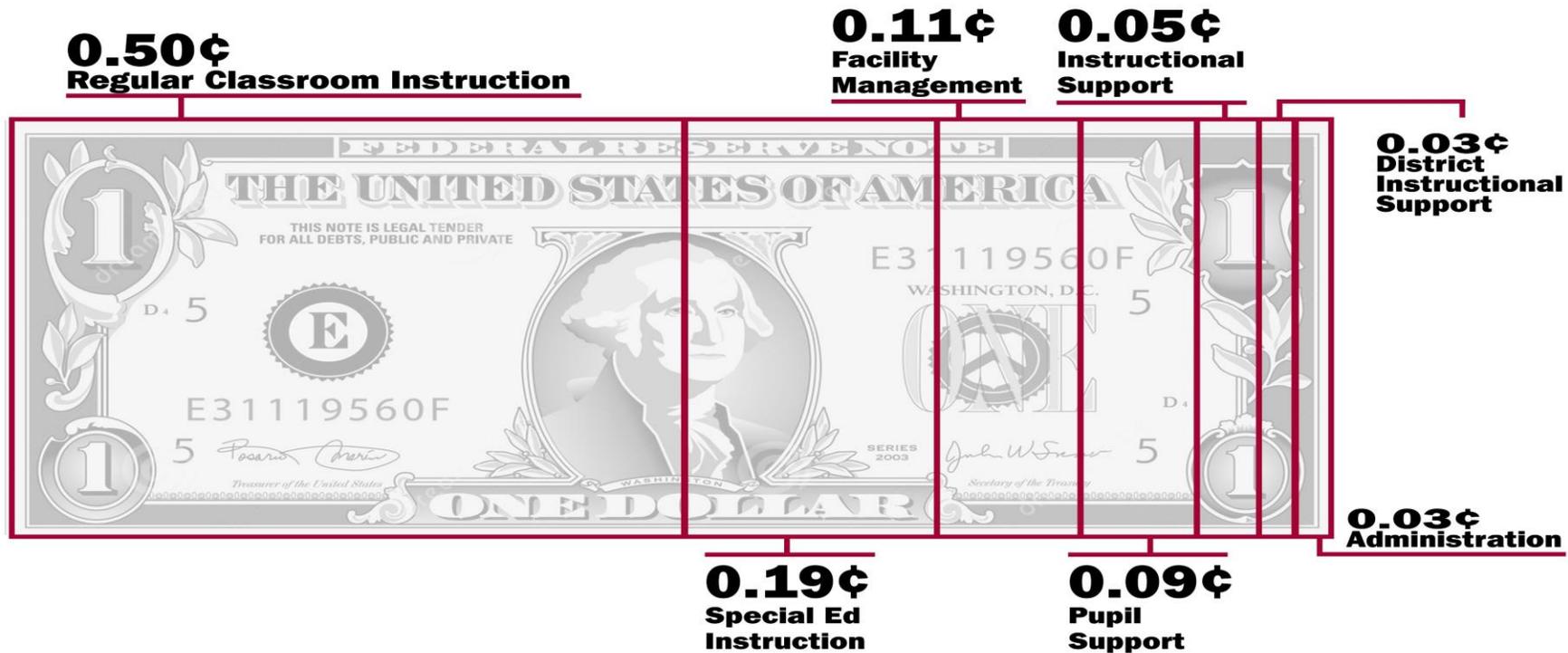
South Washington County Schools - ISD #833
General Fund Revenue
2018-19 Budget \$239,270,632



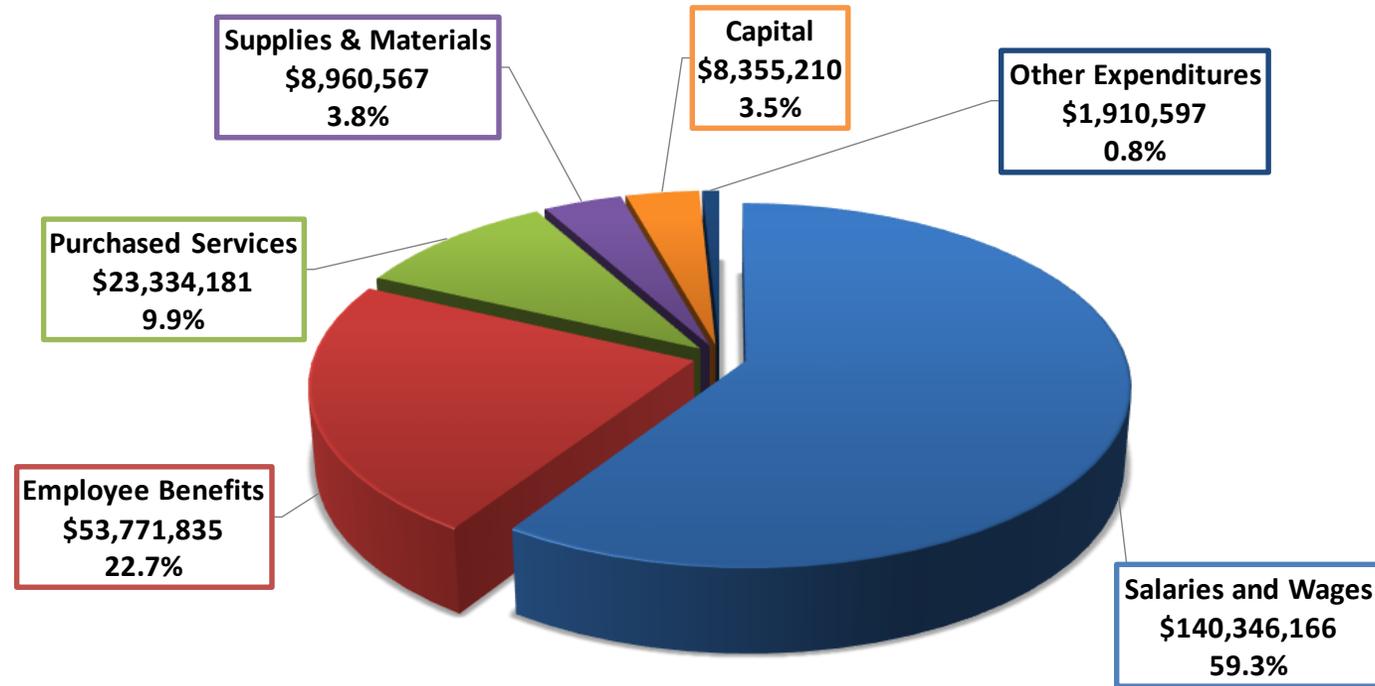
South Washington County Schools - ISD #833
General Fund Expenditures by Program
2018-19 Budget \$236,678,556



Where does \$1 of revenue go?



South Washington County Schools - ISD #833
General Fund Expenditures by Object
2018-19 Budget \$236,678,556



Payable 2019 Property Tax Levy

- Determination of levy
- Comparison of 2018 to 2019 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 2019 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 2019

THIS IS NOT A BILL. DO NOT PAY.

VALUES AND CLASSIFICATION			
Step	Taxes Payable Year	2018	2019
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			
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 2019		
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 2018	Proposed 2019	
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 2019 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	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 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 2018 (Payable 2019) Tax Levy



Overview of Proposed Levy Payable in 2019

Total 2019 proposed property tax levy is an increase from 2018 of \$6,299,517, or 7.7%

Includes decrease of \$688,455 from the proposed levy approved by the Board in September

- District refinanced some of its existing bonds, reducing the levy by \$407,173
- Underlevy in Alternative Teacher Compensation program of \$281,282

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

Some decreases in specific levies will also be explained

South Washington County School District

Comparison of Proposed Tax Levy Payable in 2019 to Actual Levy Payable in 2018

Fund Levy Category	Actual Levy Payable in 2018	Proposed Levy Payable in 2019	\$ Change	% Change
General Fund				
Voter Approved Referendum	\$33,528,583	\$34,759,280	\$1,230,697	
Local Optional Revenue	7,662,959	8,235,346	572,387	
Equity	1,352,765	1,587,343	234,578	
Alternate Teacher Compensation	700,000	1,500,000	800,000	
Capital Projects - Technology Referendum	2,000,000	2,159,287	159,287	
Operating Capital	1,036,814	1,211,022	174,208	
Long Term Facilities Maintenance	3,629,306	3,060,926	(568,380)	
Instructional Lease	3,254,518	3,853,091	598,573	
Safe Schools	1,045,616	1,063,381	17,764	
Other Including Abatements	1,409,785	1,535,960	126,175	
Adjustments	(1,853,745)	(1,067,239)	786,506	
Total, General Fund	\$53,766,601	\$57,898,397	\$4,131,796	7.7%
Community Service Fund				
Basic Community Education	\$686,767	\$686,767	\$0	
Early Childhood Family Education	355,714	365,637	9,922	
School-Age Child Care	389,000	583,950	194,950	
Other	14,632	15,298	666	
Adjustments	(5,315)	85,069	90,384	
Total, Community Service Fund	\$1,440,798	\$1,736,721	\$295,923	20.5%
Debt Service Fund				
Total, Debt Service Fund	\$27,086,830	\$28,958,627	\$1,871,798	6.9%
Total Levy, All Funds				
	\$82,294,228	\$88,593,745	\$6,299,517	7.7%
Subtotal by Truth in Taxation Categories:				
Voter Approved	59,581,675	63,176,023	3,594,348	
Other	22,712,554	25,417,722	2,705,168	
Total	\$82,294,228	\$88,593,745	\$6,299,517	7.7%

Explanation of Levy Changes

Category: General Fund – Voter Approved Operating Referendum

Change: +\$1,230,697

Use of Funds: General Operating Expenses

Reason for Change:

- Enrollment is projected to increase
- Funding for operating referendum 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

Category: General Fund – Alternate Teacher Compensation

Change: +\$800,000

Use of Funds: Teacher Compensation

Reason for Change:

- Funding for program is provided through a combination of local tax levy and state aid
- District is accessing more of the authorized levy amount for 2019

Explanation of Levy Changes

Category: General Fund – Adjustments

Change: +\$786,506

Use of Funds: Various

Reason for Change:

- Each year, initial levies are based on estimates of enrollment, values, and expenditures for future years
- In later years, estimates are updated and levies are retroactively adjusted
- 2019 levy includes negative adjustments in several categories, but not as large as 2018 levy adjustments

Explanation of Levy Changes

Category: Debt Service

Change: +\$1,871,798

Use of Funds: Annual required 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
- State-required levy reduction for 2019 is over \$1 million less than 2018

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

Four Year School Levy Comparison

Following are a table and graphs showing examples of changes in school district portion of property taxes from 2016 to 2019

Examples include school district taxes only

All examples are based on a 10.3% increase in property value over this 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

- Amounts for 2019 are preliminary estimates, based on best data available now – final amounts could change slightly
- Estimates prepared by Ehlers, District's municipal financial advisors
- 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

ISD #833 - South Washington County Schools

Estimated Changes in School Property Taxes, 2016 to 2019

Based on 10.3% Cumulative Changes in Property Value from 2016 to 2019 Taxes

Type of Property	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	Actual Taxes Payable in 2018	Estimated Market Value for 2019 Taxes	Estimated Taxes Payable in 2019	Change in Taxes 2016 to 2019	Change in Taxes 2018 to 2019
Residential Homestead	\$90,668	\$535	\$91,575	\$501	\$96,154	\$581	\$100,000	\$598	\$63	\$17
	136,003	871	137,363	816	144,231	934	150,000	962	91	28
	181,337	1,207	183,150	1,130	192,308	1,287	200,000	1,325	118	38
	226,671	1,543	228,938	1,445	240,385	1,640	250,000	1,689	146	49
	272,005	1,879	274,725	1,759	288,462	1,992	300,000	2,053	174	61
	317,339	2,215	320,513	2,073	336,538	2,345	350,000	2,417	202	72
	362,674	2,551	366,300	2,388	384,615	2,698	400,000	2,780	229	82
	453,342	3,210	457,875	3,003	480,769	3,383	500,000	3,481	271	98
	544,010	3,892	549,451	3,646	576,923	4,124	600,000	4,264	372	140
680,013	4,980	686,813	4,665	721,154	5,259	750,000	5,439	459	180	
Commercial/ Industrial #	\$90,668	\$630	\$91,575	\$591	\$96,154	\$664	\$100,000	\$682	\$52	\$18
	453,342	3,509	457,875	3,297	480,769	3,675	500,000	3,798	289	123
	906,684	7,194	915,751	6,761	961,538	7,510	1,000,000	7,763	569	253
	1,360,026	10,880	1,373,626	10,224	1,442,308	11,345	1,500,000	11,728	848	383
	1,813,368	14,566	1,831,502	13,687	1,923,077	15,180	2,000,000	15,693	1,127	513

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.

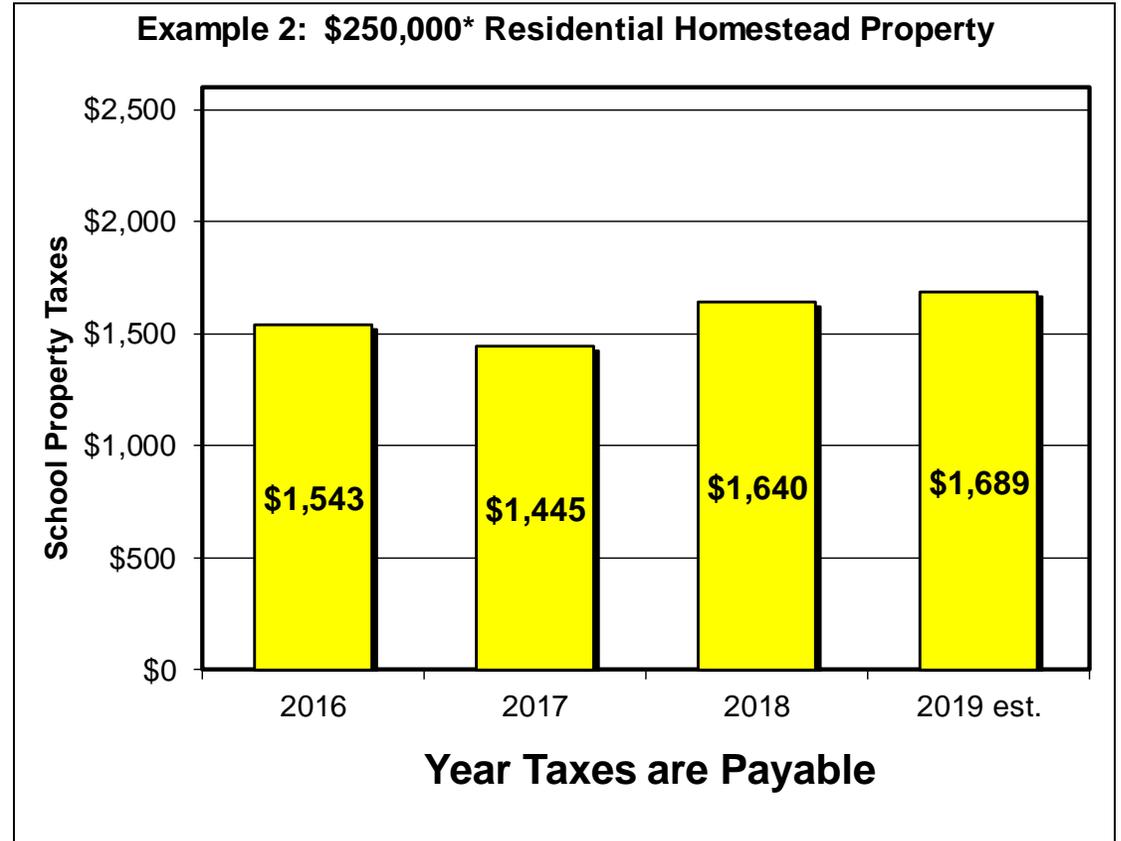
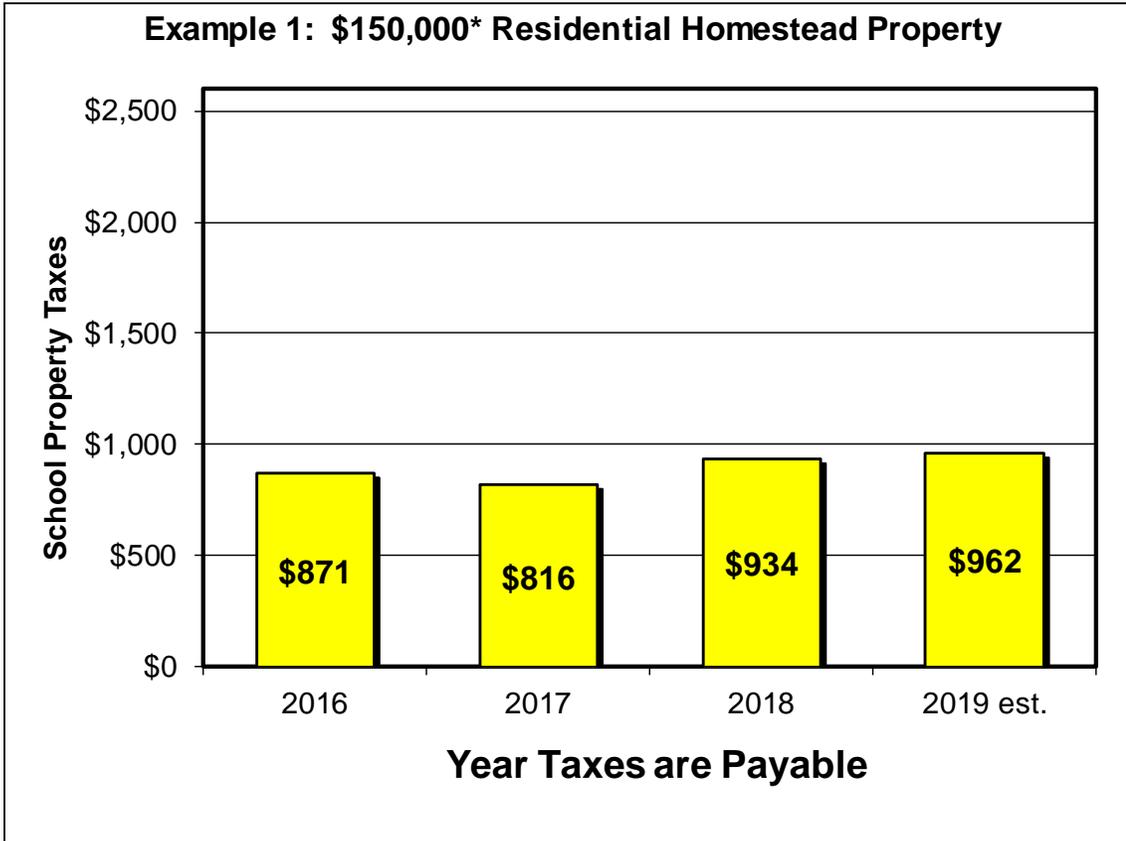
General Notes

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 2019 are preliminary, based on the best data available.
3. For all examples of properties, taxes are based on changes in estimated market value of 1.0% from 2016 to 2017 taxes, 5.0% from 2017 to 2018, and 4.0% from 2018 to 2019.

ISD #833 - South Washington County Schools

Estimated Changes in School Property Taxes, 2016 to 2019

Based on 10.3% Cumulative Changes in Property Value from 2016 to 2019 Taxes

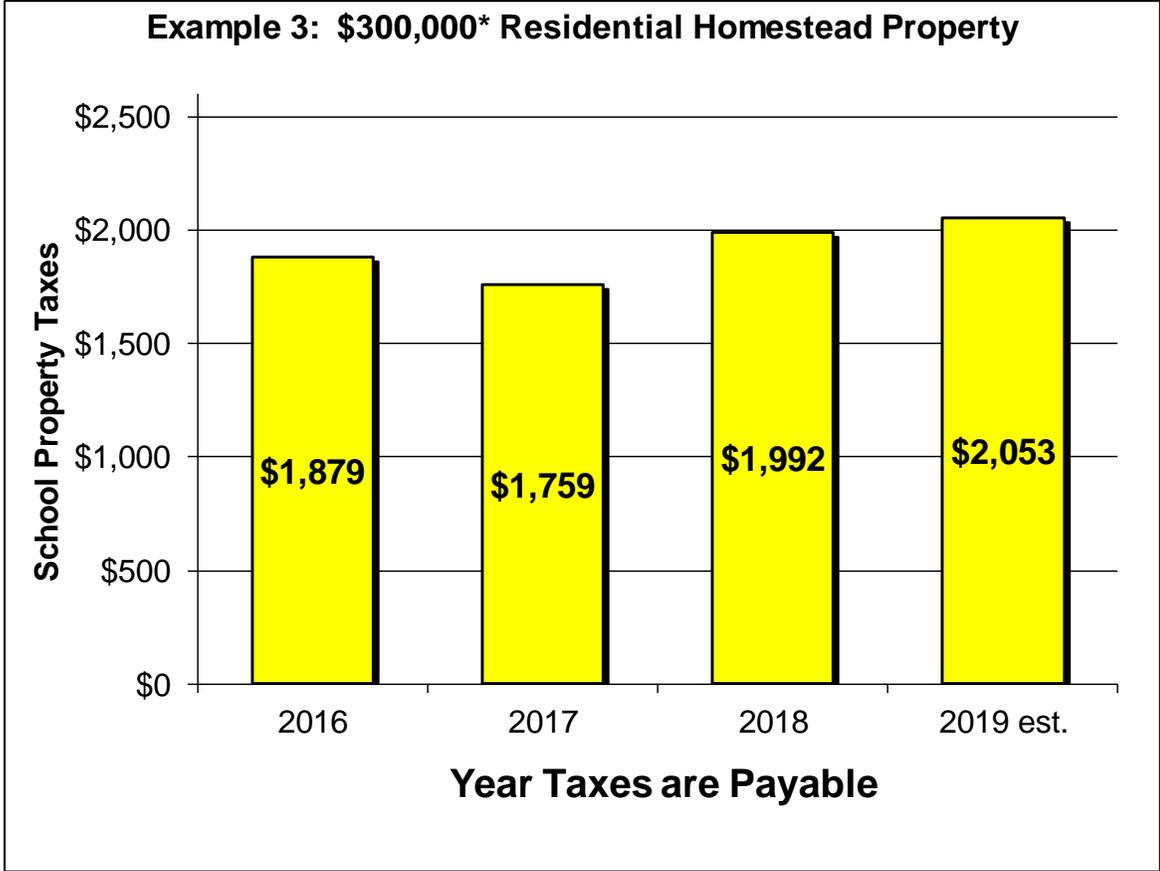


* For all examples of properties, the value shown in the title of the chart is the estimated market value for taxes payable in 2019. Taxes are calculated based on changes in market value of 1.0% from 2016 to 2017 taxes, 5.0% from 2017 to 2018, and 4.0% from 2018 to 2019.

ISD #833 - South Washington County Schools

Estimated Changes in School Property Taxes, 2016 to 2019

Based on 10.3% Cumulative Changes in Property Value from 2016 to 2019

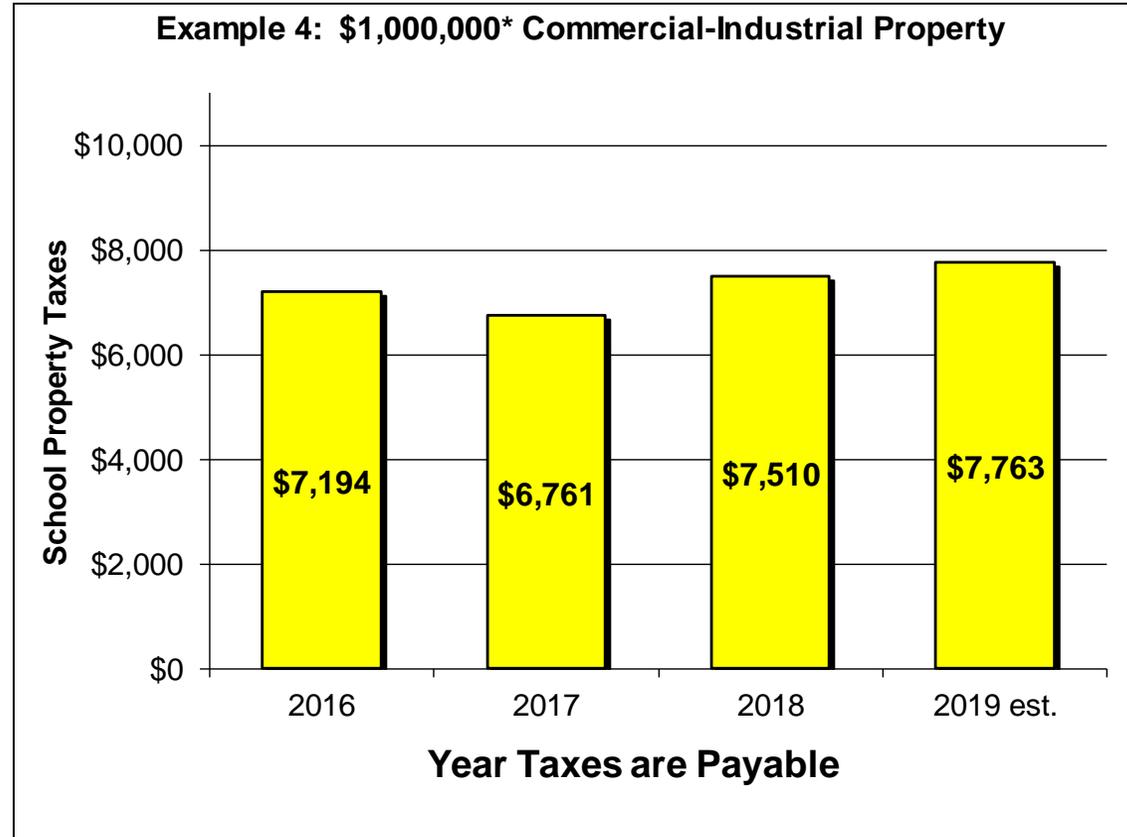


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ISD #833 - South Washington County Schools

Estimated Changes in School Property Taxes, 2016 to 2019

Based on 10.3% Cumulative Changes in Property Value from 2016 to 2019 Taxes



* For all examples of properties, the value shown in the title of the chart is the estimated market value for taxes payable in 2019. Taxes are calculated based on changes in market value of 1.0% from 2016 to 2017 taxes, 5.0% from 2017 to 2018, and 4.0% from 2018 to 2019.

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 \$110,650 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 \$2,710
- Also available to renters
- Complete state tax form M1PR (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
M1PR
(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

1

Board will accept public comments on proposed levy

2

Board will certify 2019 property tax levy

 igniting a passion



Public
Comments