

# South Washington County Schools Public Hearing for Taxes Payable in 2015



■■ DAN PYAN ■■ DIRECTOR OF FINANCE ■■ DEC. 4, 2014 ■■

# Tax Hearing Presentation



- **Public Meeting**
  - Must be held between November 25 and December 29 and after 6 p.m.
  - May be part of regularly scheduled meeting and may adopt final levy at meeting
- **State law requires that district's present**
  - Information on current year budget and actual revenue and expenditures for the prior year
  - Information on proposed property tax levy
  - Percentage change in levy over prior year
  - Specific purposes and reasons for which taxes are being increased
- **District's must also allow for public comments**

# Agenda for Hearing



- A. Background on School Funding, Property Tax Levies, and Budgets
- B. Information on District's Budget
- C. Information on District's Proposed Tax Levy for Taxes Payable in 2015
- D. Public Comments and Questions

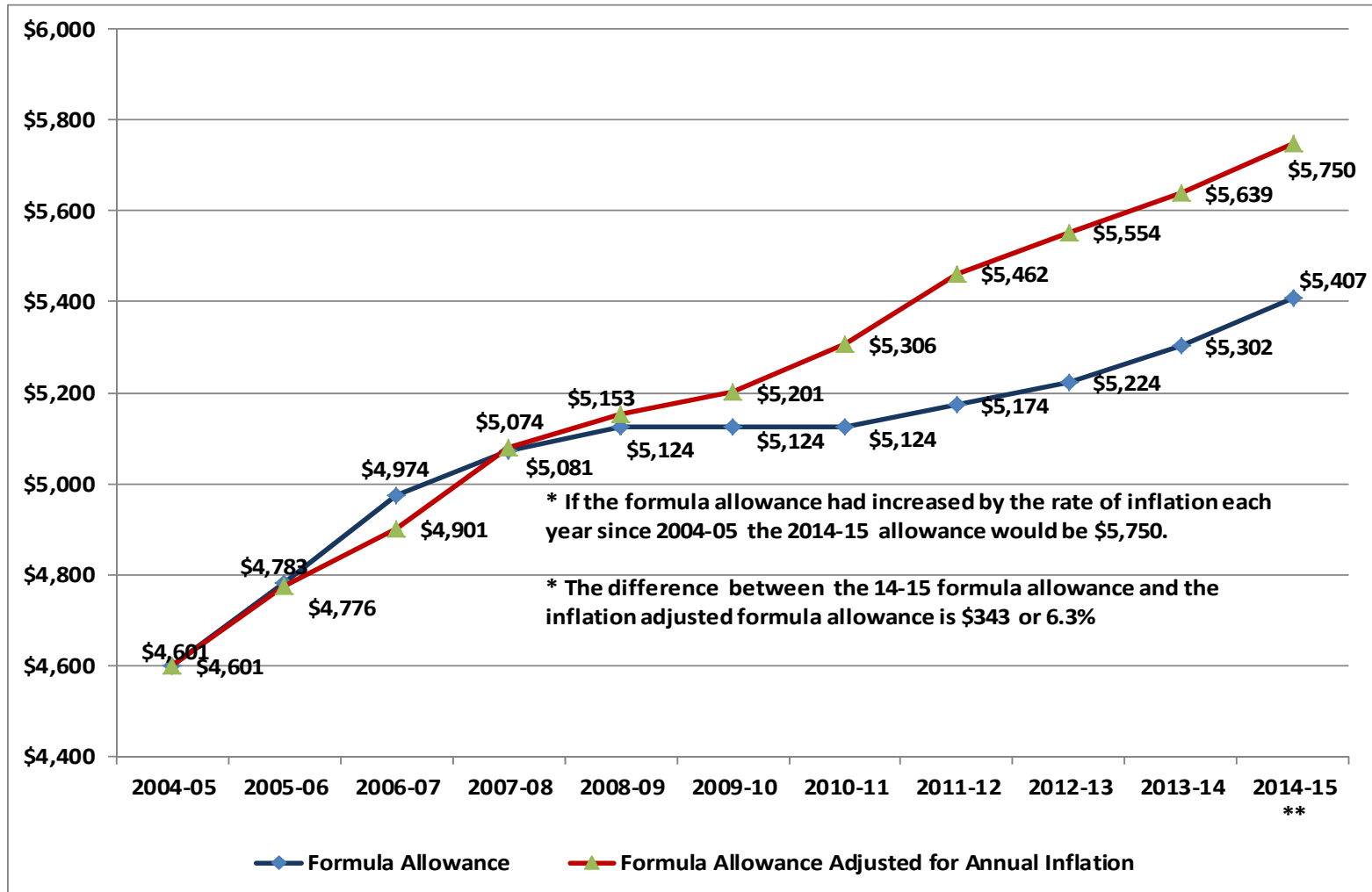
# Basic General Education Formula Lags Inflation



- Since 2004-05, the state General Education Revenue formula has not kept pace with inflation
- Per-pupil allowance for the current year would need to increase by \$343 (6.3%) to have kept pace with inflation
- For Fiscal Year 2014-15, the Legislature approved an increase of \$105 per pupil unit, or approximately 2%

# Trends in General Education Formula Allowance for Minnesota School Districts, 2004-05 through 2014-15

Adjusted for Inflation



SOURCE: Formula Allowance and CPI-U are from Minnesota Department of Education,  
Referendum Cap Inflation Estimate 2014



## Result: A Growing Reliance on Referendums



- Other funding sources (e.g., special education, capital funds) also have not kept pace with inflation.
- Primary options for districts to bridge funding gap are to cut budgets or increase referendum revenue; most districts have done both.
- For 1992-93, 65% of the schools in Minnesota had a referendum authority averaging \$332 per resident pupil.
- In 2014-15, 95.2% of Minnesota schools depend upon referendum revenue averaging \$1,075 per adjusted pupil (including Local Optional Revenue) to balance their budget.

# Change in Tax Levy Does not Change Budget



- Tax levy is based on many state-determined formulas.
- 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, not just by tax levies.

# Contrast of City/County to School District



- **City/County** - Budget Year is same as calendar year. The 2015 tax levy provides revenue for the calendar year 2015 budget.
- **Schools** - Budget year begins July 1<sup>st</sup> and coincides with school year. The 2015 tax levy provides revenue for the 2015-16 school fiscal year. Budget will be adopted in June 2015.



# Budget Information



- Because approval of the budget lags behind certification of the tax levy by six months, the state requires only current year budget information and prior year actual financial results to be presented at this hearing.

# Budget Information



- All school districts' budgets are divided into separate funds, based on purposes of revenue, as required by law
- For our district, 6 funds
  - General
  - Food Service
  - Community Service
  - Building Construction
  - Debt Service
  - Trust

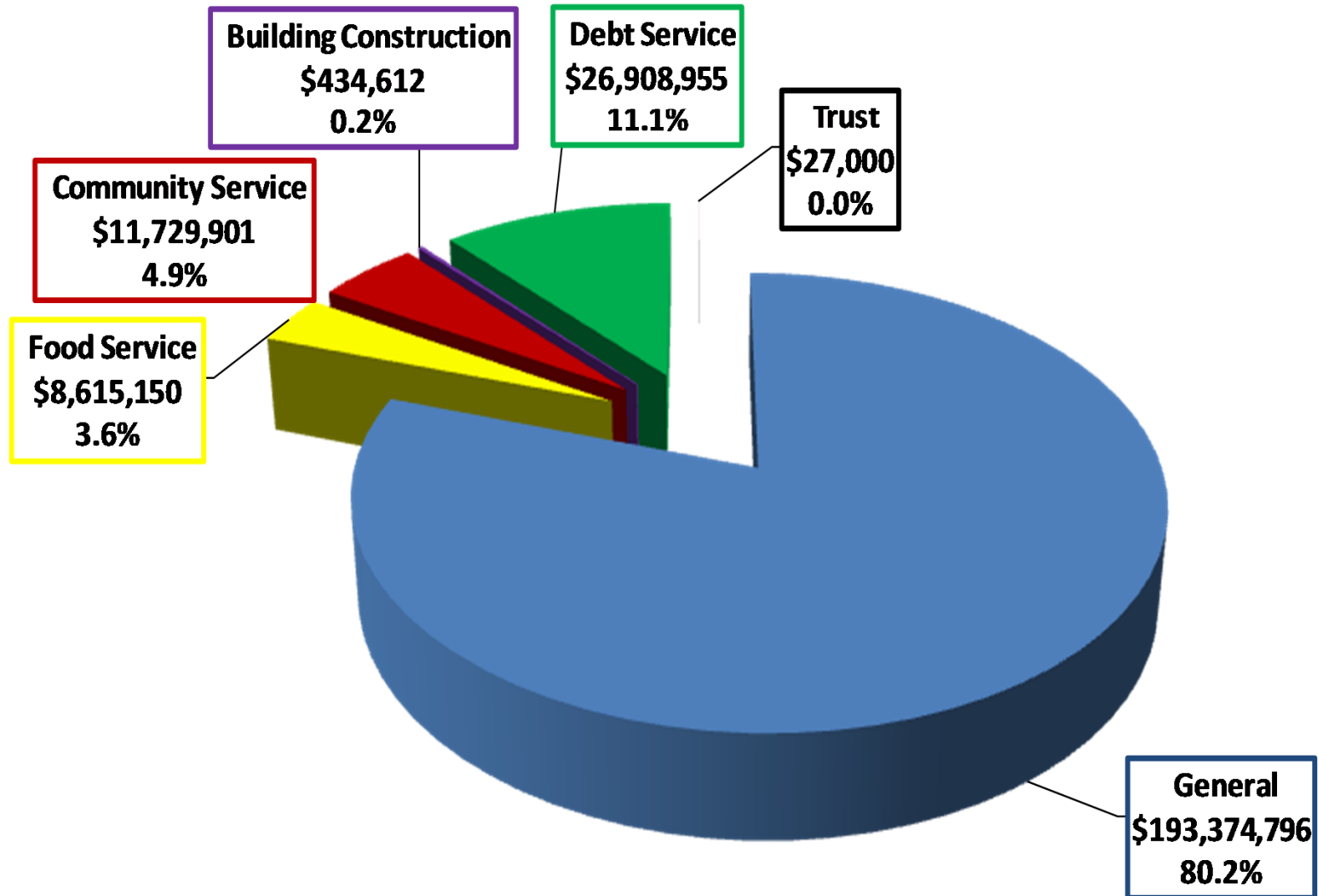


**ISD #833 - South Washington County Schools**  
**District Revenues and Expenditures**  
**Budget for FY 2014 and FY 2015**

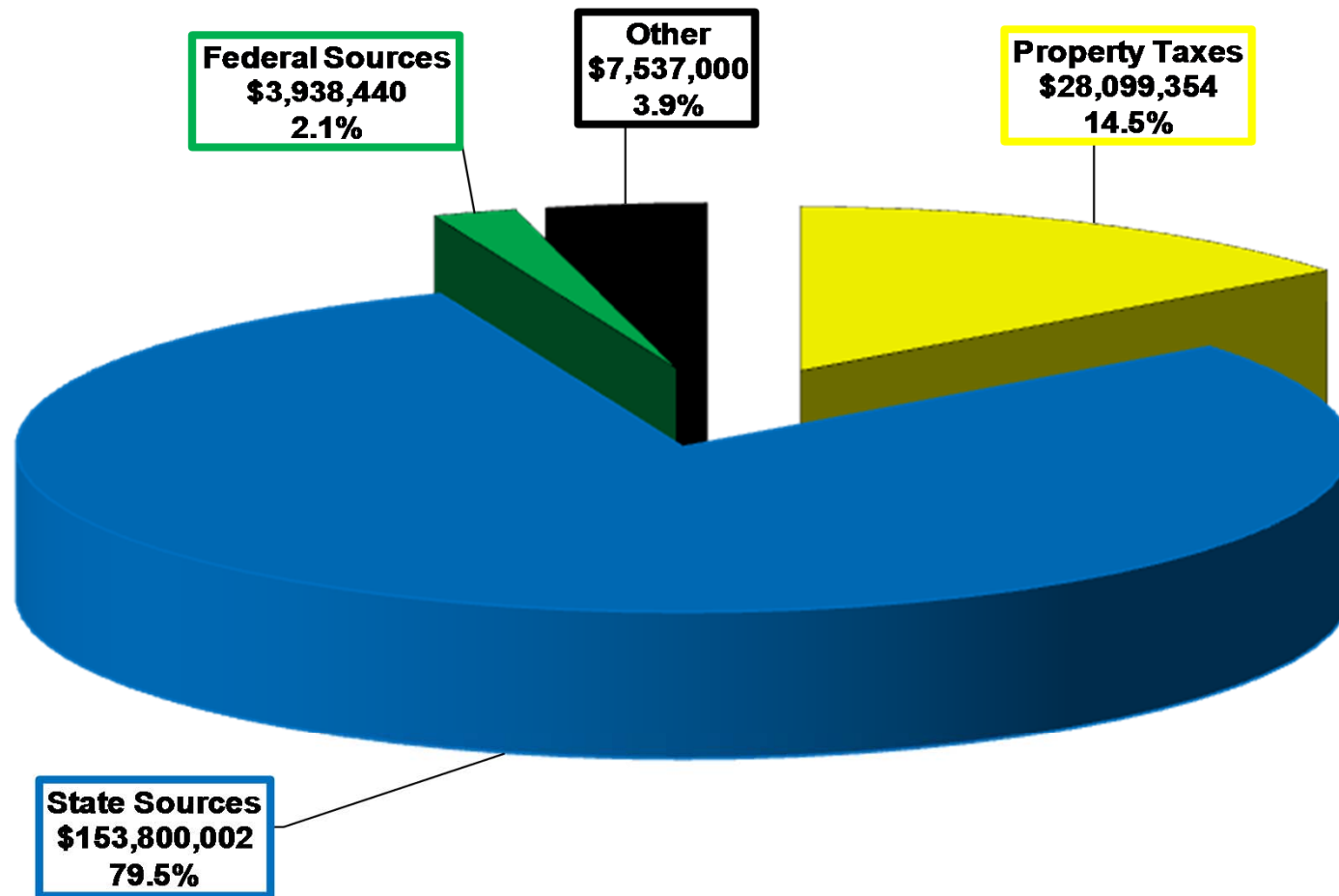
<b>FUND</b>	<b>FY 2014 BEGINNING FUND BALANCES</b>	<b>FY 2014 ACTUAL REVENUES AND TRANSFERS IN</b>	<b>FY 2014 ACTUAL EXPENDITURES &amp; TRANSFERS OUT</b>	<b>JUNE 30, 2014 ACTUAL FUND BALANCES</b>	<b>FY 2015 BUDGET REVENUES AND TRANSFERS IN</b>	<b>FY 2015 BUDGET EXPENDITURES &amp; TRANSFERS OUT</b>	<b>JUNE 30, 2015 PROJECTED FUND BALANCES</b>
General	\$13,883,278	\$181,534,857	\$185,929,267	\$9,488,868	\$193,374,796	\$194,443,488	\$8,420,176
Food Service	\$1,324,578	\$7,964,059	\$8,323,529	\$965,108	\$8,615,150	\$8,931,028	\$649,230
Community Service	\$1,768,129	\$12,363,940	\$12,951,686	\$1,180,383	\$11,729,901	\$12,100,303	\$809,981
Building Construction	\$3,025,201	\$21,766,576	\$2,538,518	\$22,253,259	\$434,612	\$5,869,612	\$16,818,259
Debt Service	\$5,634,352	\$26,362,594	\$26,034,985	\$5,961,961	\$26,908,955	\$28,184,847	\$4,686,069
Trust	\$54,883	\$26,732	\$26,849	\$54,766	\$27,000	\$27,680	\$54,086
Internal Service	\$23,332,324			\$23,332,324			\$23,332,324
<b>TOTAL - ALL FUNDS</b>	<b>\$49,022,745</b>	<b>\$250,018,758</b>	<b>\$235,804,834</b>	<b>\$63,236,669</b>	<b>\$241,090,414</b>	<b>\$249,556,958</b>	<b>\$54,770,125</b>

12/4/2014

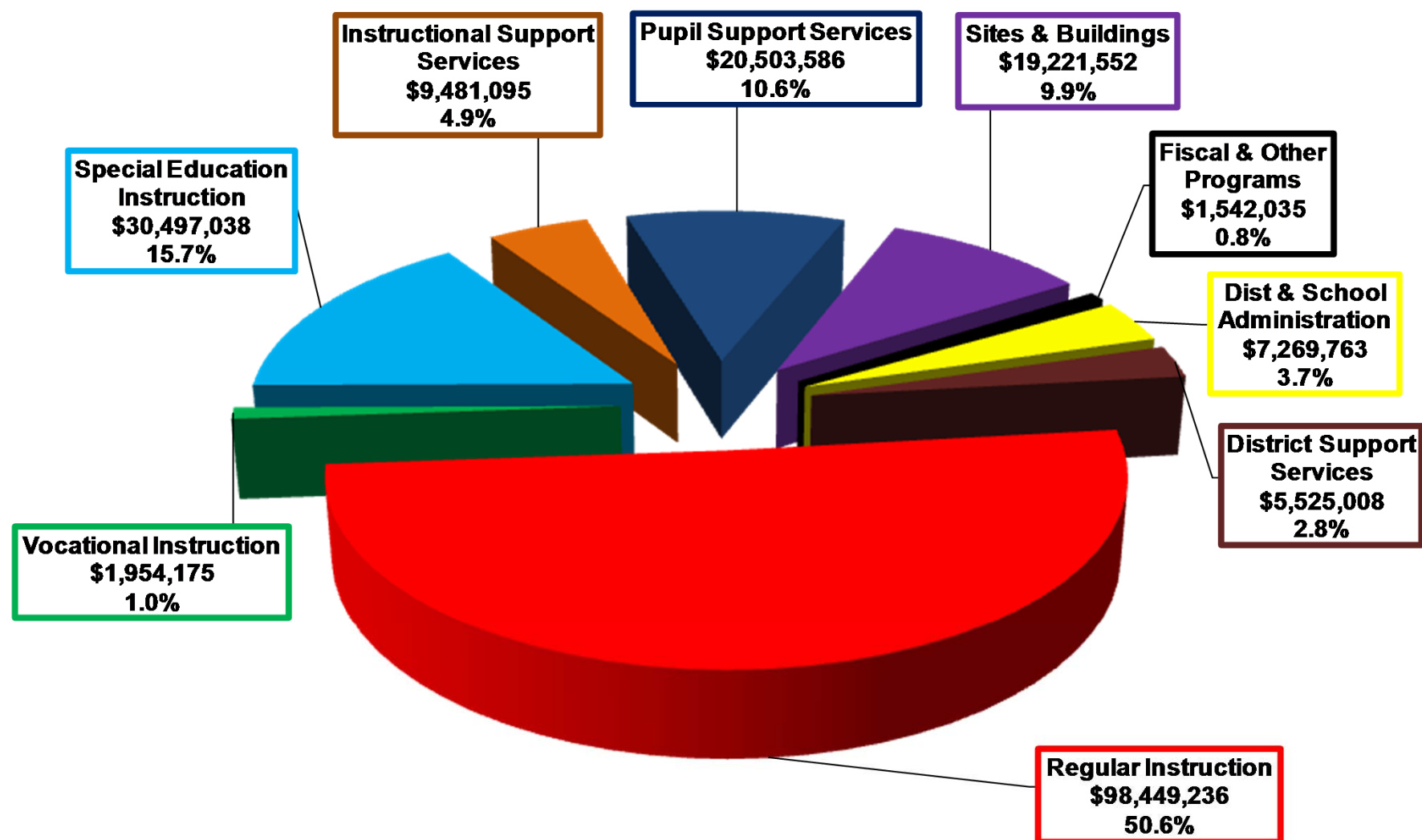
## ISD #833 Revenue - All Funds 2014-15 Budget \$241,090,414



**ISD #833 General Fund Revenue  
2014-15 Budget \$193,374,796**

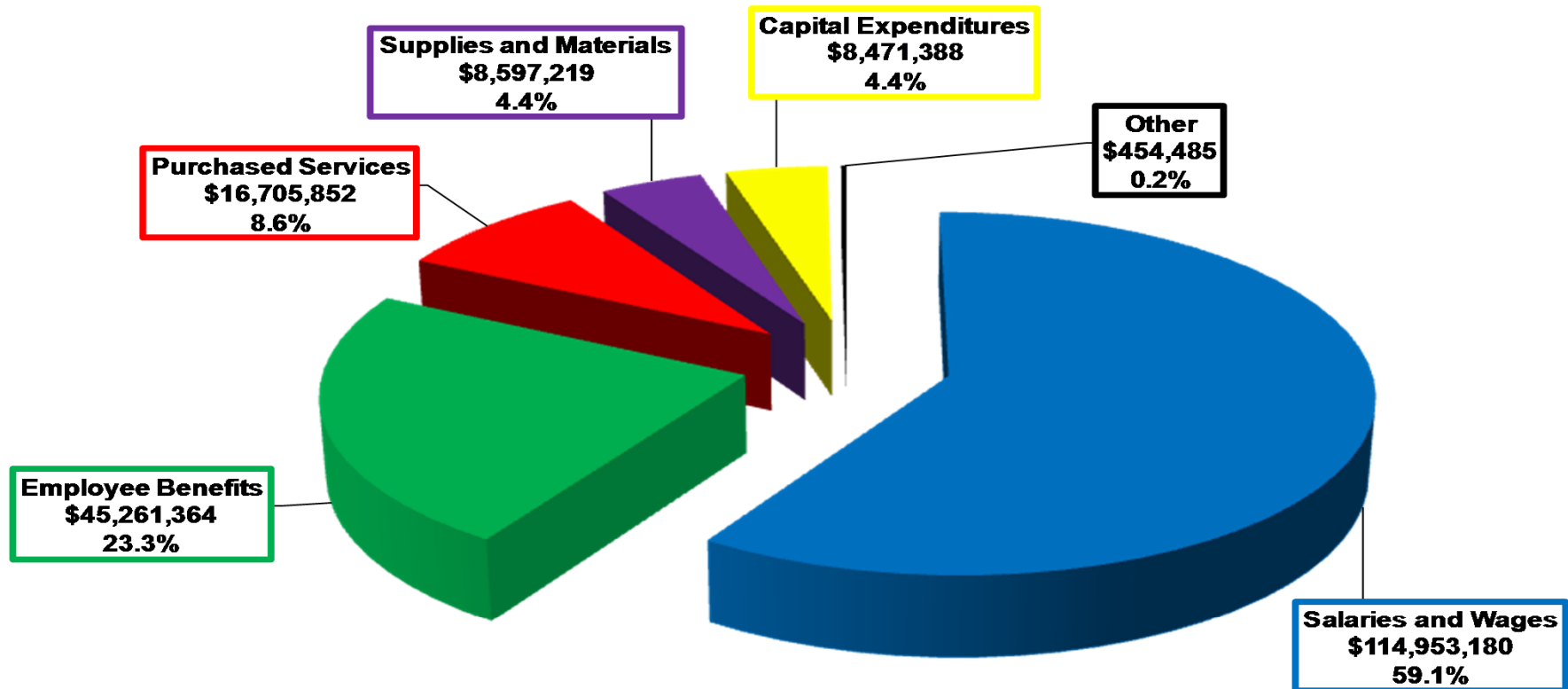


## ISD #833 General Fund Expenditures by Program 2014-15 Budget \$194,443,488





**ISD #833 General Fund Expenditures by Object  
FY 2013-14 Budget \$194,443,488**



# Proposed 2015 Property Tax Levy



- Determination of levy
- Comparison of 2014 to 2015 levies
- Specific reasons for changes in tax levy
- Impact on taxpayers

# Property Tax Background



- Every owner of taxable property pays property taxes for the various “taxing jurisdictions” (county, city or township, school district, special districts) in which the property is located.
- Each taxing jurisdiction sets its own tax levy, often based on limits in state law.
- County sends out bills, collects taxes from property owners, and distributes funds back to other taxing jurisdictions.

# School District Property Taxes



- Each school district may levy taxes in up to 30 different categories.
- “Levy limits” (maximum levy amounts) for each category are set either by:
  - State law, or
  - Voter approval
- Minnesota Department of Education (MDE) calculates detailed levy limits for each district

# Property Tax Background



## School District Property Taxes

- Key steps in the process are summarized on the next slide
- Any of these steps may affect the taxes on a parcel of property, but the 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**.



# Overview of Proposed Levy Payable in 2015



- Total 2015 proposed property tax levy is an increase from the final levy in 2014 of \$2,813,487, or 5.0%.
  - Includes a net increase of \$466,210 from the proposed levy approved by the Board in September, due to a correction to the District's voter approved operating referendum authority and an underlevy for the Alternative Teacher Compensation program.
- State law requires that we explain reasons for major increases in the levy.
- We will also explain decreases in specific levies.

## ISD #833 - South Washington County Schools

### Comparison of Proposed Tax Levy Payable in 2015 to Actual Levy Payable in 2014

Fund Levy Category	Actual Levy Payable in 2014	Proposed Levy Payable in 2015	\$ Change	% Change
<b>General Fund</b>				
Voter Approved Referendum	\$12,456,461	\$12,911,104	\$454,643	
Location Equity/Local Optional Revenue	6,157,233	6,441,240	284,008	
Equity	1,472,145	1,810,080	337,935	
Capital Projects - Technology	1,002,026	1,054,205	52,179	
Operating Capital	1,319,072	1,423,721	104,649	
Alternative Facilities	434,612	2,089,950	1,655,338	
Instructional Lease	1,814,361	1,120,548	(693,813)	
Other	3,685,710	3,887,834	202,123	
Adjustments for Prior Years	217,710	(205,665)	(423,375)	
General Fund Totals	\$28,559,330	\$30,533,017	\$1,973,687	6.9%
<b>Community Service Fund</b>				
Basic Community Education	\$657,908	\$657,908	\$0	
Early Childhood Family Education	357,354	355,884	(1,469)	
School-Age Child Care	294,510	294,510	0	
Other	37,417	22,255	(15,162)	
Community Service Fund Totals	\$1,347,189	\$1,330,557	(\$16,632)	-1.2%
<b>Debt Service Fund</b>	\$26,034,805	\$26,891,237	\$856,432	3.3%
<b>Totals - All Funds</b>	<b>\$55,941,324</b>	<b>\$58,754,811</b>	<b>\$2,813,487</b>	<b>5.0%</b>
<b>Subtotals by Truth in Taxation Categories</b>				
Voter Approved	\$37,583,297	\$38,373,143	\$789,846	
Other	18,358,027	20,381,668	2,023,641	
<b>Totals</b>	<b>\$55,941,324</b>	<b>\$58,754,811</b>	<b>\$2,813,487</b>	<b>5.0%</b>

12/4/2014

# Explanation of Levy Changes



- Category: Voter Approved Operating Referendum
- Change: \$454,643
- Use of funds: General operating expenses
- Reason for increase:
  - ✓ Funding is based on voter approved authority per pupil and is provided through a combination of local tax levies and state aid
  - ✓ Estimated pupils are expected to increase, resulting in an increase in total revenue
  - ✓ Because the district's total property value increased, the share of funding provided through the tax levy increased

# Explanation of Levy Changes



- Category: Location Equity/Local Optional
- Change: +\$284,008
- Use of funds: General operating expenses
- Reason for increase:
  - ✓ Funding is based on a legislatively set formula of \$424 per pupil, allocated between state aid and local taxes
  - ✓ Estimated pupils are expected to increase, resulting in an increase in total revenue
  - ✓ Because the district's total property value increased, the share of funding provided through the tax levy increased

# Explanation of Levy Changes



- Category: Equity
- Change: +\$337,935
- Use of funds: General operating expenses
- Reason for increase:
  - ✓ Funding is based on a legislatively set formula for each district's "equity allowance" multiplied times enrollment of students served in the district
  - ✓ Revenue is increasing because of an increase in the state-determined equity allowance and a projected increase in students served

# Explanation of Levy Changes



- Category: Alternative Facilities
- Change: +\$1,655,338
- Use of funds: State-approved capital project costs
- Reason for increase:
  - ✓ Amount is based on the estimated cost of qualifying state-approved deferred maintenance projects
  - ✓ Projects are funded through a combination of annual levy and bond issues
  - ✓ Prior year levy was reduced, as projects were funded with bonds that were issued near the end of the fiscal year 2013-14



# Explanation of Levy Changes



- Category: Instructional Lease
- Change: -\$693,813
- Use of funds: State-approved instructional lease costs
- Reason for decrease:
  - ✓ Amount is based on the estimated cost of qualifying state-approved instructional lease costs
  - ✓ Two leases will be paid off after the current fiscal year

# Explanation of Levy Changes



- Category: Other – General Fund
- Change: +\$202,123
- Use of funds: Various program costs
- Reason for increase:
  - ✓ Represents net change in levies for costs related to various state-approved programs including transition, alternative teacher compensation, achievement and integration, reemployment insurance, safe schools, career technical, and health and safety

# Explanation of Levy Changes



- Category: Adjustments for Prior Years – General Fund
- Change: -\$423,375
- Use of funds: Various purposes
- Reason for decrease:
  - ✓ Each year, the amounts for many levy categories are based on estimates of values and expenses for future years
  - ✓ In later years, the estimates are updated and levy amounts are changed through adjustments to the current levy

# Explanation of Levy Changes



- Category: Debt Service
- Change: +\$856,432
- Use of funds: Payments on bonds
- Reason for increase:
  - ✓ 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 2015 is less than 2014

# Impact on Taxpayers



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

- Changes in value of individual property
- Change in 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

Sample  
notice sent  
by county to  
all property  
owners.



**Spruce County**  
Jane Smith, Auditor-Treasurer  
345 12th Street East, Box 78  
Spruceville, MN 55555-5555  
(555) 345-6789  
[www.co.spruce.mn.us](http://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 2015**

THIS IS NOT A BILL. DO NOT PAY.

Step	VALUES AND CLASSIFICATION		
1	Taxes Payable Year	2014	2015
	Estimated Market Value	\$125,000	\$150,000
	Homestead Exclusion	\$	\$23,800
	Taxable Market Value	\$125,000	\$126,200
	Class	Res NHmstd	Res Hmstd
Step 2	PROPOSED TAX		
	Proposed Tax	\$1,467.52	
Step 3	PROPERTY TAX STATEMENT		
	Coming in 2015		
<p><b>The time to provide feedback on PROPOSED LEVIES is NOW</b></p> <p><b>It is too late to appeal your value without going to Tax Court.</b></p>			

**Proposed Property Taxes and Meetings by Jurisdiction for Your Property**

Contact Information	Meeting Information	Actual 2014	Proposed 2015
State General Tax	No public meeting	\$0	\$0
County of Spruce Spruce County Courthouse 123 Spruce St Spruceville, MN 55555 <a href="http://www.co.spruce.mn.us">www.co.spruce.mn.us</a> (555) 123-4567	December 9, 7:00 PM	\$438.06	\$484.18
City of Spruceville Mayor's Office 456 Spruce St Spruceville, MN 55555 <a href="http://www.ci.spruceville.mn.us">www.ci.spruceville.mn.us</a> (555) 123-7654	December 1, 6:30 PM Spruceville City Hall	\$273.79	\$312.06
Spruceville School District 999 150 1st St N Spruceville, MN 55555 <a href="http://www.spruceville.k12.mn.us">www.spruceville.k12.mn.us</a> (555) 123-6789	December 2, 7:00 PM Spruceville High School Cafeteria		
Voter Approved Levies		\$289.35	\$296.68
Other Levies		\$340.11	\$374.60
<p><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 2015 may be higher than the proposed amount shown on this notice.</i></p>			
<b>Total excluding any special assessments</b>		<b>\$1,341.31</b>	<b>\$1,467.52    9.0%</b>



# Impact on Taxpayers



- Examples are for property in the City of Woodbury
  - 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 2015 are preliminary estimates, based on the best data available now – final figures could change slightly
- Estimates were prepared by Ehlers, the district's financial advisors

**ISD #833 - South Washington County Schools****Estimated Changes in School Property Taxes, 2012 to 2015***Based on 11.4% Cumulative Changes in Property Value from 2012 to 2015 Taxes*

Type of Property	Taxable Market Value for 2012 Taxes	Actual Taxes Payable in 2012	Taxable Market Value for 2013 Taxes	Actual Taxes Payable in 2013	Estimated Market Value for 2014 Taxes	Actual Taxes Payable 2014 Taxes	Estimated Market Value for 2015 Taxes	Estimated Taxes Payable in 2015	Change in Taxes 2012 to 2015	Change in Taxes 2014 to 2015
Residential Homestead	\$89,729	\$408	\$84,345	\$411	\$87,719	\$424	\$100,000	\$466	\$58	\$42
	134,594	683	126,518	693	131,579	709	150,000	765	82	56
	179,458	958	168,691	975	175,439	994	200,000	1,065	107	71
	201,891	1,095	189,777	1,116	197,368	1,137	225,000	1,215	120	78
	224,323	1,233	210,864	1,257	219,298	1,279	250,000	1,364	131	85
	246,755	1,370	231,950	1,398	241,228	1,422	275,000	1,514	144	92
	269,188	1,508	253,036	1,539	263,158	1,564	300,000	1,664	156	100
	314,052	1,782	295,209	1,821	307,018	1,849	350,000	1,963	181	114
	358,917	2,057	337,382	2,104	350,877	2,134	400,000	2,263	206	129
	448,646	2,595	421,727	2,665	438,596	2,695	500,000	2,834	239	139
Commercial/Industrial #	\$89,729	\$491	\$84,345	\$502	\$87,719	\$525	\$100,000	\$553	\$62	\$28
	448,646	2,799	421,727	2,852	438,596	2,984	500,000	3,165	366	181
	897,292	5,771	843,455	5,891	877,193	6,156	1,000,000	6,500	729	344
	1,345,938	8,744	1,265,182	8,931	1,315,789	9,328	1,500,000	9,836	1,092	508
	1,794,585	11,717	1,686,910	11,971	1,754,386	12,500	2,000,000	13,172	1,455	672

<b>Tax Rates</b>				
<b>Tax Capacity Rate</b>	37.894	41.286	39.169	35.681
<b>Referendum Market Value Rate</b>	0.19942	0.21905	0.22287	0.20995

# Figures are for property in the City of Woodbury. For commercial-industrial property, school taxes may be slightly different in other municipalities in the district, due to the varying impact of the Fiscal Disparities Program.

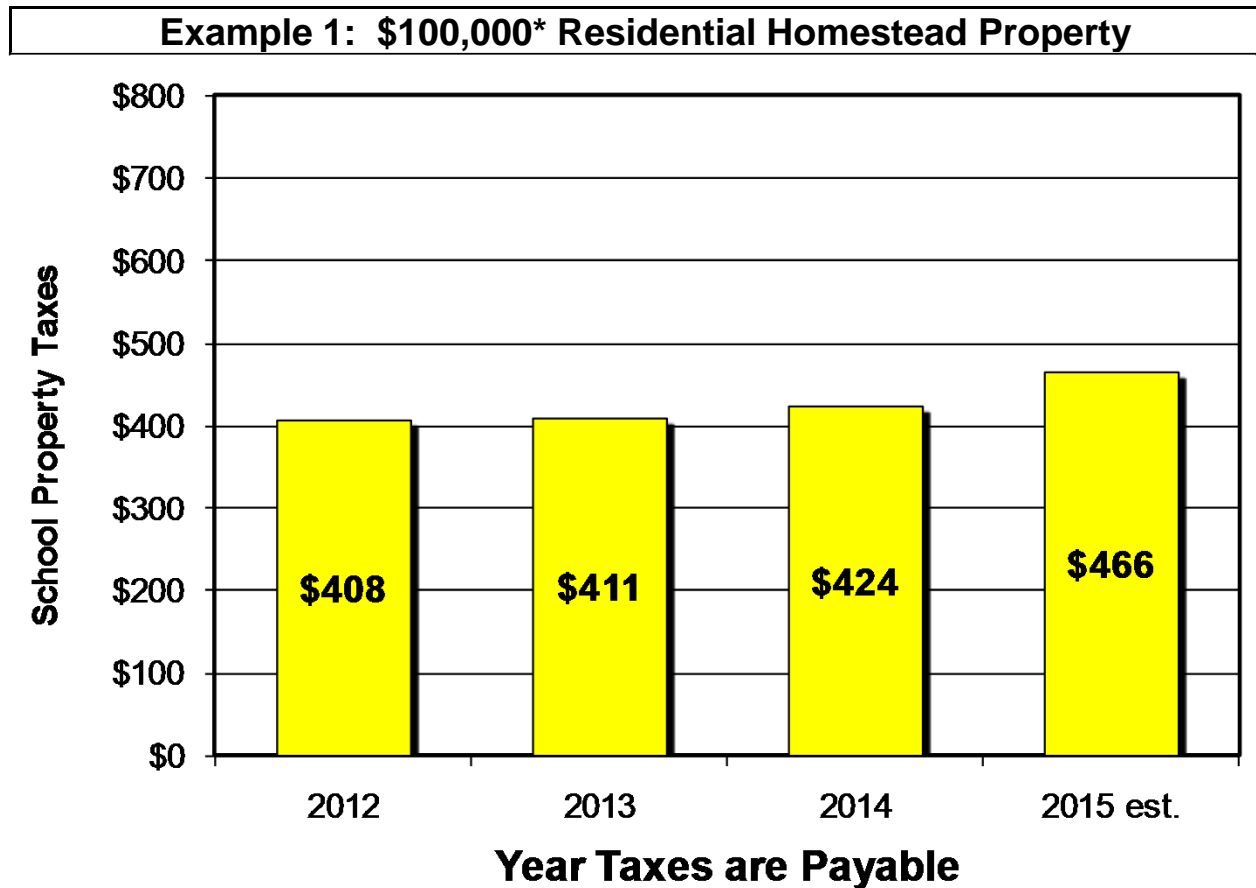
**General Notes**

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. All estimates for 2015 taxes are preliminary estimates, 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 -6.0% from 2012 to 2013 taxes, 4.0% from 2013 to 2014, and 14.0% from 2014 to 2015.

## ISD #833 - South Washington County Schools

### Estimated Changes in School Property Taxes, 2012 to 2015

*Based on 11.4% Cumulative Changes in Property Value from 2012 to 2015 Taxes*



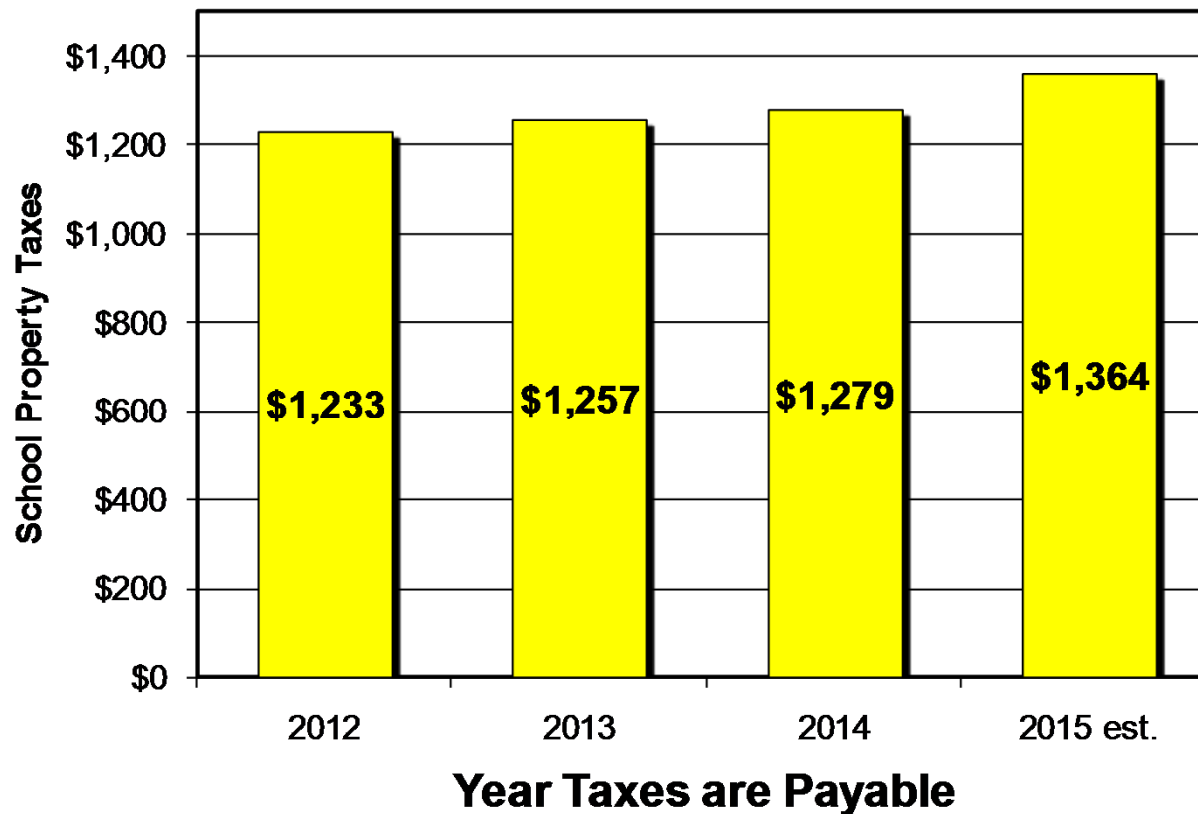
\* The value shown in the title of the chart is the estimated market value for taxes payable in 2015. Taxes are calculated based on changes in market value of -6.0% from 2012 to 2013 taxes, 4.0% from 2013 to 2014, and 14.0% from 2014 to 2015.

## ISD #833 - South Washington County Schools

### Estimated Changes in School Property Taxes, 2012 to 2015

*Based on 11.4% Cumulative Changes in Property Value from 2012 to 2015 Taxes*

#### Example 2: \$250,000\* Residential Homestead Property



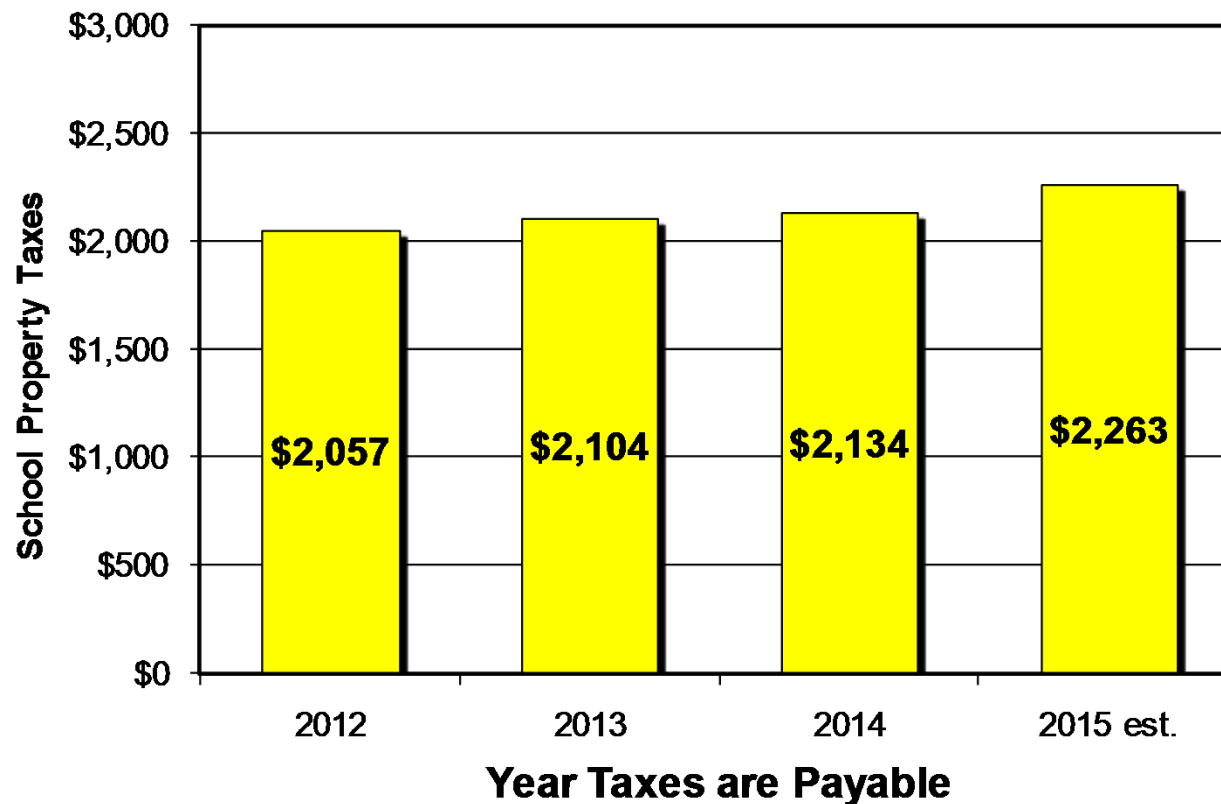
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## ISD #833 - South Washington County Schools

### Estimated Changes in School Property Taxes, 2012 to 2015

*Based on 11.4% Cumulative Changes in Property Value from 2012 to 2015 Taxes*

#### Example 3: \$400,000\* Residential Homestead Property



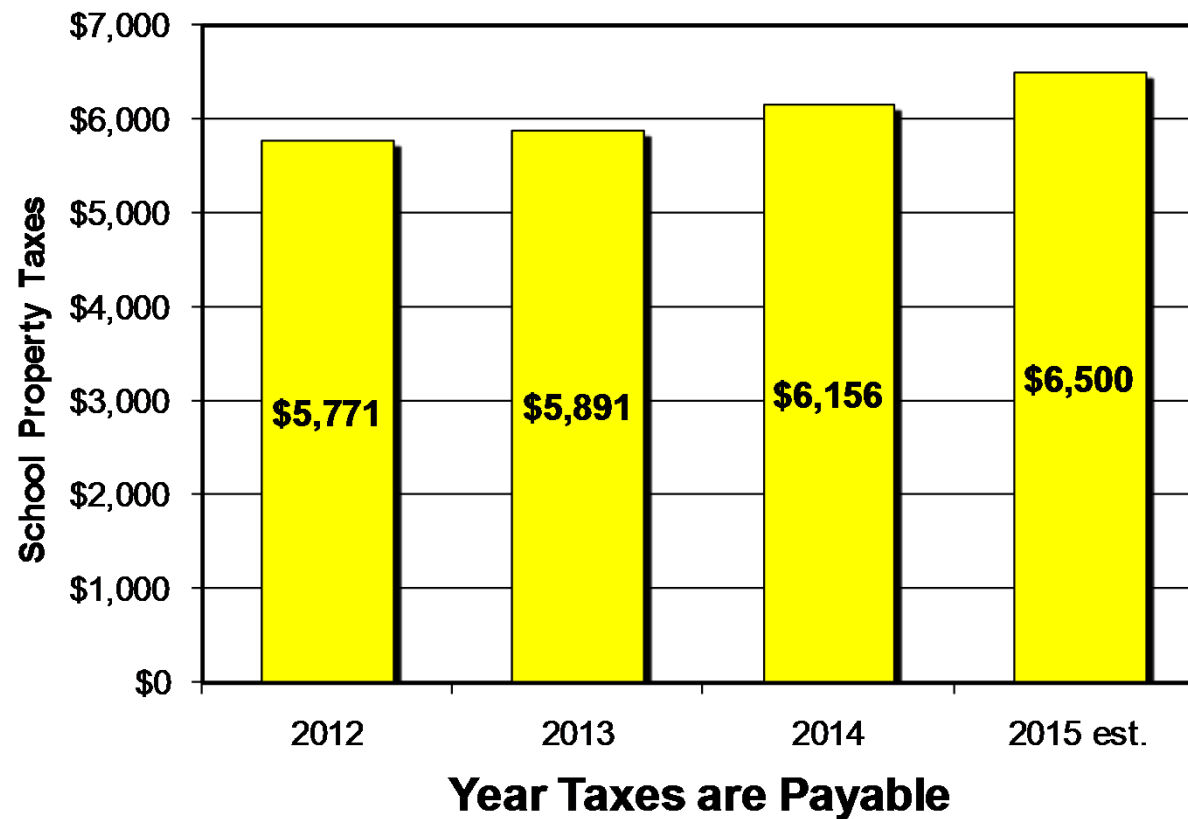
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## ISD #833 - South Washington County Schools

### Estimated Changes in School Property Taxes, 2012 to 2015

*Based on 11.4% Cumulative Changes in Property Value from 2012 to 2015 Taxes*

**Example 4: \$1,000,000\* Commercial-Industrial Property**



\* The value shown in the title of the chart is the estimated market value for taxes payable in 2015. Taxes are calculated based on changes in market value of -6.0% from 2012 to 2013 taxes, 4.0% from 2013 to 2014, and 14.0% from 2014 to 2015.

# State Property Tax Refunds



- State of Minnesota has two tax refund programs and one tax deferral program available for owners of homestead property
- Programs may reduce net tax burden for local taxpayers, but only if time is taken to complete and send in forms
- For help with the forms and instructions:
  - Consult your tax professional, or
  - Visit the Department of Revenue web site at [www.taxes.state.mn.us](http://www.taxes.state.mn.us)

# State Property Tax Refunds



- Minnesota Homestead Credit Refund (formerly called “Minnesota Property Tax Refund”)
  - Has existed since 1970s
  - Available to all owners of homestead property
  - Annual income must be approximately \$105,500 or less (income limit is higher if you have dependents)
  - Refund is a sliding scale, based on total property taxes and income
  - Maximum refund is \$2,657
  - Especially helpful to those with lower incomes
  - Complete state tax form M-1PR



# State Property Tax Refunds



- Special Property Tax Refund
  - Available for all homestead properties with a gross tax increase of at least 12% and \$100 over the prior year
  - Refund is 60% of the amount by which the tax increase exceeds the greater of 12% or \$100, up to a maximum of \$1,000
  - No income limits
  - Complete state tax form M-1PR

# Senior Citizen Property Tax Deferral



- Allows people 65 years of age or older with a household income of \$60,000 or less to defer a portion of the property taxes on their home
- Taxes paid in any year limited to 3% of household income for year before entering deferral program; this amount does not change in future years
- Additional taxes are deferred, but not forgiven
- State charges interest up to 5% per year on deferred taxes and attaches a lien to the property
- Deferred property taxes plus accrued interest must be paid when the home is sold or homeowner(s) dies

# Next Steps



- Board will accept public comments and questions on proposed levy
- Board will certify the 2015 property tax levy on December 18





# Public Comments and Questions

