

South St. Paul Public Schools Public Hearing for Taxes Payable in 2017

December 12, 2016

Presented by: Aaron Bushberger, Finance Director



Tax Hearing – State Law Requirements

Public meeting

- Between November 25 and December 28
- After 6:00 pm
- May be part of regularly scheduled meeting

Presentation of

- Current year budget
- Prior year actual revenue and expenditures
- Proposed property tax levy including percentage increase
- Specific purposes and reasons for which taxes are being increased

Must also allow for public comments

Agenda for Hearing

1. Background on School Funding, Property Tax Levies, and Budgets
2. Information on District's Budget
3. Information on District's Proposed Tax Levy for Taxes Payable in 2017
4. Public Comments and Questions

State Funding

- School funding is highly regulated by the State
 - Formulas which determine revenue; most revenue is based on specified amounts per pupil
 - Maximum authorized property tax levy (districts can levy less but not more than amount authorized by state, unless approved by voters)
 - State authorizes school board to submit referendums for operating and capital needs to voters for approval
- General Education Formula Lags Inflation
 - Since 2003, State General Education Revenue formula has not kept pace with inflation

Under Funding of Special Education Costs

- MDE reports cost of providing special education programs was 40% underfunded on average, requiring a use of \$679 per pupil from regular program resources to support a program mandated by state and federal law
- 2015 Legislature increased special education funding for 16-17 Biennium by approximately \$180 million, reducing need to subsidize special education with regular program resources from \$679 to \$507 per pupil
- Primary options to bridge special education funding gap are to cut regular program budgets or increase referendum revenue; most districts have done both

Result: A Growing Dependence on Operating Referendum Revenue

Average operating referendum authority per pupil is increasing

- For Fiscal Year 1992-93, 65% of districts had referendum revenue averaging \$332 per pupil
- For Fiscal Year 2016-17, all 331 districts have referendum revenue and/or local optional revenue authority averaging \$1,262 per pupil
 - Of this amount, \$853 is board approved or voter approved operating referendum, and \$409 is Local Optional Revenue

Budget Information

- School districts' budgets are divided into separate funds, based on purposes of revenue, as required by law
- For our district, 8 funds
 - General
 - Food Service
 - Community Service
 - Building Construction
 - Debt Service
 - Trust
 - OPEB* Trust
 - OPEB* Debt Service

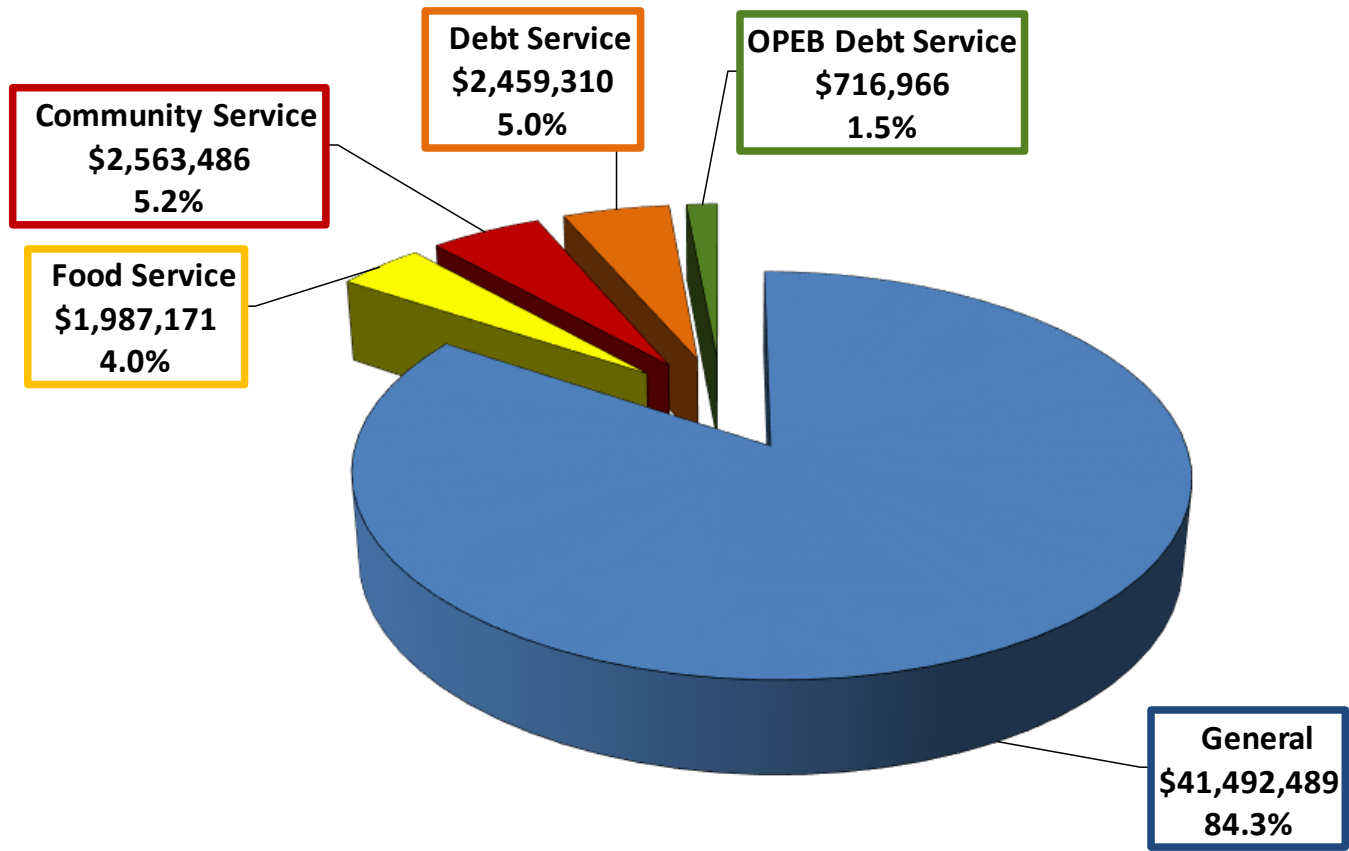
* Other Post-Employment Benefits

**South St. Paul Public Schools
District Revenues and Expenditures
Actual for FY 2015-16, Budget for FY 2016-17**

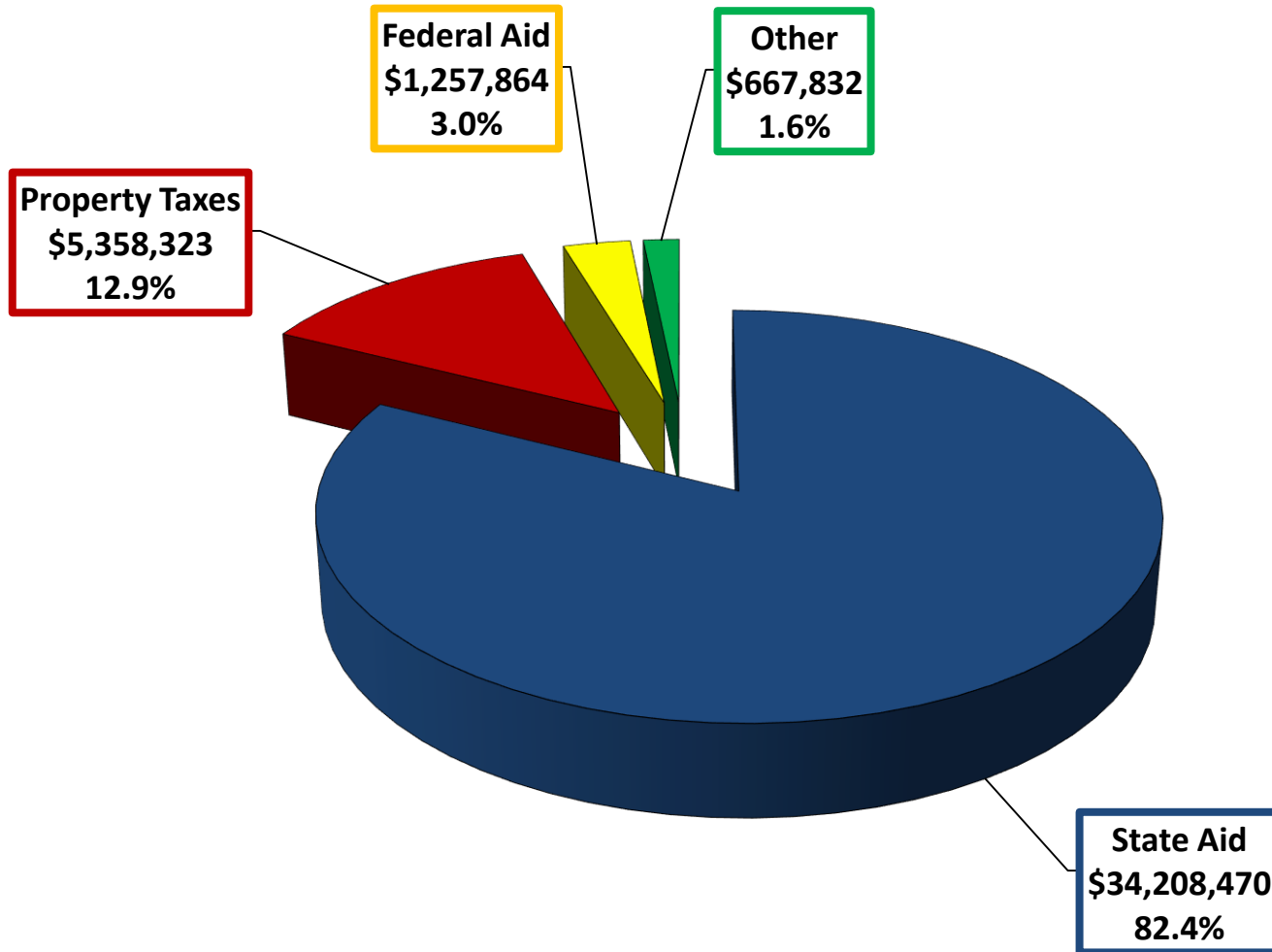
FUND	FISCAL 2016 BEGINNING FUND BALANCES	2015-16 ACTUAL REVENUES AND TRANSFERS IN	2015-16 ACTUAL EXPENDITURES & TRANSFERS OUT	JUNE 30,2016 ACTUAL FUND BALANCE	2016-17 BUDGET REVENUES AND TRANSFERS IN	2016-17 BUDGET EXPENDITURES & TRANSFERS OUT	JUNE 30,2017 PROJECTED FUND BALANCE
General/Restricted	\$1,419,927	\$8,197,711	\$8,525,875	\$1,091,763	\$8,476,955	\$8,374,472	\$1,194,246
General/Other	7,527,946	33,252,685	33,499,693	7,280,938	33,015,534	34,122,672	6,173,800
Food Service	1,019,158	1,971,444	2,067,918	922,684	1,987,171	2,103,229	806,626
Community Service	37,980	2,535,141	2,273,631	299,490	2,563,486	2,464,788	398,188
Building Construction	5,168,820	4,230	5,010,813	162,237	-	-	162,237
Debt Service	190,586	2,493,644	2,401,715	282,515	2,459,310	2,404,188	337,637
Trust	50,286	248,216	237,921	60,581	-	-	60,581
OPEB Revocable Trust	1,134,273	636,861	926,761	844,373	-	-	844,373
OPEB Debt Service	124,667	753,733	724,335	154,065	716,966	716,935	154,096
Total All Funds	\$16,673,643	\$50,093,665	\$55,668,662	\$11,098,646	\$49,219,422	\$50,186,284	\$10,131,784

* Other Post-Employment Benefits (OPEB)

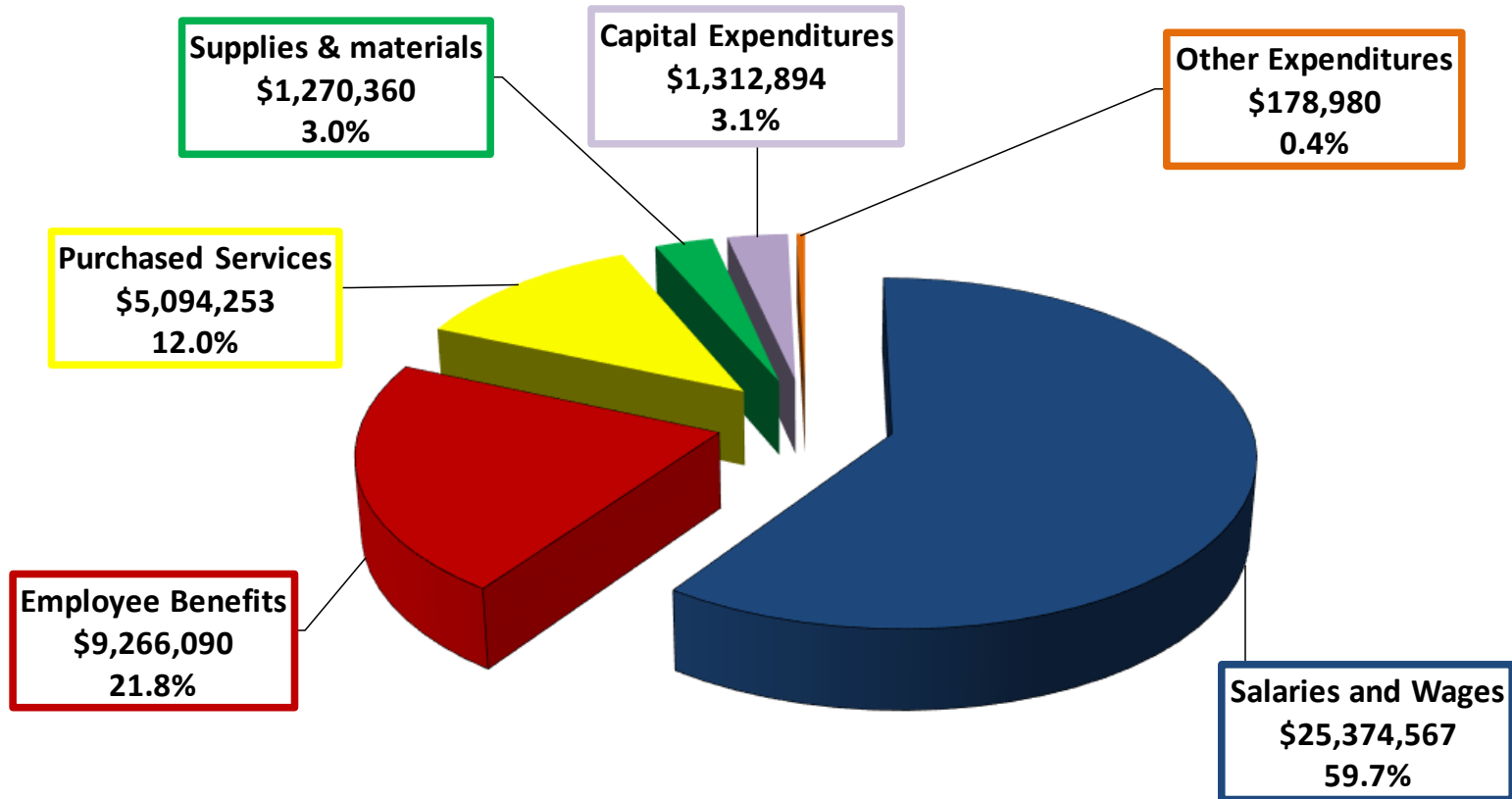
South St. Paul Public Schools Revenue All Funds 2016-17 Budget \$49,219,422



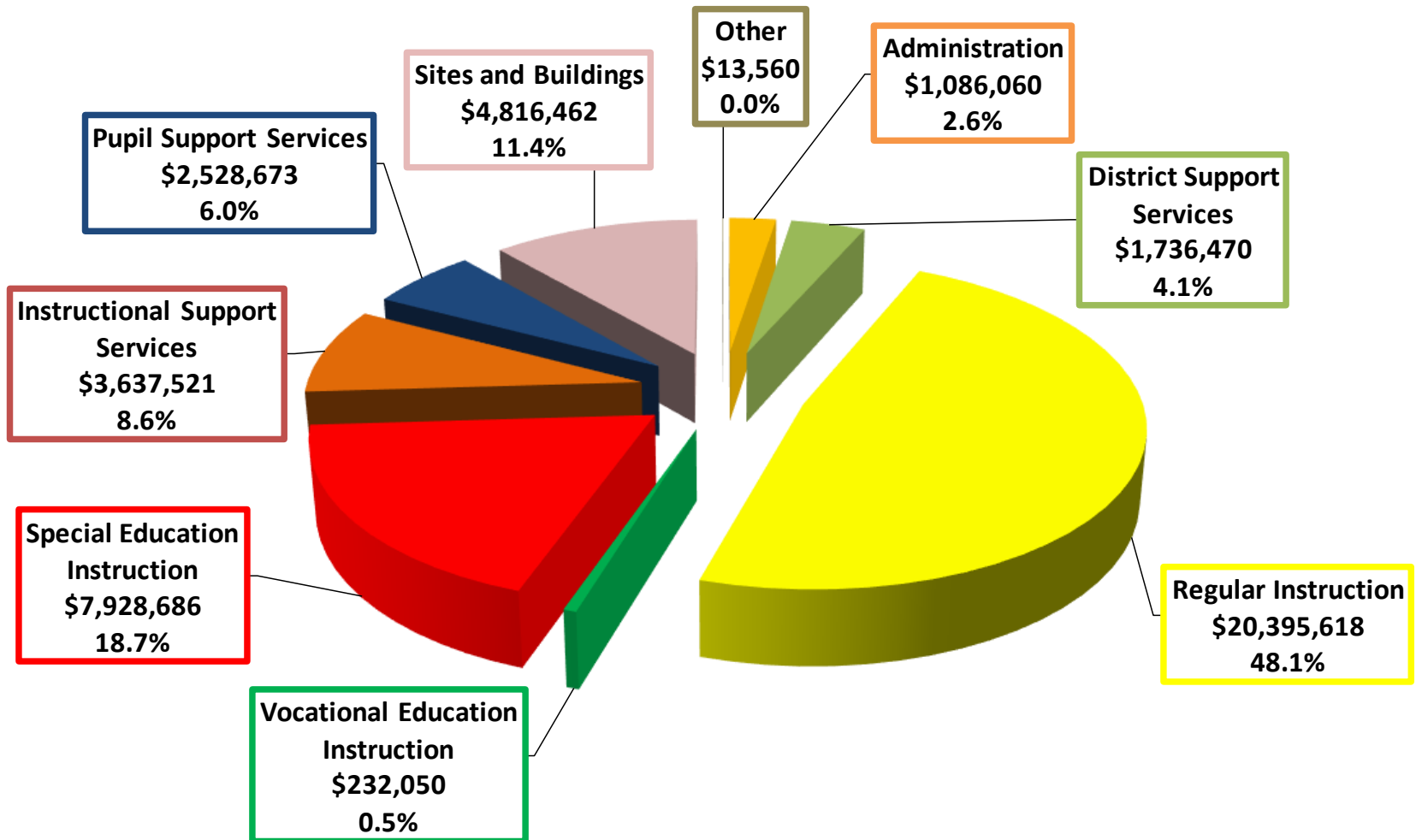
South St. Paul Public Schools General Fund Revenue 2016-17 Budget \$41,492,489



South St. Paul Public Schools General Fund Expenditure by Object 2016-17 Budget \$42,497,144



South St. Paul Public Schools General Fund Expenditures by Program 2016-17 Budget \$42,497,144



Property Tax Background

- Every owner of taxable property pays property taxes for various “taxing jurisdictions” (county, city or township, school district, special districts) in which 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

Schedule of Events in Approval of District's 2016 (Payable 2017) Tax Levy

- **September 8:** Department of Education prepared and distributed first draft of levy limit report, setting maximum authorized levy
- **September 26:** School Board approved proposed levy amounts
- **Mid-November:** County mailed “Proposed Property Tax Statements” to all property owners
- **December 12:** Public hearing on proposed levy at regular meeting
- **December 12:** School Board will certify final levy amounts

Overview of Proposed Levy Payable in 2017

- Total 2017 proposed property tax levy is an **decrease** from final levy in 2016 of \$19,876, or a **reduction** of 0.2%
- Law requires that we explain reasons for major increases in levy
- Some decreases in specific levies will also be explained

South St. Paul Public Schools

Comparison of Proposed Tax Levy Payable in 2017 to Actual Levy Payable in 2016

Fund	Levy Category	Actual Levy Payable in 2016	Proposed Levy Payable in 2017	\$ Change	% Change
General Fund					
	Voter Approved Referendum	\$1,247,806	\$1,269,028	\$21,221	
	Local Optional Revenue	1,273,874	1,220,209	(53,665)	
	Equity	457,986	430,814	(27,172)	
	Student Achievement	52,821	23,795	(29,026)	
	Alternate Teacher Compensation	243,531	231,006	(12,525)	
	Achievement and Integration	168,524	173,957	5,432	
	Capital Projects - Technology	564,905	566,074	1,169	
	Operating Capital	274,797	194,465	(80,332)	
	Long Term Facilities Maintenance	404,212	578,636	174,424	
	Instructional Lease	360,991	355,557	(5,434)	
	Safe Schools	197,696	202,343	4,646	
	Other	147,423	158,895	11,472	
	Levy Adjustments	(318,065)	(432,369)	(114,305)	
	Total, General Fund	\$5,076,502	\$4,972,407	(\$104,095)	-2.1%
Community Service Fund					
	Basic Community Education	\$151,207	\$151,207	\$0	
	Early Childhood Family Education	59,852	55,681	(4,170)	
	School-Age Child Care	237,508	237,508	0	
	Other	2,147	1,054	(1,093)	
	Levy Adjustments	48,585	66,231	17,646	
	Total, Community Service Fund	\$499,299	\$511,682	\$12,382	2.5%
Debt Service Funds					
	Voter Approved Debt Service	\$2,342,222	\$2,340,910	(\$1,312)	
	Other Debt Service	175,875	178,185	2,310	
	Other Post Employment Benefits	752,309	753,505	1,196	
	Reduction for Debt Excess	(96,588)	(40,907)	55,681	
	Levy Adjustments	2,657	16,619	13,961	
	Total, Debt Service Fund	\$3,176,476	\$3,248,312	\$71,836	2.3%
Total Levy, All Funds		\$8,752,277	\$8,732,401	(\$19,876)	-0.2%
Subtotal by Truth in Taxation Categories					
	Voter Approved	\$4,160,289	\$4,234,378	\$74,089	
	Other	<u>\$4,591,988</u>	<u>\$4,498,023</u>	<u>(\$93,965)</u>	
	Total	\$8,752,277	\$8,732,401	(\$19,876)	-0.2%

Explanation of Levy Changes

- Category: Operating Capital
- Change: -\$80,332
- Use of funds: Facility and equipment expenses
- Reason for decrease
 - Funding is based on a legislatively set per pupil formula and is provided through a combination of local tax levies and state aid
 - When 2015 Legislature created new category of revenue (see LTFM information on next slide), local share of operating capital revenue was reduced to offset tax impact of new revenue

Explanation of Levy Changes

- Category: Long Term Facilities Maintenance (LTFM)
- Change: + \$174,424
- Use of funds: Facilities maintenance
- Reason for increase
 - New category of revenue created by legislation in 2015 and phased-in over 3 years; replaced previous health & safety and deferred maintenance programs
 - Legislature reduced student achievement and operating capital levies to offset tax impact of LTFM revenue
 - Creates greater equity among districts in funding for facilities maintenance – districts that did not qualify for previous “full alternative facilities” program have access to additional revenue
 - Revenue is provided through property tax levies and state aid
 - District receives approximately 50% of funding from State (\$582,000 for FY 2018, \$345,000 in aid for FY 2017); only \$73,000 of State aid received in fiscal year 2016 from replaced programs

Explanation of Levy Changes

- Category: Prior Year Adjustments - General Fund
- Change: - \$114,305
- Use of funds: Various purposes
- Reason for decrease
 - 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
 - 2017 levy includes negative adjustments in several categories of levies

Explanation of Levy Changes

- Category: Reduction for Debt Excess
- Change: + \$55,681
- 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 2017 is less than 2016

Impact on Taxpayers

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

Impact on Taxpayers

Following are a table and graphs showing examples of changes in school district portion of property taxes from 2014 to 2017

- Examples include school district taxes only
- All examples are based on a 14.4% 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

- Figures for 2017 are preliminary estimates, based on best data available now – final figures could change slightly
- Estimates were prepared by Ehlers (District's financial advisors)

South St. Paul Public Schools

Estimated Changes in School Property Taxes, 2014 to 2017

Based on 14.4% Cumulative Changes in Property Value from 2014 to 2017 Taxes

Type of Property	Estimated Market Value for 2014 Taxes	Actual Taxes Payable in 2014	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	Estimated Taxes Payable in 2017	Change in Taxes 2014 to 2017	Change in Taxes 2016 to 2017
Residential Homestead	\$65,559	\$273	\$72,115	\$273	\$72,115	\$294	\$75,000	\$272	-\$1	-\$22
	87,413	388	96,154	399	96,154	428	100,000	405	17	-23
	109,266	527	120,192	532	120,192	569	125,000	539	12	-30
	131,119	665	144,231	665	144,231	710	150,000	673	8	-37
	152,972	804	168,269	799	168,269	851	175,000	808	4	-43
	174,825	942	192,308	932	192,308	992	200,000	942	0	-50
	196,678	1,081	216,346	1,065	216,346	1,133	225,000	1,077	-4	-56
	218,531	1,220	240,385	1,198	240,385	1,274	250,000	1,211	-9	-63
	240,385	1,358	264,423	1,331	264,423	1,415	275,000	1,346	-12	-69
262,238	1,497	288,462	1,465	288,462	1,556	300,000	1,480	-17	-76	
Commercial/Industrial #	\$131,119	\$847	\$144,231	\$811	\$144,231	\$869	\$150,000	\$823	-\$24	-\$46
	349,650	2,590	384,615	2,475	384,615	2,642	400,000	2,530	-60	-112
	655,594	5,074	721,154	4,816	721,154	5,136	750,000	4,920	-154	-216
	874,126	6,849	961,538	6,487	961,538	6,918	1,000,000	6,627	-222	-291
	1,748,252	13,946	1,923,077	13,174	1,923,077	14,043	2,000,000	13,456	-490	-587

Tax Rates					
Tax Capacity Rate		44.522	35.881	36.718	35.830
Referendum Market Value Rate		0.14863	0.16295	0.18670	0.14740

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.

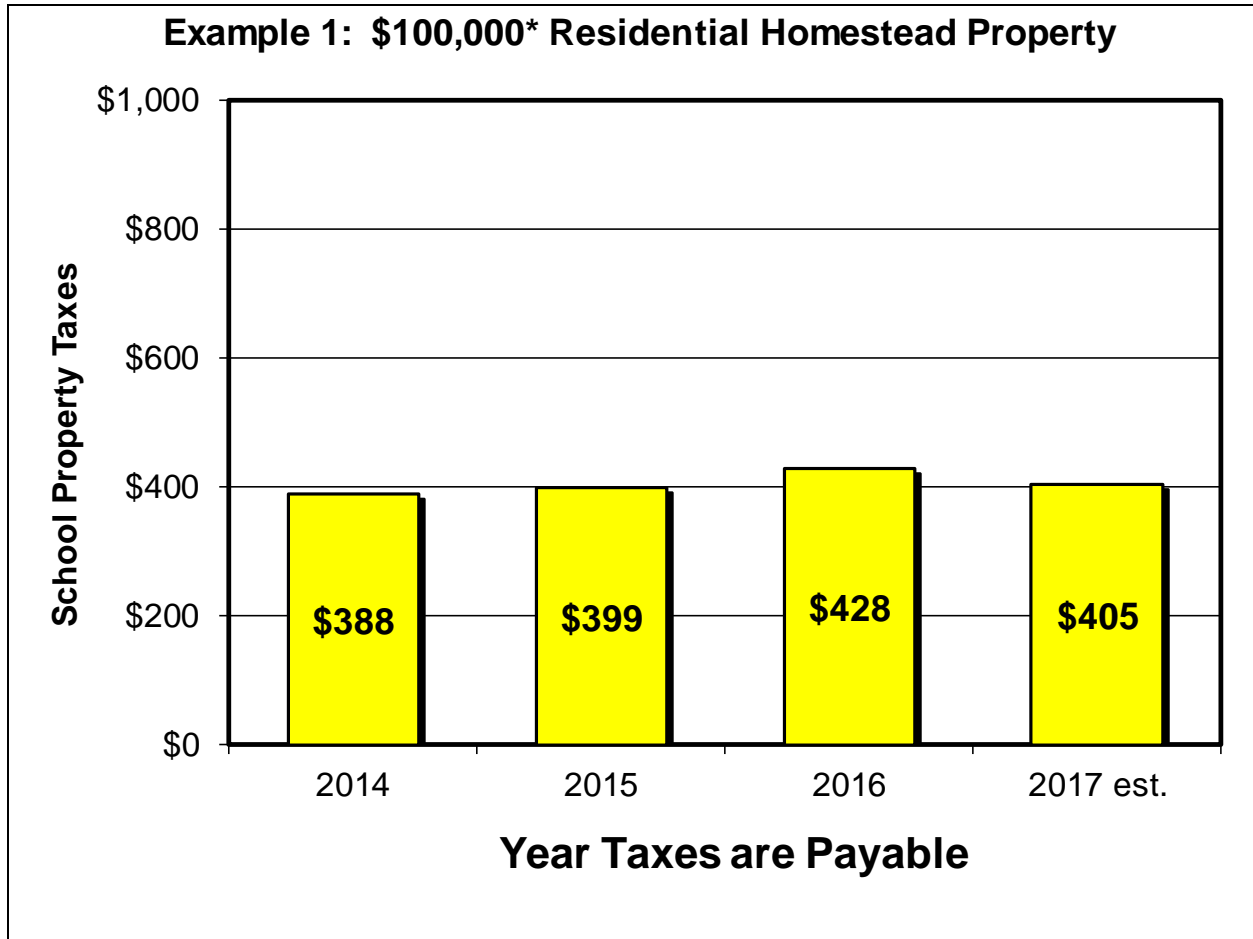
General Notes

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. Estimates of taxes payable in 2017 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 10.0% from 2014 to 2015 taxes, 0.0% from 2015 to 2016, and 4.0% from 2016 to 2017.

South St. Paul Public Schools

Estimated Changes in School Property Taxes, 2014 to 2017

Based on 14.4% Cumulative Changes in Property Value from 2014 to 2017 Taxes

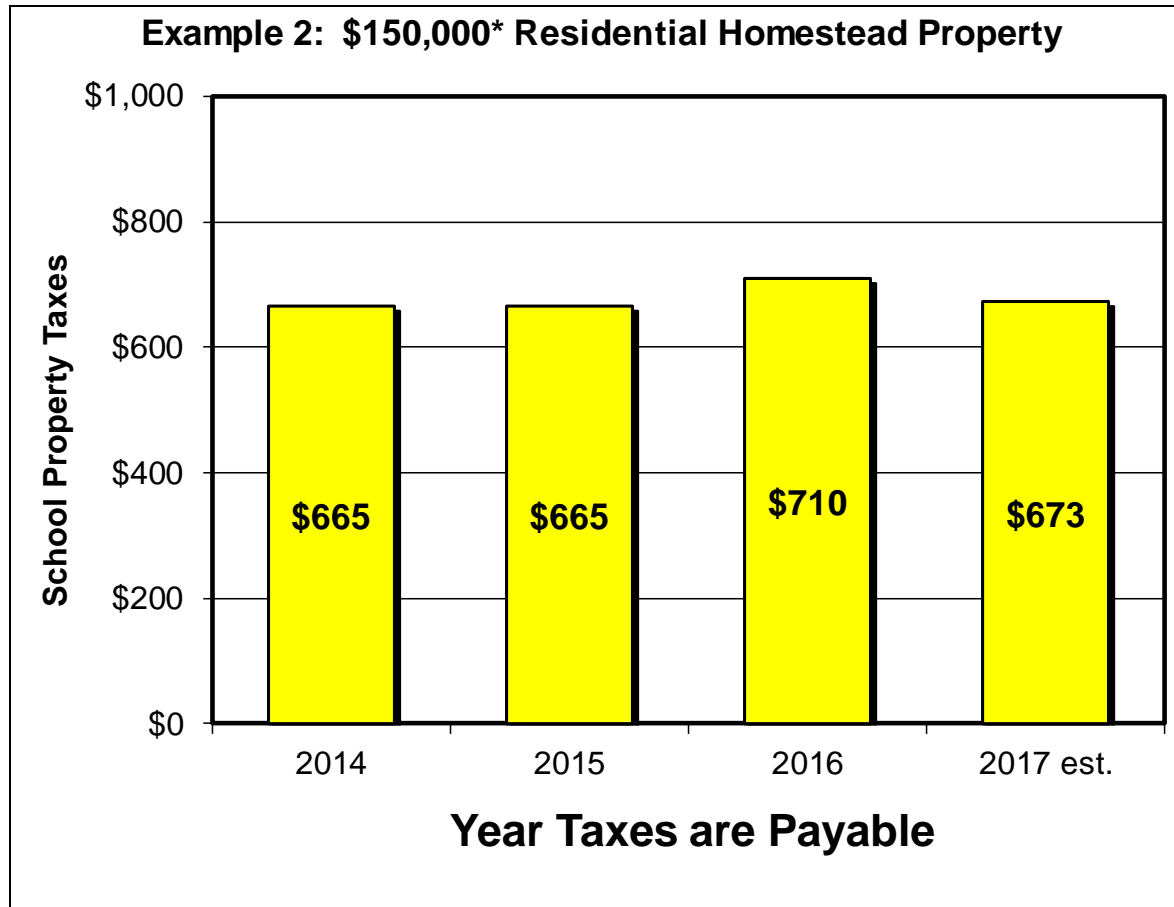


* For all four examples of properties, the value shown in the title of the chart is the estimated market value for taxes payable in 2017. Taxes are calculated based on changes in market value of 10.0% from 2014 to 2015 taxes, 0.0% from 2015 to 2016, and 4.0% from 2016 to 2017.

South St. Paul Public Schools

Estimated Changes in School Property Taxes, 2014 to 2017

Based on 14.4% Cumulative Changes in Property Value from 2014 to 2017 Taxes

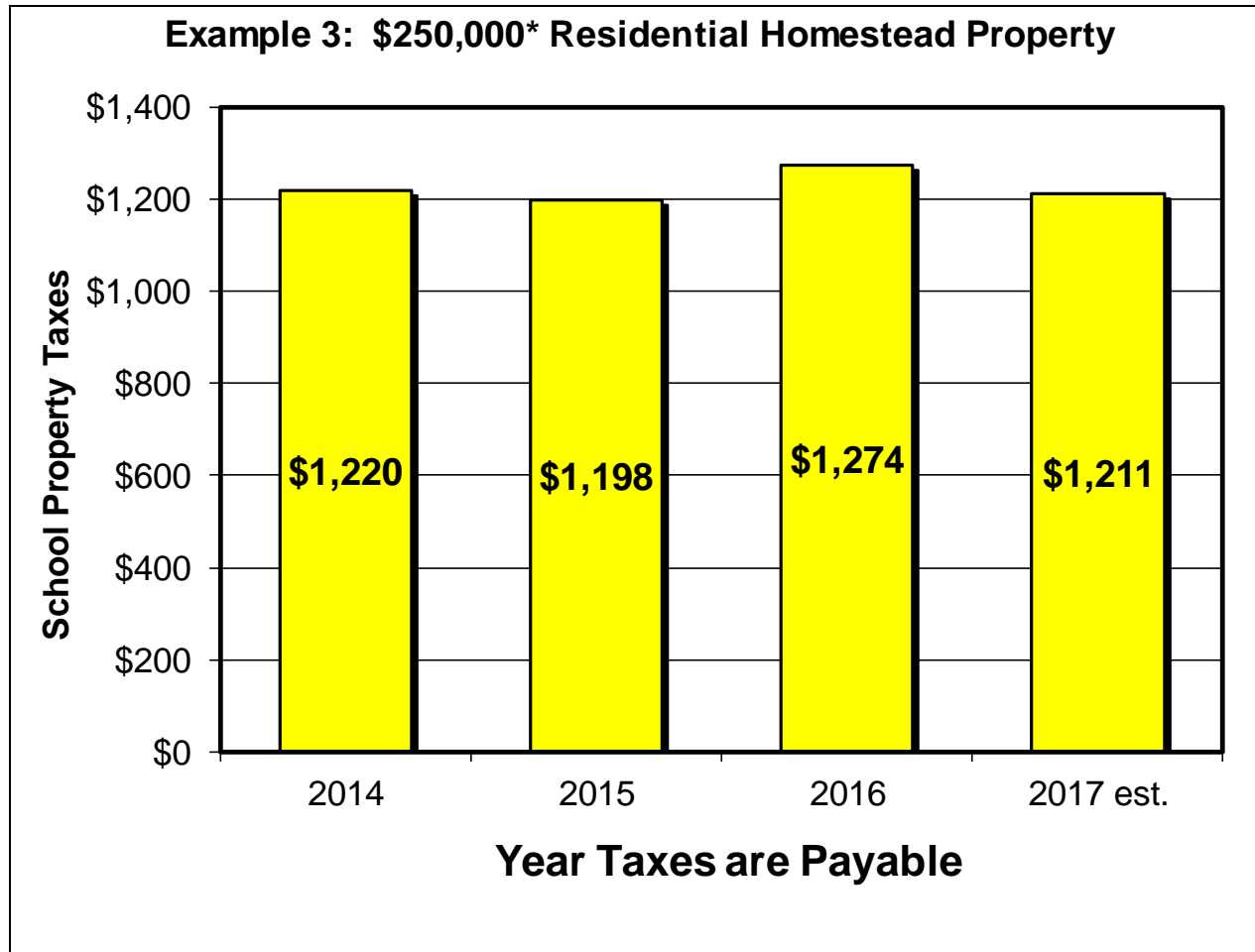


* For all four examples of properties, the value shown in the title of the chart is the estimated market value for taxes payable in 2017. Taxes are calculated based on changes in market value of 10.0% from 2014 to 2015 taxes, 0.0% from 2015 to 2016, and 4.0% from 2016 to 2017.

South St. Paul Public Schools

Estimated Changes in School Property Taxes, 2014 to 2017

Based on 14.4% Cumulative Changes in Property Value from 2014 to 2017 Taxes

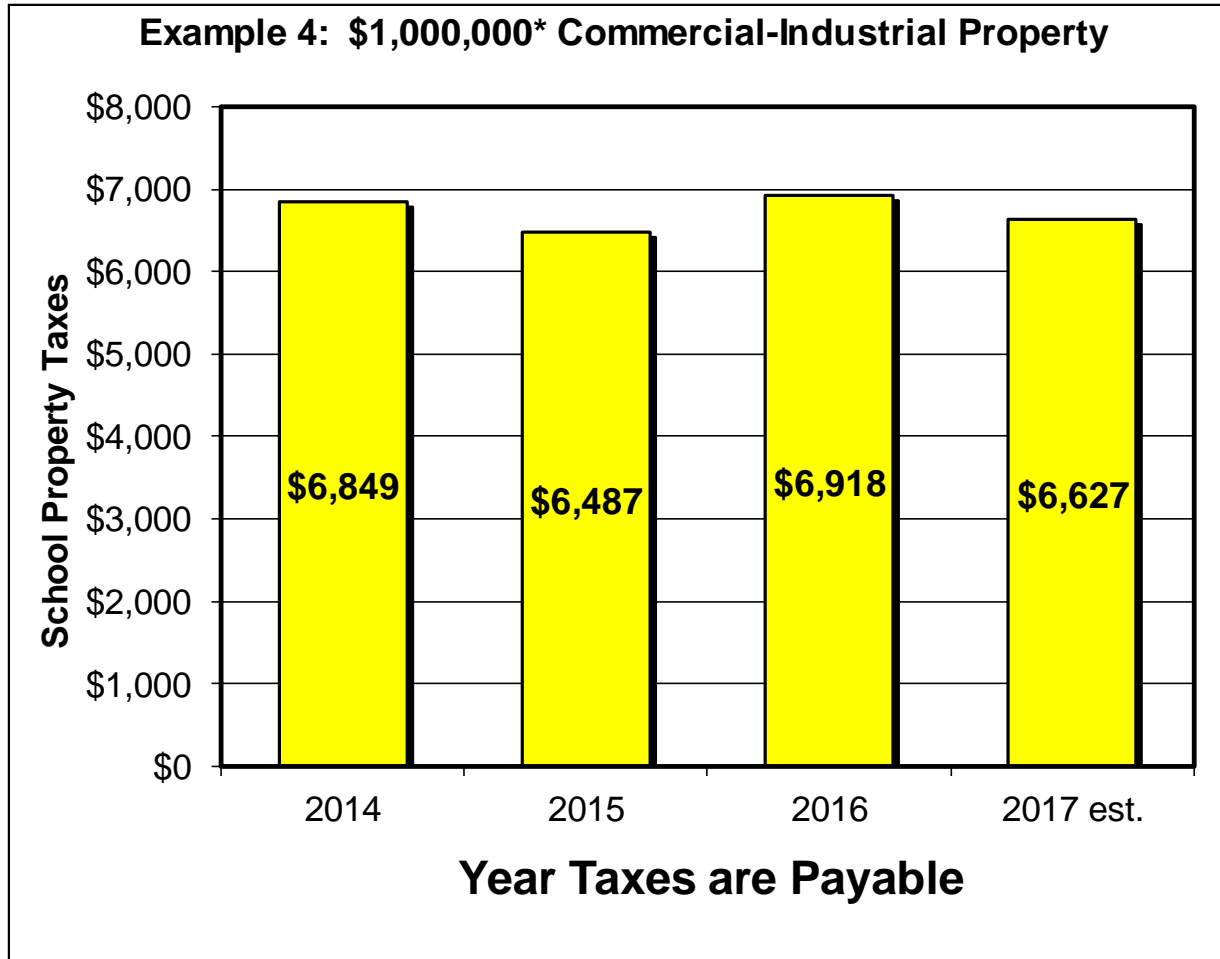


* For all four examples of properties, the value shown in the title of the chart is the estimated market value for taxes payable in 2017. Taxes are calculated based on changes in market value of 10.0% from 2014 to 2015 taxes, 0.0% from 2015 to 2016, and 4.0% from 2016 to 2017.

South St. Paul Public Schools

Estimated Changes in School Property Taxes, 2014 to 2017

Based on 14.4% Cumulative Changes in Property Value from 2014 to 2017 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 2017. Taxes are calculated based on changes in market value of 10.0% from 2014 to 2015 taxes, 0.0% from 2015 to 2016, and 4.0% from 2016 to 2017.

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 forms are completed and sent in
- For help with forms and instructions
 - Consult tax professional
 - Visit Department of Revenue web site at www.revenue.state.mn.us

State Property Tax Refunds

- Minnesota Property Tax Refund (aka “Circuit Breaker” Refund)
 - Available to all owners of homestead property
 - Annual income must be approximately \$107,930 or less (income limit is higher if taxpayer has dependents)
 - Refund is a sliding scale, based on total property taxes and income
 - Maximum refund is \$2,620
 - 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 prior year
 - 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

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 property taxes on their home
- Taxes paid in any year limited to 3% of household income for year before entering deferral program; 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 property
- Deferred property taxes plus accrued interest must be paid when home is sold or homeowner(s) dies

Next Steps

- School Board will accept public comments and questions on proposed tax levy
- School Board will certify final 2017 tax levy

Public Comments and Questions