

Public Hearing for Taxes Payable in 2023

December 12, 2022
School Board Meeting

PRESENTED BY:

MARK STOTTS,

DIRECTOR OF FINANCE &
OPERATIONS

Minnesota State Law Requirements

A Public Meeting...

- Between November 25th & December 28th
- At 6:00 PM or later
- May be part of regularly scheduled meeting
- Must allow for public comments
- May adopt final levy at same meeting

...and Presentation of:

- Current year budget
- Proposed property tax levy

Hearing Agenda

- Background Information on School Funding
- District's Budget
- District's Proposed Tax Levy for Taxes Payable in 2023
- Public Comments

MN Legislature Must 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,
Funding is
Highly
Regulated

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 in November

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

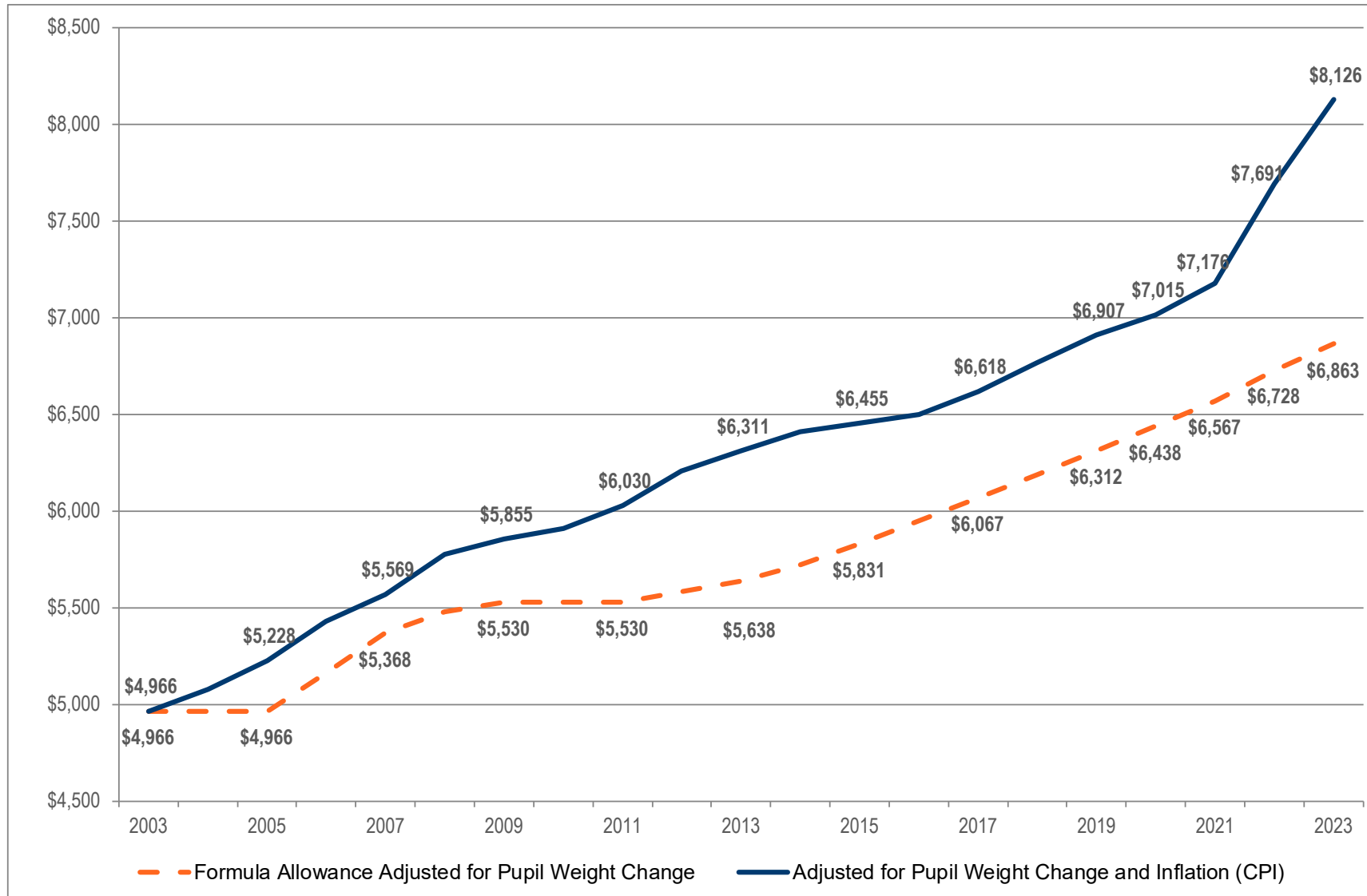
Basic General Education Formula Lags Inflation

- Since 2002-03, state General Education Revenue formula has not kept pace with inflation
- For Fiscal Year 2021-22, an increase of 2.45% or \$161 over previous year was approved
- For Fiscal Year 2022-23, an increase of 2.00% or \$135 over previous year was approved

Per-pupil allowance for Fiscal Year 2022-23 of \$6,863 would need to increase by another \$1,263 (18.4%) to have kept pace with inflation since 2002-03, resulting in an allowance of \$8,126

General Education Formula Allowance, 2003-2023

Adjusted for Pupil Weight Change and Inflation (CPI)

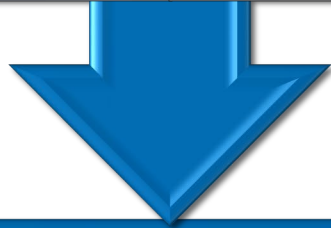


Source: MDE June 2022 Inflation Estimates

According to MN Department of Education (MDE):

FY 2020 costs of providing programs were underfunded statewide by \$591 million

By FY 2025 costs of providing programs statewide will be underfunded by \$806 million



Primary options to bridge funding gap are to cut regular program budgets or increase referendum revenue, most districts have done both

Underfunding of Special Education

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 & fund balance



An increase in school taxes does not always correlate to an equal increase in budget

Difference in Levy Cycles



School District:

- Budget year begins July 1st
- 2023 taxes provide revenue for 2023-24 fiscal year
- Budget adopted in June 2023



City/County:

- Budget year begins Jan. 1st
- 2023 taxes provide revenue for 2023 calendar year budget

Budget Information

Because approval of school district budget lags certification of tax levy by six months, state requires only current year budget information be presented at this hearing. Fiscal Year 2023-24 budget will be adopted by School Board in June 2023.

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
- Internal Service
- OPEB* Trust
- OPEB* Debt Service



**Other Post-Employment Benefits*

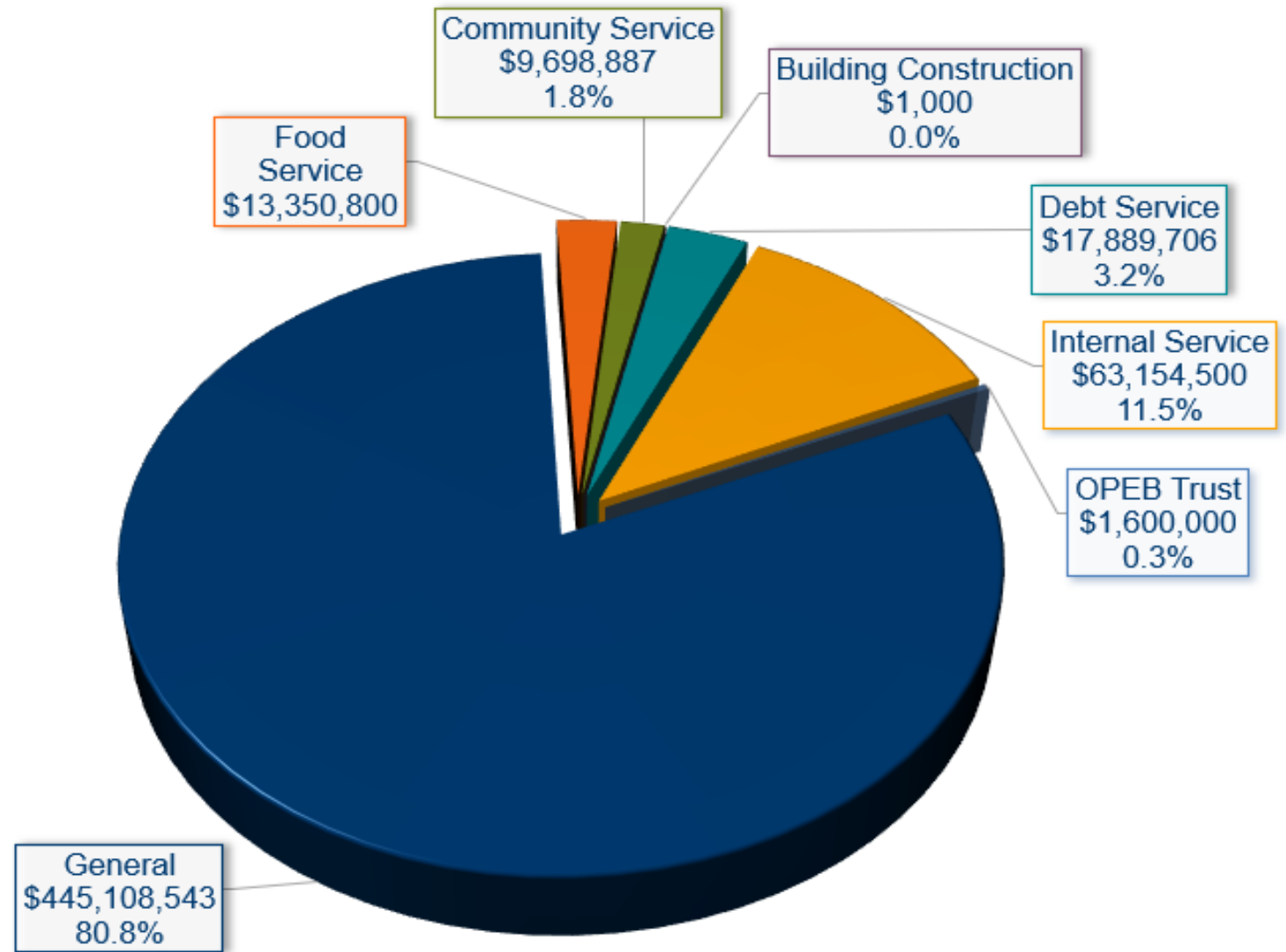
District Revenues & Expenditures
Actual for FY 2022, Budget for FY 2023

| FUND | FISCAL 2022 BEGINNING | 2021-22 ACTUAL | | JUNE 30, 2022 ACTUAL | 2022-23 BUDGET | | JUNE 30, 2023 PROJECTED |
|-------------------------|--------------------------|----------------------------|--------------------------------|-------------------------|---------------------------|---------------------------------|----------------------------|
| | FUND BALANCES | REVENUES & TRANSFERS IN | EXPENDITURES & TRANSERS OUT | FUND BALANCES | REVENUES & TRANSERS IN | EXPENDITURES & TRANSFERS OUT | FUND BALANCES |
| General/Restricted | \$12,558,009 | \$33,144,843 | \$29,515,461 | \$16,187,392 | \$32,427,082 | \$38,351,415 | \$10,263,059 |
| General/Other | 72,300,568 | 404,085,638 | 398,478,800 | 77,907,406 | 412,681,461 | 417,248,449 | 73,340,418 |
| Food Service | 4,014,133 | 19,675,333 | 15,417,401 | 8,272,065 | 13,350,800 | 12,131,985 | 9,490,880 |
| Community Service | 3,244,071 | 9,590,206 | 9,624,327 | 3,209,950 | 9,698,887 | 9,527,723 | 3,381,114 |
| Building Construction | 8,639,338 | 10,701,947 | 19,042,686 | 298,599 | 1,000 | 3,000 | 296,599 |
| Debt Service | 1,373,143 | 30,060,026 | 29,152,888 | 2,280,281 | 17,889,706 | 16,930,000 | 3,239,987 |
| Internal Service | 17,647,285 | \$61,709,543 | 62,641,228 | - | 63,154,500 | 57,634,989 | - |
| OPEB* Irrevocable Trust | 63,351,360 | (6,059,314) | 2,778,866 | 54,513,180 | 1,600,000 | 4,500,000 | 51,613,180 |
| OPEB* Debt Service | 2,263,632 | - | - | 2,263,632 | - | - | 2,263,632 |
| Total All Funds | \$185,391,538 | \$562,908,223 | \$566,651,656 | \$164,932,505 | \$550,803,436 | \$556,327,561 | \$153,888,869 |

*Other Post Employment Benefits

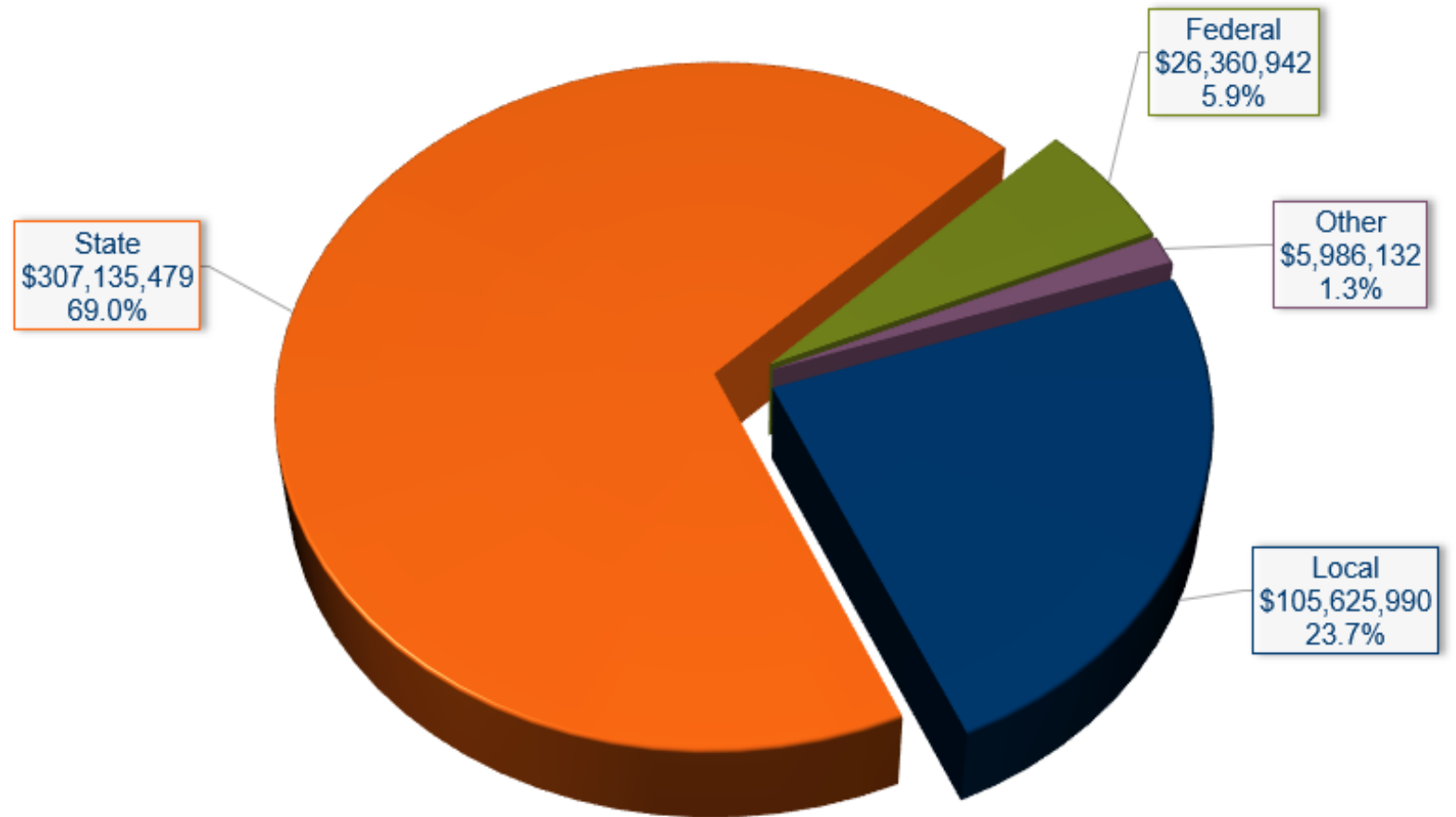
Revenue - All Funds -

2022-23 Budget
\$550,803,436



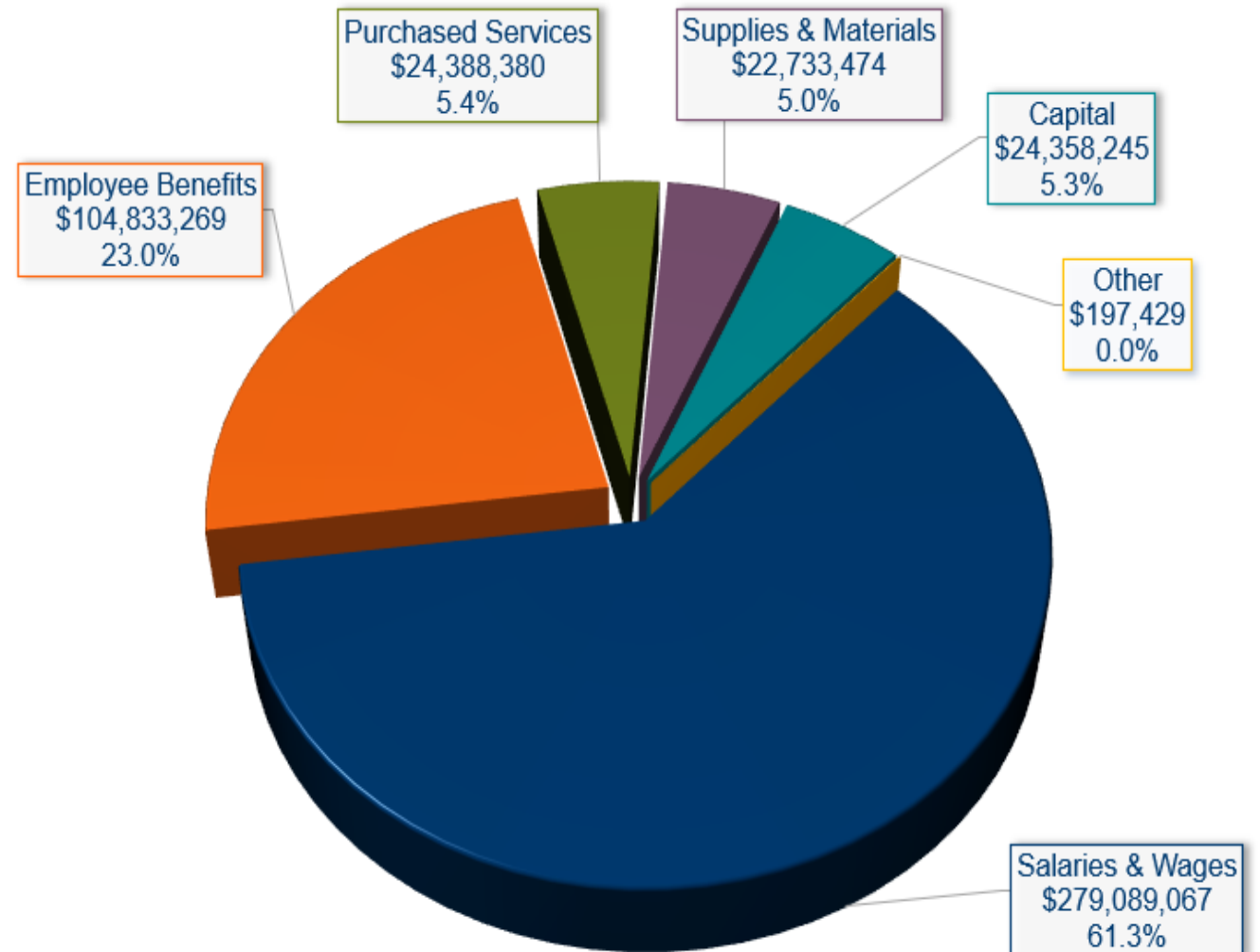
General Fund Revenue

2022-23 Budget
\$445,108,543



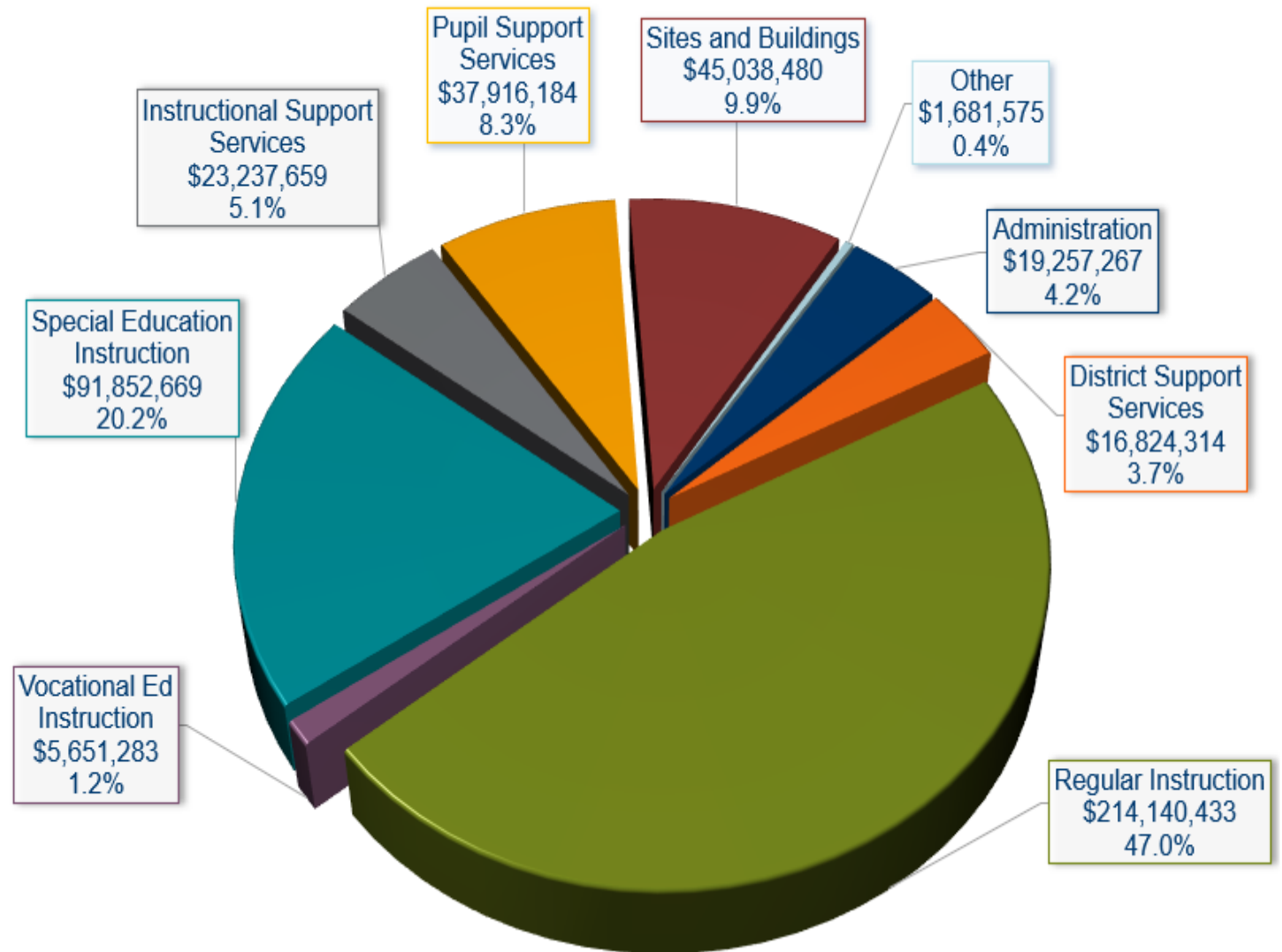
General Fund Expenditures - by Object -

2022-23 Budget
\$455,599,864



General Fund Expenditures - by Program -

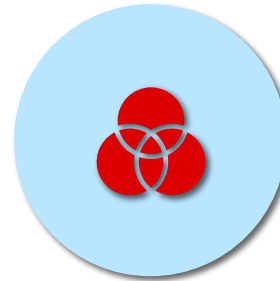
2022-23 Budget
\$455,599,864



Payable 2023 Property Tax Levy



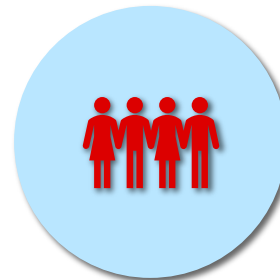
Determination of levy



Comparison of 2022 to 2023
levies



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 & distributes funds back to other taxing jurisdictions

Sample of parcel specific notice mailed to every property owner between November 11 & November 24

Contents:

- Proposed property taxes compared to last year
 - By taxing jurisdiction
 - By voter approved & other for school district
- Time & place of public meetings



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 2023

THIS IS NOT A BILL. DO NOT PAY.

| VALUES AND CLASSIFICATION | | | |
|---|----------------------------------|------------|-----------|
| Step | Taxes Payable Year | 2022 | 2023 |
| 1 | Estimated Market Value | \$125,000 | \$150,000 |
| | Homestead Exclusion | \$ | \$23,800 |
| | Taxable Market Value | \$125,000 | \$126,200 |
| | Class | Res NHstd | 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 2023 | | |
| The time to provide feedback on PROPOSED LEVIES is NOW | | | |

Proposed Property Taxes and Meetings by Jurisdiction for Your Property

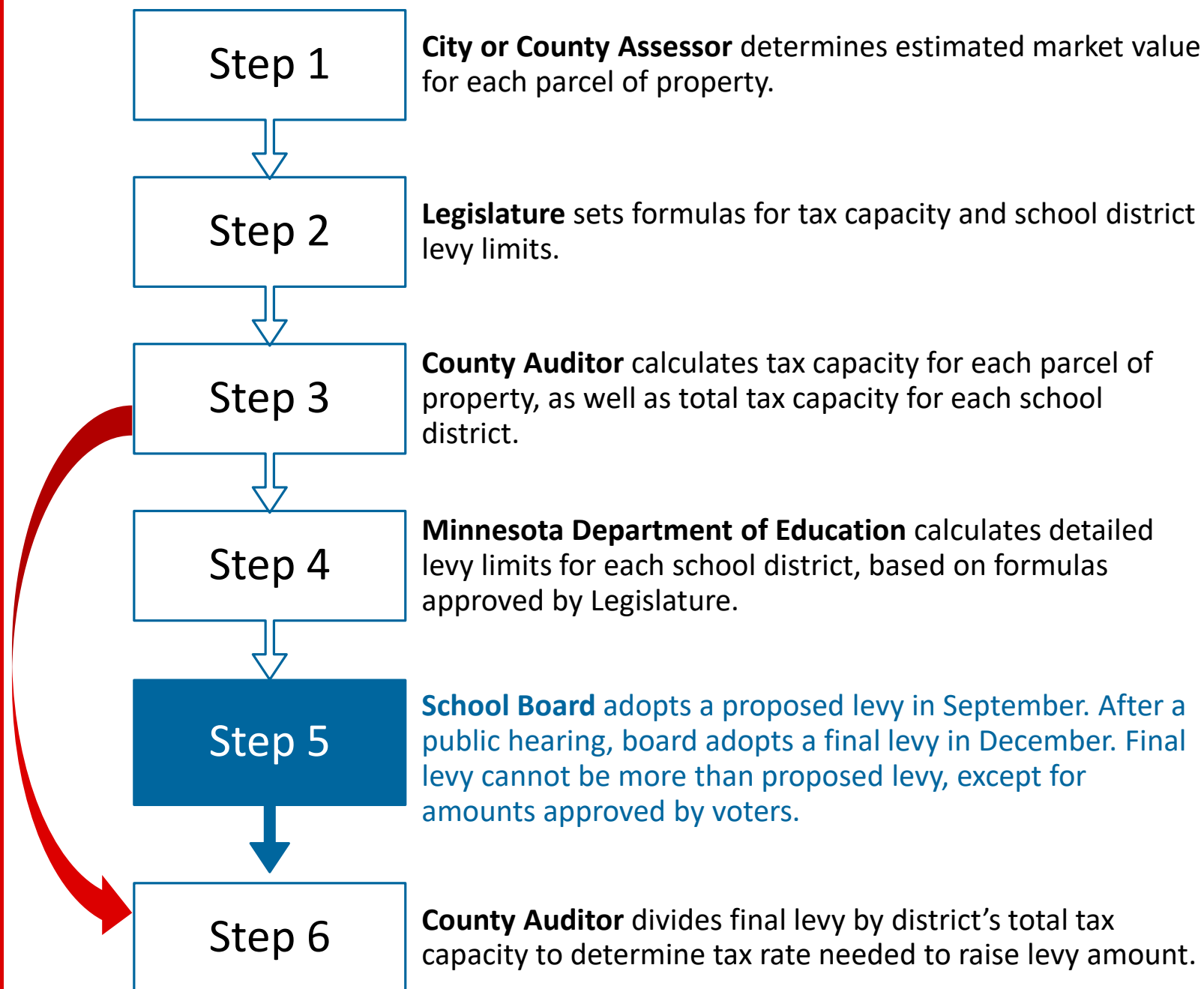
| Contact Information | Meeting Information | Actual 2022 | Proposed 2023 |
|---|--|-------------|---------------|
| State General Tax | No meeting required | \$0 | \$0 |
| County of Spruce Spruce County Courthouse 123 Spruce St Spruceville, MN 55555 www.co.spruce.mn.us (555) 123-4567 | December 2, 7:00 PM | \$438.06 | \$484.18 |
| City of Spruceville Mayor's Office 456 Spruce St Spruceville, MN 55555 www.ci.spruceville.mn.us (555) 123-7894 | December 1, 6:30 PM Spruceville City Hall | \$273.79 | \$312.06 |
| Spruceville School District 900 150 1st St N Spruceville, MN 55555 www.spruceville.k12.mn.us (555) 123-6780 | December 9, 7:00 PM Spruceville High School Cafeteria | | |
| Voter Approved Levies | | \$289.35 | \$296.68 |
| Other Levies | | \$340.11 | \$374.60 |
| 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 2023 may be higher than the proposed amount shown on this notice. | | | |
| 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 meeting required | \$12.80 | \$13.02 |
| Tax Increment Tax | No meeting required | \$10.15 | \$11.22 |
| Total excluding any special assessments | | \$1,422.02 | \$1,660.46 |
| | | | 9.0% |

School District Property Taxes

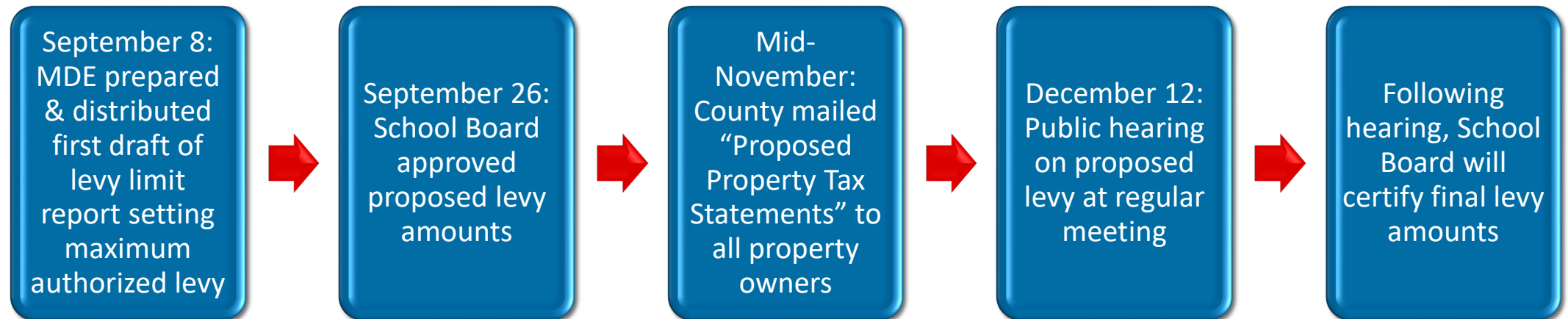
- Each school district may levy taxes in over 40 different categories
- Maximum levy amounts (calculated by MDE) for each category are set by:
 - State law
 - Voter approval
- Property Tax Process
 - Key steps in process are summarized on next slide
 - Any of these steps may affect taxes on a parcel of property, but district has control over only 1 of 6 steps

School District Property Tax Process

Note: For certain levy categories, tax rates & levy amounts are based on referendum market value, rather than tax capacity.



Approval of District's Tax Levy in 2022 (Payable 2023)



The background of the slide features a blurred image of financial documents. In the foreground, there is a bar chart with blue bars and a red line graph. Behind it, another document with a pie chart and various data tables is visible. The overall theme is financial analysis and reporting.

Overview of District's Proposed Tax Levy

- Proposed Payable 2023 tax levy is an increase from 2022 of \$8,753,368 or 7.0%
- Changes by levy category and reasons for major increases & decreases in levy are included on following slides

Comparison of Actual Tax Levy Payable in 2022 to Proposed Levy Payable in 2023

| Fund Levy Category | Actual Levy Payable in 2022 | Proposed Levy Payable in 2023 | \$ Change | % Change |
|--|-----------------------------|-------------------------------|--------------------|-------------|
| General | | | | |
| Voter Approved Operating Referendum | \$53,007,007 | \$57,275,880 | \$4,268,872 | |
| Local Optional Revenue (LOR) | 20,972,474 | 21,033,449 | 60,976 | |
| Equity | 2,614,151 | 2,595,350 | (18,801) | |
| Capital Project/Technology Referendum | 6,986,813 | 7,365,343 | 378,529 | |
| Operating Capital | 2,414,342 | 2,586,728 | 172,385 | |
| Alternate Teacher Compensation | 2,733,648 | 2,720,415 | (13,234) | |
| Achievement and Integration | 1,638,071 | 1,654,761 | 16,689 | |
| Long Term Facilities Maintenance | 7,995,319 | 10,002,585 | 2,007,266 | |
| Instructional Lease | 5,319,581 | 5,315,466 | (4,116) | |
| Other | 2,827,406 | 2,938,956 | 111,550 | |
| Prior Year Adjustments | (1,334,002) | 758,697 | 2,092,699 | |
| Total, General Fund | \$105,174,812 | \$114,247,628 | \$9,072,817 | 8.6% |
| Community Service | | | | |
| Basic Community Education | \$1,131,079 | \$1,137,326 | \$6,247 | |
| Early Childhood Family Education | 606,118 | 648,502 | 42,383 | |
| Other | 21,422 | 22,803 | 1,381 | |
| Prior Year Adjustments | 8,442 | 1,865 | (6,577) | |
| Total, Community Service Fund | \$1,767,062 | \$1,810,496 | \$43,434 | 2.5% |
| Debt Service | | | | |
| Voter Approved | \$17,765,601 | \$17,430,946 | (\$334,655) | |
| Prior Year Adjustments | 58,548 | 30,320 | (28,228) | |
| Total, Debt Service Fund | \$17,824,149 | \$17,461,266 | (\$362,883) | -2.0% |
| Total Levy, All Funds | \$124,766,022 | \$133,519,390 | \$8,753,368 | 7.0% |
| Subtotal by Truth in Taxation Categories: | | | | |
| Voter Approved | 76,974,283 | 83,907,182 | 6,932,899 | |
| Other | 47,791,739 | 49,612,208 | 1,820,469 | |
| Total | \$124,766,022 | \$133,519,390 | \$8,753,368 | 7.0% |

Explanation of Levy Changes

Category:

General Fund - Voter Approved Operating Referendum

Change:

+\$4,268,872

Use of Funds:

General Operating Expenses

Reason for Change:

- Voter approved operating referendum authority includes an annual inflationary increase
- Inflation factors are determined by State, as set in statute

Explanation of Levy Changes

Category:

General Fund – Long Term Facilities Maintenance (LTFM)

Change:

+\$2,007,266

Use of Funds:

Deferred Maintenance

Reasons for Change:

- District is eligible for LTFM revenue based on state approved project costs
- Levies are coordinated with other capital and debt levies to maintain a level or declining tax rate

Explanation of Levy Changes

Category:

General Fund – Prior Year Adjustments

Change:

+\$2,092,699

Use of Funds:

Various

Reason for Change:

Initial levies are based on estimates. In later years, amounts are updated and levies are retroactively adjusted.

Factors Impacting Individual Taxpayers' School Taxes

Many factors can cause a 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 within District
- Increases or decreases in levy amounts caused by changes in state funding formulas, local needs & costs, voter-approved referendums & other factors

Four Year School Levy Comparison

- Examples include school district taxes only & are shown based on no change and a 25.6% increase in property value for residential homes over the past four years
 - Actual changes in value may be more or less than this for any parcel of property
 - Intended to provide a fair representation of what happened to school district property taxes over this period for typical properties
- Examples are for property in City of Apple Valley
- Amounts for 2023 are preliminary estimates; final amounts could change slightly
- Estimates prepared by Ehlers (District's municipal financial advisors)

Estimated Changes in School Property Taxes, 2020 to 2023
Based on No Changes in Property Values

| Type of Property | Estimated Market Value | Actual Taxes Payable in 2020 | Actual Taxes Payable in 2021 | Actual Taxes Payable in 2022 | Estimated Taxes Payable in 2023 | Change in Taxes 2020 to 2023 | Change in Taxes 2022 to 2023 |
|--|------------------------|------------------------------|------------------------------|------------------------------|---------------------------------|------------------------------|------------------------------|
| Residential Homestead | \$200,000 | \$1,046 | \$1,017 | \$988 | \$918 | -\$128 | -\$70 |
| | 300,000 | 1,606 | 1,562 | 1,519 | 1,411 | -195 | -108 |
| | 400,000 | 2,167 | 2,108 | 2,050 | 1,904 | -263 | -146 |
| | 500,000 | 2,711 | 2,638 | 2,565 | 2,382 | -329 | -183 |
| | 600,000 | 3,303 | 3,216 | 3,128 | 2,903 | -400 | -225 |
| | 1,000,000 | 5,671 | 5,526 | 5,380 | 4,988 | -683 | -392 |
| Commercial/ Industrial # | \$400,000 | \$2,254 | \$2,226 | \$2,131 | \$1,991 | -\$263 | -\$140 |
| | 750,000 | 4,305 | 4,256 | 4,074 | 3,805 | -500 | -269 |
| | 1,500,000 | 8,701 | 8,608 | 8,239 | 7,693 | -1,008 | -546 |
| Apartments and Res. Non-Homestead (2 or more units) | \$400,000 | \$2,368 | \$2,311 | \$2,252 | \$2,085 | -\$283 | -\$167 |
| | 750,000 | 4,439 | 4,333 | 4,222 | 3,909 | -530 | -313 |
| | 1,200,000 | 7,103 | 6,932 | 6,756 | 6,254 | -849 | -502 |

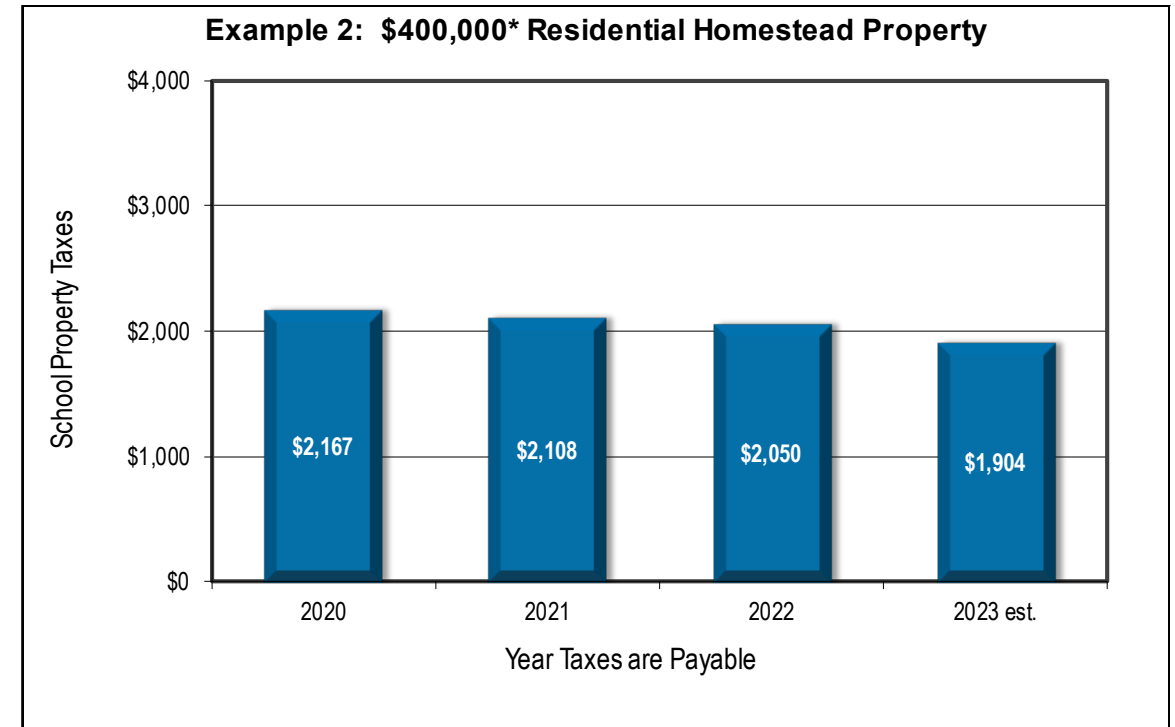
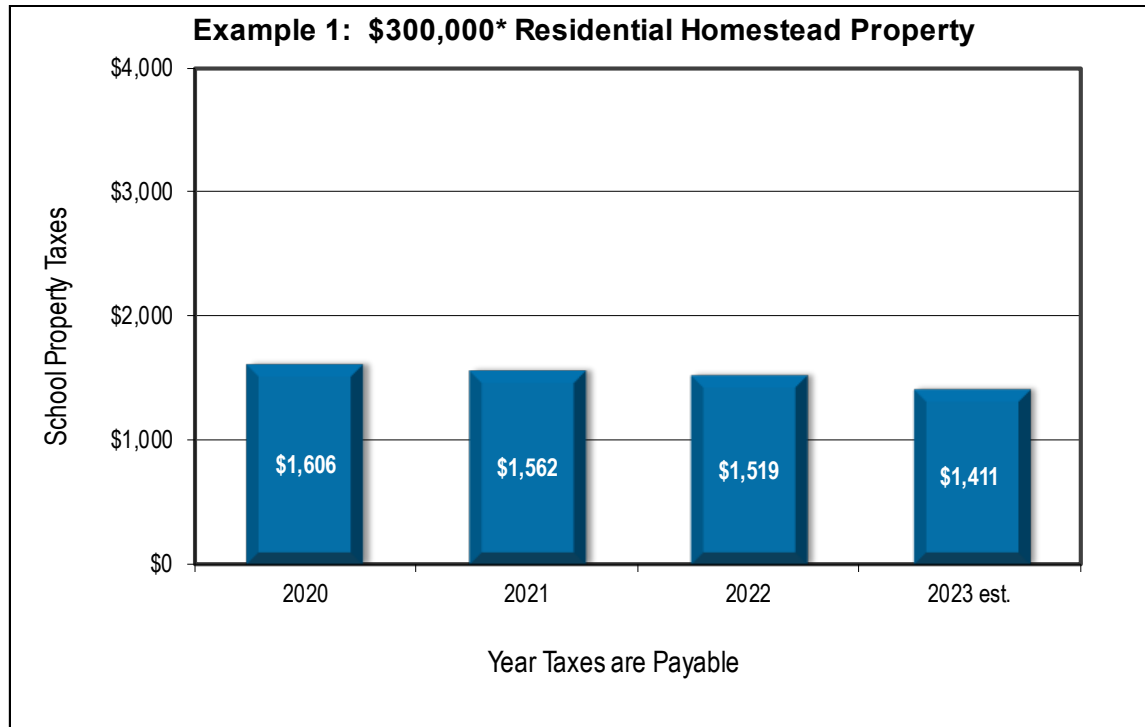
For commercial-industrial property, amounts above are for property in the City of Apple Valley. Taxes for commercial-industrial property in other municipalities may be slightly different, due to the impact of the Fiscal Disparities Program.

General Notes

1. Amounts are based on school district taxes only, and do not include taxes for city or township, county, state, or other taxing jurisdictions.
2. Estimates of taxes payable in 2023 are preliminary, based on the best data available.
3. For all examples of properties, taxes are calculated based on no changes in estimated market value from 2020 to 2023.

Estimated Changes in School Property Taxes, 2020-23

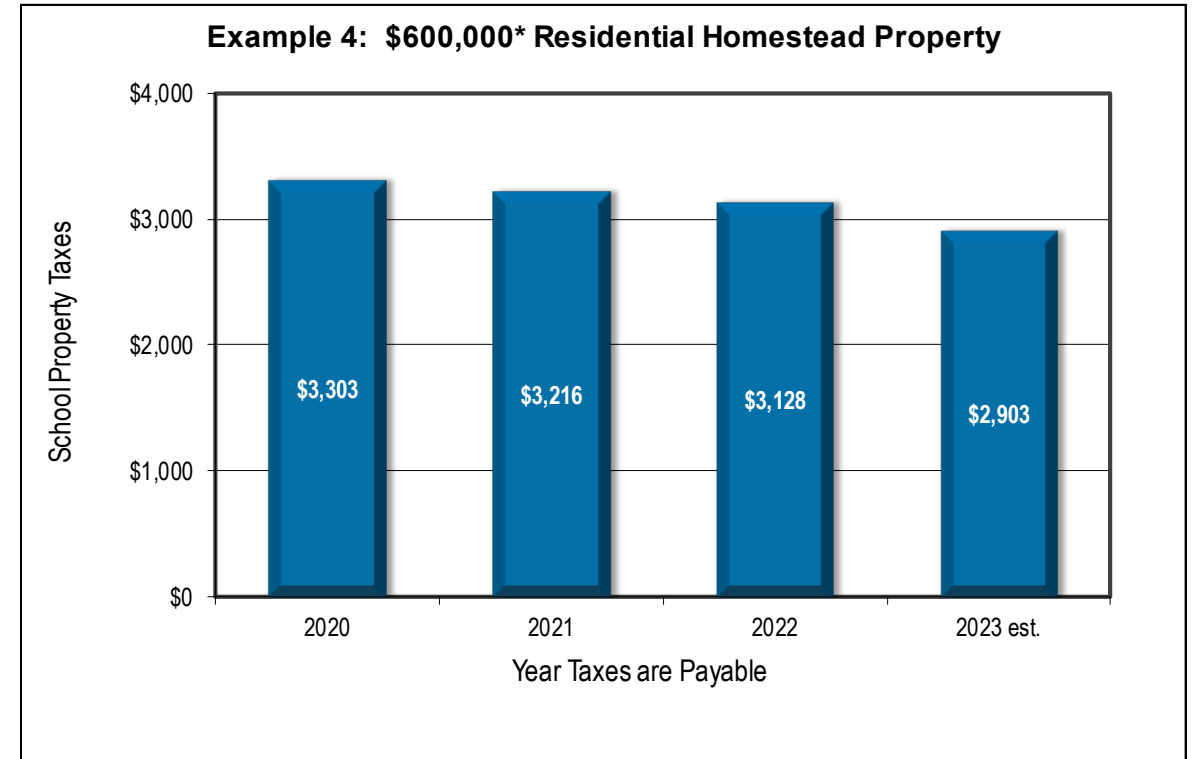
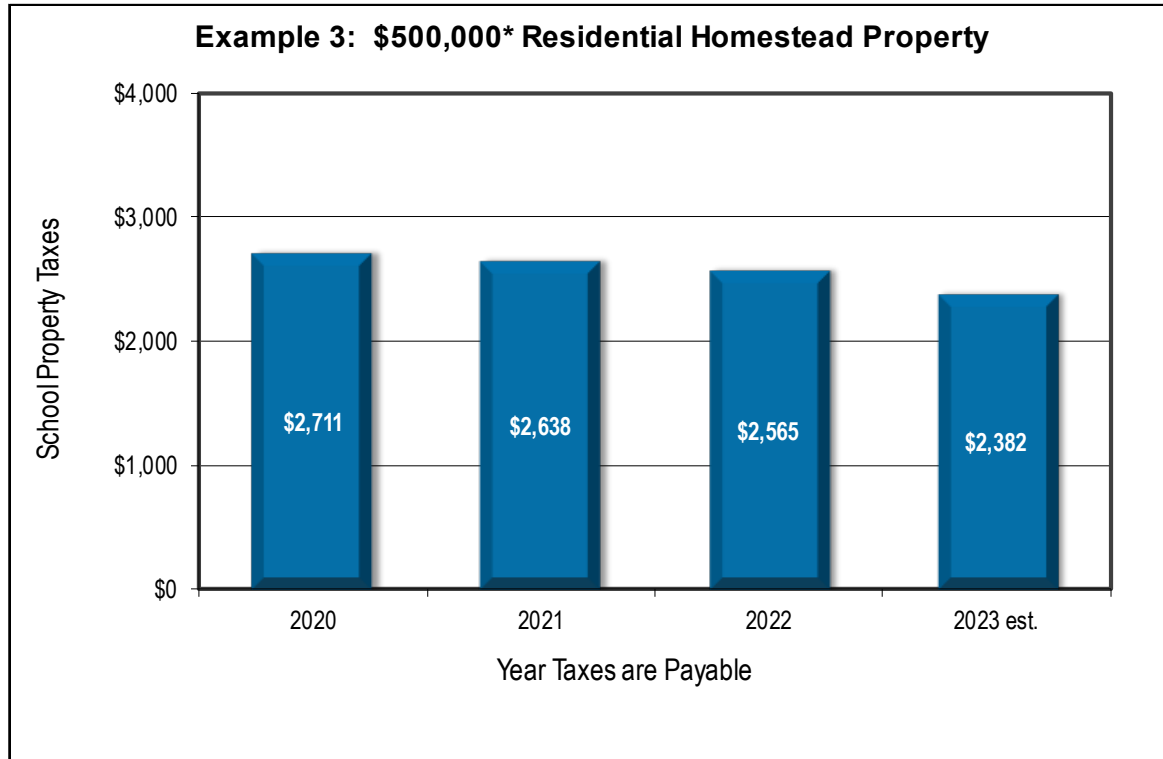
Based on No Changes in Property Value



* Estimated market value for taxes payable in 2023. Taxes are calculated based on no changes in market value from 2020 to 2023.

Estimated Changes in School Property Taxes, 2020-23

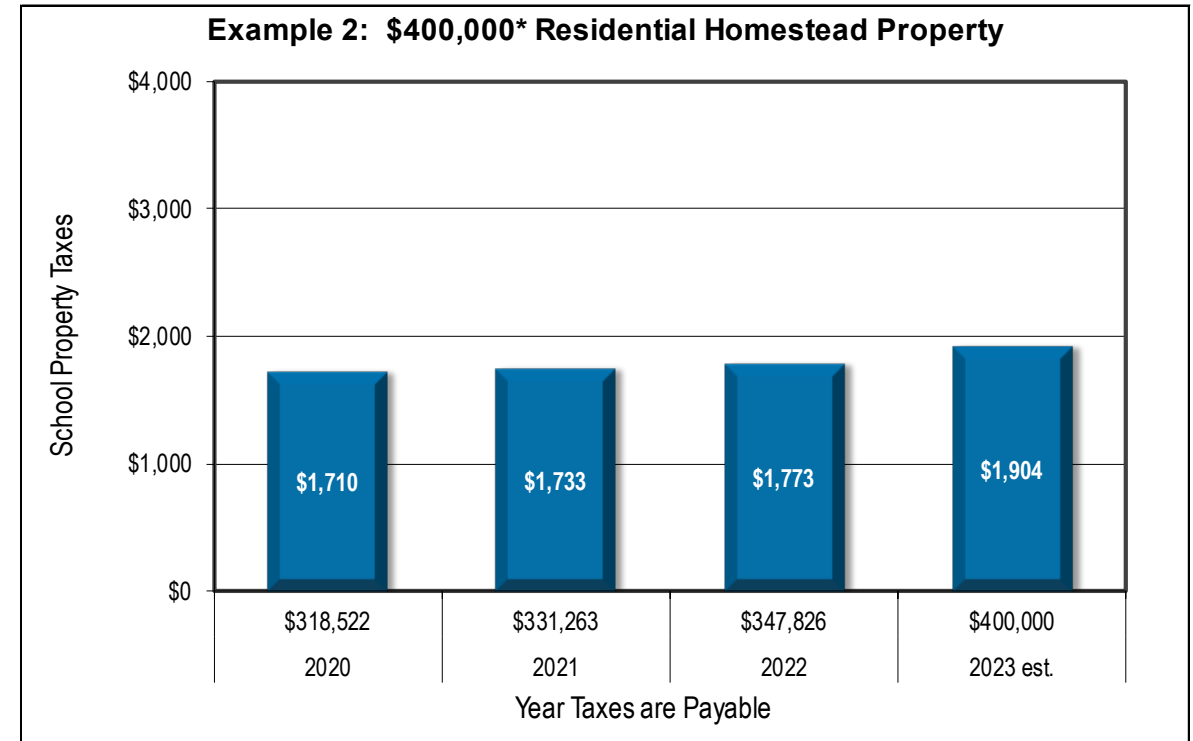
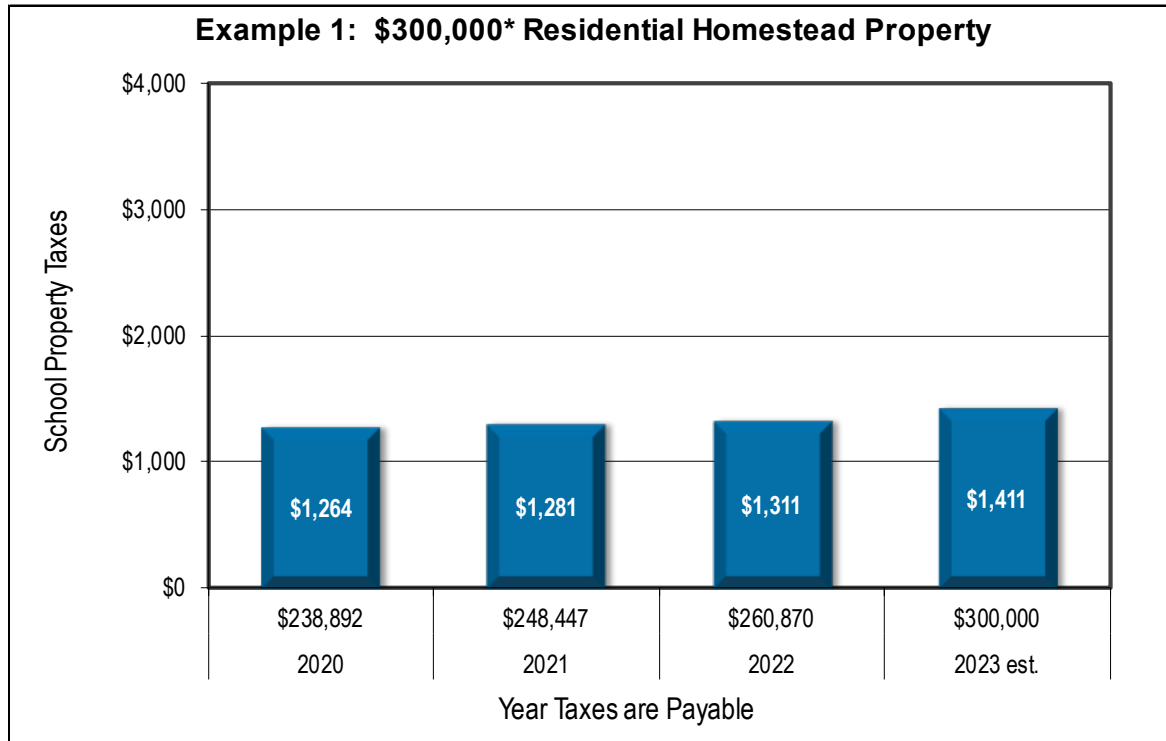
Based on No Changes in Property Value



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Estimated Changes in School Property Taxes, 2020-23

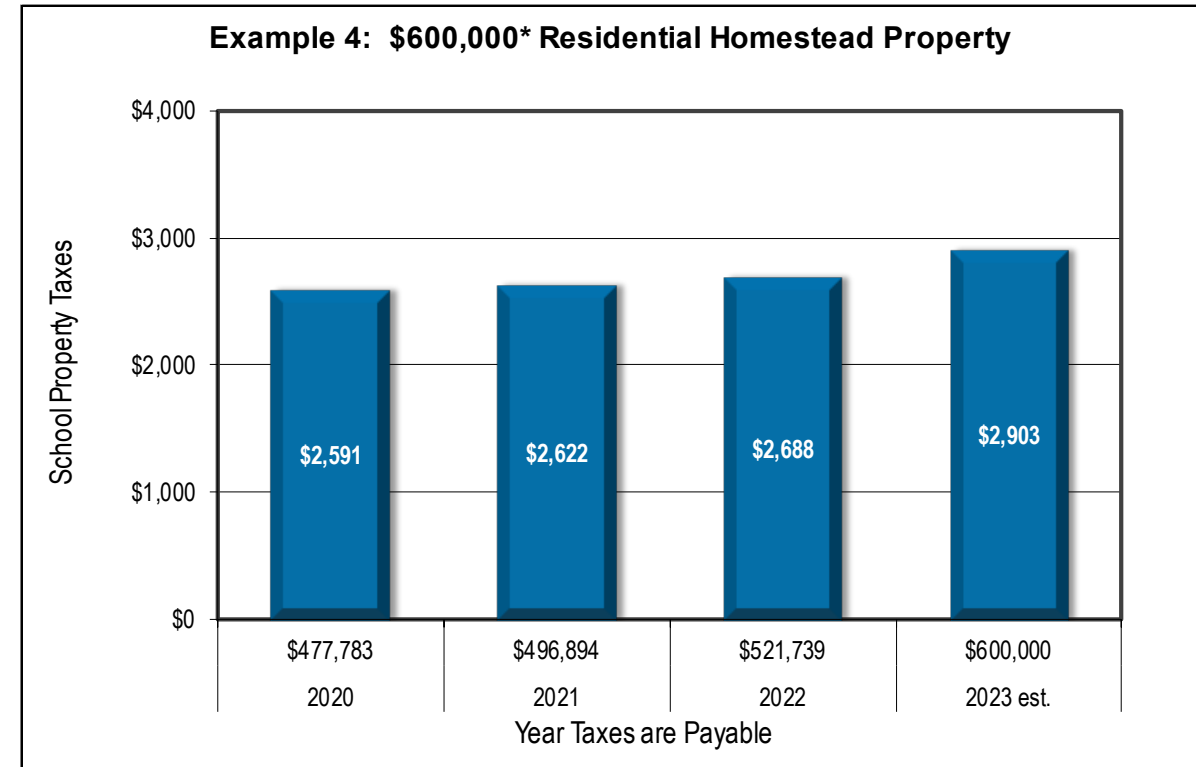
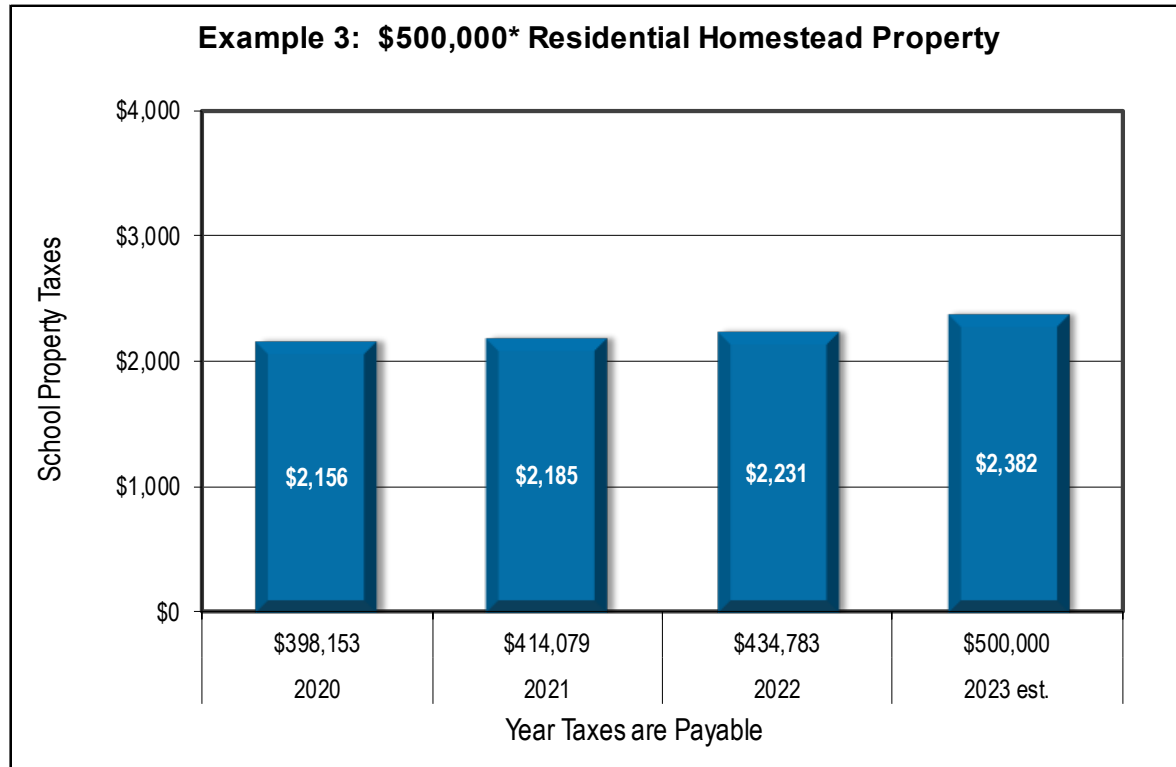
Based on 25.6% Cumulative Changes in Property Value



* Estimated market value for taxes payable in 2023. Taxes are calculated based on changes in market value of 4.0% from 2020 to 2021, 5.0% from 2021 to 2022 and 15.0% from 2022 to 2023.

Estimated Changes in School Property Taxes, 2020-23

Based on 25.6% Cumulative Changes in Property Value



* Estimated market value for taxes payable in 2022. Taxes are calculated based on changes in market value of 4.0% from 2020 to 2021, 5.0% from 2021 to 2022 and 15.0% from 2022 to 2023.

State Property Tax Refunds & Deferral

Homestead Credit Refund

- Available for all homestead property, both residential and agricultural (house, garage and one acre (HGA) only)
- Refund is sliding scale, based on total property taxes and income (maximum refund is \$2,930 for homeowners and \$2,280 for renters)

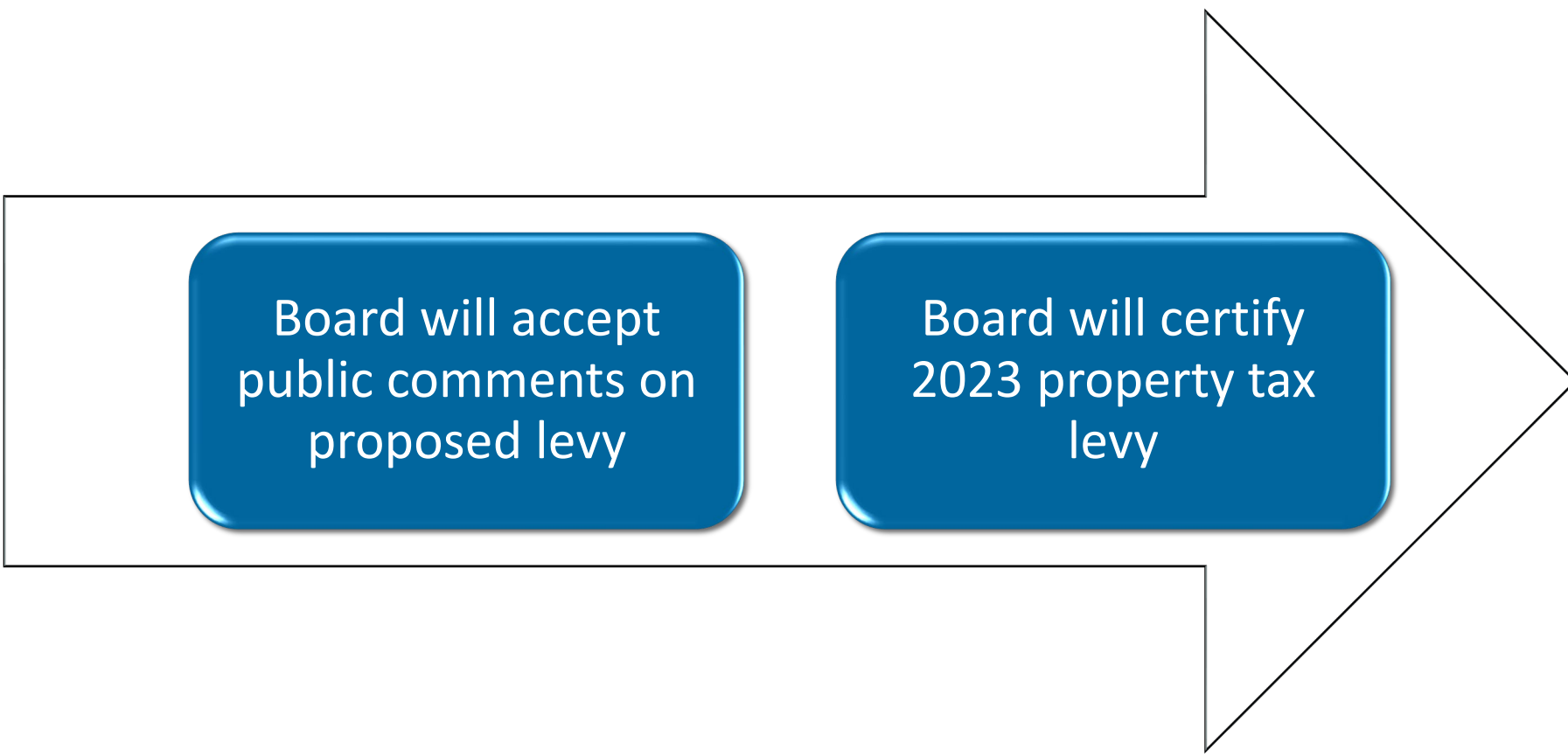
Special Property Tax Refund

- Available for all homestead property, both residential & agricultural (HGA only) with a gross tax increase of at least 12% and \$100 over prior year
- Refund is 60% of tax increase that exceeds greater of 12% or \$100 (max \$1,000)

Senior Citizen Property Tax Deferral

- Allows people 65 years of age or older with household income of \$60,000 or less to defer a portion of property taxes on their home
- Deferred property taxes plus accrued interest must be paid when home is sold or homeowner(s) dies

Next Steps



Board will accept
public comments on
proposed levy

Board will certify
2023 property tax
levy



DISTRICT196[®]

One District. Infinite Possibilities.

PUBLIC COMMENTS