

Willmar Public Schools, ISD #347
Public Hearing for Taxes Payable in 2012





WELCOME

December 12, 2011

Presented by:

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Tax Hearing Presentation

- State law requires that we present information on the current year budget and actual revenue and expenditures for the prior year
- State law also requires that we present information on the proposed property tax levy, including:
 - The percentage increase over the prior year
 - Specific purposes and reasons for which taxes are being increased
- District must also allow for public comments



Agenda for Hearing

- A.** Background on School Funding, Property Tax Levies, and Budgets
- B.** Information on District Budget
- C.** Explanation of 2011 Legislation to Convert Homestead Credit to Homestead Exclusion
- D.** Information on the District's Proposed Tax Levy for Taxes Payable in 2012
- E.** Public Comments and Questions

Public Schools Established by 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 is based on specified amounts per pupil
- **State sets** tax policy for local schools
- **State sets** maximum authorized property tax levy (districts can levy less but not more than amount authorized by state, unless approved by the voters)
- **State authorizes** school board to submit referendums for operating and capital needs to voters for approval

State Funding for Schools Has Not Kept Pace with Inflation

- Increases in basic general education revenue per pupil have been less than inflation
 - Per-pupil revenue for fiscal year 2012-13 is projected to be **\$314 below** the 2004-05 inflation adjusted amount
- For Fiscal 2012 and 2013, basic per-pupil funding is projected to increase by less than 1% per year, while most districts' expenses will likely increase (without budget cuts) by at least 2-3% annually

Trends in General Education Formula Allowance for Minnesota School Districts, 2004-05 through 2012-13

Adjusted for Inflation

Fiscal Year	Formula Allowance	CPI-U (2009=1.0) *	Formula Allowance in 2013 \$s	Change Since 2004-05	Formula Allow. if Adjusted for Annual Inflation	Annual Funding Shortfall
2004-05	4,601	0.8929	5,538	0	4,601	0
2005-06	4,783	0.9268	5,546	8	4,776	-7
2006-07	4,974	0.9511	5,620	82	4,901	-73
2007-08	5,074	0.9860	5,530	-8	5,081	7
2008-09	5,124	1.0000	5,507	-31	5,153	29
2009-10	5,124	1.0093	5,456	-82	5,201	77
2010-11	5,124	1.0298	5,347	-191	5,307	183
2011-12	5,174	1.0559	5,266	-272	5,441	267
2012-13	5,224	1.0747	5,224	-314	5,538	314

SOURCE: Formula Allowance and CPI-U are from Minnesota Department of Education,
Referendum Cap Inflation Estimate 2011

* Consumer Price Index for all urban consumers for the Minneapolis-St. Paul area.

Impact is budget cuts and levy referendums...

- With minimal increases in state funding expected, many districts are facing projected budget shortfalls for FY 2013 and FY 2014, and anticipate the need for budget cuts
- To meet local school budget shortfalls, on Nov. 8, 2011, 114 Minnesota districts submitted proposals to voters seeking support of either renewals or increases in operating referendums
- 90 of these districts, or 79%, passed at least 1 operating referendum question

Contrast of City/County to School District Levy Cycle

- City/County - Budget Year is same as calendar year. The 2012 taxes provide revenue for the calendar year 2012 budget.
- Schools - Budget year begins July 1st and coincides with school year. The 2012 taxes provide revenue for the 2012-2013 school fiscal year. Budget will be adopted in June 2012.

Change in Tax Levy Does not Determine Change in 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

Budget Information

- Because approval of the budget lags 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

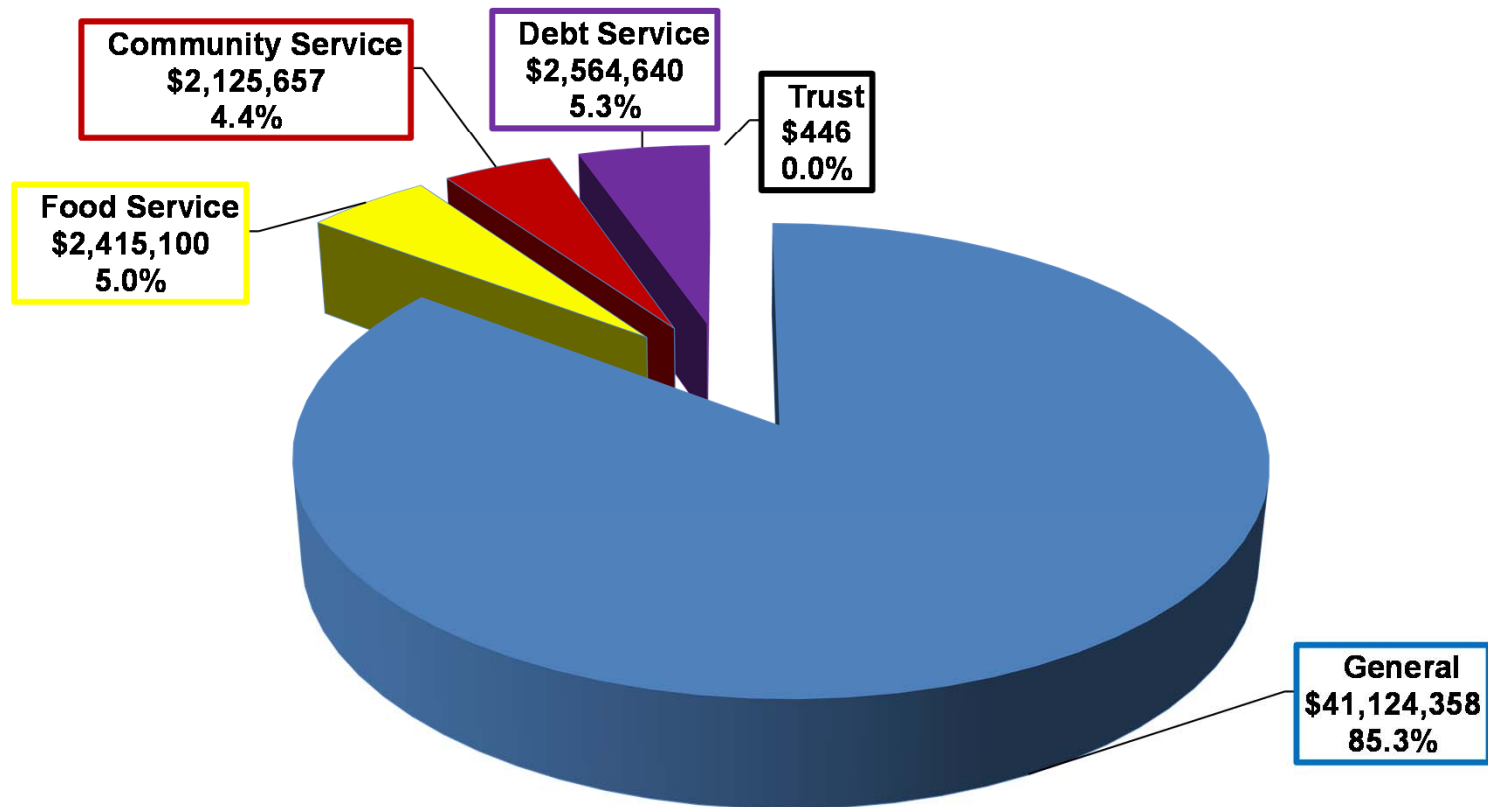
Budget Information

- 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
 - Debt Service
 - Trust
 - Internal Service

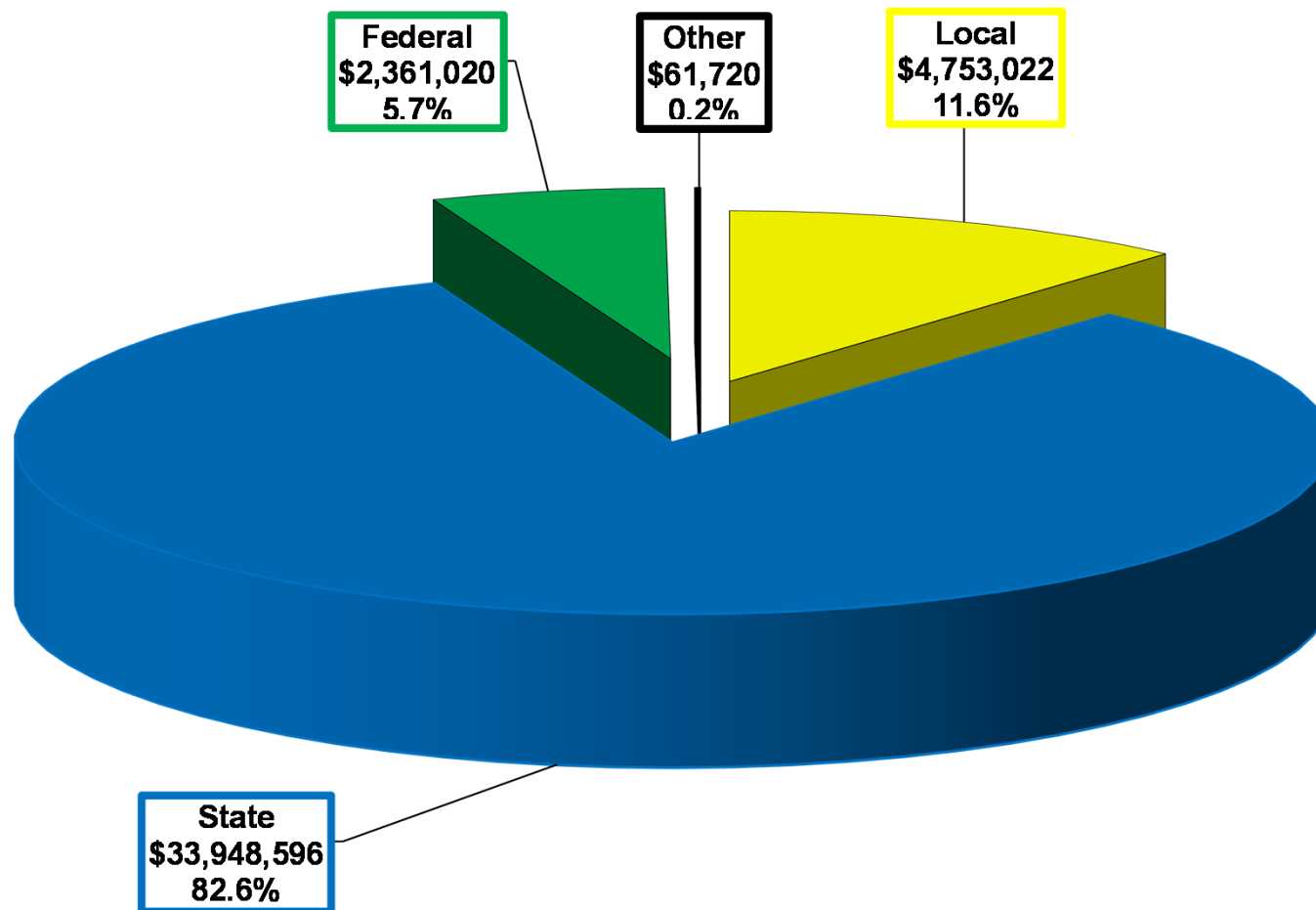
Willmar Public Schools
District Revenues and Expenditures
Actual for FY 11, Budget for FY 12

FUND	2010-11 ACTUAL REVENUES AND TRANSFERS IN	2010-11 ACTUAL EXPENDITURES & TRANSFERS OUT	JUNE 30,2011 ACTUAL FUND BALANCE	2011-12 BUDGET REVENUES AND TRANSFERS IN	2011-12 BUDGET EXPENDITURES & TRANSFERS OUT	JUNE 30,2012 PROJECTED FUND BALANCE
General/Restricted	\$7,862,172	\$7,109,956	\$1,139,644	\$7,284,554	\$7,686,288	\$737,910
General/Other	35,752,972	34,529,992	7,186,564	33,839,804	34,414,661	6,611,707
Food Service	2,540,507	2,425,425	608,790	2,415,100	2,631,347	392,543
Community Service	2,283,602	2,252,741	524,763	2,125,657	2,170,769	479,651
Debt Service	2,567,153	2,595,900	603,864	2,564,640	2,592,050	576,454
Trust	486	2,300	35,102	446	750	34,798
Internal Service			66,417			91,736
Total - All Funds	\$51,006,892	\$48,916,314	\$10,165,144	\$48,230,201	\$49,495,865	\$8,924,799

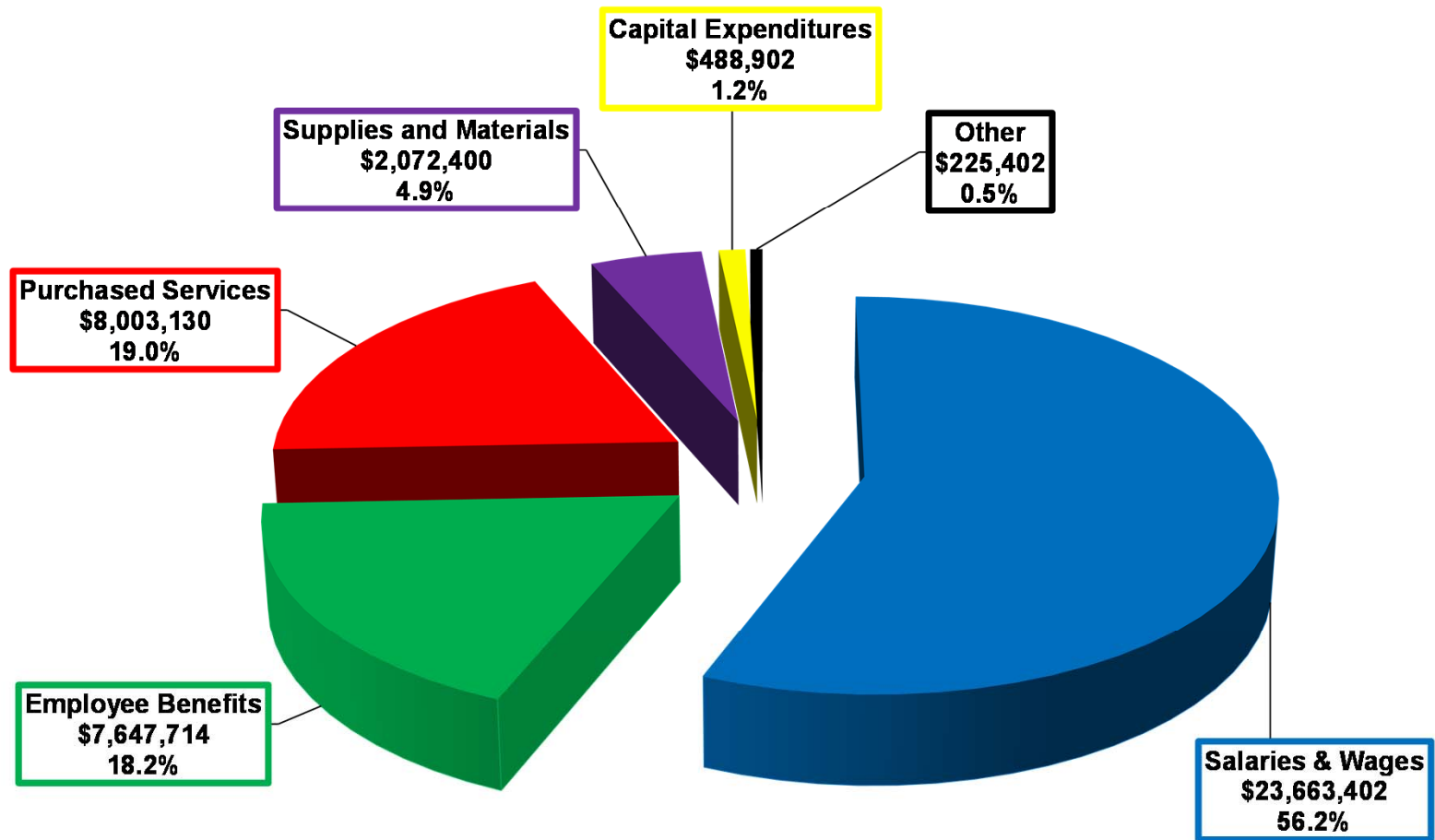
**Willmar Public Schools
Revenue - All Funds
2011-12 Budget \$48,230,201**



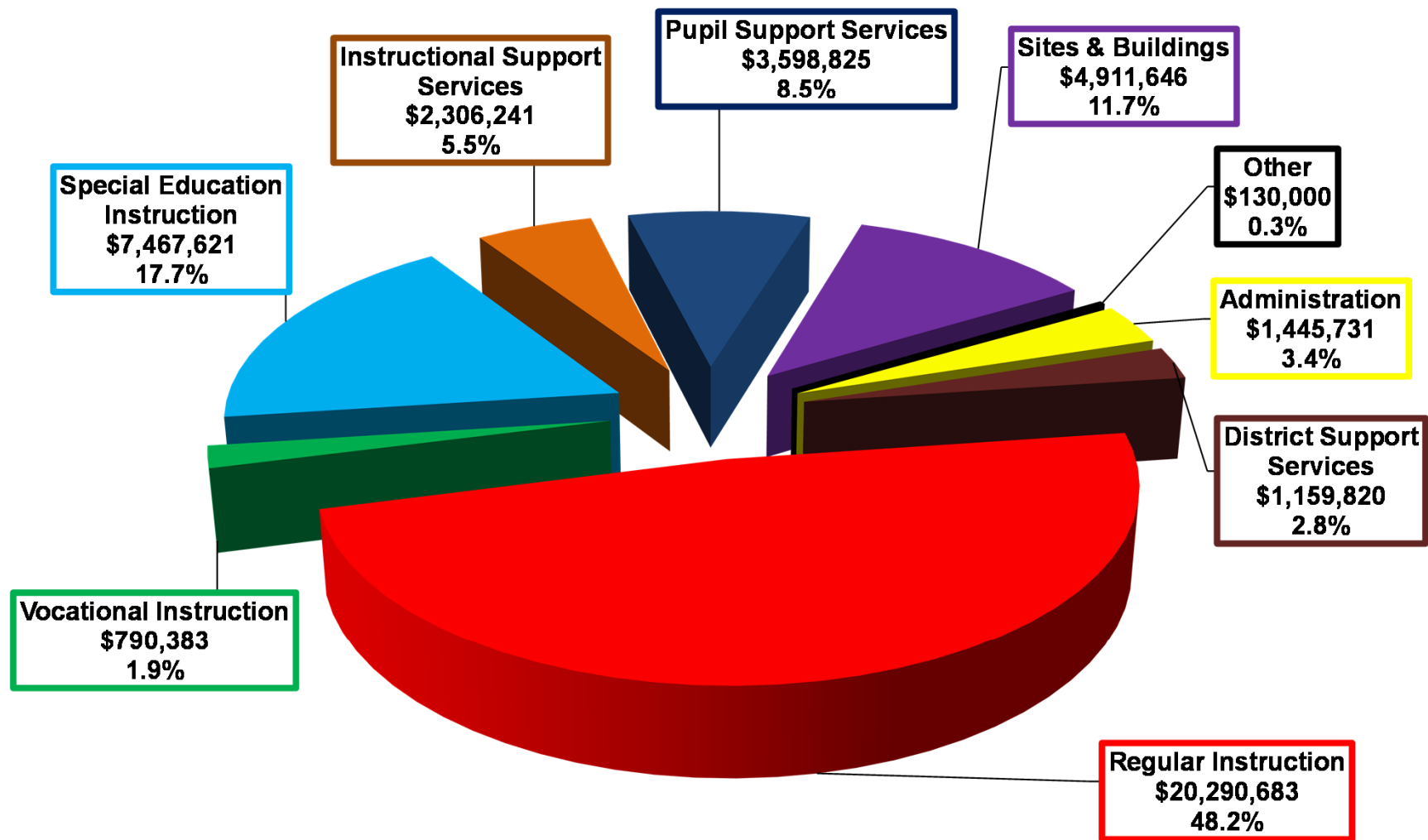
**Willmar Public Schools
General Fund Revenue
2011-12 Budget \$41,124,358**



**Willmar Public Schools
General Fund Expenditures by Object
FY 2011-12 Budget \$42,100,950**



**Willmar Public Schools
General Fund Expenditures by Program
2011-12 Budget \$42,100,950**





Proposed 2012 Property Tax Levy

- Determination of levy
- “Homestead Credit Shift” (elimination of homestead credit and replacement with homestead market value exclusion)
- Comparison 2011 to 2012 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



The Homestead Credit Shift

- The 2011 legislature repealed the Homestead Market Value Credit
- In its place, the Legislature implemented a Homestead Market Value Exclusion

The Homestead Credit Shift

- Repealed law (homestead market value credit)
 - Provided a reduction in the amount of taxes due, after the counties had calculated tax rates and initial tax bills
 - Depended ***only on the value*** of the property (not on the tax rate)
 - Amount ranged from a maximum of \$304 on a \$76,000 home, declining based on value to zero at \$413,000
 - ***Affected only homestead properties*** with values less than \$413,000
 - Credit was subtracted proportionally from the portions of the tax bill attributed to each city or township, county, and school district

The Homestead Credit Shift

- New Law - homestead market value exclusion
 - Reduces the calculation of “tax capacity” on residential homesteads with a market value of less than \$413,000, by excluding a portion of the value from tax capacity
 - Formula very similar to homestead credit – maximum “exclusion” is for a \$76,000 home, declining to \$0 for homes with a value of \$413,000 or more
 - The exclusion reduces the total tax base (tax capacity) for the political subdivision and ***therefore affects tax rates and the taxes of all properties***

Overall Impact of The Shift

- Increases in property taxes for almost all taxpayers
- Impact will vary widely across the State
 - Tax increases will be largest in communities where a large share of the tax base is lower-valued homes (exclusion causes a larger reduction in tax base)
 - For lower-valued homes, impact will vary based on the combined tax rate
 - In areas with high overall tax rates, lower valued homes may see an overall tax decrease
 - In areas with low overall tax rates, lower valued homes may see a larger tax increase than other types of property

Homestead Credit Shift

- There are three reasons why taxes will commonly increase for 2012:
 1. **State money is no longer reducing total taxes:** saving the state an estimated \$260,000,000. Since there will be no state property tax credit, the entire property tax levy will be paid by taxpayers.
 2. **Reduction in taxable value increases tax rates:** With total value being reduced by the exclusion, raising the same total levy as the prior year requires a higher property tax rate.
 3. **Exclusion provides less benefit in low tax rate areas than the credit:** In lower tax rate areas (below the state average) the excluded value provides less benefit than the homestead credit.

Homestead Credit Shift – Impact on Our School District's Taxes

- The next table shows the impact of this shift on the school district portion of the bills, **if the shift had been implemented for 2011 taxes**
- Assumptions:
 - No change in the dollar amount of the district's levies
 - Tax rates adjusted upward to adjust for reduction in tax capacity and homestead credit eliminated
- For our district, the exclusion reduced total tax capacity by 6.97% compared with a state average of 4.73%, so the impact on our taxpayers will be more severe than in the average school district

Willmar School District No 347

Estimated Impact of Homestead Credit Shift on School District Taxes If Shift had Been Implemented on 2011 Taxes

	Estimated Market Value	2011 School Taxes Based on		Estimated Net Impact of Shift on 2011 School Taxes	
		Old Law - Hmstd. Credit	New Law - Hmstd. Exclusion	\$ Change in School Taxes	% Change in School Taxes
Residential Homestead	\$100,000	\$321	\$327	\$6	1.9%
	125,000	418	429	11	2.6%
	150,000	516	531	15	2.9%
	175,000	613	633	20	3.3%
	200,000	711	735	24	3.4%
	225,000	808	837	29	3.6%
	250,000	906	939	33	3.6%
	300,000	1,101	1,142	41	3.7%
Commercial/ Industrial	\$100,000	\$473	\$496	\$23	4.9%
	250,000	1,283	1,346	63	4.9%
	500,000	2,716	2,854	138	5.1%
Agricultural Homestead*	\$150,000	\$352	\$363	\$11	3.1%
	300,000	478	500	22	4.6%
Agricultural Non-Homestead (dollars per acre)	\$1,750	\$3.50	\$3.76	\$0.26	7.5%
	2,000	4.00	4.30	0.30	7.5%
	2,500	5.00	5.37	0.37	7.5%
Percent reduction in district's total tax capacity due to shift					-7.0%

+ Figures above show the impact of the shift for property in the City of Willmar.

* For agricultural homestead property, assumes a value of \$100,000 for the house, garage, and one acre.

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**.

Proposed Levy Payable in 2012

Schedule of events in approval of district's 2011 (Payable 2012) tax levy

- Mid-September: MN Department of Education prepared and distributed first draft of levy limit worksheets 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: Following hearing, school board will certify final levy amounts

Overview of Proposed Levy Payable in 2012

- The total 2012 proposed property tax levy will increase from 2011, by 3.5% or \$239,634
- This total includes an increase from the proposed levy adopted by the School Board on September 26, due to the operating referendum renewal approved by the voters on November 8
- Law requires that we explain the reasons for the major increases in the levy

Willmar Public Schools

Comparison of Proposed Tax Levy Payable in 2012 to Actual Levy Payable in 2011

Fund Levy Category	Actual Levy - FY 12	Proposed Levy - FY 13	FY 13	FY 13
	Payable in 2011	Payable in 2012	\$ Change	% Change
General Fund				
Voter Approved Referendum	\$2,183,657	\$2,204,985	\$21,328	
Equity	318,516	316,799	(1,717)	
Operating Capital	458,596	436,134	(22,462)	
Integration	178,121	178,547	425	
Deferred Maint./Health & Safety	417,924	628,569	210,645	
Other	505,774	492,728	(13,046)	
Adjustments for Prior Years	(109,661)	(92,017)	17,645	
Total, General Fund	\$3,952,926	\$4,165,745	\$212,819	5.4%
Community Service Fund				
Basic Community Education	\$198,164	\$189,355	(\$8,809)	
Early Childhood Family Education	82,485	84,416	1,930	
School-Age Child Care	77,816	76,737	(1,079)	
Other	3,069	3,061	(8)	
Adjustments for Prior Years	22,676	27,839	5,162	
Total, Community Service Fund	\$384,210	\$381,407	(\$2,803)	-0.7%
Debt Service Fund				
Voter Approved Debt Service	\$2,600,063	\$2,610,825	\$10,762	
Abatement Adjustments	102	0	(102)	
Reduction for Excess Fund Balance	(165,210)	(141,841)	23,368	
Total, Debt Service Fund	\$2,554,025	\$2,583,644	\$29,619	1.2%
Total Levy, All Funds	\$6,891,162	\$7,130,796	\$239,634	3.5%

Explanation of Levy Changes

- Category: Deferred Maintenance/Health & Safety
- Change: +\$210,645
- Use of funds: State-approved capital projects related to health & safety and facility maintenance projects
- Reason for increase:
 - Levy is based on the estimated cost of qualifying state-approved projects

Explanation of Levy Changes

- Category: Reduction for Debt Service Excess
- Change: +\$23,368
- Use of funds: Payments on bonds
- Reason for increase:
 - Districts are required to levy at 105% of their 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 their debt service funds
 - Formulas in state law determine adjustments to the tax levy for debt excess balances
 - The state-required levy reduction for 2012 is less than in 2011

Impact on Taxpayers

- Following is a table and graphs showing examples of changes in the school district portion of property taxes from 2009 to 2012
 - Examples include school district taxes only
 - All examples are based on a 3.0% increase in property value over this period
 - Actual changes in value may be more or less than this for any parcel of property
 - These figures are intended to provide a fair representation of what has happened to school district property taxes over this period for typical properties

Willmar Public Schools

Estimated Changes in School Property Taxes, 2009 to 2012

Based on 3.0% Cumulative Changes in Property Value from 2009 to 2012 Taxes

Type of Property	Taxable Market Value for 2009 Taxes	Actual Taxes Payable in 2009	Taxable Market Value for 2010 Taxes	Actual Taxes Payable in 2010	Taxable Market Value for 2011 Taxes	Actual Taxes Payable in 2011	Estimated Market Value for 2012 Taxes	Estimated Taxes Payable in 2012*			Change in Taxes 2009 to 2012	Change in Taxes 2011 to 2012
								Without Approved Referendum*	Approved Referendum*	Total		
Residential Homestead	\$97,069	\$308	\$99,010	\$313	\$100,000	\$321	\$100,000	\$242	\$105	\$347	\$39	\$26
	121,336	403	123,762	409	125,000	418	125,000	324	131	455	52	37
	145,603	498	148,515	505	150,000	516	150,000	406	157	563	65	47
	169,870	593	173,267	601	175,000	613	175,000	489	184	673	80	60
	194,137	687	198,020	697	200,000	711	200,000	571	210	781	94	70
	218,404	782	222,772	793	225,000	808	225,000	653	236	889	107	81
	242,671	877	247,525	889	250,000	906	250,000	735	262	997	120	91
	266,938	972	272,277	985	275,000	1,003	275,000	818	288	1,106	134	103
Commercial/ Industrial #	291,206	1,066	297,030	1,080	300,000	1,101	300,000	900	315	1,215	149	114
	\$97,069	\$462	\$99,010	\$465	\$100,000	\$473	\$100,000	\$425	\$105	\$530	\$68	\$57
	145,603	693	148,515	698	150,000	710	150,000	\$637	157	794	101	84
	194,137	970	198,020	978	200,000	996	200,000	\$908	210	1,118	148	122
	242,671	1,250	247,525	1,259	250,000	1,283	250,000	\$1,179	262	1,441	191	158
Agricultural Homestead	485,343	2,655	495,050	2,668	500,000	2,716	500,000	\$2,533	524	3,057	402	341
	\$145,603	\$345	\$148,515	\$343	\$150,000	\$352	\$150,000	\$279	\$105	\$384	\$39	\$32
	169,870	363	173,267	358	175,000	368	175,000	297	105	402	39	34
	194,137	381	198,020	374	200,000	384	200,000	315	105	420	39	36
	242,671	429	247,525	417	250,000	428	250,000	367	105	472	43	44
Agricultural Non-Homestead (dollars per acre)	291,206	484	297,030	466	300,000	478	300,000	426	105	531	47	53
	\$1,456	\$2.99	\$1,485	\$2.95	\$1,500	\$3.00	\$1,500	\$3.51	\$0.00	\$3.51	\$0.52	\$0.51
	1,699	3.49	1,733	3.44	1,750	3.50	1,750	4.09	0.00	4.09	0.60	0.59
	1,941	3.99	1,980	3.93	2,000	4.00	2,000	4.67	0.00	4.67	0.68	0.67
	2,427	4.99	2,475	4.91	2,500	5.00	2,500	5.84	0.00	5.84	0.85	0.84

Tax Rates												
Tax Capacity Rate		20.545		19.847		19.993		23.367	0.000	23.367		
Referendum Market Value Rate		0.16788		0.17202		0.17326		0.07422	0.10486	0.17908		

* "Approved referendum" includes additional taxes for an approved referendum allowance renewal of \$498.49 per pupil unit.

+ Figures above are for property in the City of Willmar. Since the portion of the homestead credit deducted from school district taxes varies across municipalities, school taxes may be slightly different than shown above for homestead property in other portions of the school district.

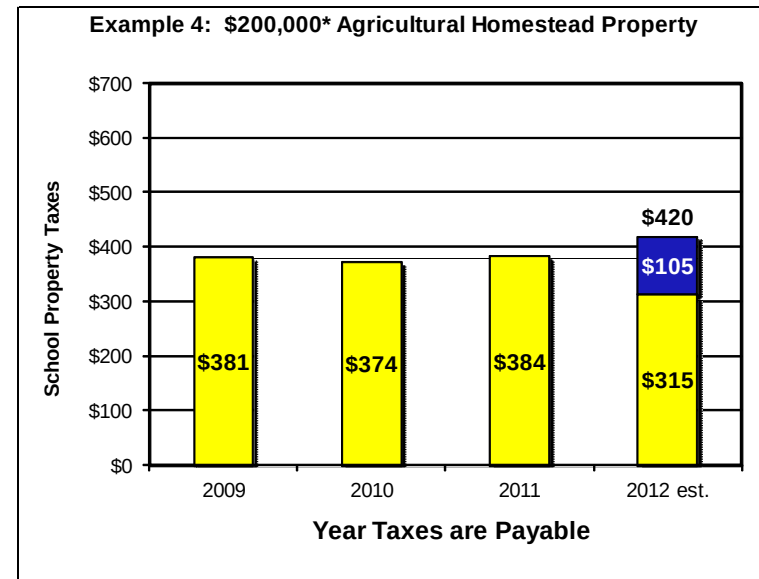
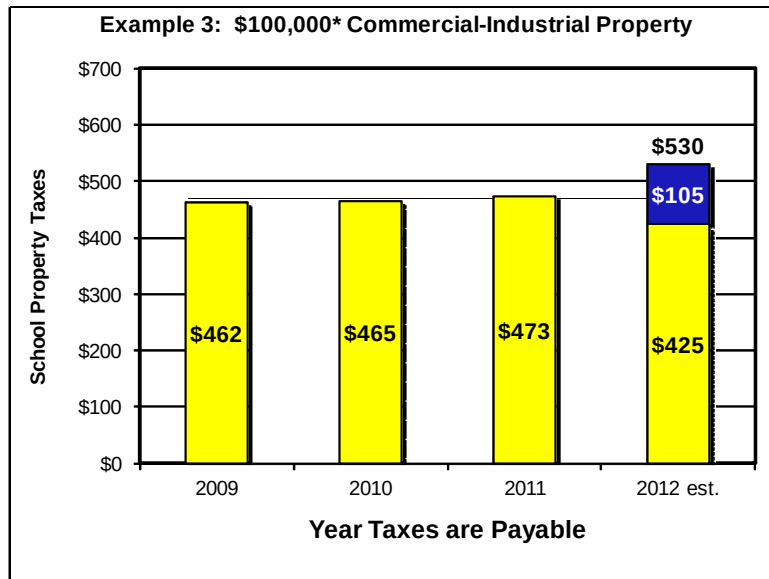
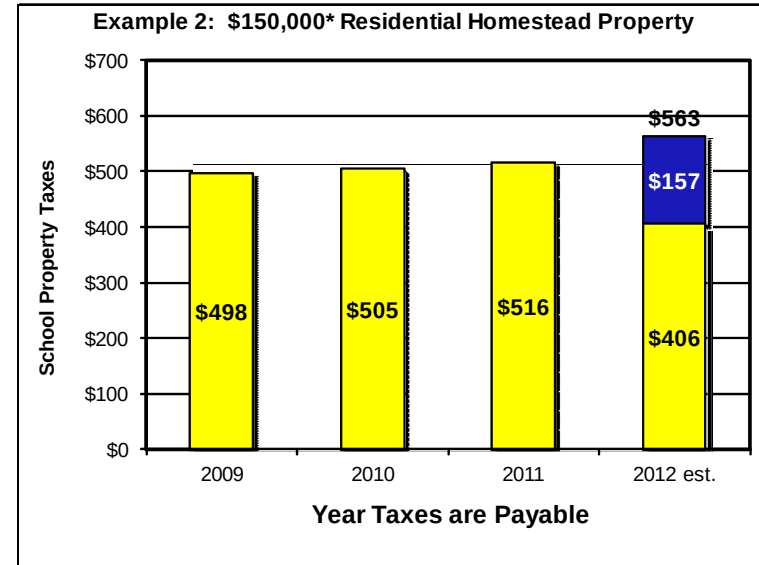
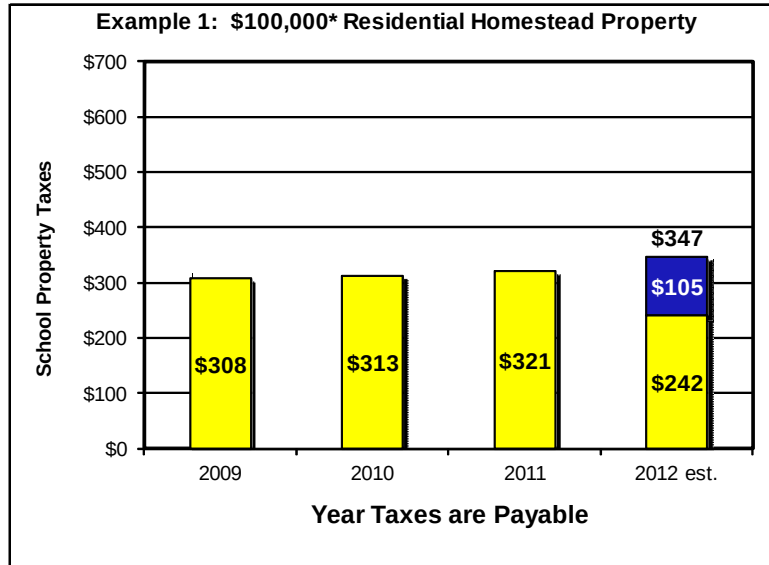
General Notes

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 2012 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 2.0% from 2009 to 2010 taxes, 1.0% from 2010 to 2011, and 0.0% from 2011 to 2012.

Willmar Public Schools

Estimated Changes in School Property Taxes, 2009 to 2012

Based on 3.0% Cumulative Changes in Property Value from 2009 to 2012 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 2012. Taxes are calculated based on changes in market value of 2.0% from 2009 to 2010 taxes, 1.0% from 2010 to 2011, and 0.0% from 2011 to 2012.

** The darker portion of the 2012 bars represents the estimated taxes associated with an approved referendum allowance renewal of \$498.49 per pupil unit.

Factors Causing Changes from 2011 to 2012

- As explained earlier in this presentation, the “homestead credit shift” approved by the 2011 Legislature caused increases in taxes for most/all taxpayers
- Many other factors can cause the tax bill for an individual property to increase or decrease from year to year:
 - Changes in value of the individual property
 - Changes in the 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

Factors Causing Changes from 2011 to 2012

- The table below shows – for one example of a property in our district – the impact of the homestead credit shift and the impact of all other factors
- Example is based on a home with a market value of \$100,000 for taxes payable in 2011 and 2012

Willmar School District No 347				
Year	Value	School Taxes	Dollar Change	Percent Change
2011	\$100,000	\$320.76		
2011 Taxes	\$100,000	\$327.47	\$6.71	2.1%
adjusted for shift				
2012	\$100,000	\$346.02	<u>\$18.55</u>	<u>5.8%</u>
Total Change			\$25.27	7.9%

State Property Tax Refunds

- State of Minnesota has two tax refund programs and one tax deferral program available for owners of homestead property
- These programs may reduce the net tax burden for local taxpayers, but only if you take time to complete and send in the 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

State Property Tax Refunds

- Minnesota Property Tax Refund (aka “Circuit Breaker” Refund)
 - Has existed since 1970s
 - Available to all owners of homestead property
 - Annual income must be approx. \$99,240 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 \$2,370
 - Especially helpful to those with lower incomes
 - Fill out 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
 - Fill out 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
- The deferred property taxes plus accrued interest must be paid when the home is sold or the homeowner(s) dies



Next Steps

- Board will accept public comments and questions on proposed levy
- Board action to certify the 2012 school tax levy



Public Comments and Questions