

## **Net Tax Capacity Verses Market Value**

Today, let's dive into the intricacies of Minnesota school finance, specifically focusing on the distinctions between levies based on market value and net tax capacity. Schools are on the only public entities that uses both of these tax systems to determine their local funding. School district have levies under both systems that are voter approved and those are not voter approved. You can see these broken out on your school district's levy sheets.

Let's start with market value. Many people confuse their property's value on the market with their Market Value. Your Market Value is the value of your property as determined by county assessors. This number is used to calculate your portion of taxes for a given levy. Similar properties selling for more on the open market does increase the assessed values of properties but the two values are different.

Net tax capacity is different than market value. This system operates on the concept that certain types of property may have more or less ability to generate revenue. For example, a store has the option of raising the cost of its goods to pay for taxes but someone's home does not generate any income. Different properties are classified partially based on their ability to generate revenue. That tax capacity is then use to determine your portion of the pie for that particular levy.

Levies under both systems fall into two categories: voter approved and board approved. Voter approved levies are indicated as such on the Levy Limitation and Certification Report. The two major voter approved levies are operating referendums and debt service referendums (also called bond referendums). Operating Referendums are calculated on Referendum Market Value; this is when you remove farmland and seasonal recreation properties from market value. Debt service referendums are calculated based on Net Tax Capacity. This is important to note because how much you pay in taxes will differ from system to system. All other levies fall under board authority. This simply means that the board can set these levies by board action. This is finalized at the school district's December board meeting, sometime after a truth in taxation meeting is held.

It's important to note that several levies generate funds that can only be used for specific purposes. Levies such as Long-term Facilities Maintenance can only be used towards maintaining the school's facilities while Early Childhood Family Education levy dollars can only be used for those programs. This means increases in revenue in one place may not always be available to offset costs in another area. Some levies also need to be used for the fiscal year they are collected for, while others can carry a balance. Some levies are also equalized, meaning the state contributes a portion of the total dollars generated by that particular levy.

School taxation can be very complicated. It operates under two different tax systems. Some levies can be approved by board action while others have to go to a vote of the people. Those systems can impact the portion of the total pie that particular property type needs to contribute for a given levy. This is why it is important to work with your superintendent and financial advisors when trying to determine the impact that a particular levy will have on tax payers. Some changes in levies that are equalized can impact the state aid a district will receive. Its important that all of these factors are taken into consideration when making decisions about levies and when communicating to the public possible changes they may experience due to those decisions.