



Truth in Taxation Presentation  
December 14, 2009  
for Taxes Payable in 2010

# Truth in Taxation Law

➤ **State law initially approved in 1988**

➤ **Amended in 2009**

➤ **Requirements**

- Counties must send out “proposed property tax statements” between November 10-24, based on preliminary tax levies set by all taxing jurisdictions (counties, cities, townships, school districts, etc.)
- Taxing jurisdictions must present information and receive comments from audience at a regularly scheduled meeting

# Tax Information Presentation

- State law requires that school districts present information on the current year budget and actual revenue and expenses 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
- Public comments

# School Revenues and Taxes are 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 2008-09 is \$220 below the 2002-03 inflation adjusted amount
- For Fiscal 2009-10, per-pupil funding was held flat (0%), while costs continued to rise. Inflation projections for 2010 are running at 3-4%.
- Per pupil funding for Fiscal 2010-11 has not yet been set by the State Legislature, but we're guessing there will be no increase at all, and hoping there won't actually be reductions or proration from the current year.
- To meet budget shortfalls, over 90% of Minnesota districts have voter-approved operating levy referendums in place, and just this year alone, 59 Minnesota school districts asked voters for support of operating levy referendums.

# Trends in Education Funding Formula

## Minnesota 2002-03 to 2010-11

### Adjusted for Inflation

Fiscal Year	Funding Formula	CPI-U (2009=1.0)*	Formula Adjusted for Inflation	Funding Shortfall
2002-03	4,601	0.8338	4,601	0
2003-04	4,601	0.8520	4,701	-100
2004-05	4,601	0.8776	4,843	-242
2005-06	4,783	0.9110	5,027	-244
2006-07	4,974	0.9346	5,157	-183
2007-08	5,074	0.9692	5,348	-274
2008-09	5,124	1.0000	5,518	-394
2009-10	5,124	1.0132	5,591	-467
2010-11	5,124	1.0363	5,718	-594

Source: Formula Allowance and CPI-U are from Minnesota Department of Education,

*K-12 Education Finance Overview, 2008-09*

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

Prepared by Ehlers & Associates, Inc.

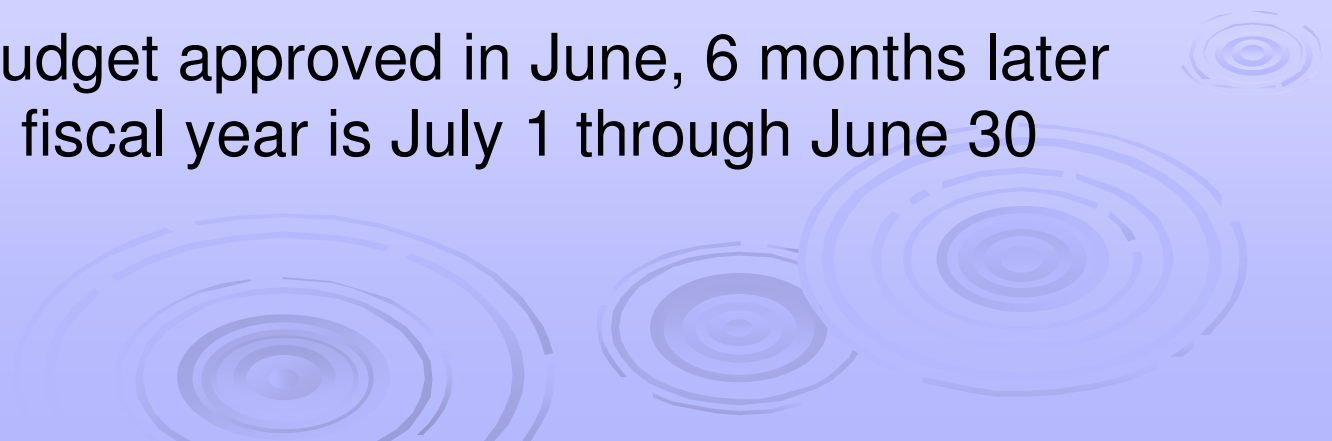
# School Levy vs. Budget Cycle

Unlike cities and counties, a *school district does not set its budget* when setting the tax levy

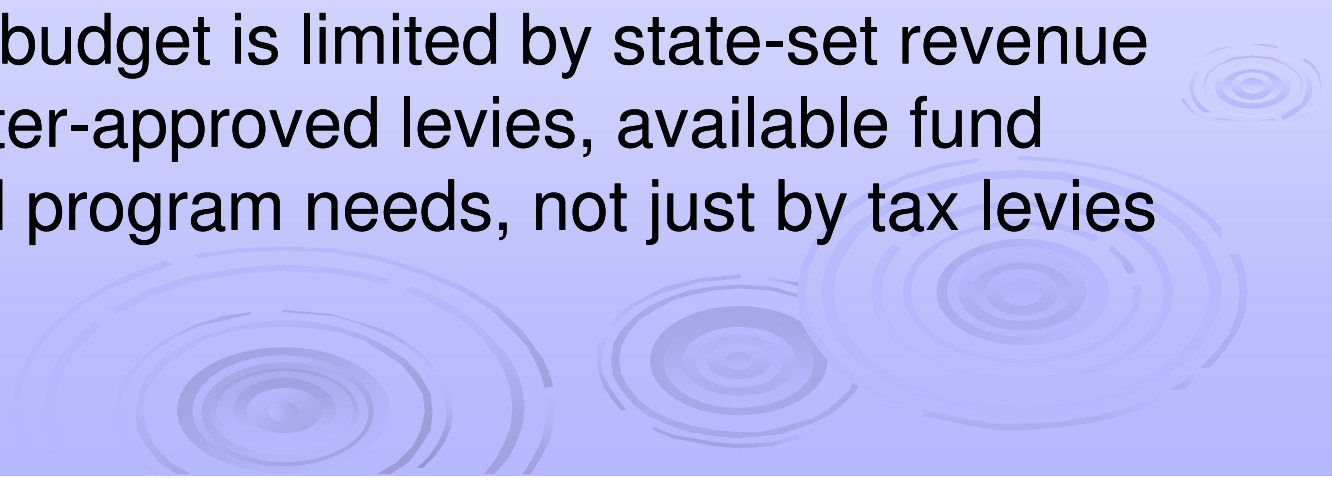
- **Property Tax Levy**

- Final levy set in December
- Property taxes levied on calendar year basis

- **Budget**

- Final budget approved in June, 6 months later
  - School fiscal year is July 1 through June 30
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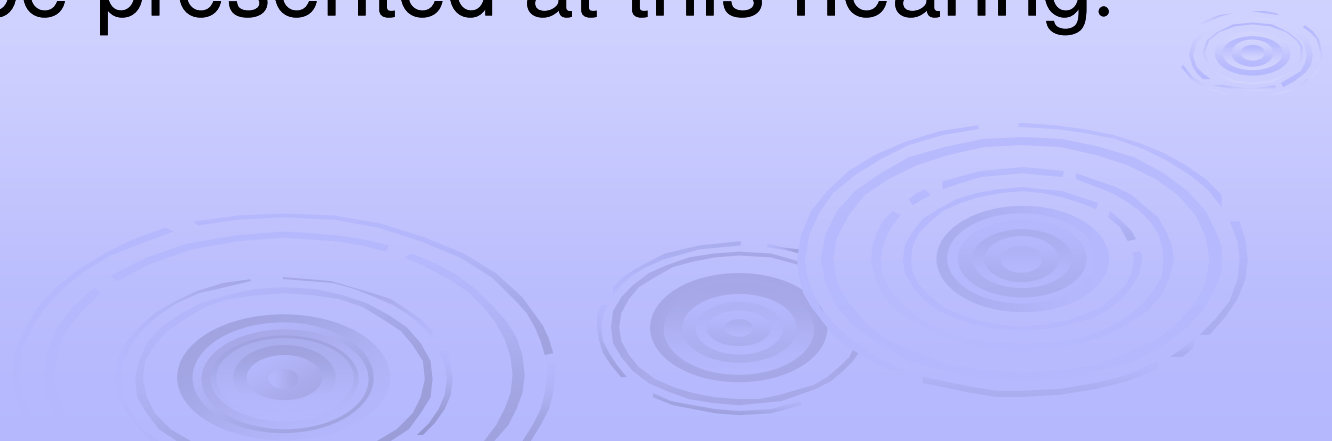
# Tax Levy – Budget Relationship

- 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, available fund balance, and program needs, not just by tax levies
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# Budget Information

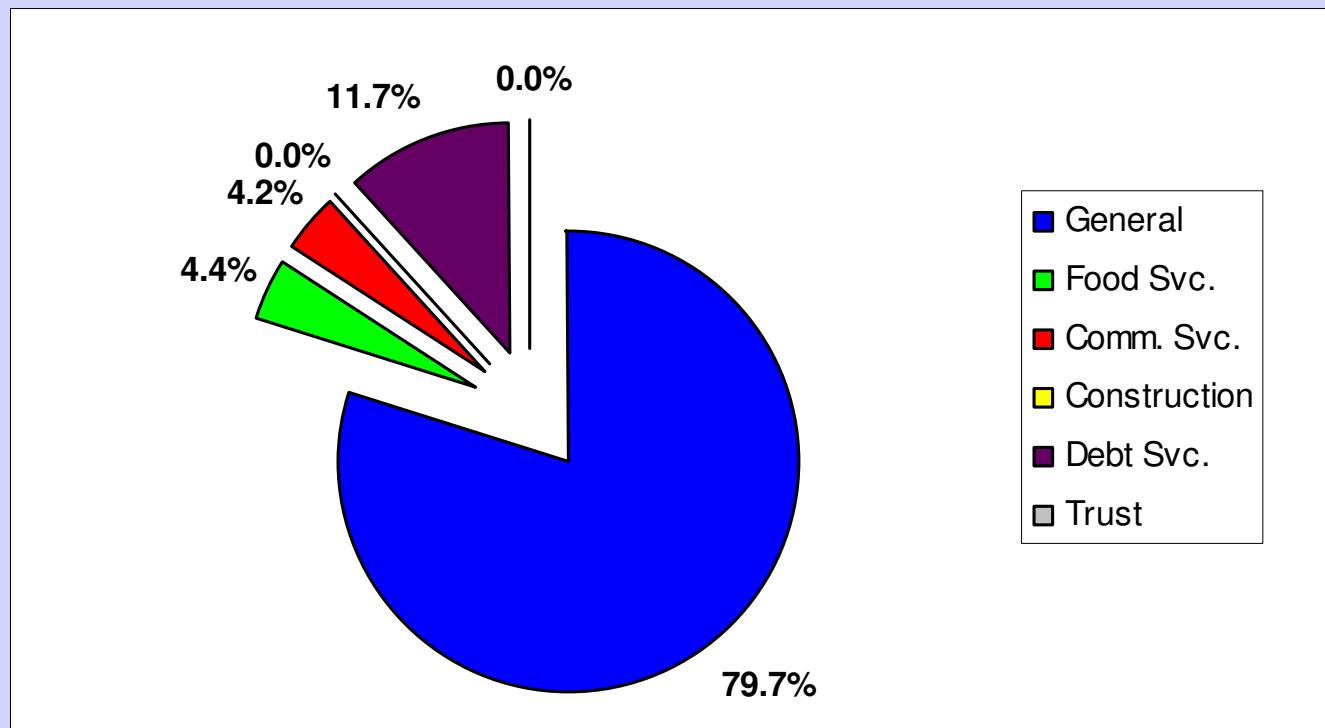
Because approval of the budget lags behind certification of the tax levy by six months, only current year budget information and prior year actual financial results to be presented at this hearing.



# Budget Information

- All school districts' budgets are divided into separate funds, based on purposes of revenue, as required by law
  - For our district, 5 funds:
    - General fund (includes former transportation and capital expenditure funds)
    - Food service fund
    - Community service fund
    - Building and Construction
    - Debt service fund
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# 2009-10 Revenues by Fund

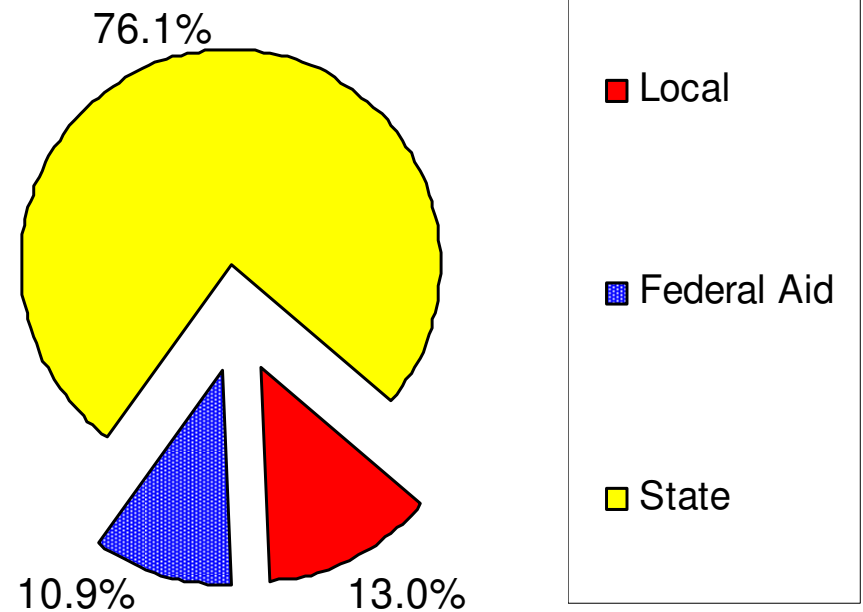


# General Fund Budget Highlights

## 2009-10 General Fund Budget Revenues by Major Source

Local	6,532,320
Federal Aid	5,494,491
State	38,207,655
<hr/> Total*	<hr/> 50,234,466

\*Excludes Revenues for Capital Expenditures

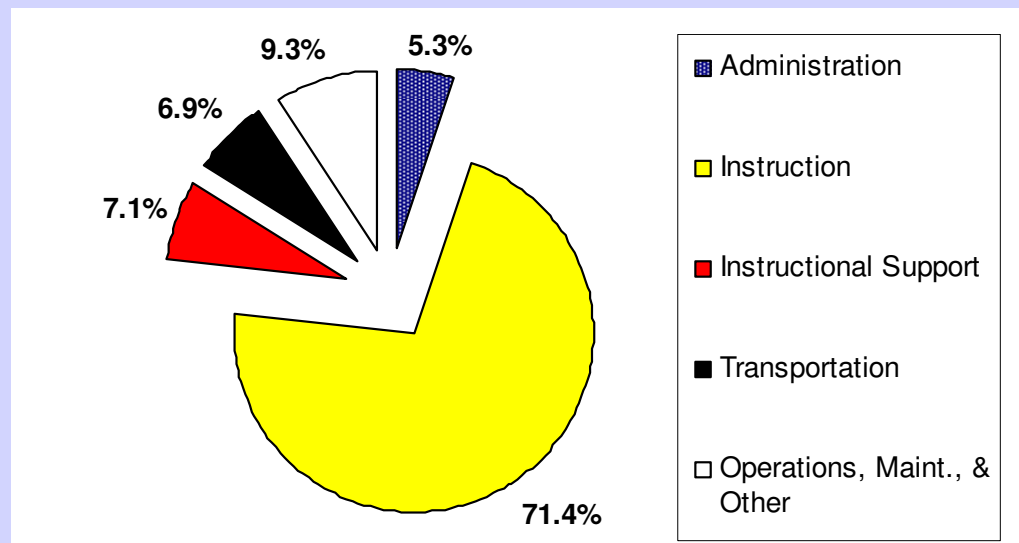


# General Fund Budget Highlights

## 2009-10 General Fund Budget Expenditures by Major Program Areas

Administration	2,626,138
Instruction	35,289,568
Instructional Support	3,513,625
Transportation	3,403,650
Operations, Maint., & Other	4,574,215
<b>Total*</b>	<b>49,407,196</b>

\*Excludes Capital Fund Expenditures

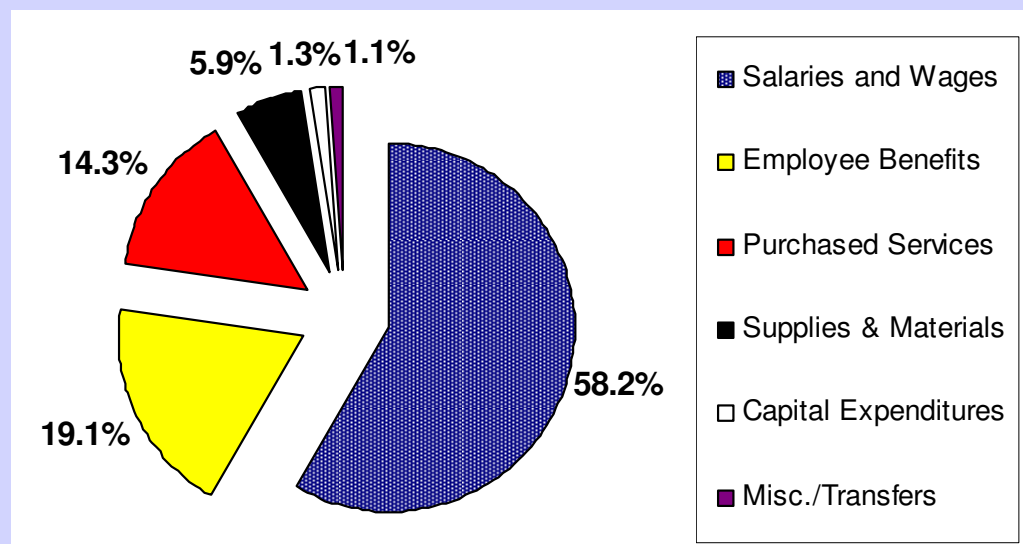


# General Fund Budget Highlights

## 2009-10 General Fund Budget Expenditures by Object Category

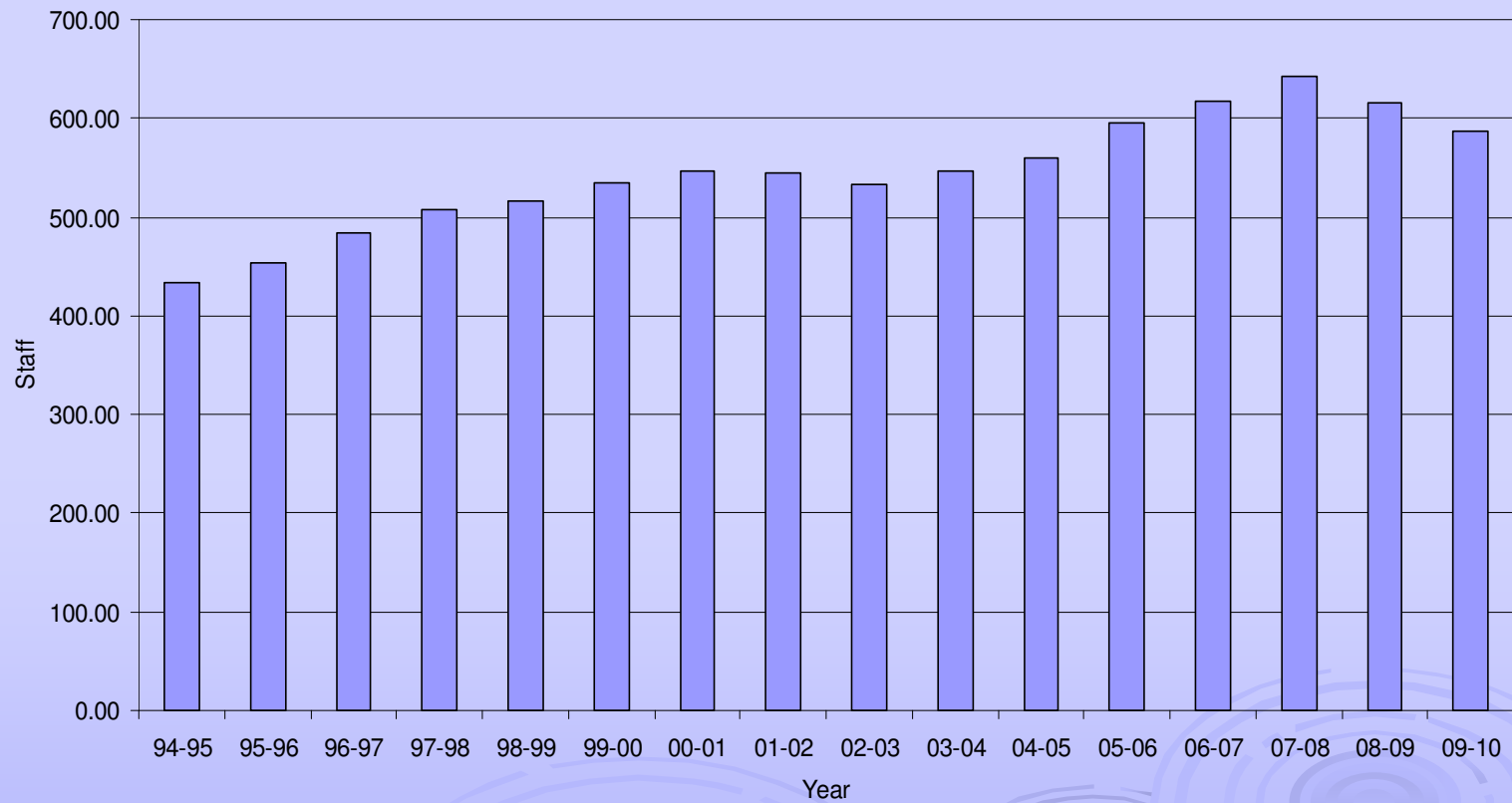
Salaries and Wages	28,763,214
Employee Benefits	9,451,368
Purchased Services	7,088,210
Supplies & Materials	2,922,934
Capital Expenditures	648,955
Misc./Transfers	532,515
<b>Total*</b>	<b>49,407,196</b>

\*Excludes Capital Fund Expenditures



# Staff FTE Comparison

July 1, 2009



# Proposed 2010 Property Tax Levy

- Determination of levy
- Comparison 2009 to 2010 levies
- 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 31 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**.

# Proposed Levy Payable in 2010

- Schedule of events in approval of district's 2009 (Payable 2010) tax levy
  - Early September – Dept. of Education prepared and distributed first draft of levy limit worksheets setting maximum authorized levy
  - Sept. 28: School board approved proposed levy
  - Mid-November: County mails “Proposed Property Tax Statements” to all property owners
  - December 14: Tax information presentation and School board certifies final levy (or later at a special meeting)

# Overview of Proposed Levy Payable in 2010

- Total 2010 levy increased by \$215,216 (+1.67%) from 2009 to 2010
- Increase in some levies offset by reductions in others
- Reasons for the ***increases*** and ***decreases*** in specific levies

# Proposed Levy Payable in 2010

## Buffalo-Hanover-Montrose School District No. 877

Comparison of Proposed Tax Levy Payable in 2010 to Actual Levy Payable in 2009

Fund	Levy Category	Actual Levy Payable in 2009	Proposed Levy Payable in 2010	Change	Percent Change
<b>General Fund</b>					
	Voter Approved Referendum	\$3,007,363	\$3,064,534	\$57,171	
	Equity and Transition	741,589	745,285	\$3,696	
	Health & Safety	243,150	168,000	(\$75,150)	
	Building Lease	193,398	307,897	\$114,499	
	Operating Capital	709,403	699,456	(\$9,947)	
	Other	782,958	828,564	\$45,606	
	Adjustments - Other	2,799	(140,409)	(\$143,208)	
	Total, General Fund	\$5,680,660	\$5,673,327	(\$7,333)	-0.13%
<b>Community Service Fund</b>					
	Basic Community Education	\$234,085	\$234,085	\$0	
	Early Childhood Family Education	\$130,663	\$127,750	(2,913)	
	Extended Day Disabled	\$140,000	\$160,000	20,000	
	Other	\$15,909	\$16,162	253	
	Adjustments	\$45,251	\$26,272	(18,979)	
	Total, Community Service Fund	\$565,908	\$564,269	(\$1,639)	-0.29%
<b>Debt Service Fund</b>					
	Debt Service	\$6,650,261	\$6,035,737	(\$614,524)	
	OPEB Debt		\$838,712	\$838,712	
	Total, Debt Service Fund	\$6,650,261	\$6,874,449	\$224,188	3.37%
<b>Total Levy, All Funds</b>		<b>\$12,896,829</b>	<b>\$13,112,045</b>	<b>\$215,216</b>	<b>1.67%</b>

# Two Key Factors:

## Property Valuation and Adjusted Net Tax Capacity

- From 2007 to 2008...
- Total district property valuation rose from \$3.17 billion to \$3.25 billion while most individual homeowner property valuation decreased.
- District's Adjusted Net Tax Capacity decreased from \$39.00 million to \$38.27 million although school tax rate rose slightly.



# Explanation of Levy Changes

## Reasons for changes:

- Funding formulas for many programs are combinations of state aid and local tax levies. When the district's total property value increases, the share of funding provided through the tax levy generally increases while the share provided through state aid decreases.
- When the district's Adjusted Net Tax Capacity decreases, the share of funding provided through the tax levy generally decreases while state aid is increases.
- The relationship of an individual property valuation to the total district valuation is a significant factor in actual tax impact.
- Increased student enrollment can add to total revenue formulas in some areas, thus increasing levy amounts.

# Explanation of Levy Changes

## **Reasons for changes:**

- Costs for certain programs or services, such as special needs, health and safety, unemployment insurance or severance benefits affect tax levies used to pay for them.
- Legislative action can dictate changes in funding formulas or requirements for districts.
- State adjustments for prior years budget to actual costs can result in either increases or decreases to levies.
- The number and costs of leased instructional and storage spaces adds levy costs for programs such as Wright Technical Center, Special Education, Early Childhood Education and general K-12 classes.
- Bond refunding or reduction of debt service fund balance due to reduced projects or lower than planned costs can result in reduced levies.

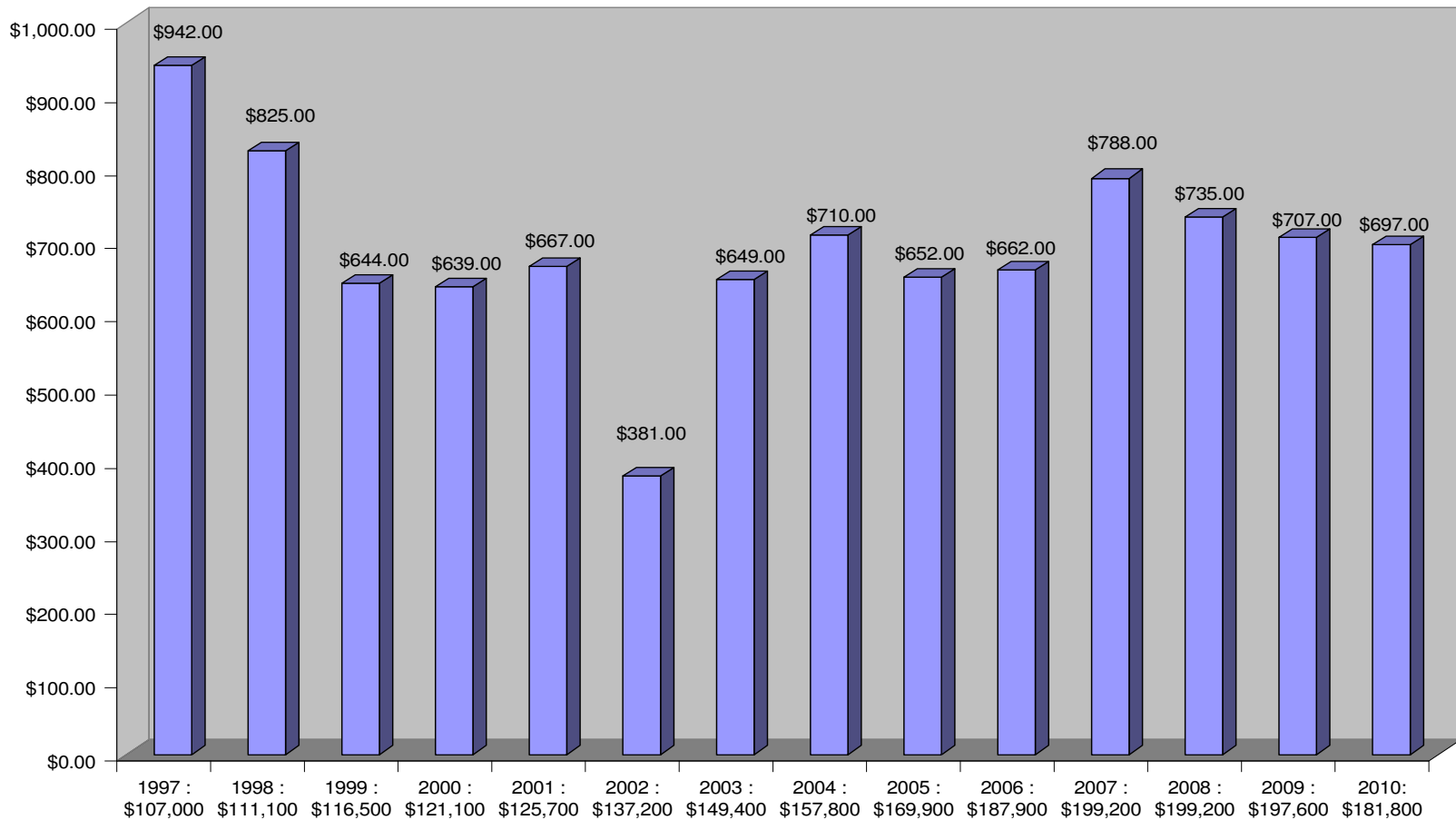
# Impact on Taxpayers

## ➤ **Example of changes in the school district portion of property taxes from 1997 to 2010**

- Example includes school district taxes only.
- This example is intended to provide a fair representation of what has happened to school district property taxes over time.
- Example shown is an actual residential property in the City of Buffalo with actual values and taxes. This property is considered an average value residential property in the city of Buffalo.
- School taxes in other parts of the district may be slightly higher or lower for similar value and classed property, due to variations in the impact of the state homestead and agricultural credits and the Fiscal Disparities Program.

# Property Tax Example

(actual property in City of Buffalo)



# 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](http://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. \$91,000 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 \$1,700
  - 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

## ➤ Tonight

- Board will accept public comments and questions on proposed levy
- Board certifies final amount of tax levy payable in 2010 (or at special meeting)

## ➤ Final levy is certified to county auditor by December 28

# Comments and Questions

