

REFERENDUM REVENUE LOCATION EQUITY REVENUE

MSBA “Board-Approved Levy” Seminars

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E-12 Education Act (Chapter 116, Article 1)

Pupil Accounting Changes – Effective FY 2015

- Pupil unit weights simplified.
 - Weights are 1.0 for kindergarten through grade 6 and 1.2 for grades 7-12 for districts with free all day K (.55 for part-time K).
 - Formula rates increased to offset reduction in weighted student count
- Marginal cost pupil units eliminated.
 - Replaced with new declining enrollment revenue @ 28% of basic revenue.

Operating Referendum Revenue – Effective FY 2015 (Pay 2014 Levy)

- Referendum allowance converted from \$/Resident Marginal Cost Pupil Unit to \$/Adjusted Pupil Unit (APU).
- Separate alternative attendance adjustment eliminated/rolled into allowance per APU.
- New Allowance/APU calculated so that total FY 2015 revenue prior to caps is the same as under old law.
- Districts guaranteed to receive at least as much aid for FY 2015 as under old law.

Referendum Allowance Conversion for New Pupil Units Example

Old Allowance per RMCPU:	\$1,000
Old RMCPU:	2,000
Old Alternative Attendance Adjustment:	(\$100,000)

$$\begin{aligned}
 \text{Old Revenue} &= (\$1,000 \text{ per RMCPU} \times 2,000 \text{ RMCPU}) \\
 &\quad - \$100,000 \text{ Alt Attendance Adjustment} \\
 &= \$2,000,000 - \$100,000 \\
 &= \$1,900,000
 \end{aligned}$$

$$\begin{aligned}
 \text{Old Revenue} &= \$1,900,000 \\
 \text{New APU} &= 1,800
 \end{aligned}$$

$$\text{New Allowance per APU} = (\$1,900,000 / 1,800) = \$1,055$$

Total operating referendum revenue for FY 2015 under new formula is the same as it would have been for FY 2015 under old formula, after taking alternative attendance adjustment into account.

Report #1, Columns A – E, shows the conversion for each district in the state.

- Note that these calculations are based on estimated pupil units for FY 2015. The allowance conversion won't be finalized until we have final pupil units for FY 2015 in the fall of 2015.
- For FY 2016 and later, the initial referendum revenue equals the product of the converted allowance per APU and the APU for the current year, as adjusted for new referendum elections and expiration of existing authorizations.
- Referendum revenue will grow or decline in relation to future growth or decline of Adjusted Pupil Units.
- Inflation adjustment continues for referendums approved with an inflation adjustment included in ballot language.

Referendum Cap

- Standard Referendum Cap set at \$1,845/APU for FY 2015.
- Standard Cap is inflated based on Consumer Price Index (CPI) for FY 2016 and later.
- If a district would have received more referendum revenue for FY 2015 per new APU under old law than the standard cap, the district will receive a new grandfather cap to ensure that the new cap does not preclude the district from receiving the same referendum revenue as under old law.
 - (Intended to protect districts that were close to the cap under old law and have a significant loss of students to open enrollment, which raises their allowance per pupil unit).

Omnibus Tax Act (Chapter 143, Article 3)

Conversion of Existing Referendum to Board-Approved – Effective FY 2015 (Pay 2014 Levy)

- School boards are allowed to convert up to \$300 / APU of existing authority from voter-approved to board-approved:
 - Board action to convert must be taken before proposed property tax levy is finalized (September 30 deadline).
 - Best to take board action and notify MDE by September 1 so that MDE can include the conversion in initial levy limitation reports to be issued on September 8.
 - Converted amounts will appear on truth in taxation notices as “Other” rather than “Voter Approved.”
 - Board resolution must identify which referendum authorities are being converted to board-approved (based on expiration date).
 - Board resolution must specify the duration of the board-approved authority (not to exceed 5 years).
 - Converted allowances may be subsequently reauthorized by the board in increments of up to five years.
- Inflation adjustments:
 - There is no authority for inflation adjustments on board-approved referendum allowances. A district cannot convert \$300 to board-approved and have that amount grow to a higher level with inflation.
 - For districts with voter-approved inflation-adjusted referendum allowances that are converted to board approved, MDE will first calculate the inflation-adjusted referendum allowance based on the original ballot language and pupil unit conversion, and then deduct the amount converted to board-approved as a flat amount per APU. Total revenue will be the same as if the levy had remained voter-approved.
 - The inflation adjustment will continue for the number of years the inflation adjustment was approved by the voters.
 - When the existing voter-approved inflation adjustment expires, the inflation adjustment will apply only to the allowance approved by the voters in the election to replace the expiring authority.

New Board-Approved Referendum Revenue – Effective FY 2015 (Pay 2014 Levy)

- Districts with less than \$300/APU of referendum authority are permitted to authorize additional new referendum revenue up to the difference between \$300 per APU and the district's existing referendum authority.

- After consulting with legislative leaders and the Governor, MDE has determined that this calculation will be done after the initial referendum allowance is reduced for the location equity revenue subtraction (described in a subsequent slide).
- Therefore, districts with less than \$300/APU of referendum revenue remaining after the location equity subtraction are eligible for a board-approved increase in referendum authority.
- Estimated new referendum allowances that may be approved by board action are shown in Column G of Report #1.
- Additional new allowances are a flat amount per APU; there is no authority for an inflation adjustment.
- Board resolution must specify the duration of the new board-approved authority (not to exceed 5 years).
- New board-approved allowances may be subsequently reauthorized by the board in increments of up to five years.

Referendum Equalization – Effective FY 2015 (Pay 2014 Levy)

- Equalization increased with new 3 tiered formula:
 - **Tier 1** – 1st \$300 / APU, equalized at \$880,000 of Referendum Market Value (RMV) per Resident Pupil Unit (RPU).
 - **Tier 2** – next \$460 / APU, equalized at \$510,000.
 - **Tier 3** – Balance of referendum up to 25% of Formula Allowance (\$1,451 in FY 15), equalized at \$290,000.

For districts eligible for sparsity revenue, Tier 3 equalization applies to all referendum revenue over \$760 / APU.

Report #2 provides district by district analysis of:

- Referendum Market Value (RMV) per Pupil Unit under old law versus new law.
- State share of Tier 1 and Tier 2 referendum revenue under old law.
- State share of Tier 1, 2 and 3 referendum revenue under new law.

Location Equity Revenue – Effective FY 2015 (Pay 2014 Levy)

- Location equity revenue is a new component of General Education Revenue, beginning in FY 2015.
- Location equity revenue is intended to adjust for higher cost of school operations in the metro area and larger nonmetro districts by providing access to revenue without voter approval.
- Since most metro and larger nonmetro districts have already passed referendums to fund portions of these higher costs, location equity revenue is deducted from referendum revenue.

- School districts with any land area in 7 county metro area qualify for \$424/APU location equity levy, equalized at \$510,000 of RMV/RPU.
- School districts not eligible as metro districts and with > 2,000 Adjusted ADM in 3rd prior FY qualify for \$212 location equity levy, equalized at \$510,000 of RMV/RPU.
- **See Report #1**, column F for Location Equity Allowances by district.
- A district eligible for location equity revenue will automatically receive it unless it elects not to participate by a board vote taken prior to September 1 of the fiscal year before the fiscal year when the revenue takes effect (Sept 2013 for FY 2015 revenue).
 - The board resolution must state which fiscal year(s) the district will not participate.
 - A copy of the board resolution must be submitted to the commissioner.

Referendum + Location Equity Revenue, Levy and Aid – FY 2015 (Pay 2014 Levy)

Report #3 provides district by district analysis of:

- Referendum Revenue, Aid and Levy under old law including Options Adjustment, versus Referendum plus Location Equity Revenue, Aid and Levy under new law, assuming:
 - All districts with less than \$300 of net referendum revenue per APU pass a board resolution to add the maximum amount of new referendum they are eligible for, and
 - All districts eligible for location equity revenue do not pass a board resolution to opt out.
 - Amounts shown are before any new elections.

FY 2015 State Totals: Old Law vs. New Law (Assuming Districts with Expiring Levy Would Have Renewed Under Old Law)

	Revenue	Levy	State Aid
Old Law	864,301,463	760,401,374	103,900,088
New Law	901,660,902	700,148,618	201,512,284
Change	37,359,440	-60,252,757	97,612,196

FY 2015 Changes per Pupil Unit by Strata

	REVENUE			LEVY			STATE AID		
	OLD	NEW	CHANGE	OLD	NEW	CHANGE	OLD	NEW	CHANGE
TOTAL	1,012	1,055	44	890	819	(71)	122	236	114
MPLS AND ST. PAUL	1,405	1,405	0	1,292	1,160	(132)	113	245	132
OTHER METRO, INNER	1,360	1,395	35	1,306	1,249	(56)	54	146	91
OTHER METRO, OUTER	1,264	1,288	25	1,184	1,084	(100)	80	205	125
NONMET > = 2K	628	704	77	510	463	(47)	117	241	124
NONMET 1K-2K	597	659	62	409	373	(36)	189	286	98
NONMET < 1K	830	888	58	569	538	(31)	260	349	89

Opting Out of Location Equity Revenue

- The decision to opt out of Location Equity Revenue is all or nothing. A district cannot opt out of part of the revenue.
- Districts should use great caution in opting out of equity revenue:
 - For districts with an initial referendum allowance of more than \$760 and RMV / RPU below \$510,000, opting out of location equity revenue will increase property taxes and reduce state equalization aid, because the district will have less revenue equalized at \$510,000 (Location equity equalizing factor) and more revenue equalized at \$290,000 (Tier 3 referendum equalizing factor).
- Districts should use great caution in opting out of equity revenue (continued):
 - For most districts, equity revenue will go down if a district opts out of location equity revenue because equity revenue is driven by a district's referendum allowance compared with the regional 5th and 95th percentiles, and opting out of location equity revenue will make the district's referendum revenue relatively high compared with other districts that have opted out.
 - Districts that opt out of location equity revenue will have less room under the referendum cap for new elections.

Report #4 shows the impact for each district of rejecting location equity revenue.

- First two columns: impact on referendum + location equity revenue and levy.
 - Revenue is reduced for:
 - Metro districts where the current referendum allowance is less than \$724.
 - Large nonmetro districts where the current referendum allowance is less than \$512.
 - Districts at the referendum cap.
 - No change in revenue, but levy increases (state aid decreases) for other districts eligible for location equity revenue that have RMV/RPU < \$510,000 and referendum + location equity allowance > \$760/APU.
 - No change in revenue or levy for other districts eligible for location equity revenue that have RMV/RPU > \$510,000 or < \$760 combined allowance, and are not at the referendum cap.
- Next two columns --impact on equity revenue & levy.
 - Most districts eligible for location equity revenue would receive less equity revenue and levy if they reject location equity revenue because it would increase their referendum revenue per APU relative to the regional 95th percentile.
- Next two columns: add up combined impact on referendum location equity, and equity revenue.
- Four columns at right: - impact on referendum allowance and room under referendum cap.

- The location equity subtraction reduces the net referendum allowance, creating more room under the cap for districts that receive location equity revenue.
- The grandfather cap is reduced for location equity revenue, but the standard cap is not reduced. This effectively eliminates the grandfather cap.

Four Options Tab on Spreadsheet

Summarizes Fiscal Impact of Board Decisions

FY 2015 Operating Referendum Board Options		Option 1	Option 2	Option 3	Option 4
BELLE PLAINE #716					
	Location equity	Accepted	Accepted	Rejected	Rejected
	Board action to increase referendum	None	Est. Max	None	Est. Max
1	Location equity allowance	424.00	424.00	0.00	0.00
2	Referendum increase from board action	0.00	300.00	0.00	300.00
3	Referendum revenue	0	535,680	632,192	632,192
4	Location equity revenue	757,094	757,094	0	0
5	Equity revenue	220,528	299,088	290,708	290,708
6	Combined revenue = (3)+(4)+(5) =	977,622	1,591,862	922,900	922,900
7	Referendum levy	0	212,829	278,993	278,993
8	Location equity levy	519,025	519,025	0	0
9	Equity levy	151,183	205,039	199,295	199,295
10	Combined levy = (7)+(8)+(9) =	670,208	936,894	478,288	478,288
11	Referendum aid = (3)-(7) =	0	322,851	353,199	353,199
12	Location equity aid = (4)-(8) =	238,069	238,069	0	0
13	Equity aid = (5)-(9) =	69,345	94,049	91,414	91,414
14	Combined aid = (6)-(10) =	307,415	654,969	444,613	444,613

FY 2015 Operating Referendum Board Options		Option 1	Option 2	Option 3	Option 4
BELLE PLAINE #716					
	Location equity	Accepted	Accepted	Rejected	Rejected
	Board action to increase referendum	None	Est. Max	None	Est. Max
15	Uncapped referendum authority	0.00	300.00	354.05	354.05
16	Cap on total referendum revenue per APU	1,845.00	1,845.00	1,845.00	1,845.00
17	Room under the cap, revenue per APU				
	= greater of zero or [(16)-(15)] =	1,845.00	1,545.00	1,490.95	1,490.95
18	Adjusted pupil units (APU), new law	1,786	1,786	1,786	1,786
19	Room under the cap, revenue = (17) x (18) =	3,294,432	2,758,752	2,662,240	2,662,240

Simulation Tab on Spreadsheet

- Shows detailed calculations of referendum location equity and equity revenue, aid and levy for any district selected by the user.
- Districts can change the inputs section to reflect board decisions and/or ballot questions to see detailed calculation of the impact on revenue, aid and levy.

Omnibus Tax Act (Chapter 143, Article 3)

Calculation Order for Referendum and Location Equity Revenue

MDE will implement the calculation of Operating Referendum and Location Equity revenue in the following order:

1. For districts that do not opt out of location equity revenue, MDE will first calculate a district's net voter approved referendum allowance by subtracting the location equity allowance from the voter approved referendum allowance (including amounts converted from voter approved to board approved).
2. Eligibility for a board-approved referendum increase (up to \$300/APU) is determined after the referendum allowance is reduced for location equity revenue.
3. The maximum amount of new additional board approved referendum revenue is \$300 minus the net referendum allowance after the location equity subtraction.
4. Under this calculation order, the increases in board-approved revenue from the two provisions are additive (stackable), with the maximum board approved allowances being \$724 for metro districts and \$512 for nonmetro districts with more than 2,000 ADM.
5. The new additional board approved referendum allowance is not subject to the location equity subtraction for the current year or in future years.

Future Calculations

1. For FY 2016 and later, the location equity subtraction is recalculated each year.
2. The starting point each year is the initial voter-approved referendum allowance as converted for pupil unit change in FY 2015, plus any new voter-approved referendum allowances, minus any allowances that expire. Allowances that have been converted from voter - approved to board-approved are still included in this calculation.
3. New additional allowances created by board action are exempt from the location equity subtraction for FY 2015 and in later years.

Impact of Location Equity Subtraction on New Operating Referendum Elections

- For most districts, the amount requested in a new referendum election will not affect the location equity subtraction, so a dollar on the ballot will create a dollar of new referendum authority.
- As in the past, districts that pass a new referendum will generally see a reduction in equity revenue, because equity revenue varies inversely with referendum revenue. Generally, the loss of equity revenue is small compared to the gain in referendum revenue from the new election.

Because the location equity subtraction is recalculated each year as the lesser of:

1. the location equity allowance, or
2. the district's referendum allowance that was initially voter approved (even if later converted to board approved).

A **“new election gap”** is created for districts that:

1. Qualify for location equity revenue, and
 2. Have a voter-approved (or board-approved converted from voter-approved) referendum allowance that is the less than the location equity allowance.
- For districts with a “new election gap”, the increase in revenue generated by a new referendum election is less than the amount on the ballot because new voter approved authority goes first to increase the location equity subtraction.
 - New referendum revenue is generated only for the portion of the increase on the ballot that puts the district's initially voter-approved referendum allowance over \$424 for metro districts or over \$212 for large non-metro districts.
 - The **“new election gap”** currently affects 15 districts in the state, shown in Column H of Report 1:

94 Cloquet	108 Central
112 Eastern Carver	138 North Branch
252 Cannon Falls	286 Brooklyn Center
318 Grand Rapids	423 Hutchinson
623 Roseville	700 Hermantown
701 Hibbing	709 Duluth
716 Belle Plaine	834 Stillwater
911 Cambridge- Isanti	

Example: North Branch, Grand Rapids, Cambridge

- Nonmetro districts with > 2,000 ADM that currently have no voter approved referendum.
- Qualify for \$212 of location equity revenue/APU.

- Also qualify for \$300 of board approved referendum / APU, for a total of \$512 / APU without voter approval. (“Stacking”).
- Location equity subtraction is currently \$0 because there is no voter approved referendum to subtract the \$212 from.

Example continued: North Branch, Grand Rapids, Cambridge

- Because the location equity subtraction is recalculated annually, the first \$212 of any new voter approved referendum will go to increase the location equity subtraction and will not produce any new revenue for the district.
- To get a \$1 increase in revenue, the district would have to ask for \$213 on the ballot. To get a \$100 increase in revenue, the district would have to ask for \$312 on the ballot.

Example: Belle Plaine #716

- Metro district that currently has a \$354 / APU voter-approved referendum (after pupil unit weighting change conversion).
- Qualifies for \$424 of location equity revenue/ APU.
- Also qualifies for \$300 of board approved referendum / APU, because net referendum allowance per APU is \$0 after location equity subtraction, for a total of \$724 / APU without voter approval. (“Stacking”).

Example continued: Belle Plaine

- Location equity subtraction is currently \$354 or \$70 less than the location equity allowance.
- Because the location equity subtraction is recalculated annually, the first \$70 of any new voter approved referendum will go to increase the location equity subtraction and will not produce any new revenue for the district.
- To get a \$1 increase in revenue, the district would have to ask for \$71 on the ballot; to get a \$100 increase in revenue, the district would have to put a \$170 increase on the ballot.

Use Caution When Converting Existing Referendum Allowances to Board-Approved

- Some districts do not qualify for \$300 of new additional board-approved referendum allowances for FY 2015, but will qualify in later years after an existing voter approved referendum expires.
- Because of the order of referendum calculations and the “new election gap,” these districts should use caution in converting existing voter-approved levies to board-approved because it may work to their advantage to wait until the existing levy expires and then add a new additional board-approved allowance.
- Since the board-approved allowance is limited to \$300 / APU, conversion of an existing authority to board-approved may preclude a district from adding a new additional board approved allowance later.

Example: Metro district with \$624 voter-approved allowance, including a \$424 allowance that expires in FY 2016 and a \$200 allowance that expires in FY 2021.

- For FY 2015, the district is eligible to add a new additional board-approved referendum allowance of \$100, because its net referendum allowance after the location equity subtraction is \$200.
- This will generate \$724 / APU in combined referendum plus location equity revenue for FY 2014:
 - \$424 location equity
 - \$200 net voter-approved levy
 - \$100 new board-approved additional levy.
- The board could also convert \$200 / APU to board-approved. Given the impending expiration of their \$424 /APU levy, this might be viewed as a way to reduce the amount that needs to be renewed in the subsequent year.
- But, because the location equity subtraction is recalculated each year and includes amounts converted from voter-approved to board-approved, the \$424 location equity subtraction for FY 2016 will zero out both the \$200 remaining voter approved levy and the \$200 converted from voter approved to board approved.
- In effect, the district has fallen into the “new election gap,” since the board-approved authority serves only to increase the location equity subtraction and doesn’t result in new revenue.
- Since the board already has \$300 of board-approved referendum, it cannot add another \$200 new additional board-approved referendum, even though it has only \$100 of net referendum revenue after the location equity subtraction. To make this work, it would have to undo the conversion of \$200 from voter-approved to board-approved.
- If the board did not convert the \$200 from voter approved to board approved for FY 2015, it still has a \$0 net referendum levy after the location equity subtraction for FY 2016. Since it has the \$100 of new additional board-approved authority added for FY 2015, it can add another \$200 of new additional board-approved authority beginning in FY 2016 to stay at a total of \$724 / APU.

Questions?

More detailed summaries and spreadsheets are available on the MDE website (<http://education.state.mn.us>).

For general questions, please contact:

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