

Truth in Taxation Presentation
December 13, 2010
for Taxes Payable in 2011

Truth in Taxation Law

- State law initially approved in 1988
- Amended in 2009
- Requirements
 - Counties must send out “proposed property tax statements” between November 11-24, 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 Hearing 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
- District must also allow for public comments

Agenda for Hearing

- Background on School Funding, Property Tax Levies, and Budgets
- Information on District Budget
- Information on the District's Proposed Tax Levy for Taxes Payable in 2011
- Public Comments and Questions

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

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
- Mid-year budget revision to be completed in January

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

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 will be presented at this hearing.



Budget Information

- All school district budgets are divided into separate funds, based on purposes of revenue, as required by law
- For our district, 6 funds:
 - General fund (includes former transportation and capital expenditure funds)
 - Food service fund
 - Community service fund
 - Building and Construction fund
 - Debt service fund
 - OPEB debt service fund

2010-11 Revenues by Fund

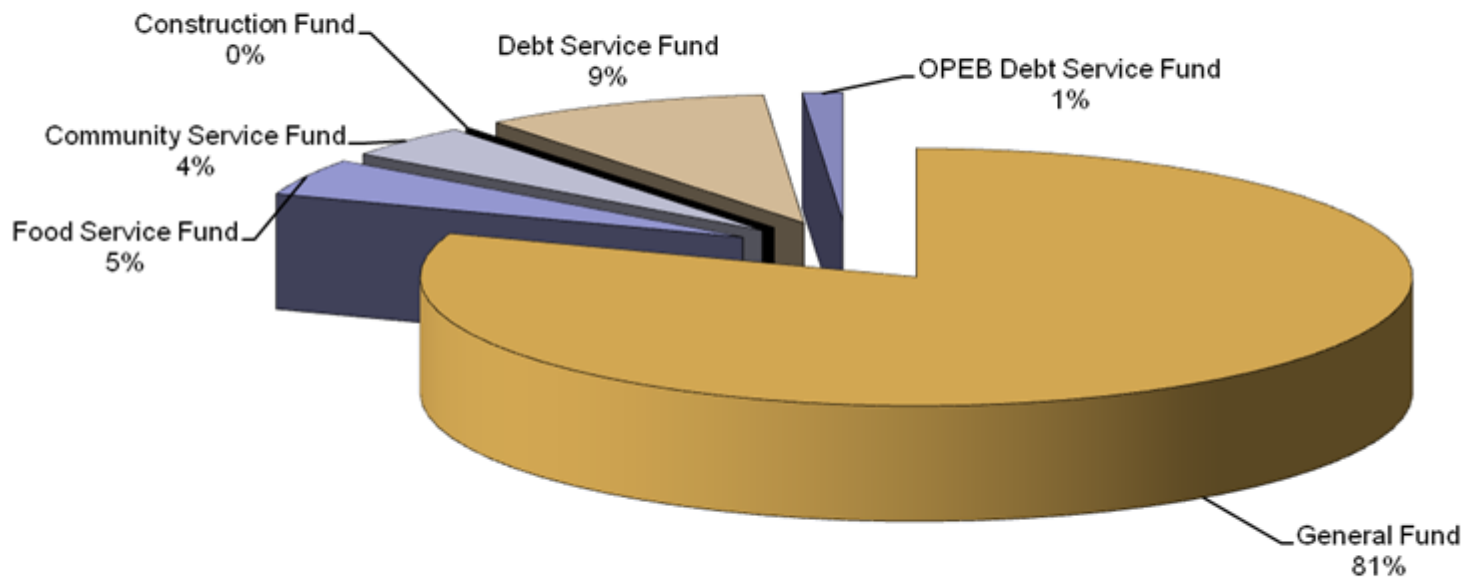
**ISD 877 BUFFALO-HANOVER-MONTROSE
2010-2011 BUDGET**

**ALL FUNDS - REVENUE SUMMARY
(Excluding Debt Service Refundings and OPEB Bonds and Transfers)**

	2007-2008 Actual	2008-2009 Actual	2009-2010 Budget	2009-2010 Actual	2010-2011 Budget
General Fund	\$50,059,558	\$51,888,058	\$52,311,648	\$52,343,018	\$52,346,727
Food Service Fund	\$2,554,212	\$2,708,454	\$2,844,510	\$2,757,754	\$3,004,882
Community Service Fund	\$2,787,017	\$2,829,881	\$2,760,504	\$2,794,717	\$2,745,759
Construction Fund	\$158,573	\$174,934	\$5,000	\$1,006	\$0
Debt Service Fund	\$7,675,761	\$7,164,043	\$6,690,265	\$6,655,550	\$6,085,737
OPEB Debt Service Fund	\$0	\$0	\$0	\$0	\$853,712
Total	\$63,235,121	\$64,765,369	\$64,611,927	\$64,552,044	\$65,036,817

2010-11 Revenues by Fund

2010-2011
Revenues By Fund
(Excluding Debt Service Refundings and OPEB Bonds and Transfers)



2010-11 Expenditures by Fund

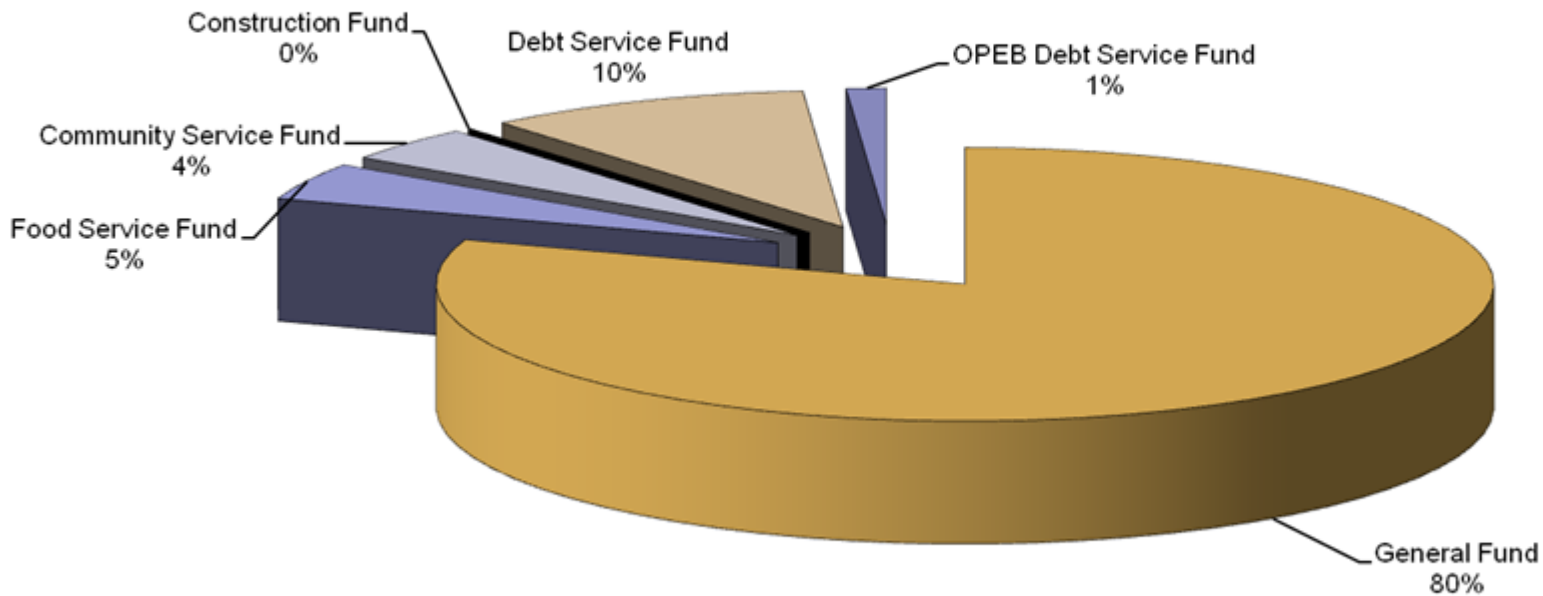
**ISD 877 BUFFALO-HANOVER-MONTROSE
2010-2011 BUDGET**

**ALL FUNDS - EXPENDITURE SUMMARY
(Excluding Debt Service Refundings and OPEB Bonds and Transfers)**

	2007-2008 Actual	2008-2009 Actual	2009-2010 Budget	2009-2010 Actual	2010-2011 Budget
General Fund	\$49,795,806	\$50,447,927	\$51,031,748	\$50,109,108	\$52,708,810
Food Service Fund	\$2,770,468	\$2,788,099	\$2,759,180	\$2,693,407	\$2,884,010
Community Service Fund	\$2,697,060	\$2,857,590	\$2,769,165	\$2,761,567	\$2,746,494
Construction Fund	\$1,422,886	\$173,433	\$1,099,000	\$1,099,103	\$0
Debt Service Fund	\$7,222,188	\$6,859,728	\$7,116,089	\$7,111,951	\$6,540,253
OPEB Debt Service Fund	\$0	\$0	\$0	\$0	\$800,274
Total	\$63,908,408	\$63,126,778	\$64,775,182	\$63,775,137	\$65,679,841

2010-11 Expenditures by Fund

2010-2011
Expenditures By Fund
(Excluding Debt Service Refundings and OPEB Bonds and Transfers)



Buffalo-Hanover-Montrose Public Schools #877

District Revenues, Expenditures, and Fund Balance

2010-11 Budget

Fund	6/30/09	2009-10 Actual Expenditures			6/30/10	2010-11 Original Budget Projection			6/30/11
	Beginning Fund Balance	Revenues and Transfers	Expenditures and Transfers	Net change in Fund Bal.	Actual Fund Balance	Revenues and Transfers In	Expenditures and Transfers Out	Net change in Fund Bal.	Proj. Ending Fund Balance
<u>General</u>									
Total Unreserved	\$ 7,977,017	\$ 57,415,065	\$ 54,454,863	\$ 2,960,202	\$ 10,937,219	\$ 47,260,577	\$ 47,449,018	\$ (188,441)	\$ 10,748,778
Total Reserved	\$ 959,385	\$ 4,686,339	\$ 5,366,383	\$ (680,044)	\$ 279,341	\$ 5,086,150	\$ 5,259,792	\$ (173,642)	\$ 105,699
Total General Fund	\$ 8,936,402	\$ 62,101,404	\$ 59,821,246	\$ 2,280,158	\$ 11,216,560	\$ 52,346,727	\$ 52,708,810	\$ (362,083)	\$ 10,854,477
<u>Food Service</u>	\$ 38,322	\$ 3,110,534	\$ 3,046,187	\$ 64,347	\$ 102,669	\$ 3,004,882	\$ 2,884,010	\$ 120,872	\$ 223,541
<u>Community Service</u>									
Unreserved	\$ 12,549	\$ 65,723	\$ 78,264	\$ (12,541)	\$ 8	\$ 69,500	\$ 71,900	\$ (2,400)	\$ (2,392)
Reserved	\$ 232,151	\$ 3,354,377	\$ 3,308,687	\$ 45,690	\$ 277,841	\$ 2,676,259	\$ 2,674,594	\$ 1,665	\$ 279,506
Total Community Service	\$ 244,700	\$ 3,420,100	\$ 3,386,951	\$ 33,149	\$ 277,849	\$ 2,745,759	\$ 2,746,494	\$ (735)	\$ 277,114
<u>Building Construction</u>	\$ 1,098,097	\$ 1,006	\$ 1,099,103	\$ (1,098,097)	\$ -	\$ -	\$ -	\$ -	\$ -
<u>Debt Service Fund 7</u>	\$ 2,389,459	\$ 6,655,550	\$ 7,111,951	\$ (456,401)	\$ 1,933,058	\$ 6,085,737	\$ 6,540,253	\$ (454,516)	\$ 1,478,542
<u>Debt Service Fund 47</u>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 853,712	\$ 800,274	\$ 53,438	\$ 53,438
<u>OPEB Trust</u>	\$ -	\$ 10,593,203	\$ -	\$ 10,593,203	\$ 10,593,203	\$ -	\$ -	\$ -	\$ 10,593,203
Total All Funds	\$ 12,706,980	\$ 85,881,797	\$ 74,465,438	\$ 11,416,359	\$ 24,123,339	\$ 65,036,817	\$ 65,679,841	\$ (643,024)	\$ 23,480,315

General Fund Budget Highlights

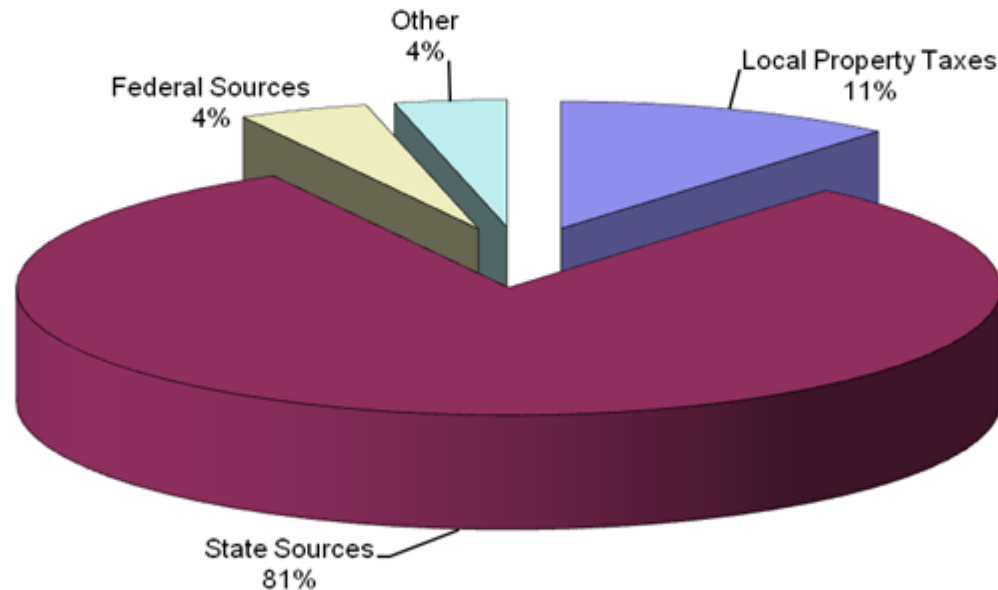
ISD 877 BUFFALO-HANOVER-MONTROSE 2010-2011 BUDGET

GENERAL FUND 01 - REVENUE SUMMARY BY SOURCE (Excluding OPEB Bond Proceeds and Transfers)

	2007-2008 Actual	2008-2009 Actual	2009-2010 Budget	2009-2010 Actual	2010-2011 Budget
Local Property Taxes	\$5,076,571	\$5,619,257	\$5,779,115	\$5,751,245	\$5,841,425
State Sources	\$41,259,544	\$42,046,681	\$38,745,671	\$38,950,416	\$42,348,334
Federal Sources	\$1,603,585	\$1,805,537	\$5,944,136	\$5,711,279	\$2,232,884
Other	\$2,119,858	\$2,416,583	\$1,842,726	\$1,930,078	\$1,924,084
Total	\$50,059,558	\$51,888,058	\$52,311,648	\$52,343,018	\$52,346,727

General Fund Budget Highlights

2010-2011
General Fund Revenue By Source
(Excluding OPEB Bond Proceeds and Transfers)



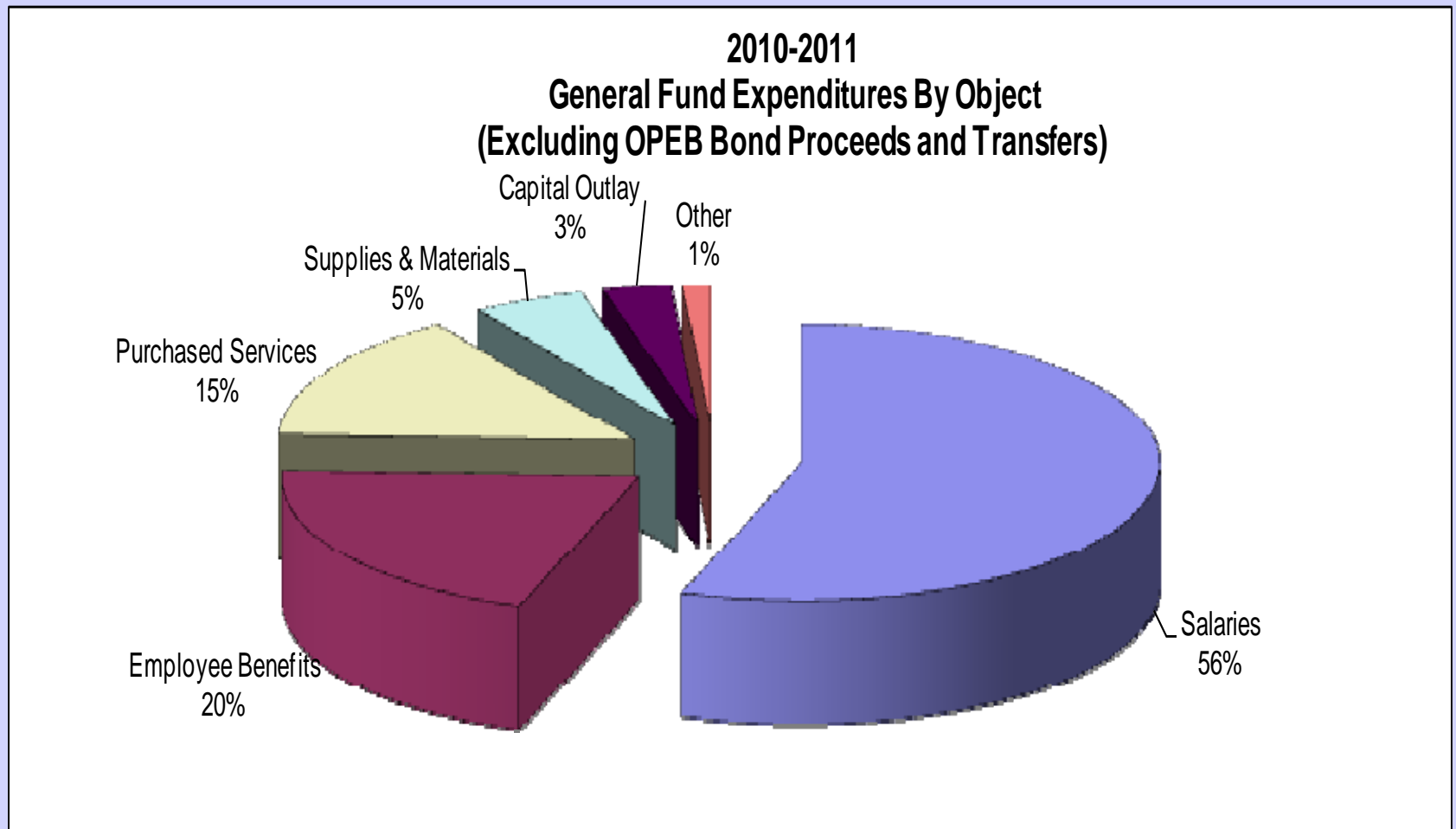
General Fund Budget Highlights

**ISD 877 BUFFALO-HANOVER-MONTROSE
2010-2011 BUDGET**

**GENERAL FUND 01 - EXPENDITURE SUMMARY
(Excluding OPEB Bond Proceeds and Transfers)**

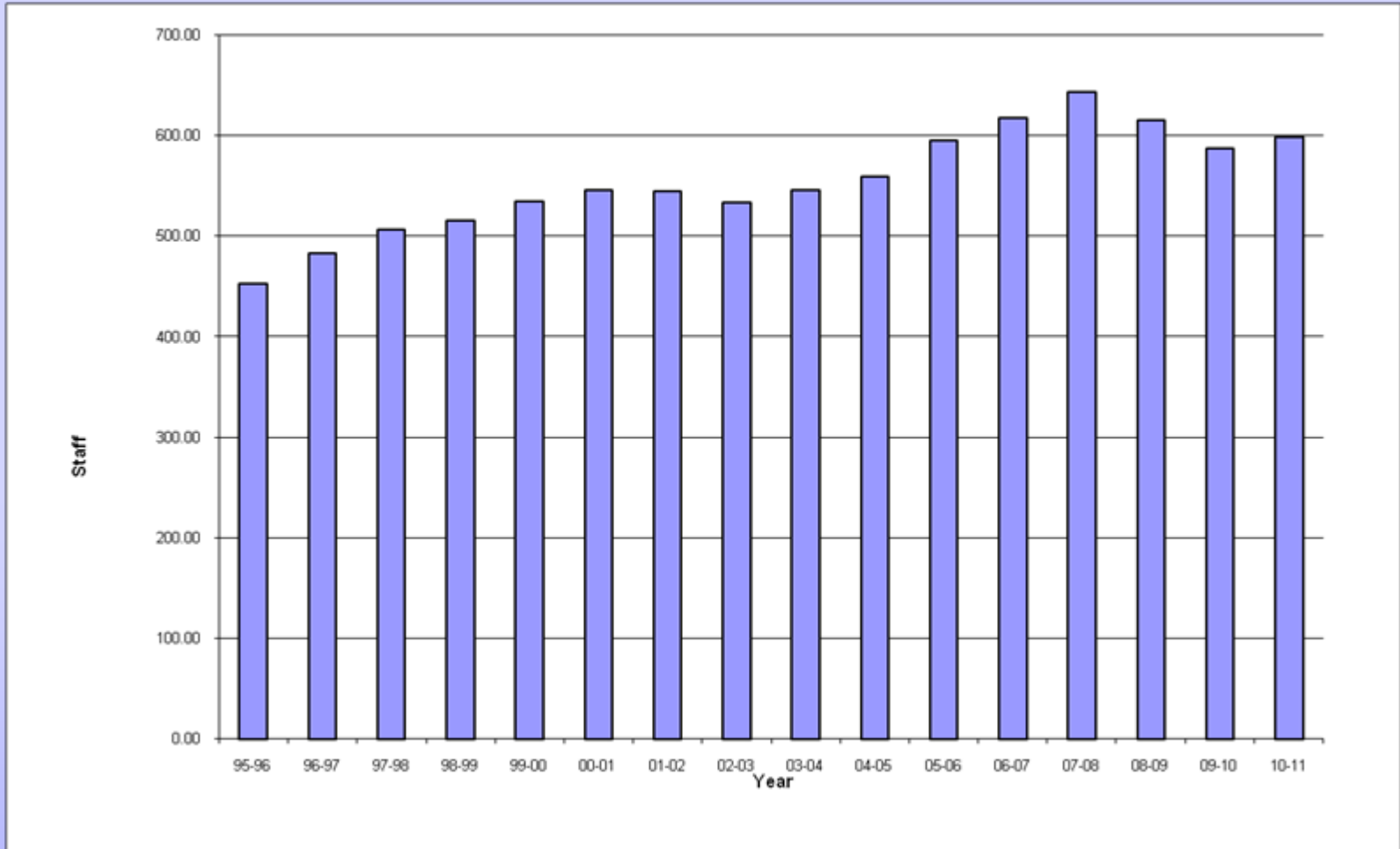
	2007-2008 Actual	2008-2009 Actual	2009-2010 Budget	2009-2010 Actual	2010-2011 Budget
Salaries	\$28,763,976	\$28,841,636	\$28,751,810	\$28,408,338	\$29,220,836
Employee Benefits	\$8,931,745	\$9,124,824	\$9,452,818	\$9,486,900	\$10,626,716
Purchased Services	\$6,591,953	\$7,762,849	\$7,877,171	\$7,756,534	7,940,888.00
Supplies & Materials	\$2,987,929	\$2,470,304	\$2,803,599	\$2,168,996	\$2,654,620
Capital Outlay	\$2,119,334	\$1,965,090	\$1,680,175	\$1,882,340	1,626,775.00
Other	\$400,868	\$283,224	\$590,623	\$406,000	638,975.00
Total	\$49,795,806	\$50,447,927	\$51,156,196	\$50,109,108	\$52,708,810

General Fund Budget Highlights



Staff FTE Comparison

July 1, 2010



Proposed 2011 Property Tax Levy

- Determination of levy
- Comparison 2010 to 2011 levies
- Impact on taxpayers
- Reasons for changes in tax levy

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 over 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

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.

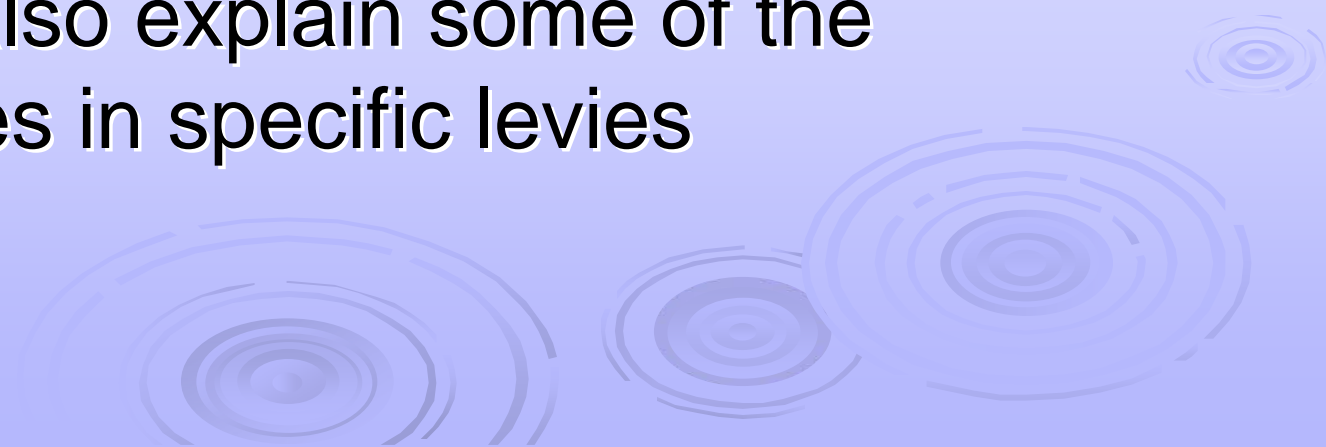
Step 6. The **School Board** adopts a proposed levy in September, based on the limits set in step 5. After a public hearing, the board adopts a final levy in December. Final levy cannot be more than the preliminary levy, except for amounts approved by voters.

* 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 2011

- Schedule of events in approval of district's 2010 (Payable 2011) tax levy
 - Early September – Dept. of Education prepared and distributed first draft of levy limit worksheets setting maximum authorized levy
 - Sept. 27: School board approved proposed levy
 - Mid-November: County mailed “Proposed Property Tax Statements” to all property owners
 - December 13: Tax information presentation and School board certifies final levy

Overview of Proposed Levy Payable in 2011

- Total 2011 levy increased by \$242,032 (+1.85%) from 2010 to 2011
 - Law requires that we explain the major changes in the levy
 - We will also explain some of the decreases in specific levies
- 

Buffalo-Hanover-Montrose School District #877

November 29, 2010

Comparison of Proposed Tax Levy Payable in 2011 to Actual Levy Payable in 2010 Using Final Levy Payable in 2010 as Base Year

	2010 Final Levy	2011 Truth In Taxation Proposed Levy	Change from Prior Year	Percent Change
General Fund				
Voter Approved Referendum JOBZ Exempt	\$ 3,064,534	\$ 2,867,137	\$ (197,397)	
Equity	\$ 739,933	\$ 708,106	\$ (31,827)	
Operating Capital	\$ 699,456	\$ 605,345	\$ (94,111)	
Lease Levy	\$ 307,897	\$ 410,640	\$ 102,743	
Integration	\$ 185,942	\$ 185,548	\$ (394)	
Safe Schools	\$ 209,623	\$ 200,155	\$ (9,469)	
Deferred Maintenance	\$ 284,235	\$ 254,406	\$ (29,829)	
Career Technical	\$ 103,764	\$ 103,764	\$ -	
Abatement	\$ 626	\$ 239	\$ (387)	
Health and Safety (includes Alt. Facilities for Pay 2008)	\$ 168,000	\$ 265,594	\$ 97,594	
Reemployment Ins	\$ 45,000	\$ 106,000	\$ 61,000	
General Fund Adjustments	\$ (135,683)	\$ (126,301)	\$ 9,382	
Total General Fund Levy	\$ 5,673,327	\$ 5,580,632	\$ (92,696)	-1.63%
Community Education				
Basic Community Education	\$ 234,085	\$ 234,085	\$ -	
Early Childhood Family Education	\$ 127,750	\$ 114,310	\$ (13,440)	
School-Age Care	\$ 160,000	\$ 170,000	\$ 10,000	
Home Visiting	\$ 5,272	\$ 5,294	\$ 22	
Adults with Disabilities	\$ 10,890	\$ 10,890	\$ -	
Adjustments	\$ 26,271	\$ 55,838	\$ 29,567	
Total Community Education Levy	\$ 564,269	\$ 590,417	\$ 26,149	4.63%
Debt Service				
Voter Approved and Other Debt Service	\$ 7,704,249	\$ 7,568,688	\$ (135,562)	
Reduction for Excess Fund Balance	\$ (829,800)	\$ (385,660)	\$ 444,140	
Total Debt Service Levy	\$ 6,874,449	\$ 7,183,028	\$ 308,579	4.49%
Total Certified Levy	\$ 13,112,045	\$ 13,354,077	\$ 242,032	1.85%

Impact on Taxpayers

- The next slides show the calculations of the estimated tax rates that were used for the Truth In Taxation notices sent out in November
- The slides include examples of changes in the school district portion of property taxes from 2010 to 2011
 - Examples include school district taxes only
 - All examples are based on a set amount of property value and do not reflect any changes in valuation that may have occurred for individual property owners
- Tax calculations do not include market value credits

Impact on Taxpayers

Buffalo-Hanover-Montrose School District #877		
Analysis of Impact of Proposed Final 2011 Tax Levy and Rates		
Using Final Levy Payable in 2010 as Base Year		
Tax Rate Calculations Used for Truth in Taxation Notices	2010 Final Levy	2011 Proposed Levy
Certified Levy on RMV	\$ 3,804,467	\$ 3,575,242
Fiscal Disparities Distribution Reduction	\$ 43,272	\$ 46,030
Net Levy on RMV	\$ 3,761,195	\$ 3,529,212
Referendum Market Value JOBZ Non-Exempt**	\$ 2,785,275,400	\$ 2,563,064,550
Total RMV Tax Rate	0.13504%	0.13770%
Certified Levy on NTC	\$ 9,307,578	\$ 9,778,835
Fiscal Disparities Distribution Reduction	\$ 105,864	\$ 125,898
Net Levy on NTC	\$ 9,201,714	\$ 9,652,937
Tax Rate Determination Value ***	\$ 32,763,398	\$ 30,237,354
Total NTC Tax Rate	28.0853%	31.9239%
<p>**Referendum market values based on an estimated 7.98% average decrease for Wright and Hennepin Counties for taxes payable in 2011</p> <p>***Net Tax Capacity values are based on an estimated 7.71% average decrease for Wright and Hennepin Counties for taxes payable in 2011</p>		

Impact on Taxpayers

Buffalo-Hanover-Montrose School District #877		
Analysis of Impact of Proposed Final 2011 Tax Levy and Rates		
Using Final Levy Payable in 2010 as Base Year		
Tax Impact on Various Classes of Property-School Portion Only	2010 Final Levy	2011 Proposed Levy
Residential Homestead Property		
\$200,000	\$ 832	\$ 914
\$230,000	\$ 957	\$ 1,051
\$250,000	\$ 1,040	\$ 1,142
\$300,000	\$ 1,248	\$ 1,371
\$350,000	\$ 1,456	\$ 1,599
\$400,000	\$ 1,664	\$ 1,828
Commercial/Industrial Property		
\$75,000	\$ 417	\$ 462
\$100,000	\$ 556	\$ 617
\$150,000	\$ 834	\$ 925
\$250,000	\$ 1,531	\$ 1,701
Agricultural Homestead Property		
\$400,000 Ag Homestead+	\$ 1,188	\$ 1,327
\$600,000 Ag Homestead+	\$ 1,256	\$ 1,404
\$800,000 Ag Homestead+	\$ 1,537	\$ 1,723
\$1,000,000 Ag Homestead+	\$ 1,937	\$ 2,178
<p>**Referendum market values based on an estimated 7.98% average decrease for Wright and Hennepin Counties for taxes payable in 2011</p> <p>***Net Tax Capacity values are based on an estimated 7.71% average decrease for Wright and Hennepin Counties for taxes payable in 2011</p> <p>+A value of \$150,000 was assumed for the house, garage and one acre for Ag Homestead Property</p> <p>++All values are stated before any Homestead Market Value or Ag Land Market Value credits</p>		

Explanation of Levy Changes

- Category: Voter Approved Referendum
- Change: -\$197,397
- Use of funds: general operating expenses
- Reason for decrease:
 - Funding for this program is provided through a combination of state aid and local tax levies for most districts. About 82% of this revenue comes from the local levy for B-H-M Schools.
 - Overall, referendum revenue will decrease due to a correction in projected enrollment and a greater portion being paid by state aid.
- MDE adjusts the final levy total based on actual enrollment for prior years so any corrections in enrollment projections to actual will occur in a future levy

Explanation of Levy Changes

- Category: Operating Capital
- Change: -\$94,111
- Use of funds: equipment, building maintenance, and other capital expenses
- Reason for decrease:
 - Funding for this program is provided through a combination of state aid and local tax levies for most.
 - Operating capital revenue will decrease due to a correction in projected enrollment and a greater portion being paid by state aid.

Explanation of Levy Changes

- Category: Equity Revenue
- Change: -\$31,827
- Use of funds: general operating expenses
- Reason for decrease:
 - Funding for this program is provided through a combination of state aid and local tax levies for most.
 - Equity revenue is based on a number of factors including but not limited to: general education revenue per pupil related to a statewide average, an inverse relationship with referendum allowance per pupil, and any changes in pupil units up or down.
 - Overall, referendum revenue will decrease due to a correction in projected enrollment and a greater portion being paid by state aid.

Explanation of Levy Changes

- Category: Lease Levy
- Change: +\$102,743
- Use of funds: cover costs of leasing classroom space
- Reason for increase:
 - Funding for this program is provided through local tax levies.
 - Overall, lease levy will increase due to corrections and final adjustments to our leasing schedules.

Explanation of Levy Changes

- Category: Health and Safety
- Change: +\$97,594
- Use of funds: State-approved capital projects related to health and safety
- Reason for increase:
 - The amount of this levy is based on the estimated cost of qualifying state-approved projects.
 - The levy is increasing this year as a result of the addition of several projects that need to be completed and revised estimates of previously approved projects.
 - Revenues are based on actual expenses and are adjusted annually for prior year actual totals.

Explanation of Levy Changes

- Category: Reemployment insurance
- Change: +\$61,000
- Use of funds: cover the costs of reemployment benefits for employees laid off or non-renewed
- Reason for increase:
 - The district has had an increase in reemployment benefits based on budget cuts from 2008-09 and 2009-10.
 - The increase allows the district to match the levy to the projected costs for reemployment.

Explanation of Levy Changes

- Category: Voter Approved and Other Debt Service
- Change: -\$135,562
- Use of funds: principal and interest payments on bonds
- Reason for increase:
 - The District re-structured it's debt service payment schedule with the refunding issues and OPEB issue that was done in 2008 and 2009 respectively.
 - The debt service schedule has a scheduled decrease in debt service payments for taxes payable in 2011.

Explanation of Levy Changes

- Category: Reduction in Excess Fund Balance
- Change: +\$444,140
- Use of funds: principal and interest payments on bonds
- Reason for increase
 - Districts are required annually to levy 105% of their debt service payments to cover the loss of revenue from delinquent tax payments.
 - Districts are limited in the amount of fund balance in the debt service fund based on a state-determined excess fund balance formula.
 - Districts are also allowed, with approval of the MDE, to increase the amount of the debt excess reduction for certain circumstances.
 - The district chose, with MDE approval, to increase the amount of the debt excess reduction in the last two levies. This was due to a transfer of funds left over from the last Alternative Facilities project. The district is choosing to discontinue the additional reduction since the fund transfer has now been spent down on principal and interest payments of the district.

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 website 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 approximately \$98,290 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 \$2,350
 - 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 2011
- Final levy is certified to county auditor by December 28

Comments and Questions

