



*Making a Difference!*

Truth in Taxation Presentation

December 14, 2015

for Taxes Payable in 2016

# 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 on proposed levy and current year budget
    - Discuss percentage change and reasons for change- **Total 2016 levy will increase by \$456,006 (3.4%)**
  - Allow for comments from audience at a regularly scheduled meeting

# 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 a 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 changes in tax levies are revenue neutral, offset by reductions or increases 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
- 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, 8 active funds:
  1. General fund (includes former transportation and capital expenditure funds)
  2. Food Service fund
  3. Community Service fund
  4. Building Construction fund
  5. Debt Service fund
  6. OPEB Debt Service fund
  7. HRA Trust fund
  8. OPEB Trust fund

# 2015-16 Revenues by Fund

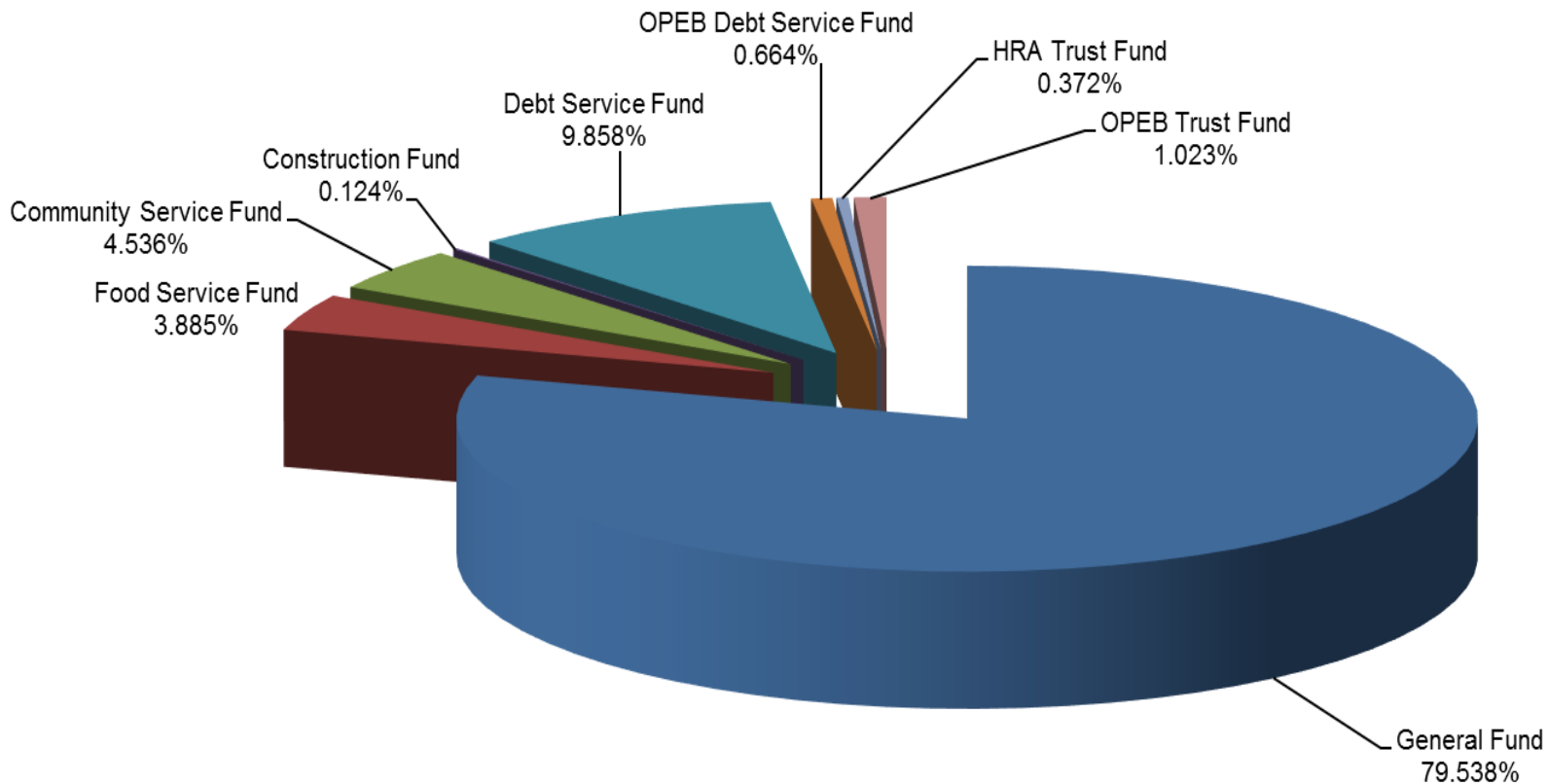
## ISD 877 BUFFALO-HANOVER-MONTROSE 2015-2016 BUDGET

### ALL FUNDS - REVENUE SUMMARY

	2012-13 Actual	2013-14 Actual	2014-15 Revised Budget	2014-15 Actual	2015-16 Budget
General Fund	\$53,543,041	\$55,500,647	\$58,157,223	\$58,443,408	\$59,504,020
Food Service Fund	\$2,859,617	\$2,974,079	\$2,906,264	\$2,886,080	\$2,906,264
Community Service Fund	\$3,600,627	\$3,725,243	\$3,240,853	\$3,559,471	\$3,393,115
Construction Fund	\$3,958,576	\$1,342	\$33,148,049	\$33,125,601	\$93,000
Debt Service Fund	\$6,657,376	\$6,400,094	\$6,361,755	\$6,318,242	\$7,374,862
OPEB Debt Service Fund	\$517,906	\$523,093	\$499,759	\$496,073	\$496,789
HRA Trust Fund	\$253,626	\$225,818	\$280,649	\$286,461	\$278,500
OPEB Trust Fund	\$1,462,638	\$2,129,655	\$804,777	\$417,484	\$765,101
<b>Total</b>	<b>\$72,853,407</b>	<b>\$71,479,971</b>	<b>\$105,399,329</b>	<b>\$105,532,821</b>	<b>\$74,811,651</b>

# 2015-16 Revenues by Fund

2015-2016  
Revenues By Fund



# 2015-16 Expenditures By Fund

## ISD 877 BUFFALO-HANOVER-MONTROSE 2015-2016 BUDGET

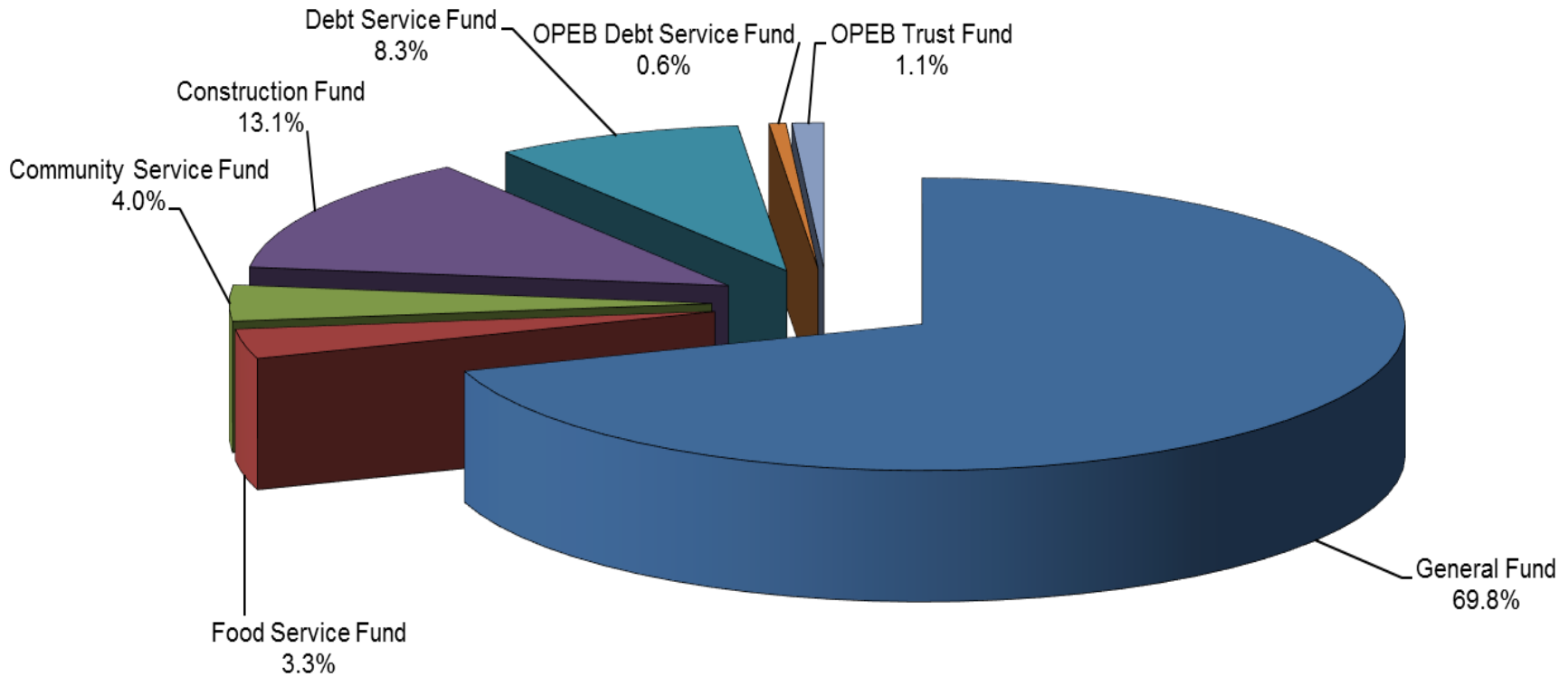
### ALL FUNDS - EXPENDITURE SUMMARY

	<b>2012-13 Actual</b>	<b>2013-14 Actual</b>	<b>2014-15 Revised Budget</b>	<b>2014-15 Actual</b>	<b>2015-16 Budget</b>
General Fund	\$52,122,185	\$55,785,572	\$59,256,107	\$57,341,013	\$61,232,805
Food Service Fund	\$2,887,006	\$2,974,079	\$2,878,579	\$2,860,519	\$2,878,579
Community Service Fund	\$3,757,182	\$3,772,546	\$3,316,047	\$3,757,420	\$3,482,303
Construction Fund	\$1,599,189	\$2,360,729	\$3,308,432	\$2,042,441	\$11,461,342
Debt Service Fund	\$6,684,465	\$6,436,881	\$6,317,750	\$6,317,750	\$7,264,473
OPEB Debt Service Fund	\$494,438	\$494,438	\$494,438	\$494,438	\$494,438
OPEB Trust Fund	\$1,092,461	\$1,027,514	\$818,160	\$841,568	\$933,546
<b>Total</b>	<b>\$68,636,925</b>	<b>\$72,851,760</b>	<b>\$76,389,513</b>	<b>\$73,655,149</b>	<b>\$87,747,486</b>



# 2015-16 Expenditures By Fund

2015-2016  
Expenditures By Fund



# Budget Information

- **General Fund Revenue Changes for 2015-16**
  - 2.0% increase on the General Education Revenue formula allowance
  - 1.0 % increase in state Special Education Aid
  - \$189.55 per pupil unit board approved referendum allowance
  - Enrollment projection of 5,695 (ECSE-12)-decrease from prior year projection-current enrollment 10/1/15 5,664
  - Integration Revenue continues at 83% of 2012-13 revenue levels
  - Kindergarten pupil units budgeted at 97% full-time

# 2015-16 General Fund Revenue Summary

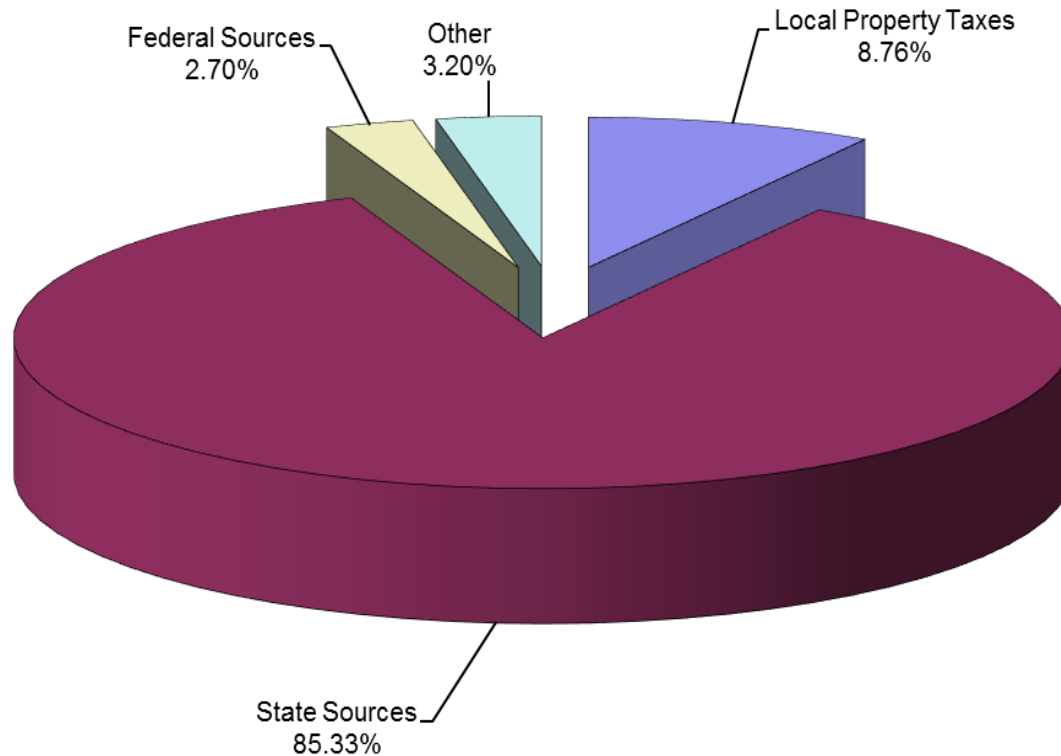
## ISD 877 BUFFALO-HANOVER-MONTROSE 2015-2016 BUDGET

### GENERAL FUND 01 - REVENUE SUMMARY BY SOURCE

	<b>2012-13 Actual</b>	<b>2013-14 Actual</b>	<b>2014-15 Revised Budget</b>	<b>2014-15 Actual</b>	<b>2015-16 Budget</b>
Local Property Taxes	\$5,997,896	\$3,240,609	\$4,665,431	\$5,181,370	\$5,210,454
State Sources	\$44,035,578	\$48,544,438	\$49,945,641	\$49,575,914	\$50,777,707
Federal Sources	\$1,614,558	\$1,640,022	\$1,608,951	\$1,582,204	\$1,608,879
Other	\$1,895,009	\$2,075,578	\$1,937,200	\$2,103,920	\$1,906,980
<b>Total</b>	<b>\$53,543,041</b>	<b>\$55,500,647</b>	<b>\$58,157,223</b>	<b>\$58,443,408</b>	<b>\$59,504,020</b>

# 2015-16 General Fund Revenue Summary

**2015-2016  
General Fund Revenue By Source**



# Budget Information

- **General Fund Expenditure Changes for 2015-16**
  - Superintendent & Special Ed staffing contingencies
  - Contract & benefits based on contracts and expected market conditions
  - Other expenditures (supplies & utilities) 0-5% increase
  - Continued cost containment initiatives
  - Integration program submitted to MDE at 83% of 2012-13 program
  - \$400,000 set aside for technology
  - \$330,000 set aside for class size reduction (continuation)
  - 6.0 FTE for Local Option Revenue (class size reduction) (continuation)

# 2015-16 General Fund Expenditure Summary

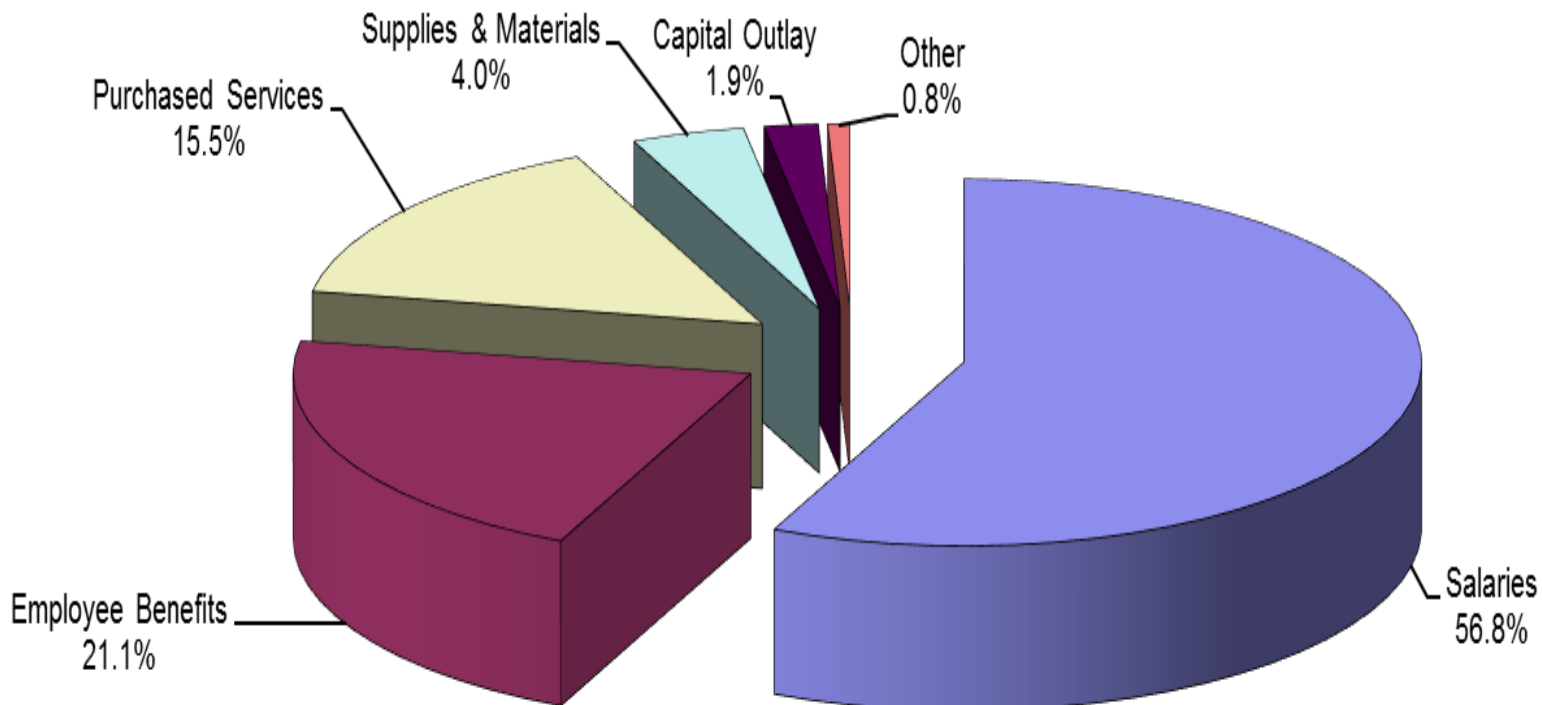
## ISD 877 BUFFALO-HANOVER-MONTROSE 2015-2016 BUDGET

### GENERAL FUND 01 - EXPENDITURE SUMMARY

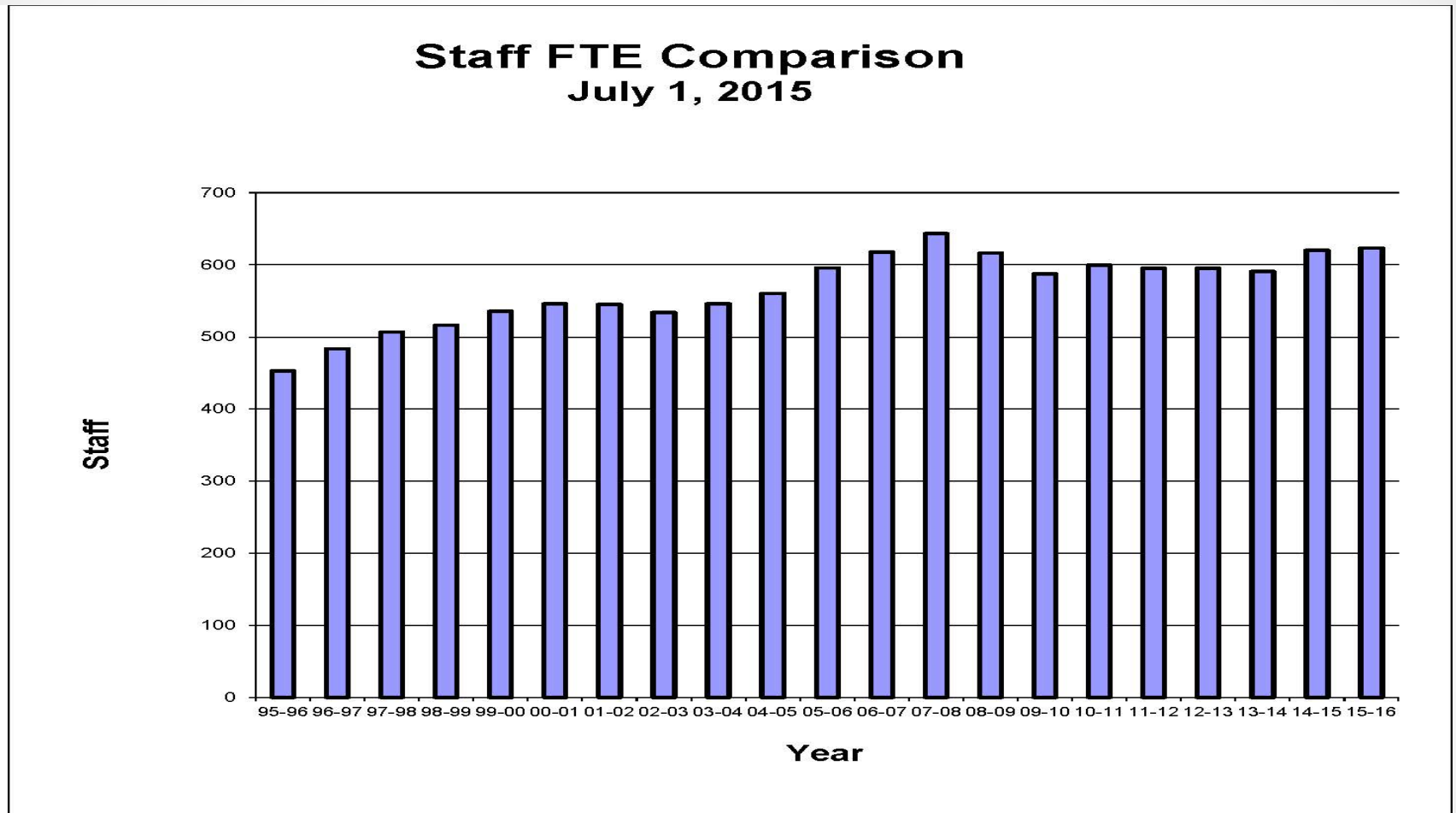
	<b>2012-13 Actual</b>	<b>2013-14 Actual</b>	<b>2014-15 Revised Budget</b>	<b>2014-15 Actual</b>	<b>2015-16 Budget</b>
Salaries	\$29,854,800	\$31,080,937	\$32,991,313	\$32,756,714	\$34,780,508
Employee Benefits	\$10,469,046	\$11,390,937	\$12,554,789	\$11,946,918	\$12,897,545
Purchased Services	\$7,577,695	\$8,200,465	\$9,394,695	\$8,756,166	\$9,482,551
Supplies & Materials	\$2,059,259	\$2,312,864	\$2,378,450	\$2,084,411	\$2,443,618
Capital Outlay	\$1,825,149	\$2,203,165	\$1,452,392	\$1,460,239	1,161,251.00
Other	\$336,237	\$597,204	\$484,468	\$336,565	467,332.00
<b>Total</b>	<b>\$52,122,185</b>	<b>\$55,785,572</b>	<b>\$59,256,107</b>	<b>\$57,341,013</b>	<b>\$61,232,805</b>

# 2015-16 General Fund Expenditure Summary

2015-2016  
General Fund Expenditures By Object



# Staff Full-Time Equivalent Comparison





# Overview of Proposed Levy Payable in 2016

- Law requires that we explain the major changes in the levy
  1. We will review how taxes are determined
  2. We will review the major changes in the levy total and the reasons for those changes
  3. We will look at some specific examples of tax impact
  4. We will review the Minnesota Property Tax Refund programs

# 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 (Other local levies)
- **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 (Voter approved levies)- Board discretion up to \$300 per pupil for the first time with Pay 2014 Levy

# Minnesota School District Property Taxes- Key Steps and Participants in the Process

## A. Tax Determination and Preparation

**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 A.1. and tax capacity formulas from step A.2.), as well as the total tax capacity for each school district.

**Step 4.** The **County Auditor** divides the final levy (determined by the school board in step B.3. by the district's total tax capacity (determined in step A.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.\*

## B. Levy Determination and Certification

**Step 1.** 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 2.** The **Minnesota Department of Education** calculates detailed levy limits for each school district based on the formulas approved by the Legislature in step B.1. These limits tell districts the exact amounts that can be levied in every category.

**Step 3.** The **School Board** adopts a proposed levy in September based on the limits set in step B.1. and calculated in step B.2. After a public hearing, the board adopts a final levy in December. The 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**.

# Overview of Proposed Levy Payable in 2016

- Four main factors affect your taxes-(School portion only for this discussion)
  1. Levy total - Increased \$456,006 or 3.4%
  2. Total value of all property within the school district boundaries-(tax base)- Referendum Market Value and Net Tax Capacity **up** for the district- **County Assessor**
  3. Assessed value of your property (estimated and taxable market value)-**County Assessor**
  4. Market Value Exclusion- **State Legislature**
    - Reduces your taxable market value based on a state-determined formula
    - It is the reason why some statements show a difference between Estimated Market Value and Taxable Market Value

# School Levy Total-Truth in Taxation Notices

<b>Buffalo-Hanover-Montrose School District #877</b>			<b>December 14, 2015</b>	
<b>Comparison of Proposed Tax Levy Payable in 2016 to Actual Levy Payable in 2015 by Fund</b>				
<b>Using Final Levy Payable in 2015 as Base Year</b>				
<b>Category</b>	<b>2015</b>	<b>2016</b>		
	<b>Final</b>	<b>Final</b>	<b>Change from</b>	<b>Percent</b>
	<b>Levy</b>	<b>Proposed Levy</b>	<b>Prior Year</b>	<b>Change</b>
General Fund	\$ 5,102,489	\$ 6,299,838	\$ 1,197,349	23.47%
Community Education	\$ 444,304	\$ 464,451	\$ 20,147	4.53%
Debt Service	\$ 7,859,889	\$ 7,098,399	\$ (761,490)	-9.69%
<b>Total Certified Levy</b>	<b>\$ 13,406,682</b>	<b>\$ 13,862,688</b>	<b>\$ 456,006</b>	<b>3.40%</b>

# Explanation of Levy Changes - General Fund

General Fund	Amount of Change	Reason For Change
Local Option Revenue	\$ 115,017	Change in Levy % due to valuation increase
Operating Capital	\$ 48,979	Change in Levy % due to valuation increase
Long-Term Facilities Maintenance Revenue	\$ 669,791	New revenue-Replaces Health and Safety and Deferred Maintenance revenue
Deferred Maintenance	\$ (256,045)	Revenue replaced by Long-Term Facilities Maintenance Revenue
Health and Safety	\$ (397,928)	Revenue replaced by Long-Term Facilities Maintenance Revenue
Alternative Teacher Compensation (PPD)	\$ 431,234	New Revenue-Teacher development and program improvement-2/3 Aid 1/3 levy
General Fund Adjustments	\$ 560,658	Catch-up for 15-16 Alt. Teacher Compensation and prior year adjustments
OPEB Pay as You Go	\$ (90,000)	Retiree expenses covered by OPEB Trust or severance reserve
Other	\$ 112,986	Change in levy % due to valuation increase or expenditure estimate
<b>Total General Fund Levy</b>	<b>\$ 1,197,349</b>	

# Explanation of Levy Changes-Debt Service

<b>Debt Service</b>	<b>Amount of Change</b>	<b>Reason For Change</b>
Voter approved debt service principal, interest and 5%	\$ (909,904)	Final voter approved debt service schedule after 2015A bond sale
OPEB, Alt. Facilities Bonds principal, interest, and 5%	\$ 920,903	Structured debt service schedule set to wrap around voter approved debt
GO Bonds 2015A principal and interest-Pay 2015	\$ (183,133)	Savings from preliminary placeholder from 2015 bond issue in pay 2015 levy
Alternative Facilities LTFM Aid	\$ (484,217)	Levy savings from aid component of Long-Term Facilities Maintenance Revenue
District requested additional debt excess reduction	\$ (300,000)	Buy down of debt service fund balance to offset tax impact
Reduction for debt excess	\$ 205,819	Change in MDE allowable retention of 5% overlevy from prior year
Adjustments	\$ (10,957)	Tax abatement adjustments
<b>Change in Debt Service Levy</b>	<b>\$ (761,490)</b>	

# Property Value Changes- School District Portion

<b>Buffalo-Hanover-Montrose School District #877</b>			<b>12/14/2015</b>
<b>Estimated Valuations used in Tax Calculations for Final Proposed Pay 2016 Levy</b>			
<b>Combined Values for Hennepin and Wright County</b>			
<b>Category</b>	<b>Pay 2015 Final</b>	<b>Pay 2016 Final Proposed</b>	<b>Net Change</b>
Referendum Market Value*	\$ 2,502,675,120	\$ 2,639,424,150	\$ 136,749,030
Net % Change in Value			5.46%
Net Tax Capacity*	\$ 28,612,856	\$ 30,095,037	\$ 1,482,181
Net % Change in Value			5.18%
*All values for taxes payable in 2016 are estimates from Hennepin and Wright County			



# Property Value Changes - Tax Rate Calculations

<b>Buffalo-Hanover-Montrose School District #877</b>	<b>12/14/2015</b>	
<b>Analysis of Impact of Proposed 2016 Tax Levy and Rates</b>		
<b>Using Final Levy Payable in 2015 as Base Year</b>		
<b>Tax Rate Calculations Used for Final Tax Statements</b>	<b>2015</b>	<b>2016</b>
	<b>Final Levy</b>	<b>Projected Levy</b>
Net Levy on Referendum Market Value	\$ 3,124,785	\$ 3,326,044
Divided by		
Total Referendum Market Value**	\$ 2,502,675,120	\$ 2,639,424,150
Equals		
<b>Total RMV Tax Rate (applied to Estimated Market Value)</b>	<b>0.12486%</b>	<b>0.12601%</b>
Net Levy on Net Tax Capacity	\$ 10,120,514	\$ 10,372,777
Divided by		
Net Tax Capacity Value***	\$ 28,612,856	\$ 30,095,037
Equals		
<b>Total NTC Tax Rate (applied to Taxable Market Value)</b>	<b>35.3705%</b>	<b>34.4667%</b>

# Market Value Exclusion Review

- Specifics
  - Applies to residential homestead property only
  - Eliminates the homestead market value credit
  - Declines to \$0 at property value of \$413,800
  - Reduces the Taxable Market Value of your property on a sliding scale in relationship to \$76,000 of value
    - Excludes 40% of the value up to \$76,000
    - Adds back 9% of the value over \$76,000
- Effects on property values
  - Artificially reduces your taxable market value
    - The exclusion is the difference between your Estimated Market Value for 2015 and your Taxable Market Value for 2015 as shown on your tax statement
  - Artificially reduces the net tax capacity of the school district causing a higher tax rate
- Effects on taxes
  - Shifted state paid credits onto local levies
  - Created a greater net tax capacity tax rate
  - Shifted tax burden among the different property classes
  - Pay 2016 is the fifth year of the program so we now have a better comparison to prior year taxes

# Impact on Taxpayers - School Portion Only

<b>Buffalo-Hanover-Montrose School District #877</b>			<b>December 14, 2015</b>
<b>Analysis of Impact of Proposed 2016 Tax Levy and Rates</b>			
<b>Final Tax Statement Estimates</b>			
<b>Using Final Levy Payable in 2015 as Base Year</b>			
<b>Tax Impact on Various Classes of Property-School Portion Only</b>	<b>2015</b>	<b>2016</b>	
	<b>Final Levy</b>	<b>Final Projected Levy</b>	<b>Difference</b>
<b>Residential Homestead Property</b>			
\$100,000	\$ 379	\$ 373	\$ (5)
\$150,000	\$ 634	\$ 624	\$ (10)
\$200,000	\$ 889	\$ 875	\$ (14)
\$210,928	\$ 945	\$ 930	\$ (15)
\$300,000	\$ 1,399	\$ 1,377	\$ (23)
\$400,000	\$ 1,910	\$ 1,878	\$ (31)
<b>Commercial/Industrial Property</b>			
\$75,000	\$ 492	\$ 482	\$ (9)
\$100,000	\$ 655	\$ 643	\$ (12)
\$108,961	\$ 714	\$ 701	\$ (14)
\$250,000	\$ 1,815	\$ 1,780	\$ (36)
<b>Agricultural Homestead Property</b>			
\$400,000.00 Ag Homestead+	\$ 1,243	\$ 1,220	\$ (23)
\$600,000.00 Ag Homestead+	\$ 1,596	\$ 1,564	\$ (32)
\$800,000.00 Ag Homestead+	\$ 1,950	\$ 1,909	\$ (41)
\$1,000,000.00 Ag Homestead+	\$ 2,304	\$ 2,002	\$ (302)
**Referendum revenue aid and levy based on an estimated 6,285.70 RMCPU submitted to MDE by the school district			
*Includes all changes for Q Comp, LTFM, and the sunset of Health and Safety and Deferred Maintenance Revenue			
-Referendum market values are based on an estimated 5.46% average increase for Wright and Hennepin Counties for taxes payable in 2016			
-Net Tax Capacity values are based on an estimated 5.18% average increase for Wright and Hennepin Counties for taxes			
+A value of \$200,000.00 was assumed for the house, garage, and 1 acre for Ag Homestead Property			

# Examples - Truth In Taxation

	Parcel #2-City of Buffalo			Parcel #6-Hennepin County			Parcel #8-City of Buffalo		
	2015	2016	Net Change	2015	2016	Net Change	2015	2016	Net Change
Estimated Market Value	\$ 111,600	\$ 123,900	\$ 12,300	\$ 331,000	\$ 349,000	\$ 18,000	\$ 138,500	\$ 143,500	\$ 5,000
EMV % Change			11.0%			5.4%			3.6%
Taxable Market Value	\$ 84,400	97,800	\$ 13,400	\$ 323,550	343,170	\$ 19,620	\$ 113,700	119,200	\$ 5,500
TMV % Change			15.9%			6.1%			4.8%
Market Value Exclusion	\$ 27,200	\$ 26,100	\$ (1,100)	\$ 7,450	\$ 5,830	\$ (1,620)	\$ 24,800	\$ 24,300	\$ (500)
Voter Approved Levy	\$ 200	\$ 182	\$ (18)	\$ 754	\$ 629	\$ (125)	\$ 267	\$ 221	\$ (47)
Other Local Levies	\$ 238	\$ 311	\$ 73	\$ 804	\$ 994	\$ 190	\$ 308	\$ 371	\$ 64
Total Tax Amount	\$ 438	\$ 493	\$ 55	\$ 1,558	\$ 1,623	\$ 65	\$ 575	\$ 592	\$ 17
Total All Levies									
RMV Levy	\$ 139	\$ 156	\$ 17	\$ 413	\$ 440	\$ 27	\$ 154	\$ 163	\$ 8
NTC Levy	\$ 299	\$ 337	\$ 39	\$ 1,144	\$ 1,183	\$ 38	\$ 345	\$ 357	\$ 12
Total Tax Amount	\$ 438	\$ 493	\$ 55	\$ 1,558	\$ 1,623	\$ 65	\$ 500	\$ 520	\$ 20

- District-wide Estimated Market Value total of 5.46% increase
- District-wide Taxable Market Value total of 5.18% increase

# 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](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 approximately \$107,150 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 \$2,620
  - 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 more than 12% and \$100 or more 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 the year before entering deferral program; this amount does not change in future years
- Additional taxes are deferred, but not forgiven
- State charges interest 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 2016
- Final levy is certified to county auditor by December 28, 2015

# Comments and Questions