

**BEMIDJI AREA SCHOOLS
BEMIDJI, MINNESOTA**

DATE: DECEMBER 21, 2020

TO: BOARD OF EDUCATION

FROM: KRISI L. FENNER, CPA, DIRECTOR OF BUSINESS SERVICES

SUBJECT: 2020 PAYABLE 2021 LEVY LIMIT CERTIFICATION

INTRODUCTION

The Minnesota Department of Education gathers information from many sources to create the 2020 Payable 2021 Levy Limitation and Certification Report. This is a 40 page report which gives a detailed presentation of the many complicated school funding formulas. The driving factor for most of the formulas is student enrollment. School Boards are required to set a levy limitation in September and the final levy certification takes place in December following a Truth in Taxation Hearing. The final levy cannot exceed the initial levy limit except for a very limited set of reasons such as a new referendum vote passing, an adverse judgement against the district or a natural disaster. The Department of Education has set up a system whereby a School Boards can set the levy limit at the "Maximum" allowable and if some small changes occur between the September and December meetings the School Board can adopt a final levy without additional meetings. It is important to remember that a School Board has no taxing authority of its own. Taxing authority must be granted by the state legislature through statutes or approved by a vote of the local taxpayers through a referendum election for building bonds or operating revenue.

Attached is my attempt at reducing this lengthy report to a one page summary. This summary compares changes from the prior year by individual levy category. I have shaded some areas experiencing significant changes. Generally speaking, as property values increase the state equalization share decreases and the local levy share increases even though the district receives the same amount of funds.

BASELINE KNOWLEDGE

TIMING - The local property tax levy is set by the school board in 2020, paid by taxpayers in 2021 and booked as revenue to the school district in FY 2021-2022. This means we are estimating future revenues today. As these estimates become actual data there will be differences which result in prior year adjustments that effect future levy limitations.

TAX BASE - Our Tax Base (Adjusted Net Tax Capacity) has increased by 2% this past year and 13.5% over a four-year time frame. This growth can be a result of new construction or existing properties selling for more or a combination of both. The "sales ratio" is the relationship between the market value of a property and its actual sales price. On a state wide basis, the sales ratio is at 94.5% and in Bemidji it is 93%. This means, on a state wide basis, properties are selling for more than their assessed market value and the market in Bemidji is better than the state average. Since the Bemidji sales ratio is below 100% it has the effect of automatically increasing property valuations for tax purposes. A fluctuating tax base will affect the equalized funding formulas and result in adjustments to our tax levy. Increasing

values cause local property taxes to rise even though this generates no additional revenue for the school district.

STATE AID – Equalization is a big factor in the levy system. This is where the state pays a portion of a school district’s revenue entitlement thereby reducing the local levy amount. The state equalization percentage is greater in districts with lower property valuations. Some levy categories are heavily equalized and others not at all. If a school district decides to UNDERLEVY an equalized category it may result in a loss of the corresponding state aid IN ADDITION TO the local levy amount. This is not desirable.

ENROLLMENT - Most funding formulas are based on ESTIMATED student counts. Much later in time, when these counts become ACTUAL data, an ADJUSTMENT is made to our levy. Levy categories that have “ADJ” in the title represent an adjustment to a levy from prior years. Generally these adjustments are smaller amounts compared to the corresponding levy category.

PRELIMINARY LEVY LIMIT CERTIFICATION

Generally, major fluctuations in our levy from year to year are due to changes at the state legislative level or voter approved bonds and referendums. Smaller changes are effected by enrollment because many of the funding formulas are driven by student counts.

On the one-page summary the far right column titled SPREAD LEVY LIMIT INCREASE OR DECREASE indicates the following changes:

In the past, the legislature made a major change in the Health and Safety and Deferred Maintenance categories by combining them into the Long Term Facilities Maintenance (LTFM) program. This transition is now complete and the old categories are now gone.

Alt Teacher Q Comp is one of the only restricted funding sources that allow us to take advantage of the State Aid portion of the funding without increasing the Levy portion. We do not Levy for Q Comp but rather take the full portion of State Aid available.

Our General Debt Service levy is holding steady now that the crossover of the High School/Lincoln bonds are complete and our only outstanding bond is the Gene Dillon Elementary bond.

Volatility in the OPEB bond levy is generally caused by the requirement that we levy 105% of our anticipated payments and then refund the over levy two years down the road.

Abatement Adjustments in each of the levy categories are due to a tax classification error on the part of Beltrami County that resulted in an under collection of levy dollars in the 2019 tax year and an adjustment to collect those levy dollars in the 2021 tax year.

OVERALL SUMMARY

Our levy authority increased by \$923,133.16 from \$10,639,023.11 to \$11,562,156.27. Of this amount \$507,641.44 is the under levied Q Comp portion.

The recommended levy limitation certification is \$11,054,514.83 which is an increase of \$415,491.72, or 3.91% from last year's actual spread levy of \$10,639,023.11.

In setting the initial levy limit the state allows school boards to certify the "MAXIMUM" levy authority available rather than a specific dollar amount. This is because so many of the formulas can still have small changes prior to the final levy certification in December. By Certifying the maximum a school Board can eliminate the need for additional board meetings to incorporate those small changes.

ACTION:

The motion was offered by _____, seconded by _____ and carried () to approve the 2020 Pay 2021 Levy Limit at \$11,054,514.83.

LINE #	LIMITATION COMPONENTS	2019 PAY 2020 LIMITATION	2019 PAY 2020 CERTIFIED LEVY	2020 PAY 2021 LIMITATION	2020 PAY 2021 PROPOSED LEVY	2020 PAY 2021 CERTIFIED LEVY NOTES
SUBTOTALS BY LEVY CATEGORY						
(5001)	GENERAL-RMV VOTER-JOBZ EXEMPT	772,631.88	772,631.88	808,380.12	808,380.12	
(5002)	GENERAL-RMV OTHER-JOBZ EXEMPT	3,613,109.08	3,613,109.08	3,782,668.03	3,782,668.03	
(5003)	GENERAL-NTC VOTER-JOBZ EXEMPT					
(5004)	GENERAL-NTC OTHER-GENED-EXEMPT	N/A	N/A	N/A	N/A	N/A
(5005)	GENERAL-NTC OTHER-JOBZ EXEMPT	2,381,177.36	2,381,177.36	3,136,272.98	2,628,631.54	*1
(5011)	COMMUNITY SERV-NTC OTHER-EXEMPT	397,253.36	397,253.36	398,230.93	398,230.93	
(5016)	GENL DEBT-NTC VOTER-NONEXEMPT	2,977,780.68	2,977,780.68	2,981,096.73	2,981,096.73	*2
(5017)	GENL DEBT-NTC OTHER-NONEXEMPT					*2
(5023)	OPEB DEBT-NTC VOTER-NONEXEMPT					
(5024)	OPEB DEBT-NTC OTHER-NONEXEMPT	497,070.75	497,070.75	455,507.48	455,507.48	
SUBTOTALS BY FUND						
(5006)	GENERAL FUND	6,766,918.32	6,766,918.32	7,727,321.13	7,219,679.69	
(5011)	COMMUNITY SERVICES FUND	397,253.36	397,253.36	398,230.93	398,230.93	
(5018)	GENERAL DEBT SERVICE FUND	2,977,780.68	2,977,780.68	2,981,096.73	2,981,096.73	
(5025)	OPEB/PENSION DEBT SERVICE FUND	497,070.75	497,070.75	455,507.48	455,507.48	
SUBTOTALS BY TAX BASE						
	REFERENDUM MARKET VALUE	4,385,740.96	4,385,740.96	4,591,048.15	4,591,048.15	
	NET TAX CAPACITY	6,253,282.15	6,253,282.15	6,971,108.12	6,463,466.68	
SUBTOTALS BY TRUTH IN TAXATION CATEGORY						
	VOTER APPROVED	3,750,412.56	3,750,412.56	3,789,476.85	3,789,476.85	
	OTHER	6,888,610.55	6,888,610.55	7,772,679.42	7,265,037.98	
TOTAL LEVY						
	TOTAL LEVY	10,639,023.11	10,639,023.11	11,562,156.27	11,054,514.83	
ALLOWABLE INCREASE						
	ALLOWABLE INCREASE AMOUNT					
	MAXIMUM ALLOWABLE CERTIFIED LEVY				11,054,514.83	

FOOTNOTES:
 *1 STUDENT ACHIEVEMENT (GENED) LEVY PHASED OUT AFTER PAY 2017
 *2 SCHOOL BUILDING BOND AGRICULTURAL CREDIT WILL BE CALCULATED USING THE GENERAL DEBT SERVICE LEVY CATEGORIES

NOTE TO SCHOOL DISTRICTS: MUST CERTIFY PROPOSED AND FINAL LEVIES VIA THE WEB-BASED LEVY CERTIFICATION SYSTEM AVAILABLE ON THE MDE WEBSITE, HTTP://EDUCATION.STATE.MN.US.