

## Business Committee – December 10, 2019

Finance Education – 1. H.

### ISD #709 – Property Tax Levy and Truth in Taxation Review

**School District Levy Review.** The Department of Education (MDE) calculates the annual levies for school districts. Levy components may be voter approved, District opted, equalized by MDE calculations, or a statute based levy.

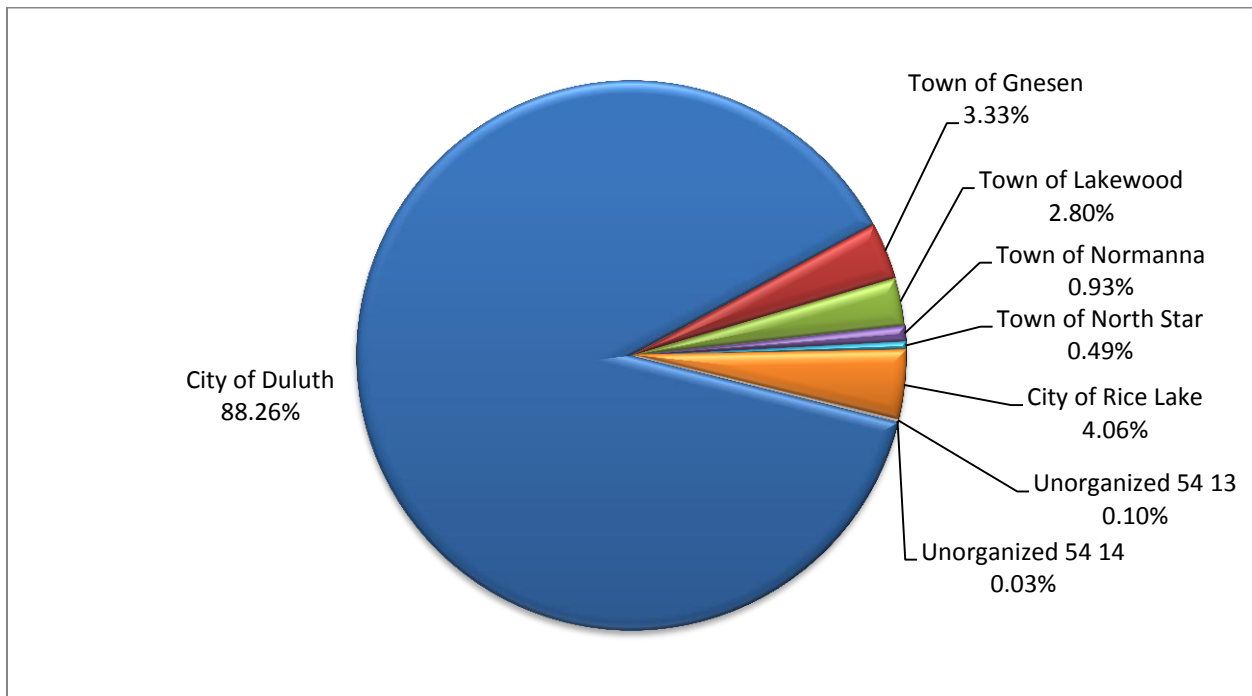
Once the levy items are determined, there are 2 potential tax bases that levies can be spread on: **Net Tax Capacity (NTC)** and **Referendum Market Value (RMV)**.

For NTC levies, each property takes its taxable market value times a state determined Class Rate, to calculate each property's NTC value. The classification of property matters and class rates range from .25% to 2.00%. To see the full class rate chart you can visit this site:

[https://www.revenue.state.mn.us/sites/default/files/2019-06/taxcalcexam\\_classratesheet.pdf](https://www.revenue.state.mn.us/sites/default/files/2019-06/taxcalcexam_classratesheet.pdf)

According to the St Louis County Auditor's Office, the 2019 Taxable Market Value for ISD 709 is \$7,618,717,631. Taxable market value converted to Net Tax Capacity (NTC) is \$88,346,953. This represents approximately 1.16% of the Total Taxable Market Value (and you can relate that to the average class rate). ISD #709 has 2 cities, 4 townships, and 2 unorganized territories in the district lines.

This chart represents the percent of net tax capacity of the district's total net tax capacity.



## **Tax Rates**

To determine the school district levy amount each property will pay, a tax rate is calculated. The initial rate takes the total levy needed per property tax base (NTC or RMV) and divides it by that tax base.

For example: On the Payable 2020 levy there is \$28,072,310 of NTC based levy. If we used the St. Louis County Estimated total district NTC of \$88,346,953 and divide that into the NTC based levy we would get an initial tax rate of .317751. It's important to note that NTC values are subject to change, which would mean the tax rate is also subject to change, so for this discussion this is an ESTIMATE and not the final tax rate.

Tax rates can also be adjusted by Disparity Reduction. Not every taxing entity receives this, but it would lower the tax rate and the District would receive state aid in replacement of taxes.

## **Sample NTC Properties**

A Residential Homestead, with a taxable market value of \$150,000 after the homestead market value exclusion would have a class rate of 1% (for the first \$500K of value), meaning it's NTC rate is \$150,00 (1% of \$500,000).

$$\$1500 \times .317751 = \$476.63$$

## **Sample RMV Properties**

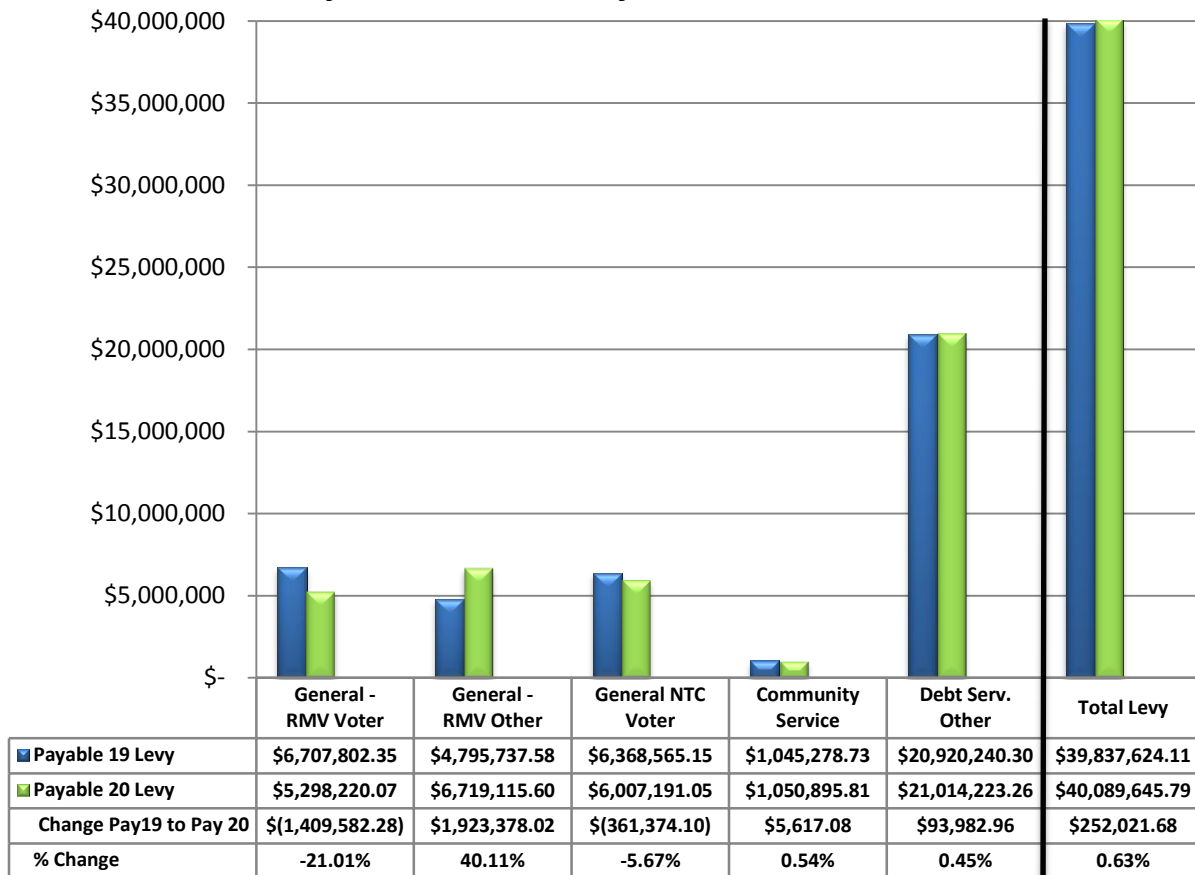
Referendum Market Value levies are calculated on the taxable market value and do not use the class rate process to adjust values. So in this case, the classification of property is not a factor. If both a commercial property and a homestead property have the same taxable market value, the school district portion of initial taxes would be the same. Residential properties do not receive the market value credit on RMV levies, so taxable market value will be the same as the assessed market value.

The estimated amount of RMV for the district is just over \$7.8 billion in property value. The estimated tax rate for the Payable 2020 levy is .0015283. A \$171,780 valued property (which would be comparable to a \$150,000 Res. Homestead with a market value exclusion) is estimated to pay approximately \$262 for RMV based levies in 2020.

## Preview of Levy Comparison

The district is projecting a less than 1% increase in total levy changes for the Payable 2020 levy. There are many components of the levy, and several that are changing, but the overall impact is going to be minimal. And with projected growth in the tax base, stable valuations may see a slight decrease in the school district portion of property taxes in 2020.

### Duluth Public Schools Tax Levy Comparison Payable 2019 to Payable 2020 Levies



More information and details on the levy certification will be presented next week at the Truth in Taxation hearing.