



# **Operating Referendum: Background Information and Trends**

Greenbush-Middle River School District, ISD No. 2683

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# What is an Operating Referendum?

Election ballot question

Allows districts to generate additional general education revenue

Revenue provided through a combination of local property tax levies and state aid

Annual levy, no debt is issued

Revenue may be used for any operating or capital expenses (e.g. staff salaries/benefits, utilities, supplies, technology)



# Current Referendum Provisions

- Authorized by voters as a specific dollar amount per pupil
- Can be a fixed amount or subject to annual inflationary adjustments
- Term must be no more than 10 years
- Revenue capped at \$1,779.50 per adjusted pupil unit for fiscal year 2020-21
  - ✓ Cap adjusted annually for inflation
  - ✓ No cap for districts which qualify for sparsity revenue
  - ✓ Some districts have a higher “grandfathered” limit



# Current Referendum Provisions

- One operating referendum election per year
  - ✓ *Exception for districts in statutory operating debt (SOD)*
- Vote can only occur on the November general election day, unless held by mail
  - ✓ *Districts in SOD can vote on any of the five statutorily defined election dates*
- Election held either one or two years prior to initial tax year
- Notices must be sent to all taxpayers:
  - ✓ By mail
  - ✓ Content specified by law



# Current Referendum Provisions

- Operating referendum property tax levies spread on Referendum Market Value (RMV)
  - ✓ Referendum property taxes are not levied on
    - Seasonal recreational property (cabins)
    - Agricultural land and buildings (only levied on house, garage and 1 acre)
  - ✓ Almost all other property pays same tax per dollar of market value
- Operating referendum revenue amounts can qualify for state equalization aid
- State aid portion of referendum revenue dependent on district's RMV per resident pupil



# Tax Base by Property Type

## School District: Greenbush-Middle (ISD # 2683)

Assessment Year 2018 Tax Base by Property Type

	Market Value	Percent of Total	Referendum Market Value	Percent of Total	Net Tax Capacity*	Percent of Total
<b>Totals</b>	405,110,234	100.0%	110,864,811	100.0%	3,042,825	
Residential Homestead	51,403,387	12.7%	50,973,732	46.0%	375,682	12.3%
Other Residential	12,119,220	3.0%	12,119,220	10.9%	125,906	4.1%
Commercial / Industrial	14,768,900	3.6%	14,768,900	13.3%	257,479	8.5%
Non Qualifying Agricultural	33,479,164	8.3%	32,883,659	29.7%	244,163	8.0%
Qualifying Agriculture	286,998,563	70.8%	-	0.0%	1,976,185	64.9%
Seasonal Recreational	6,341,000	1.6%	119,300	0.1%	63,410	2.1%



# Two Tiers for Aid

## 1<sup>st</sup> Tier

- Equalized at highest level up to \$460 per pupil
  - Many districts qualify for first tier aid
  - For ISD #2683, 45% of FY 2021-22 revenue is state aid

## 2nd Tier

- Equalized at a lesser degree above \$460
  - ISD #2683 does not qualify for aid for FY 2021-22



# Other Factors Impacting Allowances

- All districts qualify for up to \$724 per pupil unit of Local Optional Revenue (LOR)
  - ✓ Approved by School Board as part of annual levy process (no separate resolution or voter approval required)
  - ✓ Two tiers of equalization
    - Greenbush-Middle River qualifies for 65% aid in Tier 1 (1st \$300 per pupil) and 39% in Tier 2
  - ✓ \$424 per pupil of referendum authorities approved before 2014 is converted to LOR
  - ✓ \$300 per pupil of referendum authorities approved before 2019 is converted to LOR





# Referendum Authority Conversion - ISD 2683

- Amount voters approved in 2015: \$806.05
- Estimated Fiscal Year 2020-21 allowance: \$506.05
- How did we get this?
  - ✓ Original voter-approved amount : \$806.05
  - ✓ District LOR (2019 Legislative change): \$300
  - ✓ Net adjusted referendum allowance: \$506.05
    - $(\$806.05 - \$300.00 = \$506.05)$



# Referendum Trends

- Number of districts relying on operating referendum revenue has increased
  - ✓ In 1993, only 65% of districts had referendum authority
  - ✓ For Fiscal Year 2019-20, almost 100% of districts receive referendum revenue
    - 5 districts accept a portion of local optional revenue, averaging approximately \$415 per pupil



# Referendum Trends

- Average referendum authority per pupil has increased
  - ✓ In 1993, average referendum authority was \$332 per pupil
  - ✓ For Fiscal Year 2019-20, average referendum plus local optional revenue authority is \$1,468 per pupil
    - Equal to roughly 22% of general education formula allowance
    - Of this amount, \$1,053 is board approved or voter approved operating referendum, and \$415 is Local Optional Revenue





# Growing Reliance on Referendums

Since 2002-03, state General Education Revenue formula has not kept pace with inflation

If allowance increased with inflation each year, it would be \$639 higher, or \$7,206 for Fiscal Year 2020-21

**2019-20 / 2020-21**

**2002-03**

**2020-21**

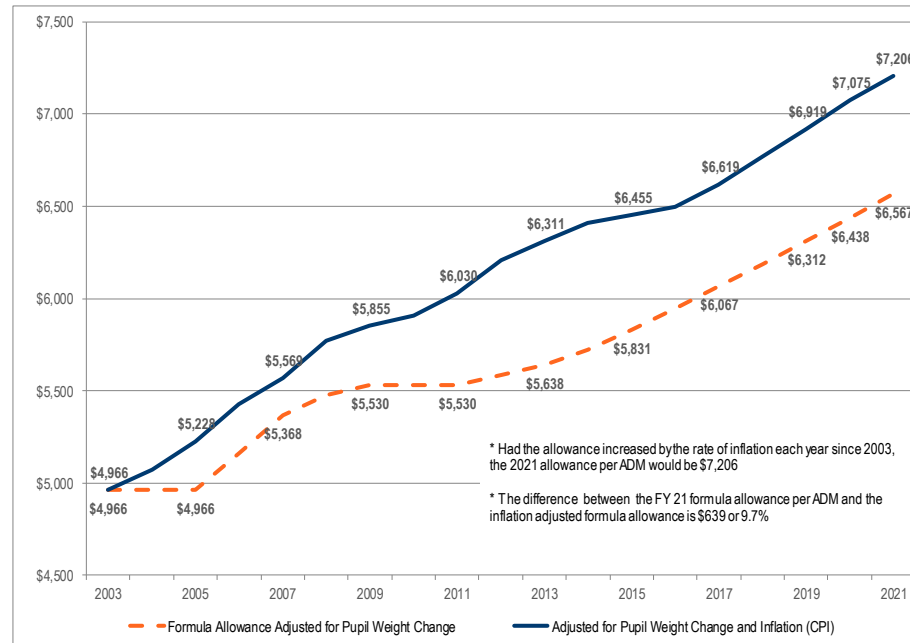
Legislature approved 2% increase per year for Fiscal Years 2020 and 2021

\$126 per pupil for FY2019-20  
An additional \$129 for FY 2020-21



# Growing Reliance on Referendums

General Education Formula Allowance, 2003-2021  
Adjusted for Pupil Weight Change and Inflation (CPI)



Source: MDE August 2019 Inflation Estimates



# Growing Reliance on Referendums

- Other funding sources (e.g., special education) also have not kept pace with inflation
- Only options for districts to bridge the funding gap are to cut budgets or increase referendum revenue; most districts have done both



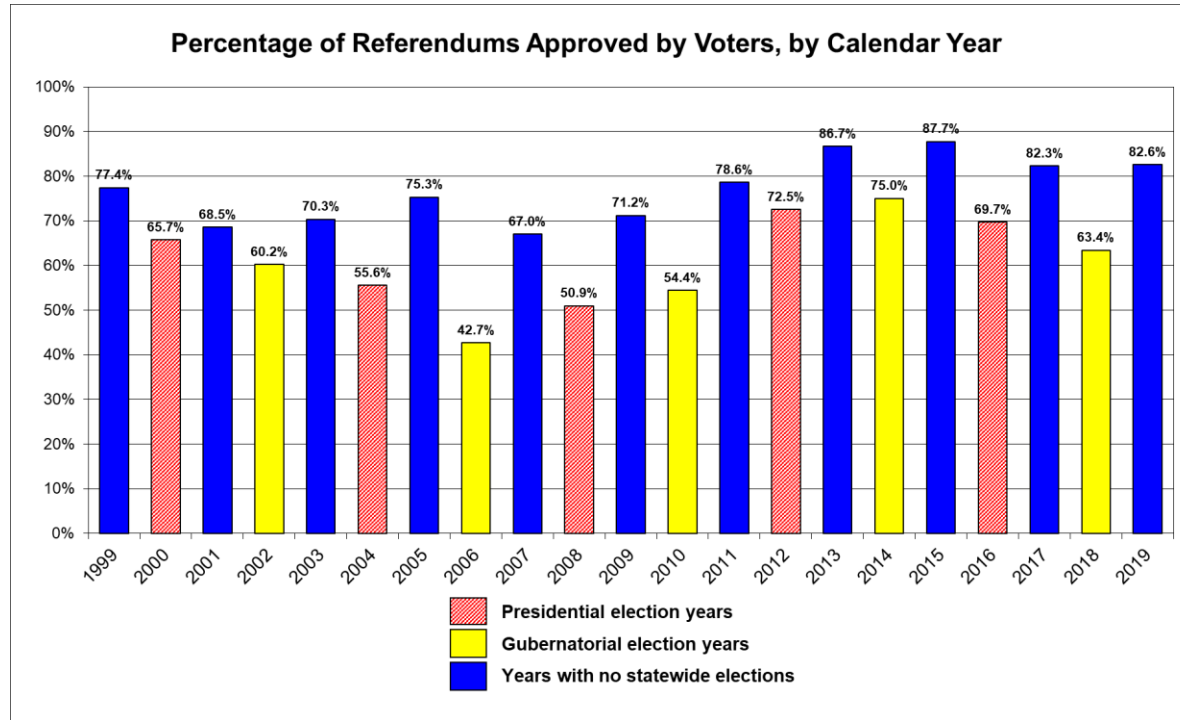


# Election Trends

- Approval rates are typically higher in odd-numbered years (no statewide elections) and lowest in presidential election years
- In total, over the past 25 years, voters have approved 69% of elections
- Ballot questions to renew expiring authority have a much higher approval rate
  - ✓ 100% of referendum renewals held between 2014 and 2019 were approved



# Election Trends







# Timeline Information

- By August 21 – Board adopt the resolution calling for the special election
- By August 21 – Notify the Commissioner of Education and the County Auditor of each county within the district of the date of and the number of questions for the election
- By September 18 – Have absentee ballots available
- Between October 4 and October 19 – Mail the required referendum notice to each taxpayer in the district
- By October 23 – Post the Notice of Special Election at the administrative offices of the district
- November 3 – Election Day



# District Specific Information

- Existing Authority is \$506.05 per pupil
  - ✓ Expires after FY 2021-22
- Options
  - ✓ Revoke existing referendum and replace with higher authority, effective for taxes payable 2021, FY 2021-22
  - ✓ 2 Questions:
    - Renew existing authority (effective for FY 2022-23) with a second question authorizing additional authority (effective either FY 2021-22 or FY 2022-23)
  - ✓ Increase authority by the rate of inflation each year
  - ✓ Expiration after 10 years (can go up to 10 years)
    - Consider synchronizing expiration for two question option



# Tax Impact

Options			
Additional Revenue/Pupil Unit		\$200.00	\$500.00
Est. Net Increase in Revenue		\$55,280	\$138,200

Type of Property	Estimated Market Value	Estimated Taxes for Referendum Only* Taxes Payable in 2021	
Residential Homesteads, Apartments, and Commercial-Industrial Property	\$50,000	\$23	\$57
	75,000	34	86
	100,000	46	115
	150,000	69	172
	200,000	92	230
	225,000	103	259
	250,000	115	287
	275,000	126	316
	300,000	138	345
	325,000	149	374
	350,000	161	402
	375,000	172	431
	400,000	184	460
	450,000	207	517
	500,000	230	575



# State Property Tax Refunds & Deferral

- State of Minnesota has two tax refund programs and one tax deferral program available for owners of homestead property
- Programs may reduce net tax burden for local taxpayers, when property owners complete and submit forms
- For help with forms and instructions
  - ✓ Consult your tax professional, or
  - ✓ Visit the Department of Revenue web site at [www.revenue.state.mn.us](http://www.revenue.state.mn.us)



# State Property Tax Refunds & Deferral

## Homestead Credit Refund

- Available for all homestead property, both residential and agricultural (house, garage and one acre (HGA) only)
- Refund is sliding scale, based on total property taxes and income (maximum refund is \$2,820 for homeowners and \$2,190 for renters)

## Special Property Tax Refund

- Available for all homestead property, both residential and agricultural (HGA only) with a gross tax increase of at least 12% and \$100 over prior year
- Refund is 60% of tax increase that exceeds greater of 12% or \$100 (max \$1,000)

## Senior Citizen Property Tax Defferal

- Allows people 65 years of age or older with household income of \$60,000 or less to defer a portion of property taxes on their home
- Deferred property taxes plus accrued interest must be paid when home is sold or homeowner(s) dies



# Cash Flow Borrowing

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# Aid Anticipation Certificates (AACs)

- Financial tool used by school districts to borrow money to meet cash flow needs
  - ✓ Must expect a cash shortfall at some time during the next fiscal year to issue AACs
  - ✓ Allowed to borrow in anticipation of the receipt of future state aids, and the future state aids are pledged toward repayment of the certificates, with interest
  - ✓ Considered “general obligations” of the district



# AACs Borrowing Limitations

- State law and federal regulations limit borrowing:
  - ✓ Primary limitation of largest projected cash deficit in next year's operating funds plus 5% of previous year expenditures
  - ✓ Limited to 75% of projected current year state aids to be received





# When to Borrow Funds

- Cannot issue until fiscal year for which you are borrowing starts
  - ✓ Key date is “closing date”
    - Can approve and award sale of AACs in June of 2020, if **closing** is after July 1
  - ✓ Most commonly issued July – September
- Total process takes about two months
  - ✓ Preparation ➡ planning ➡ sale ➡ receipt



# Repaying Funds

- Generally one payment of principal and interest at maturity
  - ✓ Must occur no more than 13 months after closing
  - ✓ Prior to September 30 of next year (9/30/21 for certificates issued in FY 2020-21)
- Not enough cash to pay back when mature?
  - ✓ Issue a subsequent certificate 12 months later
  - ✓ Never have a “gap” or cash shortage



# Impacting Factors of Interest Rate

- Tax-exempt vs taxable bonds and certificates
  - ✓ Generally lower rates
- State Credit Enhancement Program
- General obligations of the District
  - ✓ Full pledge of taxing authority
- Short-term interest rates are generally lower than longer term issues



# Cost to Issue

- Interest - primary cost
- Additional fees:
  - ✓ Ehlers
  - ✓ Bond Attorney
  - ✓ Paying Agent
  - ✓ County/Counties
- Cost varies depending on amount of certificates issued



# Tax Anticipation Certificates (TACs)

- Similar tool used to borrow in anticipation of receipt of property taxes for a calendar year rather than state aid for a fiscal year
- Similar limitations to Aid Anticipation Certificates



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