

Truth in Taxation Presentation
December 12, 2011
for Taxes Payable in 2012

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 or decrease from the prior year
 - Specific purposes and reasons for which taxes are being increased
 - Total 2012 levy will decrease by \$216,507 (-1.62%) from 2011 to 2012
- District must also allow for public comments

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

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 active funds and 1 inactive fund:
 1. General fund (includes former transportation and capital expenditure funds)
 2. Food Service fund
 3. Community Service fund
 4. Building Construction fund (inactive since 09-10)
 5. Debt Service fund
 6. OPEB Debt Service fund
 7. OPEB Trust fund

2011-12 Revenues by Fund

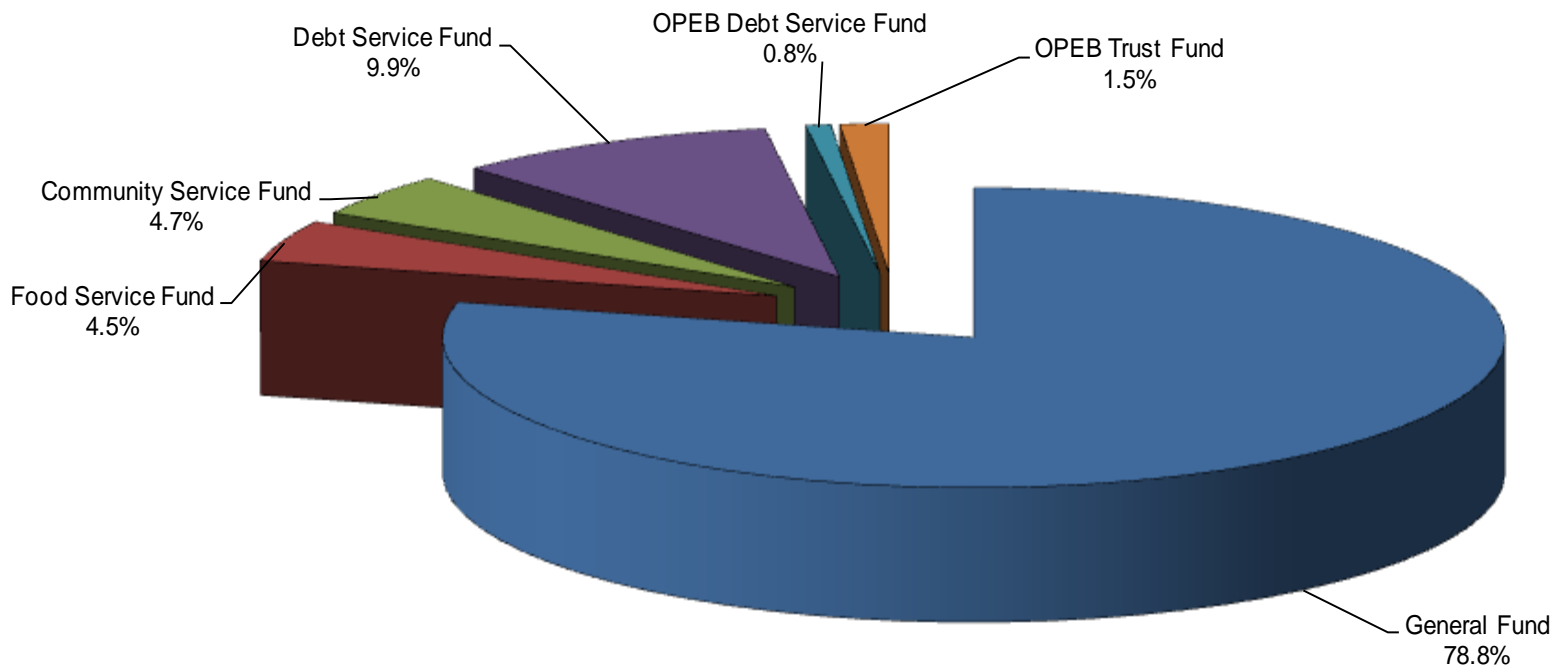
**ISD 877 BUFFALO-HANOVER-MONTROSE
2011-2012 BUDGET**

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

	2008-2009 Actual	2009-2010 Actual	2010-2011 Revised Budget	2010-2011 Actual	2011-2012 Budget
General Fund	\$51,888,058	\$52,343,018	\$52,478,963	\$52,338,973	\$53,380,166
Food Service Fund	\$2,708,454	\$3,110,534	\$3,004,882	\$2,859,337	\$3,029,150
Community Service Fund	\$2,829,881	\$3,420,100	\$2,757,759	\$2,998,587	\$3,155,582
Construction Fund	\$174,934	\$1,006	\$0	\$0	\$0
Debt Service Fund	\$7,164,043	\$6,655,550	\$6,045,737	\$6,012,452	\$6,679,340
OPEB Debt Service Fund	\$0	\$0	\$841,712	\$825,740	\$519,688
OPEB Trust Fund	\$0	(\$97,097)	\$1,500,000	\$1,665,626	\$1,000,000
Total	\$64,765,369	\$65,433,111	\$66,629,053	\$66,700,715	\$67,763,926

2011-12 Revenues by Fund

**2011-2012
Revenues By Fund
(Excluding Debt Service Refundings and OPEB Bonds and Transfers)**



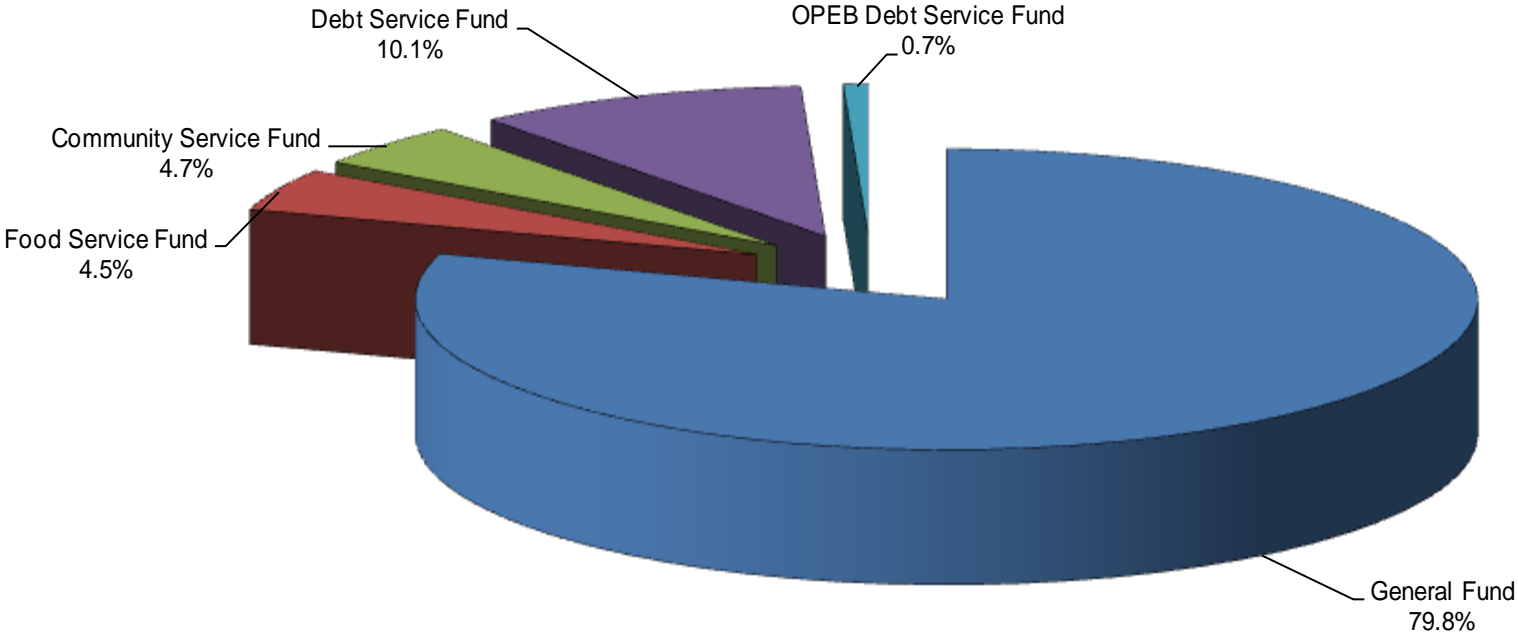
2011-12 Expenditures by Fund

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

	2008-2009 Actual	2009-2010 Actual	2010-2011 Revised Budget	2010-2011 Actual	2011-2012 Budget
General Fund	\$50,109,108	\$50,109,108	\$52,494,425	\$51,496,168	\$52,964,549
Food Service Fund	\$2,788,099	\$2,693,407	\$2,951,710	\$2,825,861	\$3,015,750
Community Service Fund	\$2,857,590	\$2,761,567	\$2,768,744	\$2,988,032	\$3,144,364
Construction Fund	\$173,433	\$1,099,103	\$0	\$0	\$0
Debt Service Fund	\$6,859,728	\$7,111,951	\$6,540,253	\$6,540,115	\$6,713,265
OPEB Debt Service Fund	\$0	\$0	\$800,274	\$798,774	\$495,488
OPEB Trust Fund	\$0	\$0	\$0	\$0	\$0
Total	\$62,787,958	\$63,775,137	\$65,555,406	\$64,648,950	\$66,333,416

2011-12 Expenditures by Fund

**2011-2012
Expenditures By Fund
(Excluding Debt Service Refundings and OPEB Bonds and Transfers)**



General Fund Revenue Summary

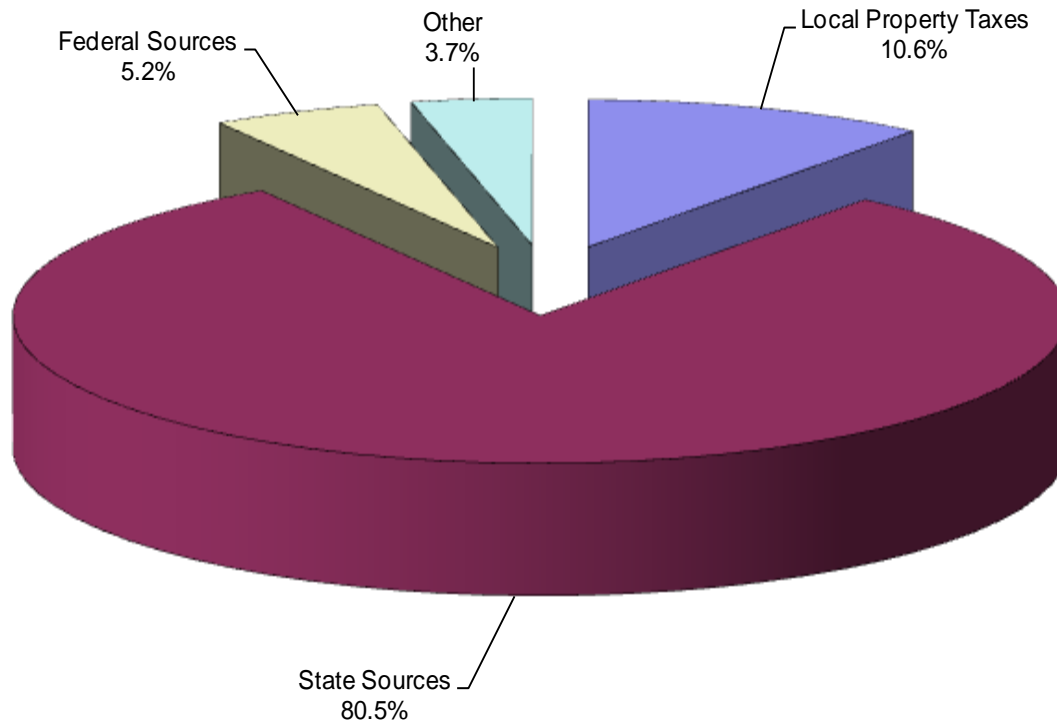
**ISD 877 BUFFALO-HANOVER-MONTROSE
2011-2012 BUDGET**

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

	2008-2009 Actual	2009-2010 Actual	2010-2011 Revised Budget	2010-2011 Actual	2011-2012 Budget
Local Property Taxes	\$5,619,257	\$5,751,245	\$3,399,125	\$7,567,979	\$5,644,642
State Sources	\$42,046,681	\$38,950,416	\$44,668,688	\$40,626,195	\$42,996,736
Federal Sources	\$1,805,537	\$5,711,279	\$2,447,064	\$2,177,308	\$2,767,671
Other	\$2,416,583	\$1,930,078	\$1,964,086	\$1,967,491	\$1,971,117
Total	\$51,888,058	\$52,343,018	\$52,478,963	\$52,338,973	\$53,380,166

General Fund Revenue Summary

**2011-2012
General Fund Revenue By Source
(Excluding OPEB Bond Proceeds and Transfers)**



General Fund Expenditure Summary

ISD 877 BUFFALO-HANOVER-MONTROSE
2011-2012 BUDGET

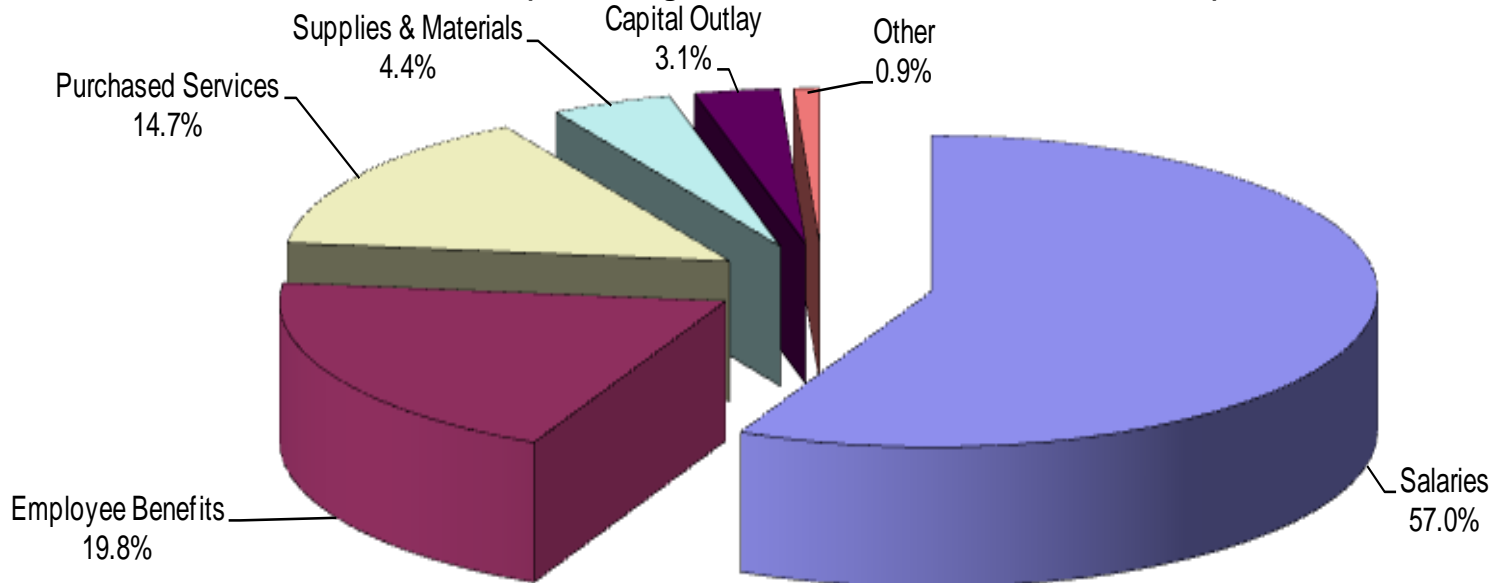
GENERAL FUND 01 - EXPENDITURE SUMMARY (Excluding OPEB Bond Proceeds and Transfers)

	2008-2009 Actual	2009-2010 Actual	2010-2011 Revised Budget	2010-2011 Actual	2011-2012 Budget
Salaries	\$28,841,636	\$28,408,338	\$29,455,155	\$29,355,858	\$30,212,293
Employee Benefits	\$9,124,824	\$9,486,900	\$10,268,452	\$9,992,682	\$10,507,504
Purchased Services	\$7,762,849	\$7,756,534	\$7,894,038	\$7,615,889	7,787,544.00
Supplies & Materials	\$2,470,304	\$2,168,996	\$2,546,013	\$2,177,657	\$2,327,484
Capital Outlay	\$1,965,090	\$1,882,340	\$1,796,292	\$2,018,576	1,638,029.00
Other	\$283,224	\$406,000	\$534,475	\$335,506	491,695.00
Total	\$50,447,927	\$50,109,108	\$52,494,425	\$51,496,168	\$52,964,549

General Fund Expenditure Summary

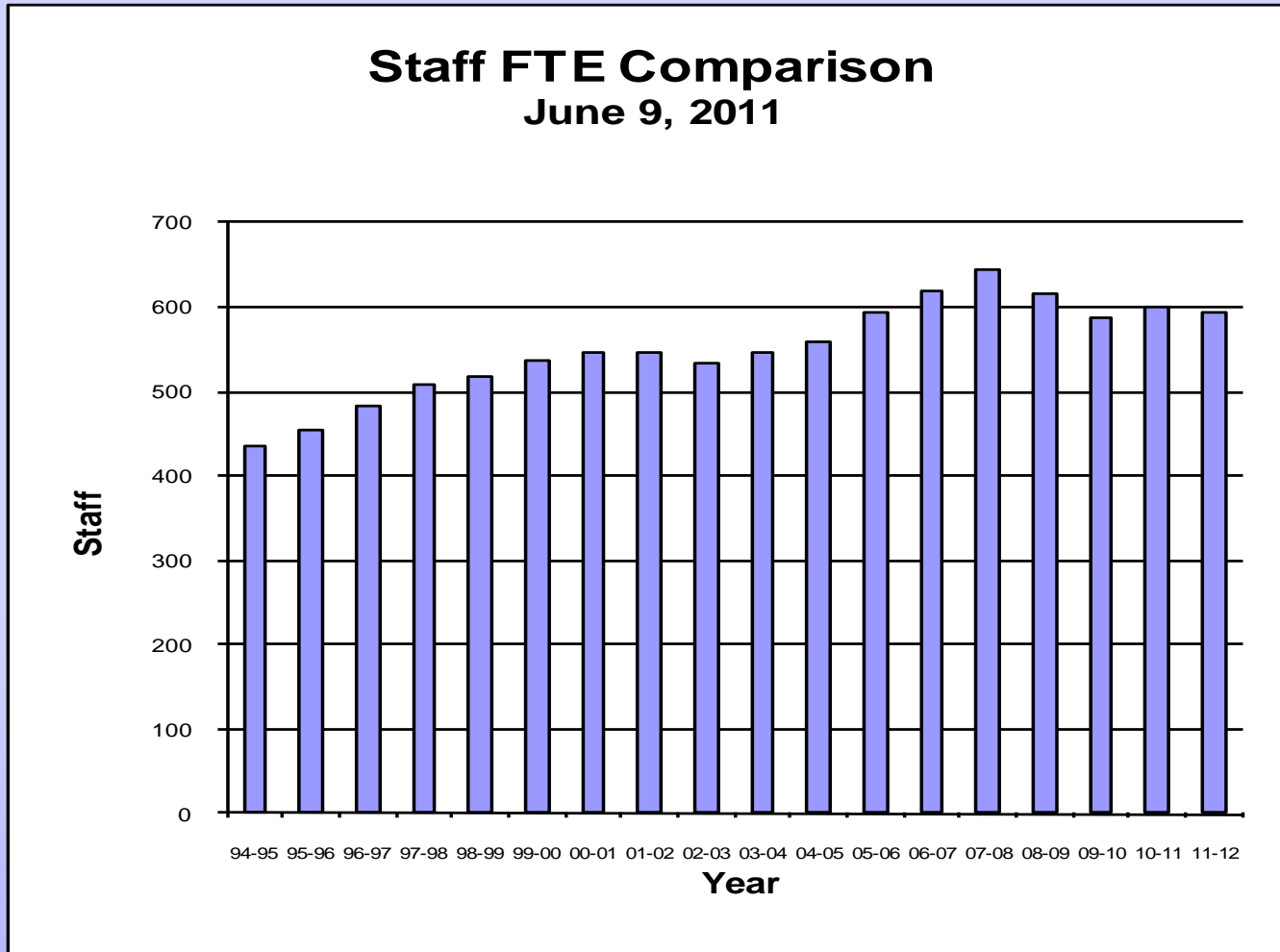
2011-2012

General Fund Expenditures By Object (Excluding OPEB Bond Proceeds and Transfers)



Staff FTE Comparison

June 9, 2011



Overview of Proposed Levy Payable in 2012

- Law requires that we explain the major changes in the levy
 1. We will review new changes that affect taxes for 2012
 2. We will review how taxes are determined
 3. We will review the major changes in the levy total and the reasons for those changes
 4. We will look at some specific examples of tax impact
 5. We will review the Minnesota Property Tax Refund programs

Proposed Levy for 2012- What's Different This Year?

- **2011 Legislature and Governor approved shifting \$261 million of state paid tax credits onto local levies**
 - Two components
 - Eliminates the Homestead Market Value Credit for 2012
 - Replaces the credit with a new Market Value Exclusion for residential homestead property only
- **Voters approved a 10-year renewal of the existing \$379.44 operating referendum authority on November 8, 2011**
 - The approved authority takes effect for taxes payable in 2013 and, based on current estimates, will decrease taxes slightly
 - The current authority is **reducing** the levy by \$227,428 for taxes payable in 2012
- **The School District and the City of Buffalo renovated the existing tennis courts at the Buffalo Community Middle school**
 - District's 50% portion of the cost is \$41,807 - Approximately \$3 per year on a \$200,000 property

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)

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 approve 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 Timeline in 2012

- Schedule of events in approval of district's 2011 (Payable 2012) tax levy
 - Early September – Minnesota Department of Education prepared and distributed the first draft of levy limit worksheets setting maximum authorized levy
 - September 26 - Board approved the proposed levy
 - Mid-November: County mailed “Proposed Property Tax Statements” to all property owners
 - December 12: Tax information presentation and School board certifies final levy

Overview of Proposed Levy Payable in 2012

- Four main factors affect your taxes-(School portion only for this discussion)
 1. School levy total-**decreased** \$216,507 or -1.62%
 2. Total value of all property within the school district boundaries-(tax base)
 - Decreased this year by the new Market Value Exclusion for taxes payable in 2012 and by the assessor
 3. Assessed value of your property (estimated and taxable market value)
 - Decreased this year by the new Market Value Exclusion for taxes payable in 2012 and by the assessor in many cases
 4. Market Value Credits
 - Eliminated for taxes payable in 2012 and replaced with the new Market Value Exclusion for taxes payable in 2012

➤ School Levy Total

Buffalo-Hanover-Montrose School District #877

November 14, 2011

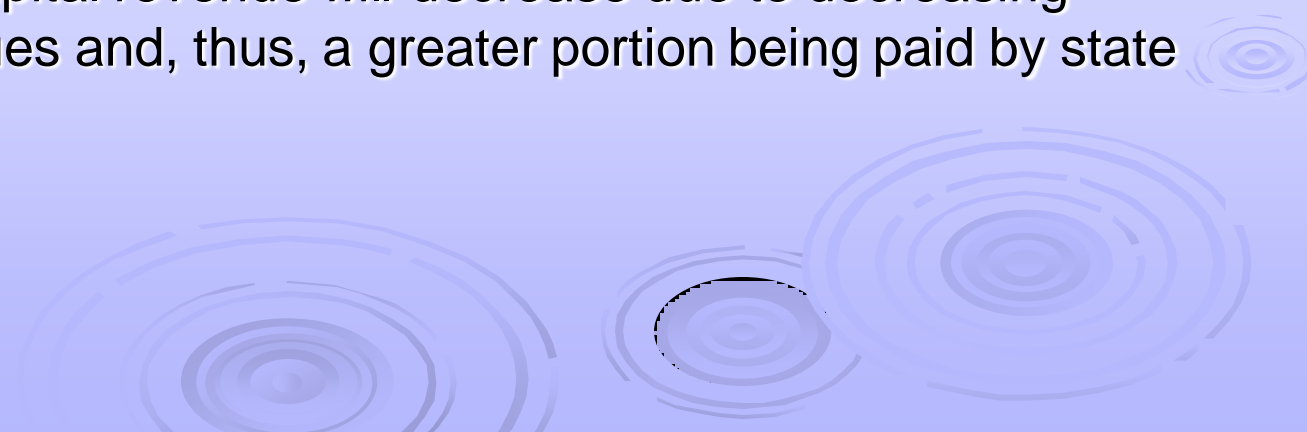
Comparison of Proposed Tax Levy Payable in 2012 to Actual Levy Payable in 2011 by Fund Using Final Levy Payable in 2011 as Base Year

	2011 Final Levy	2012 Preliminary Proposed Levy	Change from Prior Year	Percent Change
General Fund				
Voter Approved Referendum JOBZ Exempt	\$ 2,867,137	\$ 2,639,709	\$ (227,428)	
Equity	\$ 640,488	\$ 589,622	\$ (50,866)	
Transition	\$ 61,067	\$ 56,222	\$ (4,845)	
RMV Adjustments	\$ 6,550	\$ 10,228	\$ 3,678	
Operating Capital	\$ 605,345	\$ 558,441	\$ (46,904)	
Lease Levy	\$ 410,640	\$ 463,310	\$ 52,670	
Integration	\$ 185,548	\$ 184,977	\$ (570)	
Safe Schools	\$ 200,155	\$ 201,065	\$ 910	
Deferred Maintenance	\$ 254,406	\$ 242,383	\$ (12,023)	
Career Technical	\$ 103,764	\$ 123,774	\$ 20,010	
Abatement	\$ 239	\$ -	\$ (239)	
Health and Safety (includes Alt. Facilities for Pay 2008)	\$ 265,594	\$ 226,320	\$ (39,274)	
Reemployment Ins	\$ 106,000	\$ 100,000	\$ (6,000)	
General Fund Adjustments	\$ (126,301)	\$ 11,066	\$ 137,367	
Total General Fund Levy	\$ 5,580,632	\$ 5,407,117	\$ (173,514)	-3.11%
Community Education				
Basic Community Education	\$ 234,085	\$ 231,729	\$ (2,356)	
Early Childhood Family Education	\$ 114,310	\$ 113,322	\$ (988)	
School-Age Care	\$ 170,000	\$ 170,000	\$ -	
Home Visiting	\$ 5,294	\$ 5,272	\$ (22)	
Adults with Disabilities	\$ 10,890	\$ 10,890	\$ -	
CE Adjustments	\$ 55,838	\$ 29,751	\$ (26,087)	
Total Community Education Levy	\$ 590,417	\$ 560,963	\$ (29,454)	-4.99%
Debt Service				
Voter Approved Debt Service-JOBZ Nonexempt	\$ 6,140,771	\$ 6,118,117	\$ (22,654)	
Debt Service-Other JOBZ Nonexempt	\$ 903,434	\$ 898,249	\$ (5,185)	
Reduction for Excess Fund Balance-JOBZ Nonexempt-Other	\$ (49,462)	\$ (46,956)	\$ 2,506	
Debt Service-OPEB/Pension JOBZ Nonexempt	\$ 518,688	\$ 518,688	\$ -	
Debt Service Fund Adjustments	\$ 5,795	\$ 1,216	\$ (4,579)	
Reduction for Excess Fund Balance-JOBZ Nonexempt Voter Approved	\$ (336,198)	\$ (319,824)	\$ 16,374	
Total Debt Service Levy	\$ 7,183,028	\$ 7,169,490	\$ (13,539)	-0.19%
Total Certified Levy	\$ 13,354,077	\$ 13,137,570	\$ (216,507)	-1.62%

Explanation of Levy Changes

- Category: Voter Approved Referendum
- Change: -\$227,428
- 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 79% of this revenue comes from the local levy for BHM Schools.
 - Overall, referendum revenue will decrease due to decreasing property values and, thus, a greater portion being paid by state aid.

Explanation of Levy Changes

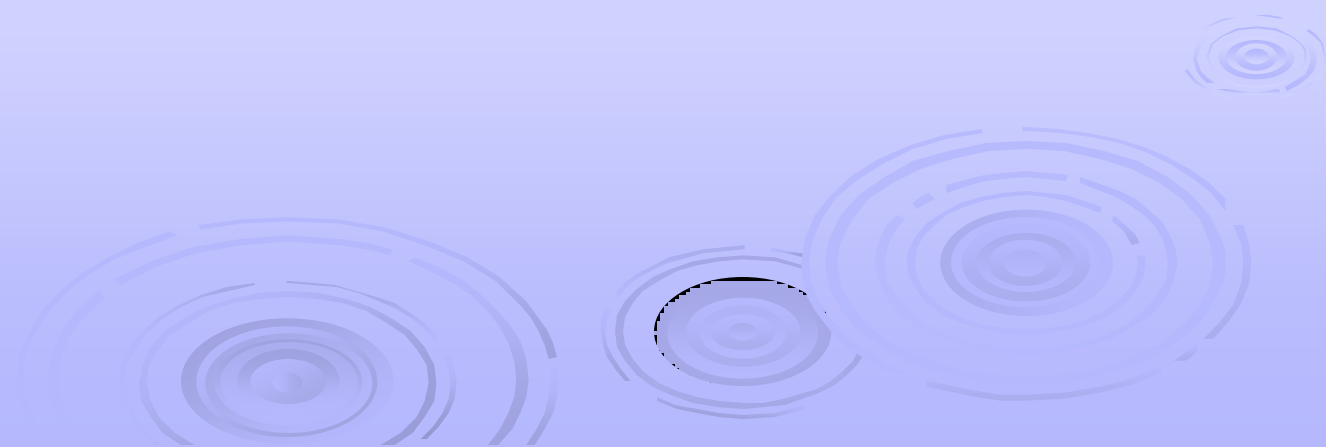
- Category: Operating Capital
 - Change: -\$46,904
 - Use of funds: equipment, building maintenance, and other capital expenses
 - Reason for decrease:
 - Funding for this program is provided through a combination of state aid and local tax levies.
 - Operating capital revenue will decrease due to decreasing property values and, thus, a greater portion being paid by state aid.
- 

Explanation of Levy Changes

- Category: Equity Revenue
- Change: -\$50,866
- 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.
 - 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 decreasing property values and, thus, a greater portion being paid by state aid.

Explanation of Levy Changes

- Category: Lease Levy
- Change: +\$52,670
- 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 the tennis court renovation and the Wright Choice program lease through Wright County.



Explanation of Levy Changes

- Category: Health and Safety
- Change: -\$39,274
- 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 going down based on less projects to complete.



Explanation of Levy Changes

- Category: General Fund Adjustments
- Change: +\$137,367
- Use of funds: general operating expenses
- Reason for increase:
 - Annually, the Minnesota Department of Education adjusts final program revenues to actual final expenditures or final allocations for per student-based funding programs.
 - The 2010 payable 2011 levy had a number of negative adjustments to correct final entitlements for a number of prior year programs. The same is not the case for the 2011 payable 2012 levy.

Property Value Changes- Market Value Exclusion

➤ 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 2012 and your Taxable Market Value for 2012 as shown on your tax statement
- Artificially reduces the net tax capacity of the school district causing a higher tax rate

➤ Effects on taxes

- Shifts state paid credits onto local levies
- Creates greater net tax capacity tax rate
- Shifts tax burden among the different property classes

Property Value Changes- School District Portion

Buffalo-Hanover-Montrose School District #877			12/12/2011
Estimated Valuations used in Tax Calculations for Preliminary Pay 2012 Levy			
Combined Values for Hennepin and Wright County			
Category	Pay 2011 Final	Pay 2012 Current Proposed	Net Change
Referendum Market Value	\$ 2,564,340,650	\$ 2,480,592,383	\$ (83,748,267)
Net % Change in Value			-3.27%
Net Tax Capacity*	\$ 30,210,896	\$ 27,682,871	\$ (2,528,025)
Net % Change in Value			-8.37%
*3.91% value reduction due to recalculation of tax base for 2011 for Market Value Exclusion and 4.46% reduction due to assessed valuation change for 2012			

Property Value Changes- Tax Rate Calculations

Buffalo-Hanover-Montrose School District #877 Analysis of Impact of Proposed 2012 Tax Levy and Rates Using Final Levy Payable in 2011 as Base Year		
Tax Rate Calculations Used for Truth in Taxation Notices	2011 Final Levy	2012 Proposed Levy
Net Levy on Referendum Market Value	\$ 3,529,212	\$ 3,253,491
Total Referendum Market Value	\$ 2,564,340,650	\$ 2,480,592,383
Total RMV Tax Rate (applied to Estimated Market Value)	0.13763%	0.13116%
Net Levy on Net Tax Capacity	\$ 9,652,937	\$ 9,715,502
Net Tax Capacity Value	\$ 30,210,896	\$ 27,682,871
Total NTC Tax Rate (applied to Taxable Market Value)	31.9518%	35.0957%

Impact on Taxpayers- School Portion Only

Buffalo-Hanover-Montrose School District #877 Analysis of Impact of Proposed 2012 Tax Levy and Rates Using Final Levy Payable in 2011 as Base Year		
Tax Impact on Various Classes of Property- School Portion Only	2011 Final Levy Before Market Value Credits	2012 Proposed Levy After Market Value Credit Change****
Residential Homestead Property		
\$100,000	\$457	\$383
\$150,000	\$686	\$640
\$200,000	\$914	\$897
\$250,000	\$1,143	\$1,154
\$300,000	\$1,371	\$1,410
\$400,000	\$1,829	\$1,924
Commercial/Industrial Property		
\$75,000	\$463	\$493
\$100,000	\$617	\$658
\$150,000	\$925	\$986
\$250,000	\$1,702	\$1,819
Agricultural Homestead Property		
\$400,000.00 Ag Homestead+	\$1,234	\$1,248
\$600,000.00 Ag Homestead+	\$1,553	\$1,599
\$800,000.00 Ag Homestead+	\$1,873	\$1,950
\$1,000,000.00 Ag Homestead+	\$2,654	\$2,301
Referendum market values based on an estimated 3.27% average decrease for Wright and Hennepin Counties for taxes payable in 2012 *Net Tax Capacity values are based on an estimated 4.64% average decrease for Wright and Hennepin Counties for taxes payable in 2012 ****Market Value Credit was replaced by the Market Value Exclusion for Taxes Payable in 2012 +A value of \$200,000.00 was assumed for the house, garage, and one acre for Ag Homestead Property		

Impact on Taxpayers- Individual Property Examples

	Parcel #1-City of Buffalo			Parcel #2-City of Buffalo			Parcel #3-City of Buffalo			Parcel #4-City of Buffalo		
	2011	2012	Net Change	2011	2012	Net Change	2011	2012	Net Change	2011	2012	Net Change
Estimated Market Value	\$ 119,000	\$ 97,400	\$ (21,600)	\$ 129,700	\$ 123,700	\$ (6,000)	\$ 142,900	\$ 140,200	\$ (2,700)	\$ 126,800	\$ 133,700	\$ 6,900
Taxable Market Value	\$ 119,000	\$ 68,900	\$ (50,100)	\$ 129,700	97,600	\$ (32,100)	\$ 142,900	115,600	\$ (27,300)	\$ 126,800	108,500	\$ (18,300)
Market Value Exclusion		\$ 28,500			\$ 26,100			\$ 24,600			\$ 25,200	
Total All Levies												
RMV Levy	\$ 164	\$ 128	\$ (36)	\$ 179	\$ 162	\$ (17)	\$ 197	\$ 184	\$ (13)	\$ 175	\$ 175	\$ 0
NTC Levy	\$ 380	\$ 242	\$ (138)	\$ 414	\$ 343	\$ (71)	\$ 457	\$ 406	\$ (51)	\$ 405	\$ 381	\$ (24)
Market Value Credit	\$ (76)	\$ -	\$ 76	\$ (74)	\$ -	\$ 74	\$ (70)	\$ -	\$ 70	\$ (74)	\$ -	\$ 74
Total Tax Amount	\$ 468	\$ 370	\$ (98)	\$ 519	\$ 505	\$ (14)	\$ 584	\$ 590	\$ 6	\$ 506	\$ 556	\$ 50

- Tax change will vary based on change in individual property value
- On average, tax bills will be up slightly due to Market Value Exclusion shift

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 \$99,240 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 the 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 2012
- Final levy is certified to county auditor by December 28, 2011

Comments and Questions

