

**BEMIDJI AREA SCHOOLS
BEMIDJI, MINNESOTA**

DATE: DECEMBER 19, 2022

TO: BOARD OF EDUCATION

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

SUBJECT: 2022 PAYABLE 2023 LEVY LIMIT CERTIFICATION

INTRODUCTION

The Minnesota Department of Education gathers information from many sources to create the 2022 Payable 2023 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.

BASELINE KNOWLEDGE

TIMING - The local property tax levy is set by the school board in 2022, paid by taxpayers in 2023 and booked as revenue to the school district in FY 2023-2024. 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 6.2% this past year, compared an 8% increase last year and 17% 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. 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

Attached is my attempt at reducing the 40-page levy report to a single 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. Major fluctuations in our levy from year to year are typically 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:

The increases in Local Optional Revenue and Equity Levy are “false” increases due to the large negative adjustment in last year’s levy. These categories will take a couple of levy cycles to stabilize from the impact of pandemic related enrollment loss adjustments.

The decrease in LTFM in the General category is offset by the increase in LTFM in the General Debt category to reflect the LTFM bond issue this past spring. The bond issue did not increase taxes but it did shift the existing authority between levy reporting categories.

The combined increase in Ice Arena and Building Leases is a onetime increase that reflects the shift of ice time from Nymore Arena to the BCA. Next year’s levy will no longer reflect Nymore costs.

The increase in General Debt Excess Balance is another “false” increase due to a large negative adjustment last year that is no longer included causing the total to stabilize with an overall increase.

The district had the authority to levy for OPEB costs this year with levy authority calculating to \$563,362. Had the district chosen to maximize this levy the overall levy increase would have been 11%. The district has chosen to rely on the OPEB trust in an effort to keep tax increases to a minimum.

OVERALL SUMMARY

The recommended levy limitation certification is \$10,805,134 which is an increase of \$554,174, or 5.41% from last year’s actual spread levy of \$10,250,960. Last year the district saw a decrease in the levy of 7% for a net two-year tax levy decrease of 1.59 %

ACTION:

The motion was offered by _____, seconded by _____ and carried () to approve the 2022 Pay 2023 Levy Limit at the 10,805,134.