

# Public Hearing for Taxes Payable in 2018

DAN PYAN, DIRECTOR OF FINANCE AND OPERATIONS

December 7, 2017



# Tax Hearing Presentation

## State Law Requires Public Meeting:

- Between November 24<sup>th</sup> and December 28<sup>th</sup>
- After 6:00 PM
- May be part of regularly scheduled meeting
- May adopt final levy at same meeting

## State Law Requires Presentation of:

- Current year budget
- Prior year actual revenue & expenditures
- Proposed property tax levy including % increase
- Specific purposes & reasons taxes are being increased

*\*State law also requires the district allow for public comments*



# Agenda for Hearing

1. Background on School Funding, Property Tax Levies and Budgets
2. District's Budget
3. District's Proposed Tax Levy for Taxes Payable in 2018
4. Public Comments



# Background Information



## Minnesota Public Education is Strong

- State law requires all juniors and seniors be offered the ACT at no cost, but test is no longer mandatory
- In 2017, 90% of Minnesota graduates took the ACT with an average composite score of 21.5
- Highest score among 17 states where every eligible student takes exam
- National composite score for 2017 is 21.0 based on 60% of 2017 graduating seniors taking the ACT
- South Washington County Schools average composite score for 2017 graduates is 22.7.





# Public Schools Established by Minnesota Constitution

## ARTICLE XIII

### MISCELLANEOUS SUBJECTS

#### Section 1

“UNIFORM SYSTEM OF PUBLIC SCHOOLS. The stability of a republican form of government depending mainly upon the intelligence of the people, it is the duty of the legislature to establish a general and uniform system of public schools. The legislature shall make such provisions by taxation or otherwise as will secure a thorough and efficient system of public schools throughout the state.”



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# As a result...

## School funding is highly regulated by the state

### State Sets:

- Formulas which determine revenue; most revenue based on specified amounts per pupil
- Tax policy for local schools
- Maximum authorized property tax levy (districts can levy less but not more than amount authorized by state, unless approved by voters)

State also authorizes school board to submit referendums for operating and capital needs to voters for approval



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# Challenge: State Set Basic General Education Formula Lags Inflation

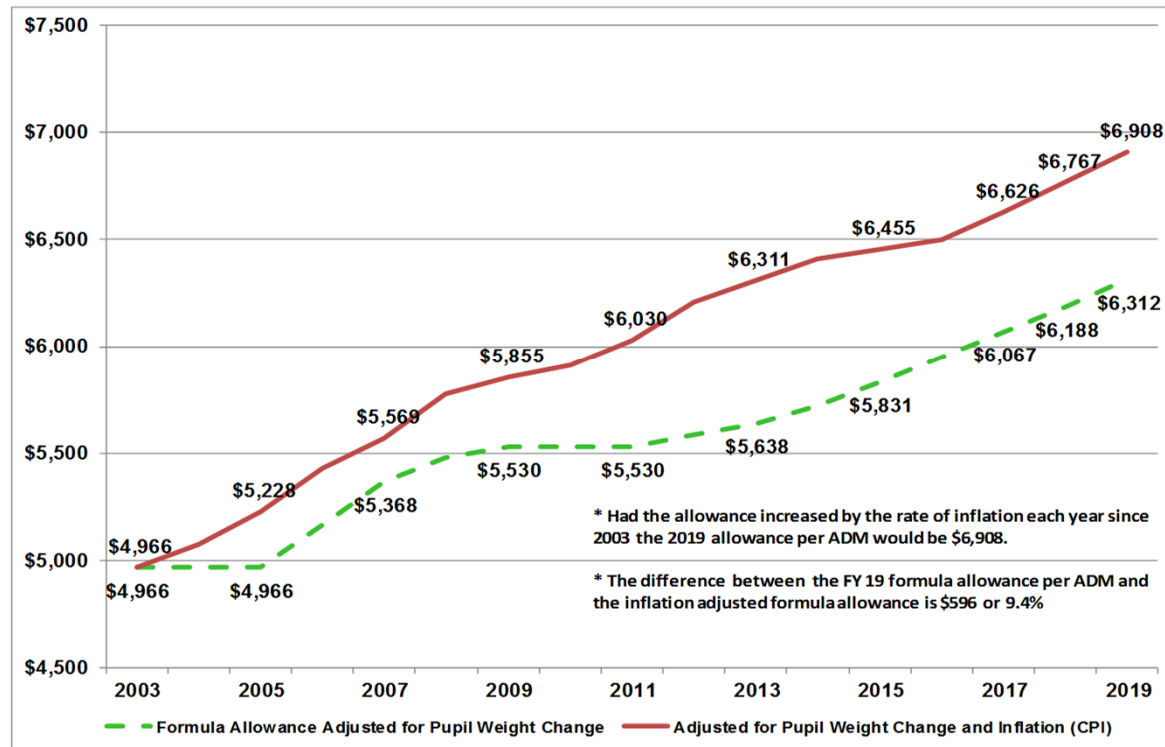


- Since Fiscal Year 2002-03, State General Education Revenue formula has not kept pace with inflation
- For Fiscal Years 2017-18 and 2018-19, Legislature approved an increase of 2% per year
  - \$121 per pupil unit for Fiscal Year 2017-18
  - An additional \$124 for Fiscal Year 2018-19
- Per-pupil allowance for Fiscal Year 2018-19 would need to increase by another \$596 (9.4%) to have kept pace with inflation since 2002-03



# Basic General Education Formula Lags Inflation

**General Education Formula Allowance, 2003-2019**  
Adjusted for Pupil Weight Change and Inflation (CPI)



Source: MDE January 2017 Inflation Estimates



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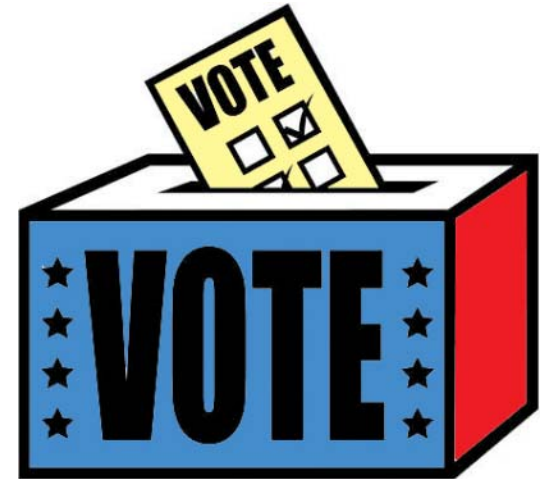
# Underfunding of Special Education

- MDE reports cost of providing special education programs was underfunded by \$697 million, or an average of 40% underfunded
- Translating into a statewide average funding shortfall of \$5,783 per special education student
- Underfunding of special education costs requires a transfer from regular program resources to support an underfunded program mandated by state and federal law
- Primary options to bridge special education funding gap are to cut regular program budgets or increase operating referendum revenue, most districts have done both



# Result: Growing Dependence on Operating Referendum Revenue

- In 1993, 65% of districts had operating referendum revenue averaging \$332 per pupil
- For 2017-18, all Minnesota districts have referendum revenue and/or local optional revenue authority averaging \$1,296 per pupil
  - 20.5% of general education formula allowance
  - Of this amount, \$879 is board approved or voter approved operating referendum, and \$417 is Local Optional Revenue



# Change in Tax Levy Does not Determine Change in Budget

- Tax levy is based on many state-determined formulas plus voter approved referendums
- Some increases in tax levies are revenue neutral, offset by reductions in state aid
- Expenditure budget is limited by state-set revenue formulas, voter-approved levies, and fund balance
- An increase in school taxes does not always correlate to an equal increase in budget



# School District Levy Cycle Differs from City/County Levy Cycle

## City/County:

- Budget Year same as calendar year
- 2018 taxes provide revenue for 2018 calendar year budget

## Schools:

- Budget year begins July 1st and coincides with school year
- 2018 taxes provide revenue for 2018-2019 school fiscal year
- Budget will be adopted in June 2018





# Budget Information

Because approval of school district budget lags certification of tax levy by six months, state requires only current year budget information and prior year actual financial results be presented at this hearing.

All school districts' budgets are divided into separate funds based on purposes of revenue, as required by law.

## Our District's Funds

- General
- Food Service
- Community Service
- Building Construction
- Debt Service
- Trust
- Internal Service\*

\*Annual budgets are not prepared for this fund

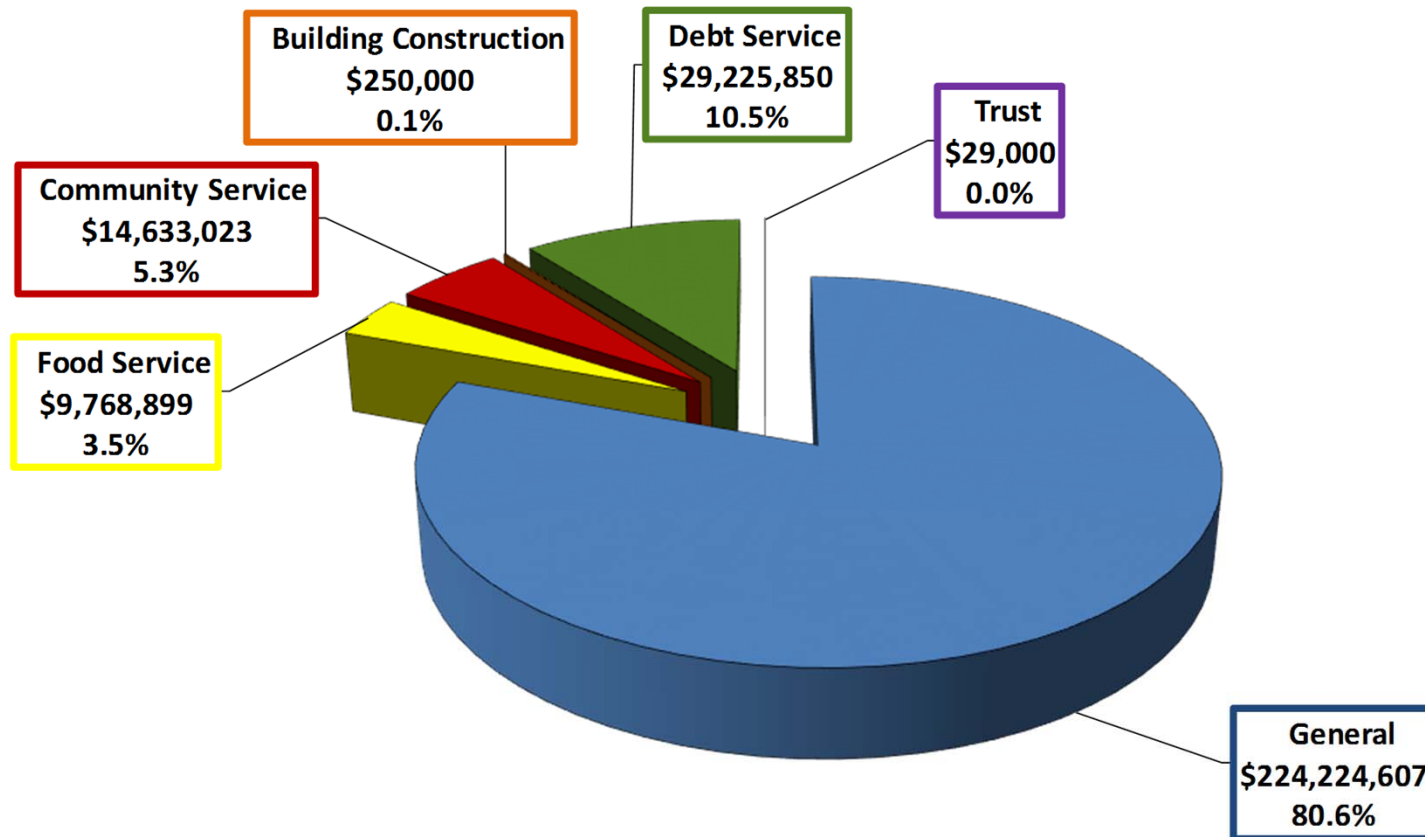


**ISD #833 - South Washington County Schools**  
**District Revenues and Expenditures**  
**Actual for FY 2017, Budget for FY 2018**

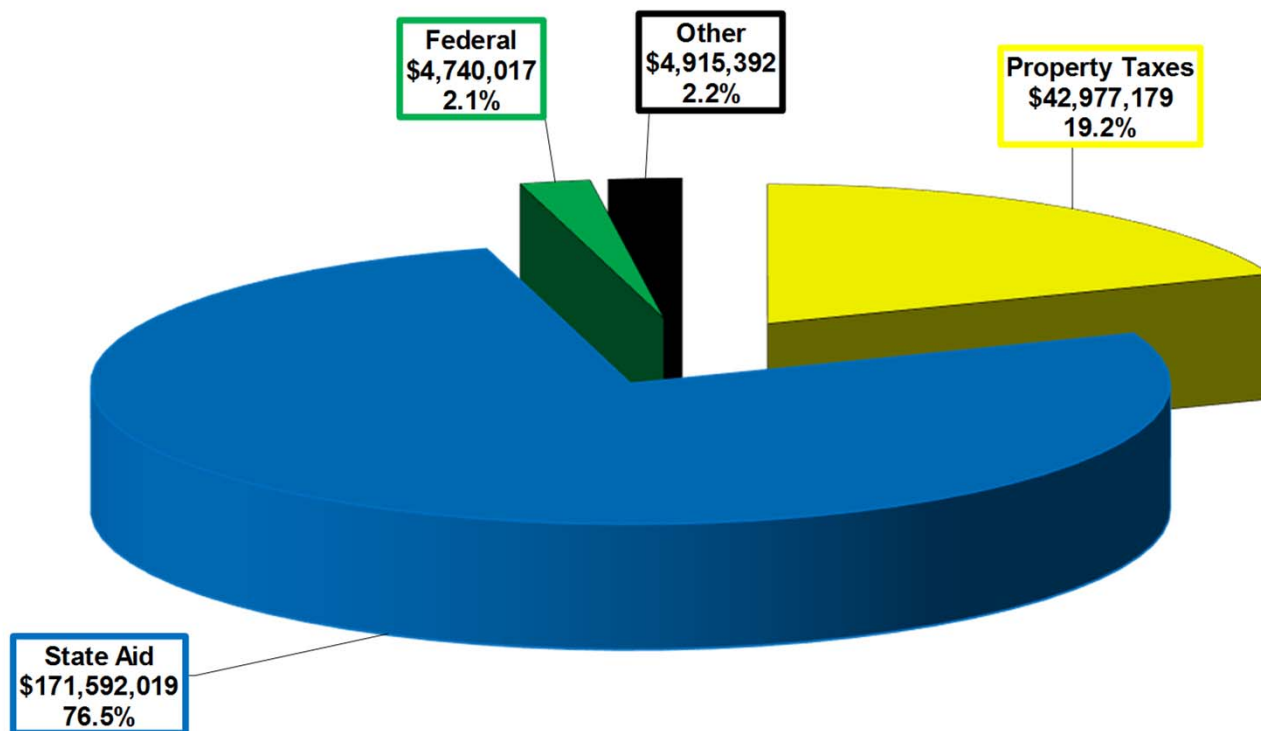
<b>FUND</b>	<b>FISCAL 2016-17 BEGINNING FUND BALANCES</b>	<b>2016-17 ACTUAL REVENUES AND TRANSFERS IN</b>	<b>2016-17 ACTUAL EXPENDITURES &amp; TRANSFERS OUT</b>	<b>JUNE 30, 2017 ACTUAL FUND BALANCE</b>	<b>2017-18 BUDGET REVENUES AND TRANSFERS IN</b>	<b>2017-18 BUDGET EXPENDITURES &amp; TRANSFERS OUT</b>	<b>JUNE 30, 2018 PROJECTED FUND BALANCE</b>
<b>General</b>	<b>\$7,303,067</b>	<b>\$219,672,631</b>	<b>\$219,558,001</b>	<b>\$7,417,697</b>	<b>\$224,224,607</b>	<b>\$223,752,455</b>	<b>\$7,889,849</b>
<b>Food Service</b>	<b>609,048</b>	<b>9,555,706</b>	<b>9,330,125</b>	<b>834,629</b>	<b>9,768,899</b>	<b>9,684,179</b>	<b>919,349</b>
<b>Community Service</b>	<b>764,921</b>	<b>14,171,740</b>	<b>14,919,231</b>	<b>17,430</b>	<b>14,633,023</b>	<b>14,613,846</b>	<b>36,607</b>
<b>Building Construction</b>	<b>114,279,608</b>	<b>7,638,894</b>	<b>29,116,855</b>	<b>92,801,647</b>	<b>250,000</b>	<b>78,863,777</b>	<b>14,187,870</b>
<b>Debt Service</b>	<b>89,987,868</b>	<b>69,592,029</b>	<b>32,833,361</b>	<b>126,746,536</b>	<b>29,225,850</b>	<b>27,460,598</b>	<b>128,511,788</b>
<b>Trust</b>	<b>56,008</b>	<b>80,732</b>	<b>60,493</b>	<b>76,247</b>	<b>29,000</b>	<b>29,000</b>	<b>76,247</b>
<b>Internal Service</b>	<b>8,941,038</b>			<b>3,549,170</b>			<b>-</b>
<b>Total All Funds</b>	<b>\$221,941,558</b>	<b>\$320,711,732</b>	<b>\$305,818,066</b>	<b>\$231,443,356</b>	<b>\$278,131,379</b>	<b>\$354,403,855</b>	<b>\$151,621,710</b>



**Independent School District No. 833**  
**Revenue - All Funds**  
**2017-18 Budget \$278,131,379**

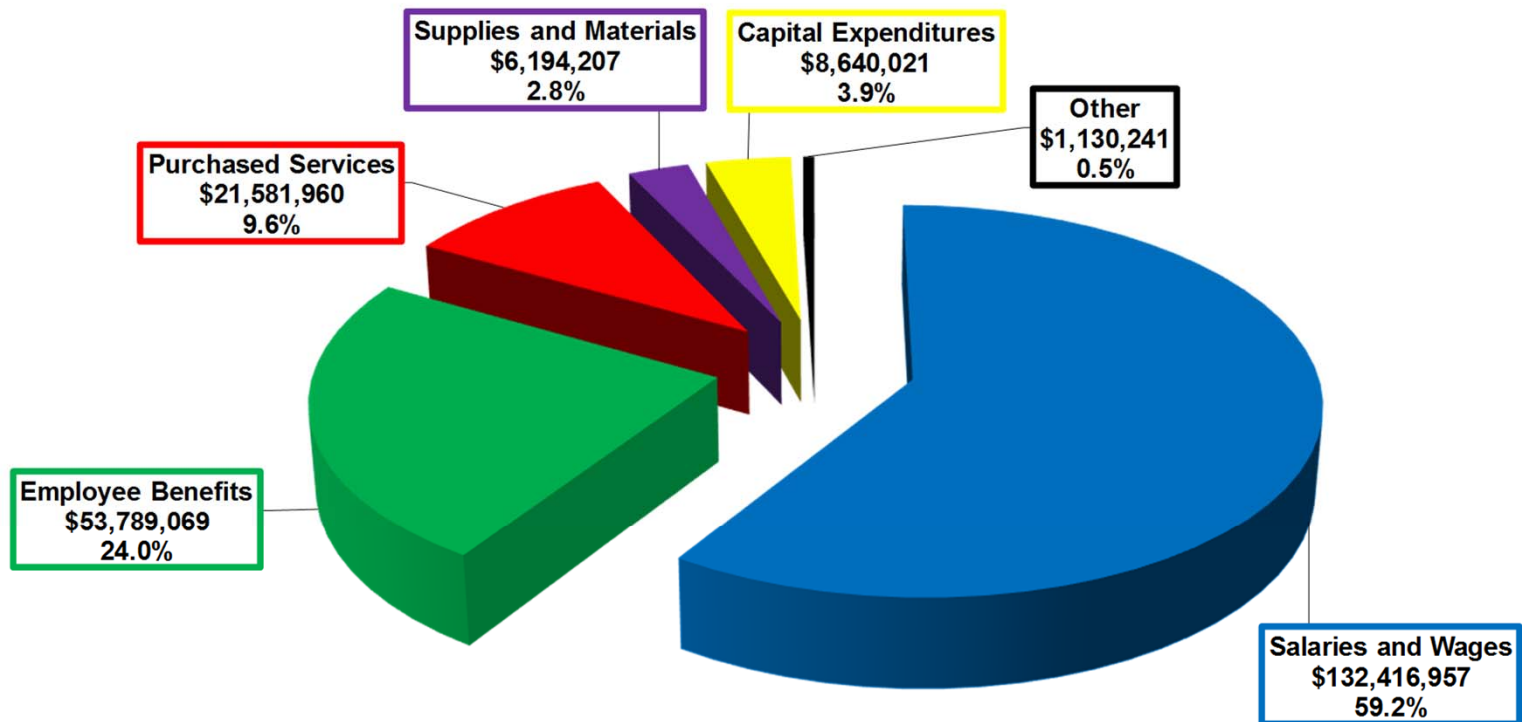


**ISD #833 General Fund Revenue  
2017-18 Budget \$224,224,607**

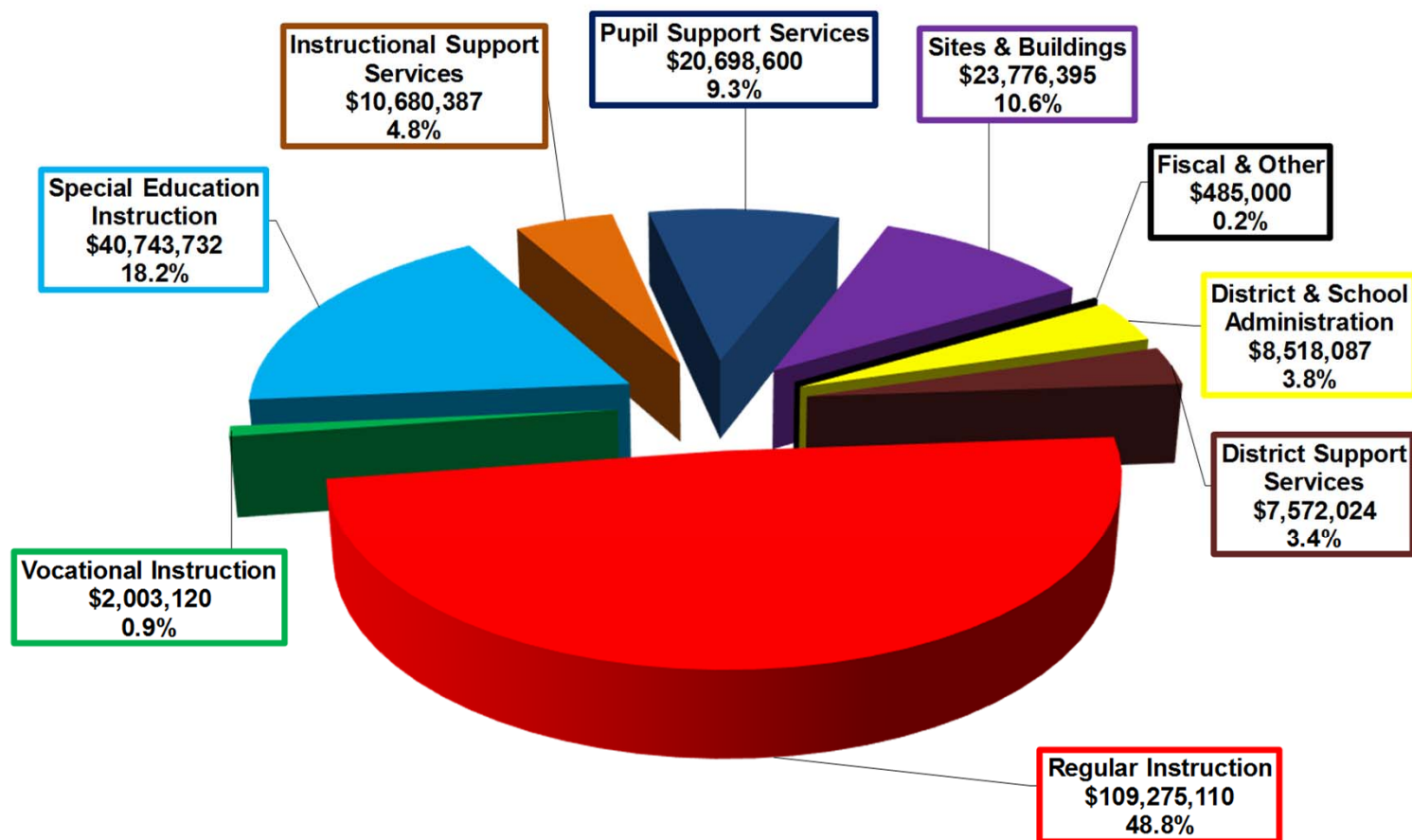




**ISD #833 General Fund Expenditures by Object  
FY 2017-18 Budget \$223,752,455**

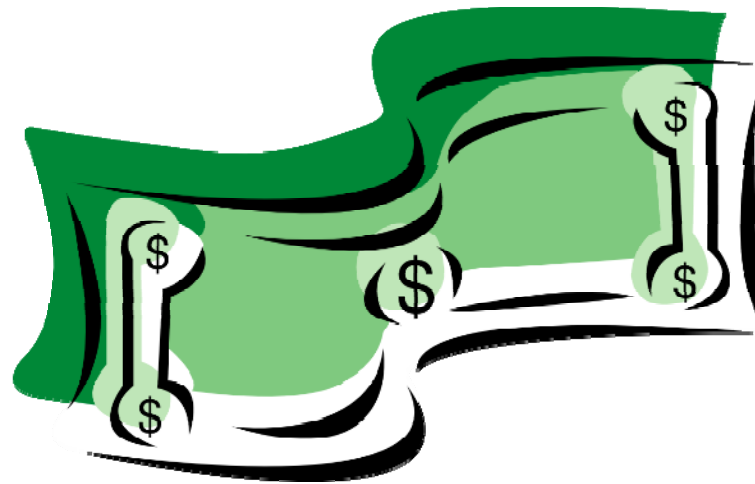


## ISD #833 General Fund Expenditures by Program 2017-18 Budget \$223,752,455



# Payable 2018 Property Tax Levy

- Determination of levy
- Comparison of 2017 to 2018 levies
- Specific reasons for changes in tax levy
- Impact on taxpayers



# Property Tax Background

- Every owner of taxable property pays property taxes to various “taxing jurisdictions” (county, city/township, school district, special districts) in which property is located
- Each taxing jurisdiction sets own tax levy, often based on limits in state law
- County sends bills, collects taxes from property owners, and distributes funds back to other taxing jurisdictions







**Spruce County**  
Jane Smith, Auditor-Treasurer  
345 12th Street East, Box 78  
Spruceville, MN 55555-5555  
(555) 345-6789  
www.co.spruce.mn.us

**TAXPAYER(S):**

John and Mary Johnson  
123 Pine Rd S  
Spruceville, MN 55555-5555

**Property Information**

**PIN Number:** 01.234.56.789.R1 **Property Address:** 789 Pine Rd S  
Spruceville, MN 55555

**Property Description:**  
Lot 1, Block 1, Spruce Acres Subdivision

**PROPOSED TAXES 2018**

**THIS IS NOT A BILL. DO NOT PAY.**

Step	VALUES AND CLASSIFICATION		
1	Taxes Payable Year	2017	2018
	Estimated Market Value	\$125,000	\$150,000
	Homestead Exclusion	\$	\$23,800
	Taxable Market Value	\$125,000	\$126,200
	Class	Res NHmstd	Res Hmstd
Step 2	PROPOSED TAX		
	Property Taxes before credits	\$1,562.46	
	School building bond credit	\$ 12.00	
	Agricultural market value credit		
	Other credits		
Step 3	Property Taxes after credits	\$1,550.46	
	PROPERTY TAX STATEMENT		
	Coming in 2018		
	The time to provide feedback on PROPOSED LEVIES is NOW		

**Proposed Property Taxes and Meetings by Jurisdiction for Your Property**

Contact Information	Meeting Information	Actual 2017	Proposed 2018
State General Tax	No public meeting	\$0	\$0
County of Spruce Spruce County Courthouse 123 Spruce St Spruceville, MN 55555 www.co.spruce.mn.us (555) 123-4567	December 7, 7:00 PM	\$438.06	\$484.18
City of Spruceville Mayor's Office 456 Spruce St Spruceville, MN 55555 www.ci.spruceville.mn.us (555) 123-7654	December 4, 6:30 PM Spruceville City Hall	\$273.79	\$312.06
Spruceville School District 999 150 1st St N Spruceville, MN 55555 www.spruceville.k12.mn.us (555) 123-6789	December 5, 7:00 PM Spruceville High School Cafeteria		
Voter Approved Levies		\$289.35	\$296.68
Other Levies		\$340.11	\$374.60
<i>Your school district was scheduled to hold a referendum at the November general election. If the referendum was approved by the voters, the school district's voter approved property tax for 2018 may be higher than the proposed amount shown on this notice.</i>			
Metro Special Taxing Districts Spruceville Metropolitan Council www.spruce.metrocouncil.org (555) 555-5555 Spruceville, MN 55055	December 8, 7:30 PM Spruce Park Centre 500 Pine St.	\$57.76	\$58.70
Other Special Taxing Districts	No public meeting	\$12.80	\$13.02
Tax Increment Tax	No public meeting	\$10.15	\$11.22
Total excluding any special assessments		\$1,410.02	\$1,550.46 9.0%



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# School District Property Taxes

- Each school district may levy taxes in over 30 different categories
- “Levy limits” (maximum levy amounts) for each category are set by
  - State law
  - Voter approval
- Minnesota Department of Education (MDE) calculates detailed levy limits for each district



# Property Tax Background

## School District Property Taxes

- Key steps in process are summarized on next slide
- Any of these steps may affect the taxes on a parcel of property, but district has control over only 1 of the 7 steps



## Minnesota School District Property Taxes - Key Steps in the Process

**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 1 and tax capacity formulas from step 2), as well as the total tax capacity for each school district.

**Step 7.** The **County Auditor** divides the final levy (determined by the school board in step 6) by the district's total tax capacity (determined in step 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.\*

**Step 4.** 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 5.** The **Minnesota Department of Education** calculates detailed levy limits for each school district, based on the formulas approved by the Legislature in step 4. These limits tell districts the exact amounts that can be levied in every category.

**Step 6.** The **School Board** adopts a proposed levy in September, based on the limits set in step 5. After a public hearing, the board adopts a final levy in December. Final levy cannot be more than the preliminary levy, except for amounts approved 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**.





# Schedule of Events in Approval of District's 2017 (Payable 2018) Tax Levy



**September 8:** Minnesota Department of Education (MDE) prepared and distributed first draft of levy limit report, setting maximum authorized levy

**September 21:** School Board approved proposed levy amounts

**Mid-November:** County mailed “Proposed Property Tax Statements” to all property owners

**December 7:** Public hearing on proposed levy at regular meeting

**December 21:** School Board will certify final levy amounts



# Overview of Proposed Levy Payable in 2018

- Total 2018 proposed property tax levy is an increase from 2017 of \$9,676,963, or 13.3%
- Includes \$23,278,951.46 net increase from proposed levy approved by School Board in September
  - Referendum questions approved by the voters in election held November 7<sup>th</sup>
  - Under levy in Alternative Teacher Compensation program
- State law requires that we explain the reasons for major increases in levy
- Some decreases in specific levies will also be explained



## South Washington County School District

### Comparison of Proposed Tax Levy Payable in 2018 to Actual Levy Payable in 2017

Fund	Levy Category	Actual Levy Payable in 2017	Proposed Levy Payable in 2018	\$ Change	% Change
<b>General Fund</b>					
	Voter Approved Referendum	\$25,234,709	\$33,528,583	\$8,293,874	
	Local Optional Revenue	7,702,393	7,662,959	(39,434)	
	Equity	1,636,759	1,352,765	(283,993)	
	Capital Projects - Technology Levy	1,176,476	2,000,000	823,524	
	Operating Capital	1,179,357	1,036,814	(142,543)	
	Long Term Facilities Maintenance	2,057,132	3,629,306	1,572,174	
	Instructional Lease Levy	2,269,167	3,254,518	985,351	
	Other	3,063,869	3,055,401	(8,468)	
	Adjustments for Prior Years	(1,335,448)	(1,853,745)	(518,298)	
	<b>General Fund Totals</b>	<b>\$42,984,413</b>	<b>\$53,666,601</b>	<b>\$10,682,187</b>	<b>24.9%</b>
<b>Community Service Fund</b>					
	Basic Community Education	\$686,767	\$686,767	\$0	
	Early Childhood Family Education	350,637	355,714	5,077	
	School-Age Child Care	360,000	389,000	29,000	
	Other	14,531	14,632	101	
	Adjustments for Prior Years	30,068	(5,315)	(35,383)	
	<b>Community Service Fund Totals</b>	<b>\$1,442,003</b>	<b>\$1,440,798</b>	<b>(\$1,204)</b>	<b>-0.1%</b>
<b>Debt Service Fund</b>		<b>\$28,090,850</b>	<b>\$27,086,830</b>	<b>(\$1,004,020)</b>	
<b>Total Levy, All Funds</b>		<b>\$72,517,266</b>	<b>\$82,194,228</b>	<b>\$9,676,963</b>	<b>13.3%</b>
<b>Subtotal by Truth in Taxation Categories:</b>					
	Voter Approved Levies	\$52,636,342	\$60,758,150	\$8,121,808	
	Other Levies	\$19,880,924	\$21,436,078	\$1,555,154	
	<b>Total</b>	<b>\$72,517,266</b>	<b>\$82,194,228</b>	<b>\$9,676,963</b>	<b>13.3%</b>



# Explanation of Levy Changes

Category: Voter Approved Operating Referendum

Change: +\$8,293,874

Use of Funds: General Operating Expenses

Reason for Increase:

- In addition to renewing expiring referendum authority, voters approved an increase of \$375 per pupil of operating referendum authority
- Enrollment is projected to increase



# Explanation of Levy Changes

Category: Capital Projects – Technology Referendum

Change: +\$823,524

Use of Funds: Technology costs

Reason for Increase:

- Voters approved new authority of \$2 million in election held November 7<sup>th</sup>



# Explanation of Levy Changes

Category: Long Term Facility Maintenance (LTFM)

Change: +\$1,152,174

Use of Funds: Deferred Maintenance and Health & Safety Projects

Reason for Increase:

- District is eligible for LTFM revenue based on approved project costs; estimated project costs have increased
- Projects are financed through a combination of annual levy and bond issues
- Revenue provided through a combination of property tax levy (60%) and state aid (40%)
- Increase partially offset by reduction in other levy categories (Student Achievement and Operating Capital)





# Explanation of Levy Changes

Category: General Fund - Adjustments for Prior Years

Change: -\$518,298

Use of Funds: Various

Reason for Decrease:

- Each year, initial levies are based on estimates of enrollment, values, and expenditures for future years
- In later years, estimates are updated and levies are retroactively adjusted
- 2018 levy includes negative adjustments in several categories



# Explanation of Levy Changes

Category: Debt Service Fund

Change: -\$1,004,020

Use of Funds: Principal and interest payments on bonds

Reason for Decrease:

- Planned reduction due to anticipated increase in long term facilities maintenance (LTFM) levy, to maintain a level tax rate for capital and debt levies



# Factors Impacting Individual Taxpayers School Taxes

Many factors can cause tax bill for an individual property to increase or decrease from year to year

- Changes in value of individual property
- Changes in total value of all property in District
- Increases or decreases in levy amounts caused by changes in state funding formulas, local needs and costs, voter-approved referendums, and other factors



# Four Year School Levy Comparison

The following slides include tables and graphs showing examples of changes in the school district portion of property taxes from 2015 to 2018

Examples include school district taxes only

All examples are based on a 8.2% increase in property value over this period

- Actual changes in value may be more or less than this for any parcel of property
- Intended to provide a fair representation of what has happened to school district property taxes over this period for typical properties



# Impact on Taxpayers

- Examples for property in City of Woodbury
  - For commercial-industrial property, school taxes in other parts of the district may be slightly higher or lower due to variations in impact of Fiscal Disparities Program
- Amounts for 2018 are preliminary estimates, based on best data available now – final amounts could change slightly
- Estimates were prepared by Ehlers (District's municipal financial advisors)



## ISD #833 - South Washington County Schools

### Estimated Changes in School Property Taxes, 2015 to 2018

Based on 8.2% Cumulative Changes in Property Value from 2015 to 2018 Taxes

Type of Property	Estimated Market Value for 2015 Taxes	Actual Taxes Payable in 2015	Estimated Market Value for 2016 Taxes	Actual Taxes Payable in 2016	Estimated Market Value for 2017 Taxes	Actual Taxes Payable in 2017	Estimated Market Value for 2018 Taxes	Estimated Taxes Payable in 2018			Change in Taxes 2015 to 2018	Change in Taxes 2017 to 2018
								Without Ballot Questions*	Approved Ballot Questions*	Total		
Residential Homestead	\$92,446	\$421	\$94,295	\$562	\$95,238	\$526	\$100,000	\$380	\$228	\$608	\$187	\$82
	138,669	698	141,443	911	142,857	853	150,000	629	345	974	276	121
	184,892	974	188,590	1,261	190,476	1,180	200,000	877	463	1,340	366	160
	231,116	1,251	235,738	1,610	238,095	1,507	250,000	1,125	581	1,706	455	199
	277,339	1,528	282,885	1,959	285,714	1,834	300,000	1,374	698	2,072	544	238
	323,562	1,805	330,033	2,309	333,333	2,161	350,000	1,622	815	2,437	632	276
	369,785	2,081	377,181	2,658	380,952	2,488	400,000	1,870	933	2,803	722	315
	462,231	2,620	471,476	3,338	476,190	3,123	500,000	2,343	1,167	3,510	890	387
	554,677	3,192	565,771	4,066	571,429	3,809	600,000	2,890	1,405	4,295	1,103	486
Commercial/ Industrial #	693,347	4,102	707,214	5,198	714,286	4,869	750,000	3,710	1,761	5,471	1,369	602
	\$92,446	\$511	\$94,295	\$655	\$95,238	\$615	\$100,000	\$457	\$232	\$689	\$178	\$74
	462,231	2,912	471,476	3,656	476,190	3,436	500,000	2,634	1,185	3,819	907	383
	924,462	5,995	942,951	7,489	952,381	7,038	1,000,000	5,418	2,378	7,796	1,801	758
	1,386,693	9,078	1,414,427	11,323	1,428,571	10,640	1,500,000	8,203	3,571	11,774	2,696	1,134
	1,848,924	12,161	1,885,903	15,156	1,904,762	14,242	2,000,000	10,987	4,764	15,751	3,590	1,509

\* "Approved ballot questions" includes estimates of additional taxes for the operating referendum increase and capital project levy approved by voters on November 7, 2017.

# For commercial-industrial property, figures above are for property in the City of Woodbury. Taxes for commercial-industrial property in other municipalities may be slightly different, due to the impact of the Fiscal Disparities Program.

#### General Notes

1. Amounts in the table are based on school district taxes only, and do not include taxes for the city or township, county, state, or other taxing jurisdictions.
2. Estimates of taxes payable in 2018 are preliminary, based on the best data available as of 11/30/2017.
3. For all examples of properties, taxes are based on changes in estimated market value of 2.0% from 2015 to 2016 taxes, 1.0% from 2016 to 2017, and 5.0% from 2017 to 2018.

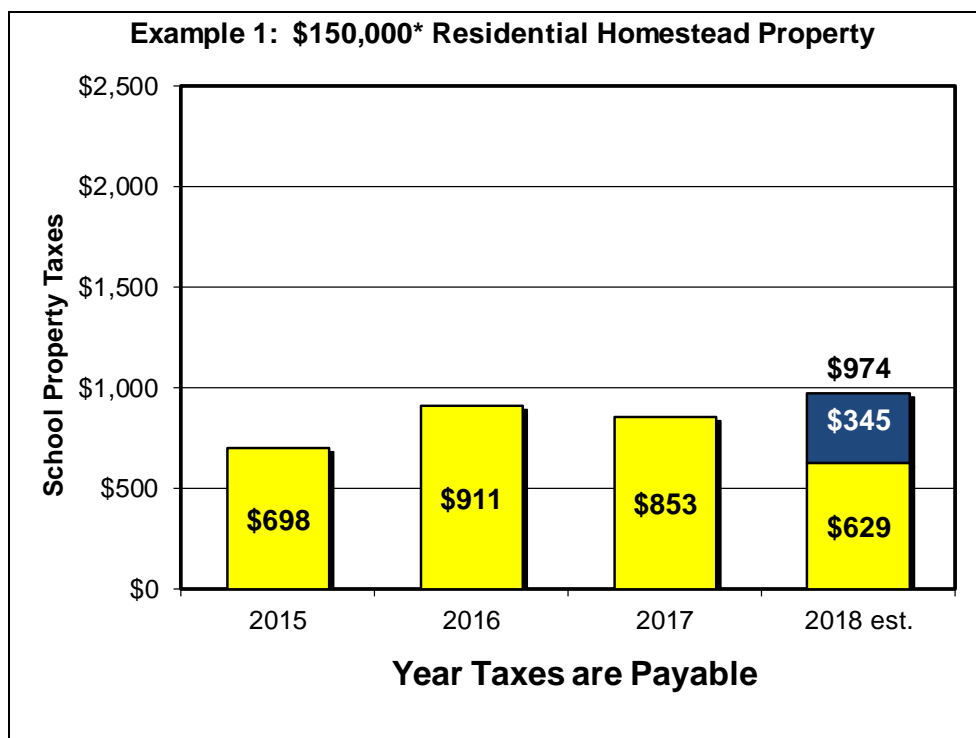




# ISD #833 - South Washington County Schools

## Estimated Changes in School Property Taxes, 2015 to 2018

*Based on 8.2% Cumulative Changes in Property Value from 2015 to 2018 Taxes*



\* Value shown in title of chart is estimated market value for taxes payable in 2018. Taxes are calculated based on changes in estimated market value of 2.0% from 2015 to 2016 taxes, 1.0% from 2016 to 2017, and 5.0% from 2017 to 2018.

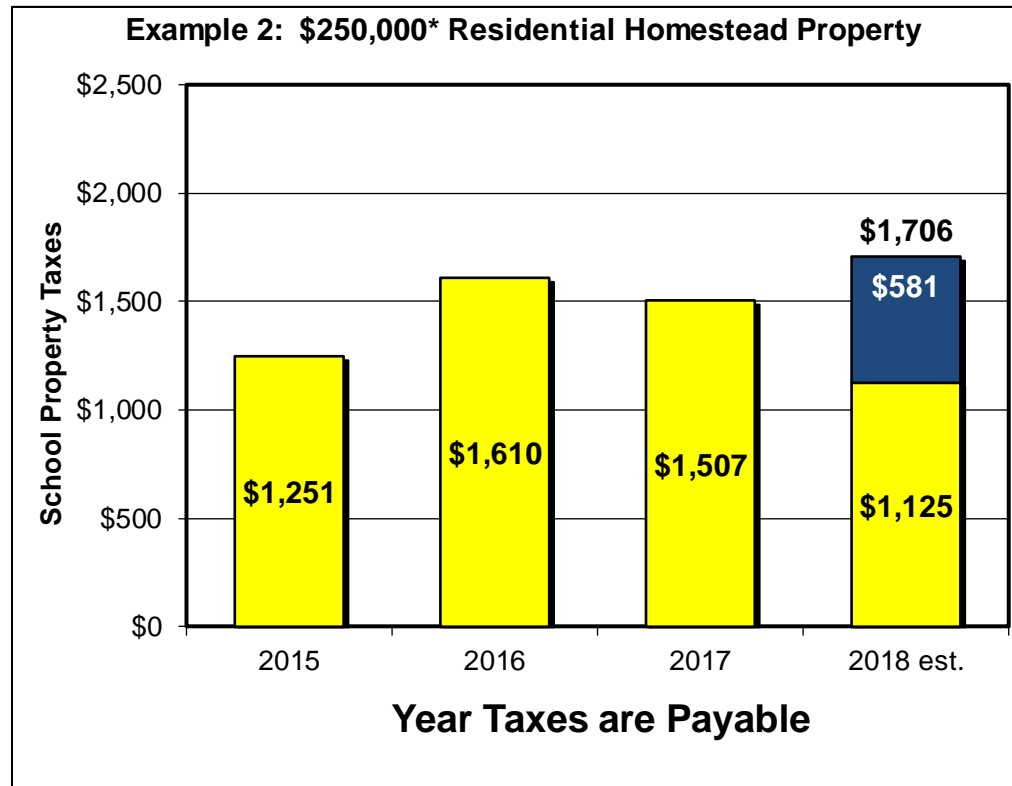
Note: Darker portion of 2018 bar represents estimated taxes for operating referendum increase and capital project levy approved by voters on November 7, 2017.



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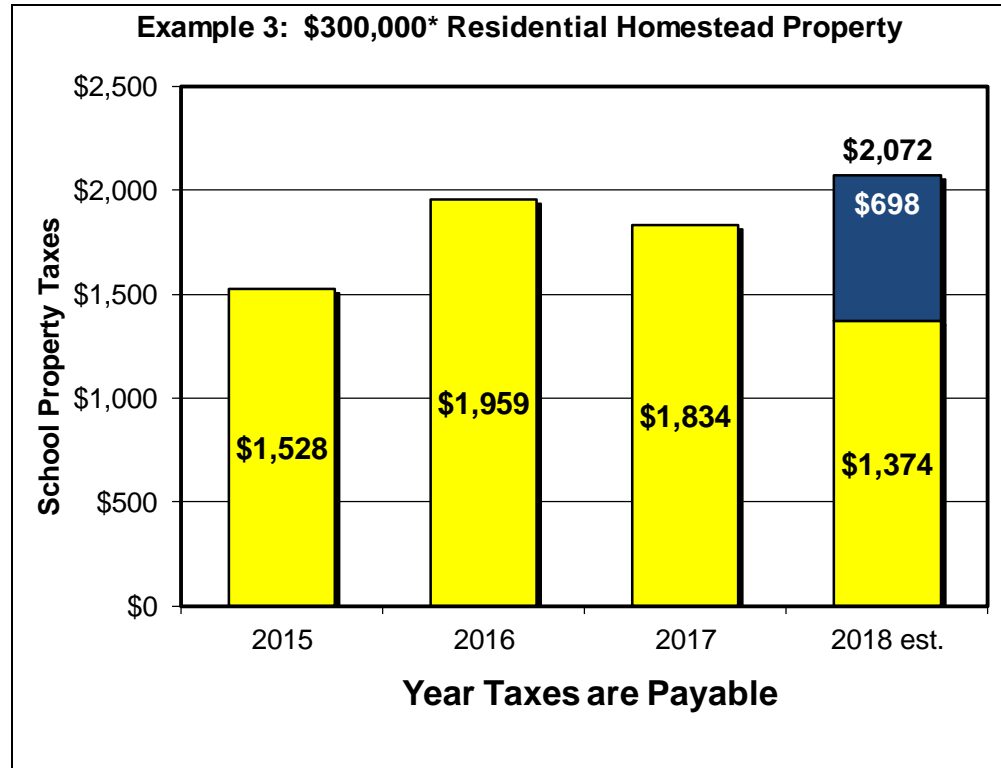
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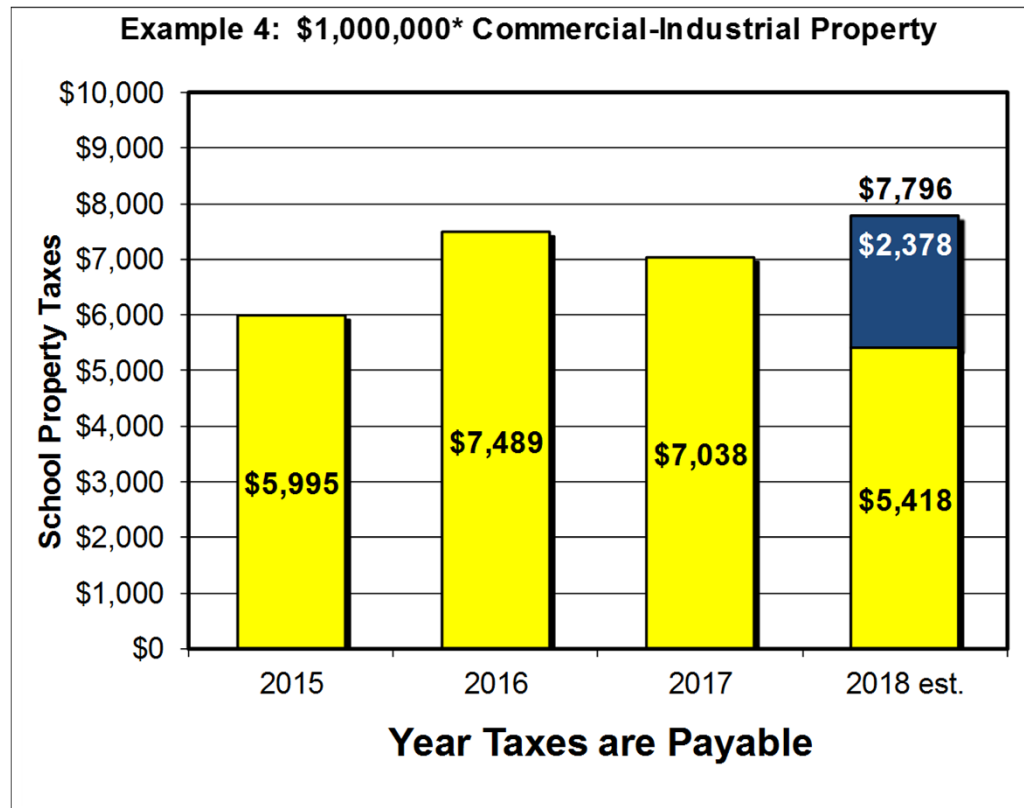
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*Based on 8.2% Cumulative Changes in Property Value from 2015 to 2018 Taxes*



\* Value shown in title of chart is estimated market value for taxes payable in 2018. Taxes are calculated based on changes in estimated market value of 2.0% from 2015 to 2016 taxes, 1.0% from 2016 to 2017, and 5.0% from 2017 to 2018.

Note: Darker portion of 2018 bar represents estimated taxes for operating referendum increase and capital project levy approved by voters on November 7, 2017.



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# Minnesota Homestead Credit Refund

## “Circuit Breaker”

- Has existed since 1970s
- Available **each year** to owners of homestead property
- Annual income must be approximately \$108,660 or less  
(income limit is higher if you have dependents)
- Sliding scale - refund based on income and total property taxes
- Maximum refund for homeowners is \$2,660
- Average refund was \$847 for property tax in year 2015
- Also available to renters
- Complete state tax form M-1PR ([www.revenue.state.mn.us](http://www.revenue.state.mn.us))



# Minnesota Special Property Tax Refund

- Available each year to owners of homestead properties with a gross tax increase of at least 12% and \$100 over prior year
- Helpful in first year after a referendum is approved by voters
- Refund is 60% of amount by which tax increase exceeds greater of 12% or \$100, up to a maximum of \$1,000
- No income limits
- Complete state tax form M-1PR ([www.revenue.state.mn.us](http://www.revenue.state.mn.us))





# Senior Citizen Property Tax Deferral

- Allows people age 65 and older with household income of \$60,000 or less to defer a portion of property taxes on their home
- Limits maximum amount of property tax paid to 3% of household income
- Additional taxes are deferred, not forgiven
- Provides predictability; amount of tax you pay will not change for as long as you participate in the program
- Deferred property taxes plus accrued interest must be paid when home is sold or homeowner(s) dies



## Next Steps

- School Board will accept public comments on proposed levy
- School Board will certify 2018 property tax levy on December 21



# Public Comments

