

# **South Washington County Schools - ISD #833 Public Hearing for Taxes Payable in 2016**

DECEMBER 3, 2016

PRESENTED BY: DAN PYAN, DIRECTOR OF FINANCE



# Tax Hearing – State Law Requirements

## Public meeting

- Between November 24 and December 28
- After 6:00 pm
- May be part of regularly scheduled meeting

## Presentation of

- Current year budget
- Prior year actual revenue and expenditures
- Proposed property tax levy including percentage increase
- Specific purposes and reasons for which taxes are being increased

Must also allow for public comments



South Washington County Schools: Igniting a passion for lifelong learning!

# Agenda for Hearing

1. Background on School Funding, Property Tax Levies, and Budgets
2. Information on District's Budget
3. Information on District's Proposed Tax Levy for Taxes Payable in 2016
4. Public Comments and Questions



South Washington County Schools: Igniting a passion for lifelong learning!

# Public Education is Strong in Minnesota

In Minnesota, most commonly taken standardized college entrance exam is the ACT

- **Minnesota 2015 ACT results**

- High school graduates who took assessment = 78%
- Average composite score of 22.7 was highest in nation among 30 states in which more 50% of college-bound students took the test
- Minnesota has led nation in average composite ACT scores for nine consecutive years; national composite score was 20.9

## District 833's 2015 ACT results exceeded state's results

- High school graduates who took assessment = 71%
- Average composite score of 24.1



South Washington County Schools: Igniting a passion for lifelong learning!

# As a result...

## School funding is highly regulated by the state

### State sets

- Formulas which determine revenue; most revenue is 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 authorizes school board to submit referendums for operating and capital needs to voters for approval



South Washington County Schools: Igniting a passion for lifelong learning!

# Basic General Education Formula Lags Inflation

Since 2003, the state General Education Revenue formula has not kept pace with inflation

For FY 2016 and FY 2017, Legislature approved an increase of 2% per year

- \$117 per pupil unit in FY 2016
- An additional \$119 for FY 2017

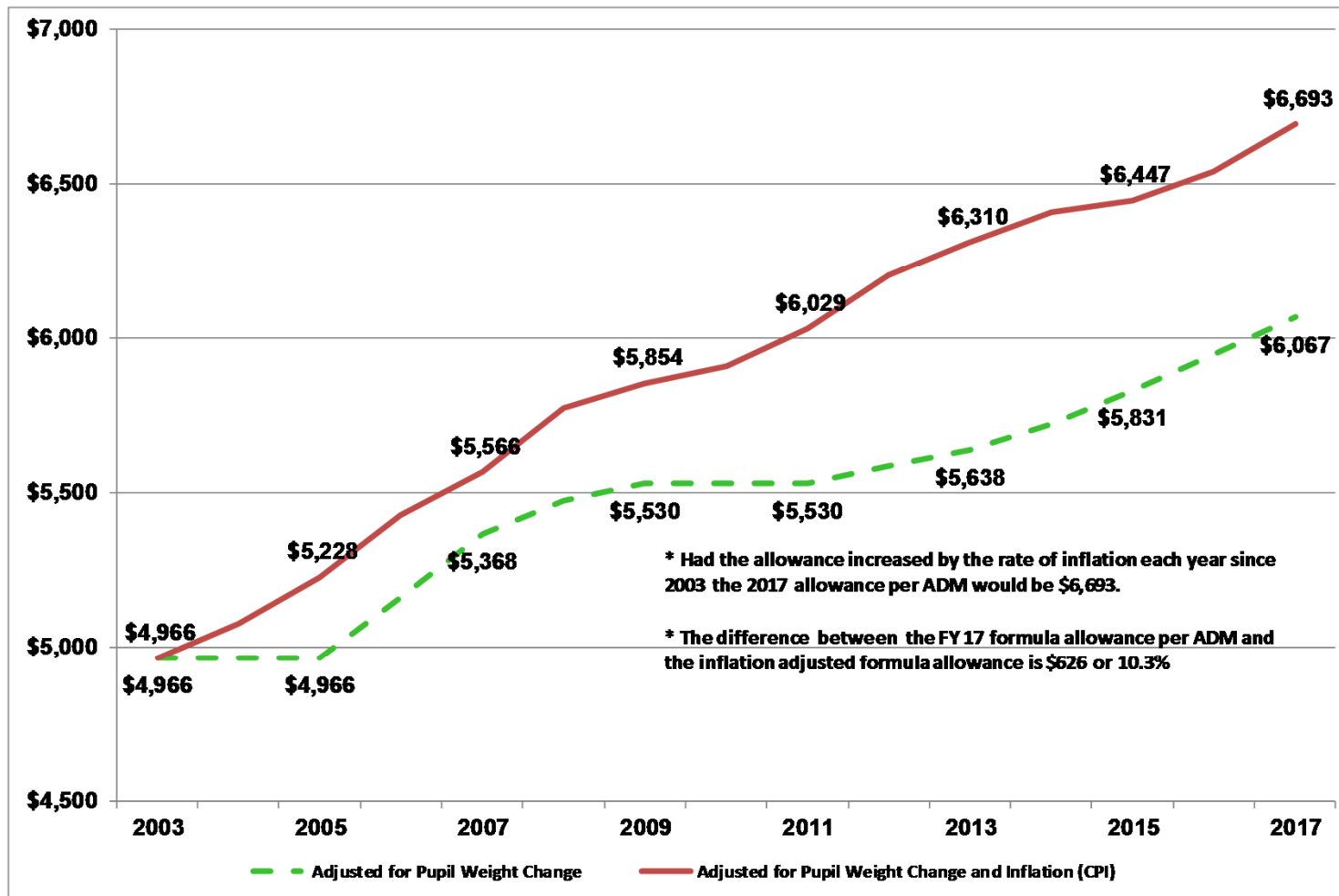
Per-pupil allowance for Fiscal Year 2017 would need to increase by another \$626 (10.3%) to have kept pace with inflation



South Washington County Schools: Igniting a passion for lifelong learning!

# Basic General Education Formula Lags Inflation

**General Education Formula Allowance, 2003-2017**  
Adjusted for Pupil Weight Change and Inflation (CPI)  
2015 End of Session



Source: MDE General Education Formula Allowance, 2003 - 2017

# Result: A Growing Reliance on Referendums

Other funding sources (e.g., special education, capital funds) also have not kept pace with inflation

- Fiscal Year 2013-14 special education programs were underfunded by an average of 40% or \$5,222 per special education student
- Funding sources for regular program operations are used to subsidize costs for special education

Primary options for districts to bridge funding gap are to cut budgets or increase referendum revenue; most districts have done both





# Operating Referendum Trends

Average operating referendum authority per pupil is increasing

For Fiscal Year 1992-93, 65% of districts had referendum revenue averaging \$332 per pupil

For Fiscal Year 2015-16, 99.4% of districts have referendum revenue plus local optional revenue authority averaging \$1,141 per pupil

- 19.2% of general education formula allowance
- Of this amount, \$758 is board approved or voter approved operating referendum, and \$383 is Local Optional Revenue



South Washington County Schools: Igniting a passion for lifelong learning!

# Change in Tax Levy Does not Determine Change in Budget

- Tax levy is based on many state-determined formulas
- 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, not just by tax levies



South Washington County Schools: Igniting a passion for lifelong learning!

# School District Levy Cycle is Different from City and County Levy Cycle

## City/County

- Budget Year is same as calendar year
- 2016 taxes provide revenue for calendar year 2016 budget

## School District

- Budget year begins July 1<sup>st</sup> and coincides with school year
- 2016 taxes provide revenue for 2016-17 school/fiscal year
- Budget will be adopted in June 2016



South Washington County Schools: Igniting a passion for lifelong learning!

# Budget Information

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



South Washington County Schools: Igniting a passion for lifelong learning!



# Budget Information

- School districts' budgets are divided into separate funds, based on purposes of revenue, as required by law

For our district, 7 funds

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



# District Revenues and Expenditures

## Budget for FY 2015 and FY 2016

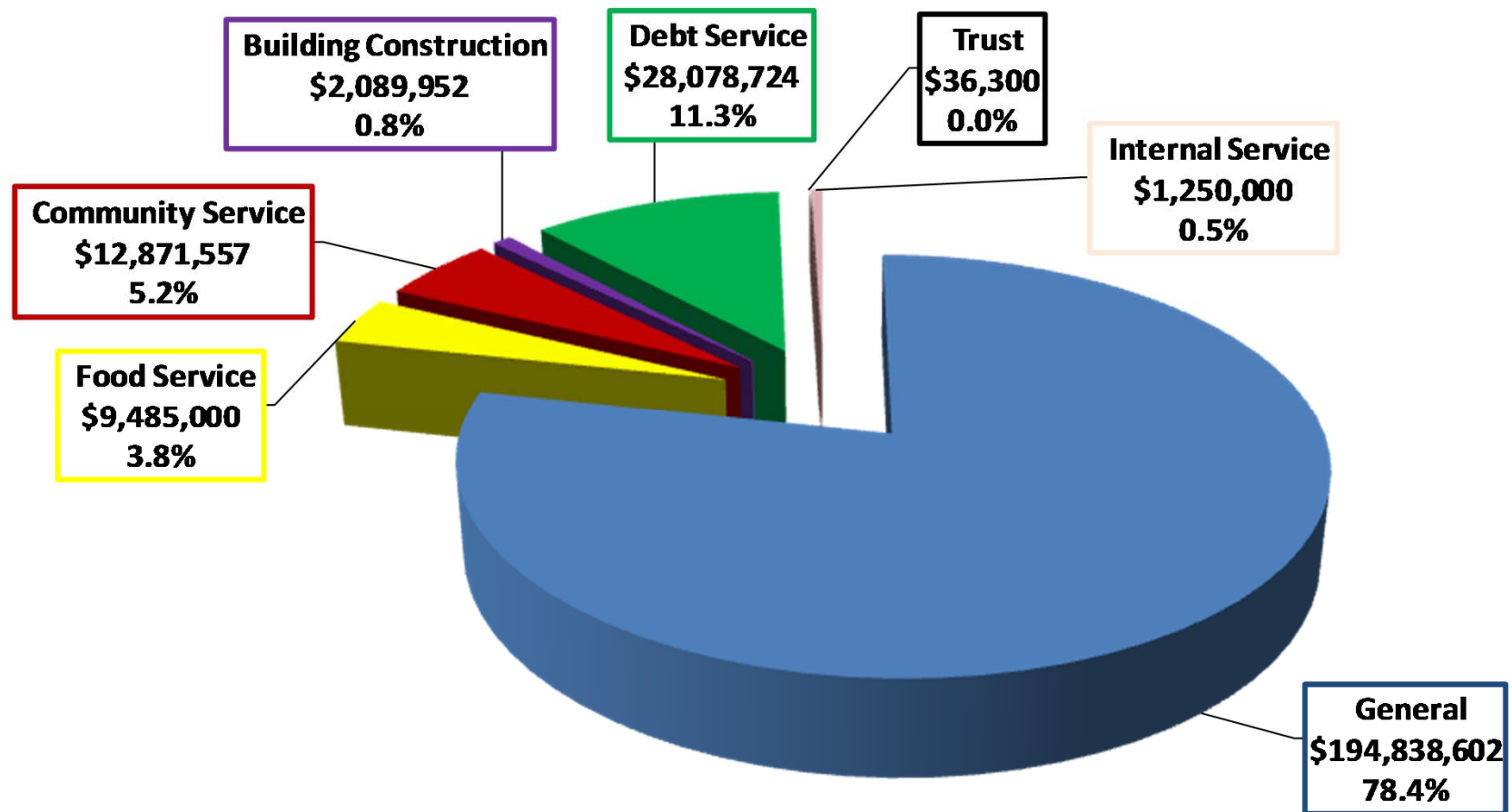
FUND	FY 2015 BEGINNING FUND BALANCES	FY 2015 ACTUAL REVENUES AND TRANSFERS IN	FY 2015 ACTUAL EXPENDITURES & TRANSFERS OUT	JUNE 30, 2015 ACTUAL FUND BALANCES	FY 2016 BUDGET REVENUES AND TRANSFERS IN	FY 2016 BUDGET EXPENDITURES & TRANSFERS OUT	JUNE 30, 2016 PROJECTED FUND BALANCES
General	\$9,478,552	\$195,132,682	\$194,293,748	\$10,317,486	\$194,838,602	\$198,194,950	\$6,961,138
Food Service	\$959,152	\$8,303,482	\$9,183,955	\$78,679	\$9,485,000	\$9,169,401	\$394,278
Community Service	\$1,184,391	\$11,950,521	\$12,387,157	\$747,755	\$12,871,557	\$12,591,577	\$1,027,735
Building Construction	\$21,745,222	\$434,612	\$11,151,330	\$11,028,504	\$2,089,952	\$5,869,612	\$7,248,844
Debt Service	\$6,464,953	\$64,519,240	\$30,626,820	\$40,357,373	\$28,078,724	\$28,185,447	\$40,250,650
Trust	\$54,770	\$32,300	\$38,562	\$48,508	\$36,300	\$36,300	\$48,508
Internal Service	\$16,838,951	\$1,009,654	\$6,557,778	\$11,290,827	\$1,250,000	\$2,650,000	\$9,890,827
<b>TOTAL - ALL FUNDS</b>	<b>\$56,725,991</b>	<b>\$281,382,491</b>	<b>\$264,239,350</b>	<b>\$73,869,132</b>	<b>\$248,650,135</b>	<b>\$256,697,287</b>	<b>\$65,821,980</b>



South Washington County Schools: Igniting a passion for lifelong learning!

# District Revenue – All Funds

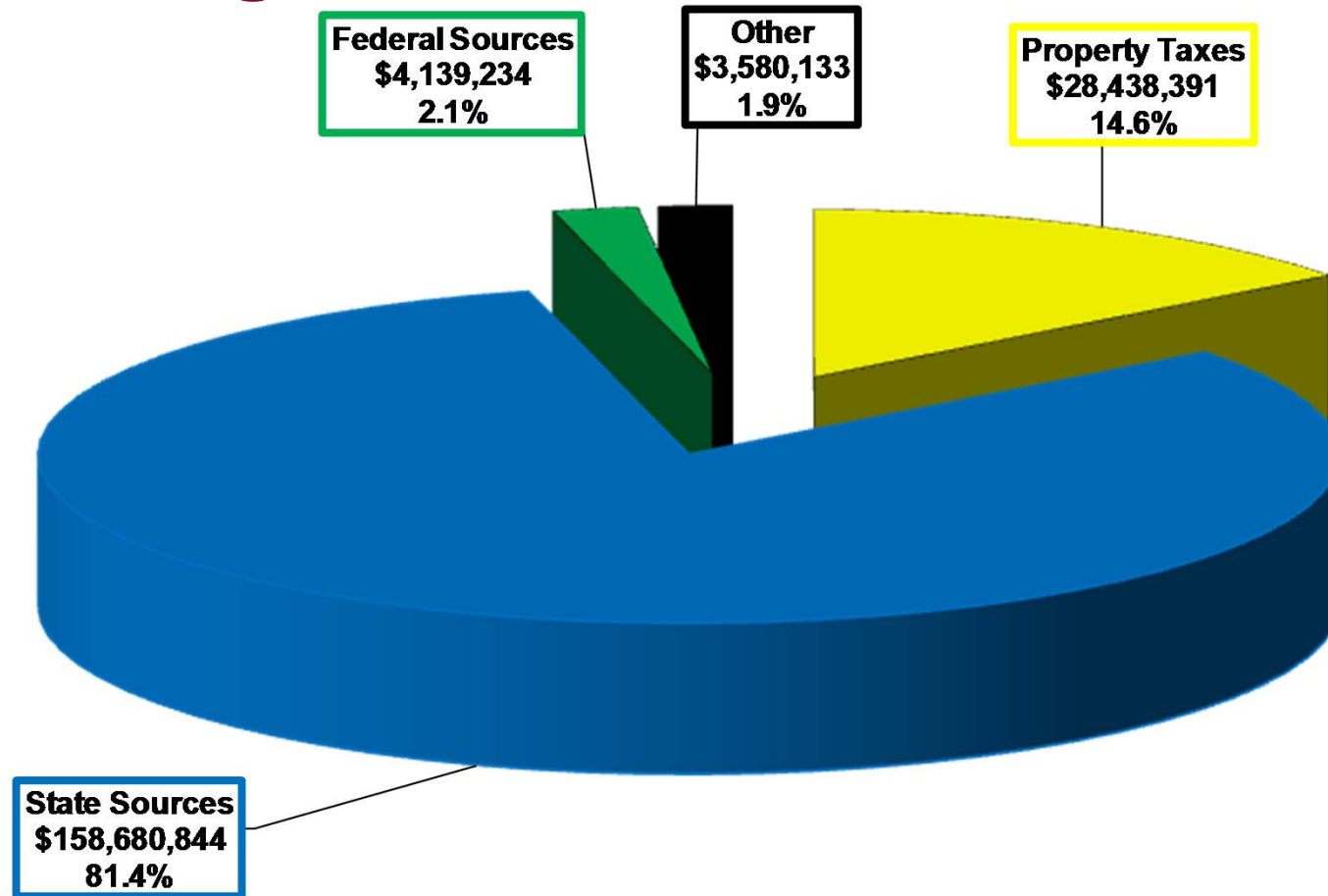
## 2015-16 Budget \$248,650,135



South Washington County Schools: Igniting a passion for lifelong learning!

# General Fund Revenue

## 2015-16 Budget \$194,838,602

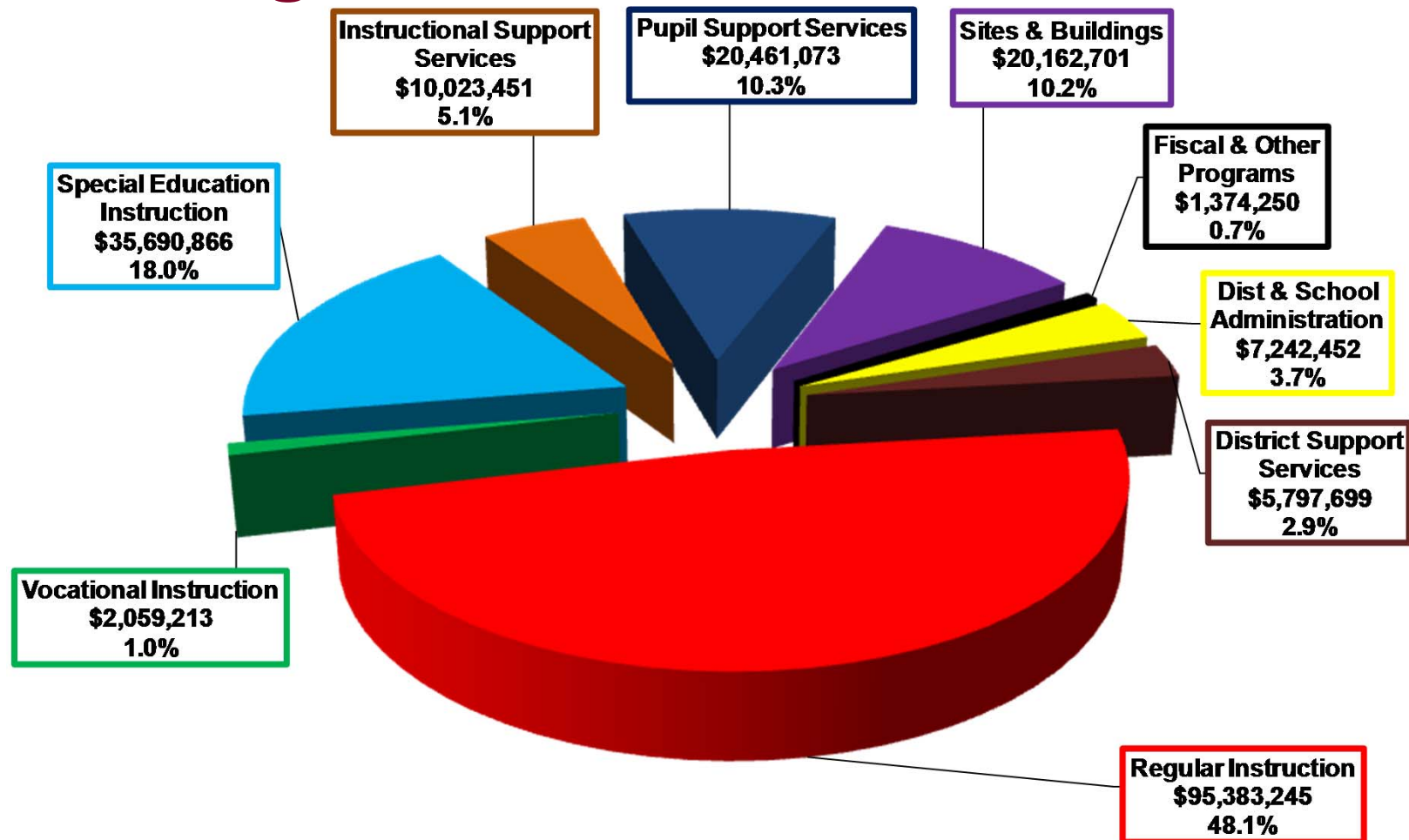


South Washington County Schools: Igniting a passion for lifelong learning!



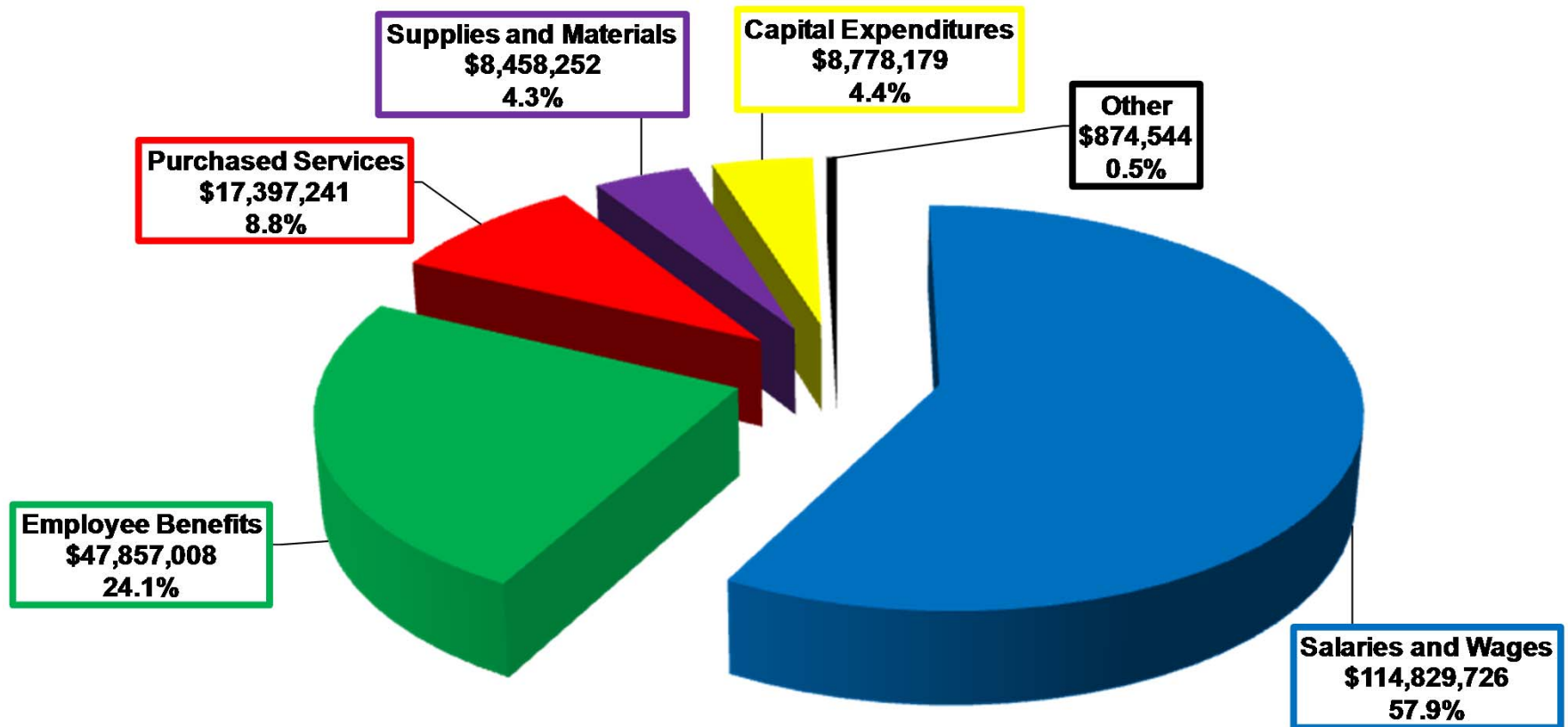
# District Expenditures by Program

## 2015-16 Budget \$198,194,950



South Washington County Schools: Igniting a passion for lifelong learning!

# General Fund Expenditures by Object 2015-16 Budget \$198,194,950



South Washington County Schools: Igniting a passion for lifelong learning!

# Proposed 2016 Property Tax Levy

- Determination of levy
- Comparison of 2015 to 2016 levies
- Specific reasons for changes in tax levy
- Impact on taxpayers



South Washington County Schools: Igniting a passion for lifelong learning!

# School District Property Taxes

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



# 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**.



# Overview of Proposed Levy Payable in 2016

Total 2016 proposed property tax levy is an increase from final levy in 2015 of \$14,134,949, or 24.1%

Includes a net increase from proposed levy approved by the Board in September, due to the following

- On November 3, District voters approved a \$525 increase in operating referendum authority and a bond referendum of \$96 million
- An underlevy in Alternative Teacher Compensation program
- State adjustments (decrease to reemployment insurance levy and increase to instructional lease levy)

Law requires that we explain reasons for major increases in the levy

Some decreases in specific levies will also be explained



South Washington County Schools: Igniting a passion for lifelong learning!



## ISD #833 - South Washington County Schools

### Comparison of Proposed Tax Levy Payable in 2016 to Actual Levy Payable in 2015

Fund	Levy Category	Actual Levy Payable in 2015	Proposed Levy Payable in 2016	\$ Change	% Change
<b>General Fund</b>					
	Voter Approved Referendum	\$12,911,104	\$24,944,679	\$12,033,574	
	Local Optional	6,441,240	7,448,270	1,007,030	
	Equity	1,810,080	1,670,371	(139,708)	
	Capital Projects - Technology	1,054,205	1,143,676	89,471	
	Operating Capital	1,423,721	1,591,388	167,667	
	Health and Safety	735,162	0	(735,162)	
	Alternative Facilities	2,089,950	0	(2,089,950)	
	Long Term Facilities Maintenance	0	1,064,415	1,064,415	
	Instructional Lease	1,120,548	2,662,521	1,541,973	
	Other	3,152,671	3,116,038	(36,633)	
	Adjustments for Prior Years	(205,665)	(715,415)	(509,751)	
	<b>General Fund Totals</b>	<b>\$30,533,017</b>	<b>\$42,925,943</b>	<b>\$12,392,926</b>	<b>40.6%</b>
<b>Community Service Fund</b>					
	Basic Community Education	\$657,908	\$686,767	\$28,859	
	Early Childhood Family Education	355,884	363,336	7,451	
	School-Age Child Care	294,510	330,000	35,490	
	Other	19,822	19,783	(38)	
	Adjustments for Prior Years	2,433	(20,426)	(22,859)	
	<b>Community Service Fund Totals</b>	<b>\$1,330,557</b>	<b>\$1,379,460</b>	<b>\$48,903</b>	<b>3.7%</b>
<b>Debt Service Fund</b>					
		\$26,891,237	\$28,584,357	\$1,693,120	
<b>Total Levy - All Funds</b>		<b>\$58,754,811</b>	<b>\$72,889,761</b>	<b>\$14,134,949</b>	<b>24.1%</b>
<b>Subtotals by Truth in Taxation Categories</b>					
	Voter Approved	\$38,373,143	\$52,907,320	\$14,534,176	
	Other	\$20,381,668	\$19,982,441	(\$399,227)	
<b>Totals</b>		<b>\$58,754,811</b>	<b>\$72,889,761</b>	<b>\$14,134,949</b>	<b>24.1%</b>

# Explanation of Levy Changes

Category: Voter Approved Operating Referendum

Change: +\$12,033,574

Use of funds: General operating expenses

Reason for increase

- Funding is based on voter approved authority per pupil and is provided through a combination of local tax levies and state aid
- Estimated pupils are expected to increase, resulting in an increase in total revenue prior to voter approval of additional authority
- Because district's total property value increased, share of funding provided through tax levy increased
- On November 3, District voters approved a \$525 per pupil increase in operating referendum authority; levy increase for new authority is \$10,349,220 (offset by \$575,309 decrease in equity levy)



South Washington County Schools: Igniting a passion for lifelong learning!



# Explanation of Levy Changes

Category: Local Optional

Change: +\$1,007,030

Use of funds: General operating expenses

Reason for increase

- Funding is based on a legislatively set formula of \$424 per pupil and is provided through a combination of local tax levies and state aid
- Estimated pupils are expected to increase, resulting in an increase in total revenue
- Because district's total property value increased, share of funding provided through tax levy increased



South Washington County Schools: Igniting a passion for lifelong learning!



# Explanation of Levy Changes

Category: Long Term Facilities Maintenance (LTFM)

Change: +\$1,064,415 (offset by reductions of \$735,162 in Health and Safety and \$2,089,950 in Alternative Facilities levies)

Use of funds: Facilities maintenance

Reason for increase

- New category of revenue created by legislation in 2015
- Replaces previous health & safety and alternative facilities programs
- Creates greater equity among districts in funding for facilities maintenance
  - districts that did not qualify for previous “alternative facilities revenue” have access to additional revenue
    - ISD #833 is currently eligible for alternative facilities revenue and will be eligible for LTFM revenue based on approved project costs
- Revenue is provided through property tax levies and state aid
  - ISD #833 will receive \$1.3 million in LTFM aid and did not receive any aid in health and safety and alternative facilities programs
  - State aid will be used to fund annual project costs and to make payments on bonds issued as part of previous alternative facilities program

# Explanation of Levy Changes

Category: Instructional Lease

Change: +\$1,541,973

Use of funds: State-approved instructional lease costs

Reason for increase

- Amount is based on the estimated cost of qualifying state-approved instructional lease costs
- District #833 will enter into a lease purchase agreement for Valley Crossing Community School and estimated annual lease payment costs of \$1,255,000 were approved by State as part of instructional lease levy



South Washington County Schools: Igniting a passion for lifelong learning!

# Explanation of Levy Changes

Category: Prior Year Adjustments - General Fund

Change: -\$509,751

Use of funds: General operating expenses

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



South Washington County Schools: Igniting a passion for lifelong learning!

# Explanation of Levy Changes

Category: Debt Service

Change: +\$1,693,120

Use of funds: Payments on bonds

Reason for increase

- On November 3, District voters approved a \$96 million bond referendum (question 2 on the ballot)
- Required debt service levy for estimated FY 2016-17 bond payment is \$3,124,660
- Increase in payment for new bonds will be offset by reductions in debt service levies for existing bonds, partially due to aid received through new Long Term Facilities Maintenance program



South Washington County Schools: Igniting a passion for lifelong learning!

# Impact on Taxpayers

Many factors can cause the 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



South Washington County Schools: Igniting a passion for lifelong learning!

# Impact on Taxpayers

Following are a table and graphs showing examples of changes in the school district portion of property taxes from 2013 to 2016

- Examples include school district taxes only
- All examples are based on a 20.9% increase in property value over this period
  - Actual changes in value may be more or less than this for any parcel of property
  - These figures are 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 district may be slightly higher or lower, due to variations in impact of Fiscal Disparities Program

Figures for 2016 are preliminary estimates, based on best data available now – final figures could change slightly

Estimates were prepared by Ehlers (district's financial advisors)



South Washington County Schools: Igniting a passion for lifelong learning!



# ISD #833 - South Washington County Schools

## Estimated Changes in School Property Taxes, 2012 to 2015

Based on 20.9% Cumulative Changes in Property Value from 2013 to 2016 Taxes

Type of Property	Estimated Market Value for 2013 Taxes	Actual Taxes Payable in 2013	Estimated Market Value for 2014 Taxes	Actual Taxes Payable in 2014	Estimated Market Value for 2015 Taxes	Actual Taxes Payable in 2015	Estimated Market Value for 2016 Taxes	Estimated Taxes Payable in 2016		Total Estimated Taxes Payable in 2016	Change in Taxes 2013 to 2016	Change in Taxes 2015 to 2016
								Without Proposed Ballot Questions	Proposed Ballot Questions*			
Residential Homestead	\$82,692	\$400	\$85,999	\$413	\$98,039	\$454	\$100,000	\$479	\$124	\$603	\$203	\$149
	124,037	676	128,999	692	147,059	748	150,000	781	192	973	297	225
	165,383	953	171,999	972	196,078	1,041	200,000	1,084	259	1,343	390	302
	186,056	1,091	193,498	1,112	220,588	1,188	225,000	1,235	293	1,528	437	340
	206,729	1,229	214,998	1,251	245,098	1,335	250,000	1,386	327	1,713	484	378
	227,402	1,368	236,498	1,391	269,608	1,482	275,000	1,537	360	1,897	529	415
	248,075	1,506	257,998	1,531	294,118	1,628	300,000	1,689	394	2,083	577	455
	289,421	1,783	300,998	1,810	343,137	1,922	350,000	1,991	461	2,452	669	530
	330,767	2,059	343,997	2,089	392,157	2,215	400,000	2,294	528	2,822	763	607
	413,458	2,613	429,997	2,643	490,196	2,778	500,000	2,872	662	3,534	921	756
Commercial/Industrial #	\$82,692	\$492	\$85,999	\$514	\$98,039	\$542	\$100,000	\$562	\$131	\$693	\$201	\$151
	413,458	2,792	429,997	2,922	490,196	3,098	500,000	\$3,193	688	3,881	1,089	783
	826,916	5,772	859,993	6,032	980,392	6,368	1,000,000	\$6,550	1,390	7,940	2,168	1,572
	1,240,375	8,752	1,289,990	9,141	1,470,588	9,638	1,500,000	\$9,907	2,090	11,997	3,245	2,359
	1,653,833	11,732	1,719,986	12,251	1,960,784	12,907	2,000,000	\$13,263	2,792	16,055	4,323	3,148

<b>Tax Rates</b>						
<b>Tax Capacity Rate</b>	41.286	39.169	35.675	33.868	2.792	36.660
<b>Referendum Market Value Rate</b>	0.21905	0.22287	0.20996	0.23577	0.10435	0.34012

\* "Proposed ballot questions" includes additional taxes for the increase in operating referendum revenue and the bond referendum approved by voters on November 3, 2015.

# For commercial-industrial property, school taxes may be slightly different in other municipalities in the district, due to the varying impact of the Fiscal Disparities Program.

### General Notes

1. The figures 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. All estimates for 2016 taxes are preliminary estimates, based on the best data available as of the date above.
3. For all examples of properties, taxes are based on changes in taxable market value of 4.0% from 2013 to 2014 taxes, 14.0% from 2014 to 2015, and 2.0% from 2015 to 2016.

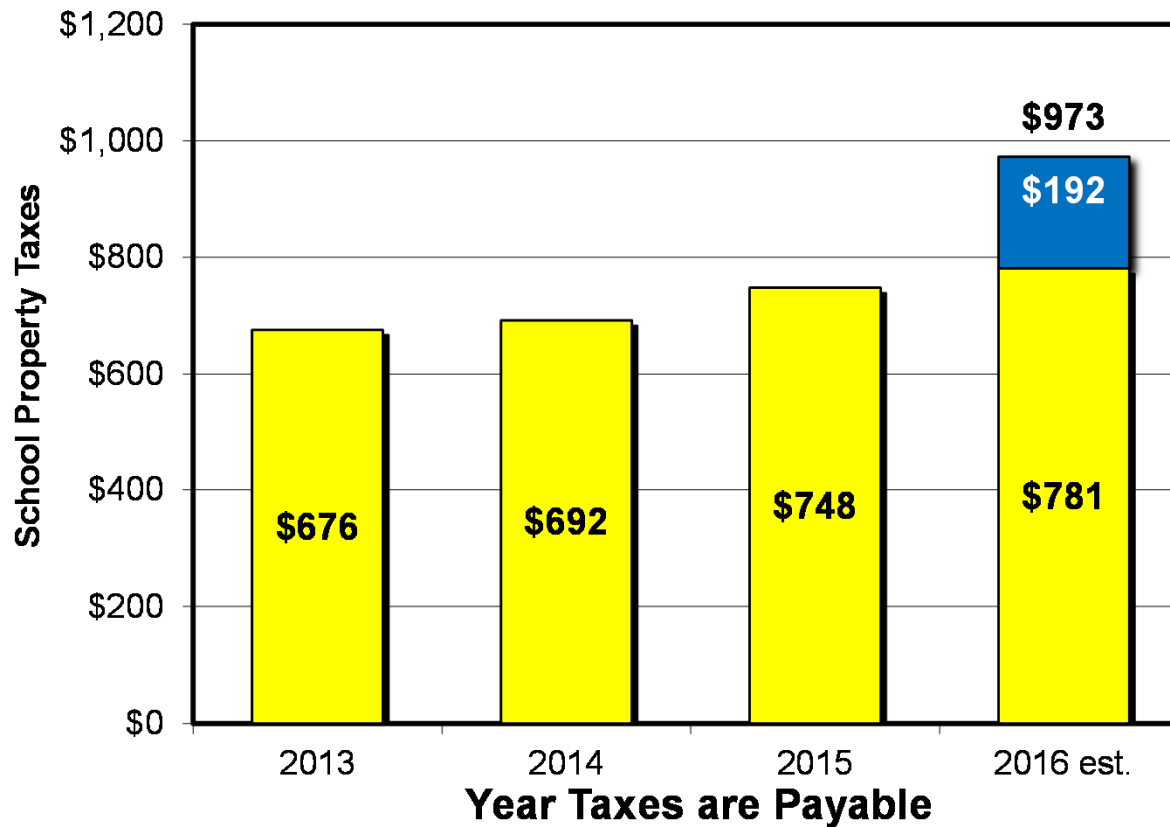


## ISD #833 - South Washington County Schools

### Estimated Changes in School Property Taxes, 2013 to 2016

*Based on 20.9% Cumulative Changes in Property Value from 2013 to 2016 Taxes*

#### Example 1: \$150,000\* Residential Homestead Property



\* The value shown in the title of the chart is the estimated market value for taxes payable in 2016. Taxes are calculated based on changes in market value of 4.0% from 2013 to 2014 taxes, 14.0% from 2014 to 2015 and 2.0% from 2015 to 2016.

\*\* The darker portion of the 2016 bar represents the estimated taxes associated with the increase in operating referendum revenue and the bond referendum approved by voters on November 3, 2015.

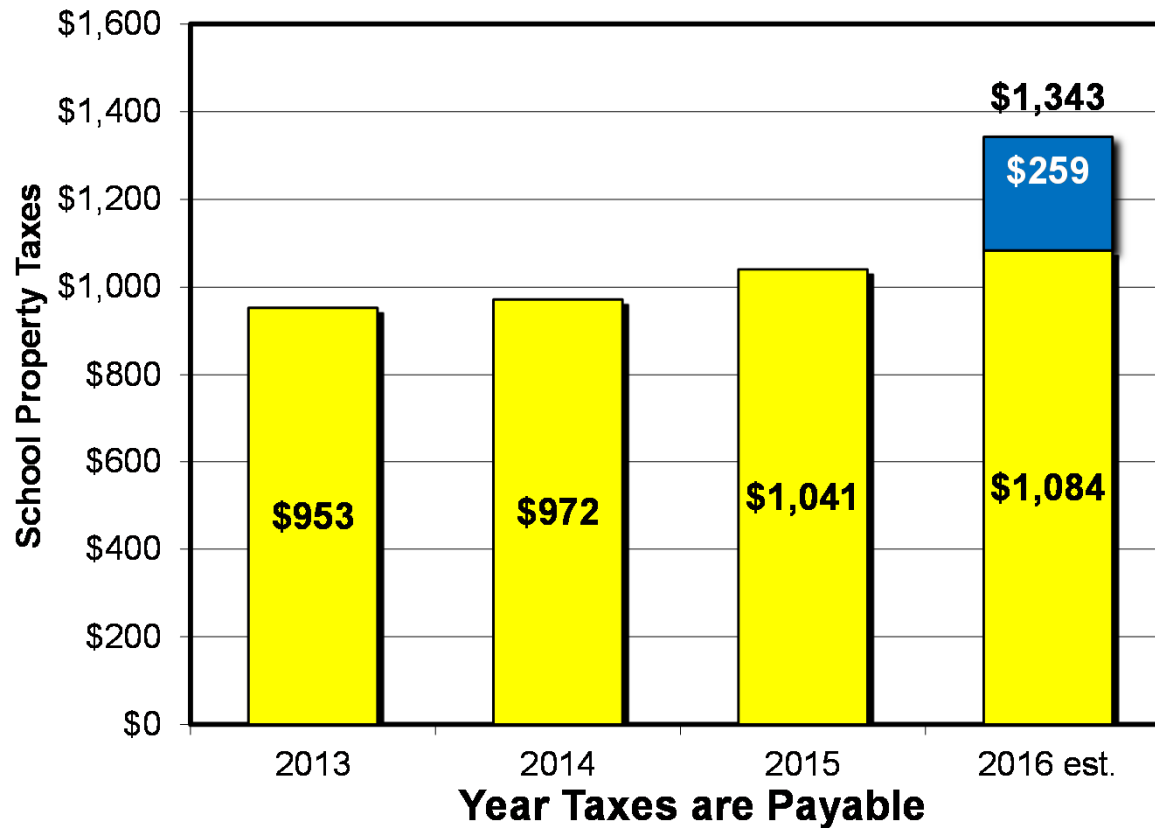


## ISD #833 - South Washington County Schools

### Estimated Changes in School Property Taxes, 2013 to 2016

*Based on 20.9% Cumulative Changes in Property Value from 2013 to 2016 Taxes*

#### Example 2: \$200,000\* Residential Homestead Property



\* The value shown in the title of the chart is the estimated market value for taxes payable in 2016. Taxes are calculated based on changes in market value of 4.0% from 2013 to 2014 taxes, 14.0% from 2014 to 2015 and 2.0% from 2015 to 2016.

\*\* The darker portion of the 2016 bar represents the estimated taxes associated with the increase in operating referendum revenue and the bond referendum approved by voters on November 3, 2015.

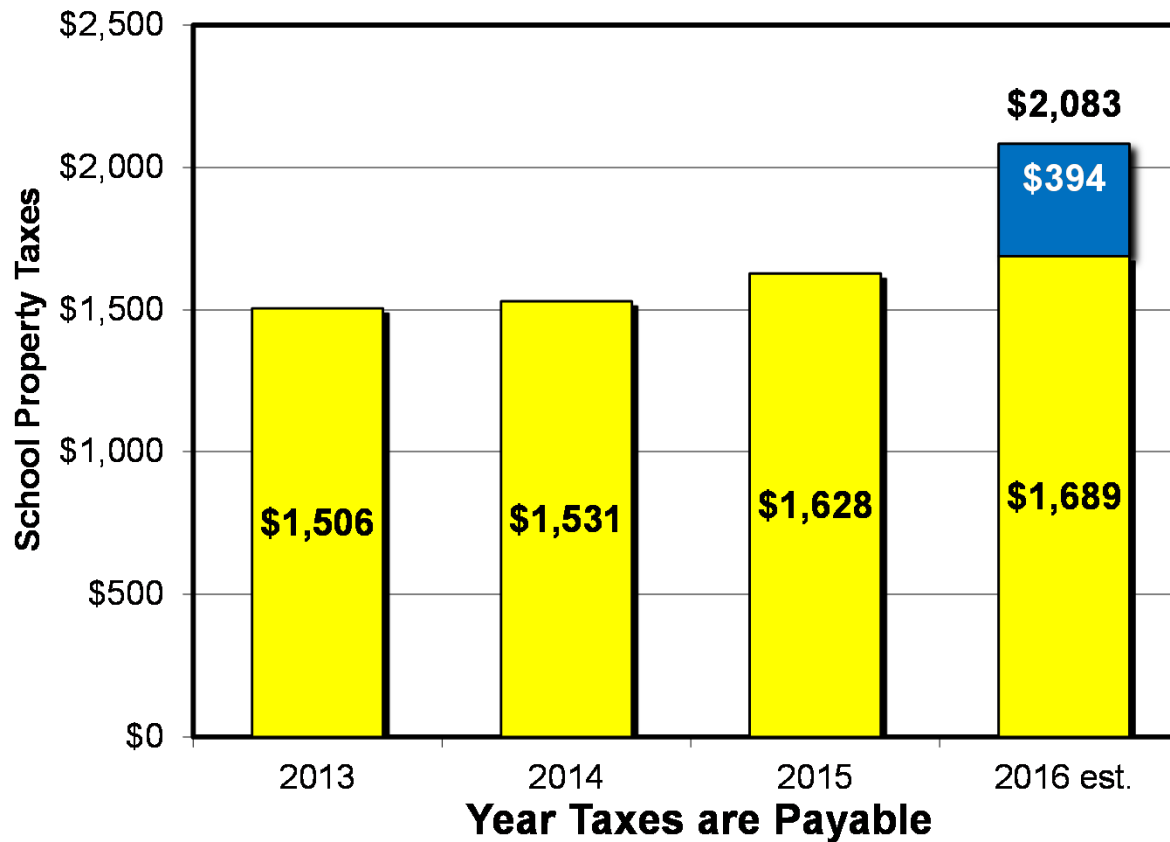


## ISD #833 - South Washington County Schools

### Estimated Changes in School Property Taxes, 2013 to 2016

*Based on 20.9% Cumulative Changes in Property Value from 2013 to 2016 Taxes*

#### Example 3: \$300,000\* Residential Homestead Property



\* The value shown in the title of the chart is the estimated market value for taxes payable in 2016. Taxes are calculated based on changes in market value of 4.0% from 2013 to 2014 taxes, 14.0% from 2014 to 2015 and 2.0% from 2015 to 2016.

\*\* The darker portion of the 2016 bar represents the estimated taxes associated with the increase in operating referendum revenue and the bond referendum approved by voters on November 3, 2015.

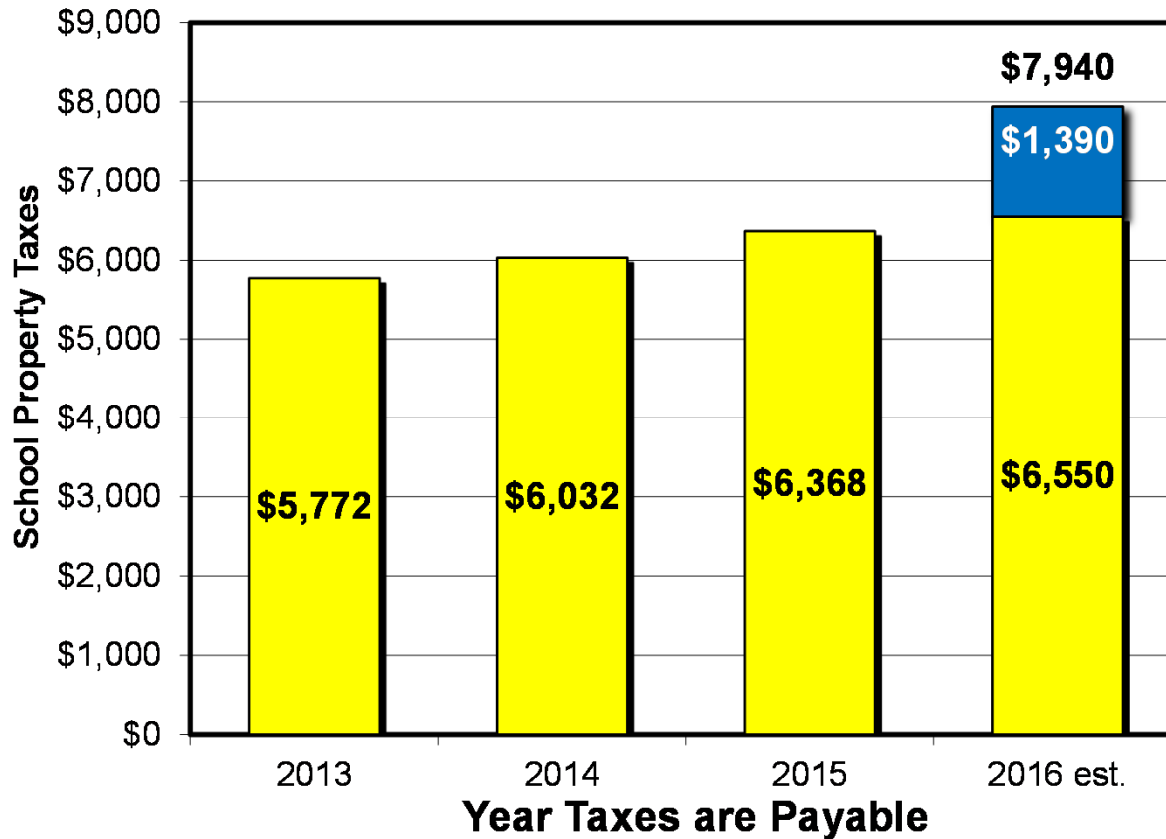


## ISD #833 - South Washington County Schools

### Estimated Changes in School Property Taxes, 2013 to 2016

*Based on 20.9% Cumulative Changes in Property Value from 2013 to 2016 Taxes*

#### Example 4: \$1,000,000\* Commercial/Industrial Property



\* The value shown in the title of the chart is the estimated market value for taxes payable in 2016. Taxes are calculated based on changes in market value of 4.0% from 2013 to 2014 taxes, 14.0% from 2014 to 2015 and 2.0% from 2015 to 2016.

\*\* The darker portion of the 2016 bar represents the estimated taxes associated with the increase in operating referendum revenue and the bond referendum approved by voters on November 3, 2015.



# State Property Tax Refunds

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, but only if forms are completed and sent in

For help with the forms and instructions

- Consult tax professional
- Visit the Department of Revenue web site at [www.taxes.state.mn.us](http://www.taxes.state.mn.us)



South Washington County Schools: Igniting a passion for lifelong learning!

## Next Steps



School Board will accept public comments and questions on proposed tax levy

School Board will certify final 2016 tax levy on December 17



South Washington County Schools: Igniting a passion for lifelong learning!



# Public Comments and Questions



South Washington County Schools- Igniting a passion for lifelong learning!