

Albert Lea Area School District ISD No. 241 Public Hearing for Taxes Payable in 2017

December 5, 2016

Presented by: Lori Volz, Deputy Superintendent



ALBERT LEA
SCHOOL DISTRICT 241

*Our Mission: To ensure individual academic, social,
emotional growth that leads to engaged citizens and lifelong learners.*

Tax Hearing – State Law Requirements

Public meeting

- Between November 25 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

Agenda for Hearing

1. Background on School Funding, Property Tax Levies, and Budgets
2. Information on District's Budget
3. Information on the District's Proposed Tax Levy for Taxes Payable in 2017
4. Public Comments and Questions

Public Education is Strong in Minnesota

- In Minnesota, state law now requires 100% of juniors and seniors be offered the ACT at no cost
- In 2016, 92% of Minnesota graduates took the ACT with an average composite score of 21.1
 - Highest of 18 states where 92% high school graduates took the test
- National composite score for 2016 is 20.8 based on 64% of 2016 graduating seniors taking the ACT

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.”

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

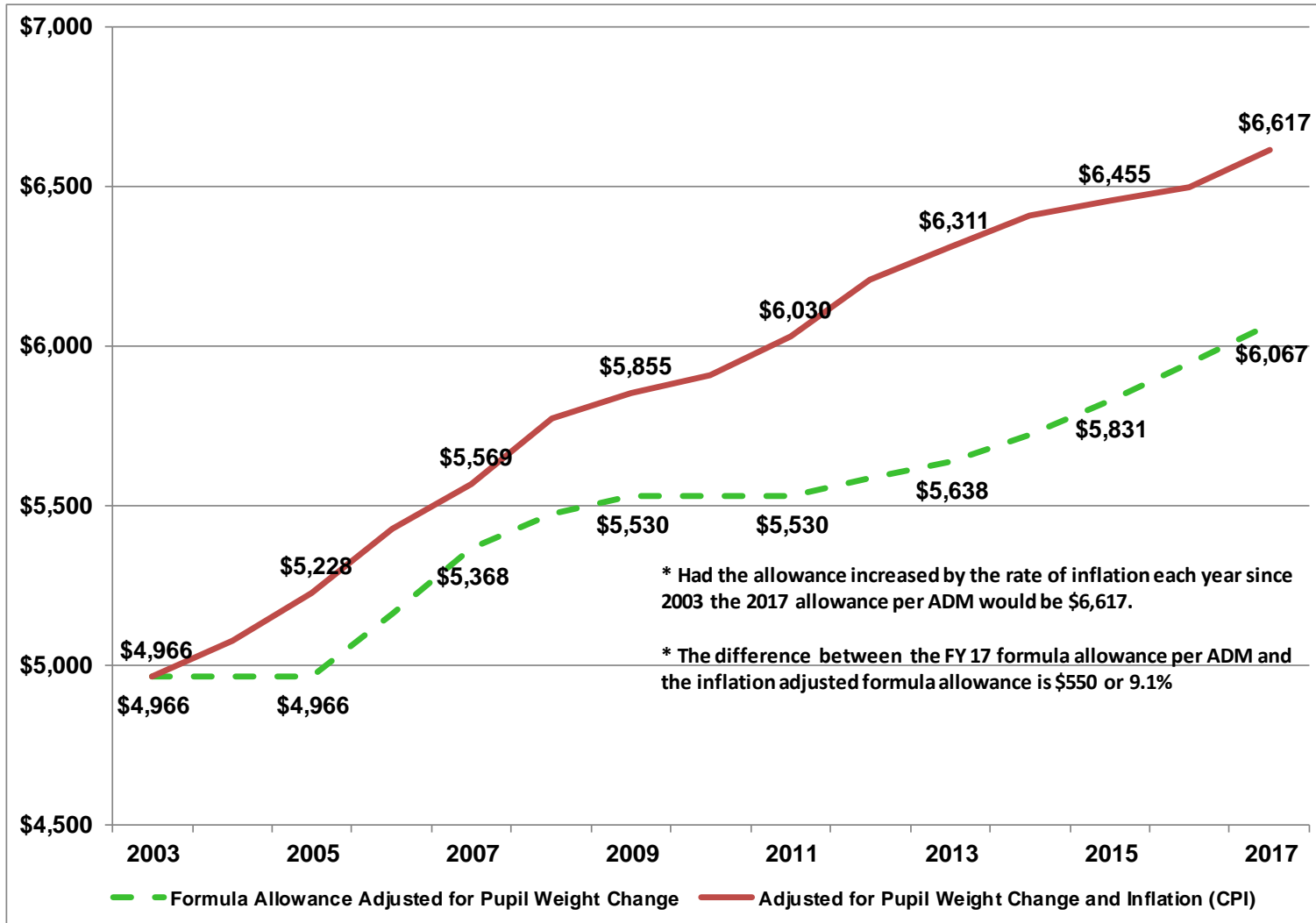
- Levy up to \$724 per pupil unit (\$300 board referendum and \$424 in local optional revenue)
- Submit referendums for operating and capital needs to voters for approval

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 \$550 (9.1%) to have kept pace with inflation

Basic General Education Formula Lags Inflation

General Education Formula Allowance, 2003-2017
Adjusted for Pupil Weight Change and Inflation (CPI)



Underfunding of Special Education Costs

- MDE reports cost of providing special education programs was 40% underfunded on average, requiring a use of \$679 per pupil from regular program resources to support a program mandated by state and federal law
- 2015 Legislature increased special education funding for the 16-17 Biennium by approximately \$180 million, reducing need to subsidize special education with regular program resources from \$679 to \$507 per pupil
- Primary options for to bridge special education funding gap are to cut regular program budgets or increase referendum revenue; most districts have done both

Result: A Growing Reliance on Operating Referendum Revenue

Average referendum authority per pupil is increasing

- In Fiscal Year 1992-93, 65% of districts had referendum revenue averaging \$332 per pupil
- For Fiscal Year 2016-17, all 331 districts have referendum revenue and/or local optional revenue authority averaging \$1,262 per pupil
 - 20.8% of general education formula allowance
 - \$853 is board approved or voter approved operating referendum and \$409 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 is Different from City and County Levy Cycle

City/County

- Budget Year is same as calendar year
- 2017 taxes provide revenue for calendar year 2017 budget

School District

- Budget year begins July 1st and coincides with school year
- 2017 taxes provide revenue for 2017-18 school/fiscal year
- Budget will be adopted in June 2017

Budget Information

Because approval of 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

Budget Information

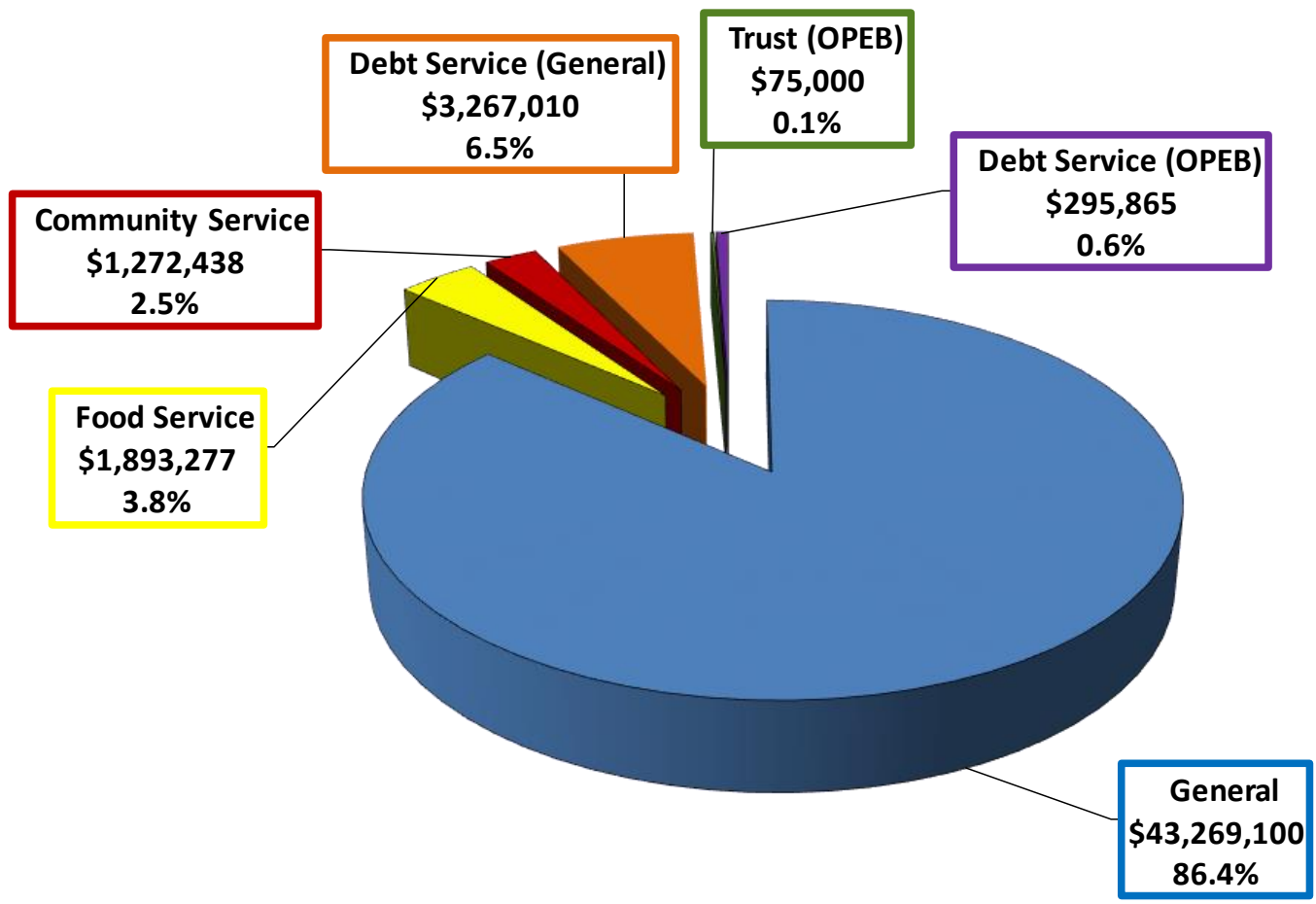
- School districts' budgets are divided into separate funds, based on purposes of revenue, as required by law
- For our district, 8 funds:
 - General
 - Food Service
 - Community Service
 - Building Construction
 - Debt Service (General)
 - Trust (General)
 - Trust (OPEB)
 - Debt Service (OPEB)

**Albert Lea Area Schools ISD No. 241
District Revenues and Expenditures
Actual for FY 16, Budget for FY 17**

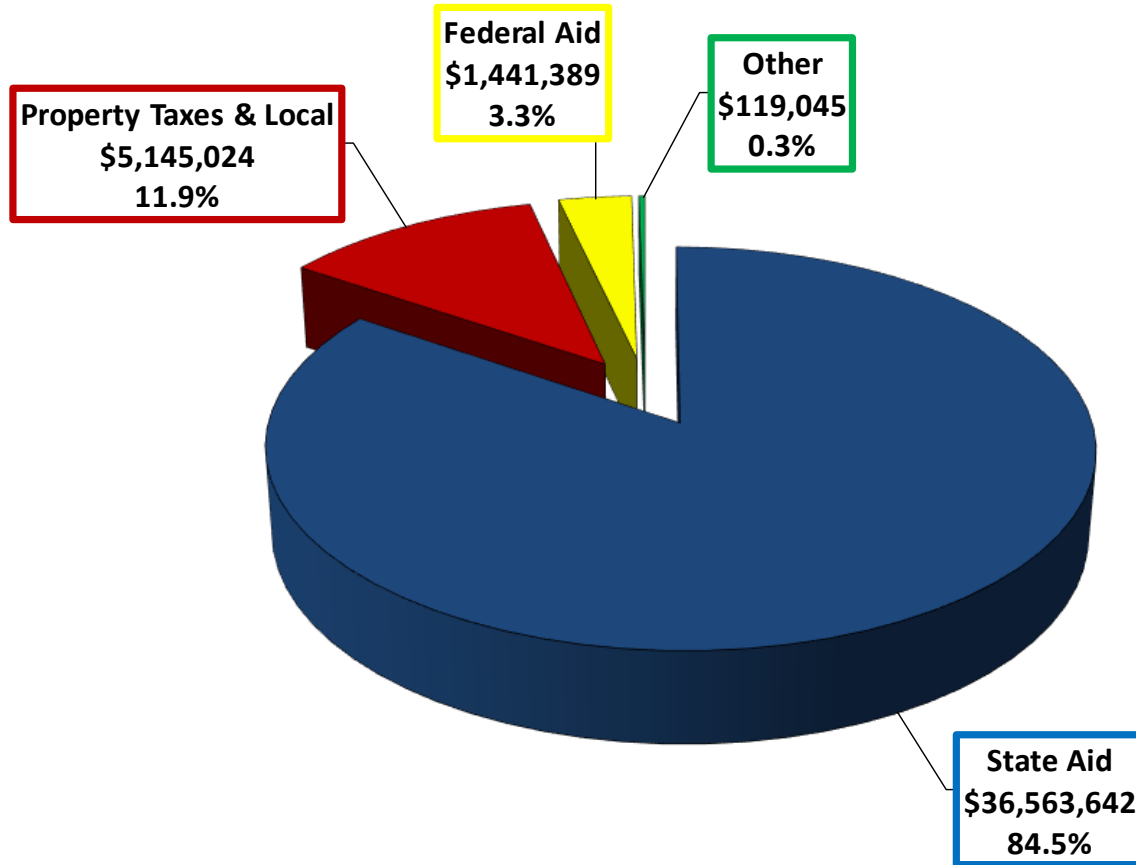
FUND	FISCAL 2016 BEGINNING FUND BALANCES	FY 2016 ACTUAL REVENUES AND TRANSFERS IN	FY 2016 ACTUAL EXPENDITURES & TRANSFERS OUT	JUNE 30,2016 ACTUAL FUND BALANCE	FY 2017 BUDGET REVENUES AND TRANSFERS IN	FY 2017 BUDGET EXPENDITURES & TRANSFERS OUT	JUNE 30,2017 PROJECTED FUND BALANCE
General/Restricted	\$151,313	\$7,679,802	\$7,636,078	\$195,037	\$7,856,439	\$7,866,697	\$184,779
General/Other	6,434,116	35,392,064	35,100,957	6,725,223	35,412,661	35,344,540	6,793,344
Food Service	111,172	1,843,360	1,815,711	138,821	1,893,277	1,820,362	211,736
Community Service	295,645	1,193,652	1,289,858	199,439	1,272,438	1,330,294	141,583
Building Construction	745,129	23,865	614,655	154,339	-	-	154,339
Debt Service	526,917	3,168,114	3,202,868	492,163	3,267,010	3,246,783	512,390
Trust	207,469	26,986	29,083	205,372	-	-	205,372
OPEB* Revocable Trust	1,970,879	71,394	834,171	1,208,102	75,000	1,059,720	223,382
OPEB* Debt Service	55,339	295,220	295,380	55,179	295,865	295,380	55,664
Total - All Funds	\$10,497,979	\$49,694,457	\$50,818,761	\$9,373,675	\$50,072,690	\$50,963,776	\$8,482,589

* Other Post-Employment Benefits

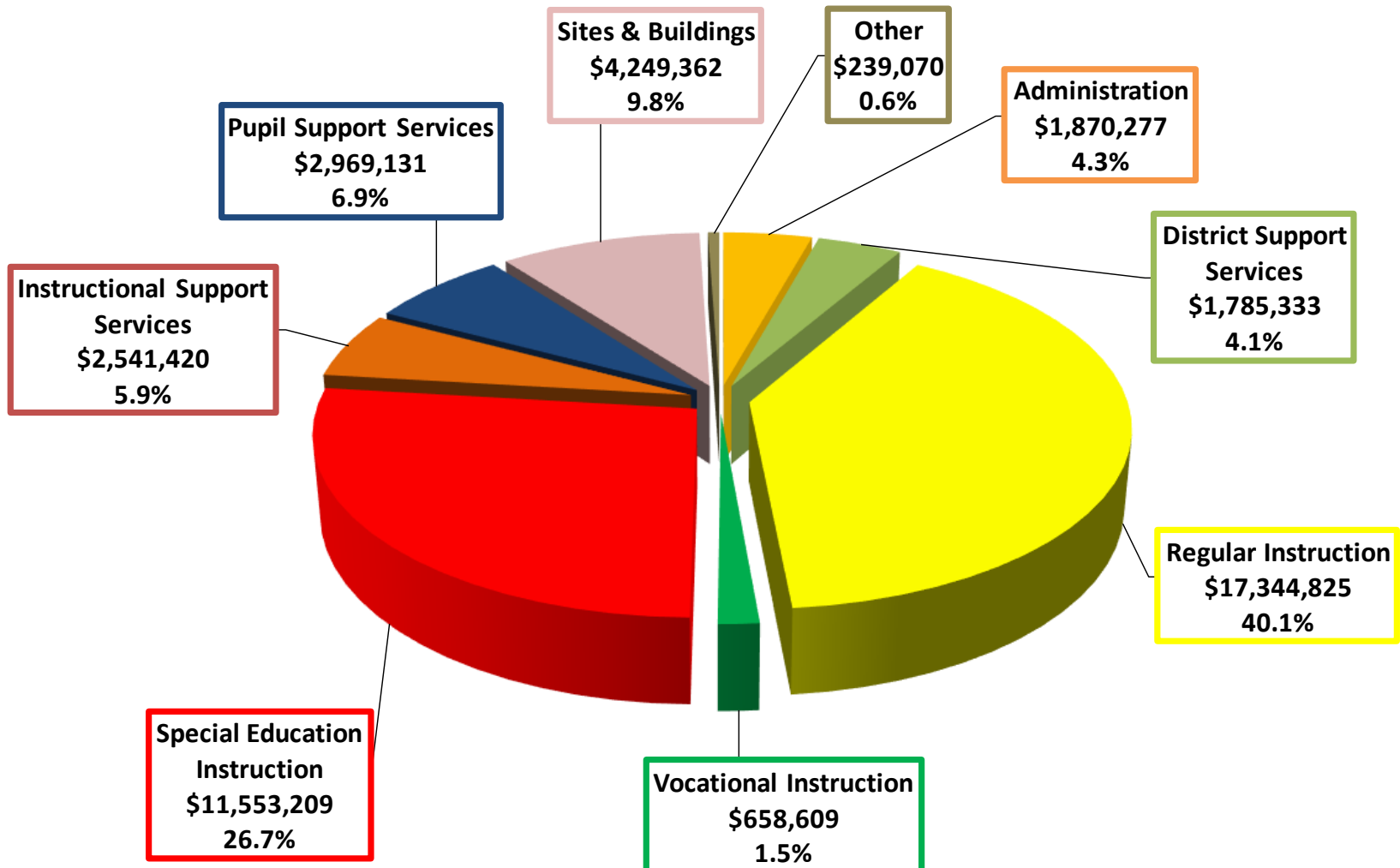
**Albert Lea Area Schools ISD No. 241
Revenue - All Funds
2016-17 Budget \$50,072,690**



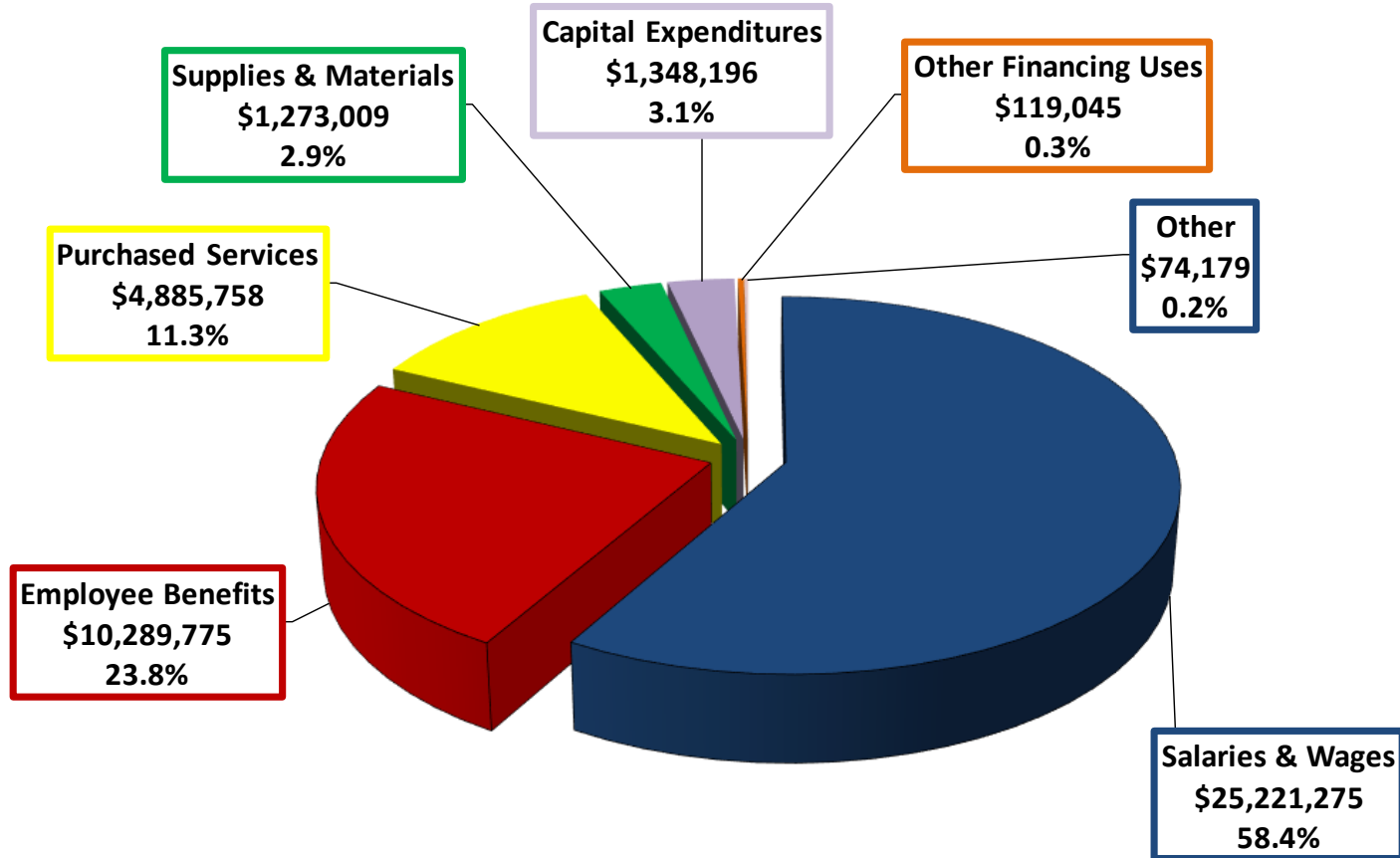
**Albert Lea Area Schools ISD No. 241
General Fund Revenue
2016-17 Budget \$43,269,100**



Albert Lea Area Schools ISD No. 241 General Fund Expenditures by Program 2016-17 Budget \$43,211,237



Albert Lea Area Schools ISD No. 241 General Fund Expenditure by Object 2016-17 Budget \$43,211,237



Proposed 2017 Property Tax Levy

- Determination of levy
- Comparison of 2016 to 2017 levies
- Specific reasons for changes in tax levy
- Impact on taxpayers

Property Tax Background

- Every owner of taxable property pays property taxes for the various “taxing jurisdictions” (county, city or township, school district, special districts) in which property is located
- Each taxing jurisdiction sets its own tax levy, often based on limits in state law
- County sends out 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 2017

THIS IS NOT A BILL. DO NOT PAY.

Step	VALUES AND CLASSIFICATION		
	Taxes Payable Year	2016	2017
1	Estimated Market Value	\$125,000	\$150,000
	Homestead Exclusion	\$	\$23,800
	Taxable Market Value	\$125,000	\$126,200
	Class	Res NHmstd	Res Hmstd
Step	PROPOSED TAX		
2	Proposed Tax		\$1,467.52
Step	PROPERTY TAX STATEMENT		
3	Coming in 2017		
The time to provide feedback on PROPOSED LEVIES is NOW <i>It is too late to appeal your value without going to Tax Court.</i>			

Proposed Property Taxes and Meetings by Jurisdiction for Your Property

Contact Information	Meeting Information	Actual 2016	Proposed 2017
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 9, 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 1, 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 2, 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 2017 may be higher than the proposed amount shown on this notice.</i>			
Total excluding any special assessments		\$1,341.31	\$1,467.52 9.0%

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 either by
 - State law, or
 - 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 taxes on a parcel of property, but district has control over only 1 of 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 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.

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.*

* 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 2016 (Payable 2017) Tax Levy

- September 8: Department of Education prepared and distributed first draft of levy limit report, setting maximum authorized levy
- September 19: School Board approved proposed levy amounts
- Mid-November: County mailed “Proposed Property Tax Statements” to all property owners
- December 5: Public hearing on proposed levy at regular meeting
- Following hearing, School Board will certify final levy amounts

Overview of Proposed Levy Payable in 2017

- Total 2017 proposed property tax levy will increase from 2016 by \$271,150, or 3.6%
- State law requires that we explain reasons for major increases in levy
- Some decreases in specific levies will also be explained

Albert Lea Area School District ISD No. 241

Comparison of Proposed Tax Levy Payable in 2017 to Actual Levy Payable in 2016

Fund	Levy Category	Actual Levy Payable in 2016	Proposed Levy Payable in 2017	\$ Change	% Change
General Fund					
	Voter Approved Referendum	\$1,437,269	\$1,550,659	113,390	
	Local Optional Levy	945,638	958,623	12,986	
	Equity	266,830	292,775	25,945	
	Student Achievement Levy	59,254	26,225	(33,029)	
	Alternate Teacher Compensation	275,903	258,391	(17,513)	
	Operating Capital	306,908	215,249	(91,660)	
	Long Term Facilities Maintenance	500,256	676,335	176,079	
	Instructional Lease Levy	70,178	182,693	112,515	
	Safe Schools	130,781	134,604	3,823	
	Other	312,688	327,699	15,012	
	Levy Adjustments	(177,491)	(247,391)	(69,899)	
	Total, General Fund	\$4,128,213	\$4,375,863	\$247,650	6.0%
Community Service Fund					
	Basic Community Education	\$174,702	\$174,702	\$0	
	Early Childhood Family Education	67,140	61,367	(5,773)	
	Other	2,048	1,053	(995)	
	Levy Adjustments	(2,244)	(91)	2,153	
	Total, Community Service Fund	\$241,647	\$237,032	(\$4,615)	-1.9%
Debt Service Funds					
	Voter Approved Debt Service	2,719,920	\$2,719,080	(\$840)	
	Other Debt Service	119,950	123,554	3,604	
	LT Facility Maintenance Debt Service	155,422	143,280	(12,142)	
	Other Post Employment Benefits	309,677	309,677	0	
	Reduction for Debt Excess	(124,013)	(91,640)	32,373	
	Levy Adjustments	2,152	7,273	5,121	
	Total, Debt Service Fund	\$3,183,108	\$3,211,224	\$28,116	0.9%
Total Levy, All Funds		\$7,552,968	\$7,824,119	\$271,151	3.6%
Subtotal by Truth in Taxation Categories:					
	Voter Approved Levies	\$4,046,869	\$4,163,890	\$117,021	
	Other Levies	\$3,506,099	\$3,660,228	\$154,129	
	Total	\$7,552,968	\$7,824,119	\$271,150	3.6%

Explanation of Levy Changes

- Category: Voter Approved Operating Referendum
- Change: +\$113,390
- Use of funds: General operating expenses
- Reason for increase
 - Voter-approved allowance includes an annual inflationary adjustment
 - Enrollment is projected to increase

Explanation of Levy Changes

- Category: Operating Capital
- Change: -\$91,660
- Use of funds: Facility and equipment expenses
- Reason for decrease
 - Funding for this program is provided through a combination of state aid and local tax levies
 - State changed funding formulas to cause a reduction in tax levies and offsetting increase in state aid - no net change in revenue
 - Change was made to partially offset increase in Long Term Facilities Maintenance Levy (see next slide)

Explanation of Levy Changes

- Category: Long Term Facilities Maintenance (LTFM)
- Change: +\$176,079 (offset by reductions in Operating Capital, Student Achievement and Debt Service levies)
- Use of funds: Facilities maintenance
- Reason for increase
 - New category of revenue (3 year phase in, began with taxes payable in 2016); replaces the previous health & safety, deferred maintenance, and alternative facilities programs
 - Creates greater equity among districts in funding for facilities maintenance – districts that did not qualify for previous “full alternative facilities” program have access to additional revenue
 - Revenue is provided through property tax levies and state aid
 - For Albert Lea Area Schools, 49% funding provided from property taxes and 51% from state aid
 - Revenue will be used to fund annual project costs and to make payments on bonds issued as part of previous limited alternative facilities program

Explanation of Levy Changes

- Category: Instructional Lease Levy
- Change: +\$112,515
- Use of funds: State-approved instructional lease costs
- Reason for increase
 - Amount is based on estimated cost of qualifying state-approved instructional lease costs
 - Includes cost for new special education cooperative lease with Austin School District

Explanation of Levy Changes

- Category: Adjustments for Prior Years – General Fund
- Change: -\$69,899
- Use of funds: Various purposes
- Reason for increase
 - 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

Impact on Taxpayers

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

Impact on Taxpayers

Following are a table and graphs showing examples of changes in school district portion of property taxes from 2014 to 2017

- Examples include school district taxes only
- All examples are based on a 4.5% increase in property value over this period
 - Actual changes in value may be more or less than this for any parcel of property
 - 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 Albert Lea
 - School taxes in other parts of district may be slightly higher or lower, due to variations in impact of state credits
- Figures for 2017 are preliminary estimates, based on the best data available now – final figures could change slightly
- Estimates were prepared by Ehlers, the district's financial advisors

Albert Lea Area School District No. 241

Estimated Changes in School Property Taxes, 2014 to 2017

Based on 4.5% Cumulative Changes in Property Value from 2014 to 2017 Taxes

Type of Property	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	Actual Taxes Payable in 2016	Estimated Market Value for 2017 Taxes	Estimated Taxes Payable in 2017	Change in Taxes 2014 to 2017	Change in Taxes 2016 to 2017
Residential Homestead	\$71,770	\$285	\$71,770	\$274	\$71,770	\$269	\$75,000	\$281	-\$4	\$12
	95,694	405	95,694	389	95,694	382	100,000	404	-1	22
	119,617	529	119,617	510	119,617	501	125,000	529	0	28
	143,541	653	143,541	630	143,541	619	150,000	653	0	34
	191,388	902	191,388	871	191,388	857	200,000	902	0	45
	239,234	1,151	239,234	1,112	239,234	1,094	250,000	1,151	0	57
	287,081	1,399	287,081	1,353	287,081	1,331	300,000	1,400	1	69
	382,775	1,897	382,775	1,835	382,775	1,806	400,000	1,898	1	92
	478,469	2,380	478,469	2,303	478,469	2,266	500,000	2,376	-4	110
717,703	3,705	717,703	3,590	717,703	3,534	750,000	3,722	17	188	
Commercial/ Industrial #	\$47,847	\$298	\$47,847	\$290	\$47,847	\$286	\$50,000	\$301	\$3	\$15
	71,770	446	71,770	435	71,770	429	75,000	451	5	22
	95,694	595	95,694	580	95,694	572	100,000	601	6	29
	239,234	1,599	239,234	1,561	239,234	1,541	250,000	1,629	30	88
	478,469	3,385	478,469	3,309	478,469	3,268	500,000	3,446	61	178
Agricultural Homestead *	\$287,081	\$602	\$287,081	\$587	\$287,081	\$580	\$300,000	\$617	\$15	\$37
	382,775	721	382,775	706	382,775	699	400,000	743	22	44
	478,469	840	478,469	826	478,469	818	500,000	869	29	51
	717,703	1,138	717,703	1,124	717,703	1,115	750,000	1,184	46	69
	956,938	1,437	956,938	1,423	956,938	1,412	1,000,000	1,498	61	86
Agricultural Non-Homestead (dollars per acre)	\$1,675	\$4.17	\$1,675	\$4.18	\$1,675	\$4.16	\$1,750	\$4.41	\$0.24	\$0.25
	1,914	4.77	1,914	4.77	1,914	4.75	2,000	5.03	0.26	0.28
	2,153	5.37	2,153	5.37	2,153	5.35	2,250	5.66	0.29	0.31
	2,392	5.96	2,392	5.97	2,392	5.94	2,500	6.29	0.33	0.35

Tax Rates	
Tax Capacity Rate	24.930
Referendum Market Value Rate	0.24802
	24.948
	0.23175
	24.842
	0.22510
	25.173
	0.22354

* Figures above are for property in the City of Albert Lea. Since the portion of the agricultural homestead credit deducted from school district taxes varies across municipalities, school taxes for that year may be slightly different than shown above for agricultural homestead property in other portions of the school district.

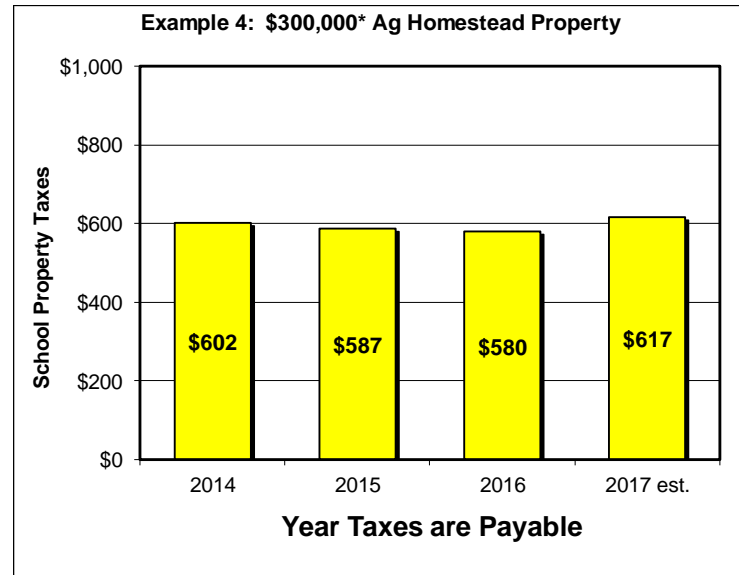
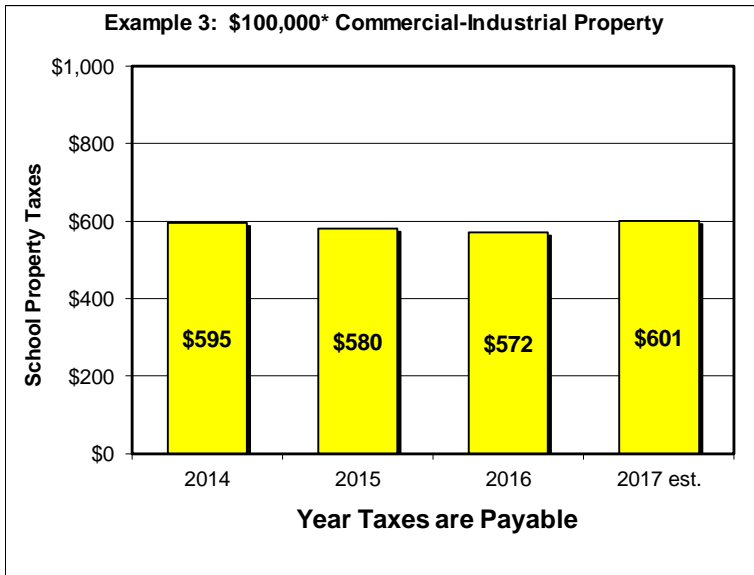
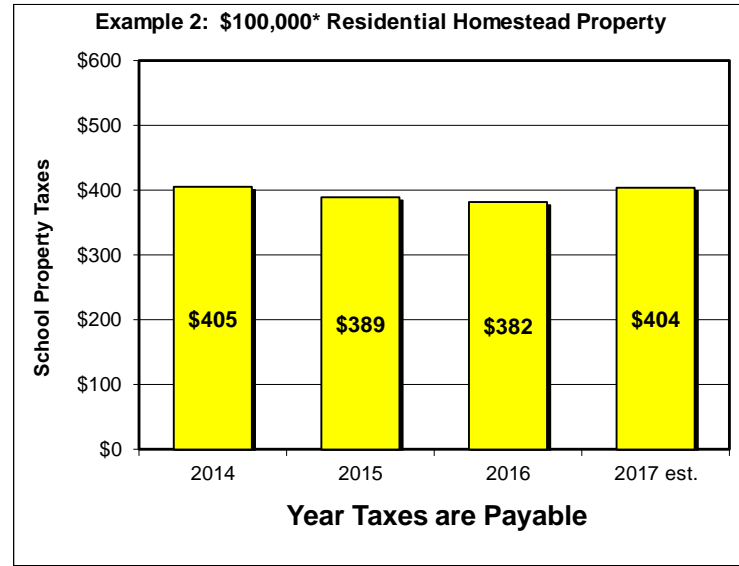
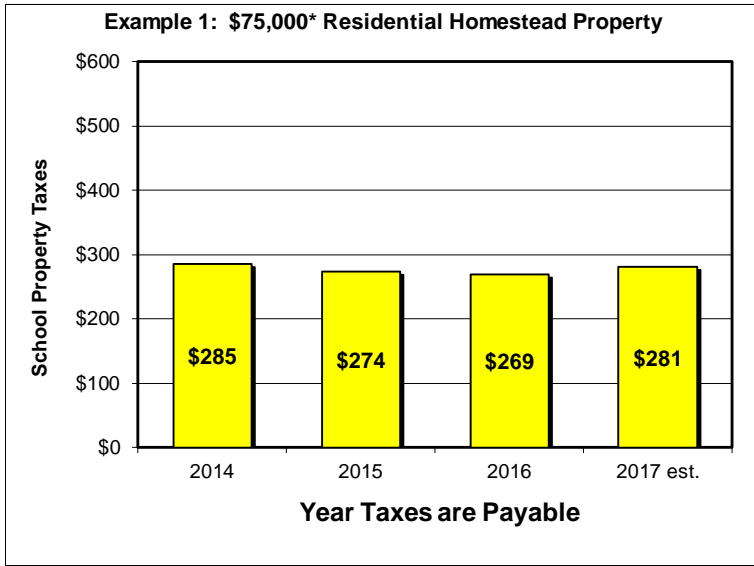
General Notes

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. Estimates of taxes payable in 2017 are preliminary, 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 0.0% from 2014 to 2015 taxes, 0.0% from 2015 to 2016, and 4.5% from 2016 to 2017.
4. For agricultural homestead property, the value assumed for the house, garage, and one acre was \$95,694 for 2014 taxes and \$100,000 for 2017 taxes.

Albert Lea Area School District No. 241

Estimated Changes in School Property Taxes, 2014 to 2017

Based on 4.5% Cumulative Changes in Property Value from 2014 to 2017 Taxes



* For all four examples of properties, the value shown in the title of the chart is the estimated market value for taxes payable in 2017. Taxes are calculated based on no change in market value from 2014 to 2017.

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 the net tax burden for local taxpayers, but only if forms are completed and submitted
- For help with the forms and instructions
 - Consult your tax professional, or
 - Visit the Department of Revenue web site at www.revenue.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 \$107,930 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 \$2,640
 - Especially helpful to those with lower incomes
 - Complete 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% (increase must exceed \$100) over prior year
 - 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

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 property taxes on their home
- Taxes paid in any year limited to 3% of household income for year before entering deferral program; 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 property
- 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 and questions on proposed levy
- School Board will certify final 2017 property tax levy

Public Comments and Questions