

**Buffalo  
Hanover  
Montrose**  

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**BHM SCHOOLS**

Truth in Taxation Presentation

December 11, 2017

for Taxes Payable in 2018

# 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 on proposed levy and current year budget
    - Discuss percentage change and reasons for change- **Total 2018 levy will increase by \$925,718 (6.64%)**
  - Allow for comments from audience at a regularly scheduled meeting

# 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
- 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, 8 active funds:
  1. General fund (includes former transportation and capital expenditure funds)
  2. Food Service fund
  3. Community Service fund
  4. Building Construction fund
  5. Debt Service fund
  6. OPEB Debt Service fund
  7. HRA Trust fund
  8. OPEB Trust fund

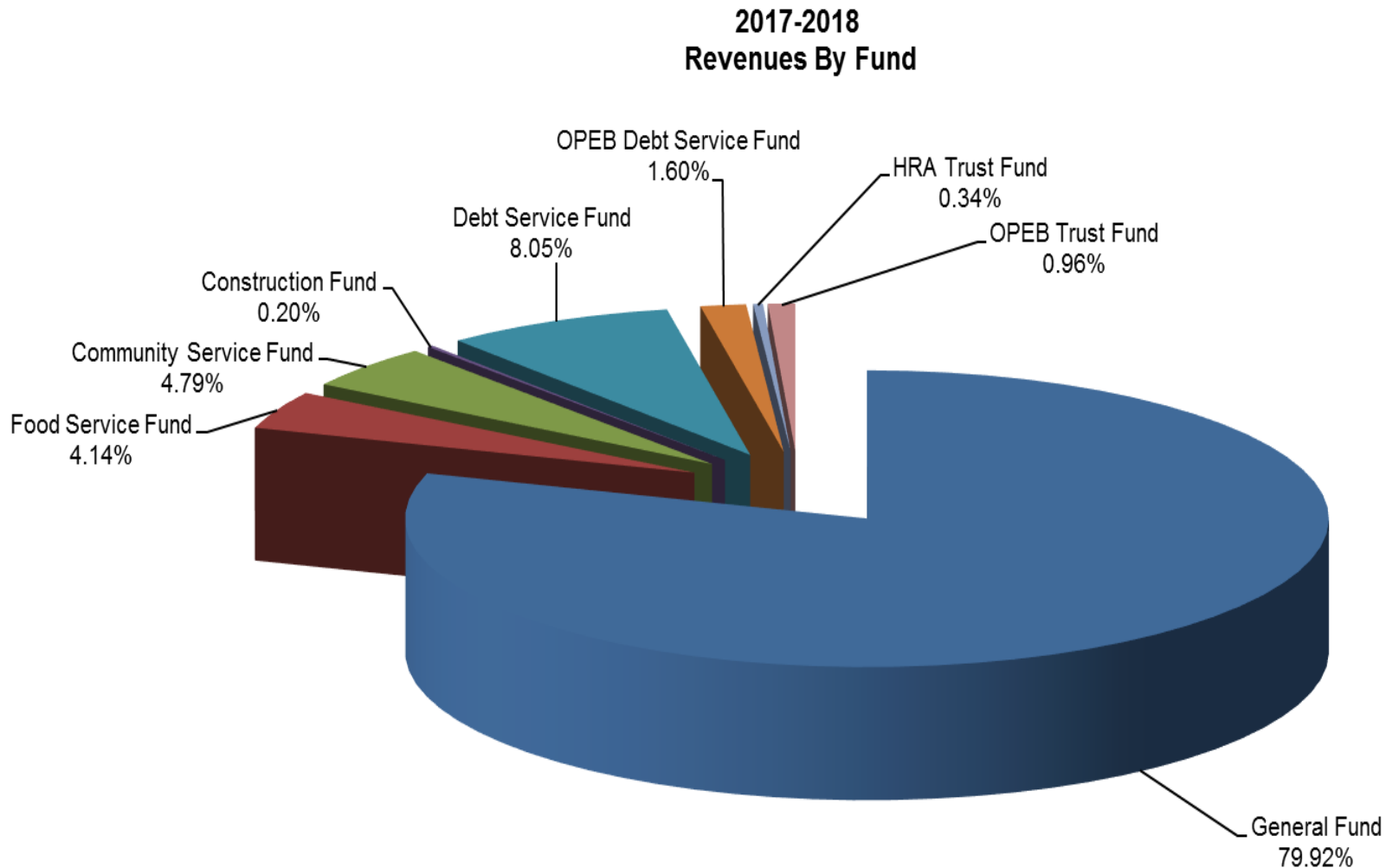
# 2017-18 Revenues by Fund

## ISD 877 BUFFALO-HANOVER-MONTROSE 2017-2018 BUDGET

### ALL FUNDS - REVENUE SUMMARY

	2014-15 Actual	2015-16 Actual	2016-17 Revised Budget	2016-17 Actual	2017-18 Budget
General Fund	\$58,443,408	\$61,024,328	\$62,865,478	\$62,463,044	\$63,763,372
Food Service Fund	\$2,886,080	\$3,073,405	\$3,238,311	\$3,160,304	\$3,302,861
Community Service Fund	\$3,559,471	\$3,700,150	\$3,758,183	\$3,830,995	\$3,824,950
Construction Fund	\$33,125,601	\$154,563	\$125,000	\$513,219	\$159,000
Debt Service Fund	\$6,318,242	\$7,388,480	\$6,350,980	\$6,312,971	\$6,421,787
OPEB Debt Service Fund	\$496,073	\$499,453	\$11,036,694	\$10,978,150	\$1,273,691
HRA Trust Fund	\$286,461	\$282,495	\$333,697	\$277,568	\$274,567
OPEB Trust Fund	\$417,484	\$517,663	\$373,158	\$1,228,814	\$763,045
<b>Total</b>	<b>\$105,532,821</b>	<b>\$76,640,538</b>	<b>\$88,081,501</b>	<b>\$88,765,064</b>	<b>\$79,783,273</b>

# 2017-18 Revenues by Fund



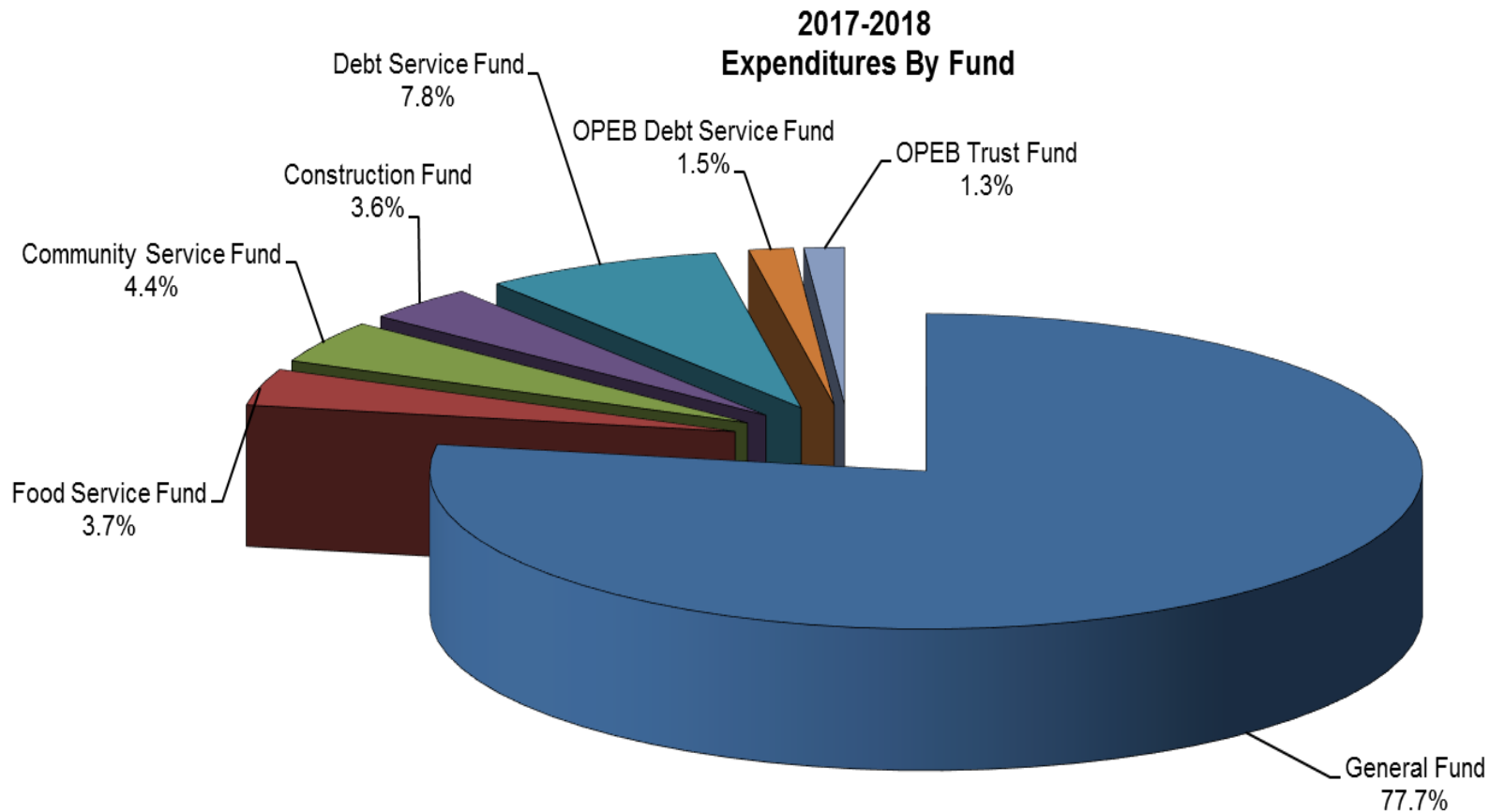
# 2017-18 Expenditures By Fund

## ISD 877 BUFFALO-HANOVER-MONTROSE 2017-2018 BUDGET

### ALL FUNDS - EXPENDITURE SUMMARY

	2014-15 Actual	2015-16 Actual	2016-17 Revised Budget	2016-17 Actual	2017-18 Budget
General Fund	\$57,341,013	\$60,679,188	\$63,715,055	\$62,048,814	\$65,479,398
Food Service Fund	\$2,860,519	\$2,841,567	\$3,059,376	\$2,860,198	\$3,159,410
Community Service Fund	\$3,757,420	\$3,836,306	\$3,696,701	\$3,955,605	\$3,685,357
Construction Fund	\$2,042,441	\$12,899,549	\$15,082,739	\$12,710,713	\$3,068,812
Debt Service Fund	\$6,317,750	\$7,264,448	\$6,539,922	\$6,539,923	\$6,542,348
OPEB Debt Service Fund	\$494,438	\$494,438	\$10,974,438	\$10,915,122	\$1,229,720
OPEB Trust Fund	\$841,568	\$867,233	\$977,824	\$1,010,879	\$1,102,710
<b>Total</b>	<b>\$73,655,149</b>	<b>\$88,882,729</b>	<b>\$104,046,055</b>	<b>\$100,041,252</b>	<b>\$84,267,755</b>

# 2017-18 Expenditures By Fund



# Budget Information

- **General Fund Revenue Changes for 2017-18**
  - 2.0% increase on the General Education Revenue formula allowance
  - 2.0 % increase in state Special Education Aid
  - \$189.55 per pupil unit board approved referendum allowance
  - Enrollment projection of 5,678 (K-12 based on November 2016 projection)
  - Integration Revenue continues at 83% of 2012-13 revenue levels
  - Kindergarten pupil units budgeted at 99% full-time
  - Year 3 of the Qcomp (PPD) program

# 2017-18 General Fund

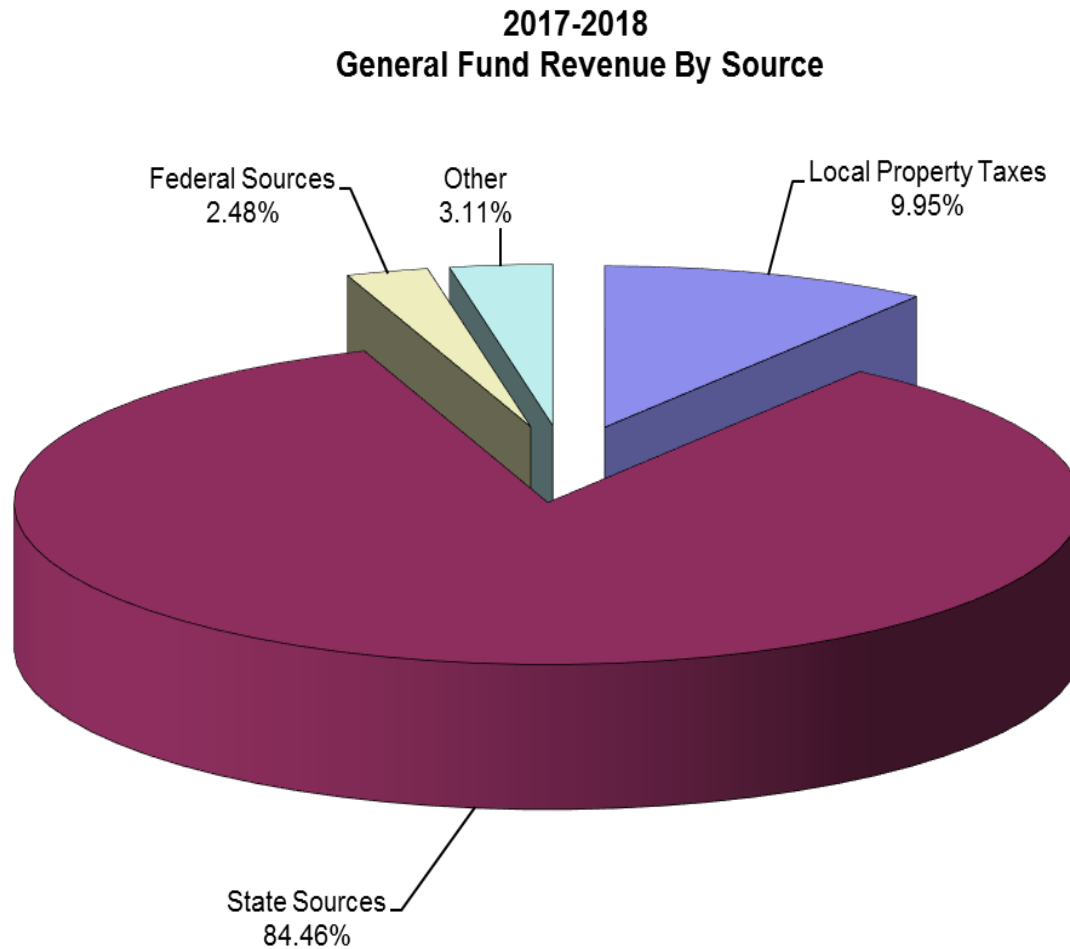
## Revenue Summary

### ISD 877 BUFFALO-HANOVER-MONTROSE 2017-2018 BUDGET

#### GENERAL FUND 01 - REVENUE SUMMARY BY SOURCE

	2014-15 Actual	2015-16 Actual	2016-17 Revised Budget	2016-17 Actual	2017-18 Budget
Local Property Taxes	\$5,181,370	\$5,655,260	\$6,057,053	\$6,083,981	\$6,342,018
State Sources	\$49,575,914	\$51,640,876	\$53,221,151	\$52,807,290	\$53,857,128
Federal Sources	\$1,582,204	\$1,552,551	\$1,583,370	\$1,445,879	\$1,583,370
Other	\$2,103,920	\$2,175,642	\$2,003,904	\$2,125,893	\$1,980,856
<b>Total</b>	<b>\$58,443,408</b>	<b>\$61,024,328</b>	<b>\$62,865,478</b>	<b>\$62,463,044</b>	<b>\$63,763,372</b>

# 2017-18 General Fund Revenue Summary



# Budget Information

- **General Fund Expenditure Changes for 2017-18**
  - Superintendent & Special Ed staffing contingencies
  - Contract & benefits based on contracts & expected market conditions
  - Other expenditures (supplies & utilities) 0-5% increase
  - Continued cost containment initiatives
  - Integration program submitted to MDE at 83% of 2012-13 program
  - \$400,000 set aside for technology
  - 6.0 FTE set aside for class size reduction (continuation)
  - 6.0 FTE for Local Option Revenue (class size reduction) (continuation)
  - Year 3 of the Qcomp (PPD) program

# 2017-18 General Fund Expenditure Summary

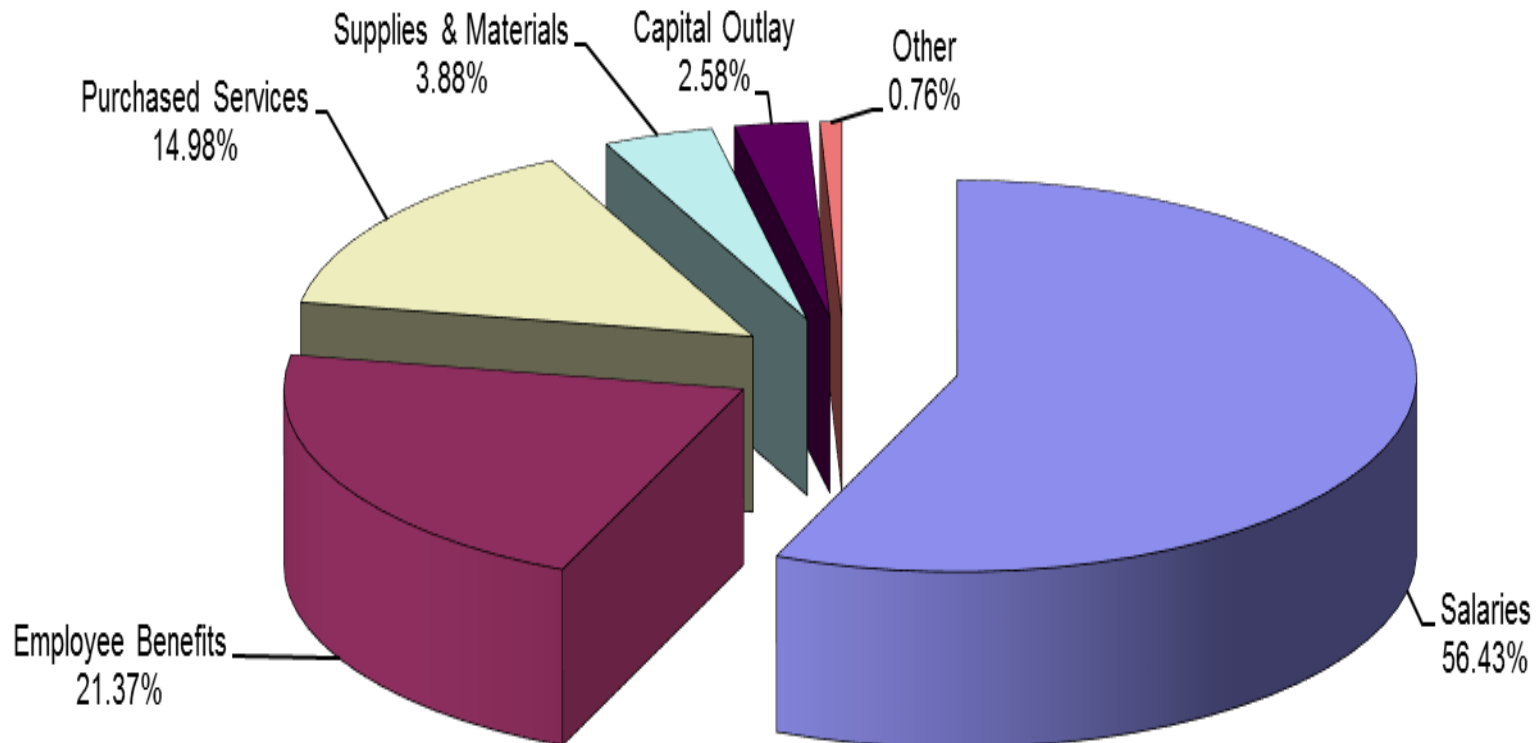
## ISD 877 BUFFALO-HANOVER-MONTROSE 2017-2018 BUDGET

### GENERAL FUND 01 - EXPENDITURE SUMMARY

	<b>2014-15 Actual</b>	<b>2015-16 Actual</b>	<b>2016-17 Revised Budget</b>	<b>2016-17 Actual</b>	<b>2017-18 Budget</b>
Salaries	\$32,756,714	\$34,789,462	\$35,982,021	\$35,692,543	\$36,948,602
Employee Benefits	\$11,946,918	\$12,899,435	\$13,498,148	\$12,367,674	\$13,991,247
Purchased Services	\$8,756,166	\$8,914,333	\$9,782,611	\$9,670,814	\$9,811,889
Supplies & Materials	\$2,084,411	\$1,994,219	\$2,416,842	\$2,222,604	\$2,540,683
Capital Outlay	\$1,460,239	\$1,692,183	\$1,538,961	\$1,453,988	\$1,687,688
Other	\$336,565	\$389,554	\$496,472	\$641,190	499,289.00
<b>Total</b>	<b>\$57,341,013</b>	<b>\$60,679,188</b>	<b>\$63,715,055</b>	<b>\$62,048,814</b>	<b>\$65,479,398</b>

# 2017-18 General Fund Expenditure Summary

2017-2018  
General Fund Expenditures By Object



# Overview of Proposed Levy Payable in 2018

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

# 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)-Board discretion up to \$300 per pupil for the first time with Pay 2014 Levy

## 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 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 2018

- Four main factors affect your taxes-(School portion only for this discussion)
  1. Levy total - Increased \$925,718 or 6.64%
  2. Total value of all property within the school district boundaries-(tax base)- Referendum Market Value and Net Tax Capacity **up** for the district- **County Assessor**
  3. Assessed value of your property (estimated and taxable market value)-**County Assessor**
  4. Market Value Exclusion- **State Legislature**
    - Reduces your taxable market value based on a state-determined formula
    - It is the reason why many statements show a difference between Estimated Market Value and Taxable Market Value

# School Levy Total-Truth in Taxation Notices

Buffalo-Hanover-Montrose School District #877			December 11, 2017		
Comparison of Proposed Tax Levy Payable in 2018 to Actual Levy Payable in 2017 by Fund					
Using Final Levy Payable in 2017 as Base Year					
Category		2017	2018	Change from	Percent
		Final	Final		
		Proposed Levy	Proposed Levy	Prior Year	Change
General Fund		\$ 6,260,288	\$ 6,963,233	\$ 702,945	11.23%
Community Education		\$ 488,197	\$ 493,467	\$ 5,270	1.08%
Debt Service		\$ 7,187,274	\$ 7,404,777	\$ 217,503	3.03%
Total Certified Levy		\$ 13,935,759	\$ 14,861,477	\$ 925,718	6.64%

# Explanation of Levy Changes- Payable 2018

General Fund	Amount of Change	Reason For Change			
Voter Approved Operating ley	\$ 21,389	Change in Levy % due to valuation increase			
RMV Adjustments-Voter approved	\$ 14,468	Prior year adjustments			
Equity Revenue and Transition Revenue	\$ 80,688	Change in Levy % due to valuation increase			
Local Option Revenue	\$ 130,543	Change in Levy % due to valuation increase			
RMV Adjustments-Non-voter approved	\$ 167,761	Prior year catch up for increased pupil units in above categories			
Operating Capital	\$ (46,218)	Change in Levy % due to legislative change and valuation increase			
Lease Levy	\$ (28,214)	Change in lease ley totals (BCMS tennis court levy drops off)			
Long-Term Facilites Maintenance Revenue	\$ 279,097	3rd Year-Replaces Health and Safety and Deferred Maintenance revenue-Full Implementation			
General Fund Adjustments	\$ 65,078	Prior year adjustments			
Other	\$ 18,353	Change in levy % due to valuation increase or expenditure estimate			
<b>Total General Fund Levy</b>	<b>\$ 702,945</b>				

# Explanation of Levy Changes- Payable 2018

Debt Service	Amount of Change	Reason For Change			
Voter approved debt service principal, interest and 5% overlevy	\$ (16,406)	Planned debt service structure			
Reduction for debt excess-Voter approved	\$ (106,475)	Change in MDE allowable retention of 5% overlevy from prior year			
Debt Service fund adjustments-Voter approved	\$ (1,506)	Tax abatement adjustments			
Debt Service-Other JOBZ Nonexempt	\$ (514,373)	Final payoff of Alternative Facilities issue refunded in 2012 and shift of LTFM aid portion to general fund LTFM revenue as part of full implementation of LTFM revenue			
Reduction for debt excess-Non-voter approved	\$ 77,410	Change in MDE allowable retention of 5% overlevy from prior year			
Debt Service-OPEB/Pension JOBZ Nonexempt	\$ 778,250	Planned debt service structure change for OPEB bond issue including 2017 refunding issue savings			
Debt Service Fund Adjustments-Non-voter Approved	\$ 603	Tax abatement adjustments			
<b>Total Debt Service Levy</b>	<b>\$ 217,503</b>				

# Property Value Changes- School District Portion

Buffalo-Hanover-Montrose School District #877			12/11/2017
Estimated Valuations used in Tax Calculations for Final Proposed Pay 2016 Levy			
Combined Values for Hennepin and Wright County			
Category	Pay 2017 Final	Pay 2018 Final Proposed	Net Change
Referendum Market Value*	\$ 2,769,884,575	\$ 2,956,463,730	\$ 186,579,155
Net % Change in Value			6.74%
Net Tax Capacity*	\$ 31,858,144	\$ 33,474,275	\$ 1,616,131
Net % Change in Value			5.07%
*All values for taxes payable in 2017 are estimates from Hennepin and Wright County			

# Property Value Changes- Tax Rate Calculations

<b>Buffalo-Hanover-Montrose School District #877</b>			<b>December 11, 2017</b>
<b>Analysis of Impact of Proposed 2018 Tax Levy and Rates</b>			
<b>Using Final Levy Payable in 2017 as Base Year</b>			
<b>Tax Rate Calculations Used for Final Tax Statements</b>	<b>2017</b>	<b>2018</b>	
	<b>Final Levy</b>	<b>Proposed Levy</b>	<b>Difference</b>
Net Levy on Referendum Market Value	\$ 3,409,741	\$ 3,822,800	\$ 413,059
Divided by			
Total Referendum Market Value	\$ 2,769,222,675	\$ 2,956,463,730	\$ 187,241,055
Equals			\$ -
<b>Total RMV Tax Rate (applied to Estimated Market Value)</b>	<b>0.12313%</b>	<b>0.12930%</b>	<b>0.00617%</b>
Net Levy on Net Tax Capacity	\$ 10,348,021	\$ 10,862,378	\$ 514,357
Divided by			
Net Tax Capacity Value	\$ 31,502,198	\$ 33,474,275	\$ 1,972,077
Equals			
<b>Total NTC Tax Rate (applied to Taxable Market Value)</b>	<b>32.8486%</b>	<b>32.4499%</b>	<b>-0.39864%</b>

# Market Value Exclusion Review

- 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 2018 and your Taxable Market Value for 2018 as shown on your tax statement
  - Artificially reduces the net tax capacity of the school district causing a higher tax rate
- Effects on taxes
  - Shifted state paid credits onto local levies
  - Created a greater net tax capacity tax rate
  - Shifted tax burden among the different property classes
  - Pay 2018 is the seventh year of the program

# Impact on Taxpayers- School Portion Only

Buffalo-Hanover-Montrose School District #877			December 11, 2017
Analysis of Impact of Proposed 2018 Tax Levy and Rates			
Final Tax Statement Estimates			
Using Final Levy Payable in 2017 as Base Year			
Tax Impact on Various Classes of Property-School Portion Only	2017	2018	
	Final Projected Levy	Final Projected Levy	Difference
Residential Homestead Property			
\$100,000	\$ 359	\$ 362	\$ 3
\$150,000	\$ 599	\$ 604	\$ 4
\$200,000	\$ 840	\$ 845	\$ 5
\$213,472	\$ 905	\$ 910	\$ 5
\$300,000	\$ 1,321	\$ 1,328	\$ 7
\$400,000	\$ 1,802	\$ 1,811	\$ 9
Commercial/Industrial Property			
\$75,000	\$ 462	\$ 462	\$ -
\$100,000	\$ 616	\$ 616	\$ -
\$106,736	\$ 657	\$ 658	\$ -
\$250,000	\$ 1,704	\$ 1,702	\$ (2)
Agricultural Homestead Property			
\$400,000.00 Ag Homestead+	\$ 1,169	\$ 1,170	\$ 1
\$600,000.00 Ag Homestead+	\$ 1,497	\$ 1,494	\$ (3)
\$800,000.00 Ag Homestead+	\$ 1,825	\$ 1,819	\$ (7)
\$1,000,000.00 Ag Homestead+	\$ 2,154	\$ 2,143	\$ (11)

\*\*Referendum revenue aid and levy based on an estimated 6,297.30 adjusted pupil units submitted to MDE by the school district

\*Includes all changes for Q Comp, LTFM, and debt service

-Referendum market values are based on an estimated 6.74% average increase for Wright and Hennepin Counties for taxes payable in 2018

-Net Tax Capacity values are based on an estimated 5.07% average increase for Wright and Hennepin Counties for taxes payable in 2018

+A value of \$200,000.00 was assumed for the house, garage, and 1 acre for Ag Homestead Property

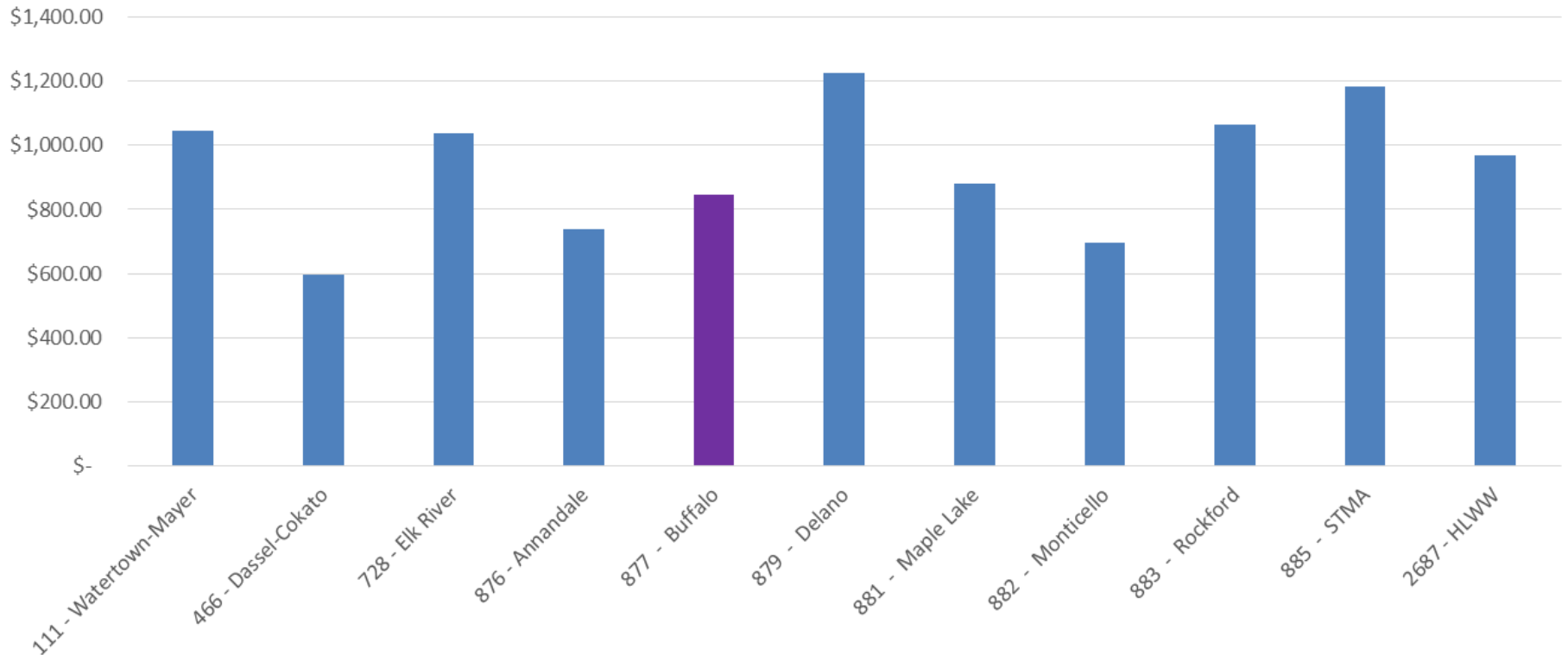
# Individual Property Examples- Truth In Taxation

	Parcel #3-City of Buffalo			Parcel #6-Hennepin County			Parcel #8-City of Buffalo		
	2017	2018	Net Change	2017	2018	Net Change	2017	2018	Net Change
Estimated Market Value	\$ 283,600	\$ 298,300	\$ 14,700	\$ 364,000	\$ 377,000	\$ 13,000	\$ 154,900	\$ 173,900	\$ 19,000
EMV % Change			5.2%			3.6%			12.3%
Taxable Market Value	\$ 271,900	287,900	\$ 16,000	\$ 359,520	373,690	\$ 14,170	\$ 131,600	152,300	\$ 20,700
TMV % Change			5.9%			3.9%			15.7%
Market Value Exclusion	\$ 11,700	\$ 10,400	\$ (1,300)	\$ 4,480	\$ 3,310	\$ (1,170)	\$ 23,300	\$ 21,600	\$ (1,700)
Voter Approved Levy	\$ 487	\$ 475	\$ (12)	\$ 643	\$ 618	\$ (25)	\$ 238	\$ 254	\$ 16
Other Local Levies	\$ 755	\$ 844	\$ 89	\$ 986	\$ 1,079	\$ 93	\$ 385	\$ 466	\$ 80
Total Tax Amount	\$ 1,243	\$ 1,320	<b>\$ 77</b>	\$ 1,629	\$ 1,697	<b>\$ 68</b>	\$ 623	\$ 719	<b>\$ 96</b>

- District estimated EMV percentage – 6.74% increase
- District estimated TMV percentage – 5.07% increase

# Proposed Property Tax Comparison- Truth In Taxation

2017 pay 2018 \$200,000 Residential Homestead Proposed Property Tax Amount  
Comparison



# 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](http://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 \$108,660 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 \$2,660
  - 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 more than 12% and \$100 or more 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 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 2018
- Final levy is certified to county auditor by December 27, 2017

# Comments and Questions