

2/27/2013

**MINNESOTA SCHOOL DISTRICT LEVY EQUALIZATION**

**Purpose, History and Mechanics**

**Purpose of Equalization**

1. Legal context

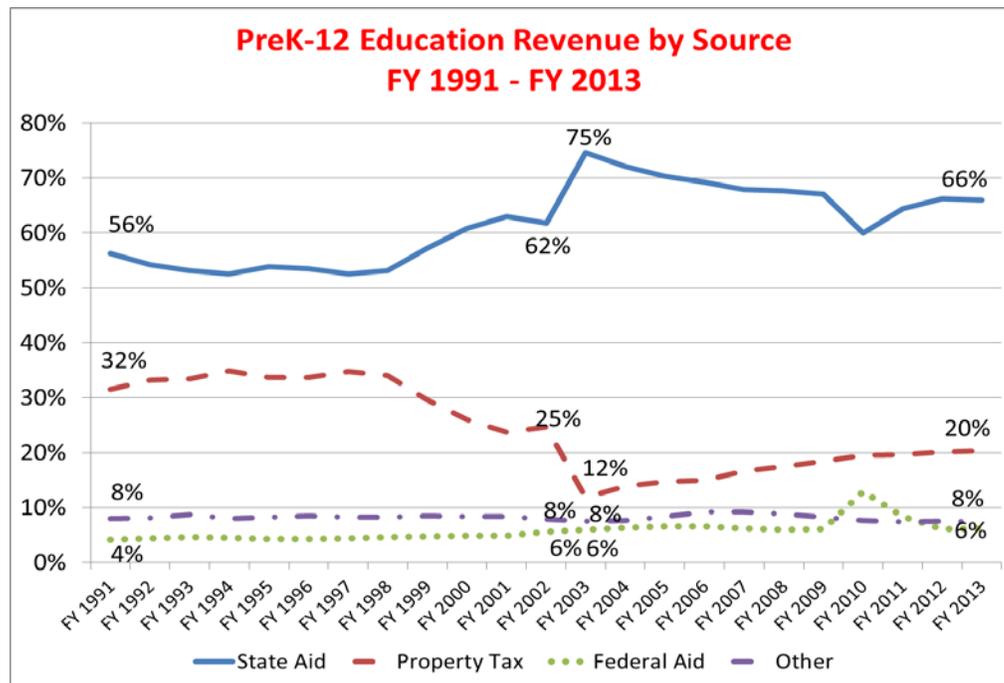
a. Minnesota Constitution, Article 13, Section 1

- i. It is the duty of the legislature to establish a general and uniform system of public schools.....
- ii. The legislature shall make such provisions by taxation or otherwise as will secure a thorough and efficient system of public schools throughout the state.....

b. Minnesota Supreme Court, *Skeen v. State of Minnesota*, August 20, 1993

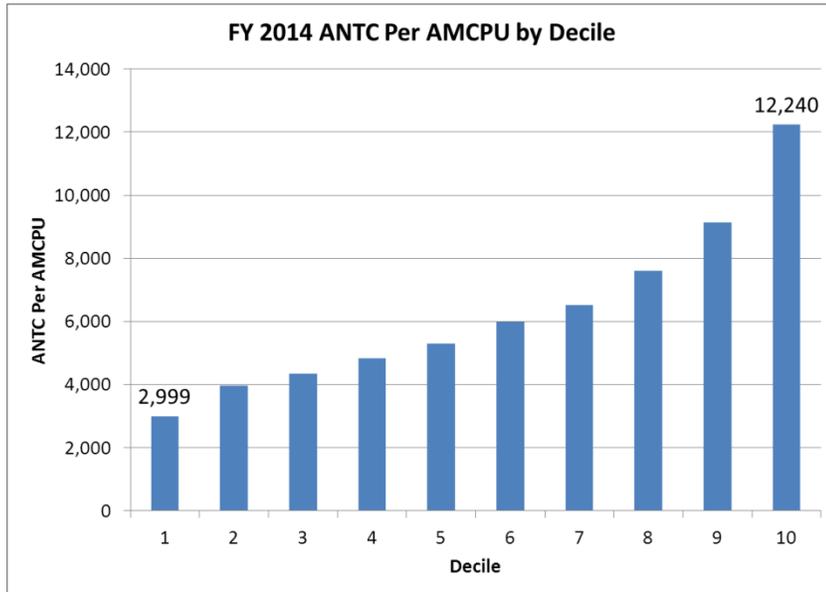
- i. Education is a *fundamental right* in Minnesota.
- ii. Our decision ...requires the state to provide enough funds to ensure that each student receives an adequate education and that funds are distributed in a uniform manner...

2. State reliance on local property tax to fund a portion of E-12 education

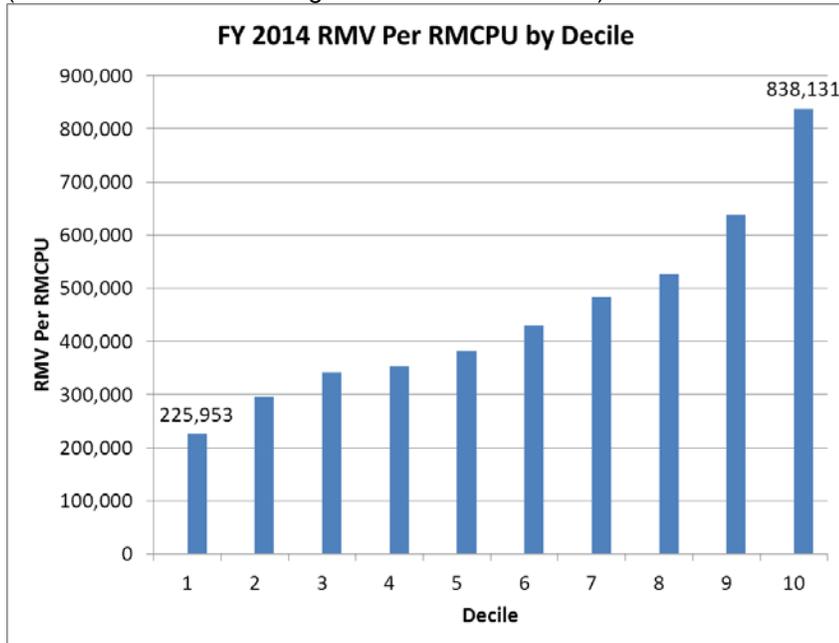


3. Variation in Tax Base Among School Districts

- a. Adjusted Net Tax Capacity per Adjusted Marginal Cost Pupil Unit (4.1 to 1 ratio between highest and lowest deciles)



- b. Referendum Market Value per Resident Marginal Cost Pupil Unit (3.7 to 1 Ratio between highest and lowest deciles)



4. Given (1) the constitutional requirement for the state to provide a general and uniform, thorough and efficiency system of public schools, (2) the state's reliance on local property taxes to fund E-12 education, and (3) large disparities in property tax base among school districts, school levy equalization is needed to reduce wealth-related disparities in educational opportunity and tax burdens among school districts.

## History of Levy Equalization

**1915:** State equalization aid was initiated. School districts with operating levies exceeding 20 mills were granted supplemental aid equal to 1/3 of the amount raised by the levy in excess of 20 mills, up to a maximum of \$1,800 for a graded elementary school or \$2,500 for a high school. The supplemental aid program was gradually expanded in subsequent years.

**1957:** Foundation (general education) program enacted, taking effect in FY 1958. Key elements of the foundation program included: (a) all districts received a uniform formula allowance per pupil unit (\$240 for FY 1958 which was 84% of the average operating cost per pupil unit), and (b) all districts were required to make a uniform basic levy (set at 16.5 mills times adjusted assessed valuation for 1958).

**1971 & 1973:** Minnesota Miracle enacted.

- State share of school operating revenues increased from 43% to 65%.
- Total state taxes increased by 23% (\$581 million), largely by increasing the tax rates for state income and sales taxes. Property taxes reduced by 15 - 20 %.
- Foundation formula allowance increased from 55% of state median operating cost in 1971 to 93% of state median operating cost in FY 1973, with six-year phase-in for low-revenue districts.
- The uniform basic tax rate increased from 20 mills to 30 mills. Uniform statewide levy limits were imposed for the first time on school districts; the limits could be exceeded only if approved by voters in a referendum.

**1991:** Referendum equalization enacted beginning in FY 1993—referendum revenue equal to 10% of formula allowance (\$305 for FY 1993) equalized at 50% of general education equalizing factor. Beginning July 1, 1991, referendums must be expressed as a rate per pupil unit, and are limited to five years. Referendums approved after Nov 1, 1992 must be spread on market value. Cap on referendum revenue per pupil unit initiated beginning in FY 1993. • Debt service equalization enacted but vetoed by Governor Carlson.

**1992:** Debt service equalization enacted. Debt levy over 10% tax rate equalized at 50% of the equalizing factor, beginning in FY 1993.

**1993:** Referendum equalization fixed at \$315/PU and equalizing factor increased from 50% to 100% (1993). Supplemental and referendum revenue reduced to offset \$100 formula increase in FY 1995.

**1994;** Maximum years for referendum increased from 5 to 10.

**2001:**

- Beginning in FY 2003, the General Education levy is eliminated and replaced with state education aid.
- \$415 referendum transfer: \$415 is added to the basic formula, and the first \$415 per pupil unit of referendum revenue is eliminated. Districts with less than \$415 of referendum revenue receive a net revenue increase equal to the difference between \$415 and their referendum allowance per pupil unit.
- Beginning with taxes payable in 2002, agricultural land (excluding house, garage and one acre) and cabin property are exempted from the operating referendum levy.

- The cap on referendum levies is set at the greater of 18.2% of basic formula (\$837/PU in FY 2003), or 116.2% of the district's FY 1994 referendum
- The first \$126/PU of remaining referendum revenue is fully equalized (\$476,000 equalizing factor); remaining referendum revenue up to cap is partially equalized (\$270,000 equalizing factor). For districts receiving sparsity aid, there is no cap, and partial equalization applies to the full levy above \$126/PU.
- Beginning with taxes payable in 2002, additional debt service equalization aid is provided to districts with debt service tax rates exceeding 25% of adjusted net tax capacity.

**2003:** Beginning in FY 2005, school districts must levy for a portion of operating capital, transition, and equity revenue. Referendum cap inflated based on CPI.

**2005:** Referendum cap increased from 18.6% to 26% of the formula allowance, beginning in FY 2007; tier 1 referendum equalization increased to \$600/PU in FY 2007 and to \$700/PU in FY 2008 and later.

**2006:** Beginning with referendums held in 2006, allows a school district to include an inflation adjustment in operating referendum ballot questions.

## **Mechanics of Levy Equalization**

### **1. Uniform Levy Approach**

- All districts levy the same tax rate to qualify for full formula funding.
- A district's state aid equals the difference between the full formula-based revenue for the district and the amount raised by the uniform rate in the district.
- The state total levy may be expressed in statute as a fixed dollar amount, or a statewide tax rate may be specified in statute.
- Used for general education levy from 1957 – 2001.
- Currently used for Community Education and Early Childhood Family Education levies.

### **2. Equalizing Factor Approach**

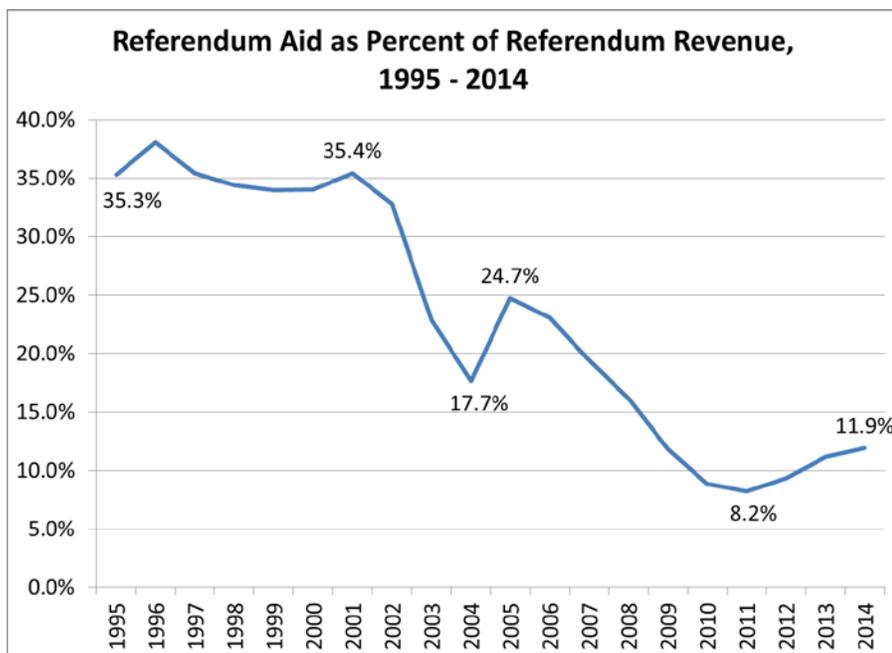
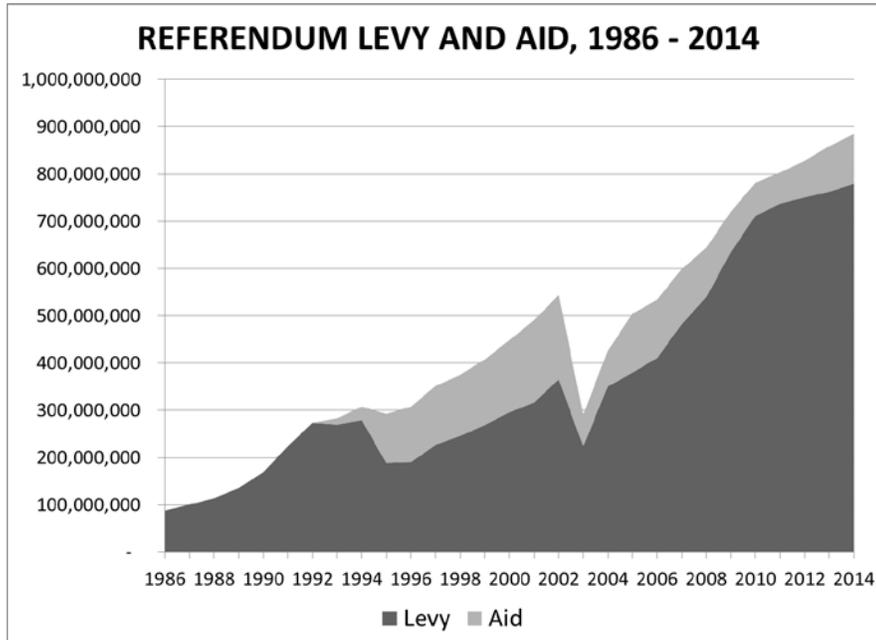
- Also called guaranteed tax base or percentage equalization approach.
- Equalizing factor is defined in statute as a certain amount of property tax base per pupil unit.
- A district's local property tax share of funding equals the ratio of the district's tax base per student to the equalizing factor, not to exceed 1. A district's levy equals the formula-revenue times the local share.
- A district's state aid equals the difference between the full formula-based revenue for the district and the amount raised by the uniform rate in the district.
- Currently used for operating referendum, debt service, operating capital, deferred maintenance, health & safety, transition, equity, Q Comp, and school age care levies.

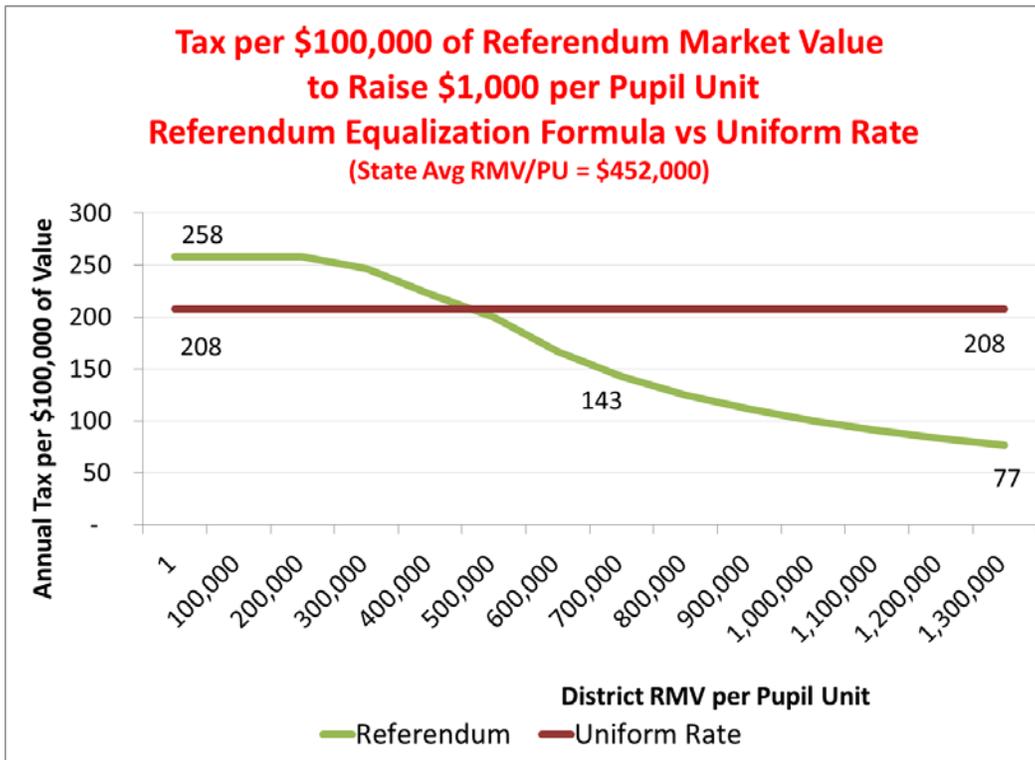
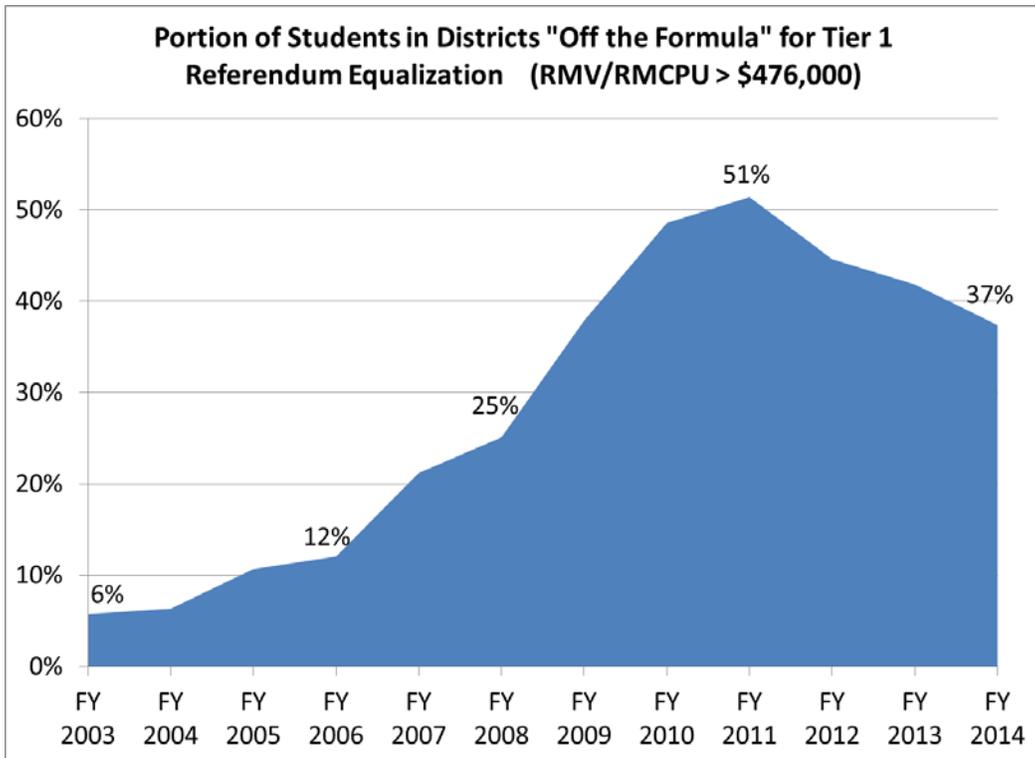
### **3. Unequalized Levies**

- Other school levies are "unequalized", meaning that the district levies the full amount of the revenue, with no state aid to adjust for variations in local tax base.
- Currently used for safe schools, building lease, OPEB, alternative facilities, integration (30% local share), reemployment insurance, and other smaller levies.

## Operating Referendum Equalization

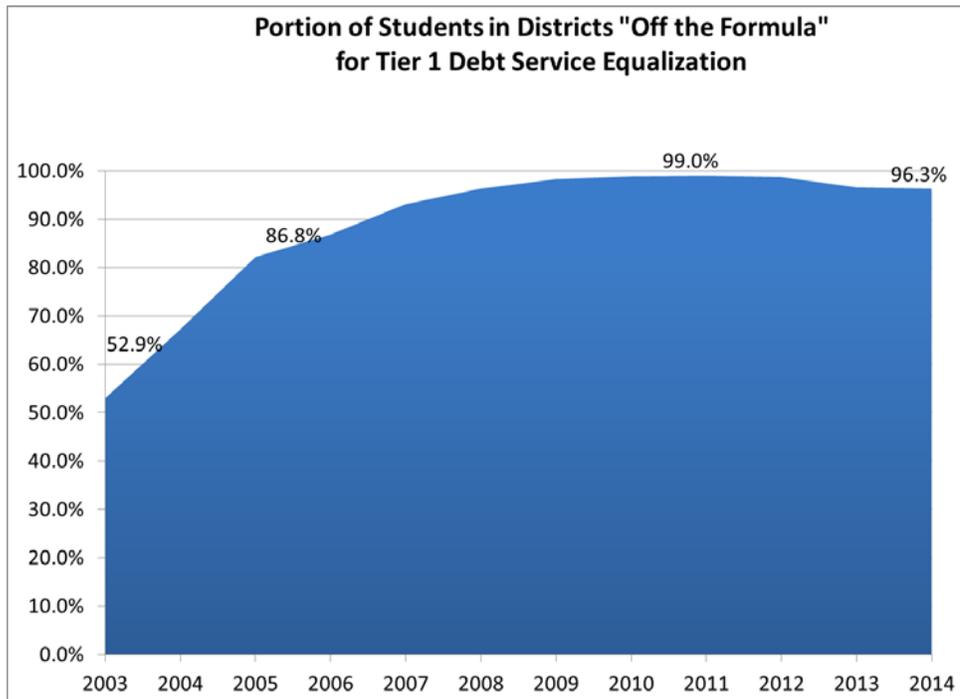
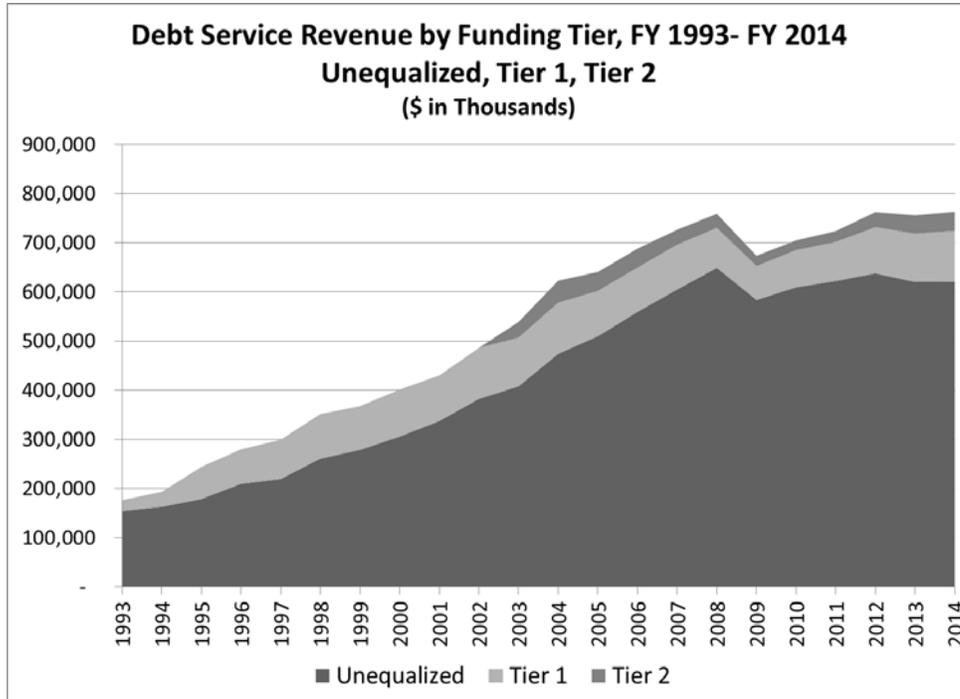
- Tier 1 Equalization: First \$700 / RMCPU; Equalizing Factor = \$476,000 / RMCPU
- Tier 2 Equalization: Referendum over \$700, up to 26% of Formula Allowance (\$1,358 in FY 2013); Equalizing Factor = \$270,000 / RMCPU
- Referendum Tax Base Replacement Aid – guarantee that referendum aid will total at least as much as the portion of a district's referendum levy over \$415/RMCPU paid by seasonal recreational and ag land properties for taxes payable in 2001

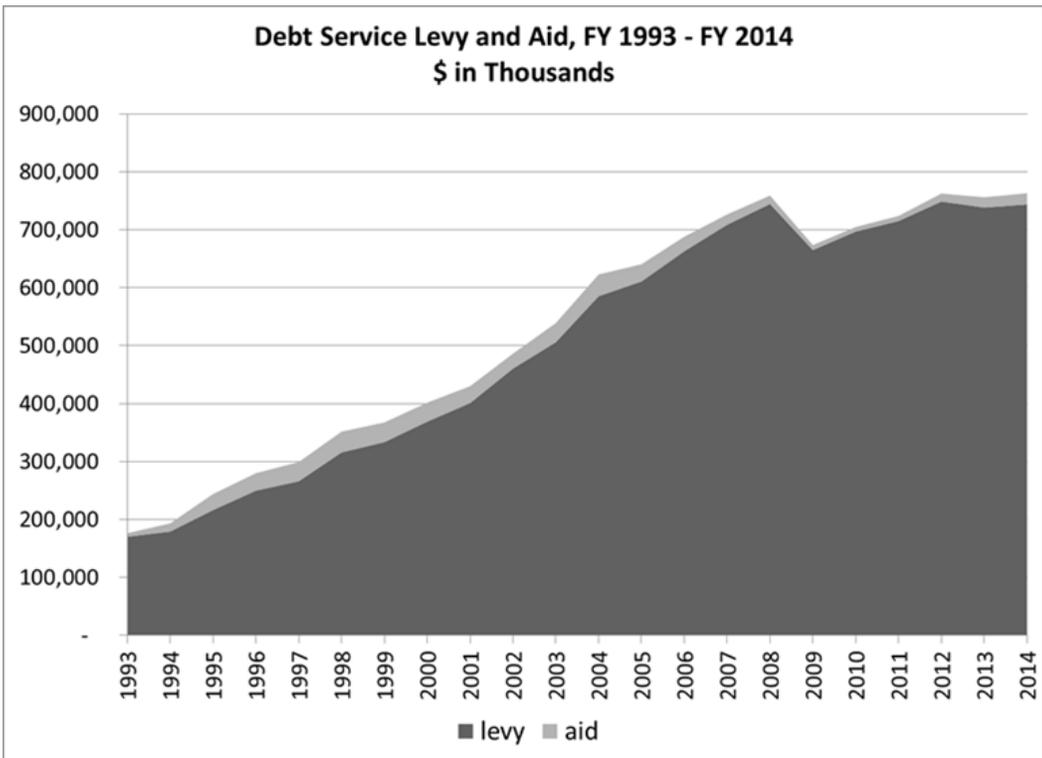
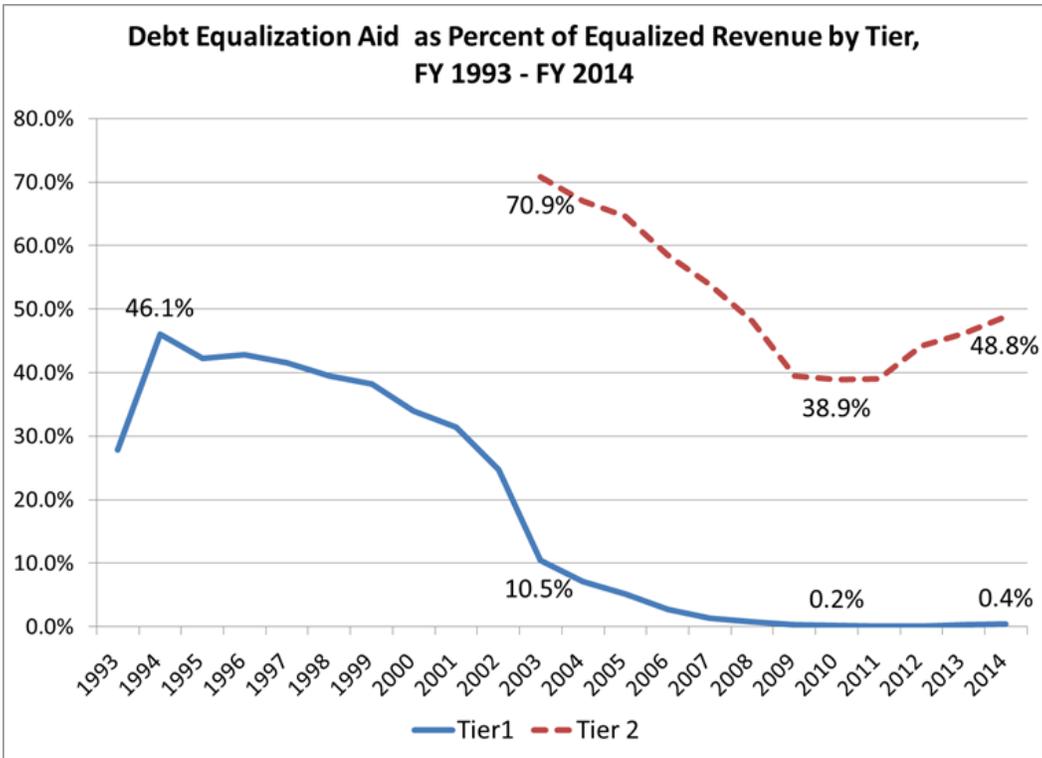


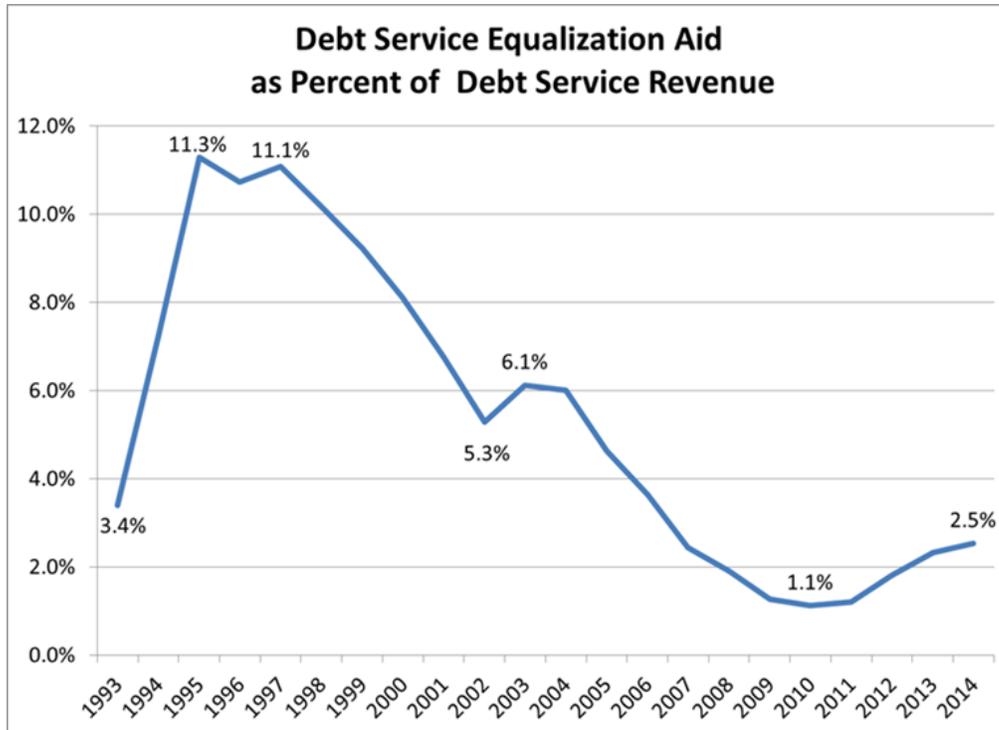


### Debt Service Equalization

- Unequalized Portion: Amount up to 15.74% of ANTC
- Tier 1 Equalization: Amount between 15.74% of ANTC and 26.24% of ANTC; Equalizing Factor = \$3,049 / APU
- Tier 2 Equalization: Amount over 26.24% of ANTC; Equalizing Factor = \$7,622 / APU







### Other Levy Equalization

The table below summarizes other revenue formulas with an equalized levy component for FY 2003 and FY 2014: Some programs that were all aid in FY 2003 are now a mix of aid and levy.

### School Levy Equalization FY 2003 vs FY 2014

\$ in Millions

Revenue Category	FY 2003		FY 2014	
	Revenue	Percent Aid	Revenue	Percent Aid
Operating Capital	198.4	100.0%	198.6	43.6%
Equity	34.6	100.0%	93.6	23.1%
Transition	0	n/a	29.9	22.7%
Q Comp (equalized levy portion)	0	n/a	22.7	8.4%
Health and Safety	131.7	6.8%	51.5	1.0%
Deferred Maintenance	0	n/a	26.2	14.1%
Community Education	39.0	20.0%	39.2	2.3%
Early Childhood Family Education	42.1	47.5%	44.7	50.3%
Extended Day Disabled	6.7	1.5%	13.2	0.0%

In addition to programs with an equalized levy formula, the integration program uses a combination of state aid (70% of revenue) and an unequalized levy (30% of revenue) to reduce levy disparities among districts.