

A SEE Position Paper on Equity Legislative Priorities

SCHOOL TAX RELIEF AND REFORM

The biggest financial challenges facing Minnesota schools are the erosion of the basic formula and the growing unfunded costs of providing special education services. Because of this, Minnesota is spending thousands of dollars less per student in the classroom today than what was spent to educate students in the early 1990s. Given the inability of the state to provide enough state-generated revenue for schools, districts are increasingly going to voters to seek additional revenue needed to maintain programs and meet the growing educational needs of students.

Without significant commercial and industrial development to expand the tax base and lower the overall taxpayer cost, the cost for school levies falls heavily on the local home and small business owners in low-property wealth districts. This reduces the amount of revenue local taxpayers can provide to support their local schools.

Through increased equalization—additional state aid to reduce the amount collected through local school property taxes in low-property wealth districts—this inequitable property tax burden and the growing educational opportunity gaps can be reduced. The quality of a student’s education should not depend merely on where they live.

Thus, SEE asks the legislature and the governor to work together during the 2019 Legislative Session to accomplish the following.

- **Increase state aid in low-property wealth school districts for local school operating and building bonds levies** by increasing equalization for both the referendum and debt service by \$50 million each and increase the lease levy equalization program.
- **Index all tiers of equalization to inflation** to prevent the further erosion of the programs.
- **Funding for school levy equalization must come from the tax committee’s budget target** rather than the education target. School levy equalization provides property tax relief and must be part of the overall state tax policy.

Background

Increase Equalization for Operating Referendum and Building Bond Levies

Operating Referendum

The referendum equalization program was created to assist low-property wealth school districts in their efforts to pass voter-approved levies. The equalization factors used to calculate the state’s share of the local levy are based on average property values from the early 1990s and have not been indexed to keep pace with inflation. That has put the taxpayers in low-property wealth districts at a disadvantage when trying to access local property tax revenue to support their schools.

For example, the state of Minnesota sets a maximum amount that a school district can generate in operating revenue through local property taxes. To get to this level, a district must ask local taxpayers to support an operating referendum. The average annual taxpayer cost for this levy in a high-property wealth district is \$441. However, for SEE districts, which tend to be low-property wealth districts, the average cost is \$1,016, over two times as much in taxes to generate the exact same level of funding for their local schools. Due to the high taxpayer cost, most school districts receive significantly less revenue through local property taxes. For example, the highest-property wealth districts currently generate an average of \$1,972 per pupil in operating referendum revenue to support their students. While in SEE districts, that average amount drops to \$964 per pupil, which creates significant educational opportunity gaps for students in low-property wealth districts. This opportunity gap shows up in higher class sizes, less music and arts programming, inadequate supports for students that are struggling, fewer options for rigorous courses that transfer into college credits, and in many other ways.

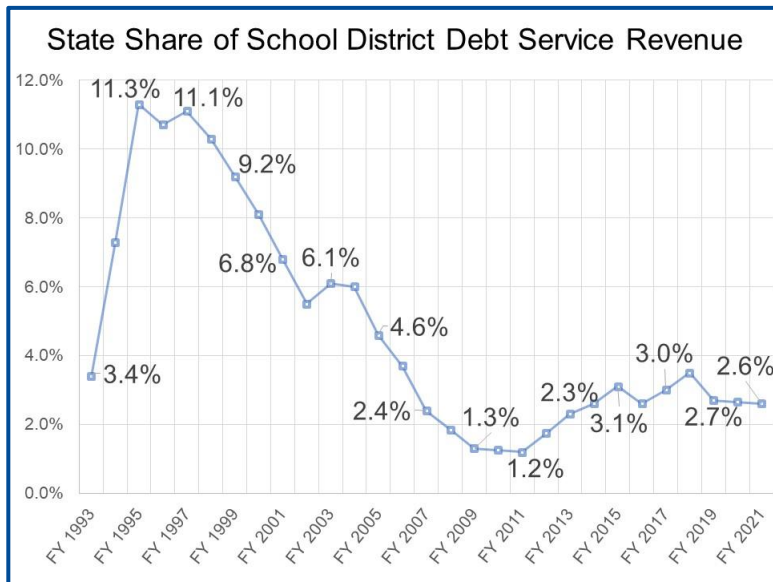
	*Taxpayer Cost for Max Operating Levy	**Districts’ Actual Operating Levy per Pupil
Highest-property Wealth Districts - Top 5%	\$441	\$1,972
SEE Districts	\$1,016	\$964

* The average annual taxpayer cost for a \$2,387 per pupil operating levy, which is the maximum allowed by law, for a \$200,000 home or business if approved by the school board and local taxpayers.

** The average actual amount in operating levy per pupil that the school districts raise through local property taxes.

SEE recommends that the legislature appropriate an additional \$50 million per year for the referendum equalization program. Increased equalization should focus on Tier 2, the portion of a referendum between \$300 and \$760 per pupil.

Debt Service



Debt service is the revenue collected from local property taxes to pay off voter-approved building bonds. The debt service equalization program was created to provide property tax relief to taxpayers in low-property wealth school districts to promote tax fairness as they voted to build new and improve existing school facilities. This program has not been significantly upgraded over the past 28 years and the amount of aid distributed to taxpayers in low-property wealth school districts has plummeted. The chart to the left shows how the state's share of the total debt service burden has dropped dramatically. In 1995, the state picked up just over 11.3% of the state total debt service attributable to voter-approved bond levies. That percentage now sits at 2.6%.

Quality learning environments with up-to-date safety and instructional features are crucial to providing equitable high-quality educational opportunities throughout the state. To ensure that all students have

access to these opportunities and taxpayers are treated fairly on a statewide basis, **SEE recommends the legislature appropriate an additional \$50 million per year for the debt service program.**

When operating referendum and debt service equalization is increased it must be indexed to inflation so that the effectiveness of the program does not erode with time as it has done in the past.

Equalization Aid for School-related Levies Must Come from the Tax Committee

Tax provisions related to education funding are a large part of Minnesota's overall property tax framework. State aid for equalization benefits local taxpayers by providing dollars for tax relief in low-property wealth districts. School districts do not receive any equalization revenue. These initiatives are tax policy and tax fairness issues and should not be in competition with dollars that could go directly into the classroom through the education committee's budget target.

Minnesota has a long history where major education tax reforms start in the tax committees.

- The Minnesota Miracle of 1971 was carried in the tax omnibus bill. The Minnesota Miracle catapulted Minnesota's public schools to the best in the nation. A uniform and more robust system of funding was accomplished by shifting away from the heavy reliance on local property taxes to expanded state aid.
- The 2001 property tax reform, which converted the property tax portion of the basic formula into state aid to lower property taxes, was in the tax omnibus bill.
- The 2013 and 2014 tax provisions in the tax omnibus bills created a stable stream of operating revenue from property taxes through school board approval. Corresponding equalization was included to make this funding more affordable for taxpayers in low-property wealth districts.

Therefore, **funding for equalization should be paid from the tax committee's budget.**