GREATER MINNESOTA
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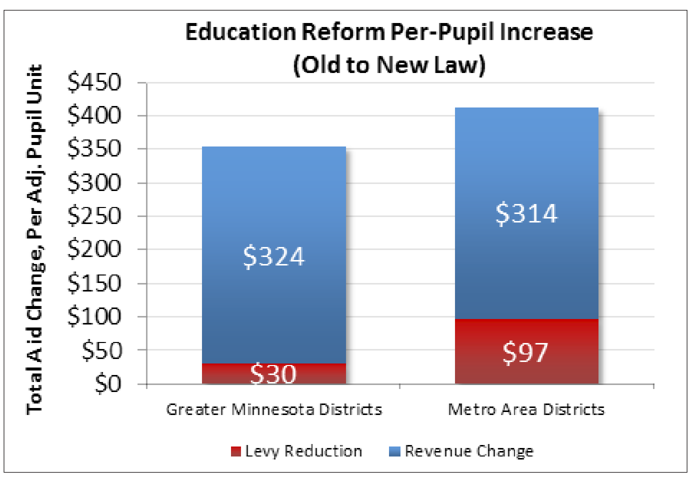
Impact of education bills depends on where you sit

It was a big year for education in 2013 with major changes including all-day kindergarten, funding for career and college readiness, and advancements for early-childhood education.

Less well understood, however, are the many complex changes in the way district levies and state funding interact. The per-pupil impacts of these changes are shown in the chart below, but as a whole $130 million in aid or levy reductions went toward Greater Minnesota and $174 million went toward the metro area.

There were several changes that will impact the finances of school districts in future years. First, there is a new general education levy set at $20 million for the first three years and levied against each district's adjusted net tax capacity (which will be about 0.34% of each district's ANTC). The general education levy existed from the Minnesota Miracle of 1971 through 2001, and will be a statewide property tax that is equally distributed across the state.

Second, there were various funding-equalizing measures included in the tax bill. There was a new three-tier equalizing system for referendum revenue, which for most districts reduces referendum levies and increases aid. In addition, the tax bill allowed for districts to convert $300 per pupil of voter-approved authority to board-approved authority. A new "local equity revenue" was also created to allow a district with property in the seven-county metro area to collect $424 per adjusted pupil unit and Greater Minnesota districts that enroll more than 2,000 students to collect $212 per pupil unit.



* Data provided by MN Dept. of Education

Besides the new funding for initiatives like all-day kindergarten and early-learning scholarships, the Education Bill also increases the per-pupil funding formula by 1.5 percent each year.

With the many complex changes that took place, it may have been challenging to determine where things stood as the dust settled after the 2013 session. As with many of the things the legislature did in 2013, the common assumption that they primarily benefited rural communities does not appear, with closer analysis, to be necessarily true.

Total major property tax aids and credits show relative parity between regions

The policy and funding changes enacted in 2013 show relative parity between Greater Minnesota and the metro area. This is contrary, however, to the impression of many after the session that perhaps Greater Minnesota got the better end of the bargain.

Greater Minnesota continues to receive the larger share of LGA (which makes sense, as the program is based in part on relative share of tax base) but as discussed in the Nov. 5, 2013 edition of the Advocate, all of the new money in 2013 and all new money going forward will be split roughly 50/50 between rural Minnesota and the metro area.

With each week the trend data on the Homestead Credit Refund (HCR) comes into clearer focus. The Dec. 19, 2013 edition of the Advocate looked at the levers used to provide property tax relief, especially when it comes to income.

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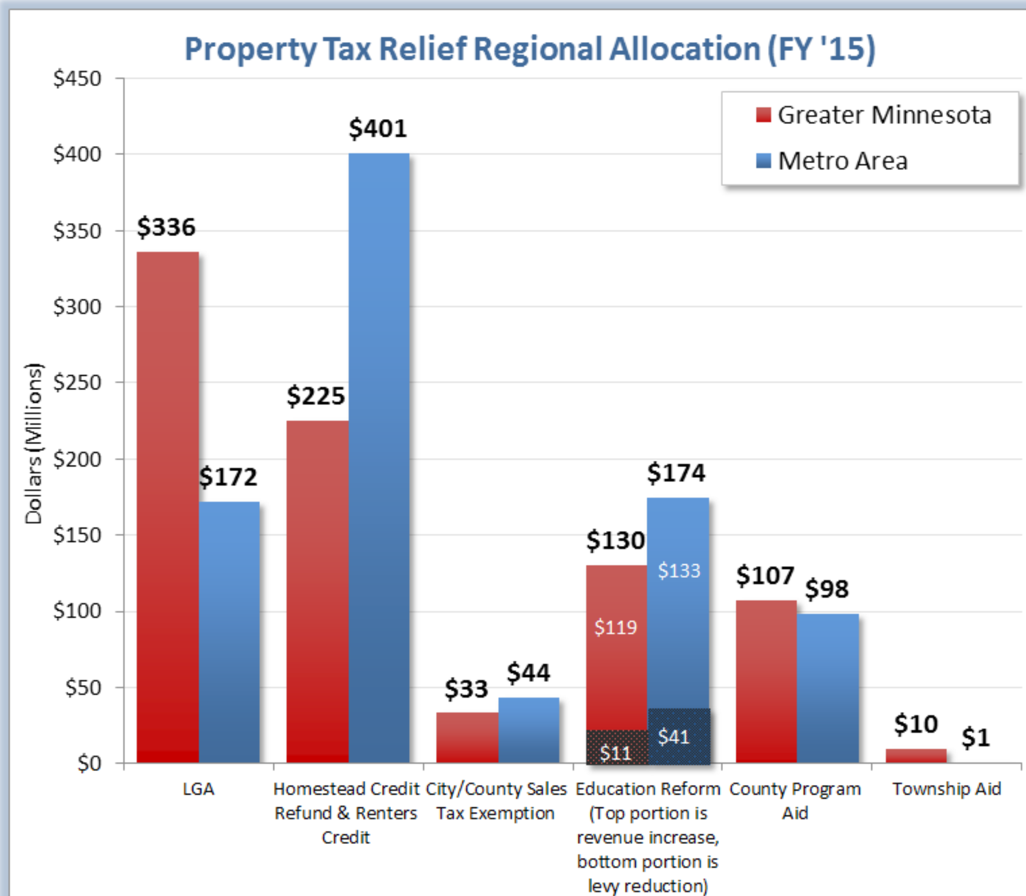
The graph to the right looks at geographic distribution and is based on an extrapolation of what we already know about current filers in the program (as a result, we believe the graph's estimation of the gap between regions is likely conservative).



LGA data provided by the Department of Revenue. Homestead Credit Refund reflects the November forecast and House Research/Department of Revenue data on current filers. City/County Sales Tax Exemption data provided by Senate Counsel and held flat at FY '14 level. Levy reductions reflect all education reforms, including location equity revenue and referendum equalization, as well as district referendums following the 2013 legislative session.

The education changes discussed on the front page are somewhat surprising given the common assumption during session that they primarily benefit Greater Minnesota. The distribution of County Program Aid (CPA) and the new Township Aid are not surprising. While new money was added to the CPA program, the formula was not changed.

As the summary graph indicates, the current distribution of property tax changes based on 2013 session action contains more parity in FY 2015 than perhaps many believed. CGMC will continue to analyze the impact of these changes as more data becomes available.

LGA results in property tax restraint; community reinvestment

November and December saw a flurry of discussion about preliminary local government levies which showed a potential 2% increase for 2014 (final levy certifications were due by the end of December and will inevitably come down from the preliminary level). Largely lost in the media reporting was an appreciation for the diligent work done by local officials to set responsible city budgets that reflected the needs of their communities.

As noted in a Nov. 29, 2013 Star Tribune column from CGMC President Randy Wilson, even at 2.1% the preliminary levies (sure to come down) represent the third-lowest increase in the last 25 years. Moreover, a 2.1% increase is less than half the average (5.3%) for the last 10 years.

Over the next several weeks the CGMC will share examples from cities across the state of the positive impact the LGA increase had in restraining property taxes, allowing for community reinvestment, and increasing property tax equity.

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