OBJECTIVES OF PRESENTATION

• Identify General Property Tax Collection methods for School Districts & Review Tax Terminology
• Review the Levy Cycle and Timelines
• Identify Levy Components and Requirements
• Review how Levy revenues are recorded
• Review Year End checklist of tax reconciliation steps

DISCLAIMER

• Not all counties report information using the same format or verbiage and may do things unique to their county.
• Not all auditors balance taxes using the same method. You should always check with your auditors before making final adjustments.
• We are focusing on concepts and the general reconciliation process. Districts are responsible for their own tax entries and adjustments.
Why Do Schools Receive Tax Revenue?

The State mandates that some school district revenue must come from property tax collections. In some cases the entire category of revenue will come from taxes, and in other cases it will be a combination of state aid and tax collections.

School districts can also ask the voters through a referendum to agree to raise their property taxes to assist the school district in paying for school district improvements (bond referendum) or to increase revenue to help pay for ongoing general expenses (operating referendum). Districts will also be able to ask voters to approve a tax increase to pay for OPEB obligations if they qualify.

The Legislature may also allow districts to choose to collect property tax revenue without voter approval in specific categories as long as they are eligible.

Which Property Owners Pay Taxes to School Districts?

- There are 2 general categories that determine how the county auditor calculates the school district taxes owed by each parcel of property.

  - **Net Tax Capacity (NTC)**
  
  - **Referendum Market Value (RMV)**

Net Tax Capacity (NTC)

- NTC includes all parcels of property in the school district. Formulas take into consideration the classification of the property (class rate), such as Homestead, Commercial/Industrial, Agricultural, Seasonal Recreational, etc, along with Taxable Market Value to come up with a NTC value.
- NTC HOMESTEAD properties may qualify for the Homestead Market Value Exclusion. This calculation “artificially” lowers the value of the property only in terms of determining what amount taxes should be spread on. This replaces the old Homestead Market Value Credit.
**Net Tax Capacity (NTC)**

- Let's look at some examples of an NTC calculation for sample parcels of property.

We will look at how this calculation is used to determine taxes later in the presentation.

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**Determining NTC Value of Property Parcels**

**Example #1:**
- **Property Classification:** Residential Homestead
- **Taxable Market Value:** $245,000 (after Homestead Market Value Exclusion)
- **Class Rate Applied:** 1a (First $50,000 @ 1%, > $50,000 @ 1.25%)
- **Calculation (NTC):** $245,000 x .01 = $2,450

**Example #2:**
- **Property Classification:** Commercial Industrial
- **Taxable Market Value:** $1,300,000
- **Class Rate Applied:** 3a (First $150,000 @ 1.5%, > $150,000 @ 2%)
- **Calculation (NTC):**
  - $150,000 x .015 = $2,250
  - $1,150,000 x .02 = $23,000
  - $25,250

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**Homestead Market Value Exclusion**

- There is no longer a Homestead Market Value Credit. In its place, a Homestead Market Value Exclusion was created to lower the Taxable Market Value (TMV) for qualifying Residential Homesteads.
- The calculation is similar to the old Homestead Market Value Credit.
- For homes valued at $76,000 or less, the reduction in TMV is equal to 40% of the current TMV.
- RES HMSTD valued at greater than $76,000 there is a deflator calculation of 9% of the current TMV less $76,000
**Homestead Market Value Exclusion**

**Example 1:**
RES HMSTD TMV: $50,000
$50,000 x 40% = $20,000
New TMV Value: $50,000 - $20,000 = $30,000

This is the “value” of the property for tax spread purposes only. The home is still assessed at $50,000.

**Homestead Market Value Exclusion**

**Example 2:**
RES HMSTD TMV: $125,000
$76,000 x 40% = $30,400
LESS: (125,000-76,000) x 9% = $4,410
Exclusion: $34,400 - $4,410 = $25,990
New TMV Value: $125,000 - $25,990 = $99,010

**Referendum Market Value (RMV)**

- A few categories of the school tax levy use Referendum Market Value (RMV) to determine how much parcels of properties pay.
- There are certain parcels that are EXCLUDED from paying for RMV based school levies.
**Referendum Market Value (RMV) — Excluded Classifications**

- The remainder of Agricultural Property after the House, Garage, & 1 Acre (2a)
- Nonhomestead Agricultural Land (2b)
- Managed Forest Land (2c)
- Noncommercial Seasonal Residential Recreational (4c(1))
- 55% of the Taxable Market Value of a Blind/Disabled Homestead up to $50,000 (1b)
- 50% of the first $600,000 of a Comm. Seasonal Residential Rec. used less than 250 days per year and includes Homestead. (1c)
- 25% of Qualifying Low Income Rental Housing (4d)

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**Referendum Market Value (RMV)**

- Referendum Market Value is based on each parcel’s Taxable Market Value (TMV), which could vary from the Assessed Value (Estimated Market Value or EMV) of the property if certain limitations apply.

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**How do we figure out what Property Owners must Pay?**

- The basic premise is all of the property values of each taxing jurisdiction are pooled together to get a total amount. The total amount of taxes needed to be collected by the entity, such as a school district, is then divided by the total pool to get a **TAX RATE**.
- The tax rate is then multiplied by each parcel’s RMV or NTC to get the initial taxes due.
- **Tax credits** are then applied (if available) to those properties eligible and final taxes owed are calculated.
**Tax Rates: An Example**

- **Example 1:** A School District needs to collect $1,000,000 in taxes from all eligible properties in NTC. The NTC total for the school district is $5,300,000.
  - The Tax Rate is: $1,000,000/$5,300,000 = \(0.1887\)
  - A Res. Homestead valued at $245,000 has a NTC of: $245,000 x .01 = $2,450
  - The Initial Taxes for the school district before credits would be: $2,450 x .1887 = $462.31

- **Example 2:** A school district is collecting $780,000 a year on an Operating Referendum. The RMV for the entire district is 600,000,000.
  - The Tax Rate is: $780,000/600,000,000 = \(0.0013\)
  - A Commercial Industrial property has a TMV of $350,000
  - The Initial Taxes for the school district before any adjustments would be: $350,000 x .0013 = $455.00

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**General Concepts & Terminology**

- **A Quick Review:**
  - **Taxable Market Value (TMV)** – the assessed value of each property after any applicable exclusions.
  - **Net Tax Capacity (NTC)** – a formulated value of a property that will be used to determine some property tax calculations. NTC needs the **Property Classification** (residential, commercial, seasonal, etc) to determine the **Class Rate**.
  - **Class Rate** – a listing of percentages used to calculate the NTC of each property. The **Class Rate** is multiplied by the **Taxable Market Value** to get the **Net Tax Capacity**.

The State determines which categories of school district revenues are collected based on Net Tax Capacity values.
General Concepts & Terminology

A Quick Review (cont.):
Each parcel's Referendum Market Value is their Taxable Market Value less any exclusions.
So...not all properties are required to have a Referendum Market Value (see listing).
A school district's total Referendum Market Value is the total of all eligible Taxable Market Values.

A Tax Rate is determined by taking the amount of taxable revenue to be collected (LEVI) divided by the total Net Tax Capacity or Referendum Market Value.
The Tax Rate is then multiplied by the NTC or RMV of each property to determine the initial taxes due. More adjustments may happen to change the final tax per parcel.

The Next Big Question:
How do we collect our tax dollars?

Levy Limitation and Certification Process
The Levy Cycle
School Districts start the levy process 6 months before the calendar year the taxes are collected in and one year before the Fiscal Year the taxes are recorded in. The Minnesota Dept. of Education creates the Levy document. Certified in 2015 PAY 2016 for FY 2017

- District Board adopts Final Levy in December 2015 – Levy process actually starts based on the
- Property Owners pay Taxes in May 2016 and October 2016
- Reconciliation entries are required since tax receipts fall into 2 different Fiscal Years.

Important Dates to Remember:
(see MDE website for specific dates/deadlines)
- May: Legislative Changes and Budgets for Career & Technical.
- July: Debt Service Loan Requests, Disabled Access Levy Authority Application, Health & Safety Revenue Applications
- August (& September): Summer Levy Information System
- Initial Data Populates the Limitation. ALSO, the date to notify the county you will be running a referendum was moved from September to August.
(see MDE Summer Levy Memo for instructions/deadlines)

The Levy Cycle
- September:
  - MDE publishes Levy Certifications
  - Districts submit levy changes before certifying proposed levy
  - Certify Proposed Levy to County Auditor
  - Announce date of TNT budget and levy discussion at the meeting where the proposed levy is certified (everyone has to have a TNT meeting now).
The Levy Cycle

• October/November: You can choose to change your levy from the proposed that was certified in September, but you cannot increase your levy unless it meets one of the few exceptions.
• November 7, 2017 is general election day.

The Levy Cycle

• November: The county will send out proposed tax statements based on your certified *proposed levy*. This statement will have the date, time, and location of your Truth in Taxation discussion, which may be held at a regular school board meeting. You may have changed your levy since the proposed or you may choose to reduce portions of your levy, which you can explain at your TNT hearing.
• TNT hearings may happen this year from November 27-December 30 as long as you meet all levy requirements.

The Levy Cycle

• December: Most districts will be holding their TNT hearings at their regular board meeting in December. Districts must discuss their budget and levy and must allow the public to speak. The meeting must be held after 6pm.
• School boards must approve the final certified levy to the county auditor by December 30.
**Levy Certification**

- The levy certification calculates by category the different tax revenues the school district will receive. Funds, 01-General, 04-Community Service, 07-Debt Service, and 47-OPEB may have revenues coming from property taxes.

- Categories of revenues are considered one of the following:
  - **Equalized** (a calculation will determine how much revenue will be Levy and how much will be Aid)
  - **Unequalized** (100% of revenue comes from property taxes)
  - **Tax Rate Levy** (a certain portion of revenue will be Levy and if more revenue is allowed, the remainder will be Aid)

**Levy Limitation Document**

- For this workshop we will be looking at the 15 Payable 16 levy certification since this is the main levy that districts will use to reconcile their revenues for Fiscal Year 2017 (FY17).

- But in order to properly record all taxes, districts will also need the 16 Pay 17 certification.

**Levy Limitation Document**

- General Input Data includes **Property Values** and **Student Data**
  - This information drives many of the formulas that calculate the amount of revenue a district is entitled to and the amount of Levy to be collected.
  - Property Values come from County Assessors and Student Data comes from MARSS and from District Estimates
**Levy Limitation Document**

- **Initial Computations By Fund**
  
  The Document first includes what revenues a district may be entitled to and then it breaks it down by Aid and Levy. There are some calculations on the Levy that are all Aid and others that are all Levy. These revenues are separated by Fund – General, Community Service, and Debt.

- **Levy Limitation Document**
  
  The next section of the levy includes adjustments from prior years. Adjustments may be due to updated estimates, updated student counts, final MARSS data, final UFARS data, Legislative changes, or directives from the MDE. Adjustments could increase or decrease your levy totals in certain funding categories.

- **Levy Limitation Document**
  
  The Abatement section of the levy allows for districts to recapture taxes that were reduced for properties in prior years. Districts may also receive abatement aid to cover lost taxes.
Levy Limitation Document

- Offset Adjustments occur only if a certain Levy category ends up as a negative amount due to Adjustments by Fund or Abatement Adjustments. Offset adjustments will “borrow” dollars from one levy category to zero out the negative in another.

Levy Limitation Document

- Total Levy Limitation Summary pages take all of the data from the calculations and summarize the levy obligations by levy category and fund. The supporting pages show the initial levy and also the adjustments that impact each levy category. All totals have line numbers that tie back to where the calculation was computed.

Now that we’ve seen how we get our tax dollars, how do we record them correctly?
Recording Tax Revenue

Disclaimer:
- Not all counties report information using the same format or verbiage and may do things unique to their county.
- Not all auditors balance taxes using the same method. You should always check with your auditors before making final adjustments.
- We are focusing on concepts and the general reconciliation process. Districts are responsible for their own tax entries and adjustments.

Recording Tax Revenue
- During FY17 you received tax payments from your County Auditor. Payments that correlate to your levy certification (RE & PP or NTC or RMV Tax Payments) are received in July, October, November, December, January, May, and June.
- Counties work on calendar years, so the payments received may not match the school district fiscal years they need to be in.

Recording Tax Revenue
- Your Statements of Remittance (Form 52) details out what revenues you have received from the county. There are other revenues besides taxes owed from the levy certification that you receive along with your taxes received. The statement of remittance will tell you how to code those revenues.
Recording Tax Revenue

- Before any year end entries are made, you should have the following tax revenues in SRC 001 (using your Stmts. of Remittance).
  - October 2016 First Advance
  - November 2016 Second Advance
  - December 2016 Clean Up
  - January 2017 Payment
  - May 2017 First Advance
  - June 2017 Second Advance
  - You may also have a July 2016 Clean Up Payment in SRC001 – this will get cleaned out by a reversing entry from FY16.
  - You may also have a July 2017 Clean Up Payment coming and that may be set up as a receivable into FY17 in order to reconcile your May/June Statement of Remittance.

Recording Tax Revenue

- **Step 1: Taxes Receivable**
  - Right now the May/June 2017 revenue is currently recorded in the wrong fiscal year – it belongs in FY18. The Taxes Receivable entry will estimate how much tax is still owed for Oct./Nov. 2017 by taking the Pay17 ([Using your School Tax Report received in April](#)) Levy less the May/June payments already made and then move the remaining taxes owed into FY17. You will debit Balance Sheet 110 (taxes receivable) for all applicable funds, and credit tax revenue SRC 001. (This total due will include any tax credit you will receive in FY18 in replace of taxes, or you can deduct the estimated credits if any)
  - We now have all of FY18's Tax Revenue sitting in FY17 (SRC 001). HEY, that's the WRONG YEAR!!
  - You will also want to reverse or adjust your FY16 taxes receivable entry. That removes the Oct./Nov. estimated taxes that was set up last year - the actual revenues have now been received and recorded.

Recording Tax Revenue

- **Step 2: Taxes For Subsequent Years**
  - An entry is now made to move all of that FY18 revenue into FY18 by taking the total levy amount from the Pay17 Levy [School Tax Report Pay17](#) and setting it up in Balance Sheet 235 in all applicable funds and lowering tax revenue SRC 001.
  - Be sure to check that the Prior Year's Taxes for Subsequent Years entry was reversed or adjusted. When you make the entry for this year, your BAL 235 should equal your Pay17 levy (temporarily).
**Recording Tax Revenue**

- **Step 3: Tax Shift Entry from MDE**
  - Now that all of FY18 revenue has been moved to FY18 through the Taxes for Subsequent Year’s Entry (it’s sitting in B-235 has a holding for now), we need to move part of that money back into FY17. The Pay17 levy (for FY18) includes some tax revenues that need to be recognized in FY17—these are early recognition items.
  - The MDE creates a spreadsheet that provides each district with the entry they need to make to move the appropriate revenue back into FY17.

**Recording Tax Revenue**

- The **Tax Shift** that districts experienced over the past few fiscal years is now over. The Tax Shift required a school district to recognize spring tax receipts that really belonged in the next fiscal year as revenue in the current fiscal year. This allowed the MDE to withhold General Education Aid payments in that same amount. The tax revenue replaced the aid amount so the net revenue the district received did not change.
- The district was “Owed” the amount of General Education Aid withheld from MDE, and those payments were made on June 20, 2014 via IDEAS.

**Recording Tax Revenue**

- **Step 4: Delinquent Tax Entry**
  - Unfortunately, not all taxpayers pay their taxes on time. The County Auditor keeps track of all of the delinquent taxes owed and sends each district a Taxes Receivable Report (Form 51).
  - The District needs to adjust 2 balance sheet codes (BAL 111 and BAL 231) to recognize the outstanding taxes still owed to the district. Or, in some districts, you may directly record all prior year tax receipts directly to the Balance Sheet account.
Recording Tax Revenue

Step 5: Spread Taxes to FIN Codes
- The Pay16 Levy Certification tells us which tax revenues belong in which revenue codes, and some need to be recognized with FINANCE (FIN) codes – those revenues need to be moved out of the regular tax code SRC 001 into a SRC 001 with the proper FIN code.

(see Pay16 Levy)
Make sure you do not spread revenues that are a part of the Tax Shift entry with FIN codes (Career Tech).

Recording Tax Revenue

- Not all of the revenue on the Levy Certification will come from Taxes – some will be substituted by Credits and those need to be taken into account. Replacing taxes may be:
  - Market Value Homestead Credits (SRC 234)
    - NOTE CHANGES TO CREDITS in FY13
  - Disparity Aid (SRC 229)
  - Disaster / Misc. Credits (SRC 258)
  - Fiscal Disparities (SRC 009)
  - Taconite Homestead (SRC 014)

Recording Tax Revenue

- Market Value Agricultural Credit (234) will come in the Fiscal Year it belongs in through MDE metered payments.
- Disparity Aid (229) will come in the Fiscal Year it belongs in through MDE metered payments.
- Fiscal Disparities (009) (Iron Range & Metro) will come through County Payments and may need reconciliation entries per your Auditor.
- Taconite Homestead (014) comes through County Payments and may need reconciliation entries per your Auditor.
Now that the entries have been made to record revenues in the correct fiscal years, let’s check over our final revenue codes to see if everything we should have received is recognized in our UFARS.

**Revenue Reconciliation**

- Taxes Receivable: BAL xx-110-000
  - What should be in here?
    Possibly a July Clean Up Check related to the May/June 2017 Statement of Remittance (some districts use Bal-xx-125-000 for this check)
    The Estimated Oct/Nov. 2017 Levy Revenue still owed to the District

**Revenue Reconciliation**

- Taxes for Subsequent Years BAL xx-235-000
  - What should be in here?
    The amount of the Pay17 Levy LESS Early Recognition and Tax Shift Items
Revenue Reconciliation

• Delinquent Taxes BAL xx-111/231-000
  - What should be in here?
  The amount of RE & PP (Tax Payments) that have not yet been paid in previous years.

Revenue Reconciliation

• Local Levy Revenue Acct. SRC 001
  What should be in here?
  Pay 16 Levy Certification
  LESS: Early Recognition Items moved out last year,
  Levy Revenue coming in the form of credits (Ag Credits, Disparity Aid, Fiscal Disparities, and Tac. Homestead), Property Taxes not yet paid (Delinquents), any other adjustments.
  PLUS: Early Recognition Items from Pay 17 Levy,
  Prior Year Taxes being paid now, any other adjustments

Revenue Reconciliation

• Fiscal Disparities Revenue – SRC 009
  – Entries hitting this account:
  • Receipts from County Reports
    – Not every district gets this.
  • Some districts may defer the May/June Payment into FY18 others may not.
    (Check with your auditor)
**Revenue Reconciliation**

- **Taconite Homestead Revenue - SRC 014**
  - Entries hitting this account:
    - Payments from County Reports
    - Some districts may defer the May/June Payments to FY18 and some may not.
      (Check with your auditor)

**Revenue Reconciliation**

- **Revenue from Agricultural Market Value Credits - SRC 234** and **Disparity Aid - 229** will come in metered payments through FY17 and a receivable will need to be set up for clean up payments from FY18.

**Revenue Reconciliation**

- **What revenues do we use to compare?**
  - **SRC 001** (minus any prior year tax revenues received and booked into 001) Be sure to look at all SRC 001 with FIN codes, too.
  - **SRC 009** (not every district gets this)
  - **SRC 014** (only taconite districts)
  - **SRC 234** (taxes coming as credits)
  - **SRC 229** (taxes coming as credits)
  - PLUS Current Year Delinquent Taxes (Form 51)
  - Plus or minus any reported adjustments on Form 51
**REVENUE RECONCILIATION**

- It is often helpful to print of finance reports after each step of the reconciliation process so you can track your entries and balances as you go.
- Errors can be made on County reports, and reconciling can help find those.
- Don’t forget to check your County Apportionment with the Apportionment reduction on your Aug. 31 IDEAS payment.

**Summary**

- Schools will receive part of their revenues through property tax collections, some are required by statute, some are district options, and others are voter approved.
- Some categories of tax revenue require all property owners to pay, and on others some are exempt.
- The MDE creates a certification document that calculates all of the revenues districts will receive through taxes. This process starts over 6 months before the calendar year and over 1 year from the fiscal year they will be recorded in.
- The calculations are then adjusted through a set of updates and changes.

**Summary**

- Part of the tax revenues a district receives may come in the form of credits instead of property tax collections. Districts will also receive prior year payments that were considered delinquent.
- Because districts are on Fiscal Years (July-June) and counties are on Calendar Years (Jan-Dec) adjusting entries must be made to record revenues in the right fiscal years.
- The MDE requires a Tax Shift entry to recognize certain revenues in prior fiscal years. The tax shift is now over and only Early Recognition Items are being adjusted into the Prior Fiscal Year.
- Districts can test their revenues, credits and adjustments to their levy to make sure they have recorded funds correctly.
Summary

- Delinquents need to be considered when reconciling taxes to the Levy Certification if revenue are not recorded to the balance sheets.
- Districts may receive other revenues from the county, but the net levy is only concerned about specific revenue codes – Sources 001, 009, 014, 229, 234.
- A check for reasonableness will alert you if any revenues have been recorded incorrectly or if county auditor reports may be in error.
- Your auditors will determine if your reconciliation differences are material.

Any Questions??

Thank You for your Time!
Cathy Erickson
cerickson@arcc.org