A History of School District Excess Referendum Levies 1996 Update

Abstract: This paper examines public school district referendum levies including an updated legislative history of levy authority, 1996 legislation, and fiscal trends for referendum revenue.

Excess Referendum Levies Were Part of the “Minnesota Miracle”

Since the “Minnesota Miracle” legislation of 1971, school districts have been able to levy, with voter approval, amounts for district operational costs beyond levies specifically authorized in Minnesota law. Before that time, local school boards had much greater flexibility in deciding their own levies and the levy was limited largely by the need for money and the ability and willingness of the property taxpayers in the district to provide resources. The 1971 law was the first effective state-imposed and voter-controlled levy limit on school district levies. It prohibited school district levy increases above state statutory limits unless local voters approved the increase by referendum.

The 1971 referendum levy law stated, “The levy ... may be increased in any amount which is approved by the voters of the district in a referendum called for that purpose.” ... “The referendum may be held on the date set for the election of members to the school board, or on an equivalent date in any year in which there is no such election, or between September 1 and September 20.” [1971 Laws, Extra Session, Ch. 31, Art. XX, Sec. 8, clause (3)] The 1971 law also provided for revocation of the additional levy authority in a referendum proposed by the school board or required by a voter petition.

The 1971 law remained in place with only minor changes in the 1970’s through the early 1980’s.

Few Changes Were Made Before 1989

In 1973, an amendment prohibited districts from holding more than one referendum election per year (Laws 1973, Ch. 683, Sec. 18). In 1977, the referendum law was amended to permit ballot language specifying the years of duration of the levy, and requiring that the ballot disclose the amount of referendum levy in mills and the total to be raised in the first year in dollars (Laws 1977, Ch. 447, Art. 1, Sec. 19).

In 1982, the referendum revocation provisions were amended to allow for an election to reduce — as well as revoke — a referendum levy (Laws 1982, Ch. 548, Art 1, Sec.12). Also enacted in 1982, for elections affecting taxes payable in 1983 only, districts were allowed to hold two referendum levy elections that year (Laws 1982, Ch. 548, Art. 1, Sec. 12). In 1983, this one-time provision was made permanent (Laws 1983, Ch. 314, Art. 7, Sec. 34).

No significant changes were made until 1989. Beginning in that year, major changes were enacted.
Most of these amendments have been efforts to restrain the unlimited nature of the referendum levy and to equalize access to referendum revenue among districts with disparate tax base wealth per pupil unit. These changes are summarized below.

**Significant amendments to referendum provisions, 1989 to the present**

**1989**

1. Districts are limited to one referendum vote per year on the November general election day, effective July 1, 1989. *M.S* 124A.03, Subd. 2. *(Laws 1989, Ch. 329, Art. 1, Sec. 4)*

2. Districts are required to mail notices about the tax impact of the proposed referendum levy to the taxpayers in the district, effective July 15, 1990. *M.S* 124A.03, Subd. 2 *(First Special Session Laws 1989, Ch. 1, Art. 9, Sec. 5)*

3. Districts are required to specify on the ballot the number of years for which a referendum levy could be in effect, effective July 15, 1990. *M.S* 124A.03, Subd. 2 *(First Special Session Laws 1989, Ch. 1, Art. 9, Sec. 5)*

**1991**

1. The first $305 per pupil unit (ten percent of the general education formula allowance) is equalized at a rate of 50 percent of the equalizing factor. This equalization is phased in over three years, effective beginning with 1992-93 school year revenue. *M.S* 124A.03, Subd. 1f, 1g, 1h *(Laws 1991, Ch. 265, Art. 1, Sec. 10)*

2. The referendum amount determination is changed from a percent of tax capacity to a dollar per pupil unit, effective for referenda passed fall 1991. *M.S* 124A.03, Subd. 2 *(Laws 1991, Ch. 265, Art. 1, Sec. 10)*

3. The duration of the referendum is limited to five years, effective for referenda passed fall 1991. *M.S* 124A.03, Subd. 2 *(Laws 1991, Ch. 265, Art. 1, Sec. 10)*

4. The referendum revenue allowance is limited to the lesser of $1,067.50 per pupil unit (35 percent of the basic general education formula allowance) or the amount the district levied in the previous year. Districts eligible for sparsity revenue are exempt from the limit, effective for referenda passed fall 1991. *M.S* 124A.03, Subd. 1c *(Laws 1991, Ch. 265, Art. 1, Sec. 10)*

5. Districts are allowed to have referendum elections on dates other than the November election date if the election is held by mail ballot, effective November 1, 1991. *M.S* 124A.03, Subd. 2 *(Laws 1991, Ch. 291, Art. 1, Sec. 5)*

6. Any new referendum levies must be applied to the market value of property in the school district rather than adjusted net tax capacity, effective for referenda approved after November 1, 1992. *M.S* 124A.03, Subd. 2a *(Laws 1991, Ch. 291, Art. 1, Sec. 6)*

7. New referendum levies that would begin in payable 1992 are limited to a maximum of $10 million as approved by the Commissioner of Education. *(Laws 1991, Ch. 265, Art. 1, Sec. 29)*

**1992**

1. The referendum revenue allowance limit is reduced from $1067.50 per pupil unit to $915 per pupil unit (30 percent of the basic general education formula allowance) unless a district had a higher limit in previous years or is eligible for sparsity revenue, effective for referenda passed fall 1992. *M.S* 124A.03, Subd. 1c *(Laws 1992, Ch. 499, Art. 1, Sec. 11)*
(2) A referendum election may be held only during the calendar year before the new levy first becomes payable, effective fall 1992. *M.S* 124A.03, Subd. 2 (*Laws 1992*, Ch. 499, Art. 1, Sec. 12)

(3) A district in statutory operating debt may apply to and receive approval from the commissioner of education to hold a referendum on a date other than the November election day, effective April 30, 1992. *M.S* 124A.03, Subd. 2b (*Laws 1992*, Ch. 499, Art. 1, Sec. 14)

### 1993

(1) Referendum equalization aid is increased from 50 percent of the equalizing factor to 100 percent for the first $315 per pupil unit, effective for 1994-95 school year revenue. *M.S* 124A.03, Subd. 1f, 1g (*Laws 1993*, Ch. 224, Art. 1, Sec. 8, 9)

(2) The referendum levy is no longer to be counted in the allocation of HACA (homestead and agricultural credit aid). HACA that had been allocated to the referendum levy is used to fund the increased level of referendum equalization. This resulted in about $55 million of HACA being shifted to referendum equalization aid, effective for taxes payable in 1994. *M.S* 273.1398, Subd. 2a (*Laws 1993*, Ch. 224, Art. 1, Sec. 29)

(3) District referendum revenue is reduced by all or a portion of the $100 per pupil unit increase in the general education formula. The full reduction does not apply to the referendum revenue if the district has supplemental revenue (the reduction is applied first to supplemental revenue) or the district meets a certain group of criteria (low tax capacity per pupil unit, low fund balance, no supplemental revenue and a referendum tax rate greater than 10 percent). Referendum revenue may also be reduced by up to 25 percent of increases in training and experience and compensatory revenue, effective for 1994-95 school year revenue. *M.S* 124A.03, Subd. 3b (*Laws 1993*, Ch. 224, Art. 1, Sec. 10)

(4) The referendum revenue allowance limit is reduced from $915 per pupil unit to $787.50 per pupil unit (25 percent of the basic general education formula allowance) unless the district had a higher limit in payable 1993 or is eligible for sparsity revenue, effective for referenda passed fall 1993. *M.S* 124A.03, Subd. 1c (*Laws 1993*, Ch. 224, Art. 1, Sec. 7)

(5) All referendum levies are set to expire (“sunset”) on July 1, 1997 (after payable calendar year 1997 taxes). To continue a referendum, a vote must be held in November 1997. Referendum levies that are renewed would be spread on market value rather than classified value (called “adjusted net tax capacity” or “ANTC”) of property and have a five year limit. (*Laws 1993*, Ch. 224, Art. 1, Sec. 37).

### 1994

(1) The sunset date for referendum revenue is moved from 1997 to July 1, 2000 for most districts. In the interim period, if a referendum is authorized on market value (but not ANTC) for ten or fewer years, a referendum is valid for the number of years approved even though it may be in effect beyond 2000. *M.S* 124A.0311 (*Laws 1994*, Ch. 647, Art. 1, Sec. 15 and 20)

(2) The maximum duration of newly approved referenda is ten years, an increase from the five years in previous law. *M.S* 124A.03, Subd 2 (*Laws 1994*, Ch. 647, Art. 1, Sec. 17)

(3) School boards may convert referendum amounts from adjusted net tax capacity to market value in parts over time. A process is established for this conversion, including an incentive (the duration of a referendum before reauthorization may be longer) when districts convert before July 1, 1997. *M.S* 124A.0311, Subd. 2 (*Laws 1994*, Ch. 647, Art. 1, Sec. 20)

(4) Districts with referenda expiring before taxes payable in 1998 may propose a new referendum, partially levied on adjusted net tax capacity and partially on market value. The full levy must be converted to market value by 2001. *M.S* 124A.0311, Subd. 3 (*Laws 1994*, Ch.647, Art. 1, Sec. 20)
(5) Market value is redefined for any property having a class rate below one percent. For that property, market value is defined as 100 times the tax capacity. \textit{M.S} 124A.02, Subd. 3b and 124A.03, Subd. 2a (\textit{Laws 1994}, Ch. 647, Art. 1, Sec. 13 and 18)

\textbf{1995}

(1) A referendum election may be held in the first or second calendar year prior to the year in which it is payable. \textit{M.S} 124A.03, Subd. 3 (\textit{Special Session Laws 1995}, Ch. 3, Art. 1, Sec. 23)

(2) Market value referendum levies will be equalized based on the market value of the school district rather than net tax capacity, effective for taxes payable in 1996) \textit{M.S} 124A.03, Subd. 1g (\textit{Special Session Laws 1995}, Ch. 3, Art. 1, Sec. 21)

(3) Capital expenditure facilities and equipment revenue is moved to an operating capital account in the general fund. One effect of this change is to allow referendum revenue to be used for capital purposes. \textit{M.S} 124A.22, Subd. 10 (\textit{Special Session Laws 1995}, Ch. 3, Art. 1, Sec. 35)

\textbf{1996}

(1) A referendum election ballot question may propose variable levels of referendum revenue per pupil unit during the years of the referendum. This would allow for increases (or decreases) in the referendum amount after the first year. \textit{M.S} 124A.03, Subd. 2 (\textit{1996 Laws}, Ch. 412, Art. 1, Sec. 15)

(2) The commissioner is granted limited authority to allow districts to hold a referendum election on a date other than the November general election date if that referendum is held in conjunction with a bond election and the proceeds of the referendum would finance the operation of the facility to be funded by the bond issue. \textit{M.S} 124A.03, Subd. 2b (\textit{1996 Laws}, Ch. 412, Art. 1, Sec. 16)

(3) The referendum reduction initially passed in 1993 is made permanent. It no longer will be recalculated each year nor will it apply to new referendum authority. \textit{M.S} 124A.03, Subd. 3c (\textit{1996 Laws}, Ch. 412, Art. 1, Sec. 17)

\textbf{Referendum Process is Much More Controlled Now}

Any referendum levies now passed must be levied against the market value of property rather than net tax capacity. This has the effect of shifting a greater burden of the referendum levy to residential, agricultural and recreational properties — classes that otherwise are taxed at lower rates than most other types of property.

Referendum revenue is limited to $801.25 per pupil unit in 1996-97. District referendum revenue may not exceed this amount unless a district is eligible for sparsity revenue or the referendum allowance was higher in a previous year. If a district’s allowance was higher in a previous year and the district is not eligible for sparsity revenue, the district may not increase its referendum revenue.

The duration of a referendum must be specified on the ballot and may not exceed ten years.

The first $315 per pupil unit of referendum revenue is fully equalized. Equalization means that if a district receives 70 percent of its general education formula revenue from state aid, it will also receive 70 percent of the first $315 per pupil unit of referendum revenue from state aid. Any amounts in excess of $315 per pupil unit are funded completely with local property taxes.
Revenue From Excess Referenda Has Grown Substantially

In the 1972-73 school year (the first year of the referendum levy), one school district made the excess levy for a total of $25,400. By the 1979-80 school year, 95 districts had referendum levies in effect, for a total of $12.3 million. Soon after that, the revenue raised by the referendum levy increased substantially almost every year. Now, over three-fourths of Minnesota school districts have referendum revenue. The following chart shows the number and percent of districts that made referendum levies and the amount of revenue raised by those levies. Referendum equalization aid is also included for tax years after it became effective.

Table 1. School District Referendum Revenue by Tax Year 1979 - 1996

<table>
<thead>
<tr>
<th>Tax Payable Year</th>
<th>Number of Districts with Referendum</th>
<th>Percent of Districts</th>
<th>Levy $</th>
<th>Equalization Aid</th>
<th>Total $</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1979</td>
<td>95</td>
<td>21.8%</td>
<td>$12,342,000</td>
<td>NA</td>
<td>$12,342,000</td>
<td>--</td>
</tr>
<tr>
<td>1980</td>
<td>107</td>
<td>24.6%</td>
<td>$14,260,000</td>
<td>NA</td>
<td>$14,260,000</td>
<td>15.5%</td>
</tr>
<tr>
<td>1981</td>
<td>132</td>
<td>30.3%</td>
<td>$26,715,000</td>
<td>NA</td>
<td>$26,715,000</td>
<td>87.3%</td>
</tr>
<tr>
<td>1982</td>
<td>163</td>
<td>37.5%</td>
<td>$43,944,000</td>
<td>NA</td>
<td>$43,944,000</td>
<td>64.3%</td>
</tr>
<tr>
<td>1983</td>
<td>185</td>
<td>42.5%</td>
<td>$68,855,000</td>
<td>NA</td>
<td>$68,855,000</td>
<td>56.7%</td>
</tr>
<tr>
<td>1984</td>
<td>187</td>
<td>43.0%</td>
<td>$69,225,000</td>
<td>NA</td>
<td>$69,225,000</td>
<td>0.5%</td>
</tr>
<tr>
<td>1985</td>
<td>197</td>
<td>45.3%</td>
<td>$79,720,000</td>
<td>NA</td>
<td>$79,720,000</td>
<td>15.2%</td>
</tr>
<tr>
<td>1986</td>
<td>217</td>
<td>49.9%</td>
<td>$95,020,000</td>
<td>NA</td>
<td>$95,020,000</td>
<td>19.2%</td>
</tr>
<tr>
<td>1987</td>
<td>226</td>
<td>52.0%</td>
<td>$111,846,000</td>
<td>NA</td>
<td>$111,846,000</td>
<td>17.7%</td>
</tr>
<tr>
<td>1988</td>
<td>239</td>
<td>54.9%</td>
<td>$133,344,000</td>
<td>NA</td>
<td>$133,344,000</td>
<td>19.2%</td>
</tr>
<tr>
<td>1989</td>
<td>259</td>
<td>59.5%</td>
<td>$162,101,000</td>
<td>NA</td>
<td>$162,101,000</td>
<td>21.6%</td>
</tr>
<tr>
<td>1990</td>
<td>277</td>
<td>64.0%</td>
<td>$218,598,000</td>
<td>NA</td>
<td>$218,598,000</td>
<td>34.9%</td>
</tr>
<tr>
<td>1991</td>
<td>279</td>
<td>65.5%</td>
<td>$269,488,000</td>
<td>NA</td>
<td>$269,488,000</td>
<td>23.3%</td>
</tr>
<tr>
<td>1992</td>
<td>269</td>
<td>65.0%</td>
<td>$272,586,000</td>
<td>$13,315,000</td>
<td>$285,901,000</td>
<td>6.1%</td>
</tr>
<tr>
<td>1993</td>
<td>273</td>
<td>69.1%</td>
<td>$281,100,000</td>
<td>$29,800,000</td>
<td>$310,900,000</td>
<td>8.7%</td>
</tr>
<tr>
<td>1994</td>
<td>269</td>
<td>70.4%</td>
<td>$189,120,000</td>
<td>$105,050,000</td>
<td>$294,170,000</td>
<td>-5.4%</td>
</tr>
<tr>
<td>1995</td>
<td>272</td>
<td>74.5%</td>
<td>$189,554,000</td>
<td>$116,024,000</td>
<td>$305,578,000</td>
<td>3.9%</td>
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<tr>
<td>1996</td>
<td>282</td>
<td>78.3%</td>
<td>$226,463,000</td>
<td>$124,370,000</td>
<td>$350,833,000</td>
<td>14.8%</td>
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</tbody>
</table>

Notes to Table 1: (a) In general, taxes payable in a calendar year are revenue for the following fiscal year (taxes payable in 1995 provide revenue for the 1995-96 school year). However, the property tax revenue recognition shift now results in 31 percent of the first year’s referendum being recognized as revenue in the previous year and 69 percent being available in the last year.

(b) The number of school districts making referendum levies in recent years is a smaller number than it would otherwise be due to school district consolidations. The total number of school districts has decreased from 435 in the early 1980’s to 360 as of July 1, 1996.

(c) Referendum revenue decreased in 1994-95. This one-time occurrence is a result of a portion of referendum revenue is offset by the increase in the basic general education formula (see 1993 legislative changes).
Referendum Revenue as a Percent of Total Revenue Is Growing

Referendum revenue has grown to be a larger part of overall education revenue. That amount had leveled off in the last three years but grew again in 1996-97. In 1983-84, referendum revenue made up 2.9 percent of total education revenue for that school year. By 1991-92, referendum revenue made up 6.6 percent of total education revenue. The percentage of the total then dropped for several years, but recently it has increased again, reaching 6.6 percent for 1996-97. Table 2 shows the percentages for additional years.

### Table 2. Referendum Revenue as a Percent of Total Education Revenue

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<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Percent of Total Revenues</td>
<td>2.9%</td>
<td>2.7%</td>
<td>2.9%</td>
<td>3.3%</td>
<td>3.6%</td>
<td>4.1%</td>
<td>4.6%</td>
<td>5.8%</td>
<td>6.7%</td>
<td>6.7%</td>
<td>6.9%</td>
<td>6.0%</td>
<td>5.9%</td>
<td>6.6%</td>
</tr>
</tbody>
</table>

**Note for Table 2:** Total revenue includes all state appropriations for education finance and tax relief aids as well as funding for the Department of Education, Arts Center and Faribault Academies; property tax levies; dedicated funds and tax shift adjustments. Federal funds are not included.

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