

May 8, 2019

Dear Tax Conference Committee Chairs Marquart and Chamberlain,

Thank you for your work and dedication to public education and students across the state. It is to your credit that you both serve on your respective education committees and have chief authored numerous education bills.

As you work through the tax conference process, MREA requests you remember the unique needs of rural education and solutions sought to advance student educational opportunities.

Minnesota's farmers continue to pay an outsized portion of rural school district facility bond taxes despite the recently enacted 40% Ag Credit. Nearly 1/4 of Minnesota's school districts have over 70% of their value in Ag or Timber Land.

Rural schools and their students are highly dependent on equalization aid. Rural schools lag metro schools by an average of \$683 per pupil in combined Operating Referendum Revenue and Local Optional Revenue. Rural schools lack the tax base and household incomes to make up that difference without help.

We ask you to include in the final tax conference committee report the following three items which affect all school districts' ability to provide educational opportunities for students:

Increase Ag Bond Credit to 70%

The House bill contains language increasing the Ag Bond Credit to 70%. This increase would immediately lower the current bond taxes on farmers and private timber owners in 287 school districts with bonded facility debt. In today's difficult ag economy, this will make a difference in the operating margins of farmers and assist the whole rural economy.

We're hopeful the legislature can increase the Ag Bond Credit started in 2017 during this time of economic distress for farmers.

Reduce the Highest Operating Referendum Tax Rates

The Senate bill contains language to increase all three Tiers of the Operating Referendum equalization with the greatest increase in Tier 3.

Statewide, households comprise 65% of the Referendum Market Value (RMV), and in rural districts that percent is just shy of 70%. The resulting current distribution of operating referendum tax rates reveals a distinct 'L' pattern of many rural districts with lower median incomes having much higher tax rates than any metro district.



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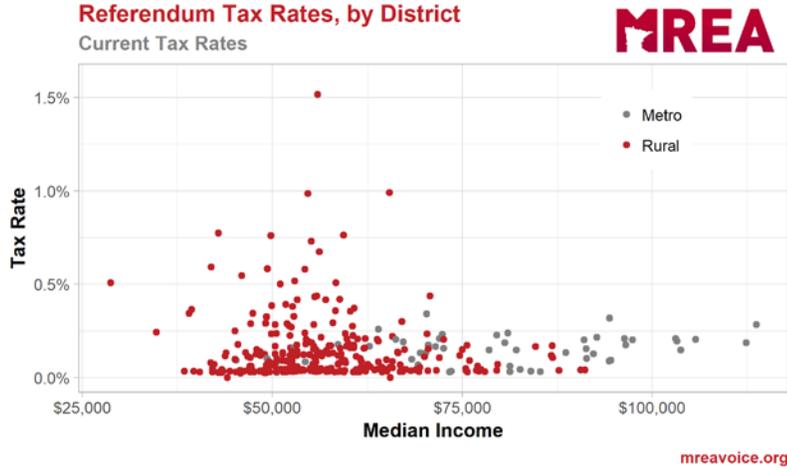
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The Senate language addresses this directly by dramatically increasing Tier 3 equalization and reduces these higher tax rates considerably.

Given the increasing reliance on local operating referendum revenue as the State struggles to fund the education formula at or above inflation, we’re hopeful the legislature can build on the Senate’s good start to create more equal tax efforts to raise similar operating referendum revenue for students’ education regardless of zip code.

Local Operating Revenue (LOR) Simplification

Both the House and Senate E-12 bills include needed language to simplify LOR by including the confusingly titled “Board Authorized Operating Referendum” language. The legislature should take this action.

We call to your attention two implications of this change:

1. LOR will have a larger percentage of the tax levy, and therefore the proposed equalization factors for the operating referendum should transfer and be applied to the new LOR limits. Otherwise, the sought-after simplification will be thwarted with two sets of tax rates on the same tax base (RMV) for operating revenue.
2. In creating a simple LOR tool for school boards with equalization, the legislature could create an effective way to stretch tight state finances by enabling school boards to raise the LOR in the second year of the biennium if the local school boards choose to do so. An increase in equalized LOR from the Tax bill could augment the second-year formula increase that is difficult to arrive at in the E-12 bill.

We ask that you support these three ways to increase the tax fairness of the current local property taxes and help set up districts for student success going forward into an uncertain state financial future.

Sincerely,

Fred Nolan, Executive Director

CC: Representatives Loeffler, Lislegard, Gomez, Davids; Senators Senjem, Dahms, Howe, Rest



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