

# Minnesota's Facility Fallout Challenge

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What's holding us back from  
creating the World's Best Workforce?

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## OVERVIEW

Minnesota has set a goal of developing the World's Best Workforce and initiated a series of legislative actions to work toward that goal. One of the key elements in achieving this goal is developing school facilities that equip 21<sup>st</sup> Century learners for their future careers.

The reality in Minnesota is that most of our school facilities fall short of what today's learners need. Many of them are old, and even more need repair and advancements so they aid teachers in providing learning environments where students can thrive.

>> **50% of our school facilities were built before 1976** and prior to the digital revolution, and 25% are between 54 and 125 years old.

One of the key reasons this statistic is so sobering – and has only gotten worse – is the lack of state investment in facilities.

Who's responsible for the construction of 21<sup>st</sup> Century-ready schools?

>> **Local taxpayers contribute a minimum of 97% to school construction costs**, yet many of their graduates will not work or live as adults in their communities. In 288 school districts in the state, local taxpayers contribute 100 percent to construction costs.

MREA outlines in the following pages the World's Best Workforce goal, the need for facility advancements, and why schools cannot get ahead.



What if Minnesota provided a Fairer State Share?

## THE WORLD'S BEST WORKFORCE

Developing the "World's Best Workforce" (WBWF) is now a statewide goal of Minnesota education in the second decade of the 21<sup>st</sup> Century. While this includes a variety of elements, facilities play a critical role in achieving this goal.

Children and youth are best educated in safe, accessible, technologically supported school facilities. The amplified learning value of students attending brick-and-mortar school buildings is confirmed through research into online charter schools conducted by Stanford University's Center for Research on Education Outcomes (CREDO):

"The CREDO study found that over the course of a school year, the students in virtual charters learned the equivalent of **180 fewer days in math and 72 fewer days in reading** than their peers in traditional charter schools, on average."



[Education Week Jan. 26, 2016](#)

### The Workforce of Today & Tomorrow

Today, Minnesota has a large and remarkably talented workforce, from scientific and high-tech professionals, to most any kind of management expertise, to well-trained trades and production workers, according to a 2013 report from the Minnesota Department of Employment and Economic Development (DEED).

Continuing and accelerating these trends is critical to Minnesota's future. Achieving this requires providing well-educated, technologically adept high school graduates from every corner of the state.

These high school graduates may be multiple-generation Minnesotans or recent immigrants to the state. They may work and live in their communities, or, far more likely, may move to small and large cities where jobs are growing.



DIG DEEPER >> [Demographic trends by county.](#)  
[3 reasons why Minnesota rural counties are vibrant.](#)

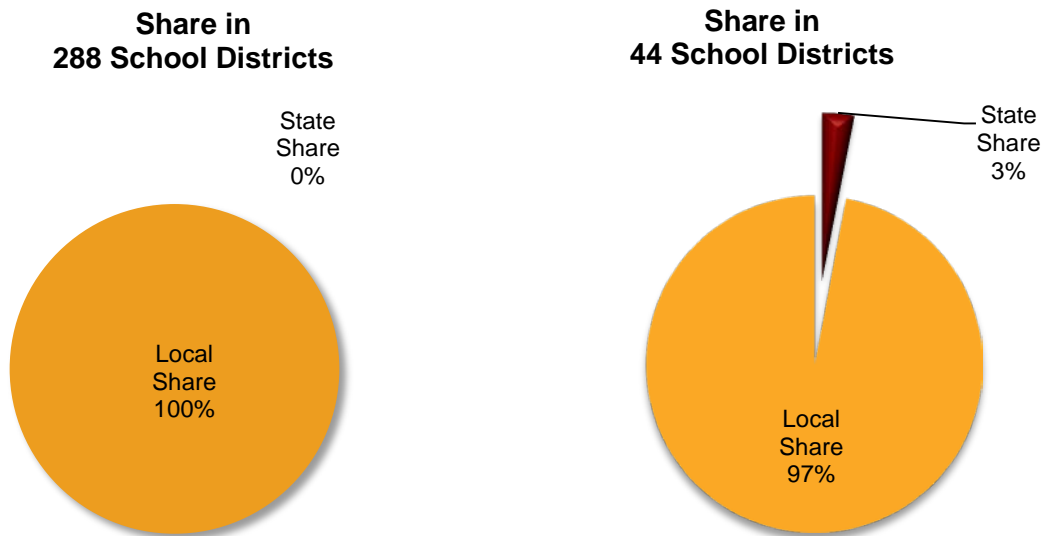
## WHAT'S YOUR SHARE?

It's not news that creating the World's Best Workforce will take investment in education. Neither is the fact that all of Minnesota benefits now and in the future from such a vibrant, educated workforce.

**CONSIDER THIS >>** Local taxpayers contribute 97-100% to this educational benefit, yet many of their graduates will not work and live as adults in their communities.

**CONSIDER THIS >>** The state contributes at most 3%, which supports only 44 school districts and leaves our remaining 288 districts 100% dependent on local tax support for their facilities.

**Figure 1. Current Share for School Bonds in 2016**



## THE FACILITY FALLOUT

School districts know the needs of their facilities, and with their communities' input, how to prepare the World's Best Workforce. However, they cannot achieve this by relying solely on the wealth of the community served by the school district. Achieving the state's World's Best Workforce goals requires state investment in facilities.

### District Wealth

District wealth is based on property value divided by the number of students attending the school district. Property value is defined as Adjusted Net Tax Capacity (ANTC), and number of pupils is defined as Adjusted Pupil Units (APU).

As taught in 6<sup>th</sup>-grade math, the value of a fraction increases when the numerator (ANTC) increases or the denominator (APU) decreases.

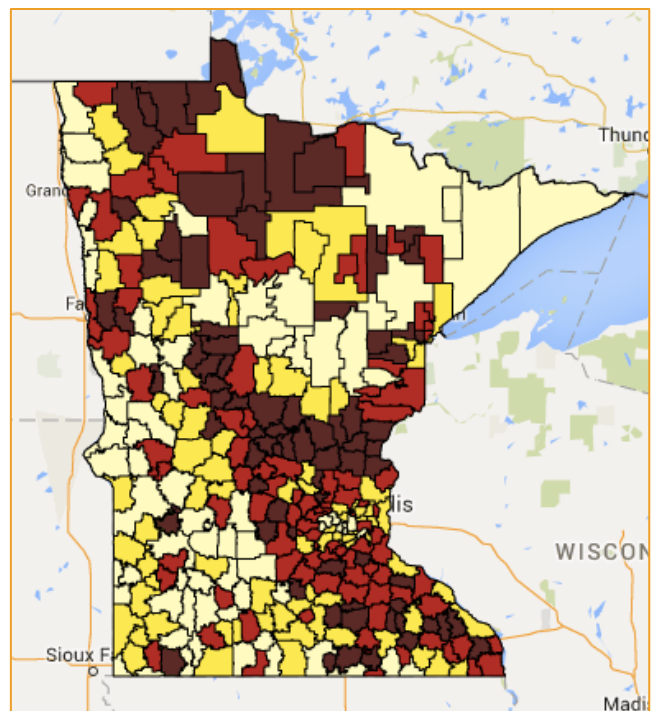
For many rural school districts, both actions are happening:

- Agriculture land values trended dramatically upwards for about a decade.
- Student population has been stable or declining.

### Figure 2. Wealth of School Districts

As Measured by Modified ANTC (50% Ag Land Value Included per Students APU)

■	0.00 to 4,900.49	Lowest 25% of MN School Districts in modified ANTC per APU
■	4,900.50 to 7,250.49	School Districts between 26% and 97.5% of average modified ANTC per APU
■	7,250.50 to 11,050.49	School Districts between 97.5% and highest 25% of modified ANTC per APU
■	11,050.50 to 43,000.00	Highest 25% of MN School Districts in modified ANTC per APU



 [View this interactive map and learn more.](#)

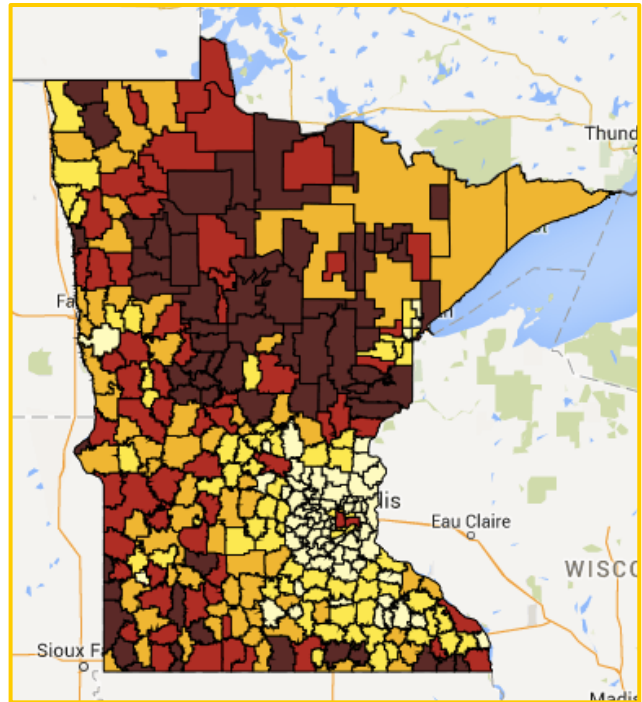
**Losing Ground**

This leaves vast swaths of rural Minnesota taxpayers supporting 100% of school building bonds.

Because the median household income of Greater Minnesota is 57% less than the 7-county metropolitan area (shown right), it is no surprise that rural bond referendums pass at only half the rate of metro bond questions.



[View the interactive map.](#)



**Figure 3. Median Household Income for School Districts in Minnesota**

- 0.00 to 44,399.99 Lowest Median Household Income
- 44,400.00 to 49,249.99 Below the Average Median Household Income
- 49,250.00 to 53,399.99 Average Median Household Income
- 53,400.00 to 60,999.99 Above the Average Median Household Income
- 61,000.00 to 106,000.00 Highest Median Household Income

**Not Equipped**

As a result, Minnesota is reaching for its World’s Best Workforce goal by educating our youth in inadequate, aging buildings:

**CONSIDER THIS >>** 50% of school facilities were built before 1976 and prior to the digital revolution, and 25% are between 54 and 125 years old.

The inescapable conclusion is that many of our school buildings are in need of repair, replacement, and better access to technology. Should new buildings, remodeling, replacement, and access all be funded by local property taxes? Or should there be a fairer state share?

## A FAIRER STATE SHARE

MREA believes reaching the statewide goal of developing the World's Best Workforce requires a statewide investment. There needs to be a *Fairer State Share*.

MREA's No. 1 priority is a two-part solution in a 2016 Minnesota Tax Bill to address the Facility Fallout challenge:

### **PART 1**

#### **Enhanced/Indexing Debt Service Equalization**

This comprises 97.5% of average modified ANTC per APU and is based on the work of the Minnesota Department of Education's School Facilities Finance Working Group in 2014.

#### **How It Works >>**

- Use enhanced and modified ANTC, in which 50% of agriculture land value is used for ANTC calculation. The average district modified ANTC is \$7,436 (2015). Thus, 97.5% creates an equalization factor in Pay '17 of \$7,250.
- Index so the state maintains its commitment to share tax burden as property values increase over time.
- Lower the ANTC threshold from 15% to 10% to reduce the size of the debt required to qualify for equalization and qualify more districts for a Fairer State Share.

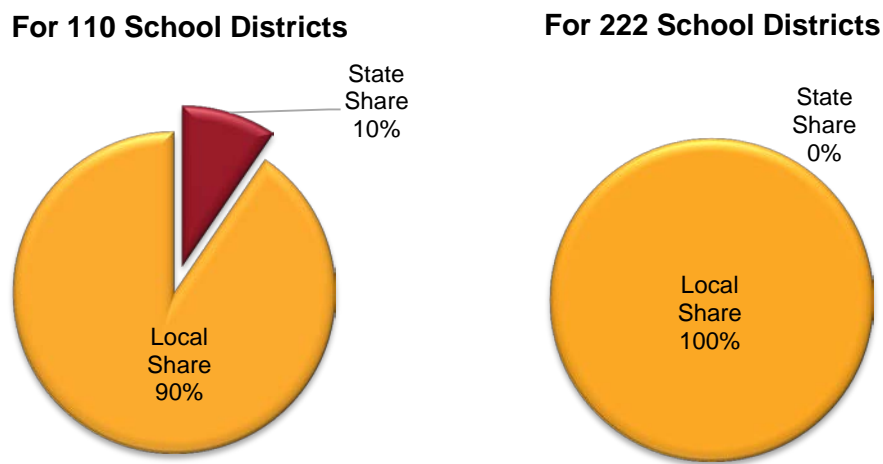
#### **What's the Impact >>**

- Homeowners, businesses and farmers see reduced taxes for existing school bonds in:
  - 44 districts already receiving Debt Service Equalization (DSE)
  - 66 districts with modified ANTC/APU less than \$7250 and with debt payments greater than 10% ANTC
  - In 110 districts, homeowners, businesses and farmers will see reductions in taxes for Pay '17.
  - In 222 districts there will be no reductions from Pay '16 to Pay '17.

Under part 1, homeowners, businesses, and farmers in 62 districts are eligible for a state share of school bond debt service tax burden should local voters approve a school bond referendum.

These 62 districts and the 110 districts which automatically will see school bond levy reductions means 172 districts (53% of all districts) are eligible for a Fairer State Share with Part 1 Enhanced and Equalized Debt Service Equalization (DSE).

**Figure 4. All State Bonds for 2017  
Enhanced/Indexing Debt Service Equalization**



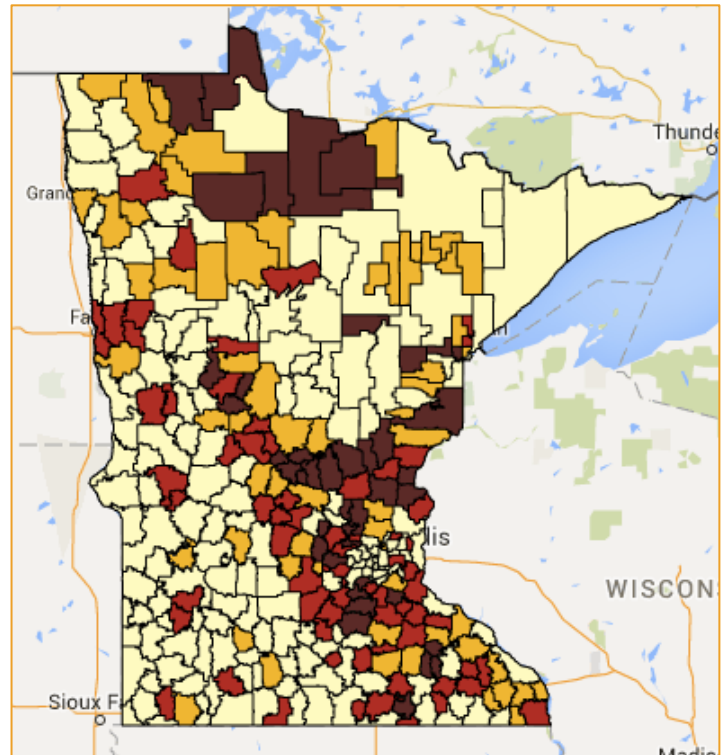


**Figure 5. Effects of Facility Fallout Part 1:  
Enhanced/Equalized Debt Service Equalization**

The map at right shows the impact Part 1 will have on school districts across the state, based on Enhanced and Equalized Debt Service Equalization (DSE) at 97.5% of average modified ANTC.



[View interactive map.](#)



- All property owners see reduction. These districts already receive some DSE.
- All property owners see reduction. These districts currently do not receive DSE.
- Eligible for state aid with voter approval of school bond elections.
- Not eligible for state aid.

**PART 2**

**Enhanced Ag2School Tax Credit**

This includes a 40% tax credit, funded by a split between the state (85%) and farmers (15%). Enhanced and Indexed Debt Service Equalization at any reasonable percentage will not reach large parts of rural Minnesota due to the surge in agriculture values.



[Learn more about this trend.](#)

**How a Straight Credit Works >>**

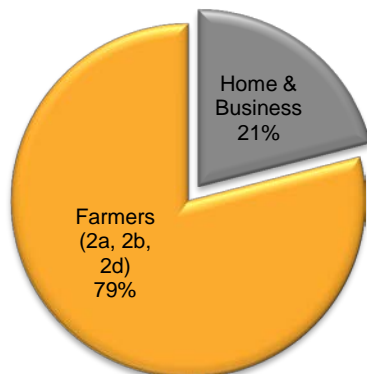
A 50% tax credit for school bond taxes on agriculture land was passed by the House in 2015 (HF 848 (Rep. Davids). In its current form, HF 848 turns that credit into an income tax credit. The biennial investment for a 50% credit is estimated to be \$83 million. SF 826 (Sen. Skoe) has a one-year limit on property tax increases.

Both bills moved to the Tax Conference Committee which recessed in May 2015 without producing a compromise bill. Given the rules of the legislature, the 2016 session begins here.

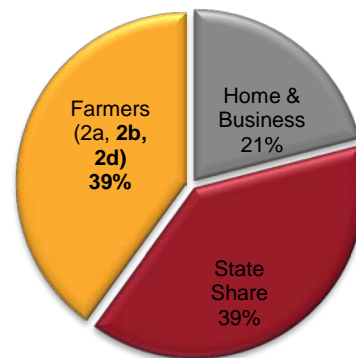
**Figure 6. Example: 50% Straight Credit Impact in Maple River**

In Maple River, 79% of the district's property value is distributed in three agricultural land classifications, including 2a (homestead and non-homestead agricultural land and buildings), 2b (rural vacant land), and 2d (private airports):

**Current Law (The Before)**  
Maple River  
\$47 Million Bond Proposal



**HF 848 (The After)**  
Maple River Pay '17  
\$47 Million Bond Proposal



**How Ag2School works >>**

MREA proposes Ag2School (HF 2122 Kiel/SF 1995 Dahl) as an alternative to a straight credit based on the concept that school bond referendums for farmers are similar to tornadoes. When faced with the potential of natural disasters, farmers and the Federal government created insurance systems where they each contribute premiums.

Since there are more school bond referendums than tornadoes in Minnesota, Ag2School creates a safety net with a similar, small co-insurance "premium" paid by farmers statewide to contribute 15% to the state's overall cost of providing a 40% credit for school bond taxes.

**Co-Insurance "Premium"**

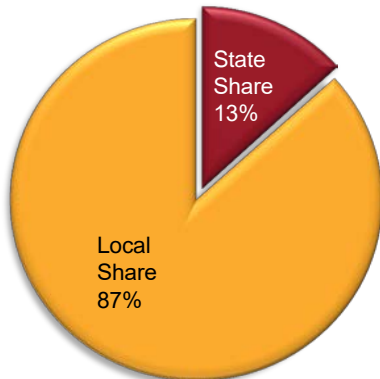
Land Value (Estimated Market Value/Acre)	Premium Cost per Acre
\$10,000	\$0.20
\$5,000	\$0.10
\$2,500	\$0.05

"To secure broader political support for a permanent credit program, it is encouraged that the farm community also puts some 'skin in the game' and help with the costs of a new school bond credit program."

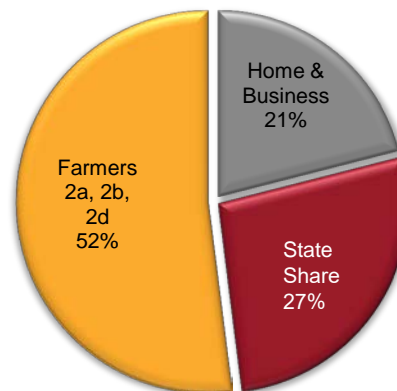
- Sam Walseth, MREA  
Director of Legislative Affairs

**Figure 7. Funding Distribution with Facility Fallout Solutions Part 1 & Part 2**

Overall Impact on School Districts



Impact on Maple River for 2017 Bond



**What's the Impact >>**

- Ag2School lowers farm taxes in 218 districts:
  - Ranging from \$277 to \$800 per \$1 million of ag value in 75 districts
  - Ranging from \$150 to \$276 per \$1 million of ag value in 75 districts
- In 89 districts with no school bond debt, there is a small increase of \$20 per \$1 million/ag land.
- State maintains its commitment regardless of future bond taxes and ag land values due to the percentages, which will be placed into statute.

**Figure 8. Impact of Ag2School on School Districts**

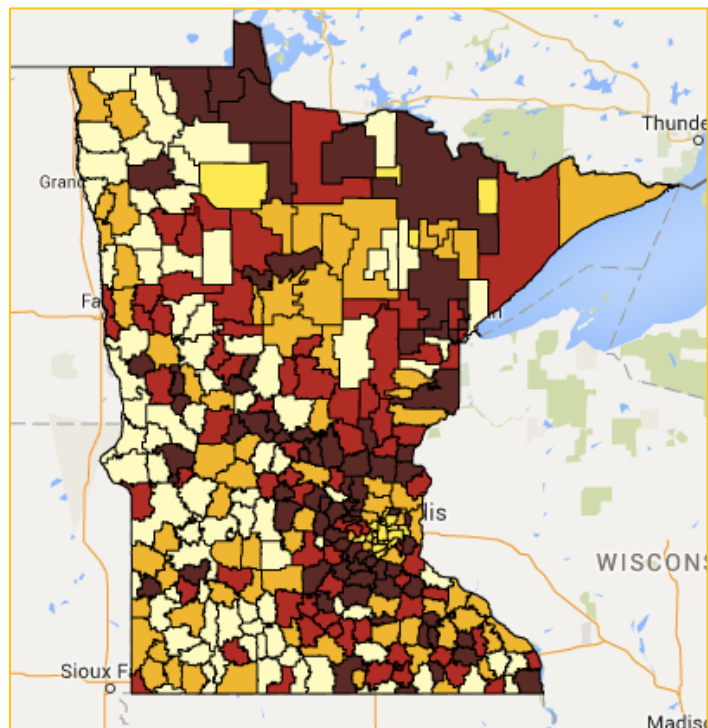
This map illustrates the impact the Ag2School solution would have on school districts across the state.

Farmers in the districts highlighted in brown will see the greatest reduction in school bond taxes, between \$277 and \$800 per \$1 million of ag land.

Farmers in the red districts will receive a moderate reduction, between \$150 and \$276 per \$1 million.

Those in the golden districts will see a modest reduction, between \$1 and \$149 per \$1 million.

The white districts do not have any debt. Farmers contribute \$20 per \$1 million for "co-insurance" portion of Ag2School.

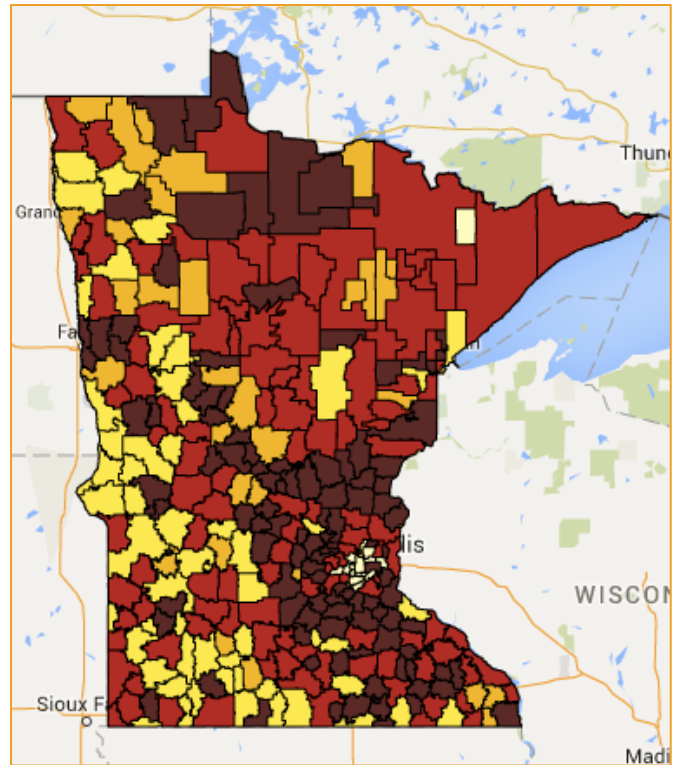


[View the interactive map.](#)

This 2-part solution reaches taxpayers in 224 school districts with a Fairer State Share for current school bond taxes.

In 92 districts, there is the potential for a Fairer State Share for future school building projects.

About 95% of Minnesota's school districts can qualify for a Fairer State Share for 21<sup>st</sup> Century school facilities to meet Minnesota's challenge of creating the World's Best Workforce, as shown on the map to the right.



[View the interactive map.](#)

### What's the Cost?

State biennial investment for FY 18-19 is projected at \$149 million.

- Enhanced and Indexed Debt Service Equalization is an investment of \$93 million for all property owners.
- Ag2School is an investment of \$56 million for farmers.
- 224 districts qualify immediately for a Fairer State Share of current school bond taxes.
- 92 districts become eligible for a Fairer State Share in facility costs if local voters approve school bond taxes.
- 95% of all districts become eligible for some form of a Fairer State Share for 21<sup>st</sup> Century school facilities.

## GROWING STATEWIDE SUPPORT

MREA is supported in this effort by Schools for Equity in Education (SEE) and the Alliance for Student Achievement which includes Minnesota School Boards Association (MSBA), Education Minnesota, and Minnesota Association of School Administrators (MASA), among other state education organizations.

MREA is working very closely with Minnesota farm organizations including Corn Growers Association, Farm Bureau, Farmers Union, and the AgriGrowth Council, and continuing to meet with legislators and their staff.

Be part of the voice of Greater Minnesota Education by talking with your legislators about the challenges in your community to provide school buildings designed, built, and equipped for 21<sup>st</sup> Century learning.

***Ask for a Fairer State Share.***

Watch for updates from MREA throughout the 2016 legislative session at MnREA.org. Request a meeting with your farmers similar to Maple River's meeting in January by emailing MREA at [mrea@mnrea.org](mailto:mrea@mnrea.org) or calling (320) 762-6574.

### How Does This Impact You?

MREA has estimated for each school district the effect of a Fairer State Share:

- \$150,000 Estimated Market Value (EMV) Residential Homestead
- \$1 million Estimated Market Value (EMV) Commercial/Industrial Property
- \$1 million 2a and 2b Agricultural land and 2d property

*These effects are based on school bond tax payments payable in 2016 projected for Pay '17 with no changes due to bond referendums, bonds reaching term maturity, or significant changes in property values.*



[Find the effects on your districts' homeowners, businesses and farmers.](#)

*Note: print on legal paper for best results.*