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School District Levy Equalization Frameworks

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Overview

In Minnesota, state and local funding for each school district is calculated under several statutory revenue programs. These revenue programs are funded in three ways: entirely by state aid, entirely by school district levies on local property taxpayers, or by a mixture of state aid and local property taxes. A program financed in a way that is responsive to each individual school district's tax base is known as an "equalized levy" or "equalized program."

Purposes of levy equalization

Effective levy equalization minimizes disparities in the tax rates that districts must impose to fund similar levels of educational services or facilities. In this way, equalization tends to reduce the school property tax burden, especially for districts with relatively small tax bases relative to the district's pupil count. Levy equalization may also be used by policymakers to achieve certain statewide property tax relief goals or to adjust state aid spending to meet state budget constraints or objectives.

School district equalization tax bases

The statutory equalization formulas use a few different measures of tax base to calculate the aid/levy mixture for each revenue program and for each school district:

- Adjusted net tax capacity (ANTC): the total net tax capacity of taxable property in the district after adjustment to correct for varying local assessment practices. (ANTC is the most commonly used equalization tax base for school districts.)
- Long-term facilities maintenance (LTFM) adjusted net tax capacity: similar to ANTC, except that a portion of the value of agricultural land is excluded from the total. (This equalization tax base is used only for the LTFM program that supports ongoing maintenance of school district facilities.)
- Referendum market value (RMV): the total market value of taxable property in the district, not including certain agricultural, seasonal residential recreational, and post-

secondary student housing property. (This tax base is used primarily for the voter-approved operating levies.)

All else equal, a district with a large tax base per pupil will typically raise a larger proportion of its equalized program revenue from local property taxes and a smaller amount from state aid.

Equalizing factor framework

Under one common equalization framework, a district's property tax base per pupil is calculated and compared to a revenue program's statutory "equalizing factor." The various programs may have different equalizing factors and are each calculated independently.

- Equalizing factors may be set at a fixed dollar amount in statute—e.g. fixed at $500,000 per pupil. Over time, increasing property values tend to erode the equalizing strength of fixed factors. Current revenue programs with this design include the operating referendum and local optional revenue programs, among others.
- Equalizing factors may also be set under a formula that dynamically recomputes the factor each year in response to changes in the statewide property tax base and total pupil counts. Under this pattern, the overall statewide equalization strength tends to remain steady year over year, though the aid/levy mixture in individual districts may change. The current long-term facilities maintenance (LTFM) and equalized debt service programs are designed this way.

If the district's property tax base per pupil is less than the equalizing factor for a revenue program, the district will generate state equalization aid under that program. As a district's property tax base per pupil increases toward the level of the equalizing factor, the district's equalization aid under that program decreases.

Equalization aid is eliminated entirely for districts in which the property tax base per pupil exceeds the equalizing factor. These districts with relatively high tax bases per pupil are said to be "off the formula" because they do not generate equalized aid.

Multiple equalizing tiers or equalizing factors

In some programs, the statutory formula divides the total amount of per-pupil revenue into two or more "equalizing tiers." This pattern occurs commonly in programs that authorize school boards to raise additional general purpose money (e.g. local optional revenue) or programs that require voter approval (e.g. operating referendum).

Under this pattern, a district that has approved a relatively low amount of revenue might have all of its revenue fall under the first tier threshold. A district with relatively higher revenue amounts will have some of its revenue in the first tier, and the remaining amount allocated into higher tiers. Typically, the equalizing tiers and factors are designed to provide stronger equalization in the first tier and weaker equalization in higher tiers—a progressive equalization schedule. Under this pattern, a district that chooses to increase its revenue will generally raise more of the additional money from local property taxpayers and less from the state.

Uniform tax rate framework

Another common equalization framework features a uniform tax rate levied on property within the district. The uniform tax rate may be codified as a particular statutory tax rate or calculated annually by the commissioner of education as the rate necessary to raise a certain total amount of money statewide. If the uniform rate levied on the local school district tax base does not raise enough money to fund the district's total revenue for the program, the remainder is funded with state aid. For example:

- To obtain total community education revenue, a district makes a property tax levy at the uniform tax rate set in statute. If the amount raised from the levy is less than the district's total community education revenue, the remaining portion is paid to the district in state aid.
- Early childhood family education (ECFE) programs are funded in part by a uniform levy that, according to statute, must raise $22.1 million statewide. The commissioner of education annually calculates the tax rate necessary to raise that amount and the districts make a property tax levy at that tax rate. If the amount raised from the levy is less than the district's total ECFE revenue, the remaining portion is paid to the district in state aid.

Various tax base replacement aids

Other programs provide state aid to school districts in response to legislated changes in the district's tax base. Tax base replacement aid was enacted in 2001 to offset reductions in the agricultural and cabin tax base. Seasonal tax base replacement aid was enacted in 2026 and reduces voter-approved referendum tax rates in districts with substantial amounts of cabin market value. These programs reduce local school district tax rates.

Other strategies to reduce tax rate disparities

In addition to the equalization frameworks and aids described above, the legislature has enacted programs to reduce tax rate disparities among school districts and other local governments. Some of these programs reduce effective tax rates on only certain types of property or for property in only part of a school district. These programs are typically in the jurisdiction of the Taxes committee and include: the disparity reduction aid and credit, school building bond agricultural credit, metropolitan and Iron Range fiscal disparities programs, various property tax refunds, and others.