

# 2008 Property Tax Report

*The property tax data for 2008 shows that the decline in the housing market and the foreclosure crisis are taking a toll on market values and city tax capacity. In fact, annual growth in the total market value of city property slowed by more than 30 percent over the last year.*

By Rachel Walker and Lena Gould

This year's League of Minnesota Cities annual property tax report finds continued pressure on the property tax to provide a substantial amount of city revenue. Although the 2007 Legislature tried to make changes that might have eased the pressure on the local property tax, Gov. Pawlenty did not approve them. The housing market decline and foreclosure crisis are also creating challenges for city tax bases.

## Notable events for taxes payable in 2008

- **2007 tax bill vetoed.** During the 2007 session, the Legislature passed a tax bill containing changes to the local government aid (LGA) formula and an additional \$70 million for that program. The additional LGA funding likely would have reduced pressure on the local property tax, but the governor vetoed the bill. Legislators also proposed several changes to the property tax system that did not become law. These included levy limits on cities where LGA represents more than 33 percent of the sum of levy and state aids, and an increase of \$32 million to the homeowner property tax refund program. Another proposal would have phased out the market value homestead credit (MVHC) program.
- **Credit for cities in flood disaster area.** The Legislature in 2007 convened for a special session to address the flood disaster in southern Minnesota. As a result, several property-tax related provisions were signed into law. Properties in the disaster area were reassessed to reflect the loss of market value as a result of the flooding. Local property tax rates for taxes payable in 2008 were calculated with the original estimated market values, but a disaster credit was created. For homesteads within the disaster area, the credit equals the difference in net tax on the property using the January assessment value and the reassessed value. The

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commissioner of the Department of Revenue will distribute the reimbursements to cities this December. Cities are also eligible for flood loss aid if the flood net tax capacity loss exceeded 5 percent of the city's 2007 net tax capacity. Loss is defined as the difference between net tax capacity in 2007 and net tax capacity using 2008 assessment year market values. Flood loss aid payments will be made in the summer of 2009.

- **Data for Minnesota's newest cities.** The cities of Columbus and Scandia incorporated in 2006. Columbus was included in last year's report but this is the first report for which Scandia has tax data. The City of Nowthen incorporated this year, and the 2009 report will include data for this new city.

## Included with this report:

- The 2008 Property Tax Data Table and Definitions—see pages 7-27.
- Comparative data by economic development region and by city population category—see the Special Supplement insert.

## Additional resources available on the League web site:

- A city-by-city breakdown of total tax capacity and total market value by property type.
- The Property Tax Calculator, an interactive web tool that allows users to compare estimated city and total taxes owed on homestead and business properties in different cities.
- Several background documents on property tax issues.

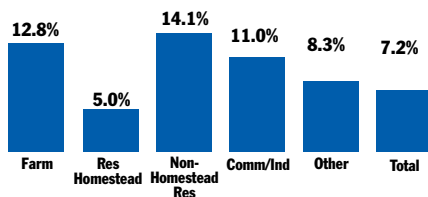
To access all of this information, visit [www.lmc.org/page/1/property-tax-state-funding-fiscal-issues.jsp](http://www.lmc.org/page/1/property-tax-state-funding-fiscal-issues.jsp).

### Market value trends

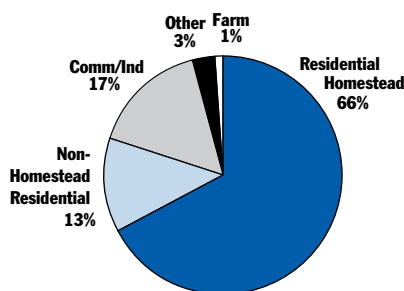
The decline in the housing market is clearly reflected in the market value data for taxes payable in 2008. Annual growth in the total market value of city property slowed by more than 30 percent over the last year. From 2006 to 2007, total market value grew 11 percent, but from 2007 to 2008, it increased only 7 percent. New construction, inflation of existing property values, and annexations are the main sources of market value growth in a given year. Some market value growth is also attributed to the continuing phase-out of the limited market value program, which restricts the growth in taxable market value of certain types of property. The program is scheduled to sunset after taxes payable in 2009 so that taxes payable in 2010 will be based on full market values.

As Figure 1 shows, the overall increase in market value growth from 2007 to 2008 was clearly not driven by growth in residential homestead market value. That property category increased only 5 percent over 2007. That is nearly 50 percent slower growth than over the previous year. Similar to last year, non-homestead residential and farm property grew at the highest rates—14 percent and 13 percent, respectively. All categories of property, however, grew slower between 2007 and 2008 than between 2006 and 2007. Despite the dramatic slowdown in market value growth, the share of total market value represented by each type of property changed slightly for 2008. The residential homestead share did shrink by two percentage points, most likely due to the bursting of the housing bubble and the residential foreclosure crisis (see Figure 2).

**Figure 1**  
Growth in Total City Market Values  
(2007 to 2008)



**Figure 2**  
Total City Market Values 2008



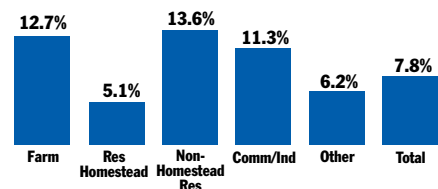
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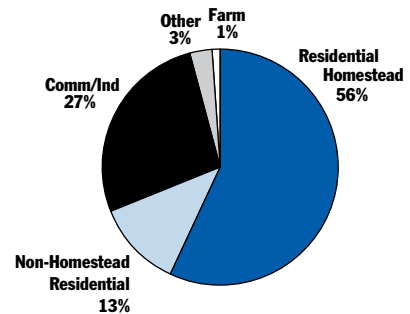
### Tax capacity trends

Trends in city tax capacity echo those in city market values. Total city tax capacity grew only 8 percent over the last year (see Figure 3). This is in contrast with 11 percent growth over the previous year. Again, the slowdown in tax capacity growth in residential homestead property is the most dramatic, dropping from 10 percent to 5 percent. All categories of property experienced slower tax capacity growth from 2007 to 2008, with non-homestead residential and commercial-industrial properties seeing the smallest declines in growth rates. The composition of total city tax capacity is almost identical to that for taxes payable in 2007. The residential homestead share of total tax capacity dropped slightly from 57 to 56 percent (see Figure 4).

**Figure 3**  
Growth in Total City Tax Capacities  
(2007 to 2008)



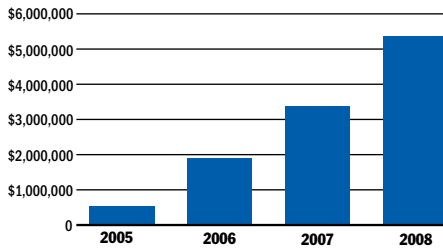
**Figure 4**  
Total City Tax Capacities 2008



### JOBZ trends

The Job Opportunity Building Zones (JOBZ) program provides special tax treatment for businesses that locate or expand in economically distressed areas outside the metropolitan area. Eligible businesses are exempt from most local property taxes. Growth in the number of cities that contain JOBZ property is continuing. For taxes payable in 2008, 113 cities had JOBZ-designated property. That is up from 95 cities in 2007. In 2005, the first year in which JOBZ impacted local property taxes, 13 cities had JOBZ property. The total JOBZ tax capacity within cities increased 61 percent from \$3,335,724 to \$5,362,314 over the last year (see Figure 5 on next page). Among only those 95 cities that were

**Figure 5**  
**JOBZ Tax Capacity in Cities**  
(2005 to 2008)

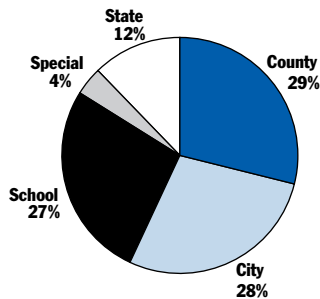


in the JOBZ program last year as well, JOBZ tax capacity grew 50 percent.

**Where taxes go**

City property owners in 2008 paid \$5.54 billion in property taxes before credits to counties, cities, school districts, special districts, and the state. That is a 7 percent increase over total property taxes paid in 2007. The breakdown of the total taxes paid in cities by type of government remained virtually the same as in 2007, with slightly less than a third of all property tax dollars going to cities (see Figure 6).

**Figure 6**  
**Where Property Taxes Go 2008**



**Taxes owed**

Figures 7 and 8 show the average tax owed on a residential homestead valued at \$100,000 and on a business property valued at \$150,000. For the homestead in this example, both the city taxes paid and the total taxes paid are slightly lower in 2008 than in 2007. On average, a residential homestead valued at \$100,000 paid \$291 in city property taxes after credits, and \$948 in total property taxes in 2008. In the previous year, those amounts were \$296 and \$952, respectively. When the value of the homestead is inflated by the average increase in homestead market value (4.95 percent), city taxes are

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\$294 and total taxes are \$963. For the business property in this example, city taxes fell slightly from 2007 to 2008 as did the total taxes owed. In 2007, a business property valued at \$150,000 paid, on average, \$865 in city property taxes and \$3,700 in total property taxes. A year later, it paid \$861 and \$3,636. When the property is inflated by the average increase in commercial/industrial property (11 percent) to \$166,560, it pays \$956 to the city and \$4,038 in total.

**Figure 7**  
**Tax on a Homestead (after MVHC)**

	2007 Tax on \$100,000 Home	2008 Tax on \$100,000 Home	2008 Tax with Home Value Inflated to \$104,950
City Portion of Tax Bill	\$296	\$291	\$294
<b>Total Tax Bill</b>	<b>\$952</b>	<b>\$948</b>	<b>\$963</b>

**Figure 8**  
**Tax on a Business**

	2007 Tax on \$150,000 Business	2008 Tax on \$150,000 Business	2008 Tax with Business Value Inflated to \$166,560
City Portion of Tax Bill	\$865	\$861	\$956
<b>Total Tax Bill</b>	<b>\$3,700</b>	<b>\$3,636</b>	<b>\$4,038</b>

**For additional property tax information**

This report examines only a subset of the property tax data that the League collects each year. The League maintains more detailed city property tax data and data on school districts, townships, and counties. For more information, contact the authors of this report.

The League would like to thank the staff at the Department of Revenue for their help in preparing this report. 🏠

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