

# Property Tax Report 2007

*For the first time since 2002, all cities in Minnesota will receive the full amount of their market value homestead credit reimbursement from the state. In each of the last four years, more than 100 cities did not realize their full certified levies due to cuts in that reimbursement.*

By Rachel Walker

This report is the 15th consecutive property tax report from the League of Minnesota Cities. Following this report is an accompanying table that shows the property tax levy, rate, and aid information for each Minnesota city. Included in the insert to this issue is a table that shows the property tax information by cluster and by economic development region.

The report and tables are available in the Research & Analysis section of the LMC web site ([www.lmc.org](http://www.lmc.org)). A separate table on the LMC web site shows a city-by-city breakdown of total tax capacity and total market value by property type. The Property Tax Calculator, an online tool, allows users to compare cities on a variety of property tax data. Several other documents are also available online that provide background information on the various aspects of the property tax system: *Property Tax 101*, *Market Value Homestead Credit 101*, *Fiscal Disparities 101* and the *Property Tax Glossary*.

## Things to note for 2007

■ **MVHC reimbursements restored.** All cities will receive their market value homestead credit (MVHC) reimbursements for 2007. The reimbursements were cut for 103 cities in 2003-04 and again in 2005-06. The property tax report tables for those years showed the amount of the reimbursement cuts for the affected cities and the impact on those cities' levies. Cities that experienced reim-



bursment cuts did not realize the full amount of their certified levies. This year's tax table does not include the MVHC information since all cities will receive their full reimbursement amount meaning no levies are affected.

- **Minnesota's newest cities.** While Minnesota has three new cities, data for only two is included in this report and the accompanying data table. The cities of Elko and New Market merged to become Elko-New Market. While Columbus and Scandia both incorporated in 2006, the report for taxes payable in 2008 will be the first one for which Scandia has tax data.
- **Additional LGA for Mahnomon and Cass Lake.** Two cities received aid base increases for 2007 local government aid (LGA). Mahnomon received a one-time additional LGA payment of \$80,000 for 2007 to compensate the city for the loss of tax base when the tribal casino in that community was placed into tribal trust. Cass Lake's aid base increased by \$100,000

beginning in 2007 to help the city meet unique public safety needs.

## City revenue sources

Overall, city certified levies increased 8.1 percent from \$1.4 billion in 2006 to \$1.5 billion in 2007. The 2005 Legislature increased LGA funding for 2006 and beyond by \$48 million. When the LGA formula was significantly modified in 2003, transition mechanisms were put into place. These mechanisms were designed to limit increases and decreases in LGA from year-to-year in order to ease cities onto the new formulae. Many cities that saw an increase in 2006 LGA due to the infusion of additional funding, saw a decrease in their 2007 payments as a result of these transition mechanisms. Others saw their LGA payments increase again in 2007. Still other cities continue to see a steady decline in their LGA amounts.

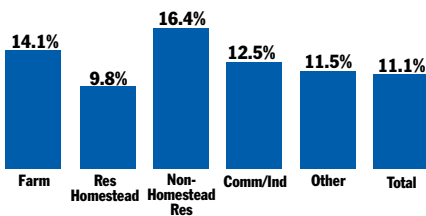
Since the reforms, cities have experienced more volatility in their aid payments. A major reason for this trend is the elimination of the grandfather—the guaranteed minimum amounts for cities. Now, almost all of the appropriated funds are distributed through the formula. This causes cities to see more upswings or downswings in their aid payments and creates budgeting challenges. The reforms also removed two relatively stable formula factors for cities over 2,500 (population and the percentage of commercial-industrial tax base) and replaced them with one that seems to be more volatile year-to-year (accidents per capita).

### Market value trends

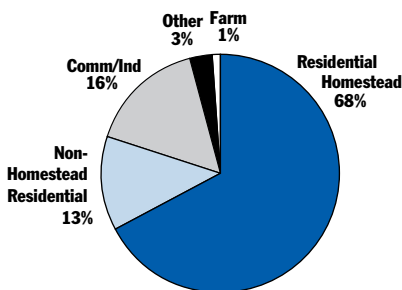
Total market value of city property increased 11 percent from 2006-07. Growth in market value is due to new construction, inflation of existing property values, and annexations. It is also due to the continuing phase-out of the limited market value program, which restricts the increase in taxable market value for homestead and agricultural property owners. The program is scheduled to sunset for taxes payable in 2010.

Non-homestead residential and agricultural property grew at the highest rates, 16 percent and 14 percent respectively. Only the commercial-industrial property and other property categories (e.g., manufactured homes) saw faster growth over the last year than from 2005 to 2006. The share of total market value represented by each type of property is almost unchanged in 2007. The residential homestead proportion shrunk by 1 percent, reflecting the decline in the housing market that has impacted Minnesota and the rest of the nation. This is likely a trend that will continue as it is unclear when a recovery of the housing market will begin.

**Chart 1**  
Growth in Total City Market Values  
(2006 to 2007)



**Chart 2**  
Total City Market Values 2007

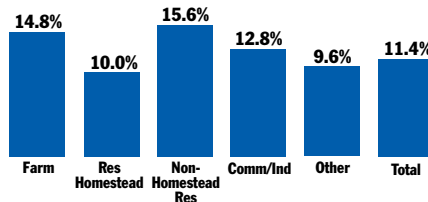


### Tax capacity trends

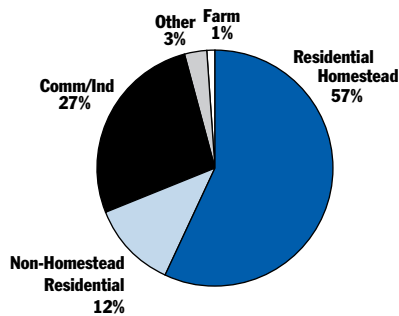
Total city tax capacity grew slightly more than 11 percent over the last year. As with market value trends, the agricultural and non-homestead residential categories of property saw the highest rates of growth in tax capacity from 2006 to 2007. This is despite the fact that agricultural property tax capacity grew slower from 2006-07 than it did from 2005-06.

Non-homestead residential, commercial/industrial, and other property grew faster over the last year. The composition of total city tax capacity is almost identical to that for taxes payable in 2006. The residential homestead share of total tax capacity remains at 57 percent. Again, due to the slowdown in the growth of housing prices, tax capacity increases for residential homestead property may slow in the future.

**Chart 3**  
Growth in Total City Tax Capacities  
(2006 to 2007)



**Chart 4**  
Total City Tax Capacities 2007



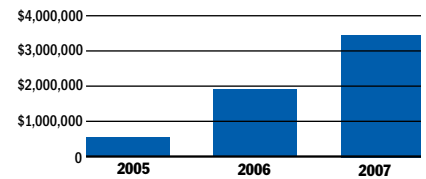
### JOBZ trends

Growth in Job Opportunity Building Zones (JOBZ) is continuing. The 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.

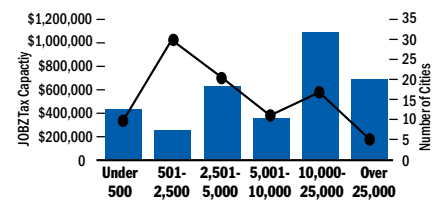
For taxes payable in 2007, 95 cities had JOBZ-designated property. That is up from 70 cities in 2006 and 13 cities in 2005, the first year in which JOBZ impacted local property taxes. The total JOBZ tax capacity within cities increased 74 percent from \$1,916,270 to \$3,335,724 over the last year (see chart 5).

**Chart 5**  
JOBZ Tax Capacity in Cities  
(2005 to 2007)



Among only those 70 cities that were in the JOBZ program last year as well, JOBZ tax capacity grew 57 percent. Just less than 10 percent of the total JOBZ tax capacity in 2007 was in cities new to the program this year. In JOBZ cities on average, there was \$793 of JOBZ tax capacity per capita. The city of Brewster had the highest JOBZ tax capacity per capita at \$40,471, while Park Rapids had the lowest at \$14. Chart 6 shows the distribution of 2007 JOBZ tax capacity, by city population size.

**Chart 6**  
2007 JOBZ by City Population

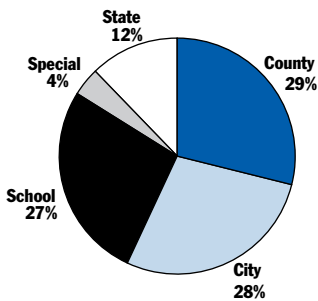


While the 30 cities between 500 and 2,500 population contained \$231,037 of JOBZ tax capacity, the six cities over 25,000 population contained almost three times that amount. Two-thirds of the cities that have JOBZ property are under 5,000 population. More than 60 percent of the JOBZ tax capacity in 2007 was in cities over 5,000.

**Where taxes go**

City property owners in 2007 paid \$5.18 billion in property taxes before credits to counties, cities, school districts, special districts, and the state. Since 2006, there have been almost no changes in the breakdown of the total taxes paid in cities by type of government. The share going to school districts went up 1 percent, while the share going to county governments decreased 1 percent.

**Chart 7  
Where Property Taxes Go 2007**



**Tax burdens**

Table 8 show the average tax burden 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 higher in 2007 than in 2006. On average, a residential homestead valued at \$100,000 paid \$296

in city property taxes after credits and \$952 in total property taxes in 2007. In 2006, those amounts were \$273 and \$915, respectively. When the value of the homestead is inflated by the average increase in homestead market value (9.77 percent), city taxes and total taxes are \$338 and \$1,082.

For the business property in this example, city taxes increased from 2006 to 2007, but the total tax burden was slightly smaller. In 2006, a business property valued at \$150,000 paid on average \$836 in city property taxes and \$3,730 in total property taxes. For 2007, it paid \$865 and \$3,700. When the property is inflated by the average increase in commercial/industrial property (12.46 percent) to \$168,690, it pays \$972 to the city and \$4,161 in total.

**For additional property tax information**

This report examines only a subset of the property tax data collected by the League. The League maintains more detailed city property tax data and data on school districts, townships, and counties. For comments or questions about this report, contact Rachel Walker at (651) 281-1236, (800) 925-1122 or [rwalker@lmc.org](mailto:rwalker@lmc.org). The League thanks the staff at the Department of Revenue for their help in preparing this report. 🐾

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**Table 8  
Tax on a Homestead (after MVHC)**

	2006 Tax on \$100,000 Home	2007 Tax on \$100,000 Home	2007 Tax with Home Value Inflated to \$109,770
City Portion of Tax Bill	\$273	\$296	\$338
<b>Total Tax Bill</b>	<b>\$915</b>	<b>\$952</b>	<b>\$1,082</b>

**Table 9  
Tax on a Business**

	2006 Tax on \$150,000 Business	2007 Tax on \$150,000 Business	2007 Tax with Business Value Inflated to \$168,690
City Portion of Tax Bill	\$836	\$865	\$972
<b>Total Tax Bill</b>	<b>\$3,730</b>	<b>\$3,700</b>	<b>\$4,161</b>

“What do Minnesotans really want to know about their property taxes?”

That is the question facilitators will pose in discussions with citizens in Washington, Ramsey, and Morrison counties as part of a joint project of the League and the Citizen’s League. The project is part of the Citizen’s League’s MAP 150 Initiative.

Last year, the MAP 150 Initiative involved a statewide survey of Minnesotans on issues and challenges facing the state. In that survey, citizens identified controlling property taxes as one of their top concerns, and 81 percent indicated that they would feel better about paying property taxes if it were clearer how the money is spent.

Participants will be residential property tax payers identified through a random sampling process and invited to join the project. In each of the three counties, a group of 12 citizens will meet three times to discuss public perceptions of the property tax and to identify what kinds of information the public wants to know about property taxes. The insights and information gathered in the discussion groups will help the League and the Citizen’s League develop recommendations for engaging with and communicating to the public about property taxes.

The three-part series of discussion groups will be held over the next month. Once the project is underway, a web site will be set up to allow for further interaction on the topic of property taxes. The general public will be able to join this web dialogue.

For questions on this joint effort of the League and the Citizen’s League, contact **Kevin Frazell**, LMC, at (651) 281-1215 of [kfrazell@lmc.org](mailto:kfrazell@lmc.org); or **Rachel Walker**, LMC, at (651) 281-1236 or [rwalker@lmc.org](mailto:rwalker@lmc.org).

## 2007 PROPERTY TAX DATA TABLE: COLUMN DEFINITIONS

Unless otherwise noted, the data are computed from the 2007 abstract of tax lists prepared by the Minnesota Department of Revenue.

**Total tax capacity**—the total tax capacity for taxes payable in 2007. Tax capacity is determined by multiplying a property's market value by its classification rate. Each property is assigned a classification rate depending on its use.

**Power line tax capacity [not shown]**—the net tax capacity of 10 percent of the 200 KV power line for taxes payable in 2007. To compute the power line net tax capacity, subtract the following from total tax capacity: captured TIF tax capacity, fiscal disparities contribution tax capacity, and taxable tax capacity.

**Captured TIF tax capacity**—the captured tax capacity within tax increment financing (TIF) districts for taxes payable in 2007.

**Fiscal disparity contribution tax capacity**—the tax capacity contributed to the metropolitan and Iron Range fiscal disparities programs for taxes payable in 2007. Cities in Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, Washington, Lake, and Cook counties and portions of St. Louis, Itasca, Crow Wing, Aitkin, and Koochiching counties are affected by these programs.

**Taxable tax capacity**—the taxable tax capacity for taxes payable in 2007. The taxable tax capacity is computed by subtracting the power line tax capacity, the captured TIF tax capacity, and the fiscal disparities contribution capacity from the total tax capacity of each city. This is the tax base used to compute the local tax rate.

**Fiscal disparity distribution tax capacity**—the tax capacity received from the fiscal disparities programs for taxes payable in 2007. Only cities located within the Twin Cities metropolitan area and the taconite relief area are affected by these programs.

**State levy tax capacity**—the tax capacity of commercial, industrial and seasonal recreational property that is subject to the state property tax. For taxes payable in 2007, the state levy tax capacity is split between cabins (5 percent) and commercial/industrial (95 percent). The amount of the state tax collected in a city can be calculated by multiplying the state levy cabin tax capacity times .24233 and adding the state commercial/industrial tax capacity times .48045.

**JOBZ/BIO tax capacity**—the tax capacity in Job Opportunity Building Zones or in the BioScience Zone. Properties in areas designated as JOBZ or BioScience zones are exempt from many local property taxes. The JOBZ/BIO zone tax capacity is excluded from the calculations of average tax capacity rates, as there are only 95 cities with JOBZ properties for taxes payable in 2007.

**Average tax rates**—these columns provide the average 2007 tax rates for county, city, school, and special districts within each city. Average tax rates are provided because the city may be overlapped by several school districts, counties or special taxing districts. For example, portions of St. Cloud are located within Stearns, Sherburne, and Benton counties and within the Sauk Rapids (ISD #47) and the St. Cloud (ISD #742) school districts. Please note that the average total rate does not include market value-based referenda levies. (Also see JOBZ tax capacity definition for treatment of JOBZ tax capacity in these calculations).

**Market value tax rates**—these columns provide the average 2007 market value tax rates for cities, counties, and schools within each city. The averages at the end of the table reflect the average only for those jurisdictions that have market value levies. Market value contained within JOBZ properties is not included in the rate calculations (see note under "JOBZ/BIO tax capacity"). For taxes payable in 2007, three counties, 45 cities, and 337 of the state's 345 school districts imposed market value referenda levies. In 2005, three counties, 45 cities, and 338 school districts imposed market value levies. The 2001 tax law reduced the number of school districts with referendum levies by replacing the first \$415 per pupil of operating referendum levies with an equal amount of state aid for 2007.

**Certified 2007 LGA**—the amount of local government aid (LGA) each city was expected to receive in 2007 when the Department of Revenue certified the amounts in July 2006. (Source: Department of Revenue spreadsheet.)

**2007 city certified levy**—the amount of property taxes each city expected to receive in 2007 when it certified its levy to the county in December 2006. (Source: 2007 abstract of tax lists and House Research.)

**2007 fiscal disparities distribution levy**—the amount of 2007 city levy raised through the fiscal disparities program. (Source: House Research and Department of Revenue.)

**2007 city net levy**—the city levy actually used to compute the local tax rate. The net levy is computed by subtracting the fiscal disparity distribution levy (if applicable) from each city's certified levy.

**2006 population**—the 2006 population estimates are from the state demographer for greater Minnesota cities and the Metropolitan Council for metro cities.