2012 Property Tax Report

Welcome to the 20th annual League of Minnesota Cities property tax report. It provides an update on current policy issues related to the property tax system, and highlights recent market value and tax capacity trends.

By Lena Gould

In terms of property taxes, 2012 is shaping up to be another difficult year for cities, with continued declining market values and no increase in local government aid (LGA). In addition, the homestead market value exclusion (HMVE) program enacted by the 2011 Legislature has also created some financial challenges for cities.

2012 Observations

- ***Market value declines continue.*** The 2010 report marked the beginning of year-over-year declines in total market value for cities. For taxes payable in 2012, total market value in cities has fallen for the third year in a row. From 2011 to 2012, the decrease is almost 9 percent. However, much of this decrease is due to the HMVE, which replaced the market value homestead credit (MVHC) reimbursement program beginning with taxes payable in 2012. Taking out the effects of the homestead market value exclusion program still shows a 3 percent decline in total city market values from 2011 to 2012.
- ***Homestead market value exclusion.*** Instead of receiving a credit, a portion of a qualifying homeowner's market value is exempted from property taxes. This effectively decreases the tax base for all cities. Under current law, levy, tax, spending, debt, and similar limits are calculated using "market value" or "taxable market value," the city's market value after the partial homestead market value exemption.

  The League and the Minnesota Inter-County Association proposed changes during the 2012 legislative session that would instead base these calculations on "estimated market value." The bill would have based these limits on the assessor's estimate of a property's fair market value before any exclusion or adjustments made for tax or legislative policy purposes. Ultimately, Gov. Dayton vetoed the omnibus tax bill, which included these provisions. This bill will be reintroduced in 2013.

Under homestead market value exclusion, instead of receiving a credit, a portion of a qualifying homeowner's market value is exempted from property taxes. This effectively decreases the tax base for all cities.

- ***No aid increases for 2012.*** Following years of reductions to LGA, a city's 2012 LGA was equal to the lesser of the city's 2010 LGA (after reductions) or the city's 2011 certified LGA amount. In over half of all cities, the 2011 certified amount was the lesser of the two, becoming the city's 2012 certified amount.

MORE RESOURCES

There are several other property tax-related resources included in this issue and on the League of Minnesota Cities website. You may notice that this City Finances issue is much thinner than in years past—that's because instead of printing the 20-page property tax data table here, it is available only online in both Excel and PDF formats.

Included in print with this report:

- An article explaining the implications of the new homestead market value exclusion program on city property tax bases—see page 7.
- Comparative data by economic development region and by city population category—see the Special Supplement insert.
- A report about the Property Tax Working Group created by the 2010 Legislature—see the Special Supplement insert (back page).

Additional resources available on the League website:

- The 2012 Property Tax Data Table and Definitions.
- 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 various aspects of the property tax system.

*To access all this information, visit **www.lmc.org/property-tax**.*

- ***Certified property tax increases at near record low levels.*** Statewide, 2012 property tax levies for all taxing entities increased by just 1.2 percent over 2011. City levies increased just 0.9 percent. This increase, the smallest in at least the last 15 years, comes amidst the deep reductions in state aid cities have seen since 2008. This year was also the first year without levy limits imposed on cities with populations over 2,500 since 2009.
- ***City of Tenney dissolved.*** The City of Tenney, population 5, voted 2-1 in June of 2011 to dissolve as a city and become part of Campbell Township. There are now 853 Minnesota cities.

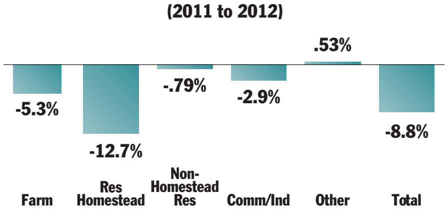
Market value trends

The downward trend in market value growth described in the last four reports has continued. In 2010, after years of growth, the decline in total city market value was 3 percent. The decrease was even greater from 2010 to 2011, roughly 6 percent. This year, the total drop was 9 percent, including the effects of the homestead market value exclusion.

Just 16 cities saw an increase in total market value from 2011 to 2012. Total market values fell roughly 3 percent since 2011 if the exclusion's effects are ignored, illustrating the continued effects of the economic recession on property values.

For the second year in a row, each individual category of property except for "other" (e.g., cabins, bed and breakfasts, certain marinas, etc.) also fell. The "other" category only increased by half of one percent in 2012. Residential homestead market value fell almost 13 percent statewide, again due in large part to the homestead market value exclusion (see Figure 1).

Figure 1
Change in Total City Market Values
(2011 to 2012)



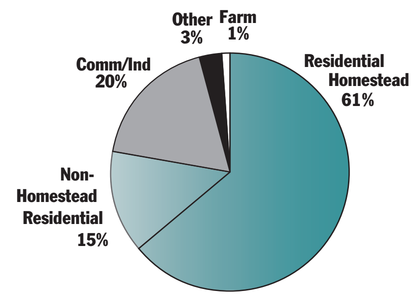
While cities of all population sizes and in all areas of the state lost market value, there are some differences by city size and location. Just two of the 16 cities that experienced growth in the total market value in 2012 are over 500 in population. All but one of these cities is in Greater Minnesota. However, total market value fell 11 percent for Greater Minnesota cities overall compared to 8 percent for metro cities.

Total market value decline was greater for the smallest cities as a whole than for the largest cities. Overall, the very smallest cities (under 500 in population) experienced increases in agricultural and non-homestead residential market value. Increases in the "other" property category were seen across several city population sizes while the residential homestead and commercial/industrial property categories decreased in all population sizes.

Total market value decline was greater for the smallest cities as a whole than for the largest cities. Overall, the very smallest cities (under 500 in population) experienced increases in agricultural and non-homestead residential market value.

The breakdown of all city market value into the five major property categories has shifted from the composition observed in prior years (see Figure 2). Agricultural and "other" types of property continue to make up the smallest shares of the total (1 percent and 3 percent, respectively). The statewide share of commercial/industrial property grew from 18 percent to 20 percent in 2012 while non-homestead residential property increased one percentage point, from 14 to 15 percent. Due in part to the homestead market value exclusion, the market value share of residential homestead property fell from 64 percent in 2011 to 61 percent in 2012.

Figure 2
Total City Market Values 2012

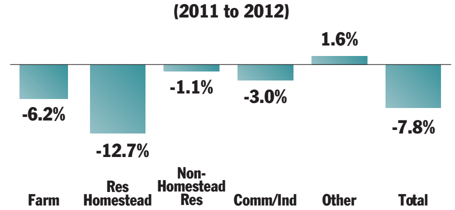


Tax capacity trends

Looking at changes in city property tax base in terms of tax capacity reveals very similar trends to the market value analysis discussed above. For the third year in a row, overall city tax capacity fell. Like last year, the tax capacity of all categories of property except for "other" property, which grew less than 2 percent, decreased for taxes payable in 2012 (see Figure 3).

For the third year in a row, overall city tax capacity fell. Like last year, the tax capacity of all categories of property except for "other" property, which grew less than 2 percent, decreased for taxes payable in 2012.

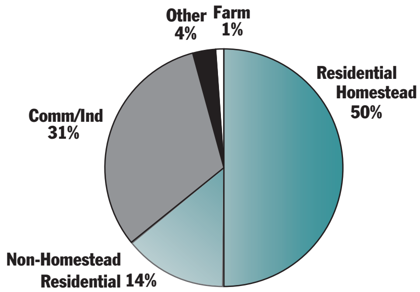
Figure 3
Change in Total City Tax Capacities
(2011 to 2012)



The breakdown of all city tax capacity into the five major categories of property changed slightly from previous years' compositions (see Figure 4). Residential homestead property now represents exactly half of total city tax capacity. In past years this share has been slightly larger.

The next-largest group is commercial/industrial property with 31 percent, up from 29 percent in 2011. Only 1 percent of all city tax capacity is made up of farm property.

Figure 4
Total City Tax Capacities 2012



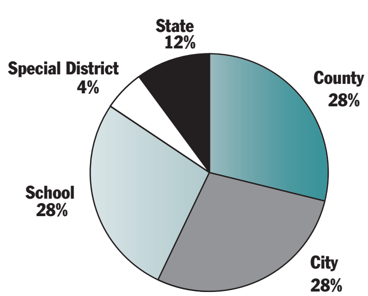
JOBZ property

For taxes payable in 2012, 108 cities contained property eligible for the benefits of the Job Opportunity Building Zones (JOBZ) program, namely exemption from most property taxes. This number has decreased slightly in recent years, down from 115 cities in 2010 and 110 in 2011. For the cities that did have JOBZ property in 2012, the total tax capacity represented was $8,085,720. This is a decrease of 22 percent from total JOBZ tax capacity in 2011. Just 2 percent of this loss is attributed to the two cities that left the program in 2012.

Taxes paid

In 2012, just over $6 billion was collected in property taxes on city property by all levels of government collectively. Figure 5 shows the distribution of this amount to the state, counties, cities, school districts, and special districts. The city portion of all property taxes collected within cities remains the same as in years past at 28 percent. This share is now equal to the shares collected by the other local governments, counties, and school districts.

Figure 5
Where Property Taxes Go 2012



Taxes owed on homestead and business

Figures 6 and 7 show the average taxes owed by both a homestead property and a business property in 2011 and 2012. It is important to remember that in 2011, qualifying homestead properties received a reduction in taxes due to the MVHC program, while in 2012, qualifying homesteads instead had a portion of market value excluded for taxes payable.

Accounting for the exclusion, a homestead valued at $100,000 has a taxable market value of $71,760 for taxes paid in 2012. For this sample homestead, the taxes owed to the city fell slightly from $354 in 2011 to $348, while total taxes fell from $1,144 to $1,065. Had the MVHC program still been in effect in 2012, a homestead valued at $100,000 would have paid $382 in city taxes and $1,202 in total taxes.

For the business property, the city tax bill on a property valued at $150,000 grew from $1,002 to $1,074, while the total tax bill increased from $4,109 to $4,330. To reflect market value trends, the business property was deflated by 2.9 percent. This dropped the city portion of the tax bill slightly to $1,043 and the total tax bill to $4,203.

Accounting for the exclusion, a homestead valued at $100,000 has a taxable market value of $71,760 for taxes paid in 2012. For this sample homestead, the taxes owed to the city fell slightly from $354 in 2011 to $348, while total taxes fell from $1,144 to $1,065.

Figure 6
Tax on a Homestead (after MVHC in 2011)

	2011 Tax on $100,000 Home	2012 Tax on $100,000 Home Taxable Value of $71,760	2012 Tax with Home Market Value Deflated to $87,280
City Portion of Tax Bill	$354	$348	$281
Total Tax Bill	$1,144	$1,065	$859

Figure 7
Tax on a Business

	2011 Tax on $150,000 Business	2012 Tax on $150,000 Business	2012 Tax with Business Value Deflated to $145,620
City Portion of Tax Bill	$1,002	$1,074	$1,043
Total Tax Bill	$4,109	$4,330	$4,203

For additional property tax information

This report examines only a portion of the property tax data that the League of Minnesota Cities collects each year. Additional detailed property tax data is available on cities, school districts, townships, and counties. For more information, contact Rachel Walker at (651) 281-1236 or rwalker@lmc.org, or Lena Gould (see information below).

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

Lena Gould is policy analyst with the League of Minnesota Cities. Phone: (651) 281-1245. E-mail: lgould@lmc.org.