2013 Property Tax Report

BY LENA GOULD

In this, the League of Minnesota Cities' 21st annual property tax report, we find that although market values continued to decline, losses in 2013 aren't as severe as in recent years. However, that decline, plus little or no increase in local government aid (LGA) from 2008 through 2013, continue to challenge cities. We'll explore this and other recent market value and tax capacity trends here, as well as provide an update on current property tax policy issues.

This is the second year that the homestead market value exclusion (HMVE) program has been in place. The program was enacted by the 2011 Legislature as a replacement for the homestead market value credit reimbursement program. This makes comparisons to 2012 property tax data more straightforward.

More Resources

A table providing comparative property tax data by economic development region and by city population category is on pages 18-19 of this issue of *Minnesota Cities* and is also available on the League website. There are several other property tax-related resources available on the League website as well, including:

- The full 2013 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 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**.*

2013 Observations

- ***Market value declines continue.*** For taxes payable in 2013, total market value in cities has fallen for the fourth year in a row. However, this decline is the smallest since 2010, when this trend was first observed. From 2012 to 2013 the decrease is just under 4.5 percent. Much of this decline is due to continued losses in overall or total residential homestead market value, which fell just over 7 percent from 2012 to 2013.
- ***Homestead market value exclusion.*** The 2012 Legislature changed the homestead credit reimbursement program so that 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. The 2013 omnibus tax bill included a provision that changes how levy, tax, spending, debt, and similar limits are calculated, switching from using "market value" or "taxable market value" (the city's market value after the partial homestead market value exemption) to "estimated market value." These calculations are now based on the assessor's estimate of a property's fair market value before any exclusion or adjustments made for tax or legislative policy purposes.
- ***Aid freeze for 2013.*** LGA amounts were frozen for 2013. Cities with populations of 5,000 and above received a 2013 payment equal to what they received in 2012. Cities under 5,000 in population received the greater of their 2012 amount or the 2013 estimated amount. Just 83 cities received an increase over 2012.
- ***Certified property tax increases at near record low levels.*** Statewide, 2013 property tax levies for all taxing entities increased by just 1.65 percent over 2013. City levies increased 2.27 percent. While higher than last year's record low increase of 0.9 percent, this increase is still historically low. Almost one-third of cities kept their levy flat while 13 percent decreased their 2013 levy.

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 grew in both 2011 and 2012, reaching 9 percent in 2012.

Much of this decline was due to the effects of the homestead market value exclusion. While market value continued to fall in 2013, the decline, at almost 4.5 percent, was not as great as that seen in recent years. Part of this is due to the fact

FIGURE 1
Change in Total City Market Values (2012-2013)

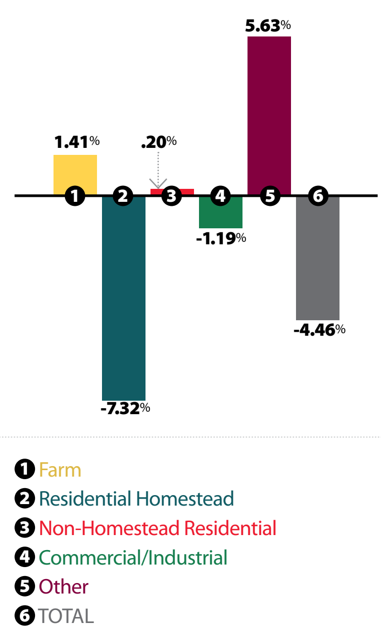
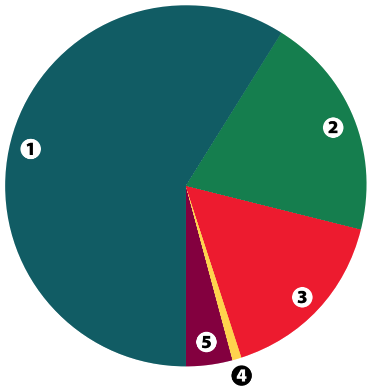


FIGURE 2
Total City Market Values (2013)



❶ Residential Homestead (59%)
❷ Commercial/Industrial (20%)
❸ Non-Homestead Residential (16%)
❹ Farm (1%)
❺ Other (4%)

that the homestead market value exclusion was in effect in both 2012 and 2013.

While cities overall experienced a decline, 367 cities saw an increase in total market value in 2013. This is in stark contrast to 2012, when only 16 cities saw an increase in total market value over the previous year.

While the property category of “other” (e.g., cabins, bed and breakfasts, certain marinas, etc.) was the only category to grow in both 2011 and 2012, the categories of other, farm, and non-homestead residential property all increased in 2013. Residential homestead market value again fell (**SEE FIGURE 1**).

Differences by city size and region

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. The smallest size category, cities with populations under 300, was the only group to experience total market value growth from 2012 to 2013. The largest size category, cities over 10,000 in population, experienced the greatest decline in market value at almost 5 percent. Looking at just residential homestead market value, the smallest cities again saw less of a decline in market value than did the largest cities, falling just over 3 percent compared to almost 8 percent.

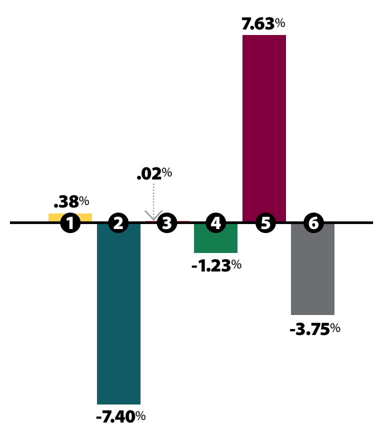
Regionally, cities in the metro area experienced a greater decline in total market value than did cities in Greater Minnesota (5 percent versus 2 percent). The Northwest, Headwaters, West Central, Upper Minnesota Valley, and Southwest regions all experienced growth over 2012 while all other regions saw total city market value fall.

The breakdown of all city market value into the five major property categories has shifted slightly from the composition observed in 2012 (**SEE FIGURE 2**). Agricultural and “other” types of property continue to make up the smallest shares of the total (1 percent and 4 percent, respectively). The statewide share of commercial/industrial property remained at 20 percent in 2013 while non-homestead residential property again increased one percentage point, from 15 to 16 percent. The market value share of residential homestead property fell for the second year in a row, from 61 percent in 2012 to 59 percent in 2013.

Tax capacity trends

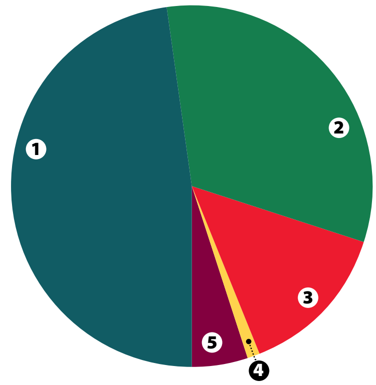
Looking at changes in city property tax base in terms of tax capacity reveals very similar trends to the market value analysis discussed above. For the fourth year in a row, overall city tax capacity fell. Unlike last year, when the tax capacity of all categories of property except for “other” property decreased, total tax capacity grew in the categories of other, farm, and non-homestead residential property for taxes payable in 2013 (**SEE FIGURE 3**).

FIGURE 3
Change in Total City Tax Capacities (2012-2013)



❶ Farm
❷ Residential Homestead
❸ Non-Homestead Residential
❹ Commercial/Industrial
❺ Other
❻ TOTAL

FIGURE 4
Total City Tax Capacities (2013)



❶ Residential Homestead (48%)
❷ Commercial/Industrial (32%)
❸ Non-Homestead Residential (14%)
❹ Farm (1%)
❺ Other (5%)

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 slightly less than half of total city tax capacity. In past years, this share has comprised just over 50 percent of the total. The next-largest group is commercial/industrial property with 32 percent, up from 31 percent in 2012. As in recent years, just 1 percent of all city tax capacity is made up of farm property. Even though these changes are very small, they do result in shifts in the tax burden among different kinds of property.

JOBZ property

For taxes payable in 2013, 105 cities contained property eligible for the benefits

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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, 110 in 2011, and 108 in 2012. For the cities that did have JOBZ property in 2013, the total tax capacity represented was $7,814,395. This is a decrease of 3 percent from total JOBZ tax capacity in 2012.

Taxes paid

In 2013, roughly $6.1 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 is slightly higher than in years past at 29 percent. Conversely, the share collected by school districts is now slightly smaller.

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 2012 and 2013. In both years, qualifying homesteads had a portion of market value excluded for taxes payable due to the homestead market value exclusion program, which replaced the market value homestead credit (MVHC) program.

Accounting for the exclusion, a homestead valued at $100,000 has a taxable market value of $71,760 for taxes paid in 2013. For this sample homestead, the taxes owed to the city rose slightly from $348 in 2012 to $366 in 2013, while total taxes increased from $1,065 to $1,113. Had the MVHC program still been in effect in 2013, a homestead valued at $100,000 would have paid $406 in city taxes and $1,269 in total taxes. To reflect 2013 market value trends, the market value on this hypothetical property was lowered by 7.32 percent to $92,680. This reduced the city portion of the tax bill to $325 and the total tax bill to $990.

For the business property, the city tax bill on a property valued at $150,000 grew from $1,074 to $1,131, while the total tax bill increased from $4,330 to $4,494. Again, to reflect market value trends, the business property was

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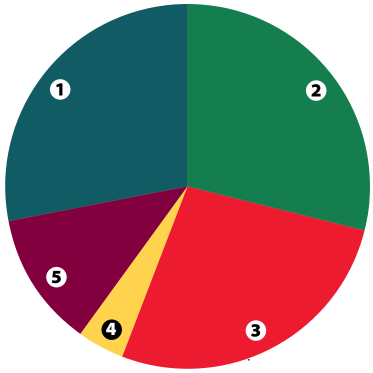
FIGURE 5

Where Property Taxes Go (2013)



1. County (28%)
2. City (29%)
3. School (27%)
4. Special District (4%)
5. State (12%)

deflated by 1.19 percent. This dropped the city portion of the tax bill slightly to $1,118 and the total tax bill to $4,440.

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 rwalker@lmc.org or (651) 281-1236, or Lena Gould (see information below). A spreadsheet of the entire property tax data table is available on the League website. These League staff members are also available to help you create tailored/customized spreadsheets with the data.

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

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FIGURE 6
Tax on a Homestead

	2012 Tax on $100,000 Home	2013 Tax on $100,000 Home, Taxable Value of $71,760	2013 Tax with Home Market Value Deflated to $92,680
City Portion of Tax Bill	$348	$366	$325
Total Tax Bill	$1,065	$1,113	$990

FIGURE 7
Tax on a Business

	2012 Tax on $150,000 Business	2013 Tax on $150,000 Business	2013 Tax with Business Value Deflated to $148,215
City Portion of Tax Bill	$1,074	$1,131	$1,118
Total Tax Bill	$4,330	$4,494	$4,440