

2014 Property Tax Report

BY LENA GOULD

After years of decline, cities are starting to see some increase in property values. Total city market value inched upward 1 percent in 2014. And all categories of property in cities saw market value increases, according to data from the Minnesota Department of Revenue.

In this, the League of Minnesota Cities' 22nd annual property tax report, we'll explore this and other market value and tax capacity trends as well as provide some updates on recent policy changes affecting the property tax system.

More Resources

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

- The full 2014 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.

2014 Observations

- **Market values rise after years of little or no growth.** Total market value in cities rose for the first time since 2010. While the farm, non-homestead residential, and "other" property categories all saw market value growth last year, this year all five major categories of property increased in market value.
- **Homestead market value exclusion.** The 2012 Legislature implemented the homestead market value exclusion program, where a portion of a qualifying homeowner's market value is exempted from property taxes, while ending the market value homestead credit program. This is the third year of the new program, making comparisons to 2013 property tax data very straightforward.
- **Aid changes.** The 2013 Legislature made several local government aid (LGA) program changes, which went into effect for aids payable in 2014. The formula now includes three separate "need" calculations for cities of different population sizes and uses updated data. The new formula reduces annual volatility in the LGA distribution to individual cities. Under the new formula, no city experienced a reduction in aid for 2014. The total appropriation for aid payable in 2014 was increased to \$507.6 million.
- **Township aid created.** The 2013 Legislature established a new township LGA system. For aids payable in 2014 and thereafter, the appropriation is set at \$10 million.
- **Levies in 2014.** A one-year levy limit was in effect for taxes payable in 2014 for cities over 2,500 in population. Overall, city certified levies increased just 1.6 percent over 2013.

Market value trends

Total city market value grew just over 1 percent from 2013 to 2014 following many years of decreases. The downward trend in market value growth was first

observed in 2010 when, after years of growth, total city market value fell 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, which replaced the market value homestead credit. Growth observed this year is likely due in part to the fact that the homestead market value exclusion has been in effect for a couple of years, and in part to actual gains in market value as the economy improves.

A majority of cities (66 percent) saw growth in 2014 in their total city market value. In 2013, only 43 percent of cities experienced this increase.

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

FIGURE 1
Change in Total City Market Values (2013-2014)

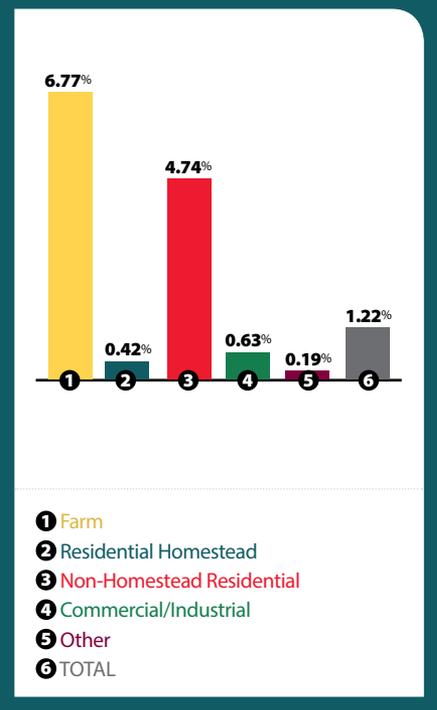
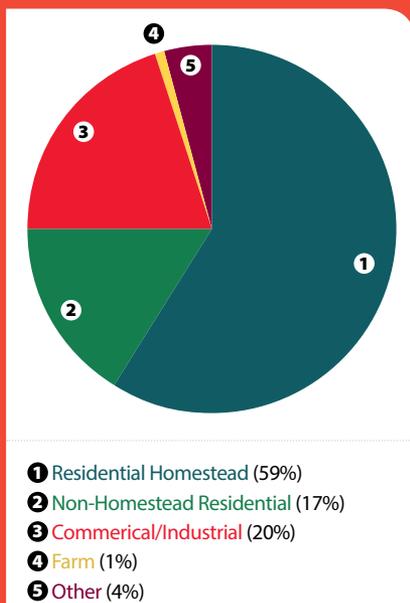


FIGURE 2
Total City Market Values (2014)



“other,” farm, and non-homestead residential property categories all increased in 2013. In 2014, all property categories grew (SEE FIGURE 1). The farm property category showed the greatest growth while the “other” category experienced the smallest increase.

Differences by city size and region

While cities of all population sizes and in all areas of the state increased in market value, there are some differences by city size and location. Cities with populations between 301 and 650 and between 1,301 and 3,000 were the only two groups to show decline. Both of these categories lost less than 1 percent in market value from 2013 to 2014.

The greatest growth was in the smallest size category, cities with populations under 300; market value in this group increased just over 3.5 percent. Looking at just residential homestead market value, only the largest size category, cities over 10,000 in population, saw an increase (0.71 percent). The greatest decline was in the 301 to 650 population size category (4.12 percent).

Regionally, cities in the metro area experienced growth in total market value similar to that seen by cities in Greater Minnesota (roughly 1 percent). The North Central, Southwest Central, and

East Central regions saw total city market value fall while all other areas experienced growth in total market value.

The breakdown of all city market value into the five major property categories has shifted slightly from the composition observed in 2014 (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 2014 while non-homestead residential property again increased slightly, from 16 to 17 percent. The market value share of residential homestead property remained at 59 percent for the second year in a row.

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 first time in five years, overall city tax capacity increased. Unlike last year, when the tax capacity of all categories of property except for “other” property decreased, total tax capacity grew in all categories for taxes payable in 2014 (SEE FIGURE 3).

FIGURE 3
Change in Total City Tax Capacities (2013-2014)

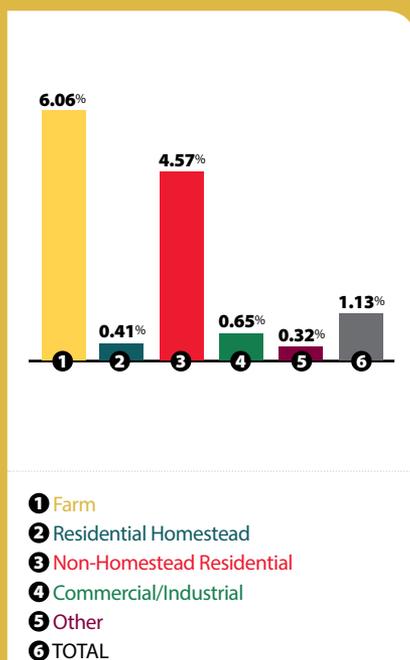
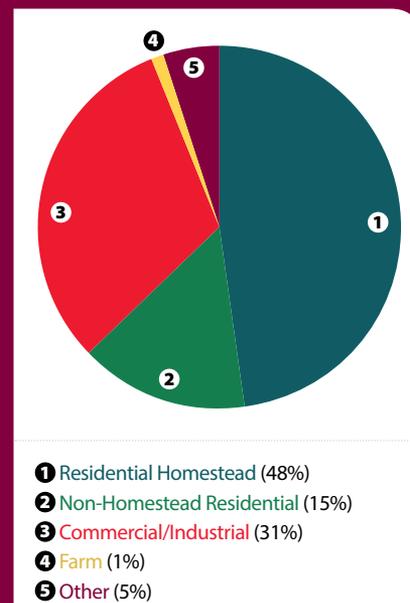


FIGURE 4
Total City Tax Capacities (2014)



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 continues to represent slightly less than half of total city tax capacity. Several years ago, this share comprised just over 50 percent of the total.

The next-largest group is commercial/industrial property with 31 percent, followed by other residential with 15 percent. 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 2014, 105 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 106 in 2013.

For the cities that did have JOBZ property in 2014, the total tax capacity
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represented was \$7,654,120. This is a decrease of 2 percent from total JOBZ tax capacity in 2013, a smaller decrease than in recent years. The JOBZ program is set to expire at the end of 2015.

Taxes paid

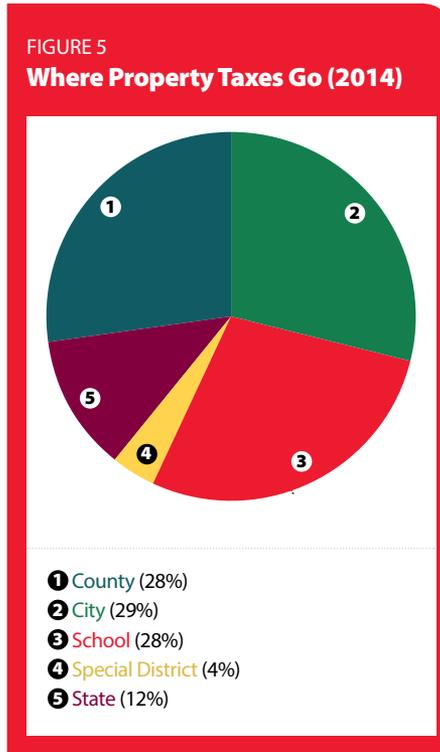
In 2014, just over \$6.1 billion was collected in property taxes on city property by all levels of government collectively.

FIGURE 5 shows the distribution of this amount to the state, counties, cities, school districts, and special districts.

The city share of all property taxes collected within cities is the same as last year, 29 percent. The portion collected by school districts increased from 27 percent to 28 percent while the proportion taken in by counties shrank slightly from 27.84 percent to 27.51 percent.

Taxes owed on homestead and business

FIGURES 6 AND 7 show the average taxes owed by a hypothetical homestead property and by a sample business property in 2013 and 2014. As is the case since 2012, qualifying homesteads, including this



hypothetical property, had a portion of market value excluded for taxes payable

due to the homestead market value exclusion program.

Accounting for the exclusion, a homestead valued at \$100,000 has a taxable market value of \$71,760 for taxes paid in 2014. For this sample homestead, the taxes owed to the city fell slightly from \$366 in 2013 to \$365 in 2014. Total taxes also decreased slightly in 2014, from \$1,113 to \$1,109. To reflect 2014 market value trends, the market value on this hypothetical property was inflated by 0.42 percent to \$100,420. This raised the city portion of the tax bill to \$368 and the total tax bill to \$1,116.

For the sample business property, the city tax bill on a property valued at \$150,000 in 2014 fell from \$1,131 to \$1,129, while the total tax bill declined from \$4,507 to \$4,486. Again, reflecting market value trends, the business property was increased by 0.63 percent. This increased the city portion of the tax bill slightly to \$1,136 and the total tax bill to \$4,522.

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FIGURE 6

Tax on a Homestead

	2013 Tax on \$100,000 Home	2014 Tax on \$100,000 Home, Taxable Value of \$71,760	2014 Tax with Home Market Value Inflated to \$100,420
<i>City Portion of Tax Bill</i>	\$366	\$365	\$368
Total Tax Bill	\$1,113	\$1,109	\$1,116

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). A spreadsheet of the entire property tax data table is available on the League website at www.lmc.org/property-tax. The staff listed here 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. 

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FIGURE 7

Tax on a Business

	2013 Tax on \$150,000 Business	2014 Tax on \$150,000 Business	2014 Tax with Business Value Inflated to \$150,945
<i>City Portion of Tax Bill</i>	\$1,131	\$1,129	\$1,136
Total Tax Bill	\$4,507	\$4,486	\$4,522



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