

2015 Property Tax Report

BY LENA GOULD

The 2015 property tax report brings some good news about city finances for the second year in a row. Once again, we are seeing property values increase for cities overall. In addition, local government aid (LGA) increased for more than 85 percent of the cities that received LGA, according to data from the Minnesota Department of Revenue.

In this 23rd annual League of Minnesota Cities property tax report, we'll explore these and other market value and tax capacity trends. We'll also provide an update on current policy issues related to 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 2015 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.

2015 Observations

- **Market values rise for the second year in a row.** Total market value in cities rose for the second time since 2010. Overall, market value in cities grew just over 8.5 percent. The annual growth was much greater than that observed in 2014, when total market value grew just over 1 percent. Additionally, all categories of property saw growth individually.
- **Aid increase.** The total LGA distribution for 2015 was \$516.9 million, an increase of \$9.3 million over 2014. Of the 767 cities that received aid in 2015, more than 85 percent saw an increase in aid over 2014.
- **Increase in 2015 levies.** Overall, certified city levies increased 4 percent over 2014. Levy limits were not in place for 2015.
- **Decline in 2015 rates.** For cities overall, tax capacity-based rates fell 4 percent in 2015. While overall city levies were up 4 percent, so too was the overall taxable tax capacity (9 percent), meaning that the levy is spread over a larger base. On an individual city basis, 56 percent saw city rates fall in 2015. What this meant for an individual taxpayer varied depending on the annual change in their property's tax capacity value.

Market value trends

Total market value in cities increased 8.5 percent in 2015. This is larger growth than was observed last year, when total market value increased just 1 percent over 2013. While actual market value did fall annually between 2010 and 2014, some of this downward trend can be attributed to the effects of the conversion from the market value homestead credit to the current homestead market value exclusion (HMVE) program. Given that HMVE has been in existence for four

years now, comparisons to 2014 property tax data should be very straightforward.

Just as cities overall experienced market value growth, the vast majority of cities experienced growth on an individual basis in 2015 (83 percent). In 2014, roughly two-thirds of cities experienced an increase in market value.

For the second year in a row, all property categories grew in market value (SEE FIGURE 1). The "other" property category showed the greatest growth while the commercial/industrial property category experienced the smallest increase.

Differences by city size and region

For the first time since 2009, market value in cities in all population size categories increased over the prior year. The largest cities experienced the greatest

FIGURE 1
Change in Total City Market Values (2014-2015)

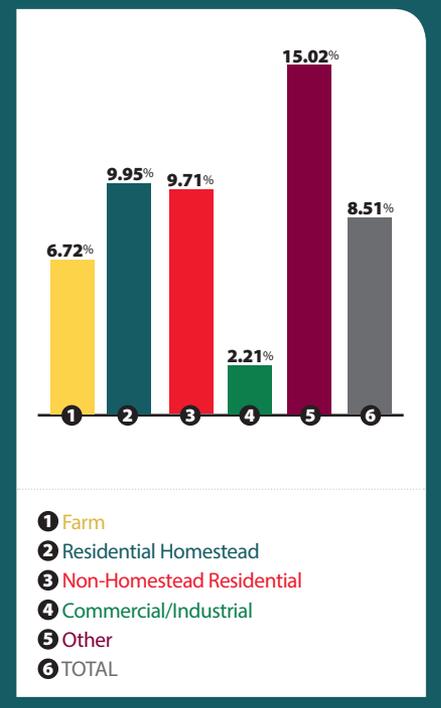
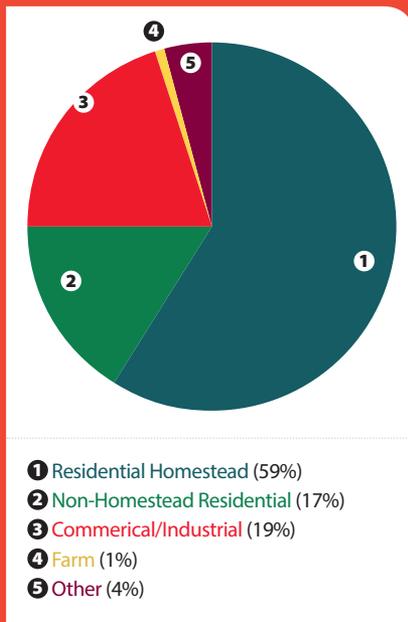


FIGURE 2

Total City Market Values (2015)



growth at 9 percent. The smallest growth of 3.16 percent was observed among cities with populations between 651 and 1,300.

Looking at just residential homestead market value, again, all population size categories experienced growth over 2014. And once again, the largest cities showed the greatest gain, 10.5 percent, with increases generally decreasing with population size. The smallest increase (0.29 percent) was among the smallest cities, with populations under 300.

Regionally, cities in the metro area experienced greater growth in total market value than did Greater Minnesota cities (9.8 percent vs. 4.8 percent). Individually, every region showed growth over 2014. Growth in all regions has not been observed since 2009.

The breakdown of all city market value into the five major property categories has shifted ever so 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

fell one percentage point to 19 percent in 2015, while the non-homestead residential property share increased to 17 percent. The market value share of residential homestead property remained at 59 percent for the third year in a row.

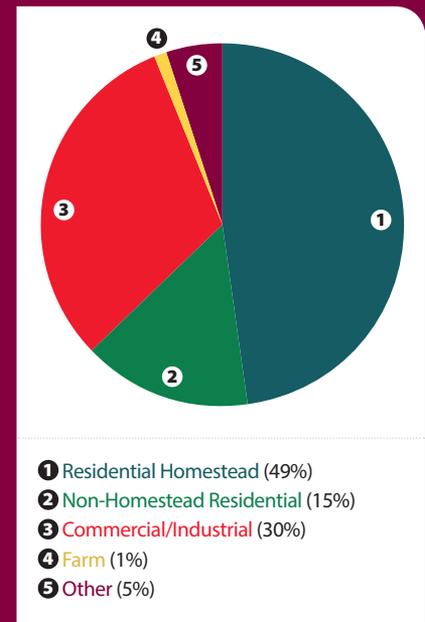
Tax capacity trends

Looking at city property tax base changes in terms of tax capacity reveals very similar trends to the market value analysis discussed above. For the second year in a row, overall city tax capacity increased as did tax capacity in each category of property (SEE FIGURE 3). Except for farm property, whose growth fell slightly from 6.06 percent to 5.94 percent, the growth observed in each category is greater than that seen in 2014.

The breakdown of all city tax capacity into the five major categories of property changed slightly from previous years’ compositions (SEE FIGURE 4). The share comprised of residential homestead property increased by one percentage point, but 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

FIGURE 4

Total City Tax Capacities (2015)



next-largest group is commercial/ industrial property with 30 percent, followed by non-homestead 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

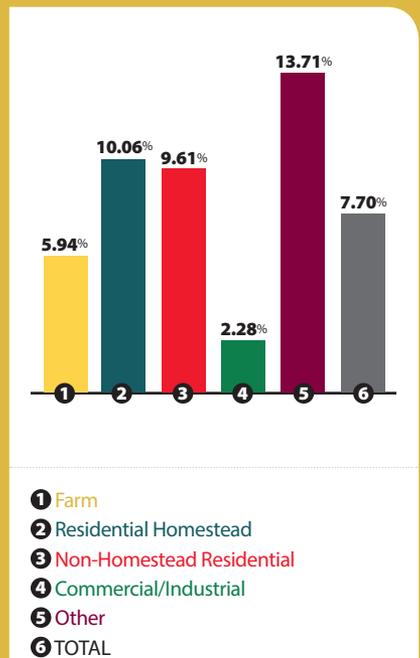
For taxes payable in 2015, 104 cities contained property eligible for the benefits of the Job Opportunity Building Zones (JOBZ) program, namely exemption from most property taxes. This number has decreased slightly in recent years, down from 115 cities in 2010. The JOBZ program is set to expire at the end of 2015.

For the cities that did have JOBZ property in 2015, the total tax capacity represented was \$7,290,792. This is a decrease of 3 percent from total JOBZ tax capacity in 2014.

(continued on page 17)

FIGURE 3

Change in Total City Tax Capacities (2014-2015)





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Taxes paid

Just under \$6.4 billion was collected in property taxes on city property by all levels of government in 2015. **FIGURE 5** shows this distribution among the state, counties, school districts, and special districts.

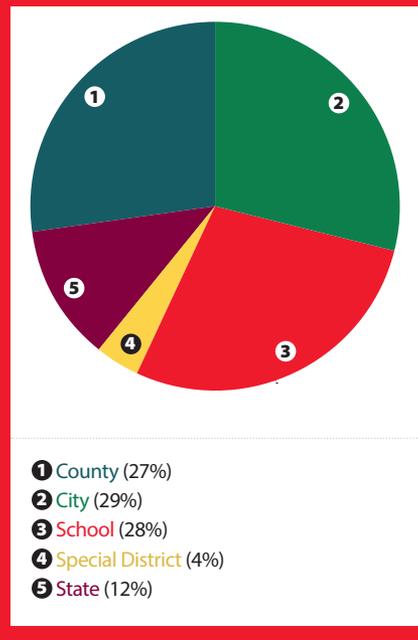
The city share of all property taxes collected within cities, 29 percent, is the same as in the past two years. The portions collected by the other levels of government are the same as last year.

Taxes owed on homestead and business

FIGURES 6 AND 7 (on page 18) show the average taxes owed by a sample homestead property and by a hypothetical business property in 2014 and 2015. Since 2012, qualifying homestead properties, including this sample property, have had a portion of market value excluded for property taxes payable under the homestead market value exclusion program.

Accounting for the effects of the exclusion program, a homestead valued

FIGURE 5
Where Property Taxes Go (2015)



at \$100,000 has a taxable market value of \$71,760 for taxes paid in 2015. For this sample property, the taxes owed both to the city and overall fell slightly from 2014. To reflect 2015 market value trends, the market value on this homestead was inflated by 9.95 percent to \$109,950. This increases the taxes owed to the city to \$404, and the total tax bill to \$1,219.

The city tax bill for the hypothetical business property valued at \$150,000 fell in 2015, from \$1,129 in 2014 to \$1,085. The total tax bill also decreased, falling from \$4,486 to \$4,230. Again, to reflect 2015 market value trends, the business property value was increased by 2.21 percent. This increased the city portion of the tax bill to \$1,109, and the total tax bill to \$4,395.

For additional property tax information

This report examines only a portion of the property tax data that the League

(continued on page 18)

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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 Minnesota Department of Revenue for their help in preparing this report. 

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FIGURE 6
Tax on a Homestead

	2014 Tax on \$100,000 Home	2015 Tax on \$100,000 Home, Taxable Value of \$71,760	2015 Tax with Home Market Value Inflated to \$109,950
<i>City Portion of Tax Bill</i>	\$365	\$351	\$404
Total Tax Bill	\$1,109	\$1,059	\$1,219

FIGURE 7
Tax on a Business

	2014 Tax on \$150,000 Business	2015 Tax on \$150,000 Business	2015 Tax with Business Value Inflated to \$153,315
<i>City Portion of Tax Bill</i>	\$1,129	\$1,085	\$1,109
Total Tax Bill	\$4,486	\$4,230	\$4,395

City Engineers Association of Minnesota

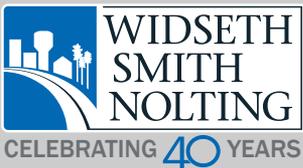
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