

# 2016 Property Tax Report

BY LENA GOULD

The trend of increasing property values continued in Minnesota cities overall for the third consecutive year. In this 24th annual League of Minnesota Cities property tax report, we'll explore this and other market value and tax capacity trends. We'll also provide an update on current policy issues related to the property tax system.

## 2016 Observations

- Market values rise for the third year in a row. Total market value in cities rose for the third time since 2010.

## 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 2016 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](http://www.lmc.org/property-tax).

- Overall, market value in cities grew 5.7 percent. The annual growth was less than that observed in 2015 when total market value grew just over 8.5 percent. Looking at individual classes of property, all categories saw an increase in market value in 2016.
- Aid increase.** The total local government aid (LGA) distribution for 2016 was \$519.9 million, an increase of \$2.5 million over 2015. Of the 768 cities receiving aid in 2016, 77 percent saw an increase from aid received in 2015.
- Increase in 2016 levies.** Overall, certified city levies increased 5 percent over 2015. Levy limits were not in place for 2016.
- Slight decline in 2016 rates.** For cities overall, tax capacity-based rates fell 1 percent in 2016. While overall certified city levies were up 5 percent, the overall taxable tax capacity was also up 6 percent, meaning that the levy is spread over a larger base. On an individual city basis, 43 percent saw city rates fall in 2016. What this meant for an individual taxpayer varied depending on the annual change in their property's tax capacity value.
- New city.** The City of Rice Lake incorporated in October 2015, bringing the Minnesota city total to 853.

## Market value trends

Total market value in cities increased 5.7 percent in 2016. While this growth is smaller than that observed last year (8.5 percent), it is still much larger than the roughly 1 percent of growth observed in 2014.

While actual market value did fall annually between 2010 and 2013, 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 exis-

tence for five years now, comparisons to recent property tax data should be very straightforward.

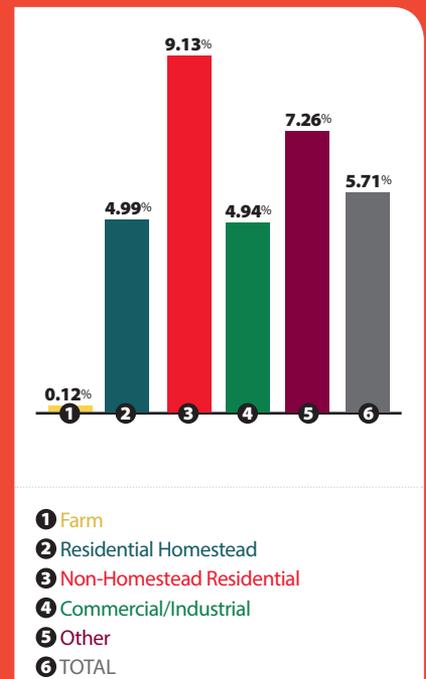
Just as cities overall experienced market value growth, three-quarters of cities experienced growth on an individual basis in 2016. In 2015, a slightly higher share of cities, 83 percent, experienced an increase in total market value.

Individually, all classes of city property increased in market value in 2016 (SEE FIGURE 1). The non-homestead residential property category showed the greatest growth, while the agricultural property category experienced the smallest increase.

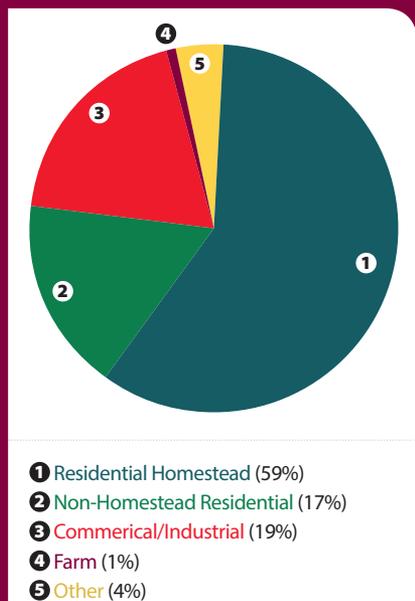
## Differences by city size and region

For the second year in a row, market value in cities in all population size cat-

FIGURE 1  
Change in Total City Market Values (2015-2016)



**FIGURE 2**  
**Total City Market Values (2016)**



egories increased over the previous year. Prior to last year, this hadn't happened since 2009. The largest cities experienced the greatest growth in 2016—almost 6 percent. The smallest growth (1 percent) was observed by the smallest cities, those with populations under 300.

Looking at just residential homestead market value, again all population size categories experienced growth over 2015. The greatest increase, 6.1 percent, was among cities with populations between 3,001 and 10,000, with growth generally decreasing with population size. Residential homestead market value growth among the smallest cities was 1.1 percent.

Regionally, cities in the metro area experienced greater growth in total market value than did Greater Minnesota cities (6 percent vs. 4.8 percent), although this difference is less than that observed last year. On an individual basis, every region showed growth over 2015.

The breakdown of all city market value into the five major property categories has shifted ever so slightly from the composition observed in 2015 (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 market value share of residential homestead property remained at 59 percent for the fourth year in a row.

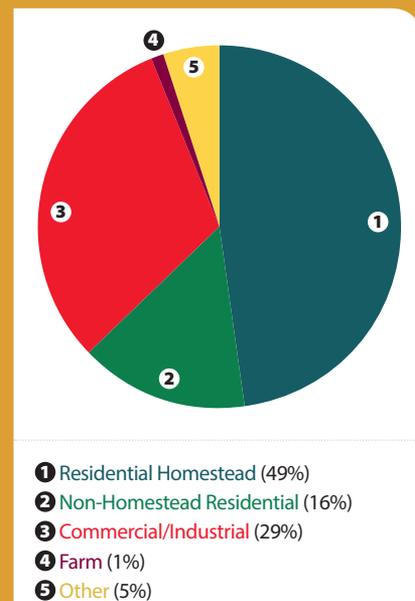
### Tax capacity trends

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. The tax capacity in every category of property also increased over 2015 (SEE FIGURE 3).

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 make up nearly 50 percent of the total. The next-largest group is commercial/industrial property with 29 percent, followed by non-homestead residential with 16 percent.

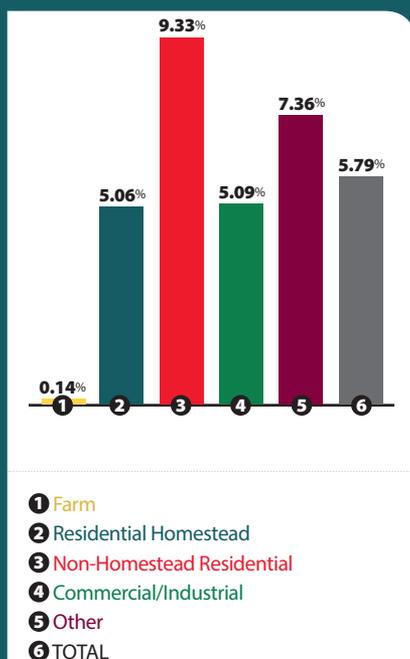
As in recent years, just 1 percent of all city tax capacity is made up of farm property. The share comprised of non-home-

**FIGURE 4**  
**Total City Tax Capacities (2016)**



stead residential property increased by one percentage point in 2016, while shifts in the other classes were much smaller. Even though these changes are very small, they do result in shifts in the tax burden among different kinds of property.

**FIGURE 3**  
**Change in Total City Tax Capacities (2015-2016)**



### JOBZ property

For taxes payable in 2016, 103 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 expired at the end of 2015, but the properties in the program remained exempt for taxes payable in 2016. For the cities that did have JOBZ property in 2016, the total tax capacity represented was \$7,008,787. This is a decrease of almost 4 percent from total JOBZ tax capacity in 2015.

### Taxes paid

Just over \$6.7 billion was collected in property taxes on property in cities by all levels of government in 2016. FIGURE 5 shows

*(continued on page 17)*



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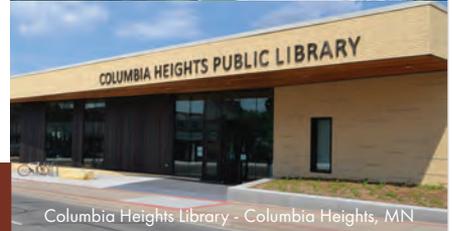
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this distribution among the state, counties, school districts, and special districts.

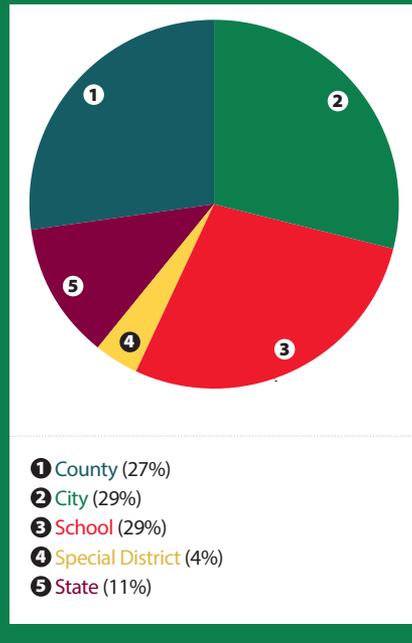
The city share of all property taxes collected within cities, 29 percent, is the same as in the past three years. The portions collected by counties and special districts are the same as last year. The shares collected by the state and school districts decreased and increased by one percentage point, respectively.

### 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 2015 and 2016. Since 2012, qualifying homestead properties, including this sample property, have had a portion of market value excluded for taxes payable under the homestead market value exclusion program.

Accounting for the effects of the exclusion program, a homestead valued at \$100,000 has a taxable market value of \$71,760. For this sample property, the taxes owed to the city in 2016 fell very

**FIGURE 5**  
**Where Property Taxes Go (2016)**



slightly from 2015, while overall taxes increased slightly. To reflect 2016 market value trends, the market value on this homestead was inflated by 4.89 percent to \$104,890. This increases the taxes owed to the city to \$378 and the total tax bill to \$1,199.

The city tax bill for the hypothetical business property valued at \$150,000 fell in 2016, from \$1,085 in 2015 to \$1,075. The total tax bill also decreased slightly, falling from \$4,300 to \$4,244. Again, reflecting 2016 market value trends, the business property value was increased by 4.92 percent. This further increased the city portion of the tax bill to \$1,128, and the total tax bill to \$4,453.

### 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 informa-

*(continued on page 18)*



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tion, contact Rachel Walker at (651) 281-1236 or [rwalker@lmc.org](mailto: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](http://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**

	<b>2015 Tax on \$100,000 Home, Taxable Value of \$71,760</b>	<b>2016 Tax on \$100,000 Home, Taxable Value of \$71,760</b>	<b>2016 Tax with Home Market Value Inflated to \$104,890, Taxable Value of \$77,090</b>
<i>City Portion of Tax Bill</i>	\$356	\$353	\$378
<b>Total Tax Bill</b>	\$1,121	\$1,122	\$1,199

**FIGURE 7**  
**Tax on a Business**

	<b>2015 Tax on \$150,000 Business</b>	<b>2016 Tax on \$150,000 Business</b>	<b>2016 Tax with Business Value Inflated to \$157,380</b>
<i>City Portion of Tax Bill</i>	\$1,085	\$1,075	\$1,128
<b>Total Tax Bill</b>	\$4,300	\$4,244	\$4,453



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