Overview of Property Taxes

A Presentation to the Property and Local Tax Division

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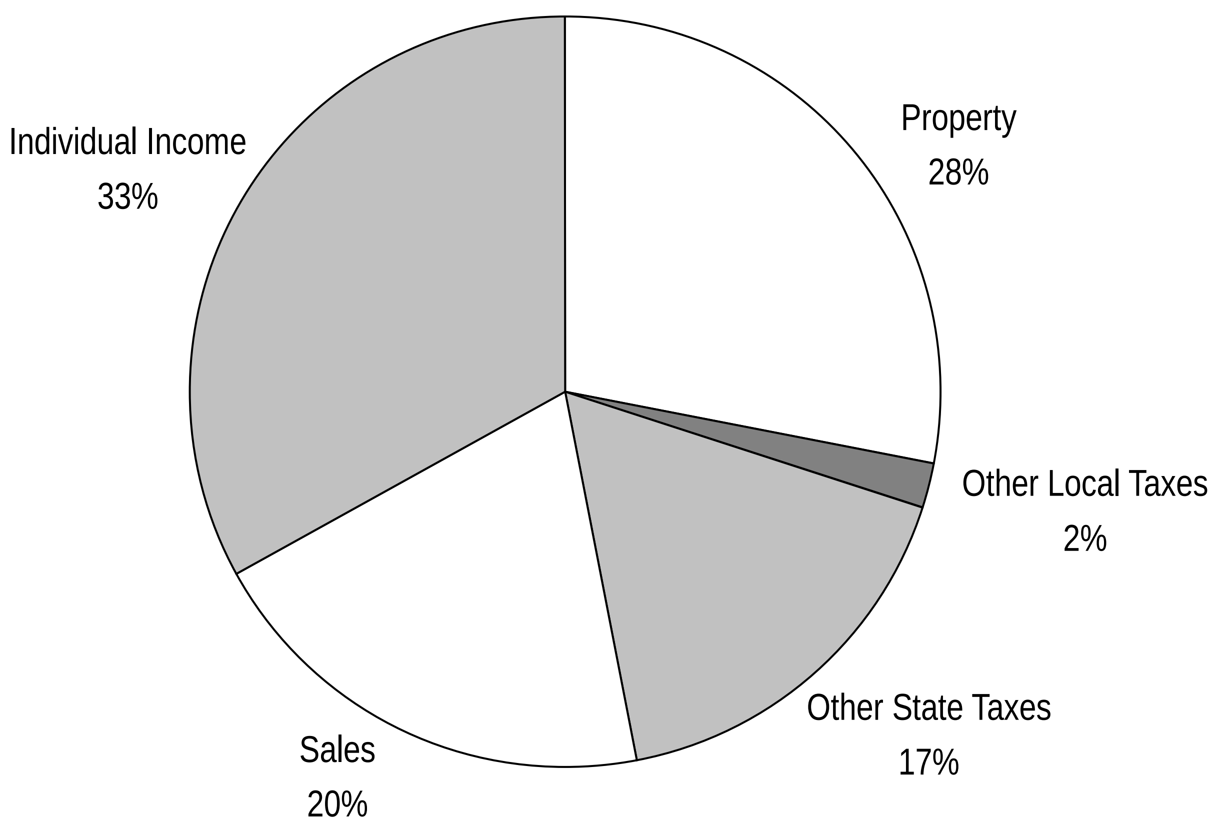
State and Local Taxes

Minnesota State and Local Tax Collections
($30.3 billion in FY 2015)

000s

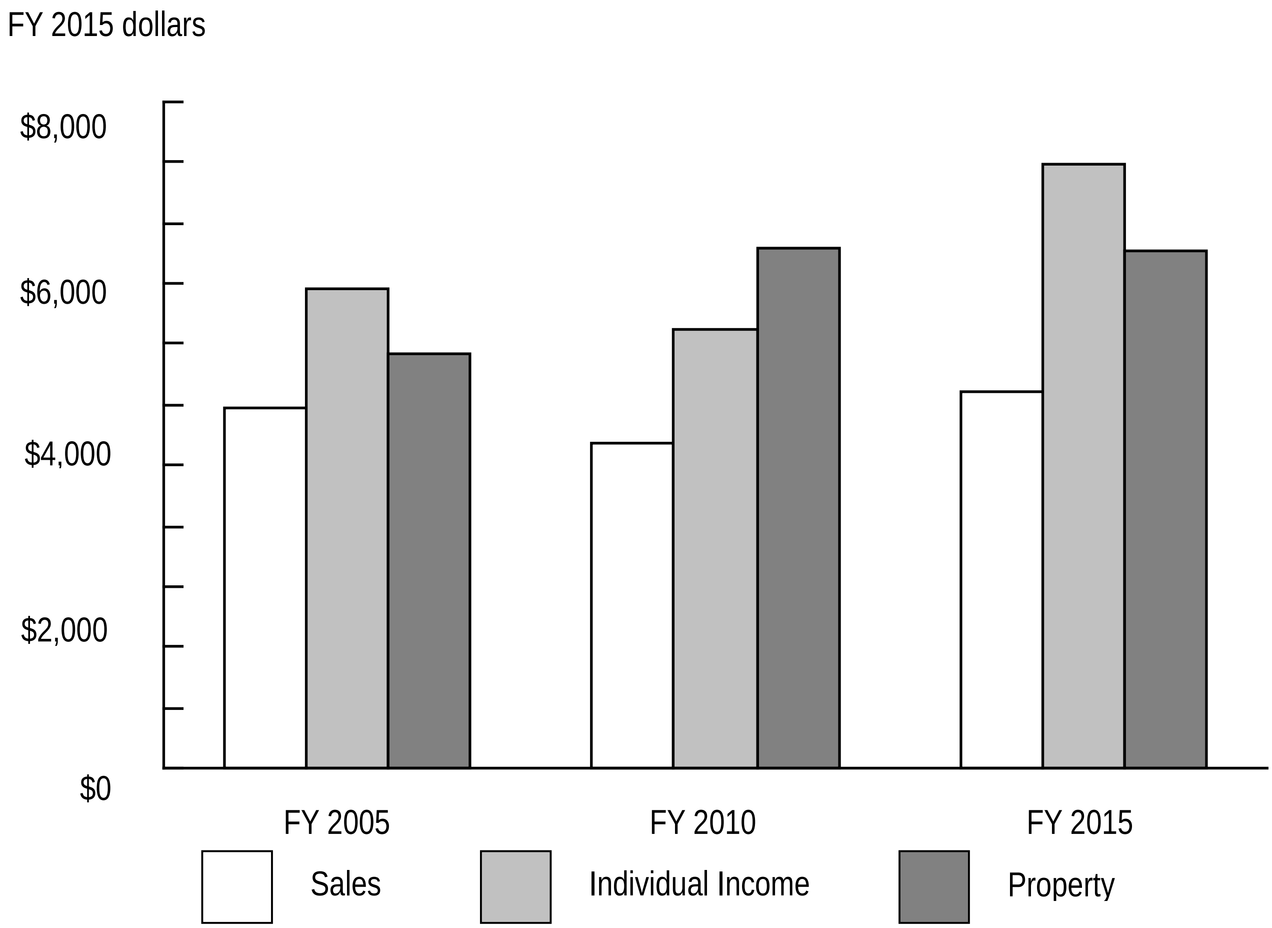
Individual Income	$9,955
Property	$8,557
Local Property Tax	$7,717
State Property Tax	$840
Sales (state only)	$6,211
Other State Taxes	$5,077
Other Local Taxes	$549
Total	**$30,349**

Of the $30.3 billion in state and local tax collections for FY 2015, $22.1 billion are state tax revenues and $8.1 billion are local tax revenues.



House Research Graphics

Income, Sales, and Property Taxes



House Research Graphics

Ten Years of the Big Three
FY 2015 $, 000s

	FY 2005	FY 2010	FY 2015
Sales	$5,968	$5,374	$6,211
Individual Income	$7,918	$7,260	$9,955
Property	$6,824	$8,578	$8,557

Of the $30.3 billion in state and local tax collections for FY 2015, the big three taxes—sales, individual income, and property—accounted for 81% of the total.

Property Tax Administration

Who does what

Counties are responsible for property tax administration; the Department of Revenue provides assistance and oversight. The list below shows each county office's responsibilities for property tax administration. In some counties these offices are merged and one or two offices may perform the functions.

Assessor

- Values property
- Determines proper classification
- Sends valuation notices to taxpayers

Auditor

- Determines each taxing jurisdiction's total tax capacity (i.e., its tax base)
- Calculates proposed and final tax rates
- Prepares truth-in-taxation notices (based on proposed levies)

Treasurer

- Prepares and mails out property tax statements
- Collects property tax payments
- Distributes property tax receipts to each taxing jurisdiction

Property tax timeline

The process of calculating, imposing, and collecting Minnesota property taxes for a year actually spans two full calendar years. As shown on the reverse side, the two-year cycle begins with the January 2 statutory assessment date and extends all the way through the next calendar year until the property taxes have been paid. For example, for taxes payable in 2015, the cycle begins on January 2, 2014, and doesn't end until the final payments are made in October/November 2015.

Appeal process

If a property owner disagrees with the assessor's valuation (shown on the valuation notice), the taxpayer can seek relief directly from the assessor. This may resolve the matter, so that no further action is necessary. If it does not, there are two separate avenues of appeal:

1. A three-step appeal process, consisting of an appeal to:
   - the local board of review; if not satisfied, appeal to,
   - the county board of equalization; if not satisfied, appeal to,
   - the Minnesota tax court.

2. A single-step appeal to the Minnesota tax court. There are two divisions:
   - The regular division, which can be used for any property. Proceedings are formal (an attorney is recommended), and the decision may be appealed to the Minnesota Supreme Court; or
   - The small claims division, which can be used only for homesteads (regardless of value) and other property where the market value is under $300,000. Proceedings are less formal, and decisions are final.

Property Tax System Timeline			
		Assessment Year 2014 Taxes Payable 2015	**Assessment Year 2015 Taxes Payable 2016**
2014	January	Assessment date (2nd)	
	March	Valuation notices mailed	
	April	Local boards of appeal and equalization	
	June	County board of appeal and equalization; state board of equalization	
	July	Certification of state aid amounts	
	September	Truth-in-taxation levy certifications (15th, 30th)	
	November	Truth-in-taxation notices mailed	
	December	Final budget hearings; final levy certifications (27th)	
2015	January	County auditors compute tax rates	Assessment date (2nd)
	March	Property tax statements mailed	Valuation notices mailed
	April		Local boards of appeal and equalization
	May	1st half tax payments due (15th)	
	June		County board of appeal and equalization; state board of equalization
	July	1st half state aid payments made (20th)	Certification of state aid amounts
	September		Truth-in-taxation levy certifications (15th, 30th)
	October	2nd half tax payments due – except on agricultural property (15th)	
	November	2nd half tax payments due – on agricultural property (15th)	Truth-in-taxation notices mailed
	December	2nd half state aid payments made (26th)	Final budget hearings; final levy certifications (27th)
2016	January		County auditors compute tax rates
	March		Property tax statements mailed
	May		1st half tax payments due (15th)
	July		1st half state aid payments made (20th)
	October		2nd half tax payments due – except on agricultural property (15th)
	November		2nd half tax payments due – on agricultural property (15th)
	December		2nd half state aid payments made (26th)

Truth in Taxation

"Truth in taxation" (TnT) is a process first enacted by the legislature in 1988 to enhance public participation in Minnesota's property tax system.

The TnT process consists of these three components:

- Each local government is required to formally adopt a "proposed levy" in September for the upcoming year; the final levy, when ultimately adopted, may not exceed the proposed levy.[1]
- County auditors generate parcel-specific notices of proposed taxes for all parcels of property based on the proposed levies.
- Each local government is required to hold a public meeting after the notices come out where budget and tax issues are discussed, and where public testimony must be allowed, prior to adopting its final levy.

[1] Final levies may exceed proposed levies in the case of levies approved by voters in referendum elections.

Rationale for the Program

Prior to TnT, the only involvement most taxpayers had with the property tax system was on the valuation side of the equation. Taxpayers received a market value notice in the spring of the year prior to the tax year, but nothing about how that valuation would actually relate to property taxes. Taxpayers could choose to become involved in tax and budgeting decisions by attending meetings of county commissioners, city councils, and school boards, but few did.

TnT was enacted with a goal of improving accountability by focusing taxpayers on the relationship between budget decisions and property taxes, and providing taxpayers with a greater opportunity to become involved in the local government budgeting process.

Recent Changes

In 2009, the legislature made some significant changes to the TnT process, generally aimed at removing some of the requirements that local governments found most onerous. They repealed:

- a requirement that each local government publish a newspaper ad showing proposed levy and spending amounts, and
- a number of regulations related to scheduling of the public meetings, which had required an extensive administrative process that insured that no two hearings affecting the same taxpayer would ever be held simultaneously. The pre-2009 law also required that the final levy would be adopted at the TnT hearing.

Basic Terms and Concepts

Estimated market value	The assessor determines each property's **estimated market value** based on sales of comparable properties, cost of construction minus depreciation, income generated by the property (if applicable), and other relevant available information.
Market value exclusions, taxable market value	For some properties, a portion of the market value is excluded from taxation. All homesteads with an estimated market value below $413,800 have a portion of the market value excluded under the homestead market value exclusion. Other market value exclusions are provided through the "Green Acres" program and the disabled veteran's exclusion. A property's **taxable market value** is its **estimated market value** less any applicable **market value exclusions**.
Net tax capacity, class rate	A property's **net tax capacity** is determined by multiplying the property's **taxable market value** by the relevant **class rate** or rates. Class rates are set by statute, vary by property type, and are uniform statewide.
Local taxing jurisdiction	A **local taxing jurisdiction** is any local unit of government that has the authority to levy property taxes. Examples are counties, school districts, cities, towns, and "special taxing districts" such as watershed districts, housing and redevelopment authorities, and regional development commissions.
Taxable net tax capacity	A taxing jurisdiction's **taxable net tax capacity** is the total **net tax capacity** of all properties within the jurisdiction, excluding property located in a tax increment financing district.
Levy, levy limit	Each local taxing jurisdiction certifies a **levy** equal to the amount it intends to raise from property taxes in the upcoming year. For some local taxing jurisdictions, the levy may be constrained by state-imposed **levy limits**.
Local tax rate, total local tax rate	The **local tax rate** of a taxing jurisdiction is determined by dividing the jurisdiction's **levy** by the jurisdiction's **taxable net tax capacity**. The **total local tax rate** for an individual property is the sum of the local tax rates of all taxing jurisdictions in which the property is located.
Market value levy and tax rate	Most voter-approved levies apply to the property's market value rather than its net tax capacity. The **market value tax rate** is determined by dividing the jurisdiction's **market value levy** by the total market value of all properties within the jurisdiction (excluding properties classified as agricultural or seasonal-recreational, since those property types are exempt from market value levies).
Gross tax, property tax credits, net tax	**Property tax credits** reduce the **gross tax** that would otherwise be due upon a property. The most common property tax credits are the agricultural market value credit, the taconite homestead credit, and the disparity reduction credit. The remaining amount after subtraction of property tax credits is the **net tax**.

Computation of Property Tax for a Hypothetical Property (Residential Homestead)

1. Determine the property's ***estimated market value***	$200,000
2. Determine the property's ***homestead market value exclusion***	$19,200
3. Determine the property's ***taxable market value***	$200,000 - $19,200 = $180,800
4. Determine the ***class rate*** based on property type	Residential homestead: 1.0%
5. Multiply taxable market value by class rate to obtain the ***net tax capacity***	$180,800 x 1.0% = $1,808
6. Determine the ***total local tax rate*** by summing the tax rates of all jurisdictions authorized to levy property taxes upon the property (i.e., jurisdictions whose boundaries include the property)	County 45% City/town 35 School district 25 Special districts 5 Total 110%
7. Multiply net tax capacity by total tax rate to determine the ***net tax capacity-based tax***	$1,808 x 110% = $1,989
8. Determine the total ***market value tax rate*** by summing the market value tax rate for all taxing jurisdictions authorized to levy property taxes upon the property	County 0.00% City/town 0.00 School district 0.15 Special districts 0.00 Total 0.15%
9. Multiply estimated market value by total market value tax rate to determine the ***market value-based tax***	$200,000 x 0.15% = $300
10. Add the net tax capacity-based tax to the market value-based tax to obtain the total ***net tax***	$1,989 + $300 = $2,289

Property Tax Variation by Property Type

What causes property taxes to vary by type of property?

The primary cause of variation in property tax burdens is Minnesota's classified property tax system. In a classified system, each class of property is assigned one or more *class rates*. The property's taxable market value is multiplied by the class rate(s) to determine the property's tax base, technically called its *net tax capacity*.

Besides the class rates, variations in tax by type of property also occur because the state general tax and school district operating referendum levies apply to some types of property but not to others. (All voter-approved levies, except school district levies for bonded debt, are levied on referendum market value. School district levies for bonded debt are levied on the net tax capacity of all types of property.) The table below shows class rates and the applicability of taxes by type of property.

Class Rate Schedule for Taxes Payable in 2015

Class	Property Type (major property types only)	Class Rate	Subject to State Tax?	Subject to Referendum Levies?
1	**Homestead**			
1a	Residential homestead:			
	Up to $500,000	1.00%	No	Yes
	Over $500,000	1.25	No	Yes
2	**Agricultural**			
2a	Agricultural homestead:			
	House, garage & 1 acre – same as residential homestead			
	Agricultural land & buildings:			
	Up to $1,900,000	0.50	No	No
	Over $1,900,000	1.00	No	No
2a	Agricultural nonhomestead	1.00	No	No
2b	Nonhomestead rural vacant land	1.00	No	No
3	**Commercial/Industrial/Public Utility**			
3a	Commercial/Industrial/Public Utility:			
	Up to $150,000	1.50	Yes*	Yes
	Over $150,000	2.00	Yes*	Yes
	Electric generation attached machinery	2.00	No	Yes
4	**Other residential**			
4a	Market-rate apartments (4 or more units)	1.25	No	Yes
4bb	Residential nonhomestead single unit:			
	Up to $500,000	1.00	No	Yes
	Over $500,000	1.25	No	Yes
4b	Residential nonhomestead 2-3 unit and undeveloped land	1.25	No	Yes
4c	Seasonal recreational residential (noncommercial):			
	Up to $500,000	1.00	Yes**	No
	Over $500,000	1.25	Yes**	No
4d	Low-income apartments			
	Up to $100,000 per residential unit	0.75	No	Yes
	Over $100,000 per residential unit	0.25	No	Yes

* Subject to state general tax at commercial-industrial rate.
** Subject to state general tax at seasonal recreational rate.

What other factors cause property taxes to vary by type of property?

Variations also occur because of various property tax exclusions and credits. Homesteads benefit from the homestead market value exclusion, which provides for up to $30,000 of a homestead's market value to be deducted before determining the taxes payable. Other exclusions are the disabled veterans' exclusion and the agricultural "Green Acres" program. Certain types of property also qualify for property tax credits that reduce the net tax on the property. The biggest property tax credit programs are the agricultural market value credit and the taconite homestead credit.

Local variation also occurs because tax rates are determined separately for each taxing jurisdiction in the state, based on each jurisdiction's levy and tax base.

What is effective tax rate?

Effective tax rate is a measure of tax burden useful in making property tax comparisons. It is defined as net tax divided by market value (i.e., tax as a percent of market value). It allows comparison of tax burdens between properties of different values, different types, and different locations.

Comparison of Property Taxes on Various Types of Property, Within the Same Taxing Jurisdiction, Each with an Estimated Market Value of $200,000 (Property taxes payable in 2015)

Property Type	Class Rate(s)	Net Tax Capacity	Property Tax*		Effective Tax Rate
			Gross	Net	
Agricultural homestead**	0.5/1.0%	$1,200	$1,272	$790	0.39%
Agricultural nonhomestead	1.0	2,000	2,000	2,000	1.00
Residential homestead	1.0	1,808	2,168	2,168	1.08
Seasonal recreational residential (i.e., cabin)	1.0	2,000	2,309	2,309	1.15
Residential nonhomestead (1 unit)	1.0	2,000	2,360	2,360	1.18
Residential nonhomestead (2-3 units)	1.25	2,500	2,860	2,860	1.43
Apartment	1.25	2,500	2,860	2,860	1.43
Low-income apartment	0.75	1,500	1,770	1,770	0.89
Commercial/Industrial	1.5/2.0	3,250	5,235	5,235	2.62
Commercial/Industrial @ $2,000,000***	1.5/2.0	39,250	62,475	62,475	3.12

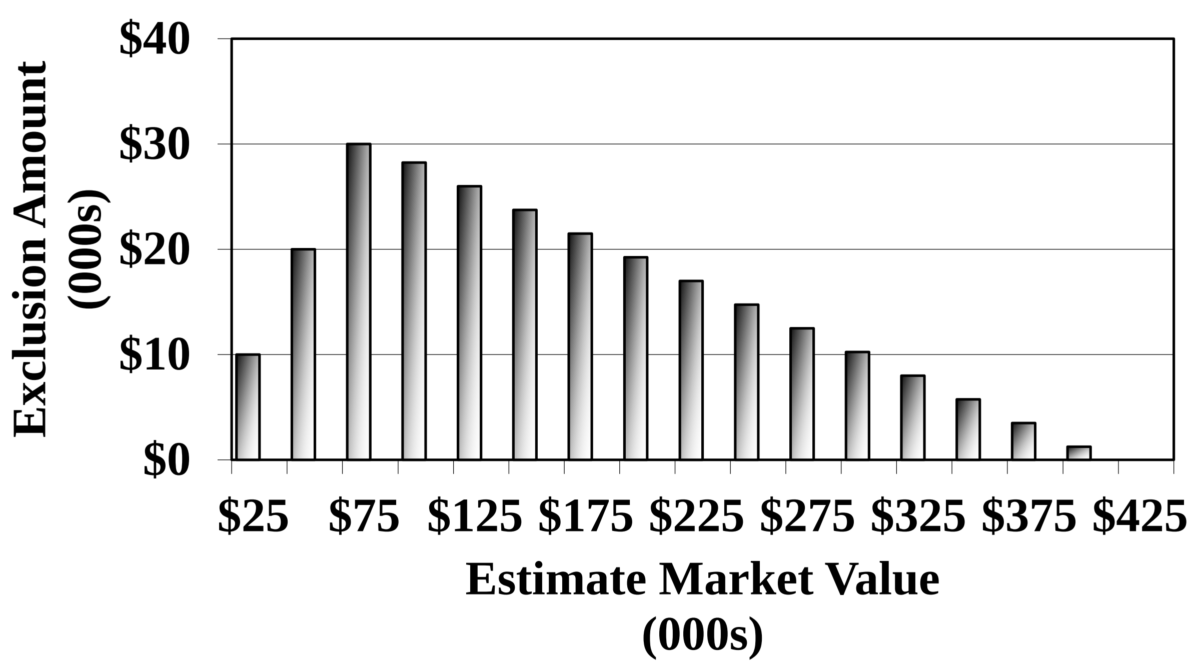
* These examples assume a total local net tax capacity tax rate of 100 percent, a total market value tax rate of 0.18 percent, a state commercial-industrial tax rate of 50 percent, and a state seasonal recreational tax rate of 20 percent.

** The agricultural homestead is assumed to consist of a house valued at $40,000 and agricultural land and buildings valued at $160,000.

*** This property has a market value of $2,000,000 to show a typical effective tax rate on a larger commercial/industrial property.

Homestead Market Value Exclusion

- In 2011, the homestead market value exclusion was created as a new feature of the property tax system
- The exclusion was instituted to provide relief similar to the homestead market value credit, which was eliminated
- Each home's exclusion amount is subtracted from its market value prior to computing the tax on the homestead
- For agricultural homesteads, the exclusion applies to the value of the house, garage and one acre of land only
- The exclusion amount is based solely on the property's estimated market value
- For homes with an estimated market value of $76,000 or less, the exclusion is 40 percent of the estimated market value
- For homes with an estimated market value over $76,000, the exclusion amount gets smaller as the estimated market value becomes larger – the exclusion amount is $30,400 for a home valued at $76,000, and then decreases at the rate of $90 for each $1,000 in estimated market value above $76,000
- The homestead market value exclusion does not apply to homes valued over $414,000

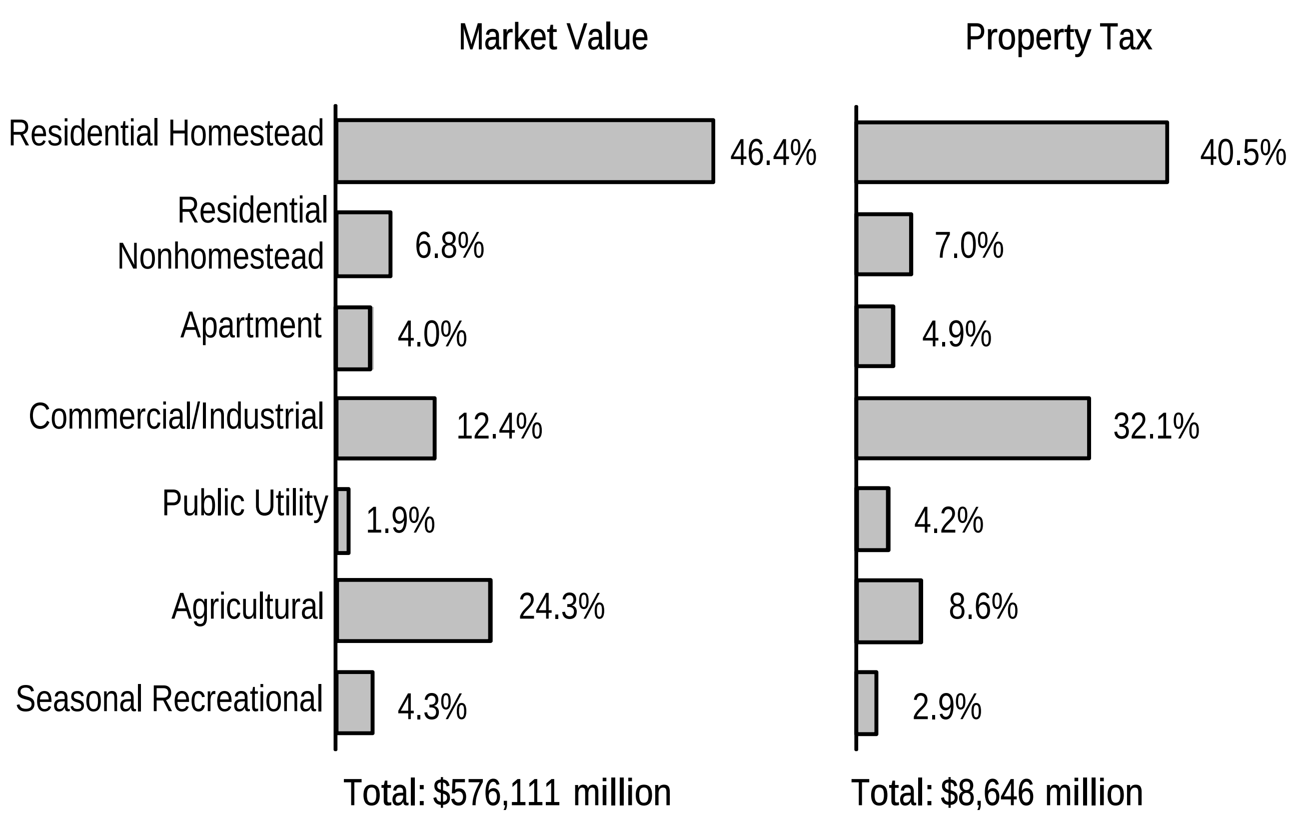


Who Pays Property Taxes and Who Receives Them

Where property taxes come from

Total property taxes statewide were $8,646 million for calendar year 2014. The total amount of property value (excluding the value of exempt property) was $576,111 million. The graphs below show the breakdown of the state's total market value and total property taxes paid by property type. The differences between the shares of property value and the shares of tax paid result mainly from the state's classified property tax structure, but also from various property tax credit programs, the application of the state general levy and certain voter-approved levies to some property types but not others, and variations in local rates.

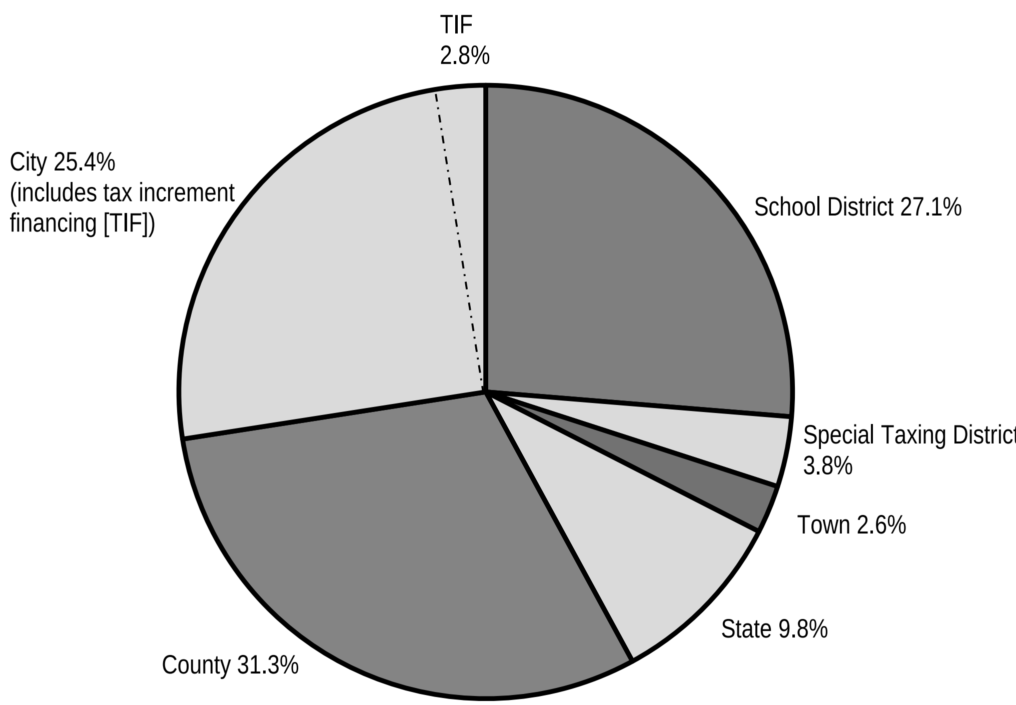
Statewide Shares of Market Value and Property Tax by Property Type (Taxes Payable 2014)



Where property taxes go

The total property tax burden in Minnesota was $8,646 million for calendar year 2014. The pie chart below shows the distribution of the tax among the various types of taxing jurisdictions.

Statewide Property Tax by Type of Government,*
Taxes Payable 2014
(Total: $8,646 million)



* Amount shown are after allocation of property tax credits.

How do property taxes in Minnesota compare to other states?

The Minnesota Center for Fiscal Excellence, in collaboration with the Lincoln Land Institute based in Cambridge, Massachusetts, issued a report comparing property taxes in all 50 states in March, 2014. The report covers property taxes payable in 2013.

Tax burdens are considered for four classifications of property – residential homestead, commercial, industrial, and apartments. For each type of property, tax burdens are compared for the most populous city in each state, and for a representative rural city in each state. (For Minnesota, the rural city used in the comparison is Glencoe.)

Minnesota ranking among urban cities

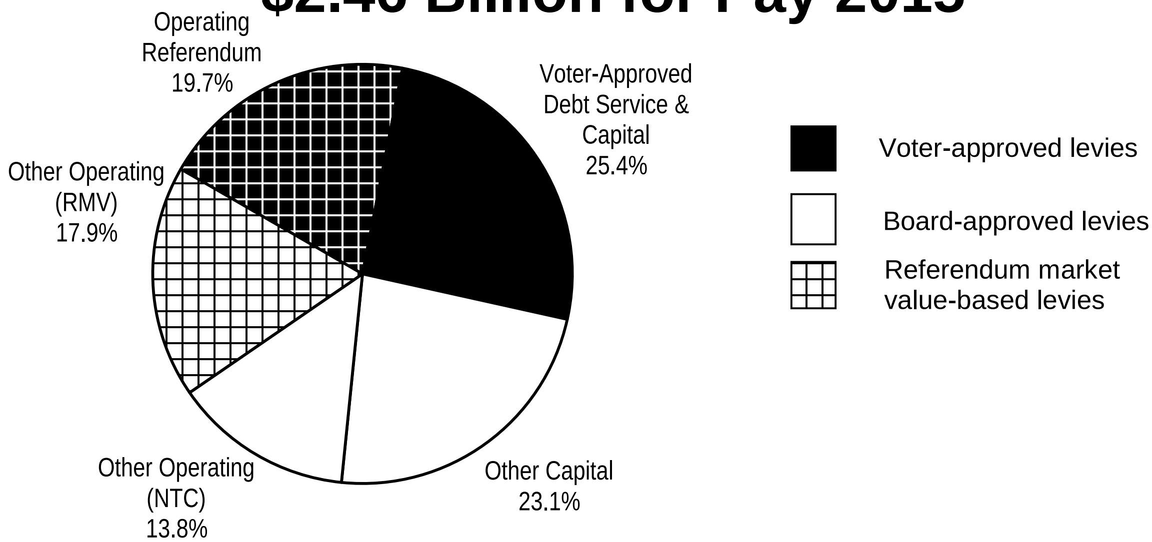
Type of property	National ranking (out of 53)
$ 150,000 home	22nd
$ 300,000 home	20th
$ 1 million commercial property	5th
$ 1 million industrial property*	14th
$ 600,000 apartment	22nd

Minnesota ranking among rural cities

Type of property	National ranking (out of 50)
$ 70,000 home	23rd
$ 150,000 home	18th
$ 300,000 home	16th
$ 1 million commercial property	2nd
$ 1 million industrial property*	6th
$ 600,000 apartment	22nd

* Based on assumption of 60 percent personal property.

School District Levies
$2.46 Billion for Pay 2015



School District Levies

	Pay 2015 Amount ($ millions)	Tax Base*	Equalized?	No. Districts Levying
Voter-Approved				
Operating Referendum	485	RMV	Yes, 3-Tier	270
Net Debt Service Levy	559	NTC	Yes, 2-Tier	252
Capital Projects Referendum	66	NTC	No	40
Not Voter-Approved				
Local Optional Revenue	288	RMV	Yes	304
Equity	78	RMV	Yes	329
Transition	23	RMV	Yes	200
Operating Referendum	52	RMV	Yes	142
Debt Service (w/o voter approval)	238	NTC	Yes, 2-Tier	163
Operating Capital	92	NTC	Yes	330
Alternative Facilities	90	NTC	Yes	24
Health & Safety	60	NTC	Yes	310
Building Lease / Lease Purchase	65	NTC	No	213
Deferred Maintenance	24	NTC	Yes	303
OPEB Bonds	82	NTC	No	90
Basic Community Education	39	NTC	Yes	330
Integration	28	NTC	No, some aid	138
Safe Schools	34	NTC	No	315
Early Childhood Family Education	22	NTC	Yes	327
Alternative Compensation (Qcomp)	32	NTC	Yes	73
OPEB – Annual	37	NTC	No	98
Student Achievement Levy	20	NTC	Yes	330
All other levies	44	NTC	Yes/No	1 – 330
Total	**2,458**			

* RMV = Referendum Market Value
NTC = Net Tax Capacity

State General Tax

- The state general tax was instituted in 2001 as part of a major overhaul of the property tax system

- The state levy was initially set at $592 million for taxes payable in 2002. The law provides for the levy to increase each year by the percentage increase in the implicit price deflator for government consumption expenditures and gross investment for state and local governments, as prepared by the U.S. Dept. of Commerce. For taxes payable in 2015, the state levy is $856.5 million.

- Beginning with taxes payable in 2006, the state levy is apportioned into separate pools so that 95% is borne by commercial-industrial property (including public utility), and 5% is borne by seasonal recreational property (both commercial and noncommercial). Separate tax rates are determined for each pool. Each property's tax is determined by multiplying its net tax capacity by the applicable state tax rate, except that for noncommercial seasonal-recreational property up to $76,000 in value, the state tax is levied at only forty percent of the full rate. The portion of public utility property consisting of attached machinery used in the generation of electricity is not subject to the state general tax.

- Revenues from the state general tax are deposited in the state general fund. The initial 2001 legislation provided that the amount levied each year over and above the FY 2003 amount would be dedicated to education funding, but that dedication was eliminated in 2003.

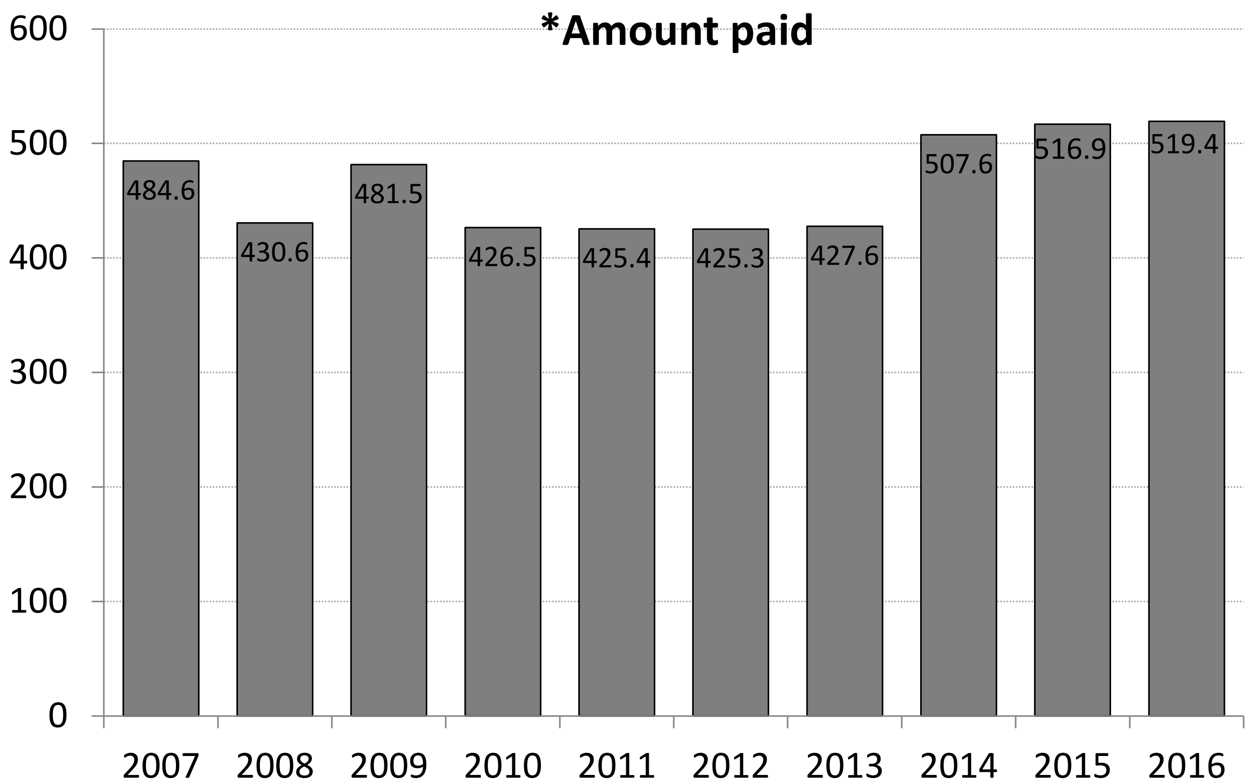
- The table below lists the state levy and the state tax rate(s) for each year since the state levy was initiated:

		Tax Rates	
Payable Year	State Levy (millions)	Commercial-industrial rate	Seasonal-recreational rate
2002	$592.0	57.933%	57.933%
2003	594.9	54.447	54.447
2004	615.2	54.109	54.109
2005	625.9	51.121	51.121
2006	654.9	50.827	28.385
2007	693.1	48.032	24.225
2008	729.2	45.949	20.385
2009	773.7	45.535	18.214
2010	779.0	45.881	17.755
2011	795.1	49.043	19.145
2012	817.4	51.100	20.750
2013	840.6	52.523	22.327
2014	844.4	52.160	22.836
2015	856.5	50.840	21.703

Major Property Tax Relief Programs

CY ’15/FY ’16 (millions)	Program	Recipients
	Aids or Credits	
$517	Local government aid	Cities
210	County program aid	Counties
162	Referendum equalization aid	School districts
38	Agricultural market value credit	All taxing jurisdictions
32	Payments in lieu of taxes (PILT)	Counties and towns
20	Debt service equalization aid	School districts
18	Disparity reduction aid	Counties, towns, and school districts
	Direct Payments	
416	Homestead credit refund–homeowners	Individuals
219	Property tax refund–renters	Individuals

City LGA: (in millions $)



*In 2008-2010, the amount of aids paid were less than the amount originally certified

The City LGA Program

The current formula was enacted in 2013

The city local government aid (LGA) program has existed since 1972; however, the formula for aid distribution has changed over time. The current formula for the program was enacted in 2013. The new formula addresses a number of criticisms of the previous formula, such as complexity, volatility, and amount of aid distributed "off-formula." The formula calculates increases and decreases in each city's aid based on the gap between its "unmet need" and its current aid level. Cities with large gaps will get larger aid increases, and cities whose aid is more than their current "unmet need" will gradually lose aid over time.

Virtually all of the LGA appropriation is distributed via the formula

The city LGA appropriation is $507.6 million for aids payable in 2014, $516.9 million for aids payable in 2015, and $519.4 million for aids payable in 2016 and thereafter. In 2014 all but $1.31 million is distributed via the formula. Beginning with aids payable in 2015, only $310,000 is distributed as nonformula aid. Prior to the change, $24 million was distributed to various cities outside of the formula.

There are three need formulas for cities—based on a city's size

The measure of a city's "need" depends on its population:

- **For small cities (population less than 2,500):** need per capita is based solely on the city's population
- **For medium-size cities (population between 2,500 and 10,000):** need per capita is based on (1) percent of housing built before 1940, (2) household size, and (3) population decline from a city's peak population in the last 40 years
- **For large cities (population over 10,000):** need per capita is determined by (1) jobs per capita, (2) age of housing stock (both housing built before 1940 and housing built between 1940 and 1970), and (3) a sparsity adjustment for cities with a population less than 150 per square mile

A city's aid changes based on differences between its unmet need and its previous aid

Each city's unmet need is equal to the difference between (1) its need per capita multiplied by its population, and (2) its equalized net tax capacity multiplied by the average tax rate for all cities in the previous year. If the city's "unmet need" is greater than the amount of aid it received in the previous year, its aid will increase. The increase equals a percentage of the gap between the city's unmet need and its previous aid amount. The percentage is the same for all cities. For aid payable in 2014, this percentage is 19.5.

If a city's aid in the previous year is greater than its unmet need, its aid will decrease; either to the unmet need amount or by the maximum allowed annual decrease (see next page).

Annual aid fluctuations will be minimized

A city whose current aid is far below its "unmet need" measure will see larger dollar increases than a city whose aid is close to its "unmet need." Over time all cities will gradually move toward receiving aid equal to their unmet need amount. Because aid is based on each city's need rather than on changes in need for all cities, payments to individual cities will be more stable.

Characteristics of the Current LGA Program

Funding level	$516.9 million in Payable 2015, $519.4 million thereafter
Nonformula aid	• Warroad - $150,000/year for five years • Red Wing - $1,000,000 for 2014 only • Mahnomen - $160,000/year permanently
"Formula need"[1]	For cities with a population of less than 2,500: Need per capita = $410 + .0367 x (city population – 100) up to a maximum of $630 For cities with a population of at least 2,500 but less than 10,000: Need per capita = 1.15 x {$572.62 + (5.026 x percent of housing built before 1940) – (53.768 x average household size) + (14.022 x population decline from the city's peak census population)} For cities with a population of 10,000 or more: Need per capita = 1.15 x {307.664 + (4.59 x percent of housing built before 1940) (0.622 x percent of housing built between 1940 and 1970) + + (169.415 x jobs per capita in city) + (100 if the city population density is less than 150 person/sq. mile)}
"Unmet need"	= ("Formula need" x population) – (city net tax capacity x average city tax rate)
Formula aid	For cities whose unmet need is *less* than its previous year aid: Formula aid = "Unmet Need" For cities whose unmet need is *greater* than its previous year aid: Formula aid = last year's formula aid + X% of the difference between its "unmet need" and its aid in the previous year
Final aid	= Formula aid + nonformula aid; subject to the maximum annual decrease
Limits on annual decreases	No city's aid can decrease from the previous year's amount by more than an amount equal to the *lesser* of: • $10 multiplied by the city population; or • 5% of the city's levy in the previous year

[1] To avoid sudden changes in city formula need measures, a city with a population between 2,500 and 3,000 or between 10,000 and 10,500, has a formula need based partially on the formula for its current size and partially on the formula for the cities of the next smaller size.

Township LGA

Township LGA will be paid for the first time since 2001

A new local government aid (LGA) program for townships was enacted in the 2013 session, and the first payments will be made beginning in 2014. The original LGA program enacted in 1971 provided aid to all local governments but over the years, the program became a city aid program only. The last LGA payment made to townships under the old program was in 2001.

Aid payment is based on geographic size, population, and percent of agricultural property

The amount received by each township is based on three factors:

- Town area factor: the most recent estimate of the acreage in the township, up to 50,000 acres. The estimate may come from the U.S. Bureau of the Census, the State Land Management Information Center, or the secretary of state
- Population factor: the square root of the most recent population estimate for the township
- Agricultural property factor: the ratio of the adjusted net tax capacity of all agricultural property in the township to the adjusted net tax capacity of all other property located in the township, up to a maximum factor of eight. "Agricultural property" includes homestead and nonhomestead agricultural land, rural vacant land, and noncommercial seasonal recreational property (i.e., cabins), but it does not include managed forest land or tax-exempt natural resource land.

Total aid is limited to $10 million annually

The formula will distribute $10 million annually to organized townships in the state. The actual formula for each towns aid is:

$$\textit{Aid} = X\% \quad \textit{of} \left(\begin{array}{c}\textit{agricultural}\\ \textit{property}\\ \textit{factor}\end{array} \times \begin{array}{c}\textit{town area}\\ \textit{factor}\end{array} \times \begin{array}{c}\textit{population}\\ \textit{factor}\end{array} \times .0045 \right)$$

where *X%* is the percentage needed so the total paid to all townships does not exceed $10 million. For payments made in 2014, the percentage paid is 91.4 percent.

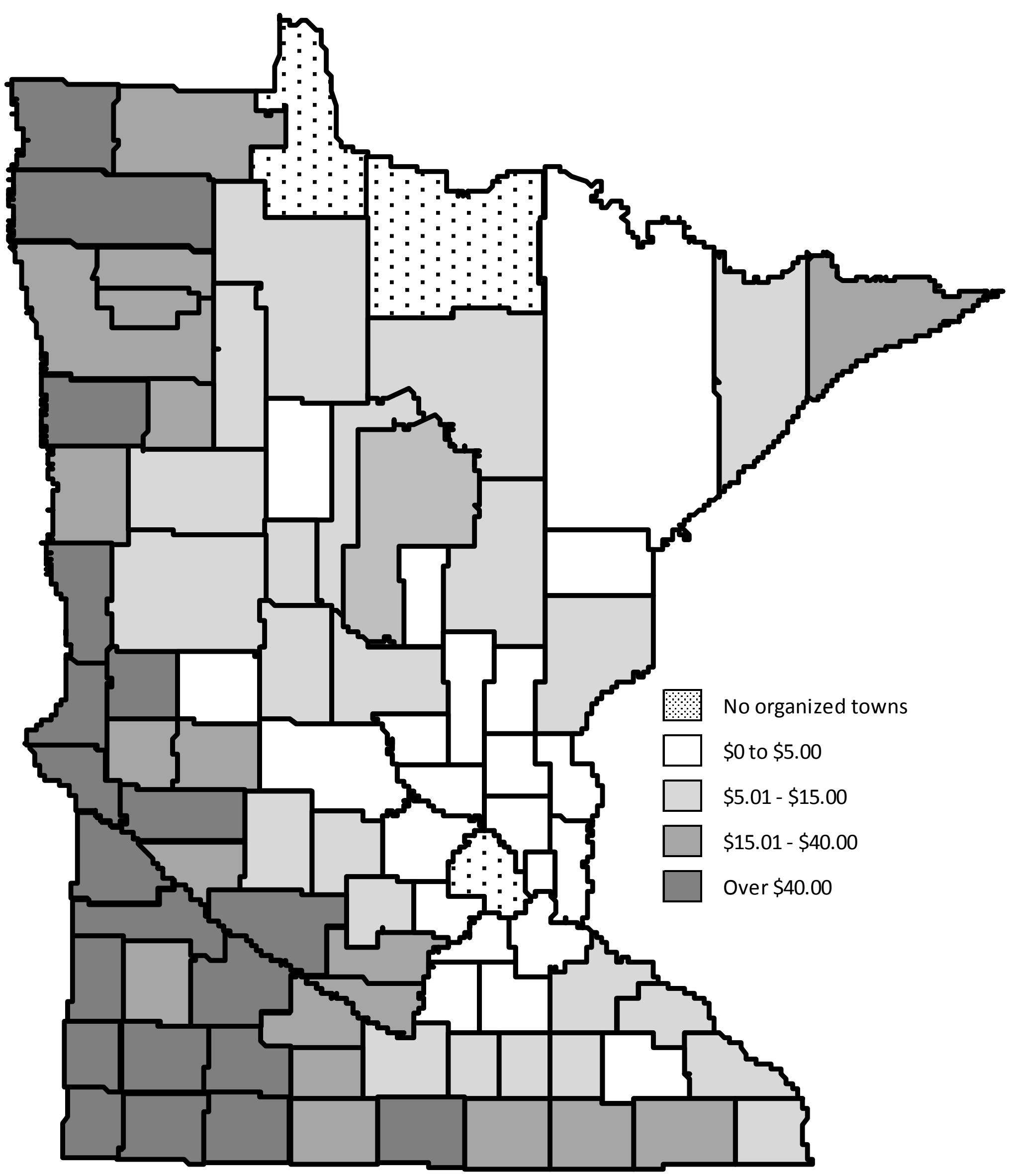
Formula favors organized, agriculture-based townships

The formula tends to provide more aid per capita to townships that have a large amount of land meeting the definition of "agricultural property" used here. Townships with large amounts of other property such as residential, commercial, or forest property will get less aid per capita. The town aid is limited to organized townships; no aid is paid to counties for providing township services to unorganized townships in the state. Because of this, payments tend to be highest in the western and southwestern counties in the state.

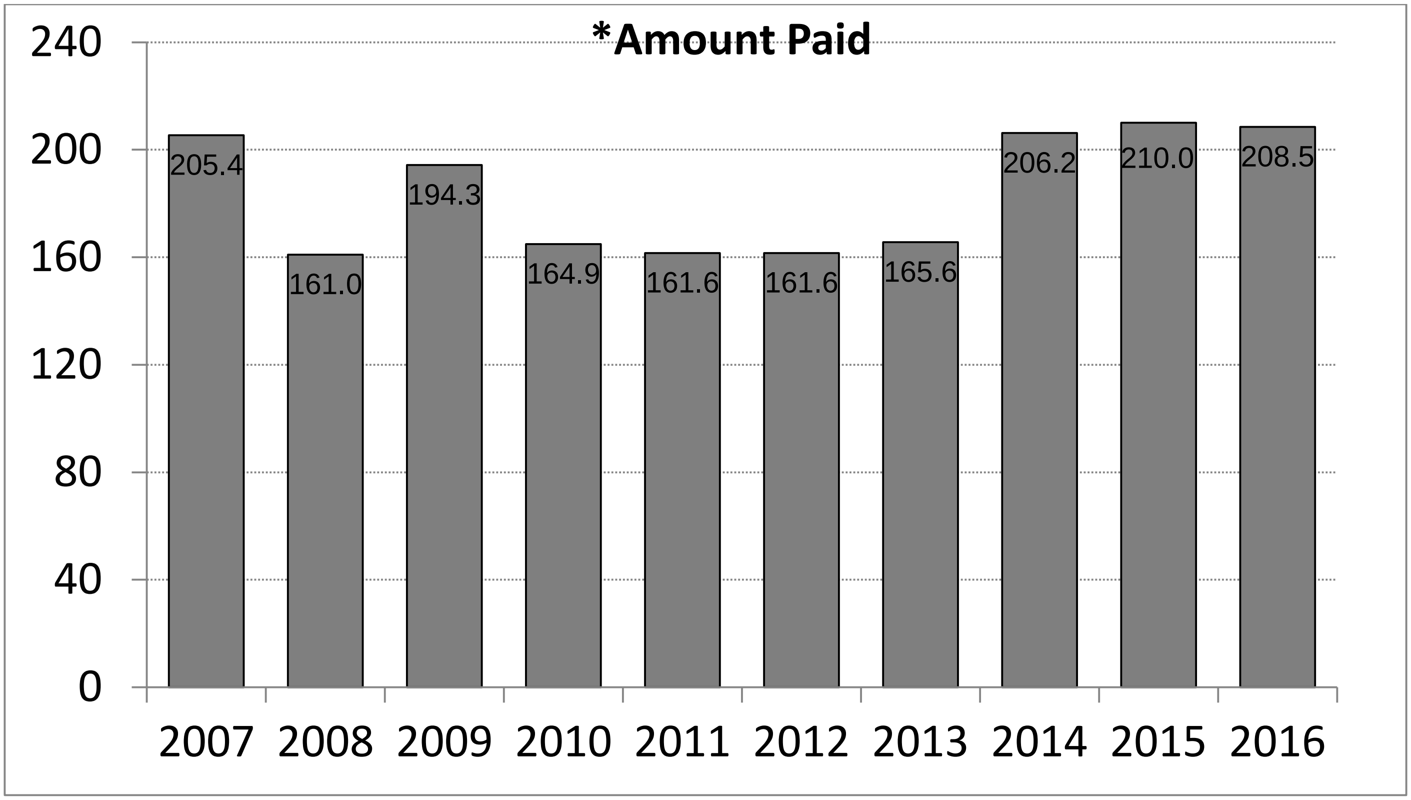
No town aid is paid in three counties

No township aid is paid in Hennepin, Koochiching, or Lake of the Woods counties. This is because either the entire county is incorporated into cities (Hennepin County) or the county only has *unorganized* townships (Koochiching and Lake of the Woods counties).

Average 2014 Town LGA per capita by County
(based on organized township population)



County Program Aid (CPA) (in millions $)*



*In 2008-2011, the amount of aids paid were less than the amount originally certified.

County Program Aid

County program aid replaced several county aid programs

Prior to calendar year 2004, counties received property tax aid under a number of different programs. Beginning in 2004, the aid programs were consolidated into one general aid program, called county program aid (CPA). The county aid programs that were consolidated include the following:

- attached machinery aid (Minn. Stat. § 273.138)
- homestead and agricultural credit aid (HACA) (Minn. Stat. § 273.1398, subd. 2)
- manufactured home homestead and agricultural credit aid (Minn. Stat. § 273.166)
- county criminal justice aid (CCJA) (Minn. Stat. § 477A.0121)
- family preservation aid (FPA) (Minn. Stat. § 477A.0122)

County program aid consists of "need aid" and "tax-base equalization aid"

From calendar year 2005 on, CPA has been allocated by two formulas, need aid and tax-base equalization aid, with just under half the money being distributed through the need aid formula and just over half being distributed through the tax base equalization aid formula. The table on the next page shows how a county's aid is calculated under each formula.

Counties receiving less aid under the post-2004 formula receive transition aid

Seven counties whose relative *share* of the total CPA formula allocation in calendar year 2005 was significantly less than their share of 2004 program aid qualify for "transition aid." Each county's transition aid amount is permanently fixed at one-third of the amount it received in 2005. The total amount of transition aid for calendar year 2015 is $464,000.

County program aid amounts were reduced due to state budgetary conditions

For 2008-2011, county program aid payments were less than the levels that had been certified due to state budgetary conditions.

Supplemental aid payments were provided in 2014

The 2014 legislature provided for a number of supplemental aid payments. It authorized a supplemental payment of $1,500,000 to Mahnomen County in 2015, and supplemental payments of $3,000,000 per year for ten years to Beltrami County beginning in 2015. It also provided for additional aid payments in 2014 to any county whose aid in 2014 was less than its aid in 2013, equal to the difference in aid between the two years. The legislature provided additional funding to cover these three supplemental aid amounts, so that aids to other counties were not reduced.

Calculation of County Program Aid

<table>
<tr>
<th>Need Aid</th>
<th>Tax-base Equalization Aid</th>
</tr>
<tr>
<td>

Share of Appropriation:

$100.5 million (CY 2005-2008)
$111.5 million (CY 2009)
$113.7 million (CY 2010)
$96.4 million (CY 2011-2012)
$80.8 million (CY 2013 and thereafter)
$100.8 million (CY 2014 and thereafter)

Reductions from the appropriation: $500,000 annually for court-ordered counsel and public defense costs

Factors used in the formula:

- **age-adjusted population,** which ranges from 80% to 180% of the county's actual population based on the percentage of the county's population over 65 years, compared to the statewide average
- **average monthly number of households receiving food stamps** in the county over the last three years
- **average number of Part I crimes** reported in the county over the last three years. These are the most serious crimes

The formula:

- 40% of the appropriation is distributed to each county based on its relative share of the total age adjusted population in the state
- 40% of the appropriation is distributed to each county based on its relative share of the total average monthly number of households receiving food stamps in the state
- 20% of the appropriation is distributed to each county based on its relative share of the average number of Part I crimes reported in the state

</td>
<td>

Share of Appropriation:

$105 million (CY 2005-2008)
$116.1 million (CY 2009)
$118.5 million (CY 2010)
$101.3 million (CY 2011-2012)
$84.9 million (CY 2013 and thereafter)
$104.9 million (CY 2014 and thereafter)

Reduction from the appropriation: up to $214,000 annually to pay for the preparation of local impact notes

Tax-base equalization factor used in the formula:

Factor = N times ($185 x population - 9.45% of the county adjusted net tax capacity)

where N equals:

- 3 if the county population is less than 10,000;
- 2 if the county's population is at least 10,000 but less than 12,500;
- 1 if the county's population is at least 12,500 but less than 500,000; and
- 0.25 if the county's population is 500,000 or more

The formula:

- 100% of the appropriation is distributed based on each county's relative share of the sum of the tax-base equalization factors for all the counties in the state

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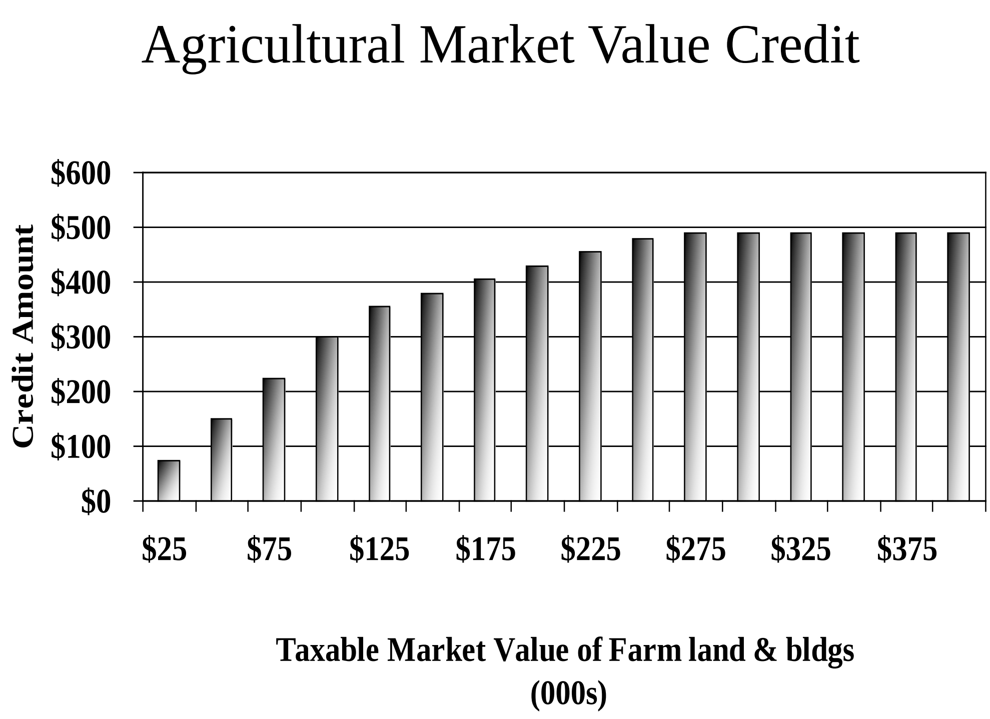
Agricultural Market Value Credit

- The credit applies to agricultural homesteads only
- The credit amount is based on the taxable value of the agricultural portion of the property, *excluding the value of the house, garage and surrounding one acre of land*
- The credit amount is shown on the tax statement as a subtraction after the gross tax has been computed
- The credit is deducted from each local government's tax on the homestead in proportion to its share of the gross tax (excluding school referendums)
- The maximum credit amount is $490; all farms valued over $260,000 receive the maximum credit amount
- The credit is 0.3% of the market value up to $115,000, plus 0.1% of the market value over $115,000, until the maximum credit of $490 is reached at a market value of $260,000
- The state cost of the credit for taxes payable in 2015 (FY 2016) is $38 million



Homestead Credit Refund Program

What is the homestead credit refund program?

The homestead credit refund is a state-paid refund that provides tax relief to homeowners whose property taxes are high relative to their incomes. The program was previously known as the homeowner's property tax refund program, or PTR, and sometimes popularly called the "circuit breaker." If the property tax exceeds a threshold percentage of income, the refund equals a percentage of the tax over the threshold, up to a maximum amount. As income increases:

- the threshold percentage increases,
- the share of tax over the threshold that the taxpayer must pay (the "copay percentage") increases, and
- the maximum refund decreases.

The program uses household income, a broad measure that includes most types of income, including income that is not subject to income tax. Deductions are allowed for dependents and for claimants who are over age 65 or disabled. The refund is based on taxes payable after subtracting any targeting refund claimed by the homeowner.

What aspects of the program have changed recently?

The 2011 and 2013 tax laws both expanded the refund program. The 2011 changes increased the maximum refund for homeowners with incomes under about $37,000, and decreased the copayment percentage for most homeowners. The 2013 changes, effective for refunds based on taxes payable in 2014, lowered the threshold percentage for determining eligibility from 3.5 percent of income to 2.0 percent of income for homeowners with household incomes from $19,530 to $65,049, and to 2.5 percent for those at higher income levels.

What are the maximums?

For refund claims filed in 2015, based on property taxes payable in 2015 and 2014 household income, the maximum refund is $2,620. Homeowners whose income exceeds $107,149 are not eligible for a refund.

How are claims filed?

Refund claims are filed using the Minnesota Department of Revenue (DOR) Schedule M1PR, which is filed separately from the individual income tax form. Claims based on taxes payable in 2015 that are filed before August 15, 2015, will be paid beginning in late September 2015; claims filed electronically may be paid a month earlier. The deadline for filing claims based on taxes payable in 2015 is August 15, 2016; taxpayers filing claims after that date will not receive a refund.

How many homeowners receive refunds, and what is the total amount paid?

Based on payable 2013 property taxes and 2012 incomes, 339,197 homeowners received refunds. The average refund was $797, and the total dollar amount of refunds paid statewide was $270.4 million. The average refund for senior and disabled claimants ($811) was slightly higher than the average for those under age 65 and not disabled ($787).

How do refunds vary depending upon the filer's income and property tax?

The following table shows the refund calculations for four example families with different incomes—two families in the metro area and two in Greater Minnesota. Although the program parameters are the same statewide, the average residential homestead property tax in the metro area is higher than in Greater Minnesota. The example metro area families have homes valued at $245,000 and payable 2015 property taxes of $3,315, typical amounts for the metro area. The example families in Greater Minnesota have homes valued at $147,600 and payable 2015 property taxes of $1,430, typical amounts for Greater Minnesota. Taxpayers who are over age 65, disabled, or have dependents are allowed a subtraction from income in determining the refund.

Married couple, both under age 65, two dependents
Example refunds for claims to be filed in 2014,
based on taxes payable in 2014 and 2013 income

		Metro area		**Greater Minnesota**	
		Taxpayer #1	**Taxpayer #2**	**Taxpayer #3**	**Taxpayer #4**
1	Property tax	$3,315	$3,315	$1,430	$1,430
2	Gross income	$35,000	$75,000	$35,000	$75,000
3	Deduction for dependents	$10,665	$10,665	$10,665	$10,665
4	Household income (2 – 3 = 4)	$24,335	$64,335	$24,335	$64,335
5	Threshold income percentage	2.0%	2.0%	2.0%	2.0%
6	Threshold % x income (4 x 5 = 6)	$487	$1,287	$487	$1,287
7	Property tax over threshold (1 – 6 = 7)	$2,828	$2,028	$943	$143
8	Statutory copay percentage	30%	40%	30%	40%
9	Taxpayer copay amount (7 x 8 = 9)	$848	$811	$283	$57
10	Remaining tax over threshold (7 – 9 = 10)	$1,980	$1,217	$660	$86
11	Maximum refund allowed	$2,620	$1,860	$2,620	$1,860
12	Net property tax refund	$1,980	$1,217	$660	$86
13	Net property tax paid after refund (1 – 12)	$1,335	$2,098	$770	$1,344

Renter's Property Tax Refund Program

What is the renter's property tax refund program?

The renter's property tax refund program (sometimes called the "renters' credit") is a state-paid refund that provides tax relief to renters whose rent and "implicit property taxes" are high relative to their incomes. "Rent constituting property taxes" is assumed to equal 17 percent of rent paid. If rent constituting property taxes exceeds a threshold percentage of income, the refund equals a percentage of the tax over the threshold, up to a maximum amount. As income increases:

- the threshold percentage increases,
- the share of tax over the threshold that the taxpayer must pay increases, and
- the maximum refund decreases.

The program uses household income, a broad measure that includes most types of income, including income that is not subject to income tax. Deductions are allowed for dependents and for claimants who are over age 65 or disabled.

What are recent changes to the program?

The 2013 tax law expanded the program, by lowering the threshold percentage for determining eligibility from 3.5 percent of income to 2.0 percent of income, in conjunction with reductions to the homeowner thresholds. It also increased the maximum refund to $2,000 for refunds based on rent paid in 2013.

For refunds based on rent paid from 1998 to 2008, the percentage of rent constituting property taxes was 19 percent. It was reduced to 15 percent for refunds based on rent paid in 2009 only under Gov. Tim Pawlenty's June 2009 unallotment, subsequently enacted into law. For refunds based on rent paid in 2010, the percentage returned to 19 percent. The 2011 tax law reduced the rate to 17 percent for refunds based on rent paid in 2011 and following years.

What are the maximums?

For refund claims filed in 2015, based on rent paid in 2014 and 2014 household income, the maximum refund is $2,030. Renters whose income exceeds $58,059 are not eligible for refunds.

How are claims filed?

Refund claims are filed using Minnesota Department of Revenue (DOR) Schedule M1PR. Schedule M1PR is filed separately from the individual income tax form. Claims filed before August 15, 2015, will be paid beginning in August 2015. The deadline for filing claims based on rent paid in 2014 is August 15, 2016; taxpayers filing claims after that date will not receive a refund.

How many renters receive refunds, and what is the total amount paid?

Based on rent paid in 2012 and 2012 incomes, 304,016 renters received refunds. The average refund was $594, and the total dollar amount of refunds paid statewide was $180.5 million. The average refund for senior and disabled claimants ($637) was slightly higher than the average for those under age 65 and not disabled ($576).

How do refunds vary depending on

The following table shows the refund amount for four example families (married couples without dependents). Although the threshold percentage, copayment rates, and maximum refund amounts are the same statewide, the average rent is

income and property taxes?

higher in the metro area than in Greater Minnesota. Taxpayers who are over age 65, disabled, or have dependents are allowed a subtraction from income in determining the refund.

Married couple, both under age 65, no dependents
Example refunds for claims to be filed in 2015,
based on rent paid in 2014 and 2014 household income

		Metro area		Greater Minnesota	
		Taxpayer #1	**Taxpayer #2**	**Taxpayer #1**	**Taxpayer #2**
1	Monthly rent, one bedroom apartment	$796	$796	$542	$542
2	Annual rent (1 x 12 = 2)	$9,552	$9,552	$6,504	$6,504
3	Rent constituting property tax (2 x 17% = 3)	$1,624	$1,624	$1,106	$1,106
4	Gross income	$15,000	$30,000	$15,000	$30,000
5	Deduction for dependents	0	0	0	0
6	Household income (4 – 5 = 6)	$15,000	$30,000	$15,000	$30,000
7	Statutory threshold percentage	1.4%	2.0%	1.4%	2.0%
8	Threshold % x income (7 x 6 = 8)	$210	$600	$210	$600
9	Property tax over threshold (3 – 8 = 9)	$1,414	$1,024	$896	$506
10	Copay percentage	15%	30%	15%	30%
11	Taxpayer copay amount (9 x 10 = 11)	$212	$307	$134	$152
12	Remaining tax over threshold (9 – 11 = 12)	$1,202	$717	$761	$354
13	Maximum refund allowed	$1,830	$1,680	$1,830	$1,680
14	Net property tax refund	$1,202	$717	$761	$354

Targeting Property Tax Refund

What is targeting?

The "additional" or "special" property tax refund, generally referred to as "targeting," directs property tax relief to homeowners who have large property tax increases from one year to the next.

Who qualifies?

A homeowner qualifies if the property tax on the home has increased by more than 12 percent over the previous year's tax and if the increase is over $100. In determining eligibility, the previous year's tax amount is the net amount paid by the homeowner after deduction of any targeting refund received in that year.

The homeowner must have owned and lived in the same home for both years. If any improvements were made to the home, that portion of the tax increase resulting from the improvements must be subtracted when determining the refund.

How does targeting work?

Generally, the refund equals 60 percent of the increase over the greater of (1) 12 percent of the previous year's tax after deduction of targeting, or (2) $100. The maximum refund is $1,000. The targeting refund is calculated prior to calculation of the homestead credit refund. The following example shows how the refund is calculated.

Payable 2014 Property Tax after Targeting Payable 2015 Property Tax	$1,600 $2,000
2015 tax increase (over 2014) Taxpayer pays first 12% of increase compared to previous year's tax, which must be at least $100 (12% x $1,600)	$400 $192
Remaining increase eligible for relief ($400 - $192 = $208)	$208
State pays 60% of excess over 12% increase up to a $1,000 maximum (60% x $208 = $125)	$125
Amount of 2015 increase paid by taxpayer ($400 - $125)	$275

The taxpayer's $400 increase (i.e., 25 percent) is reduced to an out-of-pocket property tax increase of $275 (i.e., 17.2 percent) as a result of the $125 refund.

The taxpayer pays the full $2,000 amount of the 2015 property tax to the county, the first half in May and the second half in October. The taxpayer applies to the state for a targeting refund on form M1PR. The targeting refund is paid at the same time the regular homestead credit refund ("circuit breaker") is paid in late September.

Does targeting have any other restrictions?

No, unlike the homestead credit refund, the targeting refund is not tied to the taxpayer's household income. Under the homestead credit refund, the taxpayer's household income may not exceed a specified maximum and the amount of household income affects the amount of the refund.

However, the targeting refund does not use income as a factor, nor is there any limitation on the taxpayer's household income. Therefore, many higher income taxpayers who do not qualify for the homestead credit refund due to income restrictions are eligible for the targeting refund.

What are statewide amounts?

The table below shows the statewide amount, with a breakdown for the metro and the 80 nonmetro counties, for the past four years.

The $729,000 in targeting refund claims filed in 2013 is the first time refunds have totaled less than $1 million. The changes from one year to the next generally track changes in property taxes on homesteads. For example, from 2011 to 2012, homestead property taxes increased on average in Greater Minnesota and remained relatively constant in the metro area.

Targeting Refunds, Filed 2010 – 2013 (dollars in thousands)

	Filed 2010	Filed 2011	Filed 2012	Filed 2013
Total Metro	$1,024	$1,211	$570	$380
Total Nonmetro	$1,310	$691	$2,696	$348
State	$2,334	$1,902	$3,266	$729

Some taxpayers (e.g., those who typically don't qualify for the homestead credit refund) may not be aware of the targeting program, resulting in lower total refunds statewide than if all eligible taxpayers had filed.

How many homeowners claim the refund?

In 2013, just over 6,000 homeowners claimed refunds based on their property tax increase from payable 2012 to 2013. The average refund amount was $118.

How are claims filed?

Refund claims are filed using the Minnesota Department of Revenue (DOR) Schedule M1PR, the homestead credit refund form. There is a separate schedule on the back of the M1PR ("Schedule 1 – Special Refund") for the targeting program. The taxpayer files for this refund after receiving his or her property tax statement in February or March. Claims filed before August 15, 2015, will be paid beginning in late September 2015. The deadline for filing claims based on taxes payable in 2015 is August 15, 2016; taxpayers filing claims after that date will not receive a refund. Forms are available online at DOR's website, under "Forms and Instructions" (www.revenue.state.mn.us).

Senior Citizens Property Tax Deferral Program

What is the Senior Citizens Property Tax Deferral Program?

The Senior Citizens Property Tax Deferral Program allows property taxpayers who are 65 years or older, and whose total household income is $60,000 or less, to defer a portion of their homestead property taxes until some later time. It allows senior citizens whose property taxes are high relative to their incomes, but who wish to stay in their homes, an option for paying their property taxes.

How does it work?

Regardless of how high the tax is on the homestead, the taxpayer initially pays an amount equal to only 3 percent of the total preceding year's household income. The state pays any amount over 3 percent, called the "deferred tax," to the county in which the home is located. A lien attaches to the property. The deferred tax is a loan. Interest on the loan is calculated at the same rate as unpaid state taxes; a floating rate that cannot exceed 5 percent. Before the owner can transfer the title of the property, the deferred tax plus interest must be repaid.

For example, John and Mary Jones own a home; its total property tax is $1,400. They have a total household income of $30,000. Under this program, they must pay $900 in tax (3 percent of $30,000); the remaining $500 ($1,400 minus $900) is deferred.

Who qualifies?

In order to qualify for the program, **all** of the following criteria must be met:

- The property must be owned and occupied as a homestead by a person at least 65 years old (If married, one spouse must be at least 65 years old and the other must be at least 62 years old)
- Total household income must be $60,000 or less for the calendar year preceding the year of the initial application
- The home must have been owned and occupied as the homestead of at least one of the homeowners for at least 15 years before the initial application
- There must be no state or federal tax liens or judgment liens on the property
- The total unpaid balances of debts secured by mortgages and other liens on the property, including deferred tax and interest amounts under the program, unpaid and delinquent special assessments and property taxes, penalties and interest (but excluding the current year's property taxes), do not exceed 75 percent of the assessor's estimated market value for the current year

What information is the applicant required to provide?	An applicant must provide, at her or his own expense, a report detailing any mortgages, liens, judgments, or unpaid property taxes on the property. For "Abstract" properties, these reports must be prepared by a licensed abstracter. For "Torrens" properties, the information is part of the "Condition of Register" available from the county recorder. If owners are unsure which type of property they have, they may find out from the county recorder.
Does the taxpayer need to annually reapply?	No, once a taxpayer is enrolled in the program, annual applications are not required. However, if household income exceeds $60,000 in any calendar year, the owner must notify the Department of Revenue, and no *further* property taxes may be deferred. However, the owners will remain enrolled in the program, and once their income falls below the $60,000 threshold again, they may notify the state and request that the deferral be resumed.
Can the taxpayer still file for refunds?	Yes, a taxpayer is still allowed to file for the property tax refund and any other property rebates that the state offers. However, no direct cash payments will be made to the taxpayer. Rather, the amount of the refund will be applied to the total amount of the deferred property tax on the taxpayer's home. The property tax refund is calculated on the full tax amount.
When does it terminate?	The deferral terminates when **any one** of the following events occurs: • the property is sold or transferred • all qualifying homeowners die • the homeowner notifies the Commissioner of Revenue, in writing, of intent to withdraw from the program • the property no longer qualifies as a homestead
How many people participate in the program?	For property taxes payable in 2011, 313 people participated in the program across the state, resulting in $1.3 million in tax deferrals.
Where does a taxpayer apply for the program?	Applications are available in the county auditor's office or may be obtained from the Department of Revenue's website at www.revenue.state.mn.us/Forms_and_Instructions/crscd.pdf.

Distribution of the Property Tax Burden

The *Minnesota Tax Incidence Study* estimates how the property tax burden is distributed across Minnesota households. (See http://www.revenue.state.mn.us/research_stats/research_reports/2013/2013_tax_incidence_study_links.pdf) It shows both the direct incidence of the gross tax on homestead and cabins, and the indirect incidence of business and residential rental property taxes. It also shows the effect of the property tax refund program on the incidence of the tax.

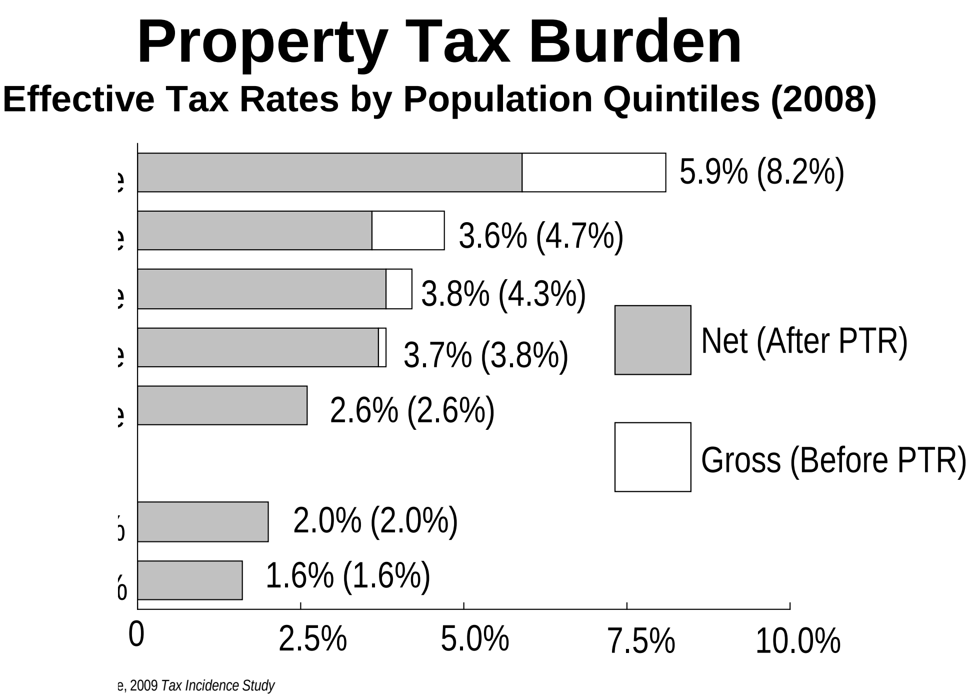
Net property tax as a percent of income declines from 6.1% of total income for the poorest fifth of Minnesota households to 2.8% of income for the richest fifth of Minnesota households, making the overall effect somewhat regressive.

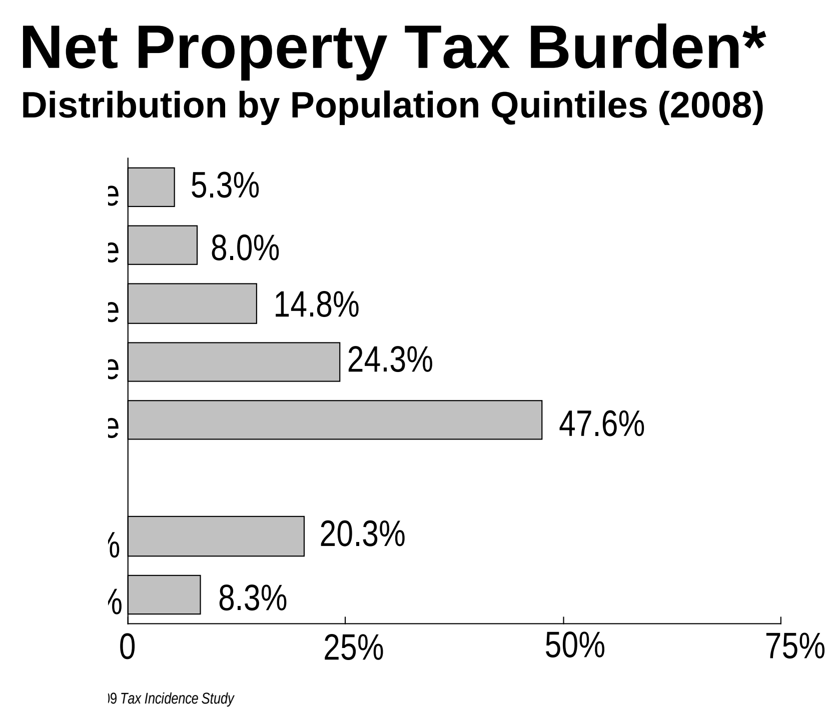
The richest fifth of Minnesota households (with 57.6% of total income) are estimated to pay 48.6% of the total property tax.

Distribution of Property Tax Burden by Population Quintiles (2010)

Quintile	Income Range	Percent of Total Income	Gross Property Tax (000s)	Property Tax Refunds (000s)	Percent of Total Net Property Tax (000s)	Effective Tax Rate
First	$16,449 or less	2.9%	$396,769	$92,220	5.2%	6.1%
Second	$16,450 – 31,430	6.9%	582,904	140,970	7.6%	3.6%
Third	$31,431 – 53,071	12.2%	963,560	111,352	14.6%	4.0%
Fourth	$53,072 – 89,746	20.4%	1,455,233	60,892	23.9%	3.9%
Fifth	Over $89,747	57.6%	2,843,582	10,930	48.6%	2.8%
Total	All incomes	100%	$6,242,045	$416,364	100%	3.3%
Top 5%	Over $178,170	30.9%	1,260,003	2,060	21.6%	2.3%
Top 1%	Over $446,961	16.0%	497,997	432	8.5%	1.8%

Source: MN Dept. of Revenue, 2013 Tax Incidence Study


Property Tax Burden
Effective Tax Rates by Population Quintiles (2008)
5.9% (8.2%)
3.6% (4.7%)
3.8% (4.3%)
3.7% (3.8%)
2.6% (2.6%)
2.0% (2.0%)
1.6% (1.6%)
Net (After PTR)
Gross (Before PTR)
0
2.5%
5.0%
7.5%
10.0%
2009 Tax Incidence Study


Net Property Tax Burden*
Distribution by Population Quintiles (2008)
5.3%
8.0%
14.8%
24.3%
47.6%
20.3%
8.3%
0
25%
50%
75%
Tax Incidence Study

Mining Taxes

Mines and facilities used in the production of taconite are exempt from the property tax. In lieu of the property tax, the iron mining industry pays a production tax based on the tons of taconite produced. The industry is also exempt from the corporate income tax, and pays an occupation tax in lieu of it. The structure of the occupation tax is quite similar to that of the corporate income tax.

The mining industry paid about $128 million in taxes in 2012. The taconite production tax constitutes about 80 percent ($103 million) of the total taxes. The remaining 20 percent ($25.8 million) includes the occupation tax, the sales tax, and some miscellaneous taxes. This overview focuses on the production tax, since it is primarily used to fund local governments, and is therefore similar to a property tax.

Because it is in lieu of the property tax, the taconite production tax is paid to local governments and is a major revenue source for qualifying taxing jurisdictions—counties, cities, towns, and school districts, located in the taconite assistance area. The "taconite assistance area" includes all or a portion of Cook, Lake, St. Louis, Itasca, Koochiching, Aitkin and Crow Wing Counties.

The production tax collected and distributed in 2013:

- was based on the production of the mining companies in calendar year 2012;
- was based on a tax rate of $2.465 per taxable ton (the tax rate is established by the legislature);
- was based on the three-year average tonnage produced in 2010, 2011, and 2012, which was 38.3 million taxable tons. (A three-year average is used to keep the tax base more stable.);
- was required to be paid in two equal installments on or before February 24th, and on or before August 24th; and
- was paid to the respective counties in the taconite assistance area and to the Iron Range Resources and Rehabilitation Agency (often referred to simply as Iron Range Resources, or IRR). The counties then make payments to the cities, towns, and school districts.

The formula for distributing production tax revenues is a complex one that has evolved over many years. It is specified in statute and is generally defined on a cents per taxable ton (CPT) distribution. The 2012 tax was distributed as follows:

Distribution	**Amount (000s)**	**Cents per taxable ton (CPT)***
Cities and townships	$13,894	36.3
School districts	15,800	41.2
Counties	14,271	37.2
Property tax relief and misc.	16,493	43.1
Iron Range Resource (IRR) includes distribution to the Taconite Environmental. Protection Fund and the Douglas Johnson Economic Protection Trust Fund	29,729	77.6
Other	12,446	32.5
Total	**$102,633**	**$2.685**

* This includes a state general fund appropriation equal to 22.0 CPT.

Levy Limits

General levy limits are currently not imposed

The general levy limits under Minnesota Statutes, sections 275.70 to 275.74, restrict the amount of property taxes cities with a population of 2,500 or more and all counties may impose for general fund expenditures. Levy limits are currently not in force; they were last effective for taxes payable in 2014.

Levy limits are intended to ensure that state aid reduces property taxes and limits the growth rate of property taxes

Levy limits are adopted to keep the growth in property taxes low and to help ensure that cities and counties use increased state aid payments to reduce property taxes and not for higher local spending. Because of this, general purpose state aids are included in calculating the limit. When a local government's state aid increases, its maximum allowed levy decreases. Conversely, if a local government's aid decreases, its allowed levy increases. If a local government receives no state aid, the limit applies only to its property tax levy.

Although the purpose of levy limits is to limit growth in property taxes, some opponents argue that they may actually increase taxes by encouraging cities and counties to levy up to the maximum allowed.

Levy limits have expired several times and been reenacted

In recent years, the legislature has generally imposed levy limits as part of property tax reforms, or when state aid reductions may have led to higher property taxes. They were re-imposed for Pay 2009–2011 to limit rising property taxes that might have been attributed to aid decreases and freezes and reimposed for 2014 when the aid appropriations were increased significantly. The table shows the years in which levy limits were imposed.

Chronology of Levy Limits

Taxes payable years	Limits Apply?	Instigating Event
1972–1992	Yes	Enactment of 1971 property tax reform
1993–1997	No	Enactment of Truth-in-Taxation notices as a replacement
1998–2000	Yes	"Compression" of class rates
2001	No	Allowed to expire
2002–2003	Yes	2001 property tax reform
2004	Yes	2003 and 2004 aid reductions
2005–2008	No	Allowed to expire
2009–2011	Yes	Previous county and city levy increases
2012–2013	No	Allowed to expire
2014	Yes	Large aid increases
2015–future	No	Allowed to expire

State aids are used to calculate limits

As noted above, state general-purpose aids are used to calculate levy limits. The aids included in the levy limit base are (1) taconite aid; (2) county program aid, for counties only; and (3) local government aid (LGA), for cities only. The combination of levy plus aid is known as the levy limit base.

The allowed growth in the levy limit base for Pay 2009–2011 was less than usual

In recent history, the levy limit base has usually been adjusted for inflation, new households, and new commercial and industrial property. For Pay 2009–2011, stricter limits were imposed. A local government's levy limit base (levy plus aids) was increased for growth for the three factors but limited as follows:

- The rate of inflation, as measured by the implicit price deflator (IPD) for state and local government purchases, *but only to a maximum of 3.9 percent*
- *Only one-half* of the percent growth number of households in the local jurisdiction, as estimated by the state demographer or the Metropolitan Council, rather than the usual 100 percent of the growth rate
- One-half of the increase in the total market value in the jurisdiction due to new commercial/industrial development

The 2014 levy limit allowed a flat 3 percent growth rate.

Local governments may levy "outside of limits" for certain purposes

The levy limits do not apply to "special levies." Special levies can be imposed for whatever amount the city or county needs outside of levy limits for specified purposes. For taxes payable in 2009 these purposes include:

- debt for capital purchases and projects;
- state and federal required matching grants;
- preparation for and recovery from natural disasters;
- certain abatements;
- increases in public employee pension plans;
- required jail operation costs;
- operation of lake improvement districts;
- repayment of a state or federal loan related to highway or capital projects;
- for an animal humane society;
- increased costs related to reductions in federal health and human service program grants;
- inspections and other related city costs in cities with high foreclosure rates;
- for Minneapolis to cover unreimbursed costs related to the I-35W bridge collapse;
- increases in police, fire, and sheriff personnel salaries and benefits; and
- to recoup any LGA, county program aid, or market value credit reductions that occur after levies have been set for the year.

The 2014 levy limits allowed special levies for debt and natural disasters.

Local governments may go to voters for authority to exceed limits

When levy limits are in effect, a local government may certify a levy higher than its levy limit *if* approved by the voters at a referendum. A vote to exceed the limit may be for any amount, and the tax is spread on tax capacity. Unless approved by a referendum, the final levy may not exceed the limited amount plus the amounts levied for authorized special levies.

The Fiscal Disparities Program

What is the fiscal disparities program?

The fiscal disparities program is a system for the partial sharing of commercial-industrial (C/I) property tax base among all jurisdictions within a geographic area. In Minnesota, the program operates in two areas: the first one was enacted in 1971 and operates in the seven counties of the Twin Cities metropolitan area; a second version was enacted in 1995 operating within the Iron Range in northeastern Minnesota.

Why share commercial-industrial tax base?

The main purposes and goals of the program are to:

- *Support a regional approach to development*. Tax-base sharing spreads the fiscal benefit of business development spawned by regional facilities, such as shopping centers, airports, freeway interchanges, and sports stadiums. It also may make communities more willing to accept low-tax-yield regional facilities, such as parks.

- *Equalize the distribution of fiscal resources*. Communities with low tax bases must impose higher tax rates to deliver the same services as communities with higher tax bases. These high tax rates make poor communities less attractive places for businesses to locate or expand in, exacerbating the problem. Sharing C/I tax base can reduce this effect.

- *Reduce competition for commercial-industrial development*. Communities generally believe that some kinds of C/I properties pay more in taxes than it costs to provide services to them. This encourages communities to compete for these properties by providing tax concessions or extra services, which can weaken their fiscal condition. Tax-base sharing reduces the incentive for this competition, thereby discouraging urban sprawl and reducing the cost of providing regional services such as sewage and transportation.

How does the fiscal disparities program work?

Contributions to the areawide tax base. Each taxing jurisdiction annually contributes 40 percent of the growth in its C/I tax base since the year of enactment to an abstract entity called the "areawide tax base." This contribution value is not available for taxation by the jurisdictions where the property is located.

Distributions from the areawide tax base. Each municipality receives a share of the areawide tax base through a formula based on its share of the area's population and its relative property tax wealth (tax base per capita). The municipality is allowed to tax this distribution value at the same rate as the tax rate paid by its residents. All taxing jurisdictions whose boundaries encompass the municipality are also allowed to tax the municipality's distribution value (i.e., counties, school districts, and special taxing districts).

Calculating the property tax for each commercial-industrial property. The property tax statement for each C/I property has a local portion and an areawide portion, based on the relative amount of the tax base that is contributed and the amount that is retained by the municipality where the property is located.

How much tax base is redistributed through the programs?

In 2012, 37.6 percent of all local commercial-industrial property taxes are paid through fiscal disparities, and the areawide tax base accounts for 12 percent of the total tax base in the metropolitan area. In the Iron Range program, 17.8 percent of all local commercial-industrial property taxes are paid through fiscal disparities, and the areawide tax base constitutes 3 percent of the total tax base on the Iron Range.

How much does the fiscal disparities program affect taxes in the metro area?

A House Research Department study based on taxes payable in 2012 found that the average homestead tax in Columbia Heights, which is one of the largest net beneficiaries of the program, was 14.6 percent lower because of fiscal disparities. The study found that the average homestead tax in Bloomington, which is one of the largest net contributors, was 5.4 percent higher. Homestead effects throughout the area generally varied between these extremes.

For commercial-industrial properties, average taxes were 9.8 percent lower in Columbia Heights due to fiscal disparities and 13.7 percent higher in Eagan, another suburban city that is a large net contributor. Commercial-industrial property tax impacts elsewhere in the metro area generally fall between these extremes.

The study looked only at the direct effect of fiscal disparities, i.e., the redistribution of tax base, and made no attempt to factor in alternative development patterns that might have occurred without fiscal disparities.

What are the effects of the Iron Range program?

The same study found that the average homestead tax in Keewatin (Itasca County) was 24.8 percent lower because of fiscal disparities, while homestead taxes in Silver Bay were 5.5 percent higher, with other municipalities generally falling between those extremes.

For commercial-industrial properties, average taxes were 17 percent lower in Keewatin due to fiscal disparities and 20.4 percent higher in Farm Island township (Aitkin County). Commercial-industrial property tax impacts elsewhere on the Iron Range generally fall between these extremes.

Local Sales Taxes

Authority to impose:

- Cities have a general authority to impose up to a 3 percent lodging tax for tourism purposes.
- In 1971, the legislature prohibited local governments from imposing or increasing a local sales or income tax. This means that all new local sales taxes or changes in existing local sales taxes require enacting a special law or statute that supersedes the prohibition.
- In 1997, the legislature adopted local sales tax rules (Minn. Stat. § 297A.99) to be followed when authorizing any new local sales tax. The rules require that local sales taxes use the same base as the state tax, that it be a sales and use tax, and that the tax be administered by the Department of Revenue. All older local sales taxes had to conform to these rules as well.[1]
- The 2005 and 2006 sessions saw a resurgence of interest and authorization of local sales taxes. A number of new taxes were authorized and the authorities for existing taxes were extended.
- Several additional sales taxes were authorized or extended during the 2008 legislative session. General statutory authority in the metropolitan area and in greater Minnesota for counties to impose taxes for transit and transportation projects was also granted.
- The 2008 tax bill also enacted a provision prohibiting local governments from spending money advocating or promoting additional local sales tax bills. That provision was to expire June 1, 2010, but was amended in 2010 to extend it permanently but to allow limited expenditures to host public forums on the issue and to provide information on the use and impact of the proposed tax.
- No new general local sales taxes were authorized in 2009 or 2010 although several new food and beverage and lodging taxes were allowed.
- Six new general local sales taxes were authorized in 2011.
- In 2013 and 2014, existing taxes were expanded and several new county taxes were authorized to help fund the Destination Medical Center in Rochester and the Lewis and Clark Water Project in southwestern Minnesota.
- Local sales tax has expired five times–most recently in the city of Willmar, where the tax expired for the second time on December 31, 2012.
- Currently, there are 23 general local sales taxes imposed and 15 various food, beverage, lodging, and entertainment taxes imposed under special law.

General local sales taxes that are currently imposed and year they were first authorized:

• Duluth (1973)	1.0%
• Rochester (1983)	0.5%
• Minneapolis (1986)	0.5%
• Mankato (1991)	0.5%
• St. Paul (1993)	0.5%
• Hermantown (1996)	1.0%[2]

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[1] Duluth's local sales and use tax is an anomaly. It was enacted in 1973 and for 10 years was the only local sales tax in the state. It tends not to follow general practices. There is no requirement that proceeds be spent for a specific purpose, and there is no expiration provision.

[2] In 2012 Hermantown received authority to increase its local sales tax rate from 0.5% to 1.0%. The rate increase was effective March 1, 2013.

- Worthington (2005) 0.5%
- Two Harbors (1998) 0.5%
- Proctor (1999) 0.5%
- New Ulm (1999) 0.5%
- Central Minn. cities (2002) 0.5%
  (includes St. Cloud, Sauk Rapids, Sartell, St. Augusta, St. Joseph, and Waite Park)
- Albert Lea (2005) 0.5%
- Bemidji (2005) 0.5%
- Austin (2006) 0.5%
- Baxter (2006) 0.5%
- Brainerd (2006) 0.5%
- Owatonna (2006) 0.5%
- Hennepin Co. (2006) 0.15%
- Clearwater (2008) 0.5%
- North Mankato (2008) 0.5%
- Cook County (2008) 1.0 %
- Fergus Falls (2011) 0.5%
- Hutchinson (2011) 0.5%
- Lanesboro (2011) 0.5%
- Marshall (2011) 0.5%
- Medford (2011) 0.5%
- Olmstead County (2013) 0.25%

Common characteristics of general local sales taxes:

- Usually authorized to fund a specific "bricks and mortar" project
- Usually imposed at a 0.5 percent rate
- The tax does not usually extend to motor vehicles although many have an alternative flat $20 tax on motor vehicles sold by local dealers
- Normally has an expiration provision – the tax either expires when a certain amount has been raised or on a certain date
- In recent years all have required a local referendum at the next general election

Statutorily authorized county transit and transportation taxes:

- In 2008 the counties in the seven county metropolitan area were granted authority to form a joint powers Transit Improvement Area. Counties that joined were required to impose a 0.25 percent sales tax, without voter approval, to fund the program. The five counties that joined and imposed the tax are Anoka, Dakota, Hennepin, Ramsey, and Washington counties.
- Also in 2008 any county not participating in the Transit Improvement Area was authorized to impose a sales tax of up to 0.5 percent, with voter approval, to fund a specific transportation or transit capital project. No county asked voters to impose the tax. In 2013 the statute was amended to (1) expand the allowed uses, including paying certain operating costs, and (2) allow a county to impose the tax without voter approval. As of January 1, 2015 the following seven counties are imposing a tax under this statute: Becker, Douglas, Rice, Wadena, Beltrami, Fillmore, and Todd.

Tax Increment Financing

What is TIF?

Tax increment financing (TIF) uses the increased property taxes that a new real estate development generates to finance costs of the development. In Minnesota, TIF is used for two basic purposes:

- To induce or cause a development or redevelopment that otherwise would not occur—e.g., to convince a developer to build an office building, retail, industrial, or housing development that otherwise would not be constructed. To do so, the increased property taxes are used to pay for costs (e.g., land acquisition or site preparation) that the developer would normally pay.
- To finance public infrastructure (streets, sewer, water, or parking facilities) that are related to the development. In some cases, the developer would be required to pay for this infrastructure through special assessments or other charges. In other cases, all taxpayers would pay through general city taxes.

How does TIF work?

When a new TIF district is created, the county auditor certifies (1) the current net tax capacity (i.e., property tax base) of the TIF district and (2) the local property tax rates. As the net tax capacity of the district increases, the property taxes (i.e., the "tax increment") paid by this increase in value is dedicated and paid to the development authority. The tax increment is limited to the tax derived from the certified tax rate. Increases in value that generate increment may be caused by construction of the development or by general inflation in property values. The authority uses the increment to pay qualifying costs (e.g., land acquisition, site preparation, and public infrastructure) that it has incurred for the TIF project.

How is TIF used to pay "upfront" development costs?

There is a mismatch between when most TIF costs must be paid—at the beginning of a development—and when increments are received—after the development is built and begins paying higher property taxes. Three basic financing techniques are used to finance these upfront costs:

- **Bonds.** The authority or municipality (city or county) may issue its bonds to pay these upfront costs and use increment to pay the bonds back. Often, extra bonds are issued to pay interest on the bonds ("capitalizing" interest) until increments begin to be received.
- **Interfund loans.** In some cases, the authority or city may advance money from its own funds (e.g., a development fund or sewer and water fund) and use the increments to reimburse the fund.
- **Pay-as-you-go financing.** The developer may pay the costs with its own funds. The increments, then, are used to reimburse the developer for these costs. This type of developer financing is often called "pay-as-you-go" or "pay-go" financing.

What governmental units can use TIF?

Minnesota authorizes development authorities to use TIF. These authorities are primarily housing and redevelopment authorities (HRAs), economic development authorities (EDAs), port authorities, and cities. In addition, the "municipality" (usually the city) in which the district is located must approve the TIF plan and some key TIF decisions. TIF uses the property taxes imposed by all types of local governments. But the school district and county, the two other major entities imposing property taxes, are generally limited to providing comments to the development authority and city on proposed uses of TIF. The state-imposed tax on commercial-industrial and seasonal-recreational properties is not captured by TIF.

What is the but-for test?

Before an authority may create a TIF district, it and the city must make "but-for" findings that (1) the development would not occur without TIF assistance and (2) that the market value of the TIF development will be higher (after subtracting the value of the TIF assistance) than what would occur on the site, if TIF were not used.

What types of TIF districts may be created?

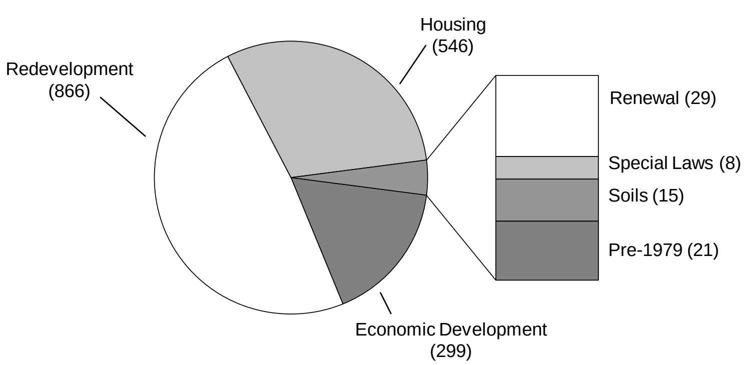
Minnesota allows several different types of TIF districts. The legal restrictions on how long increments may be collected, the sites that qualify, and the purposes for which increments may be used vary with the type of district.

District type	Use of Increment	Maximum duration
Redevelopment	Redevelop blighted areas	25 years
Renewal and renovation	Redevelop areas with obsolete uses, not meeting blight test	15 years
Economic development	Encourage manufacturing and other footloose industries	8 years
Housing	Assist low- and moderate-income housing	25 years
Soils	Clean up contaminated sites	20 years
Compact development	Redevelop commercial areas with more dense developments	25 years

How many TIF districts exist?

According to the 2014 report of the Office of State Auditor (OSA), there were 1,784 active TIF districts in 2012. The graph shows the relative shares by type of district.

TIF Districts by Type in 2012
(1,784 districts)



Source: 2014 Report of the State Auditor