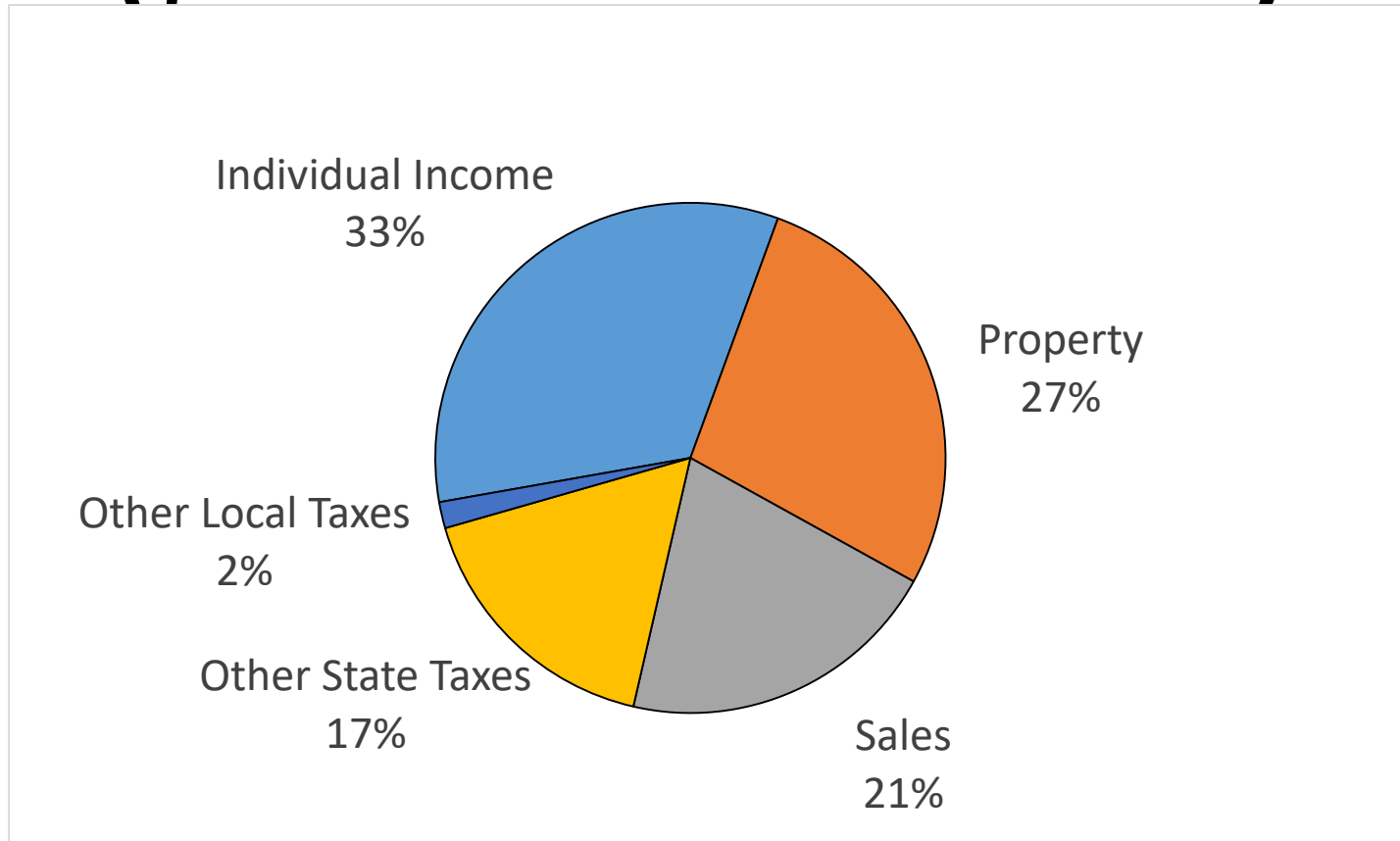


Overview of Property Taxes

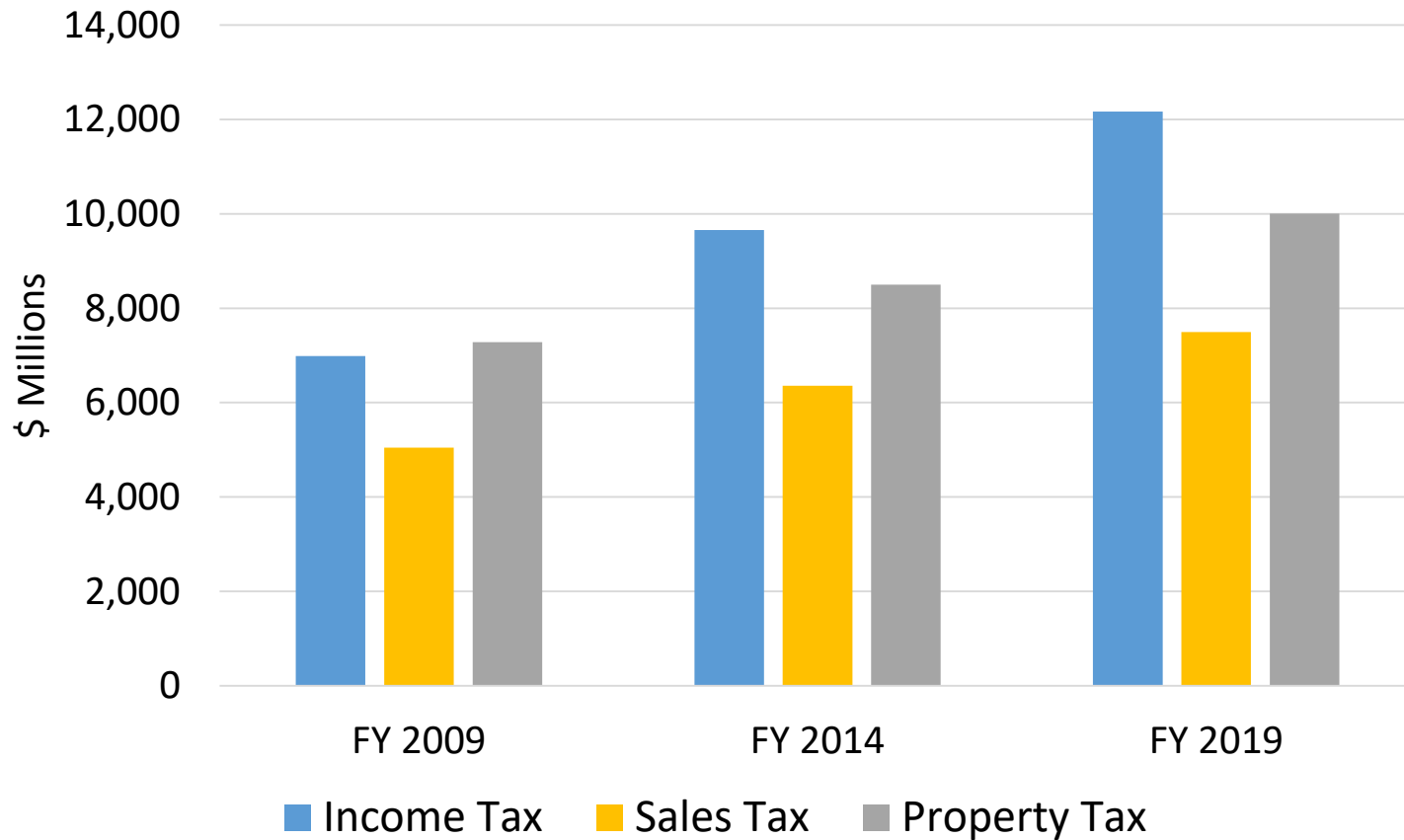
Presentation to House Property
and Local Tax Division

January 2019

State and Local Taxes (\$36.4 billion in FY 2019)



Income, Sales, and Property Taxes



Fiscal Resources

- Revenue Estimates - Estimates by the Minnesota Department of Revenue (DOR) that provide analysis about how the bill language would change state tax collections or state expenditures for property tax relief programs
- Fiscal Notes - Provides estimates of administrative costs for relevant state agencies prepared under the direction of the Minnesota Management and Budget Department (MMB) with the assistance of all relevant state agencies
- Local Impact Notes - Estimates the local government or school district fiscal impact of proposed legislation or rule
- Legislative Budget Tracking Spreadsheet - Provides a compilation of cost information from revenue estimates, fiscal notes, and other sources for a bill or omnibus bill

Property Tax Players

County Assessor

- Values property
- Determines classification
- Sends valuation notice

County Auditor

- Maintains official financial records
- Calculates tax capacity rates
- Computes tax on all parcels
- Prepares TNT notices

County Auditor (Cont'd)

- Distribute collections to proper taxing JDs
- Conducts process for tax forfeiture and conducts land sales of TFL

Property Tax Players

County Treasurer

- Often combined w/Auditor
- Records all money coming in and going out
- Mails TNT and tax statement

County Treasurer (Cont'd)

- Collects non-delinquent property tax payments
- Collects deed and mortgage registration taxes

State (Dept. of Revenue)

- Assesses certain real and personal property
- Certifies assessment to counties
- Solar and wind energy production tax

Property Tax Players

Taxing Authorities & Districts

- Authorities
 - County, city/town, school districts, special taxing districts
 - Have the power to levy
- Districts
 - Territory of a levy

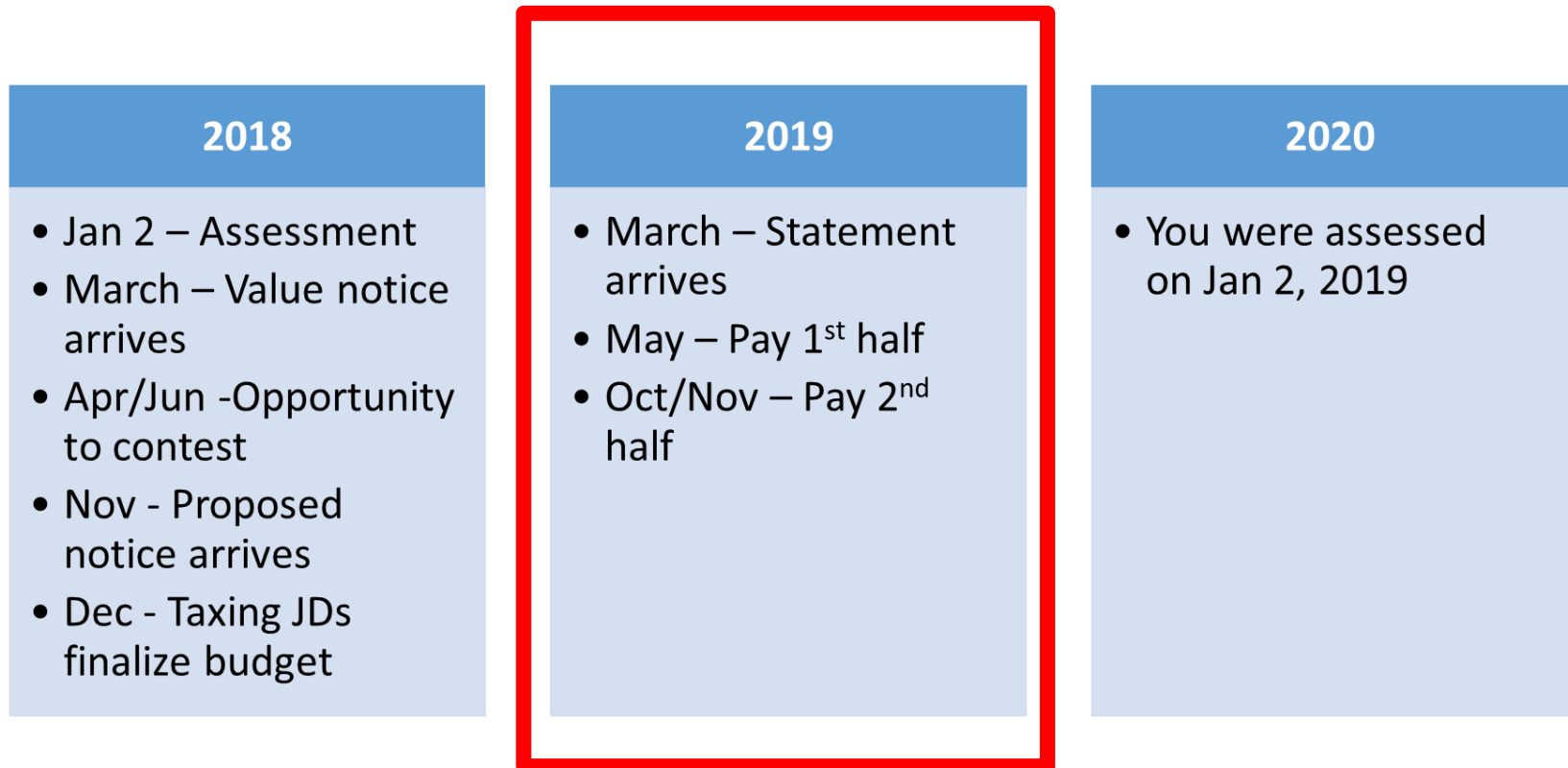
Boards of Appeal and Equalization

- State Board of Equalization
- County Board of Appeal and Equalization (CBAE)
- Local Board of Appeal and Equalization (LBAE)

Tax Court

- Executive branch court
- Statewide jurisdiction
- Property tax appeals filed by April 30 of the taxes payable year (prior year's assessment)

Property Tax Cycle



Tax Notices

Notice	Description	Date Sent
Valuation Notice	<ul style="list-style-type: none">• Shows the estimated market value and classification of property• Contains Local Board of Appeals and Equalization information	Early spring (usually along with tax statement – at least 10 days before local boards)
Truth in Taxation Notice (TNT)	<ul style="list-style-type: none">• Shows proposed taxes based on local levies before finalization• Public meetings for all local taxing JDs assessing a tax	Mid-November
Property Tax Statement	<ul style="list-style-type: none">• Taxes due in May and October• Presents the total amount due after final budgets are adopted and final levies certified• Detailed breakdown of amount due to each taxing authority	By March 31

Property Tax Calculation

How much a
jurisdiction
wants to collect

$$\frac{\textit{Levy}}{\textit{Base}} = \textit{Tax Rate}$$

Total of all
property value
in jurisdiction

Property Tax Calculation

Minnesota's Two Local Property Tax Bases

Referendum Market Value (RMV)

- Market Value of Property
- Generally used for voter-approved levies
- Some property types are excluded (e.g. agricultural land and cabins)

$$\frac{\textit{Levy}}{\textit{Sum of RMV}} = \textit{Tax Rate} \quad \textit{Tax Rate} \times \textit{RMV} = \textit{Property Tax}$$

Property Tax Calculation

Minnesota's Two Local Property Tax Bases

Net Tax Capacity (NTC)

- $Market\ Value \times Class\ Rate = NTC$
- Base used in calculating majority of property's tax
- Allows tax burden to be distributed differently
- Applies to all property types

$$\frac{Levy}{Sum\ of\ NTC} = Tax\ Rate \qquad Tax\ Rate \times NTC = Property\ Tax$$

Class Rates: Payable 2019

	Property Type	Tier	Class Rate
1a	Residential Homestead (incl Ag Hmstd house)	Under \$500,000	1.00%
		Over \$500,000	1.25
2a	Agricultural Homestead	Under \$1,900,000	0.5
		Over \$1,900,000	1.0
2a	Agricultural Nonhomestead		1.0
3a	Comm'l/Indstr'l/Public Utility	Under \$150,000	1.5
		Over \$150,000	2.0

Class Rates: Payable 2019

	Property Type	Tier	Class Rate
4a	Apartments (4+ units)		1.25%
4bb	Residential Nonhomestead (1 unit)	Under \$500,000 Over \$500,000	1.0 1.25
4b	Residential Nonhomestead (2-3 units)		1.25
4c	Seasonal recreational (noncommercial)	Under \$500,000 Over \$500,000	1.0 1.25

Property Tax Comparison

\$200,000 Property

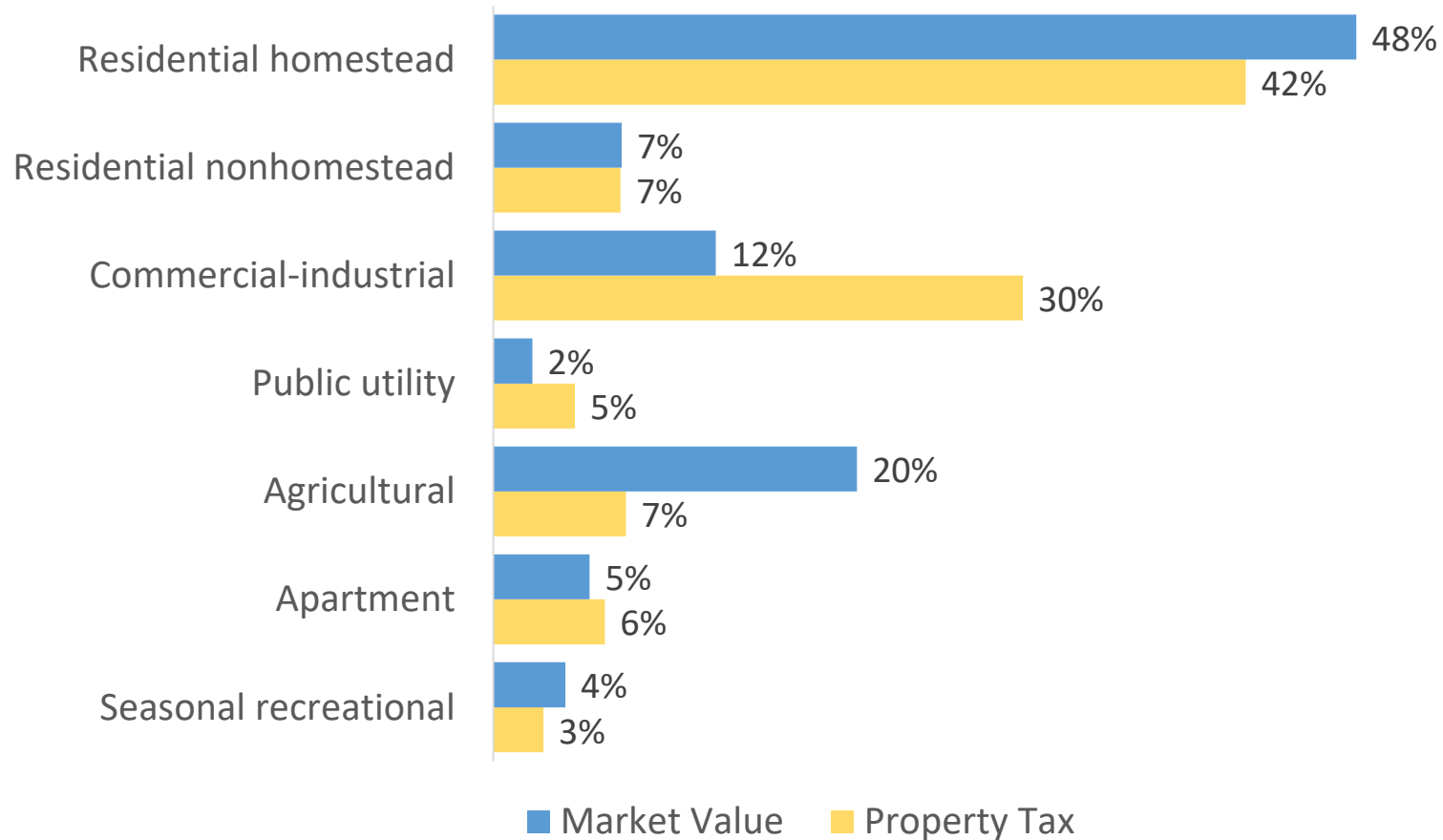
Property Type	Class Rate	Property Tax		Effective Tax Rate
		Gross	Net	
Agricultural Hmstd	0.5/1.0	\$1,112	\$722	0.36%
Residential Hmstd	1.0	2,168	2,168	1.08
Seasonal recreational	1.0	2,309	2,309	1.15
Comm'l/Indstr'l	1.5/2.0	5,235	5,235	2.62
Rental Property (One unit of a duplex)	1.25	2,887	2,887	1.44

Homestead Market Value Exclusion

Homestead Value	Exclusion Amount
\$50,000	\$20,000
75,000	30,000
100,000	28,200
150,000	23,700
200,000	19,200
300,000	10,200
400,000	1,240

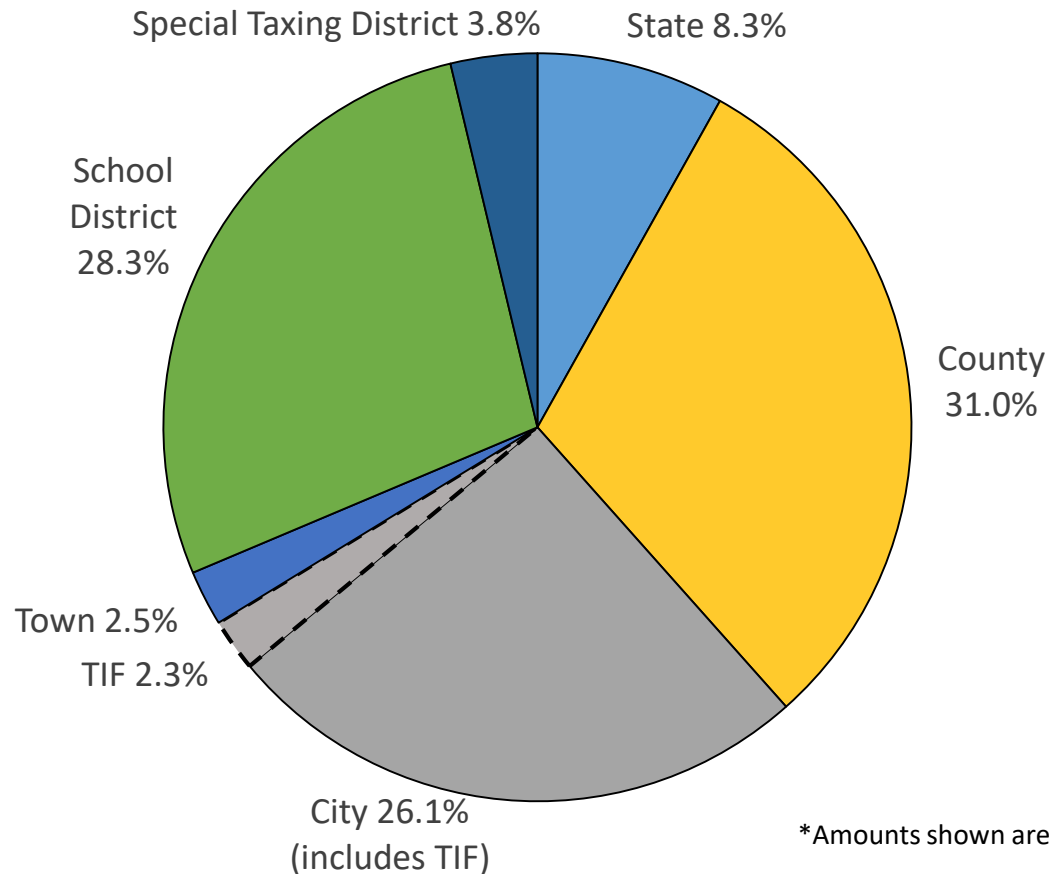
Statewide Shares of Market Value and Property Tax by Property Type

(Taxes payable 2018)



Property Tax by Type of Government*

(\$9,993 million in CY 2018)



*Amounts shown are after allocation of property tax credits.

Minnesota ranking among urban cities

Type of Property	National Ranking (out of 53)
\$ 150,000 home	27 th
\$ 300,000 home	24 th
\$ 1 million commercial property	8 th
\$ 1 million industrial property*	23 rd
\$ 600,000 apartment	22 nd

Minnesota ranking among rural cities

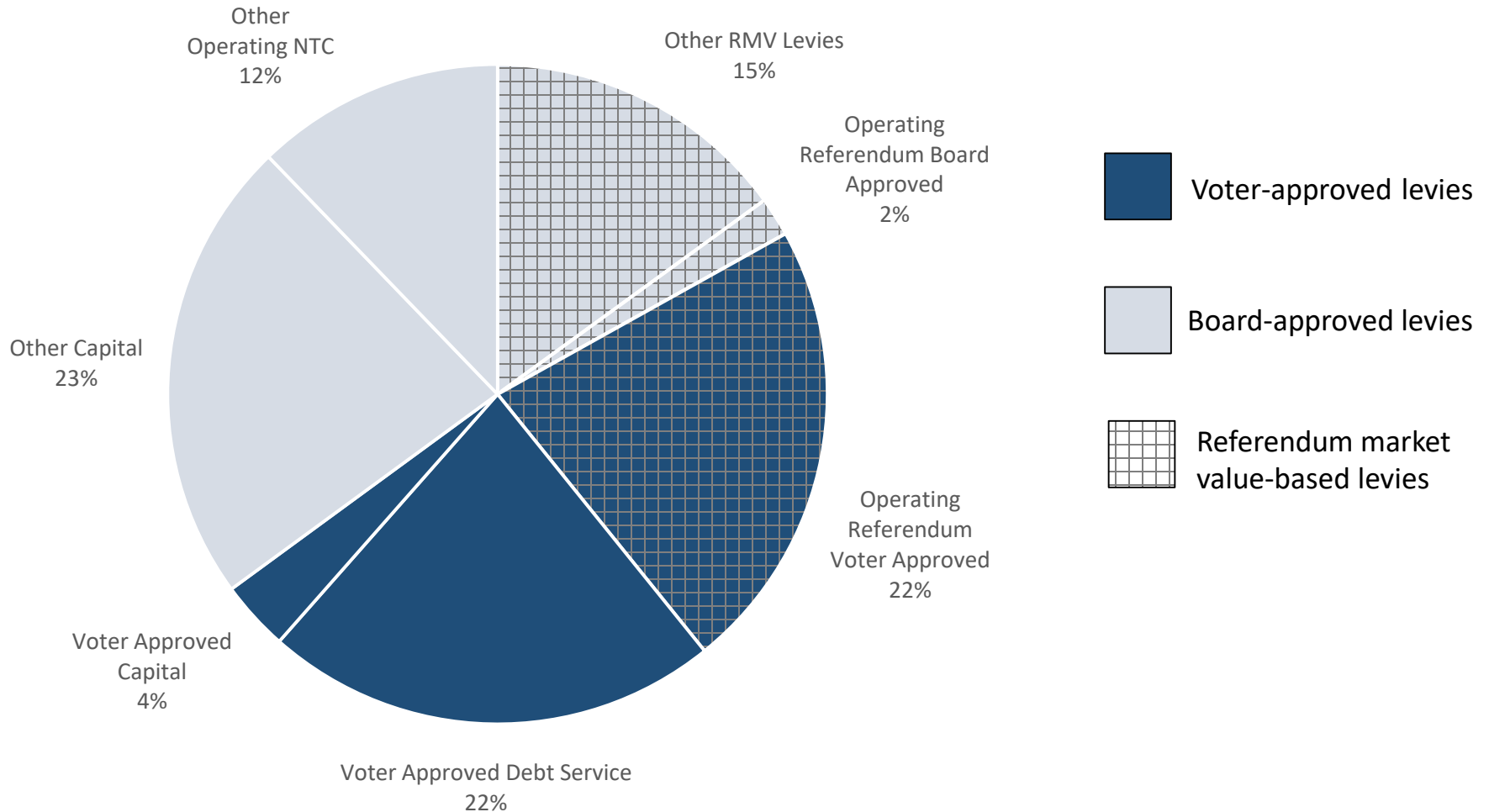
Type of Property	National Ranking (out of 50)
\$ 150,000 home	22 nd
\$ 300,000 home	22 nd
\$ 1 million commercial property	2 nd
\$ 1 million industrial property*	11 th
\$ 600,000 apartment	26 th

* Based on assumption of 60 percent personal property.

Source: 50-State Property Tax Comparison Study (2018)

School District Levies

\$2.88 Billion for Pay 2018



State General Tax

- Levy is \$829 million for CY 2019
- Applies only to commercial-industrial (C/I) and seasonal-residential-recreational (SRR) property
- 95% levied on C/I property, 5% on SRR
- 2017 Tax Bill:
 - Eliminated annual inflationary increase
 - Exempted first \$100,000 C/I value

Major Property Tax Relief Programs

(\$ millions)

CY '18/ FY '19 Approp	Program	Recipients
	Aids & Credits:	
534*	Local Government Aid (LGA)	Cities
234	County Program Aid	Counties
152	Referendum Equalization Aid	School districts
138	Operating Capital Aid	School districts
58	Local Optional Revenue Aid	School districts
38	Agricultural Market Value Credit	All taxing jurisdictions
38	Payments in Lieu of Taxes	Counties & towns

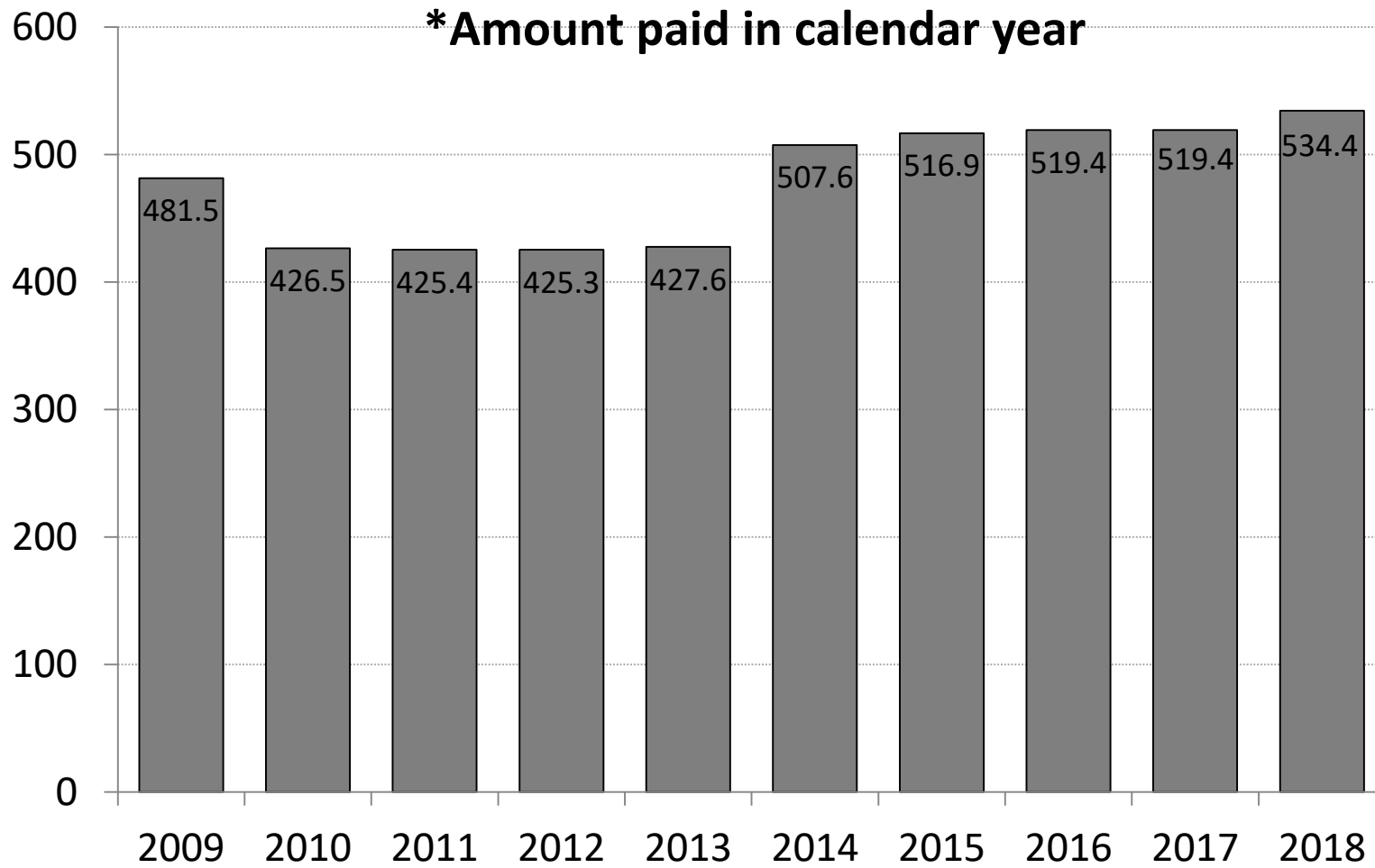
* Actual distribution of LGA for FYs 2019/2020 reflect a one-time prepayment of \$78 million on June 15, 2019.

Major Property Tax Relief Programs

(\$ millions)

CY '18/ FY '19 Approp	Program	Recipients
	Aids & Credits (cont.):	
36	School Building Bond Ag Credit	School Districts
25	Debt Service Equalization Aid	School Districts
	Direct payments to taxpayers:	
440	Homestead Credit Refund: Homeowners	Individuals
231	Prop Tax Refund: Renters	Individuals

City LGA: (in \$ millions)



*In 2009-2012, the amount of aids paid were less than the amount originally certified

City Local Government Aid (LGA)

- The LGA formula underwent a major reform in 2013 in consultation with city groups
- New formula calculates aid *increases* based on size of gap between “unmet need” and current aid
- A city only loses aid if its current aid amount is greater than its “unmet need”
- “Unmet need” equals “need” minus “ability to pay”

City LGA Need Measures

	Small cities	Medium Cities	Large Cities
City population	Pop. < 2,500	2,500 ≥ Pop.<10,000	Pop. ≥ 10,000
Factors used to determine Need	<ul style="list-style-type: none"> - Population density of less than 30 people/sq. mile <p>Maximum of \$640/capita</p>	<ul style="list-style-type: none"> - % Housing built before 1940 - Average household size - Pop. decline from peak census est. - Population density of less than 30 people/sq. mile 	<ul style="list-style-type: none"> - % Housing built before 1940 - % Housing built between 1940 and 1970 - Jobs per capita - Population density of less than 150 people/sq. mile

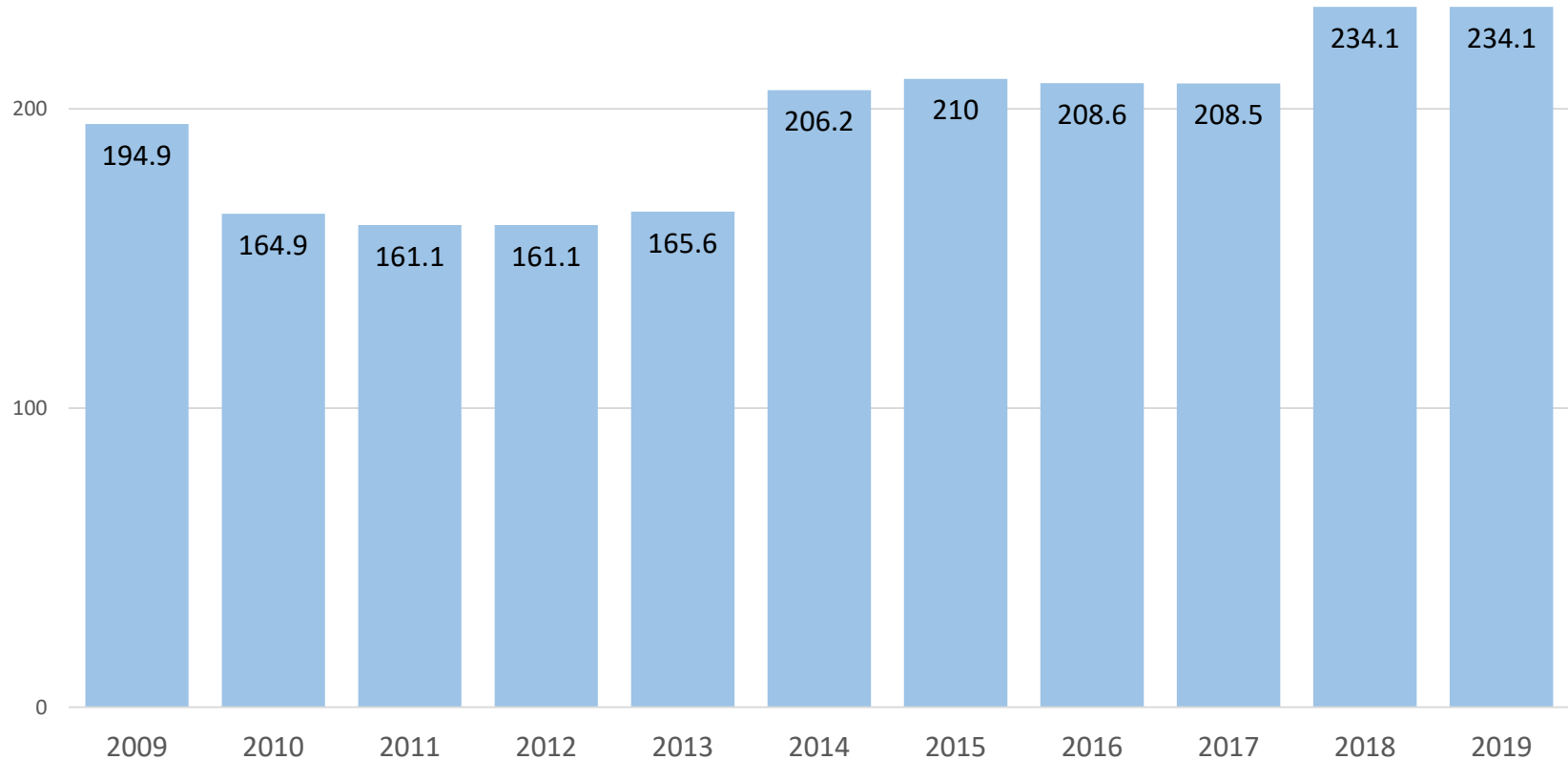
City LGA Formula

- “Ability to pay” is based on a city’s tax base and the average city tax rate
- No maximum increase for any city but the maximum loss to a city in any year is the *lesser* of:
 - \$10 times the city population, or
 - 5% of the city’s levy in the previous year

Town Local Government Aid (LGA)

- After being eliminated in 1992, a new town LGA program of was enacted in 2013 (first payment in 2014)
- Aid to a town is based on the product of:
 - % of net tax capacity in agricultural property
 - Total acres in town (up to 50,000 acres)
 - Square root of the town population
- All aid adjusted proportionately to meet the \$10 million annual appropriation

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



*In 2009-2011, the amount of aid paid (shown) was less than the amount originally certified.

Factors Determining County Program Aid

- Need aid
 - County age index
 - Part I crimes
 - No. of households receiving food stamps
- Tax-base equalization aid
 - Tax base
 - County population

Agricultural Market Value Credit

(\$38 million CY 2018)



School Building Bond Agricultural Credit

- Passed in 2017
- Agricultural land
 - Excluding the house, garage, and one acre
- 40% of a property's payment towards school building bonds
- First-year program cost \$36 million in CY 2018

Miscellaneous Aids/Credits

- Disparity Reduction Aid
- Border City Disparity Credit
- Taconite Area Aids/Credits
- Riparian Protection Aid
- Out of Home Placement Aid
- Local Pension Aid (Police and Fire)

Homestead Credit State Refund and Renter Property Tax Refund

- Provides property tax relief to homeowners and renters whose property taxes are high relative to their incomes
- If property tax exceeds a threshold percentage of income, the refund equals a percentage of the tax over the threshold, up to a maximum

Property Tax Refunds

\$634 million in refunds filed for CY 2017

	Number of Filers	Refund Amount (millions)	Average Refund
Homeowners	472,000	\$422	\$894
Renters	325,000	\$212	\$653
Total, All Filers	796,000	\$634	\$795

Source: Minnesota Department of Revenue Property Tax Research

Property Tax Refund

Program limits, refunds to be filed in 2019

- Homeowners
 - Maximum household income is \$113,150
 - Maximum refund is \$2,770
- Renters
 - Property taxes assumed to be 17% of rent paid
 - Maximum household income is \$61,320
 - Maximum refund is \$2,150

Source: Minnesota Department of Revenue Property Tax Research

Special Property Tax Refund (a.k.a. Targeting)

- Provides relief to homeowners with more than 12% tax increase
- Household income not considered
- Maximum refund is \$1,000
- Returns filed in 2017:
 - \$3.1 million total refunds
 - 36,000 returns
 - \$85 average refund

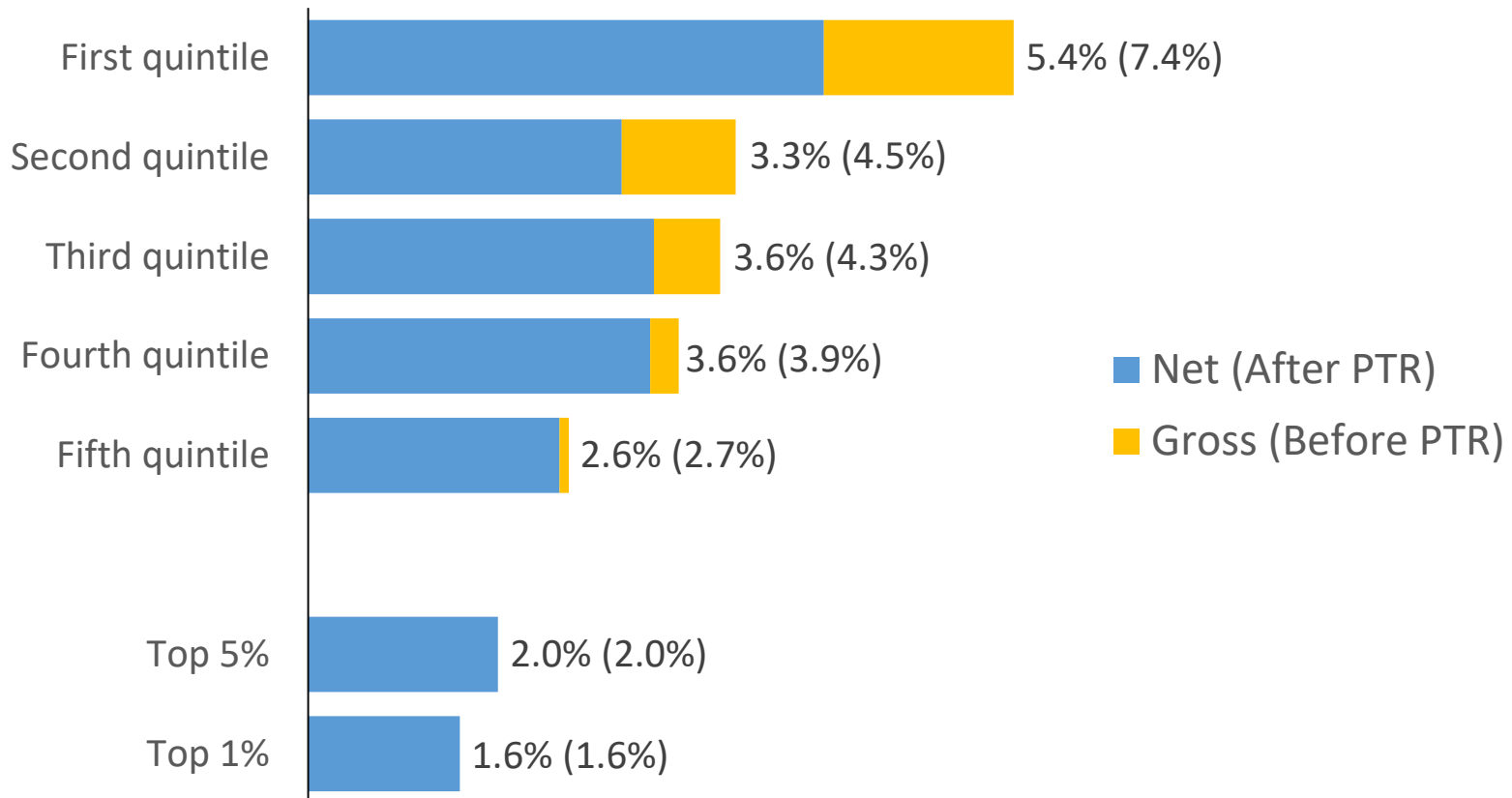
Source: Minnesota Department of Revenue Property Tax Research

Senior Citizen Property Tax Deferral Program

- Allows qualifying seniors to defer a portion of property taxes
 - Seniors pay 3% of household income
 - Balance is paid by the state to the county
- Eligibility requirements such as
 - Age, household income, years in the home requirements
- Encumbers the property with a lien
- Enrollment terminates by
 - Death
 - Selling the property
 - Owner's volition
 - Property is no longer homesteaded

Property Tax Burden

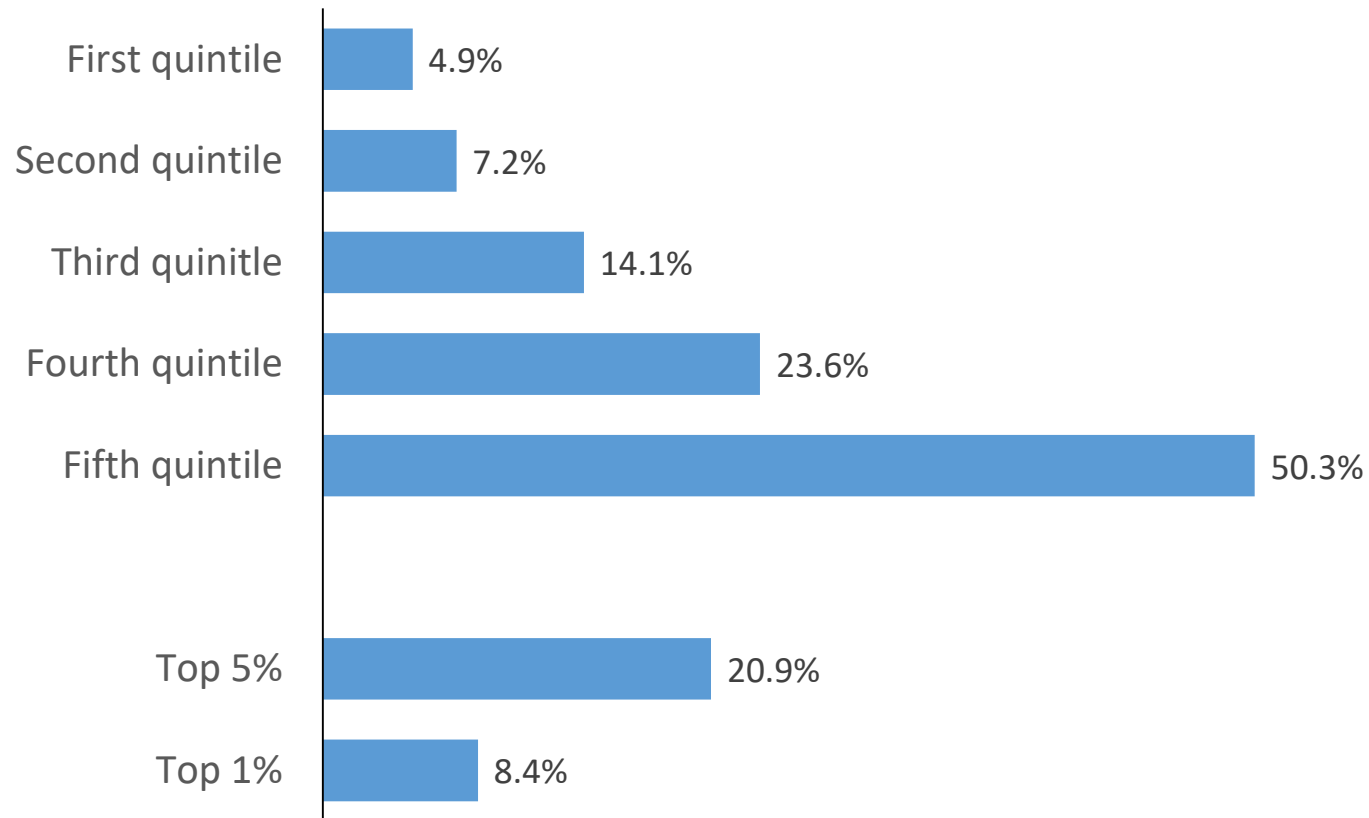
Effective Tax Rates by Population Quintiles (2014)



Source: Department of Revenue, 2017 *Tax Incidence Study*

Net Property Tax Burden*

Distribution by Population Quintiles (2014)



*After property tax refund.

Source: Department of Revenue, 2017 *Tax Incidence Study*

Local Sales Taxes

- General prohibition against local sales and income taxes enacted in 1971
- Counties can impose transportation and transit local sales taxes without voter approval – imposed in 41 counties as of 1/1/19
- Most other local sales taxes imposed under special law with local voter approval – 31 imposed as of 1/1/19

Local Sales Taxes, cont.

- For more info on general local sales taxes go to the House Research website:

<https://www.house.leg.state.mn.us/hrd/topics.aspx?topic=23>

Look under “Local Sales Taxes” for an information brief and links to detailed information for each tax currently authorized or imposed

- For information on all local sales taxes including lodging, food and beverage, and admissions go to the Department of Revenue fact sheet:

<https://www.revenue.state.mn.us/businesses/sut/factsheets/FS164.pdf>

Tax Increment Financing (TIF)

Description	Features	Limitations
<ul style="list-style-type: none">• Economic development tool• Used to induce development or redevelopment• Used to fund independent public improvements	<ul style="list-style-type: none">• Duration limitation• Captures the incremental tax generated by the increased value of the new development• Revenue is used to fund the project• Originate locally	<ul style="list-style-type: none">• Certification (“but for” test)• District type• Uses of revenue generated• Timeframe for spending the revenue

TIF Districts Around the State

TIF Districts by Type: Statewide, Greater MN, & Metro Area; 2016			
Type of District	Statewide	Greater MN	Metro Area
Redevelopment	800	436	364
Housing	520	363	157
Economic Development	299	241	58
Renewal and Renovation	26	8	18
Pre-1979	2	1	1
Soils Condition	10	2	8
Uncodified	8	0	8
Total	1,665	1,051	614
Hazardous Substance Subdistricts	26	2	24

Source: Tax Increment Financing Legislative Report, December 2017 (Office of the State Auditor)

TIF Legislation

- TIF authorities can create districts without legislative involvement
- Legislature gets involved when a district needs a special exception to the laws

Example – Timeframe for beginning activities (“five-year rule”)

Sec. 15. CITY OF COTTAGE GROVE; TIF DISTRICT 1-12; GATEWAY NORTH.

The requirement of Minnesota Statutes, section 469.1763, subdivision 3, that activities must be undertaken within a five-year period from the date of certification of a tax increment financing district, is considered to be met for Tax Increment Financing District No. 1-12 (Gateway North), administered by the Cottage Grove Economic Development Authority, if the activities are undertaken prior to January 1, 2017.

EFFECTIVE DATE. This section is effective the day after the governing body of the city of Cottage Grove and its chief clerical officer comply with Minnesota Statutes, section 645.021, subdivisions 2 and 3.

Example – Duration extension

Sec. 18. CITY OF RICHFIELD; EXTENSION OF CEDAR AVENUE TIF DISTRICT.

Notwithstanding Minnesota Statutes, section 469.176, subdivision 1b, or any other law to the contrary, the city of Richfield and the Housing and Redevelopment Authority in and for the city of Richfield may elect to extend the duration limit of the redevelopment tax increment financing district known as the Cedar Avenue Tax Increment Financing District established by Laws 2005, chapter 152, article 2, section 25, by ten years.

EFFECTIVE DATE. This section is effective upon compliance by the governing bodies of the city of Richfield, Hennepin County, and Independent School District No. 280 with the requirements of Minnesota Statutes, sections 469.1782, subdivision 2; and 645.021, subdivisions 2 and 3.

More Information on TIF

- House Research website, “TIF Primer”
- Office of State Auditor, for TIF reports, newsletters, guides, etc.

Mining Taxes

- Mining industry pays production tax in lieu of property tax
- \$94 million of production tax paid in 2018
- Tax rate is \$2.701 per taxable ton
- Tax base is three-year average production
- Tax revenues distributed to jurisdictions in taconite assistance area based on formula

Fiscal Disparities

- Two programs
 - Seven county metropolitan area
 - Iron Range
- Partial sharing of commercial/industrial tax base
- Complex