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Chair David Lislegard
House Property Tax Division
451 State Office Building
St. Paul, MN 55155

RE: House File 1504 is needed, but should go further

Chair Lislegard and Members of the House Property Tax Division,

As a result of rapidly increasing home values in our area, the Wright County Board of Commissioners has taken an increased interest in the state's Homestead Market Value Exclusion. We sincerely thank the authors of House File 1504 for bringing it forward. It is clear that the time has come to increase the thresholds in this program, but we also suggest that this bill does not go far enough to make a significant impact on most homeowners.

Accompanying this letter is a research document produced by our county staff, evaluating where the thresholds and exclusion amounts in the Homestead Exclusion program should be set in order to maximize their impact on homeowners that have felt the burden of increasing home values, leading to increased property tax burden.

Many of the fixed values in the homestead exclusion program were put into place more than a decade ago, in 2011. Since then, average home values have increased more than 38 percent while the formula for the homestead market value exclusion has remained the same.

The County's research suggests that in order for the program to have the same impact today it had in 2011, the legislature should offer a maximum exclusion of \$42,080 on a home valued at \$105,200, phasing out at a maximum home value of \$572,700.

We recognize that these thresholds are much higher than those contained in House File 1504, under which the exclusion would begin to phase out at home values over \$80,300 and fully phase out for homes valued at \$437,100 or more. That said, we fear that the adjustments made in House File 1504 do not go far enough to keep pace with the burden our property taxpayers are feeling, and the legislature will be back as soon as next session considering additional adjustments.

Again, we support your efforts to adjust this program and appreciate this bill coming forward, but hope you will consider further adjustments to this program yet this session.

Thank you for your consideration.

Sincerely,

Darek Vetsch
Wright County Board Chair

PROPOSAL

This Proposal addresses the diminishing effectiveness of the market value exclusion on properties qualifying for the homestead exclusion in the State of Minnesota as residential property values increase. The current legislatively set calculation for this exclusion is static and does not take into consideration changes over time in real estate trends, economics, or other fluid market indicators. The question is whether the market value exclusion is doing what legislation intended it to do?

Property owners' perception of the current legislation is that something is being taken away from them as they see their market values increase and their homestead market value exclusion decrease and, in many situations, disappear completely. The effect on the property owner is that their taxable burden is increasing.

This proposal offers a solution to make the formula fluid with the average statewide residential market values and based on data that is already being collected annually by the Minnesota Department of Revenue.

Issues

The intent of the homestead market value exclusion in 2011 was to provide homestead property the same amount of tax relief as was being given by State paid credits prior to 2011.

Average home values have increased over 38% statewide from 2011 to 2022, while the formula for the homestead market value exclusion has remained the same, making the current formula for the market value exclusion less relevant in 2022 versus 2011.

The formula does not address changes in homestead market values allowing levied property taxes to shift from other property classifications onto residential homestead property.

Proposed Solution

To have a market value exclusion based on an average statewide residential value which is provided annually by the Minnesota Department of Revenue. This data can be found on their website at: https://www.mndor.state.mn.us/ReportServer/Pages/ReportViewer.aspx?/Property%20Tax/PT_History_Statewide

For taxes payable in 2023, this proposal would offer a maximum exclusion of \$42,080 on a home valued at \$105,200 and phase out completely when a home value exceeds \$572,700

The new formula would be relative to the old formula but would annually account for any increases or decreases in the statewide average Residential Homestead Estimated Market Value. The calculation is represented in the Table below:

1. Divide \$76,000 by Average residential home price for 2011 located on <https://www.revenue.state.mn.us/property-tax-history-data>:

$$\$76,000 \quad \text{divided by} \quad \$206,359 \quad \text{equals} \quad 0.368290213$$

2. Multiply result from above times the 2022 Average residential home EMV for 2022 to get new value where maximum market value exclusion is reached:

$$0.368290213 \quad \text{times} \quad \$285,629 \quad \text{equals} \quad \$105,194.37$$

3. Historically the Market value exclusion was based on 40% of the Maximum Exclusion value. Multiply result from above to get new maximum exclusion:

$$0.40 \quad \text{times} \quad \$105,200 \quad \text{equals} \quad \$42,080$$

This table shows what the market value exclusions would have looked like had they been recalculated each year to match the average residential estimated market values:

Year	Average EMV	Max Exclusion Value	Max Exclusion	Exclusion Phase Out
2011	206,359	76,000	30,400	413,800
2012	200,306	73,771	29,508	401,600
2013	189,648	69,845	27,938	380,300
2014	190,519	70,166	28,066	382,000
2015	204,878	75,455	30,182	410,800
2016	212,749	78,353	31,341	426,600
2017	220,372	81,161	32,464	442,000
2018	232,162	85,503	34,201	465,500
2019	246,308	90,713	36,285	493,900
2020	261,783	96,412	38,565	524,900
2021	272,103	100,213	40,085	545,600
2022	285,629	105,194	42,078	572,700