Minnesota’s 2001 Property Tax Reform

Presentation to House Property Tax Relief and Local Sales Tax Division

January 26, 2007

Lack of accountability was primary rationale for reform

- General education levy mandated by state but levied by districts

- Complex property classification structure frustrated taxpayer understanding, and resulted in similar neighboring properties having different tax burdens

- Certain municipalities' budgets funded primarily through state aid rather than local taxpayers

Lack of accountability was primary rationale for reform

- High class rates on non-resident property classes allowed some communities to export large portions of their levies with others dependent on residents only

- Certain school referendum levies borne primarily by nonresident or non-benefiting properties

- Municipalities allowed to capture school district and county levies through tax increment financing

Goals of the Reform

Realign the state-local fiscal relationship:

- Increase state's role in funding state priorities (education, courts, transit)

- Decrease state's role in financing municipal services to give residents more direct responsibility for municipal service decisions

Goals of the Reform

Increase local accountability:

• Ensure that significant share of local fiscal responsibility is borne by residents, since they wield the political power to affect local spending decisions

Goals of the Reform

Restructure state tax relief programs:

- Begin to shift state tax relief dollars to programs that consider a taxpayer’s ability-to-pay.

Goals of the Reform

Make proposal politically palatable by:

•Providing a widespread tax reduction so that virtually all properties receive a benefit in the year of implementation.

•Minimize changes in existing tax burdens.

Elements of the Reform

- General education takeover – replace $880 million statewide tax ($1.3 billion gross levy) with state aid

- Class rate compression – reduce range of non-ag class rates from 3.4:1 to 2:1. Establish uniform class rates for all single-unit residential-type properties.

- Market value credits – new programs created to compensate lower-valued home and agricultural properties for loss of preferential class rate treatment

Elements of the Reform

- New direct state levy on commercial-industrial and seasonal recreational property to offset reductions in class rates and general education takeover

- Exempt agricultural and seasonal recreational properties from school operating referendums (with offsetting state aid for existing referenda)

- Restructure state aids by eliminating (most) HACA and increasing LGA by $140 million.

Elements of the Reform

- Replace $80 million metro transit levy and $7 million Greater Minnesota transit levies with state revenues funded through MVST dedication

- Make homeowner property tax refund program significantly more generous.

- Complete state takeover of district court funding

Elements of the Reform

- Partial replacement of school district operating referenda with state aid, providing property tax relief to most districts and additional school revenues to the others.

- Increase state equalization for school debt levies.