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1997 Changes to Minnesota's Property Tax System

This information brief overviews the changes made by the 1997 Legislature to the property tax system. The changes fit into three categories: property tax reform, property tax accountability, and property tax relief. Also included are tables comparing estimated property tax burdens for payable 1997 to payable 1998, both before and after the 1997 law changes.

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Introduction

During the 1997 session, the Minnesota Legislature made the most sweeping changes to the state's property tax system since the system was overhauled in 1988 and 1989. The changes were driven by a long-simmering notion that the property tax system needed reform and by the unique opportunity presented by a $2.3 billion state budget surplus.

The changes enacted in Laws 1997, chapter 231 fit into three categories: property tax reform, property tax accountability, and property tax relief.

Property tax reform

Property tax reform was defined as class rate compression.

Property tax reform proposals have been on the legislative "table" almost every year since the last major changes were made in 1988 and 1989. The state debate over property tax reform has been characterized by general consensus over the need for "reform" but with little or no consensus about what "reform" means. In 1997, property tax reform focused on the compression of class rates, that is, a reduction in the range of class rates applying to different classes of property. The class rate compression achieved in 1997 is described in detail in section B.

Property tax reform also meant property tax simplification.

Another aspect of property tax reform, property tax simplification, also played a role in the 1997 reform. The realignment of the existing low-income housing classifications into a new single class, discussed in section F, simplified a complex part of the system. The change in the definition of rent constituting property taxes for purposes of the property tax refund (renter's credit) program described in section G also achieved some simplification, albeit that was not the main reason for the change.

Property tax accountability

Responsibility for property taxes was ambiguous under the existing system.

The property tax system has long been criticized for its ambiguity over which level of government is responsible for the level of property taxes. The entwined roles of state and local government, the overlap of local taxing jurisdictions, and the interrelationship between valuation increases and tax increases, create a situation that is ripe for finger-pointing and frustrating for taxpayers trying to become involved in the property tax decision-making process.

Legislative changes separate local spending decisions from other effects.

With these frustrations in mind, the legislature altered the system to present taxpayers with a clearer picture of how their taxes were affected by local government spending decisions, state policy changes, valuation changes, and other miscellaneous factors. Specifically, the legislature provided for separate identification of the portions of school district levies that were attributable to legislative decisions, local school board decisions, and voter decisions (referenda). The Truth in Taxation (TnT) statement was also modified to separate the effects of local jurisdiction tax and budget decisions from other factors that cause a taxpayer's tax to change, such as valuation changes and state aid changes. These changes in the TnT statement and the property tax statement are described in section D.

Property tax relief

A one-time rebate and structural changes provided property tax relief.

Tax relief was the third major goal, partly as a means of returning some of the large state budget surplus to the taxpayers, and partly to assuage the ill effects of property tax reform. Generally, the relief took two forms: first, a one-time rebate of a significant portion (20 percent) of each taxpayer's residential property tax paid in 1997, and second, structural changes designed to reduce taxes for those types of properties that did not benefit from class rate reform. The tax rebate is described in section A, while the structural changes (class rate changes and education homestead credit) are described in sections B and C.

A. Property Tax Rebate

The legislature enacted a one-time 20 percent property tax rebate.

The 1997 session featured significant discussion and disagreement about how the projected state budget surplus should be spent. Ultimately, some of the surplus was devoted to long-term property tax reform, but legislators also decided that some of the surplus should be returned directly to the taxpayers as a rebate. The legislature accomplished this with a one-time refundable income tax credit equal to 20 percent of each taxpayer's 1997 residential property taxes, to be paid in FY 1998-1999. The Department of Revenue estimates the program will cost $500 million.

The rebate is available to both homeowners and renters for taxes paid in 1997 on their principal residences. The renters' rebate equals 20 percent of "rent constituting property taxes." Under other changes enacted by the 1997 Legislature, 18 percent of rent is deemed "rent constituting property taxes;" so the actual rebate is 3.6 percent of rent, which is 20 percent of 18 percent of rent paid.

No income limitation; no maximum credit amount.

There is no maximum amount of rebate and, unlike the regular property tax refund program, there are no income limitations. Since the rebate is a refundable credit, even those taxpayers who have no income tax liability may receive the rebate. However, taxpayers must file an income tax return in order to receive the rebate.

Since the amount of rebate is based on property taxes paid, the rebate will vary depending upon the home's market value and its taxes. Typical rebate amounts will be:

- $150 for an owner of a $62,000 home
- $260 for an owner of a $93,000 home
- $400 for an owner of a $124,000 home

The renter's rebate also varies widely, but a typical renter rebate will be $175, based on a rent of $405 per month.

B. Class Rate Compression

Most class rates were reduced.

The classification system was substantially modified during the 1997 session. The most important modifications were the class rate reductions. Almost all class rates were reduced except for the rate pertaining to the first tier of residential homestead property, which was kept constant at one percent. (See table on page 6.) In general, each class rate was reduced by roughly the same proportion. From the standpoint of property tax reform, the most closely watched class rate is the rate on the upper-tier commercial-industrial property. That rate was reduced from 4.6 percent to 4 percent, a 13 percent reduction. Most of the other reductions were of a similar magnitude.

The education homestead credit was established to offset the shifts onto homes.

The class rate reductions were accomplished with minimal disruption to the existing distribution of tax burdens through a two-part mechanism. The first tier of residential homestead property can be thought of as the "base class" for this reform mechanism. First, the class rates of all classes of property (except the base class) were reduced by approximately the same proportion so that taxes would shift onto the base class rather than between classes. Then, the education homestead credit was created to offset the shift on the base class and give that class an overall net tax reduction.

The education homestead credit is less costly than HACA.

The chief advantage of this mechanism over the homestead and agricultural credit aid (HACA) mechanism used for class rate changes in previous years, is that more rate compression could be achieved at a lower cost to the state. The HACA mechanism is overly generous, since it replaced all of the tax base lost due to a class rate reduction with state aid. While the HACA mechanism guarantees no shifting of burdens between classes, it is costly because it pays for all shifting, including shifting that occurs within the class of property getting relief.

Some homestead tax increases are possible.

Data analysis showed that it was more cost-effective to direct the shifting to one class and then devise a credit program to reduce taxes on the base class. The credit program established, the education homestead credit, is described more fully in the next section. The disadvantage of the education homestead credit mechanism is that it is not as precise as the HACA mechanism. There is still some shifting of burdens between classes since each taxing jurisdiction contains a different mix of properties. There is no "magic" level of education homestead credit that guarantees that no homeowner will end up with a net tax increase. The parameters of the credit program are determined through a trial-and-error process designed only to insure that taxes won't increase for most taxpayers.

Other significant changes were made.

A number of other significant changes were made to the classification system besides class rate compression:

- **Extension of commercial-industrial (C/I) first tier.** The valuation eligible to receive the preferential classification rate was increased from $100,000 to $150,000.

- **Preferential C/I treatment extended to multiple parcels per county**. The limitation specifying that an owner of multiple C/I parcels could receive the preferential class rate on only one parcel of property per county was eliminated, meaning that all C/I parcels will receive the lower class rate on the first $150,000 of value, except for contiguous parcels owned by the same person.

- **Treatment of single-unit rental properties.** A new class was created by carving out single-unit rental properties from the residential nonhomestead class, with a reduced class rate.

- **Extension of lower-tier bracket.** The portion of a homestead's market value qualifying for the low class rate (one percent) was increased from $72,000 to $75,000. The same bracket extension was also applied to seasonal residential recreational property and the new single-unit residential rental property.

- **Substantial class rate modification for low-income housing.** These changes are described in section F.

Class Rate Schedule for 1998

Property Type	Old Law Payable 1998	New Law Payable 1998
Residential Homestead:		
<$72,000	1.00%	1.00%
$72,000 - $75,000	2.00	1.00
>$75,000	2.00	1.85
Residential Non-homestead:		
Single unit:		
<$75,000	2.30	1.90
>$75,000	2.30	2.10
2-3 unit and undeveloped land	2.30	2.10
Market-rate Apartments:		
Regular	3.40	2.90
Small cities	2.30	2.30
Low-income Apartments:		
Title II	2.30	2.00*
Farmer's Home Administration	2.00	1.90*
Commercial/Industrial:		
<$100,000	3.00	2.70
$100,000 - $150,000	4.60	2.70
>$150,000	4.60	4.00
Seasonal Recreational Commercial:		
Homestead resorts (1c)	1.00	1.00
Seasonal resorts (4c)	2.30	2.10
Seasonal Recreational Residential:		
<$72,000	1.50	1.40
$72,000 - $75,000	2.50	1.40
>$75,000	2.50	2.50
Public Utility:		
Personal property	4.60	4.00
Attached machinery	4.60	4.00
Land & buildings	4.60	4.00
Disabled Homestead (<$32,000)	0.45	0.45
Agricultural Land & Buildings:		
Homestead:		
<$115,000	0.45	0.40
>$115,000:		
<320 acres	1.00	0.90
>320 acres	1.50	1.40
Non-homestead	1.50	1.40

* These classes are replaced by a new low-income housing class 4d (with new qualifying requirements) effective for taxes payable in 1999, with a class rate of 1.0%. (See section F.)

C. Education Homestead Credit

The education homestead credit achieved two purposes.

The education homestead credit was created by the 1997 Legislature for two reasons. First, the credit was necessary to achieve the class rate compression plan outlined in section B without having homeowners' property taxes substantially increase. Second, many thought it would enhance accountability since the state's cost of the credit program will increase whenever the state increases the general education levy.

The credit is 32 percent of a homestead's general education tax, not to exceed $225.

The credit, which applies to each homestead property, equals 32 percent of the property's general education tax, subject to a maximum credit of $225 per homestead. For agricultural homesteads, the credit applies only to the tax on the house, garage, and one acre of land. If the general education tax has been reduced through disparity reduction aid or taconite aid, the credit is determined using a hypothetical general education tax computed as if there were no offsetting aid.

Homes of similar value receive a similar credit throughout the state.

By using the state general education tax as the basis for the education homestead credit, homes of similar value will receive similar credit amounts, regardless of location throughout the state. The credit reaches its maximum level of $225 at approximately $125,000 of market value. The credit is estimated to cost $160 million for taxes payable in 1998.

Example of an Education Homestead Credit Computation

District characteristics:		Computation
(1) District adjusted net tax capacity:	$1,000,000	
(2) District general education levy:	$369,000	(1) X 36.90%
(3) District net tax capacity:	$900,000	
(4) District general education tax rate:	41.00%	(2) / (3)
Homestead characteristics:		
(5) Home value:	$100,000	
(6) Home net tax capacity:	$1,213	($75,000 X 1%) + ($25,000 X 1.85%)
(7) Home general education tax:	$497	(4) X (6)
(8) Preliminary education homestead credit:	$159	(7) X 32%
(9) Final education homestead credit:	$159	Lesser of (8) or $225

D. Truth in Taxation

TnT was significantly changed to improve accountability.

Significant changes were made to the Truth in Taxation (TnT) notice and the property tax statement to more clearly indicate which officials, local or state, are making property tax decisions.

Under current law, the TnT notice compares the property owner's current and proposed property taxes. No distinction is made as to the cause of the tax increases or decreases.

The new TnT notice identifies contributing factors.

The new notice, which takes effect for taxes payable in 1998, is designed to identify the factors contributing to the changes in the owner's property taxes, with special attention focused on each local government's spending. The proposed property tax is compared to the tax which *would be levied* on the property if spending did not change. This allows the change between the proposed tax and the present tax to be broken down into two components: the change due to spending; and the change due to other factors, including the change in the property's valuation, the local government's tax base growth, state aid changes, and classification system changes. An excerpt of the notice containing the tax comparisons is shown below.

Payable 1998 Proposed Property Tax Notice for a Hypothetical Property

	(1) 1997 Property Tax	(2) Increase/Decrease Due to Spending	(3) Increase/Decrease Due to Other Factors	(4) Proposed 1998 Property Tax
County of Spruce:	$ 317.24	$ 10.30	$ 15.08	$ 342.62
City of Spruceville:	188.11	5.64	6.25	200.00
School District 999:				
State-determined levy:	248.96	0.00	37.86	286.82
Voter-approved levies:	99.78	5.98	4.00	109.76
Other local levies:	119.15	4.71	7.20	131.06
Special Taxing Districts:	29.71	0.50	0.69	30.90
Tax Increment Tax:	58.04	0.00	5.74	63.78
Fiscal Disparity Tax:	0.00	0.00	0.00	0.00
Total	**$ 1,060.99**	**$ 27.13**	**$ 76.82**	**$ 1,164.94**
Percentage change (proposed 1998 total tax over 1997 total tax)				**9.8%**

School levy portions are identified separately.

The school district levy is divided into three categories for purposes of the TnT notice and on the actual property tax statement: a) the state-determined levy, which is determined by the legislature; b) voter-approved levies; and c) other school levies, which is the portion of the tax that the local school board is most directly responsible for.

Newspaper advertisement becomes more meaningful.

The newspaper advertisement was changed for cities over 2,500 in population and for counties. The old law required the advertisement only to inform taxpayers of the time and place of the public hearing. The new advertisement will provide, in addition, the jurisdiction's budget and property tax levy for the current year and its estimated/proposed budget and property tax levy for the following year. This gives taxpayers an overall picture of the local government's financing, since the individual notice and tax statement relate only to the changes occurring on a specific parcel.

Joint TnT meetings are allowed.

The new law also allows, but does not require, a city over 2,500 in population to hold a joint TnT meeting with its county, school district, and metropolitan special districts (if the city is located in the metro area). This is intended to allow taxpayers the opportunity to ask questions of their local officials in the presence of all the districts affecting their property's proposed tax. Currently, taxpayers may be frustrated by responses from local officials that one of the other taxing jurisdictions is the source of the problem. This joint hearing process is modeled after the joint hearing process which has been in effect between Ramsey County, the city of St. Paul, and the St. Paul school district since taxes payable in 1994.

E. Levy Limits

Levy limits reenacted for two years.

The legislature enacted levy limits to help ensure that the state tax relief would reduce property taxes and not increase local government spending. All counties and cities with populations of more than 2,500 are subject to limits. They are effective only for two years -- for taxes levied in 1997 and 1998, payable in 1998 and 1999. Special assessments are excluded from the limits. These limits are similar to the levy limits that were in place for many years but were repealed beginning with taxes payable in 1993.

Levy plus aid equals levy limit base.

Levy limit base. The levy limit base is the total of a local government's property tax levy plus its state aid. For payable 1998, the levy limit base is the local government's payable 1997 levy, excluding debt levies, plus its 1997 state local aid amounts, including: homestead and agricultural credit aid (HACA), local government aid (LGA), local performance aid, disparity reduction aid, and taconite aid. The levy limit base is adjusted by increasing it for:

- the percentage increase in the implicit price deflator for state and local government purchases for the most recent 12-month period (for payable 1998, it is 2.2 percent), and
- the percentage increase in the number of households for the most recent 12-month period.

Adjusted levy limit base minus state aid equals levy limit.

Levy limit. The levy limit is the adjusted levy limit base plus any previously approved referendums, less the current year amount of state aids (i.e., the aids listed above included in the levy limit base). If a jurisdiction wishes to levy over the limit, the voters must approve the increase.

Special levies are not included in determining the levy limit.

Special levies. The legislature provided for exceptions to the levy limit called special levies. These include levies for debt, floods and other natural disasters, state and federal matching grant requirements, and the voter-approved levies mentioned above.

Effectiveness of levy limits is disputed.

There is considerable disagreement and uncertainty as to the effectiveness of levy limits and the degree to which they actually hold down increases in property taxes. Some feel that levy limits encourage local governments to levy "up to their limit" whether necessary or not, since they can defend the increase as reasonable under the parameters set by the state, or because they fear that if they don't levy up to their maximum limit, their future levy authority will be reduced.

Others say that levy limits help local officials say "no" to certain discretionary costs, and also prevent costs, such as human service costs passed down from the federal or state government, from being passed onto the property taxpayers. Supporters of levy limits feel the limits, along with the truth in taxation process, help keep a lid on the growth of property taxes.

F. Low-income Housing Reclassification Restructuring

Restructuring takes effect for taxes payable in 1999.

The property taxation of subsidized, low-income rental housing property was restructured beginning for taxes payable in 1999. For taxes payable in 1998, these properties are contained in classes 4c and 4d with class rates of 2 percent and 1.9 percent, respectively.

Current law governing what property qualifies for these reduced rates changes frequently, making it difficult to administer. The properties are subject to varying income limits. Some properties receive the reduced rate only on units occupied by low-income individuals, while others receive it on the entire building. Some projects are subject to rent restrictions, while others are not.

A single class is created for this property type.

Effective for property taxes payable in 1999, a single class is created for low-income housing. To qualify, the property must meet all three requirements summarized below. These requirements are applied on a unit-by-unit basis. In exchange for meeting these requirements, the class rate on the qualifying property is only one percent, a reduction of at least 50 percent from current low-income housing rates and significantly below the new 2.9 percent class rate for regular apartments.

Simplification and uniformity were achieved.

The changes simplify a very complex low-income housing classification system and also create a high degree of uniformity by treating all low-income housing in the same manner. The assessors will no longer be burdened with the responsibility of trying to determine whether or not a unit, an entire building, or certain units within a building qualify for a preferred classification.

Certain requirements must be met.

In order for property to qualify, the Minnesota Housing Finance Agency (MHFA) must certify to the assessor that all of the following requirements are met:

- **Income limits.** The units are occupied by individuals meeting the income guidelines. The income limit is 60 percent of the area median gross income, adjusted for family size. For a single person, the income limit ranges from $16,140 to $24,060. For a family of four, the limit ranges from $23,040 to $34,380. The low end of the range applies in 60 counties in greater Minnesota. The upper end of the range applies in the seven Twin Cities metropolitan area counties and in four neighboring counties.

- **Rent restrictions.** The building owner/manager has entered into a rent restriction agreement with MHFA for a five-year period. The rent restrictions follow the rules that apply to federal low-income housing credit properties. In addition, an owner/manager in the Twin Cities metropolitan area must make 20 percent of all units qualifying for this preferred class available to families with Section 8 certificates; and in the 80 counties outside the metropolitan area, 10 percent of all qualifying units must be made available.

- **Minimum housing standards.** The unit has met minimum housing standards as certified by a qualified housing inspector.

Penalties are imposed for failure to comply.

Failure to comply with the income or housing requirements, or charging a higher rent than permitted under the rules, results in a penalty equal to the additional tax that would be imposed if the property were classified as a regular apartment.

Transition class rates established.

Special transition class rates apply for taxes payable in 1999 and 2000 for properties which currently qualify for the preferred class rates, but do not qualify for the new class 4d classification.

G. Other Changes

1. Property Tax Refund Base Change for Renters

The base is changed from actual property taxes to 18 percent of gross rent.

Beginning for refunds payable in 1998, the law changes the definition of taxes paid under the renter's property tax refund (rent credit) from actual property taxes paid to 18 percent of gross rent.

Under current law, the landlord apportions the total property tax on the building to each unit based upon the rent for the unit. This definition of "rent constituting property taxes" (where actual property taxes are used) has been in effect since 1984.

The 1997 law replaces this method with a uniform assumption that property taxes constitute 18 percent of gross rent. This method of using a flat percentage of gross rent was used from 1975 to 1983, with the percentage varying from 20 percent to 23 percent of gross rent.

The change was made to prevent renters from having reduced refunds.

The change made in 1997 to revert to a flat percentage of gross rent was done in synchronization with two other changes -- the low-income housing reclassification and the class rate reductions in regular market-rate apartment property (see sections F and B). Due to those changes, if the "rent constituting property tax" factor used in determining property tax refunds (PTRs) for renters continued to be based on the actual property taxes paid, PTRs for renters would have decreased. In an attempt to ensure renters did not receive reduced PTRs, the legislature opted to return to a flat percentage of rent. The uniform percentage was set at 18 percent.

Under the system based on actual property taxes, there was considerable variation in the percentage of rent constituting property taxes. Hence, the change to a uniform percentage will impact some renters. If a renter is in a unit that is paying higher than average property taxes, the change will have a negative impact; whereas if the unit's property taxes are low in relation to rent paid, the renter will benefit from this change.

2. Property Tax Reform Account

Tax reform account established to allow for future class rate reductions.

In addition to the class rate compression that was enacted for 1998 (described in section B), the 1997 law anticipated future class rate compression by creating "target" class rates for certain property types, without specifying a timetable for reaching the targets. To increase the likelihood that these targets would actually be reached, the law also created a property tax reform account within the general fund. This account is funded with 60 percent of any future state budget surplus after certain other reductions are made. The idea is that setting aside state revenues for property tax reform makes it more likely that reform will happen. It is generally felt that an infusion of state revenue is necessary to accomplish property tax reform. Without new state revenues, reform might require raising taxes on some properties, a politically unpalatable prospect.

Each biennium the governor is to recommend a class rate structure.

The legislation provides for the creation and funding of the property tax reform account. It calls for the governor to recommend a class rate structure each biennium. If the recommended structure is different from the structure in effect for the current year, the governor may recommend other system changes to enable the transition to the new structure, which may involve use of the proceeds in the property tax reform account. The governor may recommend increases in the education homestead credit, increasing the property tax refund, or increasing state education aids. The target class rates are shown in the table below.

Target Class Rates for Future Property Tax Reform

Property Type	1997 Class Rate	1998 Class Rate	Target Class Rate
Single-unit Residential Nonhomestead:			
<$75,000 market value	2.3%	1.9%	1.25%
>$75,000 market value	2.3	2.1	1.85
Market-rate Apartments	3.4	2.9	2.5
Commercial-Industrial:			
>$150,000 market value	4.6	4.0	3.5

3. Education Aid/Levy Changes

Additional tax relief provided through increased education aids.

The 1997 law provided additional property tax relief by increasing two categories of state education aids, causing commensurate reductions in school district levies.

- $85 million per year in additional general education aid was appropriated, providing relief to all types of properties in all districts across the state.

- $17 million per year in additional alternative facilities aid was provided, which was enough to fully fund the cost of alternative facilities levies for those districts using bonded debt to finance alternative facilities at the payable 1997 level. Alternative facilities levies are levied to pay the costs of miscellaneous capital improvements in a small number of districts around the state, such as health and safety improvements and deferred maintenance of facilities.

4. Seasonal Residential Recreational Credit

A seasonal residential recreational credit was enacted.

A temporary credit was enacted to help taxpayers with high property tax increases on seasonal residential recreational (SRR) property (primarily cabins). Growth in the market value of SRR property has been a source of legislative concern for a number of years. Legislators responded to those concerns in past years by decreasing the class rate on SRR property. However, in order to prevent the tax from shifting to the other property types in taxing jurisdictions where heavy concentrations of this property were located, legislators provided state reimbursement through HACA, which is an ongoing cost to the state.

The tax increase must be at least 10 percent to qualify for the credit.

The 1997 Legislature dealt with the concern by providing a targeted credit to owners of SRR property. The credit equals 75 percent of the first $300 of the tax increase (over the previous year) over 10 percent. Although this is a state-paid credit, it is less costly than a state-paid class rate reduction since it is targeted only to the property with large increases. The maximum credit is $225 (75 percent of $300), and it may only be claimed as a non-refundable credit against one's Minnesota income tax.

The credit is in effect for two years.

The credit is effective for only two years -- for property taxes payable in 1998 and 1999, for income tax credits for tax year 1998 and 1999, filed in 1999 and 2000. The Department of Revenue estimates its cost to be $1.1 million each year.

5. Senior Citizen's Property Tax Deferral

Limited to senior citizens with total household income of less than $30,000.

The 1997 Legislature established a property tax deferral program for senior citizens whose household incomes are less than $30,000 in response to concerns expressed by senior citizens that property tax increases have outpaced their growth in income. Due to the administrative steps necessary for implementing the program, it is not effective until 1999, for taxes payable in 1999. The Department of Revenue will administer the program.

The program is a tax deferral on taxes in excess of 5 percent of income.

The property must be owned and occupied by a person(s) 65 years of age or older, and must have been owned by the taxpayer and used as the homestead for at least 15 years prior to filing the initial application. The qualifying applicant may defer homestead property taxes that exceed 5 percent of household income. The maximum deferral is 75 percent of the property's market value less any mortgage and liens on the home.

State places lien on home.

The state pays the deferred tax to the local governments, and the payment is considered a loan from the state. Interest is charged on the loan at an annually adjusted rate tied to the prime rate, but not to exceed 5 percent. The state then holds a lien on the property.

Deferral terminates under certain conditions.

The deferral is terminated when the property is sold, the homeowner dies, it no longer qualifies as a homestead, or the homeowner opts to discontinue the deferral. Upon termination, the amount of the deferred taxes and interest must be paid to the state within 90 days of the termination. The program is similar to a reverse mortgage, except that the state holds the lien instead of a lending institution.

Various states have addressed this issue in a variety of ways.

Over the past several years, many states have addressed the difficulty that some senior citizens have in paying property taxes in a variety of ways. They range from deferrals such as the Minnesota program -- with and without payment of interest on the deferred tax -- to limited exemptions, to property tax "freezes," where the senior citizen's home taxes are frozen at a given point in time, a certain percent of income, or some combination of factors.

Program enables taxpayers to stay in home.

The Minnesota program enables taxpayers to stay in their homes, regardless of how much the value and related taxes increase, without subsidizing those taxpayers (except for the lower interest rate compared to what might be available if they had to borrow the money from a bank). It is difficult to estimate how many senior citizens will actually apply for the program, because senior citizens typically are reluctant to borrow money and place liens on their property. Rates of participation may be low.

Appendix: Property Tax Simulation Results Comparing Estimated Property Taxes for Taxes Payable in 1997 and 1998 under the Old and New Laws

Tables 1 and 2 present results for each type of property, aggregated to total amounts for greater Minnesota and the seven county Twin Cities metropolitan area. Results shown are representative only -- effects on individual parcels of property will vary based upon specific factors of the geographic area where the property is located and the valuation and change of valuation of the property itself.

Percentage Change in Property Tax by Class of Property

Table 1
Greater Minnesota

	1998 Old Law Compared to 1997	1998 New Law Compared to 1998 Old Law	Overall Change: 1998 New Law Compared to 1997
Residential Homestead (existing)	7.7%	-5.4%	1.9%
Residential Non-Homestead	5.3	-8.2	-3.3
Apartment	4.1	-6.4	-2.6
Low-income Apartment	4.2	-4.1	-0.1
Commercial/Industrial	3.5	-6.9	-3.6
Ag Homestead	6.5	-3.6	2.7
Ag Non-Homestead	5.6	-0.4	5.1
Seasonal Recreational Residential	-2.4	0.7	-1.7
Total All Classes	**5.9%**	**-5.0%**	**0.5%**

Table 2
Twin Cities Metropolitan Area

	1998 Old Law Compared to 1997	1998 New Law Compared to 1998 Old Law	Overall Change: 1998 New Law Compared to 1997
Residential Homestead (existing)	4.7%	-6.0%	-1.6%
Residential Non-Homestead	2.2	-7.1	-5.1
Apartment	1.1	-8.4	-7.4
Low-income Apartment	2.1	-6.8	-4.9
Commercial/Industrial	4.0	-5.4	-1.6
Ag Homestead	3.2	-5.0	-1.2
Ag Non-Homestead	2.7	0.2	2.9
Total All Classes	**5.3%**	**-5.9%**	**-0.9%**

Tables 3 and 4 show tax impacts on hypothetical properties based on average tax rates for greater Minnesota and the Twin Cities metro area derived from property tax simulations. Market values for the hypothetical properties are shown in table 5.

Property Tax Changes for Hypothetical Properties

Table 3
Greater Minnesota

	Market Value	Base Tax (1997)	1998 Tax Change Under Old Law		1998 Tax Change Under New Law	
			Amount	Percentage	Amount	Percentage
Res Homestead (moderate value)	$ 75,000	$ 871	$ 81	9.3%	$ 12	1.4%
Res Homestead (high value)	125,000	2,018	131	6.5	-66	-3.3
Res Non-Homestead (1 unit)	75,000	1,975	86	4.4	-143	-7.2
Cabin	76,000	1,466	-45	-3.1	-74	-5.0
Ag Homestead	245,000	2,066	155	7.5	67	3.2
Apartment	400,000	15,551	602	3.9	-740	-4.8
Commercial/Industrial (small)	200,000	8,476	539	6.4	-755	-8.9
Commercial/Industrial (large)	500,000	24,021	1,333	5.5	-1,034	-4.3

Table 4
Twin Cities Metropolitan Area

	Market Value	Base Tax (1997)	1998 Tax Change Under Old Law		1998 Tax Change Under New Law	
			Amount	Percentage	Amount	Percentage
Res Homestead (moderate value)	$ 75,000	$ 939	$ 68	7.2%	$ 0	0.0%
Res Homestead (high value)	125,000	2,170	94	4.3	-104	-4.8
Res Non-Homestead (1 unit)	75,000	2,118	42	2.0	-197	-9.3
Ag Homestead	245,000	2,228	124	5.6	30	1.3
Apartment	400,000	16,662	221	1.3	-1,180	-7.1
Commercial/Industrial (small)	200,000	9,079	338	3.7	-1,011	-11.1
Commercial/Industrial (large)	500,000	25,722	748	2.9	-1,722	-6.7

Table 5
Valuation Changes Used in Tables 3 and 4

	1997 Market Value	1998 Market Value	Percentage Change
Res Homestead (moderate value)	$ 72,000	$ 75,000	4.2%
Res Homestead (high value)	120,000	125,000	4.2
Res Non-Homestead (1 unit)	72,000	75,000	4.2
Cabin	70,000	76,000	8.6
Ag Homestead*	234,000	245,000	4.7
Apartment	385,000	400,000	3.9
Commercial/Industrial (small)	190,000	200,000	5.3
Commercial/Industrial (large)	475,000	500,000	5.3

* The ag homestead is composed of a house valued at $48,000 for 1997 and $50,000 for 1998, and 300 acres of land valued at $620 per acre for 1997 and $650 per acre for 1998.

Source of Data

Tables 1 to 4 present results from simulations of alternative property tax structures performed by the House Research Department in May 1997. Property valuation data and levy data for taxes payable in 1997 are based on preliminary reports from the Department of Revenue. Estimates for taxes payable in 1998 are based upon the work of a joint House/Senate/Executive branch working group. Levy estimates are based on projections done by the joint working group. The property valuation estimates are derived from a survey of county assessors in January 1997.