

Overview of Property Taxes

A Presentation to the Property and Local Tax Division

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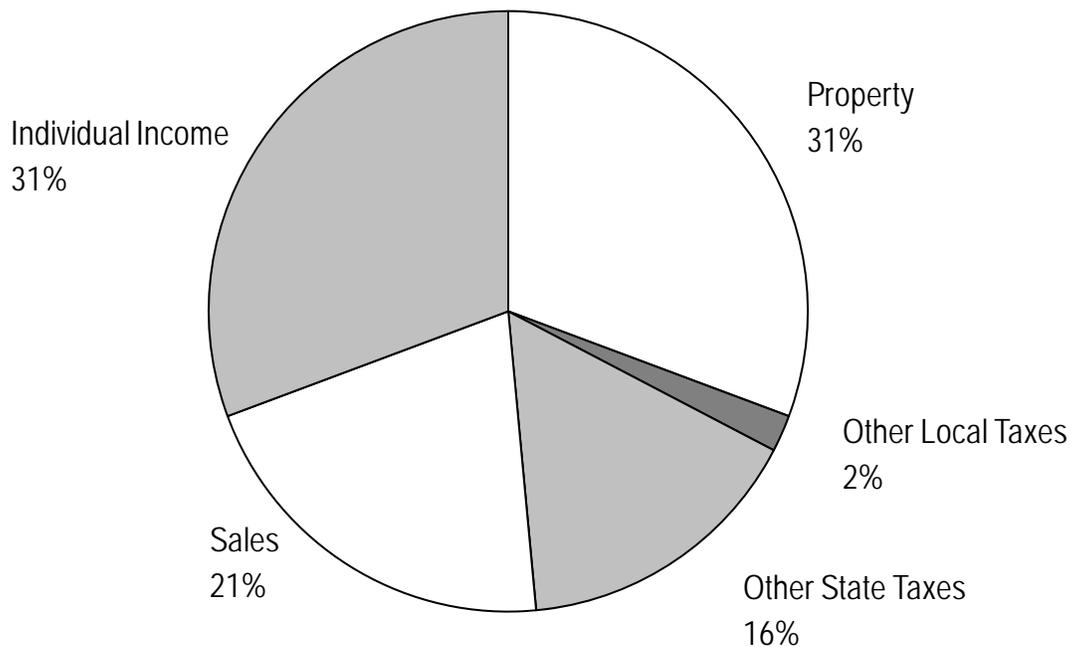
State and Local Taxes

Minnesota State and Local Tax Collections (\$27,559 million in FY 2013)

000s

Individual Income	\$8,521
Property	\$8,470
Local Property Tax	\$7,653
State Property Tax	\$817
Sales (state only)	\$5,733
Other State Taxes	\$4,366
Other Local Taxes	\$469
Total	\$27,559
Note: Estimates for taxes reported in funds other than the general fund rely on projections from the February 2012 economic forecast	

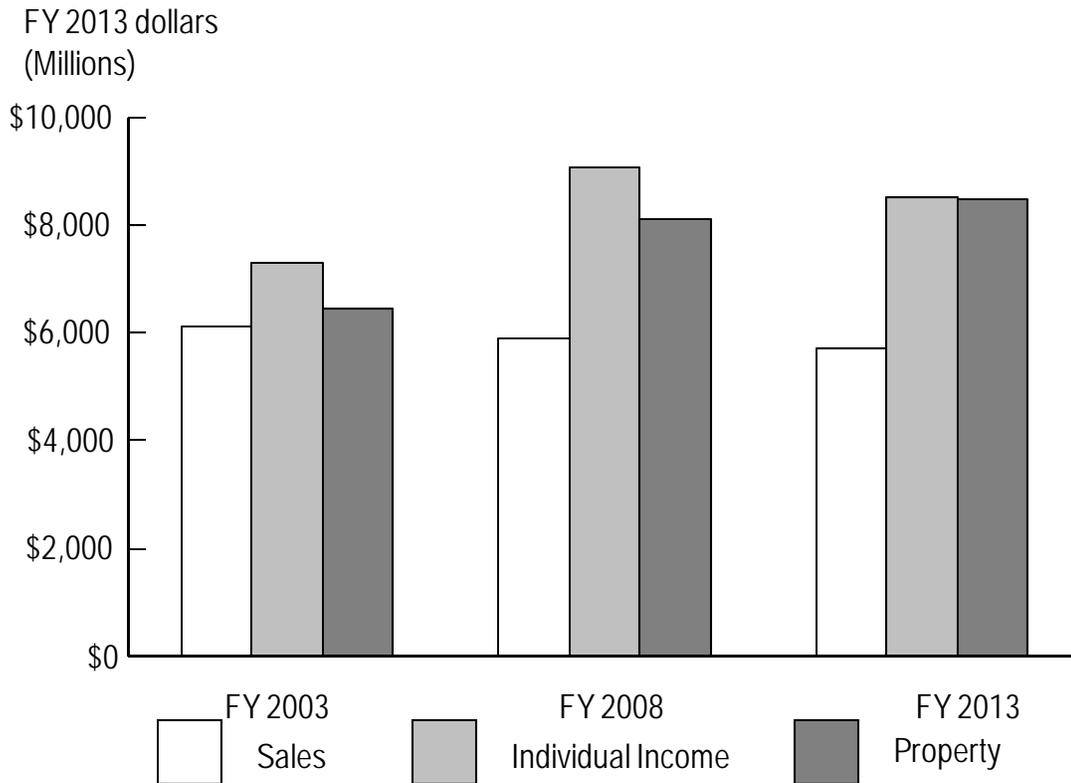
Of the \$27.6 billion in state and local tax collections for FY 2013, \$19.5 billion are state tax revenues and \$8.1 billion are local tax revenues.



Note: Estimates for taxes reported in funds other than the general fund rely on projections from the February 2012 economic forecast

Income, Sales, and Property Taxes

Income, Sales, and Property Taxes



FY 2013 Sales tax total reflects November 2012 forecast projection for the general fund portion, and February 2012 projection for all other funds

House Research Graphics

Ten Years of the Big Three

Current year \$, 000s

	FY 2003	FY 2008	FY 2013
Sales	\$6,132	\$5,909	\$5,733
Individual Income	\$7,287	\$9,061	\$8,521
Property	\$6,453	\$8,122	\$8,470

Of the \$27.6 billion in state and local tax collections for FY 2013, the big three taxes—sales, individual income, and property—accounted for 83% 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 2013, the cycle begins on January 2, 2012, and doesn't end until the final payments are made in October/November 2013.

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 2012 Taxes Payable 2013	Assessment Year 2013 Taxes Payable 2014
2012	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)	
2013	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)
2014	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 which the legislature enacted in 1988 to enhance public participation in Minnesota’s property tax system. It was phased in from 1989 to 1993; full implantation began with taxes payable in 1993, the same year as the repeal of the general property tax levy limitations for counties and cities. The basic components of the original TnT were:

- public newspaper advertisements on budget/levy of certain taxing jurisdictions,
- parcel-specific notices sent to the owner of the property, and
- public hearing.

Under the law prior to TnT, the main avenue for taxpayer involvement was on the valuation side of the system. Taxpayers received their market value notice early in the year, and then no further information was sent to the taxpayer until the property tax statement was received the **following** February or March—almost a whole year later. The legislature felt that TnT would improve local accountability by focusing taxpayers on the relationship between the budget process and property taxes.

The main purposes of TnT were:

- to enhance public participation in Minnesota’s property tax system,
- to educate the public on how property taxes are determined,
- to encourage the public to understand the local government’s budget process,
- to encourage the public to become involved in helping local officials set spending priorities.

Although there are a few exceptions (i.e., referendums, court costs, etc.) the local government’s final levy cannot be increased above the proposed levy amounts reflected on the TnT notices.

The TnT process was left basically unchanged for many years until taxes payable in 2010, when the legislature repealed:

- the requirement for the newspaper advertisement that disclosed the proposed levy and spending amount, and
- the separate TnT public hearing at which time taxpayers could discuss and give feedback on the proposed levies.

What now remains of the TnT process is:

- The parcel-specific notices showing what each taxpayer’s tax burden will be under the levies that have been proposed. These notices provide taxpayers with the information before levies have been finalized so that taxpayers may attempt to persuade their local officials to alter their levies before those levies are finalized.
- The public still has an opportunity to comment on the proposed levy before it is finalized in late December, but the opportunity may occur at a regular meeting. Special TnT meetings are no longer required.
- The final levies set in December may not be greater than the proposed TnT levies, except for certain special circumstances.

Basic Terms and Concepts

<i>Estimated market value</i>	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.
<i>Market value exclusions, taxable market value</i>	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 .
<i>Net tax capacity, class rate</i>	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.
<i>Local taxing jurisdiction</i>	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.
<i>Taxable net tax capacity</i>	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.
<i>Levy, levy limit</i>	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 .
<i>Local tax rate, total local tax rate</i>	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.
<i>Market value levy and tax rate</i>	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).
<i>Gross tax, property tax credits, net tax</i>	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 <i>estimated market value</i>	\$200,000										
2. Determine the property's <i>homestead market value exclusion</i>	\$19,200										
3. Determine the property's <i>taxable market value</i>	$\$200,000 - \$19,200 = \$180,800$										
4. Determine the <i>class rate</i> based on property type	Residential homestead: 1.0%										
5. Multiply taxable market value by class rate to obtain the <i>net tax capacity</i>	$\$180,800 \times 1.0\% = \$1,808$										
6. Determine the <i>total local tax rate</i> by summing the tax rates of all jurisdictions authorized to levy property taxes upon the property (i.e., jurisdictions whose boundaries include the property)	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">County</td> <td style="text-align: right;">45%</td> </tr> <tr> <td>City/town</td> <td style="text-align: right;">35</td> </tr> <tr> <td>School district</td> <td style="text-align: right;">25</td> </tr> <tr> <td>Special districts</td> <td style="text-align: right;"><u>5</u></td> </tr> <tr> <td>Total</td> <td style="text-align: right;">110%</td> </tr> </table>	County	45%	City/town	35	School district	25	Special districts	<u>5</u>	Total	110%
County	45%										
City/town	35										
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Special districts	<u>5</u>										
Total	110%										
7. Multiply net tax capacity by total tax rate to determine the <i>net tax capacity-based tax</i>	$\$1,808 \times 110\% = \$1,989$										
8. Determine the total <i>market value tax rate</i> by summing the market value tax rate for all taxing jurisdictions authorized to levy property taxes upon the property	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">County</td> <td style="text-align: right;">0.00%</td> </tr> <tr> <td>City/town</td> <td style="text-align: right;">0.00</td> </tr> <tr> <td>School district</td> <td style="text-align: right;">0.15</td> </tr> <tr> <td>Special districts</td> <td style="text-align: right;"><u>0.00</u></td> </tr> <tr> <td>Total</td> <td style="text-align: right;">0.15%</td> </tr> </table>	County	0.00%	City/town	0.00	School district	0.15	Special districts	<u>0.00</u>	Total	0.15%
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Special districts	<u>0.00</u>										
Total	0.15%										
9. Multiply estimated market value by total market value tax rate to determine the <i>market value-based tax</i>	$\$200,000 \times 0.15\% = \300										
10. Add the net tax capacity-based tax to the market value-based tax to obtain the total <i>net tax</i>	$\$1,989 + \$300 = \$2,289$										

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 2013

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 Over \$500,000	1.00% 1.25	No No	Yes Yes
2	Agricultural			
2a	Agricultural homestead: House, garage & 1 acre – same as residential homestead Agricultural land & buildings: Up to \$1,290,000 Over \$1,290,000	0.50 1.00	No No	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 Over \$150,000 Electric generation attached machinery	1.50 2.00 2.00	Yes* Yes* No	Yes Yes 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 Over \$500,000	1.00 1.25	No No	Yes Yes
4b	Residential nonhomestead 2-3 unit and undeveloped land	1.25	No	Yes
4c	Seasonal recreational residential (noncommercial): Up to \$500,000 Over \$500,000	1.00 1.25	Yes** Yes**	No No
4d	Low-income apartments	0.75	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 2013)**

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

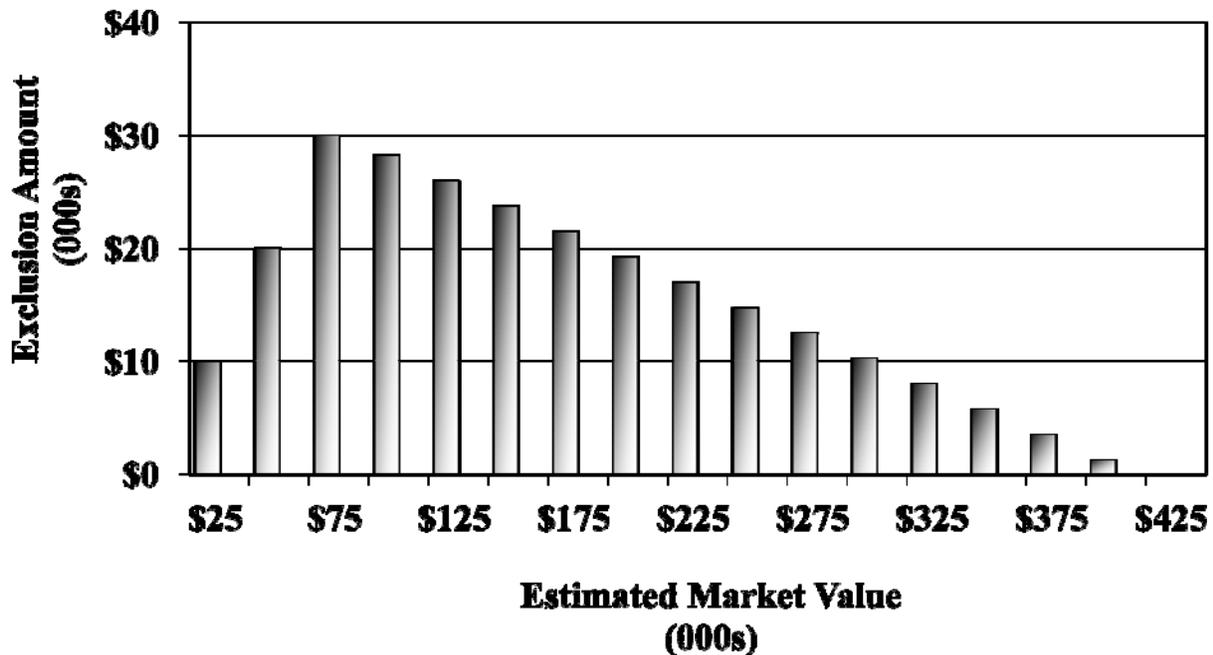
* These examples assume a total local net tax capacity tax rate of 100 percent, a total market value tax rate of 0.18 percent, a state commercial-industrial tax rate of 50 percent, and a state seasonal recreational tax rate of 20 percent.

** 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

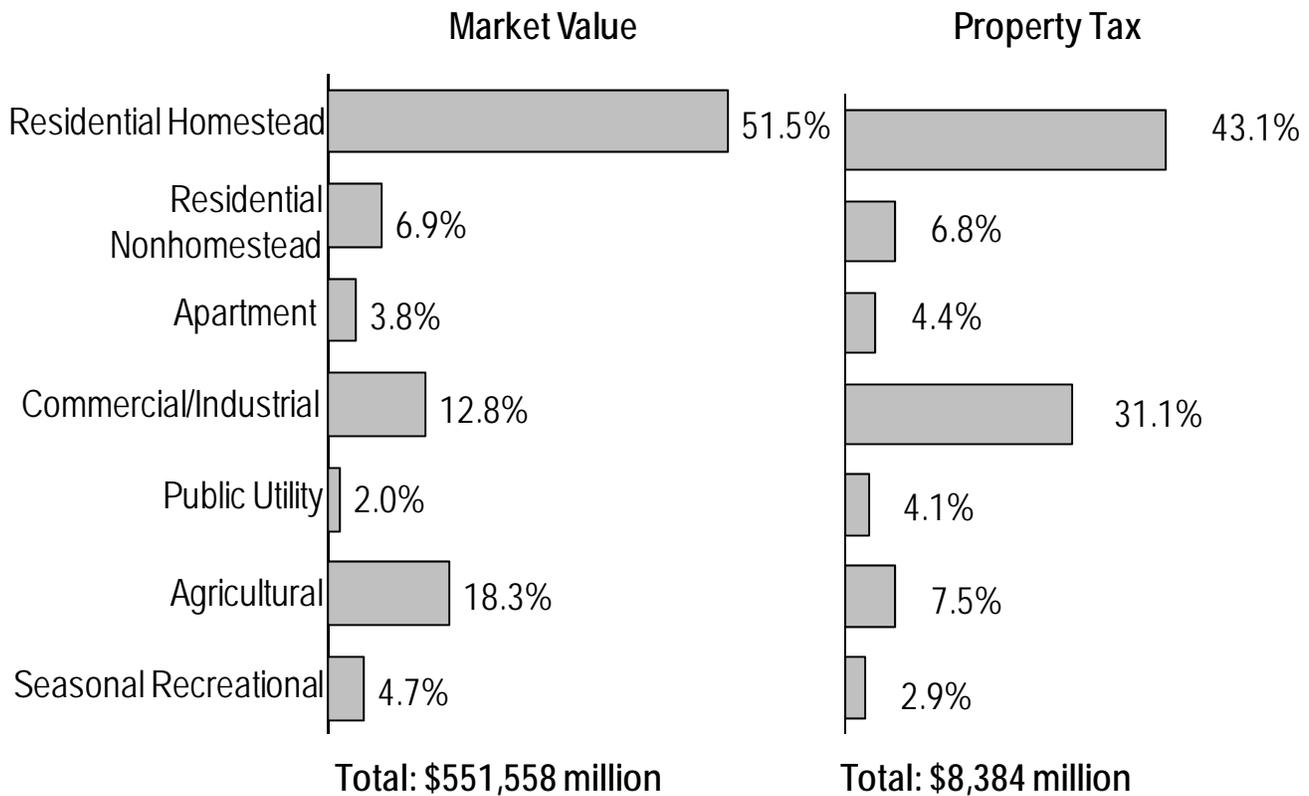


Who Pays Property Taxes and Who Receives Them

Where property taxes come from

Total property taxes statewide were \$8,384 million for calendar year 2012. The total amount of property value (excluding the value of exempt property) was \$551,558 million. The graphs below show the breakdown of the state's total property tax base by market value and by taxes paid in 2012.

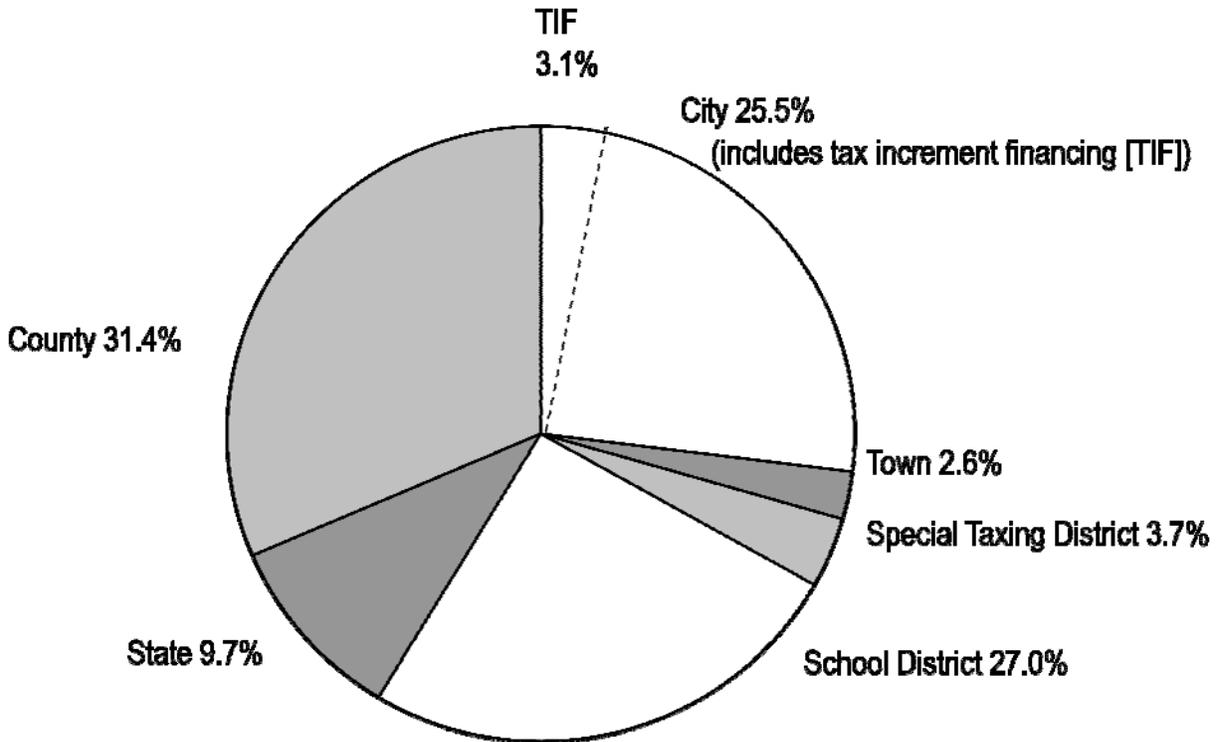
Statewide Shares of Market Value and Property Tax by Property Type (Taxes Payable in 2012)



Where property taxes go

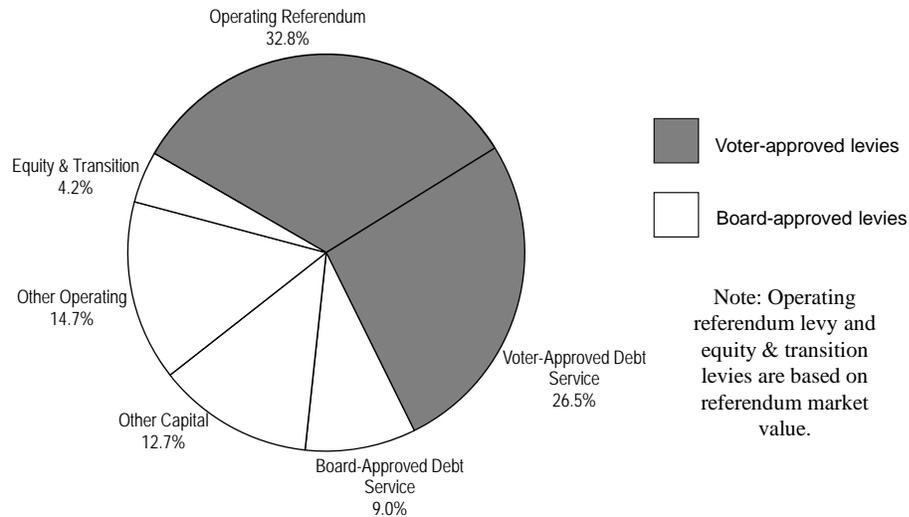
The total property tax burden in Minnesota was \$8,384 million for calendar year 2012. The pie chart below shows the distribution of the tax among the various types of taxing jurisdictions.

**Statewide Property Tax by Type of Government,*
Taxes Payable 2012
(Total: \$8,384 million)**



*Amounts shown are after allocation of property tax credits.

School District Levies \$2.28 Billion for Pay 2012



School District Levies

	Pay 2012 Amount (\$ millions)	Tax Base*	Equalized?	No. Districts Levying
Voter-Approved				
Net Debt Service Levy	605	NTC	Yes, 2-Tier	263
Operating Referendum	748	RMV	Yes, 2-Tier	293
Not Voter-Approved				
Debt Service (w/o voter approval)	206	NTC	Yes, 2-Tier	144
Operating Capital	113	NTC	Yes	335
Equity	71	RMV	Yes	336
Transition	24	RMV	Yes	199
Health & Safety	54	NTC	Yes	324
OPEB Bonds	67	NTC	No	94
Alternative Facilities	51	NTC	Yes	24
Building Lease / Lease Purchase	50	NTC	No	216
Deferred Maintenance	22	NTC	Yes	305
Basic Community Education	38	NTC	Yes	336
Integration	29	NTC	No, some aid	131
Safe Schools	29	NTC	No	321
Early Childhood Family Education	29	NTC	Yes	334
Alternative Compensation (Qcomp)	20	NTC	Yes	49
OPEB – Annual	22	NTC	No	61
All other levies	111	NTC	Yes/No	1 - 336
Total	2,280			

* RMV = Referendum Market Value
 NTC = Net Tax Capacity

State General Tax

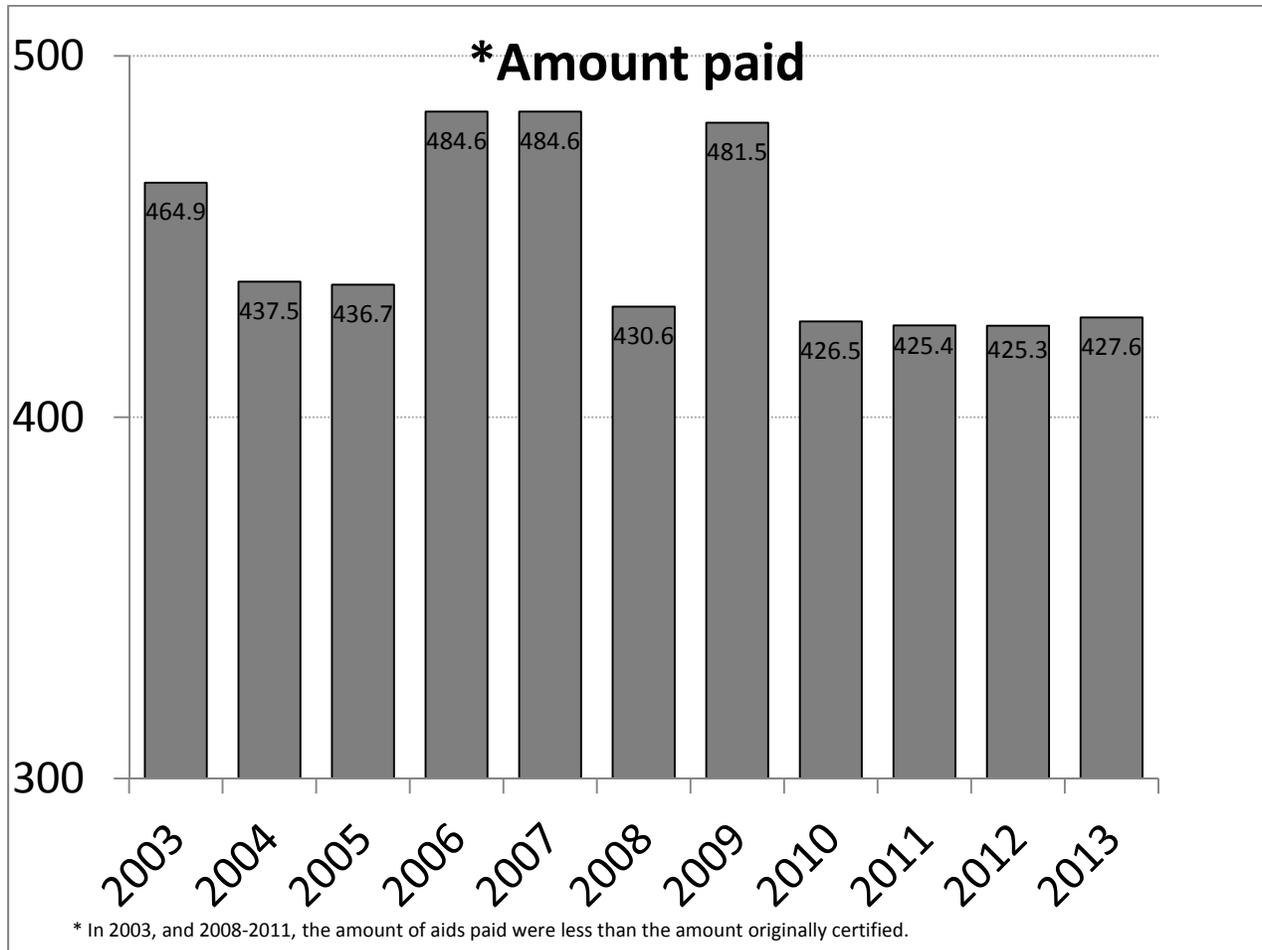
- The state general tax was instituted in 2001 as part of a major overhaul of the property tax system
- The state levy was initially set at \$592 million for taxes payable in 2002. The law provides for the levy to increase each year by the percentage increase in the implicit price deflator for government consumption expenditures and gross investment for state and local governments, as prepared by the U.S. Dept. of Commerce. For taxes payable in 2013, the state levy is \$840.6 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. Before 2006, the same tax rate was applied to all properties subject to the state levy. 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:

Payable Year	Tax Rates		
	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

Major Property Tax Relief Programs

CY '13/FY '14 (millions)	Program	Recipients
	<u>Aids or Credits</u>	
\$427	Local government aid	Cities
166	County program aid	Counties
106	Referendum equalization aid	School districts
26	Payments in lieu of taxes (PILT)	Counties and towns
23	Agricultural market value credit	All taxing jurisdictions
20	Debt service equalization aid	School districts
18	Disparity reduction aid	Counties, towns, and school districts
	<u>Direct Payments</u>	
347	Property tax refund–homeowners	Individuals
190	Property tax refund–renters	Individuals

City LGA: (in millions \$)*



The City LGA Program

The current formula was enacted in 2003 and modified in 2008

The city local government aid (LGA) program has existed since 1972. The current formula for the program was enacted in 2003. The 2003 formula was criticized for volatility and not recognizing needs of certain types of cities. These criticisms led to a modification of the formula in 2008. Two additional measures of need were added and steps were taken to reduce the year-to-year volatility in the program.

The majority of LGA is paid based on a city's "unmet need"

The current appropriation for city LGA is \$426.4 million. About \$26 million is distributed to specific cities while the remaining \$400 million is distributed via the formula. The LGA formula pays a percentage of "unmet need" for each city which is based on the difference between (1) measures of city need and (2) the city's net tax capacity multiplied by an average city tax rate. There are different measures of city need depending on a city's population. These are displayed in the table on the next page.

LGA volatility is reduced by using two years of data and limiting annual changes

To mitigate the volatility of the LGA payments to individual cities, the program uses average data over two years to calculate most of a city's aid. In addition, the law limits the amount that the aid payment to an individual city can increase or decrease in any given year. These limits on annual changes vary by the size of the city and are displayed in the table on the next page.

For CY 2008-2013 most LGA payments have not been equal to the amount calculated under the formula

Due to state fiscal shortfalls, the state did not pay cities the LGA they were certified to receive in calendar years 2008 through 2010. The amount paid to each city was the amount calculated under the formula minus a percentage of each city's property tax levy plus aid. In general, the percentage cut was smaller for cities with a population under 1,000. Because of continuing state budget problems, LGA payments in 2011 and 2012 were frozen at the lesser of the amount each city was paid in 2010 or the amount it would have received under the formula in 2011. In 2013, cities with a population under 5,000 receive the greater of their 2012 aid payment or their amount under the formula in 2013; all other cities receive an amount equal to their 2012 payment.

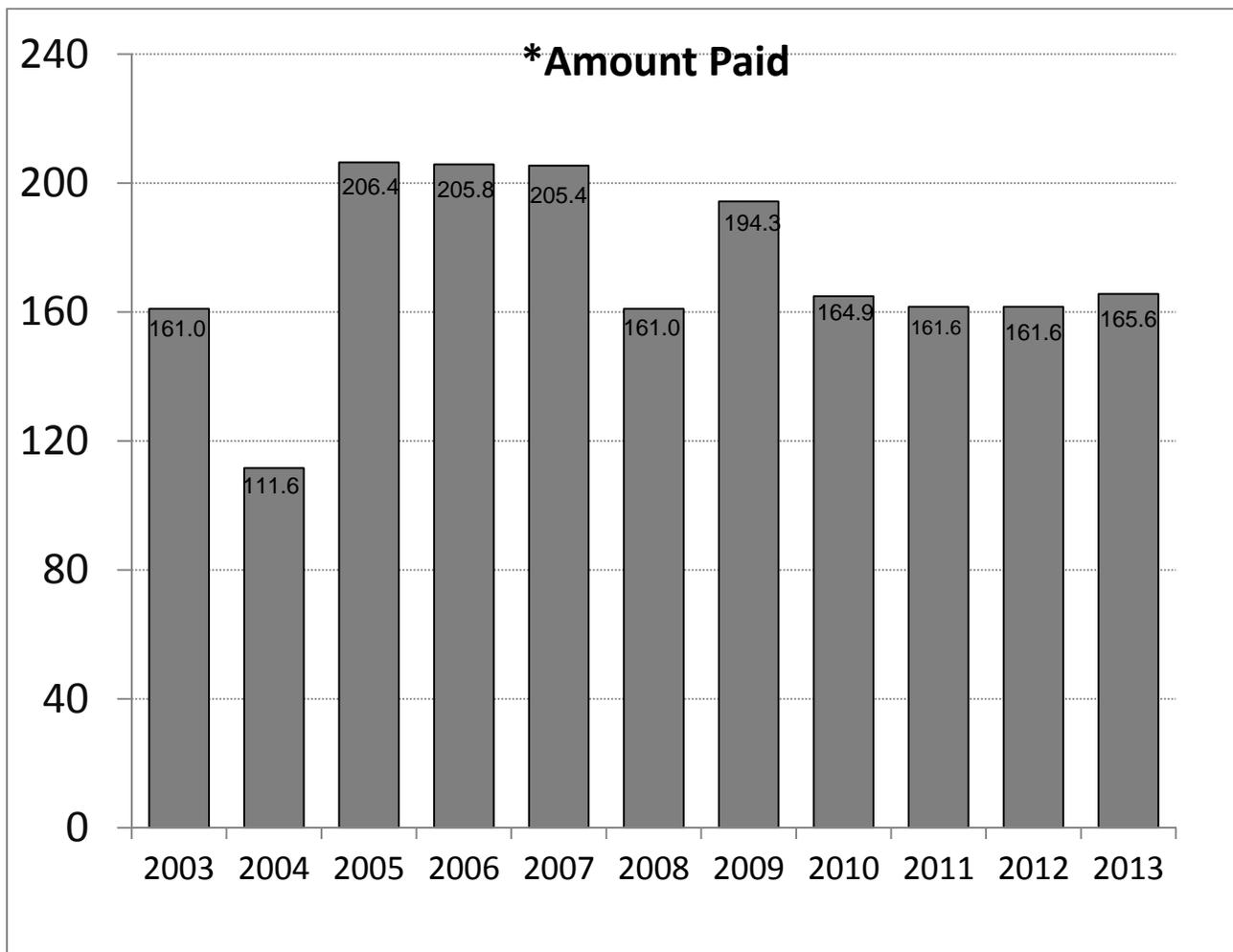
Beginning in CY 2014, LGA will again be distributed under the formula

Beginning in calendar year 2014, cities will again have their LGA payments determined by the LGA formula. However, because of the limitations on annual changes in payments to individual cities and the fact that the formula has not been used to distribute most aid for the last five years, few cities will get the amount determined by the formula. Most cities will get an amount equal to the maximum allowed gain or loss under the program while being phased up or down to the actual "formula amount."

Characteristics of the Current LGA Program

Funding level	\$426.4 million annually
City aid base	\$26.1 million annually to specific cities, mainly paid to “regional centers”
Formula aid	\$400.3 million distributed based on each city’s “small city aid” + “city jobs base” + a percentage of average “unmet need” for two years
“Unmet need”	= “Formula need” – (city net tax capacity x average city tax rate)
“Formula need”	<p>For cities with a population of 2,500 or more: Need = Greater of \$285 or $355.0547 + (5.0734098 \times \text{percentage of housing built before 1940})$ $+ (19.141678 \times \text{percentage of population decline over ten years})$ $+ (2504.06334 \times \text{three year average road accident rate per 1,000})$ $- (49.10638 \times \text{average household size})$ $- 35.20915$ if the city is in the seven-county metro area</p> <p>For cities under 2,500 population: Need = $(2.387 \times \text{percentage of housing built before 1940})$ $+ (2.67591 \times \text{percentage of property classified as commercial/industrial})$ $+ (3.16042 \times \text{percentage of population decline over ten years})$ $+ (1.206 \times \text{a transformed population factor})$ $- 62.772$</p>
Need measures added in 2008	<p>“Small city aid” for cities with a population under 5,000 only: \$6.89* per capita</p> <p>“City Jobs Base” for cities with population of 5,000 or more only: \$24.42* x number of jobs in the city, partially reduced for “regional center” and limited to \$4.725 million for any city</p> <p><small>*The original amounts were \$8.50/capita and \$25.20/job, but are adjusted based on the ratio of the current LGA appropriation to the original 2008 appropriation.</small></p>
Limits on annual increases	No city’s aid may <i>increase</i> by more than 10 percent of the city’s property tax levy in the previous year.
Limits on annual decreases	<p>No city with a population of 2,500 or more may have a <i>decrease</i> greater than the lesser of (1) \$10 per capita, (2) 10 percent of its levy in the previous year; or (3) \$300,000.</p> <p>No city with a population less than 2,500 may have a <i>decrease</i> greater than the lesser of (1) \$10 per capita or (2) 5 percent of its 2003 aid amount.</p>

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



*In 2003, and 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 2013 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. In 2010, the total appropriation was permanently reduced by approximately \$34 million, and then further reduced by another \$32 million in 2011.

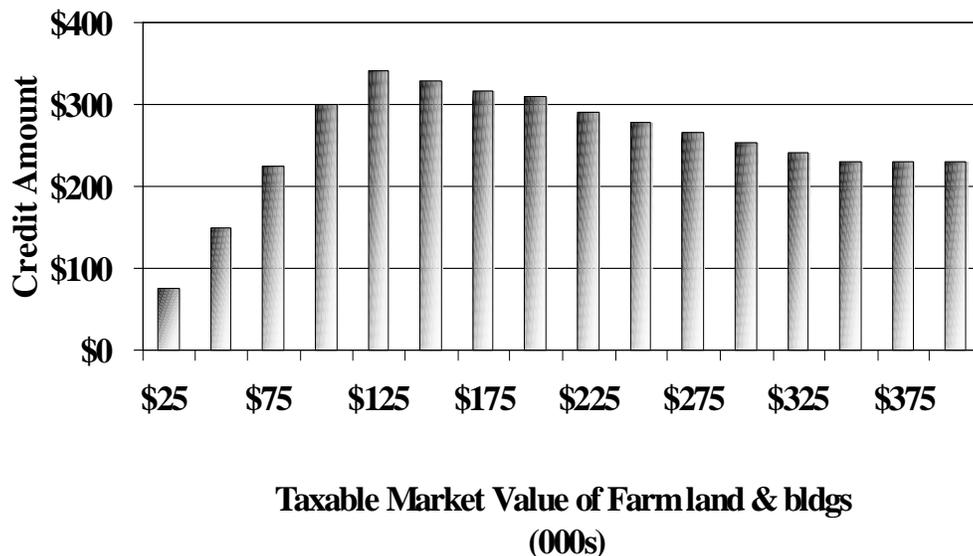
Calculation of County Program Aid

Need Aid	Tax-base Equalization Aid
<p>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)</p>	<p>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)</p>
<p>Reductions from the appropriation: \$500,000 annually for court-ordered counsel and public defense costs</p>	<p>Reduction from the appropriation: up to \$214,000 annually to pay for the preparation of local impact notes</p>
<p>Factors used in the formula:</p> <ul style="list-style-type: none">• 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	<p>Tax-base equalization factor used in the formula:</p> <p>Factor = N times (\$185 x population - 9.45% of the county adjusted net tax capacity)</p> <p>where N equals:</p> <ul style="list-style-type: none">• 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
<p>The formula:</p> <ul style="list-style-type: none">• 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	<p>The formula:</p> <ul style="list-style-type: none">• 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

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 \$345; all farms valued over \$345,000 receive a credit of \$230
- For farms with a market value less than \$115,000, the credit is 0.3% of the market value; for farms valued between \$115,000 and \$345,000, the credit is \$345 minus 0.0005 times the value in excess of \$115,000; for farms valued over \$345,000, the credit is \$230; as shown in the chart below
- The state cost of the credit for taxes payable in 2012 (FY 2013) is \$23.4 million

Agricultural Market Value Credit



Homeowner's Property Tax Refund Program

What is the property tax refund program?

The homeowner's property tax refund program (sometimes called the "circuit breaker" or the PTR) is a state-paid refund that provides tax relief to homeowners 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 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. Deductions are allowed for dependents and for claimants who are over age 65 or disabled.

What are recent changes to the program?

The 2008 and 2011 tax laws both expanded the homeowner's property tax refund program. The 2008 changes, effective for refunds based on taxes payable in 2009, lowered the maximum threshold percentage for determining eligibility from 4.0 percent of income to 3.5 percent of income and increased the maximum refund allowed by about \$500. The 2011 changes, effective for refunds based on taxes payable in 2012, increased the maximum refund for homeowners with incomes under about \$37,000, and decreased the copayment percentage for most homeowners.

What are the maximums?

For refund claims filed in 2013, based on property taxes payable in 2013 and 2012 household income, the maximum refund is \$2,530. Homeowners whose income exceeds \$103,729 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 filed before August 15, 2013, will be paid beginning in late September 2013; claims filed electronically may be paid a month earlier. The deadline for filing claims based on taxes payable in 2013 is August 15, 2014; taxpayers filing claims after that date will not receive a refund.

What is the average refund and total amount paid?

**Statewide Homeowner Property Tax Refunds
 Filed in 2011
 (based on 2010 incomes and payable 2011 taxes, most recent data available)**

	Number of returns	Total refund amount	Average per return
Under 65 years old	218,495	\$162.9 million	\$745
Senior/disabled	144,414	\$109.4 million	\$758
Total: all homeowners	362,909	\$272.3 million	\$750

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 property tax refund threshold, copayment rates, and maximum refund amounts are the same statewide, the average residential homestead property tax in the metro area is higher than in greater Minnesota. The metro area families have payable 2013 property taxes of \$3,163, a typical amount for the metro. The families in greater Minnesota have payable 2013 property taxes of \$1,532, a typical amount 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 2013,
 based on taxes payable in 2013 and 2012 income**

		Metro area		Greater Minnesota	
		Taxpayer #1	Taxpayer #2	Taxpayer #3	Taxpayer #4
1	Typical estimated market value of home	\$222,700	\$222,700	\$149,400	\$149,400
2	Gross income	\$35,000	\$75,000	\$35,000	\$75,000
3	Deduction for dependents	\$10,260	\$10,260	\$10,260	\$10,260
4	Household income (2 – 3 = 4)	\$24,740	\$64,740	\$24,740	\$64,740
5	Property tax	\$3,163	\$3,163	\$1,532	\$1,532
6	Threshold income percentage	2.3%	3.2%	2.3%	3.2%
7	Threshold % x income (4 x 6 = 7)	\$569	\$2,072	\$569	\$2,072
8	Property tax over threshold (5 – 7 = 8)	\$2,594	\$1,091	\$963	\$0
9	Statutory copay percentage	30%	40%	30%	40%
10	Taxpayer copay amount (8 x 9 = 10)	\$778	\$437	\$289	NA
11	Remaining tax over threshold (8 – 10 = 11)	\$1,816	\$655	\$674	NA
12	Maximum refund allowed	\$2,530	\$1,480	\$2,530	\$1,480
13	Net property tax refund	\$1,816	\$655	\$674	\$0

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 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 increases, and
- the maximum refund decreases.

The program uses household income, a broad measure that includes most types of income. Deductions are allowed for dependents and for claimants who are over age 65 or disabled.

What are the maximums?

For refund claims filed in 2013, based on rent paid in 2012 and 2012 household income, the maximum refund is \$1,600. Renters whose income exceeds \$56,219 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, 2013, will be paid beginning in August 2013. The deadline for filing claims based on rent paid in 2012 is August 15, 2014; taxpayers filing claims after that date will not receive a refund.

What is the average refund and total amount paid?

Statewide Renter Property Tax Refunds, Filed in 2011
 (based on 2010 incomes and rent paid in 2010, taxes assumed to equal 19% of rent paid)

	Number of returns	Total amount	Average per return
Under 65 years old	223,650	\$137.0 million	\$614
Senior/disabled	86,350	\$58.4 million	\$676
Total: all renters	309,400	\$195.4 million	\$632

How has the percent of rent considered property taxes changed in recent years?

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

How do refunds vary depending on income and property taxes?

The following table shows the refund amount for two example families (married couples without dependents). Although the threshold percentage, copayment rates, and maximum refund amounts are the same statewide, the average rent is higher in the metro area than in greater Minnesota. The metro area family paid

monthly rent in 2012 of \$745, the fair market rent for a one-bedroom apartment in the metro area. The family in greater Minnesota paid monthly rent in 2012 of \$472, the fair market rent for a one-bedroom apartment in many greater Minnesota counties. 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 2013,
 based on rent paid in 2012 and 2012 household income**

		Metro area		Greater Minnesota	
		Taxpayer #1	Taxpayer #2	Taxpayer #1	Taxpayer #2
1	Gross income	\$15,000	\$30,000	\$15,000	\$30,000
2	Deduction for dependents	0	0	0	0
3	Household income (1 – 2 = 3)	\$15,000	\$30,000	\$15,000	\$30,000
4	Rent constituting property tax	\$1,520	\$1,520	\$963	\$963
5	Statutory threshold percentage	1.4%	2.0%	1.4%	2.0%
6	Threshold % x income (3 x 5 = 6)	\$210	\$600	\$210	\$600
7	Property tax over threshold (4 – 6 = 7)	\$1,310	\$920	\$753	\$363
8	Copay percentage	15%	30%	15%	30%
9	Taxpayer copay amount (7 x 8 = 9)	\$196	\$276	\$113	\$109
10	Remaining tax over threshold (7 – 9 = 10)	\$1,113	\$644	\$640	\$254
11	Maximum refund allowed	\$1,600	\$1,600	\$1,600	\$1,600
12	Net property tax refund	\$1,113	\$644	\$640	\$254

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. For refunds based on taxes payable in 2012 only, the refund percentage was 90 percent instead of 60 percent. The maximum refund is \$1,000. The following example shows how the refund is calculated.

Payable 2012 Property Tax after Targeting	\$1,600
Payable 2013 Property Tax	\$2,000
2013 tax increase (over 2012)	\$400
Taxpayer pays first 12% of increase compared to previous year’s tax, which must be at least \$100 (12% x \$1,600)	\$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 2013 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 2013 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 homeowner property tax refund (“circuit breaker”) is paid in late September.

Does targeting have any other restrictions? No, unlike the regular property tax refund, the targeting refund is not tied to the taxpayer’s household income. Under the regular homeowner property tax 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 regular property tax refund due to income restrictions are eligible for the targeting refund.

What are statewide amounts?

The amounts paid out for the targeting program decreased substantially from \$7.4 million in 2008 to about \$1.2 million in 2011, with comparable percentage decreases occurring in the metro area and in nonmetro Minnesota.

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

Targeting Refunds, Filed 2008 – 2011 (dollars in thousands)

	Filed 2008	Filed 2009	Filed 2010	Filed 2011
Total Metro	\$4,330	\$3,750	\$1,024	\$1,211
Total Nonmetro	\$3,046	\$2,338	\$1,310	\$691
State	\$7,376	\$6,088	\$2,334	\$1,902

Some taxpayers (e.g., those who typically don't qualify for the regular property tax 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 2011, just over 23,000 homeowners claimed refunds based on their property tax increase from payable 2010 to 2011. The average refund amount was \$83.

How are claims filed?

Refund claims are filed using the Minnesota Department of Revenue (DOR) Schedule M1PR, the property tax 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, 2013, will be paid beginning in late September 2013. The deadline for filing claims based on taxes payable in 2013 is August 15, 2014; 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/2011/2011_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 5.9% of total income for the poorest fifth of Minnesota households to 2.6% of income for the richest fifth of Minnesota households, making the overall effect somewhat regressive.

The richest fifth of Minnesota households (with 57.8% of total income) are estimated to pay 47.6% of the total property tax.

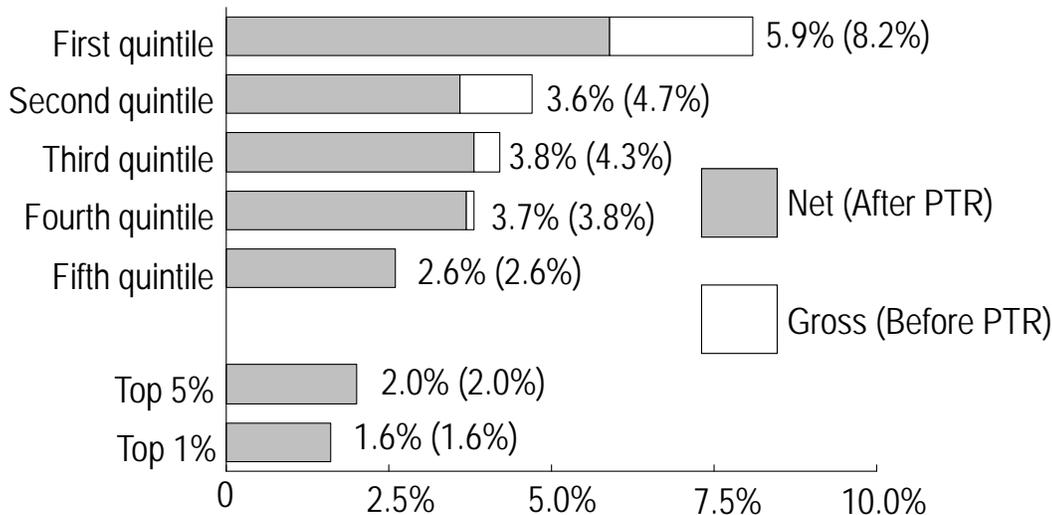
Distribution of Property Tax Burden by Population Quintiles (2008)

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	\$16,278 or less	2.8%	\$393,346	\$108,833	5.3%	5.9%
Second	\$16,279 – 31,689	6.9%	569,943	140,035	8.0%	3.6%
Third	\$31,690 – 53,314	12.2%	897,647	98,508	14.8%	3.8%
Fourth	\$51,315 – 89,936	20.4%	1,355,928	48,118	24.3%	3.7%
Fifth	Over \$89,937	57.8%	2,577,298	8,700	47.6%	2.6%
Total	All incomes	100%	\$5,794,795	\$404,194	100%	3.1%
Top 5%	Over \$182,829	31.2%	1,095,857	1,366	20.3%	2.0%
Top 1%	Over \$429,354	16.2%	445,544	285	8.3%	1.6%

Source: MN Dept. of Revenue, 2011 Tax Incidence Study

Property Tax Burden

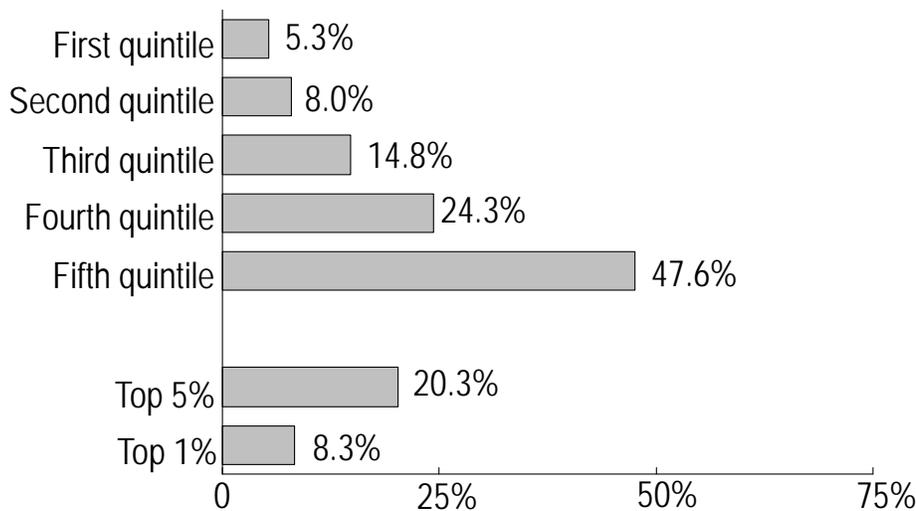
Effective Tax Rates by Population Quintiles (2008)



Source: Department of Revenue, 2009 Tax Incidence Study

Net Property Tax Burden*

Distribution by Population Quintiles (2008)



*After property tax refund.

Source: Department of Revenue, 2009 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 2011. The taconite production tax constitutes about 62.5 percent (\$80 million) of the total taxes. The remaining 37.5 percent (\$48 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 2012:

- was based on the production of the mining companies in calendar year 2011;
- was based on a tax rate of \$2.412 per taxable ton (the tax rate is established by the legislature);
- was based on the three-year average tonnage produced in 2009, 2010, and 2011, which was 30.4 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	\$10,410	34.2
School districts	15,588	51.3
Counties	13,303	43.8
Property tax relief and misc.	12,802	42.1
Iron Range Resource (IRR) includes distribution to the Taconite Environmental Protection Fund and the Douglas Johnson Economic Protection Trust Fund	17,913	59.0
Other	9,956	32.8
Total	\$79,972	\$2.632

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

Levy Limits

General levy limits are imposed for taxes payable in 2009–2011

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 2011.

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 and ensure that aid increases are passed on as property tax reductions. 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-present	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

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 2011, these purposes included:

- 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.

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.
- 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 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 expired June 1, 2010.
- 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 and three have been imposed.
- 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 hat are currently imposed and year authorized:

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

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.

- Austin (2006) 0.5 %
- Baxter (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 %
- Metro Transit tax (2008) 0.25 %
(imposed by Anoka, Dakota, Hennepin, Ramsey, and Washington Counties)
- Fergus Falls (2011) 0.5%
- Hutchinson (2011) 0.5%
- Lanesboro (2011) 0.5%

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

Local governments with authority to impose a tax:

- The two remaining metro area counties (Carver and Scott) may, by resolution, impose the 0.25 percent transit tax already imposed by the other metro area counties in the future.
- Any county not imposing the 0.25 percent transit tax may impose a 0.5 percent tax for transportation purposes with voter approval.

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 2010 report of the Office of State Auditor (OSA), there were 2,048 active TIF districts in 2008. The graph shows the relative shares by type of district.

