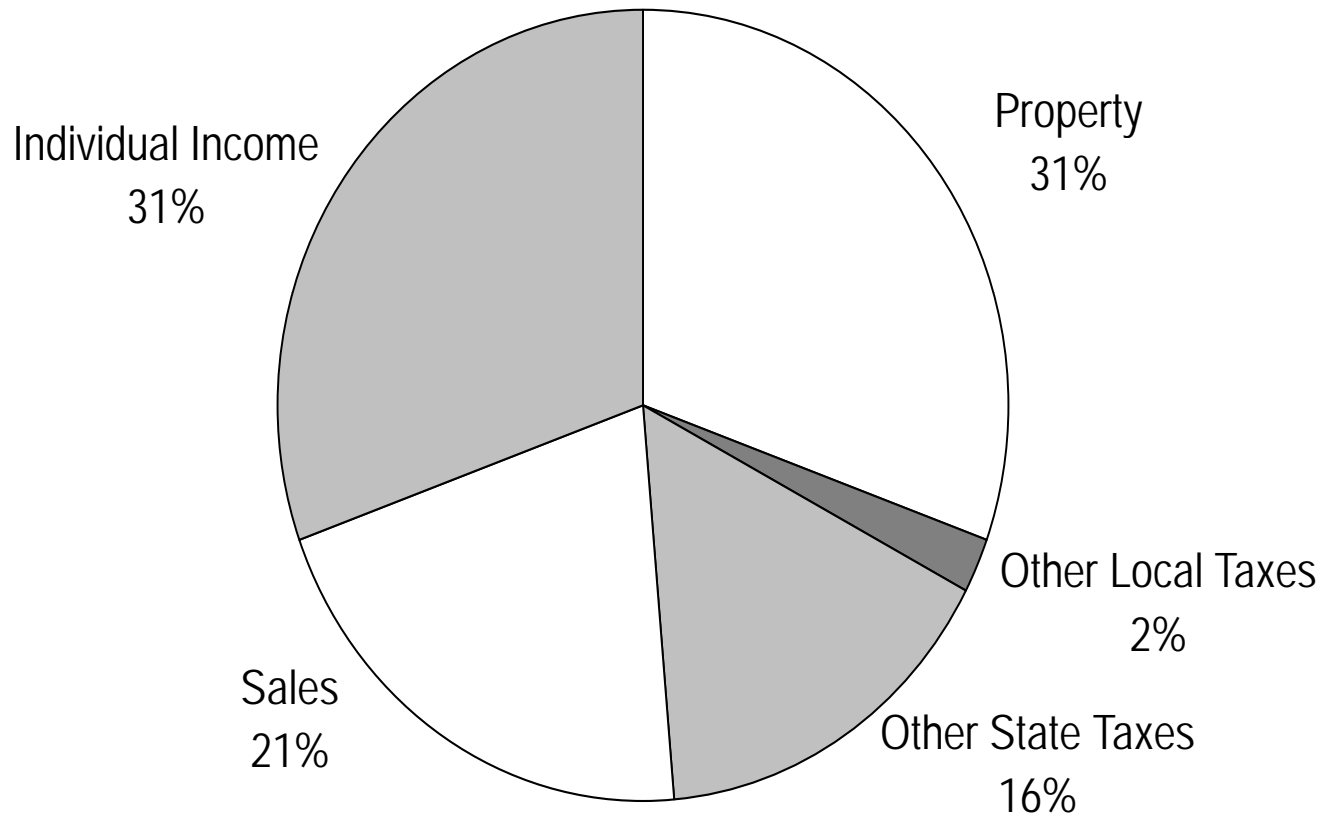


Overview of Property Taxes

Presentation to House Property
and Local Tax Division

January 2013

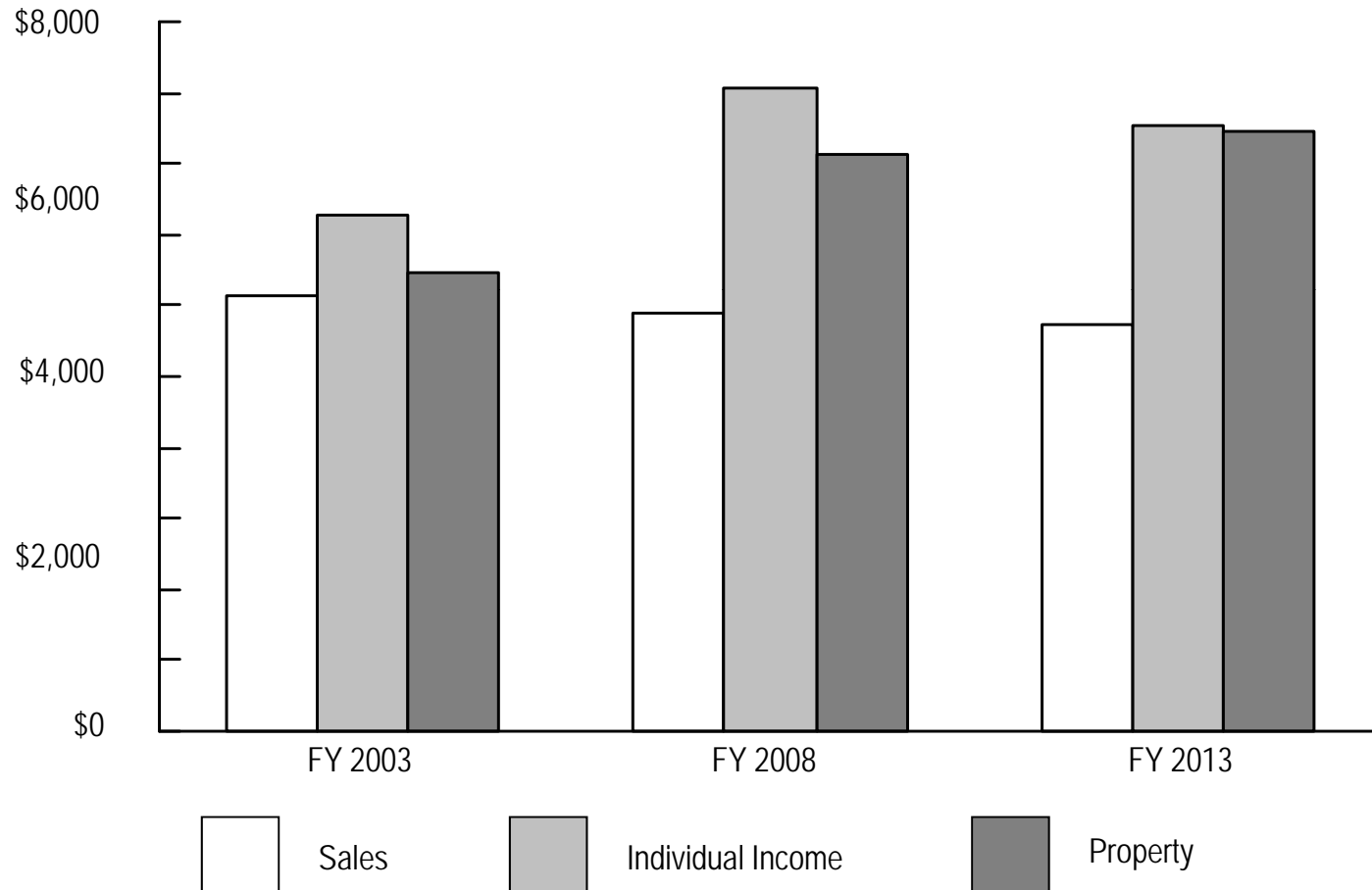
State and Local Taxes (\$27,559 million in FY 2013)



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

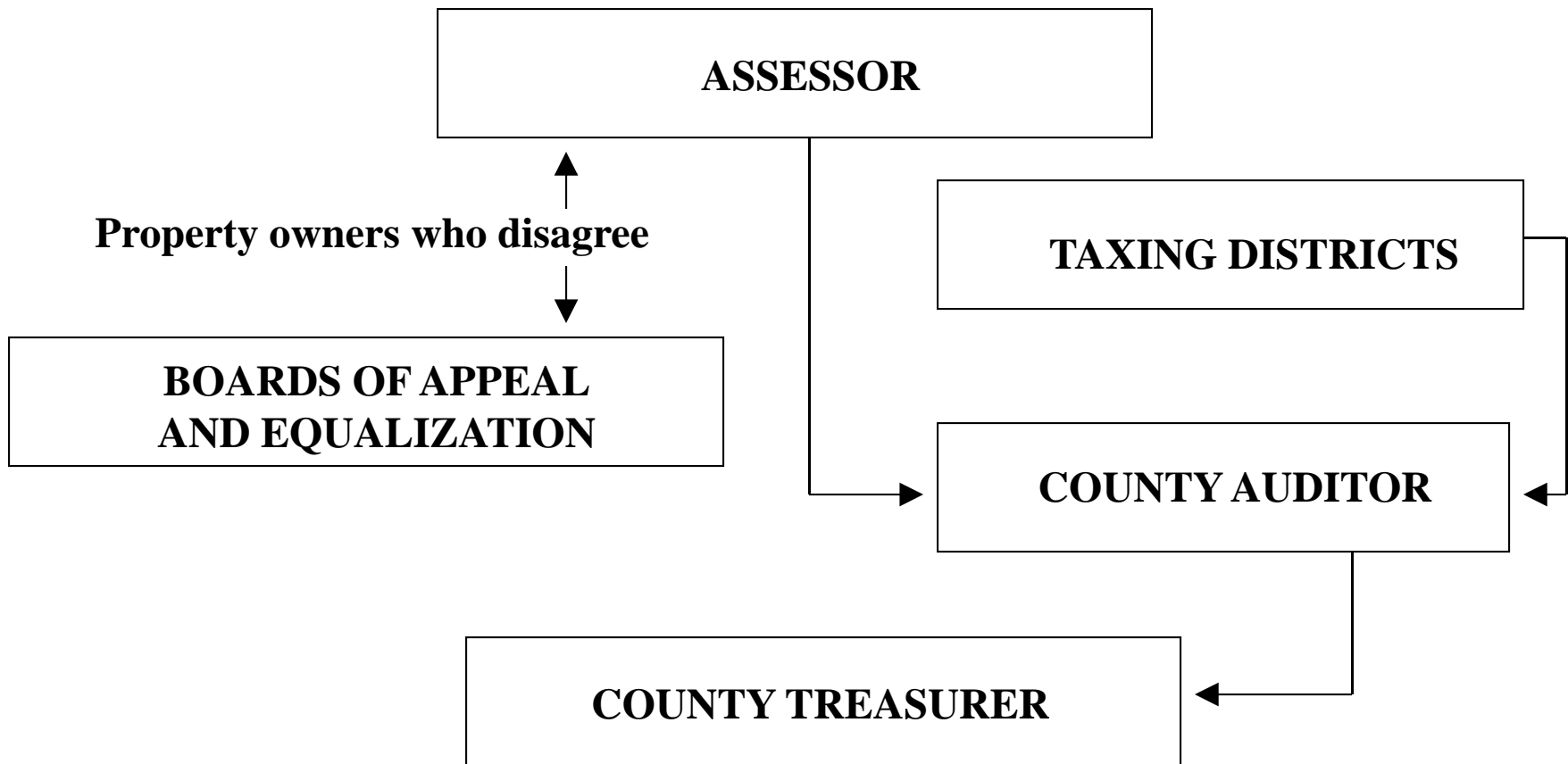
Income, Sales, and Property Taxes

FY 2013 dollars
(Millions)



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

“Who Does What” in the Property Tax System



Property Tax Timeline

- A single property tax cycle spans more than two calendar years
- The statutory assessment date for taxes payable in 2013 is January 2, 2012
- Each taxing jurisdiction determines its levy between September and December, 2012
- The payable 2013 cycle ends after 2nd half property taxes are paid in October and November, 2013, and final state aid and credit payments are made in December, 2013

Truth-in-Taxation

- Taxing jurisdictions must adopt proposed levies in September of the previous year.
- County auditors prepare TnT statements showing what taxes will be under the levies.
- The notices also contain information about public meetings where comments can be made on the proposed levies.
- Final levies are adopted in late December, which may not be greater than the proposed levies.

Property Tax Terms

- The county assessor determines each property's **estimated market value**
- For homesteads, the homestead market value exclusion is subtracted to determine **taxable market value**
- **Net tax capacity** equals **taxable market value** times **class rate**

Property Tax Terms

- Each local jurisdiction sets its **levy**; levy divided by total net tax capacity equals the jurisdiction's **tax rate**
- **Net property tax** equals the property's **net tax capacity** times the **tax rates** of all relevant taxing jurisdictions, plus the market value tax

Class Rates: Payable 2013

	Property Type	Tier	Class Rate
1a	Residential Homestead (incl Ag Hmstd house)	Under \$500,000 Over \$500,000	1.00% 1.25
2a	Agricultural Homestead	Under \$1,290,000 Over \$1,290,000	0.5 1.0
2a	Agricultural Nonhomestead		1.0
3a	Comm'/Industr'/Public Utility	Under \$150,000 Over \$150,000	1.5 2.0

Class Rates: Payable 2013

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

Property Tax Comparison

\$200,000 Property

Property Type	Class Rate	Property Tax Gross Net		Effective Tax Rate
Agricultural Hmstd	0.5/1.0	\$1,272	\$790	0.39%
Residential Hmstd	1.0	2,168	2,168	1.08
Seasonal recreational	1.0	2,309	2,309	1.15
Comm'l/Indstr'l	1.5/2.0	5,235	5,235	2.62

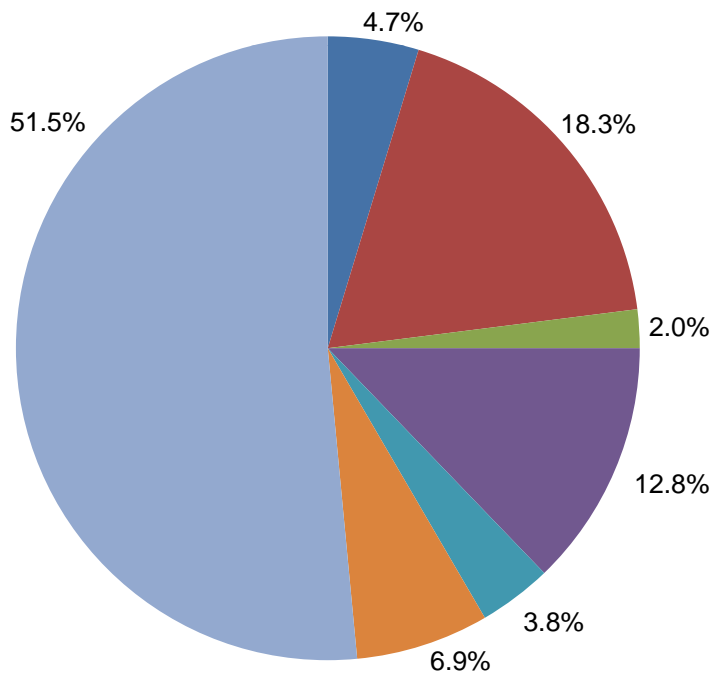
Homestead Market Value Exclusion

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

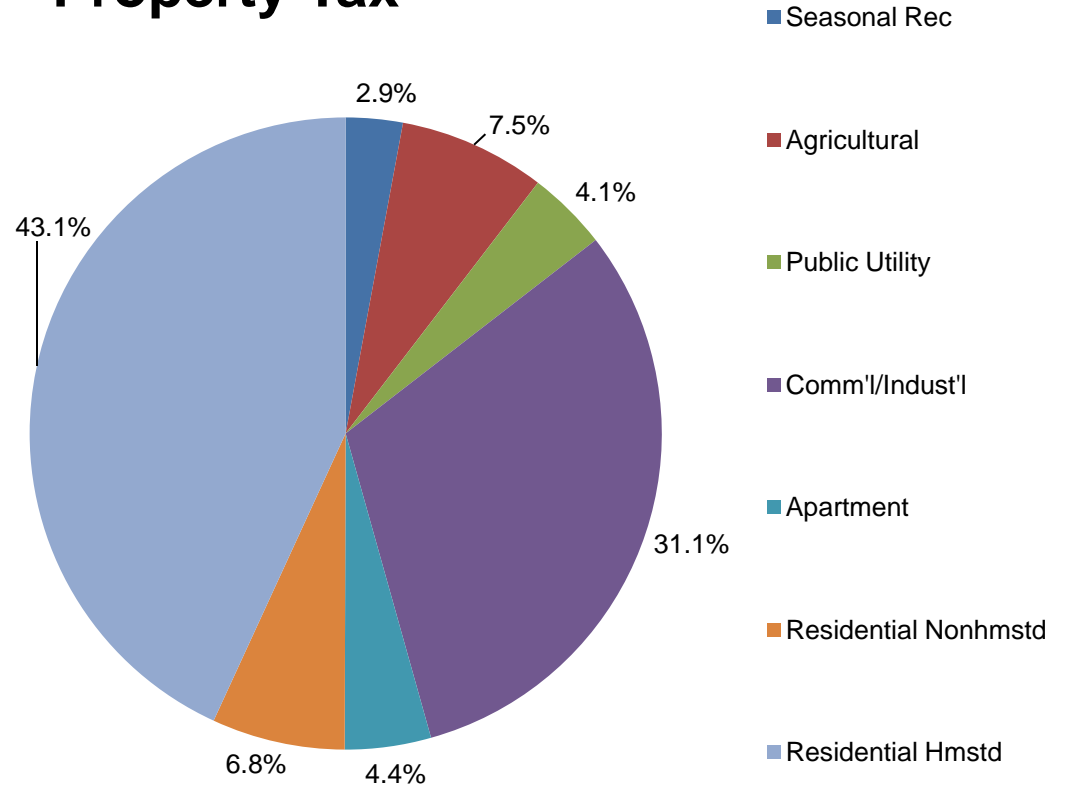
- The exclusion replaced the market value homestead credit which was in place from 2002 - 2011

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

Market Value

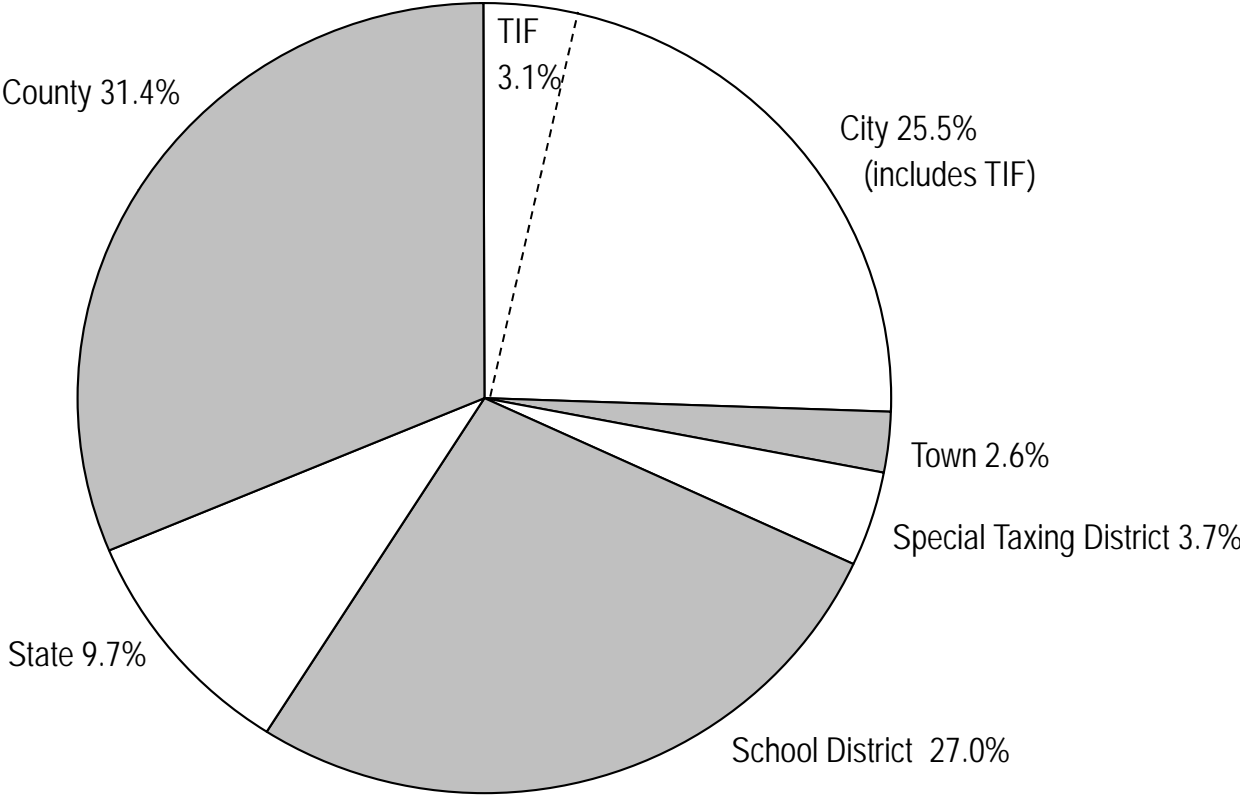


Property Tax



Property Tax by Type of Government*

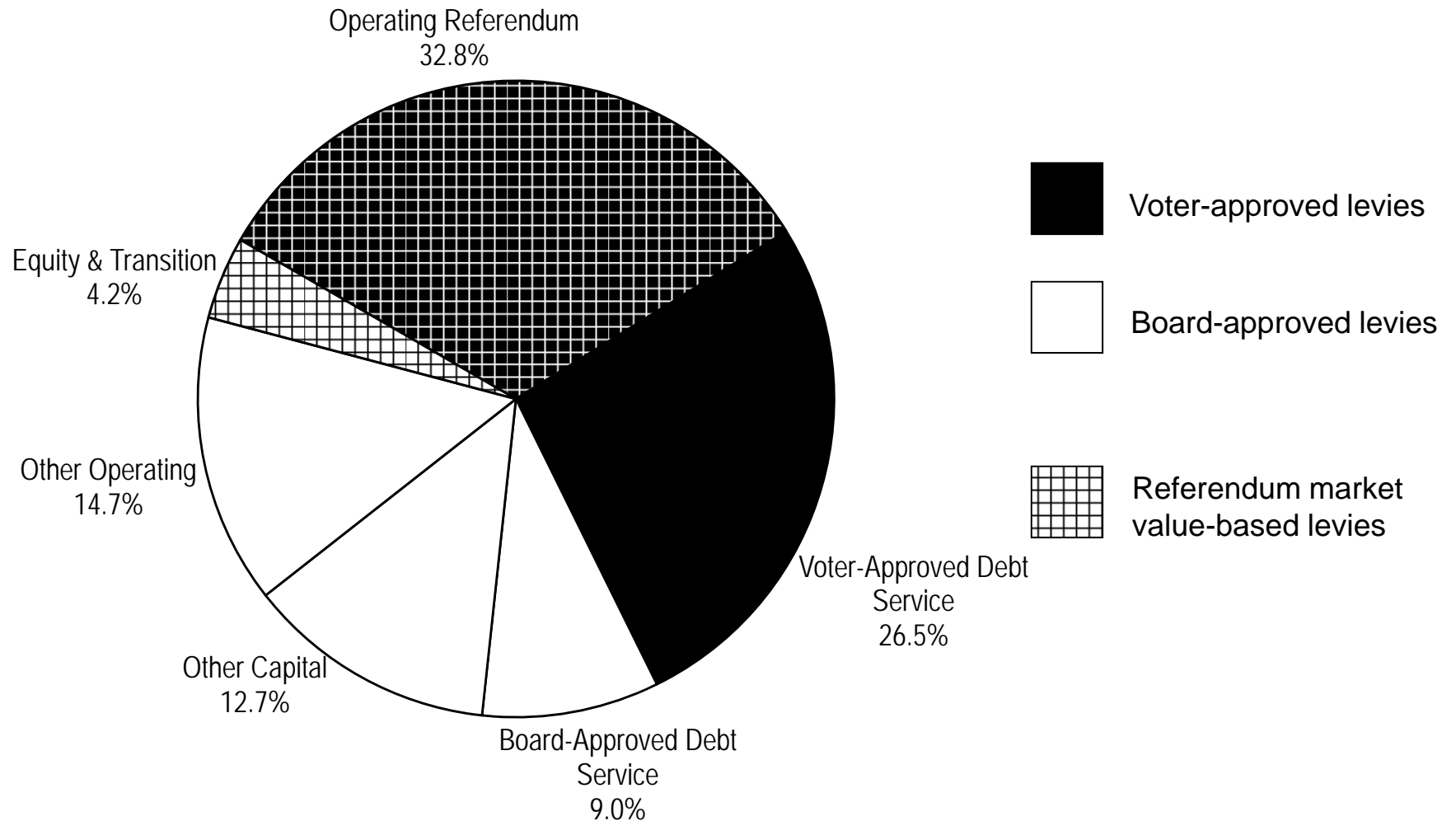
(\$8,384 million in CY 2012)



*Amounts shown are after allocation of property tax credits.

School District Levies

\$2.28 Billion for Pay 2012



State General Tax

- Levy is \$841 million for CY 2013; levy increases annually by index of inflation
- Applies only to commercial-industrial (C/I) and seasonal-residential-recreational (SRR) property
- 95% levied on C/I property, 5% on SRR

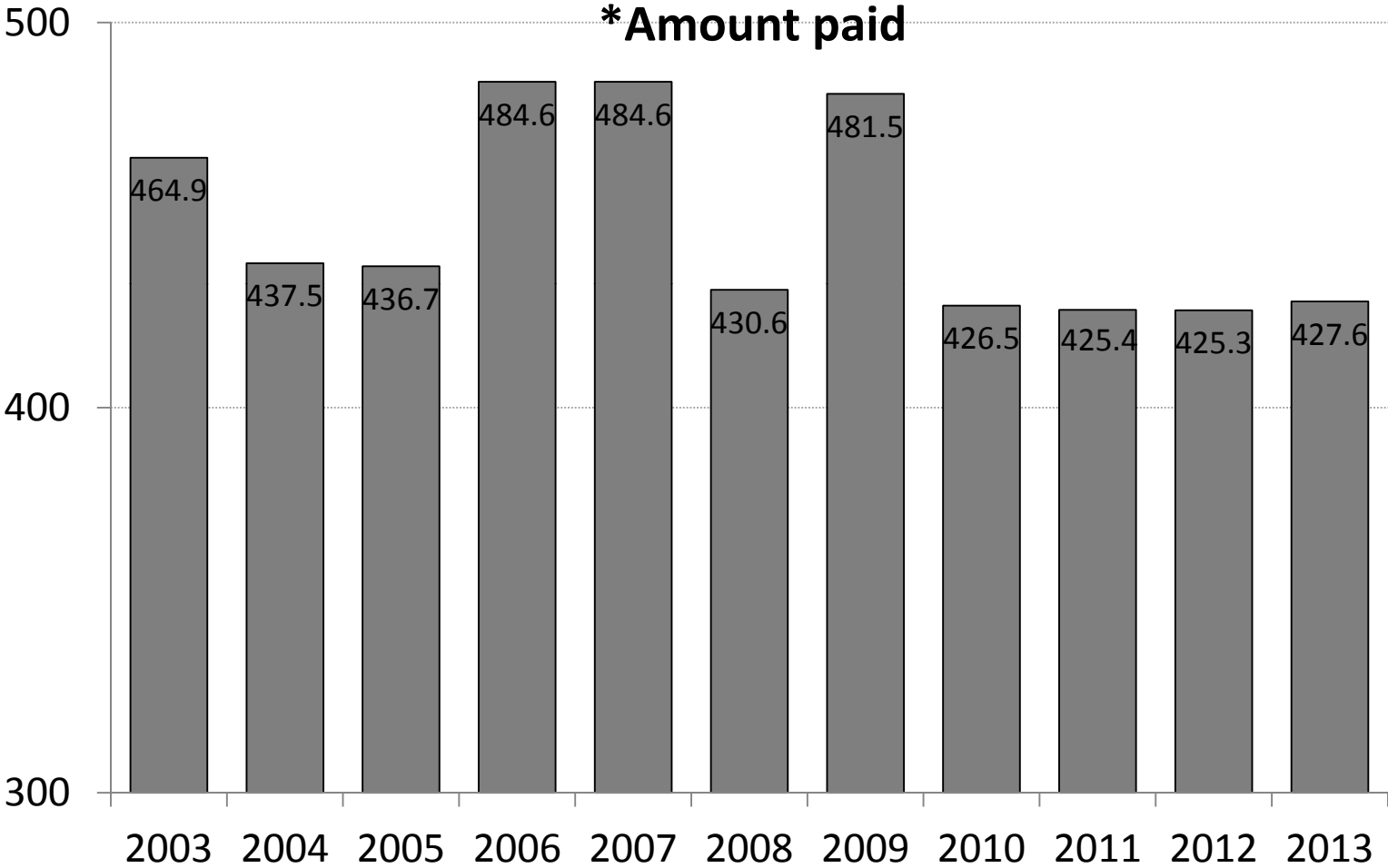
Major Property Tax Relief Programs (\$millions)

CY '13/ FY '14 Approp	Program	Recipients
	Aids & Credits:	
427	Local Government Aid	Cities
166	County Program Aid	Counties
106	Referendum equalization aid	School districts
26	Payments in lieu of taxes	Counties & towns
23	Agricultural market value credit	All taxing jurisdictions

Major Property Tax Relief Programs (\$millions)

CY '13/ FY '14 Approp	Program	Recipients
20 18	Aids & Credits (cont.): Debt Service Equalization Aid Disparity Reduction Aid	School Districts Counties, towns & school dists
347 190	Direct payments to taxpayers: Prop Tax Refund: Homeowners Prop Tax Refund: Renters	Individuals Individuals

City LGA: (in millions \$)*



* In 2003, and 2008-2010, the amount of aids paid were less than the amount originally certified.

Local Government Aid (LGA)

- The LGA formula has not been used to distribute the paid LGA since 2007
- The LGA from 2008-2010 was based on the 2008 formula amount minus a percent of each city's levy + aid
- Payments in 2011 – 2012 lesser of 2010 aid or formula amount
- For smaller cities 2013 aid equals greater of 2010 aid or the formula amount

Local Government Aid (LGA)

- Beginning in 2014 the LGA distribution will once again be based on the formula in law
- Most aid is a percent of “unmet need” equal to “need” minus “ability to pay”
- \$26 million of \$426 million is grandfathered to specific cities

City LGA Need Measures

- For small cities “need” is based on population, population decline, housing built before 1940, and percent of property classified as C/I
- For large cities “need” is based on population decline, housing built before 1940, road accident rate, average household size and city location

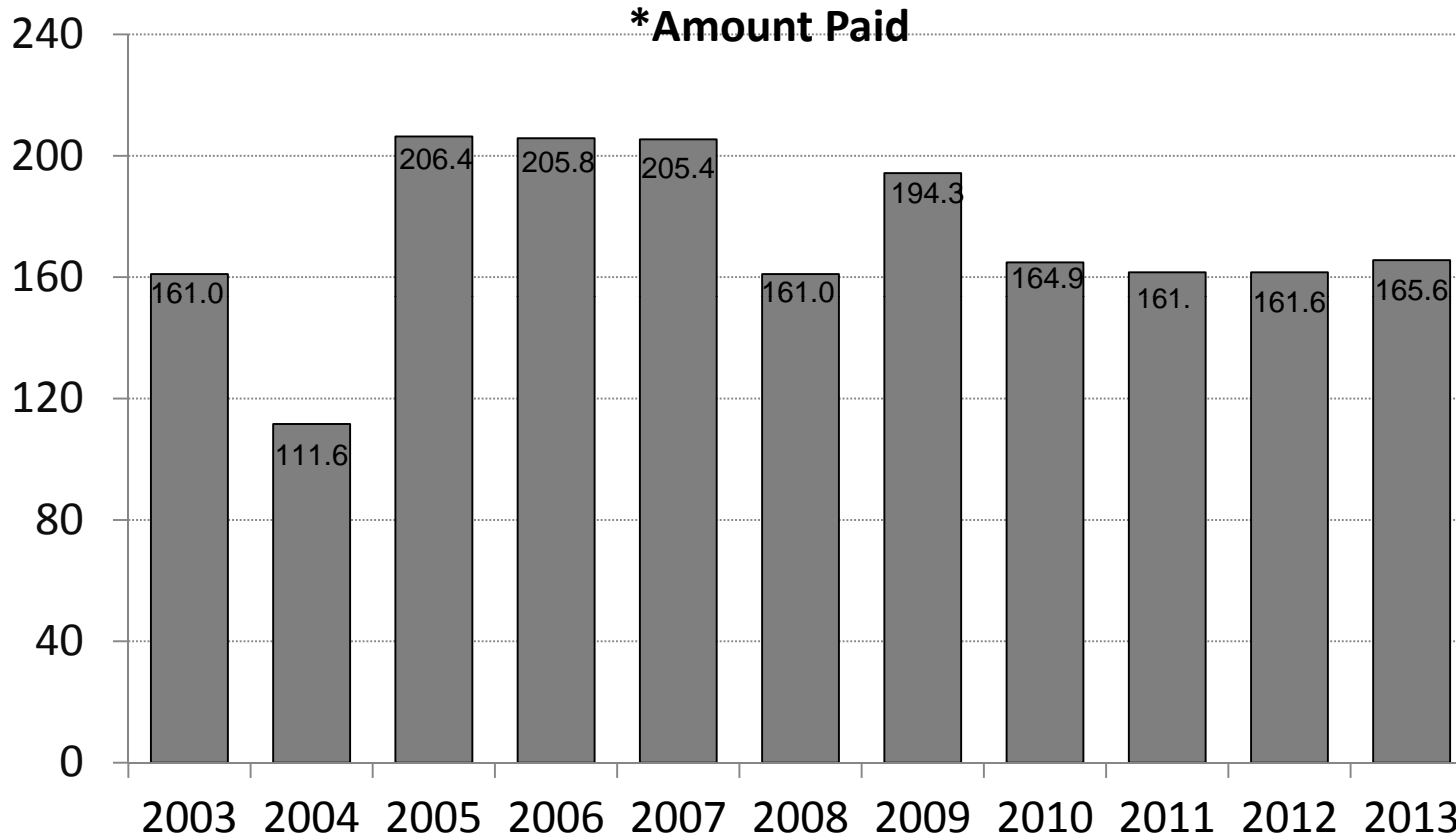
City LGA Formula

- “Ability to pay” is based on a city’s tax base and the average city tax rate
- In Pay 2014, the formula will pay about 52% of each city’s “unmet need”
- Extra small city aid for cities with a population < 5,000 and jobs aid for cities with a population of 5,000 or more
- If unmet need is negative, small city aid and city jobs aid are reduced

City LGA Formula

- Caps on annual increases and decreases to a city reduce year-to-year volatility
- Preliminary analysis shows that only 224 out of 853 cities are “on the formula”, the rest are getting either their maximum allowed increase or decrease
- Cities at caps will phase onto formula over time

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” was created beginning in CY 2004 as a consolidation of the following county aid programs:
 - HACCA
 - Attached machinery aid
 - CCJA
 - FPA
- Beginning in CY 2005, county program aid has been distributed through a formula

County Program Aid

- Program aid consists of two parts:
 - Approximately one-half distributed under a “need” formula, and
 - the remainder distributed under a tax base equalization formula
- Aid paid has been less than certified for 2008 - 2011, and was permanently reduced for 2011 and then again for 2012 and thereafter

Factors Determining County Program Aid

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

Agricultural Market Value Credit

Agricultural Land Value	Credit Amount
\$80,000	\$240
115,000	345
150,000	329
200,000	303
300,000	253
350,000	230

- The state cost of the credit is approximately \$23 million per year

Property Tax Refund

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

Property Tax Refund

\$468 million, refunds filed 2011

	Number of Filers	Refund Amount (millions)	Average Refund
Senior/disabled Homeowners	144,414	\$109	\$758
Non-senior Homeowners	218,495	163	745
Senior/disabled Renters	86,350	58	676
Non-senior Renters	223,050	137	614
Total, All Filers	672,309	\$468	\$696

Property Tax Refund

Program limits, refunds filed in 2013

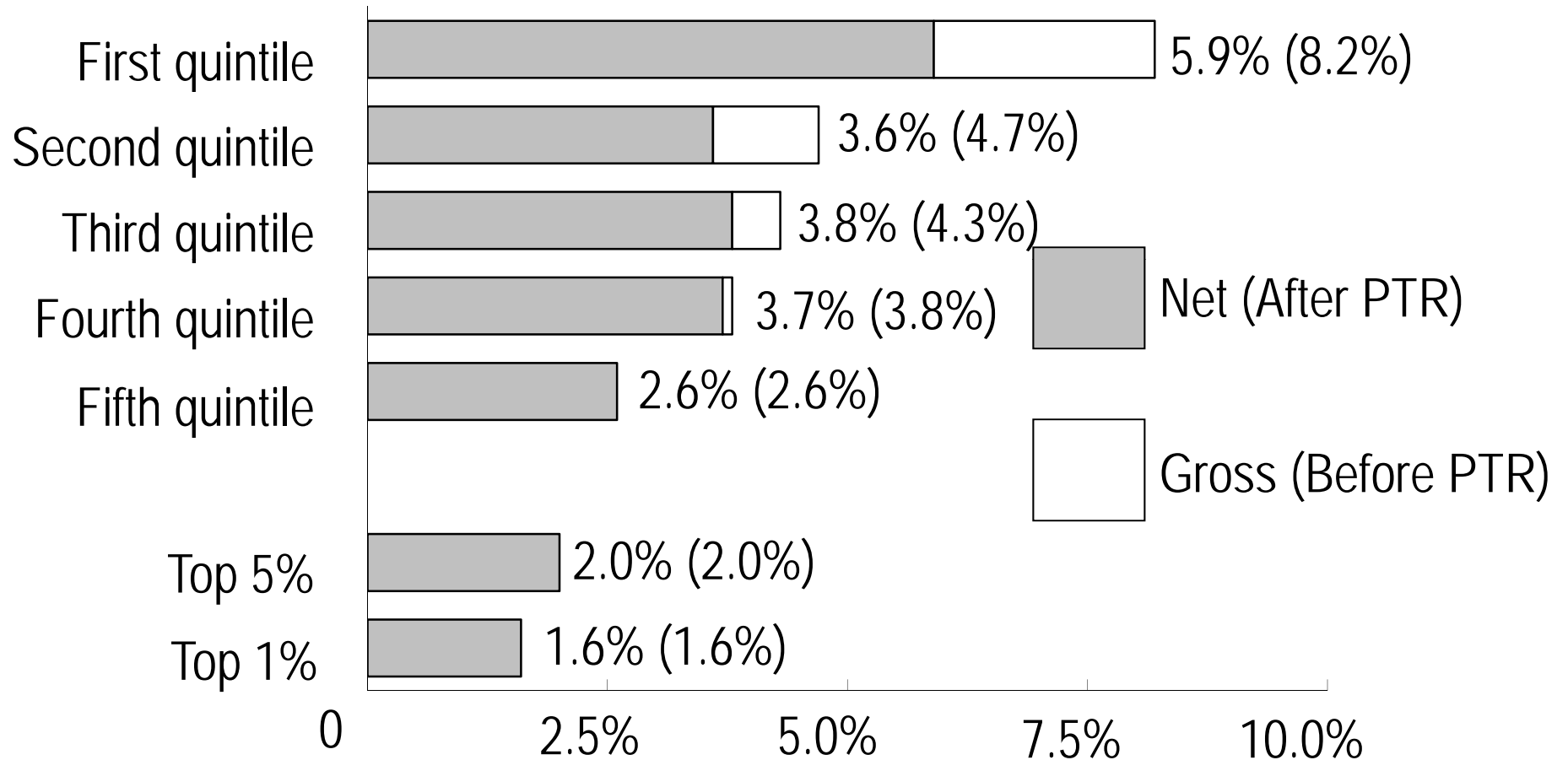
- Homeowners
 - Maximum household income is \$103,729
 - Maximum refund is \$2,530
- Renters
 - Property taxes assumed to be 17% of rent paid
 - Maximum household income is \$56,219
 - Maximum refund is \$1,600

Special Property Tax Refund (Targeting)

- Provides relief to homeowners with more than 12% tax increase
- Household income not considered
- Returns filed in 2011:
 - \$1.9 million total refunds
 - 23,000 returns
 - \$83 average refund

Property Tax Burden

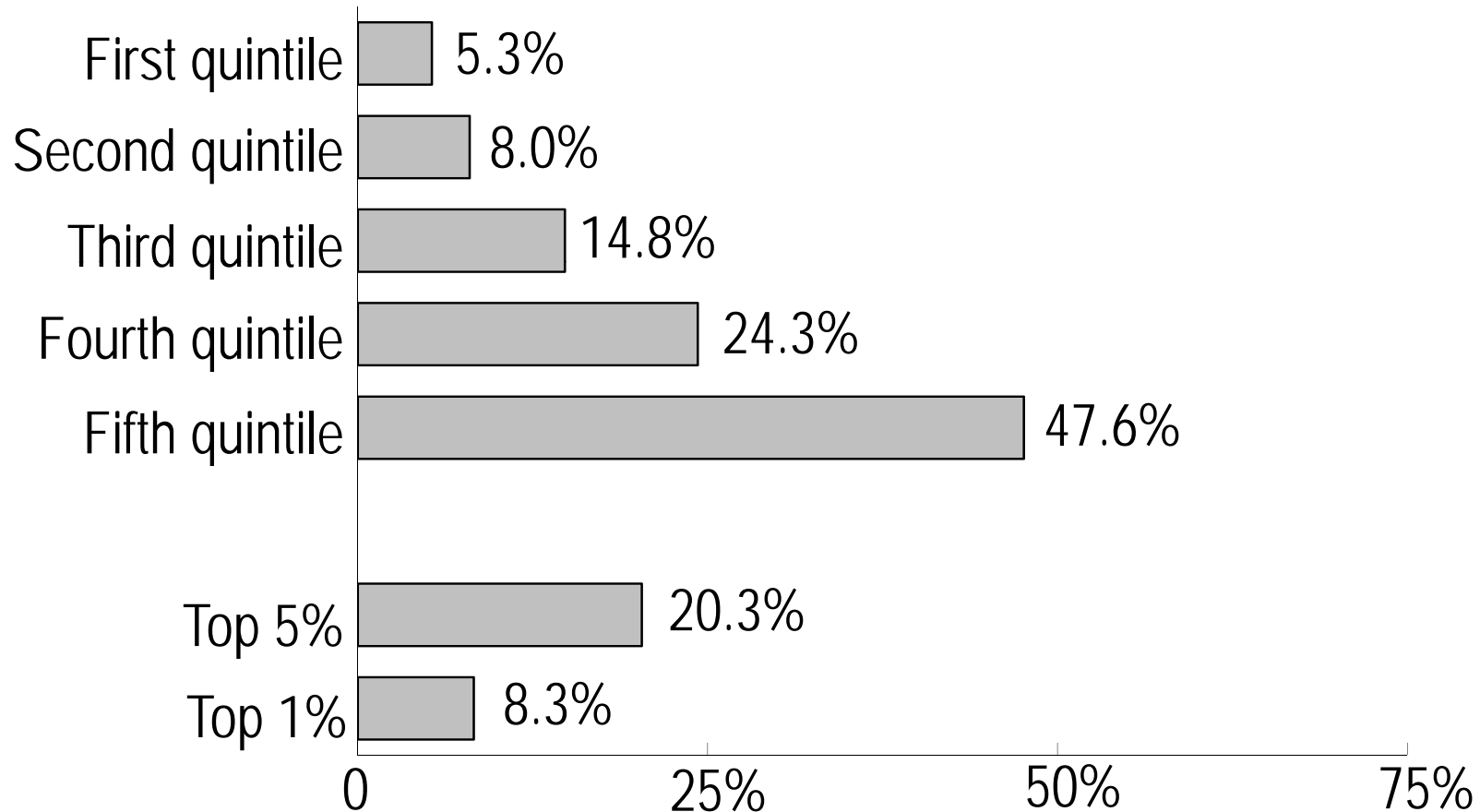
Effective Tax Rates by Population Quintiles (2008)



Source: Department of Revenue, 2011 *Tax Incidence Study*

Net Property Tax Burden*

Distribution by Population Quintiles (2008)



*After property tax refund.

Source: Department of Revenue, 2011 *Tax Incidence Study*

Mining Taxes

- Mining industry pays production tax in lieu of property tax
- \$80 million of production tax paid in 2012 based on 2011 production
- Tax rate is \$2.412 per taxable ton
- Tax base is three-year average production
- Tax revenues distributed to jurisdictions in taconite assistance area based on formula

Levy Limits

- Originally enacted in 1972, first expired in 1992
- Have been re-enacted several times for short periods - most recently expired after Pay 2011
- Usually apply to counties and cities with a population of 2,500 or more

Special Levies

When limits are imposed several items are generally not subject to limits including:

- Debt
- Increases in matching grants
- Natural disasters
- Required public safety and health and human services cost increases
- Pension cost increases
- Aid and credit reductions occurring after certification

Local Sales Taxes

- 25 cities in the state currently impose a general local sales tax of 0.5 percent
- Duluth and Cook County impose a tax of 1 percent
- Hennepin County imposes a tax of 0.15 percent for the Twins ballpark
- Most recently six new taxes authorized in 2011, three have been imposed

Local Sales Taxes, cont.

- Anoka, Dakota, Hennepin, Ramsey and Washington Co. tax at 0.25 percent for transit
- The two remaining metro area counties may impose the transit tax in the future
- All other counties may impose a 0.5 percent tax for transportation purposes with voter approval
- The metro transit taxes do not expire

Local Sales Taxes

- All other general taxes are required to expire except for Duluth tax - five have; most recently in Willmar which had its *second* local tax expire 12/31/2012
- Other local sales taxes allowed include:
 - General authority for up to a 3 percent lodging tax for tourism promotion
 - Several lodging, food and beverage, and amusement taxes authorized by special law

How TIF Works

- What is it?
- TIF Mechanics
- Types of Districts
- But For Test
- Permitted Uses of Revenues

What is TIF?

TIF is a method of dedicating incremental property taxes for use as a financing tool.

In Minnesota TIF is used by cities and authorities for two purposes (and it is useful to think of them separately):

- To induce development or redevelopment
- To finance public improvements (unrelated to inducing development)

TIF Mechanics

TIF captures the taxes on the growth in tax base by certifying for a TIF district (when it is created):

- **Original tax capacity** (taxable value)
- **Original tax rate** (local taxing district rates)

Captured value = current tax capacity – original tax capacity

Tax increment = original tax rate * captured value

- Increment increases as values increase because of either **development** or **inflation**.

Types of TIF Districts

District Type	Duration Limit
Economic Development	8 years
Housing	25 years
Redevelopment	25 years
Renewal and renovation	15 years
Soils	20 years
Hazardous substance	25 years

But-For Test

- Municipal finding requirement
- Applies when TIF plan is approved and district created
- Based on municipalities “opinion”
- Two components:
 - Development won’t occur without TIF
 - Will increase market value

Permitted Uses of TIF Revenues

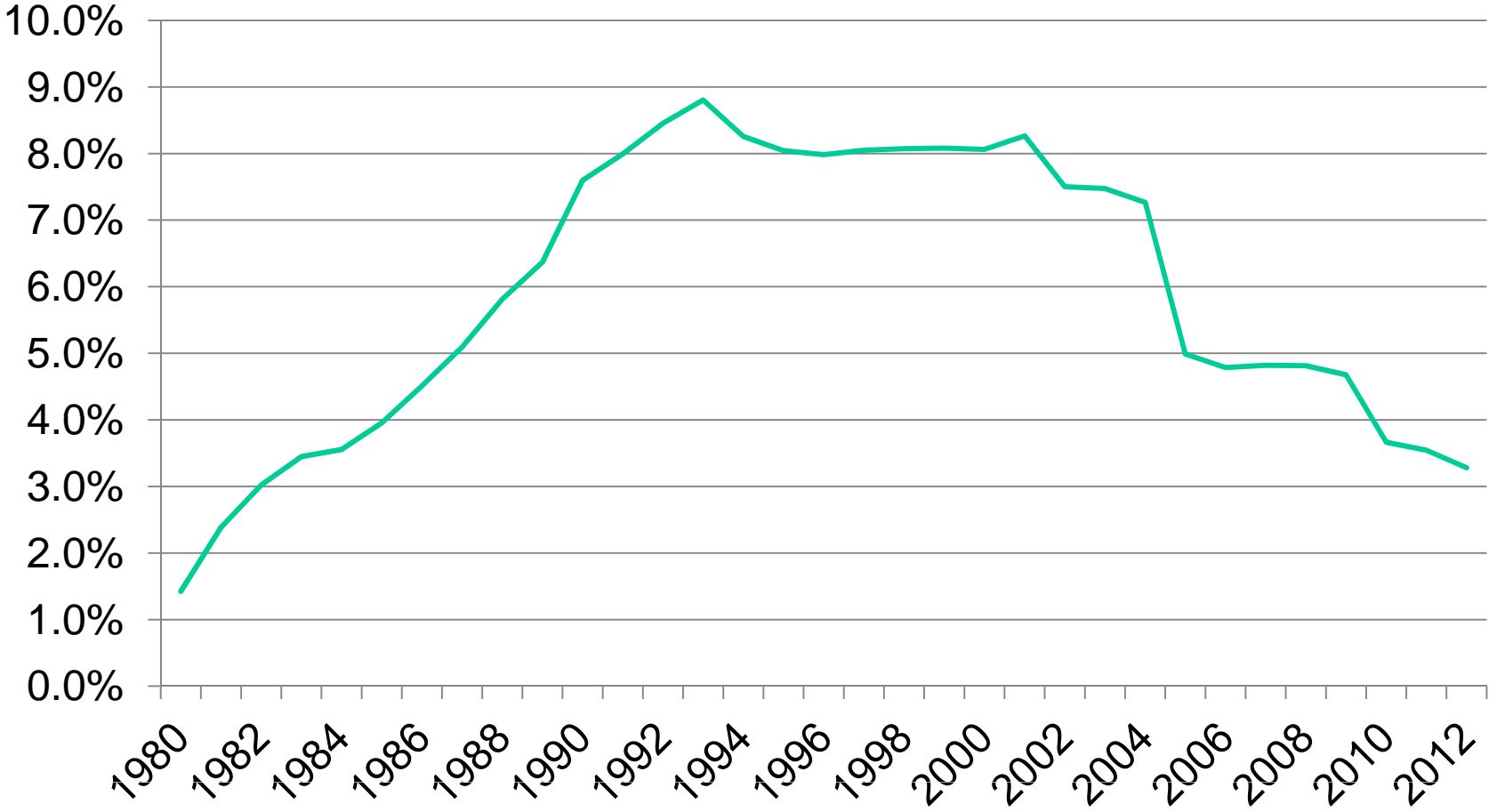
- Site acquisition and preparation
- Public improvements, e.g.:
 - Streets
 - Sewer and water
- Developer incentives (land write-downs etc.)
- Limited private improvements (housing mainly)

Prohibited Uses of TIF Revenues

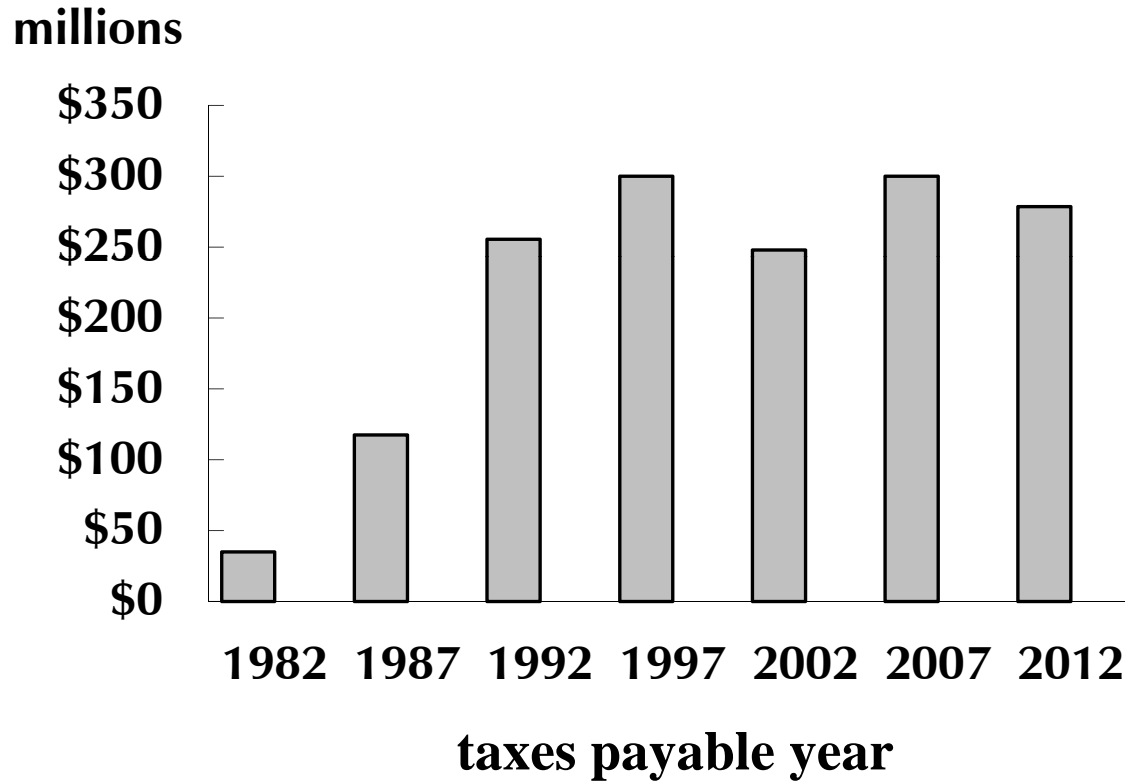
Anything not explicitly permitted by the TIF Act:

- Most government buildings
- Most private buildings and other improvements

Percent of Tax Base in TIF



Tax Increment Revenues

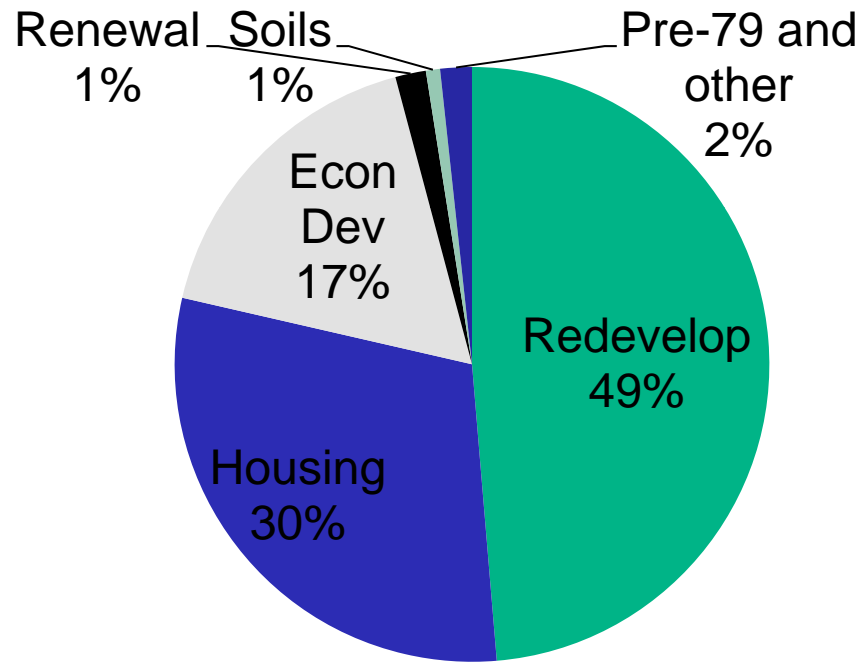


Source: Department of Revenue

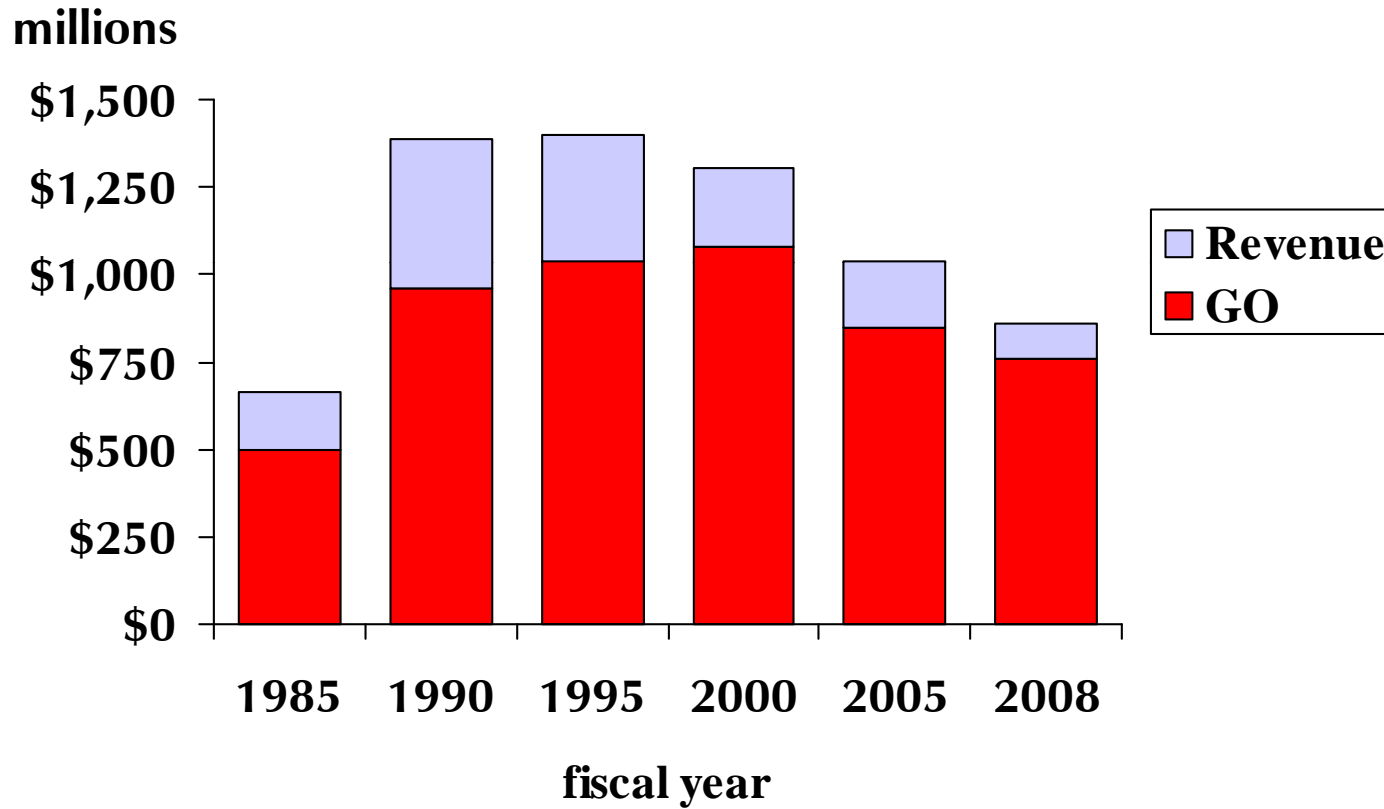
TIF Districts by Type

Calendar Year 2009

Total Number of Districts: 1,979



TIF Backed City Debt



Source: Office of State Auditor

Limitations on TIF

- **4-Year Rule** – activity required on parcels
- **Restrictions on pooling** - percentage limits on **increments** that may be spent outside of district
- **5-Year Rule** – time limit on spending for “in-district” activities
- **6-Year Rule** – in-district limited increments may only be spent to pay bonds and contracts meeting 5-year rule; when they are paid, district must be decertified

Property Tax Abatement for Economic Development

- City, county, and school district may “abate” only its own taxes.
- Abatement may be used for:
 - Development incentives
 - Public infrastructure financing
- Maximum duration limit is 10 years, but may be increased to 15 years, if only two units approve.
- Few limits on use.

Property Tax Abatement Permitted Purposes

- Increase or preserve tax base
- Provide jobs
- Public infrastructure financing
- Redevelopment
- Provide services to residents
- Phase-in property tax increases

Comparison of TIF and Abatement

Feature	TIF	Abatement
Approval	City only	City, county, school
But-for Test	Yes	No
Blight test	Yes/No	No
Duration	8 to 25 years	10 years
Use of Revenues	Restricted	Flexible

More Information on TIF

- House Research website, “TIF Primer”:
<http://www.house.leg.state.mn.us/hrd/issinfo/tifmain.htm?src=21>
- Office of State Auditor, for TIF reports, newsletters, guides, etc:
<http://www.osa.state.mn.us/list.aspx?type=rp&div=tif>