

# Faribault Area Chamber of Commerce and Tourism

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# Understanding Your Property Taxes

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# Valuation Methods

- Cost Approach
- Direct Sales Analysis
- Income Capitalization Approach

# Cost Approach

- Estimate the value of the site.
- Estimate the RCN of the improvements.
- Deduct the estimate of accrued depreciation
- Deduct accrued depreciation from the total cost to arrive at an estimate of depreciated cost.
- Add the site value to the total depreciated cost to arrive at an indicated value of the property.



# Direct Market Method

Study the relationships of variables that influence the fair market value of parcels that have sold recently and then use the results of the study to quantify changes in the values of those parcels that have not sold.

# Income Approach

## Types of Rents or Leases

- Gross Rents
- Modified Gross Lease
- Net Lease N
- Net Net Lease NN
- Net Net Net Lease NNN or Triple Net
- Absolute Net Lease

# Lease Comparison Grid

		Who Pays For:			
Lease Type	Utilities	Property Tax	Insurance	Property Maintenance	Structural Repairs
<b>Gross</b>	Landlord	Landlord	Landlord	Landlord	Landlord
<b>Modified Gross</b>		Tenant and landlord share expense			
<b>Single Net</b>	Tenant	Tenant or landlord		Landlord	Landlord
<b>Double Net</b>	Tenant	Tenant	Tenant	Landlord	Landlord
<b>Triple Net</b>	Tenant	Tenant	Tenant	Tenant	Landlord
<b>Absolute Net</b>	Tenant	Tenant	Tenant	Tenant	Tenant

## Leased Fee v. Fee Simple

- Real property is to be valued on a fee simple basis
- The courts say to use normal market rents
- When income property sells, it generally sells on the basis of leases in place at the time of sale. If they are market rent it can also be fee simple.



## Quality of CI assessments:

- median sales ratio between 90 and 105 percent



## How should CI properties be assessed

- Minnesota Statute (M.S. 273.11) requires property to be assessed at “market value.”
- The expectation also exists through statute, court decisions and policies, both explicitly and implicitly, that assessors are only to consider the fee simple ownership in their analysis and determination of market value.



# State General Levy

- 2001 legislative session, first state property levy since 1967.
- Tax is only on certain properties
  - Commercial-industrial properties
  - Seasonal residential recreational properties
- Revenue from the new tax will be deposited in the state general fund.

# State General Levy

- In 2002, the state general levy amount was \$592 million
- Increased each year by index of inflation
- In 2010;
  - Commercial-industrial properties is \$742,641,561.
  - Seasonal residential recreational properties is \$39,226,020
  - By statute 95% is assessed against C&I and 5% against SRR



# Rice County Payments to State Tax

• Northfield	\$2,000,885
• Faribault	\$2,620,665
• Dundas	\$ 354,345
• Total Rice County	\$6,103,656

# Rice County Cities compared to others

- Tax Capacity Rates

	<b>Tax rate</b>	<b>MV rate</b>
▫ Northfield	103.392	.27686
▫ Faribault	90.994	.10659
▫ Dundas	121.895	.26179
▫ Lonsdale	104.972	.09894
▫ Bridgewater	68.965	.26179

# \$400,000 Commercial Property

	<b>Tax rate</b>	<b>MV rate</b>	<b>Tax</b>
▫ Northfield	103.392	.27686	11,929
▫ Faribault	90.994	.10659	10,349
▫ Dundas	121.895	.26179	13,210
▫ Lonsdale	104.972	.09894	11,331
▫ Bridgewater	68.965	.26179	9,373

# Regional Tax Comparisons on \$400,000 Commercial Building

• Northfield	11,934	• Wabasha	12,172
• Faribault	10,349	• Caledonia	13,673
• Rochester	12,250	• Red Wing	12,950
• Albert Lea	13,690	• Owatonna	12,420
• Waseca	14,020	• Farmington	13,316
• Austin	11,532	• Lakeville	11,808
• Dodge Center	13,786	• Winona	11,000



# Reduced or deferred taxes.

- TIF
- JOBZ
- Tax Abatement

# How are property taxes figured?

EMV	1st tier	2nd tier	Tax Rate 1st tier	Tax Rate 2nd tier	Tax Capacity
400,000	150,000	250,000	1.5%	2.0%	7,250

## Rates

Ref MV Rate	0.0027686	\$ 1,107
Tax Cap Rate	1.03392	
School district	0.3115100	\$ 2,258
Rice County	0.2966300	\$ 2,151
Northfield City	0.4257790	\$ 3,087
State TC Rate	0.4588100	\$ 3,331
		<b>\$ 11,934</b>

# 2011 Changes in Homestead Benefits

- Repealed Market Value Credit
- Replaced Market Value Exclusion
- For taxes in 2012



# Change Causes Tax Increases

- State money no longer reducing taxes (\$260 million)
- Reduction in taxable value increases tax rates
- Reduction in taxable value shifts the relative burdens of who pays
- The exclusion provides less benefits than credits in low tax rate areas



# Tax Shift (Rice County Portion)

	<b>% Tax</b>	<b>No Levy Inc - shift</b>	<b>1.72% Levy Inc</b>	
Ag HS	12.34	.99%	2.75%	
Ag NH	6.57	18.83%	20.9%	
RES HS	46.57	2.26%	4.09%	
RES NH	11.45	11.1%	13.1%	
COM/IND	17.23	7.93%	9.89%	