

# Understanding Your Property Taxes

**2012 Edition  
For Taxes Payable in 2012**

**A EDUCATIONAL GUIDE FOR MINNESOTANS**

Center for **P**ublic **F**inance **R**esearch



RESEARCH IN GOVERNMENT

Research Arm of the Minnesota Taxpayers Association

**Focusing on  
Cities and Counties**

## **About the Minnesota Center for Public Finance Research**

The Minnesota Center for Public Finance Research, previously known as the Minnesota Tax Foundation, is the 501(c)3 supporting research and education organization for the Minnesota Taxpayers Association. The Center's mission is to provide objective research and analysis on state and local tax and spending issues in support of effective, efficient, and accountable government. The Center seeks to equip citizens to be influential voices for good government and sound fiscal policies by increasing public understanding of what government does. For access to this publication on line, visit our website at [www.mntax.org/cpfr](http://www.mntax.org/cpfr).

## **About the Minnesota Taxpayers Association**

The Minnesota Taxpayers Association was founded in 1926 for the purpose of disseminating factual information that will educate and inform all Minnesotans about Minnesota tax and spending policies. For eighty-five years, the Association has advocated for the adoption of sound fiscal policies through its research efforts, publications, and meetings.

The Association is a non-profit, non-partisan group supported by membership dues. For information about membership, call (651) 224-7477, or visit our web site at [www.mntax.org](http://www.mntax.org).

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### **Understanding Your Property Taxes: 2012 Edition**

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**I. Understanding Your Property Taxes**

Do rising property taxes irritate you? That isn't all bad. Irritating taxes are difficult to ignore. When taxes have our attention, chances are higher that we will follow their trail to check up on how those tax dollars (\$8.03 billion in property taxes statewide in 2011 and \$8.60 billion in 2012<sup>1</sup>) are being spent.

It is increasingly important for taxpayers to follow that spending trail. Too many of us let public officials, our neighbors, or others worry about the details and decisions that ultimately determine our tax bill. But don't assume that your interests are being represented. Learn how the property tax system works and get involved in the local budgeting and tax process.

We have designed this booklet to help you do just that. In an easy question-and-answer format we explain how the property tax is calculated, and provide recommendations and information on how to engage your local government officials on property tax issues. Nearly 100% of the local property tax bill on residences is either under your direct control through voter-approved levies, or indirectly through your local elected officials. You can have power over your property tax bill, and rising property taxes provide more incentive to be involved than ever before.

In November, local governments mail "truth in taxation" statements to you that describe the impacts their budgets may have on your 2012 property taxes. Being armed with that information and this booklet can help you get control of your property tax bill. Read on!

*Q: All right, I'm ready to learn. Start by telling me more about this "truth in taxation" notice.*

A: Concerned that property owners did not understand how, when, or by whom their property tax bills were determined, Minnesota enacted a truth-in-taxation law in 1991 to alert taxpayers about possible tax increases and to encourage them to get more involved in controlling their own tax bill. After November 10th but before November 25th all property owners receive a truth-in-taxation statement in the mail. Landlords must at least post their notice so their tenants can see it (renters pay property taxes, too; it's part of their rent). These notices show how the property tax on your residence or business will change if the budget decisions being proposed by your city, county, school district, and other tax districts are approved. We provide an example of a "T-n-T statement" from the Department of Revenue on the next page of this booklet. Column 1 shows the property taxes you paid on a jurisdiction-by-jurisdiction basis; Column 2 shows your proposed property tax bill for 2012 if the budget assumptions used to the notice are adopted.

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<sup>1</sup> *July 2011 Price of Government*, Minnesota Management and Budget, <<http://www.mmb.state.mn.us/doc/budget/report-pog/july11.pdf>>, accessed September 2011.

# Minnesota Center for Public Finance Research

Metro City  
Residential Homestead  
Example

## Your Proposed Property Tax for 2012 County of Spruce — This is Not a Bill • Do Not Pay —

Your local units of government have proposed the amount of property taxes that they will need for 2012. Column (1) below shows your actual 2011 property taxes. **Column (2) below shows what your 2012 property taxes will be if your local jurisdictions approve the property tax amounts they are now considering.** Any upcoming referendums, legal judgments, natural disasters, voter approved levy limit increases, or special assessments could change these amounts.

Your county commissioners, school board, city council (if your property is located in a city over 500 population), and metropolitan special taxing districts will soon be holding public meetings to discuss their proposed 2012 budgets and proposed 2012 property taxes. (The school board will discuss the 2011 budget). **You are invited to attend these meetings to express your opinion. The meeting places and times for these meetings are listed on the bottom of this notice.** Also shown are the addresses and telephone numbers for these local units of government if you have comments or questions concerning the proposed property tax amounts shown on this notice. There is no public meeting on the state general tax.

**Owner(s):** John J. and Mary A. Johnson  
Route 1, Box 283  
Spruceville, Minnesota 55555

**Legal description:** Section 32, Township 123, Range 37  
East 1/2 of Northwest 1/4

	Taxes payable in 2011	Taxes payable in 2012*
<b>Property address:</b> Route 1, Box 283 Spruceville, Minnesota 55555		
<b>Property classification:</b>	Res. Hstd.	Res. Hstd.
<b>Taxable market value:</b>	\$100,000	\$82,000

*Your taxable market value for property tax payable in 2012 was sent to you in the spring of 2011. The period to discuss possible changes has passed and changes can no longer be made to your property valuation. It is included here for your information only.*

*\*A new law effective beginning for pay 2012 converts the homestead market value credit to a market value exclusion. The pay 2012 taxable market value for homesteads reflects this exclusion.*

	Actual 2011 Property Tax	Proposed 2012 Property Tax	Percent Change
<b>TOTAL excluding special assessments</b>	<b>\$ 1,104.34</b>	<b>\$ 1,159.56</b>	<b>5.0%</b>
County of Spruce:	\$ 562.66	\$ 588.00	
City of Spruceville:	130.28	142.85	
State General Tax:	0.00	0.00	
School District 999: Voter Approved Levies:	188.94	184.42	
Other Local Levies:	190.90	209.61	
Metro Special Taxing Districts:	27.56	30.19	
Other Special Taxing Districts:	4.00	4.49	
Tax Increment Tax:	0.00	0.00	
Fiscal Disparity Tax:	0.00	0.00	

Budget and Tax Meetings: Locations and Dates	Mailing Addresses and Telephone Numbers:
Spruce County Spruce County Courthouse December 6, 2011 – 7:00 p.m.	County of Spruce Attention: County Board 123 Spruce Street Spruceville, MN 55555 Tel.: (555) 123-4567
City of Spruceville Spruceville City Hall December 1, 2011 – 6:30 p.m.	City of Spruceville Mayor's Office 321 Spruce Street Spruceville, MN 55555 Tel.: (555) 123-9867
School District 999 High School Cafeteria December 8, 2011 – 7:00 p.m.	Attention: School Board of District #999 Spruce High School 150-1st Street North Spruceville, MN 55555 Tel.: (555) 123-5432
Metropolitan Special Taxing Districts Mears Park Centre December 7, 2011 – 7:30 p.m.	Metro Council Mears Park Centre 230 East Fifth Street St. Paul, MN 55101 Tel.: (555) 123-9182

— This is Not a Bill • Do Not Pay —

*Q: Is there an opportunity to talk with local officials about this statement?*

A: Originally, the “T-n-T” process required local governments to hold meetings where citizens could react to proposed budgets and taxes; but the state discontinued that requirement in 2009. However, local governments may still voluntarily provide this meeting as an opportunity for citizens to learn about local budget decisions and their property tax impacts.

*Q: Is this the best time to attempt to influence local officials and make my voice heard?*

Unfortunately, no. By the time you get your truth-in-taxation statement the local budget process is nearly complete. Very little can or will be changed at this stage of the process. Truth-in-taxation statements and any accompanying hearings are designed to explain budget decisions rather than give you the opportunity to influence decisions. City and county officials begin planning their budgets around the preceding spring. These early meetings are critical, because they set the tone for the budget by examining spending priorities and determining whether or not the city or county budget should grow; and if so, by how much. We cannot emphasize enough the importance of taking part in these meetings if you want to influence local budgets (and by extension, property taxes).

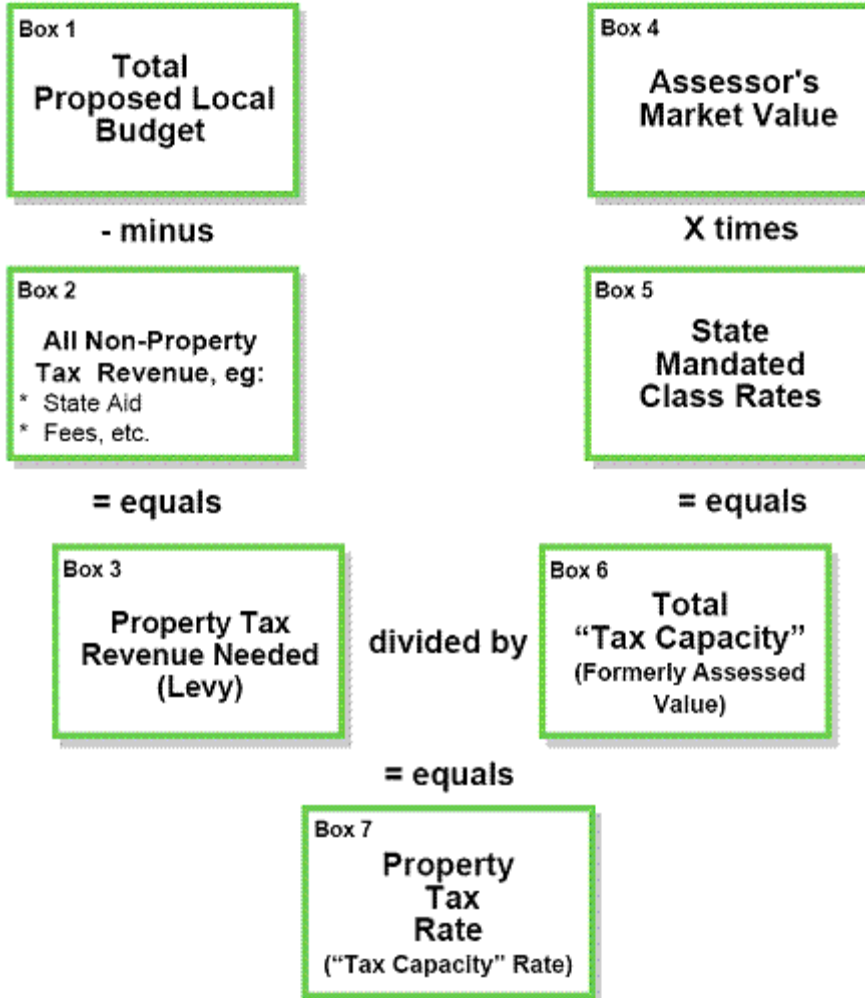
*Q: OK, so I get a warning notice about what’s going to happen to my property taxes in 2012, however to make a real difference I need to get involved earlier in the process. But the property tax is too complicated for me to understand. How can I get involved when I don’t understand what’s going on?*

A: Minnesota does have one of the more complicated property tax systems in the nation. However, you don’t have to be a property tax expert to let your local officials know that you want them to make sound judgments about local spending and your property tax bill. We’ll try to help you understand the basics with this booklet. The diagram on page 4 shows the basics of how the property tax bill is determined. We’ll refer back to it throughout this primer. Also, there are several helpful appendices at the back of this booklet with more information.

*Q: Where do we start?*

A: Your property is located in a city or township, a county, a school district, and one or more “special taxing districts” (for example, a watershed district) – these are all called “jurisdictions”. Each jurisdiction determines how much money it will have to spend during the upcoming year to provide the services it thinks you want or that it is required to provide by law (called mandates). Each jurisdiction’s proposed budget determines its revenue needs. Box 1 of the diagram on page 4 represents this proposed budget. Page 5 has some questions to ask your local officials about their budgets. Their answers to these questions will give you the basic outline for the budget, and should provide you with the information you need to ask appropriate follow-up questions to understand how and why local budgets are changing.

**How Your City and County Property Taxes Are Determined**



**YOUR PROPERTY TAX EQUALS:**

Your property's Market Value X Class Rate(s) X "Tax Capacity Rate"

Market value for residences is reduced by a value exclusion equal to 40% of market value for homes valued at up to \$76,000 and equal to \$30,400 minus 9% of the value over \$76,000 for homes valued at up to \$413,800. Homes valued above \$413,800 are not eligible for the exclusion.

*Q: I know that governments have to spend money to provide services and these are some good questions to ask. How does all this get translated to my property tax bill?*

A: Once you've received answers from your officials on spending, the next thing to understand is that the property tax is just one source of local revenue. Other major sources of local revenue that pay for this spending are state aid, fees, reserves, and non-property taxes. Importantly, the property tax is the "tax of last resort" – it pays for whatever local spending cannot be covered by these other revenue sources. Box 2

in the figure on page 4 depicts non-property tax revenues. The total amount of property tax revenue that each jurisdiction needs is the difference between amounts in Box 1 and Box 2 and is called the property tax “levy”, and is represented by Box 3 in the figure on page 4.

<b>Questions for Your Local Officials about Spending:</b>	
<b>Ask these questions</b>	<b>For these reasons</b>
<b>1. What is the dollar amount of proposed total spending for 2012?</b>	This is the total amount of spending that your local officials feel will be necessary in order to provide you, the taxpayer, with the goods and services they think you demand, or that is required of them by the state.
<b>2. How does that amount compare to what was spent last year? What is the annual percentage growth?</b>	These will tell you how fast total spending is growing. It will allow you to compare changes in local spending to changes in other measures such as inflation, or your own income.
<b>3. How does the growth compare to the rate of inflation?</b> <ul style="list-style-type: none"> <li>• The Consumer Price Index is projected to grow by 1.8% during calendar year 2012<sup>2</sup></li> <li>• Minnesotans’ nominal wage and salary income is expected to rise by 3.8% during 2011 (representing the second-lowest performance in 40 years of available data)<sup>3</sup></li> </ul>	
<b>4. What are the major spending categories?</b>	These will help you understand where your local tax dollars are going, and what programs or factors are the leading causes of the changes in total spending. Employee compensation is an especially important issue since cost of living adjustments, longevity raises, health care, and pension expenses are major local government cost drivers.
<b>5. Which categories are growing the fastest? Why? What are the relevant details of labor agreements with local government employees?</b>	
<b>6. How much of the proposed total spending is driven by mandates (not under local control) and how much is being spent to satisfy local preferences?</b>	Some spending is due to factors outside the control of local officials, and some spending is a result of local choices—including your choices.

<sup>2</sup> Minnesota Management and Budget, *April 2011 Economic Update*, <<http://www.mmb.state.mn.us/doc/budget/bud-op/op12/economic-update.pdf>>, accessed September 2011

<sup>3</sup> Minnesota Management and Budget, *February 2010 Economic Forecast*, <<http://www.mmb.state.mn.us/doc/fu/11/complete-feb11.pdf>>, accessed June 2011.

*Q: I have heard before that my property taxes must rise because the state aid to local governments is falling. Is that true?*

A: The answer you hear to this question will vary for each local government. State aids and credits are a chief source of non-property tax revenue – data from the State Auditor indicates that they comprised 19.0% of all city revenues and 25.4% of all county revenues in 2009 (the latest year available as of this writing). When the economy struggles and state budget deficits occur, the state often cuts aids to local government. In other cases, the state has decreased aid to one type of jurisdiction (cities for example) in order to provide more aid to other types of jurisdictions (schools for example). These decisions can place pressure on some local governments to raise property taxes to offset the loss of state aid.

“General purpose” aids are revenues that cities and counties may use for any purpose they see fit. The largest individual state aid to cities is a “general purpose” aid called Local Government Aid (LGA), projected to total \$425.4 million for 2012. Counties also receive general purpose aid, called “County Program Aid” (CPA), projected to total \$161.6 million for 2012. But counties also receive substantial aids from the state for very specific programs, especially those related to human services and highways. When the state cuts these aids, counties are still often mandated to deliver the service, which increases the pressure on property taxes even more.

**Just because state aid has declined does NOT mean that property taxes have to go up.** Like the state, local governments can also cut spending to balance budgets. When state aids decrease in response to state budget cuts, ask your local officials to look for ways to cut their budgets as well. Also, when aid is decreased for one type of jurisdiction and increased by the same amount for another (that is, shifted from one to another), you should expect the resulting tax increase in the losing jurisdiction to be somewhat offset by a tax decrease in the jurisdiction getting the increased aid. Finally, in years when state aid is increased, taxpayers cannot assume that property taxes will automatically fall. Local government officials may decide that a decrease in one portion of a taxpayer’s property tax bill (such as happened for schools in 2002) may give them “room” to increase taxes in their jurisdiction. Taxpayers must be watchful to make sure that proposed property tax levies are set at an appropriate level.

In short, state aids can reduce property tax pressures but they can also encourage more spending than would otherwise be supported by local property taxpayers. When the state cuts aids, local governments must either reduce spending or find funding from another source. Determining whether aid cuts really need to trigger property tax increases requires some investigation into revenue and spending issues affecting your local government.

Ultimately, you and your fellow citizens – through your locally elected officials – get to determine the right balance between the amount of property taxes you pay and the level and quality of local services you receive. The following table offers some ideas on questions to ask your local officials to help you answer this important question.

<b>Questions for Your Local Officials about Revenue:</b>	
<b>Ask these questions</b>	<b>For these reasons</b>
<b>1. What sources of revenue were used to pay for what was spent in the current year (2011)? What percentage of total revenue came from each source?</b>	<b>This will help you understand the relative importance of the property taxes in financing local spending.</b>
<b>2. What is the projected change in each of the major revenue sources for 2012?</b>	<b>This will help you determine how much of the change in property taxes is due to changes in spending versus changes in the mix of revenue sources.</b>
<b>3. Please explain the reasons for the major changes in these revenue sources.</b>	<b>This will help you understand why dependence on the property tax may be changing.</b>
<b>4. Did our community lose revenue because of cuts in state aid?</b>	<b>Cuts in state aid mean your community loses revenues. They can be offset by cutting spending or raising property taxes, or other revenue sources.</b>
<b>If so, how much?</b>	<b>This will tell you how much pressure to raise taxes or cut spending is due to changes in state aid.</b>
<b>Have we made a good faith effort to cut our spending to adjust to the loss in aid?</b>	<b>Aid cuts should never be an excuse to tax more before inefficient spending is reduced—be sure spending cuts and reforms were considered as an alternative to higher taxes.</b>
<b>5. Did the Legislature transfer any aid from one jurisdiction to another? How much?</b>	<b>A dollar of aid transferred from your city to your schools should be expected to have little detrimental effect on YOU. The resulting city tax increase should be offset by a drop in school taxes.</b>

*Q: So, total spending explains the level of total revenue, and the share of spending financed from the property tax depends on what's available from the other sources. Does this mean that every time spending rises or revenue from other sources falls my property tax bill rises?*

A: Generally, yes, unless your local government cuts spending to balance out the revenue losses. But there are other factors that affect your tax bill. They include the total “market value” and “tax capacity” of all property in your community and your own property’s share of each.

*Q: Can you explain how these things affect my tax bill?*

A: Let’s start with the “market value” of all property in your community. Overall changes in the value of property in your community affects your share of the total property tax levy. Your county assessor estimates the actual market value of every

property in your community as of each January. That value is used to calculate the taxes you will pay – the January 2011 value will be used to calculate the taxes you pay in 2012. This piece of the property tax puzzle is presented by Box 4 in the figure on page 4. If you feel the assessor has unfairly or unrealistically valued your property, see Appendix B on page 15 for information on how to appeal the assessment.

Now, suppose all property values in your community remained unchanged between January 2010 and January 2011, no new property was added to the tax rolls, and no improvements were made to any property. In this case, your share of your community's 2012 property tax bill would be the same as in 2011. (However, the amount you pay would rise if your community raises additional property tax revenue.)

But if there is a lot of new construction in your community, or the value of other properties grows faster than yours, your share of the total property tax levy would fall because there are more taxpayers or more property wealth to help pay for your community's spending decisions.

It's important to note that your share of the total property tax bill can rise even if property values are stagnant or falling. If the value of other properties in your community falls faster than yours, your property will represent a larger share of the overall tax base. Even if the your community doesn't change its overall property tax levy, this shifting of the tax base can cause your property tax bill by shifting more of the existing tax onto your property.

***This leads to a very important point that all property taxpayers need to understand: in Minnesota market value distributes the tax burden; it does not create the tax burden.*** Property tax bills are influenced in part by changes in property value relative to value changes in the rest of your community. ***But the AMOUNT of property taxes collected is still determined by elected officials in the levy setting process.***

***Q: I get that property value only distributes the property tax and doesn't affect the overall amount of tax collected. But shouldn't there still be protection for us from tax bills growing faster than we are able to pay for because of value increases?***

A: In 1993, the Legislature passed a measure known as "Limited Market Value" (LMV) to provide some time for homeowners, cabin owners, and farmers to adjust their budgets to rapidly rising values. However, LMV disappeared beginning with assessment year 2009, taxes payable in 2010; and a future Legislature would need to resurrect the program.

<b>Questions To Ask About Market Values:</b>	
<b>Ask your local officials</b>	<b>For these reasons</b>
1. What is the projected growth rate in total market value for property taxes to be paid in 2012?	If the growth in total market value in your community is less than the growth in the portion of spending that is financed with property taxes, property tax rates will rise, but...
2. What percentage of the projected growth in market value is from new construction?	New construction or greater growth in the value of other properties relative to yours may reduce your property tax burden.
3. What percentage of the projected growth in market value was from residential homes, commercial and industrial property, farms, and rental property?	If the growth in market values of other classes of property is greater than that of your property class, your property tax share will fall (all else being constant).
4. To what extent are you using market value increases to raise more property tax dollars?	Sometimes, local officials will advertise that they have “held the line” on property taxes by keeping the rate the same or cutting it slightly. What the public isn’t generally told when that happens is that when market values are rising, rates can be cut, and they will still collect more property tax dollars.
<b>Ask yourself</b>	<b>For these reasons</b>
1. Have I made significant improvements to my property that would cause its value to increase faster than that of the average home?	Major improvements to your property will cause the market value of your property to rise faster than that of other properties. This will increase your property tax bill and your share of total property taxes collected.
2. Is the assessed value of my home reasonably accurate? (If you think it is over-stated, you may appeal the assessment by contacting your county assessor’s office. See Appendix B on page 40 for more information.)	While strict standards of assessment are imposed on county assessors, the assessment of property values is still partly an art. Errors in judgment or simple mistakes can result in an over-assessment and a tax bill that is higher than it should be.

Why did Limited Market Value end? Minnesota Department of Revenue research showed that all these assessment limits did was shift burdens across property types, often in unpredictable or regressive ways. In fact, the Department of Revenue

concluded that the majority of Minnesota homeowners would have had lower property taxes if LMV didn't exist in the first place.<sup>4</sup>

*Q: That helps clarify the role of "market value" better now, but what is "tax capacity"?*

A: State policymakers have not been willing to let market values alone determine the share of property taxes you pay. They have decided that certain "classes" of property (such as homes, apartments, and commercial property) should pay more or less than the share that would result if only market values were used.

So market values are transformed by something called "classification rates" into what are called "tax capacities." The market value of your property is multiplied by the appropriate classification rate (say 1%) to arrive at its "tax capacity." By changing these rates, the state can change the share of tax capacity for each property class and consequently change the share of property taxes paid by each class. In effect, the classification system shifts property taxes from "more-favored" classes to "less-favored" classes. Box 5 in the diagram on page 4 represents this part of property tax policy.

For example, in 2011, residential homes accounted for 52.2% of all market value<sup>5</sup> in the state, but because of the classification process, homes will account for only 45.1% of total property taxes paid. When only the local tax is considered (excluding the statewide tax on businesses and cabins), residential homes paid 49.8% of the tax.<sup>6</sup>

Commercial-industrial property, on the other hand, comprised 13.3% of all indicated market value in the state in 2011 but paid 31.6% of total property taxes. In some instances, Minnesota's commercial businesses pay among the highest property taxes in the nation. (Our annual *50-State Property Tax Comparison Study* provides details.) This high ranking for business property was part of the motivation for the property tax system reform that culminated in 2001. The 1997-99 changes reduced that rank from 1st to 5th highest for commercial property.<sup>7</sup> The changes made in 2001 lowered that rank even further to 9th highest in payable 2002, and 10th in 2010. Also, the changes mean that business properties pay only 25.7% of the local tax (in 2011), when the statewide tax on business and cabin property is excluded.

In general, commercial and industrial properties, apartments, and public utility properties pay about \$1.5 billion more in property taxes per year because of Minnesota's classification system. Other classes, particularly lower-valued homes and farm land, benefit from classification. Residences (including farm homesteads) valued under \$413,800 are also subsidized via the homestead market value exclusion,

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<sup>4</sup> Minnesota Department of Revenue *Limited Market Value Report*, various years. Available at [http://www.taxes.state.mn.us/taxes/legal\\_policy/research\\_reports/content/lmv\\_studies.shtml](http://www.taxes.state.mn.us/taxes/legal_policy/research_reports/content/lmv_studies.shtml)

<sup>5</sup> These calculations adjust an assessor's estimate taxable value using "sales ratio" data – a comparison of assessed values to actual sales values. This allows us to account for county-to-county differences in assessment practices.

<sup>6</sup> Calculations by MTA, data from Minnesota Department of Revenue.

<sup>7</sup> Commercial building with real property value of \$1 million, urban comparison.

which shifts a portion of the tax burden for these properties onto all other property taxpayers.

Your property's share of "total tax capacity" represented by Box 6 in the figure on page 4, determines your share of the total property tax burden for cities and counties. (The market value exclusion lowers the shares of residential homestead and farm property taxes beyond the effect of classification.) For a listing of selected 2012 classification rates, how they have changed from 2001, and an example of their use, see Appendix C on page 41.

*Q: So in general, local spending, market values AND classification rates affect my tax bill. But what about my specific property?*

A: That's the final piece. Generally, the values of individual properties in a community don't grow uniformly. Market conditions and property improvements cause the value of some property to grow faster or slower than that of others. If your property value, for whatever reason, grows faster than that of other properties, it will cause your share of total market value, total tax capacity, and ultimately your total property tax bill to rise (even with no spending increases or changes in classification rates.)

*Q: Let's see if I have this straight. My city, county, and other taxing authorities each determine what they need or want to spend. Then if they can't get enough revenue to cover that spending from other sources, they turn to the property tax. Next, my share of the total property tax bill is determined by the market value of my property and the state-set classification rates which determine my "tax capacity". Correct?*

A: That's it! And each jurisdiction's actual tax rate (tax per dollar of tax capacity) is determined by dividing its total property tax levy by its total tax capacity. Your final property tax bill is equal to each jurisdiction's tax rate multiplied by your property's tax capacity minus any credits. This is represented by Box 7 in the figure on page 4.

*Q: You just talked about a "Homestead Market Value Exclusion". I've heard a lot about this. What's all the fuss about?*

A: Up until 2011, homeowners across the state were eligible for the Homestead Market Value Credit – a state-paid credit against property taxes based on the value of your home. In 2011, the legislature eliminated the credit and replaced it with a Homestead Market Value Exclusion – which reduces the amount of a home's value subject to the property tax. Like the credit, the amount of the exclusion is based on your home's value.

Both the credit and the exclusion reduced property taxes for homeowners whose homes were at or below at certain value. The big change is that the state no longer pays for the benefit – instead, local property owners with properties that don't qualify for the exclusion (business properties and higher-valued homes) now pay for the subsidy instead. However, the state rarely provided enough funding to pay for the

entire credit, and local governments were required to pay for the state's unfunded share.

The Minnesota Department of Revenue has a short publication that does a good job of describing the change in detail and what implications the change may have. You can access it at <http://taxes.state.mn.us/property/Documents/hmve-taxpayers.pdf>.

*Q: My property tax bill seems to depend on a lot of factors outside my control, like my property value and the classification rates. How can I get control of my property tax bill?*

A: There are three possibilities, but only the third will work in the long run:

*1. Reduce your share of the property tax by getting the legislature to shift your share to other classes of property (by changing classification rates).*

This won't work in the long run. High-valued homes, apartments, commercial and industrial property, and certain other property types already subsidize other property classes by over \$1.5 billion per year. Property taxes for some of these classes are among the highest in the nation, though their ranking has come down over recent years. And ultimately, higher property taxes on other classes of property come right back to you through higher prices or lower wages or both. Besides being unfair, these high burdens actually discourage new construction and the creation of new jobs. Remember, new construction, besides creating jobs, helps you shoulder the burden of the property tax!

*2. Pay higher non-property taxes.*

Your property tax could be lower if you pay more local fees, or other local taxes, or if you are willing to pay higher state income or sales taxes so that the state could afford to pay more state aid to reduce local reliance on the property tax. This is what the state did beginning in the late 1960s and early 1970s – using proceeds from increased sales and income taxes to “buy down” property taxes. Therefore, although Minnesotans pay a relatively low amount in property taxes (27<sup>th</sup> in the country in fiscal year 2009 when measured per \$1,000 of income), the overall tax burden is substantially higher (14<sup>th</sup> in the country in fiscal year 2009 when measured per \$1,000 of income).

The problem is that local governments often use these revenues for new spending instead of property tax relief. A 1990 report by the Office of the Legislative Auditor regarding the state-local fiscal relationship estimated that 82% of the aid provided to cities was used to finance additional spending; only 18% was used to provide property tax relief. Findings such as these provide a basis for questioning whether this strategy of raising one tax to lower another one has not been shown to be a viable long-term solution for property tax relief,

*3. Get your local officials to reduce that part of spending which is controllable, and your state or federal officials to reduce or eliminate unnecessary spending mandates.*

This is the only course of action that can be successful in the long run. But you have to get involved to make it happen. The local budgets that will affect your 2012 tax bill are being built right now. Don't wait for your "Truth-in-Taxation" notice to get involved. It is important for you to start early in the year – contact your local governments to find out how to participate in the budget process from the beginning.

***Q: But how can I know how much my local governments should be spending?***

A: You can review available information from your local governments, then ask a lot of questions at your local budget hearings. To help you, we've provided the latest available city and county spending information from the State Auditor (in the back of this booklet.) School district "Profiles" are available from the Department of Education ([www.education.state.mn.us](http://www.education.state.mn.us)).

***Q: Hey! What happened to all the nifty tables you used to have?***

A: We included information on local government revenues and spending in previous editions of "Understanding Your Property Taxes". That information came from the Office of the State Auditor (OSA). We have stopped including it for a number of reasons. Most importantly, the State Auditor's website now includes a tool that allows citizens to look up that same information for individual cities and make comparisons across time or to other cities. Citizens can find that tool at <http://www.osa.state.mn.us/default.aspx?page=ComparisonTools>.

However, we also believe the city and county finance data from the OSA has limited value for comparative purposes. It's important to remember that the OSA's mission is to oversee local government finances. The OSA collects financial data for auditing purposes – to ensure that government employees don't pocket public dollars for personal gain. The OSA staff carry out this mission expertly and capably, but the resulting data has limited usefulness for the following reasons.

- The most current local government finance data available from the OSA are generally two years old. This time lag is not surprising given that the data must go through an audit process, but two-year-old information may not accurately represent a city or county's current financial situation.
- Cities and counties may report spending for the same function or item in different spending categories. This can create misleading comparisons between cities or counties.
- Cities and counties provide different levels of service, and some cities and counties will provide services that others do not. Again, without understanding of these different service levels, a simple comparison of spending numbers may be misleading.

Benchmarking local government costs is a useful way to compare efficiencies and perhaps uncover best practices. The OSA data is a helpful tool, but citizens should view comparisons using this data as a starting point, not an ending point.

**II. Appendix A: How to Be More Effective in Monitoring Local Budget Preparations**

Because your property is located in several taxing jurisdictions, a city, a county, a school district, and other special districts, it is very difficult for you to be “on top” of budget developments of all those “taxing authorities.”

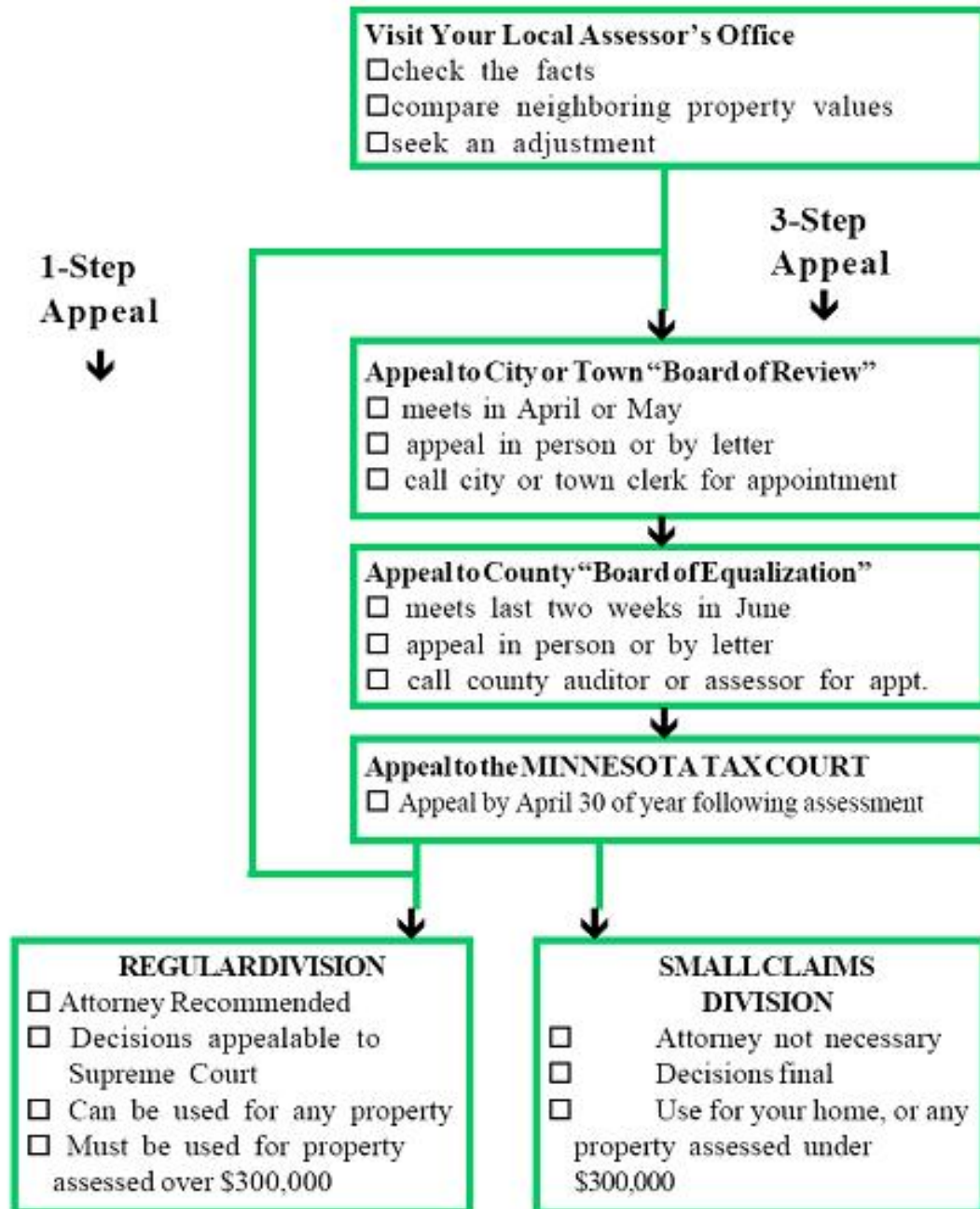
Here are some ideas on how to be more effective in monitoring the budget developments that will affect your tax bill next year:

- Check with your local officials about how you and your neighbors can get more involved in the budgeting decisions early in the budget building process. Most large jurisdictions start building their budgets early in the year preceding the budget year (e.g. early 2012 for the 2013 budget). You can get in on the ground floor early next year.
- You might want to organize a neighborhood budget committee. The committee might be broken down into separate task forces--one for your city budget, one for your county budget, and one for the school budget.
- Each task force could designate one or more persons to attend the budget meetings and get more involved in the details of budgeting. They could regularly report developments back to the task force, and each task force could report to the full committee at certain intervals. The task forces could also be used as a way to get educated about the issues and mechanics of spending programs. Invite experts to address your group about local issues and options.
- Some jurisdictions use citizen advisory committees as a study group or sounding board on budget decisions. Ask your local officials how you can be appointed to such committees.
- Contact various community organizations for educational material that will help you understand the issues facing your local officials. Seek out your local officials and ask questions about budgeting plans. Don't be shy--you are not expected to know everything.

**GET INVOLVED!** If you don't, the budgeting process will be dominated and controlled by special interest groups that generally lobby for more spending. And more spending means higher taxes.

**III. Appendix B: Do You Think Your Property is Over-Assessed?**

Because your property is located in several taxing jurisdictions, a city, a county, a school district, and other special districts, it is very difficult for you to be “on top” of budget developments of all those “taxing authorities.”



For more information about the Tax Court write to Minnesota Tax Court, Minnesota Judicial Center, Suite 245, 25 Rev. Dr. Martin Luther King, Jr. Blvd., St. Paul, MN 55155; call 651-296-2806; or go to <http://www.taxcourt.state.mn.us>

**IV. Appendix C: Property Tax Classification Rates: What They Are, How They Work**

The legislature is not content to let the distribution of property tax burdens be determined by market values alone, so they devised a set of “classification rates” for various “classes” of property. The classification rates on selected properties for taxes payable 2012 are shown below.

PROPERTY CLASS	PAY 2012 CLASSIFICATION RATE
<b>Residential Homesteads and Non-Homesteads (1 unit only)</b> First \$500,000 of market value Value over \$500,000	1.0% 1.25%
<b>Commercial and Industrial</b> First \$150,000 of market value Value over \$150,000	1.5% 2.0%
<b>Farm Homesteads</b> House, garage, and one acre Land value up to \$1,140,000 Land value over \$1,140,000	Same as residential homestead 0.5% 1.0%
<b>Farm Non-Homesteads</b> House, garage, and one acre Land	Same as residential non-homestead 1.0%
<b>Residential Rental (apartments)</b> 4 or more units	1.25%
<b>Seasonal Cabins (non-commercial)</b> First \$500,000 of market value Value over \$500,000	1.0% 1.25%

**How to Use Classification Rates:**

Example: Suppose your home is valued at \$150,000 and your local tax rate is 1.35 (135% of tax capacity, see diagram on page 4 for how your tax rate is determined.)

**Your Home’s Market Value Exclusion**

**Exclusion is equal to 40% of market value, to a maximum of \$30,400; phased out by 9% of market value above \$76,000.**

**Exclusion = (40% times \$76,000), minus 9% of \$74,000**

**Or = \$30,400 minus \$6,660 = \$23,740**

**Your Home’s Tax Capacity = (\$150,000 minus \$23,740), times 1% = \$1,262.60**

**Your Property Tax = (Tax Capacity times Tax Rate)  
(\$1,263 times 135%) = \$1,705.05**



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