

Overview of Property Taxes

House Research Department and Fiscal Analysis Department

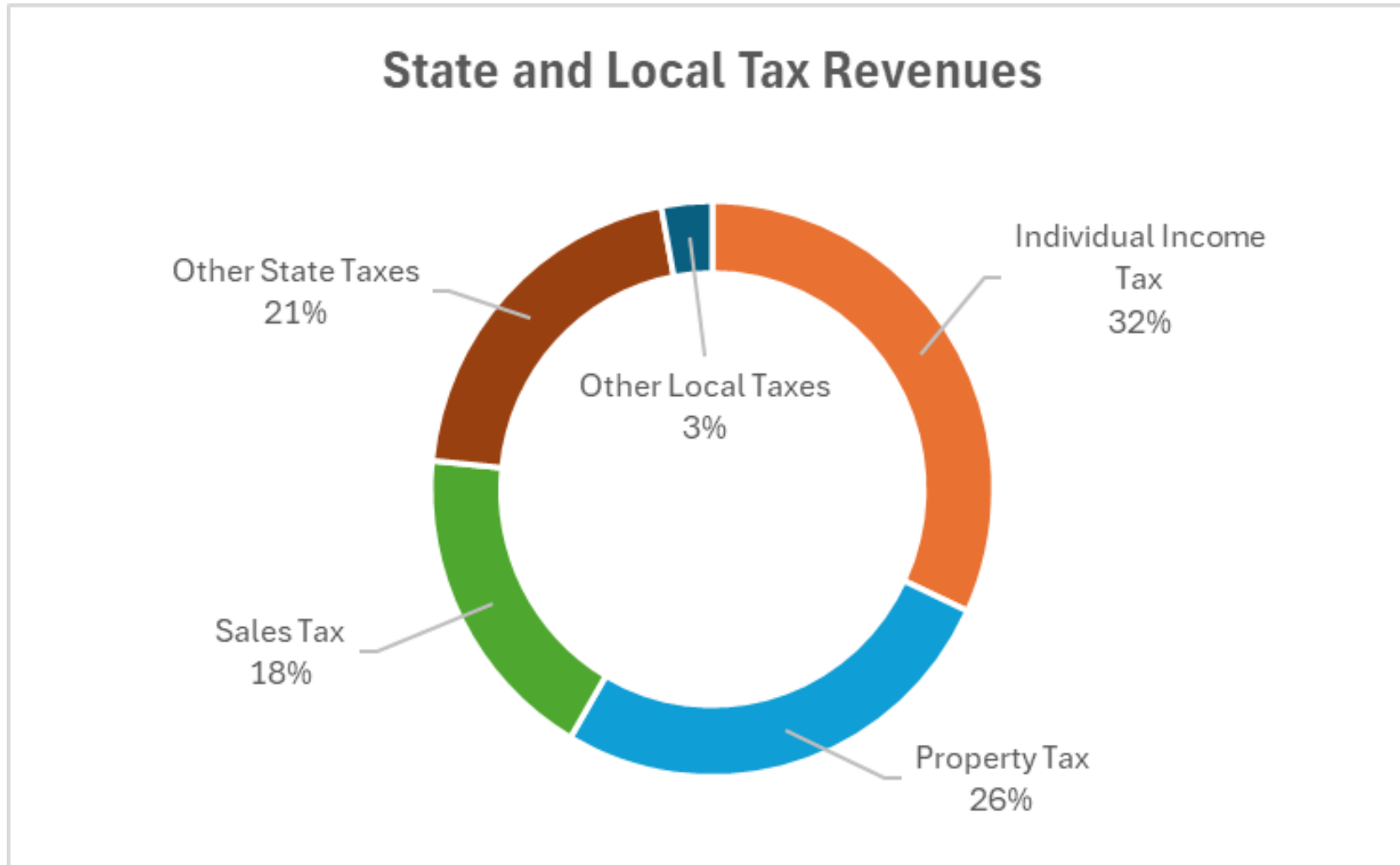
January 2025

Outline

- Property Tax System
- Property Tax Relief and State Aid Programs
- State and Local Fiscal Relationship
- Tax Increment Financing

Property Tax System

Property Tax as a Share of All State and Local Tax Revenues (\$46.5 billion in FY 2024)



Property Tax

- Primarily a local tax
 - Counties, cities/townships, school districts, and special taxing districts (e.g., watershed districts)
- Levy based system
 - Jurisdiction sets levy
 - Levy applied to all properties based on share of tax base
 - County collects tax, distributes fund to other jurisdictions
- Relief mechanisms
 - Shifting burdens (exclusions, classification rates)
 - State-paid relief (credits, refunds)
 - Levy reductions (aids to local governments, levy limits)

Property Tax Cycle: Taxes Paid in 2025

2024

| | |
|--------------|--------------------------------|
| January | Assessment (2nd) |
| March | Valuation notices mailed |
| April - June | Appeals |
| September | Truth-in-taxation levies set |
| November | Truth-in-taxation notices sent |
| December | Final 2025 levies certified |

2025

| | |
|----------|--------------------------------|
| January | County auditors compute rates |
| March | Property tax statements sent |
| May | 1st half tax payments due |
| October | Most 2nd half tax payments due |
| November | Ag 2nd half tax payments due |

Property Tax Calculation

1. Calculate Tax Rate

How much a jurisdiction wants to collect

$$\frac{\textit{Levy}}{\textit{Base}} = \textit{Tax Rate}$$

Total of all property value in jurisdiction

2. Calculate Tax Owed


$$\textit{Tax Rate} \times \textit{Value} = \textit{Tax Owed}$$

Two Different Tax Bases

Referendum Market Value (RMV)

- **Use:** School operating levies (13% of total overall property tax)
- **Property types:** Excludes
 - Agricultural
 - Seasonal recreational
 - Student housing
- **Calculated** (for most property):
 - RMV = estimated market value

Net Tax Capacity (NTC)

- **Use:** All other levies
- **Property types:** All property types
- **Calculated:**
 - $\text{NTC} = (\text{estimated market value} - \text{exclusions}) \times \text{classification rate}$

Class Rates: Pay 2025

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

Class Rates: Pay 2023

| | 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 Nonhomestead (2-3 units) | | 1.25 |
| 4c | Seasonal recreational (noncommercial) | Under \$500,000 Over \$500,000 | 1.0 1.25 |

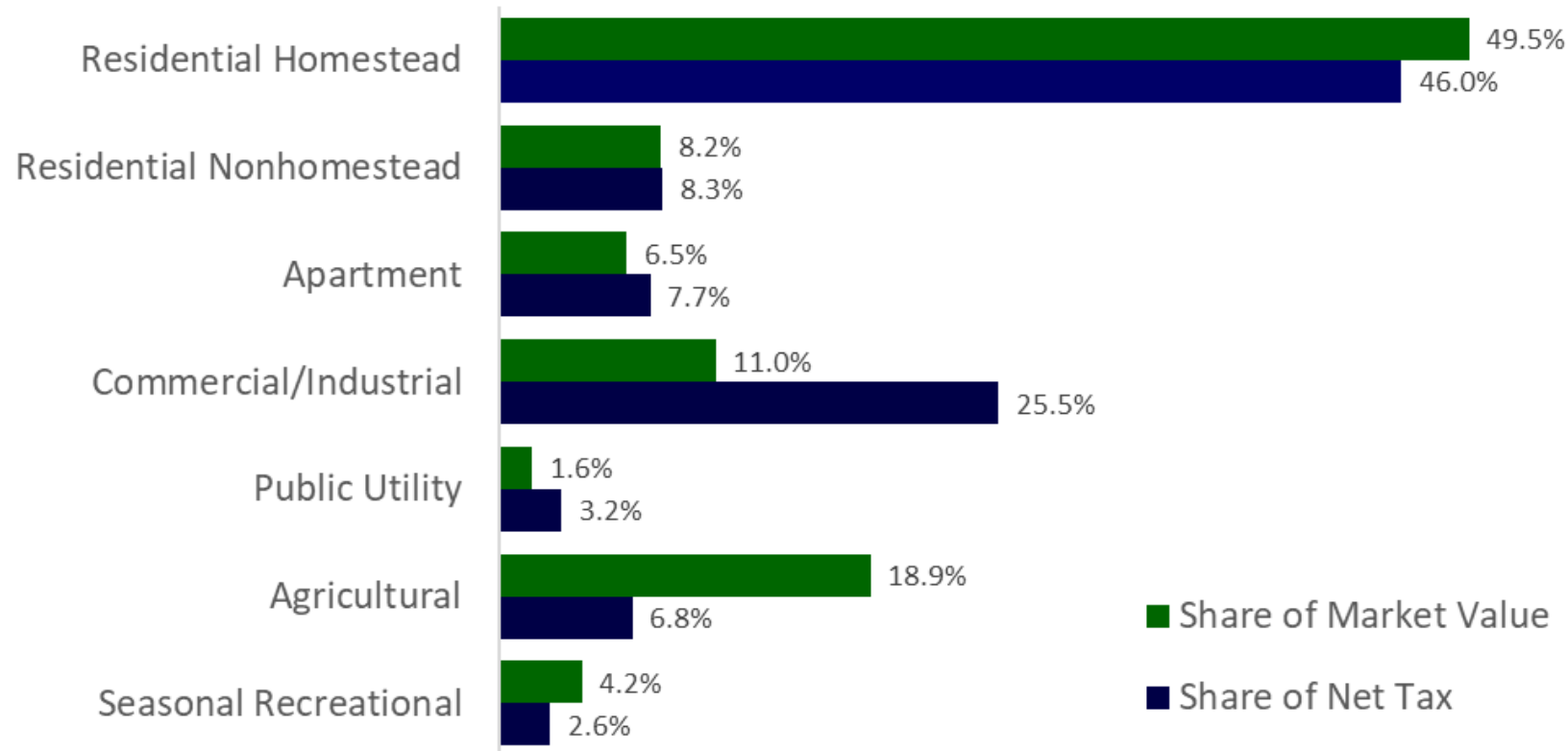
Property Tax Variation by Property Type

\$250,000 Property

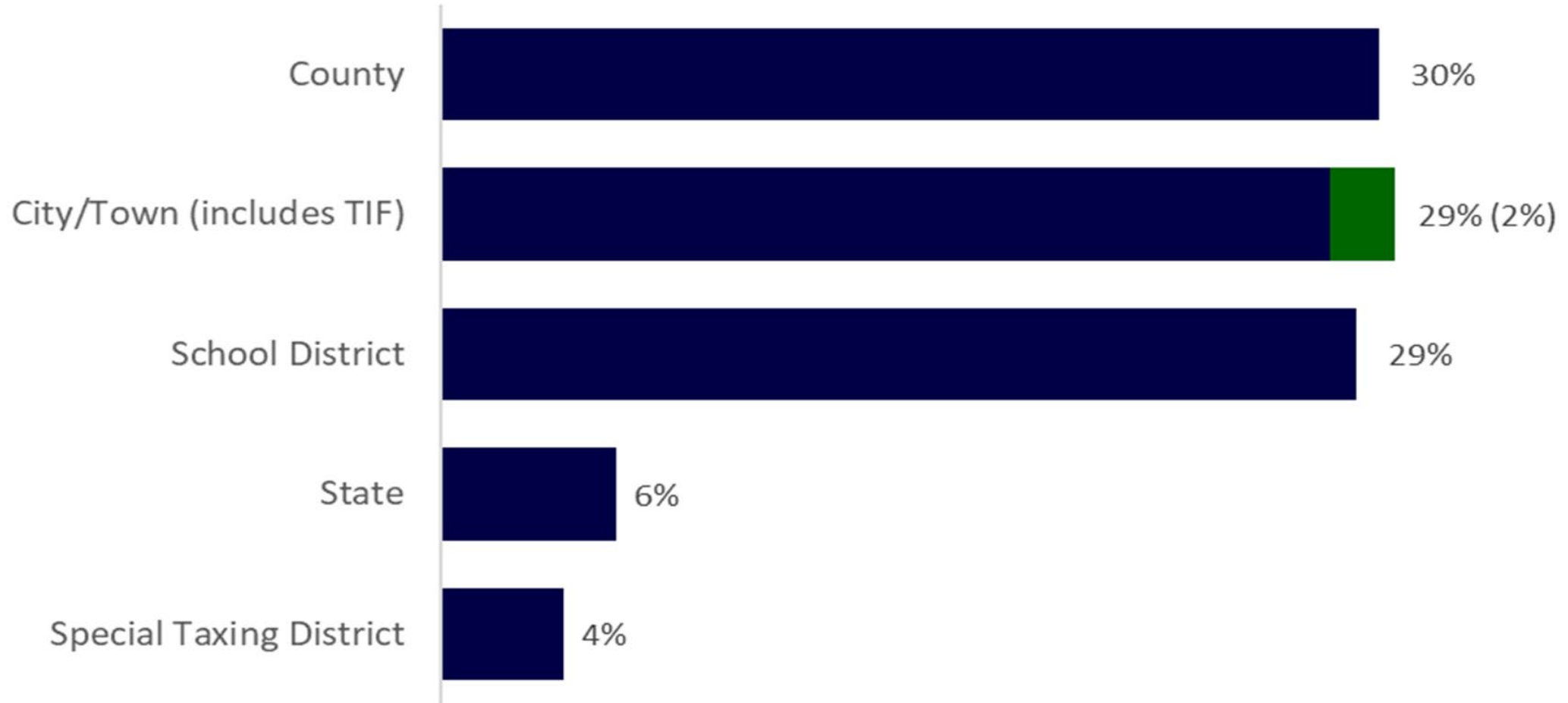
| Property Type | Class Rate | Net Tax Capacity | Tax Due (After Credits) | Effective Tax Rate |
|--|------------|------------------|-------------------------|--------------------|
| Agricultural Homestead (\$50,000 house, \$200,000 land, \$452 in credits) | 0.5/1.0% | \$1,300 | \$813 | 0.33% |
| Residential Homestead | 1.0 | 2,260 | 2,509 | 1.00 |
| Seasonal Recreational | 1.0 | 2,500 | 2,521 | 1.01 |
| Apartment | 1.25 | 3,125 | 3,288 | 1.32 |
| Commercial/Industrial | 1.5/2.0 | 3,875 | 4,560 | 1.82 |

These examples assume a total local net tax capacity tax rate of 90 percent, a total market value tax rate of 0.19 percent, a state commercial-industrial tax rate of 29.86 percent, and a state seasonal recreational tax rate of 10.64 percent.

Shares of Market Value and Net Tax (Property Taxes Payable in 2024)



Where Property Taxes Go (Property Taxes Payable in 2024; \$13.0 billion)



State General Levy

- Levy is \$758.7 million in CY 2024
 - \$717 million applies to commercial-industrial property (C/I)
 - \$42 million applies to seasonal recreational property
- Levy was created in 2001
- Recent changes:
 - Eliminated annual inflationary increases (2017)
 - Levy reduced by \$70.1 million (2019 and 2021)
 - Exempt first \$150,000 of C/I value from levy (2021)

Comparison to Other States

Minnesota ranking among large cities

| Type of Property | National Ranking (out of 53) |
|-----------------------------------|------------------------------|
| Median valued home (\$347,300) | 24 th |
| \$ 1 million commercial property | 13 th |
| \$ 1 million industrial property* | 37 th |
| \$ 600,000 apartment | 27 th |

Minnesota ranking among rural cities

| Type of Property | National Ranking (out of 50) |
|-----------------------------------|------------------------------|
| Median valued home (\$204,500) | 24 th |
| \$ 1 million commercial property | 6 th |
| \$ 1 million industrial property* | 12 th |
| \$ 600,000 apartment | 22 nd |

* Based on assumption of 60 percent personal property.

Source: 50-State Property Tax Comparison Study (2024)

Property Tax Relief and State Aid Programs

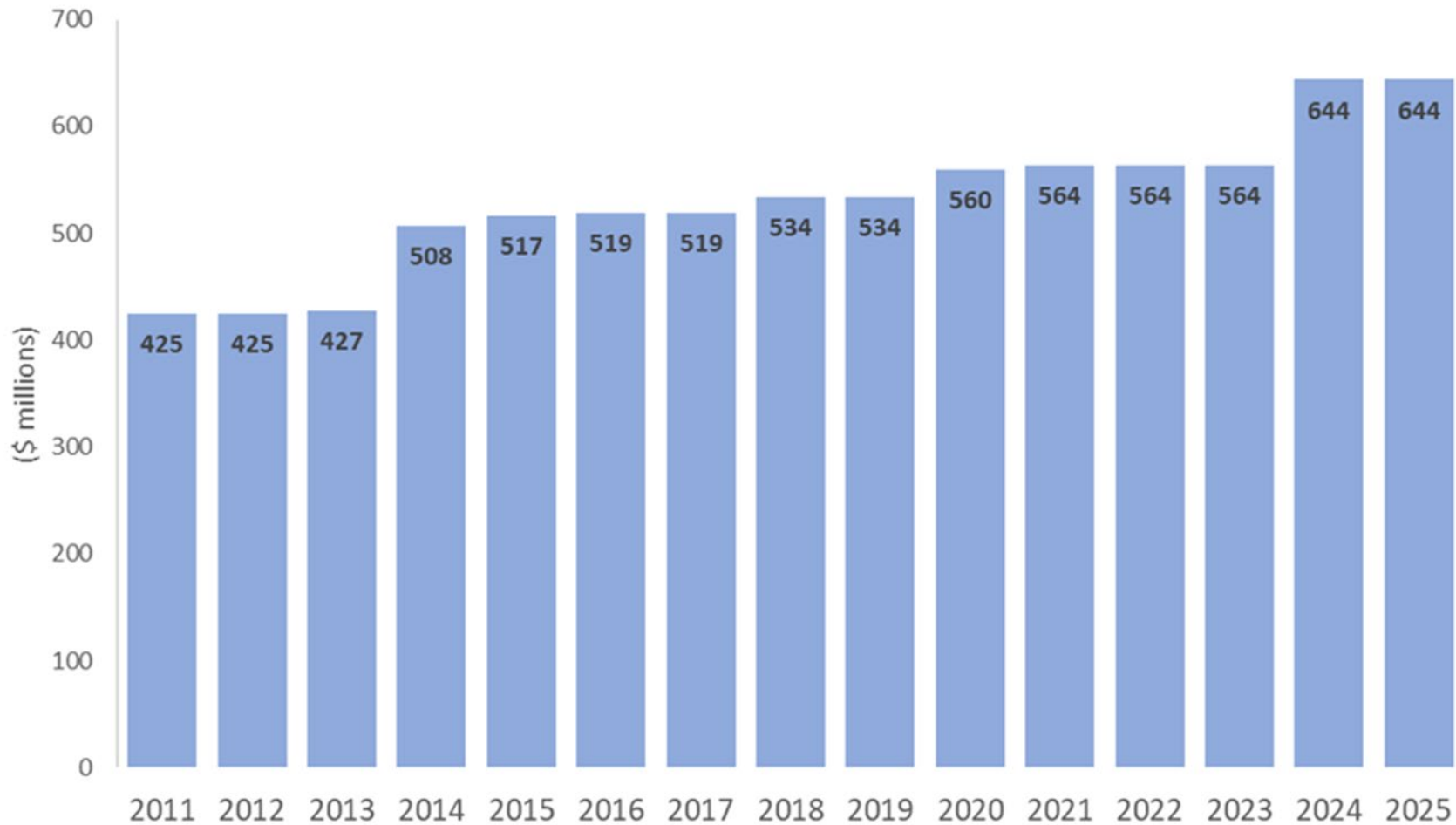
City Local Government Aid (LGA)

- 855 total cities
- 749 will receive LGA in 2025
- 106 will not receive LGA in 2025
- General purpose aid
 - Supplements property taxes
 - Can be spent on same things

City LGA Recent Changes

- Appropriation increases in 2017, 2019, and 2023
 - Annual appropriation \$644,398,012
- Distribution formula changes in 2023
 - Historically occurred about every ten years
 - Structure of the formula stayed the same
 - Factors that are used to determine need were changed

City LGA Distributes \$644.4 million annually



City Local Government Aid (LGA), Continued

- Formula determines each city's "unmet need"

$$\text{Unmet Need} = \text{Need} - \text{Ability to pay}$$

Factors
vary by city
size

Ability to pay =
city's tax base x
average city tax rate

City LGA: Need Measures

| | Small cities | Medium Cities | Large Cities |
|--------------------------------|--|--|---|
| City population | Pop. < 2,500 | 2,500 ≥ Pop. < 10,000 | Pop. ≥ 10,000 |
| Factors used to determine need | <ul style="list-style-type: none"> Population | <ul style="list-style-type: none"> % of housing built before 1940 Population decline from peak estimate since 1970 % of tax base classifies as commercial, industrial, or utility | <ul style="list-style-type: none"> % of housing built before 1940 Population decline from peak estimate since 1970 % of tax base classifies as commercial, industrial, or utility % of population age 65+ |

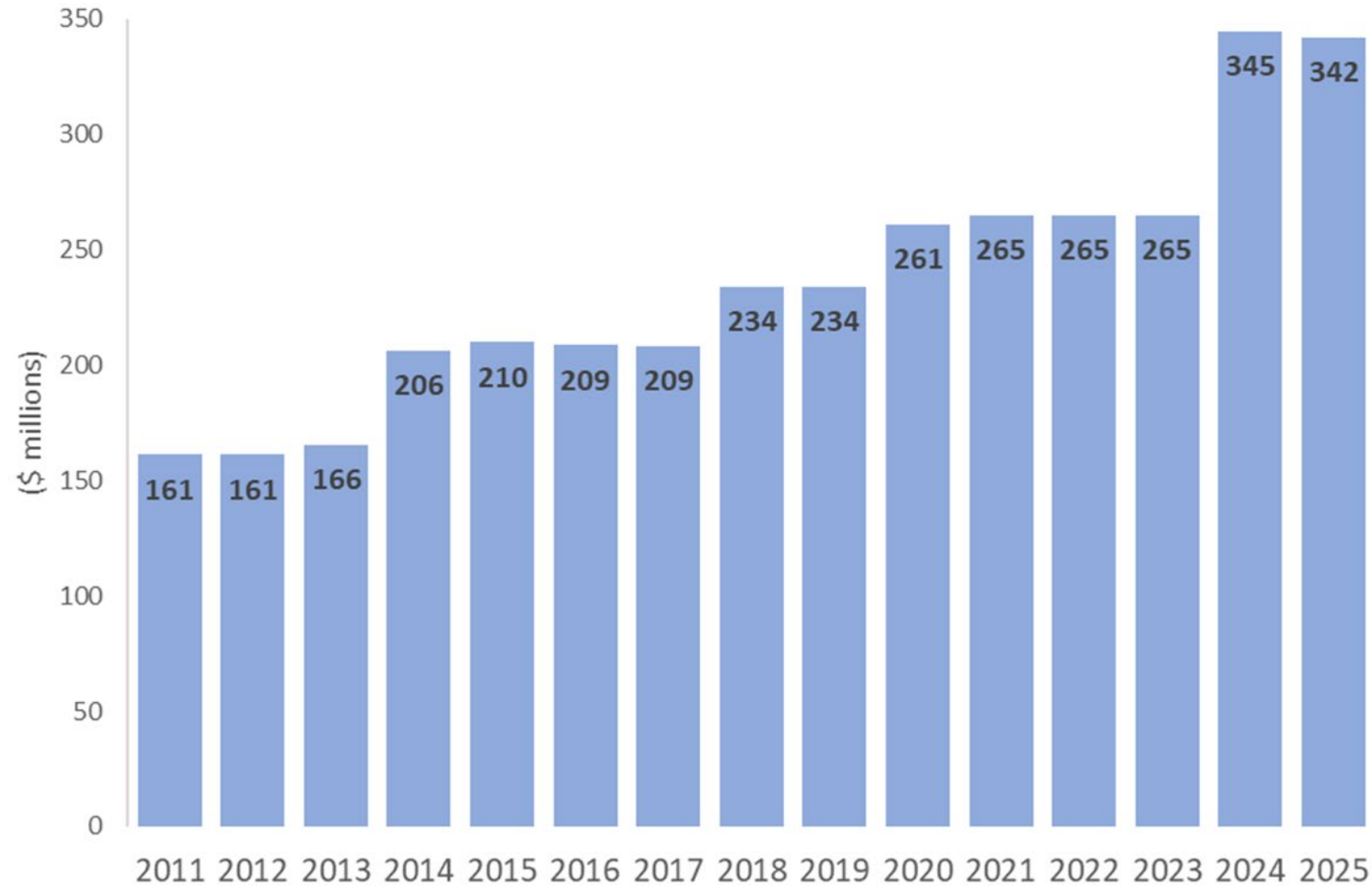
Town Local Government Aid (LGA)

- After being eliminated in 1992, a new town LGA program was enacted in 2013 (first payment in 2014)
- Aid to a town is based on:
 - Amount of agricultural property in town
 - Total acres in town
 - Population
- Distributes \$10 million annually

County Program Aid (CPA)

- Distributes aid to all 87 counties
- Two separate formulas distribute two appropriations
 - A county's total CPA is the sum of these two distributions
- General purpose aid
 - Supplements property taxes
 - Can be spent on same things

County Program Aid Distributes \$341.7 million Annually



Factors Determining County Program Aid

- Need aid
 - Share of population age 65 or older
 - Part I crimes
 - Number of households receiving SNAP (federal nutrition assistance)
- Tax-base equalization aid
 - Tax base
 - County population

School Building Bond Agricultural Credit

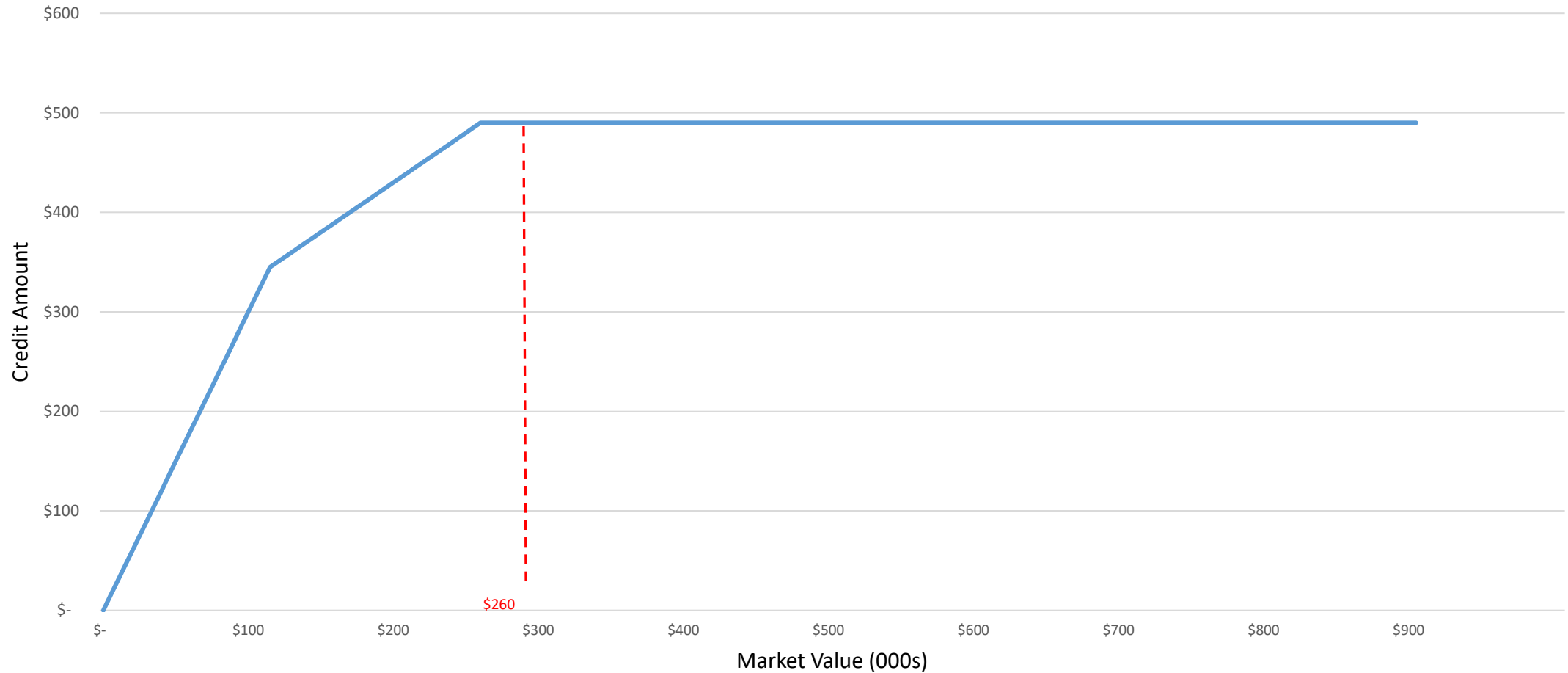
(\$109.0 million CY 2024)

- Agricultural land is eligible
 - Excluding the house, garage, and one acre
- Covers a percentage of property tax attributable to school building bonds

| Year | Credit percent |
|---------------------|----------------|
| 2018 | 40% |
| 2019 | 40% |
| 2020 | 50% |
| 2021 | 55% |
| 2022 | 60% |
| 2023 and thereafter | 70% |

Agricultural Homestead Market Value Credit

(\$37.4 million CY 2024)



Homestead Credit State Refund Renter's Credit

- 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
- Renter's credit was previously administered as a stand-alone refund, but was converted into an income tax credit, effective for tax year 2024 (returns filed 2025)

Property Tax Refunds

\$757 million in refunds filed in CY 2022; \$1,094.0 million in 2023

2021 Returns (Filed 2022)

| | Number of Filers | Refund Amount (millions) | Average Refund |
|-------------------|------------------|--------------------------|----------------|
| Homeowners | 494,627 | \$558.5 | \$1,129 |
| Renters | 295,520 | \$216.1 | \$731 |
| Total, All Filers | 790,147 | \$774.6 | \$980 |

2022 Returns (Filed 2023)*

| | Number of Filers | Refund Amount (millions) | Average Refund |
|-------------------|------------------|--------------------------|----------------|
| Homeowners | 539,146 | \$802.5 | \$1,489 |
| Renters | 302,271 | \$291.4 | \$964 |
| Total, All Filers | 841,417 | \$1,094 | \$1,300 |

*Returns filed in 2023 included a onetime 20.572% increase in property tax refund amounts.

Source: Minnesota Department of Revenue Property Tax Research

Property Tax Refunds, Continued

Program limits, 2024 refunds to be filed in 2025

- Homeowners
 - Maximum household income is \$139,320
 - Maximum refund is \$3,410
- Renters
 - Property taxes assumed to be 17% of rent paid
 - Maximum household income is \$77,570
 - Maximum refund is \$2,720

Source: Minnesota Department of Revenue Property Tax Research

Special Property Tax Refund (a.k.a. Targeting)

- Provides relief to homeowners with more than 12% tax increase
- Household income not considered
- Maximum refund is \$1,000

Recent Data

| | Returns Filed 2022 | Returns Filed 2023* |
|---------------------|--------------------|---------------------|
| Number of Claimants | 60,100 | 226,745 |
| Total Refunds | \$6.4 million | \$42.9 million |
| Average Refund | \$106 | \$189 |

*2023 Returns include onetime change enacted in 2023 that reduced the percentage threshold to 6% and the maximum refund to \$2,500

Source: Minnesota Department of Revenue Property Tax Research

Other Aids/Credits

- Local Homeless Prevention Aid
- Tribal Nation Aid
- Local Government Cannabis Aid
- Local Affordable Housing Aid
- Statewide Local Housing Aid
- Disparity Reduction Aid
- Aquatic Invasive Species Aid
- Soil and Water Conservation District Aid
- Border City Disparity Credit
- Taconite Area Aids/Credits
- Riparian Protection Aid
- Out of Home Placement Aid
- Local Pension Aid (Police and Fire)

Senior Citizen Property Tax Deferral Program

- Allows qualifying seniors to defer a portion of property taxes
 - Seniors pay 3% of household income
 - Balance is paid by the state to the county
- Eligibility requirements such as:
 - Age, household income, years in the home requirements
- Encumbers the property with a lien
- Enrollment terminates by:
 - Death
 - Selling the property
 - Owner's volition
 - Property is no longer homesteaded

State and Local Fiscal Relationship

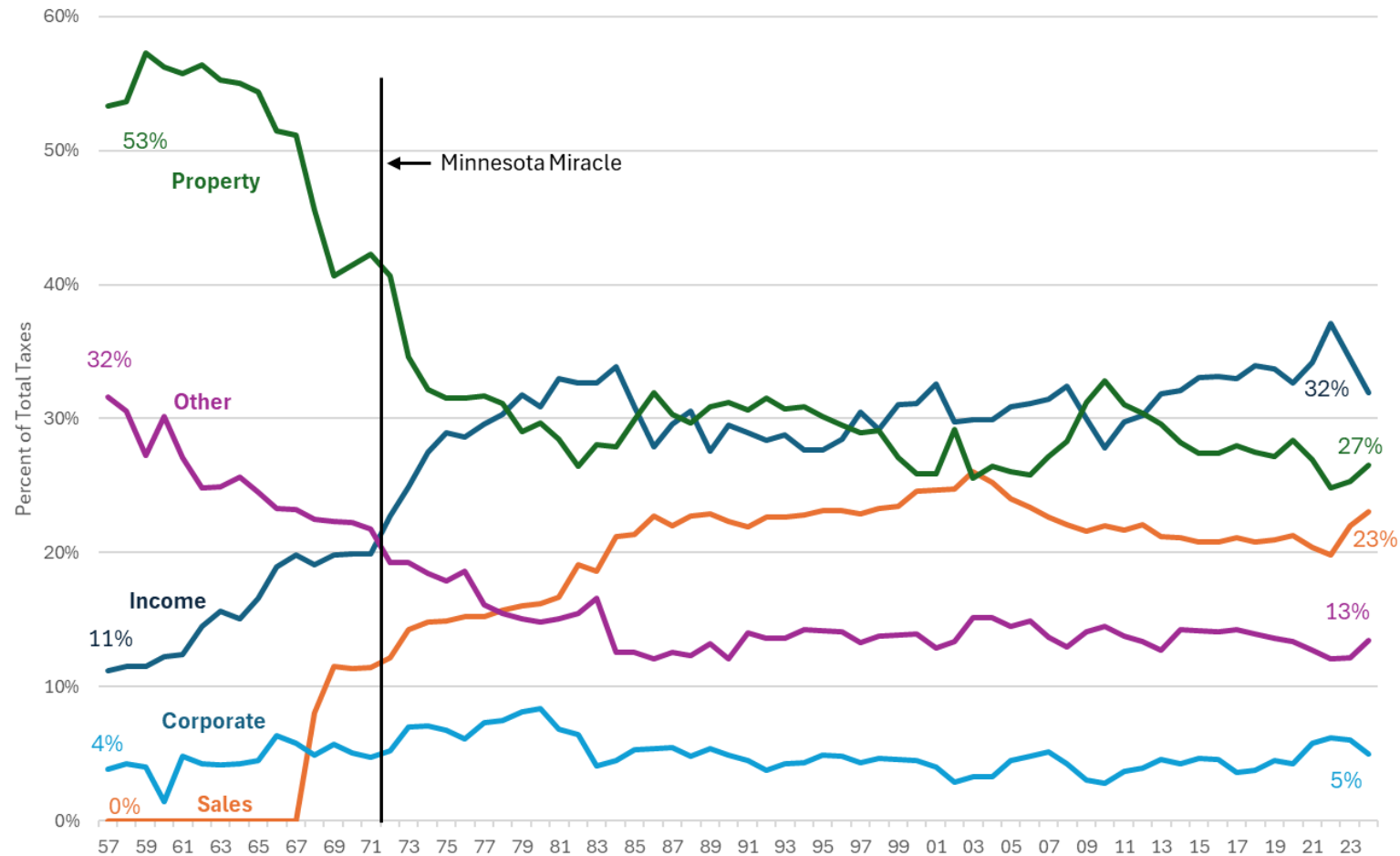
State and Local Fiscal Relationship

- Prior to 1971
 - Property taxes provided nearly all revenue for local units of government
 - Large disparities in local government funding, especially among school districts
 - Wealthiest districts had lowest tax rates and highest per-pupil spending
- "Minnesota Miracle" in 1971
 - Reforming and equalizing school finance across the state
 - State began funding more than half of the local school costs
 - Reducing local property tax burdens
 - Increased state aid to all units of local government
 - State increased income and sales taxes

State and Local Fiscal Relationship, Continued

- Property taxes and state aids provide local governments with most of their revenues
- System prioritizes interregional equity
 - State aid often prioritizes jurisdictions with higher "need" and lower property tax bases
 - Prohibition on local sales and income taxes reduces revenue inequalities
 - Regional fiscal disparities programs (Metro and Iron Range) redistribute property tax base among jurisdictions

State and Local Tax Revenue: FY 1957-2024



Source: Minnesota Management & Budget, Consolidated Fund & Price of Government; MN Department of Revenue, Tax Research Division

Tax Increment Financing

Tax Increment Financing (TIF)

State law allows some types of local governments to use tax increment financing (or TIF) to pay for developing land and buildings within their borders.

TIF captures increases in property taxes caused by a development and uses it to pay off development debt.

There are different types of TIF districts, designed with different purposes, for example, housing districts for housing and redevelopment districts for blight.

TIF Basic Mechanics

After a TIF plan is adopted and the government unit administering TIF makes a request to the county auditor, the county auditor certifies the TIF district's (1) net tax capacity, and (2) original local tax rate (the sum of all the local tax rates).

In each following year until the district is decertified, the auditor subtracts the original net tax capacity from the current net tax capacity to determine the captured net tax capacity.

The “increment” used to pay for development is calculated by applying the lesser of (1) the local taxing district tax rates, or (2) the original local tax rate to the captured net tax capacity.

TIF Impact on Property Tax Revenues from a Hypothetical Development

Assume a property with a net tax capacity of \$75,000 is developed. Five years later, the net tax capacity is \$150,000, and 20 years later, \$375,000. The local tax rate remains at 100% throughout these years, with the city, county, and school district at 30% of this amount and special taxing districts at 10% of this amount.

The following slide displays how revenues from property taxation on the property would be distributed differently depending on if the property were developed without TIF or with a TIF district established by the city.

TIF Impact on Property Tax Revenues from a Hypothetical Development, Continued

Property Tax Distributions from Development without TIF

| Year | City | School | County | Special Districts |
|------|-----------|-----------|-----------|-------------------|
| 0 | \$22,500 | \$22,500 | \$22,500 | \$7,500 |
| 5 | \$45,000 | \$45,000 | \$45,000 | \$15,000 |
| 20 | \$112,500 | \$112,500 | \$112,500 | \$37,500 |

Property Tax Distributions from Development with City-Established TIF

| Year | City | School | County | Special Districts |
|------|------------------------------------|----------|----------|-------------------|
| 0 | \$22,500 | \$22,500 | \$22,500 | \$7,500 |
| 5 | \$97,500 (including increment) | \$22,500 | \$22,500 | \$7,500 |
| 20 | \$322,500 (including increment) | \$22,500 | \$22,500 | \$7,500 |

TIF Restrictions

Restrictions on establishment:

- Local governments must adopt findings that a proposed district passes the but-for test
- For most types of TIF district, the local government must adopt findings of statutory criteria warranting creation of a TIF district (for example, blight for redevelopment districts)

Restrictions on use of increment:

- Increment must be used primarily on the sort of project that the type of TIF district is designed for (for example, housing for housing districts)
- TIF restrictions prevent increment use on general government purposes
- For most TIF types, most increment must be spent within the TIF district