
Special Assessments

Special assessments are one of the ways a local government may collect money to pay for local improvements. This information brief provides an overview of the law authorizing and governing special assessments for local improvements, and certain services and unpaid charges. It also describes the procedures a local government must follow in imposing special assessments. Finally, it provides some historical data on the trends in the use of special assessments in Minnesota.

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Special Assessments Defined

A special assessment is a charge imposed on real property to help pay for a local improvement that benefits the property.

The state constitution allows the legislature to authorize local governments to use special assessments to help pay for local improvements based on the benefit the improvement gives the property.¹

The legislature has long authorized local governments to levy special assessments to pay for specified local improvements. Since 1953, that authority has been primarily found in [Minnesota Statutes, chapter 429](#).² Chapter 429 authorizes cities, towns, urban towns, and counties to make specific improvements described on the next page.³ Chapter 429 does not apply to home rule cities if their charters establish other procedures. To the extent a home rule charter city does not specify other procedures, it may use chapter 429.⁴

¹ [Minn. Const. art. X § 1](#), provides: “The legislature may authorize municipal corporations to levy and collect assessments for local improvements upon property benefited thereby without regard to cash valuation.”

² There are a number of other statutes that authorize local improvements paid for with special assessments or other revenues that are not discussed in this information brief. *See, e.g.*, [Minn. Stat. ch. 365A](#) (town subordinate service districts); [ch. 375B](#) (county subordinate service districts); [ch. 428A](#) (special service districts, housing improvement areas); [§ 435.44](#) (sidewalk improvement districts); [§ 444.075](#), subd. 1a (waterworks, sewers, and storm sewers); [§§ 444.16 to 444.21](#) (storm sewer improvement districts); and [§ 459.14](#) (parking facilities).

³ The purposes for which local governments are authorized to use special assessments depend on the applicable definition of “municipality.” There are three definitions in [Minnesota Statutes, section 429.011](#):

(1) Subd. 2 (“ ‘Municipality’ means any city of the second, third, or fourth class however organized, or any statutory city or any town as defined in section [368.01](#)”) (A town defined in section 368.01 is one with (a) platted portions where at least 1,200 reside, (b) platted area within 20 miles of the city hall of Minneapolis or St. Paul, or (c) a population of at least 1,000 that has determined to organize under chapter 368. It is commonly called “an urban town.”);

(2) Subd. 2a (“ ‘Municipality’ also includes a county in the case of construction, reconstruction, or improvement of a county state aid highway or county highway as defined in section [160.02](#) including curbs and gutters and storm sewers; a county exercising its powers and duties under section [444.075](#), subdivision 1; and a county for expenses not paid for under section [403.113](#), subdivision 3, paragraph (b), clause (3)"); and

(3) Subd. 2b (“ ‘Municipality’ also includes any town not having the powers granted herein pursuant to any other law in the case of construction, reconstruction or improvement of a town road including curbs and gutters and storm sewers and in the case of those improvements designated in section [429.021](#), subdivision 1, clauses (1), (2), (4), (5), (6), (7), (8), and (10)”).

⁴ [Minn. Stat. § 429.021](#), subd. 3 (“When any portion of the cost of an improvement is defrayed by special assessments, the procedure prescribed in this chapter shall be followed unless the council determines to proceed under charter provisions.”); [Minn. Stat. § 429.111](#) (A home rule charter city “may proceed either under this chapter or under its charter in making an improvement unless a home rule charter or amendment adopted after April 17, 1953, provides for making such improvement under this chapter or under the charter exclusively.”); *Singer v. City of Minneapolis*, 586 N.W.2d 804, 805 (Minn. App. 1998) (“Absent a specific charter or ordinance provision governing the assessment procedure, [Minn. Stat. ch. 429](#) applies to special assessments made under [Minneapolis’s] home rule charter. *Gadey v. City of Minneapolis*, 517 N.W.2d 344, 348 (Minn. App. 1994), *review denied* (Minn. Aug. 24, 1994)”). See page 7 regarding laws that apply even when following charter procedures.

Local Improvements That May Be Paid for with Special Assessments

The list below provides a brief summary of the local improvements that local governments may pay for with special assessments.⁵ School districts cannot levy special assessments.

Cities, urban towns, other towns, counties

- Streets and roads. For cities and urban towns, these improvements include streets, sidewalks, pavement, gutters, curbs, vehicle parking strips, grading, graveling, oiling, beautification, and storm sewers or other street drainage and connections from sewer, water, or similar mains to curb lines.

For counties and other towns, street and road improvements include county state-aid highways and town roads, respectively, including curb, gutter, and storm sewer.

Cities, urban towns, other towns

- Storm and sanitary sewers and systems, including outlets, holding areas and ponds, treatment plants, pumps, lift stations, service connections, etc.
- Street lights, street lighting systems, and special lighting systems
- Water works systems, including mains, valves, hydrants, service connections, wells, pumps, reservoirs, tanks, treatment plants, etc.
- Parks, open space areas, playgrounds, and recreational facilities
- Tree planting on streets and tree trimming, care, and removal
- Abatement of nuisances, draining and filling swamps, marshes, and ponds on public or private property
- Retaining walls and area walls

Cities, urban towns

- Steam heating mains
- Dikes and other flood control works
- Pedestrian skyways and underground pedestrian concourses
- Public malls, plazas, or courtyards
- District heating systems
- Fire protection systems in existing buildings
- Highway sound barriers
- Municipal gas and electric distribution facilities
- Certain Internet access facilities
- Burial of electric, telecommunication, or cable wires in certain circumstances

Cities, urban towns, counties

- Enhanced 911 telephone service markers

⁵ [Minn. Stat. § 429.021](#), subd. 1.

Determining the Amount of the Special Assessment

The assessment amount charged to the property cannot exceed the amount by which the property benefits from the improvement, as measured by the increase in the market value of the land due to the improvement. The assessment must be uniformly applied to the same class of property. A local improvement may benefit properties that are not abutting the improvement and those benefited properties also may be assessed.⁶

In order for a special assessment to be valid:

- the land must receive a special benefit from the improvement being constructed,
- the assessment must be uniform upon the same class of property, and
- the assessment may not exceed the special benefit. Special benefit is measured by the increase in the market value of the land owing to the improvement.

A special assessment that does not meet these requirements is an unconstitutional taking.⁷

The benefit is measured by the difference between what a willing buyer would pay a willing seller for the property before and after the improvement, based on the highest and best use of the land.⁸ Present use of the land is not the controlling factor.⁹

The assessment roll is prima facie evidence that the assessment does not exceed the special benefit. The contesting party has the burden of introducing competent evidence to overcome this presumption.¹⁰

⁶ [Minn. Stat. § 429.051](#) (“cost of any improvement, or any part thereof, may be assessed upon property benefited by the improvement, based upon the benefits received, whether or not the property abuts on the improvement”).

⁷ *Southview Country Club v. City of Inver Grove Heights*, 263 N.W.2d 385, 387-388 (Minn. 1978) (citing *Carlson-Lang Realty Co. v. City of Windom*, 307 Minn. 368, 369, 240 N.W.2d 517, 519 (1976); *Quality Homes, Inc. v. Village of New Brighton*, 289 Minn. 274, 183 N.W.2d 555 (1971); *In re Improvement of Superior Street, Duluth*, 172 Minn. 554, 559, 216 N.W. 318, 320 (1927)).

⁸ *Eagle Creek Townhomes, LLP v. City of Shakopee*, 614 N.W.2d 246, 250 (Minn. App. 2000) review denied (Sept. 13, 2000) (citing *EHW Properties v. City of Eagan*, 503 N.W.2d 135, 139 (Minn. App. 1993) and *Buzick v. City of Blaine*, 491 N.W. 2d 923, 925 (Minn. App. 1992), *aff'd* 505 N.W. 2d 51 (Minn. 1993)).

⁹ *Anderson v. City of Bemidji*, 295 N.W.2d 555, 560 (Minn. 1980).

¹⁰ *Tri-State Land Co. v. City of Shoreview*, 290 N.W.2d 775, 777 (Minn. 1980) (citing *Carlson-Lang Realty Co. v. City of Windom*, 307 Minn. 368, 369-370, 240 N.W.2d 517, 519 (1976)).

Special Assessments on Other Government Property

A city or town may levy special assessments against property owned by the state or a political subdivision.¹¹ There are two approaches in the statutes governing assessments against property owned by another governmental entity. In general, property owned by the state or another local government can be assessed to the extent it is benefited by the improvement just as if it were privately owned. Unpaid assessments may be recovered in a civil action.¹² For the state and a few political subdivisions, however, the governmental entity being assessed determines the benefit. The state, the cities of Minneapolis, St. Paul, and Duluth and any political subdivision within the city (e.g., the school district), and the Metropolitan Council with regard to regional parks and open space property, sewer system property, and sports facilities property are subject to special assessments imposed by other cities and towns but determine the benefit of the improvement.¹³ Finally, the state is required to pay special assessments as long as money is appropriated that can be used for that purpose.

Procedure to Impose Special Assessments

[Minnesota Statutes, chapter 429](#), specifies the procedures that must be followed in order to use special assessments.¹⁴ Local governments must be careful to follow all of the necessary steps to ensure that the assessments are properly imposed to avoid legal challenges from the landowners.

Although the statutes do not refer to phases, it may be easier to understand the complicated procedure as if it is divided into three phases, as summarized below. For specific types of projects, there are specific additions or exceptions to these procedures. The law also provides for supplemental assessments and appeals from assessments, which are not covered here.

Phase I: Initiation and Preliminary Assessment¹⁵

- **Initiate the process.** Either the local government or a petition signed by the affected property owners may initiate the proceedings.
- **Prepare a report.** The local government must have a report prepared on the necessity, cost-effectiveness, and feasibility of the proposed improvement. The city engineer or some other competent person prepares the report.

¹¹ Federal property is exempt. Op. Atty. Gen. 408-C (Sept. 21, 1953).

¹² [Minn. Stat. § 435.19](#). This excludes imposing special assessments for highway rights-of-way.

¹³ [Minn. Stat. §§ 435.19; 473.334](#) (Metropolitan Council, parks and open space); [473.545](#) (Metropolitan Council regional sewer system); [473.556](#), subd. 4 (Metropolitan Council sports facilities). Under [Minnesota Statutes, section 473.448](#), the Metropolitan Council transit facilities are subject to special assessments the same as other political subdivisions.

¹⁴ [Chapter 429](#) does not prescribe the procedures to be followed by a municipality in making improvements financed without the use of special assessments. [Minn. Stat. § 429.021](#), subd. 3.

¹⁵ [Minn. Stat. § 429.031](#).

- **Give notice of public hearing.** The local government must publish a notice for the public hearing twice in the newspaper, at least one week apart. In addition, the local government must mail a notice to all property owners in the proposed assessment area at least ten days prior to the hearing.
- **Hold public hearing.** The hearing must be at least three days after the second notice in the newspaper. A reasonable estimate of the total amount to be assessed and a description of the methodology used in calculating the individual assessments must be available at the hearing. Interested persons must be allowed to speak at the hearing. (This public hearing is not required if 100 percent of the landowners requested the proposed assessment.)
- **Adopt a resolution ordering the improvement.** If the local government initiated the proposed assessment, a four-fifths vote is needed to pass the resolution. If the property owners initiated the petition, the local government only needs a majority vote to adopt the resolution. In both cases, the resolution must be adopted within six months of the hearing held during phase I.

Phase II: Detailed Analysis¹⁶

- **Solicit bids.** After a local government decides to do a project, it must determine the actual cost of the project in order to prepare the assessment roll. The statute specifies the bidding process.
- **Prepare proposed assessment roll.** The local government must calculate the proper amount to be specially assessed for the improvement against every assessable parcel of land. The assessment roll must be available for the public to inspect.
- **Give notice of public hearing.** The local government must *publish* a notice in the newspaper at least once, not less than two weeks prior to the scheduled meeting. The notice must state the day, time, place, general nature of the improvement, area proposed to be assessed, total amount of the proposed assessment, and describe the process for objecting to the improvement.

In addition, the local government must *mail* a notice to each affected property owner at least two weeks prior to the public hearing on the proposed assessment. The notice must state the amount to be specially assessed against the property owner's property, the prepayment options, the interest rate if the payment is not prepaid, and that the local government may adopt the proposed assessment at that hearing. The notice must also state that no appeal may be made as to the amount of the assessment adopted at the hearing unless the property owner has objected in writing prior to the hearing or in person at the hearing.

- **Hold public hearing.** The local government may make amendments to the proposed assessment at the hearing. The hearing may be continued at another time.

¹⁶ Minn. Stat. §§ 429.041, 429.061.

Phase III: Approval of Final Assessment Roll, Certification

- **Approve and certify the assessment roll.** The local government must approve the final assessment roll and then the assessment roll must be certified to the county auditor. A property owner has 30 days after adoption of the assessment to appeal it to the district court.¹⁷ If any of the assessments contained in the final roll are different than the proposed assessments, the local government must mail a notice to the property owner stating the new amount.¹⁸ The local government may have to go back to phase II.
- **Issue debt to finance the improvement.** The local government issues obligations to finance the improvement. The local government may issue local improvement bonds or assessment revenue notes to pay for the local improvement. Local improvement bonds are general obligation bonds, backed by the full faith and credit of the local government. If less than 20 percent of a project is to be paid for with special assessments, the local government must hold a referendum on the issuance of the bonds.¹⁹
- **Collect the assessments.** The local government may certify to the county auditor the entire assessment roll (for the entire project), or the local government may certify annually the amount of assessment on each parcel for that year. A taxpayer may prepay the entire assessment amount and avoid interest charges, in which case the prepaid amounts are taken off the assessment rolls.²⁰
- **Let contracts for work on the improvement.** The local government must let the contracts within one year, unless the resolution specifies another time frame.²¹

Home rule charter cities. If a city is following procedures set in its charter, a few of the statutory provisions still apply. Specifically, a city proceeding under its charter provisions, must:

- give property owners notice of the procedures they must follow under the charter in order to appeal the assessments to district court,
- give property owners notice of any deferment procedure established by the municipality,²² and
- let the contract for the work, or order the work done by day labor or otherwise as may be authorized by the charter, no later than one year after the adoption of the resolution ordering such improvement, unless a different time limit is specifically stated in the resolution ordering the improvement.

¹⁷ [Minn. Stat. § 429.081](#).

¹⁸ [Minn. Stat. § 429.061](#), subd. 2.

¹⁹ [Minn. Stat. § 429.091](#).

²⁰ [Minn. Stat. § 429.061](#), subd. 3.

²¹ [Minn. Stat. § 429.041](#), subd. 1.

²² [Minn. Stat. § 429.021](#), subd. 3 (referring to [Minn. Stat. §§ 435.193](#)–[435.195](#) described on page 8).

Special Assessment Deferments

There are three types of special assessment deferrals.

- **Senior citizens, disabled persons, members of the National Guard or military reserves.** A local government may defer the special assessments on the homesteads of a senior citizen (a person at least 65 years of age), a person that is totally and permanently disabled, or a member of the National Guard or military reserves ordered into active service.²³ This is often referred to as a “hardship deferral.” The assessment is still imposed, but it is not due and payable until a later point in time—for senior citizens and disabled persons, this is usually when the homeowner dies, the property is sold, or the property loses its homestead status.²⁴ The National Guard or military reserve hardship deferral is for the term of the person’s military orders, typically one year or more. The local government may adopt a resolution or ordinance that sets the criteria for the hardship deferral. The criteria may include the income and assets of the property owner, and the interest rate and terms of the deferral.
- **Green Acres.** The owner of property enrolled in the Minnesota Agricultural Property Tax Program,²⁵ the Green Acres program, may apply to the county to defer the special assessments levied against the property. The assessment payments are deferred until the property is developed or when the property no longer qualifies for Green Acres. Property enrolled in Green Acres must be used for agricultural purposes and as such, does not directly benefit from many of these assessments until the property is developed and converted to some other use, such as residential, commercial, or industrial.²⁶

When a property no longer qualifies for Green Acres and special assessment bonds are outstanding, the taxpayer must pay off the assessments and interest in equal installments spread over the remaining term of the outstanding bonds. If no bonds were issued, or if the bonds have already been paid off, then the entire amount of the assessment is due and payable within 90 days of losing the property’s status in the program.

Watershed district assessments are not deferred under Green Acres for property initially qualifying under the program for taxes payable in 2009, and for all property in the program for watershed district assessments for new projects after May 31, 2008. Property enrolled in the program for taxes payable in 2008 shall continue to have the special assessments deferred that were initially imposed prior to May 31, 2008.²⁷

²³ [Minn. Stat. § 435.193](#); *see also* [Minn. Stat. § 290B.05](#), subd. 3.

²⁴ [Minn. Stat. § 435.195](#).

²⁵ [Minn. Stat. § 273.111](#), subd. 11.

²⁶ Local governments cannot impose most types of special assessments against property enrolled in the Metropolitan Agricultural Preserves under [Minnesota Statutes, chapter 473H](#). [Minnesota Statutes, section 473H.11](#), specifies which assessments are prohibited.

²⁷ [Minn. Stat. § 273.111](#), subd. 14, effective for assessments payable in 2009 and thereafter.

- **Unimproved land.** By resolution, a local government may defer payment of a special assessment imposed on unimproved property until a specified date or until it is improved.²⁸

Street or road improvements outside municipal boundaries. A city may construct street or road improvements outside its jurisdiction with the affected township's consent, or if the property is located in unorganized territory, the county's consent. When property is brought within the city, the city may then reimburse itself by levying an assessment on any property abutting, but not previously assessed for, the improvement. The city may levy the assessment if there was notice and a hearing of the improvements under [section 429.031](#) at the time the improvement was ordered and the owner had an opportunity to appeal the assessment.²⁹

Unlike deferred special assessments under the Green Acres program, no one is required to file evidence of the deferment with the county recorder of the county in which the property is located. This means that someone buying the property after the special assessment has been made, but before the property is brought within the city, will not necessarily have notice that there is a deferred special assessment that the city may require the property owner to pay all or a portion of when the property is brought within the city limits. The law is also silent as to when interest on the deferred assessment amount begins to accrue.

Other Ways to Pay for a Local Improvement or Service

In some cases, even if a local government wanted to derive the full cost of the assessment solely from the benefited property, it would not be able to, since the total cost of these improvements often exceeds the amount by which the improvements increase the market value of the affected properties. Thus, in addition to special assessments, local improvements and services may be paid for with a general property tax levied on all property in the taxing jurisdiction and from other miscellaneous funds and sources. As with special assessments, the revenue collected may be used to pay for the improvement directly or to repay the bonds issued to pay the costs of the improvements.

Special Assessments vs. Property Taxes

Special assessments are a form of taxation and may be paid using the same mechanism and at the same time as property taxes. However, there are a number of differences between them:

- the basis for determining the amount charged
- what real property is subject to the charge
- whether personal property may be charged
- whether there are any statutory limits
- deductibility for income tax purposes

²⁸ [Minn. Stat. § 429.061](#), subd. 2.

²⁹ [Minn. Stat. § 429.052](#).

Market value v. benefit. Property taxes are based on the market value of the property—ad valorem taxes. Special assessments, on the other hand, are determined without regard to cash valuation. They are based on the benefit to the property. The formula used by a local government to determine how much of a project or service will be paid for by special assessments will typically use factors such as per foot of frontage amount after finding that the improvement provides substantially the same benefit on that basis to adjacent properties. Whatever factors are used, the formula used must approximate a market analysis for the specific local improvement.³⁰

For example, two houses located in the same taxing jurisdictions, one with an estimated market value of \$200,000 and one with an estimated market value of \$500,000, pay significantly different property taxes. But if each home had 150 feet of frontage on the same street, and the city was installing curb and gutter to that street, both homes would pay the same amount for the assessment for the improvements since the assessment charge is based on footage and not on the market value of the property.

Taxable property v. all real property. Property taxes can be levied only on taxable property, but special assessments are imposed on nearly all real property that is benefited. The state constitution does not exempt any property from special assessments for local improvements. Any exemption must be statutory and there are few exceptions.³¹

All property v. real property. Property taxes are levied on both real and personal property, although at this time, personal property subject to property tax is primarily public utility property. Special assessments may be imposed only on real property.³²

Property tax limits do not apply to special assessments. In general, special assessments are not subject to limits that apply to local property taxes. This may be one of the reasons why they are used. They are a means of raising revenue outside of any levy, tax, or per capita limits. Furthermore, any bonds that are issued that are repaid with special assessment revenues are outside of the government's net debt limits.³³ Also, as long as at least 20 percent of the project

³⁰ *Bisbee v. City of Fairmont*, 593 N.W.2d 714, 719 (Minn. App. 1999) (special assessment was invalid on its face because front-footage method calculation based on average costs of projects from prior years did not approximate a market analysis and was unrelated to particular costs).

³¹ *State v. Roselawn Cemetery Assn.*, 259 Minn. 479, 481, 108 N.W.2d 305 (1961) (tax-exempt property subject to special assessment unless statutorily exempted as is cemetery property under specified circumstances under [Minn. Stat. § 306.14](#)). See [Minn. Stat. § 473H.11](#) (metropolitan agricultural preserves not subject to special assessment). Special assessments imposed on property that is tax-forfeited are cancelled, but are collected when the property is sold. [Minn. Stat. §§ 282.01](#), subd. 5, 282.02.

³² *Country Joe, Inc. v. City of Eagan*, 548 N.W.2d 281, 285 fn 3 (Minn. App. 1996) (dicta) (road unit connection charge not a special assessment because it was not assessed on property), *aff'd* 560 N.W.2d 681 (Minn. 1997).

³³ [Minn. Stat. §§ 475.51](#), subd. 4 (definition of net debt excludes debt repaid with special assessment revenues), [475.53](#) (net debt limit).

will be paid for with special assessments, the local government may issue the bonds without holding a referendum.³⁴

Special assessments generally are not deductible. For individual income tax purposes, property owners who claim itemized deductions may deduct state and local property taxes in determining federal and state taxable income. However, property taxes that provide specific benefits that tend to increase the value of the property may not be deducted.³⁵

Federal individual income tax instructions³⁶ specify that property taxes may be deducted if the tax is based on the assessed value of the real property and the tax is assessed at a uniform rate on all property in the jurisdiction. The instructions further specify that to be deductible “the tax must be for the welfare of the general public and not be a payment for a special privilege granted or service rendered to you” [the taxpayer].³⁷ Property taxes may not be deducted if the taxes are charges for services or assessments for local benefits.

Services and Unpaid Charges

Cities and urban towns may impose charges by ordinance to pay for certain services that often are paid for with general revenues (e.g., property taxes). In addition, they may adopt an ordinance to collect unpaid charges imposed on an individual property using the special assessment collection process. The statute authorizes using special assessment collection process to pay for the following services:³⁸

- Snow, ice, or rubbish removal from sidewalks
- Repair of sidewalks, alleys
- Weed removal from streets and private property
- Elimination of public health hazards from private property
- Installation or repair of water service lines, street washing
- Tree trimming, removal, and treatment of insect-infested or diseased trees on private property
- Operation of street lighting systems
- Operation and maintenance of a fire protection or pedestrian skyway system
- Certain housing inspections and delinquent vacant building registration fees under a municipal program designed to identify and register vacant buildings

³⁴ [Minn. Stat. § 429.091](#), subd. 3.

³⁵ IRC § 164. Note that when an assessment increases the value of a property, the basis of the property increases by the amount of the increase in the property’s value, and the assessment is not allowed as a deduction. However, if the assessment increases the value of improvements to the property, such as buildings, rather than increasing the value of the land itself, the property owner may be able to claim depreciation for the value of the improvement. This is the case for property owned by both individuals and businesses.

³⁶ Internal Revenue Service publication 530, “Tax Information for First-Time Homeowners, for use in preparing 2006 Returns.”

³⁷ *Ibid.*

³⁸ [Minn. Stat. § 429.101](#).

- Utilities for residential rental property under court administration
- Remedying a municipal building code violation

Other statutes and some city charters also authorize the collection of a charge using the special assessment process even though there is no increase in the property's market value (the benefit test) because it is a convenient way to collect the charge and if it remains unpaid, becomes a lien on the property.³⁹

Data: Sources of Special Assessment Data

There are two primary sources of statewide data on special assessments: Department of Revenue data and State Auditor data.

Department of Revenue (DOR) data. The DOR annually receives an Abstract of Tax Lists from the 87 county auditors. The abstract contains the total special assessment amount due and payable for that year for each taxing jurisdiction within the county. In general, the special assessment amounts listed in the abstract are the collective amounts for all special assessments that appear on that year's property tax statements for the taxable property on which these assessments are imposed. It includes the amount of service charges collected as special assessments by the local governments although those amounts cannot be separated from the special assessments for local improvements. The abstract does not, of course, include special assessments imposed on tax-exempt property, since it itemizes only taxable property.

State Auditor data. The State Auditor publishes annual reports that contain the revenues, expenditures, and debt of all Minnesota cities and counties. These reports are based on the financial audits of the governmental entities. The only special assessments reported separately in the financial audits are those that are deposited in their general governmental funds. Special assessments may also be deposited in local government enterprise funds (for services such as utilities, housing, and sewers), but they are not listed separately in the auditor's reports.

Differences Between the Two Source Documents

The statewide special assessment totals from the State Auditor data are significantly greater than those amounts reported in the Abstract of Tax Lists. The table on the following page compares the total city special assessment amounts from the two sources for each five-year time period from 1970 to 2006. Since cities are the primary users of special assessments, the table compares only that category of local government. Without doing a comprehensive survey (which is not possible at this time), it would be difficult to reconcile the two sources of data. However, a discussion of the possible reasons for these differences follows the table.

³⁹ For example, [Minn. Stat. § 89.56](#), subd. 3 (Commissioner of Natural Resources may collect unpaid charges for tree pest control through special assessment process).

**Table 1: Comparison of City Special Assessments
 from Department of Revenue and State Auditor
 1970-2006
 (amounts in 000s)**

Year	Special Assessments Dept. of Revenue ⁴⁰	Special Assessments State Auditor ⁴¹
1970	\$34,959	\$53,929
1975	56,388	88,553
1980	76,742	175,168
1985	117,520	164,336
1990	126,636	186,148
1995	118,868	197,534
2000	129,778	238,101
2005	161,028	291,499
2006	176,500	280,287

State Auditor data is probably higher than DOR’s data in part because it includes prepayments and special assessments imposed on tax-exempt property. There may also be other unidentified reasons for differences in the data. However, it is impossible to quantify how much prepayments, special assessments on tax-exempt property, and any other unknown reasons account for differences in the data.

- **Prepayments**

Property owners. Property owners may prepay special assessments under the statutes. If not prepaid, the special assessments are included on the property tax statement and collected along with property taxes. Some people suggest that the smaller assessment amounts (such as for certain street repair) are more frequently prepaid by the taxpayer than the larger ones.

Developers. A developer may prepay the special assessments imposed by the local government on the land being developed and then include each property’s share of the prepaid special assessments in the price of the house.

Property sellers. A person selling real property may prepay outstanding special assessments on the property because the buyer’s loan agreement requires it or because of other agreements made between the buyer and the seller.

⁴⁰ Minnesota Department of Revenue, Property Taxes Levied in Minnesota, the Abstract of Tax Lists.

⁴¹ Office of the State Auditor, Minnesota City Finances: 2005 Revenues, Expenditures, and Debt. Defines “special assessment” on page 181 as revenues that “refer to levies made against certain properties to defray all or part of the costs of a specific improvement, such as new sewer and water mains, deemed to benefit primarily those properties. The amount includes the penalties and interest paid on the assessments.” The 2006 amount was obtained by phone from state auditor staff.

Service charges/unpaid charges. A property taxpayer may pay the local government for service charges before the local government certifies to the county auditor the amounts that are to be collected through the property tax collection process. As an example, the city of St. Paul bills property owners for right-of-way maintenance and storm sewer charges. Some property owners pay these amounts directly to the city. However, if they don't, the city includes them on their annual list to the county for collection along with the property taxes.⁴²

- **Tax-exempt property.**

Unlike ad valorem property tax, special assessments are imposed on most tax-exempt property, unless there is a statutory exception. The special assessment amounts on these tax-exempt entities are often collected by the local government through a separate billing since these entities are exempt from property taxes and, therefore, do not receive a property tax statement and would not be included in the DOR abstract amounts.

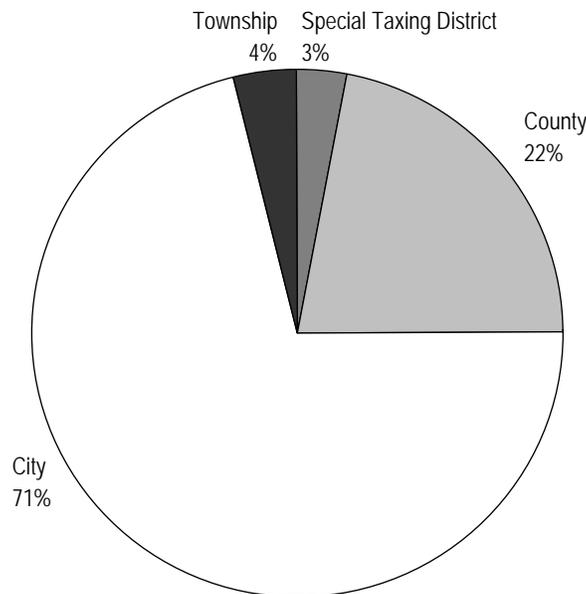
⁴² The "Right-of-Way Maintenance Assessment" in St. Paul covers sweeping, flushing, patching, and chip sealing streets and alleys; patching, blading, and placing crushed rock on unimproved right-of-way; street overlays; litter pickup; ordinance enforcement; emergency services; snow plowing, salting, and sanding; snow removal; tagging and towing; sidewalk maintenance and repair; boulevard tree maintenance and trimming. For 2007, the total budgeted spending for the Right-of-Way Maintenance Assessment is \$25.02 million, of which \$18.27 million is paid with special assessments and the remainder with city general funds. The assessments are on a per-foot basis within six classes, each with two rates. Property owners are billed and may pay up front or pay along with their property taxes. The storm sewer charges are treated in much the same way in St. Paul.

Department of Revenue Data

Figures 1 and 2 and the Appendix table contain special assessment data that was obtained from the annual Property Tax Bulletins prepared by the DOR. These Bulletins are a compilation of the information reported in the Abstract of Tax Lists (and other information annually certified to DOR by the counties). As noted earlier, there is no way to separate how many of the dollars are for public improvements and how many relate to the services and unpaid charges.

Figure 1 shows that 71 percent of the total payable in 2006 special assessments were levied by the cities. Counties levied 22 percent, a significant but distant second to the dollars levied by cities. Townships and special taxing districts levied only 4 percent and 3 percent respectively. School districts do not levy special assessments.

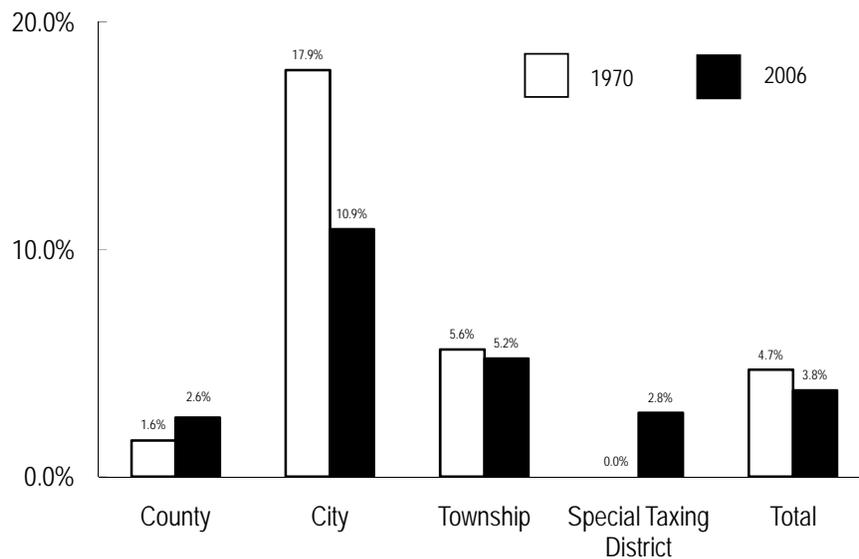
**Figure 1: Total Special Assessments by Taxing District
Taxes Payable 2006**



Source: Department of Revenue, The 2006 Abstract of Tax Lists

Figure 2 provides a historical comparison of special assessments as a percentage of the total property tax levy for each of the types of taxing districts that levy special assessments (i.e., counties, cities, townships, and special taxing districts). The historical data dates back to 1970, just before the Minnesota Miracle of 1971 that made major property tax and intergovernmental financing changes to our system. Data from 1970 is compared to data from 2006.

Figure 2: Special Assessments as Percent of Taxing District Total Levy Taxes Payable 1970 and 2006⁴³



Source: Department of Revenue, Property Taxes Levied in Minnesota: Summary Tables for Taxes Payable 2005
 The 2006 numbers are from the 2006 Abstract of Tax Lists

The county special assessments as a percent of total levy has increased from about 1.6 percent to about 2.6 percent. In terms of dollars, the amount has grown from \$3 million to \$55 million, which is more than 18 times larger. City special assessments as a percentage of levy, on the other hand, have gone in the opposite direction. They have decreased from 17.9 percent of levy in 1970 to 10.9 percent in 2006. The higher percentage in 1970 may be related to the rapid housing growth in the suburbs from baby boomers. One would expect a higher expenditure in infrastructure (i.e., streets, curbs, gutters, sewers) with that housing growth. In terms of dollars, the total amount of city special assessments is now five times larger than in 1970. However, these changes appear to be as much a function of the total city levy increasing at a more rapid rate than special assessments, than it is of the actual dollar change in total special assessments.

The table containing the supporting data for Figure 2 is in the Appendix. It contains all of the special assessment and property tax levy data from 1970 through 2006. In the earlier years, the data is for each five-year time period, whereas, beginning in 1995 it is for each year. The data

⁴³ The fiscal disparity distribution levy that the taxing districts receive has been incorporated into the levy amounts.

has not been adjusted for any inflationary changes but is the actual dollars reported on that year's Abstract of Tax Lists.

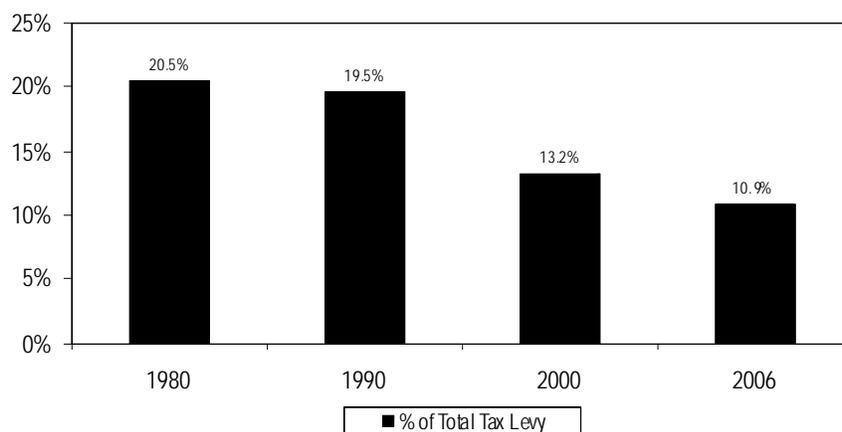
No attempt was made to look at the individual counties, cities, townships, and special districts to see what the range in percentages is across the state within the types of districts. It is presumed, as with most data, that although averages are useful in getting a sense of the big picture statewide, some of the taxing districts' percentages may be significantly different from the statewide averages of each respective type of district.

Comparison of Department of Revenue and State Auditor Data

As previously mentioned, the total special assessment amounts as reported by the counties to the Department of Revenue are different from the total special assessments as reported to the State Auditor by each of the local governments.

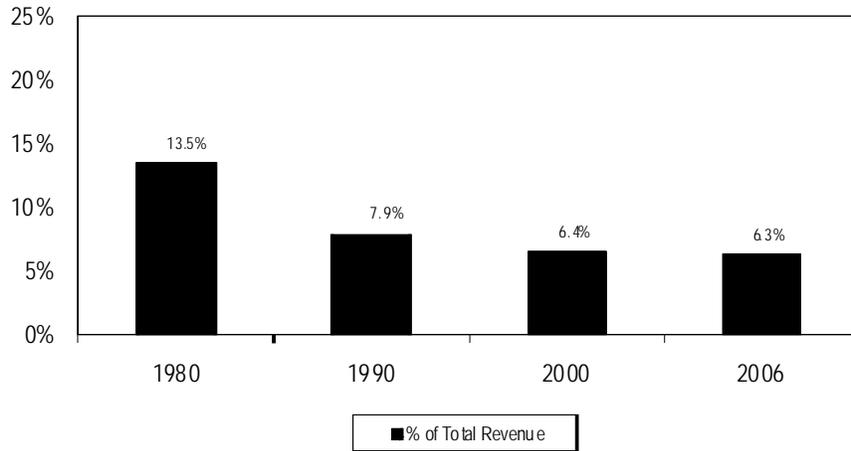
However, in spite of these differences, it is worthwhile to compare each of them to their respective total levy amounts (using DOR's data) and total revenue amounts (using the State Auditor's data). Figure 3 depicts the total *city* special assessments as a percent of the total city property tax levy, both from DOR sources. Whereas, Figure 4 presents the "bigger picture" by comparing the total city special assessment amount to the city's total revenue, both from the State Auditor's report.

Figure 3: City Special Assessments as a Percent of Total Property Tax Levy



Source: Department of Revenue, Property Taxes Levied in Minnesota: Summary Tables for Taxes Payable 2005
The 2006 numbers are from the 2006 Abstract of Tax Lists

Figure 4: City Special Assessments as a Percent of Total Revenue



Source: Office of the State Auditor, *Minnesota City Finances*

Appendix: Special Assessments (1970-2006)

**Special Assessments on Real Property
by Type of Taxing District as a Percent of Total Levy
Taxes Payable 1970-2006⁴⁴**
(Amounts in \$1,000s)

Taxes Payable	County			City			Township		
	Total Levy	Special Assessments	Special Assessments as a % of Total	Total Levy	Special Assessments ⁴⁵	Special Assessments as a % of Total	Total Levy	Special Assessments	Special Assessments as a % of Total
1970	\$207,861	\$3,253	1.6%	\$195,278	\$34,959	17.9%	\$14,617	\$733	5.0%
1975	323,903	3,572	1.1	280,237	56,388	20.1	17,523	851	4.9
1980	492,335	6,446	1.3	374,696	76,742	20.5	34,866	1,113	3.2
1985	754,438	13,154	1.7	590,175	117,520	19.9	63,707	2,569	4.0
1990	914,036	17,603	1.9	650,828	126,636	19.5	70,495	4,536	6.4
1995	1,232,713	35,539	2.9	770,760	118,868	15.5	80,697	4,920	6.1
1996	1,291,561	38,520	3.0	810,054	124,407	15.4	85,249	5,055	5.9
1997	1,342,617	41,437	3.1	856,610	122,718	14.3	86,168	4,862	5.6
1998	1,399,168	43,980	3.1	892,666	122,872	13.8	92,866	5,498	5.9
1999	1,457,802	44,140	3.0	941,293	133,838	14.2	99,055	6,222	6.3
2000	1,511,286	47,354	3.1	981,816	129,778	13.2	103,337	6,604	6.4
2001	1,629,754	50,442 ⁴⁶	3.1	1,059,280	136,874	12.9	111,266	7,742	7.0
2002	1,704,824	50,986 ⁴⁴	2.9	1,215,372	143,167	11.8	144,474	8,341	5.8
2003	1,823,519	49,389 ⁴⁴	2.7	1,288,594	144,766	11.2	157,284	8,179	5.2
2004	1,919,455	51,143	2.7	1,387,237	153,385	11.1	164,975	8,302	5.0
2005	2,035,084	52,076	2.6	1,495,230	161,028	10.8	175,197	9,301	5.3
2006	2,163,459	55,417	2.6	1,616,162	176,500	10.9	185,170	9,185	5.0

continued on next page

⁴⁴ Special assessments are not included in the taxing district's levy when tax rates are determined.

⁴⁵ The statewide city total amounts include street maintenance and storm sewer service charges in the city of St. Paul. The amounts in the earlier years were about \$5 million to \$6 million (street maintenance only), and since 1987 have grown from \$8 million to \$16 million (street maintenance and storm sewer).

⁴⁶ Excludes the Ramsey County Waste Management service charges of about \$14 million per year. Beginning in 2003, this amount is no longer on the abstract of tax lists reported to the Department of Revenue, but rather is collected directly by waste haulers.

Special Assessments on Real Property
by Type of Taxing District as a Percent of Total Levy (continued)
Taxes Payable 1970-2006
(Amounts in \$1,000s)

Taxes Payable	Special Taxing Districts			Total		
	Total Levy	Special Assessments	Special Assessments as a % of Total	Total Levy ⁴⁷	Special Assessments	Special Assessments as a % of Total
1970	\$5,339	-	-	\$912,399	\$38,944	4.3%
1975	37,901	88	0.2%	1,307,398	60,897	4.7
1980	50,757	885	1.7	1,844,023	85,185	4.6
1985	80,661	3,428	4.2	3,011,667	136,671	4.5
1990	103,090	2,816	2.7	3,298,638	151,590	4.6
1995	128,498	1,722	1.3	4,479,180	161,048	3.6
1996	146,031	2,193	1.5	4,709,972	170,174	3.6
1997	146,716	2,005	1.4	4,903,141	171,021	3.5
1998	154,386	3,618	2.3	4,978,685	175,968	3.5
1999	171,422	2,550	1.5	5,116,473	186,750	3.6
2000	180,065	2,516	1.4	5,326,758	186,252	3.5
2001	200,599	2,657	1.3	5,727,714	197,714	3.5
2002	172,814	2,843	1.6	5,167,792	205,337	4.0
2003	196,523	3,560	1.8	5,587,463	205,904	3.7
2004	202,089	6,409	3.2	5,920,672	219,239	3.7
2005	220,808	6,216	2.8	6,251,719	228,621	3.7
2006	240,388	6,528	2.7	6,803,906	247,630	3.6

For more information about taxes and local government, visit our web site, www.house.mn/hrd/hrd.htm.

⁴⁷ Columns do not add across because school districts are included in total levy, but not itemized in the table.