



LAKESHORE VALUATION REPORT

January 31, 2025

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December 5, 2024

The Honorable Ann Rest, Chair
Chair, Senate Taxes Committee
328 Capitol

The Honorable Aisha Gomez
Chair, House Taxes Committee
5th Floor Centennial Office Building

The Honorable Bill Weber
Minority Lead, Senate Taxes Committee
2211 Minnesota Senate Building

The Honorable Greg Davids
Minority Lead, House Taxes Committee
2nd Floor Centennial Office Building

The Honorable Dave Lislegard
Chair, House Property Tax Division
5th Floor Centennial Office Building

The Honorable Duane Quam
Minority Lead, House Property Tax Division
2nd Floor Centennial Office Building

Dear Committee Members:

I am pleased to present to you this report on valuation methods used to value the acreage and shoreline areas within all commissioner-administered and county-administered other natural resources land, as defined in Minnesota Statutes, section 477A.11, subdivision 4. This report was undertaken as part of Minnesota Session Laws - 2023, Regular Session, Chapter 64, article 4, section 29.

The report was produced in consultation with Minnesota Department of Natural Resources and used data provided by all 87 counties across the state. It provides a summary of valuations methods used throughout the state.

Sincerely,



Paul Marquart
Commissioner of Revenue
Minnesota Department of Revenue

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Introduction

Minnesota Session Laws - 2023, Regular Session, Chapter 64, Article 4, Section 29 required the Department of Revenue, in consultation with the Department of Natural Resources and counties, to produce a report on assessment methods used to value the acreage and shoreline areas within all commissioner-administered and county-administered other natural resources land, as defined in Minnesota Statutes, section 477A.11, subdivision 4.

Payment-in-Lieu of Taxes (PILT)

The Minnesota Legislature created the modern Payment-in-Lieu of Taxes (PILT) program in 1979. The purpose of the program was to:

1. Compensate local units of government for the loss of tax base from state ownership of land and the need to provide services for state land
2. Address the disproportionate impact of state land ownership on local units of government with a large proportion of state land
3. Address the need to manage state lands held in trust for the local taxing districts

Minn. Stat. 477A.10.

PILT payments are made on several different types of public land, including, but not limited to, state forests, consolidated conservation land, state parks, wildlife management areas, and “other natural resources land.” This report is concerned with “other natural resources lands”, which Minnesota Statutes section 477A.11, subdivision 4, defines as:

any land, other than acquired natural resource land or wildlife management land, presently owned in fee title by the state and administered by the commissioner, or any tax-forfeited land, other than platted lots within a city or those lands described under subdivision 3, clause (2)¹, which is owned by the state and administered by the commissioner or by the county in which it is located.

Within the category of “other natural resources land”, there are county administered other natural resources lands and DNR administered other natural resources lands. Both types of land have the same

¹ Minn. Stat. 477A.11, subdivision 3(2) states “‘Acquired natural resources land’ means: lands acquired by the state under chapter 84A that are designated as state parks, state recreation areas, scientific and natural areas, or wildlife management areas.”

payment formula - the total acreage of other natural resources land within the county multiplied by \$3.00². How the land is valued does not affect the PILT payment.

Valuation Methods

Assessors must determine the total market value of every property in the state. This includes public land as defined by Minnesota Statutes, section 477A.11, subdivision 4, for which PILT payments are made, even though the market value does not affect those payment amounts.

The total market value is the value of the land plus the value of structures and improvements. The market value is the price that would tend to prevail under typical, normal, competitive open-market conditions. Fundamental to the concept of market value is the term "highest and best use." This is the appraisal principal that appraisers should value property as though it was being put to the use that provides the highest return to the land, whether property is being used in that way or not. The use must be physically possible, legally permissible, financially feasible, and maximally productive.

Lakeshore properties are generally valued as residential development, whether a residence is currently on the property or not. This is because the highest and best use of lakeshore property in Minnesota is typically for residential or seasonal residential use. When valuing lakeshore property, the assessor may look at the type of shoreline, the zoning requirements, the market for such properties, and what legal rights and access there is at the property. Assessors may measure the shoreline, the setback from the shoreline, lot dimensions, the total area, and elevation.

After the property characteristics are determined, assessors must decide which valuation method should be used. These include the cost approach, the sales comparison approach, and the income approach. The cost approach looks at how much money it would take to replace a property with a similar one, depreciating the cost of constructing a new building to match the existing building's age. The sales comparison approach compares one property to a similar property that has recently been sold with adjustments made for differences in the properties. The income approach involves estimating the potential net income a property could generate by considering operating expenses, vacancies, insurance, and maintenance costs, then comparing this net income to expected returns on other investments to estimate the property's value.

The most used valuation method for lakeshore properties is the sales comparison approach, where assessors compare sales of similar properties in their areas to determine what a reasonable value may be. While houses are often compared on factors such as total square footage, number of bedrooms, etc., and large parcels of undeveloped land are valued on acres, lakeshore land value factors more often include front footage, lot size, set back, and slope considerations.

² The 2023 tax bill changed the payment rate from \$2.00 per acre to \$3.00 per acre, effective beginning with aids payable in 2024. Laws 2023, Ch. 64, art. 4, sec. 18.

While each of those considerations can be used, different areas of the state may have differing primary sources of value, with some lakeshore having more value based on a lot's front footage, and other areas of the state showing a market preference for overall lot size. Because of this, one of the challenges in completing this report was the use of varying methods of comparison due to the varying nature of the markets around the state. There are other considerations with the lakes themselves. For instance, across the state there are agricultural land parcels that may abut a waterway or lands abutting natural environment lakes, which are not as marketable as lakeshore on recreational lakes influenced by tourism.

All these factors are used by local and county assessors to determine the best valuation method to arrive at market value depending on the types of land in their jurisdictions. For more information on assessment terms, see the Assessment Terminology Glossary in Appendix A.

County Survey Responses

To complete this report, the Department of Revenue surveyed all 87 counties on their valuation process for valuing exempt and non-exempt lakeshore parcels and non-lakeshore parcels. The department received responses from all counties, but excluded eight counties who reported having no lakeshore parcels³. The 2022 assessment (taxes payable in 2023) was used because under Minnesota Statutes, section 273.18, all tax-exempt property must be reassessed every six years, with 2022 being the most recent year.

Lakeshore Properties

Of the 79 counties with lakeshore parcels, the sales comparison approach is the preferred valuation method when valuing lakeshore properties, with 94% of the surveyed counties using this approach. The remaining counties use other approaches⁴.

When using the sales comparison method, assessors must determine what units of comparison, or property characteristics, to use to properly analyze real estate market trends. Examples of these include value:

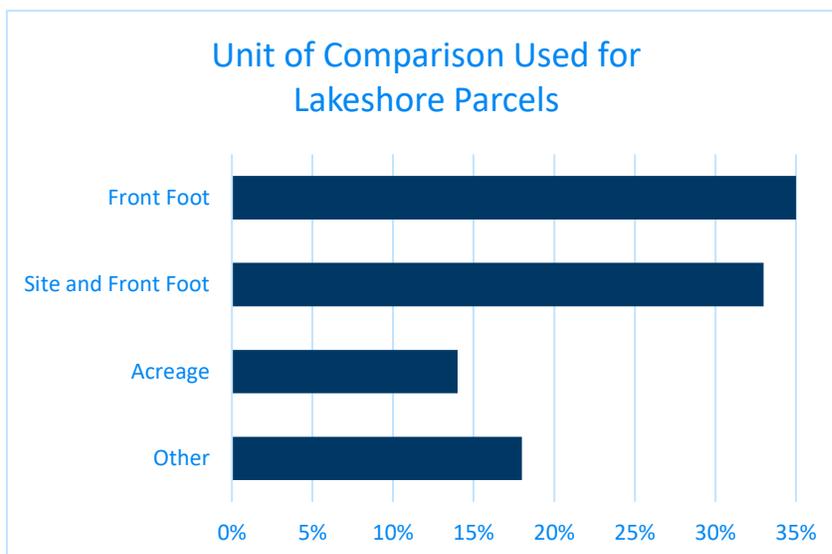
- Per square foot
- Per acre of land area
- Per front foot

³ Excluded counties include Dodge, Pennington, Pipestone, Red Lake, Redwood, Rock, Wilkin, and Yellow Medicine.

⁴ Of the remaining counties with lakeshore parcels, one uses the neighboring counties values, another the cost approach for developed parcels and sales comparison for vacant parcels, and another a market indicated cost.

- Per buildable unit

When determining what units of comparison to use, the best units are typically the ones with the least amount of variation between data points. Due to different lakeshore property markets across the state, the units used for comparison vary from county to county. The use of front foot is the most widely used, with 35% of counties surveyed reporting the use of that unit. Other units considered are site and front foot (33% of counties), and acreage (14% of counties), with the remaining counties using some other units. In some cases, the units used were dependent on the lake, municipal services available for the property, or a combination of these.



Just over half (52%) of counties reported they consider additional units for assessing lakeshore parcels, such as square foot, acreage, site, lake quality, dock rights, and lake classification. These units and the adjustments that result from them are used to determine the value of lakeshore properties. The majority of counties (93%) report valuing taxable and exempt lakeshore parcels using the same valuation methods⁵.

Non-lakeshore Properties

When valuing non-lakeshore parcels, 92% of counties that have lakeshore parcels use the sales comparison approach, with the remaining counties using another method⁶. The sales approach is usually the preferred approach for valuing residential and other property types if there are sufficient sales.

Differences in non-lakeshore properties result in assessors utilizing different factors to properly analyze real estate market trends. The factors are used to analyze real estate market transactions. Examples of these include land value:

- Per square foot
- Per acre of land area

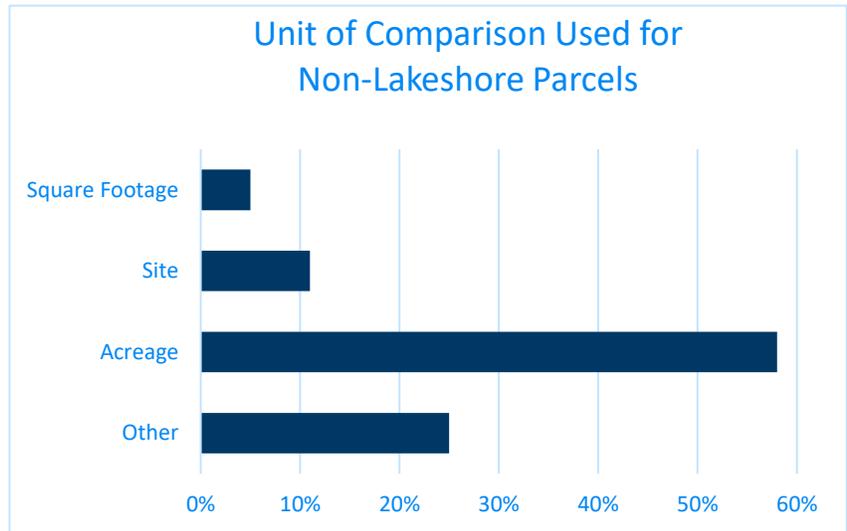
⁵ The remaining counties note that each parcel is unique in terms of location, lake shore quality, and access, which can lend itself to different value methods.

⁶ Other methods include Department of Natural Resources and Pheasants Forever sales, CAMA cost modified by sales, and market indicated cost approach.

- Per front foot
- Per buildable unit

Due to varying land types, assessors use different factors when valuing non-lakeshore properties compared to lakeshore properties. The most widely used factor is acreage with 58% of counties utilizing it. Other factors used are by site (11%), and square footage (5%), with the remaining counties using some other factors⁷.

When asked if counties consider multiple or additional factors for assessing non-lakeshore properties, 46% indicated they did while 54% indicated they did not. These factors are used to make adjustments when determining the value of non-lakeshore properties. Additionally, most counties (94%) report valuing taxable and exempt non-lakeshore parcels using the same valuation methods.



For additional information regarding the assessed value and acreage for parcels abutting lakes and parcels not abutting lakes for all commissioner-administered and county-administered other natural resources land by county, see Appendix B.

⁷ Other factors may include, but are not limited to, land use, access, road frontage, lot dimensions, zoning requirements, elevation, setback, shape, and tree coverage.

Appendix A – Assessment Terminology Glossary

General Assessment Definitions from IAAO Glossary for Property Appraisal and Assessment, Third Addition:

Acreage – Land larger than one acre that refers to a large parcel of land. The term acreage can be used to indicate a large parcel of land not necessarily measured in acres. Includes farms, timberland, recreational acreage, idle land, and waste land in rural locations. Excludes vacant platted lots that lie within or adjacent to a municipality and that usually carry a lot/block system designation rather than acreage. Separately assessed timber or mineral rights are omitted from this category.

Cost Approach – One of the three approaches to value, the cost approach is based on the principle of substitution—that a rational, informed purchaser would pay no more for a property than the cost of building an acceptable substitute with like utility. The cost approach seeks to determine the replacement cost new of an improvement less depreciation plus land value. The method of estimating the value of property is done by:

- (a) Estimating the cost of construction based on replacement or reproduction cost new or trended historical cost (often adjusted by a local multiplier);
- (b) Subtracting depreciation; and
- (c) Adding the estimated land value. (The land value is most frequently determined by the sales comparison approach.)

Elevation – The distance of a point above a specified surface of constant potential; the distance is measured along the direction of gravity between the point and the surface.

Factor – A numeric value that can be divided or multiplied to produce another numeric expression. Organized numbers that can be identified to produce a numeric component that can be mathematically utilized to produce a statistical result.

Front Foot – The unit or standard of linear measure used in measuring frontage.

Sales Comparison Approach – One of three approaches to value, the sales comparison approach estimates a property's value (or some other characteristic, such as depreciation) by reference to comparable sales. The sales comparison approach compares recently sold properties to the subject property. Adjustments are made to comparable properties to reflect the characteristics of the subject property.

Square Foot – A unit of area equal to a square one foot (12 inches) in length on each side.

Units of Comparison — Property characteristics expressed as value per unit of measure most often used by market participants to estimate a property's total value. A relevant measure of similarity used to calculate the value of a property or establish similarity with another property. Units of comparisons

can include land value per square foot, per acre of land area, per front foot, per buildable unit. For commercial property, the unit of comparison may be the square foot of gross building area, usable building area, or rentable building area. For personal property, the unit of comparison may be units of production. The optimal unit of comparison for analysis is typically the one with the lowest coefficient of variation.

Zoning Requirements – The exercise of the police power to restrict landowners as to the use of their land and/ or the type, size, and location of structures to be erected thereon.

Shoreland Specific Terminology Used in this Report:

Access – The right of egress from and ingress to a property from an existing highway, street, or water.

Buildable Unit — A unit of comparison used when the market indicates that a site is sold on a unit basis.

Class of Lake – Minnesota Rule 6120.3000, Subpart 1a, establishes three basin classifications and six watercourse classifications as summarized here:

Natural environment	Generally small, often shallow lakes with limited capacities for assimilating the impacts of development and recreational use. They often have adjacent lands with substantial constraints for development such as high-water tables, exposed bedrock, and unsuitable soils. These lakes, particularly in rural areas, usually do not have much existing development or recreational use.
Recreational development	Generally medium-sized lakes of varying depths and shapes with a variety of landform, soil, and groundwater situations on the lands around them. They often are characterized by moderate levels of recreational use and existing development. Development consists mainly of seasonal and year-round residences and recreationally oriented commercial uses. Many of these lakes have capacities for accommodating additional development and use.
General development	Generally large, deep lakes or lakes of varying sizes and depths with high levels and mixes of existing development. These lakes often are extensively used for recreation and, except for the very large lakes, are heavily developed around the shore. Second and third tiers of development are fairly common. The larger examples in this class can accommodate additional development and use.

Depth Factor — The ratio of the estimated front-foot value of a lot of more or less than standard depth to the estimated front-foot value of a lot of standard depth.

Front Foot – A unit of measurement by linear feet used to calculate the amount of property abutting (or spanning) a particular area such as a lake.

Irregular Lot Valuation Table — A valuation table whose purpose is to convert the actual frontage of irregularly shaped parcels to effective front footage.

Land, Improved — The ground or base of property that has been partially or fully developed for use or continued improvements. Land can be improved by changing the zoning requirements, erecting a building or structure, establishing utility (gas, water, electric) hookups, and installing access features or roadways

Land, Platted — Land that has been surveyed and divided into marketable lots delineated on a plat; applied especially to urban land used or intended for use as building sites.

Land Use — The purpose for which land or premises or building therein is designated, arranged, or intended, or for which it is or may be occupied or maintained.

Land Value — The amount for which vacant land with the same location, area, shape, physical characteristics, and allowable uses would sell in the open market.

Lot Dimensions — A parcel of land designated by plat, metes and bounds, registered land survey, auditors plot, or other accepted means and separated from other parcels or portions by said description for the purpose of sale, lease, or separation.

Quality of Shoreline — Physical characteristics of land abutting water such vegetation, steepness, and water quality.

Road Frontage — The extent of a parcel of land along a street, road, or other traffic artery that the parcel is said to face.

Setback — "Setback" means the minimum horizontal distance between a structure, sewage treatment system, or other facility and an ordinary high-water level, sewage treatment system, top of a bluff, road, highway, property line, or other facility.

Shore — The land lying between the high-water and low-water marks.

Site — Land that is improved so that it is ready to be used for a specific purpose.

Site Characteristics — Characteristics of data that describe a particular property, especially land size, shape, topography, and drainage, as opposed to location and external economic forces. Any characteristics of the site or the improvement.

Tree Cover — An amount of forest that covers a particular area of land.

Appendix B - Assessed Values and Acreage by County

The table shown here summarizes, by county, the assessed value and acreage for parcels abutting lakes and parcels not abutting lakes for all commissioner-administered and county-administered other natural resources land, as defined in Minnesota Statutes, section 477A.11, subdivision 4.

Counties report property tax information to the state through the Property Record Information System of Minnesota (PRISM). This includes both taxable and exempt property, including PILT lands.

Counties assign PRISM exemption codes when reporting PILT lands. The scope of this report is other natural resource lands reported with codes 1530, 1540, and 1545.

Exemption Code	Exemption Type
1500	DNR Natural Resource Lands qualifying for Payment-in-Lieu of Taxes (PILT)
1510	DNR PILT for Acquired Natural Resource Lands not in a Consolidated Conservation Area
1515	DNR PILT for Acquired Natural Resource Lands in a Consolidated Conservation Area
1520	DNR PILT for Wildlife Management Lands
1530	DNR PILT for County Administered Other 'Natural Resource' Lands
1540	DNR PILT for DNR Administered Other 'Natural Resource' Lands not in a Consolidated Conservation Area
1545	DNR PILT for DNR Administered Other 'Natural Resource' Lands in a Consolidated Conservation Area
1550	DNR PILT for Land Utilization Project Land
1560	DNR PILT for Military Game Refuge Land
1570	DNR PILT for Transportation Wetland
1580	DNR PILT for Lake Vermillion and Soudan Underground Mine lands

County	Shoreline Acres	Shoreline Value	Other Acres	Other Value
Aitkin	16,645	60,480,700	588,619	629,267,900
Becker	97	1,723,000	95,470	169,914,800
Beltrami	17,631	41,055,600	163,416	244,912,300
Benton	0	0	183	540,200
Big Stone	0	0	3,713	11,139,200
Blue Earth	234	1,466,600	2,132	5,772,100
Carlton	2,360	6,446,200	146,756	204,347,300
Carver	0	0	119	1,929,800
Cass	100,249	315,364,400	331,381	672,503,300
Chippewa	3,389	8,901,600	1,353	3,771,400
Chisago	37	537,700	859	3,723,500
Clay	0	0	1,236	1,834,100
Clearwater	9,476	19,522,200	110,267	180,670,800
Cook	35,127	136,676,400	77,816	76,447,300
Crow Wing	18,775	90,693,100	113,950	240,031,800
Douglas	424	8,111,200	21	95,500
Faribault	0	0	171	193,300
Hennepin	150	11,030,100	715	19,674,500
Hubbard	46,420	102,640,700	138,701	219,533,500
Isanti	0	0	1,673	2,367,700
Itasca	65,246	161,771,700	541,147	496,360,100
Kandiyohi	628	1,348,600	319	1,152,600
Kittson	1,153	1,131,800	35,093	31,341,100
Koochiching	357	4,896,400	183,858	36,169,500
Lac Qui Parle	1,422	6,904,300	6,232	32,397,300
Lake	8,969	42,839,600	309,580	376,222,600
Mahnomen	11,996	14,339,700	9,558	10,815,500
Marshall	7,632	6,148,600	23,114	25,259,600
Martin	36	134,200	32	94,400
Morrison	200	449,700	67	328,700
Mower	0	0	266	714,100
Nicollet	149	403,300	84	300,200
Norman	0	0	1,133	1,280,000
Pennington	0	0	2,922	3,035,600
Polk	1,661	1,500,300	3,800	3,399,800

Ramsey	0	0	84	9,908,600
Red Lake	0	0	1,199	967,400
Redwood	0	0	119	659,000
Rice	0	0	1,839	10,001,200
Roseau	13,058	10,670,600	222,362	150,007,100
St. Louis	93,924	177,412,700	1,347,857	990,621,300
Scott	0	0	633	5,547,400
Sherburne	346	3,026,800	2,890	15,160,500
Sibley	45	11,600	25	22,300
Stearns	573	4,200,300	4,858	14,778,500
Steele	0	0	77	187,300
Stevens	0	0	3	20,000
Todd	6,836	16,250,200	6,543	14,449,800
Traverse	0	0	50	125,000
Washington	2	97,000	1,158	16,544,100
Watonwan	104	341,800	0	0
Wilkin	0	0	720	1,245,100
Yellow Medicine	0	0	207	930,900
TOTAL REPORTED	465,351	\$1,258,528,700	4,486,381	\$4,938,716,900

Some counties report their PILT lands in PRISM using the general PILT exempt code 1500 rather than specifically classifying them as other natural resources lands with exempt codes 1530, 1540, or 1545.

The following counties did not report PILT lands by specific exemption codes and therefore are not able to be included in the data table above: Anoka, Brown, Cottonwood, Dakota, Dodge, Fillmore, Freeborn, Goodhue, Grant, Houston, Jackson, Kanabec, Lake of the Woods, Le Sueur, Lincoln, Lyon, McLeod, Meeker, Mille Lacs, Murray, Nobles, Olmsted, Otter Tail, Pine, Pipestone, Pope, Renville, Rock, Swift, Wabasha, Wadena, Waseca, Winona, and Wright.