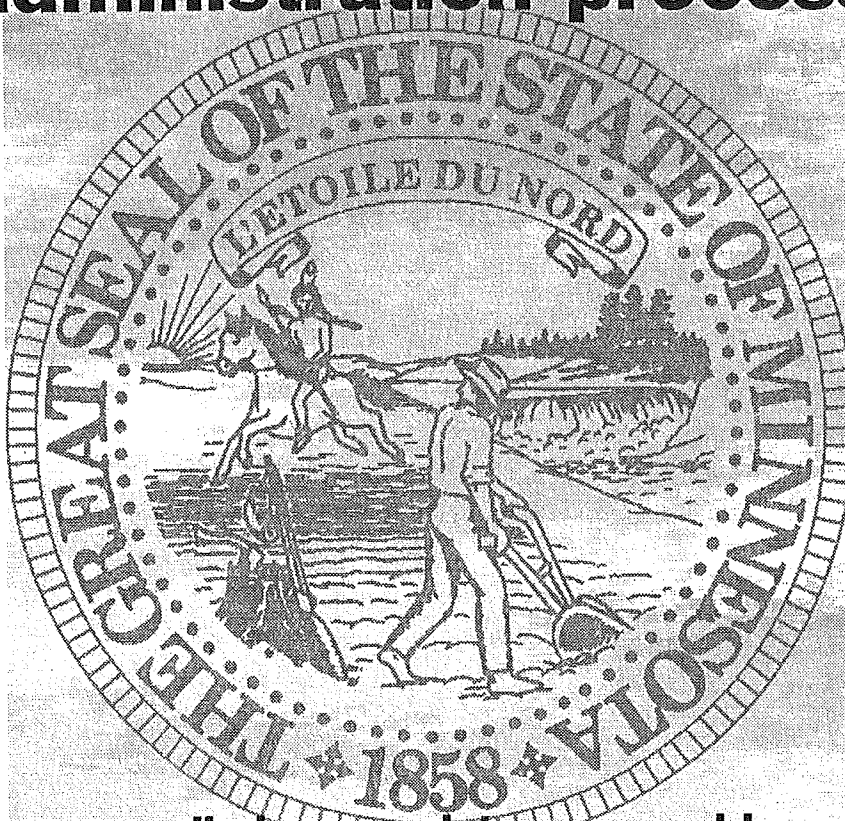


**Reforming Minnesota's tax system:
A tax system that makes sense
for Minnesota**

An overview of Minnesota's property tax administration process



**a preliminary update prepared by
the Minnesota Department of Revenue**

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Chart 1

Property Tax Reform:

Four Policy Areas Under Review:

1. Assessment and Classification:

- Review of Assessment statistical tools, methods, and applications
- Property Classification System - Simplification and Fairness of tax burden distribution

2. Administration Process:

- How does the current system work from point of assessment through tax distribution?
 - Who does what, when, and how?
 - What information is collected, how is it processed, who uses it?
 - Estimate the cost to administer the system.
- What can be done to make the system less burdensome and more responsive to taxpayer needs?

3. Taxpayer Understandability:

- Examine ways to better inform and educate taxpayers about the property tax system.
- Can valuation notices, Truth-in-Taxation, and tax statements and timing be changed to make them more understandable and useful?
- How taxpayer-friendly is the appeals process?

4. Role of the Property Tax:

- What is the role of the property tax to fund K-12 education, transportation, social service programs, etc.?
 - State, local or shared responsibilities?
 - Alternative local non-property tax revenue sources?
- How can we best address intergovernmental fiscal issues like state-local mandates?
- How can we best coordinate property tax or related policies with economic development and affordable housing goals.

Chart 2

How Does Our Property Tax System Work?

\$4.6 Billion = Market Value * Local Gov't Tax Rate

In Theory, the tax system is quite simple

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However, in practice we have to make a few modifications to make the system fair

$$\begin{aligned} & x = \frac{y}{a} - 1 \\ & y = \frac{a}{x+1} \\ & \frac{dy}{dx} = -\frac{a}{(x+1)^2} \\ & \int \frac{dy}{dx} dx = \int -\frac{a}{(x+1)^2} dx \\ & y = \frac{a}{x+1} + C \\ & \frac{y}{a} = \frac{1}{x+1} + \frac{C}{a} \\ & \frac{y}{a} - \frac{1}{x+1} = \frac{C}{a} \\ & \frac{y - (x+1)}{a(x+1)} = \frac{C}{a} \\ & \frac{y - x - 1}{a(x+1)} = \frac{C}{a} \\ & \frac{y - x - 1}{x+1} = C \\ & y - x - 1 = C(x+1) \\ & y = Cx + C + x + 1 \\ & y = (C+1)x + (C+1) \\ & y = k(x+1) \end{aligned}$$


Chart 3

What Makes The Property Tax System Complicated?

- Every property tax system has three primary phases and basic features which make the system complex to administer and difficult for taxpayers to understand.
- In Minnesota, the system is further complicated by the use of many special features.

Assessment of Value.

Basic features include:

- Time period to "estimate" and establish value
- Assure accurate assessments and equalization
- Opportunity and process for appeals

Special features include

- Property Classification Rate System resulting in:
 - * Multiple tax bases
 - Net tax capacity
 - Market value
 - Ag. Land market value (45%)
 - * Extensive attention (legal and assessment) on use determination
- Limited market value
- Senior deferral

Determination of tax rates and liabilities.

Basic features include:

- Local Government Budget process(es)
- State calculation and certification of aid payments
- Calculation of tax rates for unique taxing jurisdictions
- Spreading tax to individual properties.

Special features include:

- TnT: notices and hearings
- Levy Limits
- Use of numerous tax credits
- Extensive use of local aid programs
- Fiscal Disparities (Metro and Taconite Region)
- Use of many targeted tax provisions (eg. Green Acres, This Old House, etc.)
- Extensive use of TIF in various forms
- Relatively large number of overlapping jurisdictions
- Taconite Aids
- Calculation of qualifying tax for PTR

Billing, collection, distribution.

Basic features include:

- Preparation and distribution of tax statements
- Payment by taxpayer: direct or escrow
- Distribution of tax revenues and state aids to local jurisdictions
- Tax delinquency process

Special features include:

- TnT parcel tax notices
- Numerous calculations for overlapping jurisdictions
- Extensive payment process for many aid programs
- Property tax refunds

Chart 4

Underlying Characteristics of Minnesota's Property Tax System That Contribute to its Complexity:

- **3,490 Overlapping Governments = 6,000+ Unique Taxing Jurisdictions**
 - **1,794 Townships**
 - **854 Cities**
 - **406 Special Districts**
 - **349 Schools Districts**
 - **87 Counties**
- **Over 200 intergovernmental aid programs with several major programs directly impacting tax levy certification (EG. LGA, HACA, DRA)**
- **Over 30 special credit and levy calculations**
- **10 major property classification rates**
- **Numerous laws and regulations defining use and ownership**
- **Mixed Assessment Organization:**
 - **State oversight with some assessment responsibilities**
 - **23 counties with countywide assessment**
 - **27 counties with largely countywide assessment**
 - **37 counties with largely local assessment**
- **Lengthy administrative time period, with overlapping activities, for taxes payable in any given calendar year:**
 - **Up to 2.5 years from point of initial property assessment through when aids and tax revenues are distributed to local governments;**
 - **And, up to 3 years (plus) when including the property tax refund and delinquent tax processes**

Chart 5

Why Property Taxes Vary From Year to Year*

Many factors contribute to the change in taxes which makes it difficult for state and local officials to explain the system and for taxpayers to understand it:

- 1. The market value of a property may change.**
- 2. The market value of other properties in your local taxing district may change, shifting taxes from one property to another.**
- 3. The County, City, Town, School District, or Special District levy may change.**
- 4. Voters may have approved a school, city, town, or county referendum levy increase.**
- 5. Federal or state mandates may have changed.**
- 6. The state legislature may have changed class rates**
- 7. Special assessments may have been added to the tax bill.**
- 8. Changes in special laws like fiscal disparities or tax increment financing may affect property taxes.**

Chart 6

Property Tax Administration Process

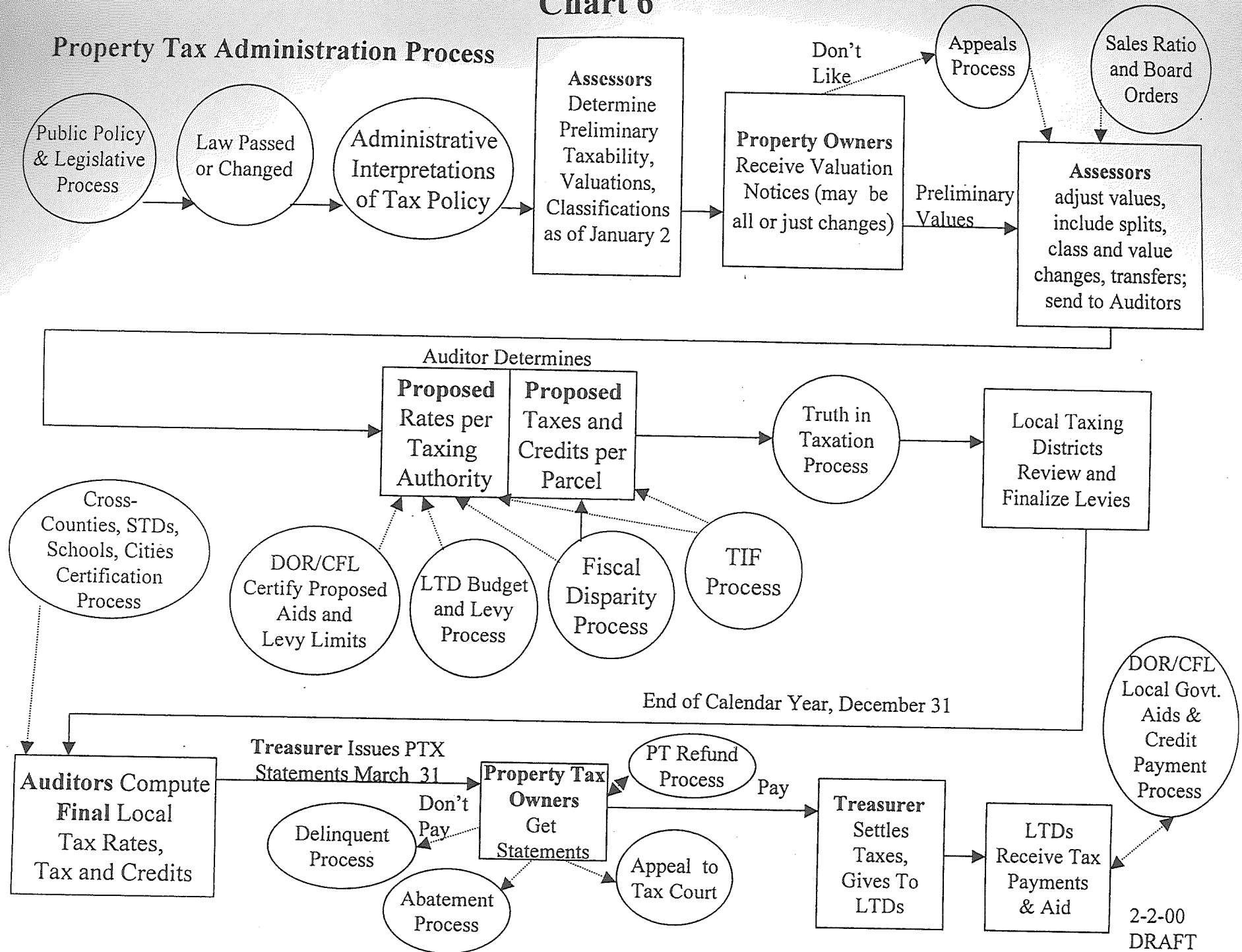


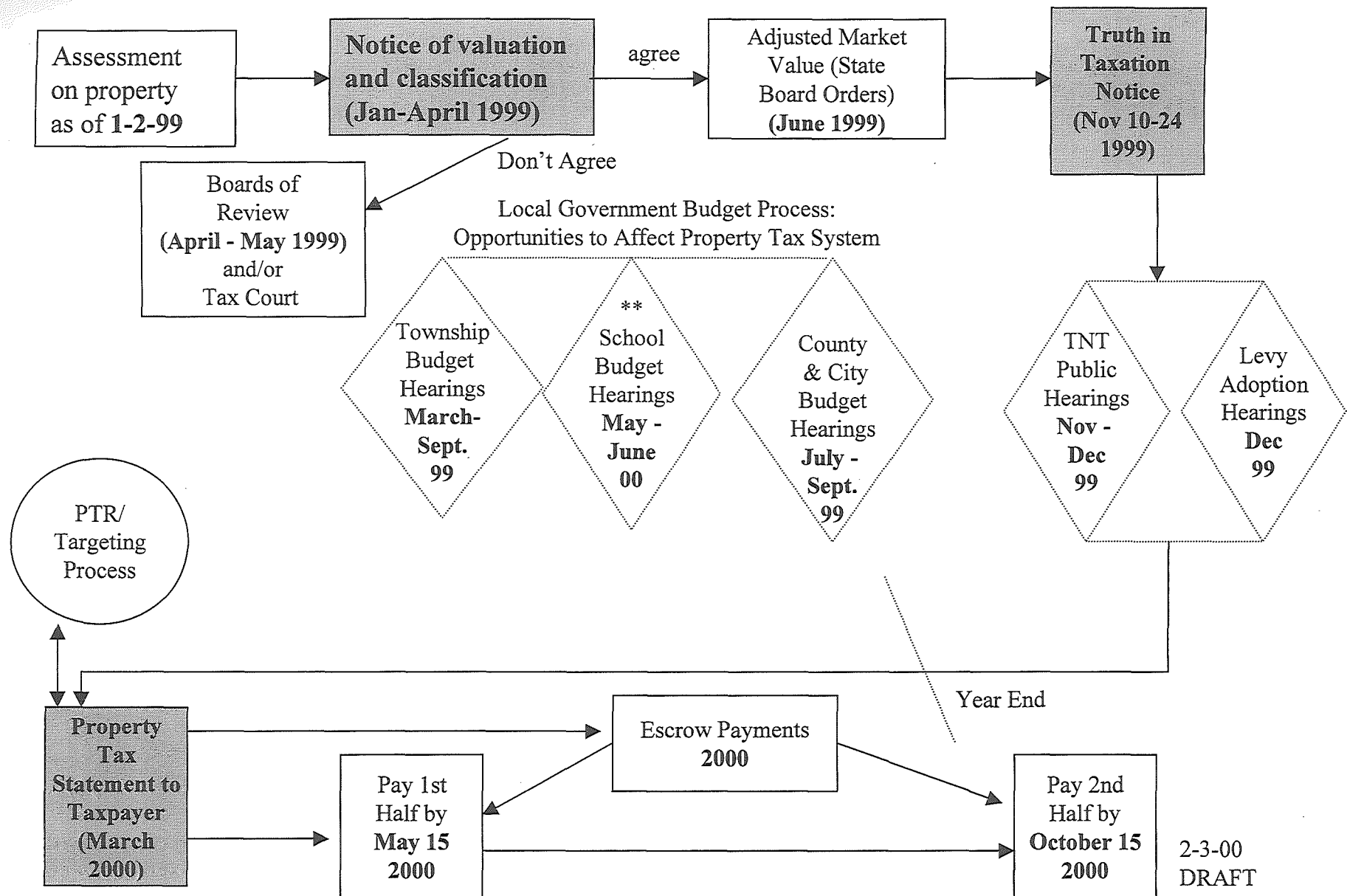
Chart 7

TIMELINES FOR PROPERTY TAX ADMINISTRATION FOR TAXES PAYABLE IN 2000 (Preliminary Draft)

Administration Process / Activity	1998		1999				2000				2001		
	Qtr3	Qtr4	Qtr1	Qtr2	Qtr3	Qtr4	Qtr1	Qtr2	Qtr3	Qtr4	Qtr1	Qtr2	Qtr3
Assessment of Value: (Activities include, but not limited to) Property assessment Valuation notices Boards of Review Tax Capacity Calculation Abatements													
Determination of Tax Rates and Liabilities: (Activities include, but not limited to) Local Government Budget Process State aid certification TIF Fiscal Disparities TnT process Final Levy Adoption													
Billing, Collection, Distribution: (Activities include, but not limited to) Adjustments for overlapping jurisdictions Tax statements prepared and distributed Taxpayer payment Tax revenue distributed to jurisdictions Aids distributed to jurisdictions Property Tax Refund Process Delinquent tax process													

Chart 8

Pay 2000 Property Tax Process for Compliant Homestead Taxpayer



** Decisions to fund school districts are based on a different time schedule.

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Chart 9

Truth-in-Taxation Participation Survey: 1999 for taxes payable in 2000

- Results based on 499 survey responses:

- 80 County
- 20 School district
- 399 Cities

- Summary of Results:

1. Who attended:

<u>Number</u>	<u>Pct.</u>	<u>Representation:</u>
4,290	75%	Government Officials
1,419	24%	General Public
<u>48</u>	<u>1%</u>	<u>Press</u>
5,757	100%	Total

2. General Public: Average Meeting Attendance:

5.1	Counties
2.4	Cities
<u>2.3</u>	<u>School districts</u>
3.0	Total

- General Observations about the meetings as reported on the surveys:

1. Most people came to argue their property valuations
2. Very few questions on proposed levy or budget
3. Hearings should be held in August to have greater impact
4. Need more flexibility in setting meeting dates
5. Should be allowed to adopt tax levy on the same night of public meeting
6. There should be a single meeting with all overlapping government jurisdictions represented.

Chart 10

Important Policy Questions To Ask About The Property Tax Administration Process:

1. What can be done to make the system, more understandable, less burdensome, more flexible, more timely, and more responsive to taxpayer needs?
2. Can changes be made to how and when special tax features are implemented without compromising existing or proposed legislative policy objectives?
3. Can simplification enhance legislative policy objectives?
4. How much does it cost to administer the system?
5. Given modern technologies, can improvements be made in the way we manage data and information?
6. Does the timing and content of valuation notices, TnT notices, and tax statements allow for effective taxpayer participation in local budget and levy determination processes?
7. Is the terminology and math user friendly (ie. tax capacity and tax rates greater than 100%)
8. How can we better inform and educate policy makers and taxpayers about the performance of the property tax system?