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Property tax reform: How are local governments responding?

by Bob DeBoer

As the major changes from the 2001 property tax and K-12 education finance reforms rumble out through state and local government in Minnesota, the big question is: How are local governments responding?

The answer may not be known for years to come, but in our annual Homestead Property Tax Review, and in the coming months, the Citizens League will begin to provide data that will help answer that question.

At this near juncture, after such a major system change, it is most important to ask the right questions and evaluate the proper data. It is also important to not draw conclusions beyond what the data is able to support.

A recap of the 2001 property tax reform is in order. The far reaching tax reform, enacted by the Legislature in 2001, took effect in 2002 with the state takeover of the K-12 general education levy.

Below are some of the major changes from 2001 that are impacting communities now.

Class-Rate Compression: In 2002, a major result of property tax reform was the reduction of the state-determined class rate on commercial-industrial (business) property from 3.4 to 2 percent. Class rates for homeowners remained at 1 percent for the first \$76,000 in value; rates for values over \$76,000 were reduced from 1.65 percent to 1 percent for the value up to \$500,000; and a new rate of 1.25 percent was established above that. The class rate determines how much a particular type of property pays in property taxes when a local government applies its local tax rate.

This shrinking of the gap between class rates

on various types of property, called compression, results in business property paying less in taxes to local governments when the local tax rate remains constant, and other property—particularly homeowners—paying more. Class-rate compression has been moving forward since the mid-90s, but the rate change that took effect in 2002 was the most significant.

The effect of the class-rate compression is to reduce the somewhat favored position of homeowners in Minnesota's property tax system. Of all the major taxes, the property tax on homeowners is where Minnesota has traditionally ranked lower in comparison to other states, typically in the middle, or on the low side of the middle.

Aid Cuts: Former Gov. Jesse Ventura's administration initially proposed cuts in state aid to cities of about \$200 million for 2002 as part of its property tax reform package. In the final negotiations, the Legislature restored \$140 million for non-metro cities, so the final cut in aid to cities was about \$60 million. Another \$70 million in aid cuts were applied to townships, special districts and schools in 2002. City aid was not reduced the following year for taxes payable in 2003, but there was a round of city aid cuts by the 2003 Legislature that will impact some cities next year (taxes payable in 2004).

Limited Market Value Phase Out: This law limits how much homestead market value can be increased for tax purposes. It is being phased out gradually and will be eliminated by 2008. How much a homeowner pays in property taxes will gradually catch up to the full market value of their property after years of limits.

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What do rankings mean?

Static value comparisons

To allow a comparison of taxes from one community to another, our analysis used a home valued at \$160,000 for 108 metro communities and a home valued at \$100,000 in 32 non-metro communities. These values represent the averages for the two groupings in our survey. These values must be adjusted every few years as market values change. This year's market values for cross-community comparison were established for last year's survey (2002). In general, cities or towns with populations greater than 2,500 in the metro area and greater than 9,000 in non-metro Minnesota are included in the survey.

A high ranking in this comparison shows that a community pays relatively high taxes per dollar of homestead property, but it cannot represent a multitude of variables relating to the value of the services and resources available in each community. The major changes in Minnesota's property tax and K-12 education finance system, which were passed in 2001 and took effect in 2002, also resulted in major changes in how Minnesota provides tax relief to homeowners:

- ▲ the Education Homestead Credit was replaced with the Market Value Credit;
- ▲ Limited Market Value is being phased out over the next several years; and
- ▲ state aid to local governments has been permanently reduced.

For the last three decades, Minnesota has provided significant levels of state aid to local governments in an effort to make a high level of services available to every community. In recent years, state aid has changed in nature or been reduced, and the result of these changes will produce changes in patterns of taxation.

It is important to remember that total property taxes reflect the spending decisions of several layers of local government. High tax rates indicate high government spending—by cities, schools, counties, or special districts—like hospital or watershed districts—relative to a community's property tax base. Sometimes a particularly high tax rate set by one level of government can pull a community into a high ranking, even if the other levels of government have more moderate tax rates. The analysis of the highest and lowest ranking cities includes taxes by various levels of government, in addition to total taxes. This comparison does not account for differences in communities' assessment practices. The State Board of Equalization at the Department of Revenue does provide adjustment to market values that are significantly higher or lower than sales in a taxing jurisdiction, but these adjustments do not occur until the year after the assessment takes place.

A community's property tax base can vary depending on several factors: the value of homes; the amount of commercial-industrial property—which adds more tax base per dollar of property value than homes; the amount of agricultural property—much of which adds less tax base per dollar of value than homes; and the amount of tax base available because of tax increment financing (TIF). The rate compression from property tax reform has lessened the impact of these variables, but they are still significant.

Average value comparisons

We calculated the average assessed market value for each community and compared taxes on these average-value homes. This analysis gives a better sense of what homeowners in various communities actually pay in property taxes. But because the analysis reflects differences in tax rates and differences in value, a high ranking can mean that a community either has a high average home value, a high tax rate, or both.

None of the analyses account for the property tax refund (PTR) program, which provides a tax reduction for those with high property taxes in relation to their income, or for the special refund program referred to as "targeting," which offsets large increases in taxes due to market value increases. Since homeowners must specifically apply for these refunds, they cannot be applied over the entire tax base with accuracy. MJ

Fiscal Disparities: Class-rate compression also means that if local tax rates remain the same, there is a reduction of the amount cities contribute to the fiscal disparities pool—Minnesota's metropolitan tax-base sharing mechanism—which many consider to be a national model for helping to promote regional stability. Since the amount contributed to the fiscal disparities pool is based on growth in commercial-industrial tax base, the lowering of the class rate on this type of property initially resulted in fewer dollars available for fiscal disparities.

Tax Increment Financing (TIF): Since class-rate compression reduced property tax dollars paid by business properties to local governments in 2002, the reforms also caused a significant reduction in TIF revenues in 2002 and will continue to do so in the future. The state created a pool of money to offset TIF reductions—if those reductions put any city bond payments in jeopardy. In most cases, cities did not access those dollars (which required proof of need). Nonetheless, the reduction of TIF revenues has caused additional stress on cities in particular.

Transit Levy Takeover: The state also took over transit levies which amounted to about \$100 million. Transit taxes were levied by the Metropolitan Council for most of the metro area. Cities and counties outside the metro area, along with a handful in the metro area, levied their own transit taxes. The impact of this reduction in property taxes was predominantly in the metro area.

2003 Homestead Property Tax Review

Following is the 2003 taxes and rankings. In the coming months the Citizens League will complete a two-year analysis of tax changes from 2001 to 2003. This will mark the tax changes since the enactment of property tax reform in a more meaningful way.

▲ Metro \$160,000 homes

In this year's survey (taxes payable 2003), Brooklyn Center and Brooklyn Park moved up into the top two spots in terms of taxes payable on a \$160,000 home. Minneapolis, Dayton and New Hope rounded out the top five. The five

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Viewpoint

A social studies standards bedtime story

by Sean Kershaw

“STOP!”

In the children’s book *Old Turtle*, this is Old Turtle’s reply to the creatures of the earth who are arguing about the definition of God. In the book, Old Turtle’s admonishment is both a plea to think about God in ways that transcend simple one-dimensional definitions (big, gentle, powerful, etc), and a stern warning that there will soon be more important things to worry about (for the books’ characters...humans!) than their petty argument about God.



As I read this to my 3-year-old last month, I couldn’t help but think that this is a good reply to the recent debate on our proposed social studies standards: “STOP!”

Don’t get me wrong, I love a good debate, and this is certainly something worth debating. But the very tenor of this argument has inadvertently highlighted the desperate need for a new set of civic standards, skills and values as a part of the broader social studies standards. The more we argued about the facts within the proposed standards, the more it became clear that we were arguing about the wrong

thing. For we too have more important things to worry about!

First, the facts...

Much of the conversation about these standards has been a somewhat circular argument about whose facts are “right” (or left). There are two things that trouble me about this: the tendency to deemphasize facts, and the argument that facts are enough.

Facts are a necessary basis for any set of standards, and for any conversation about democracy and citizenship. Those who opposed the initial standards need to own up to the fact that a broad set of facts about American and Minnesota history is a necessary starting point. It is good that the committee didn’t shy away from this. And in support of the critics, these facts must be broad and balanced—more balanced than the original proposal.

I’m glad that the final version of the standards resolves this need for balance, without diluting the necessary broad base of facts. However, this resolution still doesn’t deal with the heart of the issue.

...then the *real* social studies

The purpose of public education in a democracy is not just to memorize a set of facts, without any context or challenge. (We have dictatorships for this type of orthodoxy.) The fundamental purpose of public education is to prepare students to be active citizens in our democracy. Civic is as civic does.

This citizenship is in part an argument about balancing the tension between competing sets of values. These include freedom and justice, private wealth and common wealth, division and unity. Certainly the historical facts of the United States show how these values have been in tension since the Republic was created.

It is now fair to ask legislators, school officials, teachers and parents how we take these standards and use them to maximize the practice of democracy in our public

school classrooms. How do we bring this historical argument into the daily lives of our students—and their future lives as citizens?

Studying how these values compete and conflict makes history less one-dimensional and more meaningful and interesting for our students. But it also better reflects the reality of policy issues we grapple with every day. For example, policy debates over tax and healthcare reform are about finding the right balance between private wealth and commonwealth.

And just as Old Turtle predicted, we have a number of policy challenges coming our way that will make the social studies debate seem tame in comparison. Let’s teach the standards in a way that helps future generations prepare to tackle these policy issues!

Beyond a Bedtime Story

A “bedtime story” is perhaps a horrible metaphor for this discussion. Our children don’t need to see civics as a bedtime story—certainly not now in our history! Civics and democracy is a drama—it is action and affect. It is by all means built on a rich tradition of fact and of knowledge—or it is meaningless. But it is also made real by the physical and rhetorical skills of the actors themselves. (Actors, who, by the way, have a democratic purpose: maintaining and improving the Republic.)

The same is true for civics and citizenship. Our democracy is built on a foundation of experience—of fact—thousands of years old. But it is the debate, the chorus, the monologue—the experience of it as actors, not as a passive audience—but as active citizens, that makes it real. Let’s make sure our students are prepared for the part!

(Note: Thanks to University of Minnesota Professor Michael Hartoonian for help thinking through this issue!) **MJ**

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cities in the metro area with the lowest tax on a \$160,000 home in 2003 were Burns Township, West Lakeland Township, Mendota Heights, Grant, and May Township. St. Paul ranked 31st.

▲ Non-metro \$100,000 homes

Cloquet ranked first in 2003 in terms of

the total tax paid on a \$100,000 home. Bemidji, Red Wing, Hutchinson, and Sauk Rapids round out the top five. The five cities with the lowest taxes on a \$100,000 home in 2003 were Austin, Faribault, Alexandria, Brainerd, and Winona. Duluth, the only first-class city outside of

the metropolitan area, ranked 16th. **MJ**

For additional metro and nonmetro rankings and information on how the Homestead Property Tax Review was created visit www.citizensleague.net

TABLE 1: 2003 TAXES ON HOMES IN 108 METROPOLITAN COMMUNITIES

\$160,000 HOME			AVERAGE VALUE HOME			\$160,000 HOME			AVERAGE VALUE HOME		
Community (school district)	2003 Tax	Rank	Avg MV	2003 Tax	Rank	Community (school district)	2003 Tax	Rank	Avg MV	2003 Tax	Rank
ANOKA COUNTY											
Andover (11)	\$1,732	70	\$185,918	\$2,073	50	Minnetrissa (277)	\$1,759	64	\$378,614	\$4,671	4
Anoka (11)	\$1,947	34	\$135,347	\$1,589	87	Mound (277)	\$1,852	45	\$181,638	\$2,152	43
Blaine (11)	\$1,839	49	\$148,390	\$1,678	80	New Hope (281)	\$2,263	5	\$147,196	\$2,052	52
Burns Twp (15)	\$1,144	108	\$195,750	\$1,483	96	Orono (278)	\$1,483	97	\$453,918	\$4,856	3
Centerville (12)	\$2,067	22	\$163,386	\$2,119	44	Osseo (279)	\$2,244	8	\$131,372	\$1,777	74
Circle Pines (12)	\$1,895	37	\$136,304	\$1,559	90	Plymouth (284)	\$1,695	73	\$224,403	\$2,527	31
Columbia Hts (13)	\$1,669	79	\$116,248	\$1,110	108	Richfield (280)	\$1,863	40	\$139,021	\$1,570	89
Columbus Twp (831)	\$1,763	61	\$181,347	\$2,048	53	Robbinsdale (281)	\$2,188	11	\$119,991	\$1,548	91
Coon Rapids (11)	\$1,750	67	\$136,501	\$1,438	98	Rogers (728)	\$2,133	14	\$192,507	\$2,642	28
East Bethel (15)	\$1,438	100	\$155,767	\$1,391	101	Shorewood (276)	\$2,045	24	\$330,598	\$4,623	6
Fridley (14)	\$1,796	57	\$135,596	\$1,466	97	St. Anthony (282)	\$2,070	21	\$153,369	\$1,969	59
Ham Lake (11)	\$1,604	85	\$194,936	\$2,035	55	St. Louis Park (283)	\$2,058	23	\$155,234	\$1,986	58
Lino Lakes (12)	\$1,858	42	\$195,900	\$2,359	37	Wayzata (284)	\$1,763	62	\$429,525	\$5,955	2
Linwood Twp (831)	\$1,673	77	\$156,527	\$1,628	84	RAMSEY COUNTY					
Oak Grove (15)	\$1,532	93	\$177,374	\$1,739	75	Arden Hills (621)	\$1,569	90	\$204,697	\$2,112	45
Ramsey (11)	\$1,858	43	\$171,176	\$2,014	56	Falcon Heights (623)	\$1,695	74	\$180,369	\$1,958	61
Spring Lake Pk (16)	\$1,973	29	\$129,685	\$1,529	92	Lauderdale (623)	\$1,802	56	\$117,316	\$1,222	107
St. Francis (15)	\$1,633	84	\$143,126	\$1,421	99	Little Canada (623)	\$1,755	66	\$149,927	\$1,620	85
CARVER COUNTY						Maplewood (622)	\$2,142	13	\$154,751	\$2,060	51
Chanhassen (112)	\$2,257	6	\$244,797	\$3,651	9	Mounds View (621)	\$1,813	54	\$137,057	\$1,500	94
Chaska (112)	\$1,845	46	\$186,835	\$2,030	38	New Brighton (621)	\$1,760	63	\$171,914	\$1,919	66
Norwood						North Oaks (621)	\$1,341	104	\$472,207	\$4,632	5
Young America (108)	\$1,817	53	\$118,638	\$1,250	106	North St. Paul (622)	\$1,953	33	\$135,853	\$1,602	86
Victoria (112)	\$2,098	19	\$270,086	\$2,908	17	Roseville (623)	\$1,677	75	\$160,884	\$1,687	79
Waconia (110)	\$1,877	38	\$169,627	\$2,012	57	Shoreview (621)	\$1,646	81	\$183,356	\$1,942	63
Watertown (111)	\$1,819	52	\$137,995	\$1,518	93	St. Paul (625)	\$1,969	30	\$121,997	\$1,413	100
DAKOTA COUNTY						Vadnais Hts (624)	\$1,745	69	\$174,725	\$1,939	65
Apple Valley (196)	\$1,785	59	\$181,946	\$2,080	48	White Bear Lk (624)	\$1,822	51	\$151,803	\$1,710	77
Burnsville (191)	\$1,758	65	\$171,055	\$1,906	67	White Bear Twp (624)	\$1,767	60	\$183,411	\$2,080	49
Eagan (196)	\$1,600	87	\$189,719	\$1,966	60	SCOTT COUNTY					
Farmington (192)	\$1,808	55	\$159,478	\$1,802	73	Belle Plaine (716)	\$1,748	68	\$130,840	\$1,361	102
Hastings (200)	\$1,575	89	\$152,928	\$1,488	95	Credit River Twp (719)	\$1,430	101	\$248,829	\$2,431	33
Inver Grove Hts (199)	\$1,589	88	\$179,809	\$1,832	71	Jordan (717)	\$2,003	27	\$134,798	\$1,629	83
Lakeville (194)	\$1,602	86	\$207,676	\$2,190	41	New Market Twp (194)	\$1,495	96	\$266,842	\$2,741	23
Mendota Hts (197)	\$1,260	106	\$254,190	\$2,221	39	Prior Lake (719)	\$2,075	20	\$197,283	\$2,645	27
Rosemount (196)	\$2,031	25	\$182,560	\$2,371	35	Savage (191)	\$1,955	32	\$195,231	\$2,468	32
S. St. Paul (996)	\$1,732	71	\$124,413	\$1,264	105	Shakopee (720)	\$1,638	83	\$164,664	\$1,697	78
W. St. Paul (197)	\$1,427	102	\$144,586	\$1,330	103	Spring Lake Twp (719)	\$1,540	92	\$234,252	\$2,428	34
HENNEPIN COUNTY						WASHINGTON COUNTY					
Bloomington (271)	\$1,720	72	\$177,309	\$1,946	62	Afton (834)	\$1,505	95	\$271,478	\$2,814	21
Brooklyn Ctr (279)	\$2,584	1	\$113,750	\$1,730	76	Bayport (834)	\$1,825	50	\$163,035	\$1,866	69
Brooklyn Pk (279)	\$2,421	2	\$141,695	\$2,102	47	Cottage Grove (833)	\$2,024	26	\$151,995	\$1,904	68
Champlin (11)	\$2,100	18	\$165,074	\$2,178	42	Forest Lake (831)	\$1,548	91	\$181,227	\$1,802	72
Corcoran (877)	\$1,960	31	\$227,605	\$2,946	16	Grant (832)	\$1,320	105	\$322,930	\$3,042	14
Crystal (281)	\$2,117	16	\$124,887	\$1,571	88	Hugo (624)	\$1,652	80	\$191,151	\$2,046	54
Dayton (11)	\$2,295	4	\$193,601	\$2,855	19	Lake Elmo (834)	\$1,511	94	\$275,185	\$2,867	18
Deephaven (276)	\$1,856	44	\$419,242	\$5,461	1	Mahtomedi (832)	\$1,670	78	\$227,864	\$2,537	30
Eden Prairie (272)	\$1,864	39	\$252,238	\$3,153	12	May Twp (834)	\$1,341	103	\$289,634	\$2,728	24
Edina (273)	\$1,862	41	\$281,494	\$3,558	10	New Scandia Twp (831)	\$1,641	82	\$217,924	\$2,370	36
Excelsior (276)	\$2,118	15	\$221,121	\$3,069	13	Newport (833)	\$2,151	12	\$140,637	\$1,845	70
Golden Valley (281)	\$2,217	10	\$188,833	\$2,684	25	Oak Park Heights (834)	\$1,673	76	\$159,432	\$1,666	81
Greenfield (883)	\$2,002	28	\$241,632	\$3,213	11	Oakdale (622)	\$1,793	58	\$149,290	\$1,648	82
Hopkins (270)	\$2,249	7	\$151,642	\$2,111	46	St. Paul Park (833)	\$1,841	48	\$121,457	\$1,308	104
Independence (879)	\$2,116	17	\$310,847	\$4,462	7	Stillwater (834)	\$1,897	36	\$180,935	\$2,193	40
Maple Grove (279)	\$2,221	9	\$192,444	\$2,746	22	Stillwater Twp (834)	\$1,470	98	\$290,921	\$2,977	15
Medina (278)	\$1,449	99	\$413,360	\$4,335	8	West Lakeland Twp (834)	\$1,183	107	\$312,500	\$2,665	26
Minneapolis (991)	\$2,346	3	\$136,147	\$1,940	64	Woodbury (833)	\$1,937	35	\$205,905	\$2,600	29
Minnetonka (270)	\$1,845	47	\$230,297	\$2,819	20	AVERAGES					
							\$1,816		\$197,062	\$2,268	

Source: Minnesota Department of Revenue; calculations by the Citizens League

TABLE 2: 2003 TAXES ON HOMES IN 32 NONMETROPOLITAN COMMUNITIES*

Community (School district)	\$100,000 HOME		AVERAGE VALUE HOME		
	2003 Tax	Rank	Avg Market Value	2003 Tax	Rank
Albert Lea (241)	\$1,000	17	\$77,835	\$695	27
Alexandria (206)	\$741	30	\$105,250	\$800	26
Austin (492)	\$666	32	\$76,323	\$420	32
Bemidji (31)	\$1,284	2	\$69,040	\$804	24
Brainerd (181)	\$743	29	\$79,419	\$514	30
Buffalo (877)	\$862	22	\$148,890	\$1,467	8
Cloquet (94)	\$1,353	1	\$86,854	\$1,127	12
Duluth (709)	\$1,041	16	\$97,459	\$1,006	18
Elk River (728)	\$1,067	14	\$159,746	\$1,926	1
Fairmont (2752)	\$876	20	\$73,124	\$554	29
Faribault (656)	\$703	31	\$118,353	\$900	22
Fergus Falls (544)	\$768	27	\$87,422	\$624	28
Hibbing (701)	\$1,089	12	\$62,444	\$488	31
Hutchinson (423)	\$1,198	5	\$110,109	\$1,357	9
Mankato (77)	\$852	23	\$116,543	\$1,054	16
Marshall (413)	\$919	19	\$109,073	\$1,037	17
Moorhead (152)	\$1,172	8	\$95,012	\$1,095	13
New Prague (721)	\$1,132	10	\$137,095	\$1,690	3
New Ulm (88)	\$1,140	9	\$94,602	\$1,058	15
North Mankato (77)	\$873	21	\$137,579	\$1,342	10
Northfield (659)	\$848	24	\$158,976	\$1,568	5
Owatonna (761)	\$1,049	15	\$120,024	\$1,333	11
Red Wing (256)	\$1,276	3	\$123,322	\$1,661	4
Rochester (535)	\$1,085	13	\$130,271	\$1,527	7
Sauk Rapids (47)	\$1,274	4	\$116,981	\$1,554	6
St. Cloud (742)	\$932	18	\$111,418	\$1,080	14
St. Michael (885)	\$821	25	\$177,381	\$1,744	2
St. Peter (508)	\$810	26	\$115,255	\$990	19
Waseca (829)	\$1,117	11	\$88,035	\$938	21
Willmar (347)	\$1,185	7	\$86,181	\$970	20
Winona (861)	\$763	28	\$108,479	\$860	23
Worthington (518)	\$1,189	6	\$74,782	\$802	25
AVERAGES	\$995		\$107,915	\$1,093	

*Nonmetropolitan communities with a population of 9,000 or greater
Source: Minnesota Department of Revenue; calculations by the Citizens League

What the school district numbers mean

School taxes are a significant part of total property taxes. Each community in the property tax survey is associated with a school district (listed in parentheses next to the city name).

Some cities are located entirely within a single school district. Others are split between two or three districts. The school district that contains the most residential homesteads in a given city is the one used in our analysis. For example, Andover, the first city listed in Table 1, is associated with school district 11, which includes 7,906 residential homesteads. But there are 635 residential homesteads in Andover located in school district 15. Those residences will have a different school tax rate than the homes in school district 11.

Since cities grow unevenly, we sometimes need to change the school district associated with the city. In 2003, two cities changed school districts in our analysis: Medina changed from district 284 (546 homesteads) to district 278 (662 homesteads), and Grant changed from district 834 (580 homesteads) to district 832 (681 homesteads). MJ

2003 Homestead Property Tax Review — Methodology

The Citizens League took several steps to calculate the estimated taxes in this review:

- ▲ We determined the appropriate school district to associate with each city.
- We associated each city with a school district (listed in parentheses) in our analysis. Some cities are totally contained in one school district. Others, however, are split among two, or even three, school districts. We chose which school district to associate with each city according to which city/school district overlapping area had the greatest number of homesteads.
- ▲ We determined an appropriate estimated market value.

The estimated market value is what the assessor says the property is worth. We calculated the average estimated market value for the 108 metro communities over 2,500 population and the average estimated market for the 32 non-metro communities over 9,000 population included in our survey.

We calculated the average estimated market value for each community by dividing all residential homestead property in the community by the number of homesteads. The average values for each community were used for the average-value home comparisons.

- ▲ We calculated the tax capacity.
- The Legislature determines the amount of each property value that is taxable. For residential homesteads in tax year 2003, one percent of the first \$500,000 of estimated market value is taxable. The estimated market value is multiplied by this percentage (1 percent), called a class rate, to determine the home's tax capacity, against which tax rates are applied.
- ▲ We multiplied the tax capacities of average market value homes, \$160,000 homes (metro), and \$100,000 homes (non-metro) by the tax rates for each community.

We multiplied the tax capacity for the

home in each city by the total tax capacity rate—that is, the combined tax rates from the city, school, county and miscellaneous taxing jurisdictions, such as watershed districts. (Different parts of cities can have different combined tax rates, because not all taxing jurisdictions correspond to city boundaries. We picked the tax rate for that portion of each city that contained the most residential homesteads.) The product is the homeowner's tax capacity gross tax, before subtracting any tax credits for which the owner may be eligible.

In recent years, changes in state law have required that certain new tax referendum levies—such as for additional operating funds for schools—be levied against the assessed market value of property, rather than its tax capacity. (That puts all types of property on the same footing for sharing the

Property taxes continued on page 6

burden of these referendum taxes.) To calculate these “market-rate referenda” taxes, we took the referendum tax rate provided by the Department of Revenue, divided by 100, and then multiplied the quotient by the assessed market value to arrive at the amount of taxes paid. Referendum tax rates generally cover operating levies approved by the voters, but do not include referenda passed to support bond issuances for facilities. Since those referenda are based on tax capacity, they are included in the school district’s local tax rate. This means that our number for total taxes from referenda does not include all voter-approved taxes. This year, we have added the taxes from referendum tax rates into our city tax totals in Tables 3 and 4. Only 28 of the 140 cities in our survey collect referendum taxes and the

most collected by a city in this manner was \$41 on a \$100,000 home and \$124 on a \$160,000 home. One county in our survey, Dakota County, has market-rate referenda.

▲ We subtracted the market value credit. In each case, we took the assessed market value over \$76,000 and divided by 10,000. We then took the quotient and multiplied by nine to determine the amount to subtract from the maximum market value credit of \$304. In some communities, the assessed market value of an average home was too high (over \$414,000) to receive any market value credit.

▲ We subtracted the taconite homestead credit. For communities on the Iron Range whose homeowners qualify for the taconite homestead credit (THC), the credit was

calculated and subtracted after the market value credit is deducted. The only community in this year’s survey to qualify for the THC is Hibbing.

▲ We compared taxes of the various taxing districts that make up the total taxes.

For each city we computed separately the taxes for the county, city, school and special taxing districts that make up the total taxes. On our detailed tables (3A and 4A located on our website at www.citizensleague.net), we broke down the referendum taxes for school districts, cities and counties. We then ranked the taxes for each taxing district in the 108 metro cities and for the 32 non-metro cities. This gives taxpayers a sense of what portions of their tax bill may be high or low in comparison with other communities.

MJ

TABLE 3: 2002 TAXES BY TAXING DISTRICT FOR SELECTED METRO CITIES

\$160,000 HOME Community (school district)	County Tax	County Rank	City Tax	City Rank	School Tax	School Rank	Special District Tax	Special District Rank	Total Tax	2003 Tax Rank
Brooklyn Center (279)	\$810	4	\$929	6	\$929	3	\$144	20	\$2,584	1
Brooklyn Park (279)	\$810	4	\$765	17	\$929	2	\$146	10	\$2,421	2
Minneapolis (991)	\$717	6	\$1,025	2	\$660	63	\$172	2	\$2,346	3
Dayton (11)	\$810	4	\$862	9	\$756	26	\$96	64	\$2,295	4
New Hope (281)	\$810	4	\$797	14	\$761	22	\$124	38	\$2,263	5
St. Paul (625)	\$801	5	\$605	52	\$673	58	\$118	42	\$1,969	30
May Township (834)	\$533	14	\$192	105	\$714	39	\$129	30	\$1,341	104
Grant (832)	\$533	14	\$205	104	\$737	33	\$72	98	\$1,320	105
Mendota Heights (197)	\$534	12	\$453	81	\$432	103	\$84	79	\$1,260	106
West Lakeland Township (83)	\$533	14	\$65	108	\$714	39	\$98	62	\$1,183	107
Burns Township (15)	\$616	9	\$219	102	\$464	91	\$74	92	\$1,144	108
Average Taxes	\$697		\$578		\$658		\$108		\$1,816	
Number of Rankings		16		108		108		108		108
Range of Taxes	\$473-\$874		\$65-\$1,048		\$248-\$929		\$52-\$184		\$1,144-\$2,584	

Source: Minnesota Department of Revenue; calculations by the Citizens League

TABLE 4: 2002 TAXES BY TAXING DISTRICT FOR SELECTED NON-METRO CITIES

\$100,000 Home Community (school district)	County Tax	County Rank	City Tax	City Rank	School Tax	School Rank	Special District Tax	Special District Rank	Total Tax	2003 Tax Rank
Cloquet (94)	\$807	3	\$501	6	\$324	14	\$2	29	\$1,353	1
Bemidji (31)	\$891	1	\$321	24	\$349	10	\$5	25	\$1,284	2
Red Wing (256)	\$599	10	\$655	2	\$285	18	\$20	7	\$1,276	3
Sauk Rapids (47)	\$731	7	\$390	14	\$419	4	\$16	9	\$1,274	4
Hutchinson (423)	\$624	8	\$569	4	\$273	19	\$14	13	\$1,198	5
Duluth (709)	\$815	2	\$290	26	\$162	30	\$56	1	\$1,041	16
Winona (861)	\$495	21	\$288	27	\$258	24	\$4	26	\$763	28
Brainerd (181)	\$347	32	\$373	16	\$292	17	\$14	15	\$743	29
Alexandria (206)	\$539	14	\$344	22	\$138	32	\$3	28	\$741	30
Faribault (656)	\$360	31	\$238	31	\$349	11	\$37	3	\$703	31
Austin (492)	\$412	26	\$267	29	\$255	25	\$14	14	\$666	32
Average Taxes	\$555		\$398		\$311		\$14		\$995	
Number of Rankings		32		32		32		30		32
Range of Taxes	\$347-\$891		\$225-\$685		\$138-\$493		\$0-\$56		\$666-\$1,353	

Source: Minnesota Department of Revenue; calculations by the Citizens League

OnBalance

Views From Around the State

Tax caps, stadium funding, and the proper way to teach social studies have pens wagging across the state

A proposal by conservatives to amend the state Constitution to create a “Taxpayer Bill of Rights” that would limit government spending and give taxpayers approval over tax increases “insults the intelligence of voters and elected officials” chides the **Mankato Free Press** (12/2). “Voters elect officials whose philosophy they believe in. That system works. The Taxpayers League, a conservative big-business advocacy group, should know the system works. The last Legislature was made up of fiscal conservatives – elected by Minnesotans – who decided the budget should be balanced with cuts and not taxes.”

The **Red Wing Republican Eagle** (12/3) also opposes the amendment. “Make no mistake: Our preference is to scrutinize spending at every opportunity and raise taxes only as a last resort. That pressure can be applied – successfully – as witnessed by the ‘no tax pledge’ adopted by Pawlenty and numerous legislators this year.”

Both papers question the assumption of amendment supporters that government spending is out of control. “Statistics show that fiscal restraint can be accomplished without constitutional mandates” argues the **Republican Eagle**. “The Finance Department regularly computes the state’s ‘price of government,’ which is defined as the percentage of personal income taken by state and local taxes. Minnesota’s has dropped from 17.4 percent in 1996 to 15.6 percent this year, with continued decline projected through 2006.”

The stadium screening committee formed by Governor Pawlenty will have to navigate tough questions about funding priorities, the impact of losing a sports team, and the lack of impact demonstrated by new stadiums in other small markets. “With the governor leading the stadium charge, there is little chance that the state’s taxpayers won’t find themselves on the hook for at least part of a stadium’s cost – whether through new taxes,

bonding or some other method,” suggests the **Fergus Falls Daily Journal** (11/7).

“Meanwhile, Pawlenty has been ruthless in limiting funding for much more basic services, such as schools, roads and health care. Putting a stadium ahead of more important services is a major mistake. It is an error Pawlenty has not yet made, but which he suddenly seems likelier to make. We can only hope that the governor keeps his focus on what is truly important as opposed to what merely seems important.”

“Minnesota cannot support – at least through tax dollars – a stadium for every professional and major college team,” says the **Red Wing Republican Eagle** (11/10).

“That said, professional sports is a quality of life issue. Minnesota would be much poorer without the likes of the Twins and the Vikings. Minnesota witnessed firsthand the loss of a professional hockey franchise and, in the end, spent more money to get another team back in the state than it would have to build an arena a decade earlier.”

“With schools voting on referendums, people dropping off human services rolls, cities foregoing plowing because of lost state aid, the will to give even \$1 from the state treasury to sports teams is not there,” cautions the **Bemidji Pioneer** (11/5). “Any kind of stadium will need to be based totally on outside funding, perhaps on ticket taxes, concession fees, parking money, personal seat licenses, and gambling revenue . . . But given the long history we have with no action being taken, the best thing might be to have one or both teams leave. Then, as we saw with the hockey North Stars, forces then will come together to draw a new team back to Minnesota – and a new venue.”

“Publicly financed new stadiums are not the economic windfall they’re advertised to be, argues the **Rochester Post-Bulletin** (11/29). “They do not automatically make a team more competitive than it already is.

The Twins are already a playoff team. The question for Minnesota taxpayers is whether an expensive new stadium would be enough to get them to the World Series. The evidence suggests it would not.”

In addressing the conflict between the need for a more efficient higher education system and the adverse impacts to communities that might lose a college, the **Red Wing Republican Eagle** (11/24) concludes: “The state’s higher-ed public system was conceived decades ago on the commitment that every Minnesotan should live within 35 miles of a college campus. The advance of technology and e-learning along with a mobile society puts those standards under scrutiny. Even the latest figures from Southeast Tech show that only 12 percent of its enrollment is from within Goodhue County. Do we support Southeast Tech? Absolutely. And we hope it has a long and continued success in Red Wing. But MnSCU must address the issue of campuses in terms of economic vs. education value.”

“A set of proposed social studies standards should be amended before being presented to the Legislature,” writes the **Rochester Post-Bulletin** (11/1). “Minnesota’s teachers should be allowed to de-emphasize dates and be given the opportunity to teach more concepts. These proposed standards will force teachers to imprint two ‘standards’ – often dates to be memorized – per day. There will be precious little time for free thinking questions from students when one standard after another needs to be presented and memorized. Social studies classes are where critical thinking should be taught. It is not enough, nor a productive way to reach the goal of good citizenry, to say America is a great nation and it became so in 1776. We have to teach the why.” **MJ**

TakeNote

Policy Tidbits

The days will now get longer, mercifully the policy tidbits won't.

How much is in a name when that name is featured on a professional sports facility? The Stadium Screening Committee established by Gov. Tim Pawlenty has a website that lists the top 15 frequently asked questions about stadiums. Question 4: "What are naming rights?" lists the following examples of arrangements for naming rights.

▲ Minute Maid Park, Houston Astros, yields \$6 million per year through 2030.

▲ Miller Park, Milwaukee Brewers, yields \$2.1 million per year through 2020.

▲ Ford Field, Detroit Lions, yields \$1 million per year through 2042.

▲ Lincoln Financial Field, Philadelphia Eagles, yields \$6.7 million per year through 2022.

▲ Reliant Stadium, Houston Texans, yields \$10 million per year through 2032.

▲ Target Center, Minnesota Timberwolves, yields \$1.3 million per year through 2005.

▲ Xcel Energy Center, Minnesota Wild, yields \$3 million per year through 2024.

View the other 14 questions at www.stadium.state.mn.us/

Volunteering rose in the U.S. in 2003

according to the Bureau of Labor Statistics, the percentage of Americans age 16 and over who did volunteer work between September 2002 and 2003 rose to 28.8 percent, up from 27.4 percent a year earlier. An estimated 63.8 million people volunteered in 2003, almost 4 million more than in 2002. The increase was greatest among teens. Teens who volunteered jumped from 26.9 percent in 2002 to 29.5 percent in 2003. www.bls.gov/news.release/pdf/volun.pdf

Wide educational attainment gaps persisted

between whites and minority groups in the Twin Cities' workforce in the 1990s, according to an analysis by the Brookings Institution's Center on Urban and Metropolitan Policy. The analysis, released in November, looked at indicators for the largest 23 metropolitan areas in the United States. The Twin Cities workforce is highly educated. It ranks third in terms of the number of adults who hold at least a bachelor's degree, but racial and ethnic minorities rank far behind whites. Just 15 percent of blacks and 13 percent of Hispanics hold bachelor's degrees, compared to 42 percent of whites.

The report also noted troubling inequalities in household income. Median household income among blacks trails that of whites by more than \$17,000, and nearly one-third of the Asian population lives below the poverty line, the highest rate among the 23 largest metro areas. The lack of growth in the middle class may highlight a shortage of minority families moving up the income ladder, the Center cautioned. www.brookings.edu/es/urban/livingcities/MinneapolisStPaul.htm.

"Core" inflation is the lowest in 40 years

after a 0.1 percent decline in November 2003, according to a Dec. 17 article in the *Wall Street Journal*. Core inflation is a measure within the Consumer Price Index that does not include the volatile food and energy categories. The 0.1 percent decline in core consumer prices in November was the first monthly decline since 1982, bringing the rate of change for the past 12 months to 1.1 percent, the lowest core inflation rate since 1963. www.bls.gov/news.release/cpi.nr0.htm

It is now "virtually certain" that global

warming is caused by emissions of greenhouse gases and that the warming will continue, according to a new position statement by the 41,000-member American Geophysical Union (AGU). The AGU is the world's largest organization of earth, ocean and climate scientists. The statement, released Dec. 17, is a departure from the AGU's previous position, which left open the possibility that natural variation was causing recent temperature increases. www.agu.org/sci_soc/policy/climate_change_position.html

Minnesota was one of three states to earn straight A's from the Corporation for Enter-

prise Development's (CFED) in its annual development report card. Minnesota ranked first in the areas of basic math skills proficiency and the rate of home ownership. Minnesota ranked second in the areas of poverty, employer health coverage, high school attainment, and bridge deficiency. Other areas where Minnesota ranked in the top five include: recycling, voting, basic reading skills proficiency, business closings, university spin-outs, patents issued, working poor and deaths from heart disease. CFED ranks states based on 68 economic indicators. Virginia and Massachusetts also earned a straight A. www.drc.cfed.org/grades/honor_roll.html

Minneapolis' attempt to serve both tourists

and commuters with free circulator bus service on Nicollet Mall will fail, predicts Atlanta-based Civic Strategies, a strategic planning firm that structures public policy solutions for cities and regions. According to Civic Strategies, Minneapolis made a great start by building parking decks on the western edge of downtown that reward carpoolers with a special parking rate. In an attempt to serve light-rail commuters and tourists, as well as automobile commuters, the circulator buses (which started this year) do not serve the parking decks off of I-394, forcing those commuters to either walk to Nicollet Mall to use the circulators or catch a regular city bus for just a few blocks. Baltimore tried serving both commuters and tourists with a free circulator bus service, according to Civic Strategies, and gave up after six months, opting to reroute the buses to serve commuters. www.civic-strategies.com/resources/metros/minneapolis-st_paul.htm

Take Notes compiled by Citizens League staff.