

# CITIZENS LEAGUE REPORT

No. 157

## **MN Property Tax Assessment Procedures**

**April 1963**

Citizens League  
545 Mobil Oil Building  
Minneapolis 2, Minnesota

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**APPROVED**  
**BOARD OF DIRECTORS**  
DATE APR 10 1963

TO: Citizens League Board of Directors

FROM: Taxation and Finance Committee, Willis F. Shaw, Chairman

SUBJECT: Findings and recommendations on property tax assessment procedures

### FINDINGS

1. The property tax is the most important single source of revenue for local government. In 1962, the property tax produced about \$485 million in Minnesota, or \$139 per capita! This represents approximately 57% of all state and local tax receipts in Minnesota. For local government alone, the property tax produced 97% of the local tax revenues.<sup>(1)</sup> Considering the amount of money involved, it is amazing that there aren't more complaints about the property tax and its administration.

2. Equity and impartiality in the valuation of property for tax purposes are of primary importance in any property tax system. It is equally important, however, that the administration of the tax assessment system be established and conducted in a manner which will engender confidence in its impartiality and equity on the part of the taxpayer. To assure this, the taxpayer must be given a visible means for judging the equity of the system and a readily available, easily understood review and appeal system whereby he can obtain relief from its inequities.

3. Widespread inequities exist in the valuation of property for tax purposes in Minnesota. Most of the inequities appear to stem from an almost universal disregard of state laws which clearly require property to be assessed at its full and true value -- defined as "the usual selling price at the time of assessment." The inequities appear to be of three types:

- a. In some taxing districts, property is assigned a full and true value at a higher percentage of its actual market value than in other taxing districts.
- b. Within taxing districts some classes of property are assigned a full and true value at a higher percentage of actual market value than are other classes of property, and
- c. Within taxing districts some pieces of property are assigned a full and true value at a higher percentage of actual market value than are other properties within the same class of property.

These inequities should be rectified as soon as possible by equalization of assessments.

4. Because the full and true value of properties is regularly assessed at less than usual selling price, the taxpayer has virtually no basis for judging the equity of his property valuation as compared to other properties. This practice has the effect of deterring the majority of taxpayers from appealing to the assessor for

(1) Report of the Governor's Minnesota Tax Study Committee, 1962, Page 2-2.

a reduction in the assessed value of their property and of depriving them of an effective means for contesting the valuation in the courts. Only those who have made a study of the complex Minnesota property tax assessment laws and practices and who are prepared to invest considerable money in an appeal are in a position to seek relief.

5. In a recent court decision (the Dulton Case, which is now under appeal to the State Supreme Court) the court held that:

- a. Minnesota law is not ambiguous and all property is to be put on the tax rolls with full and true values set at market values.
- b. If the full and true values depart from market value, they are to depart to the same degree for all property (all property must be treated alike); and
- c. The county is to be considered as the taxing district, and properties may not be taxed on an unequal or discriminatory basis in relation to other property within the same county.

This decision, if it is upheld by the Minnesota Supreme Court, could have a serious impact upon tax administration and public revenues within Hennepin County and the County's many taxing units. If all tax valuations within the County were equalized at one of the lower assessment ratios now being used in the county, it could mean that there wouldn't be enough tax base to meet revenue needs within Minneapolis and the other taxing jurisdictions which have maximum millage limitations.

In short, this and other recent court decisions could force equalization of assessment ratios, but in a rather drastic manner. It would be preferable and much less disruptive if equalization of tax assessments could be accomplished in an orderly manner without the need for court orders.

6. In all too many instances, assessment administration is the responsibility of untrained, underpaid and politically-dependent personnel. Too little time, money, and attention is given to this important governmental function.

#### RECOMMENDATIONS

1. We recommend passage of legislation to implement the Minnesota Association of Local Assessors' (MALA) proposal to require that all local assessors be appointed instead of elected and to establish a state board which would promulgate and enforce minimum qualifications for all local assessors. Professionalization of the assessment function is a key to improvements in property tax assessment procedures, and the MALA proposal would be a big step in this direction -- a step which would lead to better training for assessors.

2. We concur with the recommendation of the 1962 Governor's Minnesota Tax Study Committee that full and true valuations be raised to 100% of market value. However, we believe that equalization of assessments is more important than the percentage at which the equalization is accomplished. Therefore, we recommend legislation which would require assessors to assess all property (full and true value) at a specified percentage of its market value (perhaps 30% or 40%) and which would require assessments to be raised to the 100% level in gradual steps.

3. We support the recommendation of the 1962 Governor's Minnesota Tax Study Committee for improvement of procedures for review and appeal of assessments. The Committee has recommended "the establishment of a County Board of Appeals to be assigned the functions of the local boards of review and of the County Board of Equalization and the power presently exercised by County Boards to order abatement of property taxes."<sup>(2)</sup> If, as suggested by the Committee, the Board were composed of people "competent in the appraisal or assessment field," the taxpayer would have a greater opportunity for an impartial and professional review of his assessments.

4. We support the Minnesota Association of Local Assessors' proposal to change the assessment date to January 2 and to assess all merchants' and manufacturers' inventories on the basis of a monthly average inventory. The change in the assessment date is needed to give the assessor more time to prepare the tax roll. Assessment of personal property on any specific date will benefit some taxpayers and penalize others. Therefore, we believe the use of an average monthly inventory would be the most equitable basis for the assessment of inventories.

5. We support the recommendation of the 1962 Governor's Minnesota Tax Study Committee that there be no further expansion of the property classification system. The classification system, which sets the assessed value of different types of property at different percentages of the full and true valuation of the property, means lower taxes for some taxpayers at the expense of higher taxes for other taxpayers. As stated by the Committee, "the net effect of the system has been to undermine the basic theory upon which the property tax is based, namely, the burdening of each piece of property equally in the assessment of its market value."<sup>(3)</sup>

6. We also support the 1962 Governor's Minnesota Tax Study Committee's recommendation that there be no further increases in the homestead exemption.

7. We recommend continuation of the sales ratio studies by the Department of Taxation, and strongly urge resumption of the publication of the studies (Equalization Aid Review Committee Reports). In recent years, the public has been denied access to the sales ratio studies and, therefore, the public has had no continuing statistical basis for evaluating the work of the assessors.

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(2) Ibid. Page 4-4

(3) Ibid. Page 4-5

## SCOPE OF REPORT

Over the years the Citizens League, through its Taxation and Finance Committee, has worked almost continuously on proposals for improving the method of assessing real and personal property for tax purposes and has supported a number of legislative proposals on this subject. During the past several years there have been significant developments, largely resulting from court decisions, affecting the method of assessing property. In the fall of 1962, in response to the possibility that the 1963 session of the Legislature would be asked to consider proposals responding to the court decisions, the League's Board of Directors requested the Taxation and Finance Committee to "familiarize itself with these legislative proposals and perhaps recommend proposals of its own so that the League can continue to play an effective role in this important area of local government."

In the course of our study we have held nine committee meetings and have met with a number of people experienced in the field of assessment and tax administration, including Russell C. Connery, St. Louis Park Assessor and Past President of the Minnesota Association of Local Assessors (MALA); Carl Christensen, Bloomington City Assessor and a member of the MALA Legislative Committee; Rolland F. Hatfield, State Commissioner of Taxation; Orville C. Peterson, Executive Secretary of the League of Minnesota Municipalities; and Wayne Johnson, Hennepin County Supervisor of Assessments. Our committee studied the report of the 1962 Governor's Minnesota Tax Study Committee, the proposals advanced by MALA for legislative changes affecting property tax administration, and the decision of the court in the Dulton Case and other recent court decisions. Our committee also had the benefit of previous Citizens League reports on property tax administration.

Our study has been confined to the subject of property tax administration, including both real and personal property. However, we have not attempted to evaluate the need or desirability for the continuation of any of these taxes, nor have we attempted to comment on the amount of the property tax nor on the possibility of relieving a portion of the property tax burden by the substitution of other forms of taxes.

The members of the Taxation and Finance Committee who participated in the study include: Willis F. Shaw, Chairman, Robert B. Anderson, T. J. Barclay, Robert A. Boeder, Mrs. Ralph Bruce, Jr., Raymond L. Cordes, Edward N. Delaney, Waite Durfee, Harry Fiterman, Howard Freeman, Peter Heegaard, R. B. Larkin, Lee D. McKenzie, David McPherson, Joseph Mantel, Willard A. Morse, Roy Nelson, G. E. Nimmer, James R. Pratt, David R. Roberts, Arne Schoeller, H. O. Sogard, H. L. Sutton, Jr., Fred Thomas, Douglas Thornsjo, Dr. Robert Uppgaard, Kent C. vandenBerg and H. E. VanDerBoom.

## DISCUSSION

In a 1956 report the Citizens League stated, "Fundamentally, the inequities in our assessment system appear to stem from a disregard for our state laws which require property to be assessed at its full and true value -- 'full and true' value being the 'usual selling price at the time of assessment.'"<sup>(4)</sup> In this report the League charged that "widespread, gross, basic inequities exist in property valuation for tax purposes in the state of Minnesota."<sup>(5)</sup> In order to alleviate these inequities, the League in 1956 recommended revision of state law to recognize offi-

<sup>(4)</sup> Citizens League of Minneapolis and Hennepin County, Report on Assessment Law and Practice in the City of Minneapolis, Hennepin County and the State of Minnesota, 1956; Page 2.

<sup>(5)</sup> Ibid.

cially the existence of a differential between "usual selling price" and true and full value, to require official publication of this differential or "assessment ratio," and to require the courts to apply the assessment ratio upon application of the taxpayer. Bills embodying these recommendations were introduced in the 1957 and 1959 sessions of the Legislature. These bills did not pass.

In a 1961 report the Citizens League found that "serious inequities in assessment practices still exist within classes and between classes," (6) and again recommended passage of a bill to require assessors to post assessment ratios. A somewhat modified version of the 1959 bill was prepared, but never introduced in the 1961 session of the Legislature.

In February, 1962, the State Department of Taxation announced its goal of having the full and true value of all property within the state assessed at 1/3 of market value, and since that time the Department has taken steps to carry out this equalization program. The Department apparently has received a good response to its program, and has made substantial progress toward equalization of assessments in the state. However, despite this progress there are still serious inequities in assessments, both within classes and between classes. Equalization of assessments is still a goal instead of a fact.

#### Recent court cases

The 1959 court decision in the Hamm Case and the 1962 decision in the Dulton Case (if upheld by the State Supreme Court) will force rapid equalization of assessed valuations. In earlier cases (most notably in Minnesota the 1908 case of State v. Cudahy Packing Co.) the courts had held that the taxpayer could not complain of inequality of assessments as long as his property was assessed at no more than 100% of market value as required by statute. This was overruled in the Hamm Case, where the court, in effect, ruled that if a property owner can show that he was assessed at a higher percentage of market value than other properties in the same class within the taxing district he is entitled to have his assessment reduced to the same percentage of market value at which other property was assessed.

In the Dulton Case the court in its memorandum opinion stated "I find no authority granted by the Minnesota Legislature for the assessor or any other official to arbitrarily place property on the tax rolls at a different fraction of its market value than is applied to other property within St. Louis County." Observing that "Petitioners have paid almost four times as much taxes for the years 1958 and 1959 as they would have been required to pay if the same standard of assessment had been applied to their property as was applied to other property in St. Louis County," the court stated "To suggest that no remedy be granted under circumstances such as these because officials are seeking to eliminate the discrimination in the future is to ignore the requirements of the Fourteenth Amendment to the U. S. Constitution and Article X, Section 1, of the Minnesota Constitution and of Minnesota statutory law."

In the Dulton Case the court also states "The Legislature of the State of Minnesota has not created classes of property for purposes of determining full and true value, but has rather provided that all property be assessed at its 'true and full value in money'. Surely the taxing officials of this state cannot by administrative mandate create classes of property for tax purposes which the Legislature has prohibited. The same standard must be applied to all property subject to taxation in arriving at its full and true value."

(6) Citizens League of Minneapolis and Hennepin County, Report on Proposed Legislation for Equalization of Property Assessments, 1961, Page 2.

In this case the court also concluded that, because a substantial mill levy was imposed for county purposes, equality could be secured only by using the county standard for purposes of assessing the taxpayer's property and expressly defined the County as the taxing district. The court found that the taxpayers involved in the case were entitled to have their taxes computed on the basis of a full and true value equal to 20% of the market value, as had been stipulated by the parties to be the assessment ratio used in St. Louis County. As a result of this case, the petitioners were awarded a refund of approximately \$160,000 for the taxes paid by them for the years 1958 and 1959. If the Dulton Case is upheld by the Supreme Court, all property within Hennepin County apparently would have to be assessed at the same percentage of its actual market value.

Assessors should take steps to equalize assessments as much as is practical before the Supreme Court makes its decision on the Dulton Case. In the absence of substantial equalization, a Supreme Court ruling upholding the Dulton decision could have a very disruptive impact upon local tax revenues, since such a decision would undoubtedly be followed by a great many suits requesting a downward adjustment of assessments and tax refunds. This could mean that there would not be sufficient tax base to meet the tax needs within taxing jurisdictions which have a maximum millage limitation, and could also impose severe hardship upon communities or school districts whose debt is close to the debt limit.

#### Equalization of Assessments

While the policy of the State Department of Taxation of attempting to have all assessors assess the full and true value of all property within the state at 1/3 of market value is an extremely encouraging step toward equalization, we believe that legislation is needed which would require assessors to assess the full and true value of all property at a specified percentage of its market value (perhaps 30 or 40%). Such legislation would give the State Department of Taxation's policy the force of law. In the absence of such legislation, the Commissioner of Taxation, by directing assessors to assess at 1/3 of market value, is asking them to do something which is contrary to law, since the law now requires assessors to assess the full and true value of property at 100% of market value.

Also, we believe that this legislation should require that assessments be raised to the 100% level in gradual steps. This would allow Minnesota assessed valuations to reflect more accurately the true value of property and would tend to simplify the sale of Minnesota bonds to out-of-state bond purchasers. Raising full and true valuations to 100% of market value would also eliminate some of the confusion now surrounding the property tax. We recognize that many laws pertaining to debt limit, maximum mill levies, etc., will have to be revised if full and true valuations are raised to 100%.

#### Review and Appeal Procedures

In its report, the 1962 Governor's Minnesota Tax Study Committee recommended the establishment of a new and improved system of tax appeals and tax review. The committee observed that "The important element of any review and appeal system is that it (1) be conducted by competent people, and (2) be easily understood and available to taxpayers."<sup>(7)</sup> The Governor's Committee recommended the establishment of a County Board of Tax Appeals to be assigned the functions of the local boards of review and of the County Boards of Equalization, and the power presently exercised by County Boards, to order abatement of property taxes, and stated, "The appointed members of such a board should be selected on the basis of their competence in

<sup>(7)</sup> Governor's Tax Study Committee, op. cit., Pg. 4-4.

the appraisal or assessment field, and they should meet throughout the year as often as is necessary to hear complaints on assessments."(8)

The Governor's Committee cites the following advantages of the system it proposes:

- "1. It would afford every property owner a professional and impartial review of his assessment.
- "2. It would remove the equalization function from politics.
- "3. It would free already overburdened County Boards from detailed consideration of technical valuation problems.
- "4. It would minimize the need for appeals to courts. The taxpayers would thereby be protected against major court costs and the courts from a heavy burdening of their calendars."(9)

We concur with these conclusions and support the recommendation for the establishment of a County Board of Tax Appeals as described above. We also observe that the implementation of this recommendation would eliminate the current undesirable situation where a County Board is forced to overrule the findings of its own employees if it is to grant a taxpayer's appeal for reduction of assessment.

#### Assessor Qualifications

The most important element in any property tax system is qualified assessors. As stated by the Governor's Committee, "Assessment is such a complex matter that it should be administered every step of the way by fully-trained competent people."(10) Unfortunately, all too many assessors are completely untrained for this complex task. Many hold their jobs for only 90 days each year and often all they do is copy records from one year to the next.

As a first step toward professionalization of the assessing field, we recommend passage of legislation to implement the Minnesota Association of Local Assessors' (MAIA) proposal that all assessors be appointed instead of elected. As stated earlier, tax assessing requires qualified personnel and it is just too technical a job to be filled on the basis of a person's political appeal.

We also support MAIA's proposal to establish a state board which would be empowered to set minimum qualifications for all local assessors. Under this proposal the state board could maintain a list of people who have met the minimum requirements and local communities could use this list in appointing their local assessors. In future years, as more professionally qualified assessors become available, these standards could be maintained at a high level, thereby assuring taxpayers that their property is being assessed by trained, qualified people.

#### Change in Assessment Date

Both MAIA and the Governor's Committee have recommended that the assessment date be changed from May 1 to January 2. Such a change would give the assessor more time in which to prepare the tax rolls. Both groups have also recommended the use of an average monthly inventory for the assessment of the personal property tax on merchants' and manufacturers' inventories. However, the two proposals differ, in

(8) Ibid., Page 4-5.

(9) Ibid

(10) Ibid, Page 12-4.

that the Governor's Committee has recommended that the taxpayer be given the option of using either his inventory on January 2 or an average monthly inventory as a basis for assessing his personal property, whereas the MAIA proposal would require the use of the average annual inventory by all merchants and manufacturers subject to a personal property tax on inventories.

Under the MAIA proposal, the ending monthly inventory could be determined either by an actual inventory for each month or by adding the cost of merchandise purchased each month to the preceding month's ending inventory and deducting therefrom the cost of merchandise or material sold during that month. In either case, the assessor would divide the total of the monthly ending inventories by 12 to determine the full and true valuation of the average annual inventory of the property to be assessed.

No matter what date is set for the assessment of inventories, some types of businesses will have a large inventory on that date, while others will have practically no inventory whatsoever. In our opinion, the use of a single date for the assessment of inventories is bound to be discriminatory to some taxpayers. Therefore, of the two we prefer the MAIA proposal, since this would treat all firms in a similar manner.

#### Property Classification System

Minnesota has a unique property tax system which uses a classified system of property taxes providing for different ratios between assessed valuation and full and true valuation for different classes of property. The classified system was developed early in the 20th Century when, after a number of complaints about the assessment procedures then in use, a study revealed that the assessor was not putting property on the tax roles at market value. The study also revealed varying ratios by classes of property. Whereas similar studies in other states resulted in assessment equalization by the state, in Minnesota it was recommended that the Legislature legalize what the assessor had been doing illegally. This led to legislation establishing four classes of property for assessment purposes. Since then, this classification system has grown and there are now 15 different classifications and sub-classifications of property and 11 different percentages of full and true values used to obtain assessed value. These percentages range from a low of 5% for electric retail distribution lines in rural areas, to a high of 50% for iron ore mined or unmined.

Under the classification system, some taxpayers can get a break in their taxes at the expense of other taxpayers, since classification has a different effect on different parts of the state and different types of property. For example, an exemption for farm buildings will tend to shift the state tax load from rural to urban areas. Largely because of the 15 classifications of property in Minnesota, the rate sometimes makes it more difficult to sell bonds to purchasers who are not familiar with the Minnesota assessment practices.

As stated by the Governor's Committee, "The net effect of the classification system has been to undermine the basic theory upon which the property tax is based, namely, the burdening of each piece of property equally on the assessment of its market value. Supposedly, the market value of the property determines the assessment and, hence, the taxes, regardless of the use, occupancy or location. The classification destroys this impersonality of the property tax assessment system."<sup>(11)</sup>

We concur with these conclusions and support the Governor's Committee's recommendation that there be no further expansion of the property classification system.

#### Homestead Exemption

We also support the 1962 Governor's Committee recommendation that there be no further increase in the homestead exemption. The Homestead Exemption Law provides for lowering the classification on urban homesteads from 40 to 25% and on rural homesteads from 33 1/3% to 20% of the first \$4,000 of full and true value of such property. While this law results in substantial savings to the homeowner, the net effect of the law is that the tax burden is shifted from the homeowner to other property owners and to apartment dwellers and other tenants. Because of the high percentage of home ownership in Minnesota (75%), the homestead exemption results in a substantial shift of the property tax burden.

Several proposals to increase the homestead exemption have been introduced in the 1963 Legislature. Primarily, these are based on the premise that such an increase is needed to give relief to hard-pressed homeowners. However, as pointed out by the Governor's Committee, "the net effect of an increase in the exemption would be to increase the tax burden on the lower cost homes. This would occur because (1) the lower cost homes already are receiving complete coverage under the homestead exemption provision, and (2) the mill rates would have to be increased in order to obtain the same total revenue from the property tax base, since the base itself would have been reduced somewhat as a result of the benefit given to higher cost homes." (12)

#### Sales Ratio Studies

The 1953 Legislature established an Equalization Aid Review Committee consisting of the Commissioner of Education, the Commissioner of Administration and the Commissioner of Taxation. Its duty was to review the assessed valuation of school districts receiving equalization aid. The law provided that the committee should call upon the Department of Taxation to ascertain the true valuation of school districts receiving equalization aid. However, the committee concluded that, in order to get a true picture of assessment standards in the state, it was necessary to conduct a survey in all of the school districts.

The survey was conducted by selecting for study representative samples of various classes of real property, such as farm, residential, commercial and industrial, etc. An analysis was done by comparing the full and true value of property as determined by the assessor with the estimated current value. In determining current value, preference was given to recent bona fide home sales and, in the absence of a sufficient number of such sales, the sample was supplemented by appraisals at prevailing market prices.

These studies resulted in the publication of the assessment ratios applied to different classes of property throughout Minnesota. The information contained in these studies provided the taxpayer with a basis for evaluating the equity of his assessment. However, the latest report of Assessment Ratio Studies in Minnesota was published in 1960 and related to the valuations as determined in the 1958 assessments, and in the last three years the public has been denied access to the results of the Sales Ratio Studies.

State Commissioner of Taxation, Rolland F. Hatfield, cited the lack of funds and staff as the basic impediment to publication of the study. He also stated

"It must be recognized that the figures in the past reports have not been entirely free from error or distortion. We have also observed that unwarranted conclusions have been drawn by various persons in a number of instances and that these conclusions have resulted in confusion, rather than improvement of assessment standards." (13)

While we recognize that the information contained in the Sales Ratio Study Reports might not always be completely accurate, and that it may sometimes be misused, we think this is a risk that must be run and a risk that is well worth the contribution the publication of this study makes toward improving methods of assessment and making standards of valuation more objective. Without these studies, the public has no continuing statistical basis for evaluating the work of the assessors.

We recommend continuation of the Sales Ratio Studies by the Department of Taxation and strongly urge resumption of the publication of these studies.

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(13) Letter from Rolland F. Hatfield to James L. Hetland, Jr., President of the Citizens League, January 24, 1962.