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CITIZENS LEAGUE REPORT

REDUCING PROPERTY TAX INEQUITIES AMONG TAXPAYERS AND CITIES

Proposed changes so that comparably-priced homes in Minnesota do not pay grossly unequal taxes for reasons beyond local discretion

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Proposed changes so that comparably-priced homes in Minnesota do not pay grossly unequal taxes for reasons beyond local discretion.

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INTRODUCTION

This is a report about equity in property taxes, or, as we talk about it, the reduction of inequities. The equity issue for us involves how the property tax is shared by the state's taxpayers. Who, relatively, is paying too much? Who, relatively is paying too little? The report is not basically one of whether the property tax in total is too high. Nor does it concern whether government expenditure levels are too high. Such issues, important as they are in their own right, are not the central issues of this report.

If anything characterizes the state-local taxation and finance system in Minnesota over the last eight years, it would be change -- major change from the past. Beginning in 1967, all of the following changes have occurred: the state sales tax, a new state revenue sharing program with cities and counties, homestead credits, renter credits, elderly credits, exemption of business personal property from the property tax, green acres, fiscal disparities, levy limits, a major modification of the school aid law, a constitutional amendment on tax-exempt property, a major increase in the state income tax, and others.

This state is continuing to have a very constructive, enlightened and, of course, highly controversial, debate over state-local taxation and finance. The Legislature in 1975 is evaluating further proposed change, which, depending on your viewpoint, is as significant as any change in the last 8 years.

We hope you'll find the report educational and understandable, although, admittedly some of the discussion gets quite complex. If you'd like a basic primer on how the property tax works, turn first to the opening pages of the background section.

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

I. General

Findings: Property taxes no longer dominate state-revenues in Minnesota to the extent they did in the past, but they remain a major revenue source.

Conclusions: The most urgent problem with the property tax in Minnesota today is inequity: similarly-situated taxpayers paying grossly unequal taxes for reasons outside local discretion.

Recommendations: We recommend first priority today be given to reducing the inequities in property tax levels among various taxpayers within and between localities, that is, where similarly-situated taxpayers pay grossly unequal taxes for reasons outside local discretion. We believe the property tax should be continued as an important element in Minnesota's state-local fiscal system, although it probably should be slightly reduced over time.

II. Assessment

Findings: Major property tax differences occur because of inconsistent valuation practices.

Conclusions: Underassessment must not be condoned, either by state law or in actual practice, if inequities are to be successfully attacked.

Recommendations: Correct for underassessment of property by (1) commitment to a market value standard (2) adjusting levies of taxing districts which cross country boundaries (3) improving sales ratio studies (4) insulating assessors from outside pressure (5) improving taxpayer access to the appeals process (6) repealing the 5% limit on valuation increases.

III. Classification

Findings: Major property tax differences occur because the Legislature has determined that certain types of property with different uses and ownership shall be assessed differentially.

Conclusions: A state policy which provides that certain broad categories of property pay proportionately more than others is not necessarily inconsistent with equity. But the classification system becomes inequitable when localities must assume the "cost" of certain state-imposed special classifications.

Recommendations: Make the state -- not just other taxpayers in selected localities -- assume the burden of special state treatment of certain types of property, most specifically, the tax benefits given to federally-subsidized housing and the different method of taxing railroad and telephone and telegraph property.

IV. Aids-levies

Findings: Although many corrective steps have been taken, major property tax differences remain because of different rates among localities.

Conclusions: The state's present levy and aid policies do not adequately redress the differences in property taxes which are caused by factors beyond local control.

Recommendations: Help reduce differences in property tax rates among localities by making non-discretionary rates as uniform as possible from locality to locality. Ease levy limits on city governments.

V. Ability to pay

Findings: Considerable debate occurs over how to measure and evaluate the relationship between property taxes and ability to pay.

Conclusions: The property tax still represents too great a burden on some lower-income property owners. Changes in state law to reduce the overburden must be undertaken with great care to avoid unexpected and undesirable side effects.

Recommendations: Ease the tax burden on lower-valued homes and renters through further improvements in homestead and renter credits. Develop other alternatives to provide assistance to lower-income households. In the meantime, set aside immediate action on proposals which would dramatically change the property tax as we know it today.

VI. Development impact

Findings: Attempts can be made to use property taxes to accomplish non-revenue-raising goals, such as stimulating certain land uses, but the impact of such efforts is not clear.

Conclusions: The property tax clearly has an impact on development. Changes in the tax should be evaluated in advance as to the secondary developmental impact such changes might produce, to guard against negative impact. But the property tax is, at best, a dull tool if used primarily to accomplish certain developmental goals.

F I N D I N G S

A. Property taxes no longer dominate state-local revenues in Minnesota to the extent they did in the past, but they remain a major revenue source.

1. Property taxes may now be second to state income tax -- For the first time in the history of Minnesota, and possibly for the first time anywhere in the nation, net revenues collectible from property taxes may be exceeded by revenues from the state income tax. In the fiscal year ending June 30, 1974, state income tax revenues were approximately $892 million, according to the Minnesota Department of Revenue. These revenues are projected to continue to grow substantially during the current fiscal year. Meanwhile, net revenues collectible from property taxes (exclusive of special assessments) for the calendar year ending December 31, 1974, were approximately $892 million, according to the Department of Revenue. It is likely that income tax revenues for the same 12-month period were greater than that. However, property taxes are likely to increase considerably in 1975, and state income tax revenues may be adversely affected by the recession. So it is too early to know how much income tax revenues may be exceeding property tax revenue.

2. But property taxes remain a major revenue source -- Property taxes in net dollars collectible were lower in 1972, 1973, and 1974 than in 1971, when a peak of $913 million was reached in Minnesota. However, it is very likely that this figure will be exceeded in 1975. If property taxes in Minnesota were to be abolished and replaced by non-property taxes, the equivalent amount of revenue could be raised by doubling state income taxes or almost quadrupling the state sales tax.

3. Major changes in property-non-property balance have occurred since 1971 -- In 1971, the previous high year for property tax collections in Minnesota, the property tax represented approximately 47% of all state and local tax receipts in Minnesota, with the income tax accounting about 22% and all other taxes, including the state sales tax, about 31%, according to the Minnesota Department of Revenue. By 1974, the property tax had dropped to 32%, the income tax was almost identical, at 32%, and all other taxes, including the sales tax, were about 36%. The state sales tax, by itself, had increased from 10% to 12%.

   Nationally, the percentage reliance upon the property tax has been declining, too. According to the U. S. Department of Commerce, the property tax as a percentage of all state-local general revenues nationally, including federal aid, decreased from about 32.5% in 1960 to 25.9% in 1972.

4. These changes have been brought about by state legislation -- The 1971 and 1973 Minnesota Legislature adopted several changes in state law which helped produce the property-to-income shift. State income tax rates were increased in 1971. (These increases along with an increase in incomes, produced income tax revenue in fiscal 1974 approximately double that of 1971.) The state sales tax was increased. At the same time the Legislature brought about a decrease in property tax levies for school districts and, to a lesser extent, counties and municipalities, by increased state aid to these local governments. The increase in state aid was accompanied by tighter restrictions on the extent to which local governments could further increase property taxes.

Other factors were the changes, in 1973, in state homestead credit -- the vehicle by which the state steps in, before the homeowner receives his property tax statement, and pays a portion of his bill. The maximum amount payable was increased from $250 to $325; the percentage was increased from 35% to 45% and coverage was extended to include the school debt -- though not the county or municipal debt -- portion of the tax bill.

5. State's ranking nationally has been relatively high -- In 1973, Minnesota was 120% of the national average (4th among the states) in state and local geveral revenues *per $1,000 of personal income* and 116% of the national average (7th among the states) *per capita*. In 1957 Minnesota was 120% of the national average (7th among the states) in revenues per $1,000 of personal income, and 111% of the national average (11th among the states) per capita.

   For property taxes only, Minnesota dropped from 118% of the U. S. average per $1,000 of personal income (13th among the states) in, 1972 to 106% of the U. S. average (19th among the states) in 1973. On a per capita basis Minnesota dropped from 115% of the U. S. average in 1972 (12th among the states) to 102% in 1973 (21st among the states).

   From 1968 to 1972 the average annual increase in state-local general revenues, including revenue received from the federal government, was 12.5% in Minnesota and 12.7% nationally.

6. Opinion surveys reveal shift in attitudes -- In April 1974, a national public opinion survey conducted for the Advisory Commission on Intergovernmental Relations (ACIR) revealed that 28% of the public believes the local property tax to be the least fair tax. The federal income tax was characterized as least fair by 30% of persons interviewed; the state sales tax, 20%, and the state income tax, 10%. This was a dramatic shift from March 1972, when 45% thought the property tax was least fair. Other percentages at that time were federal income tax, 19%; and state sales and state income taxes, 13% each. The ACIR attributed some of the change in opinion to reduced local property tax pressure because of more federal and state revenue sharing with local governments and other property tax relief measures.

7. Property taxes are highly visible -- It is likely that much more public attention focuses on the property tax than on other major taxes. Some reasons for this visibility:

   a. For many taxpayers the property tax is paid in only two -- and, therefore, relatively large -- installments annually.

   b. The property tax is the one general tax source over which local governments in Minnesota are given some discretion. Local governments are prohibited from levying local sales or income taxes. A great deal of public attention on local government expenditure levels, therefore, relates to the property tax.

c. Special assessments, a related form of raising funds from property, are based on the amount of dollar benefit attributed to each piece of property. This also lends visibility.

8. But property taxes are subject to considerable misunderstanding -- Each property owner pays, each year, a percentage of the value of his property in taxes. That is, in brief, an explanation of property taxes. Confusion and misunderstanding over property taxes arise from (a) how the percentage is determined and, (b) how the value of his property is determined. A language of technical terms -- levies, mill rates, assessments, sales ratios -- makes it difficult to convey an adequate understanding of the property tax to the average individual. Furthermore, many steps, involving many officials and levels of government, take place before the (a) percentage and (b) value of property is determined. The net effect is that the property owner pays a certain percentage of the market value of his property in property taxes annually. Such a statement by itself may not be hard to understand. What makes it difficult are all the variables -- subject to change independently of each other -- which contribute to the calculation of that rate.

B. Major property tax differences occur because of inconsistent valuation practices.

1. A major area of misunderstanding involves the impact of valuation changes on the property tax -- Under-valuation of property does not reduce taxes; it simply shifts taxes to other taxpayers. For example, if a home is under-valued in comparison to other homes in the community, taxes are shifted from that home to the others. The total level of property taxes is unaffected, one way or another, by valuations. The total level of property taxes is determined by the dollars which units of government decide to raise from the property tax.

It is possible that some state laws intending to hold down property taxes for one or more groups of taxpayers have been enacted in response to the reasons taxpayers *thought* were causing increases in property taxes but which *actually* were not the main reasons. Of particular concern at this time is a law limiting annual increases in valuation of residential, including seasonal, and farm property to 5%, because of a feeling that a major reason for increase in taxes on these properties was their rapid rise in valuation in recent years.

2. Sales ratio studies continue to reveal differences -- The market value of property must be estimated for purposes of taxation. State law requires that assessors estimate what a willing buyer would pay a willing seller in an arm's length transaction. Although considerable improvement in bringing properties closer to a market value standard was realized from 1963 to 1972, major differences still exist, according to sales ratio studies conducted by the Minnesota Department of Revenue. The Department of Revenue measures the extent of variation from market value by a mathmatical computation known as the "sales ratio". The Department compares actual selling prices of property in the open market with the market values as estimated by the assessor. If, for example, the assessor's value is 90% of the selling price, then the sales ratio is 90%. The Department's 1972 sales ratio study revealed the following types of differences:

a. Between localities -- In the seven county metropolitan area, for example, one county's aggregate residential sales ratio was 77.9%, and a neighboring county's, 92.1%. An owner-occupied house worth $30,000 on the open market, but with a sales ratio of 77.9%, would have a property tax of $422, assuming a 100 mill tax rate (of which 95 mills would be eligible for the homestead credit.) This compares to a tax of $600 on an owner-occupied $30,000 house with a sales ratio of 92.1%. It might be expected that a community with a lower sales ratio would have a higher mill rate, meaning that such a comparison is not fully accurate. However, so many factors contribute to mill rate differences that it is not unusual to find two communities with the same mill rate even though their sales ratios differ considerably.

b. In the same locality, for properties of different uses -- In one city in the seven-county metropolitan area, the aggregate sales ratio in 1972 for residential properties, except apartments, was 78.5; apartments, 87.0; commercial, 84.3; and industrial, 83.4.

c. In the same locality, for properties of the same use but different values -- The Department of Revenue study reveals that generally, on a statewide basis, higher-priced properties are under-valued in comparison to lower priced properties. For example, for one county in the metropolitan area, the study revealed an aggregate residential sales ratio of 88.1 for properties valued from $5,000 to $9,999. The ratio declined steadily as values increased to a low of 59.7 for residential properties valued $50,000 and above.

d. In the same locality, for properties of the same use and the same value -- Properties within the same locality, even of similar use and value, will have different sales ratios. The Department of Revenue uses a number of mathematical computations to measure the extent of the variation. One of these measurements reflects how closely the various sales ratios are clustered around the median. If the average deviation from the median (coefficient of dispersion) is less than 10%, the Department rates the uniformity of assessment as excellent; from 10-20%, reasonable; from 20-30%, questionable, and over 30%, unacceptable. The Department of Revenue's 1972 sales ratio studies revealed the following average deviations from the median, on a county wide basis for residential property, for the metropolitan counties: Anoka, 9.08%; Carver, 13.38%; Dakota, 10.9%; Hennepin, 9.6%; Ramsey, 13.2%, Scott, 14.88%; Washington, 13.6%. On an individual municipality basis, some average deviations from the median were much greater, and some much smaller. Among municipalities and townships in the metropolitan area the highest was 26.0% and the lowest, 6.63%.

Early in 1975 -- as the Residential Property Tax Committee was completing its work -- the Department of Revenue's 1973 sales ratio study was released. No significant changes were evident from 1972.

3. Critics have questioned reliability of sales ratio studies -- Sales ratio studies have been conducted annually by the Department of Revenue for the better part of two decades -- not just for comparison of assessment levels, but for official state purposes. One of these purposes is the distribution of state aid to school districts. The aid is related to the amount of valuation in each district. Sales ratios are used to adjust the valuation of each district to guard against an assessor's deliberately undervaluing property so as to give a district more aid. Another purpose is to give the Commissioner of Revenue the necessary data to order reassessments, as deemed necessary.

Some critics believe sales ratios in some localities may be too low because, these critics claim, the ratios are based on insufficient sampling. Others claim the ratios are too high because (a) local assessors, by selective assessment, may distort sales ratios or (b) the ratios, because they use a three-year average, do not fully reflect inflation, which would be the case if only sales in the most recent year were used.

4. Assessing officials may not be sufficiently free from local pressures -- Assessors are appointed by county boards of commissioners or local city councils or town boards. Consequently, in all cases, they are appointed by a governmental body which will be affected by the results of the assessors' work. It is possible that locally-selected assessors may not be adequately insulated from local pressures to adjust valuations for reasons other than market value changes, such as, for example, to encourage a new business development. Some assessors reportedly are under pressure from local boards because they are doing too good a job. That is, his valuations are closer to market value than those in neighboring jurisdictions, meaning that local taxpayers are paying too great a share of the tax burden from overlapping tax districts.

5. Property owners can appeal assessors' estimates of value, but the appeals process is widely criticized -- A property which is over-valued in comparison with other properties in the same locality will pay a proportionately higher share of property taxes. Property owners are given the opportunity to challenge their valuations, as determined by the assessor, before the three different official bodies: a city, a county and a state Board of Equalization. Owners also may take a different approach and seek an abatement of taxes. Or they may appeal to District Court. Any or all of these approaches can be taken.

   Critics of the process have argued that:

   a. The individual taxpayer is denied sufficient access to official records so as to give him adequate basis for knowing whether he is over-valued in comparison to other owners or not.

   b. At the city and county level, where the greatest opportunity for changing individual valuations would exist, the taxpayer must challenge the judgement of the assessor, who is an employee of the Board of Equalization. (The City Council or the County Board will be constituted as the Board of Equalization. At the state level the Commissioner of Revenue is the Board of Equalization.)

   c. Taxpayers have not been clearly informed whether they are entitled to adjustments in valuation if they can show over-valuation in comparison to the prevailing assessment level rather than over-valuation in comparison to the prevailing selling prices of comparable properties.

   d. The appeals process generally is too complicated for the average citizen to utilize without use of expensive legal counsel.

6. A new state law limits the extent to which differences in valuation can be corrected -- The 1973 Legislature prohibited assessors from increasing the market value of residential, including seasonal, and farm property by more than 5% in any one year over the previous year, regardless of whether property was under-valued in the past or whether the actual market value as estimated by the

assessor increased more than that amount. This law was passed for two major reasons: (a) the Legislature felt that improvements in property tax assessment levels in the previous decade had shifted property taxes too much from commercial-industrial to residential, and (b) the Legislature did not want a property owner to experience too great an increase in his valuation in one year, whatever the reason. The 5% limit is intended as a temporary measure. Nevertheless it remains in effect unless explicitly repealed or replaced.

With respect to reason (a) above, studies by the staff of the Minnesota Tax Study Commission reveal that the problem was far less than imagined and that the solution was largely ineffective anyway. For example according to the Commission's studies, had the 1963 assessment levels been in effect in 1972, residential property taxes in Hennepin County would have been only 6% less in 1972 than they actually were and commercial-industrial taxes would have been about 15% more. The Commission's studies also revealed that the 5% limit shifted taxes from residential to commercial-industrial by perhaps not more than .2 of 1% from 1973 to 1974. In a locality where almost all property was covered by the 5% limit (that is, where almost all the property was residential, lakeshore or farm), the limit had virtually no impact at all on shifting taxes to commercial-industrial. Only in those localities where the percentage of property covered by the limit is relatively small can a discernible shift occur. In such cases, however, the assessor also has to increase the valuation of commercial-industrial property more than on the property covered by the 5% limit if a shift is to occur. Statewide, 75% of all taxable valuation is covered by the 5% limit.

With respect to reason (b) above, persons receiving a major increase in valuation in a single year probably have been under-valued for some years in the past. Therefore, those property owners not only have been getting a tax break at their neighbors' expense, but they also become the chief beneficiaries of the 5% limit.

The 5% limit may have had a greater impact in creating differences in tax burden between residential properties than it did in shifting taxes from residential to commercial-industrial. For example:

-- Properties previously under-valued are limited to 5% just as are those which were valued at or near market. Consequently, the absolute dollar difference in valuation between such properties increases.

-- Newly-built housing and home improvements must come on the tax books at full market value, while older housing with the same selling price will have a lower value.

-- If selling prices increase faster in one part of the area than in another, this change cannot be reflected in a shift in tax burden. This may well mean that the more "desirable" residential areas, where property values are increasing fast will benefit at the expense of the other, less-desirable neighborhoods.

-- Lower-priced properties traditionally have been valued on the tax books closer to market value than higher-priced properties. The 5% limit accentuates these differences.

Assessors who traditionally have been urged to work towards a system of assessment based on full market value now may lose interest. Or city councils or county boards may be reluctant to invest additional dollars in improving assessment practices because market value is not used as the basis for assessment.

C. Major property tax differences occur because the Legislature has determined that certain types of property with different uses and ownership shall be assessed differently.

1. Residential properties generally pay proportionately less than commercial properties -- Through what is known as the classification system, a part of the value of all properties is made tax exempt, with the extent of the exempttion greater for some than for others. For example, take three parcels of property, each worth $30,000. One is a store. The second is an apartment building. The third is an owner-occupied house. The Legislature assigns the highest taxable value to the store (43% of market), next highest to the apartment (40% of market), and third to the owner-occupied house (25% of the first $12,000 and 40% of the balance). Beyond this, an additional benefit is provided the owner-occupied house because the state pays approximately 45% of the owner's tax bill to a maximum of $325. The effective tax rates, using the example of a mill rate of 100 mills (of which 95 mills are eligible for the homestead credit) and full value assessment, for the three properties: 4.3% for the store; 4.0% for the apartment, and 2.3% for the owner-occupied house. (The "effective" property tax rate is *not* the mill rate. The effective rate is derived unofficially by taking the actual tax payable as a percentage of correct market value.)

2. Certain residential properties pay proportionately less than other residential properties -- A far-reaching differential exists between renter-occupied and owner-occupied dwellings. The differences in classification referred to above produce approximately $500 more in taxes on a renter-occupied dwelling as compared to a similarly-valued owner-occupied dwelling. To offset some of the homestead benefits, renters are allowed a reduction in their income tax by taking 10% of the rent paid, after deductions for furnishings and utilities, to a maximum of $120. The renter, however, must apply for his benefits while the homeowner receives his automatically.

   The actual difference in total taxes paid by the landlord and the owner-occupant may be less than is immediately apparent. The landlord is entitled to take more deductions on his income tax than is the owner-occupant. First, continuing the above example, the landlord has about $500 more in property taxes to deduct. In addition he is entitled to deductions for depreciation, which could be as much as 5% of the value of the rental property annually, and for repairs and maintenance to the property. Such deductions are not allowed to the owner-occupant. If such additional deductions were in the vicinity of $2,000, which is not unlikely, they would have the effect of reducing the landlord's state and federal income taxes by at least $500. This would mean entirely wiping out the impact of the higher property taxes paid by the landlord. The landlord, of course, will recover some of his taxes through the rent charged to tenants. The competitiveness of the rental market will determine how much the taxes are passed on to the tenant.

   In addition, the Legislature has adopted a series of other classifications for certain special types of residential property. The include (a) homesteads of the blind and paraplegic, which are valued considerably lower than other homesteads (b) federally-subsidized rental housing, which is valued at one-half that of other rental housing in cities over 10,000 population and at one-eighth that of other rental housing in cities under 10,000 population (c) fireproof rental dwellings with five stories or more, which, beginning with taxes payable in 1976, will be valued at five-eighths that of other rental housing, and other fireproof rental dwellings at slightly more than four-fifths of other rental housing.

3. <u>A large amount of property is made entirely tax-exempt</u> -- Many types of property, because of the Constitution or by state law, are exempt from taxation. In effect, such properties have a zero classification percentage. The estimated market value of tax-exempt property in 1974, statewide, is about $8.9 billion, according to the Minnesota Department of Revenue. About $4.4 billion is located in the seven-county metropolitan area. This covers elementary-secondary schools, academies, colleges, universities, cemeteries, church property, hospitals, charitable institutions, public forests, state parks and wildlife refuges and federal, state and local government property. Slightly more than 1% of this tax-exempt property in the metropolitan area, about $49 million worth, is used for residential purposes. The correct market value of tax exempt property may be considerably different from the estimates because, currently, the estimated values are not used for any purpose other than give some general idea of the amount of tax exempt property.

4. <u>Some is exempt from property taxes but its owners pay a gross earnings tax to the state in lieu of property taxes</u> -- All railroad and telephone and telegraph property is exempt from property taxes in Minnesota, unless such property is leased for other uses. In lieu of property taxes, railroad and telephone and telegraph companies pay a gross earnings tax, the revenues of which are placed in the state general revenue fund. Public housing makes an in lieu payment to the city government where it is located.

5. <u>The "cost" of partial or total tax exemptions is felt by the proportionately higher burden which the remaining taxable property will bear in a given taxing district</u> -- When the Legislature decides to change a classification of property, such as by reducing a classification percentage, the burden of that change is not felt uniformly across the state. For example, the impact of the lower percentage for federally-subsidized rental housing is felt in proportionately higher taxes on the remaining properties within the city, county, school district, or other taxing districts where such property is located.

6. <u>A new, still small, but growing, practice allowed by state law permits cities to hold certain property out of the tax base</u> -- In recent years some local governments have begun to pledge the increase in taxes from some new developments to pay off the costs of purchase, clearing and preparing the land for redevelopment. This is known as tax-increment financing. Such new developments pay a full property tax in accord with their value. The additional revenues aren't used to help share the costs of general governmental services by cities, counties and school districts. This means that the other property owners in the locality must bear proportionately higher property taxes. The "cost" of such action is felt, of course, by the city which makes the decision to use tax-increment financing. In addition, the "cost" is felt by the overlapping taxing districts which also have access to the city's tax base, although these districts do not have a voice in deciding whether to use tax-increment financing. Supporters of tax-increment financing argue that in its absence

redevelopment would not have occured. There is no loss of revenue, they contend.

D. Although many corrective steps have been taken, major property tax differences remain because of different rates among localities.

1. Valuation per capita can vary considerably -- In 1972, assessed valuation per capita among municipalities over 2,500 population in the seven county metropolitan area varied from $1,068 in Blaine to $6,104 in Eden Prairie. St. Paul was $2,450; Minneapolis, $3,043; St. Louis Park, $3,643; Bloomington, $3,737, and Edina, $5,917. The amount of assessed valuation in a city depends upon the kind of property located there. A city with lower-valued residences and/or a small proportion of commercial-industrial property will have a lower per-capita valuation than a city with higher-valued residences and/or a high proportion of commercial-industrial property. Per capita valuation figures are also affected by the size of households from city to city.

2. If nothing else were considered, the result of such differences would be widely differing tax burdens -- A home in a low-valuation city would have a much higher tax rate than a home in a high-valuation city to finance an equivalent amount of governmental expenditures in both cities, if each city were left to raise all its funds from its own resources. In effect, a partial tax exemption is granted when a large amount of high-valuation property is concentrated in a locality with proportionately-low tax requirements; and, conversely, a tax overload occurs when low-valuation property is concentrated in a locality with proportionately high tax requirements.

3. But the impact of differing tax bases on taxpayers' burdens has been significantly reduced by state legislation -- The total amount of state revenue distributed annually to school districts, counties, cities and other local units of government exceeds $1 billion. If such an amount were to be raised by local property taxes, local mill rates would have to be more than double their present levels.

   Another law, applying exclusively to the Twin Cities metropolitan area, and going into effect for taxes payable in 1975, provides that 40% of the net growth in commercial-industrial valuations in the metropolitan area will be shared by all taxing districts in the area, regardless of the actual physical location of the new valuation. This is commonly known as the fiscal disparities law.

4. State aid has accomplished more in reducing school tax differences than city government tax differences -- School district expenditures do not vary to the same degree on a per pupil basis as municipal expenditures vary on a per capita basis. Also a stronger commitment -- backed up by statements in the state constitution -- exists for state support for public schools. Thus the vast majority of state aids have been provided to school districts. Although more than one-half (52.6% in 1974) of property taxes in the state are levied by local school districts, a large portion of this burden is levied in such a manner than the size of the local school district's tax base is irrelevant. The state foundation aid program for school districts provides that each school district impose a uniform tax (the equivalent of 30 mills on its valuation as adjusted to reflect differences in assessment practices.) The state then makes up the difference between what this tax rate produces and a uniform

expenditure per pupil unit ($825 for the 1974-75 school year). The effect of this formula is to provide substantially more dollars of state aid to low-valuation school districts than high-valuation school districts.

State aid to city governments is handled in a different manner. Essentially, a per capita amount is allocated to each county (except, for the seven-county metropolitan area an amount is allocated to the entire area). A portion of each allocation is set aside for county governments and special taxing districts. The remaining amount is distributed among cities and townships based on each city or township's authorized levy as a proportion of the total authorized levies of all cities and townships in the allocation area. In effect, the cities with the largest authorized levies receive the most state aid.

A "grandfather" provision guarantees all cities and townships a certain minimum aid, regardless of their entitlement under the formula, equal to the amount they received from several separate aid programs which now have been consolidated. Because of the "grandfather" provision not enough money is available to give all cities the amount entitled under the formula. For example in 1974, St. Paul received about $750,000 less than its entitlement, and Minneapolis, about $2.8 million less.

The combination of state aids to school districts and municipalities has had the effect of accomplishing larger reductions in suburbs, the prime beneficiaries of the school aid changes. Minneapolis and St. Paul receive more than suburbs under the municipal aid formula, but the total dollars involved in the municipal aid formula are much smaller than in the school aid formula.

5. <u>Tax rate differences are still substantial</u> -- Cumulative property tax rates (including county, school, city and special district rates) ranged from a low of 80.89 mills to a high of 135.80 mills among localities over 2,500 population in the metropolitan area in 1974. Differences in local assessment practices account for some of these differences. For example, the community with the second highest mill rate ranked 23rd highest among the 78 communities over 2,500 population in estimated taxes on a $25,000 homestead, after adjustments are made to reflect the differences in assessment practices. On the other hand, the community with the lowest mill rate had one of the lowest sales ratios, and the community with the highest mill rate had one of the highest sales ratios. This may reflect the influence of the size of the local tax base on the mill rate.

Among the 78 communities, the effective property tax rate (that is, the percentage which the tax bears to correct market value) ranged from a low of 1.1% in Inver Grove Heights to a high of 2.8% in Circle Pines for homesteads with a correct market value of $25,000. Minneapolis, at 2.3%, was second highest.

Analysis of county, school, city and special district mill rates among localities of 20,000 population or more reveals that county mills rates in 1974 ranged from 17.80 mills to 30.05 mills; school district rates, from 44.75 mills to 81.72 mills; city rates, from 6.29 mills to 40.57 mills, and special district rates, from 2.52 mills to 6.71 mills. The highest school district and county mill rates occurred in Ramsey County where assessment levels are comparatively lower than, for example, in Hennepin and Anoka Counties. Much of the difference in property tax rates, particularly between Minneapolis and St. Paul and suburban communities, is reflected in the city government portion of the total mill rate. The city government portion of the Minneapolis and St. Paul mill rates is more than double those of almost all other cities over 20,000 population.

6. Non-discretionary levies are a contributing factor -- Counties are required to levy taxes for the local share of the welfare burden. The state, not each county, determines who is eligible and the level of income assistance. In 1974 county mill rates for welfare ranged from a low of 3.88 mills in Cook County to a high of 30.56 mills in St. Louis County. For metropolitan area counties: Anoka 6.53 mills; Carver, 8.14 mills; Dakota, 5.69 mills; Hennepin, 12.53 mills; Ramsey, 17.52 mills; Scott, 8.68 mills, and Washington, 10.50 mills. If the equivalent dollars were raised through a uniform tax statewide, the rate in 1974 would have been 11.35 mills.

   Minneapolis and St. Paul levy taxes for a portion of the employer's contribution for public school teachers' pensions. The employer's contribution for teachers in all other school districts is paid by the state. No local levy is imposed for teachers' pensions in those districts. The state makes a contribution to Minneapolis and St. Paul equivalent to the average state contribution per teacher in the other districts. This contribution, however, is not sufficient to meet the obligations as required in state law. Consequently, extra levies are imposed in these two districts. In 1974, the levy in Minneapolis was $4,243,638 (3.191 mills) and in St. Paul, $1,481,615 (1.969 mills.)

   These school districts had their own pension plans established before the statewide plan was imposed. Pension benefits are roughly the same for teachers, wherever they are.

   Pension levies for the employer's share are largely non-discretionary for city government employees throughout the state. The benefits and contribution levels are established by state law. Benefits do not vary significantly for non-public safety employees. But for police and fire, some cities' plans are better than others. Each locality, of course, determines how many employees to hire and what they should be paid, which affects the pension requirement. A Citizens League survey of retirement levies, including social,security, revealed a mill-equivalent range from 1.00 to 11.29 for cities over 10,000 population in the metropolitan area in 1973.

   Within Hennepin County a difference exists between Minneapolis and the suburbs for the levy for operating purposes for the medical center. State law provides that the levy shall be divided between Minneapolis and the suburbs based on residence of the indigent patients. For 1975, the mill rate in Minneapolis will be approximately 5.488 mills and in suburban Hennepin, about 1.003 mills. If the same dollars were to be raised by a uniform mill rate throughout the county, the rate would be about 2.88 mills.

7. Rates will differ based on use of other revenue sources -- Two cities with the same total revenue requirements may levy different amounts of property taxes because of their policies on use of other revenues. For example, some cities use profits from municipal liquor stores for general city expense. Others use

special assessments which, while imposed directly on property, are not levied as property taxes. The property tax is applied on every piece of taxable property in the community; the special assessment is applied only to those properties identified as specifically receiving benefit, whether taxable or tax-exempt. The property tax is related to the dollar value of the property; the special assessment can be related to a number of factors, such as the dimensions of land, so many front feet or so many square feet, or it could be a uniform charge for each piece of property.

In 1972, according to the State Auditor, taxes represented 32.1% of all revenue of cities; special assessments, another 13.6%. However these relationships varied. For cities over 100,000 population (Minneapolis, St. Paul, and Duluth), all of which happen to be older cities, the percentages were: taxes, 43.2%; assessments, 4.4%. For all other cities: taxes, 25.0%; assessments, 19.4%.

8. <u>Rates will differ based on local preferences for services</u> -- Taxpayers in two cities may have different property taxes because of different local preferences. These preferences -- in some cases, but not all--- can relate to services for which no compelling public interest is present for uniform levels from locality to locality.

9. <u>Rates will differ because certain service levels are needed due to the physical characteristics and/or population make-up of different cities</u> -- Some particularly small city governments levy no property taxes whatsoever. On the other hand, Minneapolis, St. Paul and Duluth, which are larger, more densely-populated, older, and with a larger-than-average proportion of elderly and socio-economic disadvantaged, levied $103 million in 1972, which represented about 40% of all property taxes, including special assessments, levied by all cities in Minnesota in that year. These three cities have about 22% of the state's population. Operating expenditures per capita in 1972 were about $238 in Minneapolis and about $229 in St. Paul, about double the per capita expenditure for the next closest municipality over 20,000 population in the metropolitan area, according to the State Auditor. The total tax rate in Minneapolis and St. Paul (including the tax rates for school districts, counties, cities and special districts, but excluding special assessments) is about 20% higher than that of most suburbs.

10. <u>Combined with its aid programs, the state has imposed controversial restrictions on the extent local governments may use the property tax.</u>

    a. <u>Statutory 6% limit is actually exceeded because of exceptions</u> -- State law increases the authorized dollar tax levies by cities and counties by 6% per capita each year. The Legislature has provided for 16 different exceptions to the levy limits, which means that cities and counties can increase their actual levies by more than 6%. For example, the combined total levies of cities and counties increased slightly more than 9% from 1973 to 1974, which reflects the impact of the exceptions. Also it is possible some units of government had not used all of their authorized levies in the previous year.

The 6% provision does not apply to school districts. Instead the Legislature relates school levies to a statewide average pupil-unit expenditure level. All districts at this level have the same tax rate. Districts with historical expenditure patterns above the statewide average per pupil unit are allowed to levy additional dollars by the amount they exceeded the statewide average per pupil unit in 1970-71. Districts with historical expenditure patterns below the statewide average are allowed to increase their levies to help bring them up to the statewide average.

b. Limits may be lifted by referendum -- In a sense, no *absolute* limits are imposed on cities, counties or school districts. A limit legally may be raised by any amount if approved by voters in a referendum. In the metropolitan area, at least, the referendum procedure has been attempted mainly by school districts, with five out of six such referendums being defeated. The desirability of the referendum approach has been questioned because of its "all-or-nothing" nature. A local unit of government may seek a much greater property tax increase if it resorts to the referendum than it would impose if the decision were made, incrementally, by the locally-elected council or board.

c. Equity of 6% limit has been challenged -- As is noted above, the limit for counties and cities applies to an increase of 6% per capita above the previous year's authorized levy. A local government's levy is very closely related to how much it was levying in the last year before the levy limits went into effect. Some critics have said this penalizes a unit of government which had previously held its levy down. Also the 6% figure has been attacked because it is smaller than the current rate of inflation.

d. Long term need for levy limits questioned -- Intially, levy limits were defended as an absolutely essential component of a program to use state aid to reduce property taxes. Legislators feared that in the absence of levy limits, local governments would spend the money, not grant relief. But if the local elected unit of government can be held accountable to the voters for increased expenditures, then the need for levy limits diminishes, critics of levy limits argue. Others note that it still would be difficult to focus responsibility on any given unit of government for increases in the property tax. The taxpayer receives only one bill, but the increases can be the result of actions of four or more units of government, each of which could blame one of the others.

E. Considerable debate occurs over how to measure and evaluate the relationship between property taxes and the ability to pay.

1. Taxes increase as property values increase -- It is almost axiomatic, but bears restating, that taxes should vary directly with the value of the property. A principal philosophical basis of the property tax is that it is an *ad valorem* tax, that is, it is based on the value of the property.

2. In Minnesota, differences in taxes on homestead property are greater than proportional relative to differences in value -- A long-standing characteristic of homestead taxes in Minnesota is that the effective tax rate increases with the value of the property. For non-homestead property in Minnesota and for both kinds of property in most other states, the effective tax rate

remains the same for all property of all values. Thus the tax is *proportional* to value for these properties. But for homestead property in Minnesota the tax is *progressive* with respect to value of the property. For example, assuming a mill rate of 100 mills and full value assessment, the effective property tax rate is less than 1.5% for homesteads up to a market value of $12,000. The rate then increases to about 2.25% at the $30,000 level, and up to almost 3.5% for the highest-valued homesteads. In reality the increase is not as steep as this because higher priced properties traditionally are underassessed in comparison with lower-priced properties. (It should be emphasized, for purposes of clarity, that the comparison here is between the property tax and the value of the property, *not* the income of the owner.) U. S. Census figures show a direct relationship between income and home value. Therefore, a program which provides for a lower effective property tax rate for lower valued properties is directly aimed at lower income individuals. Whether effective tax rates on such property are low enough is another question.

3. <u>One part of the present homestead credit law has the effect of discriminating against lower-valued properties</u> -- State law provides that the state will intervene before a homeowner receives his property tax bill and pay a portion of that bill. The amount the state will pay annually is 45% of the homeowner's bill, exclusive of that portion of the bill which is used to retire the bonded debt of municipalities, counties and special districts, to a maximum of $325. The impact of not applying the 45% credit to that portion of the tax which is used to retire such bonded debt is felt by owners who have not already reached the $325 limit, which in 1974, totaled 72.6% of the homesteads. They are the owners of lower-valued homes, who would receive more homestead credit if the 45% applied to the entire tax. For owners of more expensive homes, who have reached the limit, the provision is meaningless.

4. <u>The relationship between property taxes and the income of the taxpayer is subject to considerable debate, with respect to what the relationship actually is, and what the relationship means</u> — If a tax expressed as a percentage of income increases as incomes rise, the tax is said to be *progressive*. If the percentage remains the same as incomes rise, the tax is said to be *proportional*. If the percentage declines as incomes rise, the tax is said to be *regressive*.

   First, a representative property tax paid by individuals in a certain income bracket is difficult to ascertain. The 1970 Census revealed, for example, that in the Twin Cities metropolitan area, at least some families in all income brackets were living in at least some houses in all value brackets. Of course, median house values are available for each income category. But property taxes as a percent of income will probably have as many combinations as there are taxpayers and dwelling units.

   A Citizens League analysis of 1970 Census data, as adjusted by the Minnesota Tax Study Commission, revealed that roughly 20.4% of non-elderly, non-farm, owner-occupied households in Minnesota were paying less than 1.5% of household income in property tax in 1973.

Another 36.4% of the households were paying between 1.5% and 3% of household income in property tax, and another 43.4% of the households were paying more than 3% of income in property tax. These percentages varied by location within the state. A higher proportion of the households in the non-metropolitan cities were below 1.5%, for example. The percentages were calculated on the assumption of a uniform mill rate statewide. Actually, mill rates vary considerably.

About 8.4% of the households had both (a) combinations of income and house value which, when added together, totaled less than $35,000 and (b) property taxes exceeding 3% of income. (The figure of $35,000 was chosen simply to illustrate the extent of overburden for households with both low income and low house value).

Second, disagreement exists over the relevance of an individual's income to his property tax. Some persons point out that the property tax reaches a form of wealth which is not otherwise taxable. Others say that people pay their property taxes out of income, not the unrealized wealth of a dwelling which may be sold at some time in the future.

5. <u>When all major taxes, including federal taxes, are included, taxes as a percent of income rise as incomes rise</u> -- An unpublished study prepared by the Minnesota Department of Revenue 1974, estimated that total taxes increased from 13% at the $5,000 taxable income level to 42% at the $100,000 taxable income level. Included in this study were (a) federal income taxes (b) social security taxes paid by the employee (c) state income taxes (d) state sales taxes, and (e) property taxes, It did not include any estimate of business taxes paid indirectly by individuals in their purchase of goods and services.

6. <u>When only state and local taxes are included, taxes are roughly proportional to income</u> — The above-mentioned Department of Revenue study revealed that state income and sales taxes, combined with property taxes, were about 5% at the $5,000 taxable income level and about 9% at the $100,000 level. In the broad middle-income categories, from $10,000 to $25,000, the percentage remained between 9% and 10%.

7. <u>When only property taxes are included, taxes as a percent of income decline as incomes rise</u> -- The Department of Revenue study revealed that property taxes were about 4.3% of income at the $5,000 taxable income level and about 1.6% at the $100,000 level.

   In the taxable income categories from $7,000 to $25,000, property taxes as a percent of income were grouped very closely around 3%. Below the $5,000 taxable income level, the study revealed that property taxes as a percent of income rose sharply, up to almost 22% at the $1,000 income level. However, since this study did not include transfer payments as part of income, such as welfare or social security, the lowest income figures are distorted. Nevertheless, other studies have also shown that the regressivity curve rises sharply for the income levels below $5,000. For example, a separate study conducted by the Tax Study Commission showed, for the $3,300 income level, (covering both taxable and non-taxable income) a property tax of approximately 9% of income .

8. <u>A new state law provides special property tax relief for lower-income persons 65 or over, who comprise a high percentage of homeowners with incomes under $6,000</u> -- Of all homeowners with incomes less than $6,000 in 1969 in the

Twin Cities metropolitan area, 60.5% of them were 65 or older, according to the U. S. Census. In Minneapolis and St. Paul the percentage was 66%. A Minnesota law, passed in 1971, gives persons with incomes under $6,000 who are 65 or blind or disabled a refund of from 5% to 90% of their property taxes paid, to a maximum refund of $720. The effect of this refund is to make the property tax progressive with respect to income for these persons. In addition, a law passed in 1973 freezes property taxes for all persons 65 or over at the levels in effect in 1973, regardless of incomes.

9. A major issue is whether such relief as provided to low-income elderly persons should be extended to all taxpayers -- Some states, which do not provide other homestead tax benefits across the board, as Minnesota does, have extended this concept to cover all income categories. Some suggestions have been made to extend this approach to all income categories in Minnesota, too. The laws which provide for a refund when property taxes exceed a certain percentage of income have been popularly called "circuit-breakers", apparently because the laws have the effect of halting an increase in property taxes, or breaking the circuit, so to speak, when property taxes reach a certain percentage of income. Among issues related to circuit-breakers are whether effects are worth the benefits:

-- Some critics have said that such laws encourage uneconomic use of residential property. Persons may be subsidized to live in housing much larger than they really need. Some critics believe that subsidies to the elderly to live in large houses, with many empty bedrooms, work against efforts to attract young families with children into older cities. The 1970 Census revealed some 32,000 owner-occupied, single-family houses in Minneapolis and St. Paul were occupied by persons 65 and over. In 1970, almost one-half (49.7%) of all owner-occupied housing units in Minneapolis were occupied by no more than two persons. In St. Paul,the percentage was about 43.5%.

-- Critics also point out that a state policy of relating property taxes to income may lead to removal of local control over the property tax. That is, it is not likely that the state would allow local governments freedom in raising property taxes if the state were to end up paying the bill through the income tax. Already this problem is emerging where persons 65 and over can participate in decisions to raise property taxes with the knowledge that none of the increased burden will fall on them. In effect, it is representation without taxation.

-- Another problem is defining, and auditing, income of individuals for determining eligibility for circuit-breaker coverage.

-- Present information on the relationship between property taxes and household income is inadequate. Only rough approximations, based on updating Census information -- in which a 2% sample of households estimated their own household income and house value -- are available.

-- For significant numbers of taxpayers, the property tax, in effect, is turned into an income tax.

F. Attempts can be made to use property taxes to accomplish non-revenue-raising goals, such as stimulating certain land uses, but the impact of such efforts is not clear.

1. Shifting a portion of the tax on buildings to the land has been suggested -- Under present law, land and buildings bear the property tax equally in proportion to value. Recurring suggestions have been advanced that buildings and other improvements should bear a lower proportion of the tax, and land, a higher proportion. Such an approach, proponents argue, would stimulate owners of marginal property to make improvements, knowing that such improvements would not be heavily taxed. Also, the proponents argue, a higher tax on land would increase the urgency of developing close-in land, thereby discouraging urban sprawl. However, the present system of taxing land and buildings equally is well established. Many persons are unconvinced a greater emphasis on taxing land would be beneficial.

2. Recurring proposals have been made to try to stimulate rehabilitation of older houses through reduction or deferrment of property taxes -- Some persons have claimed that the property tax may discourage owners of residential property from making improvements for fear of higher taxes as a result. Others say the main reason is a lack of money to make the investment in the first place.

3. Some questions have been raised over whether recent laws sufficiently offset certain adverse developmental impact -- In the absence of certain equalization efforts, a municipality may find it "profitable", from a property tax standpoint, to enact building and zoning codes which have the effect of ruling out housing for lower income persons. This practice, in which a municipality would allow only houses which pay in taxes approximately an amount equal to the costs of services provided, including schools, is called "fiscal zoning". Because racial minorities are more prevalent in low income categories, some persons have said that fiscal zoning is really a form of racial discrimination, with the property tax argument used only as an excuse.

   Enactment of school aid equalization and metropolitan fiscal disparities laws have the effect of making the physical location of tax-producing property much less important today than in the past. It no longer is likely that a community's allowing housing for lower-income or upper-income families will have any appreciable effect on tax base. Nevertheless, it is possible that the impact of these laws has not yet been realized by local government officials.

CONCLUSIONS

A. The most urgent problem with the property tax in Minnesota today is inequity: similarly-situated taxpayers paying grossly unequal taxes for reasons outside local discretion.

1. Problem of inequity is more acute than overall level of property tax -- Overall public confidence in the property tax is undermined by continued inequities among taxpayers. In recent years considerable emphasis has been placed on accomplishing a reduction in the overall level of the property tax, with substantial results. The state is just now adjusting to the unprecedented shift, since 1971, in which property taxes as a percentage of all state-local taxes in Minnesota have declined from 47% to about 32%. A further gradual reduction to a lower percentage would be desirable because property taxes relate to static wealth (the value of property) but are paid out of current wealth (income), which makes a high property tax particularly burdensome on persons with limited incomes. But today the problem of inequities among taxpayers is more pressing than the absolute level of the tax itself.

2. Property tax is a vital element of the state-local revenue structure -- The property tax reaches a type of wealth not otherwise taxable. Moreover, if the property tax were abolished, enormous amounts of non-property revenues would be required, which would drastically alter Minnesota's tax structure relative to other states along with a largely unpredictable shift of total tax burden among taxpayers within the state. Moreover, the property tax is the one general tax source available to local governments in Minnesota. The independence and diversity enjoyed by these local governments is not unrelated to their local revenue-raising authority.

3. "Visibility" of the property tax is an asset -- Debate over property tax levels and their relationship to services is healthy. The tax is one of the few revenue sources where it is still possible for the taxpayer to establish some direct relationship between the amount of the tax and value received.

4. But taxpayer understanding is inadequate -- Taxpayers are not adequately informed about the governmental functions financed by the property tax. Many do not understand that they are paying a composite of several property tax bills from different governmental units (not unlike what an individual would pay if all his monthly utility bills -- heat, light, phone, water, sewer, trash collection, and so forth -- were lumped together in one statement and made payable at one location). Some taxpayers who pay their property taxes as part of the monthly mortgage payment aren't even notified of their property tax bill until after it has been paid.

   Taxpayers often do not understand the impact of a change in valuation on their taxes -- that an increase or decrease in valuation affects the proportionate share of taxes, not the total amount.

B. Underassessment must not be condoned, either by state law or in actual practice, if inequities are to be successfully attacked.

1. Deliberate underassessment represents a defiance of the market value standard -- If property is consistently undervalued year after year, it means that state law is being largely ignored. State law requires that property be valued for

tax purposes at its approximate market value -- what a willing buyer would pay a willing seller in an arm's length transaction.

2. Property tax system should not "reward" underassessment by allowing the tax burden from overlapping taxing districts to be shifted -- If assessment levels are low in one county, the impact ought not be felt beyond the county.

3. Sales ratio studies are a valuable asset in improving assessment levels -- These studies represent the only available information which illustrates the extent of the partial tax-exemption given extra-legally to some properties as against others. The continued credibility of these studies, however, is dependent upon the best, most up-to-date procedures in their preparation.

4. Assessors cannot do their jobs adequately if subject to outside pressures -- An assessor's job is essentially one of professional judgment. Other considerations, such as the interests of the local city council, town board or county board or the interests of the owner of the property, should have no effect. If pressured by his employer to undervalue property, the assessor will be unable to carry out his job as required by state law.

5. Present state law does not give the average taxpayer a fair chance to appeal valuations if he disagrees with the assessor's judgment -- The present system is unfair to the extent the taxpayer must carry his appeal to the employer of his assessor; the system is overly complex, and it does not provide adequate assistance to a taxpayer to challange his valuation.

6. Present 5% limit on annual increases in valuation interferes with efforts to reduce inequities -- As long as the limited market value law remains in effect, it will not be possible to correct for differences in assessment practices. The law represents a serious setback in the drive for improved assessment because, in effect, it permits assessors to ignore current market value when assessing residential, including seasonal, and farm property. All they have to do is look at last year's value and add no more than 5%.

C. A state policy which provides that certain broad categories of property pay proportionately more than others is not necessarily inconsistent with equity. But the classification system becomes inequitable when localities must assume the "cost" of certain state-imposed special classifications.

1. No compelling need exists to make major changes in broad, long-standing classifications of property -- The state's overall tax system has adjusted to the long-standing classifications which place a higher percentage of the value of business property on the tax rolls than residential. While the classification system is cumbersome, no compelling need exits to make changes which would produce major shifts in tax burden among the various classes. Nevertheless, the system contains too many special classes which apply to only select numbers of properties.

2. Neither rental nor owner-occupied housing should receive favored tax treatment over the other -- It is clear that when only the property tax classification system is considered, owner-occupied property receives favored treatment over renter-occupied property. But when all income tax deductions and credits to the owner-occupant, landlord and renter are considered, it is difficult to conclude whether property taxes on rental property should be reduced relative to homestead property. But, if the system leans in any direction, it would appear to favor the homeowner over the renter. Consequently, if further benefits are contemplated for homeowners, at least equal benefits should be extended to renters so as not to disrupt the present balance.

3. Localities unfairly bear burden of special housing classifications -- The state has reduced the taxable valuation of federally-subsidized rental housing for low and moderate income persons. This means the valuation of such property is lower than it otherwise would be, which means, in turn, that the other taxpayers in the communities where such housing is located are bearing the burden of the low-income subsidy themselves. If anything, such a law represents a dis-incentive to allow such housing within a community. The state has ordered similar reduced valuations for blind and paraplegic homesteads, meaning, too, that other taxpayers in localities where such homesteads are located pick up the costs.

   The largest local housing subsidy through the classification system is the reduced classification percentage (25%) provided for the first $12,000 worth of homestead value. Its impact is felt primarily in those localities which have a larger-than-average proportion of lower-priced homesteads.

4. Tax-exempt classifications have similar impact -- For certain kinds of tax-exempt property no particular benefit to the community offsets the tax exemption -- such as church-owned dwelling units or business-type enterprises. But the cost of the tax-exemption is passed onto the other taxpayers in the localities where the exempt property is located.

5. Railroad and telephone and telegraph property falls into the same category, but with a slightly different twist -- Localities have no voice in the state's exemption of such property from property taxes. Nor do they share in the "in lieu" gross earnings taxes paid by the railroad and telephone and telegraph properties.

6. But localities should bear full burden of "exemptions" granted at their own discretion -- Under tax-increment financing a city government may withhold certain valuation from the official tax base for a period of time. This action affects city taxpayers and taxpayers in overlapping taxing districts, who have no voice as to whether such an exemption should be granted.

   Much more careful analysis needs to be made on the long-term potential impact of tax-increment financing. We do not quarrel with a locality's taking action to stimulate redevelopment. But excessive use of the tax increment as a financing tool has serious implications for property taxpayers.

D. The state's present levy and aid policies do not adequately redress the differences in property taxes which are caused by factors beyond local control.

1. Non-discretionary levies produce inequitable differences in mill rates -- A significant portion of local property tax levies are non-discretionary. That is, a local unit of government is required to levy a set amount of dollars to carry out obligations required by law. This does not necessarily produce different tax rates. For example, the local property tax support for school operating expenditures up to the statewide average per pupil unit is virtually non-discretionary, but the state has adjusted the school aid formula so the local mill rates do not vary (other than for differences in assessment practices.) But no state adjustment is provided for several other non-discretionary levies. Among inequities: (a) county levies for welfare (b) intra-county differences in health care levies (c) special school pension levies in Minneapolis and St. Paul which are non-existent in other school districts (d) municipal pension levies throughout the state.

2. Present city government aid formula is underfunded -- Some cities do not receive all the property tax relief to which they are entitled, meaning property tax rate differences are accentuated, because the present aid formula is underfunded. The underfunding occurs because of a "grandfather" provision in the formula which guarantees some cities a minimum amount based on what they received in the past. The grandfather provision siphons off funds from some other cities, thereby reducing their actual aid below their entitlement.

3. Present aid formula is designed to assist cities in greatest need but it may present difficulties in the long run -- The formula, which relates a city's entitlement to its authorized tax levy as a proportion of all cities' authorized tax levies in an area, serves effectively to distribute the largest shares to cities in greatest need of revenue. However, it has some deficiencies in the long run as a property tax relief formula because cities' shares are related to the amounts they are authorized to levy in property taxes.

4. Strict levy limits for city governments can be tolerated at the time when state aid is expanded but not permanently -- We recognize the practical need to impose fairly tight levy limits on cities when state aid is expanded, so that taxpayers see the full impact of the increased aid in reduced property taxes. Philosophically, however, we believe a locally-elected unit of general government should be able to determine -- and be held accountable for -- incremental increases in the local property tax. (With respect to school districts, where state interest in expenditure levels is much more direct, we would not support greater local discretion.) Present methods of focusing accountability are not adequate, because locally-elected units of general government are not in a position to accept full responsibility for increases in the property tax.

E. The property tax still represents too great a burden on some lower-income property owners. But changes in state law to reduce the overburden must be undertaken with great care to avoid unexpected and undesirable side effects.

1. Property tax still not sufficiently progressive relative to lowest-valued properties -- While in Minnesota the tax rate on homestead property generally increases with the value of the property, the tax rate is proportional to value among lowest price homesteads, which works to the disadvantage of lower-income households. A tax rate on residential housing should be progressive relative to the value of the housing just as the tax rate on residential income should be progressive relative to the size of income.

2. Debt-exclusion in homestead credit is unfair to lower-priced homes -- The present homestead credit does not apply to the portion of the homestead tax bill for municipal, county and special district debt levies, a feature which affects lower-priced homes that have not yet reached the $325 maximum credit. It has the effect, therefore, of reducing the amount of credit lower-priced homes receive relative to higher-priced homes.

3. Absolute freeze on property taxes not equitable -- The 1973 Legislature provided that property taxes would be frozen in absolute dollars when a person reaches age 65, regardless of income. This provision is in addition to another program which provides for state refunds to elderly persons with household incomes under $6,000, based on property taxes paid. Freezing property taxes for all elderly persons, regardless of income, is mainly a benefit to middle-and-higher income elderly persons. There is no equitable reason to impose an absolute freeze on any group of taxpayers for no other reason than the age of the taxpayer. It is directly contrary, of course, relating the tax to the value of the property. The $6,000 ceiling may be too low. If so, that problem should be attacked directly.

4. A new approach now under consideration, to provide significant property tax relief to lower-income households, would relate the property tax to the income of the occupant. Its impact would be much broader than reducing property taxes for lower-income individuals -- The Governor's proposal to the 1975 Legislature would limit property taxes for non-elderly homeowners to 1.5% of household income (with a $425 limit on total state relief.) For elderly homeowners the limit would be $625. The absolute freeze on property taxes for the elderly, adopted by the Legislature in 1973, would be continued. The 1.5%-of-income proposal, sometimes called a "circuit-breaker,"* would replace the current homestead relief program under which the state pays 45% of the homeowner's property taxes, to a maximum of $325. The state's rent credit, now based on 10% of rent going for taxes, with a maximum state credit of $120 per renter household, would be changed to 20% with a maximum credit of $425 per renter household.

   a. Its positive aspects:

      -- Low-income taxpayers would receive substantial benefit -- The 1.5%-of-income proposal would reduce significantly the regressivity of the property tax for lower-income households. For example, a family with a household income of $3,300 annually and living in a $17,500 house now pays approximately 8.9% of income in property tax. Under the 1.5%-of-income proposal, the percentage would drop to about 2.8%. (See chart on page 52 for further examples.)

      -- Renters would gain considerably -- The renter credit, begun in 1967 with the homestead credit, has consistently been much lower per household than the homestead credit. Today the maximum homestead credit is $325, and the maximum renter credit, $120. The 1.5%-of-income proposal would bring both of these to $425.

      -- Middle-income persons would benefit, too -- Roughly 46.0% of the state's homesteads would pay exactly 1.5% of income in property tax. Another 24.3% would pay between 1.5% and 3% of income, and only 24.7% would pay more than 3% of income in property tax. Today about 43% of the homesteads may be paying more than 3%.

* see page 20 for explanation and discussion of this term

-- Actual property taxes levied would become more visible -- Today, because the state steps in and pays part of the homeowner's tax bill -- *before* he receives it -- the homeowner does not "feel" the full impact of the local property tax as levied on his property. Under the 1.5%-of-income proposal, the homeowner would pay directly the entire property tax as levied, which would mean his property tax bill would increase. He would then receive, separately, a check from the state as necessary to keep his burden within the 1.5% category, with a maximum payment of $425.

b. Its more questionable aspects:

-- Lump sum refunds to offset an increase in property taxes payable would require adjustments in many families' budget planning -- Currently, for persons who pay their property taxes monthly as part of their mortgage payment, the monthly payment is lower than it would be if the taxpayer were required to pay the gross amount, before the deduction. Under the 1.5%-of-income proposal, property taxpayers would receive a lump sum refund as their relief payment, which they could use to help pay their property taxes. But their actual property taxes payable would increase. For persons who pay their property taxes as part of their monthly mortgage payment, the monthly payment would increase. If a taxpayer has been at the $325 credit maximum, the increase in monthly payment, because of the change, would be $325 divided by 12 months, or about $27 a month. Families in such situations would have to budget their lump sum refund to adjust to the monthly increase in their mortgage payment.

-- A different definition of income would be required -- The 1.5%-of-income proposal would be based on a different definition of income from that used now on state income tax forms. Certain forms of income, such as income from tax exempt government bonds, capital gains not included in adjusted gross income, cash welfare assistance, unemployment insurance and workman's compensation would be added. A new form of auditing would be required to check on accuracy of reporting. Relating ability to pay gross income would represent a new concept.

-- Property tax becomes an income tax for large number of taxpayers -- A Citizens League analysis of data provided by the Minnesota Tax Study Commission indicates that almost one-half of the non-elderly, non-farm homesteads in the state could end up paying 1.5% of household income in property tax. In outstate small towns as high as three-fifths of the homesteads could be at 1.5%. Thus, for large number of taxpayers the property tax, in effect, would be replaced by a 1.5% gross income tax. After an initial adjustment to a higher property tax bill (because, as noted above, property taxes actually payable by the homeowner would increase), taxpayers' interest in the level of the property tax would become academic, if such taxpayers fall in the 1.5% category.

-- Many taxpayers would pay more -- Currently, roughly 20% of the state's non-elderly, non-farm homesteads are paying less than 1.5% of income in property tax. The League's analysis reveals this number could drop to about 5% of the homesteads under the Governor's proposal. It appears that persons who now pay less than 1.5% of the income in property tax are concentrated more heavily in outstate cities and small towns than in the metropolitan area. For example, the League analysis shows about 35.9% of the non-elderly, non-farm homesteads in outstate cities of less than 2,500 population now are paying less than 1.5% of income in property tax. This percentage could drop to about 13.5% under the Governor's proposal. In non-metropolitan outstate cities of more than 2,500 population the percentage now is about 26.7% and could drop to about 5.5%.

-- For some taxpayers, change in mill rates would not bring any change in tax burden -- If a taxpayer is paying no more than 1.5% of income and is not yet at the maximum credit of $425, increases in local mill rates would not affect his tax burden. For certain combinations of income and house value, the mill rate change could be 50 mills or more before any increase in tax would be felt by the homeowner.

Depending upon how many taxpayers would fall in this category (and it is clear from the League's analysis that many would be at the 1.5% level), the Legislature would find it necessary to impose even tighter levy limits on local governments. It is not likely that the Legislature would automatically fund whatever increase in mill rate occurred at the local level. The result would be a further diminution of local government.

-- For some taxpayers, changes in house values would not bring any change in tax burden -- Under the 1.5%-of-income proposal, a range of house values would exist, for each income level, within which the property tax would be the same. This range would be at least as wide as $10,000 of house value at almost all income levels and in some cases would be as much as $14,000 or more. Thus persons could move into more expensive houses and pay no more taxes or, conversely, move into less expensive houses and not have taxes reduced.

-- An underlying assumption, that of widespread property tax over-burden, can be subject to some question -- Figures from the Minnesota Department of Revenue reveal that in 1974, the net property tax payable was *less* than $440 for about 72.6% of the owner-occupied households in the state. The net tax payable was less than $338 for 57.0% of the homesteads; less than $237 for 40.3%, and less than $135 for 22.9%. (see page 49 of the background section for a regional breakdown of these figures). With a property tax of $135, a household would need an income of less than $4,500 annually for the tax to exceed 3% of income.

What is uncertain, of course, is how many lower-income homeowners are actually paying an extraordinary percentage of their income in property taxes. The Citizens League analysis of income-house value relationships as determined by the U. S. Census indicated that approximately 8.4% of the non-elderly, non-farm homesteads today were both (a) paying more than 3% of income in property tax and (b) fall in a category in which the sum of the house value and household income was less than $35,000. Under the 1.5%-of-income proposal the number in this category drops significantly but does not disappear, to about 3.9% of the non-elderly, non-farm households.

RECOMMENDATIONS

A. We recommend first priority today be given to reducing the inequities in property tax levels among various taxpayers within and between localities, that is, where similarly-situated taxpayers pay grossly unequal taxes for reasons outside local discretion. We believe the property tax should be continued as an important element in Minnesota's state-local fiscal system, although it probably should be slightly reduced over time.

B. Correct for underassessment of property by (1) commitment to a market value standard (2) adjusting levies of taxing districts which cross county boundaries (3) improving sales ratio studies (4) insulating assessors from outside pressure (5) improving taxpayer access to the appeals process (6) repealing the 5% limit on valuation increases.

1. Commit to a market value standard -- We recommend that the Legislature enforce its own directive that the basis of the property tax is correct market value -- what a willing buyer will pay a willing seller in an arm's length transaction.

2. Adjust levies of taxing districts which cross county boundaries -- We recommend that the Legislature expand the equalization process now limited to adjustments of levies between school districts to include:

   * Levies within the same school district, but which cross county boundaries.

   * Levies by other units of government which cross county boundaries.

   The Commissioner of Revenue would adjust the dollar levies between the counties so as to compensate for differential property assessment from one county to another.

3. Improve sales ratio studies -- We recommend that the Legislature give continued support to improve the Department of Revenue's sales ratio studies, utilizing the most up-to-date procedures possible. We recommend that the results of the studies continue to be published and the methodology in making the studies also be made readily available to taxpayers across the state.

4. Insulate assessors from outside pressure -- We recommend that assessors be protected from arbitrary dismissal by their appointing authorities. This would be accomplished by:

   * Removing current limits on the terms of office of assessors.

   * After a probationary period, placing every certified assessor under the protection of the state merit personnel plan, under which an assessor could be removed only for cause or with the approval of the Commissioner of Revenue. This would include every designated chief assessor and all employees who also are certified assessors.

5. Improve taxpayer access to the appeals process -- We recommend that the present system by which a residential taxpayer may appeal the valuation of his property be improved in the following ways:

* The Legislature would guarantee that every taxpayer is fully informed, in a complete and understandable fashion, of the steps in the appeals process when notified of the proposed valuation of his property.

  If a taxpayer has a question about his valuation, his first step would be to contact his assessor. In such a visit the taxpayer would be entitled to request and receive:

  -- sales ratio information for his community as reported by the Department of Revenue

  -- information on recent selling prices of property in his neighborhood and community as reflected on the certificates of real estate value which are given to the assessor by the county register of deeds.

  After such consultation the assessor would notify the taxpayer, in some formal communication, of his decision.

* If the taxpayer feels he has failed to receive a satisfactory solution to his problem in direct contact with his assessor, he would be allowed to appeal to a conciliation-type court, probably organized within the framework of the state district court system. The court would name referees who would be knowledgable about real estate values to hear and decide such appeals. The taxpayer would receive adequate assistance in filling out forms so that legal counsel would not be required. The conciliation-type court would be designed specifically for owners of property below a certain value, say, below $75,000-$100,000. Above this level the taxpayer would carry his appeal directly to district court.

* In carrying such an appeal the taxpayer would be entitled to an independent appraisial of his property, with a reasonable contribution of his own to help defray the cost, say, $25 for homeowners.

* The local, county, and state boards of equalization would no longer make decisions on individual appeals but would retain whatever authority they now have for making blanket adjustments in valuations.

6. Repeal 5% limit on valuation increases -- We recommend immediate repeal of the law passed two years ago which limits annual increases in valuation of residential, farm and lakeshore property to no more than 5%, regardless of previous valuation. The repeal should apply to valuations being determined in 1975 for taxes payable in 1976.

C. Make the state -- not just other taxpayers in selected localities -- assume the burden of special state treatment of certain types of property, most specifically, the tax benefits given to federally-subsidized housing and the different method of taxing railroad and telephone and telegraph property.

1. Change classification of federally-subsidized housing -- We recommend that the state directly subsidize the owners of federally-subsidized housing for a portion of their property taxes and discontinue the present practice of granting a lower classification to such properties, which simply shifts the burden to other taxpayers in the localities where such property is located. The special classifications for the blind and paraplegic should be handled the same way.

2. Give localities a share of the gross earnings taxes paid by railroads and telephone and telegraph companies -- We support the Governor's recommendation to the 1975 Legislature that the state earmark a portion of gross earnings taxes paid by railroads and telephone and telegraph companies for local governments. This could be accomplished by distributing the funds through the present municipal aid formula.

3. Have state pay cost of any increase in homestead exemption -- We do not believe an increase in the homestead exemption classification above the present $12,000 level is desirable. It would unnecessarily, and probably unfairly disrupt the present distribution of property taxes between homestead and non-homestead properties and between different-valued homesteads. But if any such change is made, the state as a whole, not the other taxpayers in the localities where such property is located, should pay the cost.

D. Help reduce differences in property tax rates among localities by making non-discretionary rates as uniform as possible from locality to locality. Ease levy limits on city governments.

1. Phase out differences caused by non-discretionary teachers' pension levies -- We recommend that the Legislative Retirement Study Commission be charged with developing a specific proposal for discontinuing the special property tax levies for teachers' pensions which exist in Minneapolis and St. Paul but nowhere else in the state. Retention of the differential is inconsistent with the state's policy of equalizing tax rates for schools across the state. If necessary, the separate pension plans for these cities' teachers should be abolished and replaced by the statewide plan, which also would permit teachers to move between Minneapolis and St. Paul and other districts in the state and retain pension benefits. Actual pension benefits are largely comparable for teachers today, whether in Minneapolis, St. Paul or the statewide plan. The special tax levies in the central cities apparently are needed mainly because teachers under the statewide plan are covered by Social Security, while the central city teachers are not. The employer's contribution for Social Security is not based on funding future liabilities to the same extent as the contribution for the teachers pension plan. Thus the employer's contribution under the statewide plan is somewhat less. Another factor is that until a few years ago benefits under the statewide plan were much less than those in Minneapolis and St. Paul, meaning that retired teachers in the central cities have been receiving higher pensions for a longer period of time.

2. Eliminate differences caused by welfare levies -- We recommend full state funding of welfare payments, thereby ending the different mill rates from county to county for welfare, which vary only because of different numbers of persons on welfare.

3. Eliminate differences caused by health levies -- We recommend that the tax rate for the Hennepin County medical center be uniform throughout the county and that the present differential rate between Minneapolis and the rest of the county be discontinued.

4. Reduce differences caused by non-discretionary municipal pension levies -- We recommend that the state reduce differences in property tax rates which are attributable to differential pension levies by municipalities. Because of the complexity of this issue, involving a variety of plans and, for some employees, benefit levels, we recommend that the Legislature charge the Legislative Retirement Study Commission to develop specific recommendations on how a more equitable funding approach should be carried out. If necessary, all municipal employees in the state should be placed under the same pension plan.

5. Ease levy limits on city governments -- We recommend that city government levy limits be eased and, possibly, phased out, if accompanied by a change in the method by which city governments would be held accountable for levy increases. To improve accountability, city governments would be required to send separate billings -- for the city government portion of the tax bill only -- to all taxpayers. Perhaps a notice, with an estimated tax bill for the coming year, also could be mailed in advance to all taxpayers, announcing hearings on the upcoming year's levy proposal. This recommendation applies *only* to city governments, which levied 19.5% of all property taxes in the state in 1974. We do *not* recommend easing levy limits for other units of government, such as school districts and counties.

E. Ease the tax burden on lower-valued homes and renters through further improvements in homestead and renter credits. Develop other alternatives to provide assistance to lower-income households. In the meantime, set aside immediate action on proposals which would dramatically change the property tax as we know it today.

1. Reduce the property tax on lower valued homes -- We recommend that the Legislature adjust its present property tax credit provisions to reduce further the property tax on lower-valued homes. For example, a total exemption of the first $100 of property tax would bring the net tax as a percent of the market value of the property well below 1% for lower valued properties. We recommend comparable improvements in the renter credit, for example: a $55 increase in the maximum renter credit, above the current maximum of $120; a minimum renter credit of $100 per household, and an increase in the percentage of rent eligible for credit from 10% to 20%. (A $55 increase in the maximum renter credit would be equivalent to the dollar increase in the homestead credit which most homesteads below the maximum would receive with a total exemption of the first $100 of property tax). Another example would be to exempt a higher amount of the homestead tax, say, the first $200, while retaining the $325 maximum, and making the renter benefits identical, that is, a $200 credit for the first $200 of rent, and 45% of the balance to a maximum rent credit of $325.

   We do *not* advocate an increase in the maximum homestead credit above $325. But if the Legislature were to provide an increase, we recommend at least an accompanying dollar-for-dollar increase in the renter credit maximum.

2. Eliminate the debt exclusion from the homestead credit -- The beneficiaries of such a step would be the owners of lower-valued homes which have not yet reached the maximum credit.

3. Retain elderly-disabled credit but not absolute freeze -- We accept the present property-related income tax credits for the low-income elderly and disabled. But the additional absolute property tax freeze for the elderly, regardless of income, should be repealed. In its place the present income limit on the elderly credit, now at $6,000, should be raised.

4. Develop other alternatives to provide assistance to low-income households. In the meantime, set aside immediate action on proposals which would dramatically change the property tax as we know it today -- We recommend that the Legislature give high priority to state assistance to lower-income households, which are in urgent need of help. This is a question of income support, which was beyond the scope of this report, but we have been made aware of many possibilities which work within the context of the income tax and which do not necessarily involve complications with the property tax. Too much reliance on the property tax for lower-income housing assistance produces negative side effects without really making a significant contribution towards solving the problems of lower income households.

   While it may be that some form of income-adjusted property tax relief may be useful, we recommend the Legislature subject the 1.5%-of-income proposal to the broadest possible analysis. This should include a review of our findings and conclusions and their implications. Further, the Legislature should seek testimony on the nature of the particular problems facing low-income households, including all housing costs and other burdens. It should then devise the best solution from among the alternatives.

   These steps should be taken before the Legislature decides whether to adopt the 1.5%-of-income proposal, which would fundamentally change the nature of the property tax.

D I S C U S S I O N   O F   R E C O M M E N D A T I O N S

This section of the report anticipates some of the questions readers might have in looking over the recommendations.

1. What is the overall impact of the recommendations?

The recommendations carry out the central theme of this report, reduction of inequities among property taxpayers. Inequity in this context means that similarly-situated taxpayers are paying grossly unequal taxes for reasons outside local discretion. If inequities are to be corrected, some taxpayers will pay proportionately more and some, proportionately less.

We would redress inequities in many ways:

-- By correcting for differential assessment practices. This does not affect the total dollars of taxes paid. It affects the distribution of burden among taxpayers. Underassessment gives some taxpayers a partial tax-exemption, the cost of which is paid for by those taxpayers who are assessed at higher levels.

-- By not requiring localities to bear the burden, alone, of special state-imposed tax breaks. Currently, the burden of a special classification -- such as the lower classification given for federally-subsidized rental property -- falls exclusively on the other taxpayers in the taxing districts where such property is located, even though the benefit is mandated by state law. Under our proposal, the entire state would subsidize such benefits.

-- By reducing the differentials caused by non-discretionary levies. If a governmental body is required by law to levy a property tax at a certain level, its taxpayers ought not pay more than others if no additional benefit is received.

-- By channeling additional dollars into the state municipal aid formula. The needs of localities for governmental services will depend, to some extent, on circumstances beyond their control, such as their population makeup. The municipal aid formula is designed to reduce, partially, the differential property tax levies needed to provide different levels of services which result from factors largely outside local control.

-- By increasing homestead and renter credits primarily for occupants of lower-valued dwellings. Improvements in homestead credit benefits are needed for lower-valued homesteads, in order to make the net property tax progressive relative to the correct market value of the property for all values of property. Currently, the net property tax is proportional to value for lower-valued properties. An increase in the maximum homestead credit is *not* needed to reduce inequities. Such an increase would benefit primarily the owners of more expensive homes.

It is difficult to estimate what all of our recommendations would mean for a typical homestead. Correcting for differential assessment could mean an increase in taxes for a homestead which has been undervalued. But taxes would not necessarily change, and they could go down. It all depends on how other properties are valued in the same taxing district.

Following are two examples to illustrate how the recommendations might affect selected properties, under certain assumptions:

EXAMPLE A: A homestead with a correct market value of $17,000 and which is valued by the assessor at the same level. The homestead is somewhat overvalued in comparison with other properties in the community. But the community, as a whole, is closer to market value that a neighboring community located in the same school district. The cumulative mill rate is 120 mills, of which 110 mills are eligible for homestead credit.

Current net tax:		$353
a) make entire mill rate eligible for homestead credit	-$23	
b) modify homestead credit to 100% exemption of first $100 of tax, and 45% of balance, to maximum of $325	- 55	
c) remove welfare from property tax (reduction of 11 mills)	- 30	
d) reduce pension levy differences (impact is purely speculative; assume 5-mill reduction)	- 14	
e) impact of adjustment of levies for overlapping taxing districts (impact is purely speculative; assume 5-mill reduction)	- 14	
f) impact of reassessment within community (impact is purely speculative; assume 5-mill reduction)	- 14	
Total change:	-150	
Net tax after changes:		$203

EXAMPLE B: A homestead with a correct market value of $34,000 and which now is valued by the assessor at $25,500. The community as a whole is undervalued, but this property is more undervalued than others. The community is undervalued relative to another community located in the same school district. The cumulative mill rate is 120 mills, of which 110 mills are eligible for homestead credit.

Current net tax:		$683
a) impact of reassessment (property brought up to market value; mill rate drops to 100 mills)	+$172	
b) make entire mill rate eligible for homestead credit	0	
c) modify homestead credit to 100% exemption of first $100 of tax, and 45% of balance, to maximum of $325	0	
d) remove welfare from property tax (reduction of 11 mills)	- 130	
e) reduce pension levy differences (impact is purely speculative; assume 5-mill reduction)	- 59	
f) impact of adjustment of levies for overlapping taxing districts (impact is purely speculative; assume 5-mill increase)	+ 59	
Total change:	+ 42	
Net tax after changes:		$725

It should be noted that the higher-priced property in Example B is unaffected by the modifications in the homestead credit, because that property already is at the $325 maximum. But the higher-priced property in Example B is much more affected by the reduction in mill rate for welfare and pensions than the lower-priced property in Example A. The reason again is attributable to the homestead credit. Since the higher priced property already is at the maximum level of credit, it feels the full impact of a change in the mill rate. The lower-priced property in Example A feels only 55% of the impact of the mill rate change, because the state is paying the other 45%.

2. *What about a gradual phase-out of the 5% limit on valuation increases rather than an immediate repeal?*

We cannot justify any delay. Delay simply continues the advantage which some taxpayers enjoy at the expense of others.

Moreover, we do not anticipate major shifts in tax burden for large segments of the population because of repeal of the 5% limit. It is true that most properties are under-valued, meaning that they will increase in value. But their relative position compared to other properties will not change appreciably. Only those properties which have been significantly over-valued or under-valued relative to others will experience major shifts.

Widespread taxpayer misunderstanding persists over the impact of changing valuations. Higher valuations do not produce higher taxes, nor do lower valuations produce lower taxes. Taxes increase or decrease depending upon how many dollars the various units of local government raise from the property tax. Valuations only determine the proportionate share each taxpayer will assume. If everyone's valuation changed in exactly the same way, say 10% up or down, and if governmental levies did not change, taxes would not change either. The mill rate would either go down or up to offset an increase or decrease in valuations.

For taxes payable in 1973, valuations in Minnesota were more than *three times* what they had been in the previous year. (This was due to a change in state law which abolished a long-standing practice of trimming valuations across the board to one-third of their estimated market value.) Yet people's taxes didn't triple. As a matter of act, actual tax levies increased 3% in 1973 over 1972. In this case mill rates were one-third of what they had been in the previous year.

3. *Would assessors be state employees?*

No. Our recommendations would not change the present practice of assessors being hired locally.

Our recommendations are designed to insulate the professionally-qualified assessor from outside pressure, once hired. After a period of probation, every certified assessor could be removed only for cause or with the approval of the Commissioner of Revenue. But the assessor would continue to be employed and paid by his local unit of government.

Insofar as the issue of qualifications of assessors is concerned, it should be noted that, under present law, effective July 1, 1975, all assessors must be certified by the State Board of Assessors.

4. *Why ease levy limits?*

First it is important that our recommendation be placed in perspective. Our recommendation for easing levy limits applies only to city governments, which in 1974 levied about 19.5% of all property taxes in the state. Our recommendation does not extend to school districts, counties or special purpose districts.

The state already exempts some city governments from the levy limits: those under 500 population. Moreover, no less than 16 specific exceptions are allowed those city governments which are subject to the levy limits.

City governments are general-purpose units, with broad discretion to provide services as deemed necessary for their residents. They differ in this regard from school districts, counties and special purpose districts which historically have carried out functions as specifically authorized or instructed by state law.

We believe that a directly-elected city council, charged with balancing the demands for services with the need to hold down taxes, will be as responsible and responsive to voters in the use of the property tax as is the State Legislature. City Councils do not all have the same needs. A uniform, legislatively-imposed limit will be too generous for some and not enough for others.

We would not favor easing levy limits, however, if accountability for tax increases were not spotlighted directly on the City Council. That is why we recommend that the change be accompanied by a requirement for a separate billing from the city government to the taxpayer, showing the exact amount of the increase attributable to the city. It is not enough that the increase be noted as part of the composite property tax bill now received from the county on behalf of all taxing units. If city governments are to be free to levy taxes, then they must be held accountable for their actions.

Why, then, not extend this concept to other units of government, provided they, too, send out separate bills? We believe the Legislature must move very carefully in the levy limit area. How many different kinds of local government can the citizenry effectively hold accountable for property tax decisions? Certainly not the multitude of overlapping jurisdictions which exist today. We picked city governments because of their general-purpose nature and because they, more than any other units at the local level, are regarded as "local government".

5. *What is the urgency of intensive review of major proposed changes in the state's tax system.*

We are urging that the State Legislature not take action on fundamental changes in the state's property tax system until proposals have been subject to the widest possible review and analysis in advance. Specifically, this applies to the 1.5%-of-income tax relief in 1975.

The Citizens League in 1972 report on state-local fiscal planning called for a vastly improved "radar" system to help the state's policy makers learn where present decisions are leading. Such a system must seek to identify unintended side-effects, the League said.

The challenge now lies with the State Legislature to analyze the long-term consequences of a major new proposal to change the way the state grants property tax relief. Not that the imposition of the current homestead credit in 1967 was preceded by any detailed analysis of its consequences or side-effects. On the contrary, the rapid rise in property taxes and in state payments for credits in the years immediately following were largely unanticipated at the time.

The income-adjusted property tax proposal would reduce greatly the egressivity of the property tax for low-income households. But, as noted on pages 28 and 29, it would do much more, too.

The Advisory Commission on Intergovernmental Relations, Washington, D. C., has assembled detailed reports on a variety of approaches across the nation for what it calls "circuit-breakers", which hold down the tax burden above a certain percentage of income.

Our analysis of the proposal before the 1975 Minnesota Legislature indicates that for a significant segment of the population property taxes would relate mainly -- if not exclusively -- to household income, not to the level of spending by local government. We cannot imagine that a Legislature would find it possible to adopt the 1.5% of income proposal without imposing even tighter limits on local levying authority. It might find it necessary to impose restrictions on local bond issue elections because many residents would soon learn they could vote for new schools or city halls and not have to pay a direct share of the bill.

These sorts of side effects are not common to all "circuit-breakers". The Advisory Commission on Intergovernmental Relations' most recent report, "Property Tax Circuit Breakers: Current Status and Policy Issues", discusses a number of approaches, many of which are exclusively earmarked for low-income persons. The report draws specific attention to a new tax relief plan in New Mexico "that is potentially even more effective than circuit-breakers in relieving tax overloads." The New Mexico plan, while small in dollars, gives a low income tax credit that varies according to size of household and is based on all state and local taxes, not just property taxes.

B A C K G R O U N D

I. How Minnesota property taxes are determined.

Stated simply, each year the owner pays a percentage of the value of his property in tax.

1. Let's take a piece of property. It has a certain value on the open market if it were offered for sale. Naturally, it is not possible to know exactly what that value would be in advance of the sale.

   However, it is necessary, in determining the property tax, for an official value to be placed on the property. That job rests with a public official known as the tax assessor. The tax assessor's judgement is subject to review and change by other officials in a tax equalization process.

2. The entire market value of property, as determined by the assessor, is not subject to taxation. Only a portion of market value is taxed. That portion is known as taxable value or assessed value.

3. Once the assessor has done his job of estimating market value of property, he follows a series of administrative steps prescribed in state law in arriving at taxable value. Without getting too complex at this moment, let's briefly summarize these administrative steps:

   -- First, in compliance with a new law passed in 1973, the assessor may not increase the estimated market value of residential, including seasonal, and farm property above the most recent year's figure by more than 5%. (It should be clarified that in this process the assessor is setting a new value between market value and taxable value, which is called limited market value. He still is required to estimate market value as well, but that figure is not used for purposes of arriving at taxable value.)

   -- Second, the assessor places the property into its appropriate legal class based on use. A series of legal classes are prescribed by state law. With respect to owner-occupied, residential property, the law provides that taxable value shall be 25% of the first $12,000 of limited market value and 40% of the balance. (See section II for a more detailed explanation of the classification system.)

   Let's summarize these two steps with an example. Assume the assessor estimates a homestead has a market value of $30,000. However, looking at last year's value, he sees that he had placed a market value of only $25,000 on the property. Therefore, in this year, he may only increase that by 5%, or $1,250. Thus the limited market value of the property is $26,250. Since the property is owner-occupied, he takes 25% of the first $12,000 and 40% of the balance, with the following result: $3,000 + $5,700 = $8,700.

If the property were renter-occupied, the assessor would have to take 40% of the total. The reduced percentage for owner-occupied property, 25% of the first $12,000, is known as the homestead exemption.

4. The above steps are followed for all property which the constitution or the Legislature determines shall be subject to taxation. Within a municipality, then, the assessor adds together the taxable value of all such property to arrive at the taxable value for the entire municipality. He follows the same process in arriving at taxable value for all units of government, counties, school districts and special districts, too.

5. So far, nothing has happened with respect to taxation. All these steps relate to determining the value of property which shall be subject to the property tax. We now move on to the next steps, which will involve the calculation of the tax rate, that is, the percentage of taxable value which will be paid as property tax.

6. Let's start with the municipality. The city council each year determines it budgetary needs and estimates revenues from various sources, property and non-property, to meet the budget. Within limits as prescribed by state law, the city council arrives at a decision on the number of dollars to be raised from the property tax. This is known at the tax levy. (Please be patient for the time being. No doubt you are somewhat aware of mill rates. We'll get to that step soon. It is important, however, for you to understand that the tax levy as determined by the city council is expressed in dollars to be raised from the property tax.)

7. The city council then informs the appropriate county officials (called county auditors) that its tax levy is so many dollars. It's the auditor's job, then, the carry out the mechanics of determining the property tax to be paid by the owners of the taxable property within the city. He does this by calculating the percentage which the city council tax levy bears to the total value of taxable property. Let's say that he calculates such a percentage to be 4%. Thus each owner of taxable property within the city will be billed 4% of the taxable value of his property for his share of city taxes.

8. What, then, are mill rates? Nothing more than another way of expressing such percentages. 4% is 40 mills. 1% is one-hundredth; one mill is one-thousandth. So if you see that your city tax rate is, for example, 23 mills, you can say to yourself, that's 2.3%.

9. Steps 6, 7, and 8, of course, are followed in the same manner with respect to other levels of government, county boards, school boards, and boards of special districts. Thus, for any given piece of property, a number of different percentages of value will be piled on top of each other, so to speak, to arrive at the composite percentage of value which will be taken in taxes by the various governmental bodies. In the metropolitan area today a composite percentage of about 10%, 100 mills, is not uncommon.

10. For some owners of taxable property, the percentage as arrived at in the above steps becomes the tax rate against their property. If, for example, a property has a taxable value of $15,000, and the composite percentage is 10%, or 100 mills, the tax bill is $1,500 on that property.

11. For owner-occupied dwellings, however, the process is different. The state pays part of the homeowner's bill. Let's return briefly to the example we used in step 3, in which the taxable value was calculated at $8,700 for a certain owner-occupied house. If the composite percentage is 10% or 100 mills, you'd expect the tax to be $870. But the state pays part of the bill, so the owner actually pays less. The formula is basically that the state will pay 45% of the homeowner's bill to a maximum of $325. In this case, then, the homeowner's bill is $870 minus $325 or $545. This provision is known as the homestead credit. (Technically, a small portion of the homeowner's tax bill - that portion used to pay for bonded debt of cities, counties and special districts - is not eligible for the 45% credit.)

II. The property tax classification system.

The law requires the assessor to place property in a certain legal classification based on what it is used for. If you own your own home in the city, you're placed in one class; if you own your own home on a farm, in another class; if you own an apartment, another class, and so forth.

These different classes are extremely important from the standpoint of the size of the tax bill. Only a percentage of the market value of property is subject to taxation. That percentage varies depending upon the use of the property. The higher your percentage, the higher you tax, as a general rule, for example, a grocery store, the percentage is 43%; an apartment, 40%, and so forth.

The Department of Revenue has provided us with a relatively complex list of different classifications of property and the percentages applied to each. Rather than simply reproduce that list, we thought we'd try to make the implications of the differences a little easier to understand.

Let's assume we're talking about property with a market value of $100,000, with a tax rate of about 100 mills. The chart on the following page shows the various classifications of property and the percentage of each which is subject to tax. (The iron ore classifications are excluded.) Then we also have estimated the property taxes for each. Where applicable we also have taken into account the 45% homestead credit, to a maximum of $325. (We assumed 4 of the 100 mills would not be eligible for homestead credit coverage.) We also gave agricultural property the 8 1/3 mill reduction as required by the school aid law.

With respect to comparison of different properties, we felt that it would be better to identify $100,000 worth of urban residential property as four houses worth $25,000 each.

	Estimated property tax on $100,000 worth of assessor's market value
Commercial, industrial, public utilities, vacant urban land (43%)	$4,300
4 rental residential dwellings, each with an assessor's value of $25,000 or an apartment (40%)[1]	4,000
Oil refineries (33 1/3)[2]	3,333
Agricultural non-homestead (33 1/3)	3,056
Parking ramps, St. Paul (30%)[3]	3,000
Agricultural homestead (20% of the first $12,000 of value and 33 1/3% of the balance)	2,684
Agricultural paraplegic veterans' and blind homestead (5% of the first $24,000 and 33 1/3% of the balance)	2,107
Certain state and federally-assisted rental housing elderly or low and moderate income families located in cities over 10,000 pop. (20%)	2,000
4 urban homesteads, each with an assessor's value of $25,000 (25% of the first $12,000 of value and 40% of the balance.	1,980
Timber land (20%)	1,833
Certain state and federally-assisted rental housing for elderly or low and moderate income families located in cities under 10,000 pop. (5%)	500
4 urban paraplegic veterans' and blind homesteads each with an assessor's value of $25,000 (5% of the first $24,000 and 40% of the balance)	360

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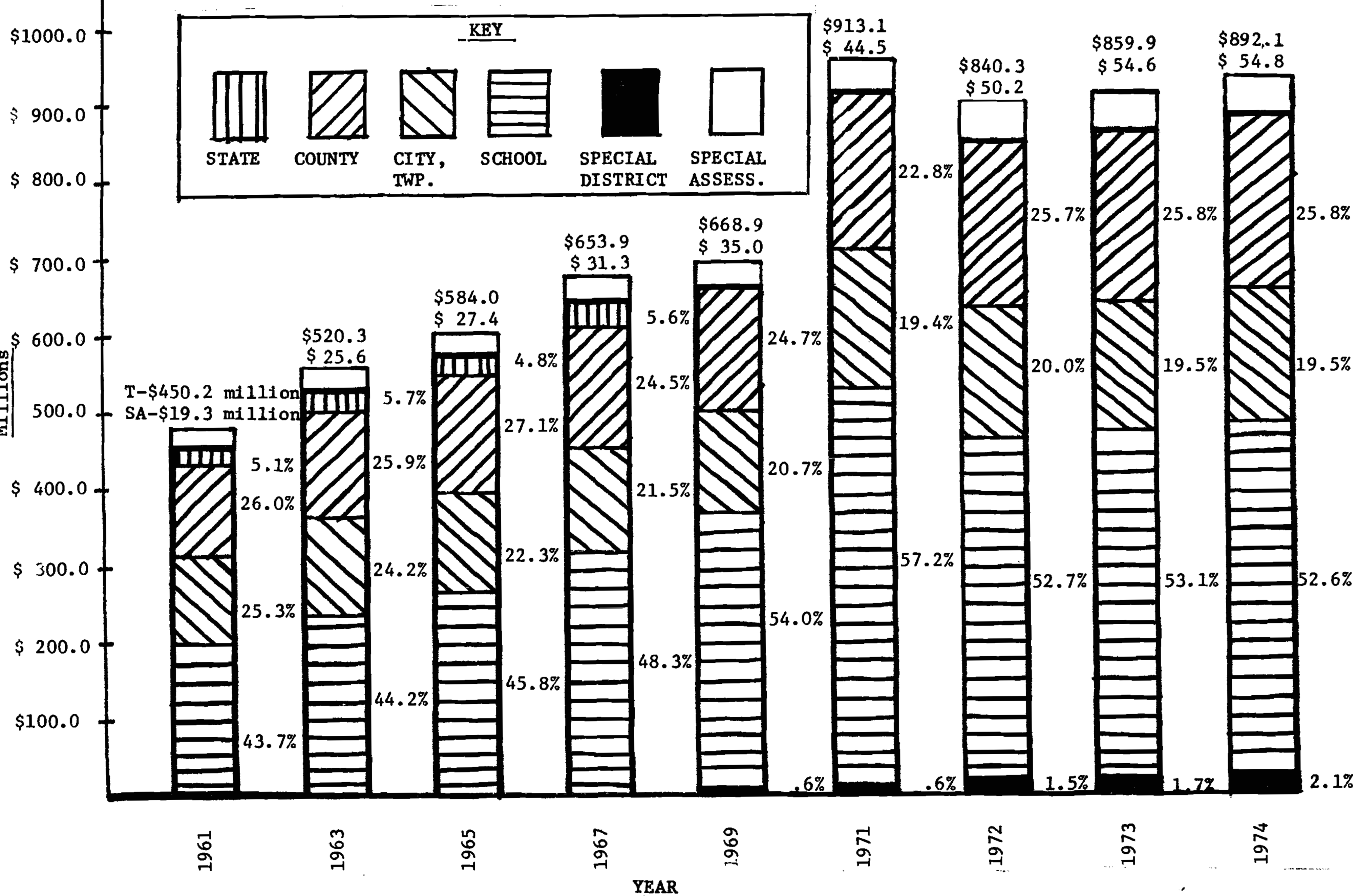
[1] Effective with taxes payable in 1976 this percentage drops to 25% for fireproof apartments with 5 or more stories, to 33 1/3% for other fireproof apartments, and remains at 40% for all other rental residential property.

[2] By 1978 this percentage is scheduled to increase to 43%

[3] By 1978 this percentage is scheduled to increase to 43%

TRENDS IN NET PROPERTY TAXES COLLECTIBLE BY GOVERNMENTAL SUBDIVISION*



* exclusive of homestead credit

SOURCE: Property Taxes Levied in Minnesota. Dept. of Revenue, 1974

STATEWIDE DISTRIBUTION OF VALUATION AND TAX BURDEN BY DIFFERENT USES OF PROPERTY, 1974

	Correct Market Value [1]	Estimated Market Value [2]	Assessed Value [3]	Gross Tax Payable [4]	Net Tax Payable [5]
Residential	47.5%	48.2%	44.6%	47.6%	39.1%
Apartments	4.5	4.9	5.6	6.2	7.5
Commercial	12.0	12.1	15.0	16.4	19.9
Industrial	4.6	4.9	6.1	6.7	8.1
Farm	22.0	20.0	17.7	12.6	12.6
Public Utilities	3.0	3.7	3.8	3.5	4.2
Seasonal-Recreational	2.2	1.9	1.8	1.4	1.8
Vacant Land	1.2	1.1	1.4	1.4	1.7
Personal	2.8	2.8	3.4	3.5	4.3
Other	.2	.4	.6	.7	.8

[1] Calculated by the Citizens League using statewide sales ratio information provided by the Minnesota Department of Revenue and applying the ratios to estimated market value

[2] As reported by assessing officials and adopted as official market value for tax purposes. Source: Minnesota Department of Revenue

[3] The valuation arrived at after applying the various percentages in the classification process. The impact of the classification system on distribution of burdens can be seen by comparing columns 2 and 3. Source: Minnesota Department of Revenue

[4] The percentages in this column differ from those in column 3 because of the 8 1/3 mill reduction in school taxes on agricultural property. Source: Minnesota Department of Revenue.

[5] The percentages in this column differ from those in column 4 because of the 45% homestead credit, in which the state pays a portion of homestead taxes before the bills are sent to the homeowners. Source: Minnesota Department of Revenue.

DISTRIBUTION OF NET HOMESTEAD PROPERTY TAXES PAID IN 1974

Percentage of homesteads in each category

Amount of Net Property Tax[1]	statewide	outstate[2]	sub H metro, non-central city[3] sub K	Minneapolis	sub S St. Paul
-237 less than $135	22.9%	55.7 38.2%	2.8 3.8% 4.3	7.9 1.2%	18.3 4.1% 13.6
$135-$237	17.4	23.1	6.9	11.4	22.9
$237-$338	16.7	15.7	14.4	23.4	26.0
237-440 $338-$440	15.6	25.9 10.9	14.6 20.8 22.2	40.6 25.4	43.8 20.8 25.2
over $440	27.4	12.1 18.4	82.6 54.1 73.5	51.5 38.6	37.9 26.2 61.3

1 These figures were based on the report "Property Taxes Levied in Minnesota", Taxes Payable 1974, published by the Minnesota Department of Revenue. The report includes a table which shows the number of homesteads receiving homestead credits in five categories: under $100 of credit; $100-$175; $175-$250; $250-$325, and number at the maximum. If a homestead received under $100 of homestead credit in 1974, then its net property tax can be calculated to be less than $135. The homestead credit formula is 45% of the gross tax, with a $325 maximum, except that the portion of taxes for municipal, county and special district debt is ineligible for the homestead credit. The Department of Revenue advised that the "effective" homestead credit rate is about 42.5%, because of the debt exemption. The amount of net property tax in each category of dollars of homestead credit was calculated using this percentage.

2 Includes all of Minnesota except Anoka, Carver, Dakota, Hennepin, Ramsey, Scott and Washington Counties.

3 Includes all of Anoka, Carver, Dakota, Hennepin, Ramsey, Scott and Washington Counties except Minneapolis and Paul

APPROXIMATE DISTRIBUTION OF NON-FARM NON-ELDERLY HOMESTEAD PROPERTY TAX AS A % OF HOUSEHOLD INCOME

A 2% sample in the 1970 Census was asked to report both income and house value. Most of the data is unpublished, but the Minnesota Tax Study Commission obtained a special computer run of this data from the Minnesota Analysis and Planning System. It then escalated the income and house values, as reported, to 1973 levels, using cost-of-living adjustments.

The Tax Study Commission data is the only information available on the approximate income-house value relationship in the state. The data is broken down for five areas.

S -- the entire state

C -- central cities in metropolitan areas (Minneapolis, St. Paul, Rochester, Moorhead and Duluth)

R -- non-farm rural areas (cities under 2,500 population)

U -- non-metropolitan urban areas (cities over 2,500 population in non-metropolitan counties

M -- the metropolitan areas, except for the portion of the metropolitan areas within the central cities

Assuming a statewide mill rate of 100 mills and full-value assessment, the Citizens League has estimated the following distribution of the income-homestead tax relationship:

	S	C	R	U	M
Homesteads paying less than 1.5% of income in property tax	20.4%	17.4%	35.9%	26.7%	9.3%
Homesteads paying between 1.5% and 3% of income in property tax	36.4	45.1	33.4	44.3	29.0
Homesteads paying more than 3% of income in property tax	43.4	37.2	30.7	31.2	53.1
Homesteads where sum of income and house value is less than $35,000 and which pay more than 3% of income in property tax	8.4	12.2	11.6	11.2	5.1

The Citizens League also estimated what the distribution would be under the Governor's income-adjusted property tax proposal as presented to the 1975 Minnesota Legislature:

	S	C	R	U	M
Homesteads would pay less than 1.5% of income in property tax	4.7%	3.0%	13.5%	5.5%	1.4%
Homesteads would pay exactly 1.5% of income in property tax	46.0	44.5	56.3	60.6	25.4
Homesteads would pay between 1.5% and 3% of income in property tax	24.3	34.6	15.0	21.3	36.1
Homesteads would pay more than 3% of income in property tax	24.7	17.5	15.5	12.5	37.2
Homesteads where sum of income and house value is less than $35,000 and which would pay more than 3% of income in property tax	3.9	3.5	3.0	2.3	2.3

ESTIMATED NET PROPERTY TAXES AS PERCENTAGE OF INCOME

Income[1]	Median House value	Current Law[2] State-wide average mill rate	Current Law[2] Mpls. mill rate	1.5% of Income;[3] $325 maximum State-wide average mill rate	1.5% of Income;[3] $325 maximum Mpls. mill rate	1.5% of Income;[4] $425 maximum State-wide average mill rate	1.5% of Income;[4] $425 maximum Mpls. mill rate
$3,300	$17,500	8.9%	11.3%	5.8%	9.3%	2.8%	6.2%
5,640	15,700	4.5	5.7	2.1	3.9	1.5	2.1
8,250	16,300	3.2	4.1	1.7	3.0	1.5	1.8
11,000	18,600	2.9	3.7	2.1	3.3	1.5	2.4
14,400	21,800	2.7	3.6	2.5	3.6	1.8	2.9
19,250	24,700	2.5	3.4	2.5	3.4	2.0	2.9
26,120	29,200	2.5	3.3	2.5	3.3	2.1	3.0
35,750	33,700	2.3	3.1	2.3	3.1	2.1	2.8
55,000	37,800	1.8	2.3	1.8	2.3	1.6	2.2

[1]For each income level, the median house value as calculated by the Minnesota Tax Study Commission from U. S. Census data is provided

[2]These figures are based on a 1974 average statewide mill rate of 99.15; and for Minneapolis, 121.3 mills

[3]These figures assume a change to the 1.5%-of-income proposal, holding the maximum credit at $325.

[4]These figures assume a change to the 1.5%-of-income proposal, and increasing the maximum credit to $425.

ESTIMATED TAXES ON $25,000 HOMESTEAD, 1974 & 1973 COMMUNITIES OVER 2,500 POPULATION IN METRO AREA

(using sales ratios to correct for differences in assessment practices)

How 1974 Homestead, Rental Residential and Commercial-Industrial Taxes Compare (assuming $25,000 market value in each case and uniform 100% sales ratio)

Community and School District Number	1974 Est. Tax	Rank High(1) to Low(78)	$ Decrease in 1974 from 1973	% Decrease in 1974 from 1973	Sales Ratio	1974 Total Mill Rate	1973 Total Mill Rate	Homestead	Rental Res.	Com. Ind.
Anoka (11)	$423	24	$123	22.5%	91.9%	99.75	99.80	$493	$998	$1073
Apple Valley (196)	341	66	115	25.2	81.6	94.31	95.30	448	943	1014
Arden Hills (621)	400	40	54	11.9	81.1	110.36	101.15	580	1104	1187
Bayport (834)	396	44	56	12.4	86.3	104.96	92.26	536	1050	1129
Blaine (16)	391	47	124	24.1	93.7	92.94	94.05	437	929	999
Bloomington (271)	420	27	78	15.7	88.8	102.49	96.77	515	1025	1102
Brooklyn Center (286)	451	13	83	15.5	92.2	104.56	100.16	532	1046	1125
Brooklyn Park (279)	420	26	94	18.3	89.7	102.57	97.16	516	1026	1103
Burnsville (191)	333	68	106	24.1	78.9	94.63	99.64	451	946	1017
Champlin (11)	417	28	103	19.8	94.0	96.06	92.27	463	961	1033
Chanhassen (112)	448	15	77	14.7	86.6	112.72	105.11	599	1127	1212
Chaska (112)	471	8	81	14.7	85.9	117.28	112.84	637	1173	1261
Circle Pines (12)	688	1	+53	+ 8.3	92.6	135.80	113.91	789	1358	1460
Columbia Heights (13)	405	36	83	17.0	93.7	94.94	91.95	454	949	1020
Coon Rapids (11)	401	39	122	23.3	94.6	93.12	92.36	439	931	1001
Cottage Grove (833)	324	71	68	17.3	82.5	89.07	82.80	412	891	958
Crystal (281)	406	34	57	12.3	93.7	94.19	84.60	447	942	1013
Dayton (11)	349	62	104	23.0	88.4	87.81	86.18	407	878	944
Deephaven (276)	451	14	81	15.2	92.7	103.85	100.65	527	1039	1117
Eagan (197)	352	60	122	25.7	87.3	89.18	91.08	416	892	959
East Bethel (15)	364	52	103	22.1	88.2	93.96	91.11	445	940	1011
Eden Prairie (272)	406	33	32	7.3	94.9	91.57	78.72	433	916	985
Edina (273)	363	53	65	15.2	95.0	83.23	80.82	387	832	894
Excelsior (276)	454	12	65	12.5	92.7	104.35	98.51	531	1044	1122
Falcon Heights (623)	384	48	55	12.5	80.9	108.00	98.98	561	1080	1161
Farmington (192)	413	32	39	8.6	80.5	112.75	92.75	600	1128	1213
Forest Lake (831)	476	7	109	18.6	83.7	117.80	116.72	641	1178	1266
Forest Lake Twp. (831)	332	69	95	22.2	81.0	93.60	90.44	443	936	1006
Fridley (14)	375	50	99	20.9	92.0	91.15	88.99	422	912	980
Golden Valley (275)	439	17	130	22.8	92.1	102.83	107.12	518	1028	1105
Grow Twp. (11)	332	70	105	24.2	91.9	81.37	79.45	368	814	875
Ham Lake (11)	343	65	100	22.6	89.3	87.14	83.98	394	871	936
Hastings (200)	319	73	92	22.4	77.3	95.46	96.73	458	955	1027
Hopkins (274)	510	4	41	7.4	95.6	107.62	102.01	557	1076	1157
Inver Grove Hts. (199)	273	78	119	30.4	78.0	80.89	83.64	373	809	870
Lake Elmo (834)	350	61	38	9.8	77.5	103.98	94.78	528	1040	1118
Lakeville (194)	421	25	64	13.2	89.4	104.23	91.35	530	1042	1120
Lino Lakes (12)	535	3	6	1.1	84.7	128.90	108.30	732	1289	1386
Little Canada (623)	363	54	59	14.0	79.2	105.07	97.07	537	1051	1130
Mahtomedi (832)	396	45	146	26.9	77.2	116.79	124.75	633	1168	1256
Maple Grove (279)	429	19	92	17.7	91.2	101.63	96.54	508	1016	1092
Maplewood (622)	398	42	66	14.2	78.6	115.97	107.16	626	1160	1247
Mendota Heights (197)	313	74	101	24.4	77.3	93.19	95.42	439	932	1002
Minneapolis (1)	565	2	5	.9	91.4	121.27	111.04	669	1213	1304
Minnetonka (276)	491	6	60	10.9	94.7	106.37	101.67	547	1064	1144
Minnetrista (277)	427	20	112	20.4	86.6	109.24	108.23	571	1092	1174
Mound (277)	502	5	85	14.5	95.2	107.09	105.25	553	1071	1151
Mounds View (621)	$414	31	$48	10.4	79.8	116.02	104.62	$626	$1160	$1247
New Brighton (621)	380	49	58	13.2	77.6	112.40	103.41	597	1124	1208
New Hope (281)	414	30	55	11.7	95.6	92.81	83.08	438	928	998
Newport (833)	358	57	110	23.5	85.1	90.13	92.53	437	901	969
North St. Paul (622)	391	46	56	12.5	77.8	115.54	105.01	622	1155	1242
Oakdale (622)	459	10	77	14.4	84.2	118.44	112.35	646	1184	1273
Orono (278)	396	43	101	20.3	86.6	102.75	104.44	518	1027	1101
Osseo (279)	402	38	103	20.4	89.4	97.07	94.50	471	971	1044
Plymouth (284)	354	58	104	22.7	92.0	84.10	87.57	393	841	904
Ramsey Twp. (11)	304	76	93	23.4	85.3	81.81	79.09	370	818	879
Richfield (280)	425	22	78	15.5	93.7	99.08	96.96	487	991	1065
Robbinsdale (281)	415	29	55	11.7	92.9	98.51	87.90	483	985	1059
Rosemount (196)	302	77	125	29.3	79.6	87.42	90.34	402	874	940
Roseville (623)	406	35	57	12.3	81.6	110.47	101.90	581	1105	1188
St. Anthony (282)	403	37	55	12.0	91.0	97.43	89.70	474	974	1047
St. Louis Park (283)	440	16	79	15.2	90.0	104.10	102.00	529	1041	1119
St. Paul (625)	468	9	14	2.9	78.5	127.33	111.32	719	1273	1368
St. Paul Park (833)	360	56	71	16.5	83.2	89.93	86.45	453	899	966
Savage (191)	338	67	105	23.7	75.9	102.50	107.16	515	1025	1102
Shakopee (720)	307	75	77	20.1	70.7	103.64	102.71	525	1036	1114
Shoreview (621)	372	51	56	13.1	76.4	113.30	103.99	604	1133	1218
Shorewood (276)	436	18	73	14.3	92.4	102.26	97.63	514	1023	1100
South St. Paul (6)	457	11	60	11.6	78.3	128.73	127.17	731	1287	1384
Spring Lake Park (16)	347	63	116	25.1	87.7	89.62	91.11	410	896	963
Stillwater (834)	426	21	72	14.5	81.0	119.17	113.46	652	1192	1281
Vadnais Heights (624)	423	23	82	16.2	70.3	135.15	128.51	783	1352	1453
Wayzata (284)	354	59	106	23.0	92.1	83.68	87.84	391	837	900
West St. Paul (197)	362	55	101	21.8	79.9	101.03	104.13	503	1010	1086
White Bear Lake (624)	398	41	73	15.5	70.2	133.30	124.57	768	1333	1433
White Bear Twp. (624)	344	64	74	17.7	70.6	117.60	110.15	639	1176	1264
Woodbury (833)	323	72	58	15.2	81.2	88.28	81.42	419	883	949

WHAT YOUR PROPERTY TAX DOES

SERVES AS "ANCHOR" FOR LOCAL GOVERNMENT

Seen as essential by some to preserve local government

RAISES REVENUE

1. Major source of income for local governments
2. Largest single state-local tax source

Serves as a developmental tool

1. Impacts on local land use decisions
2. Revenues used to finance some redevelopment
3. Lower taxes used as inducement for certain developments

YOUR PROPERTY TAX

Finances Services to property (user tax)

1. Traditional function (streets, fire)
2. Special assessments (not a tax, but property-related)

TAXES "WEALTH"

Taxes wealth not otherwise taxed

IMPLEMENTS SOCIAL POLICY

1. Encourages agriculture
2. Encourages home-ownership

HOW YOUR PROPERTY TAX IS DETERMINED

GOVERNMENTAL UNIT

(city council, school board, county board, special district)

Determines extent of general property tax and special assessments

Determines size of dollar property tax levies

Determines type of property tax levy (debt, non-debt)

YOU

Decide whether to rent or buy, which affects the property tax.

Decide how much to spend on housing, which affects the value of your property, and, thereby, your property tax.

Decide where to live, which determines what governmental units will be taxing your property in what amounts.

COMMUNITY

1. Impacts on your property's value because of condition of other properties in community
2. Affects size of the total tax base
3. Affects distribution of the tax base
   - between residential and non-residential
   - between farm and non-farm

YOUR PROPERTY TAX

STATE LEGISLATURE

1. Determines overall magnitude of property tax relative to other revenue sources
2. Establishes "market value" basis for property tax (willing buyer/willing seller) (5% limit)
   Classifies property by:
   - nature of use (residential, business, etc.)
   - occupation of owner (farm, non-farm)
   - nature of occupancy (homestead, non-homestead)
   - Type of construction (hi-rise, all other)
   - Age and income of owner/occupants

ASSESSOR

Establishes market value of property as agent of state, and thereby, determines distribution of property tax burden:

- On properties in different cities but within the same school district, county or other taxing district
- On properties of different use within the same city
- On properties of the same use but of varying values within the same city
- On properties of the same use and same values within the same city

BREAKDOWN OF CUMULATIVE MILL RATE, SELECTED TWIN CITIES AREA MUNICIPALITIES

1974 Mill Rates

Community and School District	Total Rate	Municipal Rate	County Rate	School Rate	Spec. Dist. Rate
Blaine - 16	92.94 mills	15.33 mills	20.49 mills	54.44 mills	2.68 mills
Bloomington -271	102.49	13.41	25.67	56.70	6.71
Brooklyn Center - 286	104.56	15.71	25.67	56.81	6.37
Brooklyn Park - 279	102.57	15.89	25.67	54.64	6.37
Columbia Heights - 13	94.94	20.10	18.49	53.49	2.88
Coon Rapids - 11	93.12	15.26	20.49	54.85	2.52
Crystal - 281	94.19	11.85	25.67	50.30	6.37
Edina - 273	83.23	6.29	25.67	44.75	6.52
Fridley - 14	91.15	12.94	20.49	55.04	2.68
Golden Valley - 275	102.83	13.18	25.67	60.69	3.29
Maplewood - 275	115.97	13.03	30.05	67.67	5.22
Minneapolis - 1	121.27	40.57	27.16	50.20	3.36
Minnetonka - 276	106.37	15.38	25.67	58.88	6.44
New Hope - 281	92.81	10.47	25.67	50.30	6.37
Richfield - 280	102.15	15.18	25.67	54.93	6.37
Roseville - 623	110.47	11.83	30.05	63.37	5.22
St. Louis Park - 283	104.10	15.82	25.67	56.16	6.45
St. Paul - 625	127.33	38.43	28.05	55.98	4.87
South St. Paul - 6	128.73	26.64	17.80	79.39	2.90
White Bear Lake - 624	133.30	16.31	30.05	81.72	5.22

TAX-EXEMPT PROPERTY

This data has been taken from reports recently filed with the Minnesota Department of Revenue by county assessors, who are required to submit tax-exempt reports every six years.

1. Total estimated market value, metropolitan area, tax-exempt property: $4.4 billion. Statewide: $8.9 billion.

2. Percentage distribution, metropolitan area counties:

Anoka:	6.52%	Minneapolis only:	27.87%
Carver:	1.29	St. Paul only:	16.90
Dakota:	7.86		
Hennepin:	52.05		
Ramsey:	28.13		
Scott:	1.00		
Washington:	3.16		
TOTAL:	100.0 %		

3. Percentage distribution, by type of property, metropolitan area:

A. Elementary-secondary schools:		24.50%
public bldgs. and improvements:	24.54%	
Public land:	2.51	
non-public bldgs., non-res.:	2.10	
non-public bldgs., res.:	.05	
non-public land:	.30	
B. Academies, colleges, universities:		8.97
public bldgs., non-res.:	4.72	
public bldgs., res.:	.03	
public land:	1.20	
non-public bldgs., non-res.:	2.51	
non-public bldgs., res.:	.05	
non-public land:	.46	
C. Public burying grounds:		1.35
buildings and improvements:	.24	
land:	1.11	
D. Church property		12.48%
sanctuaries and educational:	8.86	
head parsonage:	.64	
other residences:	.25	
service enterprises:	1.11	
land:	1.62	

E. <u>Hospitals:</u>		7.25
public bldgs., non-res:	2.92	
public bldgs., res.:	.05	
public land:	.23	
non-public bldgs., non-res.:	3.71	
non-public bldgs., res.:	.01	
non-public land:	.33	
F. <u>Charitable institutions:</u>		2.87
buildings, non-res.:	2.35	
buildings, res.:	.04	
land:	.48	
G. <u>Forests, state parks, wildlife refuges:</u>		.13
H. <u>Public property used for public purpose:</u>		37.44
federal buildings:	4.98	
federal land:	.58	
state Buildings:	3.67	
state land:	.92	
county public service enterprises, buildings:	.23	
county public service enterprises, land:	.09	
county law enforcement, fire, administration, bldgs.:	1.34	
county law enforcement, fire, administration, land:	.22	
county other buildings:	.49	
county other land:	.51	
city public service enterprises, buildings:	3.67	
city public service enterprises, land:	4.42	
city law enforcement, fire, administration, bldgs.:	1.52	
city law enforcement, fire, administration, land:	.40	
city other buildings:	3.48	
city other land:	3.51	
special district bldgs.:	4.02	
special district land:	2.41	

STATE, FEDERAL AIDS AND RESIDENTIAL PROPERTY TAXES AND INDIVIDUAL STATE INCOME TAXES PAID

PER CAPITA (1970 Census)

City	Municipal[1] State Aid 1974	School[2] State Aid 1972	Federal[3] Rev. Shar. 1974	Res.[4] Property Taxes 1974	Ind. State[5] Income Taxes 1972
Albert Lea	$37		$14	$119	$139
Anoka	23	$ 234	7	196	158
Austin	35		15	172	194
Bemidji	43		17	83	111
Blaine	18	162	5	174	109
Bloomington	19	157	5	238	187
Brainerd	32		12	85	129
Brooklyn Center	18	148	4	194	280
Brooklyn Park	19	192	5	244	134
Burnsville	27	206	6	330	298
Columbia Heights	18	143	6	187	150
Coon Rapids	18	234	6	181	158
Cottage Grove	19	242	8	165	159
Crystal	18	149	4	189	153
Duluth	29		14	151	145
Edina	19	91	4	419	410
Fairmont	32		12	144	134
Faribault	39		14	133	123
Fergus Falls	41		19	101	126
Fridley	19	168	5	196	179
Golden Valley	29	112	4	297	547
Hastings	20	171	11	133	161
Hibbing	36		17	175	166
Hopkins	30	104	5	309	218
Inver Grove Hghts.	19	204	4	140	148
Mankato	35		17	157	123
Maplewood	18	151	6	212	130
Minneapolis	45	67	15	212	166
Minnetonka	19	160	4	309	350
Moorhead	29		6	141	112
Mounds View	18	166	4	179	177
New Brighton	19	166	4	258	177
New Hope	18	140	4	246	153
New Ulm	30		14	152	133
North St. Paul	18	151	4	165	177

(over)

(footnotes on page 59)

City	Municipal State Aid 1974	School State Aid 1972	Federal Rev. Shar. 1974	Res. Property Taxes 1974	Ind. State Income Taxes 1972
Northfield	$25	$	$ 9	$130	$111
Owatonna	34		10	160	153
Plymouth	19	118	4	282	326
Red Wing	46		23	130	196
Richfield	18	106	4	224	167
Robbinsdale	19	149	4	232	153
Rochester	32		12	196	207
Roseville	21	125	5	294	164
St. Cloud	45		20	137	129
St. Louis Park	18	98	4	271	191
St. Paul	42	65	16	182	190
Shoreview	19	166	4	294	177
South St. Paul	20	130	9	193	158
Stillwater	21	137	8	197	213
Virginia	53		26	171	161
West St. Paul	25	103	6	215	236
White Bear Lake	18	197	4	214	185
Willmar	28		12	143	144
Winona	32		15	129	132
Worthington	33		13	115	129
Suburbs Only	20	154	6	240	165

1 Municipal State Aid 1974. Source: "1974 Local Government Aid Summary, Apportionments for calendar year 1974", Commissioner of Revenue, St. Paul, Minnesota. These figures do not include state highway aids to municipalities.

2 School State Aid 1972. Source: "Report of the State Auditor of Minnesota on the Revenues, Expenditures and Debt of State and Local Governments in Minnesota for the Fiscal Years Ended During the period July 1, 1971 to June 30, 1972". We had school district population figures, 1970 Census available only for the metropolitan area. Consequently, we were unable to calculate a per capita figure for outstate cities.

3 Federal Revenue Sharing 1974. Report of the Office of Revenue Sharing, Department of the Treasury, on federal revenue sharing payments for the 12-month period ending June 30, 1974.

4 Residential Property Taxes 1974. Source: Unpublished data on file in the Minnesota Department of Revenue. All homestead and rental property, including apartments, is included. The figures cover the 12-month period ending December 31, 1974.

5 Individual State Income Taxes, 1972. Source: "The Minnesota State Individual Income Tax, 1972 Minnesota Individual Income Tax Returns", Commissioner of Revenue, St. Paul, Minnesota. With respect to metropolitan area cities, the per capita amounts are figured on a school district basis.

PER CAPITA EXPENDITURES, MUNICIPALITIES OVER 20,000 POPULATION, TWIN CITIES METROPOLITAN AREA
(for fiscal years ending between July 1, 1972, and June 30, 1973) Source: State Auditor
Population data; 1973 population estimates, Metropolitan Council

	Total Exp.	Current Expense	Capital Outlay	Gen. Govt.	Pub. Sfty	Hwy.	San.	Hlth.	Wlfre	Lib.	Cont. to Pub. Serv. Enterp.	Rec.	Int.	Other
Blaine	$108	$ 83	$ 25	$ 7	$19	$15	$38	$--	$--	$--	$ 5	$ 5	$18	$ 2
Bloomington	171	114	57	15	34	22	41	2	--	--	10	27	20	--
Brooklyn Center	103	79	24	13	16	26	12	1	1	--	2	17	14	2
Brooklyn Park	147	81	66	13	25	49	20	--	--	--	1	14	21	3
Columbia Heights	118	81	37	8	23	41	24	--	--	--	--	11	4	4
Coon Rapids	256	115	141	14	31	60	28	--	--	--	15	24	32	2
Crystal	82	69	13	7	18	13	10	1	--	--	--	15	12	4
Edina	119	95	24	12	26	24	16	1	--	--	4	23	12	1
Fridley	140	98	42	11	23	25	35	--	--	--	13	15	16	2
Golden Valley	128	101	27	15	27	24	15	--	--	--	2	20	16	8
Maplewood	180	105	75	10	28	21	78	--	--	--	18	8	18	--
Minneapolis	303	238	64	12	76	45	43	11	10	11	--	29	7	59
Minnetonka	277	145	132	10	16	21	136	--	--	--	52	4	26	11
New Hope	85	67	18	12	17	17	2	--	--	--	--	18	15	4
Richfield	109	73	36	11	29	24	23	--	--	--	--	4	5	--
Roseville	135	89	46	11	18	27	30	--	--	--	17	12	15	4
So. St. Paul	109	103	6	13	37	16	16	--	--	4	--	7	10	6
St. Louis Park	161	103	58	9	25	60	27	1	--	--	--	18	33	4
St. Paul	287	229	58	21	66	31	40	7	19	6	--	44	13	40
White Bear Lk.	116	81	35	11	28	18	29	--	--	3	13	4	1	9

Key to abbreviations:

Total Exp. - Total Expenditure
Gen. Govt. - General Government
Pub. Sfty. - Public Safety
Hwy. - Highway
San. - Sanitation

Hlth. - Health
Wlfre. - Welfare
Lib. - Library
Cont. to Pub. Serv.
Enterp. - Contributions to
Public Service Enterprises

Rec. - Recreation
Int. - Interest

PER CAPITA REVENUES, MUNICIPALITIES OVER 20,000 POPULATION, TWIN CITIES METROPOLITAN AREA
(for fiscal years ending between July 1, 1972, and June 30, 1973) Source: State Auditor
Populations data: 1973 population estimates, Metropolitan Council

City	Total Revenues	Taxes	Special Assmts.	Fees, Fines Licenses	State aid	Federal aid	Cont. from Pub. Service Enterprises	Interest	Other
Blaine	$114	$15	$35	$26	$23	$ 3	$ 6	7	$ -
Bloomington	178	44	59	32	28	6	-	6	-
Brooklyn Center	128	28	28	21	30	2	5	14	1
Brooklyn Park	104	22	21	18	29	1	-	11	3
Columbia Heights	119	40	15	27	26	3	6	1	2
Coon Rapids	223	24	87	17	51	4	5	7	29
Crystal	113	19	33	19	24	4	-	11	3
Edina	155	31	47	35	29	3	6	1	3
Fridley	153	34	40	28	28	2	4	11	1
Golden Valley	171	59	70	18	29	2	-	7	1
Maplewood	120	37	27	28	20	2	-	5	1
Minneapolis	286	124	14	37	58	38	-	6	6
Minnetonka	146	42	56	8	24	3	-	12	1
New Hope	90	23	26	9	20	2	5	4	1
Richfield	107	29	12	16	31	3	9	5	-
Roseville	142	41	29	23	36	3	4	7	1
South St. Paul	149	56	6	20	26	21	1	1	3
St. Louis Park	170	51	39	35	32	3	1	7	3
St. Paul	248	106	10	36	59	28	-	4	1
White Bear Lake	102	22	17	28	27	4	-	4	-

Pension-related property tax differences
cities over 10,000 population

City	PERA-MERA[1]	Police[2]	Fire[3]	Social Security[4]	Total[5]	Mill-Equiv.[6]	Per Capita[7]	Utilities (except water)[8]
Albert Lea	$ 56543	$ 57215	$ 51267	$ 38868	$ 203893	4.56 mills	$ 10.50	
Anoka	77899	59108	3728	45147	185882	5.19	13.98	(E-D)(L)
Austin	182136	126028	87258	78773	474195	9.73	18.91	(E-G&D)(H)(G)
Bemidji	68339		1227	20336	89902	6.73	7.82	(L)
Blaine	72912			27224	100136	3.69	4.86	(L)
Bloomington	228094	233018	250676	109747	811535	2.52	9.90	
Brainerd	35560	21311	3166	15786	75823	3.41	6.50	
Brooklyn Center	76828	61534	25316	28549	192227	2.11	5.47	(L)
Brooklyn Park	102905		4534	36410	143849	1.97	5.48	
Burnsville	85837			19366	105203	1.10	5.28	
Columbia Heights	88542	65428	35583	17853	207406	3.77	8.70	(L)
Coon Rapids	155883		1305	42504	199692	2.98	6.55	(L)
Cottage Grove	41563			13749	55312	1.61	4.12	
Crystal	48685	65015	33815	15063	162578	2.27	5.26	
Duluth	703597	826789	644279	283144	2457809	13.85	24.44	(G)(T)
Edina	224104		5244	53574	282922	1.00	6.42	(L)
Fairmont	31662	32989	8400	21885	94936	3.81	8.83	(E-G&D)(H)(L)
Faribault	42881	54265	34142	19677	150965	6.11	9.10	
Fergus Falls	88982		1806	25345	116133	4.14	9.33	(L)
Fridley	91006	73978	21263	26552	212799	2.23	7.28	
Golden Valley	114490		3984	22769	141243	1.23	5.83	
Hastings	57746		237	9563	67546	3.21	5.54	
Hibbing	132798	33766	48428	53893	268885	10.00	16.70	(E-G&D)(H)(G)
Hopkins	93570		5448	23412	122430	1.98	9.12	
Inver Grove Hghts.	32132		7400	11409	50941	1.43	4.19	
Mankato	113964	132065	73843	50451	370323	5.15	11.99	
Maplewood	86176		11400	16193	113769	1.22	4.51	
Minneapolis	7035074	4374004	3288406		14697484	11.29	33.83	
Minnetonka	124486		11987	49030	185503	1.53	5.19	
Moorhead	121508	61491	30667	47280	260946	5.13	8.79	(E-G&D)
Mounds View	23942			3956	27898	1.53	2.62	
New Brighton	65280		5000	19251	89531	1.66	4.59	(L)
New Hope	82753			18844	101597	1.35	4.38	(L)

(see footnotes on page 64)

City	PERA-MERA	Police	Fire	Social Security	Total	Mill-Equiv.	Per Capita	Utilities (except water)
New Ulm	$ 92386	$ 48530	$ 17987	$ 28412	$ 187315	5.80 mills	$14.35	(E-G&D)(H)
No. St. Paul	52038		3727	8525	64290	2.96	5.38	(E-D)
Northfield	65486			48796	114282	9.02	11.17	(Hosp)(L)
Owatonna	173534			84436	257970	7.25	16.82	(E-G&D)(H)(G)(Hosp)
Plymouth	62524		1200	23010	86734	1.03	4.80	
Red Wing	61075	30621	8506	24650	124852	1.56	9.73	
Richfield	105437	154450	83266	46061	389214	3.07	8.24	(L)
Robbinsdale	66721		22000	14165	102886	2.32	6.11	(L)
Rochester	332264	435148	363937	95735	1227084	6.86	22.73	(E-G&D)(H)
Roseville	124065		9407	29269	162741	1.15	4.73	(L)
St. Cloud	154707	66984	73900	52209	347800	4.16	8.24	
St. Louis Park	115379	188426	69229	43189	416223	2.29	8.51	
St. Paul	2495946	2044996	2005603	510898	7057443	9.38	22.79	
Shoreview	18319			12048	30367	1.20	2.76	
So. St. Paul	55665	155437	62014	11315	284431	5.38	11.37	
Stillwater	49021		323	8673	58017	2.91	5.69	
Virginia	223917		42463	161137				(E-G&D)(H)(G)(Hosp)
West St. Paul	27645	35171	51900	19248	133964	2.80	7.13	
White Bear Lake	81601		26069	12509	120179	2.97	5.16	
Willmar	220636			148528	369164	15.12	27.08	(E-G&D)(Hosp)(H)
Winona	90758	103297	84090	24719	302864	5.71	11.46	

(see footnotes on page 64)

Footnotes to pages 62 anu 63

1 PERA-MERA -- Except for the city of Minneapolis, this is the amount contributed by the city to the Public Employees Retirement Association (PERA) for the 12-month period ending June 30, 1974. Source: Public Employees Retirement Association, unpublished data. With respect to Minneapolis, employees are covered by the Municipal Employees Retirement Association (MERA), a separate pension plan applicable only to employees of Minneapolis. Minneapolis employees are not covered by PERA. The Minneapolis figure is for the 12-month period ending December 31, 1973. Source: Minneapolis Board of Estimate and Taxation.

2 Police -- The amount contributed by the city to the local police-relief association, a special pension plan for police, for 12-month period ending December 13, 1973. Some cities do not have a special pension plan for police, but have thier police covered under PERA. Source: reports of police relief associations on file with Insurance Division, State Department of Commerce. In some cities, a portion of police pensions will be covered in both columns 1 & 2.

3 Fire -- The amount contributed by the city to the local fire relief association, a special pension plan for firemen, for the 12-month period ending December 31, 1973. Source: reports of fire relief associations on file with Insurance Division, State Department of Commerce.

4 Social Security -- The amount contributed by the city (exclusive of the employees' contribution) to Social Security for the 12-month period ending December 31, 1973. Minneapolis is left blank because none of its employees is covered by social security. The entire pension plan is handled through MERA. Source: Social Security Division, State Department of Personnel, unpublished data.

5 Total -- The sum of columns 1-4

6 Mill-equiv. -- The amount of column 5 expressed in mills. It was arrived at by dividing the total in column 5 by the assessed valuation for 1972 (which is the assessed valuation used for determining taxes payable in 1973). Source of assessed valuation data: League of Minnesota Municipalities.

7 Per capita -- The amount in column 5 expressed in per capita terms. It was arrived at by dividing the total in column 5 by the 1970 population as determined by the U. S. Census.

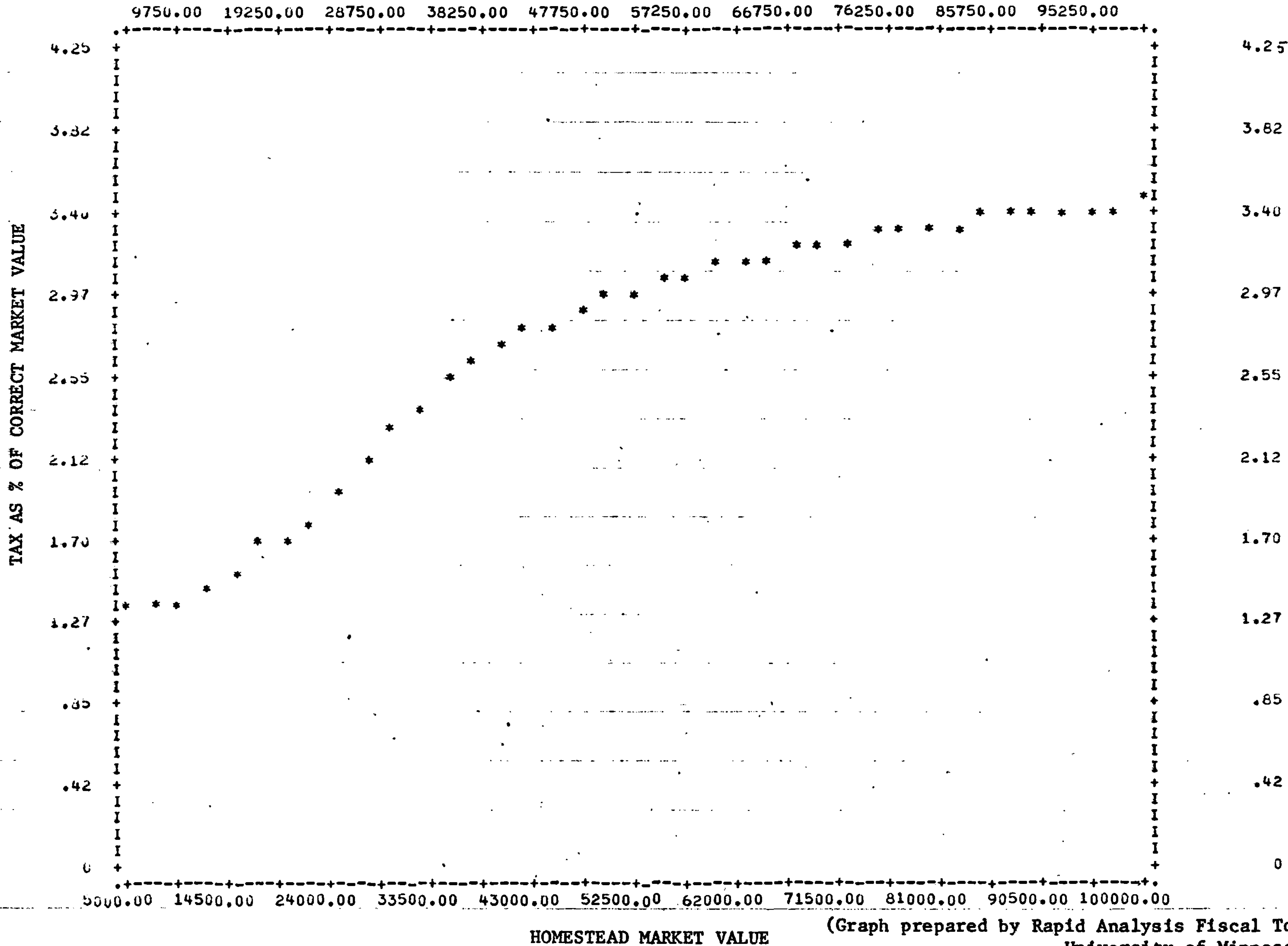
8 Utilities (except water) -- Many of the differences can be partially accounted for by the fact that cities have a variety of municipal utility operations. The abbreviations in this column mean as follows:

(E-D) -- Electric, distribution only
(E-G&D) -- Electric, generation and distribution
(H) -- Heat
(G) -- Gas
(Hosp) -- Hospital
(L) -- Liquor

The compensation of these employees, including the funding of their pension benefits, are routinely paid for from the revenues for these utility operations. Property tax revenues would not likely be used. It was not possible, in this table, to break out the pension contributions for employees of these utility operations.

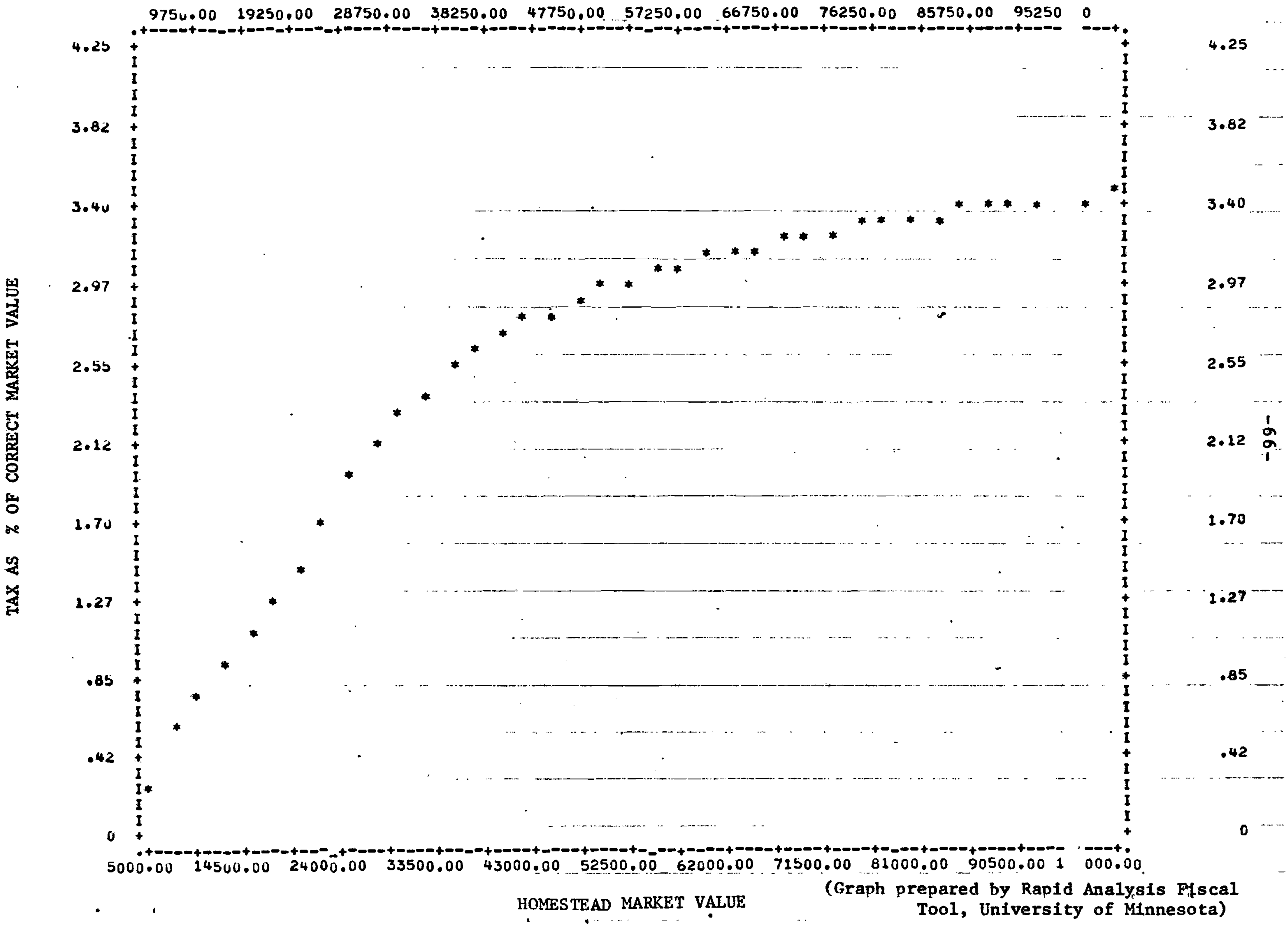
CURRENT HOMESTEAD TAX LAW, TAX AS % OF MARKET VALUE RELATIVE TO HOMESTEAD MARKET VALUE

(assuming 100 mills; full value assessment)



(Graph prepared by Rapid Analysis Fiscal Tool,
University of Minnesota)

IMPACT OF POSSIBLE CHANGE IN HOMESTEAD TAX LAW: COMPLETE EXEMPTION
FIRST $100 OF TAX, RETAINING $325 MAXIMUM CREDIT
(assuming 100 mills; full value assessment)



(Graph prepared by Rapid Analysis Fiscal Tool, University of Minnesota)

COMMITTEE ASSIGNMENT

State-local taxation and finance issues have been explored extensively in Citizens League reports in recent years. Among the more significant reports:

-- "State Fiscal 'Crises' Are Not Inevitable", June 26, 1972, which dealt with the need for better analysis of the long-term implications of present and proposed taxation and finance policies.

-- "New Formulas for Revenue Sharing in Minnesota", September 1, 1970, which called for major improvements in the state's formulas for distribution of non-property revenues to school districts and to cities.

-- "Breaking the Tyranny of the Local Property Tax", March 20, 1969, which dealt with local government problems arising from the distribution of property tax valuation in the Twin Cities area.

-- "Citizens League Tax Relief and Reform Proposal", May 5, 1967, which supported a state sales tax with a guaranteed distribution of the revenues to local government.

-- "Conclusions and recommendations on the impact of the Dulton Case and on property tax assessment reform", May 14, 1965, which included a number of proposals for improvements in property tax assessments.

In mid-1973 it was clear that the issues of assessment reform, state aids and property tax relief were becoming major agenda items before the Legislature. The League Board of Directors subsequently authorized a new League research committee on the Residential Property Tax. The following charge was given to the committee:

> *"Many questions have arisen over how residential property should be taxed in relationship to other property in the state. Included are such questions as overall level of the property tax in comparison to other taxes, the relative levels of the residential as compared to the commercial-industrial property tax, the tax relationship between land and buildings, and the relative level of homestead tax as compared to rental residential. Of particular immediate concern is a longer term solution to the problem which resulted in 1973 in a new law limiting all increases in homestead valuation to no more than 5% annually, regardless of past levels. We will review the issues surrounding the 5% limitation and other issues relating to the taxation of residential property and make recommendations to the Legislature."*

COMMITTEE MEMBERSHIP

Initial sign-up for the committee exceeded 100 persons. A total Of 37 persons participated actively in the deliberations. Committee chairman was Allan R. Boyce, Roseville. Other active members were:

Harold J. Anderson
Francis M. Boddy *
James T. Christenson
Marvin E. Engel
Howard Erickson
Ralph Forester
James Hawks
John Helmberger *
Edward Heimel
Paul Hilstad
Patricia Hudson
William H. Hudson
J. R. Keller, Jr.
Jay Kiedrowski
Andrew Lindberg
Richard L. Manning
George Martens
Walter McClure
Joseph J. McDowell
Gordon Moe
George I. Nygaard
Valerie Halverson Pace
F. Warren Preeshl
W. R. Rauhauser
Andrea Rubenstein
James Rubenstein
Dana Schenker
Jonathan Scoll *
Irma Sletten
C. M. Slocum
David B. Stewart
Thomas P. Vasaly
H. W. Walter
Gerald Weiszhaar
Donald C. Willeke *
Edward A. Zimmerman

The committee was assisted by Paul A. Gilje, Citizens League associate director, and Paula Werner, Citizens League clerical staff.

C O M M I T T E E   P R O C E D U R E S

The committee met once a week from its first meeting May 2, 1974, to its final meeting, February 13, 1975, a total of 36 meetings. All were 2½ hour evening meetings, with the location alternating each week between Minneapolis and St. Paul, to be as convenient as possible for members, whose residences are widely dispersed throughout the metropolitan area.

The committee spent from May through August in intensive backgrounding on the property tax system. The complexity of the issue--covering such topics as the assessment process, classification of property, levy limits, state aids, and income-property tax relationships--required a comprehensive educational phase before committee members began internal deliberations.

During September the committee worked chiefly from an outline which described what had been learned to date. Committee members during this time concentrated heavily on discussing the purposes of the property tax. A first draft of findings was prepared in early October, which became the basis of discussion during that month. In November the committee moved on to preliminary drafts of conclusions. A revised draft of findings and conclusions, prepared in early January, became the basis for consideration of recommendations, which proceeded until the committee completed its work in mid-February.

Staff members of the Minnesota Tax Study Commission and the Minnesota Department of Revenue were extremely helpful in providing information. The Rapid Analysis Fiscal Tool (RAFT) at the University of Minnesota provided several computer run and graphs which assisted the committee in its work.

* A minority report signed by these members appears at the back of the report.

Detailed minutes of meetings were taken and distributed to non-members following committee activities as well as members. A few extra copies of minutes are available upon request.

Following is a list of resource persons who met with the committee:

1. From the Minnesota Department of Revenue:
   Arthur C. Roemer, Commissioner
   Wallace O. Dahl, director, tax research
   Dennis Erno, assistant to the commissioner; former supervisor, sales ratio studies
   Richard Gardner, in charge of levy limits section

2. From the Minnesota Tax Study Commission:
   Ronald Rainey, current executive director
   Garson Sher, former executive director
   Robert Dildine, staff member

3. Other state officials:
   Rolland Hatfield, (then) State Auditor
   Raymond Pavlak, (then) chairman, House Tax Committee and Tax Study Commission
   State Rep. Martin Sabo, House Speaker
   John Haynes, Governor's staff assistant for taxation and school finance

4. From local government:
   Roger Mattson, finance director, city of St. Paul
   Lee Munnich, Minneapolis alderman
   Charles Darth, finance director, city of Brooklyn Park
   Norman Werner, former director of finance, city of Coon Rapids
   Roger Peterson, mayor of Cottage Grove, and chairman, property tax committee, League of Minnesota Municipalities
   Allen Muglia, head of tax studies, Metropolitan Council
   Robert Meiers, Dakota County Assessor
   Robert Martin, Hennepin County Assessor

5. From the private sector:
   Oliver Perry, executive vice president, Minnesota Association of Commerce and Industry
   David Roe, president, Minnesota AFL-CIO
   Clayton Rein, apartment owner-developer, C. G. Rein Company
   Marlin Grant, president, Marvin Anderson Construction Company
   Bart Hempel, realtor
   James McComb, consultant to Minneapolis Downtown Council and Minneapolis City Council
   Al Wrobleski, Crossroads Resource Center
   Tom O'Connell, Crossroads Resource Center
   Howard Dahlgren, president, Midwest Planning and Research, Inc.
   Robert Ehlers, fiscal consultant, Ehlers & Associates, Inc.

6. From the academic community:
   Edward R. Brandt, professor of political science, College of St. Thomas
   Arley D. Waldo, agricultural economist, University of Minnesota

MINORITY REPORT

The undersigned wish to record our dissent with one major area of the "Residential Property Tax" report, adopted by a final committee vote (11 for to 9 against) on February 13, 1975.

Some of us believe that the information and analyses brought before the committee justified a positive recommendation for the adoption of some form of the Governor's proposed "Income Adjusted Property Tax Credit", but we were on the minority side of an 11 to 9 vote in that specific issue. We do not argue here that the committee was at fault at not adopting our position, but rather that it was at fault in arriving at some of their decisions.

We argue that the general tone of the report in those sections discussing the alternatives of (1) the present homestead credits (with some examples of possible modifications in it) and (2) the income adjusted property tax credit ("circuit-breaker") concept, comes down strongly on the side of continuing a property tax relief system that offers to lower the burden of residential property taxes by means of a formula that is based solely on the size of the gross homestead tax itself, without any specific recognition of the possible ability to pay, as indexed by income, of the home owner, rather than a move to introduce household income as an adjusting factor.

We believe strongly that one of the major valid criticisms of the property tax on housing (both owned and rented) is its generally heavy and regressive burden on low income families, especially on those in Minnesota with incomes below about $10,000 per year. We also believe that while more information and discussion may always be a good thing to have before action is taken, we have had sufficient information available to us to persuade us that these particular faults (the heavy burden and regressivity) cannot be effectively remedied by the use of a solely <u>tax</u> based credit system of any kind. Only a system that includes income (however defined) as an adjusting factor can reduce or remove these faults of the present system at lower ranges of family incomes.

For all the income ranges below about $10,000 to $12,000 (about 3/4 of the median incomes of home owners under 65 in 1974, of about $15,000) the average value of the home is about the same at all income levels (census of 1970 data). This pattern is confirmed by the Hatfield property tax study data that shows this same pattern of a fairly constant level of homestead values over all low income ranges, up to about $10,000 in 1968. This suggests that in most communities there is a sort of basic minimum cost of acceptable housing that faces low income families and that they have little choice of real alternatives below that level.

Since average home values are not correlated with incomes at these lower income levels, then no general system of subsidy of some part or all of the property tax that does not use or include household income as a major adjusting factor (or something strongly correlated with income) can reduce or remove the burden and regressive effects within the lower income ranges. Hence the suggestions of the committee for modifications in the present homestead credit system to reduce the net property tax burden on lower valued homes, cannot meet this major fault of the present system.

The numbers of households in these low income ranges in Minnesota are quite substantial. The staff of the Tax Study Commission estimates (from 1970 census data) that about 170,800 or 25 per cent of home owner households (under 65) had incomes below about $10,000 in 1974.

The income adjusted system has a further advantage; unlike the present system it does not give the maximum subsidy to all (regardless of income) who pay a certain level of property tax or more, but adjusts the tax that gets the maximum subsidy by the deduction of a percentage of household income (1.5 per cent under the Governor's proposal), and it targets more of the subsidy to the low income, low to moderate taxed households, who would gain substantially under such a system as compared to the current system.

Finally the income adjusted system can be extended to renters with little modification, with the assumption that a certain percentage (20 per cent under the Governor's proposal) of a tenant's rent be presumed to be property taxes. No modifications on credits in the property taxes of landlords (whether passed on to the tenants or not) can reduce the heavy and regressive effects of the property taxes to renters, unless the system takes the <u>renter's</u> incomes into account as an adjusting factor, especially again at the lower end of the income scales.

We dissent therefore from the report as passed out of the committee primarily because it does not, in our opinion, clearly face up to what we see as one of the major deficiencies of the current residential property tax system, and because it does not, in our opinion, fairly balance the pros and cons of keeping the basic structure of the present system, or of moving to an income adjusted system, in the light of what we believe was a strong consensus in the committee that "something more should be done to relieve the burden of the residential property tax on low income families", as an addition to or replacement of the present system of "senior citizen income adjusted tax credits" which has worked so successfully in reducing the burdens and the regressivity of the homestead property tax for low income senior citizens. But this consensus was submerged in a recommendation for some legislative study of the general problems of low income families rather than of the burden of housing property taxes. To repeat, we dissent not because of the conclusions reached (or implied) in this part of the report and recommendations of the committee, but because we feel the basic points outlined above were never clearly and fully before the committee, and that the last "rush to decision" precluded their study and consideration, with the result that no clear decision was reached in this area that had the back-up of the basic information and analyses and discussion that should be the mark of a final Citizens League report on such an important and current policy question.

F. M. Boddy
John Helmberger
Jonathan Scoll
Donald C. Willeke

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The Citizens League, founded in 1952, is an independent, non-partisan educational organization in Twin Cities area, with some 3,600 members, specializing in questions of government planning, finance and organization.

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