

2006 Property Tax Review



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The importance of these changes must be viewed in the perspective of the overall tax ranking of the community and how each local government ranks. Centerville, for example moved from #14 in 2005 to #1 in 2006 in large part due to the voter-approved market value levy for funding school operations, but its high ranking is also due in part to a high city rank (#6 in 2006) and a relatively high special district rank (#20 in 2006). In Ravenna Township, a similar situation moved that community up from #109 in 2005 to #101 in 2006 (the city rank went from #99 to #103). To look at the all rankings for 2006 by level of government, see Table 1a and Table 2a.

2006 Metro Property Tax Rankings (Highest Effective Tax Rates)

Overall Rank (out of 113)	County Rank (out of 17)	City Rank (out of 113)	School Rank (out of 54)	Special District (out of 69)
1. Centerville	1. Ramsey	1. Minneapolis	1. 12*	1. St. Anthony
2. Rogers	2. Ramsey (St. Paul)	2. Belle Plaine	2. 728*	2. Bloomington
3. Circle Pines	3. Hennepin	3. Spring Lake Park	3. 719 (Spring Lake Twp)	3. St. Louis Park
4. Carver	4. Carver	4. Brooklyn Center	4. 719*	4. Mound
5. St. Anthony	5. Carver (Carver)	5. Jordan	5. 196*	5. Fridley
6. Minneapolis	6. Carver (Waconia)	6. Centerville	6. 192 (Farmington)	6. Mounds View
7. Golden Valley	7. Hennepin (Mpls.)	7. Hastings	7. 112*	7. Robbinsdale
8. Lino Lakes	8. Scott	8. Stillwater	8. 112 (Carver)	8. Brooklyn Park
9. Independence	9. Scott (Prior Lake)	9. Circle Pines	9. 833*	9. Champlin
10. Victoria	10. Scott (Jordan)	10. Newport	10. 281*	10. Richfield

*School District Rank Detail

1. School District 12: Centerville, Circle Pines, Lino Lakes
2. School District 728: Rogers, Hassan Township
4. School District 719: Credit River Township, Prior Lake
5. School District 196: Apple Valley, Eagan, Rosemount
7. School District 112: Chanhassen, Chaska, Victoria
9. School District 833: Cottage Grove, Newport, St. Paul Park, Woodbury
10. School District 281: Crystal, Golden Valley, New Hope, Robbinsdale

2006 Metro Property Tax Rankings (Lowest Effective Tax Rates)

Overall Rank (out of 113)	County Rank (out of 17)	City Rank (out of 113)	School (of 54)	Special District (out of 69)
113. W Lakeland Twp	17. Dakota (South St Paul)	113. W Lakeland Twp	54. 108*	69. N Scandia Twp
112. May Twp	16. Washington*	112. N Market Twp	53. 278*	68. Andover
111. Linwood Twp	15. Dakota (Farmington)	111. North Oaks	52. 277*	67. N Market Twp
110. Burns Twp	14. Dakota	110. Grant	51. 831*	66. Carver
109. Stillwater Twp	13. Washington	109. Credit River Twp	50. 271*	65. Watertown
108. New Scandia Twp	12. Anoka (Columbia Hts)	108. Cedar Lake Twp	49. 717*	64. N Young Amer
107. Grant	11. Anoka	107. May Twp	48. 624*	63. Lakeville*
106. Forest Lake	10. Scott (Jordan)	106. Spring Lk Twp	47. 623*	62. Stillwater*
105. Lake Elmo	9. Scott (Prior Lake)	105. Ravenna Twp	46. 15*	61. East Bethel*
104. New Market Twp	8. Scott	104. Stillwater Twp	45. 197*	60. Victoria

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*County Rank Detail

16. Washington County: Bayport, Stillwater

*School District Rank Detail

- 54. School District 108: Norwood Young America
- 53. School District 278: Medina, Orono
- 52. School District 277: Minnetrista, Mound
- 51. School District 831: Columbus Twp, Forest Lake, Linwood Twp, New Scandia Twp
- 50. School District 271: Bloomington
- 49. School District 717: Jordan
- 48. School District 624: Hugo, Vadnais Heights, White Bear Lake, White Bear Twp
- 47. School District 623: Falcon Heights, Lauderdale, Little Canada, Roseville
- 46. School District 15: Burns Twp, East Bethel, Oak Grove, St. Francis
- 45. School District 197: Mendota Heights, West St. Paul

*Special District Rank Detail

- 63. Farmington, Lakeville, Ravenna Twp
- 62. Bayport, Oak Park Heights, Stillwater
- 61. Burns Twp, East Bethel, Linwood Twp, St. Francis

2006 Greater Minnesota Property Tax Rankings (Highest Effective Tax Rates)

Overall Rank (out of 106)	County Rank (out of 91)	City Rank (out of 106)	School Rank (out of 95)	Special District (out of 73)
1. Thief River Falls	1. Pennington	1. Chisholm+	1. 769 (Morris)	1. Thief River
2. Crookston	2. Polk (E Grand Forks)	2. Eveleth+	2. 885 (St. Michael)	2. Duluth
3. E Grand Forks	3. Wadena	3. Blue Earth	3. 885 (Albertville)	3. Crookston
4. Princeton	4. Polk (Crookston)	4. Virginia+	4. 2184 (Luverne)	4. Cannon Falls
5. Redwood Falls	5. Kanabec	5. Redwood Falls	5. 564 (Thief River)	5. E Grand Forks
6. Hutchinson	6. Carlton (Thomson Twp)	6. Sauk Centre	6. 728 (Elk River)*	6. Detroit Lakes
7. Sauk Centre	7. Carlton (Cloquet)	7. Grand Rapids+	7. 728 (Zimmerman)	7. Elk River
8. Cannon Falls	8. Beltrami (Northern Twp)	8. Hibbing+	8. 2397 (Le Sueur)	8. Worthington
9. Morris	9. Mille Lacs	9. Montevideo	9. 659 (Northfield)	9. Big Lake*
10. Sauk Rapids	10. St. Louis (Unorg.)	10. Crookston	10. 695 (Chisholm)+	10. Faribault

+ = Calculations for specific levels of government do not include the impact of state credits. These five cities receive the taconite credit which substantially reduces their final taxes. The next five cities in the rankings are: 11. Pipestone 12. Ely 13. Cannon Falls 14. Isanti 15. Windom; the next school district in the rankings is: 11. 748 (Sartell).

*School District Rank Detail

6. School District 728: Elk River, Livonia Township, Otsego

*Special District Detail

9. Becker Twp, Big Lake, Big Lake Twp

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2006 Greater Minnesota Property Tax Rankings (Lowest Effective Tax Rates)

Overall Rank (out of 106)	County Rank (out of 91)	City Rank (out of 106)	School Rank (out of 95)	Special District (out of 73)
106. Eveleth+	91. Rice*	106. Unorg #0096	95. Ely	73. Rochester*
105. Unorg #0096	90. Rice*	105. St. Louis Co Unorg	94. Wadena	72. Cambridge*
104. 1 st Assess Unorg	89. Wright*	104. Monticello Twp	93. Eveleth	71. Mora
103. Monticello Twp	88. Wright*	103. 1 st Assess Unorg	92. Two Harbors	70. Princeton
102. Virginia+	87. Wright	102. Becker Twp	91. Hibbing	69. Cloquet
101. Hibbing+	86. Scott*	101. Northern Twp	90. Hermantown	68. Intl Falls*
100. Alexandria Twp	85. Crow Wing*	100. Chisago Lake Twp	89. Breckenridge	67. Baxter*
99. Austin	84. Crow Wing*	99. Marion Twp	88. Sleepy Eye	66. Le Sueur
98. Itasca Co Unorg	83. Crow Wing*	98. Baldwin Twp	87. E Grand Forks	65. Mankato
97. Baldwin Twp	82. Rock	97. Livonia Twp	86. Grand Rapids	64. Blue Earth

+ = These three communities receive the taconite credit which substantially reduces their final taxes. The next three communities in the overall rankings are: 96. International Falls 95. Fergus Falls 94. Faribault.

*County Rank Detail

- 91. Rice: Northfield
- 90. Rice: Faribault
- 89. Wright: Rockford
- 88. Wright: Albertville
- 86. Scott: New Prague
- 85. Crow Wing: Brainerd
- 84. Crow Wing: Baxter
- 83. Crow Wing: Unorganized #0096

*Special District Detail

- 73. Albertville, Breckenridge, Byron, Delano, Kasson, La Crescent, Marion Twp, Rochester, Rockford, and Stewartville have no special district taxes.
- 72. Bradford Twp, Cambridge, Isanti
- 68. International Falls, Unorganized #0096
- 67. Baxter, 1st Assessment Unorganized

Why does the Citizens League focus on “effective tax rate” and “market value levies” and why should a homeowner care?

Effective Tax Rate: Under the property tax system, your home is taxed based on its market value. Effective tax rate measures what percent of market value you pay in property taxes, which makes it an accurate tool for comparison across different taxing jurisdictions. A decline in effective tax rate, however, does not mean that a homeowner paid less in property taxes unless the market value of their property remained the same. Every community in the survey had an increase in the average market value of homes from 2005 to 2006 from the smallest increase of \$245 in Wadena to the largest increase of \$87,667 in Orono. [Table 1c](#) and [Table 2c](#) provide an expanded view of the market value-property tax dynamic.

In 2006, an owner of an average value home in Centerville paid about 1.4 percent of the value of that home in property taxes, the highest effective tax rate (1.394%). An owner of an average value home in West Lakeland

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Township paid about 0.7 percent of the value of their home in property taxes, the lowest effective tax rate (0.679%). The bottom line: an owner of a \$230,000 home in Centerville paid \$3,225 in property taxes in 2006 and the owner of a \$430,000 home in West Lakeland Township paid \$2,930 in property taxes.

Drawbacks to the Effective Tax Rate Measure: Although effective tax rate provides us with an accurate tool for comparing taxes across jurisdictions, it has some potential pitfalls when used to compare communities from year to year. When there is significant market value growth and market value grows faster than the tax levies applied by local governments, effective tax rate declines—even though the increased property tax bill may be significant for some homeowners.

In Orono, for example, the market value on an average value home rose by \$87,000 and the effective tax rate went down, but because of the big increase in market value, the property tax increase in dollars was \$571—which ranked 8th highest in the Metro Area. Conversely, if levy growth is very modest and market value growth is small, the effective tax rate increase can look quite large. In Morris, an average value home increased by about \$5,000 in market value and Morris ranked 8th highest in effective tax rate increase. Because market value growth was small, Morris ranked only 38th in dollar increase in Greater Minnesota at \$148.

For these reasons, the changes in effective tax rate are also accompanied by the change in dollars and percent from the previous year. Table 1b and Table 2b are sorted by effective tax rate increase; Table 1c and Table 2c are sorted by dollar increase; and Table 1d and Table 2d are sorted by percent increase. These three indicators are an attempt to paint an overall picture of the property tax status of homeowners in each community.

Market Value Levies: Market value levies have a greater impact on homeowners than other property taxes and have been growing as a percent of total education levies (see “Education Property Tax Levies” table on page 6). Minnesota’s property tax system has historically favored homeowners through the imposition of a state “class rate” system that attaches higher rates to other types of properties when local tax rates are applied. Market value levies are typically voter-approved and are not part of the state system, so the taxes raised from these levies are based on the market value alone thus impacting homeowners more. Market value levies began in the 1990s as a way to make homeowners more accountable when they voted for more operating funds for schools. Rather than have commercial and rental properties pay higher rates, these properties are treated the same as homes under market value levies. In the case of market value referenda for schools, seasonal-recreational property (cabins) and agricultural land are exempt from the levy (under the 2001 property tax reform), further impacting homeowners. Market value levies were also a way to limit property tax increases on businesses, a major policy goal of the 1990s. When voters approve levies for debt to fund construction of school facilities, however, the state system still applies.

School District Revenues

To put education property tax levies in perspective, the state accounted for nearly 83 percent of education revenue in 2005 at more than \$6.4 billion in direct appropriation and tax relief aid. In 2006, state revenue is increasing by about \$144 million, but the overall percent of education revenue from the state is dropping to 80.5 percent. That is because revenue from property taxes for schools is rising by about \$242 million, from about \$1.36 billion to \$1.6 billion. Property taxes will account for 19.5 percent of school funding in 2006, compared to 17.3 percent in 2005.

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The State-Local Relationship in Education Property Tax Levies

One important policy question is the sensitivity of school districts to changes in state funding. The major property tax reforms of 2001 significantly increased school district dependence on state funding. One of the stated goals of the 2001 property tax reform was that the state would “take over” the main source of education funding, the General Education Levy. The state share of education funding before the takeover stood at about 72 percent. Immediately after the takeover, the state share of education funding increased to about 87 percent in 2002. The state share of education funding has decreased every year since and is at 80.5 percent in 2006.

After the reform, market value levies for school operations were at about 23 percent of all education levies. In 2005 and in 2006, revenues from voter-approved market value levies are right around 28 percent: \$404 million in 2005 and \$475 million in 2006. However, the Legislature has also allowed some market value levies to continue that are no longer voter-approved due to decisions from the 2003 budget deficit solution that sought to protect school districts from cuts in revenue. The resulting “transition” levies were supposed to expire in four years, but the 2005 Legislature decided to allow school districts to continue market value levies for “transition” and “equity.” These levies accounted for \$43 million in 2005 and rose to \$84 million in 2006.

In total, therefore, market value levies increased by about \$112 million from 2005 to 2006 for education funding and now account for about \$559 million, which is 33 percent of all education levies in 2006, up from 31 percent in 2005 (\$447 million). Market value levies in 2006 account for about 10 percent more of all education levies than they did in 2002 when all market value levies were voter approved. As stated earlier, market value levies have a greater impact on homeowners than other types of property taxes.

Voter-approved debt service levies for school construction are the largest portion of education levies and accounted for about 46 percent of all education levies after the property tax reform at \$464 million. In 2005 debt service levies accounted for 38% (\$557 million) in 2005 (38.4%), rising to \$591 million in 2006 (35.1 percent). Miscellaneous education levies authorized by the state accounted for about 32 percent of total education levies after property tax reform (\$319 million). In 2005, those miscellaneous levies accounted for 31 percent of the total (\$445 million) and went up by \$89 million in 2006 to account for 32 percent (\$534 million)

Education Property Tax Levies

Type of Levy	2002 (% of total)	2005 (% of total)	2006 (% of total)
Voter-approved market value	22.7%	27.9%	28.2%
State-authorized market value	0.0%	2.9%	5.0%
Market value levy total	22.7%	30.8%	33.2%
Voter-approved debt levies	45.8%	38.4%	35.1%
State-authorized miscellaneous levies	31.5%	30.7%	31.7%

Source: House Fiscal Analysis Department
Calculations by the Citizens League

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Different Levels of Local Government

Table 1a and Table 2a show the rankings for each level of local government for 2006. The section “Total Local Taxes” shows what property taxes would be without the state’s market value homestead credit. The credit is targeted at low-value homes, so communities with lower value average homes receive greater benefit from the market value credit. Homes over \$414,000 receive no credit. The Citizens League also calculates the taconite credit, which dramatically lowers the final taxes in Hibbing, Virginia, Eveleth, Chisholm and Grand Rapids.

How to read the rankings

Rankings throughout the survey are based on the number of unique effective tax rates for each comparison. This number is at the bottom of each column of rankings. For example, in the metro survey for 2006 (Table 1a), there are 113 unique city tax rates, but there are only 17 unique county tax rates in the seven-county metro area. A ranking of #7 in the county effective tax rate therefore means that community is #7 out of 17. A ranking of #7 for city effective tax rate, however, means that city is #7 out of 113. There are 54 unique school district rates in the metro survey and 69 unique special district rates for 2006.

Rankings for comparing 2005 to 2006 are different than the rankings for 2006 alone because there are more communities in the 2006 survey. When comparing rank from year to year, the Citizens League only ranks the communities that are in the survey in both years so as not to distort the results. That is why 111 communities are ranked in the metro in the tables that compare 2005 to 2006, and 113 communities are ranked in Table 1a which compares communities for 2006 only. Carver and St. Bonifacius were added in 2006 as their populations grew over 2,300.

The 2006 Property Tax Review provides a more representative sample of property taxes in Greater Minnesota. In 2003, the survey included 32 cities in Greater Minnesota over 9,000 in population. Over the last three years, we have increased that number to 106 communities over 3,500 in population in 2006. That is why there are only 91 communities compared from 2005 to 2006, yet there are 106 communities in the 2006 survey. This total sample of 219 communities in 2006 provides a more balanced look at property taxes throughout Minnesota than in recent years.

Community profiles

This year for the first time the Citizens League offers profiles of the 112 communities with the most significant changes in property taxes from 2005 to 2006. These communities ranked in the top 20 in increases or decreases from 2005 to 2006 in terms of dollars, percent, or effective tax rate.

The profiles make it easier to see the interplay of factors that lead to the changes in property taxes in a community. Profiles are also available for all communities over 50,000 in population and all communities that ranked in the top 20 in effective tax rate in 2005 (to show if they moved up or down in ranking in 2006). Thirteen communities in the top 20 in 2005 moved up in the rankings in 2006. Almost twice as many – 25 communities – that ranked in the top 20 in 2005 moved down in 2006. The total number of community profiles available to illustrate the changes from 2005 to 2006 is 135. The same information for the remaining 67 communities in the survey can be culled from the data in the tables available on the Citizens League website at www.citizensleague.net.