



Association of Metropolitan School Districts

1667 Snelling Avenue N, St. Paul, MN 55108 • 651-999-7325 • fax 651-999-7328 • www.amsd.org

Minnesota County Tax Effort Study, 2001-5

Kevin Sampers, Director of Research

December 2007

Phone: 651.999.7327

SUMMARY

In its latest analysis of statewide property tax and personal income data from the years 2001 through 2005, the Association of Metropolitan School Districts (“AMSD”) has identified a range of trends significant to policy makers. As defined in this study, “tax effort” represents the proportion of personal income that is paid to state and local government sources as the total net property tax.

Total net property tax payable in a given year is calculated by adding the levies that each local government files (on both the referendum market value and net tax capacity tax bases) in each county, plus the state property tax levy, less any credits. This study uses this measure in combination with total personal income earned in each county, which represents all income earned from all sources. The study focuses on the years 2002 through 2005 (most recent available), in order to examine trends over time; due to Legislative changes, 2001 data is not comparable with data from 2002 and the years following. Additional detail about the data can be found below in the section titled “Methodology.”

Key findings from the study include:

1) Total net tax payable as a percentage of personal income remains higher in the eleven counties now within the Minneapolis-St. Paul metropolitan statistical area (termed “Metro Area” here) than in the other seventy-six counties (“Greater Minnesota”). Each of the areas has experienced significant increases in tax effort in the three years studied.

<i>Tax Effort: Total Net Tax Payable (All Property)</i>				
Region	2002	2003	2004	2005
Greater Minnesota	2.542%	2.617%	2.669%	2.787%
Statewide	2.747%	2.892%	2.897%	2.969%

Metro Area	2.846%	3.026%	3.008%	3.058%
Regional Difference	0.304%	0.409%	0.339%	0.271%

The discrepancy between Metro Area and Greater Minnesota grows when looking only at residential property; this point is elaborated in the “Results” section below.

2) Credits make a big difference. Minnesota offers a range of credits for various regions and purposes. Following are the names of each of the credits distributed in CY2005:

<i>Name of Credit</i>
Taconite Tax Credit
Education Homestead Credit
Education Agricultural Credit
Disparity Reduction Credit
Power Line Credit
Agricultural Preserves Credit
County Conservation Credit
Enterprise Zone Credit
Disaster Credit

Credits in Greater Minnesota, in dollar terms, represented \$187,512,626, or 0.299% of total personal income in 2005. In the Metro Area, credits equaled \$159,232,303 or 0.124% of total personal income. The impact of these credits, during the period of this study, has been to exacerbate the difference in tax effort between the Metro Area and Greater Minnesota.

3) In the Metro Area, levies based on referendum market value – an amount driven by school district referenda, in particular – represent a higher proportion of the total net tax payable than in Greater Minnesota. For example, the total referendum market value levy in the Metro Area and Greater Minnesota in 2005 represents 0.270% and 0.140% of total personal income, respectively. Notably, the difference created by these discretionary levies account for less than one-half of the overall difference in tax effort described above.

BACKGROUND

In 2001, the Minnesota Legislature eliminated the general education property tax levy and assumed primary responsibility for funding K-12 education. Since that time, according to Minnesota House Research, the state proportion of total education spending has dropped from 86.7% in FY2003 to a projected 76.9% in FY2009. The Legislature has not adjusted equalization factors that determine the aid/levy mix for several school district revenues to reflect property value increases, leading to a drifting up of local participation and drifting down of state participation in school district finance. As the state proportion of funding has diminished for economic and political

reasons, school districts have been forced to make up the difference – primarily using the property tax.

The Legislature must now find a way to stabilize education funding. As constituents around the state have discovered, it is possible to pay more and get less, if state aid for a district falls more than the local levy increases in a given period.

There is a common assumption that increased reliance on property taxes has increased an already higher tax burden on rural residents. In direct conflict with this belief is the evidence collected by this AMSD study and previous ones undertaken in 1995, 2004 and 2006. In fact, the data shows that metro residents bear a disproportionately higher property tax burden than their rural counterparts.

METHODOLOGY

The study approached the data in order to evaluate two interrelated issues. First, how much property tax is collected from each class of property in counties around the state? As a percent of the total personal income earned in each county in a given year, how has the treatment of various classes of property changed? The source of data for this portion of the analysis is the Minnesota Department of Revenue, Table 41 (“Estimated Distribution of the Net Tax by Use Class by County,” for taxes payable 2001-5) of the Department’s publication entitled “Property Tax Levied in Minnesota: Summary Tables” for the years discussed.ⁱ

Agricultural homestead property represents the value of all homesteaded land for the bulk of the analysis; the results discussed at the end of this report (examining tax effort for residential property specifically) are based on only the estimated property taxes paid on the house, garage, and one acre, using a method recommended by the Department of Revenue for this type of analysis. In more detail, we determined the ratio of the tax capacity attributable to a house, garage and one acre, to the house, garage, and all acreage for each county. We then prorated the property tax payable on agricultural homestead property in each county using these county-specific ratios, to arrive at an estimated residential property tax payable for agricultural homesteads. As expected, this change leads to a wider spread between Metro Area and Greater Minnesota tax effort figures.

Second, in addition to examining the sources of property tax revenues, we looked at the uses: State and local government. Local governments assess property taxes based on referendum market value (“RMV”) and net tax capacity (“NTC”).ⁱⁱ The State also levies a property tax on property, which is considered in the analysis, and the State also grants the credits listed above for particular purposes. Adding the property levied on RMV and property tax levied on NTC, plus the State levy, and minus the credits, equals the total net tax payable. The source of data for this portion of the analysis is the Minnesota Department of Revenue, Table 33 (“Real and Personal Property Taxes

Levied by County by Government Unit,” for taxes payable 2001-5) of the Department’s publication entitled “Property Tax Levied in Minnesota: Summary Tables” for the years discussed.ⁱⁱⁱ The study also uses data for RMV and NTC levies on agricultural residential property, using the house, garage and one acre for these residential tax effort calculations.

In prior analyses, including the 2004 AMSD report, federal adjusted gross income (“FAGI”) is the denominator used to gauge tax effort. In the 2006 report, and moving forward, personal income is used instead.^{iv} The principal reason for the change is that personal income as reported by the Bureau of Economic Analysis (housed in the U.S. Department of Commerce) is a comprehensive measure – it is, in the Department’s terms, “all income from all sources.” FAGI, while similar, is adjusted by deducting out certain line items. Personal income is also more readily available for public review and sorting by county than FAGI.

RESULTS

Property tax is collected in layers, each to be described in this section:

<i>Layers of Property Tax Collection</i>
Local Government Levy Using NTC
Plus: Local Government Levy Using RMV
Plus: State Levy
Less: Applicable Credits
Equals: Net Tax Payable

Comparing Tax Effort, Layer by Layer

Comparison of the Metro Area and Greater Minnesota tax effort starts with a view of available tax base around the state. Property in each county is valued by county assessors, and multiplied by the class rate assigned to the respective property type; broadly speaking, the resulting figure is the NTC. NTC is distributed regionally on a roughly two-thirds and one-third basis:

<i>Net Tax Capacity (NTC)</i>				
	2002	2003	2004	2005
Metro Area	2,276,621,139	2,506,806,888	2,763,333,639	3,100,601,197
Greater MN	1,131,893,334	1,238,089,163	1,371,970,140	1,549,358,392
Metro/Greater	67/33	67/33	67/33	67/33

The vast majority of property tax levies – over 82% in 2005 – were spread over the NTC tax base. State law allows cities, counties, towns and (to a lesser extent) school districts the power to file these levies without voter approval. Special districts, tax increment financing districts, fiscal disparities levies and power line levies also use net tax capacity as a basis.

Statewide, the impact of levies spread over the NTC base is relatively level as a percent of personal income. The difference between the regions is very modest. The tax effort is level for these levies statewide as shown in the following table:

<i>Tax Effort for Net Tax Capacity (NTC) Levy</i>				
	2002	2003	2004	2005
Metro Area	2.470%	2.565%	2.527%	2.578%
Greater MN	2.498%	2.560%	2.546%	2.633%

Two other components to the property tax system, contrary to the uniformity found here, serve to create a gap in the tax effort experienced by Metro Area property owners and their fellow citizens in Greater Minnesota.

The first of these components is use of the tax base known as referendum market value or RMV. RMV is distinguished from NTC because certain land uses are exempted; the most significant exemptions are for agricultural land and seasonal, recreational property (cabins)^v. Voters in the Metro Area have authorized higher RMV levies (which represent a much larger proportion of personal income) than in Greater Minnesota. However, the uses of these funds are primarily for school districts in all parts of the state: Nearly 93% or more of the RMV levies in the Metro Area are for school districts, and in Greater Minnesota this figure is 98%.

All levies spread over RMV in the two regions studied break down as follows:

<i>Tax Effort for Referendum Market Value (RMV) Levy</i>				
	2002	2003	2004	2005
Metro Area	0.169%	0.254%	0.268%	0.270%
Greater MN	0.060%	0.085%	0.126%	0.140%

School districts in the Metro Area are more likely to propose and pass operating referenda, driving up the tax effort attributable to the RMV levy. In the Metro Area, the NTC levy reflects a comparable burden to that in Greater Minnesota. The RMV levy is higher because metro school districts are heavily reliant on the operating referendum. Moving beyond these two levies, into the state levy and credits, is where the tax burden appears to shift from Greater Minnesota increasingly onto Metro Area payers.

Starting in 2002, the state incorporated its own property tax levy, which increased from \$585 million in 2002 to \$625 million in 2005. The table below indicates that while the state levy does not originate in the local decisions that shape the RMV levy, the Metro Area does face a higher tax effort here:

<i>Tax Effort for State Property Tax Levy</i>				
	2002	2003	2004	2005
Metro Area	0.374%	0.364%	0.352%	0.334%
Greater MN	0.303%	0.296%	0.305%	0.313%

The following table shows the combined tax effort of the NTC and RMV levies, plus the state levy, for the two regions during the three-year period.

<i>Tax Effort for Total Levy (NTC, RMV, State Levy) Before Credits</i>				
	2002	2003	2004	2005
Metro Area	3.013%	3.184%	3.148%	3.182%
Greater MN	2.861%	2.940%	2.977%	3.086%

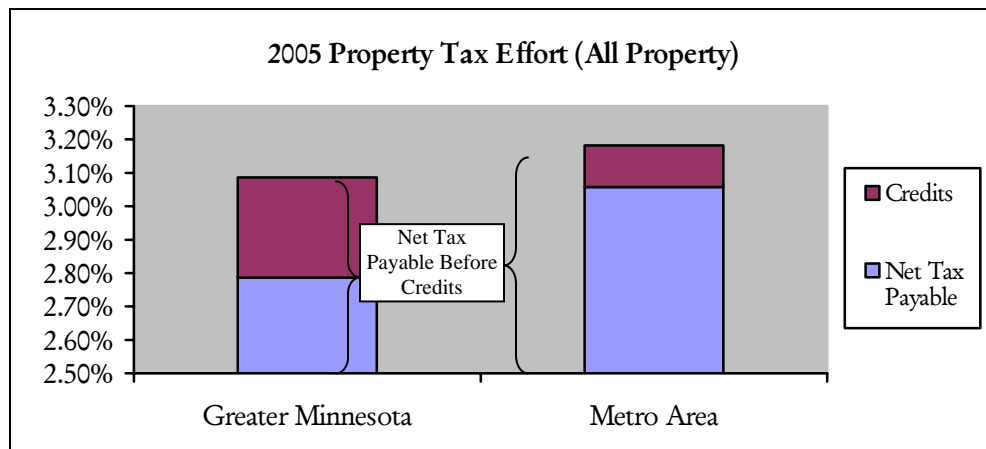
The credits listed in the summary section of the report might be expected to correct this gap. While over 67% of the total property tax levy (before credits) originated in the Metro Area in 2005, only 46% of the credits are applied to Metro property tax bills. Instead, the credits serve to exacerbate the existing gap. As a percent of personal income, the difference in property tax credits received widened by region during the study period:

<i>Property Tax Credits</i>				
	2002	2003	2004	2005
Metro Area	0.168%	0.157%	0.140%	0.124%
Greater MN	0.319%	0.324%	0.308%	0.299%

The cumulative result is that after factoring in credits, property owners in the Metro Area face a higher tax effort than their counterparts in Greater Minnesota, even after the discretionary RMV levies are considered.

Net Tax Payable: Tax Effort

When each of the levies and credits is considered, the data indicate that the state levy places a disproportionate burden on property owners in the Metro Area, and credits give disproportionate relief to property owners in Greater Minnesota:



Tax Effort for Residential Property Only

Past tax effort studies have considered residential property tax effort in addition to the data for all property. For purposes of isolating the values of residential property, the study uses the following categories used by the Department of Revenue:

<i>Residential Property Defined</i>
Nonagricultural Homestead Residential Property
Nonagricultural Non-Homestead Residential Property
Nonagricultural Apartment Property
Agricultural Homestead Property (Used Figures for House, Garage, One Acre)

To isolate the tax payable by residential property, this study has used data provided by the Department of Revenue that includes the levy amounts attributable to homesteads only, omitting agricultural property outside of a house, garage and one acre.

With a focus strictly on residential property, the gap in tax effort between Metro Area and Greater Minnesota widens. The following tables summarize the findings for residential property only:

<i>Tax Effort: Total Net Tax Payable (Residential Property Only)</i>				
Region	2002	2003	2004	2005
Greater Minnesota	1.167%	1.237%	1.292%	1.364%
Statewide	1.423%	1.575%	1.620%	1.720%
Metro Area	1.548%	1.741%	1.781%	1.894%
Regional Difference	0.381%	0.504%	0.489%	0.530%

In summary, Minnesotans in the Metro Area continue to pay roughly one half of one percent of their incomes more in residential property tax than their counterparts in Greater Minnesota. This tax effort gap is actually increased through the current state system of property tax credits.

End Notes

ⁱ For online information, access these tables at

http://www.taxes.state.mn.us/taxes/property_tax_administrators/other_supporting_content/ptbull_pay04_main.shtml. The tables for taxes payable in 2005 have not yet been posted to the web but are available from the Department of Revenue or AMSD.

ⁱⁱ A more comprehensive discussion of the distinctions between RMV and NTC is available online at

http://www.taxes.state.mn.us/property_tax_administrators/other_supporting_content/pay04_narrativeforweb.pdf.

ⁱⁱⁱ See footnote i.

^{iv} Regional Economic Information System, Bureau of Economic Analysis, U.S. Department of Commerce. Data is available online at <http://www.bea.gov/bea/regional/reis/default.cfm?catable=CA1-3§ion=2>.

^v Seasonal recreational property is, by definition, not generally owned by taxpayers who homestead in the county where the cabin is located. An unscientific analysis of cabin owner data provided by the Minnesota Seasonal Recreational Property Owners Coalition in 2006 suggests that 64% of cabin owners live in the eleven-county metro area used in this study. Property taxes paid by these individuals belong in the accounting of metro tax effort, though the data do not readily allow us to consider cabins more comprehensively in this analysis.