

JUST HOW UNBEARABLE ARE MINNESOTA HOMEOWNER PROPERTY TAXES?

By Mark Haveman

Executive Director | Minnesota Taxpayers Association

A recent report by the League of Minnesota Cities painted a picture of severe fiscal stress compounded by property tax levels that are becoming intolerable. While there is no doubt that city governments are facing tremendous budget challenges, it's much more difficult to assess whether residential property tax burdens really are exceeding thresholds of affordability. Until recently, information that linked property taxes paid to actual homeowner income was not available. But thanks to a report released by the Minnesota Department of Revenue earlier this year, information is now available providing important perspective on how significant the ability-to-pay problem really is.

The "Residential Homestead Burden Property Tax Report" is based on 2007 property tax and homeowner income data. It covers 83 of Minnesota's 87 counties and 94% of the total homestead market value in the state. Within all the statistics, three major themes emerge which run counter to conventional wisdom and have implications for state property tax policy going forward.

The notion of a full-blown affordability crisis in residential property taxes is likely overstated. After accounting for the property tax refund, the median property tax burden ranged from 1.72% of income in the southwest region of the state to 3.60% in Minneapolis. Statewide the median burden was 2.81% of income. It's important to remember this burden reflects all local government services including school levies – not just city operations. To put this claim on income in some

perspective, our research indicates the state income tax burden is 2.48% for a married two-filer household with a modest income of \$50,000 and 3.87% for an income of \$75,000. Even if residential property taxes had increased 25% statewide since 2007 and incomes remained flat, the statewide median burden would still be about 3.5% of income.

If there really is an affordability crisis, it's much more likely to be in the metro area, not outstate. As the accompanying table shows, for the household income range of \$45,000- \$65,000 (which includes the state's median household income), property taxes in the metro region consumed almost 50 percent more homeowner income than they did in Greater Minnesota. The report found this same geographic inequality at every income group. The report also found that the percentage of "stressed" homeowners (homeowners facing property tax burdens of 5% or more of household income after the property tax refund is applied) was over four times higher in the metro area than in Greater Minnesota.

The property tax refund program does what it's supposed to do—and does it well. One of the biggest criticisms of the property tax is the disconnect with ability-to-pay. However, the state property tax refund program does an excellent job of addressing this concern. Thanks to the property tax refund program, the median property tax burden for the lowest income homeowners declined by 40% with more modest declines for all incomes up to \$90,000. It's powerful evidence that refund programs targeting those least able to pay are very effective in making the tax less regressive.

These findings also have important implications for property tax and local aid policy. Local government aid has long been defended as a property tax “leveling agent,” introducing greater fairness in tax imbalances across the state. But as this report shows, current aid and credit design actually does a poor job of treating equals equally across the state. Excluding local government aid directed to Minneapolis and St. Paul, 93.2% of LGA went to cities outside the metro in the year of this study. At a minimum, these findings suggest an overhaul of the aid and credit system is in order.

But more fundamentally, this report brings an important debate about state/local relationships into sharper relief. There are two possible paths to assure good local public services at acceptable tax prices. The first is to let local governments set and collect whatever level of property taxes they need to deliver on their citizens’ needs and wants with the state providing highly targeted tax relief to those who really need it. The other path involves direct subsidization of city services. The former ensures high levels of local government accountability, accurate tax pricing, and highly efficient use of state assistance. The latter involves endless fights over aid distribution formulas, finger pointing, and inherent disincentives for pursuing more cost effective methods of public service delivery.

Property Tax Burden as a Percent of Income, By Region Homeowner Income Range \$45,000 to \$65,000

Property tax burden after property tax refund (PTR)

Metro Region	Median Burden	No. of homesteads with tax burden >5%	% of homesteads with tax burden >5%
Anoka	3.2%	969	5.2%
Carver/Scott	3.6%	1,398	15.8%
Dakota	3.3%	1,925	9.8%
Washington	3.3%	1,073	9.6%
Minneapolis	3.6%	2,490	17.9%
North Hennepin	3.6%	1,694	11.9%
Southeast Hennepin	3.7%	1,836	14.6%
Southwest Hennepin	3.8%	2,196	24.7%
Saint Paul	3.1%	782	7.0%
Suburban Ramsey	3.5%	1,145	10.1%
Metro Region Total	3.4%	15,508	11.9%
Greater Minnesota			
Northwest/Headwaters	1.9%	132	1.8%
Arrowhead	1.7%	325	2.0%
West Central	2.0%	213	1.8%
North Central	2.0%	195	2.2%
Central	3.0%	941	4.7%
East Central	3.0%	455	5.2%
Minnesota Valley	2.1%	197	2.2%
Southwest	1.5%	NA	NA
South Central	2.2%	NA	NA
Southeast	2.5%	751	3.1%
Greater Minnesota Total	2.3%	3,396	2.8%

From the Minnesota Department of Revenue report, “Residential Homestead Property Tax Burden: Taxes Payable 2007”, which includes findings from the Voss database, the database that matches property taxes paid with actual incomes of Minnesota homeowners.

THE NEXUS PROJECT

**A Joint Research Project of NAIOP, The Commercial Real Estate Development Association
and the Minnesota Taxpayers Association**

The Nexus Project will conduct an analysis of the critical relationship between local spending decisions, local government cost drivers, the processes by which budgeting decisions are made, influences at the state level, and the combined effect on the levels of property taxes and other costs imposed on Minnesota businesses and individuals.

**For more information, additional copies or an electronic version, please contact
Kaye Rakow, NAIOP Minnesota Director of Public Policy, (952) 928-7461.**