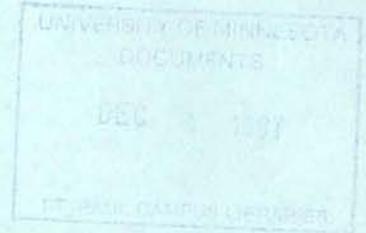




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## SPEAKING OF TAXES

Number 2  
 November 30, 1987

### PROPERTY TAXES IN MINNESOTA:

#### HOW HIGH IS UP?

by Arley D. Waldo  
 University of Minnesota

**\$2,550,370,217.00**

That's the tax bill Minnesota property owners received in 1987. On a statewide basis, net property taxes payable in Minnesota in 1987 climbed 7.6 percent above the record level reached in 1986. And property taxes next year will be even higher, despite a temporary tightening of state-imposed levy limitations.

Are property taxes too high? Is more property tax relief needed? Do we need a realignment of fiscal responsibilities between state and local governments? Are local governments spending too much? Do we rely too heavily on the property tax to finance local services? These and other property tax issues are likely to be hotly debated in the 1988 legislative session.

Let's look back at what has happened to property tax levels in Minnesota over the past 25 years.

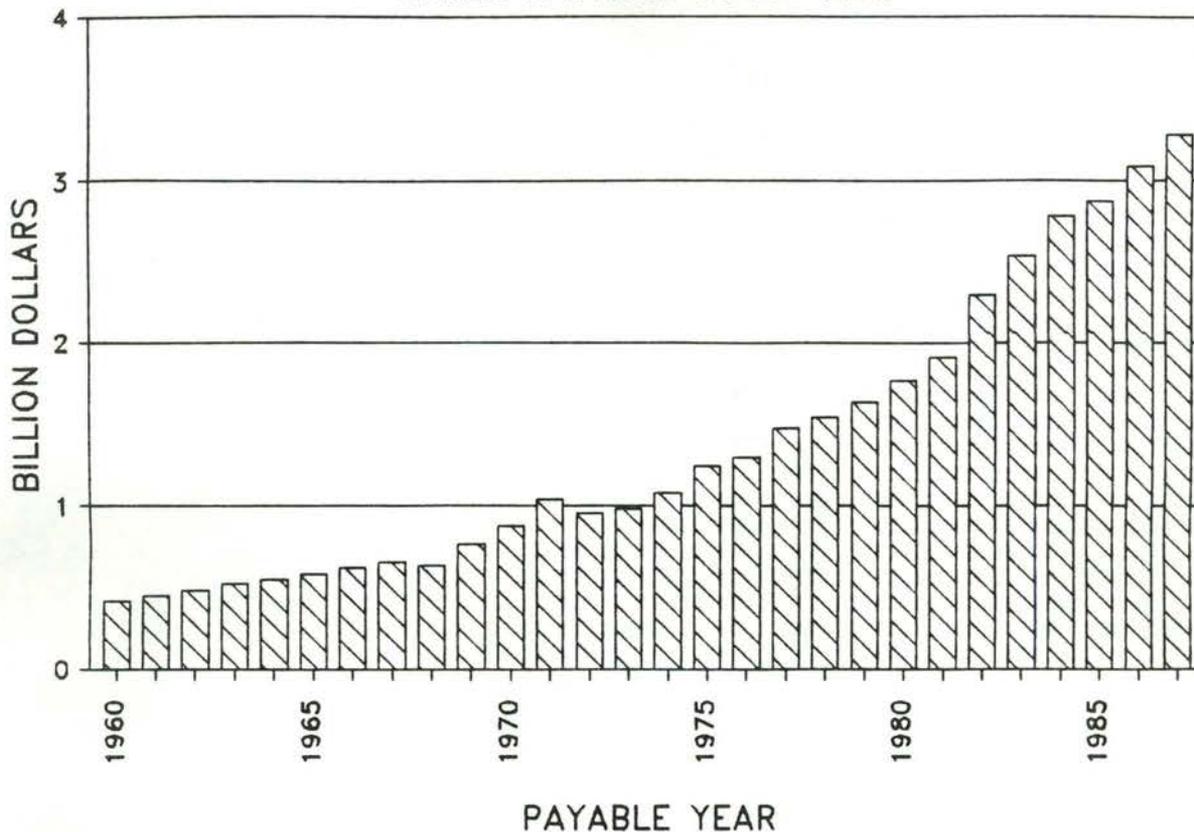
#### PROPERTY TAX LEVIES

Total property tax levies in Minnesota passed the one billion dollar mark in 1971. This was twice the amount levied ten years earlier. By 1982, local property tax levies exceeded two billion dollars. They hit the three billion level in 1986 (Chart 1). When will property tax levies go over the four billion dollar mark?

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CHART 1

## PROPERTY TAXES LEVIED IN MINNESOTA TAXES PAYABLE 1960-1987



Total property tax levies in Minnesota for taxes payable from 1960 to 1987 are shown in Table 1. Also included are the amounts of state-paid property tax credits and net taxes payable for each year.

(Make a mental note: The amount of property tax revenue to be raised is set in the year before the tax is to be paid. My convention -- the usual one -- is to report all information on the basis of "payable year"; that is, the year in which the tax is to be paid. This reflects the property taxes that were levied by the various local taxing jurisdictions in the preceding year.)

Back to the main story.

TABLE 1. Total Property Taxes Levied, State-Paid Property Tax Credits, and Net Taxes Payable, Minnesota, 1960-1987 (in dollars)

Payable Year	Total Taxes Levied	State-Paid Tax Credits	Net Taxes Payable
1960	419,453,064	0	419,453,064
1961	450,188,726	0	450,188,726
1962	485,179,323	0	485,179,323
1963	520,373,338	0	520,373,338
1964	549,548,300	0	549,548,300
1965	584,013,359	0	584,013,359
1966	617,249,406	0	617,249,406
1967	653,858,024	0	653,858,024
1968	633,833,536	78,768,510	555,065,026
1969	764,221,165	95,304,787	668,916,378
1970	873,460,307	108,054,831	765,405,476
1971	1,040,697,641	127,596,363	913,101,278
1972	957,373,983	117,085,618	840,288,365
1973	982,660,767	122,753,051	859,907,716
1974	1,081,485,121	189,373,196	892,111,925
1975	1,246,500,553	206,708,572	1,039,791,981
1976	1,297,320,467	220,254,291	1,077,066,176
1977	1,472,445,842	264,062,233	1,208,383,609
1978	1,538,696,661	279,129,204	1,259,567,457
1979	1,628,312,735	295,723,116	1,332,589,619
1980	1,758,838,100	423,500,007	1,335,338,093
1981	1,904,137,599	531,616,497	1,372,521,102
1982	2,305,082,386	599,715,307	1,705,367,079
1983	2,540,024,301	636,250,370	1,903,773,931
1984	2,784,220,908	619,809,424	2,164,411,484
1985	2,874,995,386	648,219,078	2,226,776,308
1986	3,083,957,627	714,618,814	2,369,338,813
1987	3,277,322,315	726,952,098	2,550,370,217

Note: Excludes special assessments.

Source: Minnesota Department of Revenue.

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The property tax represents the only source of tax revenue available to most local units of governments in Minnesota -- including counties, school districts, townships, special taxing districts, and all but a few cities. These local governments all have other sources of revenue -- state and federal aid, charges for public services, etc. But, except for a small number of Minnesota cities, the property tax is the sole source of locally-determined tax revenue. And, even then, the authority of local governments to levy property taxes is established by the state legislature and constitutional provisions.

Statewide, property tax levies totaled a little more than \$419 million in 1960. Tax levies climbed steadily through the early and mid-1960's, dipped in 1968, and then increased rapidly through 1971 -- the year of the so-called "Minnesota Miracle." Largely because of increased state aid to local governments and school districts, levies fell after 1971 but soon began to climb once more. Since 1980, the increase has been even more rapid.

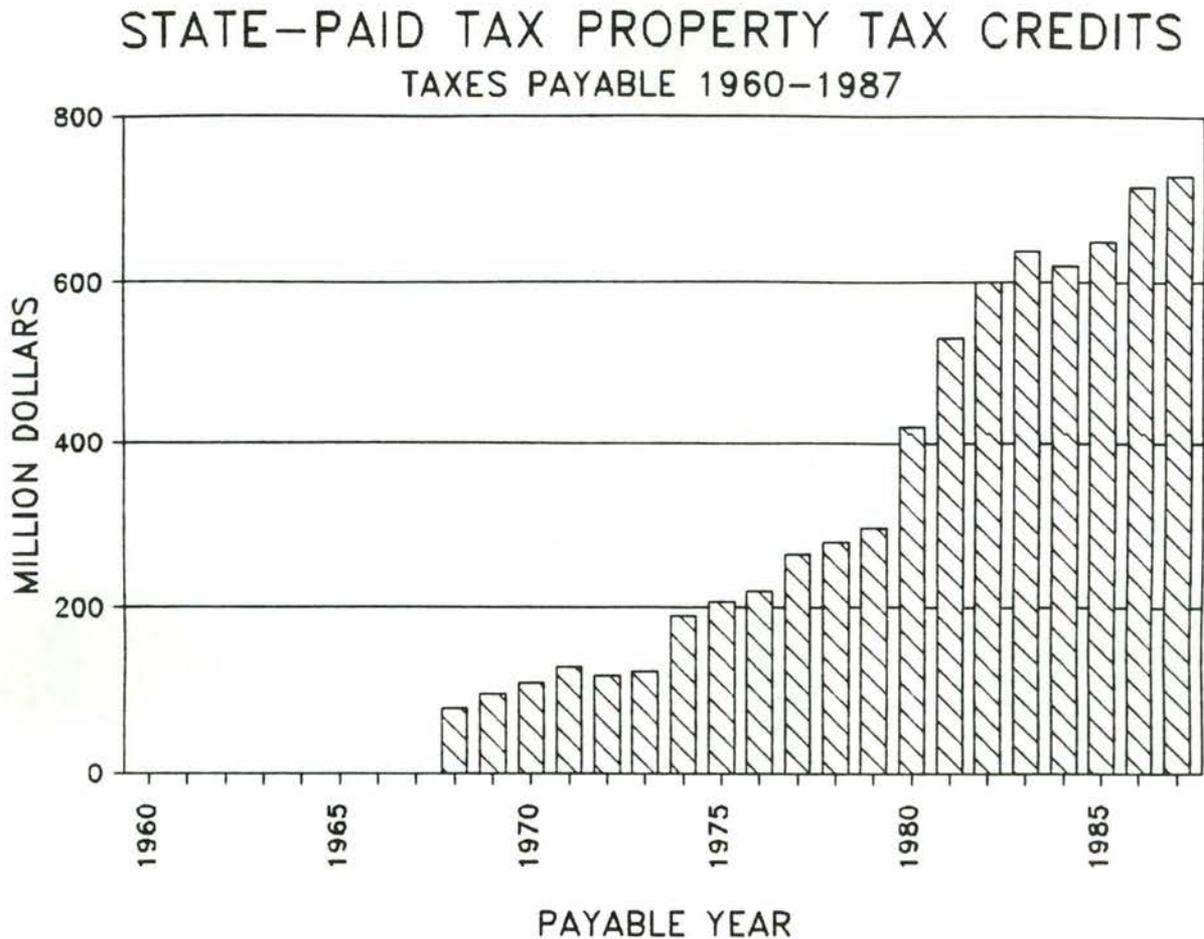
PROPERTY TAX CREDITS            Increases in property tax levies do not necessarily mean higher property taxes. Beginning with property taxes payable in 1968, state-paid property tax credits have financed a portion of local tax levies.

A system of homestead credits was established by legislation passed in 1967. The agricultural school credit was added later, followed by a number of other property tax credits. State-paid property tax credits cut the tax liability of homeowners by about \$79 million in 1968 and \$95 million in 1969 (Chart 2). By 1979, the cost of property tax credit programs to the state treasury -- and to state taxpayers -- had reached nearly \$300 million. Tax credits increased sharply in 1980 as the legislature pumped more money into property tax relief.

The cost of providing property tax relief is now approaching three-quarters of a billion dollars annually. This represents property tax relief financed from state revenue sources -- chiefly income and sales taxes.

Minnesota's system of property tax credits means that the state pays part of any property taxes that local units decide to levy. (Don't forget that some expenditure obligations are imposed upon local units by the state, and that the state sets certain property tax levy limitations for local governments.) Thus, state government has committed itself to pay some of the taxes levied by local units by cutting the tax bill of property owners.

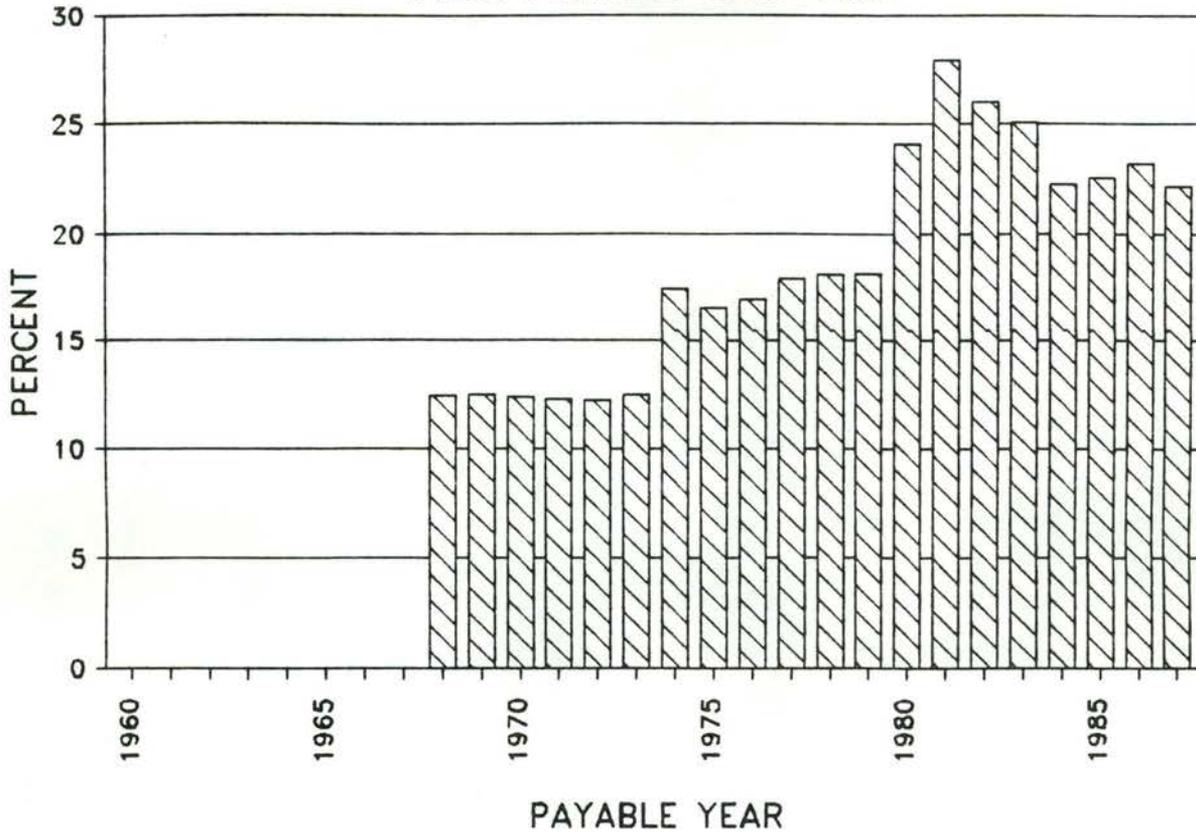
CHART 2



Initially, property tax credits represented slightly more than 12 percent of local tax levies (Chart 3). The homestead credit program was expanded beginning with taxes payable in 1974, and tax credits were increased substantially for taxes payable in 1980. And they were raised even higher for taxes payable in 1981-83. In 1981-83, 25 percent or more of the property tax levies of local governments and school districts was being paid not by local property owners but by state taxpayers. That figure has slipped somewhat in the last few years, but still remains well above 20 percent.

Chart 3

### CREDITS AS PERCENT OF TOTAL LEVIES TAXES PAYABLE 1960-1987

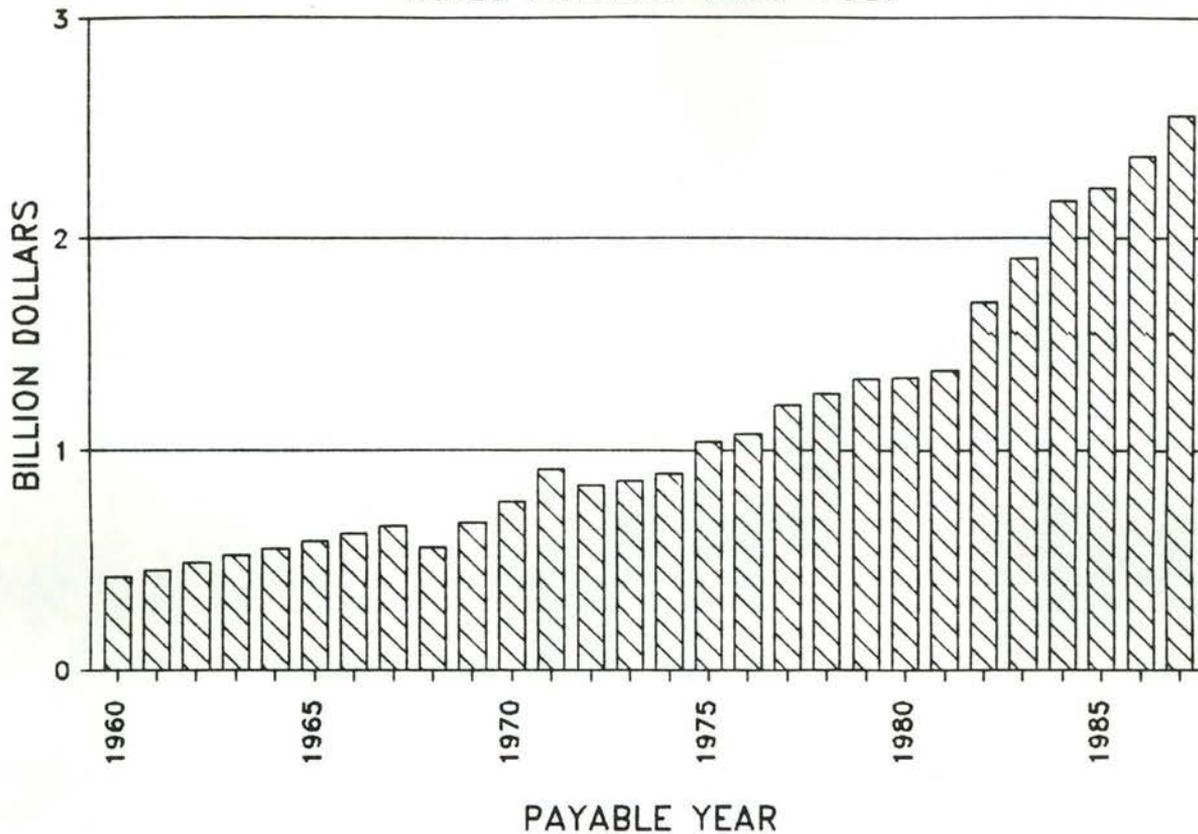


#### NET PROPERTY TAXES

Chart 4 shows what has happened to statewide property taxes after property tax credits have been subtracted from the taxes levied by local governments and school districts. The effects of tax legislation passed in 1967 and 1971 are evident, but net property taxes have generally moved higher. Note especially the increase in property taxes since 1981. There have been only two times in the past 25 years when net property taxes have actually declined -- in 1968 after the implementation of the Property Tax Reform and Relief Act of 1967, and in 1972 after the passage of the "Minnesota Miracle."

Chart 4

## NET PROPERTY TAXES PAYABLE IN MINNESOTA TAXES PAYABLE 1960-1987



### CONSIDERING INFLATION

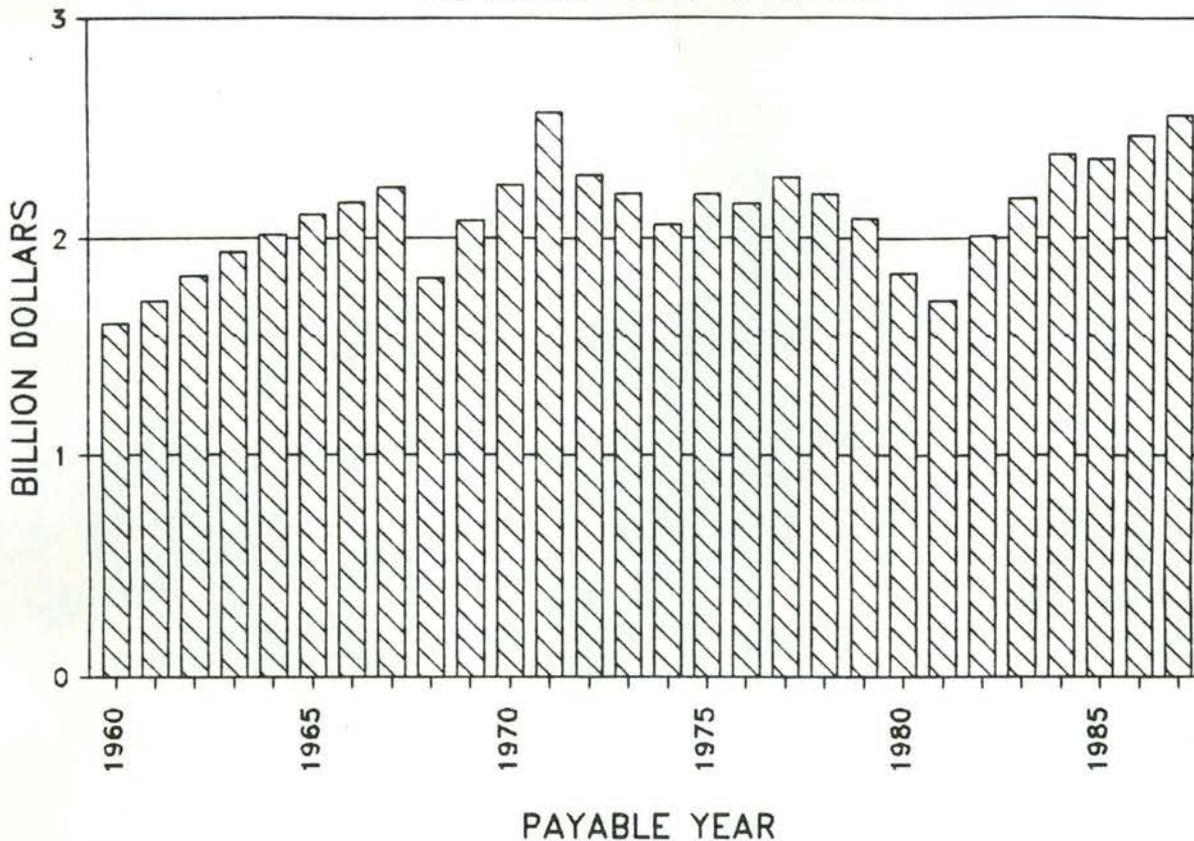
When looking at what has happened to property tax levels in Minnesota over the past quarter of a century, you shouldn't forget to consider the effects of inflation -- both on the tax burden of property owners and on the expenses of local governments.

Chart 5 shows net statewide property taxes measured in terms of today's prices. Adjusting for the effects of inflation, we see a fairly sharp increase in property taxes in the early and mid-1960's, a sizable decline following the enactment of the homestead credit program and increased state aids in 1967, and then a steep increase in property taxes from 1968 to 1971.

The 1971 legislature increased both state aids to local governments and school districts, and property tax credits.

CHART 5

## NET PROPERTY TAXES PAYABLE IN MINNESOTA CONSTANT 1987 DOLLARS



In addition, new and more restrictive levy limitations were placed on local units of government and school districts. Property taxes, adjusted for inflation, dropped after 1971 and then remained fairly stable for several years. From 1977 to 1981, taxes fell significantly in real terms. But when the state ran into fiscal problems in the early 1980's, efforts to balance the state budget forced cuts that helped push property taxes back up once more. This year total net property taxes in Minnesota rose to a level about equal, in real terms, to their previous high in 1971.

Is additional property tax relief called for? This brief look at what has happened to property tax levels in Minnesota doesn't answer that question, but it may give you a reference point useful in thinking about the issue.

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Note: Full-size (8 1/2 x 11) copies of the charts shown here, suitable for making overhead transparencies, are available on request. Please call Susan Bifulk at (612) 625-1762 or write. Ask for SPEAKING OF TAXES, NO. 2: SUPPLEMENT.

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