

Property Market Values and Tax Base Highlights

Following is a chart from the City Assessor's Office with estimated market values and corresponding tax capacity by group. As the data shows, the City's tax capacity was greatly impacted by the 2001 legislative session and the resulting property tax reform.

For Taxes Collected in 2005 ⁶

Group	2005 Estimated Market Value	% Total	% Change	Tax Capacity	% Total	% Change
Commercial	4,646,614,700	15.1%	-0.5%	90,636,099	27.2%	-0.6%
Industrial	1,347,262,100	4.4%	3.5%	26,201,462	7.9%	3.5%
Residential	21,504,338,600	70.0%	12.2%	175,898,930	52.8%	18.0%
Apartment	3,199,757,300	10.4%	6.5%	39,844,818	12.0%	6.4%
Other	18,532,400	0.1%	3.0%	277,988	0.1%	3.0%
Total	30,716,505,100	100.0%	9.0%	332,859,297	100.0%	9.8%

The market value and tax capacity data on the previous page does not include personal property, which is estimated to be approximately \$373,663,000 (market value) with a tax capacity of \$7,254,000 for 2005. With personal property included, tax capacity is estimated to increase by approximately 10 percent, before deductions for tax increment and fiscal disparities.

The following table of data provides the change in tax increment financing and fiscal disparities contribution and distribution for taxes payable 2005.

For Taxes Payable 2005⁶

Gross Tax Capacity	\$332,859,000
+ Plus Personal Property	\$7,254,000
- Less Tax Increment Financing	(\$47,011,000)
- Less Fiscal Disparities Contribution	(\$34,107,000)
+ Plus Fiscal Disparities Distribution	\$37,894,000
Net Tax Capacity	\$296,889,000

Property Values and Tax Trends

The 2001 tax bill enacted by the state legislature, made comprehensive changes to the property tax laws. Under Minnesota's state property tax system, if the State reduces the level of property tax for one property type through changes in the classification system, the taxes shift to other property types. The same principle applies if market values change for one property type but not another.

⁶ This information was provided by the City of Minneapolis Assessor's Office and was the most current information available at the time this budget document was printed.

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Different property uses pay tax at a different rate as a result of the State's property tax classification system. The taxes are a function of the market value taken times the statutory class rate times the tax rate. The 2001 legislature made changes to the property tax classification rates that reduced the rates for commercial/industrial property, apartments and high valued homes.

In 2001, the State Legislature enacted a statewide property tax on commercial, industrial and seasonal-residential recreational properties. The State of Minnesota now receives 26 percent of the property taxes paid on those property types. Until recent property tax reform, property taxes were collected and distributed exclusively at the local level.

Minneapolis has historically had a strong commercial and industrial tax base. For taxes payable in 1996, Minneapolis commercial and industrial property paid 54.7 percent of the total taxes for the city with the central business district alone paying almost 40 percent. After property tax reform, for taxes payable in 2005 this declined to 38.1% of the city total with the central business district paying approximately 28 percent. The commercial/industrial share of the City's taxes is projected to continue to decrease to 34.1 percent in payable 2010. Corresponding percentages for residential property (defined as 1-3 dwelling units) show that this class paid 33.6 percent of the city's taxes in 1996, increasing to 43.7 percent for payable 2005 and projected to be 56.3 percent in payable 2010. This represents almost a complete reversal in the share of the City's tax burden between the two property types.

The changes in distribution of tax base are a function of both market conditions and changing class rates. Residential property has increased in value at a higher rate than other property types in the past several years. The residential tax base grew 16 percent in 2000, 23.4 percent in 2001, 15.2 percent in 2002, 14.2 percent in 2003 and 11.9 percent in 2004. Similar increases in residential taxes have been avoided because of the *limited market value* law. The 2001 legislature phased out limited market value over a six-year period, with the final phase out in payable 2007. Minneapolis had a differential of over \$4 billion between total residential market value and limited market value in 2004. As the limited market value is phased out, even if the real estate market remains flat, this action will cause a significant shift in tax burden to residential property. If the market continues to be stronger for residential than other property types it will continue to further compound the property tax shift.

Commercial real estate values are traditionally cyclical with periods of high vacancy resulting in lower rents and values while periods of low vacancy result in high rents and high values. The Minneapolis central business district is in a period of high vacancy and the market value (and hence the tax) on downtown office buildings has recently declined. This reduction of tax paid by these properties at the city level is compounded by 26 percent of the tax being directed to the State of Minnesota rather than staying at the local level as a result of the 2001 Property Tax Reform. This state tax is used to increase the level of funding that the state provides to local school districts.

The market for Minneapolis commercial properties located in neighborhood commercial nodes or along the city's commercial corridors has been extremely strong over the past several years. However, their increased values cannot offset the enormous impact of a decline in value for over 25 million square feet of office space in the central business district.