State Cuts to Local Governments Drive Property Tax Increases in Greater Minnesota

FY 2003 – FY 2007

2006 Property Tax Report

A project of the League of Rural Voters

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Contents

Summary of Findings…….2
Schools……...……3
Cities……...……... 4
Counties……...……...5
Impact to Home Owners..……...……6

Note:
Graphs are available that demonstrate the local impact of state aid cuts on homestead property tax rates and a corresponding decline in local government revenues in the following thirty Greater Minnesota communities and school districts:

- Albert Lea, Alexandria, Appleton, Austin, Bemidji, Benson, Blue Earth, Brainerd, Caledonia, Crookston, Detroit Lakes, Fairmont, Faribault, Fergus Falls, Granite Falls, Jackson, Mankato, Marshall, Moorhead, Morris, Owatonna, Pipestone, Redwood Falls, Rochester, Saint Cloud, Thief River Falls, Willmar, Windom, Winona, Worthington

To request a graph, please contact Niel Ritchie at 612-879-7578 or Kris Sundberg at 612-332-4222.

Who We Are

Founded in 1985, the League of Rural Voters is a non-profit organization dedicated to increasing the representation of rural people in the policy making process.

The League seeks to build awareness of the economic challenges facing rural communities while advocating for policies that focus government resources into education, health care and local and regional economic development.

By informing citizens of ongoing policy debates over legislative issues that impact their communities and encouraging grassroots participation, the League seeks to amplify the voices of rural people in Congress and in state legislatures.

Summary of Findings

Significant cuts in state spending for education and local government aid (LGA) have driven a dramatic increase in property taxes for Greater Minnesota residents, especially homestead property taxes. This analysis was conducted by the League of Rural Voters utilizing data from the Minnesota State Department of Finance, Department of Revenue and Department of Education. Using data from the past four years, and adjusting for inflation, the report reaches the following conclusions:

State budgets reduce support for schools, roads, and public safety…

- State aid to school districts has been cut by $709 million, a decline of 9.9 percent statewide.
- Pawlenty Administration budgets have reduced city LGA by 30.9 percent.

… requiring significant local property tax increases.

- Property taxes have grown almost entirely due to cities and school districts replacing state aid cuts, and not because of additional spending at the local level, according to State of Minnesota data.
- School property taxes have increased by $443 million, or 38.3 percent statewide.
- Statewide city property taxes are up 35.1 percent.

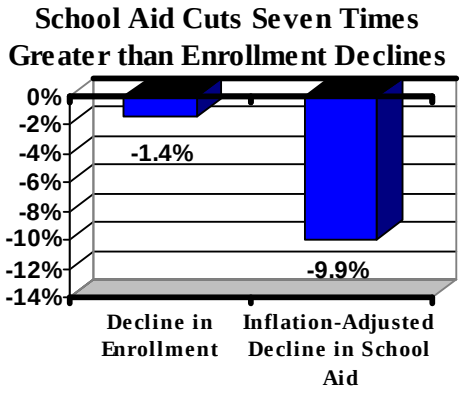
Cities, schools and counties have not regained lost revenue through property tax increases.

- Local government revenues have declined in real dollars per capita by 5 percent statewide.
- School districts have seen a 1.5 percent, or $181, decline in revenue per pupil.

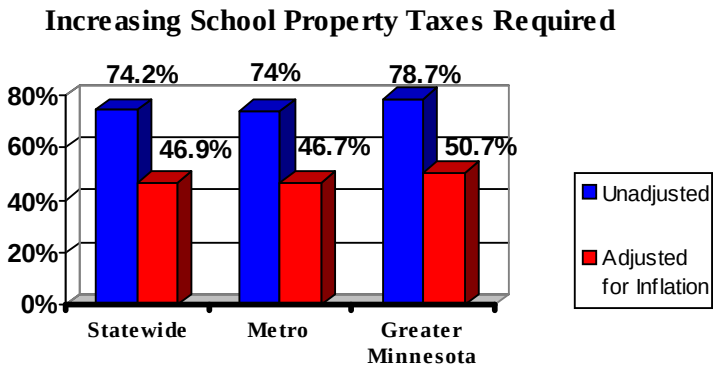
Schools

State aid to Minnesota school districts has been cut by $709 million, a decline of 9.9 percent from fiscal year (FY) 2003 – 2007 in inflation-adjusted dollars.

While some of the decline in school aid can be attributed to a modest decline in student enrollment, this amounts to only 1.4 percent during that same period. <see 3-1>



3-1. Enrollment change from FY 2003—FY 2007



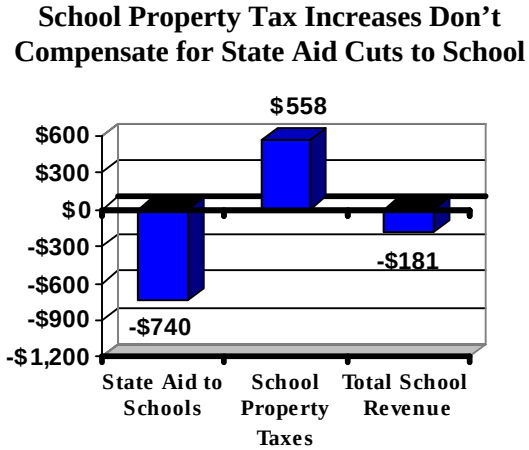
3-2. School property tax increases in inflation-adjusted dollars FY 2003 - FY 2007

Increasing School Property Taxes

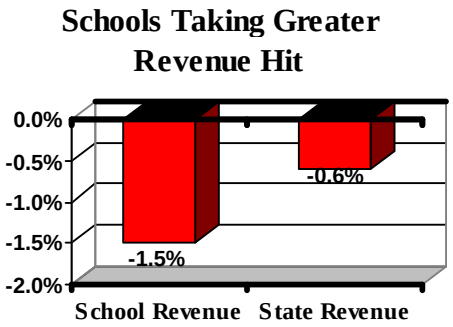
This decline in state aid to schools is the primary cause of school property tax increases. School property taxes have increased by $443 million—or 38.3 percent—in inflation-adjusted dollars from FY 2003 to FY 2007. During this same period, the average school property tax increased by $216 per Minnesota home, a 46.9 percent increase after adjusting for inflation.

Reduced School Funding

Total funding for E-12 public education in Minnesota has declined since these large property tax increases have not been sufficient to offset the even larger cuts in state aid. Public school revenue has decreased by $285 million—or 2.9 percent—in inflation-adjusted dollars from FY 2003 to FY 2007. This translates to a decline of $181—or 1.5 percent— per pupil.
<see 3-3 and 3-4>



3-3. FY 2003– FY 2007 (pay '02 - '06) in constant FY 2007 dollars per pupil

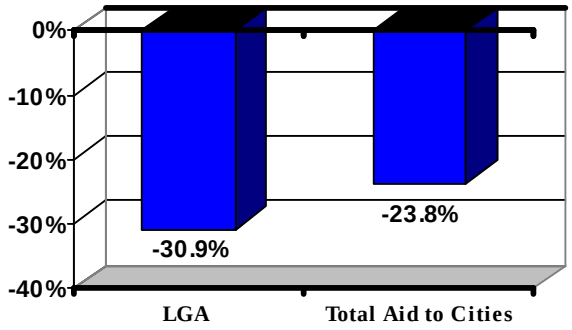


3-4. City and State revenue adjusted for inflation and population growth FY 2002 - FY 2006

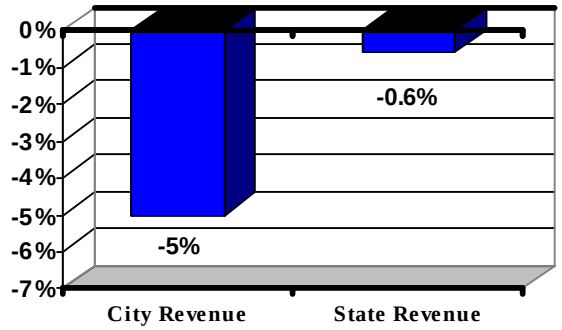
Increasing Educational Demands

At the same time that school funding has declined, the demands on public schools have increased. For example, federal and state testing mandates have increased and the population of special need students (e.g. special education, free and reduced lunch students, limited English proficiency) has continued to grow.

Significant Reductions in State Aid to Cities ...



4-1. State aid to cities adjusted for inflation and popula-



4-2. City and State revenue adjusted for inflation and population growth FY 2002 - FY 2006

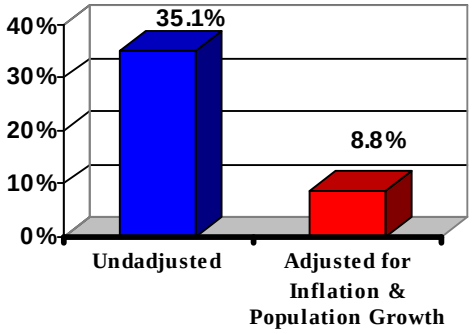
Significant State Reductions in Local Government Aid and City Revenue

After adjusting for inflation and population growth, the Pawlenty administration's budgets cut city LGA by 30.9 percent, reducing the total adjusted city aid by 23.8 percent. <see 4-1> Again, taxpaying residents are paying more in taxes while receiving less in services due to the substantial reduction in local government aid.

Total revenue of Minnesota cities has declined by 5 percent from 2002 to 2006, which is far greater than the 0.6 percent decline in state revenue over the same period. <see 4-2>

Growth of the city portion of property taxes, for the most part, is the result of state aid cuts and can not be attributed to real increases in local government revenue and spending.

… Drives Significant City Property Tax Increases

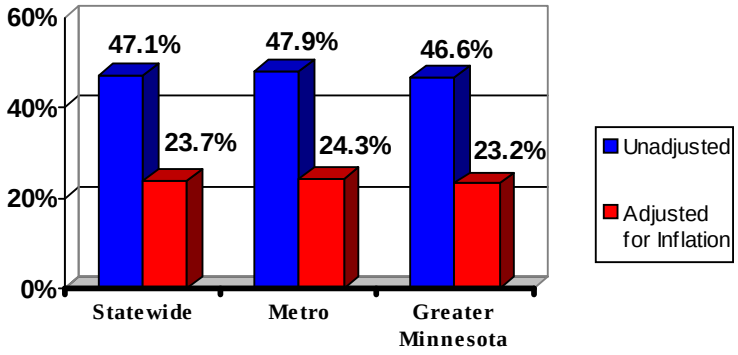


4-3. City property tax growth: FY 2002 - FY 2006

Increasing Property Taxes Required

Total statewide city property taxes increased nearly 9 percent in inflation-adjusted dollars from FY 2003 to FY 2007.
<see 4-3>

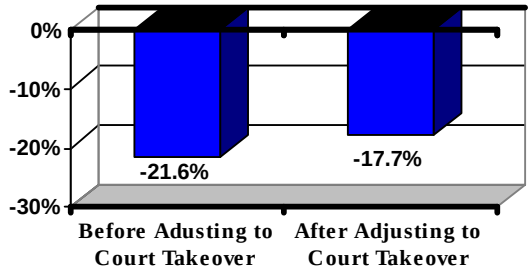
The average city homestead property tax across the state jumped to over 20 percent in the past four years.
<see 4-4>



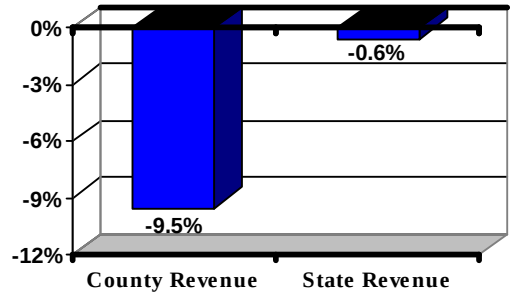
4-4. Average city homestead property tax growth FY 2002—FY 2006

Counties

State Cuts to County Revenues...



5-1. State aid to counties adjusted for inflation and population growth FY 2002 - FY 2006



5-2. County and State revenue adjusted for inflation and population growth FY 2002 - FY 2006

Decreasing Total County Revenue

As with cities, growth in county property taxes cannot be attributed to growth in statewide county revenues. Adjusting for inflation, population growth, and the state takeover of court administration costs, the total revenue of Minnesota counties has declined by 9.5 percent from 2002 to 2006, far greater than the decline in state revenue. <see 5-1>

In the past four years, additional costs were shifted to the counties from the state. For example, the cost of incarcerating short-term felony offenders was shifted to the counties. Counties were also mandated to pay 10 percent of medical assistance costs for nursing homes stays over 90 days for people under 65.

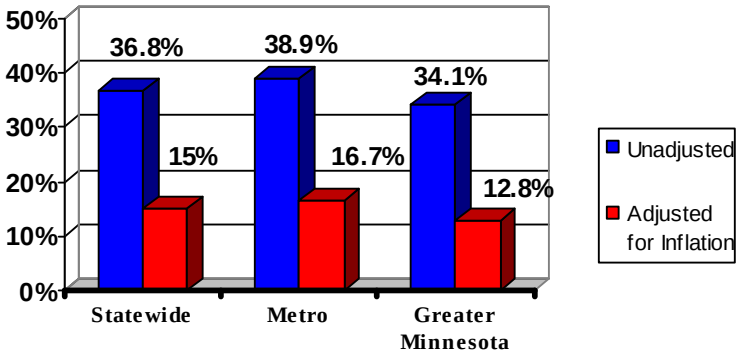
Increasing County Property Taxes

The county portion of property taxes are also up during the last four years. Average county homestead property taxes across the state are up approximately 15 percent after adjusting for inflation. <see 5-3>

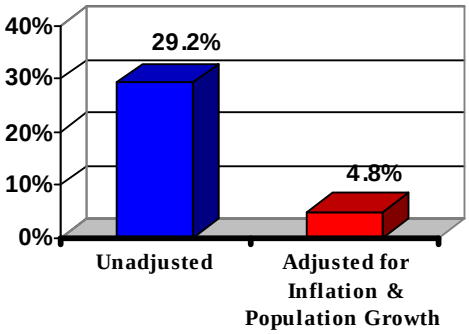
After adjusting for inflation and population growth, the county portion of property taxes are up 4.8 percent. <see 5-4>

As with school districts and cities, county property taxes are up in part because the state slashed property tax relief. After adjusting for inflation and population growth, state aid to counties has been cut by 21.6 percent. Even after including adjustments acknowledging the state takeover of court administration costs, county state aid decreased by 17.7 percent. <see 5-1>

… Drive County Need to Increase Property Taxes



5-3. Average county homestead property tax growth from FY 2002 - FY 2006



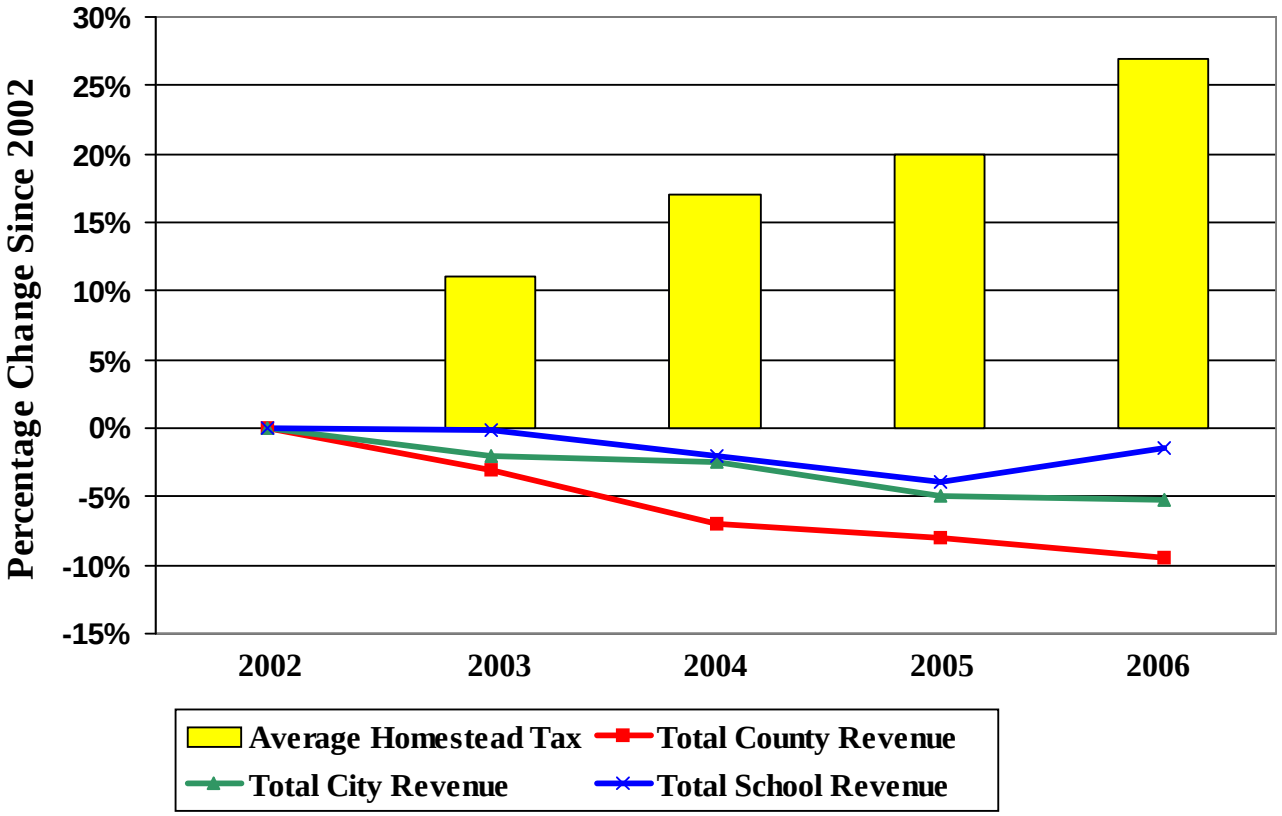
5-4. County property tax growth FY 2002 - FY 2006

Impact on Homeowners

On a statewide basis, the local property tax on the average value homestead has increased by over 25 percent after adjusting for inflation. As the graph clearly shows, ***this growth in homestead property taxes is simply not the result of growth in local government spending.***

In real dollars per capita and per pupil, total county, city, and school district revenues in Minnesota have not risen since 2002.

The chart below, based on the most recent Minnesota Department of Finance "Price of Government" report clearly shows that trend.



All "adjustments for inflation" are based on the Implicit Price Deflator (IPD), an inflation index calculated by the MN Dept of Finance that best measures state and local government purchasing power.

Local and State Revenues derived from the 2006 End of Session (EOS) MN Dept of Finance Price of Government Report.

Population data for per capita calculations from MN State Demographer/ Metropolitan Council.

"Local School Property Tax Levy" and "State School Aid" are calculated from Mn Dept of Education data.

"Aid", "Credit"," Property Tax" and "Revenue Base" data are from MN Dept of Revenue.

"Revenue Base" includes property taxes plus state aids and credits.

"State Aids" and "Credits" include all property tax relief aids and market value homestead credit.