Webinar: MVHC Conversion to Value Exclusion

August 19, 2011

Outline of Webinar

- 2011 Legislative Action
  - Why did the state repeal the MVHC?
  - Cuts to MVHC payments for 2011
  - Eliminate MVHC program beginning in 2012
- New exclusion program
  - The basics
  - Factors/variables important to understanding the effects on your city
- Your questions and answers

Spruce County
Jane Smith, Auditor-Treasurer
345 12th Street East, Box 78
Spruceville, MN 55555-5555
(218) 345-6789
www.co.spruce.mn.us

2011 PROPERTY TAX STATEMENT

Property ID Number: 01.234.56.7890.R1

Property Description:
Lot 5, Block 13 of the Spruceville Estates Addition to the City of Spruceville.

TAXPAYER(S):
John and Mary Johnson
123 Pine Road South
Spruceville, MN 55555-5555

PROPERTY TAX VALUES & CLASSIFICATION

Taxes Payable Year:	2010	2011
Estimated Market Value:	$100,000	$115,000
Improvements Excluded:	N/A	$5,000
New Improvements/ Expired Exclusions:	$0	$0
Taxable Market Value:	$100,000	$110,000
Property Classification:	RES HMSTD	RES HMSTD

$$$ REFUNDS?

You may be eligible for one or even two refunds to reduce your property tax.

Read the back of this statement to find out how to apply.

Taxes Payable Year:			2010	2011
1.	Use this amount on Form M1PR to see if you are eligible for a property tax refund. File by August 15. If this box is checked, you owe delinquent taxes and are not eligible. ☐			$1,212.60
2.	Use these amounts on Form M1PR to see if you are eligible for a special refund.		$1,104.34	
Property Tax and Credits				
3.	Property taxes before credits		$1,386.74	$1,486.00
4.	Credits that reduce property taxes			
		A. Homestead and agricultural market value credits	$282.40	$273.40
		B. Taconite tax relief	$0.00	$0.00
		C. Other Credits	$0.00	$0.00
5.	**Property taxes after credits**		**$1,104.34**	**$1,212.60**
Property Tax by Jurisdiction				
6.	County		$562.66	$618.00
7.	City or Town		$130.28	$142.85
8.	State General Tax		$0.00	$0.00
9.	School district	A. Voter approved levies	$188.94	$207.46
		B. Other local levies	$190.90	$209.61
10.	Special Taxing Districts	A. Metropolitan special taxing districts	$27.56	$30.19
		B. Other special taxing districts	$4.00	$4.49
		C. Tax increment	$0.00	$0.00
		D. Fiscal Disparity	$0.00	$0.00
11.	Non-school voter approved referenda levies		$0.00	$0.00
12.	Total property tax before special assessments		$1,104.34	$1,212.60
Special Assessments				
13.	Special assessments	A. Curb and street improvements	$30.00	$30.00
		B.		
		C.		
14.	**TOTAL PROPERTY TAX AND SPECIAL ASSESSMENTS**		**$1,134.34**	**$1,242.60**

County
itor-Treasurer
East, Box 78
N 55555-5555
5-6789
ice.mn.us

90.R1

eville Estates Addition to the City

5

2012 PROPERTY TAX STATEMENT

PROPERTY TAX VALUES & CLASSIFICATION

Taxes Payable Year:	2011	2012
Estimated Market Value:	$141,100	$143,200
Improvements Excluded:	$8,000	$4,000
Homestead Exclusion:	N/A	$24,352
Taxable Market Value:	$133,100	$114,848
New Improvements/ Expired Exclusions:	$4,000	$4,000
Property Classification:	RES HMSTD	RES HMSTD

$$$ *You may be eligible for one or even two refunds to reduce your property tax.*

Why were changes enacted?

- Addressing the state's $5 billion budget deficit was the major reason for the conversion of the MVHC into a new market value exclusion
- If fully funded, the existing market value homestead credit program costs the state roughly $286 million per year or nearly $600 million for a biennium.

Why were changes enacted?

- The program has also lost general support:
  - Failure to fully reimburse cities and counties for many of the past ten years added to momentum to simply eliminate the program
  - Under the MVHC, the state effectively pays a portion of each qualifying homeowner's tax bill
  - When the state cuts reimbursements to a city for the MVHC, it has the effect of reducing the city's certified levy
  - The state is essentially a delinquent taxpayer

2011 Cuts to MVHC payments

2011 Cuts to MVHC payments

- For CY2011, cities were cut by:
  - $25 million due to the 2010 supplemental budget bill (affected roughly 125 cities without enough LGA to cover computed cut)
  - An additional $48 million under 2011 special session tax bill that affected all cities
- Total cut to cities of roughly $73 million means that the state is only paying for 14% of the reduction in city levies created by the MVHC program

2011 Cuts to MVHC payments

- County reimbursements also cut by $56 million in 2011 under the special session tax bill
- School districts were not impacted by the 2011 cuts to reimbursements
- After the 2011 cuts to cities and counties, the state is only reimbursing local units of government for roughly 55 percent of the credit provided to taxpayers

2011 Cut Details

- Under the special session tax bill, “the reimbursement paid to each city and county [in 2011]….may not exceed the reimbursement payment received by the city or county for taxes payable in 2010”
- This definition means that the actual 2011 “cut” can increase or decrease if the city’s reimbursement amount would have increased or decreased

2012 MVHC Conversion

2012 MVHC conversion overview

- Market Value Homestead Credit (MVHC) currently given to homesteads valued at $413,800 or less eliminated in 2012
- Replaced with a new homestead market value exclusion system to buffer MVHC loss
- Mechanics of the transition will cause tax rates and taxes for most properties to rise unless local governments cut levies below 2011 levels

The new homestead exclusion

- Property tax relief will now be delivered by excluding a portion of each qualifying home's market value from taxation
- Eligibility for the exclusion mimics the existing MVHC program
  - Homes up to $76,000 in total market value receive maximum exclusion
  - Amount of exclusion decreases as home value grows until exclusion is fully phased-out for homes valued at over $413,800.

Basic example-the before

Example Home Market Value		$76,000	$150,000	$300,000	$450,000
Previous Law					
	Home Net Tax Capacity (1% class rate)	$760	$1,500	$3,000	$4,500
	Gross Tax (at 105.81%*)	$804.16	$1,587.15	$3,174.30	$4,761.45
	Current MVHC	$304.00	$237.40	$102.40	$0
	Net Tax	$500.16	$1,349.75	$3,071.90	$4,761.45

* Using House Research average total tax rate statewide for 2011 under current law.

Basic example-the after

Example Home Market Value	$76,000	$150,000	$300,000	$450,000
New Law				
Market Value Exclusion	$30,400	$23,740	$10,240	$0
MV after exclusion	$45,600	$126,260	$289,760	$450,000
Home Net Tax Capacity (1% class rate)	$456	$1,263	$2,898	$4,500
MVHC Credit	$0	$0	$0	$0
Net Tax (at 110.92%*)	**$505.80**	**$1,400.48**	**$3,214.02**	**$4,991.40**
Net Tax OLD SYSTEM	***$500.16 +5.64***	***$1,349.75 +50.73***	***$3,071.90 +142.12***	***$4,761.45 +229.95***

* Using House Research average total tax rate statewide for 2011 with new homestead market value exclusion.

LEAGUE OF MINNESOTA CITIES

The good and the bad

What it means—the good news

- Eliminates the problem of unpredictable and inconsistent reimbursement of the MVHC by the state.
- Cities will not have to set levies in anticipation of an MVHC reduction.
- In summary, the levy you publicly announce and certify each year will be the amount you receive from your taxpayers (except for delinquencies, appeals, etc).

What it means—the good news

- New system actually provides a small cash flow benefit to each city
- The city will receive their full first half property tax distribution with the May settlement
- Under the current MVHC system, the May settlement was reduced by the amount of the MVHC credit, which was not reimbursed until late October.

What it means—the bad news

- The bad news…
  - Tax bases will shrink
  - Exclusion is intended to moderate homeowner impacts due to the loss of the old MVHC, but loss in tax base will cause tax rates and taxes on most properties to increase unless local units of government reduce levies and budgets
  - Taxes will generally shift away from homesteads to other properties

How will the change to the MV exclusion affect my city?

Factors to consider

How will the change affect my city?

- Overview of considerations
  - Tax base composition/portion of lower-value homes
  - Local levy decisions
    - Replacing/recovering LGA and MVHC losses
    - Past levy strategy to deal with MVHC reimbursement cuts
  - Other considerations: Interaction with LGA formula, Fiscal Disparities and tax increment financing

Tax base composition

- Unique mix of different property types will determine how much tax burden shifts
- Larger portion of lower-value homesteads will mean more shifting
  - Maximum exclusion is for homes valued at $76,000 or less
  - Exclusion phases out as home value grows
  - No exclusion at all for homes over $413,800
- Remember county and school taxes will shift as well

City levy decision

- Even if you freeze your levy for 2012, the tax rate will rise due to the loss of tax base
- Lower value homes may end up paying MORE tax despite exclusion because of a rate increase (especially in lower tax rate areas)
- Existing Targeting refund program and changes the Legislature made to the Property Tax Refund may mitigate some of the effects of the conversion

Replacing/recovering LGA and MVHC losses

- Cities lost $102 million in LGA payments for 2011; appropriation will be frozen at the 2011 level for 2012
- 2011 MVHC losses totaled $73 million
- Many cities may need to increase levies to recover their 2011 cuts in pay 2012
- Levy increases may compound the effects of the conversion to the MV exclusion

Past levy strategy for MVHC cuts

- Some cities previously levied for more than what they needed in order to net the right amount after MVHC reimbursement cuts
- To a degree, that earlier decision to increase levies shifted the burden of paying for the unreimbursed credits
- Even if your city previously levied for the cut and now plans to reduce the levy, keep in mind that county and school levies will also shift

Other Considerations

- LGA formula will be based on net tax capacity <u>reduced</u> by the new MV exclusion but changes in the distribution will not occur until 2013
- Fiscal Disparities distribution amounts may be affected by changes due to the MV exclusion but changes will not occur for at least one year

Other Considerations

- Department of Revenue's current interpretations of the effects of the MV exclusion mean:
  - Tax increment financing districts with homes that qualify for the exclusion will see a reduction in the increment generated
  - Maximum levies for EDAs and HRAs will be based on the market value after the MV exclusion

Key Points

- Current MVHC program is eliminated beginning with taxes payable 2012
- New MV Exclusion program begins for taxes payable 2012
- ALL cities will see an increase in the city tax rate even if levies stay flat
- The shifting effects are similar to what would happen if the MVHC program continued at $0 funding level

Your questions

- Email lmcwebinar@lmc.org

Thank you