Understanding Your Assessment and Tax Calculation

Assessment Process Timeline

In Minnesota it is the duty of the Assessor to value and classify property. This is done annually as of the assessment date of January 2nd. Each year's assessment is based on arms-length transactions (sales that meet the criteria of an open market transaction, see market value definition below) that occurred the previous October thru September. When the assessment is complete the local taxing jurisdictions begin their budgeting process for the following year by using the total assessment to determine their tax base and develop their tax rates. All aspects of the assessment, including but not limited to the assessment date, sales period for each assessment and property tax classification are dictated by state statute and are under the oversight of the Minnesota Department of Revenue.

Market Value Defined

As in private appraisal, Market Value is defined as:

> *The most probable price that a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by any undue stimulus. Implicit in this definition are the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:*
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> - *buyer and seller are typically motivated:*
> - *both parties are well informed or well advised, and acting in what they consider their own best interests;*
> - *a reasonable time is allowed for exposure in the open market;*
> - *payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto;*
> - *the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale (a foreclosure sale or a short sale [a sale to avoid foreclosure] is not considered an arms-length transaction).*

Mass Appraisal Defined

Property values for Minnesota real estate tax purposes are determined by mass appraisal. Mass appraisal is the practice of determining individual values based on statistical analysis of a group of sales for a large area. The values are determined as of a specific date and are based on arms-length transactions that occurred during a specified sales period.

As part of this mass appraisal process, all properties are re-valued annually based on the information on record. Properties are physically inspected and property records reviewed once every 5 years (as required by Minnesota statute). This is an ongoing process whereby 20% of a city is inspected each year so that in a cycle of 5 years all properties have been inspected at least once. In addition to this quintile review, properties are also inspected when there is a building permit issued or at the request of the property owner. The sale of a property does not initiate a reassessment.

As stated earlier, Minnesota state law governs the assessment date, which is January 2nd of each year, as well as the sales periods associated with each assessment date.

The 2013 assessment which was used for tax calculations this year (2014) was based on transactions that closed between October 1, 2011 and September 30, 2012. Property owners were notified of their 2013 value on their **Notice of Valuation and Classification** (also referred to as a **valuation notice**). The notices were mailed out in March of 2013 in the same envelope as the 2013 tax statement. The appeals process took place at the municipal level during the month of April of 2013 and at the county level in June of 2013. At this point, if a property owner wishes to appeal their 2013 assessment (for taxes payable 2014) their only option is to file a tax court petition. This must be done no later than April 30, 2014.

The 2014 assessment has just been completed and the valuation notices were mailed the week of March 16th. This is the assessment that will be used for tax calculations next year for taxes payable in 2015. The sales period associated with this assessment is October 1, 2012 thru September 30, 2013. As with past assessments, the local appeals process will begin in April and finish up in June. The options and requirements to appeal this assessment are listed on the back of the valuation notice. If you have an issue with your 2014 assessment, the first thing you should do is contact your local assessor. The phone number(s) are listed on your valuation notice.

In conclusion, all arms-length sales that closed between October 1, 2012 and September 30, 2013 have been used to determine valuations for the 2014 assessment, for taxes payable in 2015. And by the time you are paying your 1st half real estate tax on May 15 of 2014, the sales that were used to determine the estimated market value on which your taxes are based occurred somewhere between 19 to 31 months earlier.

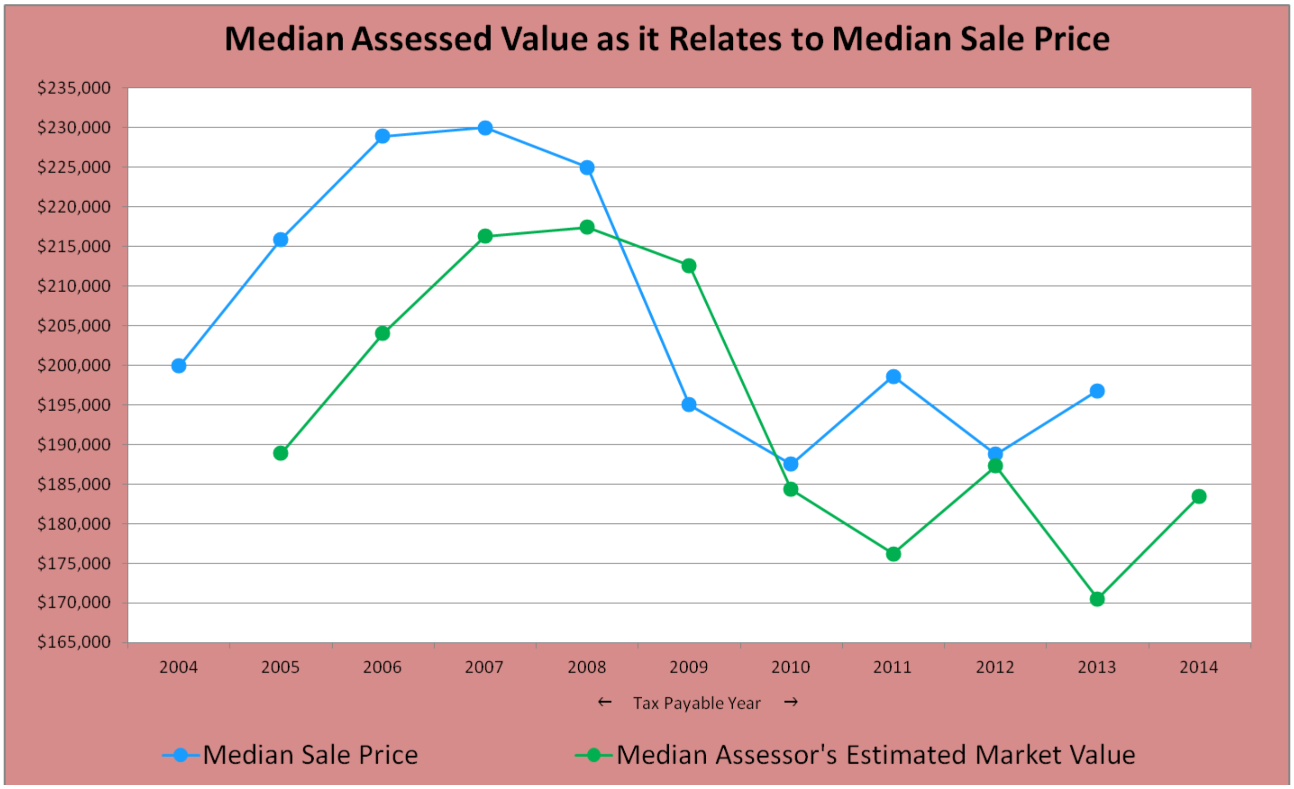
The following chart may be helpful in following the timeline of your assessment.

SALES PERIOD	ASSESSMENT DATE	TAX YEAR
October 1, 2010 to September 30, 2011	January 2, 2012	2013
October 1, 2011 to September 30, 2012	January 2, 2013	2014
October 1, 2012 to September 30, 2013	January 2, 2014	2015

Assessment vs. the Current Market

We are aware that due to the time frames we are required to work within it sometimes appears as though the assessor's estimated market value does not represent the market. Your property's value seems lower than it should be during times of inflation and higher than it should be in times of deflation. The following chart illustrates the relationship between assessed values and actual sale prices; and how the assessor's market values have been following the changes as they occur in the open market.

Note: The Median Assessor's Estimated Market Value represents the homes that are in the sales study.



As you can see, there is a point in time where the relationship between the assessor's values and the sales prices intersect. It is at that point in time that the market took a large downward turn. The following year, in response to that market condition, the assessor's values were reduced to reflect that trend. And we have responded by adjusting assessed values each year based on the prior year trends. It's interesting to note the upward shift for the 2012 assessment. It is somewhat deceiving in that the trend in sales prices was actually down, but due to the segment of the market with the most arm's-length transactions, the median sale price did go up for that year.

Property Value and Property Taxes

It's important to note that the assessment process is complete **before** the budgeting process begins. Assessors do not adjust values in order to increase revenue. There is little correlation between changes in assessments due to market changes and how the resulting real estate tax changes. When we adjust assessments due to market conditions, all properties are adjusted. The only time that an adjustment in an assessor's estimated market value will have an impact on the increase or decrease in tax is if the change in value is due to value added for new construction or value removed due to demolition/destruction of an improvement.

How your tax amount changes from year to year is influenced more by statutory changes to the tax structure, and revenues needed by your local taxing authorities (including school districts). If we were to reduce all values by 50%, the resulting tax amounts would not be decreased by 50%; the tax rates would be increased to generate the same amount of tax revenue.

The following example illustrates that basic concept.

2013 Assessment Tax Payable 2014		2014 Assessment Tax Payable 2015		
Property	EMV	Property	EMV	Overall Change In EMV
A	$375,000	A	$187,500	-$187,500
B	$120,000	B	$60,000	-$60,000
C	$150,000	C	$75,000	-$75,000
D	$400,000	D	$200,000	-$200,000
E	$250,000	E	$125,000	-$125,000
Total Tax Base	$1,295,000	Total Tax Base	$647,500	-$647,500

DECLINING VALUES REDUCE THE TOTAL TAX BASE

2014 Tax Rate Calculation		2015 Tax Rate Calculation	
Revenue Needed	$10,000	Revenue Needed	$10,000
Divided by Total Tax Base	$1,295,000	Divided by Total Tax Base	$647,500
Equals Tax Rate	0.0077	Equals Tax Rate	0.0154

A REDUCED TOTAL TAX BASE REQUIRES A HIGHER TAX RATE TO GENERATE THE SAME REVENUE

Resulting 2014 Tax Calculations		Resulting 2015 Tax Calculations		
Property	Tax Amount	Property	Tax Amount	Overall Change In Tax Amount
A	$2,896	A	$2,896	$0
B	$927	B	$927	$0
C	$1,158	C	$1,158	$0
D	$3,089	D	$3,089	$0
E	$1,931	E	$1,931	$0
Total Tax Generated	$10,000	Total Tax Generated	$10,000	$0

INDIVIDUAL TAX AMOUNTS REMAIN UNCHANGED

Homestead Market Value Exclusion

Beginning with taxes payable in 2012, all homestead property less than $413,800 in value will receive a Homestead Market Value Exclusion. The homestead property no longer receives a credit that reduces the property taxes paid. Instead, a portion of the homestead's property value is excluded from taxation.

The Homestead Market Value Exclusion excludes from taxation 40% of the value on the first $76,000 of a property's value. The amount excluded is reduced as the value rises above $76,000 (the exclusion reduction is equal to 9% of the value above $76,000). Homesteads that are equal to or exceed $413,800 in value receive no homestead exclusion. The chart below gives examples of the exclusion amount on homes of various values.

Estimated Market Value	Homestead Exclusion	Taxable Market Value (after Homestead Exclusion)
$ 76,000	$ 30,400	$ 45,600
$ 150,000	$ 23,740	$ 126,260
$ 250,000	$ 14,740	$ 235,260
$ 350,000	$ 5,740	$ 344,260
$ 400,000	$ 1,240	$ 398,760
$ 425,000	$ -	$ 425,000

The homestead exclusion lowered Anoka County's 2014 tax base by roughly 7%, which has lead to increases in the property tax rates of most local taxing jurisdictions. A property tax rate is calculated by dividing the property tax levy by the total tax base.

The reduction in taxable value shifts the tax burden. With homestead taxable values reduced, other property types (non-homestead, commercial, industrial, apartment, homes with higher values, etc.) pay a larger share of the tax.

Link to the Minnesota Department of Revenue's website providing further explanation of the recent changes to homestead benefits: http://www.revenue.state.mn.us/propertytax/Documents/hmve-taxpayers.pdf