

# **Major General Fund Revenues**

# Property Taxes

Property tax revenues account for 31% of General Fund revenue. In any given year several factors affect how much an individual property owner pays in city property taxes, including the following:

- City spending and financing needs
- Size of the tax base.
- Composition of the tax base.

## City Spending and Financing Needs

Property tax is the primary revenue source that the Mayor and City Council control. The state establishes guidelines by which property taxes are administered, including how the tax burden is spread among different types of properties, but local elected officials have discretion over how much total property tax revenue to collect. As a result, city spending pressures and the availability of other funding, like state aid and local fees, often dictate the size of the property tax levy in any given year.

<b>Minnesota Property Tax Class Rates</b> <i>Payable in 2008</i>	
<b>Property Type</b>	<b>Class Rate</b>
Residential Homestead	
Up to \$500,000	1.00%
Over \$500,000	1.25%
Residential Non-Homestead	
Single Unit	
Up to \$500,000	1.00%
Over \$500,000	1.25%
2-3 Unit	1.25%
Apartments (4 or more units)	1.25%
Commercial/Industrial	
Up to \$150,000	1.50%
Over \$150,000	2.00%

## Property Tax Base

The size of the property tax base is a function of taxable market value and the composition of the tax base. Yearly changes in market values are attributable to many factors, the most important of which is the demand for both residential and commercial property. As property values increase, the size of the tax base also increases. A larger base allows for a broader distribution of the tax burden, which results in a lower tax rate.

## Tax Base and Class Rates

The composition of the tax base determines the relative distribution of the tax levy among taxpayers. The State of Minnesota sets a class rate system which allocates different shares of property tax burden based on the use of a property (*see chart*). Apartments, residential homes, and commercial/industrial properties all have a different class rate. Taxable market value and the class rate both determine the tax capacity of an individual property. A higher class rate will result in a relatively higher tax capacity. Based on the class rate structure, one dollar of commercial/industrial property has a greater tax capacity than one dollar of residential property.

<b>St. Paul Taxable Market Value</b>	
Payable in 2006	\$18,550,595,100
Payable in 2007	\$21,103,230,000
Payable in 2008 (est.)	\$23,071,399,600

<b>St. Paul Taxable Tax Capacity (mkt. value x class rate)</b>	
Payable in 2006	\$189,071,923
Payable in 2007	\$213,227,021
Payable in 2008 (est.)	\$229,527,555

# Property Taxes

## 2008 Adopted Budget and Levy

The 2008 adopted levy is \$82.6 million. Of the adopted levy, \$80.5 million will fund city activities. \$57.4 million will go to the City's General Fund, \$8.2 million for debt service, and \$14.9 million will fund the St. Paul Public Library Agency operations and debt service. The City also levies taxes on behalf of the St. Paul Port Authority, whose 2008 levy is \$2.1 million. The City's tax rate is projected to increase slightly in 2008, which will be the first tax rate increase since 2002 (see graph below).

## Tax Dollars and the Services They Buy

Taxpayers often wonder what happens to the property taxes they pay. Here is an example for a typical home in Saint Paul in 2008:

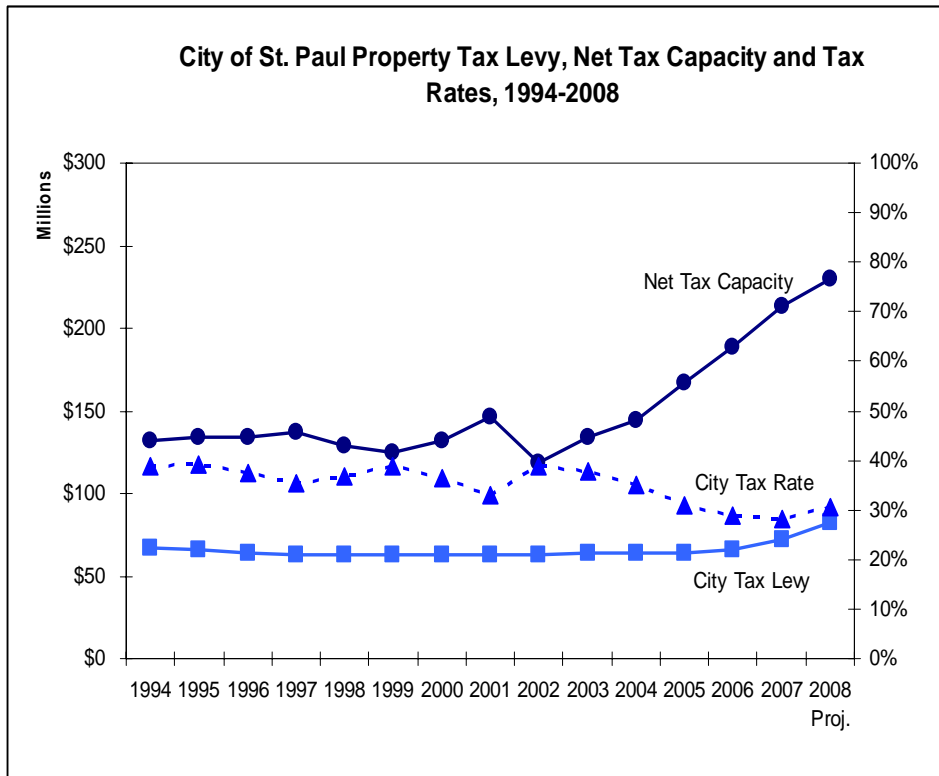
The property tax bill is a combined statement covering the City of Saint Paul, School District 625, Ramsey County, and other "special taxing districts" such as the Metropolitan Council and local watershed districts. In 2008, a home with a taxable value of \$191,900 had a total property tax bill of \$2,026.

Of the total property tax bill, the single largest share goes to the county and then to the school district. The City receives about 26% of the total tax payment – \$525 in this example.

For the typical home in this example, the property tax payment of \$525 to the City of St. Paul would break down as follows:

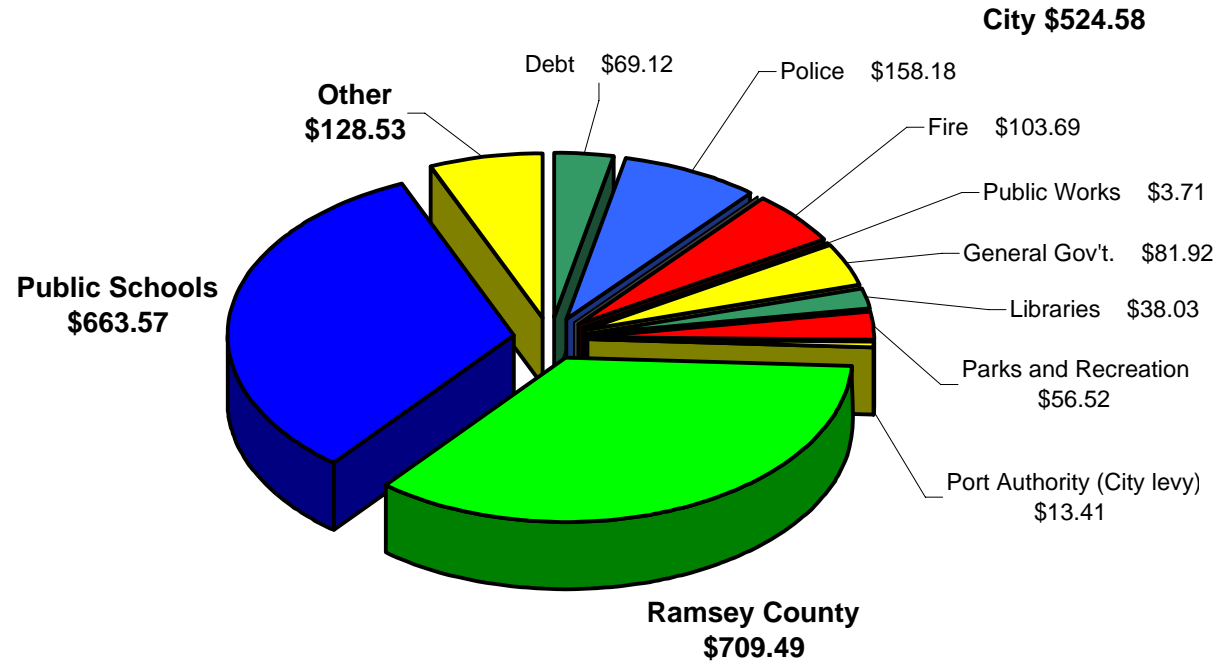
- \$158 per year for police services
- \$104 per year for fire and emergency medical services
- \$57 per year to operate and maintain the park and recreation system
- \$38 per year to operate and buy materials for the Saint Paul Public Libraries
- \$69 per year for capital debt service—the cost of building new libraries, recreation facilities, and street construction
- \$13 per year for the City's levy on behalf of the Saint Paul Port Authority as required by State statute.
- \$86 per year for all other government services including public works, licensing, technology, city attorney, etc.

Property taxes cover only a small part of the total cost of services. In total, property taxes supply only about 11% of the City's total revenue and cover just over 31% of the General Fund budget. In comparison, the City's total 2008 property tax levy for all purposes—approximately \$82.6 million—is less than the \$95 million total operating budget of the Police Department.



# Estimated 2008 Saint Paul Property Taxes

2008 TNT Tax Rates Applied to a Typical Home Valued at \$191,900



City of Saint Paul	25.9%
Ramsey County	35.0%
Saint Paul Schools	32.8%
Other	6.3%
	<b>100.0%</b>

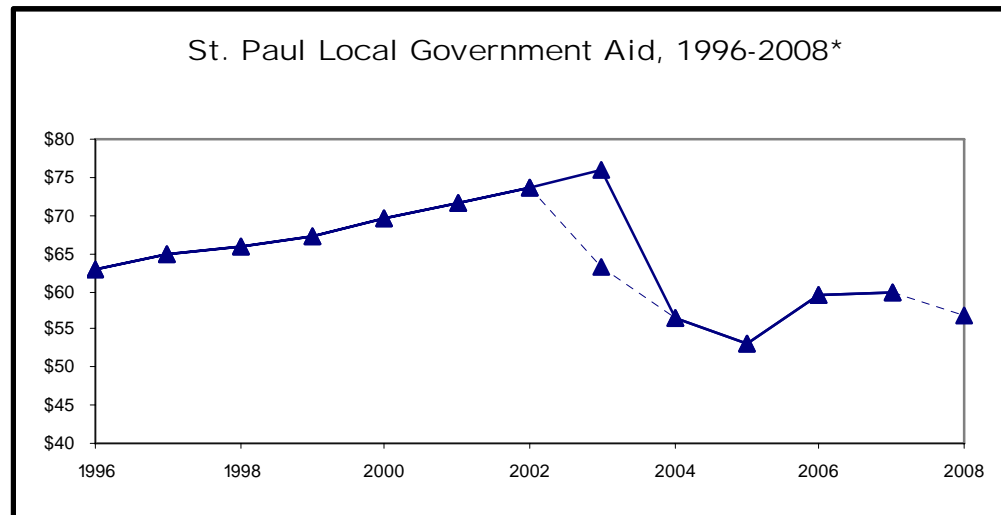
# Local Government Aid (LGA)

Local Government Aid was initiated in 1971 as part of the “Minnesota Miracle”, and was intended to provide property tax relief to Minnesota cities. The state provides Local Government Aid to cities throughout Minnesota based on a “need/capacity” formula that compares each city’s tax base to an estimated level of spending needs based on local conditions. Cities which will not have enough local revenue capacity to meet their spending needs under this formula receive Local Government Aid.

For many years, LGA was adjusted each year based on changes in population, housing, inflation, and other local factors. In 2003, the Governor and Legislature approved changes to the funding formula and levels that greatly reduced St. Paul’s LGA. Local Government Aid dropped from \$76 million in certified aid in 2003 to \$53 million by 2005, a 30% funding cut over two years.

Although the Legislature has restored a small portion of the City’s LGA funding, St. Paul’s 2008 certified LGA is still \$19.3 million below the certified 2003 level.

St. Paul Local Government Aid 1996-2008		
	LGA Funding	Change
1996	\$62,744,907	-
1997	\$64,717,916	3.1%
1998	\$65,835,021	1.7%
1999	\$67,345,179	2.3%
2000	\$69,653,919	3.4%
2001	\$71,739,170	3.0%
2002	\$73,554,056	2.5%
2003	\$76,129,865	3.5%
2003*	\$63,082,166	-14.2%
2004	\$56,488,168	-10.5%
2005	\$53,151,835	-5.9%
2006	\$59,544,561	12.0%
2007	\$59,961,201	0.7%
2008	\$56,781,644	-5.3%



\* The Legislature adjusted LGA in the second year of its 2002-03 biennial budget and reduced St. Paul's previously certified LGA funding by \$13 million. The original certified amount and revised amount are both reflected here.