

# Chapter 21

## Property Tax Levy

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## **Chapter 21**

# **Property Tax Levy**

*Learn about the city's authority to tax and understand the property tax process, including assessment, valuation, and classification of property. Read about levy limits, tax notification procedures (Truth in Taxation), and tax differential treatment for special categories of land such as rural preserve lands, special service districts, and taxing annexed or consolidated lands.*

### **RELEVANT LINKS:**

LMC, [Property Taxation 101](#).  
Minnesota House Research, [The Homestead Market Value Exclusion](#), September, 2011.  
LMC, [Homestead Market Exclusion 101](#).

LMC website, [Property Tax Calculator](#).

LMC, [Fiscal Disparities 101](#).

## **I. Tax levy basics**

Cities in Minnesota generally have only one source for tax revenue—the property tax. Therefore, money not available from other revenue sources will need to be raised through the property tax. After listing all the anticipated non-property tax revenues, including the various state aids, the city subtracts that total from the anticipated expenditures. In most cities, this leaves a substantial amount of money the city will need to raise through a property tax levy.

### **A. Tax capacity of property**

Tax capacity is the valuation of property based on market value and statutory class rates. For example, a \$75,000 home which is classified as a residential homestead has a class rate of 1.0 percent and therefore has a tax capacity of  $\$75,000 \times .01$  or \$750. The property tax for each parcel is based on its tax capacity. Eligible homesteads will pay property taxes on only a portion of the value of their homes under the Homestead Market Value Exclusion. The maximum exclusion, 40 percent of value, occurs at home value of \$76,000 and phases out as home value grows.

### **B. Property tax calculator**

The LMC Property Tax Calculator is available to assist cities in determining their levy. The calculator shows each city's market values and tax capacities and calculates the tax burden on a home or business. It also shows major city revenue sources. The calculator permits the user to compare the distribution of taxes among cities, counties and schools and compare one city with another. The LMC web site also includes other resources on the property tax system and fiscal disparities programs, as well as the property tax table and report.

This material is provided as general information and is not a substitute for legal advice. Consult your attorney for advice concerning specific situations.

## RELEVANT LINKS:

[Minn. Const. art. X, § 1.](#)

Handbook, [Sources of Revenue.](#)

## II. Authority to tax

The essential features of Minnesota's tax system are contained in the state constitution, which vests all taxing authority in the Minnesota Legislature. Without legislative authorization, cities may not levy any taxes under their own authority.

Within this constitutional structure, the Legislature alone has the authority to establish a state and local tax system. All city taxing authority is subject to legislative change or revision.

Property tax provides the greatest percentage of city tax revenue. The Legislature authorizes Minnesota cities to levy and collect taxes on real property. Cities may also enact local taxes on gambling and lodging (hotels and motels) activity. The local property tax authority has limits and operates within the framework of the entire state-local fiscal relationship. Annual legislative action frequently results in substantial changes to the tax system.

### A. Role of the property tax

State law restricts city governments to levying taxes against real property. Real property is the land and any improvements on the land, if any, in contrast to personal property such as cars, jewelry, and other easily movable items of value.

Most cities depend on the property tax for much of their operating revenues. Therefore, local officials should be familiar with property tax concepts and processes and with maintaining and improving the tax base. Charter cities may operate under unique tax levy provisions so for those cities, it is important to check the city charter.

### B. Intergovernmental problems with property taxes

The property tax supports many governmental jurisdictions. Through the property tax, the average property owner pays for the support of the city, school district, county, and any special districts—such as sanitary districts, housing and redevelopment authorities, hospital districts, watershed districts, soil and water conservation districts, and park districts.

This multiplicity of taxing jurisdictions creates problems, including the taxpayers' confusion regarding who is using their money. For example, people often criticize city governments for tax increases when, in fact, the city decreased its tax rate while other taxing jurisdictions increased their tax rate.

## RELEVANT LINKS:

[Minn. Stat. § 272.03, subd. 1.](#)  
[Minn. Stat. § 272.04.](#)

[Minn. Stat. § 272.03.](#)  
[Minn. Stat. § 272.02.](#)

[Minn. Stat. § 272.02.](#)  
[Minn. Stat. § 272.03.](#)

[Minn. Stat. § 273.01.](#)

## C. Real and personal property taxes

Minnesota law defines the term “real property” as the land itself plus all buildings, improvements, and other fixtures on the land; all rights and privileges pertaining to it; and all mines, mineral quarries, fossils, and trees on or under the land. The statutes state that wealth connected with the land, such as minerals, may be separately owned and taxed as real estate.

The term “personal property” refers to all detached or detachable, moveable property, including furniture and other personal belongings, as well as commercial inventories and equipment a business uses to produce income. Virtually all personal property is exempt from taxation.

All real property in the state is taxable as property under the laws of Minnesota, with certain exceptions. In addition, the Legislature specifically exempts certain facilities, such as structures used in the production of biofuel, wine, beer, distilled beverages, or dairy products. The city has no authority to determine what property is taxable, nor in what proportions or amounts. The Legislature alone prescribes the procedures to follow and sets all rates and exemptions. The assessor and the local board of appeal and equalization (LBAE), discussed subsequently, only have authority to determine valuations in accordance with the procedures the Legislature has prescribed.

Assessors must list all real property that is subject to taxation. The county or city assessor must individually assess at least one-fifth of the listed parcels each year, providing reappraisal of each parcel at maximum intervals of five years. The assessor’s list must include all real property in a particular city or jurisdiction becoming taxable in any year with reference to its value on Jan. 2 of that year. No changes in valuation or classification intended to correct errors in judgment by the county assessor may be made by the county assessor after the board of review or the county board of equalization (discussed subsequently) has adjourned; however, corrections of errors for real or personal property that are merely clerical in nature or changes that extend homestead treatment to property are permitted after adjournment until the tax extension date for that assessment year.

## III. Property tax process

The steps in levying property taxes begin with instructions to local assessors, and end with the tax settlements made by the county auditor.

## RELEVANT LINKS:

[Minn. Stat. § 274.01.](#)  
See Section V-B, *City local board of appeal and equalization.*

[Minn. Stat. § 274.14.](#)  
[Minn. Stat. § 270.12.](#)

[Minn. Stat. § 275.07, subd. 1.](#)

[Minn. Stat. § 275.07, subd. 6.](#)

[Minn. Stat. § 276.01.](#)

### **A. Local boards of appeal and equalization (LBAE)**

Between April 1 and May 31, or later if the commissioner of Revenue gives an extension, the LBAE must hold a meeting. The governing body appoints the LBAE or it may delegate its authority to a special board or the county.

In cities with charters that provide for a board of equalization, that board performs the functions of the local board of review. The board examines the assessor's list to determine if it accurately lists all taxable property.

### **B. County boards of appeal and equalization (CBAE)**

State statutes specify when county boards of equalization must meet to examine and compare the assessment of property within the county and equalize them so that each tract or lot is assessed at its market value. Action a board takes after adjournment is not valid unless the commissioner of Revenue approves a longer session. The law also specifies when the state board of equalization meets.

### **C. City council certifies local tax levies**

On or before five working days after Dec. 20 each year, the city council must set the tax levy for the next year and send a certified copy to the county auditor. If a city fails to do this, the county auditor will levy the amount the city levied in the previous year.

If additional cuts are made to December local government aid (LGA) payments, a city may recertify its levy by Jan. 15 of the year in which the levy will be paid. The city must report the recertified amount to the county auditor within two business days of Jan. 15 or the levy will remain at the previously certified amount.

### **D. County assigns and collects city taxes**

The county auditor spreads the city's tax levy on all taxable property in the city. On or before the first business day in March, the county auditor delivers the tax records to the county treasurer, who then collects the tax. The treasurer or fiscal officer of any taxing district may appeal the county treasurer's estimated collection to the county board, if the local official believes the amount is incorrect.

## RELEVANT LINKS:

[Minn. Stat. § 276.09.](#)  
[Minn. Stat. § 276.11.](#)

[Minn. Stat. § 270C.03.](#)  
[Minn. Stat. § 270C.94.](#)  
[Minn. Stat. § 270C.928.](#)  
[Minn. Stat. § 270C.92.](#)

[Minn. Stat. § 273.061, subd. 7-8.](#)  
[Minn. Stat. § 273.08.](#)

[Minn. Stat. § 273.063.](#)

## E. County distributes property taxes to cities

On or sometime shortly after May 20 of each year, the county treasurer pays the city its portion of all monies the county received from the levy and collection of taxes.

Property tax distributions—the estimated collections the county treasurer makes to local jurisdictions—must include taxes, special assessments, and any penalties and interest due to the taxing jurisdiction.

## IV. Assessment of property

There are four steps in the assessment of property: appraising property to determine its full and true value; classifying property to establish its tax capacity category; equalizing valuations to reduce inequities; and reassessing property.

### A. Assessment officials

The state, each county, and some cities are responsible for property assessment. Any county may require the county assessor to assess all property, except for property in cities over 30,000 in population.

#### 1. Department of Revenue

The commissioner of Revenue administers assessment laws, striving for a fair and equal assessment of all property in the state. The commissioner's duties include instructing assessors, satisfying grievances, and refunding taxes if the county board and the county auditor recommend such action; ordering the reassessment of any real or personal property; and requiring cities to supply information relating to property assessment and tax collection. The city, or any person directly interested in the order, may appeal an order to a special board of tax appeals.

#### 2. County or city assessors

At the county level, the assessment official is the county assessor, who is responsible for making the final determination of the value of all property subject to assessment and taxation. If the city has its own assessor, that person views and appraises the property, and if directed by the county assessor, the local assessor must perform the county assessor's duties. Generally, however, the county assessor determines the assessed value of all property in the county and prepares all necessary assessment books and records. (Some provisions do not apply to Ramsey County).

## RELEVANT LINKS:

[Minn. Stat. § 273.064.](#)

[Minn. Stat. § 275.065, subd. 1a.](#)  
[Minn. Stat. § 273.065.](#)  
[Minn. Stat. § 273.063.](#)

[Minn. Stat. § 273.08.](#)

[Minn. Stat. § 273.03.](#)

[Minn. Stat. § 273.0645.](#)

[“Property Tax Administrators’ Manual”](#)  
Minnesota Department of Revenue.

[Minn. Stat. § 273.072.](#)

[Minn. Stat. § 471.59.](#)  
[Minn. Stat. § 471.59, subd. 1.](#)  
Handbook,  
*Intergovernmental Cooperation.*  
[Minn. Stat. § 471.59, subd. 10.](#)

The county assessor must examine the assessment appraisal records of each local assessor any time after Dec. 1 of each year and must notify the local governing body of any deficiencies. If the local assessor does not correct the deficiencies within 30 days, the county assessor, with the approval of the commissioner of Revenue, may do so. The auditor may charge the local unit for the work and if the local unit doesn’t pay by Sept. 1, the county auditor may levy a tax against property in the local unit.

If city boundaries overlap into two or more counties, the home county auditor may delay certification of the city’s proposed property tax levy, and local tax rate, to the other county auditor until Oct. 10; the typical deadline for certification is Oct. 5. If districts do not complete their assessments by Feb. 1, the county assessor will do the work and charge accordingly. (These provisions do not apply in cities over 30,000 in population).

If a city has a local assessor, that person must place valuations on all taxable real property in the city. To do this, the assessor receives the necessary assessment books and blanks annually from the county auditor, on or before the first Monday in December of each year.

The Minnesota Department of Revenue must review the assessment practices of a given taxing jurisdiction if properly petitioned by a qualifying number of property owners. The requirements of the petition are set out in statute.

Instructions for these duties are available from several sources, including an annual meeting with a representative from the Minnesota Department of Revenue. Assessors may obtain valuable assistance from the Property Tax Administrators’ Manual, a book available from the department.

### 3. Joint assessment under contract

Any city may enter into either of two kinds of agreements that allow someone other than a local assessor to assess the property.

The city may contract with the county to have the county assessor assess property, or the city may participate in an agreement with another city or town. Under such an agreement, either governmental unit could employ an assessor, or they could jointly employ an assessor to assess property in both jurisdictions.

Cities must make these contracts or agreements under the terms of the Joint Powers Act. The term “governmental unit” as used for purpose of joint powers agreements includes but is not limited to every:



## RELEVANT LINKS:

[Minn. Stat. § 471.59, subd. 10.](#)

[Minn. Stat. § 179.60.](#)

[Minn. Stat. § 179A.60.](#)

[Minn. Stat. § 273.11, subds. 1, 23.](#)  
[Minn. Stat. § 273.01.](#)  
[Minn. Stat. § 273.13.](#)  
[Class Rates for Taxes Payable in 2025](#), Minnesota House Research.

- City, county, town, school district.
- Independent nonprofit firefighting corporation.
- Other political subdivision of this or another state.
- Another state.

However, if an agreement under this law has the effect of eliminating or replacing a public employee who is part of a collective bargaining agreement represented by an exclusive representative, and there is no provision in the collective bargaining agreement detailing the effect of the action on the affected public employee, negotiations on the effects to the employee of the job elimination or restructuring must be conducted between the exclusive representative and the employer.

In addition, there is a process for transitioning employees into a new bargaining unit once a joint powers entity is formed and provisions for dealing with seniority, personnel files, layoffs, and recalls.

## V. Valuation and classification of property

Assessors must value all property in a city at its estimated market value. Estimated market value (a complex definition in statute) is a trained assessor's estimate of what property would be worth on the open market if sold. The market value is set on Jan. 2 of the year before taxes are payable. State statutes set the tax classifications of property and the Legislature amends them regularly.

### A. Equalization procedures

Once the assessors have completed their work, the city, county, and state levels of government review and modify the assessments with limitations. During this review, two kinds of corrections are possible: 1) the governing body may check the assessor's lists for accuracy, hear individual complaints and make any necessary adjustments; and 2) the governing body may equalize the ratio of market to assessed market values. The first function is the sole concern of the city board of review, while the county and state boards devote more time to the second task.

When the entire procedure is complete, the county auditor puts the valuations in the records to use when making up the tax rate figures. Only when all three levels of government have reviewed and equalized the assessments do they become the official assessed values.

## RELEVANT LINKS:

[Minn. Stat. § 274.01, subd. 1\(a\). Minn. Stat. § 274.014, subd. 3.](#)

[Minn. Stat. § 274.014. Local Board of Appeal and Equalization Training, Minnesota Department of Revenue.](#)

[Board of Appeal and Equalization Handbook, Minnesota Department of Revenue.](#)

[Minn. Stat. § 274.014, subd. 3.](#)

[Minn. Stat. § 274.014, subd. 3.](#)

[Minn. Stat. § 274.01, subd. 2.](#)

## B. City local board of appeal and equalization

The city council serves as the LBAE unless the power is delegated to a special LBAE or to the county, as described below.

The law requires that at least one voting member of the LBAE at each meeting must have attended an equalization course within the last four years. The commissioner of Revenue develops and teaches the course. The Department of Revenue, in conjunction with host counties, schedules these regular local board training sessions throughout the state for the entire year. Course information is posted annually in May and updated periodically throughout the year.

The appeals and equalization course details the responsibilities, procedures, and requirements of LBAEs. The commissioner of Revenue, as required by state law, offers a handbook to review during the course. The contents of the handbook include:

- The role of the local board in the assessment process.
- The legal and policy reasons for fair and impartial appeal and equalization hearings.
- Local board meeting procedures that foster fair and impartial assessment reviews and other best practices recommendations.
- The role of the local board in the assessment process.
- Quorum requirements for local boards.
- Explanations of alternate methods of appeal.

Any city that conducts LBAE meetings must provide proof to the county assessor by Feb. 1 that it complies with the training requirements (at least one member must have attended the course within the last four years). A city or town that does not comply with these requirements is deemed to have transferred its LBAE powers to the county for a minimum of two years beginning with the current year's assessment and continuing thereafter unless the powers are reinstated under this law.

In the alternative, the city council may appoint a special LBAE. It may delegate to the board all of the powers and duties the council would have if it acted as the board of review. The members of the special LBAE serve at the direction and discretion of the council.

The council determines the number of members, the compensation and expense payments, and the term of office. At least one member of the board must be an appraiser, realtor, or be familiar with property valuations in the assessment district.

## RELEVANT LINKS:

[Minn. Stat. § 274.01, subd. 1\(b\).](#)

State law addresses conflict of interest. A board member cannot participate in any actions of the board which result in market value adjustments or classification changes to property owned by the board member, the spouse, parent, stepparent, child, stepchild, grandparent, grandchild, brother, sister, uncle, aunt, nephew, or niece of the board member, or property in which the board member has a financial interest. The relationship may be by blood or marriage.

[Minn. Stat. § 274.01, subd. 3.](#)

In cities where the county assesses property, the city council may transfer its LBAE power and duties to the county board.

[Minn. Stat. § 274.01, subd. 1\(a\), \(e\).](#)

The LBAE may meet in either a central location in the county, or in the office of the city clerk. The city assessor and the county assessor must attend this meeting. These officials may take part in the proceedings but may not vote.

[Minn. Stat. § 274.01, subd. 1\(a\).](#)

The meeting date of the LBAE must be between April 1 and May 31 and is fixed by the county assessor on or before Feb. 15 of each year by giving written notice to the city clerk. After receiving the notice, the clerk must give published and posted notice of the meeting at least 10 days before the date of the meeting.

[Minn. Stat. § 274.01, subd. 1\(g\).](#)

A majority of the members may take action at the LBAE meeting and may adjourn the meeting from day to day for a period of 20 days until they complete their work. After 20 days, the board has no authority and any action it takes is invalid unless the commissioner of revenue has granted an extension.

[Minn. Stat. § 274.01, subd. 1\(c\).](#)

The LBAE may not reduce the total or aggregate amount of the county assessor's assessment by more than 1 percent. This means the board must often compensate for reductions in assessed values by making comparable increases in assessments against other parcels of property.

[Minn. Stat. § 274.01, subd. 1\(d\).](#)

A local board does not have authority to grant an exemption or to order property removed from the tax rolls.

[Minn. Stat. § 274.01, subd. 1\(g\).](#)

All complaints made about an assessment or classification after the meeting of the board must be heard and determined by the county board of equalization.

[Minn. Stat. § 274.01, subd. 1\(f\).](#)

A person may not appear before the county board of appeal and equalization if he or she fails to appear to the city LBAE in person or through counsel or written communication.

## RELEVANT LINKS:

[Minn. Stat. § 274.13.  
County Board of Appeal and  
Equalization Training,  
Minnesota Department of  
Revenue.](#)

[Minn. Stat. § 274.13.](#)

[Minn. Stat. § 274.13, subd. 1.](#)

[Minn. Stat. § 274.13, subd.  
1\(7\).](#)

[Minn. Stat. § 375.192.](#)

[Minn. Stat. § 274.13, subd.  
1\(8\).](#)

[Minn. Stat. § 270.11, subd. 1.](#)

[Minn. Stat. § 270C.92, subd.  
2.](#)

In addition, if a person fails to apply for a review of the assessment, that person may not appear before the county board of equalization. There are exceptions to these rules—if an assessment takes place after the meeting of the LBAE, or if the aggrieved person can establish that he or she did not receive notice at least five days before the LBAE meeting, he or she may appear at the county level.

## C. County board of appeal and equalization

The county board of appeal and equalization (CBAE) consists of either the county auditor and the county commissioners, or a special CBAE appointed by the auditor and the board of county commissioners.

This board is responsible for the equalization of the assessment of property of the county, including the property of all cities whose charters provide for a board of equalization. The statutes establish meeting dates.

Although the CBAE may decrease and, after notice to the taxpayer, increase individual valuations, its primary task is to secure uniformity of assessed value from district to district. The board may not reduce the aggregate valuations of either real or personal property in the county below the amounts the assessors have determined, but it may increase these amounts.

The CBAE is subject to the same conflict of interest rules as the city board.

The county board does not have the authority to grant an exemption or to order property removed from the tax rolls.

Upon the property owner's application, the CBAE may change a property's homestead classification or reduce its market value, reducing or refunding any taxes the property owner erroneously or unjustly paid.

The board may not make an individual market value adjustment or classification change that would benefit property if the owner or other person having control over the property has refused the assessor access to inspect the property and the interior of any buildings or structures.

## D. State board of equalization

The commissioner of Revenue acts as the state board of equalization.

The commissioner's primary assessment task is to ensure uniformity of valuations between counties.

## RELEVANT LINKS:

[Minn. Stat. § 274.13, subd. 1.](#)

The commissioner may adjust valuations between districts and between classes of property. The commissioner may raise or lower individual assessments but may increase individual assessments only after the taxpayer has received notice and has had an opportunity to be heard.

[Minn. Stat. § 270.12.](#)

The commissioner may not reduce the aggregate value of all property in the state by more than 1 percent below the total the county boards of equalization have reported. The commissioner may order a reassessment of property in any district.

[Minn. Stat. § 270.12, subd. 6.](#)

If the commissioner determines that a considerable amount of property has been undervalued or overvalued compared to like property such that the assessment is grossly unfair or inequitable, the commissioner may issue orders to the county assessor to reassess all parcels or an identified set of parcels in a county.

## 1. Appeals to tax court

[Minn. Stat. § 271.01.](#)

The tax court is the final authority for the hearing and determination of all questions under the property tax laws of the state, except for an appeal to the Supreme Court. The tax court has no jurisdiction involving an order of the state board of equalization unless a taxpayer contests the valuation of the property.

[Minn. Stat. § 271.04.](#)

The tax court must hold hearings at any place in the state so taxpayers may appear before the court with as little inconvenience and expense to the taxpayer as possible.

[Minn. Stat. § 271.21.](#)

The small claims division of the tax court has jurisdiction in any case concerning the valuation, assessment, or taxation of certain homesteaded property and of non-homesteaded property if the estimated market value is less than \$300,000. The small claims division also hears cases concerning the tax laws in which the amount in controversy does not exceed \$15,000, including penalties and interest.

[Minn. Stat. § 271.06.](#)

The notice that goes to the taxpayer of the assessment, determination or order of the commissioner or the appropriate unit of government includes written notice that the taxpayer has the right to appeal to the tax court and, if applicable, to the small claims division.

## VI. Exempt property

[Minn. Const. art. X, § 1.](#)  
[Minn. Stat. § 272.02.](#)

Several classes of property are exempt from property taxation, but not necessarily from special assessments. Some of these property classes include:

## RELEVANT LINKS:

[Minn. Stat. § 272.02, subd. 42.](#)

[Minn. Stat. § 272.02, subd. 96.](#)

[A.G. Op. 474d \(Aug. 28, 1961\).](#)

[Minnesota Department of Employment and Economic Development. Twin Cities - 651-259-7114  
Greater Minnesota - 800-657-3858](#)

[LMC information memo  
\*Budget Guide for Cities.\*](#)

[Minn. Stat. § 275.70, subd. 5.](#)

[Minn. Stat. § 275.065, subd. 1.](#)

- Public burying grounds.
- Public schools.
- Property that is leased or rented to a school or a charter school in certain circumstances.
- Public hospitals.
- Academies, colleges, universities, and seminaries of learning.
- Churches, church property, and houses of worship.
- Institutions of purely public charity.
- Public property, including all city-owned property, for exclusive public purpose use.
- Real and personal property for the abatement and control of air or water pollution.
- Certain personal property of an electric generation facility.

There are a number of other specific types of properties listed in statute as exempt from property taxes.

Local governments in Minnesota may not generally exempt any land from taxation for the purpose of attracting or keeping industry.

The commissioner of the Department of Employment and Economic Development (DEED) has information on business subsidies.

## VII. Setting the property tax levy

The council should take the following steps when setting the city tax levy:

**Prepare the city budget.** Before setting the actual levy, the council must estimate expected city expenditures during the next calendar year. This is done through the preparation of the city budget.

**Special levies and certificates of indebtedness:** If a city issues emergency debt certificates to cover revenue reductions from LGA reimbursement cuts, it must pay them off with levy dollars.

**Check the legality of the proposed levy.** The tax notification process requires that a final levy may not exceed a preliminary levy, usually certified by a city on or before Sept. 30. This limitation is discussed below. In addition, some home rule charters may contain limitations on levies. The council should ask the clerk, administrator or manager and city attorney to decide whether the resulting levy is permissible and is within the taxing authority under local charter.

## RELEVANT LINKS:

[Minn. Stat. § 412.711.](#)

[Minn. Stat. § 275.07.](#)  
[Minn. Stat. § 275.065, subd. 1d.](#)

[Minn. Stat. ch. 473F.](#)  
[Minn. Stat. § 473.121, subd. 2](#)  
[Minn. Stat. ch. 276A.](#)  
[Walker v. Zuehlke](#), 642 N.W.2d 745 (Minn. 2002).

[Minn. Stat. § 275.075.](#)

**Approve the tax levy.** The council, by resolution, must approve the city tax levy. Hearing and notification procedural requirements lengthen this step, so it takes several months. The resolution should state the amount of money, in dollars and cents, needed from property taxes in the succeeding calendar year.

**Certify the levy to the county auditor.** The clerk must certify a copy of the resolution and send it to the county auditor. If the clerk certifies a tax to the county auditor that exceeds legal limitations, the auditor will levy only the maximum tax the law allows. The county auditor, in turn, spreads the levy among the property owners in the city. If a taxing authority fails to certify its proposed levy by the due dates specified in law, the county auditor uses the authority's levy from the previous year.

Cities within the metropolitan area are generally affected by the metropolitan fiscal disparities program. Cities on the Iron Range are affected by the taconite tax area fiscal disparities program. (The taconite tax relief area fiscal disparities program has been upheld as constitutional).

Under these programs, a portion of the certified levy for each local government unit is raised through an area-wide levy on commercial and industrial property. As a result, the levy used to compute the local tax rate is lower than the levy actually certified by the city to the county. The city will receive the total amount of its certified levy, partially through the fiscal disparities program and partially from local property taxpayers.

If the county auditor, through error or inadvertence, does not spread the proper amount of taxes in the previous year, the city may correct the error by including in its levy for the following year all or part of the amount the auditor mistakenly omitted.

The council should set a tax levy high enough to provide money for the following purposes during the upcoming budget year:

- For payment of all estimated expenditures, including an allowance for an unappropriated reserve and the amount necessary to make all city contributions to the Public Employees' Retirement Association (PERA).
- For current expenditure liabilities the city cannot pay in the present year for lack of current funds or that the city will pay through short-term borrowing.
- For the repayment of all tax anticipation certificates the city issued during present and past years.
- For an amount in anticipation of the reduction or loss of state aids, federal revenues, or other undependable sources of revenue.



## RELEVANT LINKS:

[Minn. Stat. §§ 275.70 to 275.74.](#)

LMC information memo  
[Budget Guide for Cities.](#)

See Handbook, [Municipal Budgeting](#).  
Department of Revenue:  
[Truth in Taxation.](#)

[Minn. Stat. § 275.065, subd. 1.](#)  
[Minn. Stat. § 275.065, subds 1, 1d, 3, and 6.](#)  
[Minn. Stat. § 275.07, subd. 1.](#)

[Minn. Stat. § 275.065, subd. 3.](#)  
Handbook, [Municipal Budgeting](#).  
[Minn. Stat. § 275.065, subd.1.](#)  
[Minn. Stat. § 275.07.](#)  
[Minn. Stat. § 275.065, subd. 3.](#)

The city must levy for the payment of interest and repayment of principal on bond issues before the bonds are delivered and, because these are non revocable levies, the city does not need to make them at the time of the annual tax levy in following years.

## VIII. Levy limits

Levy limits apply to cities with populations over 2,500, but only if the state Legislature imposes them.

If limits are in place, the commissioner of revenue calculates the levy limit for each city and notifies cities of their levy limits by Aug. 1. Each session, the Legislature may modify the calculation of levy limits and may determine what, if any, “special” levies are exempt from levy limits.

## IX. Truth in taxation

### A. Background

The law no longer uses the phrase “truth-in-taxation”. However, many people still use it to refer to taxation notification legislation requiring cities to inform the public about local taxes. For cities over 500 in population, the law requires cities to allow public comment before adopting a final budget and certifying a final levy. The following is the basic process.

### B. Process

All cities and special taxing districts must adopt and certify a proposed or preliminary levy on or before Sept. 30. If a city fails to certify a proposed levy, the county auditor must set a proposed levy equal to the city’s final levy the previous year. With few exceptions, the city’s final levy cannot be higher than this proposed levy.

Cities with populations of 500 or less are exempt from the requirement to hold a meeting with public input. Note: cities with populations of 500 or less must still certify proposed property tax levies to the county auditor on or before Sept. 30. And small cities must certify the final property tax levy to the county auditor by Dec. 30. If a city misses this deadline, that city’s final levy will stay the same as it was in the prior year.

The requirement for a city phone number and address on parcel specific notices sent out by the county auditor does not require listing a personal telephone number or personal address. If the city informs the auditor that it has no public office, then no phone number or address is included in the notices.



## RELEVANT LINKS:

MN Dep't of Revenue: [Truth in Taxation](#).

[Minn. Stat. § 275.08](#).  
Minnesota House Research:  
[Class Rates for Taxes Payable in 2024](#).

[Minn. Stat. § 275.28](#).

[Minn. Stat. § 279.01, subd. 1](#).

[Minn. Stat. §§ 276.09 to 276.111](#).

[Minn. Stat. § 282.08](#).

[Minn. Stat. § 444.076](#).

Cities over 500 in population must complete Form TNT to certify compliance with taxation notification law to the Commissioner of revenue. This form is due at the same time the final levy must be certified to the county auditor.

## X. Tax administration

The council's main responsibilities in property taxation are property assessments and tax levies. All further responsibilities, with the exception of tax settlements, are duties of the county.

### A. Tax collection

The county auditor calculates the local tax rate from the levy amount certified by the city. The county auditor computes the net tax capacity for each parcel according to the class rates. The net tax capacity is the appropriate class rate multiplied by the parcel's market value. The auditor then applies this rate to the taxable value of each parcel of property and determines the total tax liability of each taxpayer.

The auditor's tax lists are delivered to the county treasurer who handles the billing and collection of all property taxes.

All taxes, except for agricultural homesteads, become due and payable in the year after they are assessed. In Minnesota, taxes are due in two installments: half are due on or before May 15, and half are due on or before Oct. 15 each year. A county may provide by resolution that a property owner who owns multiple tracts or parcels with aggregate taxes exceeding \$100 may pay taxes in installments. When property owners do not pay taxes on time, they are charged penalties and interest.

### B. Tax settlements

The county treasurer collects taxes and holds them until tax settlements are complete. Settlements include the proceeds from real and personal property taxes, special assessments, and all other classifications of money the county treasurer received for the city. The city treasurer must issue a receipt in triplicate for the funds and file a copy.

### C. Sale of tax-forfeited lands

The responsibility for handling and collecting tax delinquencies rests with county and state officials. When the state rents or sells tax-forfeited lands in tax forfeiture proceedings, the state divides the net proceeds according to law.

## RELEVANT LINKS:

LMC information memo,  
[Special Assessment Toolkit](#).

[Minn. Stat. § 272.67](#).

Generally, the portion of the remainder required to pay for any special assessment chargeable against the parcel for drainage or other purpose whether due or deferred at the time of forfeiture, must be apportioned to the governmental subdivision entitled to it. Cities also have authority to reassess canceled special assessments when land returns to private ownership.

The city must use the proceeds of this remittance for the retirement of indebtedness existing at the time the city receives it. Any remaining money should go in the general fund.

## **XI. Tax differential treatment**

### **A. Urban and rural service districts**

All cities (other than those in Hennepin and Ramsey counties) may divide their respective areas into urban service districts and rural service districts, which then constitute separate taxing districts for the purpose of city property taxes (except those the city levies for the payment of bonds and judgments and interest on them). Both types of service districts are created by ordinance.

The rural service district may include either platted or unplatted lands that, in the judgment of the governing body, are rural in character; not developed for commercial, industrial, or urban residential purposes and, therefore, do not benefit to the same degree as other lands from the city services financed by general taxation.

If the city includes platted lands in a rural district, it must transfer them to the urban district when it provides basic services such as water, sewer, or streets. The city must annually review the status of these lands and the appropriateness of the tax ratio. Rural service districts within a city do not need to be contiguous. Cities may designate lands outside its borders to become part of the rural service district upon annexation to the city. Urban service districts within cities include all lands not in the rural service district.

The ordinance that designates the districts must designate the approximate ratio of the level of city service to the rural land with the level of service to the urban land.

The county auditor will use that ratio in spreading city taxes (exclusive of those the city levies for the payment of bonds and judgments and interest on them). The county auditor then allocates these city taxes to the respective districts in amounts proportionate to the current benefit ratio between the full and true values of all taxable property within the districts.

## RELEVANT LINKS:

MN Dept. of Revenue: [Green Acres and Rural Preserve \(Property Tax Deferral for Agricultural and Rural Vacant Land\)](#).  
Minn. Stat. § 273.111.  
Minn. Stat. § 273.13, subd. 23.

[Minn. Stat. § 273.112.](#)

MN Dept. of Revenue: [Rural Preserve Property Tax Program](#).

The council may amend the ordinance designating the respective districts to change the benefit ratio at any time. It may remove land from the rural service district at any time. However, if any building is constructed or improvement is made to a parcel of property in the rural district or if such a parcel is platted, the board or officer approving the plat or building permit must report this fact to the council, which must then transfer the parcel from the rural district to the urban district.

## B. Agricultural property tax differential

All county assessors must implement the agricultural property tax differential, commonly known as the “Green Acres” program. Under this program, state law entitles real estate to certain tax advantages if it is actively and exclusively devoted to agricultural use (or other specific qualifying uses).

The property owner makes application to the local assessor annually for the tax deferment. Once the owner makes proper application, the assessor must value the property with reference to its value for agricultural purposes and with reference to its value for non agricultural purposes. If the land qualifies, it is taxed on its agricultural value, and all special assessments for local improvements are deferred.

When the owner sells the land or it ceases to qualify, the difference in taxes for the last three years and all deferred special assessments are due. Councils should require the city assessor (or ask the county assessor) to bring applications for tax deferment to their attention immediately.

A similar provision exists for privately-owned recreational open space (golf and skiing establishments) of five acres or more. However, there is no deferment of special assessments. When the owner sells the land or it ceases to qualify, the taxes for the last seven years are due.

## C. Rural preserve lands

Qualifying land classified as productive agricultural or rural vacant that was in Green Acres or that is part of an agricultural homestead may be entitled to valuation and tax deferment under the Rural Preserve Program. Property accepted for valuation and deferral under Rural Preserve is enrolled until it is withdrawn, sold, transferred, or no longer qualifies. Local city special assessments levied on rural preserve land are deferred until the property no longer qualifies for the program. The city must file a certificate with the county recorder, containing the legal description of the affected property and of the amount deferred.

## RELEVANT LINKS:

Handbook, [Financing Public Improvements](#).  
LMC information memo,  
[Special Assessment Toolkit](#).

Handbook, [Change of Boundaries, Status and Name](#).  
Minn. Stat. § 414.035.

Minn. Stat. § 414.041, subd. 7.

Minn. Stat. § 414.036.

Minn. Stat. § 275.75.

When the property no longer qualifies as rural preserve, all deferred special assessments, plus interest, must be due in equal installments spread over the time remaining until the last maturity date of the bonds issued to finance the improvements. If the bonds have matured, the full amount is due within 90 days.

### D. Special service districts

Cities may establish particular areas or districts within their community that will receive special improvements or services not available to the community as a whole and pay for these special items through special service charges.

### E. Differential taxation—orderly annexations and consolidations

By the terms of the orderly annexation laws, Municipal Boundary Adjustments must establish a differential tax rate with respect to areas brought into a city through the orderly annexation process.

The tax rate in the annexed area increases in substantially equal proportions, over a period of not more than six years, to equal the tax rate in the annexing city.

The appropriate period, if any, shall be based on the time reasonably required to effectively provide full property-tax-supported municipal services to the annexed area and the differential tax provision may be included in an orderly annexation agreement. Municipal Boundary Adjustments also has discretion to establish a tax rate differential in consolidations of cities for up to five years.

Cities also must reimburse townships for annexing taxable property within two to eight years of the annexation. In addition, cities must reimburse the township for all special assessments assigned by the township to the annexed property, and any portion of debt incurred by the town prior to the annexation.

## XII. How this chapter applies to home rule charter cities

For charter city property tax limits, state law authorizes the governing body of a charter city to increase its levy over a charter levy limit for aid and credit cuts imposed by the Legislature. The exemption is equal to the special levy authorizations listed in state law, which allows for replacement of unallotted or legislatively reduced LGA.

**RELEVANT LINKS:**

Some city charters contain limitations or standards on how the council should develop the budget and the amount of levies. Best practice suggests checking the city charter in consultation with the city attorney for any provisions affecting city budgeting.