



Understanding Your Assessment and Tax Calculation

The Process

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. And once 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, the sales period for each assessment and property tax classification are dictated by state statute and under the oversight of the Minnesota Department of Revenue.

Mass Appraisal

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.

Market Value

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 is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

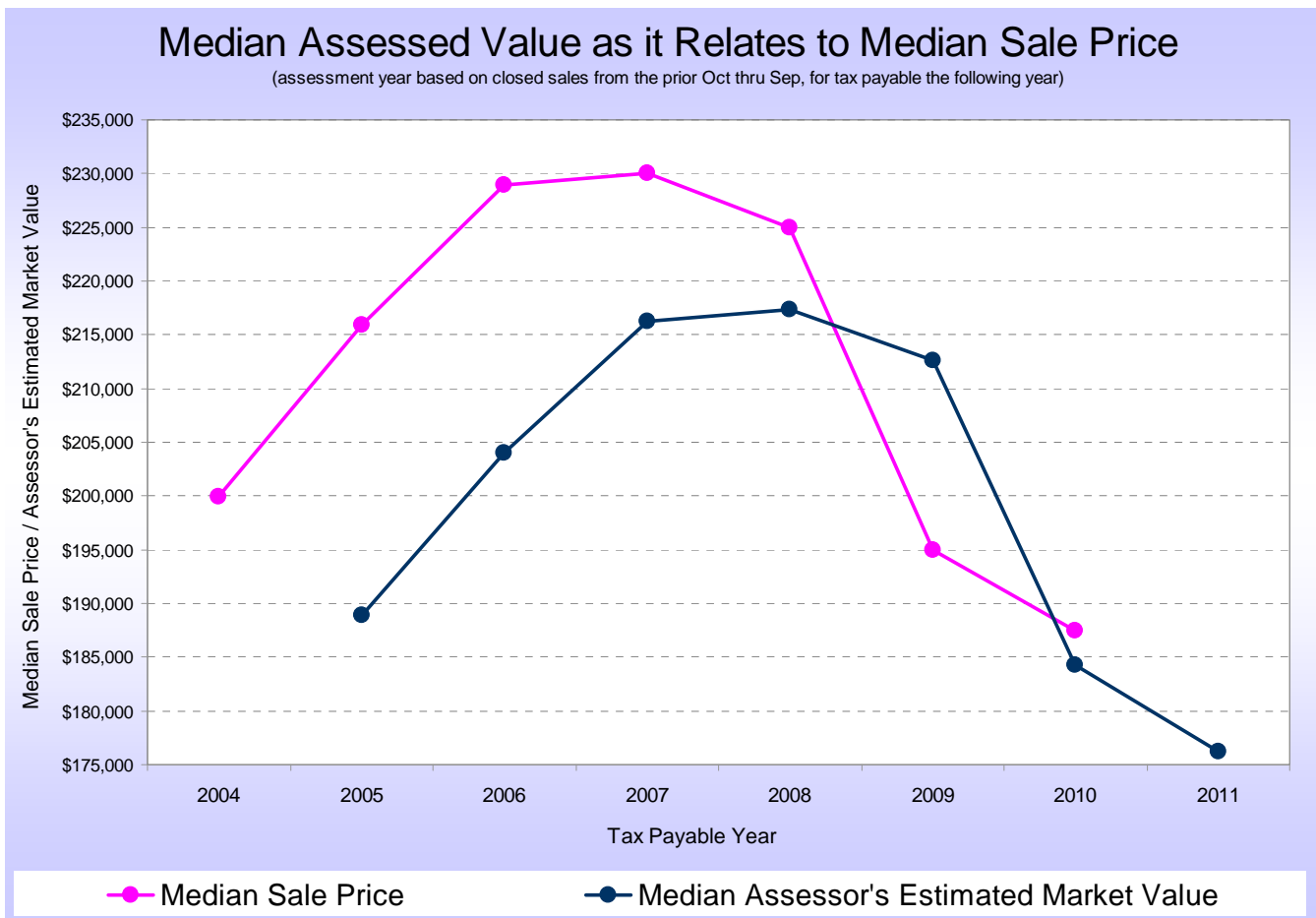
- *buyer and seller are typically motivated;*
- *both parties are well informed or well advised, and acting in what they consider their own best interests;*
- *a reasonable time is allowed for exposure in the open market;*
- *payment is made in terms of cash in U.S. dollars or in terms of financial arrangements 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).*



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Assessment vs. the Current Market

We know that due to the time frames in which we work, it sometimes seems 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 in the open market.



As shown in the graph, 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.



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Re-Value

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. Each year, 20% of a city is inspected so that in a cycle of five years all properties have been inspected at least once. Properties are also inspected when there is a building permit issued or at the request of the property owner, in addition to review every five years. 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.

Assessment Timeline

As required by Minnesota statute, the 2009 assessment was based on transactions that closed between October 1, 2007 and September 30, 2008. The 2009 assessment will be used for tax calculations this year (2010). Property owners were notified of their 2009 value on their **Notice of Valuation and Classification**. The notices were mailed out in March of 2009 in the same envelope as the 2009 tax statement. The appeals process took place at the municipal level during the month of April and at the county level in June. At this point, if a property owner wishes to appeal their 2009 assessment (for taxes payable 2010) their only option is to file a tax court petition. This must be done no later than April 1, 2010.

The **2010** assessment has just been completed with **Notices of Valuation and Classification** being mailed the week of March 22nd. This is the assessment that will be used for tax calculations for taxes payable in **2011**. The sales period associated with this assessment is October 1, 2008 thru September 30, 2009. 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 **Notice of Valuation and Classification**. If you have an issue with your 2010 assessment the first thing you should do is contact your local assessor. Their phone number is listed on your notice.

Sales that occurred after October 1, 2009 were not used in determining the 2010 assessment. In keeping with the statutory sales period, those sales will be in the group of sales used to determine valuations for the 2011 assessment, for taxes payable in 2012.



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So in review, by the time you are paying your 1st half real estate tax on May 15th, the sales that were used to determine the estimated market value on which those taxes are based occurred somewhere between 19 and 31 months earlier. The following chart may be helpful in following the timeline of your assessment.

SALES PERIOD	ASSESSMENT DATE	TAX YEAR
October 1, 2007 to September 30, 2008	January 2, 2009	2010
October 1, 2008 to September 30, 2009	January 2, 2010	2011
October 1, 2009 to September 30, 2010	January 2, 2011	2012

Property Value and Property Taxes

It's important to note that the assessment 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 those fluctuations in the market, all properties are adjusted. The only time 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 would not go down by 50%, the tax rates would be increased to generate the same tax revenue.



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The following example illustrates that basic concept.

2009 Assessment Tax Payable 2010		2010 Assessment Tax Payable 2011		Overall Change In EMV
Property Number	EMV	Property	EMV	
#1	\$375,000	#1	\$187,500	-\$187,500
#2	\$120,000	#2	\$60,000	-\$60,000
#3	\$150,000	#3	\$75,000	-\$75,000
#4	\$400,000	#4	\$200,000	-\$200,000
#5	\$250,000	#5	\$125,000	-\$125,000
Total Tax Base		Total Tax Base		-\$647,500

The values are reduced which decreases the overall tax base.

2010 Tax Rate Calculation		2011 Tax Rate Calculation	
Revenue Needed	\$10,000	Revenue Needed	\$10,000
Divided by Total Tax B	\$1,295,000	Divided by Total Tax B	\$647,500
Equals Tax Rate	0.0077	Equals Tax Rate	0.0154

When the Tax Base decreases, the Tax Rate is adjusted upward to produce the same amount of revenue.

Resulting 2010 Tax Calculations		Resulting 2011 Tax Calculations		Overall Change In Tax Amount
Property Number	2010 Tax Amount	Property	2011 Tax Amount	
#1	\$2,896	#1	\$2,896	\$0
#2	\$927	#2	\$927	\$0
#3	\$1,158	#3	\$1,158	\$0
#4	\$3,089	#4	\$3,089	\$0
#5	\$1,931	#5	\$1,931	\$0
Total Tax Generated		Total Tax Generated		\$0

The Tax Amounts Remain the Same

Keeping Assessment Fair

Adhering to the same timeframes and working within the parameters of the law will ensure that everyone is being treated fairly. If assessors were to choose to work outside of those timeframes the end result would be inequity between taxing jurisdictions. For an Anoka County example, if the assessor were to decide that the sales period for Blaine was going to be January 1, 2008 to December 31, 2008 instead of October 1, 2007 to September 30, 2008 like the rest of the county, and given the volatility in today's market, the Blaine assessments would be measurably lower than the rest of the county for the 2009 assessment. That in turn would not reduce the amount of county revenue generated by real estate tax, it would result in a shift in that tax burden from Blaine properties to all of the other properties in the county. While Blaine property owners would enjoy a lower tax amount, the rest of the county property owners would unfairly be paying a disproportionately higher tax amount. So, while it may seem arbitrary to have a set period to measure an assessment, it does create an environment whereby the assessments are uniform and fair.