

# MEMORANDUM

**To:** CGMC Mayors and Managers  
**From:** Tim Flaherty  
**Date:** October 31, 2011  
**Re:** **Response to legislators' letters on Market Value Homestead Credit**

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Many greater Minnesota legislators are now placing letters in their newspapers defending their vote to eliminate the Market Value Homestead Credit (MVHC) and replace it with a Homestead Market Exclusion. Legislators should defend their votes and be accountable when those votes have a negative effect on residents.

Unfortunately, some legislators are claiming the budget agreement they supported during special session is not responsible for property tax increases and instead are blaming local governments. It is okay for legislators to defend their vote to eliminate the MVHC and replace it with Homestead Market Exclusion, but it is not okay for them to claim this change will not cause major property tax increases and create the impression with the public that local governments are taxing and spending more.

By eliminating the MVHC and replacing it with the homestead exclusion, the legislature saved the state over \$260 million and caused a \$260 million property tax increase throughout the state. Property taxes will go up significantly on homes, businesses, apartments and farms in most greater Minnesota legislative districts even if local governments do not levy any more in 2012 than they did in 2011.

Attached is a letter from Representative Murdock published in the *Wadena Pioneer Journal* and a sample response letter that we prepared. We know that similar letters or news stories have been published by the following legislators: Rep. Barrett, Rep. Drazkowski, Rep. Shimanski, Rep. Schomacker, Rep. Gruenhagen, and Sen. Gimse.

Should letters like Rep. Murdock's appear in your local newspapers, I would strongly encourage you to send a response similar to our sample explaining that property owners will see a large increase in property taxes as a result of state actions and not those of your city.

The link below is to the House Research Department Property Tax Simulation Report #11F1:  
<http://www.house.leg.state.mn.us/hrd/issinfo/csim11F1cities.pdf>

Note: Simulation is broken down by county, so if your city is located in two counties you will need to get data in two places.

- To get the overall increase for your city, scroll down to the Total line and scroll over to the column (under Net Tax) entitled Pctg Chng.
- To get the Residential Homes increase, scroll down to the Res Hmstd line and scroll over to the column (under Net Tax) entitled Pctg Chng.
- To get the Business increase, scroll down to the Com/Ind line (broken down by Low and High) and scroll over to the column (under Net Tax) entitled Pctg Chng.

Please contact Steve Peterson at [smpeterson@flaherty-hood.com](mailto:smpeterson@flaherty-hood.com) or 651-225-8840 for assistance on how to specify the numbers for your letter.

## Numbers don't support Rep./Sen. \_\_\_\_\_'s property tax claim and neither will Truth in Taxation statements

Serious discussions are underway across greater Minnesota about how the elimination of the Market Value Homestead Credit (MVHC) impacts local property taxes. Some, like State Representative/Senator \_\_\_\_\_, argue getting rid of MVHC property tax relief program was a good move that won't cause property taxes to increase.

Rep./Sen. \_\_\_\_\_'s claim flies in the face of data compiled by the non-partisan House Research Department. According to House Research property tax analytics, property taxes in (City name) would have increased by \_\_\_\_% in 2011 under the MVHC change passed by the legislature. Residential homes would have over a \_\_\_\_% increase and businesses over a \_\_\_\_% increase. This analysis shows that even if cities, counties, and schools keep their property tax levies exactly the same as last year, property taxes will go up significantly due to the removal of the MVHC.

In addition to eliminating the MVHC, the legislature made deep cuts to many property tax relief programs including Local Government Aid (LGA). Cities are already struggling to provide critical services while holding property taxes down. So when more than \$600 million is cut in property tax relief programs, the state is absolutely raising property taxes on homeowners and businesses. Hikes in property taxes are a direct result of the actions taken in St. Paul and it is unfair for legislators to say that local governments can simply absorb these massive cuts or to imply that local governments are to blame for irresponsible budgeting.

Legislators may contend the tax policies they backed at the State Capitol don't increase property taxes but the House Research numbers don't support their claim and neither will the Truth in Taxation statements that come out in November.

To learn more about property tax simulations for our area, go to the House Research Department Property Tax Simulation Report #11F1 at:  
<http://www.house.leg.state.mn.us/hrd/issinfo/csim11F1cities.pdf>

# Wadena Pioneer Journal

Published October 23, 2011, 11:19 AM

## Your letter: Old Market Value Homestead Credit program was broken

By: Rep. Mark Murdock, R-Ottertail, Wadena Pioneer Journal

There are some things to clear up regarding homestead tax credits. The Legislature did not eliminate property-tax relief for homeowners and it also did not cause automatic property-tax increases.

It seems confusion on these fronts has arisen after the Legislature overhauled the Market Value Homestead Credit program this year. A change was needed because the old program was broken. Local governments were relying on the state to reimburse them for tax credits provided to homeowners, but the state was not living up to its end of the deal. In fact, the state had only fully reimbursed local governments in just one year the credit has been in existence. This lack of full funding put local governments in a bind and caused them great budget uncertainty.

The new tax bill the Legislature passed and Gov. Mark Dayton enacted includes a new Homestead Market Exclusion, which replaces the unreliable Market Value Homestead Credit program. The League of Minnesota Cities, the Minnesota Township Association and the Minnesota Inter-County Association all supported this change.

Our new program is modeled after one that has been successful in other states and the key benefit goes directly to taxpayers. The amount homeowners will be taxed is reduced on the front end instead of offsetting a portion of property taxes on the back end as the old system did.

The new system allows for the elimination of the MVHC without a significant increase in homeowner property taxes by having all types of property share the burden of providing the tax relief to homeowners. The cost of the formerly state paid credit is now shifted relatively evenly among all property taxes (including homesteads).

This will not lead to automatic property-tax increases. A number of cities are reducing their tax levies and others are keeping them level.

Anoka, for example, is reducing its taxes by 7 percent. Perham has a moderate 2 percent increase.

It is up to local government officials to decide how much they spend and it is up to local citizens to remain active in this process. We are still in the process of adjusting to a new economic era and our local officials are re-examining spending priorities. The Legislature did the same thing this year in order to erase a \$5 billion budget shortfall.

Families and businesses know what this is like as well.

That's not to say there will not be glitches that arise as we make the transition to our new program. We will keep an eye on the situation and act accordingly if we encounter hiccups in the changeover.

This is a very complex issue with many wrinkles, but I hope this clarifies what our new program means to homeowners. Please feel free to contact me at [rep.mark.murdock@house.mn](mailto:rep.mark.murdock@house.mn) or at (651) 296-4293 if you have any questions.

Rep. Mark Murdock, R-Ottertail