LET'S SHIFT ST. PAUL, MINNESOTA'S, PROPERTY TAXES ONTO LAND!

By Matt Leichter, Minneapolis, MN

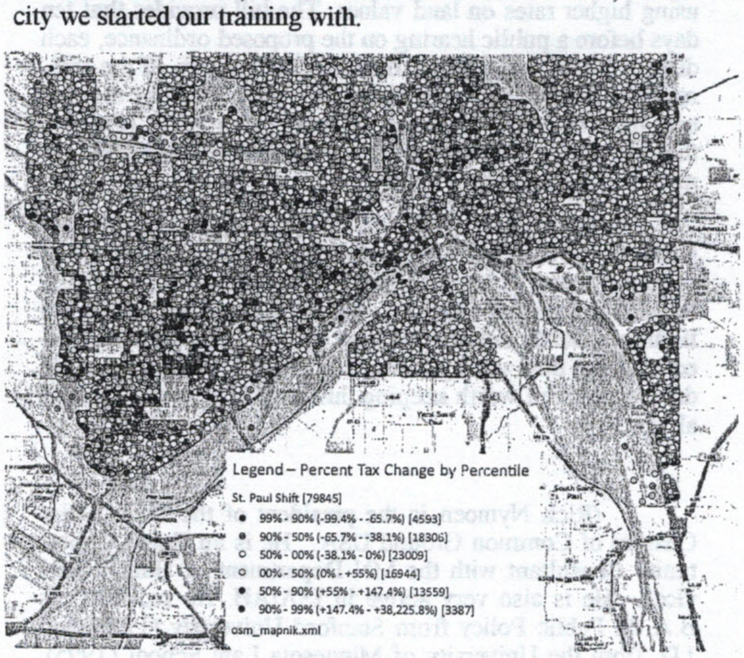
(The following The Last Gen X American blog is by Matt Leichter of Minneaplis, MN, a writer and attorney licensed in Wisconsin and New York. It is posted on his http://www.schooloftuitionbubble.com web site, at https://lawschooltuitionbubble.wordpress.com/2016/06/20/lets-shift-st-paul-minne)

Background: When I moved to the Twin Cities, I joined Minnesota's Common Ground chapter, and this year its intern introduced some of us to the black arts of geographic information system/science (GIS) software. GIS is a discipline full of jargon, like "vectors" and "table joins," that I find silly, but they're certainly more sensible than "JD Advantage."

The purpose of our inculcation is to help Common Ground advocate for land-value tax districts in Minnesota cities as a pilot program toward enabling municipalities to adopt split-rate taxation like Pennsylvania's. The goal is to observe the effects of removing taxes on improvements and replacing them on locations to encourage development. Connecticut enabled a pilot program like this in 2014 (and it's being extended), so LVT of a kind is in the policy air. So far, Common Ground's efforts have successfully resulted in the introduction of a bill in the Minnesota House of Representatives.

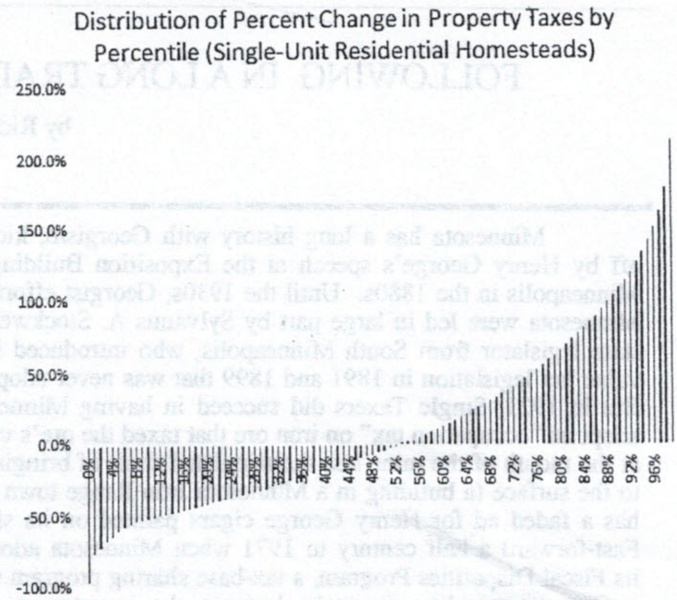
Oh, and I claim zero credit for any of this.

But I do have newfound technical skills to unleash on readers (actually, a lot of the work is done in MS Excel, which is old hat around here), so with the open source QGIS and the state's wonderful MetroGIS's database in hand, here's how a property tax shift would affect St. Paul, Minn.—because I was born there, and it's the city we started our training with.



What you're seeing is the distribution of the percent changes in property taxes for each parcel, divided into negative changes (blue, decreased charges) and positive changes (red, increased charges), and excluding tax-exempt properties. Because more parcels' property taxes would be cut by the shift (yay!) than raised, the number of blue/red parcels isn't equal.

Here's a histogram of the percent changes of property taxes by percentile for single-unit residential lots claimed as homesteads, which dominate the city's land use by nearly two-thirds of all properties and are probably the most salient politically.



The results for these properties is inauspicious. A bare majority, 52 percent, would get breaks, and the remaining homeowners would pay more by comparison.

I've included a macro table for reference below, but generally, the tax shift would move the property tax to residential parcels and off commercial lots. Vacant lots would pay more—as they should—but there aren't many of them in St. Paul.

One of the biggest conceptual problems with estimating the effects of a land-tax shift is that the current property-tax system discriminates among property classes. Residential lots on average pay less than commercial lots—by design. Single-unit homesteaders pay on average 1.52 percent of their assessed values in property taxes, and commercial owners pay 4.24 percent. Meanwhile, vacant residential lots pay 8.08 percent, illustrating existing progressivity in the property-tax system.

Consequently, much of the effect of a property-tax shift is really just equalizing the tax rate on all parcels, eliminating discrimination among property classes. In fact, a land-value tax shift starting from a hypothetical flat property-tax rate that includes buildings is better for single-unit residential landowners. Unsurprisingly, Common Ground Minnesota explores what happens when residential parcels are treated differently than other types in its advocacy.

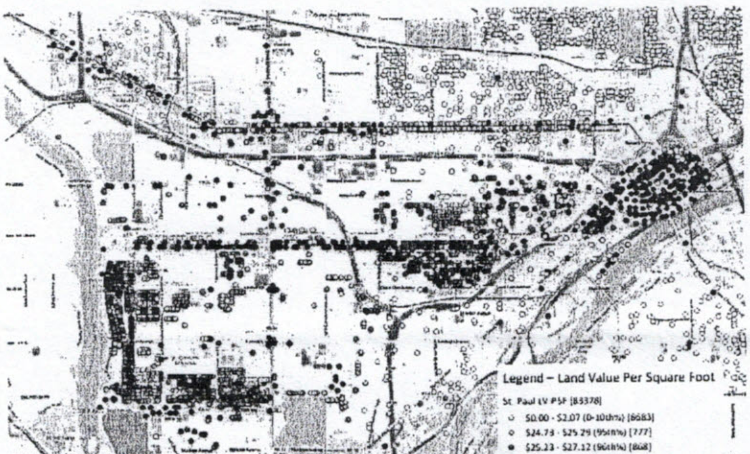
Let's return to the map above. Comparing the top 10 percent of property-tax reductions to the top 10 percent of increases, the property-tax burden is (continued on page 15)

LET'S SHIFT ST. PAUL'S (from page 2)

lifted most from the northeast part of St. Paul and downtown, and moved to the southwest part of the city, which is mostly residential.

These results don't fill me with warm fuzzies, but the underlying issue is not who would pay but who isn't currently paying, i.e. it's the land-value assessments. Minnesota requires properties to be assessed at their fair-market values. These estimates are fed into multiple formulae to arrive at properties' tax capacities, and then tax authorities apportion levies against all properties based on these tax capacities. When properties are under-assessed, they receive a hidden tax break; when they're over-assessed, they opposite is true. Between commercial landowners and homeowners, guess who gets the hidden breaks?

To illustrate why I think St. Paul's real estate isn't properly assessed, here's a map of St. Paul's land values per square foot, including only the bottom 10 percent of parcels and top five percent.



I've zoomed the map to the southwest part of St. Paul, and while you can see that the downtown cluster includes much real estate in the top 1 percent by value, some of it streaks west along Grand Ave. There are a few other peculiar concentrations of 1 percent real estate: a few blocks south of St. Catherine University (St. Kate's to the locals), and a few blocks south of the University of St. Thomas' divinity school (the law school's campus occupies a surprisingly large chunk of land in nearby downtown Minneapolis). Slightly less valuable real estate lies along University Ave. (where the light rail connects the Twin Cities) and the L-shape along Cretin Ave. and Ford Parkway.

Most of the top .01 percent is downtown (~$56 per square foot), but some of it is still in these areas. Naturally, you may be wondering why property owners with the most valuable land aren't demanding their properties be rezoned so they can build office towers in western St. Paul. The answer is that much commercial real estate is under-assessed, and many parcels' values are malapportioned between buildings and land. (I have an acquaintance who recently bought a decades-old house on a plot of land valued at a mere $5,000.)

Although Minnesota's tax authorities go to great lengths to ensure assessments are fair, notably sales-ratio equalization estimates of numerous parcels, these methods only include properties that were sold in arms-length transactions. One ongoing problem I've identified is that commercial real estate transactions differ substantially from those of owner-occupiers. The wealthy simply buy land differently from the rest of the populace.

For example, on November 10, 2015, the First National Bank building sold for $37.25 million but its assessed value as of January was only $25.5 million. Why? Because according to the Ramsey County Assessor's Office, it was a "Not Typical Market" transaction, so it was disqualified from the sales-ratio equalization analysis.

Here's another fun one: A Walgreens on Larpenteur Ave. (which might actually be in Roseville) sold for $11.2 million in April 2013, but was excluded from the sales-ratio equalization study because of "unusual financing." The same goes for the Walgreens on Ford Parkway, which sold for $13.9 million but was assessed at $3.2 million.

Other times sales that qualify for the sales-ratio equalization analysis still result in assessments that are below their sales prices, e.g. the lot on 240 4th St. East, which sold for $800,000 in March 2015 but was assessed at only $286,300 in 2016. The biggest offender I've found in my casual search is ten vacant lots along Dunlap St. that sold for $7.5 million and have been assessed at about $3,200 per parcel. You'd think qualified sales of vacant real estate would be assessed at something close to their sale prices, but they're simply not. This results in large property-tax breaks for wealthy landowners and an increased burden on everyone else.

If I were a St. Paul homeowner (and I know a bunch), I would grab my pitchfork and march on the Ramsey County Assessor's Office and demand the city's land values, especially its commercial land, be properly assessed according to law. I'm confident that would shift some of the property-tax burden away from homeowners and onto downtown landowners without affecting their property values. Municipalities should also rely more on mass building-residual assessments to arrive at more accurate land (and building) values, echoing the negative corporate land values in 2009 that I wrote about a few months back. I believe better assessments would make land-value-only property taxes more attractive to single-unit homesteaders than the current system illustrates.

(Matt Leichter received his J.D.-M.A. in law (2008) and international affairs (2009) from Marquette University and spent a semester and summer of law school at Temple University's Tokyo campus in 2007. He may be emailed at mattleichter@gmail.com.) <<

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