
Background

CHAPTER 1

Assessing property values is an essential component of Minnesota's property tax system, where property owners are taxed according to their property's value. Generally, property owners pay higher taxes if they own property of higher value and lower taxes if they own lower-valued properties.

Assessments define the tax base and, consequently, determine who pays what share of the property tax burden. If some properties' valuations are too high, those property owners will pay more than their fair share of property taxes. Conversely, if some properties' valuations are too low, those owners will pay less than their fair share. When property is valued correctly, the property tax burden is distributed equitably, as defined by the Legislature. The process in Minnesota for appealing estimated market values helps assure residents that estimates are both correct and equitable.

This chapter presents background information about various aspects of the property assessment system. We first provide a general description of the system of property assessment in Minnesota. This includes an analysis of how the system is structured and how responsibilities are divided between counties and local jurisdictions. We then take a look at the specific process for appealing property assessments. In this chapter we ask:

***This
report
reviews
the
structure
of
Minnesota's
property
assessment
system
and the
appeals
process.***

- **What are the general components of the property assessment system? How is the system structured?**
- **Where does the appeals process fit into the property assessment system?**
- **What steps are involved in appealing valuations?**
- **How do appeals processes differ around the state?**

Part of the information we used to answer these questions came from surveys we conducted of assessors and boards of review or equalization in all 87 Minnesota counties, all 118 cities with populations of 5,000 or more, and 100 each of randomly selected smaller cities and townships. Data from these surveys pertained to calendar year 1994. We also relied on information gathered from our survey of 713 property owners who appealed to boards of review or equalization around the state in 1994. (Appendix B contains more information about the results and methodology of the surveys.)

THE PROPERTY ASSESSMENT SYSTEM

Local governments generally provide the service of assessing, but within a framework set by the Legislature.

State statutes govern many aspects of assessors' jobs and prescribe an annual cycle of assessment activities. (See Figure 1.1.) Over any given year, the assessment cycle includes: setting the estimated market values for all taxable property, arranging and conducting an appeals process, visiting and inspecting parcels of property within the assessment district, and analyzing the market to determine the estimated values for the next year.

Estimating Market Value

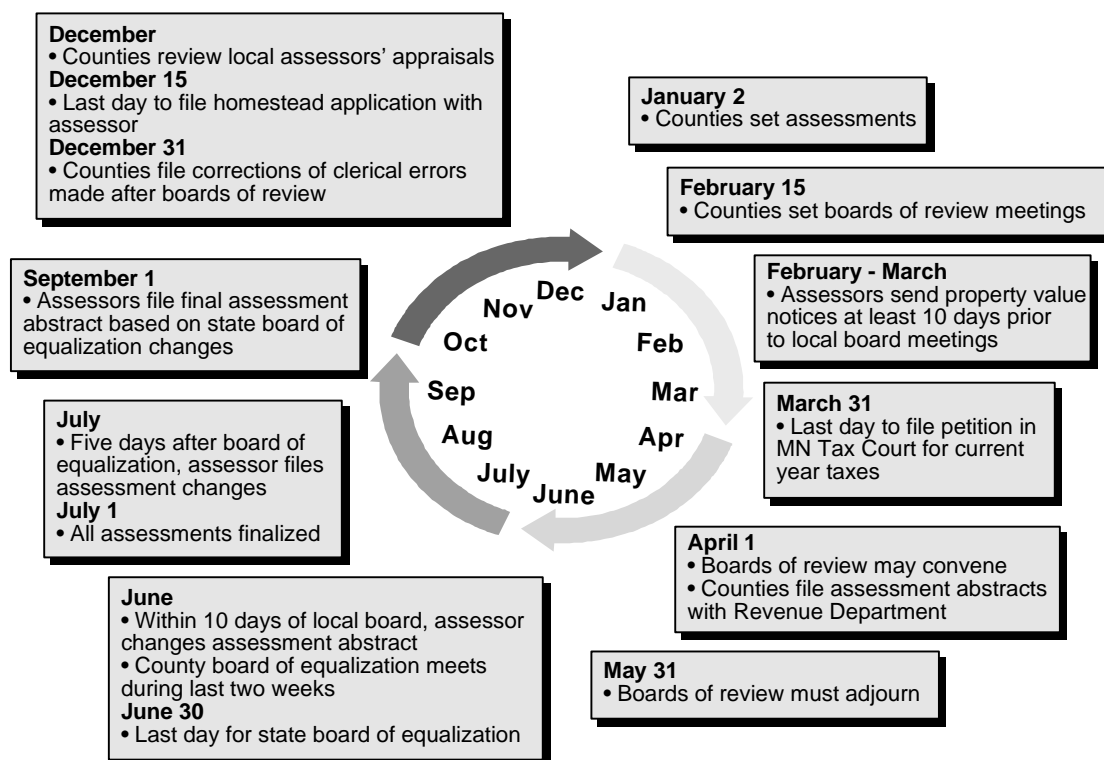
In estimating property values, Minnesota assessors must estimate land and buildings at their market value.¹ Market value is the selling price that is

likely to be obtained during an arm's length transaction in an open and competitive market.²

Each year, assessors must set the estimated market value for parcels of real property as of January 2.³ These assessments are the values that will be used when local governments set their budgets in the coming months and calculate taxes for the following year. Thus, assessments set as of January 2, 1996 will eventually form the tax base that determines the amount and distribution of property taxes paid in 1997.

Minnesota statutes require assessors to view and determine the market value of real taxable property at

Figure 1.1: Major Statutory Dates that Affect Assessment Activities



Source: Office of the Legislative Auditor.

¹ Minn. Stat. §273.11, subd. 1.

² Minn. Stat. §272.03, subd. 8. Other definitions of market value exist, as defined by professional appraisal organizations, but they all denote the ideas of prices resulting from sales in an open, unconstrained market, conducted by willing and informed buyers and sellers acting in their own best interests.

³ Minn. Stat. §273.01.

maximum intervals of four years.⁴ This requirement recognizes that market forces, building improvements, public improvements such as streets, and other economic changes affect property values. In most cases, assessors adjust property values annually even though they may not physically view all properties each year. Certain properties, such as churches, schools, and public cemeteries, are exempt from taxation. Nonetheless, the assessor must estimate the value of tax-exempt property and designate its use every six years.⁵

The Minnesota Department of Revenue uses statistical measures to annually judge the quality of the assessments submitted by county assessors. The department produces assessment/sales ratio studies to evaluate the assessment level and uniformity. Commonly referred to as "sales ratio" studies, the analyses compare the actual prices at which properties sold to the market values estimated by the asses-

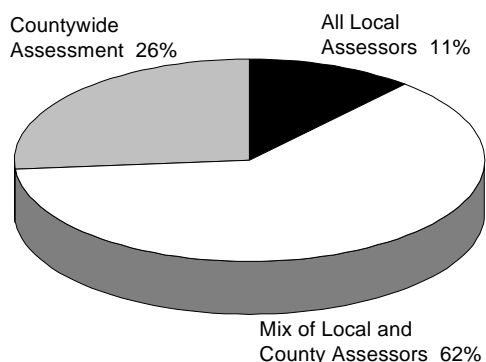
sor. In general, the closer the estimated values are to the selling prices of property, the closer they are to market value.

In Minnesota, the State Board of Equalization is the Commissioner of Revenue. Statutes charge the Board of Equalization with examining assessments provided by the counties and equalizing them so that all property is assessed at its market value.⁶ The board uses the sales ratios developed by the department to determine whether the median sales ratio of an assessment falls within a range of 90 to 105 percent for any given classification of property. Communities with assessments that do not meet this criterion may receive a state board order requiring the assessor to change the assessment so that it complies.

Organizational Structure of Property Assessment in Minnesota

Each of Minnesota's 87 counties has a county assessor, who works in varying degrees with local assessors.⁷ In some counties, cities and townships either employ or contract with local assessors for their property valuations. In these counties, the county assessor is responsible for advising and assisting local assessors, reviewing the assessments they make, and ensuring compliance with assessment laws. In other counties, local assessors and the county assessors' office divide responsibility for assessments. Still other counties have opted to use the county assessor's office to assess all parcels within their boundaries, employing no local assessors.⁸ (See Figure 1.2.) In these so-called countywide assessment systems, the county assessor's office inspects all parcels and estimates all market values. In our survey of Minnesota assessors, we found that:

Figure 1.2: Counties Grouped by Structure of Assessment System, 1994



Note: Does not sum to 100 percent due to rounding error.

Source: Legislative Auditor's Office Survey of Assessors, 1995.

⁴ Minn. Stat. §273.08.

⁵ Minn. Stat. §273.18.

⁶ Minn. Stat. §270.12, subd. 2. Equalization refers to techniques used to correct inequities in the assessment among classes of property or assessment jurisdictions.

⁷ A few counties share the services of a single county assessor; for instance, Mahnomon and Norman Counties in northwestern Minnesota use the same assessor.

⁸ Since 1969, counties have had the authority to pass resolutions establishing countywide assessment systems. (See Minn. Stat. §273.052.) In communities with local assessors, the county assessor may appraise certain types of property, such as industrial, when local assessors are not qualified to do so.

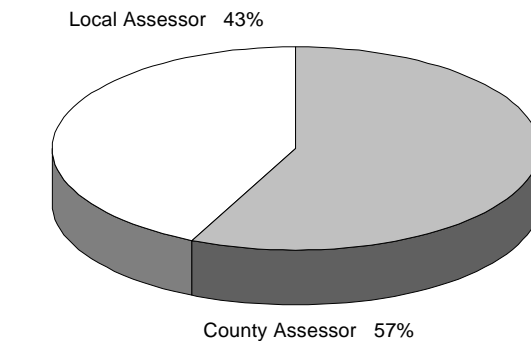
- Sixty-two percent of counties used a mix of local and county assessors, 26 percent had a countywide assessment system, and 11 percent used all local assessors in 1994.⁹

As shown in Figure 1.3, most Minnesota cities have assessment services provided by their county assessor. We found that:

- Nearly 57 percent of Minnesota cities and townships used the county assessor for assessment services in 1994, while 43 percent used local assessors.

Minneapolis, Duluth, and St. Cloud each appoints a city assessor who has the powers and duties of a county assessor.¹⁰ Of cities and townships we surveyed with local assessors, 65 percent had contracts with local assessors and 35 percent had their own staff assessors.¹¹ No townships reported employing their own assessment staff.

Figure 1.3: Cities and Townships by Structure of Assessment System, 1994

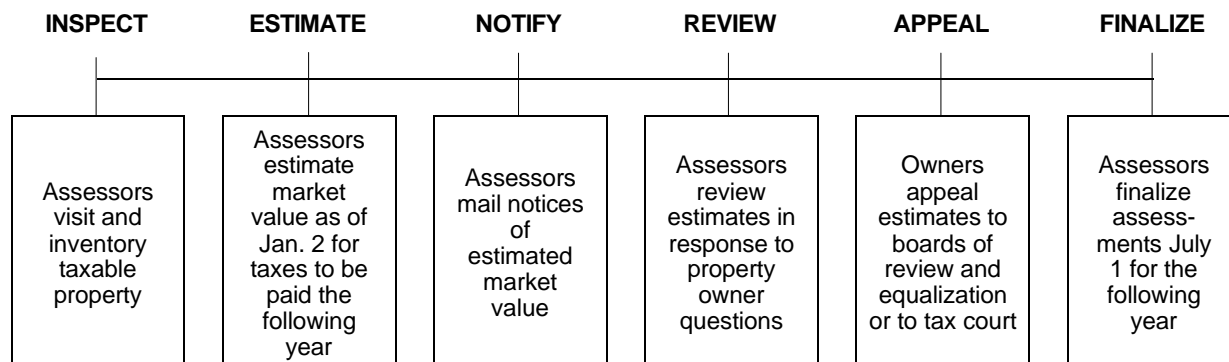


Source: Legislative Auditor's Office Survey of Assessors, 1995.

THE PROPERTY ASSESSMENT APPEALS PROCESS

The process for appealing property values is one specific component of the property assessment system. (See Figure 1.4.) Assessors may use sophisticated statistical models to gauge market trends and rely on years of real estate experience to help them

Figure 1.4: Major Components of the Property Assessment System



Source: Office of the Legislative Auditor.

⁹ County assessors in all 87 counties responded to our survey.

¹⁰ St. Cloud's city assessor has the powers and duties of a county assessor due to the city's location amidst three separate counties. (See *Minn. Laws* (1974), Ch. 175.) Assessors in cities with populations of at least 30,000 also have the powers and duties of county assessors, with the distinction that the county assessors still retain supervisory duties. (See *Minn. Stat.* §273.063.) The city of St. Paul and other cities in Ramsey County are exceptions to this statute because of Ramsey County's countywide assessment system.

¹¹ Of the 318 cities and townships we surveyed, 86 percent responded. Results are subject to sampling error of plus or minus 4 percentage points.

arrive at estimated market values. However, accurate assessing is not an exact science. Further, assessors who meet all the standards for effective and uniform assessments may still face appeals from property owners.

All property owners are entitled to dispute the estimated values of their property, regardless of how close to market value the assessor's estimate was. For example, if the market for lakeshore properties is very strong and driving up prices, the assessors' estimates will reflect that. In this instance, even lakeshore owners who did nothing to improve their property will see an increase in their estimated market values, which could result in a high number of appeals. Accuracy notwithstanding, property owners may question assessors' estimates.

Recognizing this, the state designed a system that allows property owners to challenge assessors' estimated market values. Minnesota property owners basically have two routes they may take to appeal their assessments: (1) appeal to the local board of review, then to the county board of equalization,

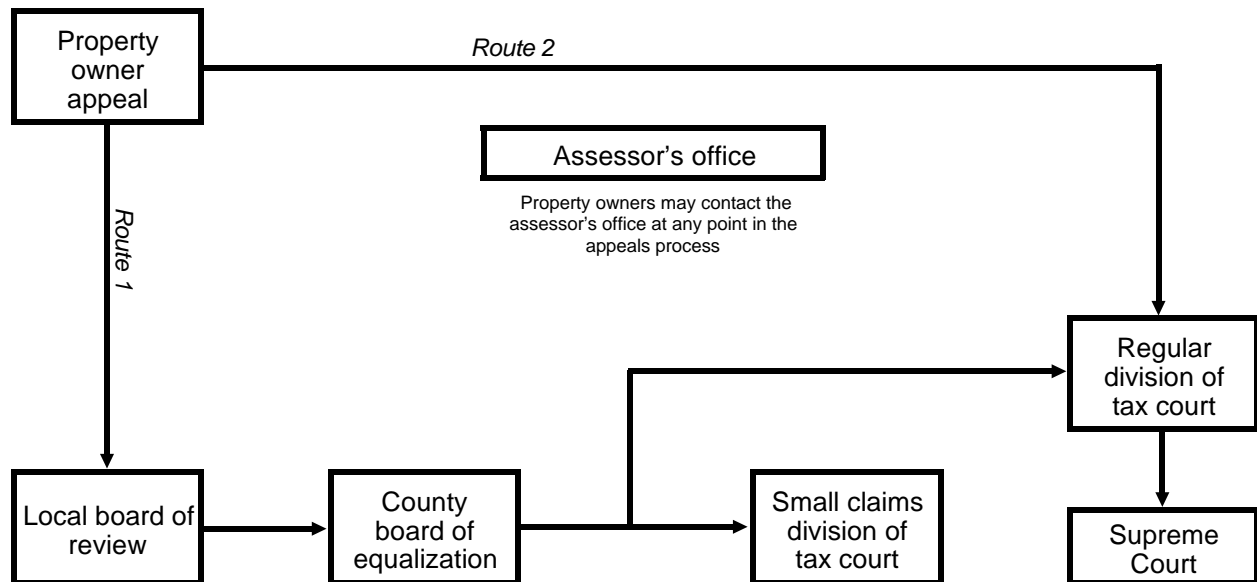
and then to Minnesota Tax Court; or (2) appeal directly to Minnesota Tax Court. (See Figure 1.5.)

However, before each of these formal appeals routes property owners may contact their assessors' office to question their assessments — which many do. Assessors in 1994 received tens of thousands of assessment questions statewide prior to the boards of review. Over half the county assessors estimated that they resolved between 75 and 100 percent of those questions received prior to board meetings.

Appealing to Boards of Review and Equalization

The first route of appeal is a three-step process that involves meeting with boards. Property owners may initially appear before a local board of review. Typically consisting of the township board or city council, the local board of review is authorized to determine whether the assessor has properly valued all parcels of taxable property in the assessment district.¹² According to our survey of county assessors:

Figure 1.5: The Property Assessment Appeals Process



Source: Office of the Legislative Auditor.

¹² Minn. Stat. §274.01, subd. 1.

- **Local boards of review received over 15,000 appeals in 1994.**

If property owners remain dissatisfied with their estimated value, they may appear before a second board, the county board of equalization. This board, usually made up of the elected county commissioners and the county auditor, meets to compare property assessments and equalize them so that each parcel in the county is listed at its market value.¹³ Property owners who contest their values to the county board of equalization must have first appeared before the local board of review.¹⁴ Persons who fail to appear before their local board may not proceed to their county board. We found that:

- **County boards of equalization received over 1,300 appeals in 1994.**

The third and final step property owners may take in this route of appeal is to file a petition in Minnesota Tax Court. The tax court, with three judges appointed by the governor, is a circuit court that meets in district courtrooms around the state. Tax court has two divisions: (1) the small claims division and (2) the regular division.

The small claims division of tax court, in which owners pay a \$25 appeal fee when filing the appeal and typically represent themselves, has jurisdiction over cases involving homes and non-homestead property of \$100,000 or less.¹⁵ Property owners must have appeared before both their local board of review and county board of equalization to file with the small claims division. The small claims division is less formal than the regular division and decisions do not set precedent. Judgments from the small claims division may not be appealed.

In the regular division of tax court, property owners pay a \$122 appeal fee when filing a petition and are most often represented by an attorney. Cases in-

volving non-homestead properties with values of at least \$100,000 must be filed in the regular division. Unlike the small claims division, cases heard in the regular division may be appealed to the Minnesota Supreme Court.

Appealing Directly to Minnesota Tax Court

The second route for appealing property assessments is going directly to the regular division of Minnesota Tax Court, bypassing the local boards of review and equalization. The same filing requirements and deadlines apply. However, property owners who take this route may not file in the small claims division.

Most of the petitions filed with Minnesota Tax Court are for the regular division. Only a fraction of property owners who appeal to their local boards of review continue the process and appeal to their county boards of equalization, and an even smaller percentage continue on to tax court. Because the small claims division requires property owners to have appeared before their local and county boards, the number of petitions filed in the small claims division is quite small relative to the regular division.

Of the thousands of tax court petitions filed each year in Minnesota, the majority do not actually go to trial. Instead, in most cases the property owner and the assessor end up settling the case or the property owner dismisses the case. We found that:

- **Over a three-year period between 1992 and 1994, when taxpayers filed over 15,000 petitions in Minnesota Tax Court, 69 percent of the cases were settled, 20 percent were dismissed, 9 percent went to trial, and 2 percent ended in a variety of other results.**¹⁶

¹³ Minn. Stat. §274.13, subd. 1.

¹⁴ Owners may physically appear before the board, have someone else represent them at the board meeting, or provide written communication of their appeal. Any of these three actions qualifies owners to proceed with their appeals to other venues, if they wish.

¹⁵ Both the small claims and regular divisions may charge law library fees in addition to appeal fees.

¹⁶ State of Minnesota Tax Court, *Case Management System, Case Disposition Report, Property Pay Years 1992-1994* (St. Paul, 1993-1995). Numbers of cases settled, dismissed, and in trial include closed cases and open cases that wait paperwork. These are cases for property taxes paid in 1992, 1993, and 1994.

Abating Taxes

Tax abatements are not a part of the formal appeals process. Nonetheless, we discuss them in this review because abatements are one method that property owners may use to reduce estimated market values in special cases.

With tax abatements, Minnesota counties have authority to return tax dollars to property owners who paid taxes unjustly or erroneously. Taxpayers may receive abatements to reduce the estimated market value, reduce the tax, or change a property's classification.¹⁷

Prior to 1990, the Department of Revenue reviewed every abatement request. However, a 1990 law change gave counties discretion over tax abatements. Despite this county discretion, state statutes prescribe the reasons for granting abatements, timelines within which they may be considered, and lines of authority for approving them.¹⁸

According to our survey:

- **Minnesota counties received nearly 11,000 abatement applications in 1994.**

Before a county decides an abatement request in any amount greater than \$10,000, it must give 20 days notice to the school district and city in which the subject property is located. If either the school board or municipality objects to the abatement, the county must refer the abatement to the commissioner of revenue.

Applications for abatements must receive approval from the county assessor (or the city assessor in certain cases), the county auditor, and the county board

of commissioners.¹⁹ If any of these three fail to approve the abatement request, the request is denied. A taxpayer whose abatement request is denied cannot appeal the decision in tax court.

DIFFERENCES IN APPEALS PROCESSES

All assessment districts in Minnesota have some process for appealing property valuations, usually involving a local board of review and county board of equalization. These boards listen to residents question their property assessments, hear assessors justify their assessments, and determine, to the best of their ability, the estimated market value or classification of the property in question. In this section we present some of the differences in the property assessment appeals processes. We discuss differences in boards of review and equalization, tax court, and abatements.

Communities without Local Boards of Review

In two counties, Ramsey and Dakota, the local board of review process is quite different from that of other counties. Ramsey County not only provides assessment services for all municipalities in the county, but its board of equalization also serves as the board of review for all residents.²⁰ In effect, Ramsey County residents do not have a three-step appeals process as citizens do in other counties. If property owners want to formally appeal their assessments, their first step is appearing before the county board of equalization, not a local board of review.

¹⁷ Many states around the country authorize local governments to grant tax abatements as an incentive for economic development. By contrast, Minnesota has allowed abatements only to correct errors or refund taxes unjustly paid. The 1996 Legislature granted county boards authority to abate county taxes on commercial or industrial property receiving improvements of certain amounts. The authority lies in nonmetropolitan counties where the county tax rate is at least 45 points higher than a neighboring county. (See *Minn. Laws* (1996), Ch. 471, Art. 3, Sec. 37.)

¹⁸ *Minn. Stat.* §375.192, subd. 2.

¹⁹ A 1995 law change allows the county board to delegate its authority regarding abatements to the county auditor. (See *Minn. Laws* (1995), Ch. 264, Art. 3, Sec. 26.)

²⁰ Ramsey County has operated a countywide system since at least the 1930s, according to Ramsey County Assessor Brian Ducklow. In 1974, the Legislature passed a law officially conferring to the county assessor authority for assessing all taxable property in Ramsey County, including that in St. Paul. (See *Minn. Stat.* §383.33, subd. 4.)

Dakota County also has a different system. Special legislation in 1991 enabled Dakota County cities and townships to delegate board of review duties to the county board of equalization.²¹ Eleven out of 34 communities, representing about 65 percent of the parcels in the county, have chosen this option. As in Ramsey County, the city councils in those 11 cities no longer operate as local boards of review.

Active Boards of Review

Some boards of review were more active and placed a higher priority on the board's function in 1994 than others. A small percentage of local governments responding to our survey said that they did not have a local board of review, when in fact they should have, and other local boards did not meet with a quorum of members. We found that:

- **Out of 255 cities and townships that responded to our survey of board of review members, 7 percent said that they did not have local boards of review, even though they were required by law.**²²

Most local boards of review met in 1994 as required. Roughly half of Minnesota county assessors reported that all of their county's local boards of review met in 1994 with quorums; another 38 percent said at least three-quarters of their local boards met with quorums. However, in 6 counties the number of boards that did not meet with quorums was significant — these county assessors reported that only between 25 and 50 percent of their local boards met with quorums. The majority of local boards across Minnesota that did not meet with quorums were in smaller cities and townships. When quorums were not present, assessors usually met with any residents who appeared and tried to resolve their questions without the presence of the board. In these situations, if the informal negotiations resulted in changed values or classifications, the assessor brought the changes to the county board of equalization.

²¹ *Minn. Stat.* §383D.73.

²² Another 18 cities that said they did not have boards of review were in Ramsey and Dakota counties, which have other arrangements in lieu of local boards.

²³ See *Minn. Stat.* §274.01, subd. 2. This statute gives authority for appointing a special board of review to cities, but not to townships.

Special Appointed Boards of Review

Legislation passed in 1975 grants cities the option of appointing a special board and delegating all board of review powers and duties to it.²³ Cities determine how many members to appoint, whether to compensate appointees, and lengths of appointees' terms. The special appointed board must have at least one member who is an appraiser, real estate agent, or other person familiar with property valuation in the assessment district.

According to our survey:

- **In 1994, 12 percent of the cities in Minnesota with populations of 5,000 or more conducted their appeals processes with a special appointed board of review. (See Figure 1.6.)**

Some cities structured these appointed boards as advisory to the city council; others gave the appointed boards full authority to conduct board of review business. None of the smaller cities in our sample appointed a special board of review.

Figure 1.6: Cities With Appointed Boards of Review

Austin	Minneapolis
Blaine	Minnetonka
Bloomington	Moorhead
Detroit Lakes	North Mankato
Duluth	Richfield
Eden Prairie	St. Cloud
Mankato	West St. Paul

Note: In some cases the appointed members serve together with city councilmembers. Some of the appointed boards are advisory to the city council.

Source: Office of the Legislative Auditor Surveys of Assessors and Boards of Review, 1995.

Special Appointed Boards of Equalization

Similar to cities, counties have the option to appoint members to a special county board of equalization.²⁴ The special appointed board must have at least one member who is an appraiser, real estate agent, or other person familiar with property valuation in the county. With the appointed boards, the county auditor is a non-voting member who serves as recorder. We found that:

- **In 1994, five counties in Minnesota conducted their appeals processes with a special appointed board of equalization.**

The five counties were: Anoka, Dakota, Hennepin, Ramsey, and Saint Louis. The majority of the members on these appointed boards were real estate agents, appraisers, or others familiar with property valuation.

Tax Court Petitions

Responding to tax court petitions is one of the many functions performed by assessors' offices. Although assessors spend time defending their assessments in court, they devote much of their resources to other activities related to the tax court process. The number of staff hours spent by an assessor's office on tax court appeals depends largely on the number of tax court petitions filed in that jurisdiction.

The number of tax court petitions varied significantly from one jurisdiction to the next in 1994. However, an unusually large share of this workload was concentrated in two metropolitan counties. We found that:

- **Among cases for taxes paid in 1994, Hennepin and Ramsey County — which have about one-quarter of all parcels in the state — accounted for 73 percent of all petitions filed with Minnesota Tax Court that year.**

Overall, metropolitan jurisdictions reported a higher number of tax court petitions and a greater number of staff hours spent on tax court appeals than other regions of the state. (See Table 1.1.)

Table 1.1: Workload on Tax Court Petitions by Region, 1994

	Non-Metropolitan		Metropolitan	
	County	City	County	City
Average Tax Court Petitions/ 10,000 Parcels	2	3	37	44
Average Staff Hours on Petitions/ 10,000 Parcels	47	25	346	459

Source: Legislative Auditor's Office Survey of Assessors, 1995.

Property Tax Abatements

We found that some counties' abatement policies were much more strict than others. Those with stricter policies typically limited the time, amount, and conditions under which abatements would be considered. According to our survey:

- **More than half of the counties with explicit abatement policies in 1994 limited consideration of abatement requests to the current year only and set minimum dollar thresholds for abatement requests.**²⁵

Another third of the counties required that specific conditions, such as the timely filing of a homestead application, be met before the county considered an abatement application.

²⁴ Minn. Stat. §274.13, subd. 2.

²⁵ In four of the 31 policies limiting abatement requests to the current year only, counties made provisions for certain rare exceptions.

SUMMARY

The structure of property assessment in Minnesota varies among counties, cities, and townships. In some counties, the county assessor's office assesses all properties. In others, the county assessor's office assesses some of the properties while local assessors are responsible for others. In still other counties, cities and townships employ local assessors to assess all properties. Some of these cities have their own assessors on staff, while other cities and townships use contract assessors.

The process for appealing valuations is one specific component of the property assessment system. The appeals process can include appearing before a board of review, appearing before a board of equalization, and filing a petition with tax court. Most county boards of equalization were comprised of county commissioners in 1994, but some had appointed members with particular experience in real estate issues. Similarly, while the majority of cities and townships had boards of review comprised of elected officials to hear residents' questions about valuations in 1994, a few cities appointed members specifically experienced in real estate. Tax abatements, a method property owners can use to reduce estimated market values when needed to correct errors, are considered and granted at counties' discretion.