

Eureka Township Commercial Task Force Minutes from February 25, 2003

Meeting called to order at 7:10 pm

Members Present: Ken DeMaster, Mike Greco, Mark Malecha, Chris Nielsen

Members not present: Bob Papke, Bob Ruddle, Clyde Thompson

1. Minutes from January 21 meeting were not approved.

2. The group met with Gloria Pinke from the Dakota County Tax Assessor's Office. Gloria began her presentation by discussing a handout that summarized property market values, tax capacity, etc. for Eureka Township. This information is summarized in the following table:

Property Types	Market Value	% of total	Tax Capacity	% of total	No. of Parcels
Residential	\$103,115,500	58.0	\$1,041,719	59.0	457 *
Commercial	424,000	0.2	6,436	0.4	10
Industrial **	289,700	0.2	4,463	0.3	4
Agricultural	66,633,500	38.0	575,078	33.0	412
Personal Property ***	7,575,000	4.0	123,562	7.0	106
Other	452,100	0.4	7,667	0.4	3
Total	178,489,800		1,758,925		992

* Of the 457 residential parcels, approximately 100 are ag homesteads.

** Industrial category includes mining operations, which is the only industrial currently in Eureka.

*** Personal property category includes pipelines, utilities, and airport hangers.

Note: In determining property type, the County does not look at how the property is zoned, only how it is used. If there are two or more uses, then the property is given a split classification based on the percentage of each type of use.

Gloria answered a list of questions provided in advance, as well as additional questions asked by task force and audience members present. Questions and answers are summarized below.

What is the township tax structure? To what extent does the township control the tax structure?

The Township has control ONLY over their local levy, which is set at the township annual meeting.

Tax structure is determined by the legislature; Eureka residents determine local spending only.

The Township's tax rate for payable 2003 is .18932—or about 20% of the total rate for Eureka/SD 192, and 21% of the total rate for Eureka/SD659, and 22% of the total rate for Eureka/SD194.

What impact does commercial development have on the tax base?

40% of any increase in commercial-industrial (CI) tax base over the base year of 1971 is shared with the seven-county metropolitan area because of the Fiscal Disparities (FD) Program. Part of the contribution is returned to the township, but because there was minimal CI value in Eureka in 1971, the township's contribution is greater than its distribution. The portion of tax capacity used for FD is subtracted from the total available for local uses.

A brief discussion of tax-increment financing, which is not used anywhere in Dakota County at present.

What percentage of commercial taxes does the township get? How does this compare with residential? Agricultural? Industrial?

Gloria brought along 11 example 2003 tax statements to show the range of taxes paid by various types of properties. For commercial-industrial, roughly 9–10% of the total tax bill is returned to the township. For residential, 18–20%. For agricultural, 21–22%.

What affects the mil rate at which a commercial enterprise is taxed (or are all taxed at the same mil rate)?

Mil rate is no longer used; it has been replaced by *tax capacity*, which is the market value of a property multiplied by the tax rate for that property class.

All tax capacity rates for commercial/industrial properties is the same in the township; what varies is the assessed value of each property.

For 2003 Payable, tax rates for the standard property classifications are as follows:

Residential Homestead

first \$500,000	1.00%
over \$500,000	1.25%

Agricultural Homestead (house, garage, one acre)

first \$500,000	1.00%
over \$500,000	1.25%

Remainder of Farm

first \$600,000	0.55%
over \$600,000	1.00%

Commercial-Industrial and Public Utility

first \$150,000	1.50%
over \$150,000	2.00%

Leased or Privately Owned Noncommercial Aircraft Storage Hangars (includes land)

any value	1.50%
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What characteristics make a commercial enterprise more desirable for tax purposes?

Can't answer this question as this is a local decision based on the community wishes/desires as expressed in their building ordinances.

Again, all commercial-industrial property is taxed at the same rate; it's the assessed value that matters.

To what extent would commercial development affect residential or agricultural tax rates?

Any new or increased value plays a part in determining the overall tax rates for the township; how much difference it plays is hard to say. Again, 40% of the CI value is contributed to FD. Typically values on residential and agricultural property are also increasing. The demand for local services produced by such development is a factor. The ratios used for determining tax capacity varies by property type (as shown on materials Gloria provided—a copy is in the task force library); ag ratios are lowest, followed by residential, then CI.

With recent changes in the property tax code, what is the approximate dollar-for-dollar revenue vs. expenditures ratio for commercial, residential, and agricultural property?

Couldn't answer the revenue vs. expenditures question. Suggested contacting Minnesota Association of Townships or Met Council.

During the past few years, residential market values have increased at a faster rate than commercial properties. There has been some shift in taxes from CI to residential, so commercial now shouldering a smaller proportion of tax burden.

What types of commercial development tend to increase surrounding property values?

Very difficult to answer because it is subjective and many variables are involved. The real estate market is hard to predict at best. Typically golf courses or recreational facilities are more likely to increase values than heavy industrial facilities. Location, local zoning, availability of sewer/water access, and other factors are all drivers of the market. Much depends on the planned use of surrounding properties; if an office building is built, chances are a restaurant will follow.

What types of commercial development tend to decrease surrounding property values?

Again, what are the uses of surrounding properties? Difficult to find areas in our county where values are decreasing regardless of surrounding uses, so there is not likely to be any noticeable depreciation of values. However, certain uses may result in a slower increase in market value for adjacent properties relative to similar properties located elsewhere in the township or the county.

From a revenue-generating standpoint, are there advantages to particular types of commercial development patterns (for example, traditional segregated use, mixed-use,

commercial or industrial parks, strip malls, town centers/downtowns, scattered commercial, big-box development, etc.)?

If you have six small facilities with a market value of \$100,000 on each, the tax capacity would be \$1500 on each for a total of \$9000. If you have one large facility with a value of \$600,000, the total tax capacity would be \$11,250. The difference occurs because current tax capacity ratios are 1.5% of the first \$150,000 of market value and 2% of the market value over \$150,000.

Must also factor in cost of services for each type of development pattern as this will affect revenue benefit.

To a large degree, this is simply a community decision: What do residents want the community to look like?

How are commercial-agricultural or commercial-horticultural enterprises typically taxed—as agricultural uses or as commercial uses?

The portion of the facility that is used as a wholesale operation engaged in raising/growing an agricultural product on that site is taxed agricultural. If part or all of the facility is used for retail, that portion is taxed separately as commercial. Livestock is taxed as ag.

Most of the current facilities in Eureka (Bachman's, Cross Nursery, etc.) are currently taxed as agricultural non-homestead.

Remaining prepared questions on cost of services for different land uses, paying for infrastructure and service costs, legal costs for enforcing commercial zoning standards and regulations, development costs associated with commercial-industrial, etc.

Gloria could not provide answers because these issues are beyond her area of expertise. She suggested talking to neighboring communities, the Minnesota Association of Townships, professional planners (Jeff Connell from Resource Strategies), or the Met Council.

Why aren't commercial hangars at Airlake Airport taxed as commercial?

Most are not for commercial use, and so qualify for a special class (called Personal Property) because they are for personal use.

How are assessments determined?

Assessed value for residential property is supposed to be between 90 and 105% of the market value of the home.

How does type of road affect market or assessed value of a home or business?

Dakota County has just started adding what it calls "site improvements"—for instance, blacktopped vs. gravel roads—as a consideration for assessments. The

market does not reflect any effect on residential property value in Dakota County. Not enough commercial sales in the County to show any effect there.

Our sort of bottom-line question on economic impact has been, Is there a minimum level of commercial development necessary for the township to realize some economic benefit from such development (in other words, a point at which commercial development generates more revenue than it costs in services, infrastructure, staff, etc.)?

No easy answer to this. More development of any type doesn't necessarily increase net revenue. The only thing you can count on is that as the number of properties of any type increase in the township, this increases the number of taxpayers among whom the levy is spread. Really need to do a sophisticated analysis of tax revenue vs. cost of services. Again, Met Council or Minnesota Association of Townships may have some numbers on this.

How do special assessments for certain improvements—such as blacktopping a road or adding a fire station—work?

There are certain rules governing special assessments. For instance, someone cannot be assessed if they do not benefit from the improvement. The benefit must be tangible—in other words, it must be demonstrable through an increase in property value. In addition, the assessment must be capped at the amount of the increase in value. What happens if you cannot show the property value increase is enough to pay for the project? The township has to make up the difference. Ravenna and Marshan Townships have both done special assessments and would be good contacts (Hank Tressel).

What about charging impact fees for development?

Impact fees are technically not allowable, but a community can effectively "extort" money from a developer by making them pay for impacts as a condition of granting them permission to develop.

What determines eligibility for Green Acres and Ag Preserves programs?

Green Acres eligibility is determined by the County Assessor's office. To be eligible, the primary use of the property must be for agricultural purposes. If the property includes a residence, it must be clear that the primary use of the remainder of the property is ag (the nonresidential part would be eligible for the program). Zoning density is not a consideration. Generally a 10-acre parcel is considered the bare minimum for eligibility. What is "agricultural use"? Standard definition of agricultural production—does NOT include growing hay, however.

Ag Preserves eligibility is determined by the township. A parcel is eligible only if the zoning where it is located is at least 1:40. Generally a 40-acre parcel is the minimum, but township can waive this. An eight-year perpetual commitment. If zoning changes while enrolled, eligible as long as stay enrolled. If withdraw from

program and zoning changes, however, cannot re-enter the program even if enrolled in the past. It is not possible to spot-zone for Ag Preserves (e.g., if the whole township went to 1:10, you can't designate certain farms as 1:40 to preserve Ag Preserves eligibility. Gloria was unsure whether could change zoning section by section, but thought it was unlikely.

What's the difference between the programs?

Pay taxes on the same valuation for both programs

Special assessments prohibited on property enrolled in Ag Preserves. In Green Acres, assessments are only deferred—once you are no longer enrolled in the program, you will be assessed.

Referendums are not charged to farmland in either program (only to house/buildings)

3. Future meeting dates: Reserve March 18 and March 25 for future meetings.

Meeting adjourned at 8:40 pm.

Respectfully submitted,
Mike Greco