



**ASSESSMENT AND CLASSIFICATION PRACTICES
REPORT**

RURAL WOODLANDS

A report submitted to the Minnesota State Legislature
pursuant to
Minnesota Laws 2005, First Special Session Chapter 3, Article 1, Section 37

Property Tax Division
Minnesota Department of Revenue
February 28, 2006

MINNESOTA • REVENUE

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To the members of the Legislature of the State of Minnesota:

I am pleased to present to you this report on the assessment and classification of rural woodlands property within the State of Minnesota undertaken by the Department of Revenue in response to Minnesota Laws 2005, First Special Session Chapter 3, Article 1, Section 37.

This report provides a summary of classification practices of rural woodlands property within the State of Minnesota as well as recommendations to improve the uniformity of classifications of these types of properties.

Sincerely,

Daniel A. Salomone
Commissioner

Per Minnesota Statute 3.197, any report to the Legislature must contain, at the beginning of the report, the cost of preparing the report, including any costs incurred by another agency or another level of government.

This report cost \$11,000.

INTRODUCTION

This report was developed in accordance with Minnesota Laws 2005, First Special Session Chapter 3, Article 1, Section 37, which states in part that:

- (a) *Recognizing the importance of uniform and professional property tax assessment and classification practices, the commissioner of revenue, in consultation with appropriate stakeholder groups, shall develop and issue two reports to the chairs of the house and senate tax committees. The reports shall include an analysis of existing practices and provide recommendations, where necessary, for achieving higher quality and uniform assessments and consistency of property classifications.*
- (b) *The first report will be issued by February 1, 2006, and will address the following property types;...*
 - (2) *rural woodlands including timber, seasonal residential recreational, agricultural and residential property, and lands used for the production of short rotation woody crops;...*

The purpose of this report is to examine county assessors' current practices in the classification of rural woodlands and make recommendations for any changes or clarifications as needed.

In preparation for issuing this report, the Department of Revenue formed a committee that was composed of Department of Revenue staff members and several county assessors. The members included:

- Tom Dybing, Houston County Assessor
- Mel Hintz, St. Louis County Assessor
- Dale Smith, Carlton County Assessor
- Tom Gilmore, Itasca County Assessor
- Steve Kuha, Cass County Assessor
- Bob Hansen, Hubbard County Assessor
- Don Holm, Clearwater County Assessor
- John Hagen, Manager, Information and Education Section, Property Tax Division, Department of Revenue
- Gary Amundson, Regional Representative, Property Tax Division, Department of Revenue
- Larry Austin, Regional Representative, Property Tax Division, Department of Revenue
- Stephanie Nyhus, Principal Appraiser, Information and Education Section, Property Tax Division, Department of Revenue
- Joan Seelen, Appraiser, Information and Education Section, Property Tax Division, Department of Revenue
- Julie Rosalez, Office Administrator Specialist – Intermediate, Information and Education Section, Property Tax Division, Department of Revenue

This committee initially met on November 28, 2005. At this meeting, it was decided that the Department of Revenue would survey all county assessors on their current classification practices for rural wooded property. The 2005 abstracts showed that 44 out of the 87 counties in Minnesota had property that was classified as Class 2b Timber for the 2005 assessment. The survey was conducted in December 2005. The results are summarized in the Appendix of this report.

On January 18, 2006, the group met for the last time to finalize the recommendations for the report to the Legislature. The group was joined by Karen Baker, House Research, Bruce ZumBahlen, President of the Minnesota Forestry Association, and Henry Erdman, Minnesota Seasonal Recreation Property Owners.

This report is the result of a cooperative effort between the Minnesota Department of Revenue - Property Tax Division, and the Minnesota Association of Assessing Officers.

EXECUTIVE SUMMARY

The initial charge of the Rural Woodlands committee was to analyze the existing classification practices of county assessors for vacant, rural, wooded, non-agricultural property. After analyzing the existing practices, several issues were raised. Most importantly, there is a wide variety of legitimate potential uses and thus, classifications, of vacant, rural, wooded land across the state of Minnesota. These potential uses vary within a single county and between counties across the state. This is very confusing for taxpayers and leads to questions surrounding the lack of uniformity of assessors' classifications even if the different classifications are legitimate. Due to the different classification rates assigned to each classification and the existence of the state general tax, the different classifications often lead to very different property tax amounts, even if the estimated market values of properties with the same characteristics are very similar. The issues and recommendations are summarized below.

Issues and Recommendations

1. **New Classification for Rural Vacant Land** – The current method of classifying vacant land according to its most probable, highest and best use has led to a lack of uniformity in the eyes of taxpayers.

Recommendation - This committee recommends and the Department of Revenue concurs that the Legislature implement a new rural vacant land classification. This classification would be limited to property at least 10 acres in size that is **not** used agriculturally. It is our opinion that this would decrease the taxpayers' perceptions of lack of uniformity among assessors. In addition, it would simplify the assessor's job by eliminating the analysis necessary to determine the most probable highest and best use of a property and limiting the potential classifications of rural property, not qualifying for the agricultural class, to one – rural vacant land.

2. **Split Classification** – Assessors are very hesitant to split classify properties that consist of one identifiable use when there is also a large amount of excess wooded land. For example, if there is an 80-acre property that contains a house that is used by the owner as a homestead and 79 acres of heavily wooded property, the assessor will likely classify the entire parcel as a residential homestead rather than split classifying the property as residential homestead and timber.

Recommendation – This issue can be largely resolved by establishing a new rural vacant land classification. In the absence of a law change that implements a new rural vacant land classification, the Department of Revenue will issue specific guidelines on the split classification of properties.

3. **Classification of Hunting Land** – Many rural wooded parcels of property are leased for hunting purposes. The lease may be for a period of as little as one day to as much as a few weeks. This may be the only identifiable use of the property. Some assessors believe that this use, however minimal, should be recognized by classifying the property as Seasonal Residential Recreational.

Recommendation – This issue can be largely resolved by establishing a new rural vacant land classification. In the absence of a law change that implements a new rural vacant land classification, the Department of Revenue will issue instructions to assessors to ignore the existence of hunting leases for purposes of classifying property for property tax purposes. These leases should not be the sole reason to classify a property as SRR.

4. **Short Rotation Woody Crops** – Assessors are currently divided as to the proper classification of property that is used to grow short rotation woody crops. Some assessors believe they should be considered to be “trees grown for sale as a crop” and should, therefore, be classified as Agricultural. Other assessors believe that since these trees are often grown for paper production which is a “timber, lumber, wood or wood product” that they should be classified as Timber.

Recommendation - The committee recommends and the Department of Revenue concurs that land used for the production of short rotation woody crops, such as hybrid poplars, be classified as agricultural land for property tax purposes. However, the committee also recommends for clarification purposes that short rotation woody crops be added to the definition of agricultural products under Minnesota Statute 273.13, subdivision 23.

CLASSIFICATION FOR PROPERTY TAX PURPOSES

Improved Property

In Minnesota, improved property is classified according to its actual use on the assessment date of January 2 of each year. There are five basic classifications of property used for property tax purposes. Assessors must classify all property in accordance with these classes, which are outlined in Minnesota Statute 273.13. These classes are divided into numerous

subclasses. (A full list of the existing classifications, subclasses, and classification rates is provided in the Appendix of the report.)

Unimproved Property

Generally, it is relatively simple to classify property that is improved with a structure according to its current use. For example, a single family dwelling, a multi-unit apartment building, a restaurant, or a gas station are all easily identifiable and easily classified uses of property. While improved property may be easily classified, problems and questions often arise in cases of unimproved property for which there is no easily identifiable use of the land. In cases where there is no clearly identifiable use of the property, assessors must classify it according to its most probable, highest and best use as required in Minnesota Statute 273.13, subdivision 33.

The term “highest and best use” is a common appraisal concept used by appraisers in estimating the market value of property. This principal of appraisal states that appraisers should value property at a value that provides the highest return to the land. This use must be physically possible, financially feasible, legally permissible, and maximally productive. Again, this concept surrounds the *valuation* of land. It is identified here only because the term “highest and best use” is referenced in Minnesota Statute 273.13, subdivision 33, which governs the *classification* of unimproved property for property tax purposes.

Prior to the 1992 assessment, Minnesota law provided a separate classification for vacant land under Minnesota Statute 273.13. At the time, that classification carried one of the highest classification rates of all of the classes. Because of this, assessors rarely used the vacant land classification. In 1991, legislation was enacted that repealed the vacant land classification and provided for unimproved property to be classified at its most probable, highest and best use. According to the 1991 Department of Revenue law summary, this new law was enacted to bring treatment of unimproved parcels into conformity with the principle of classifying improved parcels according to their current use as of the assessment date and eliminate the inequities of taxation of improved parcels vs. unimproved parcels.

The Department of Revenue issued a bulletin to all assessors in October 1991 that explained the new law which went into effect for the 1992 assessment. The example used in the bulletin stated that a bare lot surrounded by seasonal cabins that was zoned for single family residential use should properly be classed as seasonal residential recreational. A bare lot in a residential development zoned for single family residential use would properly be classed as residential non-homestead just as a vacant lot in an industrial area would be classed as commercial/industrial.

Minnesota Statute 273.13, subdivision 33 outlines the classification of unimproved property. It states that:

(a) All real property that is not improved with a structure must be classified according to its current use.

(b) Real property that is not improved with a structure and for which there is no identifiable current use must be classified according to its highest and best use permitted under the local zoning ordinance. If the ordinance permits more than one use, the land must be classified according to the highest and best use permitted under the ordinance. If no such ordinance exists, the assessor shall consider the most likely potential use of the unimproved land based upon the use made of surrounding land or land in proximity to the unimproved land.

Under current law, assessors are required to classify unimproved property according to this statute. Again, for improved property, assessors classify the property based on how it is **actually used** on the assessment date. The classification of unimproved property requires that assessors use their professional judgment and knowledge of the local market to anticipate how a property will **most likely be used**.

It should be emphasized that the potential uses of land can vary widely both within a county and across the state. There is not just one correct answer; there are numerous possible answers. These classifications must be made on a case by case basis. When examining the highest and best use of a property, the assessor must consider a variety of factors. These factors include, but are not limited to, physical characteristics of the land, local zoning ordinances and building requirements, uses of surrounding properties, the intended use of a property as indicated on Certificates of Real Estate Value, etc. After considering all of the factors, assessors must choose the most probable use of the land that is physically possible, legally permissible, financially feasible, and maximally productive that will generate the highest return to the land.

One example of a single county with a wide spectrum of potential uses of property is St. Louis County. It covers 6,860 square miles, including a large urban area (city of Duluth), timberland that is logged for wood and paper production, land that is used seasonally for recreational purposes by hunters, cabin owners, resort owners, and tourists, land with trees that are used for maple syrup production, and land that may be used residentially year round. Therefore, a 40-acre wooded property located in St. Louis County could conceivably be classified as either Class 2b Timber, Class 2b Agricultural (if the trees were used for maple syrup production), Class 3a Commercial/Industrial (if located within ¼ mile of the taconite mine), 4c(1) Seasonal Residential Recreational, Class 4b(4) Residential Non-Homestead not containing a structure, or Class 5(2) all other property not included in any other class. (It should be noted that since the law was enacted that required unimproved land to be classified according to its most probable highest and best use, very few counties use Class 5(2) for any property. There is usually another alternative to this classification. It is only included here because it is technically a possibility.)

It is important to note that taxpayers do not get to choose their classification based on the most beneficial classification rate. In addition, assessors should not consider the tax implications when classifying property. Classification rates often change over time. With each change, taxpayers are known to make a case to their assessor as to why they should be classified as one class or another. In some cases they have even appealed their classification to the local and county boards of appeal and equalization as well as to Tax Court. For example, in the mid-1990s seasonal residential recreational property had a lower classification rate than residential non-homestead property and many taxpayers asked that the

assessor change their classification to Seasonal Residential Recreational even though their property was used residentially and not seasonally. Currently, residential non-homestead property has a more favorable class rate because properties classified as residential non-homestead are not subject to the state general levy. In addition, property that has been classified as seasonal residential recreational at any time under the current ownership is prohibited from receiving a relative homestead (M.S. 273.124, subdivision 1, paragraph (c) or being classified as Class 4bb Residential Non-Homestead (M.S. 273.13, subdivision 25, paragraph (c). As a result, taxpayers are now requesting that their properties be classified as Residential Non-Homestead to avoid having to pay the state general tax.

In conclusion, the law change in 1991, which was intended to improve uniformity and equalization of tax amounts, unintentionally contributed to the lack of uniformity in classification practices that we have today. In reality, this likely diminished uniformity by requiring assessors to classify property according to its most probable, highest and best use rather than simply as vacant land. As we have illustrated, a single parcel of wooded property may have several possible classifications, any one of which may be correct, depending on the situation. If uniformity of classification practices is the desired outcome, the fewer possible classifications for assessors to choose from, the better. By reducing the number of possible classifications for this type of property, it will promote greater uniformity both within individual counties and statewide.

For these reasons, the committee recommends, and the Department of Revenue concurs, that the Legislature adopt the recommended rural vacant land classification in an effort to reduce the number of possible classifications for unimproved property. It is the opinion of the committee that this would provide greater uniformity of classification. It is our opinion that it would also be easier for taxpayers to understand and it would simplify the classification process for assessors.

There are many issues that will need to be addressed if this is the desired avenue to be pursued. While we would like to initiate this discussion, it is impossible for us to explore all of the potential issues and study the impact of a potential classification change on each of them prior to the beginning of the 2006 Legislative Session. Therefore, we have outlined the following five issues that we believe should be considered first and foremost.

1. **Minimum Size** – The committee recommends, and the Department of Revenue concurs, that there should be a minimum size of 10 acres to qualify for the proposed rural vacant land classification. Unimproved property of less than 10 acres should be classified according to its “most probable use” which will be based on the assessor’s judgment. We request that the Legislature remove the language that specifies that the assessor classify property according to its most probable, highest and best use since “highest and best use” is a valuation concept and not a classification concept.
2. **State General Levy** – Currently, Seasonal Residential Recreational property makes up only 5 percent of the state general levy. In addition, the value of unimproved property, over 10 acres in size that is currently classified as Seasonal Residential Recreational is considered by assessors to be minimal when compared to the total value of improved property that is classified as Seasonal Residential Recreational. For these reasons, we believe that any tax shifts that may occur are likely to be relatively minimal. However, more extensive analysis is needed.
3. **Unplatted Property** – We recommend that only unplatted property be considered to be eligible for the rural vacant land classification. The platting process clearly signals that development will likely be taking place on that property in the near future.

4. **Structures** – We believe that minor, ancillary structures that have a minimal use should not preclude otherwise vacant property from being allowed into the rural vacant land classification. Typically, these structures add relatively little value to the property. This would also eliminate the need to split class a parcel if this type of building exists. Some examples of ancillary structures include small (i.e., 10’x10’) storage buildings, tool sheds and other minor, non-residential structures. In addition, use of the property for incidental camping purposes, would not be recognized in the classification and therefore should not preclude a property from being classified as rural vacant land. It should be emphasized that parcels with permanent structures that are used for residential purposes indicate that there is an actual use of the property. This would preclude the property from being classified as rural vacant land. The property should then be classified according to its actual use.

5. **Classification Rate** – The committee did not recommend a classification rate for the rural vacant land classification. This must be determined by the Legislature after considering all appropriate factors. The Department of Revenue recognizes there will be a need for research and analysis on any potential tax shifts that may occur due to a change in classification rates, although we believe any tax shifts would be minimal.*

CURRENT POSSIBLE CLASSIFICATIONS OF VACANT LAND

<u>Classification Name</u>	<u>Class Rate</u>	<u>Pays State General Tax</u>	<u>Include in New Class?</u>
Class 2a Ag Homestead (Excess Land) 1st \$600,000 TMV Over \$600,000 TMV	0.55% 1.00%	No	1 No
Class 2b Ag Non-Homestead	1.00%	No	2 No
Class 2b Timber	1.00%	No	Yes
Class 3a Commercial/Industrial (preferred) 1st \$150,000 Over \$150,000	1.50% 2.00%	Yes	3 Yes
Class 4b(4) - Residential Non-Homestead; no structure	1.25%	No	Yes
Class 4(c)1 - Seasonal Residential Recreational - Non Commercial 1st \$500,000 TMV Over \$500,000 TMV	1.00% 1.25%	Yes	Yes
Class 5(2) All other property	2.00%	Yes	Yes

1 - If the wooded parcel is contiguous to farmland that is in production and under the same ownership, it will remain classified as agricultural property.

2 - If the wooded parcel is contiguous to farmland that is in production and under the same ownership, it will remain classified as agricultural property.

3 - Rural vacant land that is currently classified as C/I is limited to the Iron Range in St. Louis County. In this instance, acreage which is contiguous to taconite production land is classified as C/I because the assessor believes this represents the highest and best use of the property.

**For example, St. Louis County has estimated that vacant land parcels that are currently classified as SRR property make up roughly 9 percent of the total number of parcels classified as SRR. These parcels represent approximately 6 percent of the total estimated market value of SRR property in St. Louis County. Therefore, we are not anticipating a major class shift if the parcels that are over 10 acres in size were removed from the SRR class and added to the new rural vacant land class.*

This proposed rural vacant land classification would eliminate the need for the Class 2b Timber classification. It would also eliminate the subjectivity for assessors of having to determine the most probable, highest and best use.

It should be noted that we recommend that wooded property that is part of an existing farm and meets the requirements of contiguity and ownership *not* be included in the new rural vacant land classification. These parcels should continue to be classified as agricultural property so long as they are contiguous to other agricultural land in production that is under the same ownership.

In the absence of a law change, we recommend that all county assessors identify a “default” classification for unimproved properties with no identifiable use in an effort to make the classification of unimproved property as uniform as possible. Again, this “default” classification will likely vary within a county and will vary from county to county across the state and would not achieve our goal of statewide uniformity of classification practices.

The committee generally agrees that no county in the state should have a “default” classification of Agricultural for wooded property because there are specific performance criteria that must be met for a property to be classified as Agricultural.

OTHER ISSUES

Based on the results of the survey that was conducted as part of this report, we identified three specific issues that must be addressed.

1. Split classification -

Split classification of a property is a concept in assessment that occurs when there are two or more distinct uses of a property. In such cases, the assessor must use separate classifications for each different use of the property. The assessor then distributes the total estimated market value between the classifications. Based on the results of the survey, it seems that most assessors are very hesitant to split-class properties – either on a contiguous land mass or a parcel basis. This is largely due to existence of Limited Market Value and the special complications that these calculations present. The rule is that assessors must calculate new Limited Market Values for the amount of value attributed to each qualifying classification of property annually. Even with computer systems, it is often necessary to perform these calculations by hand. It is theoretically possible with split-classed properties for one of the classifications to receive a limited market value while the other classification does not. In addition, this reluctance to split classify property stems from the desire to simplify the property tax process from beginning to end while split classifications on a property complicate the valuation, classification, and property tax calculations. Furthermore, there are no clear guidelines indicating when a use is “incidental” to the primary use of the property or when that use becomes significant enough to warrant a split classification.

Recommendation

In the absence of a law change that enacts a new rural vacant land classification, the committee would like to implement a minimum acreage requirement for split-classifying a property only if it exceeds 40 acres or is a government lot, which may be slightly greater than or less than 40 acres due to its proximity to the northern or western section lines of a township, a lake, river, etc. Zoning requirements for residential development may vary, with some districts requiring minimum residential tract sizes up to 40 acres. This proposal to limit split classifications to sites with a minimum of 40 acres of rural wooded land would also address the fact that several counties have limited their residential sites to a minimum of 40 acres for a single family residence.

For example, a taxpayer owns two contiguous parcels, each consisting of 40 wooded acres. On one of the parcels, there is a cabin that is used seasonally by the owner for hunting purposes. In this case, we would recommend that the 40-acre parcel that contains the cabin be classified as Seasonal Residential Recreational. The other contiguous 40-acre wooded parcel would be classified as rural vacant land. The same would be true of a single 80-acre parcel with a cabin that is used seasonally. The parcel should be split classed – the cabin and 40 of the 80 acres would be classified as SRR and the remaining 40 acres would be classified as rural vacant land.

In addition, there should not be any “borrowing” to achieve the 40-acre minimum acreage requirement. For example, a taxpayer owns 150 contiguous acres that consist of four parcels. Three of the parcels are 40 acres in size. The fourth parcel is 30 acres in size and contains a home that is used by the owner as a homestead. In this case, the assessor should classify the 30-acre parcel with the home as a residential homestead. The three remaining parcels would all be classified as rural vacant land. The assessor would not “borrow” 10 acres from one of the unimproved parcels and add that to the 30-acre parcel to reach the 40-acre minimum size requirement.

It should be strongly emphasized that this type of split classification only applies to property that could possibly be included in the proposed rural vacant land classification. It in no way suggests that improved properties with two or more significant uses should be held to this 40-acre minimum requirement. This should not affect properties that are residential/agricultural splits, residential/commercial splits, etc.

2. Classification of land that is used for hunting purposes –

Based on the results of the survey, assessors are divided when asked if property leased for hunting for a few weeks of the year constitutes enough of a use to warrant changing the classification of a parcel that would likely otherwise be classified as Timber, to Seasonal Residential Recreational when there is no other identifiable use of the property. There are a growing number of cases where property is leased to hunters for a few weeks of the year. Very often, assessors are not aware of these leases since they are typically between individuals, or between individuals and corporations that own forested land. These leases are not recorded anywhere, nor are owners required to notify the assessor

that they exist. If an assessor were to find out about land that is leased for hunting purposes, it is likely to be by accident.

Recommendation

The committee has agreed that when an unimproved parcel of property (no permanent structure such as a cabin or home exists on the property) is simply leased for hunting purposes, it is an incidental use of the property and should not be the sole factor used to classify the property as Seasonal Residential Recreational. It is unlikely that the assessor would be aware of these leases that may run for a minimum of a day up to a maximum of a few weeks during the hunting season. Therefore, we believe that the assessor should ignore such incidental uses of a property. However, we still believe that unimproved wooded property may be classified as Seasonal Residential Recreational under current law if that is in the assessor's judgment, the most probable, highest and best use.

3. Short Rotation Woody Crops

Short rotation woody crops, such as hybrid poplar trees, were originally considered to be a renewable source of energy (biomass). However, over the years, they have also become a source of fiber for paper products. These short rotation woody crops are typically grown on a 15-year rotation. Over the last few years, there has been an increasing debate between taxpayers, assessors, and industry representatives about whether these short rotation woody crops should be considered to be an agricultural product or a timber product for the purpose of classification of property for property tax purposes.

After speaking with the Minnesota Department of Agriculture and the Minnesota Department of Natural Resources, we were informed that these short rotation woody crops are a combination of a traditional agricultural crop and traditional timber production. Minnesota Statute 17.458, subdivision 1 defines "agroforestry" as: *the cultivation of short-rotation woody crops using agricultural practices to produce timber or forest products*. Subdivision 2 of the same statute indicates that *agroforestry is an agricultural pursuit*.

However, short rotation woody crops are not specifically identified as an "agricultural product" in Minnesota Statute 273.13, subdivision 23 which outlines the classification of property for property tax purposes. In fact, the definition provided in Minnesota Statute 17.458 references "timber and forest products." In the past, production of these products would have been considered to be a timber use in Minnesota Statute 273.13, subdivision 23.

Growing short rotation woody crops involves intensive management practices that are more similar to production of agricultural products than traditional timber management. It is a long term commitment with a fairly large investment and a limited economic return for a number of years. Harvesting short rotation woody crops occurs approximately 10 to 12 years after planting the crop. Currently, there are approximately 20,000 to 25,000 acres of hybrid poplar trees in Minnesota. These trees are typically grown for production of pulp for use in paper production or as a source of biomass energy.

To date, the Department of Revenue has not issued a formal bulletin on land used for short rotation woody crops because they are not listed as an agricultural product in Minnesota Statute 273.13. This would seemingly prohibit us from recommending that property used for short rotation woody crop production be considered to be used for agricultural purposes and should therefore be classified as Agricultural property for property tax purposes. Thus, in the past, we have maintained that because the trees were mainly grown for pulp and paper production, the appropriate classification for land used for short rotation woody crop production would be Class 2b Timber.

However, based on the survey results from all counties, assessors are divided on the proper classification of land used to grow short rotation woody crops. Eighteen counties report that they have property that is used for the production of short rotation woody crops. Of those eighteen, ten counties classified the property as Class 2b Timber, while seven classified the property as Agricultural. One county stated they would classify it as Agricultural if it were part of a farm and Timber if it was not. When explored further, another county admitted that the same field of hybrid poplars would be classified as Agricultural if owned by a “farmer” but would be classified as Timber if owned by a paper company. The Department of Revenue believes that classifying a property based on its ownership is highly inappropriate since the classification is based on the use of the property.

Recommendation

The committee believes, and the Department of Revenue concurs, that a case can be made to consider short rotation woody crops as an agricultural product and that they may meet the definition of a tree that is “grown for sale as a crop” under Minnesota Statute 273.13, subdivision 23. However, the committee recommends that the Legislature add clear, specific legislative language to Minnesota Statute 273.13 that states that short rotation woody crops are considered to be an agricultural product and therefore property used for growing short rotation woody crops should be classified as Agricultural property for property tax purposes. We feel this would remove any ambiguity surrounding the classification of these properties. In the absence of such language, growers of other types of trees that are not short rotation woody crops but are used for paper production will likely contact their assessor with the claim of unfair treatment and will again raise the issue of uniformity of classification practices.

In the absence of specific legislation indicating that short rotation woody crops are considered to be an agricultural product, the committee recommends, and the Department of Revenue concurs, that property that is short rotation woody crops should be considered by assessors to be an agricultural product and those properties where short rotation woody crops are grown should be classified as Agricultural for property tax purposes. The Department of Revenue is prepared to issue a formal bulletin to all assessors to explain this recommendation in an effort to promote uniformity of classification among these properties from county to county.

CONCLUSION

In conclusion, we believe that the best way to promote uniformity in the classification of rural vacant property across the state would be to seek action by the Legislature to establish a new classification for rural vacant land. This new classification would equalize the property tax burden for all rural (non-agricultural) vacant land over 10 acres in size so that all rural vacant land is treated equally with respect to property tax. This new classification would also eliminate the analysis necessary for assessors to determine the most probable, highest and best use as required in Minnesota Statute 273.13, subdivision 33. It is our belief that taxpayers would embrace this classification change because it simplifies the property tax process for owners of such property in that all non-agricultural rural land would have the same classification rate. It would also eliminate taxpayers advocating for one classification over another with their assessor. Because the market value of rural lands has increased dramatically over the past few years, and that trend is expected to continue, it has become increasingly important that assessors classify these lands in a consistent manner. The new rural land class is vital to achieving this goal.

In the absence of a new classification, the Department of Revenue should issue a bulletin to all assessors outlining specific guidelines for classifying rural woodland property. However, we do not believe that any recommended guidelines would promote a higher level of uniformity compared to a new rural vacant land classification since assessors will still be prone to the subjectivity allowed by Minnesota Statute 273.13, subdivision 33.

APPENDIX

DEFINITIONS OF CLASSIFICATIONS AND EXPLANATIONS

Definition of Highest and Best Use - The International Association of Assessing Officers defines the highest and best use of a property as *A concept in appraisal and in assessment law requiring that each property be appraised as though it were being put to its most profitable use, given probable legal, physical, and financial constraints. The concept is most commonly discussed in connection with underutilized land.* (Property Appraisal and Assessment Administration, 1990 edition, Glossary)

The Appraisal Institute defines the highest and best use of a property as *the reasonably probable and legal use of vacant land or an improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value.* (The Appraisal of Real Estate, Tenth Edition, 1992, page 275)

Definition of Class 2b Timber - Minnesota Statute 273.13 defines Class 2b Timber as:

(b) Class 2b property is (1) real estate, rural in character and used exclusively for growing trees for timber, lumber, and wood and wood products; (2) real estate that is not improved with a structure and is used exclusively for growing trees for timber, lumber, and wood and wood products, if the owner has participated or is participating in a cost-sharing program for afforestation, reforestation, or timber stand improvement on that particular property, administered or coordinated by the commissioner of natural resources.

The committee generally agrees that this is not an “active” class that **requires** a forest management plan or a woodland stewardship plan to be in place in order for a property to be classified as timber. In general, it is appropriate for assessors to classify a property as 2b Timber even if the trees are not being actively harvested or there is no formal forest management plan in place. A standing grove of trees may be classified as Timber.

Clause (2) was added during the 1993 legislative session. This was added in response to an assessor’s reluctance to classify woodlands held for forest management purposes as Class 2b Timber because they were in relatively close proximity to an urban are and were not “rural in character.” These properties can now be classified as timber as long as the owner has that property in a cost-sharing program for afforestation, reforestation, or timber stand improvement with the DNR.

Definition of Class 4c Seasonal Residential Recreational - Minnesota Statute 273.13, subdivision 25, paragraph (d) states that SRR property is:

...real property devoted to temporary and seasonal residential occupancy for recreation purposes...

Prior to the 1991 law change regarding classification of unimproved property, the Department of Revenue maintained that for a property to be classified as Seasonal Residential Recreational,

the owner had to occupy the property for residential purposes. Such residential purposes included camping in a tent, occupying a travel trailer, camper or other recreational vehicle, or living in a cabin on a seasonal or occasional basis.

It is our opinion that there does not need to be a residential structure for the property to be used seasonally. Camping and hunting are considered to be seasonal uses. If there is no identifiable use of a property, assessors are instructed to classify it according to “its most probable, highest and best use.” What exactly the most probable, highest and best use is, can vary across the state.

Many counties, especially those located in the traditional seasonal areas of the state (primarily “up north”) will classify vacant property as Class 4c(1) Seasonal Residential Recreational property. This is based on their professional judgment, knowledge of the local market and the “intended use” portion of the CRVs that are filed on sales in that area and also the current use of area properties. Therefore, they are following the law in respect to classification of unimproved properties in that they are classifying the property according to its most probable, highest and best use.

Definition of Residential Non-Homestead Property – While there is no statutory explanation of residential non-homestead property, the Department of Revenue maintains that it is the same as residential homestead property (i.e. it is occupied as a principal place of residence) but for any number of reasons, the property does not qualify for homestead treatment. Such reasons may include but are not limited to: the property is occupied by a renter, the owner/occupant is not a Minnesota resident, the occupant is not a relative that qualifies for a relative homestead, the property is owned by an entity, etc.

Definition of Agricultural Property - Minnesota Statute 273.13, subdivision 23, paragraph (c) defines agricultural land as:

“(c) Agricultural land as used in this section means contiguous acreage of ten acres or more, used during the preceding year for agricultural purposes. "Agricultural purposes" as used in this section means the raising or cultivation of agricultural products. "Agricultural purposes" also includes enrollment in the Reinvest in Minnesota program under sections 103F.501 to 103F.535 or the federal Conservation Reserve Program as contained in Public Law 99-198 if the property was classified as agricultural (i) under this subdivision for the assessment year 2002 or (ii) in the year prior to its enrollment. Contiguous acreage on the same parcel, or contiguous acreage on an immediately adjacent parcel under the same ownership, may also qualify as agricultural land, but only if it is pasture, timber, waste, unusable wild land, or land included in state or federal farm programs (emphasis added). Agricultural classification for property shall be determined excluding the house, garage, and immediately surrounding one acre of land, and shall not be based upon the market value of any residential structures on the parcel or contiguous parcels under the same ownership.”

For wooded property to be classified as Agricultural it must be at least 10 acres in size and be used for agricultural production (see Agricultural Uses of Trees – below), **OR** it must be contiguous (either on the same parcel or an immediately adjacent parcel) to other agricultural land that is currently in production and is under the same ownership. If a wooded parcel is NOT used for agricultural production and is NOT contiguous to qualifying agricultural property under the same ownership, it should not be classified as agricultural since it is impossible to meet the performance criteria for the ag class. The most likely alternatives include:

- Class 4b(4) – Residential non-homestead not containing a structure.
- Class 2b – Timber
- Class 4c(1) – Seasonal Residential Recreational
- Class 5(2) – All other property not included in any other class

Based on the survey responses, some counties would classify wooded property as agricultural without regard to production, contiguity or ownership. The Department of Revenue feels that this is highly inappropriate.

Agricultural Uses of Trees: It should be noted that there are a few specific uses of trees that are considered to be agricultural in nature. They are specified below.

Minnesota Statute 273.13, subdivision 23, paragraph (e) states that:

The term ‘agricultural products’ as used in this subdivision includes production for sale of:

- (1) livestock,... horticultural and nursery stock,...;*
- (7) trees, grown for sale as a crop, and not sold for timber, lumber, wood, or wood products; and*
- (8) maple syrup taken from trees grown by a person licensed by the Minnesota Department of Agriculture under chapter 28A as a food processor.*

Trees grown as a horticultural or nursery product are considered to be an agricultural activity. Trees “grown for sale as a crop” came into law during the 1999 legislative session. Our law summary used the example of Christmas trees as those that would be “grown for sale as a crop and not sold for timber, lumber, wood, or wood products.” In addition, maple trees that are used for maple syrup production may be considered to be an agricultural use if they are grown by a person that is licensed as a food processor by the Minnesota Department of Agriculture. As stated in the body of the report, in the absence of specific language that would indicate that SRWC should be considered to be a “tree grown for sale as a crop” and therefore be considered to be an agricultural product, the Department of Revenue is prepared to issue a formal administrative bulletin directing assessors to classify lands used for SRWC production as Agricultural property.

Survey Results

The 2005 abstract indicates that the timber classification is generally only used by counties in the northern half of the state, those counties along the Mississippi River and Nicollet County which abuts the Minnesota River. On December 8, 2005, a survey was sent to all 87 Minnesota counties regarding the classification of wooded properties in their counties. We asked the county assessor to complete the survey and return it to us by December 16, 2005. On December 16, 2005, we sent reminder notices to those counties who had not yet returned their surveys asking that they complete the survey and return it immediately.

The following counties did not return the survey: Chisago, Dodge, Lyon, Martin, Olmsted, Pennington, Red Lake, Scott, Wadena and Yellow Medicine. Of these counties, only Chisago, Pennington, Red Lake and Wadena counties had property classified as Class 2b Timber based on the 2005 abstracts. The final results were compiled into a spreadsheet on December 22, 2005. We then separated the responses of those 44 counties who had property classified as Class 2b Timber on the 2005 abstracts. This was done because the answers of the counties without any Timber property were considered to be hypothetical in nature since none of them utilize the timber classification. In addition, most of the wooded property is likely part of existing agricultural properties and may be classified as such.

Survey of All Counties Classification of Rural Woodlands

As a part of the legislative requirements for the rural woodlands report, we need to provide an analysis of the existing practices of how counties are currently classifying their rural woodland properties. Please complete the survey and return it via e-mail to our office no later than **December 16, 2005**. Please keep in mind that there are no right or wrong answers; we simply need to identify existing practices.

County Name:

- 1. There is one, 40-acre wooded parcel with no water influence (i.e. it does not abut a river or lake) with a year-round residence that is used as a homestead. How would your county classify this parcel?**
 - a. All 40 acres would be residential homestead.
 - b. Split class – residential and timber.
 - c. Other. Please specify.

- 1a. Assume you have the same situation as in #1 but the property abuts a lake or river. How would you classify the parcel?**
 - a. All 40 acres would be residential homestead.
 - b. Split class – residential homestead and timber.
 - c. Other. Please specify.

- 2. There are two, 40-acre wooded parcels with no water influence (i.e. it does not abut a river or lake) with a year-round residence that is used by the owner as a homestead located on one of the 40-acre parcels. How would your county classify each of these parcels?**
 - a. The entire contiguous land mass, including both parcels, would be classified as residential homestead.
 - b. The occupied 40-acre parcel would be classified as residential homestead and the other 40-acre parcel would be classified as timber.
 - c. Split class the occupied 40-acre parcel as residential homestead and timber; the unoccupied parcel would be classified as timber.
 - d. Other. Please specify.

- 2a. Assume you have the same situation as in #2 but the property abuts a lake or river. How would you classify the parcels?**
 - a. The entire contiguous land mass would be classified as residential homestead.
 - b. The occupied 40-acre parcel would be classified as residential homestead and the other 40-acre parcel would be classified as timber.
 - c. The occupied 40-acre parcel would be classified as residential homestead and the other 40-acre parcel would be classified as SRR.

- d. Split class the occupied 40-acre parcel as residential homestead and timber; the unoccupied parcel would be classified as SRR.
 - e. Other. Please specify.
- 3. There is one, 40-acre wooded parcel with no water influence (i.e. it does not abut a river or lake) with a hunting cabin. How would your county classify this parcel?**
- a. All 40 acres would be SRR.
 - b. Split class – SRR & Timber
 - c. Other. Please specify.
- 3a. Assume you have the same situation as in #3 but the property abuts a lake or river. How would you classify the parcel?**
- a. All 40 acres would be SRR.
 - b. Split class – SRR & Timber
 - c. Other. Please specify.
- 4. There is an 80-acre contiguous land mass that consists of two, 40-acre parcels. There is no water influence (i.e. it does not abut a river or lake) with a hunting cabin. How would you classify this property?**
- a. The entire contiguous land mass would be classified as SRR.
 - b. The 40-acre parcel with the cabin would be classified as SRR and the other 40-acre parcel would be classified as timber.
 - c. Split class the 40-acre parcel with the cabin as SRR and timber; the unoccupied parcel would be classified as timber.
 - d. Other. Please specify.
- 4a. Assume you have the same situation as in #4, but both parcels of the property abuts a lake or river. How would you classify this property?**
- a. The entire contiguous land mass would be classified as SRR.
 - b. The 40-acre parcel with the cabin would be classified as SRR and the other 40-acre parcel would be classified as timber.
 - c. Split class the 40-acre parcel with the cabin as SRR and timber; the unoccupied parcel would be classified as timber
 - d. Other. Please specify.
- 5. There is a 40-acre parcel of standing trees with no water influence (i.e. it does not abut a river or lake). There is no other identifiable use of the property. How would your county classify this parcel?**
- a. Timber
 - b. SRR
 - c. Other. Please specify.

5a. There is a 40-acre parcel of standing trees with a water (river or lake) influence. There is no other identifiable use of the property. How would your county classify this parcel?

- a. Timber
- b. SRR
- c. Other. Please specify.

6. There is one, 40-acre parcel of standing trees with no water influence. There is no identifiable use but there is a sign that states “no hunting” posted on the property? How would your county classify this parcel?

- a. Timber
- b. SRR
- c. Other. Please specify.

7. There is one, 40-acre parcel of standing trees with no water and no identifiable use. However, there is a sign on the property indicating that it is leased for hunting purposes. How would your county classify this parcel?

- a. Timber
- b. SRR
- c. Other. Please specify.

8. What is your county’s criteria for classifying a property as timber?

9. Does your county have a “default” classification for a wooded parcel of property with no identifiable use? If yes, what is that classification?

10. Does your county have land that is used for “short-term woody crops (i.e. hybrid poplar)?”

- a. Yes
- b. No

10a. If yes, how is that land classified?

- a. Timber
- b. Agricultural

Summary Results of 44 Counties with Property Classified as Timber

Final – 12/22/05

** Four of the 44 counties with property classified as Class 2b Timber did not participate in the survey. They are Chisago, Pennington, Red Lake and Wadena Counties.

1. There is one, 40-acre wooded parcel with no water influence (i.e. it does not abut a river or lake) with a year-round residence that is used as a homestead. How would your county classify this parcel?

- a. All 40 acres would be residential homestead. 34
- b. Split class – residential homestead and timber. 2
- c. Other. Please specify. 3

Kanabec – Residential/Timber Split if DNR plan

Morrison – Ag

Nicollet - Ag

1a. Assume you have the same situation as in #1but the property abuts a lake or river. How would you classify the parcel?

- a. All 40 acres would be residential homestead. 34
- b. Split class – residential homestead and timber. 2
- c. Other. Please specify. 3

Kanabec – Residential/Timber Split if DNR plan

Morrison – Ag

Nicollet – Ag Homestead

2. There are two, 40-acre wooded parcels with no water influence (i.e. it does not abut a river or lake) with a year-round residence that is used by the owner as a homestead located on one of the 40-acre parcels. How would your county classify each of these parcels?

- a. The entire contiguous land mass, including both parcels, would be classified as residential homestead. 25
- b. The occupied 40-acre parcel would be classified as residential homestead and the other 40-acre parcel would be classified as timber. 5
- c. Split class the occupied 40-acre parcel as residential homestead and timber; the unoccupied parcel would be classified as timber. 2
- d. Other. Please specify. 6

Carlton – All Residential Homestead unless owner requests Timber class

Cook – Split Residential Homestead/SRR

Crow Wing – Parcel with house is Residential Homestead, other parcel based on use

Kanabec – Residential /Timber Split if DNR plan

Morrison – Ag

Nicollet – Ag Homestead

2a. Assume you have the same situation as in #2 but the property abuts a lake or river. How would you classify the parcels?

- a. The entire contiguous land mass would be classified as residential homestead. 25
- b. The occupied 40-acre parcel would be classified as residential homestead and the other 40-acre parcel would be classified as timber. 5
- c. The occupied 40-acre parcel would be classified as residential homestead and the other 40-acre parcel would be classified as SRR. 1
- d. Split class the occupied 40-acre parcel as residential homestead and timber; the unoccupied parcel would be classified as SRR. 0
- e. Other. Please specify. 8

***Becker* – 40 acre tract would be split classed – lakeshore = homestead; balance of woods, would be Timber. Bare tract would be split classed – lakeshore = SRR; balance as Timber.**

***Carlton* – All Residential Homestead unless owner requests Timber class**

***Cook* – Split Residential Homestead/SRR**

***Crow Wing* – Parcel with house is Residential Homestead, other parcel based on use**

***Kanabec* – Residential/Timber Split if DNR plan**

***Kandiyohi* – Residential Homestead/Timber**

***Morrison* – Ag**

***Nicollet* – Ag Homestead**

3. There is one, 40-acre wooded parcel with no water influence (i.e. it does not abut a river or lake) with a hunting cabin. How would your county classify this parcel?

- a. All 40 acres would be SRR. 33
- b. Split class – SRR & Timber. 6
- c. Other. Please specify. 0

3a. Assume you have the same situation as in #3 but the property abuts a lake or river. How would you classify the parcel?

- a. All 40 acres would be SRR. 33
- b. Split class – SRR & Timber 6
- c. Other. Please specify. 0

4. There is an 80-acre contiguous land mass that consists of two, 40-acre parcels. There is no water influence (i.e. it does not abut a river or lake) with a hunting cabin. How would you classify this property?

- a. The entire contiguous land mass would be classified as SRR. 21
- b. The 40-acre parcel with the cabin would be classified as SRR and the other 40-acre parcel would be classified as timber. 8
- c. Split class the 40-acre parcel with the cabin as SRR and timber; the unoccupied parcel would be classified as timber. 7
- d. Other. Please specify. 3

Anoka – Depends on use of surrounding properties

Cass – Depends – could be a, b, or c

Crow Wing – the parcel with the cabin would be SRR, the other parcel would depend on the use, most likely SRR

4a. Assume you have the same situation as in #4, but both parcels of the property abuts a lake or river. How would you classify this property?

- a. The entire contiguous land mass would be classified as SRR. 29
- b. The 40-acre parcel with the cabin would be classified as SRR and the other 40-acre parcel would be classified as timber. 3
- c. Split class the 40-acre parcel with the cabin as SRR and timber; the unoccupied parcel would be classified as timber. 6
- d. Other. Please specify. 1

Anoka – Depends on use of surrounding properties

5. There is a 40-acre parcel of standing trees with no water influence (i.e. it does not abut a river or lake). There is no other identifiable use of the property. How would your county classify this parcel?

- a. Timber 23
- b. SRR 10
- c. Other. Please specify. 7

Anoka – Depends on the use of surrounding properties

Benton – If no definable use, it would be classed as most common uses – Residential NH, SRR, Timber

Isanti – Ag

Kanabec – If DNR plan, Timber; otherwise SRR

Wabasha – Residential NH

Washington – Residential NH

Winona – SRR or Residential NH

5a. There is a 40-acre parcel of standing trees with a water (river or lake) influence. There is no other identifiable use of the property. How would your county classify this parcel?

- a. Timber 13
- b. SRR 19
- c. Other. Please specify. 8

Aitkin – River = Timber; Lake = SRR

Anoka – Depends on the use of the surrounding properties

Becker – Split SRR/Timber

Benton – If no definable use, it would be classed as most common uses –

Residential NH, SRR, Timber

Kanabec – If DNR plan, Timber; otherwise SRR

Wabasha – Residential NH

Washington – Residential NH

Winona – SRR or Residential NH

6. There is one, 40-acre parcel of standing trees with no water influence. There is no identifiable use but there is a sign that states “no hunting” posted on the property? How would your county classify this parcel?

- a. Timber 20
- b. SRR 12
- c. Other. Please specify. 7

Anoka – Depends on the use of the surrounding properties

Benton – If no definable use, it would be classed as most common uses – residential

NH, SRR, Timber

Fillmore – Check with Owner

Isanti – Ag

Kanabec – If DNR plan, Timber; otherwise SRR

Wabasha – Residential NH

Washington – Not Applicable to Washington County

7. There is one, 40-acre parcel of standing trees with no water and no identifiable use. However, there is a sign on the property indicating that it is leased for hunting purposes. How would your county classify this parcel?

- a. Timber 17
- b. SRR 19
- c. Other. Please specify. 3

Kanabec – If DNR plan, Timber; otherwise SRR

Wabasha – Residential NH

Washington – Not Applicable to Washington County

8. What is your county's criteria for classifying a property as timber?

Aitkin – Rural land with no identifiable use and no buildings

Anoka – 273.13

Becker – Primary use of land is growing trees

Beltrami – Minimum of 40 acres; no buildings, not located on water; less than 10 acres of open land

Benton – Active management of the trees on their own or through a forestry program, thinning, cleaning dead fall and harvesting mature trees on an ongoing basis

Carlton – if there are trees growing and for the most part the land is in a natural and undeveloped condition

Cass – 10 acres or more in size; no buildings or improvements; not on water

Clay – standing, marketable trees

Clearwater – Undeveloped wooded parcel 10 acres or more in size

Cook – forest management plan

Crow Wing – according to MN statutes

Douglas – Cultivated (planted) trees and/or a forest management plan

Fillmore – Wooded in nature; ask owner use of the property.

Goodhue – Purely wooded, no ag use, usually zoned ag, non-homestead

Houston – State statute states that the property is used exclusively for growing trees. We have very few properties that have those characteristics.

Hubbard – 10+ acres, well treed or tree plantation, no other use

Isanti – Planted trees with management plan.

Itasca – 10+ acres with no water influence.

Kanabec – DNR plan

Kandiyohi – All wooded, no tillable

Kittson – Must be trees, no cabin, not part of a farm (up to 4 townships away), and not be used for SRR or ag purposes

Koochiching – Wooded vacant land

Lake – If the property owner is engaged in a timber management program, where the owner is actually growing trees, harvesting trees or doing some type of timber management with the local county forestry or DNR.

Lake of the Woods – H & B use and current use.

Mahnomen – wooded tract of land

Marshall – A sizeable stand of trees that are being harvested; if it is a parcel with tillable or pasture it would be included with the entire parcel as ag, unless we know it is being held for harvest.

Mille Lacs – A letter, usually obtained from the DNR, informing us that there is an active plan for harvesting trees.

Morrison – Forest management plan

Nicollet – All trees, no tillable.

Norman – Must be wooded.

Otter Tail – If a rural parcel is larger than 10 acres, has less than 10 acres of tillable and no buildings are on the parcel, it would be timber.

Pine – Forest management or land stewardship plan is in place.

- Pope* – If the owner has an official timber plan either through the US Forestry Service or DNR or possibly through county soil and water. If the owner is planting trees on CRP or RIM lands I would not consider that a timber use, as these are agricultural programs.
- Roseau* – If the owner intends or is actually selling off the harvested wood for wood/wood products.
- St. Louis* – Rural vacant land with no water influence and no readily identifiable use (residential or cabin development).
- Todd* – Property must be enrolled in a forest management plan and/or the property must be used exclusively for growing trees for wood/wood products (Ex. Hybrid poplar – Champion Paper Co.)
- Wabasha* – Timber management plan
- Washington* – No structure; DNR forest management plan for the previous year.
- Wilkin* – Per Cheryl Wall, they do not have woodlands. (2005 abstract indicates 84 acres in Wilkin county).
- Winona* – Forest management plan.

9. Does your county have a “default” classification for a wooded parcel of property with no identifiable use? If yes, what is that classification?

No = 17
Yes = 22

Timber (14) = Aitkin, Becker, Carlton, Cass, Clay, Clearwater, Crow Wing, Goodhue, Itasca, Kittson, Lake of the Woods, Nicollet, Otter Tail, St. Louis

SRR(7) = Douglas, Houston, Kanabec, Lake, Mille Lacs, Morrison, Pope

Ag (1) = Isanti

10. Does your county have land that is used for “short-term woody crops (i.e. hybrid poplar)?”

- a. Yes 17
- b. No 22

10a. If yes, how is that land classified?

- a. Timber *10*
- b. Agricultural *5*

Clay = Ag if enrolled in CRP

Morrison = Timber class if not part of a farm; Ag class if part of a farm

MINNESOTA · REVENUE

**Class Rate Percentages of Real and Personal Property by Property Type
Taxes Payable 2005 and 2006**

Class	Real Property Description	Payable 2005		Payable 2006	
		Class	Rate	Class	Rate
1a	Residential homestead first \$500,000 over \$500,000	1a	1.00%	1a	1.00%
					1.25%
1b	Blind/Paraplegic Veteran/Disabled homestead agricultural: first \$32,000 non-agricultural: first \$32,000	1b	0.45%		0.45%
					0.45%
1c	Commercial seasonal - recreational residential - under 250 days and includes homestead	1c	1.00%		
					0.55%
1d	Migrant housing (structures only) first \$500,000 over \$500,000	1d	1.00%		1.00%
					1.25%
2a	Agricultural homestead House, Garage, One Acre: first \$500,000 over \$500,000	2a	1.00%		1.00%
					1.25%
Remainder of Farm:	first \$600,000 over \$600,000		0.55% **		0.55% **
			1.00% **		1.00% **

Payable 2005		Payable 2006	
Class	Real Property Description	Class	Real Property Description
		Class	Real Property Description
			Class Rate
2b	Timberlands	2b	Timberlands
			1.00% **
2b	Non-homestead agricultural land	2b	Non-homestead agricultural land
			1.00% **
3a	Commercial-Industrial and public utility first \$150,000 over \$150,000	3a	Commercial-Industrial and public utility first \$150,000 over \$150,000
			1.50% *
			2.00% *
3a	Public Utility Machinery Electric generating public utility machinery	3a	Public Utility Machinery Electric generating public utility machinery
			2.00%
3a	All other public utility machinery	3a	All other public utility machinery
			2.00% *
3a	Real property owned in fee by a utility for transmission line right-of-way	3a	Real property owned in fee by a utility for transmission line right-of-way
			2.00% *
3b	Employment property competitive city or zone: first \$150,000 over \$150,000 border city: first \$150,000 over \$150,000	3b	Employment property N/A border city: first \$150,000 over \$150,000
			1.50% *
			2.00% *
4a	Rental housing four or more units, including private for-profit hospitals	4a	Rental housing four or more units, including private for-profit hospitals
			1.25%
4b(1)	Residential non-homestead one to three units that does not qualify for class 4bb	4b(1)	Residential non-homestead one to three units that does not qualify for class 4bb
			1.25%

Payable 2005		Payable 2006	
Class	Real Property Description	Class	Real Property Description
		Class Rate	Class Rate
Rental housing (continued)			
4b(2)	Unclassified manufactured homes	1.25%	4b(2) Unclassified manufactured homes 1.25%
4b(3)	Farm non-homestead containing more than one residence but fewer than four along with the garage and one acre	1.25%	4b(3) Farm non-homestead containing more than one residence but fewer than four along with the acre(s) and garage(s) 1.25%
4b(4)	Residential non-homestead not containing a structure	1.25%	4b(4) Residential non-homestead not containing a structure 1.25%
4bb(1)	Residential non-homestead single unit first \$500,000 over \$500,000	1.00% 1.25%	4bb(1) Residential non-homestead single unit first \$500,000 over \$500,000 1.00% 1.25%
4bb(2)	Single house, garage and 1st acre on agricultural non-homestead land first \$500,000 over \$500,000	1.00% 1.25%	4bb(2) Single house, garage and 1st acre on agricultural non-homestead land first \$500,000 over \$500,000 1.00% 1.25%
4c(1)	Seasonal recreational residential commercial		4c(1) Seasonal residential recreational commercial
	first \$500,000 over \$500,000	1.00% *	first \$500,000 over \$500,000 1.00% *
		1.25% *	over \$500,000 1.25% *
	non-commercial first \$500,000 over \$500,000	1.00% * ** 1.25% * **	non-commercial first \$500,000 over \$500,000 1.00% * ** 1.25% * **
4c(2)	Qualifying golf courses	1.25%	4c(2) Qualifying golf courses 1.25%
4c(3)	Nonprofit community service oriented organization	1.50%	4c(3) Nonprofit community service oriented organization 1.50%
4c(4)	Post secondary student housing	1.00% **	4c(4) Post secondary student housing 1.00% **

		Payable 2005	Payable 2006		
Class	Real Property Description	Class Rate	Class	Real Property Description	Class Rate

4c(5)	Manufactured home parks	1.25%	4c(5)	Manufactured home parks	1.25%
4c(6)	Metro non-profit recreational property	1.25%	4c(6)	Metro non-profit recreational property	1.25%
4c(7)	Certain leased or privately owned non-commercial aircraft storage hangars (includes land) : on leased land	1.50%	4c(7)	Certain leased or privately owned non-commercial aircraft storage hangars (includes land) : on leased land	1.50%

N/A			4c(8)	Certain leased or privately owned non-commercial aircraft storage hangars (includes land) : on private land	1.50%
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4c(8)	Bed and Breakfast up to 5 units	1.25%	4c(9)	Bed and Breakfast up to 5 units	1.25%
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4d	Qualifying low income - land and buildings	0.75%	5(1)	Unmined iron ore	2.00% *
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5(1)	Low recovery iron ore	2.00% *	5(1)	Low recovery iron ore	2.00% *
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5(2)	All other property not included in any other class	2.00%	5(2)	All other property not included in any other class	2.00%
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* Subject to the state general property tax.

NOTE: For purposes of the state general property tax only, the net tax capacity of non-commercial class 4c(1) seasonal residential recreational property has the following class rate structure:

First \$76,000	0.40%
\$76,000 — \$500,000	1.00%
Over \$500,000	1.25%

In addition to the state tax base exemptions referenced by property classification, airport property exempt from city and school district property taxes under M.S. 473.625 is exempt from the state general property tax (MSP International Airport and Holman Field in St.Paul are exempt under this provision).

** Exempt from referendum market value based taxes.

