

A large property value increase does not necessarily result in a large property tax increase

Shorewood residents recently received their pay 2023 tax property valuation and increase in valuations was significant in Shorewood and around Lake Minnetonka. Valuation increases in and of themselves does not mean a similar percentage increase in the property taxes you pay.

Minnesota’s property tax system consists of three components. First is the valuation of each property. That is the notice that was recently sent out to all property owners, and it is the amount you will be taxed on in the upcoming year. Property owners have an opportunity to object to their value, and in Shorewood, that is done by contacting the Hennepin County Assessor’s office on the number listed on the valuation form.

The next leg of the system is the tax capacity of each jurisdiction. The tax capacity of each property is determined by multiplying the value of the property times the classification rate for that type of property. The class rate is what used to be called the mill rate. Commercial Industrial, Residential and Seasonal Recreational Residential properties have different class rates, and for the illustration in this article, and because Shorewood is 97% residential homestead, we will just reference Residential Homestead properties. The class rates are below:

PROPERTY CLASS	RATE
Residential Homestead	
1 st \$500,000 of value	1.0%
>\$500,000	1.25%

To calculate the tax capacity of a property the value of the property is multiplied by the above rate. So a property with a value of \$500,000 has a tax capacity of \$5,000; a property with a value of \$1,000,000 has a tax capacity of \$11,250. A government’s total tax capacity is the sum of all the individual property’s tax capacities within that jurisdiction.

The final component of the tax system is what each jurisdiction sets as their property tax levy. Shorewood’s taxes are just a portion of your total tax bill. The city’s share of your total taxes is approximately 28%, with the remainder going to Hennepin County, the Minnetonka Public Schools (Mound Westonka for Island residents), and other smaller jurisdictions such as Three River’s Park District or the Metropolitan Mosquito Control District.

An individual property owner’s share of the taxes from each jurisdiction is the proportion that their property is of the total tax capacity of all properties. Each individual property’s tax capacity is a very small piece of the overall tax capacity. In a hypothetical example; if everyone’s property value is the same amount, and the value of each property increases by the same amount, their “share” of the taxes does not change. Hypothetically, if the property tax levy remains unchanged, your share of the taxes does not change, and therefore there may be no significant change to taxes. The city’s total tax capacity is approximately \$22,500,000. So, a property valued at \$1 million with an \$11,250 tax capacity represents .0005 percent of the city’s overall tax capacity. A 30 percent increase in the value of the

same \$1 million property pushes the tax capacity to \$15,000, which translates to .0006 percent of the city's total tax capacity.

We hope this information is helpful to you. Please feel free to contact the city's Finance Director, Joe Rigdon with any questions.