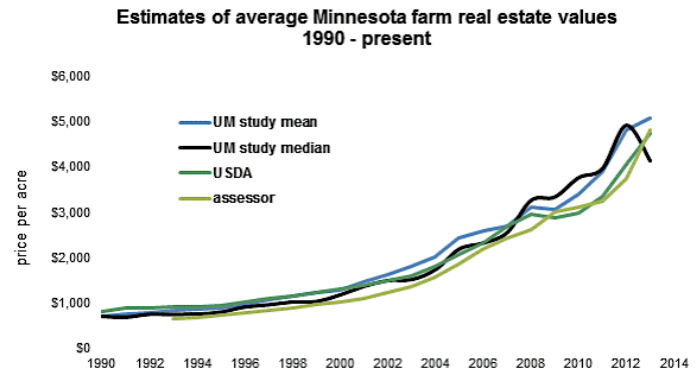


Minnesota has seen significant changes in values of its agricultural production land and seasonal recreation properties. Those changes affect the Net Tax Capacity (NTC) of school districts. This report outlines the impact of and the results of removing agricultural production land from school building debt levies.

What's Happening

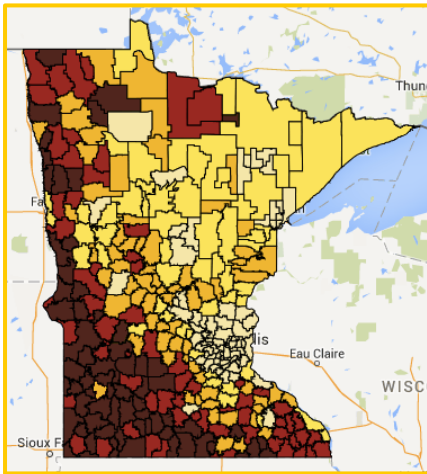
Rising Ag Land Prices: The average price per acre for ag land in Minnesota has increased 719 percent since 1990, from \$705 per acre to \$5,071 in 2013. This is reflected in the chart to the right from the definitive study: [Minnesota Farm Real Estate Sales 1990-2013](#) by Steven J. Taff.



Strong Lake Home Market: Lake home real estate continues to be strong and grew for a second year in a row in 2013 after sales stagnated during the recession, according to the latest information reported by MPR. No one tracks lake home sales, but real estate agents report increasing demand, even as prices remain relatively flat with many homes on the market. [View the MRP Report.](#)

Impact on Schools

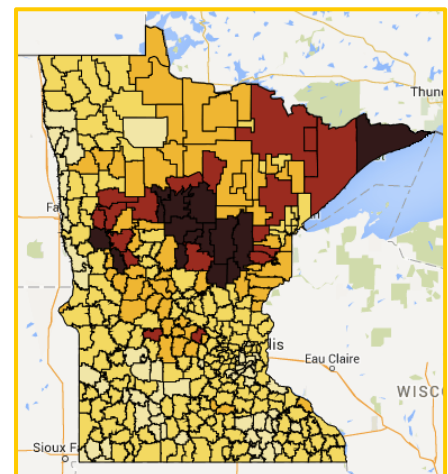
These property trends have a direct impact on schools.



Ag Land

- One-fifth of Minnesota school districts have over 75 percent of their total Net Tax Capacity (NTC) in agricultural land
- One-third of Minnesota school districts have 50 percent or more of their total NTC in agricultural land
- The most affected districts are concentrated in western and southern Minnesota, as shown in this map.

[View the interactive map.](#)



Seasonal Rec

- 15 school districts have over one-third of their total Net Tax Capacity in Seasonal Recreation Properties.
- Seasonal recreation properties are concentrated in north central and northeast Minnesota as seen in this map.

[View the interactive map.](#)

Key Questions & Considerations

- **Are these Ag land prices a new normal or a bubble?**

Farm land increased dramatically in the late '70s and collapsed in the mid '80s. Will this repeat itself?

- The debt to equity ratio is under 15 percent whereas in 1985, it nearly reached 30 percent. "...the level of debt relative to assets and equity is at historically low levels (post-1970), reaffirming the farm sector's strong financial position," ([Farm Sector Income and Finances](#), USDA Economic Research Service, Dec. 12, 2014).
- Farmers as a whole not are nearly as leveraged as they were in 1980s, and can sustain lean years more successfully. While the increases in prices may slow down or even reverse slightly, this lack of leverage is evidence that these prices may be a new normal.

- **In 2015 is ANTC/APU still the best formula?**

"The Legislature shall make provisions by taxation or otherwise as will secure a through and efficient system of public schools throughout the state?" (Minnesota Constitution, Article 13, Section 1)

- As rural school districts decline in student population, their ANTC per pupil wealth accelerates the effects the increases in Ag Land and Seasonal Rec Property wealth.
- ANTC wealth per pupil is not distributed across the state in the anything like the pattern of household income in rural Minnesota. [View the interactive map of household income by district.](#)

- **What if ag production land were removed from School Building Debt Levies?**

- If this were done without changing the state's share of total school building debt equalization dollars, homeowners and business school debt levies would increase 83 percent as \$88 million in annual school debt payments shift from Ag production land to homes and business, see table below.
- If this were done with keeping the current school debt equalizing factors, the state's annual outlay for school debt equalization would increase by an estimated \$31 million (125% increase for FY '17) and \$57 million in annual school debt payments shift from ag production land to homes and businesses, see table below.

Effects in 280 School Districts with Debt Levies	Dollar increase	Percentage increase
With NO change in total state equalization dollars		
\$150,000 Homestead	\$144	83%
\$1M Business	\$2,191	83%
With current equalization formula and \$31 million in new state dollars		
\$150,000 Homestead	\$72	42%
\$1M Business	\$1,098	42%

- If this were enacted for all current school building debt, the tax shift to homeowners and businesses would be significant even with an additional \$31 million in new state debt service equalization dollars.
- If this were enacted prospectively on new school debt, it is unlikely that a new school would ever be built in rural Minnesota.

Next Steps

In these three examples, the percent of agricultural land is over one-third but not over 50 percent. Yet, over 100 school districts in Minnesota have over 50 percent of their ANTC in ag production land.

This shows a need for a new approach to address this school building debt problem.

MREA urges the legislature to examine and consider the following proposals to this current issue:

- Consider applying tax credits so there is tax relief for tax burdens to agricultural production land caused by the run up in ag land value. A credit is adjustable downward should land prices decline considerably.
- Consider additional state aid to create a base level of state funding for deferred maintenance needs.
- Examine school district tax bases so they better reflect the actual wealth of the families living in the district.

Over 100 school districts in Minnesota have over 50 percent of their ANTC in agricultural production land.

More Resources

MREA released a series of maps looking at various aspects of school district wealth and household income. They can be found in print format at **Determining District Wealth Report:** [View Part 1.](#) [View Part 2.](#)

Learn more at [MnREA.org](https://mnrea.org).