

# House Research Simulation Report: Property Tax

**Simulation #3E3**

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## DESCRIPTION

**BASELINE: Preliminary Pay 2003**

**ALTERNATIVE: Projected Pay 2004: Current Law (Revised)**

This report is a projection of property taxes payable in 2004 under current law. It does not factor in the effects of the Governor's proposed cuts in state aids. The only difference between this simulation and its predecessor (#3E3) is some revisions in baseline school levies. The payable 2003 portion of the simulation is based on actual data reported by the counties. The payable 2004 projections result from a joint House-Senate-Revenue Dept. working group. Market value projections are based on growth patterns for the previous year, adjusted for the change in limited market value limits for pay 2004, and partially refined based on feedback from county assessors. For the most part, non-school levy projections are based on growth rates from pay 2001 and 2003, adjusted for changes in state aids. School levies are based on DCFL statewide estimates, broken down to the district level by the House Research Dept.

## KEY POINTS

- **Statewide, property taxes are projected to increase by \$421 million, or 8.4%**, according to the simulation. Approximately \$140 million of the \$421 million increase is borne by new construction - property appearing on the tax rolls for the first time in 2004. The overall tax increases are projected to be 10.1% in Greater Minnesota and 7.4% in the Metro area.
- **Statewide property tax impacts by property type vary from -9% to +32%**. Impacts on the largest property types are 9.9% on existing residential homesteads, -8.7% on existing regular apartments, 1.8% on existing commercial-industrial property, and 6.1% on existing agricultural property.

**The simulations are estimates only.** House Research strives to make property tax simulations accurate, but simulations are only approximations of reality. They depend upon judgments about how much local government officials will decide to levy, which are highly speculative. Generally the results are most accurate on a statewide level, and tend to be less accurate as the jurisdiction under scrutiny gets smaller.

**ASSUMPTIONS:****BASELINE:            Preliminary Pay 2003**

- **Property values** (limited market values) are actual values reported by county assessors on the abstracts of assessment.
- **Local government levies** are from a survey of county auditors done by the Dept. of Revenue.
- **Tax increment financing (TIF) net tax capacities** are preliminary values from the abstracts of assessment submitted by county assessors to the Dept. of Revenue; the final figures will be reported later this year when the abstracts of tax lists are filed by county auditors.

**ASSUMPTIONS:****ALTERNATIVE:      Projected Pay 2004: Current Law (Revised)**

- **Market values** are based on growth rates derived from actual growth rates in taxable property values between payable year 2002 and payable year 2003 for each type of property within each municipality, with separate rates determined for existing property and new construction. In counties where the county assessor was able to provide growth rates, those rates were used instead. City-by-city growth estimates were provided by the Dakota and Hennepin County assessors. Growth rates for property types subject to limited market value were adjusted to reflect the higher limited market value growth rate for pay 2004. Market value growth for property types with a tiered class rate structure were assumed to be split between tiers in the same percentages as the growth from pay 2002 to pay 2003, on a city-by-city and a class-by-class basis.
- **School district levies** were modeled under the direction of a joint House/Senate/Revenue Dept. working group. The baseline pay 2004 levies were developed to match statewide levy estimates by category developed by the Dept. of Children, Families and Learning. Approximately \$71 million of new referendum levies that would need to be approved by the voters are assumed; they are distributed using a uniform rate across all districts except Minneapolis and St. Paul.
- **County, city, and town levies** were modeled under the direction of a joint House/Senate/Revenue Dept. working group. The basic methodology applies each jurisdiction's average growth rate in levy plus aid for pay 2001 and pay 2003 to its 2003 levy plus aid amount (growth rates for pay 2002 were excluded due to the significant system changes made that year). Levy amounts were derived by subtracting projected aid amounts from the levy plus aid projections. County levies were increased slightly (\$7.1 million) in recognition of certain FY '03 unallotments.
- **Special taxing district levies** were generally increased by 6.6%, except for the metro-wide special taxing districts, which were modeled based upon individual levy limits governing each category and discussions with Metro agency staff.
- **The state property tax levy** is assumed to be \$609.1 million, yielding a tax rate of 52.125%.
- **Fiscal disparities** net tax capacities and distribution levies were modeled by the House Research Dept.
- **Tax increment financing (TIF) net tax capacities** were assumed to increase at the same rate in each jurisdiction as the growth in commercial-industrial net tax capacity, except in the city of Minneapolis, where a specific estimate was provided by the city assessor.

**SIMULATION PARAMETERS**

	Baseline	Alternative
<b>Residential Homestead:</b>		
<\$500,000	1.0%	1.0%
>\$500,000	1.25	1.25
<b>Residential Non-homestead:</b>		
Single unit:		
<\$500,000	1.0	1.0
>\$500,000	1.25	1.25
2-3 unit and undeveloped land	1.25	1.25
<b>Apartments:</b>		
Regular	1.5	1.25
Low-income	1.0	1.25
<b>Commercial-Industrial-Public Utility:</b>		
<\$150,000	1.5	1.5
>\$150,000	2.0	2.0
Electric generation machinery	2.0	2.0
<b>Seasonal Recreational Commercial:</b>		
Homestead resorts (1c)	1.0	1.0
Seasonal resorts (4c):		
<\$500,000	1.0	1.0
>\$500,000	1.25	1.25
<b>Seasonal Recreational Residential:</b>		
<\$500,000	1.0	1.0
>\$500,000	1.25	1.25
<b>Disabled homestead</b>	0.45	0.45
<b>Agricultural land &amp; buildings:</b>		
<b>Homestead:</b>		
<\$600,000	0.55	0.55
>\$600,000	1.0	1.0
<b>Nonhomestead</b>	1.0	1.0
<b>Credits:</b>		
<b>Homestead:</b>		
Rate	0.4%	0.4%
Maximum	\$304	\$304
Phase-out rate	0.09%	0.09%
<b>Agricultural:</b>		
Rate	0.3%	0.3%
Maximum	\$345	\$345
Phase-out rate	0.05%	0.05%