House Research Simulation Report: Property Tax

Simulation #3F1 **Date 5/7/2003**

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DESCRIPTION

BASELINE: **Preliminary Pay 2003**

ALTERNATIVE: **Projected Pay 2004: House Tax & Transportation Bills**

This report is a projection of property taxes payable in 2004 under the provisions of the House tax bill as of 5/6/03 (incorporating also the effects of the elimination of regional rail authorities in the House transportation finance bill). Market value assumptions for pay 2004 are the same as for the pay 2004 baseline run (#3E3). Levy projections start from the simulation #3E3 baseline, building in the effects of House levy limits and aid reductions. School levies do not reflect the impacts of the House E-12 Finance bill.

KEY POINTS

- **Statewide, property taxes are projected to increase by $490 million, or 9.7%,** according to the simulation. Approximately $141 million of the $490 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 12.4% in Greater Minnesota and 8.4% in the Metro area.

- **Statewide property tax impacts by property type vary from -7% to +36%.** Impacts on the largest property types are 11.6% on existing residential homesteads, -6.7% on existing regular apartments, 2.8% on existing commercial-industrial property, and 5.6% 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:

<u>BASELINE:</u> 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: House Tax & Transportation Bills

- **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.

- Baseline **county, city, and town levies** were modeled under the direction of a joint House/Senate/Revenue Dept. working group. Levy limits were modeled for counties and affected cities, and with levies presumed to be at limits unless the levy limit was greater than the baseline levy amount (adjusted for aid cuts). Town levies are the same as baseline.

- Baseline **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 baseline levies for the metro agencies were adjusted to reflect the reduced levy authority in the bill. The baseline levies for regional rail authorities were eliminated.

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

House Research Department

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