

House Research Simulation Report: Property Tax

Simulation #3F5

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DESCRIPTION

BASELINE: Preliminary Pay 2003 (Revised 6/5/03)

ALTERNATIVE: Proj Pay 2004: Final Tax & Education funding bills (corrected)

This report is a projection of property taxes payable in 2004 under the provisions of the tax and education funding bills enacted in the 2003 special session. It supercedes simulation #3F4, which was found to have a fairly serious error. Market value assumptions for pay 2004 are the same as for the pay 2004 baseline run (#3E4). Levy projections for local governments other than school districts are based on the levy limit provisions of the tax bill; for those jurisdictions not subject to levy limits, the projections are based on recent historical trends. Levy projections for school districts are based on the provisions of the final education funding bill.

KEY POINTS

- **Statewide, property taxes are projected to increase by \$463 million, or 9.2%**, according to the simulation. Approximately \$139 million of the \$463 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 11% in Greater Minnesota and 8.3% in the Metro area.
- **Statewide property tax impacts by property type vary from -7% to +36%**. Impacts on the largest property types are 10.9% on existing residential homesteads, -6.5% on existing regular apartments, 2.7% on existing commercial-industrial property, and 4.9% 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 (Revised 6/5/03)**

- **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: Proj Pay 2004: House Tax & Education funding bills (corrected)**

- **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 by House Research Dept. staff based on the provisions of the final education funding bill. Approximately \$65 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.
- **Levies for counties and cities over 2,500 population** are based on the levy limit provisions of the final tax bill. All units were assumed to levy to the limit. Special levies were grown by a uniform percentage over the previous year amount.
- **Levies for cities under 2,500 population and towns** were modeled based on historical growth rates in levy plus aid, adjusted by projected LGA amounts (in the case of cities). Levies for any jurisdiction whose market value credit reimbursement was cut were increased by the amount of the cut, so that essentially, cities and towns were assumed to levy back the full amount of their 2004 aid cut; the 2003 aid cut did not factor into the levy estimates.
- **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, some of which were revised in the tax bill, and discussions with Metro agency staff. Special taxing district levies were not explicitly increased in recognition of the market value credit cuts, since most special taxing districts are already levying to their allowed limit, and therefore would not be able to increase levies to offset the cut.
- **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