House Research Simulation Report: Property Tax

Simulation #4D2 **Date 4/5/2004**

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DESCRIPTION

BASELINE: **Preliminary Pay 2004**

ALTERNATIVE: **Projected Pay 2005: Current Law**

This report is a projection of property taxes payable in 2005 under current law. The payable 2004 portion of the simulation is based on actual data reported by the counties. The payable 2005 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 2005, and partially refined based on feedback from county assessors. For the most part, non-school levy projections are based on historical growth rates, adjusted for changes in state aids. It should be noted that for a number of reasons **levy projections are even more speculative than usual**, so particular caution should be used in relying on these estimates (see "assumptions" page for a fuller description of uncertainties with levy projections for this year). School levies are based on Dept. of Education statewide estimates, apportioned to individual school districts by the House Research Dept.

KEY POINTS

- **Statewide, property taxes are projected to increase by $279 million, or 5.2%,** according to the simulation. Approximately $127 million of the $279 million increase is borne by new construction - property appearing on the tax rolls for the first time in 2005. The overall tax increases are projected to be 6.5% in Greater Minnesota and 4.5% in the Metro area.

- **On a statewide average basis, property tax impacts by property type vary from -3% (on certain public utility property) to +7% (on seasonal recreational property).** Impacts on the largest property types are 6.5% on existing residential homesteads, 2.9% on existing apartments, -2.3% on existing commercial-industrial property, and 3.7% 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 2004

- **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.

ALTERNATIVE: Projected Pay 2005: Current Law

- **Market values** are based on growth rates derived from actual growth rates in taxable property values between payable year 2003 and payable year 2004 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 used for Dakota County and Hennepin County. Growth rates for property types subject to limited market value were adjusted to reflect the higher limited market value growth rate for pay 2005. 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 2003 to pay 2004, 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 2005 levies were developed to match statewide levy estimates by category developed by the Dept. of Education. Approximately $38 million of new operating referendum levies that would need to be approved by the voters are assumed; they are distributed using a uniform rate across all districts.

- **County levies** were modeled under the direction of a joint House/Senate/Revenue Dept. working group. Each county's 2004 general levy plus aid was increased by its household growth rate, plus a measure of inflation. A general levy amount was derived by subtracting each county's projected 2005 aid amounts from its levy plus aid projection. The general levy was not allowed to be less than it was in 2004, nor to exceed the 2004 levy by more than 12%. Each county's special levies were grown by the same percentage growth as from 2003 to 2004, but limited to a growth rate of 20%.*

- **City and town levies** were modeled under the direction of a joint House/Senate/Revenue Dept. working group. The basic methodology applied each jurisdiction's average growth rate in levy plus aid for the previous three years to its 2004 levy plus aid amount. (For the growth rate between 2002 and 2003, actual levies and certified aid amounts were used; for the growth rate between 2003 and 2004, actual levies and aid amounts after reductions were used.) An alternative computation was also made by increasing 2004 levy plus aid by population growth, new commercial-industrial construction, and a measure of inflation; the computation yielding the higher amount was chosen for each city. Levy amounts were derived by subtracting projected 2005 aid amounts from the levy plus aid projections. Levy amounts were not allowed to be less than in payable 2004, nor were they allowed to grow by more than 20%.*

- S**pecial taxing district levies** were increased by 4.2% across the board (equal to the average increase from 2003 to 2004), except for the metro-wide special taxing districts, which were modeled based upon individual levy limits governing each category and agency.

- **The state property tax levy** is assumed to be $625.9 million, resulting in a tax rate of 50.863%.

- **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.

* To highlight the uncertain nature of the levy projections built into this simulation, the following factors were considered, but not explicitly provided for in computing the projections: 1) no provision was made for a "levy back" of aid cuts that were made in 2003 and 2004 (except that no jurisdiction's levy was allowed to be less than its 2004 levy, even if it is projected to receive more aid in 2005 than in 2004); 2), no provision was made for the possibility that jurisdictions might choose to levy more than they otherwise would in anticipation of the possibility that levy limits might be reimposed in the future, and 3) no provision was made for a "levy cushion" to offset any possible 2005 aid cuts that might be made in the face of a projected state budget deficit for fiscal year 2006.

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:	1.25	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