House Research Simulation Report: Property Tax

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DESCRIPTION

BASELINE: Preliminary Pay 2005

ALTERNATIVE: Projected Pay 2006: Current Law

This report is a projection of property taxes payable in 2006 under current law. The payable 2005 portion of the simulation is based on actual data reported by the counties. The payable 2006 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 this year are more speculative than in most years, so particular caution should be used in relying on these estimates. 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 $462 million, or 8.1%,** according to the simulation. Approximately $145 million of the $462 million increase is borne by new construction - property appearing on the tax rolls for the first time in 2006. The overall tax increases are projected to be 9.1% in Greater Minnesota and 7.6% in the Metro area.

- **On a statewide average basis, property tax impacts by property type vary from –3% (on certain public utility property) to +11% (on residential non-homestead property).** Impacts on the largest property types (existing properties only) are 8.2% on residential homesteads, 0.5% on apartments, 1.5% on commercial-industrial property, and 7.7% on 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 2005

- **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 2006: Current Law

- **Market values** are based on growth rates derived from actual growth rates in taxable property values between payable year 2004 and payable year 2005 for each type of property within each municipality, with separate rates determined for existing property and new construction. In roughly half the counties, the county assessor either provided alternative growth rates (which were used instead), or gave general approval to the projected rates. City-by-city growth estimates were used for Hennepin County. Growth rates for property types subject to limited market value were adjusted to reflect the permitted limited market value growth rates for pay 2006. 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 2004 to pay 2005, 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 2006 levies were developed to match statewide levy estimates by category developed by the Dept. of Education. Approximately $59 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 statewide except Minneapolis and St. Paul. Approximately $25 million of new school debt levies are included in the projection, approximately $17 million of that amount would require voter approval.

- **County levies** were modeled under the direction of a joint House/Senate/Revenue Dept. working group. Each county’s 2005 general levy plus aid was increased by its three-year average levy plus aid growth rate. A general levy amount was derived by subtracting each county’s projected 2006 general purpose aid amounts from its levy plus aid projection. The general levy was not allowed to be less than it was in 2005, nor to exceed the 2005 levy by more than 12%. Each county’s jail and debt service special levies were projected separately from the general levy.

- **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 2005 levy plus aid amount. (For the growth rate between 2002 and 2003, actual levies and certified aid amounts were used; for the growth rates between 2003 and 2004, and 2004 and 2005, actual levies and paid aid amounts were used, with market value credit reductions treated as subtractions from certified levy amounts.) 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 15%.

- S**pecial taxing district levies** were modeled under the direction of a joint House/Senate/Revenue Dept. working group. Generally, special district levies were assumed to grow by the same percentage as the average growth rate for the last two years. Some adjustments were made based on input from public officials in some of the larger jurisdictions. Metro-wide special taxing districts were modeled based upon the levy limits governing each agency, along with some input from agency officials.

- **The state property tax levy** is assumed to be $657.2 million, resulting in a tax rate of 48.63%.

- **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 market values (existing plus new construction).

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