House Research Simulation Report: Property Tax

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DESCRIPTION

BASELINE: **Projected Pay 2006: Current Law**

ALTERNATIVE: **Projected Pay 2006: House Tax Bill**

This report compares taxes payable in 2006 under current law to taxes payable in 2006 under the House tax bill. The baseline payable 2006 projections derive from a joint House-Senate-Administration 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. School levies are based on Dept. of Education statewide estimates, apportioned to individual school districts by the House Research Dept. The methodologies used to determine the effects of the House tax bill are explained on page iii. Note that the simulation does not include the levy impacts of the House education finance bill.

KEY POINTS

- **Statewide, property taxes would be $9.3 million (0.2%) higher under the House tax bill,** according to the simulation. Overall, taxes are estimated to be 1.1% lower in Greater Minnesota and 0.8% higher in the Metro area as a result of the bill.

- **The simulation predicts that on a statewide average basis property taxes on seasonal recreational properties would be 11.8% lower and taxes on commercial-industrial properties would be 1.3% higher,** because of the bill. Taxes on those properties qualifying for the new low-income housing classification would be 18.1% lower. Overall taxes on ag homesteads would be 2.8% lower, although agricultural properties that did not benefit from the increase in the first tier classification range would have increases averaging from 1% to 2%.

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: 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).

ALTERNATIVE: Projected Pay 2006: House Tax Bill

- **Market values** are generally the same as baseline, adjusted for the changes made to the limited market value law in the bill. Other assumptions related to property values are as follows:

  - The value qualifying for the "new" low-income apartment class is based on the amount qualifying for the "old' class 4d in pay 2003, the last year that it existed, adjusted for changes in the number of units that would qualify under the new criteria based on information provided by the Housing Finance Agency.
  - The value of property qualifying for the disabled veteran exemption is based on a Dept. of Revenue estimate that 2,800 homeowners would qualify, and it assumes that all would qualify for the full $200,000 valuation exclusion. The simulation also assumes that all 2,800 homes presently qualify for the 1b classification. The "Disabled homestead" line on each page of the printout refers to the value qualifying for the exclusion in the bill plus the first $50,000 of value of all other properties qualifying for class 1b.
  - The value of ag homestead land that would qualify for the extension of the first tier classification rate was developed by the House Research Dept.
  - No attempt was made to model the changes in the allocation of homestead resort property between tiers of class 1c and class 4c. Rather, the entire existing class 1c was assigned a class rate of 0.85% as a crude approximation of the effects of the provisions in the bill.

- **City levies** were reduced by the amount of any additional local government aid (LGA) received under the provisions of the bill. For cities subject to reductions in market value credit reimbursements under the bill, levies were increased by the amount of the reimbursement reductions. Levies for the cities of Minneapolis and St. Paul are unchanged despite each city's LGA reduction, under the assumption that the reduced LGA would be made up with a local sales tax. The levy for the city of Duluth was increased by the amount of LGA it would lose under the bill.

- **All other local government levies** are the same as in the baseline.

- **The state levy** was apportioned between commercial-industrial property and seasonal recreational property in accordance with the provisions of the bill. The resulting commercial-industrial rate is 50.50%; the resulting seasonal recreational rate is 28.82%.

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	1.25	1.25
Low-income	1.25	1.0
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	0.85
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:		
Veteran:		
<$32,000	0.45	0
$32,000 - $200,000	1.0	0
Other:		
<$32,000	0.45	0.45
$32,000 - $50,000	1.0	0.45
Agricultural land & buildings:		
Homestead:		
<$600,000	0.55	0.55
$600,000 - $750,000	1.0	0.55
>$750,000	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%
State tax rate:		
Commercial-industrial	48.63%	50.50%
Seasonal-recreational	48.63%	28.82%

House Research Department