House Research Simulation Report: Property Tax

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DESCRIPTION

BASELINE: Projected Pay 2006: Current Law

ALTERNATIVE: Projected Pay 2006: Compromise E-12 & Tax Bills

This report compares taxes payable in 2006 under current law to taxes payable in 2006 under the compromise E-12 and tax bills. 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 E-12 and tax bills are explained on page iii.

KEY POINTS

- **Statewide, property taxes will be $128.2 million (2.1%) higher than they otherwise would be,** according to the simulation. Overall, taxes are estimated to be 0.9% higher in Greater Minnesota and 2.7% higher in the Metro area as a result of the bills.

- **The simulation predicts that on a statewide average basis taxes on most types of property will be 2% - 3% higher,** because of the bills. Taxes on those properties qualifying for the new low-income housing classification will be 37.5% lower than they otherwise would be. Taxes on seasonal recreational property will be 11% lower.

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: Compromise E-12 and Tax Bills

- **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.
    - No attempt was made to model the changes in the allocation of homestead resort property between tiers of class 1c. Rather, the entire existing class 1c was assigned a class rate of 0.7% as a rough approximation of the effects of the provisions in the bill.

- **City levies** were reduced from baseline pay 2006 levels by 75% of the amount of any additional local government aid (LGA) received under the provisions of the bill, except that the levy for the city of St. Paul was unchanged since St. Paul has a history of holding its levy at a constant level. For cities subject to reductions in market value credit reimbursements under the tax bill, levies were increased by the amount of the reimbursement reductions.

- **School district levies** were increased over the baseline pay 2006 assumed levels in accordance with the provisions of the E-12 bill. Levies that would not require voter approval are distributed based on the formulas governing them. The assumed level of referendum levy increases ($32 million) was distributed at a uniform rate statewide, except that none was spread in the Minneapolis or St. Paul school districts (since a check with staff of those districts indicated a very low possibility of a referendum election this fall).

- **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 50.5%; the resulting seasonal recreational rate is 28.8%.

- **Fiscal disparities amounts** were adjusted for the provision in the tax bill delaying Bloomington's repayment for highway bond interest.

SIMULATION PARAMETERS

	Baseline	Alternative
Residential Homestead:		
<$500,000	1.0%	1.0%
>$500,000	1.25	1.25
Blind/disabled <$32,000	0.45	0.45
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	0.7
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
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%
State tax rate:		
Commercial-industrial	48.63%	50.48%
Seasonal-recreational	48.63%	28.80%

House Research Department