House Research Simulation Report: Property Tax

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DESCRIPTION

BASELINE: **Actual Pay 2006**

ALTERNATIVE: Projected Pay 2007: Current Law

This report is a projection of property taxes payable in 2007 under current law. The payable 2006 baseline for the simulation is based on actual data reported by the counties. The payable 2007 projections result from a joint working group consisting of staff from the House and Senate and the departments of Education and Revenue. Property value projections are based on growth patterns for the previous year, refined with some 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 via formula. County levies were increased significantly for anticipated cuts in federal funds due to the federal Deficit Reduction Act of 2005 (DEFRA). The large degree of uncertainty about the effects of DEFRA make this year's projections more speculative than in past years.

KEY POINTS

- **Statewide, property taxes are projected to increase by $685 million, or 11%,** according to the simulation. Approximately $157 million of the $685 million increase is borne by new construction - property that will appear on the tax rolls for the first time in 2007. The overall tax increases are projected to be 13.1% in Greater Minnesota and 9.8% in the Metro area.

- **On a statewide average basis, property tax increases vary by property type from 0.8% (on public utility property) to 14.3% (on agricultural property).** Increases on the largest property types (existing properties only) are 9.4% on residential homesteads, 1.3% on apartments, 6.5% on commercial-industrial property, and 13.9% on residential nonhomestead property.

<u>The simulations are estimates only.</u> 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:

<u>BASELINE:</u> Actual Pay 2006

- **Property values** (taxable 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.

<u>ALTERNATIVE:</u> Projected Pay 2007: Current Law

- **Market values** are based on growth rates derived from actual growth rates in taxable property values between payable year 2005 and payable year 2006 for each type of property within each county, 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 indicated that the estimated growth rates were "in the ballpark." City-specific growth estimates from were obtained from the assessors for Minneapolis and St. Paul. 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 2005 to pay 2006, 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./Education Dept. working group. The baseline pay 2007 levies were developed to match statewide levy estimates by category developed by the Dept. of Education. Approximately $74 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.

- **County levies** were modeled under the direction of a joint House/Senate/Revenue Dept. working group. Each county's 2006 general levy plus aid was increased by its three-year average levy plus aid growth rate. General levy amounts were derived by subtracting projected 2007 aid amounts from the levy plus aid projections. The resulting general levy was not allowed to be less than in 2006, nor to exceed the 2006 levy by more than 12%. Each county's jail and debt service levies were projected separately from the general levy. An additional $83 million was added to county levies statewide to account for the passing of the federal Deficit Reduction Act of 2005, based on materials provided by and discussions with staff from the Dept. of Human Services, individual counties, and county organizations.

- **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 2006 levy plus aid amount. (Each year, 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 2007 aid amounts from the levy plus aid projections. Levy amounts were not allowed to be less than in payable 2006, 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 they grew this year. 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, recent trends in levy growth, plus some input from agency officials.

- **The state property tax levy** is assumed to be $697.3 million; resulting in a commercial-industrial rate of 48.5% and a seasonal-recreational rate of 24.3%.

- **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
Disabled homestead	0.45%	0.45%
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	0.75	0.75
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):		
<$500,000	0.55	0.55
$500,000 - $2,200,000	1.0	1.0
>$2,200,000	1.25	1.25
Nonhomestead 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%

House Research Department