House Research Simulation Report: Property Tax

Simulation #7C2 **Date 3/13/2007**

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DESCRIPTION

BASELINE: **Actual Pay 2007**

ALTERNATIVE: Projected Pay 2008: Current Law

This report is a projection of property taxes payable in 2008 under current law. The payable 2007 baseline for the simulation is based on actual data reported by the counties. The payable 2008 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, combined with input from many 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.

KEY POINTS

- **Statewide, property taxes are projected to increase by $598 million, or 8.8%,** according to the simulation. Approximately $153 million of the $598 million increase is borne by new construction - property that will appear on the tax rolls for the first time in 2008. The overall tax increases are projected to be 10.3% in Greater Minnesota and 8% in the Metro area.

- **On a statewide average basis, property tax changes vary by property type from –2.7% (on public utility property) to +11.8% (on residential non-homestead property).** Increases on the largest property types (existing properties only) are 6.4% on residential homesteads, 3.9% on apartments, 6.3% on commercial-industrial property, 10% on agricultural property, and 8.8% on seasonal-recreational 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: Actual Pay 2007

- **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.

ALTERNATIVE: Projected Pay 2008: Current Law

- **Market values** are based on growth rates derived from actual growth rates in taxable property values between payable year 2006 and payable year 2007 for each type of property within each county, with separate rates determined for existing property and new construction. For more than half the counties, the county assessor either provided alternative growth rates (which were used instead), or indicated that the estimated growth rates looked to be "in the ballpark." City-specific growth estimates were provided for Hennepin County; for Ramsey County separate estimates were provided for St. Paul and the remainder of the county. 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 2006 to pay 2007, on a city-by-city and a class-by-class basis. Public utility values were modified to take into account the new valuation rules taking effect for assessment year 2007, at the 20 percent phase-in rate.

- **School district levies** were modeled under the direction of a joint House/Senate/Revenue Dept./Education Dept. working group. The baseline pay 2008 levies were developed to match statewide levy estimates by category developed by the Dept. of Education. Approximately $87 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 $50 million of new debt 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 2007 general levy plus aid was increased by its three-year average levy plus aid growth rate. General levy amounts were derived by subtracting projected 2008 aid amounts from the levy plus aid projections. The resulting general levy was not allowed to be less than in 2007, nor to exceed the 2007 levy by more than 12%. Each county's jail and debt service levies were projected separately from the general levy. Levy assumptions for the three largest counties were discussed with county officials for a "reality check."

- **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 2007 levy plus aid amount. Levy amounts were derived by subtracting projected 2008 aid amounts from the levy plus aid projections. Levy amounts were not allowed to be less than in payable 2007, nor were they allowed to grow by more than 15%. Levy assumptions for the eight largest cities were discussed with city officials for a "reality check."

- 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 $717.4 million; resulting in a commercial-industrial rate of 44.8% and a seasonal-recreational rate of 20.1%.

- **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