

# House Research Simulation Report: Property Tax

**Simulation #7E1**

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## DESCRIPTION

**BASELINE: Actual Pay 2007**

**ALTERNATIVE: Projected Pay 2008: Governor's Proposal**

This report is a projection of property taxes payable in 2008 under the Governor's proposal (HF 304), compared to property taxes payable in 2007. The payable 2007 baseline for the simulation is based on actual data reported by the counties. The baseline payable 2008 projections result from a joint working group consisting of staff from the House and Senate and the departments of Education and Revenue. The baseline proposal has been modified to account for these elements of the Governor's proposal: reduction of the school operating capital levy, changes in Local Government Aids, institution of levy limits, and changes in the market value homestead credit.

## KEY POINTS

- **Statewide, property taxes would be projected to increase by \$493 million, or 7.3%**, under the proposal. Approximately \$152 million of the \$493 million increase would be 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 8.4% in Greater Minnesota and 6.7% in the Metro area.
- **On a statewide average basis, property tax changes vary by property type from -3.4% (on public utility property) to +10.8% (on residential non-homestead property).** Increases on the other major property types (existing properties only) are 4% on residential homesteads, 3% on apartments, 5.4% on commercial-industrial property, 8% on agricultural property, and 8.1% 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: Governor's Proposal**

- **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. The Governor's proposal was modeled only by reducing the operating capital levy by \$44 million – other components of the Governor's school proposal are not incorporated; however, the other components were generally minor and netted out to no change in overall school district levies.
- **County, town and special taxing district levies** are unchanged from the pay 2008 baseline.
- **City levies** started from the pay 2008 baseline, and were increased or decreased for changes in LGA using a relationship of \$1 of aid change resulting in a \$.67 change in levy. City levies were then further limited by the Governor's levy limit proposal.
- **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
<b>Disabled homestead</b>	0.45%	0.45%
<b>Residential Homestead:</b>		
<\$500,000	1.0	1.0
>\$500,000	1.25	1.25
<b>Residential Non-homestead:</b>		
Single unit:		
<\$500,000	1.0	1.0
>\$500,000	1.25	1.25
2-3 unit and undeveloped land	1.25	1.25
<b>Apartments:</b>		
Regular	1.25	1.25
Low-income	0.75	0.75
<b>Commercial-Industrial-Public Utility:</b>		
<\$150,000	1.5	1.5
>\$150,000	2.0	2.0
Electric generation machinery	2.0	2.0
<b>Seasonal Recreational Commercial:</b>		
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
<b>Seasonal Recreational Residential:</b>		
<\$500,000	1.0	1.0
>\$500,000	1.25	1.25
<b>Agricultural land &amp; buildings:</b>		
<b>Homestead:</b>		
<\$690,000	0.55	0.55
\$690,000 - \$790,000	1.0	0.55
>\$790,000	1.0	1.0
<b>Nonhomestead</b>	1.0	1.0
<b>Credits:</b>		
<b>Homestead:</b>		
<b>Rate</b>	0.4%	0.4%
<b>Maximum</b>	\$304	\$304
<b>Phase-out value</b>	\$76,000	\$118,000
<b>Phase-out rate</b>	0.09%	0.09%
<b>Agricultural:</b>		
<b>Rate</b>	0.3%	0.3%
<b>Maximum</b>	\$345	\$345
<b>Phase-out rate</b>	0.05%	0.05%