# House Research Simulation Report: Property Tax

**Simulation #7F7** **Date 4/21/2007**

Steve Hinze, Legislative Analyst (651-296-8956)

## DESCRIPTION

**BASELINE: Projected Pay 2008: Current Law**

**ALTERNATIVE: Projected Pay 2008: House Tax Bill & E-12 Bill**

This report is a projection of property taxes payable in 2008 under the provisions of the House Tax Bill and the House E-12 Finance bill (HF 6), as of 4/21/07, compared to property taxes payable in 2008 under current law. 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. Note that the simulation does not reflect the impact of the proposed homestead credit state refund program.

## KEY POINTS

- **Statewide, property taxes would be $206 million less, or 2.8%,** according to the simulation. The overall tax reductions are projected to be 4.2% in Greater Minnesota and 2% in the Metro area.

- **On a statewide average basis, property tax changes vary by property type from –8.3% (on agricultural property) to +11% (on public utility property).** Impacts on the largest property types are –3.2% on residential homesteads, -5.7% on residential non-homestead property, -2.8% on apartments, -1.7% on commercial-industrial property, and -2.6% 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: 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).

## <u>ALTERNATIVE:</u> Projected Pay 2008: House Tax Bill & E-12 Bill

- **Baseline market values** were adjusted for the limited market value provisions in the Tax Bill. The residential nonhomestead class was split between vacant land and properties containing duplexes or triplexes based on Dept. of Revenue data.

- **School district levies** start with the pay 2008 baseline levies. All levy changes in the House E-12 bill (HF 6) were modeled. ANTCs were modified to account for the class rate changes in the Tax bill and the change in sales ratio in HF 6.

- **Special taxing district levies** are unchanged from the pay 2008 baseline.

- **County, city and town levies** started from the pay 2008 baseline, and were increased or decreased for changes in city and town LGA, and County Program Aid (CPA) using a relationship of $1 of aid change resulting in a $.67 change in levy.

- The new **school bond agricultural credit** was modeled at a rate of 22%, resulting in a state cost of approximately $10 million.

- **The state property tax levy** is the same as baseline pay 2008.

# 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 <$500,000 | 1.25 | 1.0 |
| 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 | 3.0 |
| Other public utility pers property | 2.0 | 2.25 |
| **Seasonal Recreational Commercial:** | | |
| Homestead resorts (1c): | | |
| <$500,000 | 0.55 | 0.5 |
| $500,000 - $600,000 | 1.0 | 0.5 |
| $600,000 - $2,200,000 | 1.0 | 1.0 |
| $2,200,000 - $2,300,000 | 1.25 | 1.0 |
| >$2,300,000 | 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:** | | |
| <$790,000 | 0.55 | 0.5 |
| >$790,000 | 1.0 | 1.0 |
| **Nonhomestead** | 1.0 | 1.0 |
| **Credits:** | | |
| **Market Value Homestead:** | | |
| **Rate** | 0.4% | 0.4% |
| **Maximum** | $304 | $304 |
| **Phase-out rate** | 0.09% | 0.09% |
| **Market Value Agricultural:** | | |
| **Rate** | 0.3% | 0.3% |
| **Maximum** | $345 | $345 |
| **Phase-out rate** | 0.05% | 0.05% |
| **School Bond Agricultural** | 0% | 22% |

House Research Department