House Research Simulation Report: Property Tax

Simulation #7G5 **Date 5/29/2007**

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

DESCRIPTION

BASELINE: Actual Pay 2007

ALTERNATIVE: Projected Pay 2008: Omnibus Tax Bill

This report is a projection of property taxes payable in 2008 under the provisions of the Omnibus Tax Bill, HF 2268, as it passed the legislature on 5/21/07, 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. Note that the simulation does not reflect the impact of the changes made to the property tax refund program.

KEY POINTS

- **Statewide, property taxes would be projected to increase by $535 million, or 7.9%,** under the proposal. Approximately $152 million of the $535 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 8.7% in Greater Minnesota and 7.4% in the Metro area.

- **On a statewide average basis, property tax changes vary by property type from -1.8% (on public utility property) to +10.7% (on residential nonhomestead property).** Increases on the other major property types (existing properties only) are projected to be: 5.5% on residential homesteads, 5.5% on commercial-industrial property, 2.7% on apartments, 7.1% on agricultural property, and 8.5% 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:

<u>BASELINE:</u> 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: House Tax Bill & E-12 Bill

- Baseline **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. No changes were made to the tax base to account for the new rural lands classification and class rate provided in the Tax bill.

- **School district levies** are the baseline pay 2008 levies developed to match statewide levy estimates by category developed by the Dept. of Education. No impacts of the 2007 omnibus E-12 finance bill are reflected in this simulation.

- **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 state property tax levy** is assumed to be $717.4 million; resulting in a commercial-industrial rate of 44.6% 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 & 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
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:		
<$690,000	0.55	0.5
$690,000 - $790,000	1.0	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%

House Research Department