House Research Simulation Report: Property Tax

Simulation #8E2 **Date 5/13/2008**

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

DESCRIPTION

BASELINE: **Actual Pay 2008**

ALTERNATIVE: Projected Pay 2009: HF 3149 Conf Comm Report

This report is a projection of property taxes payable in 2009 under HF 3149, compared to property taxes payable in 2008. The payable 2008 baseline for the simulation is based on actual data reported by the counties. The baseline payable 2009 value and levy 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 any impact of the proposed homestead credit state refund program.

KEY POINTS

- **Statewide, property taxes would be projected to increase by $490 million, or 6.7%,** under the bill. Approximately $81 million of the $490 million increase would be borne by new construction - property that will appear on the tax rolls for the first time in 2009. The overall tax increases are projected to be 7.8% in Greater Minnesota and 6.1% in the Metro area.

- **On a statewide average basis, property tax increases vary by property type from 2.7% (on agricultural homestead land) to 20% (on public utility property)** [note that a subclass of public utility property – electric generation attached machinery - actually has an increase of 76%]. Increases on the other major property types (existing properties only) are 3.3% on residential homesteads, 7.4% on agricultural property overall, 5% on residential non-homestead property, 7.5% on commercial-industrial property, 4.7% on apartments, and 6.7% 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 2008

- **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 2009: HF 3149 Conf Comm Report

- **Market values** are based on actual growth rates in taxable property values between payable year 2007 and payable year 2008 for each type of property within each county, adjusted for changes in market conditions in calendar year 2007. Separate rates were 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. (These estimates were provided in February, 2008, and may now be somewhat obsolete – revised estimates are now being sought from some jurisdictions.) 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 2007 to pay 2008, on a city-by-city and a class-by-class basis. Public utility values were modified to take into account the transition to the new valuation rules; for pay 2009, the market value will be based 50% on the old rule and 50% on the new rule. No attempt has been made to adjust for the disabled veterans homestead exclusion and the new classification for managed forest land, both of which were provided in Laws 2008, chapter 154.

- Baseline **school district levies** were modeled under the direction of a joint House/Senate/Revenue Dept./Education Dept. working group, and were forced to match statewide levy estimates by category developed by the Dept. of Education. ANTCs were modified to account for the class rate changes in HF 3149.

- **Special taxing district levies** are unchanged from the pay 2009 baseline.

- **County, city and town levies** started from the pay 2009 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. Levies were reduced according to the levy limits contained in the legislation.

- **The state commercial-industrial property tax rate** is based on a levy of $732.1 million, although the actual yield is $753.8. It results in a rate of 45.2%. The seasonal-recreational rate is 18.6%.

- **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). TIF NTC for the City of St. Paul was reduced for decertifications due to take place for pay 2009.

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
Single unit >$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:		
<$150,000	1.5	1.5
>$150,000	2.0	2.0
Public utility:		
Electric generation machinery	2.0	2.5
Other personal property	2.0	2.15
Land & buildings	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:		
<$790,000	0.55	0.5
$790,000 - $890,000	1.0	0.5
>$890,000	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