House Research Simulation Report: Property Tax

Simulation #2E1 **Date 7/29/2002**

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

DESCRIPTION

BASELINE: **Preliminary Pay 2002**

ALTERNATIVE: **Projected Pay 2003: End-of-session 2002**

This report is a projection of property taxes payable in 2003 compared to payable 2002, incorporating changes made during the 2002 legislative session. The pay 2002 portion of the simulation is based on actual data reported by the counties. The payable 2003 projections result from a joint House-Senate-Revenue Dept. working group. The assumptions underlying the pay 2003 simulation can be found on page iii. This simulation can be compared to simulation "2D1," which compares pay 2002 to pay 2003 under the laws in effect prior to the 2002 session.

KEY POINTS

- **Statewide, property taxes are projected to increase by $416 million, or 9%,** according to the simulation. Approximately $135 million of the $416 million increase is borne by new construction - property appearing on the tax rolls for the first time in 2003. The overall tax increases are projected to be 9.5% in Greater Minnesota and 8.8% in the Metro area.

- **Statewide property tax impacts by property type vary from -9% to +26%.** Property types experiencing the largest increases are low-income apartments (26.4%) and residential homesteads (13.3%). Property types experiencing the largest reductions are a portion of the residential nonhomestead class (-9.1%) and regular apartments (-5%).

- **Statewide, property taxes on existing commercial-industrial property show only a 0.6% increase between pay 2002 to pay 2003.** There are four reasons for the commercial-industrial effect: (i) relatively small growth in commercial-industrial market values due to the economic slowdown; (ii) higher growth in taxable value of other types of property due to the increase in the limited market value limit; (iii) the one-year lag in the fiscal disparities program, causing a portion of the 2001 class rate compression effect to be delayed until 2003; and (iv) little growth in the state levy for pay 2003.

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: Preliminary Pay 2002

- **Property values** (limited 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.

ASSUMPTIONS:

ALTERNATIVE: Projected Pay 2003: End-of-session 2002

- **Market values** are based on growth rates derived from actual growth rates in taxable property values between payable year 2001 and payable year 2002 for each type of property within each municipality, with separate rates determined for existing property and new construction. In counties where the county assessor was able to provide growth rates, those rates were used instead. Some adjustments were made to the assumed growth rates based on trends derived from the assessor surveys; specifically, commercial property growth rates were reduced somewhat from the previous year, and apartment growth rates were increased in the metro area and reduced in greater Minnesota. City-by-city growth estimates were provided by the assessors for Dakota, Hennepin and Washington Counties. Growth rates for property types subject to limited market value were adjusted to reflect the higher limited market value growth rate for pay 2003. 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 2000 to pay 2001, on a city-by-city and a class-by-class basis.

- **School district levies** were modeled under the direction of a joint House/Senate/Revenue Dept. working group. The baseline pay 2003 levies were developed to match statewide levy estimates by category developed by the Dept. of Children, Families and Learning. Approximately $68 million of new referendum levies that would need to be approved by the voters are assumed; they are distributed using a uniform rate across all districts except Minneapolis, St. Paul, and districts that passed a new referendum in 2001. Approximately $63 million of new debt levies that would need to be approved by the voters are assumed; they are allocated proportionately to all districts that had a debt levy in 2002. Baseline levies have been adjusted for actions taken by the 2002 legislature, based on House Research Dept. education finance simulations.

- **County, city, and town levies** were modeled under the direction of a joint House/Senate/Revenue Dept. working group. The baseline methodology applies each jurisdiction's average growth rate in levy plus aid for the period 1998 to 2001 to its 2002 levy plus aid amount. Levy amounts were derived by subtracting projected aid amounts from the levy plus aid projections. For a few of the larger cities and counties, baseline estimates were amended based on judgments of budget staff for the city or county. Baseline levy estimates were adjusted for changes made by the 2002 legislature in the area of local government aids and taconite aids. Levy limits were modeled for those jurisdictions subject to levy limits, and the levy otherwise determined was reduced if it was found to exceed the levy limit.

- S**pecial taxing district levies** were generally increased by 12.1%, except for the metro-wide special taxing districts, which were modeled based upon individual levy categories and levy limits governing each category. Metro agency bonded debt levy estimates were provided by metro agency staff.

- **The state property tax levy** is assumed to be $597.7 million, yielding a tax rate of 53.95%.

- **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 net tax capacity.

SIMULATION PARAMETERS

	Baseline	Alternative
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	1.5	1.25
Apartments:		
Regular	1.8	1.5
Low-income	0.9	1.0
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)	1.0	1.0
Seasonal 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
Disabled homestead	0.45	0.45
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	0.2%	0.3%
Maximum	$230	$345
Phase-out rate		0.05%

House Research Department