# House Research Simulation Report:  Property Tax

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## DESCRIPTION

**BASELINE:** **Preliminary Payable 2004**

**ALTERNATIVE:** **Prelim Pay 2004: Fiscal Disparities program eliminated**

This report shows how tax burdens would change if the fiscal disparities program were suddenly eliminated.  It compares proposed property taxes payable in 2004 to what the taxes would be in payable 2004 without fiscal disparities.  The baseline 2004 taxes are based on proposed levies certified by each taxing jurisdiction to fulfill the requirements of the truth-in-taxation (TNT) process.  The baseline also includes referendums passed in the fall of 2004.  The market values used are actual for taxes payable in 2004, as reported by county assessors to the Dept. of Revenue.  The "without fiscal disparities" alternative assumes each jurisdiction's combined levy plus state aid would be the same as it was in the baseline; levies are increased or decreased in response to changes in state aids.

## KEY POINTS

- **The total property tax burden in the metro area would be virtually unchanged without fiscal disparities,** according to the simulation. The "no net change" result actually comes about from a number of contributing factors that cancel each other out.  The main factors are: additional tax base captured by tax increment financing districts, which causes taxes to be $16.6 million higher; additional local government aid to metro cities, which causes property taxes to be $9.1 million lower; and the (assumed) elimination of the special metro livable communities levy, which causes property taxes to be $5 million lower.

- **Metro average property tax impacts by property type vary from –4.4% to +3.9%.** Impacts on the largest property types are 2.6% on residential homesteads, 2% on apartments, and -3.7% on commercial-industrial property.

**<u>The simulations are estimates only.</u>** 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 Payable 2004

- **Market values** (taxable market values) are actual values reported by county assessors on the abstracts of assessment. A number of counties revised their abstracts of assessment after the initial submission; this simulation is based on the revised abstracts.

- **Levies** are preliminary levies (also called truth-in-taxation, or TNT levies) reported by county auditors to the Dept. of Revenue. TNT levies have been augmented with information about referendum levies that have been approved after TNT levies were certified. In the aggregate, final certified levies will be less than TNT levies, although they may not be for any specific jurisdiction.

- **The state levy** is $624.5 million, which is the certified level set by the Dept. of Revenue.

- **Tax increment financing net tax capacities** are derived from the abstracts of assessment; generally these figures will undergo some changes before final figures are determined.

- **Fiscal disparities** contribution and distribution net tax capacities are preliminary, based on data from the abstracts of assessment, with some adjustments applied based on Dept. of Revenue data. Fiscal disparities distribution tax amounts are preliminary.

## ASSUMPTIONS:

## <u>ALTERNATIVE:</u> Preliminary Pay 2004: Fiscal disparities program eliminated

- **Market values** are the same as in the baseline.

- **County and city levies** were determined by first computing each jurisdiction's change in aid (County Program Aid or Local Government Aid) due to the tax base change resulting from the elimination of fiscal disparities. For both aid programs, the aid change was computed based on "full phase-in," so that the effect of the tax base change was not muted by any features built into the aid programs to phase-in aid changes slowly over time. Each jurisdiction's baseline levy was adjusted up or down to offset the change in aid that would occur without fiscal disparities.

- Baseline **school levies** were adjusted for any aid changes that would result from the tax base changes caused by fiscal disparities elimination.

- **Special taxing district levies, town levies and the state levy** are the same as in the baseline, except that the $5 million metropolitan council livable communities levy that is levied only against the fiscal disparities tax base is eliminated.

- **Tax increment financing net tax capacities** were increased for tax increment districts that have elected to have the district's proportionate share of the fiscal disparities contribution paid from captured value. For those kinds of districts, eliminating FD would effectively increase the amount of captured tax capacity.