

House Research Simulation Report: Property Tax

Simulation #8D2Supp

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DESCRIPTION

BASELINE: Actual Pay 2008

ALTERNATIVE: Projected Pay 2009: HF 1222 DE Amend (incl HCSR)

This report is a projection of property taxes payable in 2009 under the delete everything amendment to HF 1222, compared to property taxes payable in 2008. This simulation report **includes the effects of the new homestead credit state refund program**; however, only the statewide page of the report is available because no breakdown of the homestead credit state refund amounts is available by geographic area. 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.

KEY POINTS

- **Statewide, property taxes would be projected to increase by \$315 million, or 4.3%**, under the proposal. Approximately \$78 million of the \$315 million increase would be borne by new construction - property that will appear on the tax rolls for the first time in 2009.
- **On a statewide average basis, property tax changes vary by property type from -10.4% (on non-homestead duplexes and triplexes) to +20.3% (on public utility electric generation machinery).** Changes on the other major property types (existing properties only) are -1.2% on residential homesteads, 7.3% on agricultural property, 6.8% on single-unit residential non-homestead property, 4.5% on other public utility property, 8.3% on commercial-industrial property, 6.4% on apartments, and 7.4% 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 1222 Delete Everything Amendment

- **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. Eight percent of the legal class of property consisting of 2-3 unit residential non-homestead property is assumed to be vacant land.
- **School district levies** were modeled under the direction of a joint House/Senate/Revenue Dept./Education Dept. working group. The baseline pay 2009 levies were developed 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 1222.
- **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.
- **The state property tax levy** is assumed to be \$770.7 million; resulting in a commercial-industrial rate of 45.4% and a seasonal-recreational rate of 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.
- The effect of the **homestead credit state refund** is shown by reducing tax burdens for the affected classes of property by the total amount of the refund (over and above the cost of the current property tax refund program) as determined by the Dept. of Revenue.

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
2-3 unit <\$500,000	1.25	1.0
>\$500,000	1.25	1.25
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	2.4
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%

STATEWIDE

<i>Tax Burdens by Property Class</i>	Taxable Market Value				Net Tax			Effective Tax Rates		
	Baseline	Alternative	Change	Pctg Chng	Baseline	Alternative	Change	Pctg Chng	Base	Alter
Res Hmstd: Exist	324,601,411	324,233,019	-368,392	-0.1	3,411,653	3,371,189	-40,465	-1.2	1.05	1.04
ResNonHm 1 Exist	30,652,831	31,450,780	797,950	2.6	353,430	377,336	23,906	6.8	1.15	1.20
ResNonHm23 Exist	9,957,022	10,149,331	192,308	1.9	140,216	125,593	-14,623	-10.4	1.41	1.24
Apartments Exist	18,432,170	18,690,577	258,407	1.4	265,663	282,618	16,956	6.4	1.44	1.51
Low-income Apts	2,306,468	2,359,460	52,991	2.3	21,047	22,410	1,363	6.5	0.91	0.95
Seas Rec: Exist	24,866,749	27,266,429	2,399,679	9.7	214,060	229,854	15,794	7.4	0.86	0.84
Com/Ind Lo Exist	9,806,419	10,071,605	265,186	2.7	241,244	251,970	10,727	4.4	2.46	2.50
Com/Ind Hi Exist	62,983,576	67,011,454	4,027,877	6.4	1,989,742	2,164,814	175,073	8.8	3.16	3.23
Publ U: Elec Gen	1,554,471	1,584,925	30,454	2.0	33,889	40,772	6,883	20.3	2.18	2.57
Publ U: Other	5,983,850	6,171,731	187,881	3.1	181,422	189,560	8,138	4.5	3.03	3.07
AgHm House Exist	12,426,407	13,128,904	702,497	5.7	102,903	107,882	4,979	4.8	0.83	0.82
AgHm Land: Exist	38,441,676	42,375,605	3,933,928	10.2	177,051	184,388	7,336	4.1	0.46	0.44
Ag NonHm: Exist	19,780,943	22,051,270	2,270,327	11.5	165,070	185,390	20,321	12.3	0.83	0.84
ResHmstd: NewCon	0	3,634,396	3,634,396	0.0	0	39,639	39,639	0.0	0.00	1.09
All Other NewCon	0	3,003,094	3,003,094	0.0	0	38,758	38,758	0.0	0.00	1.29
Total	561,793,995	583,182,579	21,388,584	3.8	7,297,388	7,612,173	314,785	4.3	1.30	1.31

Tax Base

Tax Rates

	Tax Base				Net Tax Cap (Pctg)		Ref Mkt Val		
	Baseline	Alternative	Change	Pctg Chng	Base	Alter	Base	Alter	
Total Tax Capacity	6,338,736	6,554,101	215,365	3.4	County	40.14	41.32	0.05	0.05
(-) TIF Tax Capacity	311,344	321,354	10,011	3.2	City/Town	30.38	31.26	0.66	0.69
(-) FD Contrib Tax Cap	350,277	401,602	51,325	14.7	School District	20.42	21.00	14.19	15.87
(=) Taxable Tax Capacity	5,677,115	5,831,145	154,029	2.7	Special District	4.59	4.55	0.01	0.01
FD Distrib Tax Cap	350,278	401,602	51,324	14.7	Total	95.52	98.13	14.91	16.62