

House Research Simulation Report: Property Tax

Simulation #7F6Supplement

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DESCRIPTION

BASELINE: Actual Pay 2007

ALTERNATIVE: Proj Pay 2008: House Tax & E-12 Bills (with new refund)

This report is a projection of property taxes payable in 2008 under the provisions of the House Tax Bill and the House E-12 Finance Bill (HF 6), as of 4/21/07, compared to property taxes payable in 2007. **This version includes the effects of the new homestead credit state refund program; results are displayed at the statewide level only due to a lack of data regarding the geographic distribution of refunds under the program.** 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.

KEY POINTS

- **Statewide, property taxes would be projected to increase by \$168 million, or 2.5%,** under the proposal. Approximately \$155 million of the \$168 million increase would be borne by new construction - property that will appear on the tax rolls for the first time in 2008.
- **On a statewide average basis, property tax changes vary by property type from -3.6% (on residential homestead property) to +7.9% (on public utility property).** Percentage changes on the other major property types (existing properties only) are -0.8% on agricultural property, 5.3% on residential nonhomestead property, 4.4% on commercial-industrial property, 1.1% on apartments, and 5.9% 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 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. Baseline market values were adjusted to account for the limited market value extension in the Tax Bill.
- **School district levies** were modeled under the direction of a joint House/Senate/Revenue Dept./Education Dept. working group. The baseline pay 2008 levies were developed to match statewide levy estimates by category developed by the Dept. of Education. All levy changes in HF 6 were modeled. ANTCs were modified to account for the class rate changes in the tax bill and the change in sales ratio in HF 6.
- **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 new **school bond agricultural credit** was modeled at a rate of 22%, resulting in a state cost of approximately \$10 million.
- **The state property tax levy** is assumed to be \$717.4 million; resulting in a commercial-industrial rate of 44.4% and a seasonal-recreational rate of 20.2%.
- **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 <\$500,000	1.25	1.0
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	3.0
Other public utility pers property	2.0	2.25
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%
School Bond Agricultural	0%	22%

STATEWIDE

Tax Burdens by Property Class	Taxable Market Value				Net Tax			Effective Tax Rates		
	Baseline	Alternative	Change	Pctg Chng	Baseline	Alternative	Change	Pctg Chng	Base	Alte
Res Hmstd: Exist	308,067,835	324,419,749	16,351,914	5.3	3,225,086	3,108,000	-117,086	-3.6	1.05	0.96
ResNonHm 1 Exist	25,294,860	27,944,051	2,649,191	10.5	291,904	313,475	21,571	7.4	1.15	1.12
OthrResNonHm: Ex	8,484,472	9,391,286	906,814	10.7	120,627	121,066	438	0.4	1.42	1.29
Apartments Exist	17,687,965	18,356,672	668,707	3.8	256,451	259,267	2,816	1.1	1.45	1.41
Low-income Apts	2,182,151	2,267,809	85,658	3.9	19,942	20,080	138	0.7	0.91	0.89
Seas Rec: Exist	20,869,181	24,023,457	3,154,276	15.1	193,322	204,821	11,499	5.9	0.93	0.85
Com/Ind Lo Exist	9,460,155	9,832,099	371,944	3.9	237,113	235,022	-2,090	-0.9	2.51	2.39
Com/Ind Hi Exist	56,170,172	61,579,655	5,409,483	9.6	1,814,098	1,906,601	92,503	5.1	3.23	3.10
Publ U: Elec Gen	1,525,273	1,496,108	-29,165	-1.9	33,232	43,243	10,011	30.1	2.18	2.89
Publ U: Other	5,920,659	5,906,612	-14,047	-0.2	183,653	190,826	7,172	3.9	3.10	3.23
AgHm House Exist	11,826,365	12,796,769	970,404	8.2	97,632	94,983	-2,649	-2.7	0.83	0.74
AgHm Land: Exist	34,781,302	38,889,657	4,108,355	11.8	163,561	156,820	-6,740	-4.1	0.47	0.40
Ag NonHm: Exist	16,948,997	19,116,692	2,167,695	12.8	145,778	151,947	6,168	4.2	0.86	0.79
ResHmstd: NewCon	0	5,481,554	5,481,554	0.0	0	54,536	54,536	0.0	0.00	0.99
All Other NewCon	0	5,429,614	5,429,614	0.0	0	90,205	90,205	0.0	0.00	1.66
Total	519,219,387	566,931,785	47,712,398	9.2	6,782,400	6,950,891	168,491	2.5	1.31	1.23

Tax Base

Tax Rates

	Baseline	Alternative	Change	Pctg Chng	Net Tax Cap (Pctg)		Ref Mkt Val		
					Base	Alter	Base	Alter	
Total Tax Capacity	5,842,395	6,391,505	549,110	9.4	County	40.79	39.92	0.056	0.052
(-) TIF Tax Capacity	292,160	326,946	34,786	11.9	City/Town	30.55	29.49	0.633	0.613
(-) FD Contrib Tax Cap	305,743	349,828	44,085	14.4	School District	21.49	19.48	13.102	13.638
(=) Taxable Tax Capacity	5,244,492	5,714,731	470,239	9.0	Special District	4.55	4.51	0.000	0.000
FD Distrib Tax Cap	305,747	349,828	44,081	14.4	Total	97.38	93.39	13.791	14.303