House Research Simulation Report: Property Tax

Simulation #9F1 **Date 5/16/2009**

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DESCRIPTION

BASELINE: Actual Pay 2009

ALTERNATIVE: Projected Pay 2010: Governor's Proposal

This report is a projection of property taxes payable in 2010 under the Governor's budget proposal. The payable 2009 baseline is based on actual data reported by the counties. The baseline payable 2010 projections are the result of a joint working group consisting of staff from the House and Senate and the Departments of Education and Revenue. Property value projections are based on growth patterns for the previous year adjusted for market conditions, combined with input from county assessors. Non-school levy projections are based on historical growth rates, taking applicable levy limits into account. School levies are based on Dept. of Education statewide estimates, apportioned to individual school districts via formula. Baseline county, city and town levies were then modified to take into account the Governor's recommended aid cuts. It should be noted that because current economic conditions are significantly different from any other time in recent years, there is significantly more uncertainty with regard to this projection than is normal.

KEY POINTS

- **Statewide, property taxes are projected to increase by $719 million, or 9.3%,** according to the simulation. Approximately $49 million of the $719 million increase is borne by new construction - property that will appear on the tax rolls for the first time in 2010. The overall tax increases are projected to be 11.5% in Greater Minnesota and 8.1% in the Metro area.

- **On a statewide average basis, property tax changes vary by property type from -1.2% (on public utility property) to +16.7% (on agricultural property).** Increases on other large property types (existing properties only) are 8.4% on residential homesteads, 7.5% on residential non-homestead property, 11.3% on apartments, 8.2% on commercial-industrial property, and 9.6% on seasonal-recreational 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: Actual Pay 2009

- **Property values** (taxable market values) are actual values reported by county assessors on the abstracts of assessment.
- **Local government levies** are from reports filed by the county auditors with 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 2010: Governor's proposal

- **Market values** are based on actual growth rates in taxable property values between payable year 2008 and payable year 2009 for each type of property within each county, adjusted for the phase-out of limited market value and for changes in market conditions in calendar year 2008. 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 reasonable. 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 2008 to pay 2009, 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 2010, the market value will be based entirely on the new rule.
- **School district levies** were modeled under the direction of a joint House/Senate/Revenue Dept./Education Dept. working group. The baseline pay 2010 levies were developed to match statewide levy estimates by category developed by the Dept. of Education. Approximately $99 million of new operating referendum levies that would need to be approved by the voters are assumed; they are distributed using a uniform rate across all districts statewide. Approximately $26 million of new debt levies that would need to be approved by the voters are assumed; they are distributed using a uniform rate across all districts statewide.
- **County and city levies** were modeled under the direction of a joint House/Senate/Revenue Dept. working group. Each jurisdiction's baseline 2009 general levy was increased by one-half of its three-year average levy growth rate (one-half of the historical growth rate was used because the forecast growth rate for the implicit price deflator for state and local government spending (IPD) is significantly lower than it has been in the years that the historical growth rate is based on). Each jurisdiction's general levy was then increased by two-thirds of its 2008 aid and/or credit unallotment, plus two-thirds of its estimated aid and credit cuts for 2009 and 2010 under the Governor's proposal (note that the simulation is based on the lower level of the Governor's county aid cuts for 2009 and 2010). Special levies were assumed to grow at the average statewide rate from pay '08 to pay '09. The resulting levy was not allowed to exceed its 2009 levy by more than 20%, nor was it allowed to exceed its projected levy limit, for those jurisdictions subject to levy limits.
- **Town levies** were modeled under the direction of a joint House/Senate/Revenue Dept. working group. For the pay 2010 baseline, the basic methodology applied each town's average levy growth

rate for the previous three years to its 2009 levy. The levies were then increased by two-thirds of the Governor's proposed market value credit cuts for 2009 and 2010. Levy amounts were not allowed to be less than in payable 2009, nor were they allowed to grow by more than 20%.

- **Special taxing district levies** were modeled under the direction of a joint House/Senate/Revenue Dept. working group. Generally, special district levies were assumed to grow by their median growth rate over the previous three years. Metro-wide special taxing districts were modeled based upon the levy limits governing each agency and recent trends in levy growth.

- **The state property tax levy** is assumed to be $790.2 million; resulting in a commercial-industrial rate of 46.3% and a seasonal-recreational rate of 16.7%.

- **Fiscal disparities** net tax capacities and distribution levies were modeled by the House Research Dept.

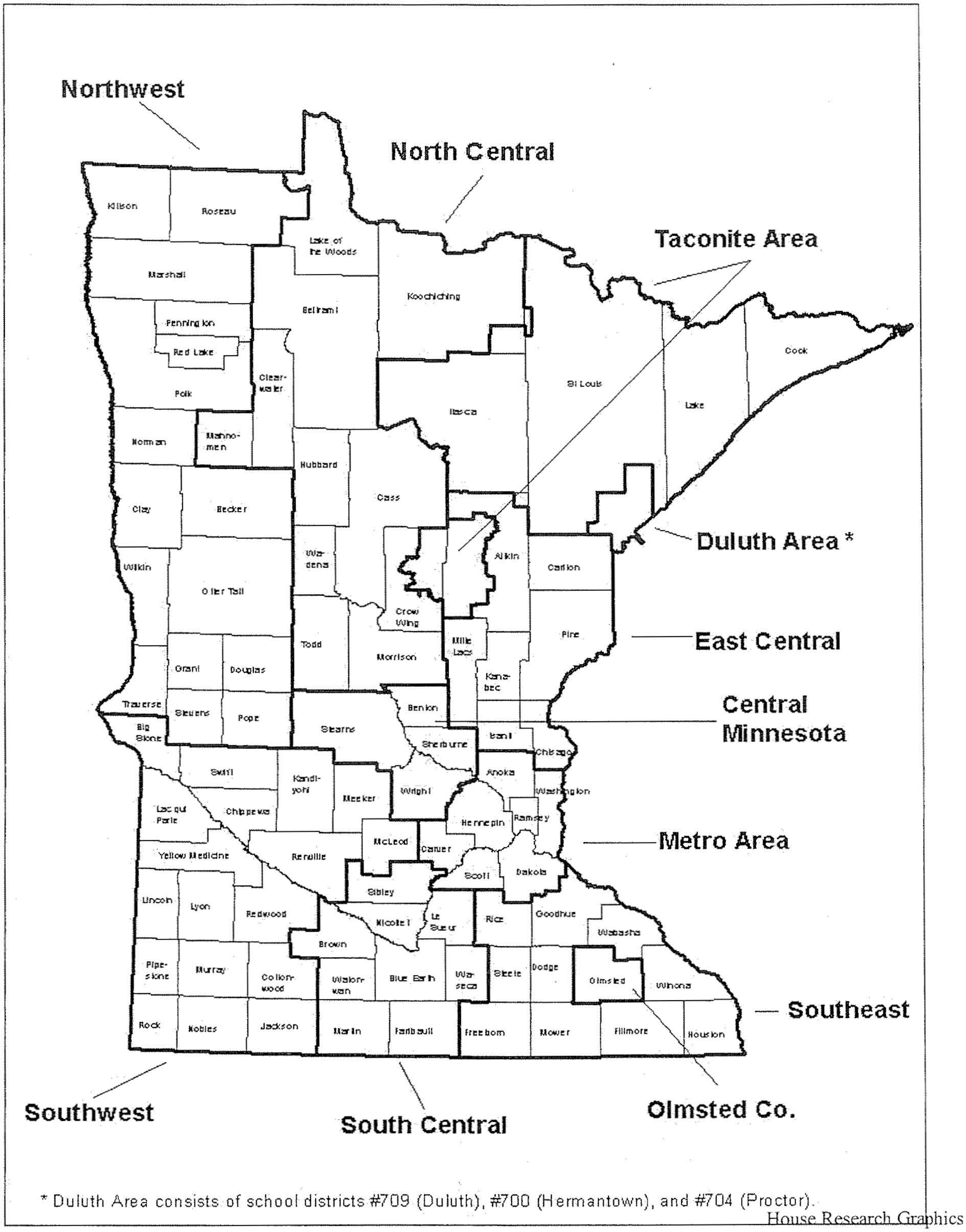
- **Tax increment financing (TIF) net tax capacities** were assumed to increase at the same rate in each jurisdiction as the growth in commercial-industrial market values (existing plus new construction). TIF NTC's were reduced for decertification of pre-'79 TIF districts due to take effect for pay 2010.

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 and 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	2.0
Commercial seasonal recreational:		
Homestead resorts (1c):		
<$600,000	0.5	0.5
$600,000 - $2,300,000	1.0	1.0
>$2,300,000	1.25	1.25
Nonhomestead resorts (4c):		
<$500,000	1.0	1.0
>$500,000	1.25	1.25
Non-commercial seasonal recreational:		
<$500,000	1.0	1.0
>$500,000	1.25	1.25
Agricultural land & buildings:		
Homestead:		
<$890,000	0.5	0.5
$890,000 - $990,000	1.0	0.5
>$990,000	1.0	1.0
Nonhomestead		
Agricultural and timberland	1.0	1.0
Managed forest land	0.65	0.65
Credits:		
Homestead:		
Rate	0.4%	0.4%
Maximum	$304	$304
Phase-out rate	0.09%	0.09%
Agricultural homestead land:		
Rate	0.3%	0.3%
Maximum	$345	$345
Phase-out rate	0.05%	0.05%

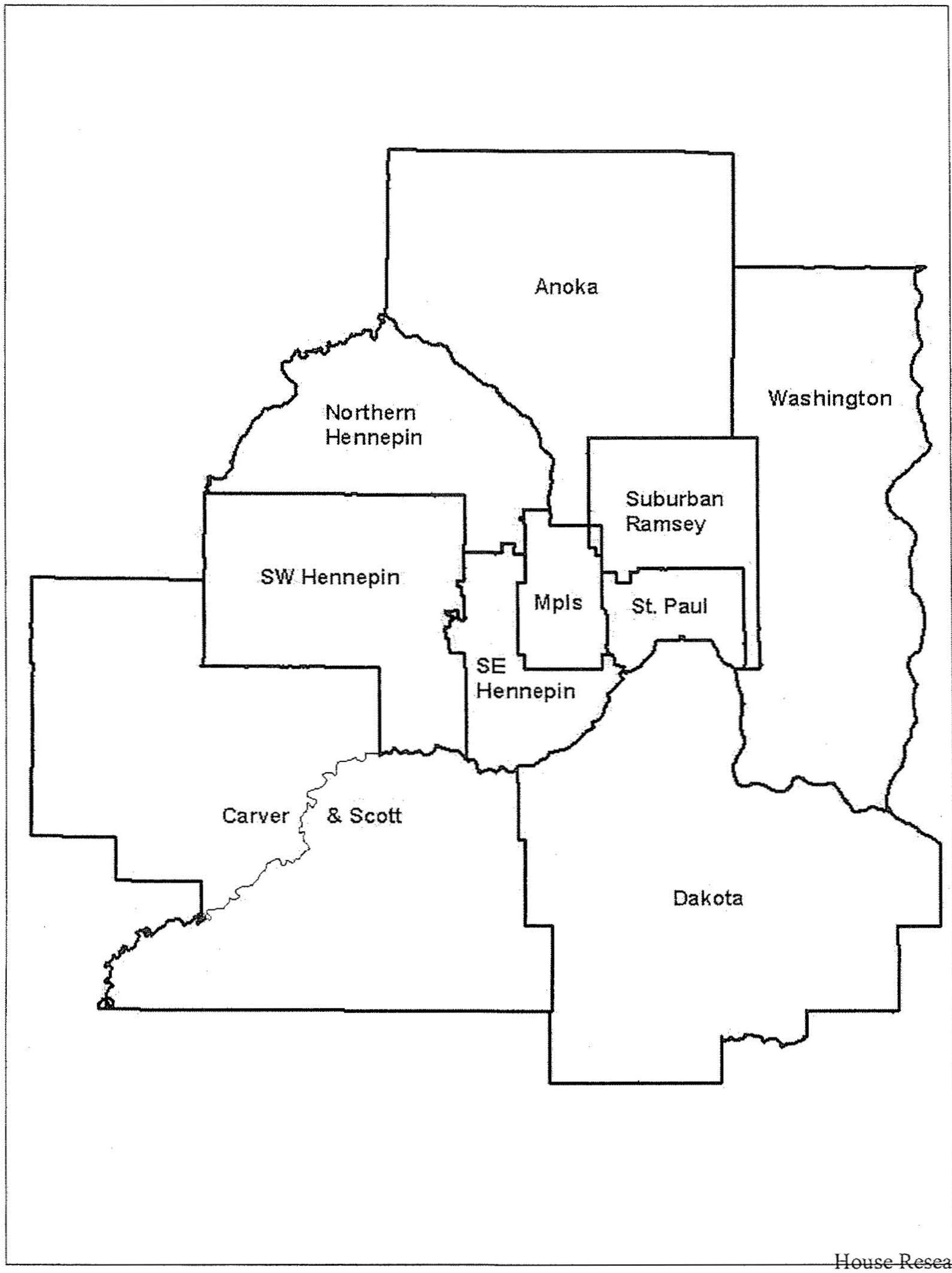
House Research Department

Property Tax Model Regions (Greater Minnesota)



Note: In most regions results are displayed separately for cities and for towns.

Property Tax Model Regions (Metro Area)



House Research Graphics

Notes: **North Hennepin** consists of Hassan Township plus the following cities: Brooklyn Center, Brooklyn Park, Champlin, Corcoran, Crystal, Dayton (Hennepin portion), Greenfied, Hanover (Hennepin portion), Maple Grove, New Hope, Osseo, Robbinsdale, Rockford (Hennepin portion), Rogers, and St. Anthony (Hennepin portion). **Southeast Hennepin** consists of the cities of: Bloomington, Edina, Golden Valley, Hopkins, Richfield, and St. Louis Park. The balance of the County (excluding Minneapolis) is considered **Southwest Hennepin**.