

PROPERTY TAX
Repeal Metropolitan Fiscal Disparities

February 8, 2001

	Yes	No
Separate Official Fiscal Note Requested		X
Fiscal Impact		
DOR Administrative Costs/Savings		X

Department of Revenue
 Analysis of H.F. 381 (Lenczewski)/ S.F. 337 (D. Johnson)

	<u>Revenue Gain or (Loss)</u>			
	<u>F.Y. 2002</u>	<u>F.Y. 2003</u>	<u>F.Y. 2004</u>	<u>F.Y. 2005</u>
		(000's)		
Education Hmstd Credit	\$0	(\$5,400)	(\$6,000)	(\$6,000)
Property Tax Refund	<u>\$0</u>	<u>(\$2,400)</u>	<u>(\$2,400)</u>	<u>(\$2,400)</u>
General Fund	\$0	(\$7,800)	(\$8,400)	(\$8,400)

Effective for taxes payable in 2002 and thereafter.

EXPLANATION OF THE BILL

Current Law: Fiscal disparities distribution levies are disbursed on a formula primarily based on real property market value and population. The contribution to the “pool” is 40% of the growth since 1971 in commercial and industrial tax capacity.

Proposed Law: Section 1 of the bill replaces a definition of the metropolitan area with one which is nearly identical, except that Hanover is excluded. Section 2 eliminates a tax increment financing election reference to fiscal disparities. Section 3 repeals the metropolitan fiscal disparities program (M.S. 473F).

REVENUE ANALYSIS DETAIL

- The proposal was analyzed on the taxes payable 2001 property tax simulation model.
- The major state paid property tax aids such as local government aid (LGA) and homestead and agricultural aid (HACA) are independent of fiscal disparities distribution levies.

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- The net result of eliminating the metropolitan fiscal disparities provision is a decrease in total property taxes for commercial and industrial property, and an increase in residential net taxes. Increases in residential homestead net taxes result in an increase in education homestead credit of \$6.0 million. (\$5.4 million fiscal year basis after 90/10 school aid shift) in pay 2002 and thereafter.
- Also, because total homestead net taxes increase, property tax refunds would increase by \$2.4 million.
- Local levies would vary within the metropolitan area. Cities whose net distribution is greater than their contribution under the program, such as St. Paul, would see increases in local property taxes. Conversely, cities which contribute more than they receive will experience a decline in net property taxes.

Number of Taxpayers Affected: Primarily metropolitan home and business property owners.

ADMINISTRATIVE/OPERATIONAL IMPACT

This bill will impact local government

Source: Minnesota Department of Revenue
Tax Research Division
<http://www.taxes.state.mn.us/polic.html#analyses>

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