

MINNESOTA • REVENUE

Property Tax Base Reduction Ratio City Aid Distribution

February 22, 2002

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

Department of Revenue
Analysis of H.F. 3454 (Lenczewski)

	Revenue Gain or (Loss)			
	<u>F.Y. 2002</u>	<u>F.Y. 2003</u>	<u>F.Y. 2004</u>	<u>F.Y.2005</u>
		(000's)		
General Fund		\$0	\$0	\$0

Effective beginning with aids payable in 2003.

EXPLANATION OF THE BILL

Current Law: M.S. 477A.03 subdivision 37, defines “Base Reduction Percentage” for purposes of computing city aid. A base reduction percentage is defined as the difference between the amount available for city aid under section 477A.03 for the year for which aid is being calculated and the amount available for city aid for calendar year 1994, divided by the sum of the city aid base for all cities, multiplied by 100.

City aid distribution is equal to the sum of the city formula aid under subdivision 8, and its city aid base.

Proposed Law: The proposal changes the base reduction percentage to a base reduction ratio. The base reduction ratio is the difference between the amount available for city aid under section 477A.03 for the current year and the amount available for city aid in calendar year 2002, divided by the sum of the city aid base for all cities. This reduction ratio for any year can’t be less than the reduction ratio from the previous year and the ratio must be less than one.

The proposal also changes the city aid distribution such that for calendar year 2003 and thereafter, each city shall receive an aid distribution equal to the sum of the city formula aid under subdivision 8, and its city aid base multiplied by the difference between one and the base reduction ratio.

February 21, 2002

REVENUE ANALYSIS DETAIL

- The base reduction percentage is not currently being used in city aid distributions.
- Because the total amount of city base aid is offset by an increase in the city formula aid, there is no impact on the general fund.

Number of Taxpayers Affected: All taxpayers in all cities could be impacted by this bill. The LGA will be decreased in cities that rely more on their city aid base.

ADMINISTRATIVE/OPERATIONAL IMPACT

There will be no significant administrative or operational costs or savings to DOR in administration of this bill.

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