PROPERTY TAX
Local Government Aid and HACA Changes

April 11, 2001

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

Department of Revenue
Analysis of S.F. 998 (Hottinger)

	Revenue Gain or (Loss)			
	F.Y. 2002	F.Y. 2003	F.Y. 2004	F.Y. 2005
		(000's)		
Local Government Aid	$0	($91,800)	($127,900)	($165,000)
Property Tax Refund	$0	$2,000	$2,700	$3,500
General Fund	$0	($89,800)	($125,200)	($161,500)

The proposal is effective for taxes and aids payable in 2002 and thereafter.

EXPLANATION OF THE BILL

Current Law: M.S. 477A provides for local government aid (LGA) to be paid to cities. The aid equals the sum of a base aid amount and a formula aid amount. The factors of the formula aid amounts for city revenue need are based on pre-1940 housing percentage, commercial industrial percentage, population decline percentage, and city population. For first class cities, each year's aid amount may not increase at a percentage greater than the percentage increase in the sum of aid to all cities. For a city other than a first class city, aid may not exceed the previous year's amount plus 10 percent of the city's net levy for the prior year. The total amount of aid is limited to an appropriation set in M.S. 477A.03. The formula portion of the aid is specified so that it may be adjusted to meet the appropriation, while the base aid amount remains constant.

Proposed Law: Section 2 transfers the amount of the LGA formula growth for taxes payable 2002 from HACA to LGA. Section 3 makes an adjustment in low income housing aid for pay 2004. Section 4 reduces LGA for Coon Rapids in 2009. Section 5 changes the definition of revenue base to include HACA. Section 6 defines revenue base per capita. Section 7 defines average small city per capita revenue base for cities with population of less than 2,500. Section 8 changes the factors and formula for calculating per capita city revenue need. New factors based on heating degree days and single parent percentage are included for cities over 2,500 population. For cities under 2,500 population, the formula is changed based on the previous 4 year average. Section 8 also eliminates the implicit price deflator adjustment. Section 9 defines the single parent percentage based on the latest census. Section 10 defines heating degree days. Section 11 eliminates obsolete language. Section 12 eliminates the grandfathered portion of the current formula and changes distribution limits, so that it is not to exceed

90% of the 2002 revenue base. Section 13 removes obsolete language. Section 14 requires that LGA distributions be increased by the same percentage as the state's projected increase in income and sales taxes. Section 15 repeals old aid base adjustments, base reduction percentage language, and a Coon Rapids provision.

REVENUE ANALYSIS DETAIL

- The proposal was analyzed on a taxes payable 2001 LGA model.
- It was assumed that the average revenue base for cities under 2,500 population was a good proxy for the revised formula provisions. (As written, the language in section 8 for cities of less than 2,500 population is ambiguous.) Heating degree days were allocated to the nearest county.
- The formula revisions for cities over 2,500 population, and increases for state revenue growth result in aid increases after HACA transfer of $91.8 million in pay 2002, $127.9 million in pay 2003, and $165.0 million in pay 2004.
- Because total homestead net taxes decrease, property tax refunds would decrease by $2.0 million in FY 2003, $2.7 million in FY 2004 and $3.5 million in FY 2005.

Number of Taxpayers Affected: most city residents.

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

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