

MINNESOTA • REVENUE

PROPERTY TAX Special Levy for Health Insurance Costs for Counties and Cities

February 25, 2002

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

Department of Revenue
Analysis of S.F. 2921(Betzold)/H.F. 3243 (Bernardy)

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
Effective for taxes payable in 2003 only. (\$443)

EXPLANATION OF THE BILL

Current Law: Current law provides for levy limits for counties and cities of 2,500 population or more for taxes payable in 2002 and 2003. Certain local expenditures are exempted from levy limits.

Proposed Law: Expenditures by counties or cities of 2,500 population or more to pay for projected increase in health insurance premiums for taxes payable 2003 over expenditures in taxes payable 2001 would be exempt from levy limits in pay 2003.

REVENUE ANALYSIS DETAIL

- Information from the Minnesota Department of Economic Security, the U. S. Census, and the League of Minnesota Cities indicates that counties and cities under levy limits have about 55,400 full-time-equivalent employees with an average wage of \$36,100 for calendar year 2000.
- According to information from the League of Minnesota Cities, the employers' share of health insurance premiums is about 12.3 percent of wages. The total health insurance premium cost for county and city governments under levy limits would be about \$245.8 million statewide in 2000.
- According to reports obtained from the League of Minnesota Cities, employer health insurance premiums grew by about 10 percent from 2000 to 2001. Thus, the health premium cost will grow from \$245.8 million in 2000 to \$270.4 million in 2001, \$297.4 million in 2002, and \$327.2 million in 2003. The estimated annual increase from 2001 to 2002 is \$27.0 million, and \$29.8 million from 2002 to 2003.

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- For payable 2002, the levy limit allowed about 6.2 percent levy growth for counties and cities, and it is assumed that the pay 2003 levy limit will allow a similar level of growth. At that rate of growth counties and cities under levy limits are allowed an additional levy of about \$16.8 million for health insurance costs for pay 2002 and an additional levy of \$18.4 million from pay 2002 to 2003, leaving a deficit of \$10.2 million in 2002 and \$11.4 million in 2003.
- Because the proposal uses 2001 as the baseline for the additional special levy for pay 2003, it is assumed that the proposal allows an additional levy equal to the sum of the health insurance levy growth exceeding the levy limit in pay 2002 and 2003, or about \$21.6 million (\$10.2 million plus \$11.4 million).
- Exempting this additional special levy from the levy limit will have the effect of increasing tax burden on all taxpayers, including homeowners.
- The additional cost of homeowner property tax refunds in F.Y. 2004 will be about \$443,000.

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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