Governor's Tax Proposal

April 5, 2002

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

Department of Revenue
Analysis of S.F. 3000 (Pogemiller) **Analysis Revised for Change to Corporate Mail Order Estimates**

	Revenue Gain or (Loss)			
	F.Y. 2002	**F.Y. 2003**	**F.Y. 2004**	**F.Y. 2005**
	(000's)			
State Funds and Accounts				
Change Dedication of County Conservation Fees (7/1/02)	$0	$400	$400	$400
Change in MVST Dedication	40,952	154,616	164,046	163,776
Transfer from Workers Comp Special Compensation Fund	0	0	200,000	0
Cigarette and Tobacco Products Taxes (excise and sales tax impact)				
Cigarettes to 77¢/pack (3/1/02)	$23,000	$91,900	$92,000	$92,100
Tobacco to 49% of Wholesale Price (3/1/02)	$1,500	$6,000	$6,100	$6,200
Individual Income, Estate and Corporate Taxes				
Terminate Reciprocity with Wisconsin (1/1/03)	$0	$30,000	$62,100	$8,200
Deferred Wage Inc. of Nonresidents (1/1/02)	0	1,600	1,700	1,800
Estate Tax (1/1/02)	0	(3,500)	(5,300)	(2,800)
Minimum Fees 50% Increase (1/1/02)	0	24,800	25,500	26,300
Establish Minimum Fee of $50 (1/1/02)	0	5,700	6,100	6,400
Corporate Mail Order Apportionment (1/1/02)	0	3,100	3,500	3,500
Sales and Use Taxes				
Motor Vehicle Repairs (7/1/03)	$0	$0	$134,100	$152,000
Legal Services (Consumers) (7/1/03)	0	0	92,100	108,600
Institutional Meals (7/1/03)	0	0	13,400	15,200
Newspapers, Magazines, Shopper Guides (7/1/03)	0	0	15,100	17,100
School Districts (1/1/03)	0	21,000	47,500	48,000
Interstate Phone Service (7/1/03)	0	0	6,900	8,000

	Revenue Gain or (Loss)			
	F.Y. 2002	**F.Y. 2003**	**F.Y. 2004**	**F.Y. 2005**
	(000's)			
Property Taxes and Local Aids				
Reduce New TIF Grant Appropriation	$91,000	$38,000	$0	$0
Reduce LGA (& Stat. Inflation)	0	62,614	59,130	73,806
Reduce County HACA	0	29,082	58,661	58,661
Reduce Market Value Credit Reimb.	0	38,870	15,529	15,529
Criminal Justice Aid Inflation Repeal	0	0	872	1,679
Family Preserv. Aid Inflation Repeal	0	0	585	1,185
Individual Income Tax Offset			(6,500)	(6,800)
Homeowner PTR Increase			(5,350)	(5,350)
Corp. Franchise Tax Offset			(1,900)	(2,000)
General Fund Total	$156,452	$504,182	$986,273	$791,486
Highway User Tax Dist. Fund				
Gas Tax 5¢ Increase (3/1/02) and Indexed (6/1/03)	$37,937	$155,417	$174,871	$201,563
Change in MVST Dedication	($40,952)	($154,616)	($164,046)	($163,776)
Highway User Tax Dist. Fund Total	$(3,015)	$801	$10,825	$37,787
Special Revenue Fund (gas tax)	$480	$1,930	$2,170	$2,490
Natural Resources Fund (gas tax)	490	1,940	2,180	2,600
MN Future Resources Fund (Cigarette Tax)	($100)	($300)	($300)	($200)
MN Conservation Fund	$0	($400)	($400)	($400)
Workers Comp. Special Compensation Fund	$0	$0	($200,000)	$0

EXPLANATION OF THE BILL

A section-by-section summary is attached.

REVENUE ANALYSIS DETAIL

Cigarette Tax:

- Baseline revenues for this analysis were drawn from the February 2002 forecast for cigarette and tobacco products.
- An elasticity factor of -0.45 was used to account for changes in consumption due to the tax increase.
- Indian tobacco tax refunds were predicted to grow at a proportional rate to the change in cigarette/tobacco revenues resulting from the tax increase.
- The average retail price of cigarettes was predicted to grow at a rate of 5% annually for the baseline.
- The average retail price of cigarettes was predicted to increase 9% initially due to the tax increase. The tobacco products tax was increased to reflect a proportional 9% increase in retail price.

Individual Income Tax:

- Terminate Reciprocity With Wisconsin - The 1995 benchmark study of Minnesota-Wisconsin income tax reciprocity was the basis for the estimates for both the payments from Wisconsin and net income tax revenues after termination of reciprocity. The projected annual payments by Wisconsin to Minnesota follow the current practice and are contained in the February 2002 forecast. Minnesota's net revenue gain from termination of reciprocity was calculated from the information in the 1995 benchmark study and updated for projected income tax receipts and county census information in both states. It was assumed that the net revenues for a tax year would be split into fiscal years 50/50 because the income would be primarily wages subject to withholding.
- Deferred Wage Income of Nonresidents - The estimate is based on a sample of 1997 individual income tax returns of nonresidents and on amended returns filed in response to the Minnesota Supreme Court decision in *Victor C. Benda v. James Girard in His Capacity as Commissioner of Revenue, et al*. Annual growth was assumed to be 5%.

Estate Tax:

- Return information was captured from all Minnesota estate tax returns filed in 1999. It was assumed that the data represented a typical year, and the database was adjusted to reflect the February 2002 forecast under current law. The state tax was determined for returns with gross estate between the proposed filing requirement of $1 million and the current law filing requirement of $700,000 for deaths in 2002 and 2003, $850,000 for 2004, and $950,000 for 2005. The distribution of filing dates in the database was used to allocate the impact by fiscal year.

Corporate Franchise Tax:

- Repeal of Mail Order Apportionment Formula - The revenue estimates were based on data from corporate franchise tax returns received in calendar year 1998. The corporate tax model was modified to estimate the revenue gain from repealing the mail order apportionment formula. Growth in overall corporate tax collections was used to project future revenue gains.
- Minimum Fee Changes - Minimum fee data from partnership, S corporation, and C corporation returns received in calendar year 2000 were used to estimate the increases to the current law minimum fee schedule. Growth in overall inflation was used to project future revenue gains.

Sales Tax:

- Newspapers, Magazines, and Shoppers' Guides - The estimate was based on the most recent economic census of newspaper, periodical, and shopping news publishers. It included single-copy sales and subscriptions for newspapers, subscriptions for magazines and periodicals, and sales of shopping news publications. The estimate for the magazine portion was adjusted for Nexus issues. Annual growth for the three categories was based on average annual growth between 1992 and 1997, with adjustment downward to take the current recession into account. The estimate specifically excluded costs for printing shoppers' guides intended for free distribution.

Sales Tax: (cont.)

- Institutional Meals: Colleges and Detention Facilities - The estimate was based generally on information provided by the head offices of the affected institutions. The proposal would apply to state and local prisons and jails and public and private institutions of higher education. Annual growth was taken from DRI forecasts of the gross domestic product price index for food and beverages plus projections of higher education enrollment and inmate population.
- Legal Services to Consumers - The estimate was based on the economic census and information developed by the Department of Revenue. Total receipts from the practice of law were taken from the census report. This total was multiplied by 51%, the estimated consumer portion of legal services performed. Annual growth was based on the REMI (Regional Economic Models, Inc.) model's projected constant-dollar growth in the professional services sector plus DRI consumer price index growth. Constant-dollar growth was adjusted downward to take the current recession into account.
- Motor Vehicle Repair - The estimate was based on two categories from the economic census: the automotive service sector, and motor vehicle dealers, gasoline stations, and several other businesses classified in the retail sector. The estimate included labor charges for work performed on mechanical and electrical repair and maintenance; body, paint, and interior repair; oil changes; miscellaneous repair and maintenance; and the value of service contracts. Annual growth was taken from the REMI model. Growth was adjusted slightly downward to take the current recession into account. The estimated amount of purchased repair work done to public school vehicles was included in this category.
- Certain Interstate Telephone Service - The estimate for incoming WATS calls was based on data from the Federal Communications Commission, the US Department of Commerce, and a private sector source. The estimate for Minnesota telemarketers was based on Department of Revenue data. Annual growth, originally estimated at 6%, was adjusted downward to take the current recession into account.
- School Districts - The estimate was based on data from the Department of Children, Families, and Learning of public school districts' operating expenditures and capital outlay for the 1999-2000 school year. Annual growth was calculated as the DRI gross domestic product price index minus 1.0% to take into account overall decreases in enrollment.

Gas Tax:

- Five cent increase was calculated based on proportional increase to forecast motor fuels excise tax collections (February 2002 forecast), including alternative fuels and excluding aviation fuels.
- Indexing of rate based on information from DRI for CPI-U projections.
- Allocation of funds is according to current law.
- Adjustment was made for gas tax refund payments provided for by compacts with Indian tribes.

Property Tax:

- Aid reduction calculations for CY 2002 used certified levies for payable 1999, 2000 and 2001, and preliminary levies for pay 2002. Certified pay 2002 aid amounts were used for

HACA and LGA. Market value credit reimbursement aid amounts for pay 2002 for cities and counties were developed from the Department of Revenue property tax model.

- Aid reduction calculations for CY 2003 used estimated 2001 adjusted net tax capacity (ANTC) for cities and counties, consisting of 2001 assessment estimated net tax capacity adjusted for assessment year 2000 sales ratios. Pay 2003 market value reimbursement aid was estimated using a pay 2002 model simulation. Police and fire amortization aids for calendar year 2001 were used to estimate the 2003 aid elimination.

NUMBER OF TAXPAYERS AFFECTED

Governor's 2002 Supplemental Tax Recommendations

Tax Type	Number of Taxpayers: Businesses	Number of Taxpayers: Individuals
Excise Taxes		
Gas Tax 5¢ increase and indexed	800 Distributors	
Cigarettes to 77¢/pack*	65 Distributors	
Tobacco Products to 49% wholesale price	200 Distributors	
Sales and Use Tax		
Newspapers	275	908,000
Magazines	290	727,000
Shopper guides	300	
Institutional meals:		
Colleges	80	261,000
Detention facilities**	79	
Legal services (consumers)	7,400	182,000
Motor vehicle repairs	4,100	2,262,000
Interstate phone service		
Telemarketers	17	
Incoming WATS	Unknown	
School districts	360	
Individual Income Tax		
Repeal reciprocity with Wisconsin		25,000 Minnesotans 50,000 Wisconsin Residents
Deferred wage income (by nonresident)		Few than 100
Corporate Income Tax		
Corporate mail order apportionment	Fewer than 20	
	C Corp. / S Corp. / Part. / Total	
Minimum Fees 50% Increase-All Brackets	28,000 / 26,000 / 5,000 / 59,000	
Establish Minimum/Minimum Fee of $50	26,000 / 39,000 / 26,000 / 91,000	
Estate Tax		Approximately 300

*If floor stocks tax imposed, about 8,500 returns would be filed.
**78 counties and the Minnesota Department of Corrections. Total of 206 facilities.

ADMINISTRATIVE/OPERATIONAL IMPACT

Source: Minnesota Department of Revenue
Tax Research Division

2002 GOVERNOR'S TAX BILL SUMMARY

MINNESOTA Department of Revenue

Appeals & Legal Services Division
(651) 296-1022
Mail Station 2220
600 North Robert Street
St. Paul, MN 55146-2220

Article 1 State Funds and Accounts

Sections 1, 2 and 3. Minnesota Conservation Fund. Amends Minn. Stat. §§ 40A.151, subd. 1, and 40A.152, subdivisions 1 and 3 to change the disposition of the portion of the county conservation fees imposed under Minn. Stat. § 40A.152 that are deposited in the Minnesota conservation fund. Currently, one-half of these fees are forwarded to the state for deposit in the Minnesota conservation fund. With the change, the forwarded fees will be split equally between the conservation fund and the general fund. Additionally, current law requires that if any portion of the locally retained fees are not encumbered within one year from when they were deposited in the respective county's general fund, they must be forwarded to the state for deposit in the conservation fund. The disposition of those amounts is also changed so they will go one-half to the conservation fund and one-half to the general fund. Effective for fiscal year 2003 and thereafter.

Section 4. Sales Tax on Motor Vehicles. Amends Minn. Stat. § 297B.09, subd. 1 to reduce the allocation of tax to the highway user tax distribution fund starting April 1, 2002 when the fuel taxes are increased. Effective for money collected and received after March 31, 2002.

Section 5. Transfers of Funds into the Budget Reserve Account. Effective July 1, 2003, the balance in the tax relief account that was created with the excess balance at the close of fiscal year 2001, and $200 million dollars of the projected balance in the workers compensation special fund, will be transferred to the budget reserve account.

Section 6. Local Government Aid Reform Account. Repeals Minn. Stat. § 16A.1523, to eliminate the local government aid reform account established under the 2001 omnibus tax act. Effective the day following final enactment.

Article 2 Cigarette and Tobacco Products Taxes

Section 1. Cigarette Tax Increase. Amends Minn. Stat. § 297F.05, subd. 1 to increase the cigarette tax from 48 cents per pack to 77 cents per pack. Effective for cigarette stamp purchases occurring after February 28, 2002 and for use and storage of cigarettes acquired by consumers after February 28, 2002.

Section 2. Tobacco Products Tax Increase. Amends Minn. Stat. § 297F.05, subd. 3 to increase the tobacco products tax rate from 35 percent to 49 percent of the wholesale price. Effective for tobacco products brought into the state, or made or manufactured in the state, or for shipments to retailers in this state occurring after February 28, 2002.

[redacted]

Section 3. Tobacco Products Use Tax Increase. Amends Minn. Stat. § 297F.05, subd. 4 to increase the tobacco products use tax rate from 35 percent to 49 percent of the wholesale price. Effective for use or storage of tobacco products acquired by consumers after February 28, 2002.

Section 4. Cigarette Discount Rate. Amends Minn. Stat. § 297F.08, subd. 7 to reduce the cigarette stamp discount rate to licensed distributors. Effective for cigarette stamp purchases occurring after February 28, 2002.

Section 5. Tobacco Products Discount Rate. Amends Minn. Stat. § 297F.09, subd. 2 to reduce the tobacco products discount rate to licensed distributors. Effective for tobacco products brought into the state, or made or manufactured in the state after February 28, 2002.

Article 3 Individual Income Tax, Estate Tax, and Corporate Franchise Tax

Section 1. College Tuition Reciprocity. Amends Minn. Stat. § 136A.08, subd. 3 to remove the requirement that to make tuition reciprocity compensatory payments between Minnesota and Wisconsin there must be personal service income tax reciprocity between Minnesota and Wisconsin since the Wisconsin tuition reciprocity provisions do not contain a similar provision and since Minnesota is contemplating termination of income tax reciprocity with Wisconsin.

Section 2. Requirement to File an Estate Tax Return. Amends Minn. Stat. § 289A.10, subd. 1 to change the requirement to file a Minnesota estate tax return and possibly incur a Minnesota estate tax from one being required to file a federal estate tax return to requiring the filing of a Minnesota estate tax return if the federal **gross** estate is over $1,000,000. The current federal law requirement to file a federal estate tax return is $1,000,000 or more of gross estate for decedents dying in 2002 and 2003, but rises to $1,500,000 for 2004 and 2005, to $2,000,000 for 2006, 2007, and 2008, $3,500,000 for 2009 and 2010, and then back to $1,000,000 for 2011 and thereafter. Effective for estates of decedents dying after December 31, 2001.

Section 3. Income Reciprocity with Wisconsin. Amends Minn. Stat. § 290.081 to remove references to individual income tax reciprocity with Wisconsin in the section of the law allowing the commissioner of revenue the authority to enter into income reciprocity agreements with other states. The commissioner plans to terminate individual income tax reciprocity with Wisconsin starting with tax year 2003.

Minnesota has had an income tax reciprocity agreement with Wisconsin since 1968, under which residents of one state working in the other are required to file tax returns and pay income tax only in their home state. Because reciprocity with Wisconsin results in a significant revenue loss to Minnesota, a reimbursement provision was adopted by both states in 1973, and

Wisconsin makes an annual payment to Minnesota. Currently there are 50,000 Wisconsin residents working in Minnesota and 25,000 Minnesotans working in Wisconsin, with the result that Wisconsin has made annual payments of about $45 million to Minnesota in recent years. However, the differences between the two states in interpretation of the reimbursement formula have resulted in Wisconsin's payment not fully compensating Minnesota for lost state income taxes caused by reciprocity. This issue has been unable to be resolved administratively, and therefore the Governor recommends repeal of the income tax reciprocity agreement with Wisconsin, effective beginning in tax year 2003. Repealing the tax reciprocity agreement means that Wisconsin residents who work in Minnesota will be required to file and pay taxes to Minnesota (and vice versa), as well as in their home state, with a credit for taxes paid to the state where they worked.

Section 4. Increase the Minimum Fee on Corporations and Partnerships. Amends Minn. Stat. § 290.0922, subd. 1 increasing the minimum fees on corporations, "S" corporations and partnerships currently subject to the fee, 50% above their present level. This section was originally enacted in 1990, and the fees have not changed since then. The section also amends Minn. Stat. § 290.0922, imposing a $50 fee on taxpayers with a sum of property, payroll and sales in Minnesota less that $500,000. Effective for tax years beginning after December 31, 2001.

Section 5. Deferred Wage Income of Individuals Who Earn Wages While a Resident but Recognize Income While a Nonresident. Amends Minn. Stat. § 290.17, subd. 2 to remove the provision that allows a taxpayer who earns "wages" while a Minnesota resident but receives the wages in a year the taxpayer was a full-year nonresident to be exempt from Minnesota tax. The definition of wages currently includes normal wages, employee stock option income recognized when the options are exercised and nonqualified deferred salary payments where the payments last for less than ten years. The definition of wages does not include 401 pension distributions, IRA, KEOGH, or government plan distributions, or income from employee stock options which are only recognized when the underlying stock is sold as capital gains income. Effective for wages received in tax years beginning after December 31, 2001.

Section 6. Definition of Taxable Estate. Amends Minn. Stat. § 291.005, subd. 1(2) to clarify how the exemption of Minnesota state and local government pension income from Minnesota estate tax is allowed by Minnesota. Under the current Minnesota system of estate tax, every dollar of Minnesota estate tax paid was allowed as a credit against the federal estate tax. Thus, the public pension exemption was never claimed. Under the proposed Minnesota estate tax, estates will no longer get this dollar-for-dollar credit and the exemption for public pensions will be claimed by estates. The change in this section allows estates that include a public pension to exclude the value of that Minnesota public pension from the Minnesota gross estate for purposes of computing the estate subject to Minnesota tax. Effective for estates of decedents dying after December 31, 2001.

Section 7. Computation of Estate Tax. Amends Minn. Stat. § 291.03, subd. 1 to clarify that if an estate is required to file a Minnesota estate tax return (federal gross estate over $1,000,000), the tax will be computed as if the federal estate tax change made in the Economic Growth and Tax Relief Reconciliation Act of 2001 was not enacted federally or adopted by Minnesota. Under this federal change, the level at which an estate would have a federal estate tax increases from $700,000 net taxable estate to $1,000,000 in 2002 and 2003, from $850,000 to $1,500,000 in 2004, from $950,000 to $1,500,000 in 2005, and from $1,000,000 to $2,500,000 in 2006. Further, the new federal law reduces the credit for state death taxes by 25% for 2002, 50% for 2003, 75% for 2004, and repeals the credit for 2005 through 2010. In effect, Minnesota will impose a Minnesota estate for net federal taxable estates over $700,000 in 2002 and 2003, over $850,000 in 2004, over $950,000 in 2005, and over $1,000,000 in 2006 and thereafter at the pre-2001 federal credit levels. Effective for estates of decedents dying after December 31, 2001.

Section 8. Repealer. (a) Repeals Minn. Stat. § 290.191, subd. 4, the special apportionment formula for businesses that sell tangible personal property and services in response to orders received by mail, telephone, facsimile transmissions, and other electronic media, amongst other qualifications. Effective for tax years beginning after December 31, 2001. (b) Repeals Minn. Stat. § 291.03, subd. 2 which express the legislative intent to only impose the Minnesota estate tax to the extent that the estate receives a federal tax benefit from the state death tax credit which will no longer be true. Effective for estates of decedents dying after December 31, 2001.

Article 4 Sales and Use Taxes

Section 1. Vehicle Repairs and Attorneys Fees. Amends Minn. Stat. § 297A.61, subd. 3 to provide that the sales tax applies to motor vehicle repair services including purchases of extended warranty contracts that cover vehicle repairs. This section also extends the sales tax to legal services that are provided to individual consumers. Effective for sales and purchases made after June 30, 2003.

Section 2. Meals at Residential Facilities. Amends Minn. Stat. § 297A.67, subd. 4 to provide that meals served to inmates or persons residing in correctional, detention or detoxification facilities will not be exempt from the sales tax. Effective for sales and purchases made after June 30, 2003.

Section 3. Meals at Schools. Amends Minn. Stat. 297A.67, subd. 5 to provide that meals served at post-secondary schools will not be exempt from the sales tax. The exemption would continue to apply to meals served at public and private schools for students in grades K-12. Meals served under board contracts at colleges and universities would become subject to the sales tax. Effective for sales and purchases made after June 30, 2003.

Section 4. Publications. Amends Minn. Stat. § 297A.68, subd. 10 to provide that newspapers, magazines and shoppers guides sold at retail would become subject to the sales tax. Currently only magazines sold over the counter are subject to the sales tax. All other publications issued at average intervals of three months or more would remain exempt. Effective for sales and purchases made after June 30, 2003.

Section 5. Exemption for School Purchases. Amends Minn. Stat. § 297A.70, subd. 2 to provide that the sales tax exemption for school districts would be repealed. The sales tax exemption for purchases by post-secondary educational institutions would continue. Effective for sales and purchases made after December 31, 2002, but does not apply to sales and purchases made pursuant to a written agreement signed and enforceable before January 1, 2003.

Section 6. Repealer. Repeals Minn. Stat. § 297A.68, subd. 26 which provided an exemption for WATS calls made from outside Minnesota to numbers within Minnesota at no charge to the caller. This section also repeals the exemption on long distance calls for qualified providers of telemarketing services. Effective for sales and purchases made after June 30, 2003.

Article 5 Petroleum Taxes

Section 1. Gas Tax Increase. Amends Minn. Stat. § 296A.07, subd. 3 to increase the gasoline tax by five cents per gallon and to increase various alternate fuel tax rates by 25 percent. Effective for product received by a licensed distributor after February 28, 2002.

Section 2. Special Fuel Tax Increase. Amends Minn. Stat. § 296A.08, subd. 2 to increase the diesel fuel tax by five cents per gallon and to increase various special fuel tax rates by 25 percent. A technical change to correct a statutory reference is also made. Effective for product received by a licensed distributor, special fuel dealer or bulk purchaser after February 28, 2002 except that the change in (4) is effective the day following final enactment.

Section 3. Annual Adjustment of Tax Rate. Adds a new Minn. Stat. § 296A.081, which indexes the gas and special fuel tax rates to the U. S. consumer price index, provides for annual adjustments each June 1st to the rates, and provides that this determination shall not be considered a "rule." Effective January 1, 2003.

Article 6 Property Taxes and Local Aids

Sections 1, 6, 7 and 9. State Aid Payment Date Changes. Amends Minn. Stat. §§ 273.1398, subd. 6, 477A.0121, subd. 5, 477A.0122, subd. 5, and 477A.015 to change the dates when (1) homestead and agricultural credit aid ("HACA"), (2) county criminal justice aid, (3) family preservation aid, and (4) local government aid are paid. Currently, the annual amount of these state aids for each recipient local unit of government are paid one-half on July 20 and one-half on December 26. The new payment dates will be 25% of the annual entitlement on March 15, 25% on July 20, and 50% on December 15. Effective for aids payable in 2003 and thereafter.

Sections 4 and 11. TIF Grant Appropriations. Amends Minn. Stat. § 469.1799, subd. 3 to eliminate the fiscal year 2002 ($91 million) and 2003 appropriations ($38 million) for TIF grants based on deficits caused by the 2001 property tax changes. Although no grants can be awarded under this law until fiscal year 2004, these appropriations would not have cancelled under current law. Effective the day following final enactment.

Sections 2, 3, 5 and 8. Aid, Credit Reimbursement and Levy Reductions. Enacts the new section Minn. Stat. § 477A.0133 to make numerous aid, credit reimbursement and levy adjustments and reductions for local units of government.

Cities

For 2002, cities will have a growth-based aid reduction and a uniform aid reduction. The growth-based reduction is applied to cities of 1,000 population or greater if the increase in their payable 2002 levy and aids exceeds 4.5%. The reduction is equal to the amount by which their increase exceeds the product of the city's household and inflation growth factor (which cannot be less than 2.95%) times the city's levy and aids for 2001. The uniform aid reduction for cities is equal to 2% of their payable 2002 levy and aids. Aid reductions are applied first to local government aid, then to market value homestead credit reimbursements.

For 2003 and thereafter, the growth-based aid reduction for cities of over 1,000 population is deducted from local government aid, and is equal to the amount of the prior year growth-based aid reduction that was deducted from local government aid, subject to a limit of 6% of adjusted net tax capacity. The uniform aid reduction for all cities is equal to 1.75% of adjusted net tax capacity. This aid reduction is applied first to local government aid, then to market value homestead credit reimbursements. The total amount of city aid reductions is also subject to a limit of 6% of adjusted net tax capacity.

Levy limits for taxes payable in 2003 for the affected cities are not allowed to increase to offset the growth-based aid reductions, although the voters by referendum can allow the city to levy-back for the growth-based aid reduction amount.

Counties

For 2002, all counties will have a growth-based aid reduction and a uniform aid reduction. The growth-based reduction applies if the increase in their payable 2002 levy and aids exceeds 4.5%. This reduction is equal to the amount by which the county's increase exceeds the product of the county's household and inflation factor times the county's levy and aids for 2001. The uniform aid reduction is equal to 1.5% of their payable 2002 levy and aids. Aid reductions are applied first to market value homestead credit reimbursements, then to homestead and agricultural credit aid (HACA).

For 2003 and thereafter, the growth-based aid reduction for counties is deducted from homestead and agricultural credit aid, and is equal to the amount of the prior year growth-based aid reduction that was deducted from market value homestead credit reimbursements, subject to a limit of 5% of adjusted net tax capacity. The uniform aid reduction for counties is equal to 1% of adjusted net tax capacity. The total amount of county aid reductions is also subject to a limit of 5% of adjusted net tax capacity.

Levy limits for taxes payable in 2003 for counties are not allowed to increase to offset the growth-based aid reductions, although the voters by referendum can allow the city to levy-back for the growth-based aid reduction amount.

Towns and Special Taxing Districts

For 2002, towns and special taxing districts will have a uniform aid reduction equal to 2% of their payable 2002 certified levy. The aid reduction is applied solely to market value homestead credit reimbursements.

Effective the day following final enactment.

Section 10. Inflation Adjustment for State Aid Appropriations. Amends Minn. Stat. § 477A.03, subd. 2 to change the statutory standing-appropriation language for criminal justice aid, family preservation aid and local government aid to eliminate the application of the annual inflation adjustment. The inflation adjustment is determined annually based on the national implicit price deflator for government expenditures and investments for a 12-month period ending on March 31 of the prior year, but is limited to being no less than 2.5% nor more than 5% for a year. This inflation adjustment is eliminated beginning with calendar year 2003 for criminal justice aid and family preservation aid, and is eliminated beginning with calendar year 2004 for local government aid. Effective the day following final enactment.

Dated: January 29, 2002