

# MINNESOTA • REVENUE

## PROPERTY TAX LGA Formula Modified

March 26, 2003

Department of Revenue  
Analysis of H.F. 485 (Hilstrom)

	Yes	No
Separate Official Fiscal Note Requested		
<b>Fiscal Impact</b>		
DOR Administrative Costs/Savings		

	<b>Revenue Gain or (Loss)</b>			
	<u>F.Y. 2004</u>	<u>F.Y. 2005</u>	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>
		(000's)		
General Fund	\$0	\$0	\$0	\$0

Effective for aids payable in 2004 and thereafter.

### EXPLANATION OF THE BILL

**Current Law:** The formula aid for a city is equal to the need increase percentage multiplied by the difference between 1) the city's revenue need multiplied by its population, and 2) the city's net tax capacity multiplied by the tax effort rate. The need increase percentage must be the same for all cities, and no city may have a formula aid amount less than zero.

**Proposed Law:** The proposal changes the formula aid for a city with an adjustment to the tax effort rate factor. The formula would equal the need increase percentage multiplied by the difference between 1) the city's revenue need multiplied by its population, and 2) the city's net tax capacity multiplied by 75% of the tax effort rate.

### REVENUE ANALYSIS DETAIL

- There is no state cost associated with this change in the city aid formula because total aid is set to a fixed appropriation level. The proposed reduction in the tax effort rate would redistribute more aid to cities with higher net tax capacity, and less aid to other cities.

**Number of Cities Affected:** 853 cities receive local government aid.

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