

MINNESOTA • REVENUE

PROPERTY TAX City Aid Reductions

April 28, 2003

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

Department of Revenue
Analysis of H.F. 1549 (Lanning)

	<u>Revenue Gain or (Loss)</u>			
	<u>F.Y. 2004</u>	<u>F.Y. 2005</u>	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>
	(000's)			
Market Value Homestead Credit	\$76,900	\$79,400	\$0	\$0
Local Govt. Aid	\$20,000	\$19,900	\$0	\$0
Property Tax Refund	<u>\$0</u>	<u>(\$2,600)</u>	<u>\$0</u>	<u>\$0</u>
General Fund Total	\$96,900	\$96,700	\$0	\$0

Effective the day following final enactment.

EXPLANATION OF THE BILL

The proposal provides for city aid reductions in 2003 and 2004. For the purpose of the proposal, “levy plus aid revenue base” is the sum of the city’s 1) property tax levy for taxes payable in 2003, 2) local government aid, 3) existing low-income housing aid, 4) new construction low-income housing aid, and 5) taconite aid. The aid reduction in 2003 for each city with a population over 1,000 is equal to 5.9% of the city’s “levy plus aid revenue base”. For each city with a population of 1,000 or less, the aid reduction amount in 2003 is equal to 2.5% of the city’s “levy plus aid revenue base”. For 2004, the aid reduction for all cities is 5.9% of the city’s 2003 “levy plus aid revenue base”. The reduction is limited to the sum of the city’s local government aid plus market value homestead credit for each payable year. The reduction is applied first to the market value homestead credit, and then if necessary to the city’s distribution of local government aid.

REVENUE ANALYSIS DETAIL

- Total aid cuts were calculated based on the 2003 and 2004 city percentage cuts. The aid reductions were first applied to the market value credit for cities. Based on the resulting reductions, market value credit payments would decrease by \$76.9 million in FY 2004 and \$79.4 million in FY 2005.

REVENUE ANALYSIS DETAIL (continued)

- Any reductions in aid not covered by the market value credit are taken from local government aid. Payments of local government aid would decrease by \$20 million in FY 2004 and \$19.9 million in FY 2005.
- The estimates take into account the reduction limit which is equal to the sum of the city's local government aid plus market value credit. Due to the limit, about \$2.9 million in cuts would not be realized in FY 2004 and \$3.4 million in cuts would not be realized in FY 2005.
- Property tax refunds will increase due to the increase in net taxes that homesteads will pay. The increase in property tax refunds would be \$2.6 in FY 2005 for taxes payable in 2004.

Number of Taxpayers Affected: Most property owners.

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

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