

# MINNESOTA • REVENUE

## Property Tax Local Government Aid City Aid Distribution

February 26, 2003

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

Department of Revenue  
Analysis of H.F. 172 (Lenczewski)

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

Effective beginning with aids payable in 2004.

### **EXPLANATION OF THE BILL**

**Current Law:** M.S. 477A.03 subdivision 37, defines “base reduction percentage” for purposes of computing local government aid for cities. A base reduction percentage is defined as the difference between the amount available for city aid under section 477A.03 for the year for which aid is being calculated and the amount available for city aid for calendar year 1994, divided by the sum of the city aid base for all cities, multiplied by 100. The base reduction percentage is not currently being used in city aid distributions.

The local government aid distribution is equal to the sum of the city formula aid under subdivision 8, and its city aid base, adjusted to equal a statewide appropriation.

**Proposed Law:** The proposal changes the base reduction percentage to a base reduction ratio. The base reduction ratio is the difference between the amount available for city aid under section 477A.03 for the current year and the amount available for city aid in calendar year 2003, divided by the sum of the city aid base for all cities. This reduction ratio for any year cannot be less than the reduction ratio from the previous year and the ratio must not be more than one.

The proposal also changes the city aid distribution such that for calendar year 2004 and thereafter, each city shall receive an aid distribution equal to the sum of the city formula aid under subdivision 8, and its city aid base multiplied by the difference between one and the base reduction ratio.

## REVENUE ANALYSIS DETAIL

- Although the proposal will have the effect of reducing the city aid base portion of total local government aid and thus increasing the share represented by the formula aid, the total aid will remain the same at the appropriated amount, so there will be no impact on the state general fund.

**Number of Taxpayers Affected:** Taxpayers in all cities could be impacted by this bill. The LGA will be decreased in cities that rely more on their city aid base.

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