

MINNESOTA • REVENUE

PROPERTY TAX Transit Aid, Local Government Aid, Market Value Homestead Credit

April 15, 2004

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

Department of Revenue

Analysis of H.F. 2887 (Marquart) / S.F. 2873 (Langseth) **Analysis Revised for New Information.**

| | <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) | |
| Transfer from Metro Area Transit Fund | \$0 | \$0 | \$29,600 | \$29,600 |
| Transfer from Greater MN Transit Fund | \$0 | \$0 | \$1,500 | \$1,500 |
| Local Government Aid | \$0 | \$0 | (\$45,395) | (\$45,395) |
| Homestead MV Credit | \$0 | \$0 | \$19,000 | \$19,000 |
| Property Tax Refunds | \$0 | \$0 | (\$675) | (\$750) |
| General Fund Total | \$0 | \$0 | \$4,030 | \$3,955 |
| Metro Area Transit Fund | \$0 | \$0 | (\$29,600) | (\$29,600) |
| Greater MN Transit Fund | \$0 | \$0 | (\$1,500) | (\$1,500) |

Effective for aid payable in 2005 and thereafter.

EXPLANATION OF THE BILL

Current Law: During the 2001 legislative session, previous transit levy authority for operating expenses was removed, and state aid replaced property taxes for transit funding. Specified percentages of the motor vehicle sales tax were dedicated to the several transit funds.

For determining the amount of local government aid, the city formula aid 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 sum of the city's net tax capacity multiplied by the tax effort rate, and taconite aids multiplied by the following percentages:

- 0% for aids payable in 2004;
- 25% for aids payable in 2005;
- 50% for aids payable in 2006;
- 75% for aids payable in 2007; and
- 100% for aids payable in 2008 and thereafter.

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: Section 1 alters the dedication of the motor vehicle sales tax (MVST) metropolitan area transit fund from the Metropolitan Council to the metropolitan transit aid established under M.S. 473.4462. Effective July 1, 2005.

Section 2 requires that operating assistance to non-metro municipalities be reduced by the supplemental aid reduction established in the bill. Base amounts would be reduced permanently beginning in FY 2006.

Section 3 cuts homestead market value credit for cities by the amount of its pay 2003 homestead market value aid reduction. The qualifications for these aid cuts are that the population must exceed 1,500, that the municipality had no local government aid (LGA) after cuts in payable year 2003, and that the payable 2003 city aid reductions were less than four percent of the municipality's adjusted net tax capacity (ANTC). No city's reimbursement may be less than zero.

Section 4 transfers aid from the metropolitan transit fund to the general fund in the amount of the supplemental aid reduction, and also transfers aid from the greater Minnesota transit fund to the general fund in the amount of the supplemental aid reduction.

Section 5 allows the Metropolitan Council to make transit grants to municipalities from levy funds.

Section 6 limits the Metropolitan Council transit tax at the amount of the MVST distribution to the metropolitan area transit fund (minus transit aid). The tax rate for the transit district must be 10 times the tax rate of the transit area. Fiscal disparities levies must be subtracted (like other levies).

Section 7 defines transit aid to the Metropolitan Council as the municipal tax (municipal NTC times tax rate) minus supplemental aid reductions. Municipal tax rates for transit to be reduced by the amount of the transit aid they receive. An amount sufficient to pay the aid is appropriated from the metropolitan transit fund to the Metropolitan Council.

Section 8 removes a pay 2005 LGA aid cap that LGA to any city could not exceed the sum of 10% of the city's previous year's net levy and its total aid for the previous year.

Section 9 defines the supplemental aid reduction. For a municipality to qualify for a supplemental aid reduction, the population must exceed 1,500, that the municipality had no local government aid (LGA) in payable year 2003, and that the payable 2003 city aid reduction be less than four percent of the municipality's ANTC. The reduction equals the difference between four percent of the city's ANTC and the payable 2003 aid reductions. The aid reduction may be taken from either the city's operating aid, or metropolitan transit aid.

Section 10 increases the appropriation for city LGA from \$437,052,000 to \$482,447,310 for aids payable in 2005 and thereafter.

REVENUE ANALYSIS DETAIL

- The supplemental aid reductions reduce the metro area transit fund by \$29.6 million in fiscal year 2006 and fiscal 2007. The supplemental aid reductions also reduce the greater Minnesota area transit fund by \$1.5 million in fiscal year 2006 and fiscal 2007.
- Fiscal year 2006 and 2007 property taxes will increase due to restored transit tax authority. Levies to the Metropolitan Council will increase by the amount of the motor vehicle sales tax dedication minus the reduced transit aid. Therefore property tax refunds will increase by \$675,000 in FY 2006 and \$750,000 in FY 2007.
- **The estimates for the market value credit reductions (to cities only) were revised and are about \$19 million in taxes payable 2005 and thereafter.**
- Formula calculations for LGA payable in 2005-2008 are based on 2004 LGA factor data. Actual aid amounts to cities would be slightly different the year they occur because of annual factor data updates. LGA increases by \$45.4 million in pay 2005 and thereafter.

Number of Taxpayers: 853 cities eligible to receive local government aid, and property owners in transit areas.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/taxes/legal_policy