

**PROPERTY TAX
Tax Rate Freeze**

February 24, 2003

Preliminary Analysis

Department of Revenue
Analysis S.F. 330 (Pogemiller)

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

	<u>Revenue Gain or (Loss)</u>			
	<u>F.Y. 2004</u>	<u>F.Y. 2005</u>	<u>F.Y. 2006</u>	<u>FY2007</u>
	(000's)			
State General Levy	\$21,000	\$63,500	\$86,500	\$89,500
Disparity Reduction Credit	0	1,590	2,050	0
Property Tax Refunds	<u>0</u>	<u>2,800</u>	<u>2,800</u>	<u>0</u>
General Fund Total	\$21,000	\$67,890	\$91,350	\$89,500

Effective for taxes payable in 2004 and 2005.

EXPLANATION OF THE BILL

Current Law: Local units of government annually set budgets to be levied after taking into account other sources of revenue such as fees and state and federal aid. Those levy amounts are then spread over the jurisdiction's taxable net tax capacity to calculate the local tax rate. The tax rate can be either larger or smaller than the previous year depending on whether levies or tax capacities are growing faster. Current levy limits expire in payable 2004.

The state general levy is an amount set by statute that increases annually by the rate of inflation. Each year the tax rate is determined by dividing the levy by the base consisting of commercial property and non-commercial seasonal recreational residential property.

Proposed Law:

Sections 1 & 2 set out the title and purpose of the bill. The overall purpose of the bill is to prevent increases in tax rates in payable 2004 and 2005.

Section 3 freezes the state general levy tax rate at the 2003 level.

Sections 4-10, 12, 14, 17, 18, and 30 cover school levies that are allowed to increase over payable 2003 by the amount of tax capacity growth, i.e., the increase equals net tax capacity growth multiplied by the payable 2003 tax rate.

Sections 11, 13, 15, 16, 19, 20, 24-29, 31-38 cover school levies in special circumstances. The first year of new bond levies may not start in 2004 or 2005. Levies that are fixed at previous levels, such as multi-year levies in which a fixed amount is levied each year, are not allowed to change. Some levies are mandated to be the 2003 amounts.

Section 21 clarifies school referendum levy authority in 2004 and 2005.

Section 23 clarifies school installment contract and lease levy authority in 2004 and 2005, including qualifications and exceptions.

Section 39 freezes the benefit ratio for rural service districts.

Section 40 clarifies municipal debt and bonding authority. New debt with initial levies in 2004 and 2005 are generally prohibited, but exceptions are allowed.

Section 41 summarizes the new prohibitions for local taxing districts. Key provision subdivision 6 allows the increase in levy authority for tax capacity growth.

Section 42 freezes local match levies for local jurisdictions.

Section 43 suspends increases in salary and budget appeal authority for county sheriffs and county attorneys.

Section 44 suspends Truth in Taxation requirements for 2004 and 2005.

Section 45 freezes fiscal disparities contributions, distributions, and tax rates at the 2003 level.

Section 46 holds the local tax rate harmless for changes in disparity reduction aid (DRA).

Section 47 freezes police and fire aid association levies.

Section 48 allows township boards to make levy and expenditure adjustments to prevent tax rate increases.

Section 49 clarifies that debt instruments, leases, installment contracts, etc. are not impaired.

REVENUE ANALYSIS DETAIL

- The proposal was simulated using 2002 tax rates and 2003 market values. Fiscal disparities levies were frozen at the lower 2003 level. Levies are assumed to grow at the full amount of net tax capacity growth. Analysis excludes school levy changes.
- Overall, proposed 2003 net taxes decline by \$56 million over current law 2003 net taxes due to the local tax rate freeze, of which \$43 million is for homesteads. Because residential homestead market values are increasing rapidly, the share of the tax reduction falling to residential homesteads is a larger portion of the total.
- Under current law, the state general levy tax rate would decline because the NTC denominator would increase at a faster rate than the levy numerator. By freezing the tax rate, the state general levy would increase by \$42 million in payable 2004 and by \$85 million in 2005. State general levy growth based on inflation would resume in 2006 on the higher base. The impact by year payable was allocated 50/50 to fiscal years.
- Property tax refunds decline by \$2.8 million in 2004 and 2005 due to lower incidence of net taxes on farm and residential homesteads.
- Disparity reduction credit declines by \$1.59 million in 2004 and \$2.05 million in 2005 due to lower levels of tax on commercial and apartment property in the qualifying jurisdictions.

Number of Taxpayers Affected: All property taxpayers.

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