

MINNESOTA • REVENUE

**PROPERTY TAX
Local Government Aid
Eliminate Taconite Offset**

February 11, 2004

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

Department of Revenue
Analysis of S.F. 1581 (Langseth)

	Revenue Gain or (Loss)			
	<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 aid payable in 2004 and thereafter.

EXPLANATION OF THE BILL

Current Law: 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.

The total appropriation for local government aid to cities is limited to \$429,000,000 in 2004 and \$437,052,000 in 2005 and thereafter.

Proposed Law: The proposal eliminates taconite aids from the calculation of the city formula aid. The amount appropriated for local government aid for cities is not changed.

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 elimination of taconite aids from the measure of revenue-raising ability would shift aid to certain cities receiving taconite aid and away from other cities. The aid shifts to taconite cities are estimated to be: \$740,000 in FY 2006, \$1,600,000 in FY 2007, \$2,700,000 in FY 2008, and \$3,840,000 in FY 2009 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.

Number of Taxpayers: 853 cities eligible to receive local government aid.

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

sf1581-1/nrg