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

March 30, 2004

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

Department of Revenue
Analysis of S.F. 2353 (Stumpf) / H.F. 2601 (Dill)

	Revenue Gain or (Loss)			
	F.Y. 2004	F.Y. 2005	F.Y. 2006	F.Y. 2007
	(000's)			
Motor Vehicle Sales Tax Dedication	$0	$0	$19,900	$21,300
Market Value Credit Reduction	$0	$0	$20,000	$20,000
LGA Appropriation Increase	$0	$0	($60,000)	($60,000)
Transfer from Budget Reserve Account	$0	$0	$20,000	$20,000
Property Tax Refunds	$0	$0	($750)	($750)
General Fund Total	$0	$0	($850)	$550
Metro Area Transit Fund	$0	$0	($18,700)	($20,000)
Greater MN Transit Fund	$0	$0	($1,200)	($1,300)

Effective for aid payable in 2005 and thereafter; except section 7, effective pay 2004.

EXPLANATION OF THE BILL

Current Law: Under provisions enacted in 2001, 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. The dedication was modified in 2003.

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 percentages that allocate the motor vehicle sales tax to the various funds. For fiscal years 2006 and 2007, the percentage for the metropolitan transit fund declines from 21.5% to 18.49%, and for following fiscal years, the percentage declines from 20.5% to 17.47%. For fiscal years 2006 and 2007, the percentage for the greater Minnesota transit fund declines from 1.43% to 1.23%, and for following fiscal years, the percentage declines from 1.25% to 1.07%. The reductions to the transit funds result in an increase to the general fund.

Section 2 restores language deleted in the property tax reform of 2001 and allows municipalities to levy for transit operating expenses. A new levy limit restricts levies to the reduction in transit aid lost since fiscal 2004. A market value index factor allows growth in the levy limit. The Department of Revenue must certify levy limits, and municipalities must account for the levies separately from other funds.

Section 3 allows the Metropolitan Council to levy for the expenses of operating transit and paratransit services. Restrictive language on indebtedness is deleted. New language sets levy limits and establishes a market value growth factor.

Section 4 allows the Metropolitan Council to levy in areas within the metro transit area, but outside the transit taxing district for paratransit services. The levy amount is limited to 10% of the sum of the metro transit levies. The levy may be used only for paratransit services or ride sharing programs designed to serve persons within the transit area, but outside the of the transit taxing district.

Section 5 restores language deleted in the property tax reform of 2001 and limits the Metropolitan Council total transit levy. The limit is the previous year's levy multiplied by the market value growth factor, minus any local municipal transit levy. Terms are defined.

Section 6 eliminates the 2000 census as the population source for determining regional center city aid base, and instead uses annual population numbers.

Section 7 of the bill eliminates taconite aids from the calculation of the city formula aid.

Section 8 eliminates the maximum formula aid cap for all cities, and eliminates the minimum formula aid cap for cities with population of 2,500 and greater.

Section 9 increases the local government aid appropriation by $60 million for aids payable in 2005 and thereafter.

Section 10 reduces market value homestead credit reimbursement to cities in FY 2006 and thereafter.

Section 11 transfers $20 million from the budget reserve account to the general fund to increase the local government aid appropriation.

Note: As drafted, the transfer would apparently be made once in FY 2005. It is understood that the intent is to transfer $20 million annually beginning in FY 2006.

REVENUE ANALYSIS DETAIL

- The reductions in the motor vehicle sales tax dedication to the metro area transit fund and the greater Minnesota area transit fund result in corresponding increases to the general fund. Estimates based on the February 2004 forecast.
- Property taxes will increase due to levies to replace the transferred aid of the greater Minnesota transit fund of $2.9 million, and levies to the Metropolitan Council will increase $27 million. Therefore property tax refunds will increase by $750,000 in fiscal years 2006 and 2007.
- Regional center city aid base will be adjusted annually using current population data instead of the 2000 census population to determine the aid base for eligible cities. City aid base for cities outside the metro area with a population of 10,000 and above will increase if annual population increases, or decrease if annual population decreases. A change in city aid base will cause a shift in local government aid to cities receiving an increase and away from cities receiving a decrease in city aid base.
- 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.
- Elimination of the maximum formula aid cap for all cities will shift aid to cities with formula aid above the current allowable maximum. Eliminating the minimum aid cap for large cities would shift aid away from large cities with formula aid below the current allowable minimum to other cities receiving aid.
- Increasing the local government aid appropriation by $60 million would increase aid to cities eligible to receive formula aid.
- The market value credit reduction to cities in 2005 is equal to the 2004 reimbursement reductions, or about $20 million. The 2006 market value credit reductions are equal to the 2004 reimbursement reductions increased by the percentage increase in the appropriation for local government aid. The appropriation percentage increase is assumed to be zero in 2006 and subsequent years, so the 2006 market value credit reduction is $20 million.
- Under the Jobs and Growth Tax Relief Reconciliation Act of 2003, $20 million in federal funds must be transferred from the budget reserve account to the general fund to increase the appropriation for local government aid. This analysis assumes the intent to transfer $20 million annually beginning in FY 2006.

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

sf2353(hf2601)-1.doc/nrg/lm