

MINNESOTA • REVENUE

PROPERTY TAX

Basic Revenue Allowance, Transit Aid & Levy, Local Government Aid

April 5, 2005

Preliminary Analysis

Department of Revenue
Analysis of H.F. 2059 (Davids) / S.F. 1914 (Bakk)

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

Fund Impact

	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>
		(000's)		
School Basic Revenue Aid	\$0	(\$70,800)	(\$82,900)	(\$81,500)
Repeal Transfer to Metro Area Transit Fund	\$0	\$126,000	\$123,000	\$127,000
Repeal Transfer to Greater MN Transit Fund	\$0	\$8,400	\$7,500	\$7,800
Local Government Aid	\$0	(\$60,000)	(\$73,300)	(\$86,700)
Property Tax Refunds*	<u>0</u>	<u>(\$1,500)</u>	<u>(\$3,100)</u>	<u>(\$3,200)</u>
General Fund Total*	\$0	\$2,100	(\$28,800)	(\$36,600)
 Metro Area Transit Fund	 \$0	 (\$126,000)	 (\$123,000)	 (\$127,000)
 Greater MN Transit Fund	 <u>\$0</u>	 <u>(\$8,400)</u>	 <u>(\$7,500)</u>	 <u>(\$7,800)</u>
 Total – All Funds	 \$0	 (\$132,300)	 (\$159,300)	 (\$171,400)

Various effective dates.

* The proposal allows the use of either local property tax revenues or local sales tax revenues to be used for transit funding. The above estimates are based on using the local property tax option. Alternately, the local sales tax option would have no impact on state funds.

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.

EXPLANATION OF THE BILL (continued)

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: The bill increases the school basic revenue formula allowance by \$84 for fiscal year 2007 and following years. Local source percentage limits for four transit funds are increased. The portions of the motor vehicle sales tax dedicated to the Metro Area Transit Fund and the Greater Minnesota Transit Fund are eliminated. A local sales tax option of up to 0.5% for transit funding is provided to the Metropolitan Council. A corresponding property tax option for the Metropolitan Council is also established. The bill allows the Metropolitan Council to make transit grants to municipalities from levy funds. If the property tax option is chosen, local municipalities may also levy for operating and capital transit expenditures, sufficient to maintain the level of service in the municipality in the previous year. Transit tax revenues for the municipality must not exceed 88% of the amount that would be raised by the council's levy, and must be accumulated in a separate fund called the "replacement transit fund". For taxes payable 2006, the council may levy one-half of the amount received by the council and municipalities from the metropolitan area transit fund in fiscal year 2005 minus 2006 levies under specified paragraphs. Pay 2007 levies may not exceed the 2006 amount times 2 minus specified levies and adjusted for inflation. For Pay 2008 and subsequent years, levies must not exceed the previous year's amount adjusted for inflation minus specified levies. The inflation adjustment is defined as the consumer price index for St. Paul-Minneapolis for the most recent 12 month period. The council may levy an amount within the (non-core) transit area equal to 10% of the rate in the (core) transit district for paratransit services or ride sharing programs.

Under the sales and use tax option, the Metropolitan Council may impose a tax of up to 0.5% on sales in the seven county metropolitan area.

EXPLANATION OF THE BILL (continued)

The bill makes changes to the city aid formula and increases the appropriation by \$60 million to \$497,052,000 for aids payable in 2006. Beginning in 2007 and thereafter, the total aids payable are limited to the amount certified to be paid in the previous year, multiplied by the lesser of (1) one plus the percentage increase in the implicit price deflator for state and local government expenditures and investment, or (2) 1.05.

The bill eliminates taconite aids from the calculation of the city formula aid, removes the maximum aid cap for all cities, makes the minimum aid cap the same for all cities, and changes the annual inflation adjustment to the city revenue need factors. The inflation adjustment is calculated from the implicit price deflator for state and local government consumption expenditures and gross investment with the 1st quarter of 2000 as the base.

The bill also includes a few changes to the city aid base portion of the formula. Along with a technical fix, regional center aid base would be calculated annually using current population instead of 2000 Census population.

REVENUE ANALYSIS DETAIL

- School basic revenue aid increases by \$70.8 million in FY 2007, \$82.9 million in FY 2008, and \$81.5 million in FY 2009, according to a Department of Education preliminary estimate.
- MVST transfer estimates are based on the February 2005 Price of Government forecast.
- The local sales tax option has no general fund impact.
- Under the property tax option, property taxes will increase due to restored transit tax authority and increased school basic revenue allowance. Therefore property tax refunds will increase by \$1.5 million in FY 2006, \$3.1 million in FY 2008, and \$3.2 million in FY 2009.
- The first year of state costs due to LGA appropriation increases would be FY 2007. General fund impacts would be \$60 million in FY 2007, \$73.3 million in FY 2008, and \$86.7 million in FY 2009.
- The other proposed adjustments and additions to the city aid formula would have no state costs associated, as the results from these changes would cause only shifts in aid among cities.

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

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