

MINNESOTA • REVENUE

PROPERTY TAX

Metropolitan Area Transit Levy

MOTOR VEHICLE SALES TAX

Disposition Change

May 1, 2006

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue

Analysis of H.F. 4134 (Vandever), Tax Provisions Only

	Fund Impact			
	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>
		(000's)		
Property Tax Refunds, General Fund	\$0	\$0	(\$2,100)	(\$4,200)
If Constitutional Amendment Fails,				
Motor Vehicle Sales Tax				
Trunk Highway Fund	\$0	\$0	\$121,300	\$126,390
Metropolitan Area Transit Fund	\$0	\$0	(\$114,330)	(\$119,130)
Greater Minnesota Transit Fund	\$0	\$0	(\$6,970)	(\$7,260)

Transit levy provisions effective beginning with taxes payable in 2007

Motor vehicle sales tax changes effective July 1, 2007

EXPLANATION OF THE BILL

Transit Levies

During the 2001 legislative session, previous transit levy authority for operating expenses was removed, and state aid replaced property taxes for transit funding. The bill reinstates metropolitan and local transit levy authority. The bill allows the Metropolitan Council to make transit grants to municipalities from levy funds. 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.

For taxes payable 2007, the council may levy one-half of the amount received by the council and municipalities from the metropolitan area transit fund in fiscal year 2006 multiplied by one plus the implicit price deflator. Pay 2008 levies may not exceed the 2007 transit fund amount multiplied by one plus the implicit price deflator. For Pay 2009 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 implicit price deflator for government consumption expenditures and gross investment for state and local governments. 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.

EXPLANATION OF THE BILL (cont.)

Motor Vehicle Sales Tax

Under current law, a constitutional amendment regarding the motor vehicle sales tax will be voted on at the 2006 general election. The amendment provides a phased-in change so that after June 30, 2011 (fiscal year 2012), all of the revenue would be dedicated not less than 40% for public transit assistance and not more than 60% for highway purposes.

The bill would change the proposed constitutional amendment. The phased-in schedule would not be changed, but, of the revenue from the motor vehicle sales tax allocated for transportation funding, 60% would go to the Highway User Tax Distribution Fund and 40% to the Trunk Highway Fund. Therefore, beginning in fiscal year 2012, all of the revenue from the motor vehicle sales tax would be dedicated to highway purposes.

The bill also changes the disposition of the motor vehicle sales tax if the constitutional amendment fails.

Current law allocates the tax as follows:

July 1, 2007, and after	32.0% - Highway User Tax Distribution Fund
	20.5% - Metropolitan Area Transit Fund
	1.25% - Greater Minnesota Transit Fund
	46.25% - General Fund

If the proposed constitutional amendment fails at the ballot, the bill changes the tax disposition beginning in fiscal year 2008. This allocation would remain in effect:

July 1, 2007, and after	32.00% - Highway User Tax Distribution Fund
	21.75% - Trunk Highway Fund
	46.25% - General Fund

If the constitutional amendment is adopted, the bill allocates the revenue as follows:

July 1, 2007, to June 30, 2008	38.25% - Highway User Tax Distribution Fund
	25.50% - Trunk Highway Fund
	36.25% - General Fund
July 1, 2008, to June 30, 2009	44.25% - Highway User Tax Distribution Fund
	29.50% - Trunk Highway Fund
	26.25% - General Fund

EXPLANATION OF THE BILL (cont.)

July 1, 2009, to June 30, 2010:	50.25% - Highway User Tax Distribution Fund 33.50% - Trunk Highway Fund 16.25% - General Fund
July 1, 2010, to June 30, 2011:	56.25% - Highway User Tax Distribution Fund 37.50% - Trunk Highway Fund 6.25% - General Fund
July 1, 2011, and after:	60.00% - Highway User Tax Distribution Fund 40.00% - Trunk Highway Fund

REVENUE ANALYSIS DETAIL

Transit Levies

- A Metropolitan Council estimate of the maximum combined levy for payable 2007 is estimated to be \$69.2 million, and a maximum combined levy of \$136 million for payable 2008.
- Property taxes will increase due to restored transit tax authority. Therefore, property tax refunds will increase by \$2.1 million in FY 2008, and \$4.2 million in FY 2009.

Motor Vehicle Sales Tax

- If the constitutional amendment fails, the revenue estimates show the impact of the proposed change. The estimates are based on the February 2006 state revenue forecast.
- The constitutional amendment on disposition of the tax will be on the ballot in November 2006 under current law. The bill's language does not change the general fund impact or the total amount available for transportation funding, although it does provide that all the money for transportation be used for highway purposes.

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