

MINNESOTA • REVENUE

PROPERTY TAX Local Government Aid - Formula Modification

February 10, 2005

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

Department of Revenue
Analysis of H.F. 835 (Cornish)/ S.F. 1312 (Ruud)

	Fund Impact			
	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>
		(000's)		
General Fund	\$0	\$0	\$0	\$0

Effective beginning with aids payable in 2006.

EXPLANATION OF THE BILL

For determining local government aid, the bill creates a third revenue need formula for cities with a current population of 2,500 or more and a population in one of the most recently available five years that was less than 2,500. Current law provides one revenue need formula for cities with population of 2,500 or more and another revenue need formula for cities less than 2,500. The new revenue need calculation creates a transition factor to prorate the application of the current law formulas. The transition factor is equal to 0.2 multiplied by the number of years that the city's population estimate has been 2,500 or more. The new revenue need formula for eligible cities is equal to the sum of:

- (1) the transition factor multiplied by the revenue need formula for cities with population of 2,500 or more, plus
- (2) the difference between one and the transition factor multiplied by the revenue need formula for cities with population less than 2,500.

For aids payable in 2006 to 2008, this provision applies only to cities with a 2002 population of less than 2,500. It applies to any city for aids payable in 2009 and thereafter.

REVENUE ANALYSIS DETAIL

- There is no state cost associated with this change to the city revenue need formula because total aid is set to a fixed appropriation level. A change in the revenue need factor affects the distribution of aid among cities.
- There are four cities with a 2002 population less than 2,500 and a 2003 population of 2,500 or more: Lake Crystal, Wells, Rush City, and Cohasset.

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