

MINNESOTA • REVENUE

LOCAL GOVERNMENT AID Eliminate Need Increase Percentage and Appropriation Limits

April 13, 2005

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

Department of Revenue
Analysis of H.F. 2033 (Ellison) / S.F. 2056 (Higgins)

	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	(\$86,200)	(\$89,300)	(\$79,500)

Effective for aids payable in 2006 and thereafter.

EXPLANATION OF THE BILL

Current Law: For purposes of calculating local government aid, the formula aid for a city 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, plus taconite aid. No city may have a formula aid less than zero.

The need increase percentage must be the same for all cities and must be calculated by the Department of Revenue so that the total aid equals the total appropriation.

The total aid for any city shall not exceed the sum of (1) 10% of the city's net levy for the tax year prior to the aid distribution plus (2) its total aid in the previous year.

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

Proposed Law: The bill eliminates the need increase percentage from the calculation of city formula aid. The maximum aid for each city and appropriation limits are also eliminated.

Beginning with aids payable in 2006, the city must use aid in excess of the amount it received for aids payable in 2005 to increase spending on public safety initiatives and police personnel above the level funded by the city in CY 2006.

REVENUE ANALYSIS DETAIL

- Eliminating the need increase percentage, the maximum aid for each city, and the appropriation limits would increase local government aid to certain cities.
- The first year of impact to the general fund would be FY 2007, in which 593 cities would receive a total aid increase of approximately \$86.2 million compared to current law. Projections are based on preliminary 2006 local government aid factor data.
- Local government aid to cities is estimated to increase by \$89.3 million in FY 2008 and \$79.5 million in FY 2009 compared to current law. These estimates are based on preliminary 2006 local government aid factor data, with annual growth adjustments for population, city levies, and city adjusted net tax capacity.

Number of Taxpayers: 853 cities eligible to receive local government aid, with 593 cities estimated to receive increased aid beginning in FY 2007.

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