

MINNESOTA • REVENUE

PROPERTY TAX Basic Revenue Allowance, Transit Aid, Local Government Aid

April 13, 2005

Preliminary Analysis

Department of Revenue
Analysis of S.F. 1914 (Bakk), **As Amended (SCS1914A-1)**

	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	\$400	(\$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>(\$23)</u>	<u>(\$18)</u>	<u>(\$13)</u>
General Fund Total	\$400	\$3,577	(\$25,718)	(\$33,413)
 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	 \$400	 (\$130,823)	 (\$156,218)	 (\$168,213)

Various effective dates.

EXPLANATION OF THE BILL

Current Law: Specified percentages of the motor vehicle sales tax are dedicated to the several transit funds.

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.

EXPLANATION OF THE BILL (continued)

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 (MVST) dedicated to the Metropolitan Area Transit Fund and the Greater Minnesota Transit Fund are eliminated. The portion of the revenues dedicated to the Metropolitan Area Transit Fund under current law is 21.5% for FY 2007 and 20.5% for FY 2008 and thereafter. The portion dedicated to the Greater Minnesota Transit Fund is 1.43% for FY 2007 and 1.25% for FY 2008 and thereafter.

The Metropolitan Council may impose a sales and use tax of up to 0.5% on sales in the seven-county metropolitan area. The revenues from the sales tax would be used to fund metropolitan area transit services and to pay for acquisition of buses, highway shoulder improvements for buses, and other transit-related capital and operating expenses.

As amended, the bill does not include the authority to levy a property tax to fund transit operations which was allowed as an alternative to the sales tax in the original bill.

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

- The school basic revenue allowance includes a state aid component and a local property tax levy component. School basic revenue aid decreases by \$400,000 in FY 2006, and 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.
- Property taxes will increase due to the increased school basic revenue allowance. Therefore property tax refunds will increase by \$23,000 in FY 2006, \$18,000 in FY 2008, and \$13,000 in FY 2009.
- MVST transfer estimates are based on the February 2005 Price of Government forecast.
- A local sales tax would have no state general fund impact.
- 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; individuals and businesses making purchases subject to sales tax in the seven-county metropolitan area.

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