

MINNESOTA • REVENUE

PROPERTY TAX Local Government Aid – Inflation Adjustment

April 13, 2006

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of H.F. 3734 (Peterson, S.) / S.F. 3756 (Rest)

	<u>Fund Impact</u>			
	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>
General Fund	\$0	\$0	(\$10,000)	(\$10,000)

Effective beginning with aids payable in 2007.

EXPLANATION OF THE BILL

Current Law: The city revenue need for a city is multiplied by the ratio of the annual implicit price deflator for state and local government for the most recently available year to the 2003 implicit price deflator.

The total appropriation for local government aid to cities is limited to \$485,052,000 in 2006 and thereafter.

Proposed Law: The bill would change the base year of the implicit price deflator ratio to 2000 and the appropriation for local government aid is increased to \$495,052,000 in 2007 and thereafter.

For 2007 only, the aid for a city could not be less than the aid it would have received if the appropriation and implicit price deflator ratio had not changed.

REVENUE ANALYSIS DETAIL

- Increasing the appropriation limit would increase costs to the state general fund by \$10 million annually.
- There is no state cost associated with the change to the implicit price deflator ratio in 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.

Number of Taxpayers: 853 cities are eligible to receive local government aid.

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