

MINNESOTA • REVENUE

PROPERTY TAX Local Levy Freeze

January 19, 2005

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

Department of Revenue
Analysis of S.F. 318 (Pogemiller), **As Proposed to be Amended**

	Fund Impact			
	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>
		(000's)		
Reimbursements to Non-School Gov't	(\$80,100)	\$0	\$0	\$0
Reimbursements to Schools	(\$16,900)	\$0	\$0	\$0
Targeting Refunds	\$0	\$8,500	\$9,930	\$19,280
Property Tax Refunds	<u>\$0</u>	<u>\$15,000</u>	<u>\$15,000</u>	<u>\$15,000</u>
General Fund Total	(\$97,000)	\$23,500	\$24,930	\$34,280

Effective the day following final enactment.

EXPLANATION OF THE BILL

Local units of government annually set budgets which determine the amount of property tax to be levied after taking into account other sources of revenue such as fees and state and federal aid. Those levy amounts are then spread over the jurisdiction's taxable net tax capacity to calculate the local tax rate. The tax rate can be either larger or smaller than the previous year depending on whether levies or tax capacities are growing faster. There are currently no levy limits.

The bill would freeze levies for local units of government at their payable 2005 levels. Exceptions to allow levy increases would be made for pre-existing debt obligations. No new debt obligations after May 31, 2005, would be allowed. Fiscal disparities distribution levies would be frozen. Truth-in-taxation hearings would be suspended. New fees or increases in fees would be prohibited.

The bill would also provide one-time a reimbursement to cities, counties, and school districts. The reimbursements would be paid on August 1, 2005. Cities are eligible for 20% of the sum of the amounts of local government aid (LGA) in each of 2004 and 2005 that is less than the certified 2003 LGA. City reimbursements may not exceed the sum of the amounts by which the city's levies for taxes payable in each of 2004 and 2005 exceeded its levy for taxes payable in 2003. **As proposed to be amended**, counties are eligible for 20% of the sum of the amounts of county program aid in each of 2004 and 2005 that is less than certified 2003 county aids. The reimbursement also may not exceed the sum of the amounts by which the county's levies for taxes payable in each of 2004 and 2005 exceeded its levy for taxes payable 2003. School districts are reimbursed for authorized FY 2004 and FY 2005 fee growth at 50% of the increase over FY 2003.

The levy freeze for local governments would end when stipulated conditions in the last section for each governmental type are met.

REVENUE ANALYSIS DETAIL

- The proposal was simulated using payable 2004 levies and 2005 market values. Fiscal disparities distribution levies were frozen.
- Estimates assume that the conditions for termination would not be met during the forecast period.
- Overall, proposed 2005 net taxes decline by \$397 million over current law 2005 net taxes due to the local levy freeze, of which \$248 million is allocated to homesteads.
- Property tax refunds decline by \$15 million each year due to lower incidence of net taxes on farm and residential homesteads.
- With few homestead tax increases exceeding 12% since levies are frozen and tax rates decline, it is assumed that there would be a significant drop in targeting refund payments. Savings to the general fund would be \$8.5 million in FY 2007, \$9.93 million in FY 2008, and \$19.28 million in FY 2009
- Based on aid reductions amounts for cities and counties in 2004 and 2005, FY 2006 reimbursements would equal \$50.7 million to cities and \$29.4 million to counties.
- School district fee aid would be \$4.8 million for half the increase for FY 2004, and an estimated \$12.1 million for half the increase for FY 2005 over FY 2003.

Number of Taxpayers Affected: All property taxpayers.

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