

MINNESOTA • REVENUE

PROPERTY TAX

Local Government Aid Formula

March 15, 2007

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue

Analysis of H.F. 1933 (Marquart) As Proposed to be Amended

	Fund Impact			
	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>	<u>F.Y. 2010</u>	<u>F.Y. 2011</u>
		(000's)		
General Fund	\$0	(\$6,800)	(\$6,800)	(\$6,800)

Effective for aids payable in 2008 and thereafter.

EXPLANATION OF THE BILL

Current Law: For the purpose of calculating local government aid, the revenue need for a city with population less than 2,500 is the sum of:

- (1) 2.387 times the pre-1940 housing percentage; plus
- (2) 2.67591 time the commercial industrial percentage; plus
- (3) 3.16042 times the population decline percentage; plus
- (4) 1.206 times the transformed population; minus
- (5) 62.772

Proposed Law: The bill would modify the revenue need formula for cities with a population less than 2,500. The proposed formula would be the sum of:

- (1) 300; plus
- (2) 0.31 times the difference between the city's population and 100.

The revenue need for a city with a population of less than 2,500 may not exceed 500. The minimum aid cap for aids payable in 2008 only would be the amount of aid the city would have received in 2008 had the formula change not been enacted.

As proposed to be amended, the bill would increase the appropriation for local government aid by \$6.8 million for aids payable in 2008 and thereafter.

REVENUE ANALYSIS DETAIL

- The increased city aid appropriation will increase state costs by \$6.8 million beginning in CY 2008.
- Based on 2005 population, there are 633 cities with a population less than 2,500.

REVENUE ANALYSIS DETAIL (continued)

- The change in the revenue need formula would shift aid to cities benefiting from the proposed formula and away from other cities receiving local government aid. The increased appropriation is estimated to eliminate the decreases in aid due to shifting.

Number of Taxpayers: Of the 854 cities eligible to receive local government aid, 633 cities have a population less than 2,500 and would be directly affected by the change.

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

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