MINNESOTA · REVENUE

PROPERTY TAX
Local Government Aid –
Formula Modifications

February 28, 2007

	Yes	No
DOR Administrative Costs/Savings		X

Preliminary Analysis

Department of Revenue
Analysis of S.F. 1046 (Moua)

	Fund Impact			
	F.Y. 2008	**F.Y. 2009**	**F.Y. 2010**	**F.Y. 2011**
		(000's)		
General Fund (Changes Not Specified)	$0	- - To be determined - -		

Effective for aids payable in 2008 and thereafter.

EXPLANATION OF THE BILL

The bill makes a number of modifications to the city local government aid formula and also changes the appropriation by an unspecified amount.

A city aid base would be created for each city in the seven-county metropolitan area equal to (i) its current population multiplied by the sum of its rental housing factor and its 1940-1969 housing factor; minus the product of (ii) the tax effort rate, (iii) the difference between its city net tax capacity per capita and the average metropolitan city net tax capacity per capita, and (iv) its population. The aid base would be capped at an unspecified amount. The rental housing factor is based on its percentage of total occupied housing units that are rental housing units. The 1940-1969 housing factor is based on the percentage of total housing built between 1940 and 1969.

The bill would also modify the calculation of city aid base for cities with population of 10,000 or more and located outside the seven-county metropolitan area by using the current year city population instead of the 2000 census population and changing the maximum allowable amount from $2.5 million to an unspecified amount. The maximum aid a city may receive is increased by an equal amount the first year in which a city receives the aid base increase.

Other modifications include eliminating taconite aids from the city formula aid calculation, changing the base year of the implicit price deflator ratio used to adjust revenue need for inflation from 2003 to 2001, and changing the maximum aid cap for cities in 2008 by adjusting the percentage of net levy increase by an unspecified amount. The percentage of net levy increase would revert back to the current law amount of 10% for aids payable in 2009 and thereafter.

The total appropriation would be changed to an unspecified amount for aids payable in 2008. For aids payable in 2009 and thereafter, the appropriation amount would be adjusted annually for city population growth and inflation. The inflation adjustment applied to the amount certified in the previous year is equal to the annual growth of the implicit price deflator for state and local government purchases of goods and services. The inflation adjustment would be a minimum of 2.5% and a maximum of 5.0%.

REVENUE ANALYSIS DETAIL

- The appropriation amount in the bill is not specified. Modifying the appropriation for local government aid would impact state general fund costs beginning in fiscal year 2009 and thereafter. The annual city population growth and inflation adjustments would increase state costs beginning in fiscal year 2010 and thereafter.
- There is no state cost associated with all other formula modifications because total aid would be set to a fixed appropriation level each year.
- All other formula modifications would shift aid to certain cities impacted by the changes and away from other cities receiving local government aid.

Number of Taxpayers: 854 cities eligible to receive local government aid.

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

sf1046_1/nrg