MINNESOTA · REVENUE

**PROPERTY TAX**
**Property Tax and Aids to Local Governments**

March 9, 2007

| | Yes | No |
|---|---|---|
| **DOR Administrative Costs/Savings** | | X |

Department of Revenue
Analysis of S.F. 1227 (Skogen) / H.F. 1518 (Brown)

| | Fund Impact | | | |
|---|---|---|---|---|
| | **F.Y. 2008** | **F.Y. 2009** | **F.Y. 2010** | **F.Y. 2011** |
| | | (000's) | | |
| *Provisions with Changes Specified in the Bill* | | | | |
| Local Government Aid | $0 | ($125,000) | ($140,900) | ($156,600) |
| County Program Aid | $0 | ($24,867) | ($30,900) | ($36,800) |
| General Fund Subtotal | $0 | ($149,867) | ($171,800) | ($193,400) |
| | | | | |
| *Provisions with Changes Not Specified* | | | | |
| School Aid | $0 | - - To be determined - - | | |

Effective for aids payable in 2008 and thereafter.
Effective for taxes payable in 2008 and thereafter.

**EXPLANATION OF THE BILL**

*Aids to Local Governments*
For aids payable in 2006 and thereafter, the total local government aid paid to cities is limited to $485,052,000, and the total county program aid paid is limited to $205,632,923.

The bill changes the appropriation amounts for local government aid and county program aid. The new appropriation amounts are $610,052,000 for local government aid and $230,500,000 total county program aid. For aids payable in 2009 and thereafter, the appropriation amounts for local government aid and county program aid would be adjusted annually for 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, with a minimum of 2.5% and a maximum of 5.0%.

The bill makes numerous modifications to the city local government aid formula. A city supplemental aid is created, which would be equal to the difference between (1) the average city net tax capacity per capita multiplied by the tax effort rate, and multiplied by the city's population; and (2) the product of its net tax capacity multiplied by the tax effort rate, plus its aid base and formula aid. No city's supplemental aid may be less than zero.

The need increase percentage would be limited to 100% for calculating aid distributions. If the need increase percentage is 100%, then the tax effort rate would be reduced until total aid is equal to the appropriation limit.

**EXPLANATION OF THE BILL (continued)**

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. 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 2000, and changing the maximum aid cap for cities in 2008 by adjusting the percentage of net levy increase to 35%. The percentage of net levy increase would revert back to the current law amount of 10% for aids payable in 2009 and thereafter.

*School Aids*
School debt service levy factors are changed. The net tax capacity and referendum tax bases are adjusted for marginal cost pupil units. School operating capital levy and referendum levy parameters are changed. The details of the changes are left blank in the bill.

**REVENUE ANALYSIS DETAIL**

**Note:** Some of the parameters in the bill are blank, so the total general fund impact is unknown. The analysis does not account for all the interactions of the proposed changes.

*Local Government Aid to Cities*
- Increasing the appropriation for local government aid would impact state general fund costs beginning in fiscal year 2009 and thereafter. The annual inflation adjustment 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.

*County Program Aid*
- Increasing the appropriation for county program aid would impact state general fund costs beginning in fiscal year 2009 and thereafter. The annual inflation adjustment would increase state costs beginning in fiscal year 2010 and thereafter.

**Number of Taxpayers:** All property taxpayers.

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