

MINNESOTA • REVENUE

PROPERTY TAX

Local Government Aid – City Jobs Base and Formula Modifications

March 5, 2008

Department of Revenue
Analysis of H.F. 3234 (Skoe) / H.F. 3756 (Marquart)

	Yes	No
DOR Administrative Costs/Savings		X

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	\$0	(\$90,000)	(\$104,400)

Effective for aids payable in 2009 and thereafter.

EXPLANATION OF THE BILL

The bill makes a number of modifications to the city local government aid formula and also increases the appropriation by \$90 million.

A city jobs base would be created for cities with a population greater than or equal to 5,000. The city jobs base would be calculated as follows:

- for cities with population $\geq 10,000$ and receiving disparity reduction credit: city jobs base = \$75 x jobs per capita, x population;
- all other cities with population $\geq 5,000$: city jobs base = \$55 x jobs per capita, x population;
- cities with population $< 5,000$: city jobs base = \$0.

A city's jobs base would be increased by \$100,000 if the city is outside the metropolitan area and has a population between 15,000 and 30,000. A city's jobs base would be increased by \$350,000 if the city is outside the metropolitan area and has a population greater than 30,000. A city's jobs base shall not exceed \$12 million.

The bill also provides that 2009 city aid amounts would be based on formula factors used to calculate 2008 aid distributions. The minimum revenue need for a city with population greater than or equal to 2,500, before inflation adjustment, would be 290. The 2009 aid amount for each city would be used to calculate future year aid distribution amounts, adjusted for inflation.

Other modifications include eliminating taconite aids from the city formula aid calculation, increasing the small city aid base from \$6 per capita to \$12 per capita and including it in the formula aid calculation, eliminating the regional center aid base, and changing the maximum aid cap for cities in 2008 by adjusting the percentage of net levy increase to 75%.

The total appropriation would be increased to \$575,052,000 for aids payable in 2009. For aids payable in 2010 and thereafter, each city's previous year certified aid distribution amount would be adjusted for inflation, increasing the appropriation annually. 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

- Increasing the appropriation for local government aid by \$90 million would impact state general fund costs beginning in fiscal year 2010 and thereafter. The annual inflation adjustments would increase state costs beginning in fiscal year 2011 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
Property Tax Division – Research Unit
http://www.taxes.state.mn.us/taxes/legal_policy

sf3234(hf3756)_pt_1/nrg