

Agenda #1

Senator Pogemiller introduced--

S.F. No. 318: Referred to the Committee on Taxes.

1 A bill for an act

2 relating to taxation; prohibiting increases in
3 property tax rates for taxes payable in 2006 and
4 certain subsequent years; prohibiting increases in
5 local government and state fees; providing
6 reimbursement to local governments for certain
7 property tax and fee increases; appropriating money.

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

9 Section 1. [CITATION.]

10 This act may be cited as the "Truth and Fairness in
11 Taxation Act" (TAFTA) or the "State/Local Fiscal Relations:
12 Truth in Taxation Act."

13 Sec. 2. [STATEMENT OF PURPOSE.]

14 The legislature finds that the state of Minnesota is
15 continuing to experience a persistent budget deficit and that
16 reductions in state spending have resulted in increased burdens
17 on school districts, counties, cities, and other units of local
18 government. In order to recognize the implications of
19 addressing the state budget deficit without increasing tax
20 rates, and to maintain stability in state and local fiscal
21 relations, the purpose of this act is to prevent property tax
22 rate increases and to illuminate the impact of reductions in
23 revenue to school districts, counties, cities, and other units
24 of local government.

25 Sec. 3. [BENEFIT RATIO FOR RURAL SERVICE DISTRICTS.]

26 Notwithstanding Minnesota Statutes, section 272.67,

1 subdivision 6, the benefit ratio used for apportioning levies to
2 a rural service district for taxes payable in 2006 and any
3 subsequent year prior to the freeze termination year must not be
4 greater than that in effect for taxes payable in 2005.

5 Sec. 4. [PROHIBITION AGAINST INCURRING NEW DEBT.]

6 Subdivision 1. [ACTIONS PROHIBITED.] After May 31, 2005,
7 no municipality as defined in Minnesota Statutes, section
8 475.51, or any special taxing district as defined in Minnesota
9 Statutes, section 275.066, may sell obligations, certificates of
10 indebtedness, or capital notes under Minnesota Statutes, section
11 412.301, chapter 475, or any other law authorizing obligations,
12 certificates of indebtedness, capital notes, or other debt
13 instruments, or enter into installment purchase contracts or
14 lease purchase agreements under Minnesota Statutes, section
15 465.71, or any other law authorizing installment purchase
16 contracts or lease purchase agreements, if issuing those debt
17 instruments or entering into those contracts would require a
18 levy first becoming payable in 2006 or any subsequent year prior
19 to the freeze termination year.

20 Subd. 2. [EXCEPTIONS.] This prohibition does not apply to:

- 21 (1) refunding bonds sold to refund bonds originally sold
22 before June 1, 2005;
23 (2) obligations for which the amount of the levy first
24 becoming due in 2006 would not exceed the amount by which the
25 municipality's total debt service levy for taxes payable in 2006
26 prior to issuance of those obligations is less than the
27 municipality's total debt service levy for taxes payable in
28 2005; or
29 (3) obligations with respect to which the municipality
30 makes a finding at the time of the issuance of the obligations
31 that no levy will be required for taxes payable in 2006 or any
32 subsequent year prior to the freeze termination year or to pay
33 the debt service on the obligations because sufficient funds are
34 available from nonproperty tax sources to pay the debt service.

35 As used in clauses (2) and (3), "obligations" includes
36 certificates of indebtedness, capital notes, or other debt

1 instruments or installment purchase contracts or lease purchase
2 agreements.

3 Subd. 3. [DATE WHEN BONDS ARE DEEMED SOLD.] For purposes
4 of this section, bonds will be deemed to have been sold before
5 June 1, 2005, if:

6 (1) an agreement has been entered into between the
7 municipality and a purchaser or underwriter for the sale of the
8 bonds by that date;

9 (2) the issuing municipality is a party to a contract or
10 letter of understanding entered into before June 1, 2005, with
11 the federal government or the state government that requires the
12 municipality to pay for a project, and the project will be
13 funded with the proceeds of the bonds; or

14 (3) the proceeds of the bonds will be used to fund a
15 project or acquisition with respect to which the municipality
16 has entered into a contract with a builder or supplier before
17 June 1, 2005.

18 Sec. 5. [LEVY LIMITATION FOR TAXES PAYABLE IN 2006 AND
19 SUBSEQUENT YEARS.]

20 Subdivision 1. [PROPOSED LEVY.] Notwithstanding any other
21 law to the contrary, for purposes of the certification required
22 by Minnesota Statutes, section 275.065, subdivision 1, in 2005
23 and any subsequent year prior to the freeze termination year, no
24 taxing authority shall certify to the county auditor a proposed
25 property tax levy or, in the case of a township, a final
26 property tax levy, greater than the levy certified to the county
27 auditor pursuant to Minnesota Statutes, section 275.07,
28 subdivision 1, in the prior year, except as provided in this
29 section.

30 Subd. 2. [FINAL LEVY.] Notwithstanding any other law to
31 the contrary, for purposes of the certification required by
32 Minnesota Statutes, section 275.07, subdivision 1, in 2005 and
33 any subsequent year prior to the freeze termination year, no
34 taxing authority shall certify to the county auditor a property
35 tax levy greater than the amount certified to the county auditor
36 pursuant to Minnesota Statutes, section 275.07, subdivision 1,

1 in the prior year, except as provided in this section.

2 Subd. 3. [DEBT SERVICE EXCEPTION.] If a levy for taxes
3 payable in 2006 or any subsequent year prior to the freeze
4 termination year, for debt service on obligations, certificates
5 of indebtedness, capital notes, or other debt instruments sold
6 prior to June 1, 2005, or to make payments on installment
7 purchase contracts or lease purchase agreements entered into
8 prior to June 1, 2005, exceeds the levy a taxing authority
9 certified pursuant to Minnesota Statutes, section 275.07,
10 subdivision 1, for taxes payable in 2005 for the same purpose,
11 the excess may be levied notwithstanding the limitations of
12 subdivisions 1 and 2.

13 Subd. 4. [ANNEXATION EXCEPTION.] The city tax rate for
14 taxes payable in 2006 or any subsequent year prior to the freeze
15 termination year on any property annexed under Minnesota
16 Statutes, chapter 414, may not be increased over the city or
17 township tax rate in effect on the property for taxes payable in
18 2005, notwithstanding any law, municipal board order, or
19 ordinance to the contrary. The limit on the annexing city's
20 levy under subdivisions 1 and 2 may be increased in excess of
21 that limit by an amount equal to the net tax capacity of the
22 property annexed times the city or township tax rate in effect
23 on that property for taxes payable in 2005. The levy limit of
24 the city or township from which the property was annexed shall
25 be reduced by the same amount.

26 Subd. 5. [SCHOOL DISTRICT STATUTORY OPERATING DEBT
27 EXCEPTION.] A school district that is in statutory operating
28 debt under Minnesota Statutes, section 123B.81, and has an
29 approved plan under Minnesota Statutes, section 123B.83 that
30 includes an increase to its referendum allowance under Minnesota
31 Statutes, section 126C.17, is exempt from the levy freeze on
32 referenda according to this section.

33 Sec. 6. [FREEZE ON LOCAL MATCH REQUIREMENTS.]

34 Notwithstanding any other law to the contrary, the local
35 funding or local match required from any city, town, or county
36 for any state grant or program shall not be increased for

1 calendar year 2006 or any subsequent year prior to the freeze
2 termination year above the dollar amount of the local funding or
3 local match required for the same grant or program in 2005,
4 regardless of the level of state funding provided. Any local
5 match or local funding requirement that first becomes effective
6 after December 31, 2005, for new or changed state grants or
7 programs shall not be effective until the freeze has been
8 terminated for that taxing jurisdiction under section 16.
9 Nothing in this section shall affect the eligibility of a city,
10 town, or county for the receipt of state grants or program funds
11 in 2006 or any subsequent year prior to the freeze termination
12 year, or reduce the amount of state funding a city, town, or
13 county would otherwise receive in 2006 or any subsequent year
14 prior to the freeze termination year if the local match
15 requirements of the state grant or program were met in 2005.

16 Sec. 7. [SUSPENSION OF SALARY AND BUDGET APPEAL
17 AUTHORIZATION.]

18 After March 1, 2005, no county sheriff may exercise the
19 authority granted under Minnesota Statutes, section 387.20,
20 subdivision 7, and no county attorney may exercise the authority
21 granted under Minnesota Statutes, section 388.18, subdivision 6,
22 to the extent that the salary or budget increase sought in the
23 appeal would result in an increase in county expenditures in
24 calendar year 2006 or any subsequent year prior to the freeze
25 termination year.

26 Sec. 8. [SUSPENSION OF PUBLICATION AND HEARING
27 REQUIREMENTS.]

28 A local taxing authority is not required to comply with the
29 public advertisement notice of Minnesota Statutes, section
30 275.065, subdivision 5a, or the public hearing requirement of
31 Minnesota Statutes, section 275.065, subdivision 6, with respect
32 to taxes payable in 2006 and any subsequent year prior to the
33 freeze termination year.

34 Sec. 9. [FISCAL DISPARITIES FREEZE.]

35 Notwithstanding Minnesota Statutes, section 276A.06,
36 subdivision 2, paragraph (a), or 473F.08, subdivision 2,

1 paragraph (a), the amount to be deducted from a governmental
2 unit's net tax capacity for taxes payable in 2006 and any
3 subsequent year prior to the freeze termination year under that
4 clause must equal the amount deducted for taxes payable in
5 2005. Notwithstanding Minnesota Statutes, section 276A.06,
6 subdivision 2, paragraph (b), or 473F.08, subdivision 2,
7 paragraph (b), the amount to be added to a governmental unit's
8 net tax capacity for taxes payable in 2006 and any subsequent
9 year prior to the freeze termination year under that clause must
10 equal the same amount added for taxes payable in 2005.
11 Notwithstanding Minnesota Statutes, section 276A.06, subdivision
12 3, or 473F.08, subdivision 3, the areawide portion of the levy
13 for each governmental unit must be determined using the local
14 tax rate for the 2003 levy year. Notwithstanding Minnesota
15 Statutes, section 276A.06, subdivision 7, or 473F.08,
16 subdivision 6, the portion of commercial-industrial property
17 within a municipality subject to the areawide tax rate shall be
18 computed using the amount determined under Minnesota Statutes,
19 sections 276A.04 and 276A.05, or 473F.06 and 473F.07, for taxes
20 payable in 2005.

21 Sec. 10. [TAX RATE FREEZE; REDUCTION OF LEVY.]

22 If in the course of determining local tax rates for taxes
23 payable in 2006 or any subsequent year prior to the freeze
24 termination year after reductions for disparity reduction aid
25 under Minnesota Statutes, section 275.08, subdivisions 1c and
26 1d, the county auditor finds the local tax rate exceeds that in
27 effect for taxes payable in 2005, the county auditor shall
28 reduce the local government's levy so that the local tax rate
29 does not exceed that in effect for taxes payable in 2005,
30 adjusted as provided in section 5.

31 Sec. 11. [PENSION LIABILITIES.]

32 Notwithstanding any other law or charter provision to the
33 contrary, no levy for taxes payable in 2006 or any subsequent
34 year prior to the freeze termination year for a local police and
35 fire relief association for the purpose of amortizing an
36 unfunded pension liability may exceed the levy for that purpose

1 for taxes payable in 2005.

2 Sec. 12. [DUTIES OF TOWNSHIP BOARD OF SUPERVISORS.]

3 Notwithstanding Minnesota Statutes, section 365.10, in 2005
4 the township board of supervisors shall adjust the levy and in
5 any subsequent year prior to the freeze termination year, the
6 township board of supervisors may adjust the expenditures of a
7 township below the level authorized by the electors to adjust
8 for any reduction in the previously authorized levy of the
9 township pursuant to section 5.

10 Sec. 13. [PROHIBITION ON NEW OR INCREASED FEES.]

11 After March 1, 2005, no municipality as defined in
12 Minnesota Statutes, section 475.51, or special taxing district
13 as defined in Minnesota Statutes, section 275.066, and no
14 executive branch state agency may impose a new fee or increase
15 the rate or amount of an existing fee. As used in this section,
16 a fee is any charge for goods, services, regulations, or
17 licensure, and includes charges for admission to or for use of
18 public facilities.

19 Sec. 14. [REIMBURSEMENT FOR LOCAL PROPERTY TAX AND FEE
20 INCREASES; APPROPRIATIONS.]

21 Subdivision 1. [GENERALLY.] On August 1, 2005, the state
22 must make payments to cities, counties, and school districts to
23 reimburse them for property tax and fee increases attributable
24 to reductions in state aids as provided in this subdivision.

25 Subd. 2. [CITIES.] Each home rule charter and statutory
26 city shall receive a payment equal to 20 percent of the sum of
27 the amounts of aids it received under Minnesota Statutes,
28 section 477A.013, in each of 2004 and 2005 that is less than the
29 amount of aid the city was certified to receive in 2003 before
30 reductions pursuant to laws enacted in 2003, provided that the
31 reimbursement paid under this section may not exceed the sum of
32 the amounts by which the city's levies for taxes payable in each
33 of 2004 and 2005 exceeded its levy for taxes payable in 2003.

34 Subd. 3. [COUNTIES.] Each county shall receive a payment
35 equal to 20 percent of the sum of the amounts by which the aid
36 it was certified to receive under Minnesota Statutes 2002,

1 sections 273.138; 273.1398, subdivision 2, minus the amount
2 certified under Minnesota Statutes, section 273.1398,
3 subdivision 4a, paragraph (b), for counties in Judicial
4 Districts One, Three, Six, and Ten, and 25 percent of the amount
5 certified under Minnesota Statutes, section 273.1398,
6 subdivision 4a, paragraph (b), for counties located in Judicial
7 Districts Two and Four; 273.166; 477A.0121; and 477A.0122, in
8 2003 before reductions pursuant to laws enacted in 2003, is less
9 than the aids it received in each of 2004 and 2005 under
10 Minnesota Statutes, section 477A.0124, provided that the
11 reimbursement paid under this section may not exceed the sum of
12 the amounts by which the county's levies for taxes payable in
13 each of 2004 and 2005 exceeded its levy for taxes payable in
14 2003.

15 Subd. 4. [SCHOOL DISTRICTS.] Each school district shall
16 receive fee reimbursement revenue for any authorized fees, under
17 Minnesota Statutes, section 123B.36, that were increased during
18 fiscal year 2004 and 2005. A school district's fee
19 reimbursement revenue is equal to the sum of its authorized fees
20 under Minnesota Statutes, section 123B.36, for each of fiscal
21 years 2004 and 2005, subtracted from its total authorized fees
22 for fiscal year 2003, multiplied by .5.

23 Subd. 5. [APPROPRIATIONS.] A sum sufficient to make the
24 payments required in subdivisions 2 and 3 is appropriated from
25 the general fund to the commissioner of revenue, who shall make
26 the payments required under those subdivisions. A sum
27 sufficient to make the payments required in subdivision 4 is
28 appropriated from the general fund to the commissioner of
29 education, who shall make the payments required under that
30 subdivision.

31 Sec. 15. [SAVINGS CLAUSE.]

32 Notwithstanding any provision in this act, nothing in this
33 act constitutes an impairment of any obligations, certificates
34 of indebtedness, capital notes, or other debt instruments,
35 including installment purchase contracts or lease purchase
36 agreements, issued before the date of final enactment of this

1 act, by a municipality as defined in Minnesota Statutes, section
2 469.174, subdivision 6; a school district; or a special taxing
3 district as defined in Minnesota Statutes, section 275.066.

4 Sec. 16. [EFFECTIVE DATE; TERMINATION.]

5 (a) This act is effective the day following final enactment
6 and applies to taxes payable in 2006 and subsequent years prior
7 to the termination date provided in paragraph (b), (c), (d), or
8 (e) for the taxing jurisdiction described in each of those
9 paragraphs.

10 (b) For cities, the termination date is the taxes payable
11 year that is the calendar year when local government aids
12 payable to cities under Minnesota Statutes, section 477A.013,
13 are sufficient to fully fund the formula without any reduction
14 due to the limitation in Minnesota Statutes, section 477A.03.

15 (c) For counties, the termination date is the taxes payable
16 year when the total amount to be paid to all counties under
17 Minnesota Statutes, section 477A.0124, exceeds the amount paid
18 to all counties under Minnesota Statutes 2002, sections 273.138;
19 273.1398, subdivision 2, minus the amount certified under
20 Minnesota Statutes, section 273.1398, subdivision 4a, paragraph
21 (b), for counties in Judicial Districts One, Three, Six, and
22 Ten, and by 25 percent of the amount certified under Minnesota
23 Statutes, section 273.1398, subdivision 4a, paragraph (b), for
24 counties located in Judicial Districts Two and Four; 273.166;
25 477A.0121; and 477A.0122, increased by the rate of increase in
26 the annual implicit price deflator for government consumption
27 expenditures from 2003 to the current year.

28 (d) For school districts, the termination date is the taxes
29 payable year that is the year in which the state provides a real
30 state aid inflationary increase to the basic formula allowance
31 under Minnesota Statutes, section 126C.10, subdivision 2, over
32 the amount paid in the prior year.

33 (e) For special taxing districts, the termination date is
34 the 2008 taxes payable year.

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TO: Members of the Senate Tax Committee

FROM: Jo Anne Zoff Sellner, Senate Counsel (651/296-3803) *JAS*

DATE: January 31, 2005

RE: Bill Summary for S.F. No. 318

S.F. No. 318 (Pogemiller)

This bill imposes a freeze on property taxes beginning with taxes payable in 2006, and continuing until the state increases the amount of aids it pays to the local taxing jurisdictions.

Section 1 provides that the act may be cited as the "Truth and Fairness in Taxation Act" (TAFTA) or the "State/Local Fiscal Relations: Truth in Taxation Act."

Section 2 provides a statement of purpose with the legislature finding that the state continues to experience a persistent budget deficit, and that reductions in state spending have resulted in increased burdens on local taxing jurisdictions. The purpose of the act is "to prevent property tax rate increases and to illuminate the impact of reductions in revenue to local taxing jurisdictions," "in order to recognize the implications of addressing the state budget deficit without increasing tax rates."

Section 3 provides that the benefit ratio used to apportion levies to a rural service district in a municipality that is divided into rural and urban service districts for taxes payable in 2006 and any subsequent years during which the freeze is in effect will be limited to the amount in effect for taxes payable in 2005.

Section 4 prohibits local taxing jurisdictions from incurring new debt after May 31, 2005. The prohibition applies to obligations, certificates of indebtedness, capital notes, or other debt instruments, as well as installment purchase contracts or lease purchase agreements, if those obligations would require a levy that would first become

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payable in 2006 or a later year that is subject to the freeze. Certain obligations are exempt from the prohibition:

- bonds sold to refund bonds that were originally sold before June 1, 2005;
- obligations for which the debt service levy that first becomes due in 2006 would not cause a municipality's total debt service levy for taxes payable in 2006 to exceed its total debt service levy for taxes payable in 2005; or
- obligations with respect to which the municipality finds that no levy will be required for taxes payable in a freeze year because sufficient funds are available from sources other than the property tax to pay the debt service on the obligations.

Bonds will be deemed to have been sold before June 1, 2005, if, before that date:

- an agreement has been entered into between the municipality and a purchaser or underwriter for the sale of the bonds;
- the municipality is a party to a contract or letter of understanding with the federal government or the state government that requires a municipality to pay for a project, and that project will be funded with the proceeds of the bonds; or
- the municipality has entered into a contract with a builder or supplier and the proceeds of the bonds will be used to fund a project or acquisition that is the subject of that contract.

Section 5 provides that taxing authorities may certify levies for taxes payable in 2006 and subsequent freeze years to no more than the amount of the levy that was certified for the prior year with certain exceptions:

- if a levy for a freeze year for debt service on obligations or to make payments on installment purchase contracts or lease purchase agreements entered into before June 1, 2005, exceeds the levy the taxing authority certified for taxes payable in 2005 for the same purpose, the excess may be levied;
- in the case of an annexation, the city tax rate for taxes payable in a freeze year may not be increased over the city or town tax rate in effect on property in the annexed area for taxes payable in 2005. The limit that would otherwise apply under this act to the annexing city's levy may be increased above the overall limit by an amount equal to the net tax capacity of the property annexed, times the city or township tax rate in effect on that property for taxes payable in 2005. The levy limit of the city or town from which the property was annexed must be reduced by that amount;
- a school district that is in statutory operating debt and that is operating under an approved plan that includes an increase to its referendum allowance, is exempt from the levy freeze on referenda.

Section 6 provides that a local funding or local match requirement that applies to a city, town or county under any state grant or program may not be increased above its 2005 level for any year during which the freeze is in effect. No local match or local funding requirement that becomes effective after the end of 2005 will be effective until the freeze has been terminated. If a local taxing jurisdiction met its match requirements in 2005 for a state grant or program providing funds, it will continue to remain eligible for the same amount during the years when the freeze is in effect.

Section 7 provides that the ability of the county sheriff and the county attorney to appeal to the district court for increases in salaries or budgets that would increase the level of county expenditures is suspended during the time of the freeze.

Section 8 provides that local taxing authorities are exempt from the requirements of the public advertisements and public hearings in effect under the Truth in Taxation law during any year when the freeze is in place.

Section 9 provides that the fiscal disparities programs in effect within the seven-county metropolitan area and the taconite tax relief area are maintained during the years in which the freeze is in effect by continuing to use the same factors that were used for taxes payable in 2005.

Section 10 requires that when the county auditor determines local tax rates for taxes payable in any freeze year, the county auditor must reduce any local government's levy so that the total tax rate does not exceed the tax rate in effect for taxes payable in 2005, subject to the exceptions provided in section 5.

Section 11 provides that a levy for taxes payable during a freeze year for a local police and fire relief association in order to amortize an unfunded pension liability is limited to the levy for that purpose for taxes payable in 2005.

Section 12 requires a township board of supervisors in 2005 to adjust the levy of a township in order to comply with the requirements of this act. In 2006 and subsequent freeze years, a board of supervisors is authorized to adjust the expenditures of a township below the level authorized by the electors in order to comply with the freeze.

Section 13 provides that after March 1, 2005, no municipality or special taxing district, and no executive branch state agency may impose a new fee or increase the rate or amount of an existing fee. Fees are defined to include any charge for goods, services, regulations, or licensure, and includes charges for admissions to or the use of public facilities.

Section 14 requires the state to reimburse cities, counties, and school districts for certain property tax and fee increases that are deemed to be related to reductions in state aids.

The payment to cities equals 20 percent of the sum of the amount of local government aids it received in each of 2004 and 2005 that is less than the amount of the aid the city was certified to receive in 2003 before the payments were reduced by the local government aid cuts that were enacted in 2003. The payment 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.

The aids payable to each county equals 20 percent of the sum of the amounts by which the aid it was certified to receive under certain categorical aids that were eliminated in 2003, is less than the aids it received in each of 2004 and 2005 under the newly enacted county program aid. This reimbursement is limited to the sum of the amounts by which the county's levies for taxes payable in 2004 and 2005 exceeded its levy for taxes payable in 2003.

Each school district will each receive fee reimbursement revenue equal to one-half of the amount by which its fees were increased in 2004 and 2005 above the level of the fees in 2003.

These reimbursements are onetime payments which will be made on August 1, 2005, the amount necessary to make the payments is appropriated from the general fund.

Section 15 provides that nothing in this act constitutes an impairment of any obligations or other debts instruments, including installment purchase contracts or lease purchase agreements that were entered into before the date of enactment of this act.

Section 16 establishes the year in which the freeze will terminate for each of the taxing jurisdictions that is subject to it. For cities and towns, the termination date is the taxes payable year when local government aids that are payable to cities are sufficient to fully fund the formula. For counties, the termination date is the taxes payable year when the amount paid to all counties under the new county aid exceeds the amount that was payable to all counties under the pre-2003 categorical aids that were paid to all counties. For school districts, the termination date is the taxes payable year in which the state provides a real state aid inflationary increase to the basic formula allowance over the amount that was paid in the prior year. For special taxing districts, the termination date is the 2008 taxes payable year.

JJS:dv

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.

January 19, 2005

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

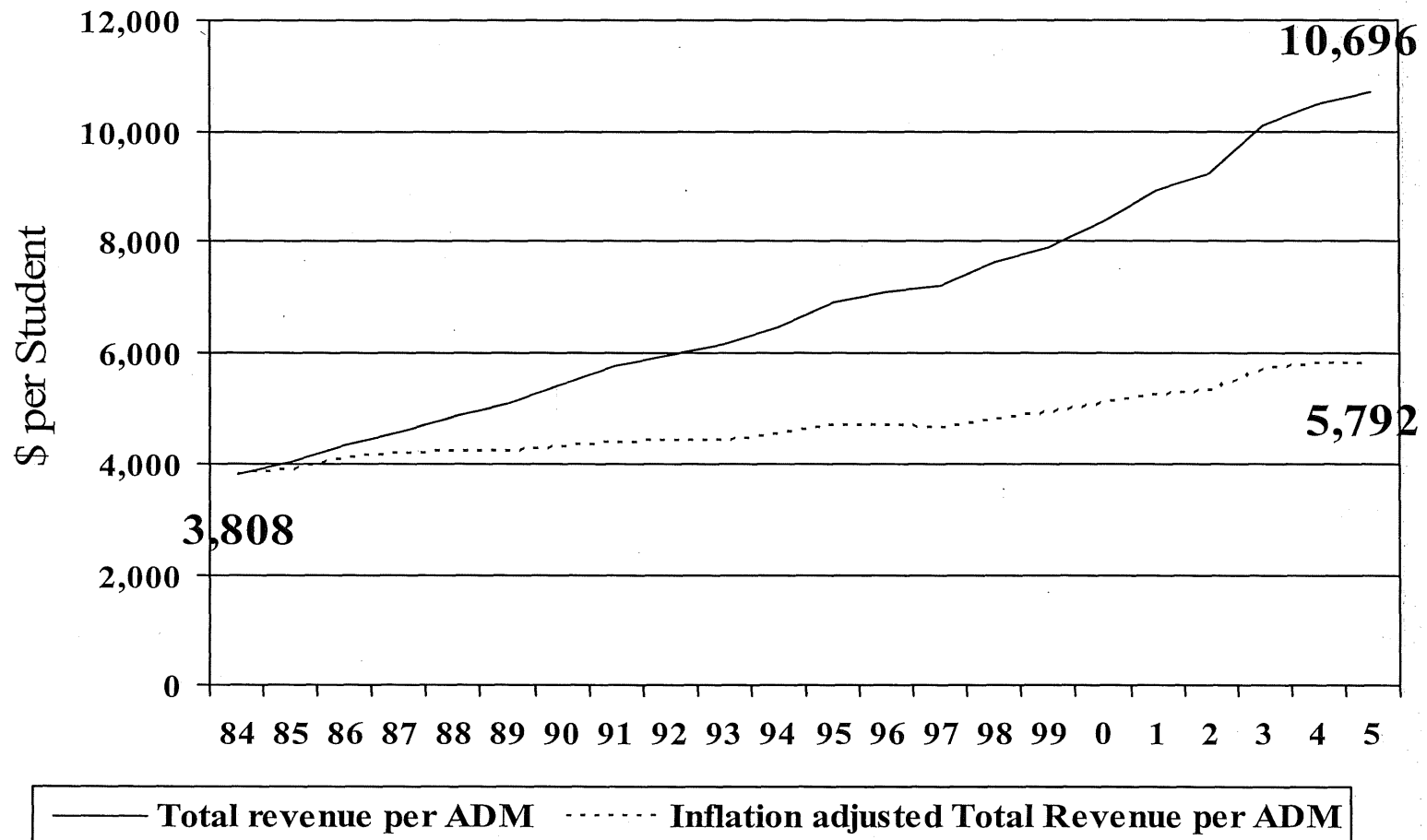
REVENUE ANALYSIS DETAIL

- 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.

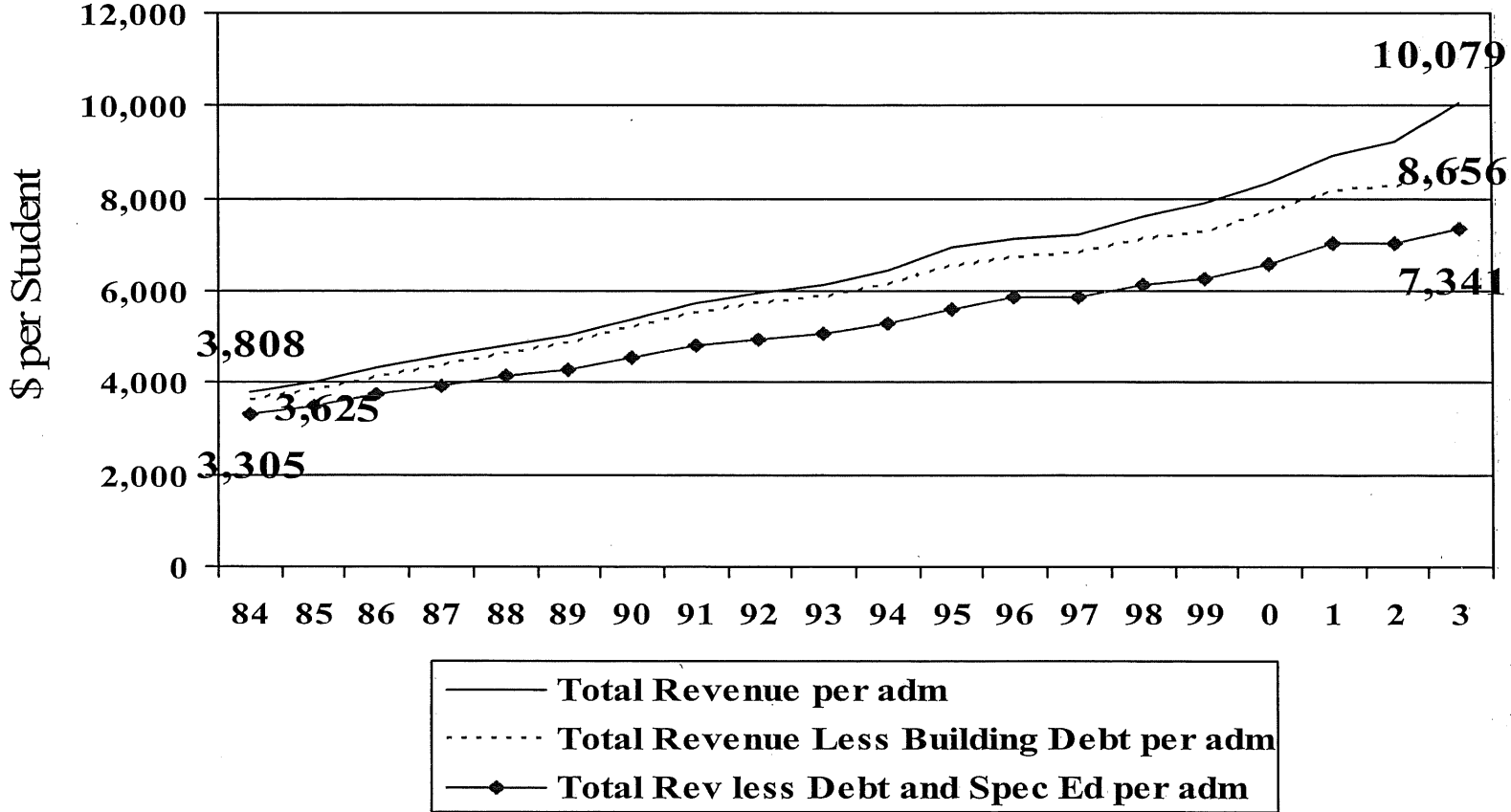
Number of Taxpayers Affected: All property taxpayers.

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

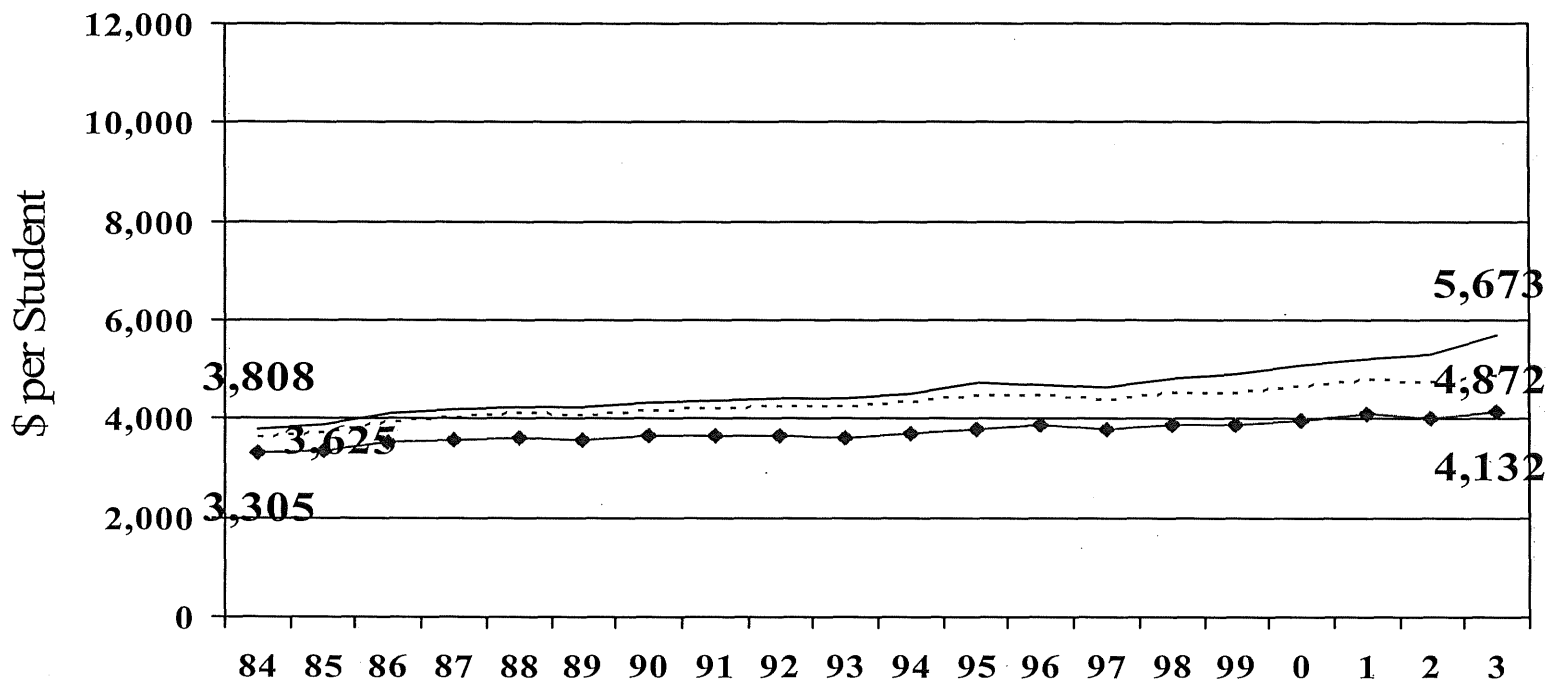
School District Revenue Per Student 1984 to 2005



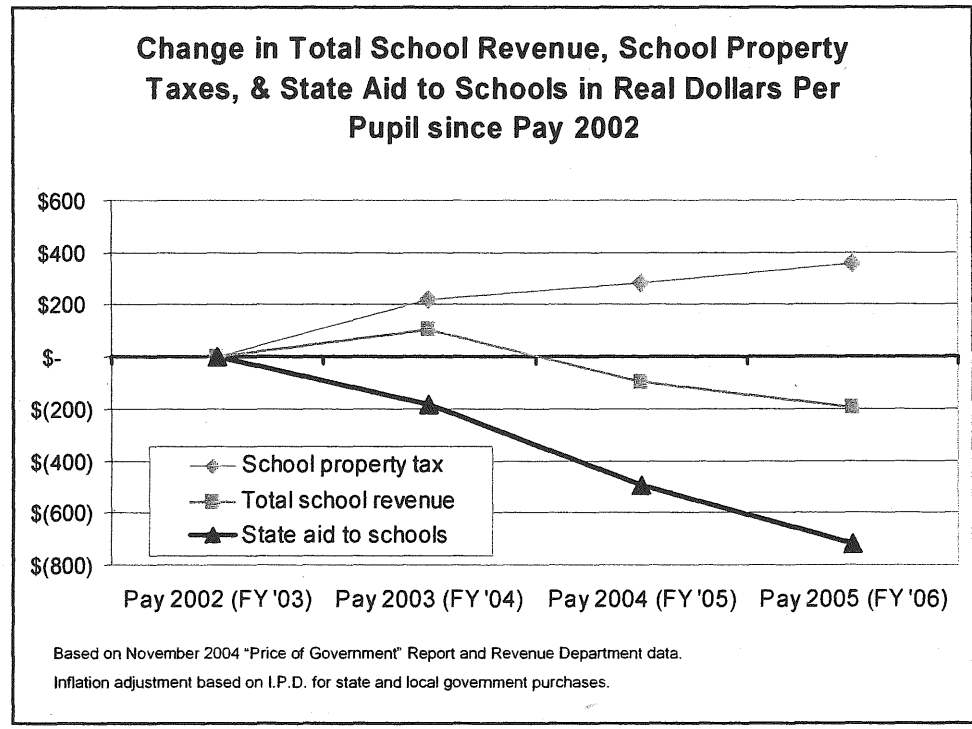
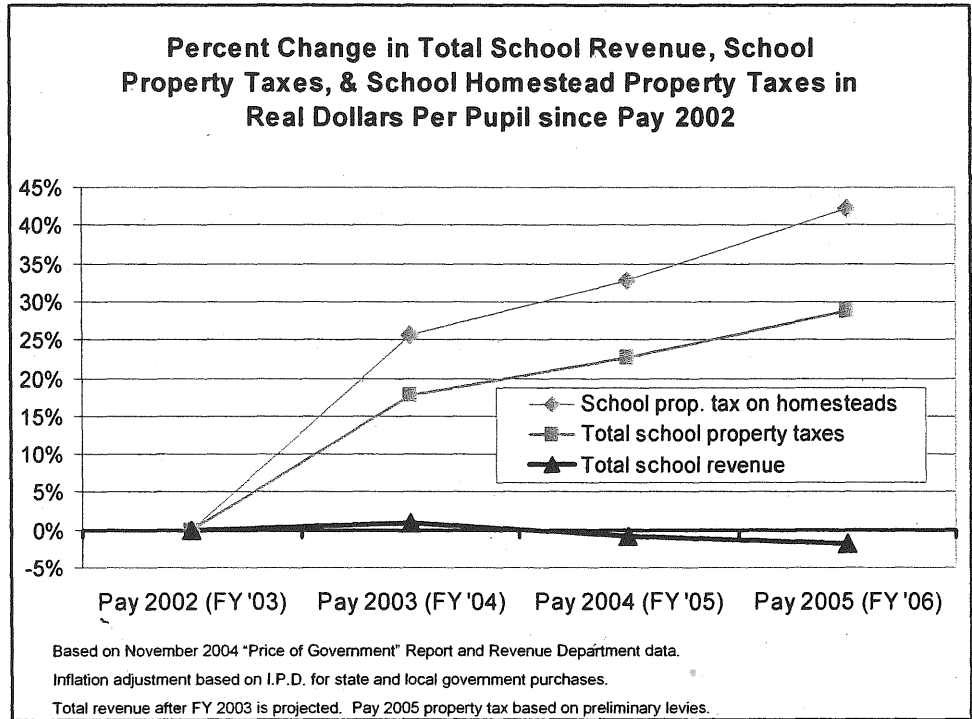
Revenue per Student Less Building Debt and Special Ed Expenses



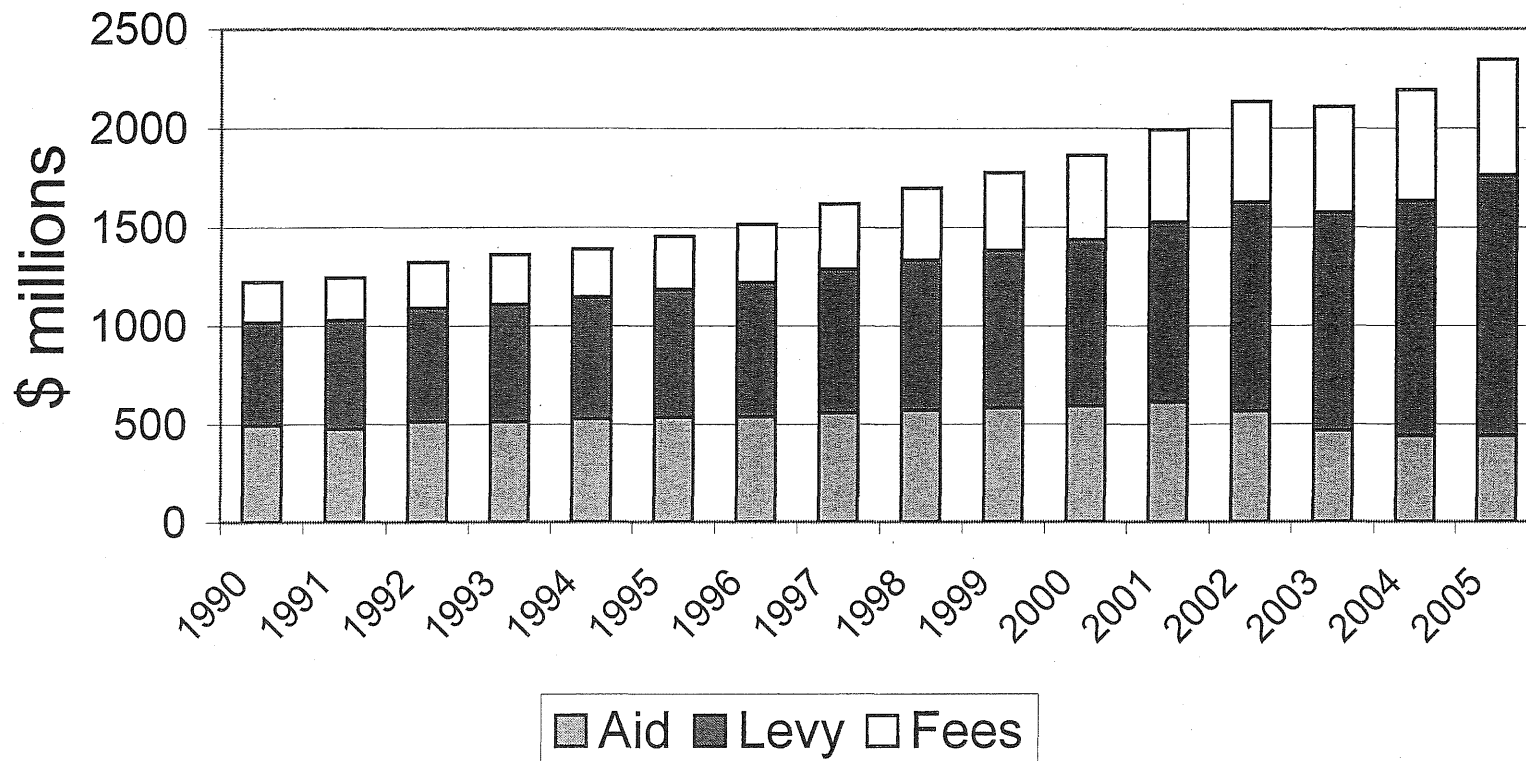
Inflation Adjusted Revenue per Student Less Building Debt and Spec Ed Expenses



— Inflation Adjusted Total Revenue per ADM
 Inflation Adjusted Total less Building Debt
 —◆— Inflation Adjusted Total less Debt and Spec. Ed



City Property Taxes, State Aids and Fees



- Notes: 1. 2005 levy based on preliminary levies; 2004 and 2005 fees, charges, & license revenues are estimates
2. Market Value Homestead Credit reimbursement is included in levies; Reductions in MVHC in 2003 and 2004 are reflected as reductions in levies
3. Aid includes LGA in all years, HACA through 2001, and Equalization aid and Disparity Reduction aid through 1993
4. Fee data, from OSA reports 1990-2003, include city fees, service charges, license and permit revenues. They do not include fine and forfeit revenues.
5. If adjusted for inflation and population growth, combined levy, aids, fees and license revenue increased 4 percent, from \$469 per capita in 1990 to \$489 per capita in 2005 (in 2000 dollars)

Prepared by LMC, February 2005