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# Minnesota Biennial Budget

## State & Local Finance Summary

Revenues  
Local Aids & Credits

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Presented by Governor Arne H. Carlson to the 79th Legislature

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**STATE AND LOCAL FINANCE SUMMARY  
GOVERNOR'S 1996-97 PROPOSED BIENNIAL BUDGET**

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## State and Local Finance Summary

### Revenues

### Local Aids and Credits

The purpose of this document is to present the Governor's recommendations on state and local finance and to provide background information on a number of key state and local finance issues. This document is organized into four sections:

#### *Directory of Local Aids and Credits*

The Directory of Local Aids and Credits provides detail on the major general property tax relief programs administered by the Department of Revenue and funded primarily from the Local Government Trust Fund.

#### *Governor's Price of Government Target Recommendation*

The Governor's State and Local Revenue Target Recommendation is made in adherence to the "Price of Government" component of the 1994 Tax Bill. The bill calls for the Governor to recommend revenue targets for the next two biennia. By March 15th, the Legislature must pass a concurrent resolution in which they make their own revenue target recommendation. By focusing the discussion of available resources in advance of spending decisions, the Price of Government legislation helps promote good budgeting and responsible financial management.

#### *Governor's State and Local Finance Policy Proposals*

The Governor's State and Local Finance Policy Proposals outline specific recommendations for changes related to revenues and local aids and credits.

#### *Directory of State Revenue*

The Directory of State Revenue provides an overview of the State's major revenue sources. Prior versions of this document provided detail on only General Fund Revenues. In keeping with the new requirement that the Department of Finance's November and February forecast include all funds, this document has been expanded to include major revenues from all funds.

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**Governor's Price of Government Target Recommendation**

## Summary of Governor's Revenue Target Recommendation

For the 1996-1997 biennium, the Governor recommends revenue targets of \$22.2 billion, or 10.3% of state personal income, for state government and \$17.1 billion, or 7.9% of state personal income, for local governments. For

**Governor's 1995 Price of Government Recommendation**  
(\$ in millions)

	FY 1996	FY 1997	FY 1996-97	FY 1998	FY 1999	FY 1998-99
State Tax Revenues	9,358.0	9,702.7	19,060.7	10,136.9	10,555.0	20,691.8
<i>as percent of personal income</i>	8.9%	8.8%	8.8%	8.7%	8.6%	8.7%
State Non-Tax Revenues	1,544.9	1,548.5	3,093.4	1,516.4	1,503.1	3,019.5
<i>as percent of personal income</i>	1.5%	1.4%	1.4%	1.3%	1.2%	1.3%
Local Tax Revenues	4,454.0	4,662.7	9,076.7	4,798.3	5,018.8	9,817.1
<i>as percent of personal income</i>	4.2%	4.2%	4.2%	4.1%	4.1%	4.1%
Local Non-Tax Revenues	3,937.6	4,095.4	8,033.0	4,256.3	4,458.2	8,714.4
<i>as percent of personal income</i>	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%
Total Revenues	19,294.5	19,969.3	39,263.8	20,707.8	21,535.0	42,242.9
<i>as percent of personal income</i>	18.3%	18.1%	18.2%	17.9%	17.6%	17.7%
State Personal Income	105,430	110,160	215,590	116,000	122,700	238,070

the 1998-99 biennium, the Governor recommends targets of \$23.7 billion, or 10.0% of state personal income, for state government and \$18.4 billion, or 7.7% of state personal income, for local governments.

## New Price of Government Law Requires New Approach to Budgeting

The 1994 Tax Bill included provisions, commonly referred to as the "Price of Government" legislation, that make several changes in the State's budget process:

- In November and February prior to the start of a biennium, the Departments of Finance and Revenue are required to project state and local taxes, other revenues and personal income for the current biennium and the future two biennia. This historical and projected data is to be presented by type of government and major revenue source. This data was presented last November in the Department of Finance's November Forecast.
- In January, the Governor is required to recommend revenue targets for the next two biennia that specify:
  - The maximum percentage of personal income to be collected in state and local taxes and other revenues.
  - The division of the share between state and local government revenues.
  - The appropriate mix and rates of income, sales, and other state and local taxes and other revenues and the amount of property taxes.
  - The effect of the recommendations on the incidence of the tax burden by income class.

The Governor's revenue target recommendation is presented in this document.

- By March 15th, the Legislature is required to adopt, by concurrent resolution, its own revenue targets for the same periods, including the same information as presented by the Governor. The Legislature's targets will be based on the revised state and local revenue forecast prepared jointly by the Departments of Finance and Revenue.

## November Forecast of State and Local Revenues

The starting point for the Governor's revenue target recommendation was the November forecast of state and local revenues. The forecast, prepared jointly

by the Departments of Finance and Revenue, projected revenues based on current law, using current tax rates. The following table summarizes the November forecast data.

November, 1994 Forecast of State & Local Revenues, C.Y. 1990-1998  
(\$ in Billions)

Calendar Year	Fiscal Year	Personal Income	Revenue					
			State	as % of Personal Income	Local	as % of Personal Income	Total	as % of Personal Income
1990	1991	\$82.3	\$8.3	10.1%	\$6.0	7.3%	\$14.3	17.4%
1991	1992	\$85.3	\$8.8	10.3%	\$6.6	7.7%	\$15.4	18.0%
1992	1993	\$91.5	\$9.6	10.5%	\$7.0	7.6%	\$16.6	18.1%
1993	1994	\$94.9	\$10.2	10.7%	\$7.4	7.8%	\$17.6	18.5%
1994	1995	\$101.2	\$10.7	10.6%	\$7.8	7.7%	\$18.6	18.4%
1995	1996	\$105.4	\$11.0	10.4%	\$8.4	8.0%	\$19.4	18.4%
1996	1997	\$110.2	\$11.3	10.3%	\$8.6	7.8%	\$19.9	18.1%
1997	1998	\$116.0	\$11.8	10.2%	\$8.8	7.6%	\$20.6	17.8%
1998	1999	\$122.1	\$12.2	10.0%	\$9.1	7.4%	\$21.3	17.4%

Additional detail can be obtained from the Department of Finance's November Forecast and the Department of Revenue's Local Government Revenue Estimates - Supplemental Report to the November 1994 State Forecast Document.

### Governor's Revenue Target Recommendation

The Governor recommends a Price of Government target of \$39.3 billion, or 18.2% of projected state personal income, for the 1996-97 biennium, and \$42.2 billion, or 17.7% of projected state personal income, for the F.Y. 1998-99 biennium.

These targets were derived by making the following adjustments to the November Price of Government Forecast:

- *Reduction for Cambridge Bank* - Because the refunds that will be paid to financial institutions under the terms of the Cambridge Bank judgment will be accounted for as tax *refunds*, the forecasted amount

Governor's 1995 Price of Government Recommendation  
(\$ in millions)

	FY 1996	FY 1997	FY 1996-97	FY 1998	FY 1999	FY 1998-99
State Tax Revenues	9,358.0	9,702.7	19,060.7	10,136.9	10,555.0	20,691.8
as % of personal income	8.9%	8.8%	8.8%	8.7%	8.6%	8.7%
State Non-Tax Revenues	1,544.9	1,548.5	3,093.4	1,516.4	1,503.1	3,019.5
as % of personal income	1.5%	1.4%	1.4%	1.3%	1.2%	1.3%
Local Tax Revenues	4,454.0	4,662.7	9,076.7	4,798.3	5,018.8	9,817.1
as % of personal income	4.2%	4.2%	4.2%	4.1%	4.1%	4.1%
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as % of personal income	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%
Total Revenues	19,294.5	19,969.3	39,263.8	20,707.8	21,535.0	42,242.9
as % of personal income	18.3%	18.1%	18.2%	17.9%	17.6%	17.7%
State Personal Income	105,430	110,160	215,590	116,000	122,700	238,070

of state tax collections will decrease. The Governor has adjusted spending downward to reflect this loss in revenue.

- *Allowance for Local Non-School Fee Increases* - The Governor recognizes that local governments, like the state, will have future inflationary cost pressures. As a result, the Governor has included an allowance for an inflationary adjustment equal to the local government price deflator (PGSL). Nonetheless, the Governor strongly encourages local governments to seek efficiencies and reallocations that will allow

them to provide effective services without significant fee increases.

- *Adjustment for Revised School Levy Amounts* - Since the November forecast, additional information has resulted in a revision of the current law forecast of school levies. Based on updated data, estimated C.Y. 1995 levies under current law are increased by \$2 million, consisting of a \$7 million increase in debt service levies offset by a \$5 million reduction in capital expenditure health and safety levies. Estimated C.Y. 1996 levies under current law are increased \$10 million due to an increase in the estimated debt service levy. While this revision will not be officially recognized until the February forecast, the Governor has included this information in determining his recommendation.

It is important to note that the Governor's proposals for changes in aids to local units of government will not affect the percent of personal income accounted for by local governments in the price of government targets. Only "own-source" revenues -- revenues raised directly by the taxing or fee-charging capacity of the unit of government -- are included in price of government targets. Because state aids are transfers from the State to local units of government, not "own-source" revenues, any increase or decrease in state aids does not result in a change in the personal income percentages.

A table, similar to that prepared for the November forecast, displaying the Governor's Price of Government Targets in detail is available in Appendix A.

#### **Price of Government Recommendation by Mix and Rate of Tax Type**

The table on page 7 presents the Governor's Price of Government Recommendations by mix and type of revenue source.

#### **Effect of Price of Government Targets Upon Tax Incidence**

The Governor's Price of Government Recommendation will have no net effect upon the current incidence of state or local taxes. Current tax incidence information can be found in the Department of Revenue's 1993 *Minnesota Tax Incidence Study* (November, 1993).

**Governor's Price of Government Recommendations  
By Government and Revenue Type**

(\$ 000s)

Fiscal Year	Govt. Unit	Taxes								Non-Tax Revenues		Total	
		Income		Sales		Property		Other					
1996	State	4,420,300	4.2%	2,712,550	2.5%	0	0.0%	2,225,131	2.1%	1,544,926	1.5%	10,902,907	10.3%
	Local	0	0.0%	67,898	0.1%	4,327,748	4.1%	58,366	0.1%	3,937,586	3.7%	8,391,598	8.0%
	Total	4,420,300	4.2%	2,780,448	2.6%	4,327,748	4.1%	2,283,497	2.2%	5,482,512	5.2%	19,294,505	18.3%
1997	State	4,603,280	4.2%	2,800,450	2.5%	0	0.0%	2,298,972	2.0%	1,548,467	1.4%	11,251,169	10.2%
	Local	0	0.0%	70,329	0.1%	4,493,296	4.1%	59,081	0.1%	4,095,402	3.7%	8,718,108	7.9%
	Total	4,603,280	4.2%	2,870,779	2.6%	4,493,296	4.1%	2,358,053	2.1%	5,643,869	5.1%	19,969,277	18.1%
1997-98	State	9,023,580	4.2%	5,513,000	2.5%	0	0.0%	4,524,103	2.1%	3,093,393	1.5%	22,154,076	10.3%
	Local	0	0.0%	138,227	0.1%	8,821,044	4.1%	117,447	0.1%	8,032,988	3.7%	17,109,706	7.9%
	Total	9,023,580	4.2%	5,651,227	2.6%	8,821,044	4.1%	4,641,550	2.2%	11,126,381	5.2%	39,263,782	18.2%
1998	State	4,855,300	4.4%	2,918,750	2.6%	0	0.0%	2,362,803	2.1%	1,516,365	1.4%	11,653,218	10.1%
	Local	0	0.0%	73,621	0.1%	4,664,919	4.2%	59,805	0.1%	4,256,263	3.8%	9,054,608	7.8%
	Total	4,855,300	4.4%	2,992,371	2.7%	4,664,919	4.2%	2,422,608	2.2%	5,772,628	5.2%	20,707,826	17.9%
1999	State	5,098,330	4.6%	3,019,450	2.7%	0	0.0%	2,437,184	2.2%	1,503,139	1.4%	12,058,103	9.9%
	Local	0	0.0%	76,558	0.1%	4,881,655	4.4%	60,538	0.1%	4,458,180	4.0%	9,476,931	7.7%
	Total	5,098,330	4.6%	3,096,008	2.8%	4,881,655	4.4%	2,497,722	2.3%	5,961,319	5.4%	21,535,034	17.6%
1998-99	State	9,953,630	4.2%	5,938,200	2.5%	0	0.0%	4,799,987	2.0%	3,019,504	1.2%	23,711,321	10.0%
	Local	0	0.0%	150,179	0.1%	9,546,574	4.0%	120,343	0.1%	8,714,443	3.7%	18,531,539	7.7%
	Total	9,953,630	4.2%	6,088,379	2.6%	9,546,574	4.0%	4,920,330	2.1%	11,733,947	4.9%	42,242,860	17.7%

**Governor's State and Local Finance Policy Proposals**

F.Y. 1996-97 BUDGET INITIATIVE

AGENCY: Department of Agriculture

ITEM TITLE: Permanent Sales Tax Exemption of Used Farm Machinery

	<u>1996-97 Biennium</u>		<u>1998-99 Biennium</u>	
	<u>F.Y. 1996</u>	<u>F.Y. 1997</u>	<u>F.Y. 1998</u>	<u>F.Y. 1999</u>
Revenues: (\$000s)				
General Fund	(\$1,300)	(\$1,600)	(\$1,600)	(\$1,600)
LGTF	(\$300)			
Statutory Change? Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>				

GOVERNOR'S RECOMMENDATION:

The Governor recommends the permanent exemption of used farm machinery from the sales tax.

RATIONALE:

Under current law, the sales tax exemption on used farm machinery enacted in the 1994 legislature is scheduled to sunset at the end of F.Y. 1995. This exemption will assist farmers with their cash flow, particularly beginning farmers who must often rely upon used equipment. The initiative is also in keeping with sound tax policy, eliminating the distorting effects of taxing business inputs.

F.Y. 1996-97 BUDGET INITIATIVE

AGENCY: Department of Agriculture

ITEM TITLE: Environmental Tax Credit

	<u>1996-97 Biennium</u>		<u>1998-99 Biennium</u>	
	<u>F.Y. 1996</u>	<u>F.Y. 1997</u>	<u>F.Y. 1998</u>	<u>F.Y. 1999</u>
Revenues: (\$000s)				
General Fund	(\$1,000)	(\$1,000)	(\$1,000)	(\$1,000)
Statutory Change? Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>				

GOVERNOR'S RECOMMENDATION:

The Governor recommends funding for a pilot program that would assist farmers through the provision of an Environmental Tax Credit.

RATIONALE:

The credit would be a certain percentage of the purchase price of equipment acquired to improve the environmental quality of farming operations. Improvements could include upgrading feedlots, purchasing conservation tillage implements and incorporating other environmental practices. This tax credit is designed to encourage good soil and water conservation practices while helping to defray a portion of the costs imposed by environmental regulations.

PROGRAM OUTCOMES:

Improved environmental quality in rural areas and greater profitability for farmers would result.

**F.Y. 1996-97 BUDGET INITIATIVE**

**AGENCY:** Department of Administration

**ITEM TITLE:** Exemption of MNet Purchases

	<u>1996-97 Biennium</u>		<u>1998-99 Biennium</u>	
	<u>F.Y. 1996</u>	<u>F.Y. 1997</u>	<u>F.Y. 1998</u>	<u>F.Y. 1999</u>
<b>Revenues: (\$000s)</b>				
GF/LGTF	(\$250)	(\$250)	(\$250)	(\$250)
<b>Statutory Change?</b>	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>			

**GOVERNOR'S RECOMMENDATION:**

The Governor recommends that purchases of equipment associated with the enhancement of the state's telecommunications infrastructure be made exempt from the sales tax.

**RATIONALE:**

Under current law, state agencies purchasing telecommunications access from Intertech must indirectly pay the sales tax through the charge made by Intertech to recover its costs, which include sales tax paid on purchased equipment. However, because the Department of Education is exempt from paying sales tax on purchases from private vendors, Intertech faces the possible loss of this critical user. In order for MNet to retain enough business from state agencies to be price competitive, it must be allowed an exemption on the purchase of telecommunications equipment.

**F.Y. 1996-97 BUDGET INITIATIVE**

**AGENCY:** Department of Human Services

**ITEM TITLE:** Prepayment of Tax Credits

	<u>1996-97 Biennium</u>		<u>1998-99 Biennium</u>	
	<u>F.Y. 1996</u>	<u>F.Y. 1997</u>	<u>F.Y. 1998</u>	<u>F.Y. 1999</u>
<b>Revenues: (\$000s)</b>				
General Fund	(\$2,200)	(\$120)	(\$3,800)	(\$400)
<b>Expenditures: (\$000s)</b>				
LGTF	\$3,000	\$180	\$5,200	\$600
<b>Statutory Change?</b>	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>			

**GOVERNOR'S RECOMMENDATION:**

The Governor recommends a pilot program to evaluate the benefits of early payment of state tax credits.

**RATIONALE:**

Currently, individuals qualifying for the Working Family Credit, Dependent Care Credit and Property Tax Credits must apply for a refund of their credits at the end of the year. These payments come in a lump sum, and fail to provide the ongoing cash flow financial support needed by low-income families throughout the year. By making these tax credits available to families on a monthly basis, the state will provide support to low-income families throughout the year and provide more immediate incentives for work. This pilot program will be evaluated for beneficial effects upon participants.

F.Y. 1996-97 BUDGET INITIATIVE

AGENCY: Department of Revenue

ITEM TITLE: Elimination of the Political Contribution Credit

	<u>1996-97 Biennium</u>		<u>1998-99 Biennium</u>	
	<u>F.Y. 1996</u>	<u>F.Y. 1997</u>	<u>F.Y. 1998</u>	<u>F.Y. 1999</u>
Revenues: (\$000s)				
General Fund	\$1,250	\$3,400	\$2,600	\$5,100

Statutory Change? Yes  No

GOVERNOR'S RECOMMENDATION:

The Governor recommends that the Political Contribution Credit be eliminated for refunds made after June 30, 1995.

RATIONALE:

The Political Contribution Credit was implemented in 1990 to encourage candidates for state offices to finance their campaigns with small contributions from many donors. Taxpayers may claim a refund equal to contributions to Minnesota political candidates and parties during a calendar year. The refunds are limited to \$50 for single persons and \$100 for married couples.

There is insufficient evidence to support or reject the contention that this program is achieving its stated purpose of encouraging more small contributions. It is also difficult and expensive to administer -- annual operating costs exceed 5% of the refund amount. It is also difficult to provide any meaningful audit process.

F.Y. 1996-97 BUDGET INITIATIVE

AGENCY: Department of Revenue

ITEM TITLE: County Homestead Block Grant Consolidation

	<u>1996-97 Biennium</u>		<u>1998-99 Biennium</u>	
	<u>F.Y. 1996</u>	<u>F.Y. 1997</u>	<u>F.Y. 1998</u>	<u>F.Y. 1999</u>
Expenditures: (\$000s)				
LGTF	(\$57,000)	(\$20,000)	(\$33,000)	(\$33,000)

Statutory Change? Yes  No

GOVERNOR'S RECOMMENDATION:

The Governor recommends Local Government Aid (LGA), Homestead Agricultural Credit Aid (HACA), Disparity Reduction Aid (DRA) and Attached Machinery Aid be combined into one County Homestead Block Grant in F.Y. 1997. Additionally, the Governor recommends reductions in local government aids to help pay for the Cambridge Bank settlement.

RATIONALE:

The Governor proposes a local aids and credits reform package designed to make more efficient use of the state's aid resources. Currently, most local aids and credits are distributed through formulas that have little relationship to the demand upon local governments for services or their ability to pay for those services, and provide little incentive for local units of government to cooperate in providing services.

The Governor proposes to combine several non-school aid programs -- City/Township Local Government Aid (LGA), Homestead Agricultural Credit Aid (HACA), Disparity Reduction Aid (DRA), and Attached Machinery Aid -- into one County Homestead Block Grant program. After the aid allocations have been made to all individual taxing jurisdictions in CY 1996 (FY 1997), the

**F.Y. 1996-97 BUDGET INITIATIVE**

**AGENCY:** Department of Revenue

**ITEM TITLE:** County Homestead Block Grant Consolidation (Contd.)

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aid programs will be consolidated into the County Homestead Block Grants. These aids would be summed at the county level, establishing the base year funding for the new aid program. Based on the Governor's recommendations, the County Homestead Block Grant would total \$802 million in FY 1997, \$803 million in FY 1998 and \$814 million in FY 1999.

The Governor recommends that, local governments decide the allocation of the grants within counties. To accomplish this, the Governor proposes that the block grants be distributed to local governments throughout the county by an Aid Distribution Council (ADC), comprised of an equal number of representatives from the governing bodies of county government, cities, and school district taxing districts within the county. As a result, the block grant allocation within counties will be based on collective local needs and program priorities.

By allocating the grants at the county level, increased incentives for local service sharing and cooperative agreements will provide better local services for less money.

The Governor also recommends a \$77 million reduction in the growth of Local Government Aid (LGA) and Homestead Agricultural and Credit Aid (HACA) which, in total, amount to less than 1% of local revenues. The recommended level of funding includes a 1% reduction for the Cambridge Bank judgment, removal of the automatic inflation increases in statute and repayment of the net General Fund dollars loaned to the Local Government Trust Fund. Without repayment, these dollars will be lost when the LGTF programs are returned to the General Fund in FY 1997. Depending on the February forecast, the Governor is committed to reexamining the FY 1997 reductions in aid.

**Directory of State Revenue**

# Governor's Budget Revenue Sources

F.Y. 1996 - 1997

By Fund Number, Name  
(No interfund transfers)

	General Fund and Local Govt. Trust Fund 7 and 10	Special Revenue Funds							
		1 MN Tech.	13 MN Fut. Resources	15 Petro Tank Release	17 St. Govt. Spec. Rev.	18 Nat. Resources	19 Health Care Acces	20 Spec Revenue	22 St. Airports
<b>Tax Revenues:</b>									
Individual Income Tax	\$ 7,910,680	0	0	0	0	0	0	0	0
Sales Tax	5,513,000	0	0	0	0	0	0	0	0
Corporate Income & Bank Excise	1,112,900	0	0	0	0	0	0	0	0
Motor Vehicle Excise	732,600	0	0	0	0	0	0	0	0
Insurance Gross Earn. & Fire Marshall	322,000	0	0	0	0	0	0	0	0
Cigarette & Tobacco Products	319,317	0	14,192	0	0	0	0	0	0
Health Care Surcharge	247,250	0	0	0	0	0	0	0	0
Deed & Mortgage Registration	133,400	0	0	0	0	0	0	1,680	0
Legalized Gambling Taxes	116,093	0	0	0	0	0	0	0	0
Liquor, Wine & Beer	109,110	0	0	0	0	0	0	0	0
Income Tax Reciprocity	56,659	0	0	0	0	0	0	0	0
Inheritance, Estate & Gift	56,006	0	0	0	0	0	0	0	0
Taconite Occupation	6,000	0	0	0	0	0	0	0	0
Contamination Tax	1,166	0	0	0	0	0	0	0	0
Illegal Sports Bookmaking Tax	870	0	0	0	0	0	0	0	0
Controlled Substance Tax	300	0	0	0	0	0	0	0	0
Taconite Production Taxes	110	0	0	0	0	0	0	0	0
Other Gross Earnings	108	0	0	0	0	0	0	0	0
Iron Ore Occupation	55	0	0	0	0	0	0	0	0
Rental Car Contract Tax	0	0	0	0	0	0	0	0	0
Telephone & Telegraph Gross Earnings	0	0	0	0	0	0	0	0	0
Royalty Taxes	0	0	0	0	0	0	0	0	0
Motor Vehicle License Tax	0	0	0	0	0	0	0	0	0
Gasoline and Special Fuels Taxes	0	0	0	0	0	0	0	0	7,178
Aircraft Registration Tax	0	0	0	0	0	0	0	0	4,461
Airline Flight Property Tax	0	0	0	0	0	0	0	0	18,300
Provider Tax	0	0	0	0	0	206,433	0	0	0
Hospital Tax	0	0	0	0	0	105,141	0	0	0
MNCare Gross Premium Tax	0	0	0	0	0	38,619	0	0	0
Employers' Payroll Tax	0	0	0	0	0	0	48,410	0	0
Pari-Mutuel Tax	0	0	0	0	0	0	1,837	0	0
Solid Waste Disposal Tax	0	0	0	0	0	0	0	0	0
Miscellaneous Taxes	0	0	0	0	14,212	0	0	0	0
Tax Refunds	(37,183)	0	0	0	0	0	0	0	0
<b>Subtotal-Tax Revenues</b>	<b>\$ 16,600,441</b>	<b>\$ 0</b>	<b>\$ 14,192</b>	<b>\$ 0</b>	<b>\$ 14,212</b>	<b>\$ 0</b>	<b>\$ 350,193</b>	<b>\$ 51,927</b>	<b>\$ 29,939</b>
<b>Non-Tax Revenues</b>									
Investment Income	\$ 35,000	\$ 530	\$ 416	\$ 1,330	\$ 360	\$ 134	0	\$ 18,729	\$ 1,500
Lottery Revenue	62,884	0	0	0	0	0	0	0	0
DHS RTC Collections	228,349	0	0	0	0	0	0	0	0
Departmental Earnings	200,293	0	0	90,190	53,050	13,875	934	143,782	700
Other Revenue	350,165	490	20	4,166	1,640	2,499	62,701	383,813	3,192
<b>Subtotal-Non-Tax Revenues</b>	<b>\$ 876,691</b>	<b>\$ 1,020</b>	<b>\$ 436</b>	<b>\$ 95,686</b>	<b>\$ 55,050</b>	<b>\$ 16,508</b>	<b>\$ 63,635</b>	<b>\$ 546,324</b>	<b>\$ 5,392</b>
Other Refunds	(17,600)	0	0	0	(170)	(110)	0	(936)	(2,748)
<b>Total Revenue</b>	<b>\$ 17,459,532</b>	<b>\$ 1,020</b>	<b>\$ 14,628</b>	<b>\$ 95,686</b>	<b>\$ 69,092</b>	<b>\$ 16,398</b>	<b>\$ 413,828</b>	<b>\$ 597,315</b>	<b>\$ 32,583</b>

## Governor's Budget Revenue Sources

F.Y. 1996 - 1997

By Fund Number, Name  
(No interfund transfers)

Special Revenue Funds, cont.									
	23	24	27	28	30	32	33	37	51
	Game and Fish	IRRRB	Trunk Highway	Hwy User Tax Dist.	Federal	Worker's Comp Special	Environmental	Landfill Cleanup	Max Effort School Loan
<b>Tax Revenues:</b>									
Individual Income Tax	0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Sales Tax	0	0	0	0	0	0	0	0	0
Corporate Income & Bank Excise	0	0	0	0	0	0	0	0	0
Motor Vehicle Excise	0	0	0	0	0	0	0	0	0
Insurance Gross Earn. & Fire Marshall	0	0	0	0	0	0	0	0	0
Cigarette & Tobacco Products	0	0	0	0	0	0	0	0	0
Health Care Surcharge	0	0	0	0	0	0	0	0	0
Deed & Mortgage Registration	0	0	0	0	0	0	0	0	0
Legalized Gambling Taxes	0	0	0	0	0	0	0	0	0
Liquor, Wine & Beer	0	0	0	0	0	0	0	0	0
Income Tax Reciprocity	0	0	0	0	0	0	0	0	0
Inheritance, Estate & Gift	0	0	0	0	0	0	0	0	0
Taconite Occupation	0	0	0	0	0	0	0	0	0
Contamination Tax	0	0	0	0	0	0	0	0	0
Illegal Sports Bookmaking Tax	0	0	0	0	0	0	0	0	0
Controlled Substance Tax	0	0	0	0	0	0	0	0	0
Taconite Production Taxes	0	46,249	0	0	0	0	0	0	0
Other Gross Earnings	0	0	0	0	0	0	0	0	0
Iron Ore Occupation	0	0	0	0	0	0	0	0	0
Rental Car Contract Tax	0	0	0	0	0	0	0	0	0
Telephone & Telegraph Gross Earnings	0	0	0	0	0	0	0	0	0
Royalty Taxes	0	0	0	0	0	0	0	0	0
Motor Vehicle License Tax	0	0	0	896,888	0	0	0	0	0
Gasoline and Special Fuels Taxes	0	0	0	1,024,256	0	0	0	0	0
Aircraft Registration Tax	0	0	0	0	0	0	0	0	0
Airline Flight Property Tax	0	0	0	0	0	0	0	0	0
Provider Tax	0	0	0	0	0	0	0	0	0
Hospital Tax	0	0	0	0	0	0	0	0	0
MNCare Gross Premium Tax	0	0	0	0	0	0	0	0	0
Employers' Payroll Tax	0	0	0	0	0	0	0	0	0
Pari-Mutuel Tax	0	0	0	0	0	0	0	0	0
Solid Waste Disposal Tax	0	0	0	0	0	0	0	41,338	0
Miscellaneous Taxes	0	0	0	0	0	0	9,229	0	0
Tax Refunds	0	0	0	0	0	0	0	0	0
Subtotal-Tax Revenues	\$ 0	\$ 46,249	\$ 0	\$ 1,921,144	\$ 0	\$ 0	\$ 9,229	\$ 41,338	\$ 0
<b>Non-Tax Revenues</b>									
Investment Income	\$ 700	\$ 2,800	\$ 11,000	\$ 500	0	\$ 6,140	\$ 975	\$ 450	\$ 100
Lottery Revenue	0	0	0	0	0	0	0	0	0
DHS RTC Collections	0	0	0	0	0	0	0	0	0
Departmental Earnings	101,908	4,024	92,984	12,135	0	56	34,810	0	0
Other Revenue	0	2,372	470,226	1,422	6,442,122	278,156	7,818	0	1,900
Subtotal-Non-Tax Revenues	\$ 102,608	\$ 9,196	\$ 574,210	\$ 14,057	\$ 6,442,122	\$ 284,352	\$ 43,603	\$ 450	\$ 2,000
Other Refunds	(132)	(13,809)	(4,360)	(69,039)	(736)	(2,040)	(660)	0	0
<b>Total Revenue</b>	<b>\$ 102,476</b>	<b>\$ 41,636</b>	<b>\$ 569,850</b>	<b>\$ 1,866,162</b>	<b>\$ 6,441,386</b>	<b>\$ 282,312</b>	<b>\$ 52,172</b>	<b>\$ 41,788</b>	<b>\$ 2,000</b>

# Governor's Budget Revenue Sources

F.Y. 1996 - 1997

By Fund Number, Name  
(No interfund transfers)

	Expendable Trust Funds							
	3	25	26	36	69	85	40	
	MN Env. & NR Trust	Mun. State Aid Street	Cty. State Aid Hwy.	Metro Landfill Cont.	NE MN Econ. Prot.	Gift	Endowment	Debt Service
<b>Tax Revenues:</b>								
Individual Income Tax	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Sales Tax	0	0	0	0	0	0	0	0
Corporate Income & Bank Excise	0	0	0	0	0	0	0	0
Motor Vehicle Excise	0	0	0	0	0	0	0	0
Insurance Gross Earn. & Fire Marshall	0	0	0	0	0	0	0	0
Cigarette & Tobacco Products	0	0	0	0	0	0	0	0
Health Care Surcharge	0	0	0	0	0	0	0	0
Deed & Mortgage Registration	0	0	0	0	0	0	0	0
Legalized Gambling Taxes	0	0	0	0	0	0	0	0
Liquor, Wine & Beer	0	0	0	0	0	0	0	0
Income Tax Reciprocity	0	0	0	0	0	0	0	0
Inheritance, Estate & Gift	0	0	0	0	0	0	0	0
Taconite Occupation	0	0	0	0	0	0	0	0
Contamination Tax	0	0	0	0	0	0	0	0
Illegal Sports Bookmaking Tax	0	0	0	0	0	0	0	0
Controlled Substance Tax	0	0	0	0	0	0	0	0
Taconite Production Taxes	0	0	0	0	9,160	0	0	0
Other Gross Earnings	0	0	0	0	0	0	0	0
Iron Ore Occupation	0	0	0	0	0	0	0	0
Rental Car Contract Tax	0	0	0	0	0	0	0	0
Telephone & Telegraph Gross Earnings	0	0	0	0	0	0	0	0
Royalty Taxes	0	0	0	0	0	0	0	0
Motor Vehicle License Tax	0	0	0	0	0	0	0	0
Gasoline and Special Fuels Taxes	0	0	0	0	0	0	0	0
Aircraft Registration Tax	0	0	0	0	0	0	0	0
Airline Flight Property Tax	0	0	0	0	0	0	0	0
Provider Tax	0	0	0	0	0	0	0	0
Hospital Tax	0	0	0	0	0	0	0	0
MNCare Gross Premium Tax	0	0	0	0	0	0	0	0
Employers' Payroll Tax	0	0	0	0	0	0	0	0
Pari-Mutuel Tax	0	0	0	0	0	0	0	0
Solid Waste Disposal Tax	0	0	0	610	0	0	0	0
Miscellaneous Taxes	0	0	0	0	0	0	0	0
Tax Refunds	0	0	0	0	0	0	0	0
Subtotal-Tax Revenues	\$ 0	\$ 0	\$ 0	\$ 610	\$ 9,160	\$ 0	\$ 0	\$ 0
<b>Non-Tax Revenues</b>								
Investment Income	\$ 148	\$ 17,500	\$ 32,500	\$ 30	\$ 5,986	\$ 217	\$ 24	\$ 37,759
Lottery Revenue	0	0	0	0	0	0	0	0
DHS RTC Collections	0	0	0	0	0	0	0	0
Departmental Earnings	0	0	0	0	0	0	0	0
Other Revenue	0	800	800	0	2,886	35,905	10	43,834
Subtotal-Non-Tax Revenues	\$ 148	\$ 18,300	\$ 33,300	\$ 30	\$ 8,872	\$ 36,122	\$ 34	\$ 81,593
Other Refunds	0	0	0	0	0	(46)	0	0
<b>Total Revenue</b>	<b>\$ 148</b>	<b>\$ 18,300</b>	<b>\$ 33,300</b>	<b>\$ 640</b>	<b>\$ 18,032</b>	<b>\$ 36,076</b>	<b>\$ 34</b>	<b>\$ 81,593</b>

1996-97 Biennial Budget

AGENCY: Revenue, Department of

REVENUE NAME: Individual Income Tax

FUND: General (10)

STATUTORY CITATION: M.S. Section 290.03

**DESCRIPTION:**

The individual income tax is imposed on the taxable income of resident and nonresident individuals, estates, and trusts. The tax base is federal taxable income plus and minus state modifications. The graduated tax rates are 6%, 8%, and 8.5%, with separate rate schedules for married-joint returns, married-separate returns, single persons, and heads of households. There is an alternative minimum tax on tax preference items at a rate of 7% and a lump sum distribution tax, each of which is similar to its federal counterpart.

**RECENT TRENDS:**

In 1993 the working family credit was increased to 15% of the federal earned income credit. Adoption of the federal changes in 1994 included permanently extending the phase-out of the personal exemptions and the limitation of itemized deductions for higher income taxpayers, limitations on business deductions, investment incentives, and an expansion of the working family credit and the elderly subtraction.

**POLICY ISSUES:**

At the federal level it appears likely that the new congress will propose tax credits for dependents and tax reductions for capital gains. Any reduction in federal taxable income would directly affect the Minnesota tax base if the state law is updated to adopt any federal changes.

**GOVERNOR'S RECOMMENDATION:**

Individual and corporate farm taxpayers will qualify for a refundable environmental tax credit for feedlot pollution control equipment or conservation tillage equipment. The credit is equal to 5 percent of the cost of qualified equipment. The credit will benefit primarily individual income taxpayers. The credit is designed to help farmers meet state imposed pollution control and abatement requirements and to encourage environmentally sound farm management practices.

Prepayment of Tax Credits will allow monthly payment of the Working Family and Dependent Care Credits. The loss in revenue is associated with a shift in payment to an earlier fiscal year. The program will also refund Property Tax Credits on a monthly basis. (See the Property Tax Refund page in the Directory of Local Aids and Credits section of this document).

**NOVEMBER 1994 FORECAST BASIS:**

	Actual F.Y. 1994	Forecast F.Y. 1995	Forecast F.Y. 1996	Forecast F.Y. 1997
Individual Income Tax	\$3,539,994	\$3,724,000	\$3,864,900	\$4,050,100
<i>Environmental Tax Credits</i>			\$(1,000)	\$(1,000)
<i>Prepayment of Tax Credits</i>			\$(2,200)	\$(120)
<b>RECOMMENDATION:</b>	\$3,539,994	\$3,724,000	\$3,861,700	\$4,048,980

1996-97 Biennial Budget

AGENCY: Revenue, Department of

REVENUE NAME: Sales and Use Tax

FUND: General Fund (10) and Local Government Trust Fund (7)

STATUTORY CITATION: M.S. Sections 297A.02 and 297A.14

**DESCRIPTION:**

The sales and use tax is imposed upon the retail sales price of tangible personal property and taxable services sold or used in Minnesota. The general rate is 6.5%, with a rate of 9.0% applicable to liquor and beer sales, a 4.5% rate applicable to special tooling, and a 2.5% rate applicable to farm machinery and logging equipment. These rates include the state-administered county option tax of 0.5% which is imposed in every county.

Major exemptions include food for off-premise consumption clothing, prescribed medicines, gasoline and special fuels subject to the excise tax, most publications issued at intervals of 3 months or less, materials used or consumed in agricultural or industrial production, textbooks, residential heating fuels and water services, and capital equipment for new or expanding industries.

**RECENT TRENDS:**

- In 1991, the tax rate was increased by 0.5% with the authorization and adoption of a county option tax in every county. Proceeds from the 0.5% tax plus 1.5% of the state rate was dedicated to the local government trust fund, the remaining 4.5% to the General Fund.
- In 1992, the general exemption for local governments was replaced with specific exemptions retained for school districts, publicly owned and operated hospitals and nursing homes, and specified purchases by public libraries.
- Recent legislation has included both adding some services (pet boarding, private communication) to the base and adding fairly specific exemptions--photovoltaic devices and wind energy conversion systems, for example.
- Flat taxes have been added: in 1991 to car rentals (\$7.50 per rental of less than 29 days) and in 1992 to 900 telephone service (\$.50 per call).
- In 1994, a phasedown of the sales tax rate on replacement capital equipment was adopted. The rate drops to 5.5% for F.Y. 1995 and continues to drop to 2.0% for F.Y. 1999.

**POLICY ISSUES:**

The most immediate policy issue is the continuation of the sales tax exemption on used farm machinery, currently scheduled to sunset at the end of F.Y. 1995.

NOVEMBER 1994 FORECAST BASIS:				
	Actual F.Y. 1994	Forecast F.Y. 1995	Forecast F.Y. 1996	Forecast F.Y. 1997
Sales and Use Tax	\$2,522,271	\$2,667,300	\$2,714,400	\$2,802,300
Used Farm Machinery Exempt			\$(1,600)	\$(1,600)
MNet Exemption			\$(250)	\$(250)
RECOMMENDATION:	\$2,522,271	\$2,667,300	\$2,712,550	\$2,800,450

**GOVERNOR'S RECOMMENDATION:**

The Governor's recommendation is to make permanent the exemption of used farm machinery from the sales tax that was in effect in fiscal year 1995. The sales that will be exempt are primarily sales by dealers.

The Governor also recommends that an exemption be granted for the purchase of equipment related to the MNet Initiative proposed by the Department of Administration.

1996-97 Biennial Budget

AGENCY: Revenue, Department of

REVENUE NAME: Corporate Franchise Tax

FUND: General (10)

STATUTORY CITATION: M.S. Section 290.02

**DESCRIPTION:**

The corporate franchise tax is imposed on the Minnesota taxable net income of corporations. Domestic unitary reporting is used. Income is apportioned to Minnesota using a weighted 3-factor formula of 15% property, 15% payroll, and 70% sales. Under certain conditions, separate accounting or a single sales factor can be used. The rate of tax is 9.8%. There is an alternative minimum tax on tax preference items, similar to its federal counterpart, at a tax rate of 5.8%.

In addition to any regular or alternative minimum tax, a minimum fee is imposed, which is based on the sum of the corporation's Minnesota property, payroll, and sales factors. The flat fee ranges from \$100 (for a corporation with factors of \$500,000-\$999,000) to \$5,000 (for a corporation with factors of \$20 million or more).

**RECENT TRENDS:**

The 1994 legislature adopted the 1993 federal tax changes to the definition of taxable income. Changes included limitations on expense deductions, increased expensing for capital investments, simplification in depreciation allowances and increases in the recovery period for nonresidential real property. Corporate estimated tax payment schedules were also changed. In addition, the legislature adopted a new corporate franchise and premiums tax credit for insurance company guarantee association assessments.

**POLICY ISSUES:**

Complexities in the alternative minimum tax, including depreciation adjustments necessitated by the difference in federal and Minnesota depreciation deduction for property placed in service in earlier years. The state will also have to evaluate any changes in the federal corporate profits tax base passed by Congress in 1995.

**GOVERNOR'S RECOMMENDATION:**

The Governor has made provisions in the budget for the Cambridge Bank judgment out of existing revenues.

**NOVEMBER 1994 FORECAST BASIS:**

	<u>Actual</u> F.Y. 1994	<u>Forecast</u> F.Y. 1995	<u>Forecast</u> F.Y. 1996	<u>Forecast</u> F.Y. 1997
Corporate Franchise Tax	\$551,822	\$662,800	\$638,600	\$634,300
<i>Cambridge Bank Refunds</i>			\$(80,000)	\$(80,000)
<b>RECOMMENDATION:</b>			\$558,600	\$557,300

1996-97 Biennial Budget

AGENCY: Revenue, Department of

REVENUE NAME: Motor Vehicle Excise Tax

FUND: General Fund (10) and Local Government Trust Fund (7)

STATUTORY CITATION: M.S. Section 297B.02

DESCRIPTION:

The tax is imposed on each purchase of a motor vehicle required to be registered in Minnesota. The tax is 6.5% of the purchase price less the value of a trade-in vehicle. The 6.5% rate includes the state-administered county option tax of 0.5% which is imposed in every county. For a vehicle transferred for a nominal or no monetary consideration, the purchase price is deemed to be the average value of similar motor vehicles. In lieu of the 6.5% tax, a flat tax of \$10 applies to passenger cars 10 years or older, and a flat tax of \$90 applies to collector vehicles.

RECENT TRENDS:

In 1991 the tax rate was increased by 0.5% with the authorization and adoption of a county option tax in every county.

POLICY ISSUES:

No policy issues are known at this time.

GOVERNOR'S RECOMMENDATION:

The Governor proposes no change to current law.

NOVEMBER 1994 FORECAST BASIS:

	Actual <u>F.Y. 1994</u>	Forecast <u>F.Y. 1995</u>	Forecast <u>F.Y. 1996</u>	Forecast <u>F.Y. 1997</u>
Motor Vehicle Excise Tax	\$332,994	\$362,600	\$361,100	\$371,500

1996-97 Biennial Budget

AGENCY: Revenue, Department of

REVENUE NAME: Insurance Premiums Taxes

FUND: General (10)

STATUTORY CITATION: M.S. Sections 60A.15, 60A.198, 69.54, and 299F.21.

DESCRIPTION:

Tax Base: Gross receipts less return premiums received on all business in Minnesota.

Rates:

- 2.0% - Domestic and foreign companies' premiums.
- 0.5% - Mutual companies other than life with assets less than \$1.6 billion.
- 3.0% - Surplus line agents.
- 0.5% - Fire marshal tax on fire premiums.
- 2.0% - Surcharge on fire premiums for property located in cities of the first class.

Exemptions: Fraternal benefit societies; nonprofit health service plan corporations; health maintenance organizations; Minnesota's comprehensive health association plan premiums; farmers' mutual and township mutual insurance companies (fire marshal tax).

RECENT TRENDS:

- Beginning in 1996, a 1.0% tax will be imposed on the premiums of health maintenance organizations and non-profit health service plan corporations. Proceeds will go to the Health Care Access fund.
- In 1994, a credit against the premiums tax was enacted for guaranty association assessments paid in a prior year(s). The credit is 20% of the assessment for each of the five years following the year the assessment is paid.
- In 1992, the ocean marine profits tax was repealed and replaced by the 2% premiums tax.

POLICY ISSUES:

No policy issues are known at this time.

GOVERNOR'S RECOMMENDATION:

The Governor proposes no change to current law.

NOVEMBER 1994 FORECAST BASIS:

	Actual F.Y. 1994	Forecast F.Y. 1995	Forecast F.Y. 1996	Forecast F.Y. 1997
Insurance Premiums Taxes	\$150,069	\$154,000	\$158,600	\$163,400

1996-97 Biennial Budget

AGENCY: Revenue, Department of

REVENUE NAME: Cigarette and Tobacco Products Tax

FUND: General (10) and MN Future Resources Fund (13)

STATUTORY CITATION: M.S. Sections 297.02, 297.22, and 297.32

DESCRIPTION:

Under current law the tax on cigarettes is 48 cents per pack of 20 cigarettes. The General Fund portion of the cigarette tax includes bond debt service but excludes allotment to the Minnesota Future Resources Fund and the Health Care Access Fund from 7-1-92 to 12-31-93.

The current tax on other tobacco products is 35% of wholesale price. All of the tobacco products tax goes to the state General Fund.

The Cigarette and Tobacco Products Tax is paid by distributors or wholesalers of tobacco products.

POLICY ISSUES:

No policy issues are known at this time.

GOVERNOR'S RECOMMENDATION:

The Governor proposes no change to current law.

NOVEMBER 1994 FORECAST BASIS:

	Actual F.Y. 1994	Forecast F.Y. 1995	Forecast F.Y. 1996	Forecast F.Y. 1997
Cigarette and Tobacco Products Tax	\$158,684	\$166,965	\$166,602	\$166,907
General Fund	\$151,018	\$159,806	\$159,492	\$159,825
MN Future Res. Fund	\$7,666	\$7,159	\$7,110	\$7,082

1996-97 Biennial Budget

AGENCY: Revenue, Department of

REVENUE NAME: Mortgage Registry Tax and Deed Transfer Tax

FUND: General (10)

STATUTORY CITATION: M.S. Sections 287.05 and 287.21

DESCRIPTION:

The mortgage registry tax is \$0.23 per \$100.00 of principal debt which is secured by a mortgage of real property in the state. Organizations exempt from the property tax are exempt from this tax.

The deed transfer tax is \$1.65 for each \$500.00 of consideration in the transfer of real estate by any deed, instrument, or writing. Exemptions include cemetery lots and deed of distribution by personal representatives.

The counties collect both taxes and retain 3% of the revenue.

RECENT TRENDS:

In 1987, the rates for both taxes were increased and the deed transfer tax was extended to personal property transferred as part of total consideration. In 1991, reverse mortgages were made subject to the mortgage registry tax.

POLICY ISSUES:

No policy issues are known at this time.

GOVERNOR'S RECOMMENDATION:

The Governor proposes no change to current law.

NOVEMBER 1994 FORECAST BASIS:

	<u>Actual</u> <u>F.Y. 1994</u>	<u>Forecast</u> <u>F.Y. 1995</u>	<u>Forecast</u> <u>F.Y. 1996</u>	<u>Forecast</u> <u>F.Y. 1997</u>
Mortgage Registry Tax and Deed Transfer Tax	\$102,152	\$70,200	\$66,700	\$66,700

1996-97 Biennial Budget

AGENCY: Revenue, Department of

REVENUE NAME: Lawful Gambling Taxes

FUND: General (10)

STATUTORY CITATION: M.S. Section 349.212

**DESCRIPTION:**

Under current law, a *Lawful Gambling Tax* on the gross receipts of organizations from bingo, raffles, and paddlewheels less prizes is 10%.

Under current law, which took effect October 1989, the *Combined Receipts Tax* is levied on the fiscal year gross receipts of an organization from pull-tabs and tipboards. The tax rates are as follows:

<u>Gross Receipts</u>	<u>Tax Rate</u>
Not over \$500,000	0%
\$500,001 - \$700,000	2%
\$700,001 - \$900,000	4%
\$900,001 and Over	6%

A *Pulltab and Tipboard Tax* is levied upon the ideal gross of each pulltab or tipboard deal sold by the distributor. A "deal" is defined as each separate package, or services of packages, consisting of one game of pull-tabs or tipboards.

A *Pari-mutuel Tax* is levied upon the total amount bet in pari-mutuel horse racing pools at a licensed race track.

**DEFINITIONS:**

A **paddlewheel** is a wheel with marked numbers or sections which is spun until a pointer stops on one of the spaces. The player who has previously purchased the ticket corresponding to that space wins.

**POLICY ISSUES:**

No policy issues are known at this time.

**GOVERNOR'S RECOMMENDATION:**

The Governor proposes no change to current law.

**NOVEMBER 1994 FORECAST BASIS:**

	<u>Actual</u> <u>F.Y. 1994</u>	<u>Forecast</u> <u>F.Y. 1995</u>	<u>Forecast</u> <u>F.Y. 1996</u>	<u>Forecast</u> <u>F.Y. 1997</u>
Lawful Gambling Taxes	\$58,024	\$58,160	\$58,227	\$58,900
General Fund	\$57,614	\$58,050	\$58,117	\$57,976
Special Revenue Fund	\$410	\$110	\$110	\$924

1996-97 Biennial Budget

AGENCY: Revenue, Department of

REVENUE NAME: Liquor, Wine, and Beer Tax

FUND: General (10)

STATUTORY CITATION: M.S. Section 297C.02

DESCRIPTION:

Under current law the tax on distilled spirits is \$5.03 per gallon; beer containing 3.2% or less alcohol, \$0.0774 per gallon; and beer containing more than 3.2% alcohol, \$0.1484 per gallon. Wines with alcohol contents ranging from 14% or less to more than 24% are taxed at graduated rates ranging from \$0.30 to \$3.52 per gallon. Sparkling wine is taxed at \$1.82 per gallon.

POLICY ISSUES:

No policy issues are known at this time.

GOVERNOR'S RECOMMENDATION:

The Governor proposes no change to current law.

NOVEMBER 1994 FORECAST BASIS:

	<u>Actual</u> <u>F.Y. 1994</u>	<u>Forecast</u> <u>F.Y. 1995</u>	<u>Forecast</u> <u>F.Y. 1996</u>	<u>Forecast</u> <u>F.Y. 1997</u>
Liquor, Wine and Beer	\$56,146	\$54,827	\$54,531	\$54,579

1996-97 Biennial Budget

AGENCY: Revenue, Department of

REVENUE NAME: Income Tax Reciprocity

FUND: General (10)

STATUTORY CITATION: M.S. Section 290.081

DESCRIPTION:

The income tax reciprocity agreement between Minnesota and Wisconsin has been in effect since 1972. Whenever the Wisconsin tax on Minnesota residents, which would have been paid without the reciprocity agreement, exceeds the Minnesota tax on Wisconsin residents, which would have been paid without the agreement, or vice versa, the state with the net revenue loss resulting from the agreement shall receive from the other state the amount of such loss. In F.Y. 1993, the net revenue received from Wisconsin was \$24.1 million.

POLICY ISSUES:

No policy issues are known at this time.

GOVERNOR'S RECOMMENDATION:

The Governor proposes no change to current law.

NOVEMBER 1994 FORECAST BASIS:

	Actual F.Y. 1994	Forecast F.Y. 1995	Forecast F.Y. 1996	Forecast F.Y. 1997
Income Tax Reciprocity	\$26,893	\$26,926	\$27,962	\$28,697

1996-97 Biennial Budget

AGENCY: Revenue, Department of

REVENUE NAME: Inheritance, Gift, and Estate Tax

FUND: General (10)

STATUTORY CITATION: M.S. Section 291.01

DESCRIPTION:

The Minnesota estate tax was enacted in 1979, replacing the inheritance and gift taxes. Under current law, the estate tax is computed from the federal maximum credit for the state death tax. The tax equals the maximum federal credit multiplied by the proportion of the federal gross estate attributed to Minnesota. Estate returns must be filed if the federal gross estate exceeds \$600,000.

POLICY ISSUES:

No proposed state tax law changes are currently considered which would affect the revenue estimates. At the federal level, legislation has been proposed to reduce the \$600,000 exemption to \$200,000.

GOVERNOR'S RECOMMENDATION:

The Governor proposes no change to current law.

NOVEMBER 1994 FORECAST BASIS:

	Actual F.Y. 1994	Forecast F.Y. 1995	Forecast F.Y. 1996	Forecast F.Y. 1997
Inheritance, Gift and Estate Tax	\$43,732	\$30,003	\$28,003	\$28,003

1996-97 Biennial Budget

AGENCY: Revenue, Department of

REVENUE NAME: Iron Ore and Taconite Occupation Taxes

FUND: General (10)

STATUTORY CITATION: M.S. 298.01

DESCRIPTION:

The Occupation Tax is a form of income tax (passed 12 years before Minnesota had an income tax) based upon the value of the ore mined or produced in Minnesota, not upon the income from the sale of the ore. The primary reason for this distinction was that iron ore was generally not sold since most mining companies were owned by one of many vertically integrated steel companies.

Beginning in 1990, the Occupation Tax was modified to be determined under the same rules as the Corporate Franchise Tax, with 2 very notable exceptions: 1) the tax continues to be based upon the value of the ore produced, with limited, specified deductions for expenses, and 2) the tax applies only to the Minnesota mine and processing plant (non-unitary) rather than the total nationwide activities of the owners (unitary). The applicable tax rate is 9.89% beginning in 1990. Firms are also subject to the corporate alternative minimum tax.

Since 1986 production of taconite has steadily increased and the production of iron ore has steadily decreased. The production of both taconite and iron ore are expected to decrease in 1991, due primarily to a weakened demand for steel and steel products.

	<u>Taconite</u>		<u>Iron Ore</u>	
	<u>Tons</u>	<u>Tax</u>	<u>Tons</u>	<u>Tax</u>
<u>1990 (F.Y. 1991)</u>				
Production actual	43.2M	\$2.5M	500,000	\$100,000
Tax estimated				
<u>1991 (F.Y. 1992)</u>				
Production actual	37.0M	\$2.0M	300,000	\$75,000
Tax estimated				

POLICY ISSUES:

No policy issues are known at this time.

GOVERNOR'S RECOMMENDATION:

The Governor proposes no change to current law.

**NOVEMBER 1994 FORECAST BASIS:**

	<u>Actual</u> <u>F.Y. 1994</u>	<u>Forecast</u> <u>F.Y. 1995</u>	<u>Forecast</u> <u>F.Y. 1996</u>	<u>Forecast</u> <u>F.Y. 1997</u>
Iron Ore and Taconite Occupation Taxes	\$2,665	\$3,030	\$3,030	\$3,025

1996-97 Biennial Budget

AGENCY: Revenue, Department of

REVENUE NAME: Contamination Tax

FUND: General (10)

STATUTORY CITATION: M.S. Section 270.91

DESCRIPTION:

Contamination tax is levied on the "contamination value" of a parcel of real property. The tax is levied by counties, but a portion of the tax is sent to the state and deposited in the contaminated site cleanup and development account in the General Fund. The tax takes effect for property taxes payable in calendar year 1995.

POLICY ISSUES:

No policy issues are known at this time.

GOVERNOR'S RECOMMENDATION:

The Governor recommends continuation of current law.

NOVEMBER 1994 FORECAST BASIS:

	<u>Actual</u> <u>F.Y. 1994</u>	<u>Forecast</u> <u>F.Y. 1995</u>	<u>Forecast</u> <u>F.Y. 1996</u>	<u>Forecast</u> <u>F.Y. 1997</u>
Contamination Tax		\$58	\$583	\$583

1996-97 Biennial Budget

AGENCY: Revenue, Department of

REVENUE NAME: Controlled Substances Tax

FUND: General (10)

STATUTORY CITATION: M.S. Section 297D.08.

DESCRIPTION:

Tax Base: Marijuana or controlled substance, as defined, that is held, possessed, transported, transferred, sold, or offered to be sold in violation of Minnesota laws.

Rates:

- Marijuana - \$3.50 per gram or portion thereof.
- Controlled substance - \$200 per gram or portion thereof.
- Controlled substance not sold by weight - \$400 on each ten dosage units, or portion thereof.

Exemptions: Pharmacists or other persons lawfully in possession of marijuana or a controlled substance.

Who Pays: A dealer who in violation of Minnesota law, manufactures, produces, ships, transports, or imports into Minnesota or possesses more than the specified amount of marijuana or a controlled substance.

POLICY ISSUES:

No policy issues are known at this time.

GOVERNOR'S RECOMMENDATION:

The Governor proposes no change to current law.

**NOVEMBER 1994 FORECAST BASIS:**

	Actual <u>F.Y. 1994</u>	Forecast <u>F.Y. 1995</u>	Forecast <u>F.Y. 1996</u>	Forecast <u>F.Y. 1997</u>
Controlled Substances Tax	\$214	\$150	\$150	\$150

1996-97 Biennial Budget

AGENCY: Revenue, Department of

REVENUE NAME: Taconite Production Tax

FUND: General Fund (10), Iron Range Resource and Rehabilitation Fund (24), and  
NE Minnesota Economic Protection Fund (58)

STATUTORY CITATION: M.S. Section 298

DESCRIPTION:

The production tax is paid by mining companies in lieu of local property taxes on land, buildings, and equipment used in taconite mining, quarrying, or production.

The 1993 Taconite Production Tax (payable 100% on February 24, 1994) was \$80,195,972. This money is paid to the Iron Range counties, who distribute it to various county funds, cities, townships and school districts within the county, the Taconite Property Tax Relief account, the IRRRB, and a small portion to designated agencies: 0.3¢ per taxable ton (\$105,348 for 1994 payable year) to the Range Association of Municipalities and Schools (RAMS), and \$55,000 to the Department of Revenue, for administering this tax.

Beginning with production year 1991, the rate is increased annually by the implicit price deflator. The 1993 (payable 1994) taconite tax rate was \$2.054 per ton. The rate has been frozen at this level for production years 1991 thru 1994.

POLICY ISSUES:

No policy issues are known at this time.

GOVERNOR'S RECOMMENDATION:

The Governor proposes no change to current law.

NOVEMBER 1994 FORECAST BASIS:

	Actual F.Y. 1994	Forecast F.Y. 1995	Forecast F.Y. 1996	Forecast F.Y. 1997
Taconite Production Tax	\$80,196	\$81,034	\$83,851	\$83,464
<i>State Funds</i>				
General Fund	\$55	\$55	\$55	\$55
Iron Range R & R Fund	\$21,732	\$21,933	\$23,307	\$22,942
NE Minn. Econ. Prot. Fund	\$3,477	\$3,780	\$4,450	\$4,710

1996-97 Biennial Budget

AGENCY: Revenue, Department of

REVENUE NAME: Rental Motor Vehicle Tax

FUND: General (10)

STATUTORY CITATION: M.S. Section 297A.135

DESCRIPTION:

A tax of 6.2 percent is imposed on the rental or lease payment for motor vehicles rented for no more than 29 days.

RECENT TRENDS:

The 1994 legislature changed the rental motor vehicle tax from \$7.50 per rental to 6.2 percent of the total rental payment

POLICY ISSUES:

No policy issues are known at this time.

GOVERNOR'S RECOMMENDATION:

The Governor proposes no change to current law.

NOVEMBER 1994 FORECAST BASIS:

	Actual F.Y. 1994	Forecast F.Y. 1995	Forecast F.Y. 1996	Forecast F.Y. 1997
Rental Motor Vehicle Tax	\$6,266	\$ 7,039	\$ 7,321	\$ 7,612

1996-97 Biennial Budget

AGENCY: Revenue, Department of

REVENUE NAME: Telephone and Telegraph Gross Earnings Tax

FUND: General (10)

STATUTORY CITATION: M.S. Sections 273.41, 294.22, 295.32, and 295.34

DESCRIPTION:

The gross earnings tax is levied on the gross receipts of telephone and telegraph companies. Effective in 1991 for telephone companies, the tax rate is 1.0% on income from rural subscribers and cities of the 4th class and 2.5% on income from all other business. Starting in 1992, the gross earnings tax is phased out. In the case of telegraph companies, the gross earnings tax rate is 2.0% in 1991, then zero starting in 1992.

POLICY ISSUES:

No policy issues are known at this time.

GOVERNOR'S RECOMMENDATION:

The Governor proposes no change to current law.

NOVEMBER 1994 FORECAST BASIS:

	Actual F.Y. 1994	Forecast F.Y. 1995	Forecast F.Y. 1996	Forecast F.Y. 1997
Telephone and Telegraph Gross Earnings Tax	\$269			

AGENCY: Public Safety, Department of

REVENUE NAME: Motor Vehicle Registration Tax

FUND: Highway User Tax Distribution Fund (28)

STATUTORY CITATION: M.S., Chapter 168

**DESCRIPTION:**

The Motor Vehicle Registration Tax applies to all vehicles using the public streets and highways of Minnesota and is paid by individuals licensing or annually re-registering a motor vehicle. For passenger cars, pickup trucks and vans, a rate of \$10 plus 1.25% of depreciated base value applies. The minimum tax is \$35. Tax on buses, tractors and trucks are based on the type, weight and age of the vehicle. A minimum tax applies to each type of vehicle.

Exemption from the tax is extended to a variety of publicly-owned vehicles and agricultural tractors and trailers.

The tax is administered by the Department of Public Safety through its annual licensing activity.

**POLICY ISSUES:**

No policy issues are known at this time.

**GOVERNOR'S RECOMMENDATION:**

The Governor proposes no change to current law.

**NOVEMBER 1994 FORECAST BASIS:**

	<u>Actual</u> <u>F.Y. 1994</u>	<u>Forecast</u> <u>F.Y. 1995</u>	<u>Forecast</u> <u>F.Y. 1996</u>	<u>Forecast</u> <u>F.Y. 1997</u>
Motor Vehicle Reg. Tax	\$ 425,036	\$ 437,687	\$ 441,508	\$ 455,296

1996-97 Biennial Budget

AGENCY: Transportation, Department of

REVENUE NAME: Gasoline Tax

FUND: Highway User Tax Distribution Fund (28)

STATUTORY CITATION: M.S. Section 296.02, 296.025, and 296.026

DESCRIPTION:

The Gasoline Tax applies to all fuel used in highway vehicles, boats, snowmobiles and all-terrain vehicles. The tax rate is 20¢ per gallon. Gasoline taxes paid on fuel used for non-highway use, except that used in boats, snowmobiles and all-terrain vehicles, may be claimed as a refund or credit. Distributors of fuel-grade alcohol blended with gasoline (gasohol) receive a 20¢ per gallon credit. The credit is 30¢ per gallon instead of 20¢ if the gasohol is sold in bulk to a governmental unit or for school transportation. The following exemptions apply: petroleum substitutes produced from waste products; sales to transit systems receiving state financial assistance.

Taxes paid on gasoline used in boats, snowmobiles and all-terrain vehicles are deposited into dedicated accounts. Deposit amounts are calculated by applying the following distribution percentages: marine - 1.5%, snowmobiles - 0.75%, and all-terrain vehicles - 0.20%.

Distributors of gasoline collect and remit the tax. Sellers of special fuels collect and remit the tax. Bulk purchasers of special fuels may elect to remit the tax on fuel purchased by them. Owners of vehicles using compressed natural gas or propane gas pay annual permit fees directly.

The Department of Revenue administers the tax; the Department of Public Safety collects the compressed natural gas or propane permits.

POLICY ISSUES:

No policy issues are known at this time.

GOVERNOR'S RECOMMENDATION:

The Governor proposes no change to current law.

NOVEMBER 1994 FORECAST BASIS:

	Actual F.Y. 1994	Forecast F.Y. 1995	Forecast F.Y. 1996	Forecast F.Y. 1997
Gas and Spec. Fuels Tax	\$ 487,596	\$ 497,343	\$ 506,727	\$ 517,529

1996-97 Biennial Budget

AGENCY: Transportation, Department of

REVENUE NAME: Aircraft Registration Tax

FUND: State Airports Fund (22)

STATUTORY CITATION: M.S. Section 360.531

**DESCRIPTION:**

The Aircraft Registration Tax applies to the value of noncommercial aircraft which regularly use the airspace over the airports in Minnesota. The rate is 1% of value. The value begins with the base price of the aircraft. Value is reduced for depreciation 10% in the first year and 15% in each year succeeding. A minimum tax applies: the greater of 25% of the tax computed on the original base price, or \$50.

Aircraft of the civil air patrol and government-owned aircraft are exempt.

The Department of Transportation collects the tax from any person who registers a noncommercial aircraft in Minnesota.

**POLICY ISSUES:**

No policy issues are known at this time.

**GOVERNOR'S RECOMMENDATION:**

The Governor proposes no change to current law.

**NOVEMBER 1994 FORECAST BASIS:**

	<u>Actual</u> <u>F.Y. 1994</u>	<u>Forecast</u> <u>F.Y. 1995</u>	<u>Forecast</u> <u>F.Y. 1996</u>	<u>Forecast</u> <u>F.Y. 1997</u>
Aircraft Registration Tax	\$ 2,097	\$ 2,120	\$ 2,203	\$ 2,258

1996-97 Biennial Budget

AGENCY: Revenue, Department of

REVENUE NAME: Air Carrier Flight Property Tax

FUND: State Airports Fund (22)

STATUTORY CITATION: M.S. Section 270.072

**DESCRIPTION:**

The Air Carrier Flight Property Tax taxes the value of the flight property of commercial air carriers, as determined by the Department of Revenue. The property value is multiplied by several apportionment factors designed to capture the relative amount of flight activity by the air carrier, then multiplied by varied class rates. The resulting tax capacity is multiplied by a tax rate derived by dividing the statutorily specified revenue amount by the total tax capacity to arrive at the air carrier property tax rate (For more details, see Department of Revenue's *Minnesota Tax Handbook*).

Commuter airlines electing to be taxed under the Aircraft Registration Tax may be granted an exemption.

The Department of Revenue collects the tax from all air carriers engaged in air commerce under certificates issue by the U.S. Department of Transportation.

**POLICY ISSUES:**

No policy issues are known at this time.

**GOVERNOR'S RECOMMENDATION:**

The Governor proposes no change to current law.

**NOVEMBER 1994 FORECAST BASIS:**

	<u>Actual</u> <u>F.Y. 1994</u>	<u>Forecast</u> <u>F.Y. 1995</u>	<u>Forecast</u> <u>F.Y. 1996</u>	<u>Forecast</u> <u>F.Y. 1997</u>
Air Carr. Flight Prop. Tax	\$ 8,200	\$ 8,700	\$ 9,000	\$ 9,300

1996-97 Biennial Budget

AGENCY: Revenue, Department of

REVENUE NAME: Provider Tax - 2%

FUND: Health Care Access Fund (19)

STATUTORY CITATION: M.S. 295.52, Subd. 2

DESCRIPTION:

Tax of 2% on the gross revenues of health care providers. The tax base is reduced for Medicare and medical assistance payments, payments received from hospitals and providers subject to the 2% tax, and other exempt payments. Also included in this total is a 2% tax on the gross revenues of wholesale drug distributors and the 2% tax on gross revenues from taxable items sold by pharmacies.

RECENT TRENDS:

Provider tax was first effective on January 1, 1994.

POLICY ISSUES:

Due to recent state court cases, the 2% provider tax is no longer imposed on nonresident providers for services delivered to Minnesota residents.

GOVERNOR'S RECOMMENDATION:

The Governor recommends that non-resident providers be taxed on any services provided in Minnesota. The Governor recommends that the definition of coinsurance which is deductible from the MinnesotaCare tax base be narrowed. The Governor also recommends the exemption from the base for payments that are incidental to conducting medical research be eliminated.

NOVEMBER 1994 FORECAST BASIS:

	Actual F.Y. 1994	Forecast F.Y. 1995	Forecast F.Y. 1996	Forecast F.Y. 1997
Provider Tax - 2%	\$146,000	\$85,145	\$98,457	\$105,062
<i>Non-Res. Providers Taxable</i>			100	\$100
<i>Narrow Coins. Definition</i>			\$2,000	\$2,000
<i>Med. Research Exemp. Eliminated</i>			\$100	\$100
<b>RECOMMENDATION:</b>			\$100,657	\$107,262

1996-97 Biennial Budget

AGENCY: Revenue, Department of

REVENUE NAME: Hospital Tax - 2%

FUND: Health Care Access Fund (19)

STATUTORY CITATION: M.S. 295.52, Subd. 1

DESCRIPTION:

Tax of 2% on the gross revenues from inpatient and outpatient services. Tax base is reduced for medicine and medical assistance payments, payments from hospitals and providers subject to the 2% tax and other exempt payments. The tax is imposed upon resident hospitals and surgical centers and nonresident hospitals serving Minnesota residents. Also included in the total for the hospital tax is a 2% tax on the gross revenues from taxable items sold by pharmacies.

RECENT TRENDS:

The hospital tax was first effective on January 1, 1993.

POLICY ISSUES:

No policy issues are known at this time.

GOVERNOR'S RECOMMENDATION:

Narrow the definition of coinsurance which is deductible from the tax base. (See 2% provider tax for impact.)

NOVEMBER 1994 FORECAST BASIS:

	Actual F.Y. 1994	Forecast F.Y. 1995	Forecast F.Y. 1996	Forecast F.Y. 1997
Hospital Tax - 2%	\$42,700	\$45,092	\$48,953	\$54,702

1996-97 Biennial Budget

AGENCY: Minnesota Pollution Control Agency

REVENUE NAME: Solid Waste Disposal Tax

FUND: Environmental (33), Metropolitan Landfill Contingency Fund (36), and Landfill Cleanup Fund (37)

STATUTORY CITATION: M.S. Section 473.884, 473.845, and 116A.07

**DESCRIPTION:**

Revenue for the Metropolitan Landfill Abatement Account in the Environmental Fund is generated by a \$1.50 per cubic yard surcharge on solid waste accepted and disposed of at the Burnsville and Pine Bend landfills in Dakota County. Revenue for the Metropolitan Landfill Contingency Action Trust (MLCAT) is the same as above except that the surcharge is \$0.50, making a total surcharge of \$2.00 per cubic yard in the metropolitan area. Revenue for the Landfill Cleanup fund is generated by an assessment of \$2 per residence and, beginning in January 1995, \$0.60 per cubic yard for commercial waste, industrial wastes, along with medical, pathological and demolition debris.

**POLICY ISSUES:**

The policies relating to the reduction of solid waste going into landfills are having their intended environmental effect, thereby decreasing the amount of revenue going into the fund.

The Landfill Cleanup Activity is a successful alternative to funding landfill cleanup from the state Superfund program, which has a policy of pursuing responsible parties, resulting in litigation and delays. The current policy will expedite landfill cleanup at a lower cost.

**GOVERNOR'S RECOMMENDATION:**

The Governor recommends no change to current law.

**NOVEMBER 1994 FORECAST BASIS:**

	Actual F.Y. 1994	Forecast F.Y. 1995	Forecast F.Y. 1996	Forecast F.Y. 1997
Solid Waste Disposal Tax	\$2,191	\$13,310	\$21,997	\$21,776
Environmental	\$ 1,644	\$ 1,178	\$ 995	\$ 830
Metro. Landfill Cont. Fund	\$ 547	\$ 575	\$ 333	\$ 277
Landfill Cleanup Fund	\$ 0	\$ 11,557	\$ 20,669	\$ 20,669

1996-97 Biennial Budget

AGENCY: Minnesota Pollution Control Agency

REVENUE NAME: Hazardous Waste Tax

FUND: Environmental Fund (33)

STATUTORY CITATION: M.S. Section 115B.22

DESCRIPTION:

Each Hazardous Waste Generator pays taxes based on volume and the destination of the hazardous wastes generated. All but the very smallest generators are assessed. The assessment includes a two-tier, volume-based fee on hazardous waste treatment and disposal. Exemptions apply to a number of specific waste types.

POLICY ISSUES:

Amendments to the Hazardous Waste Tax in 1993 should provide a stable funding source for the Superfund program until the year 2004, when the tax is scheduled to sunset.

GOVERNOR'S RECOMMENDATION:

The Governor recommends no change to current law.

NOVEMBER 1994 FORECAST BASIS:

	<u>Actual</u> <u>F.Y. 1994</u>	<u>Forecast</u> <u>F.Y. 1995</u>	<u>Forecast</u> <u>F.Y. 1996</u>	<u>Forecast</u> <u>F.Y. 1997</u>
Hazardous Waste Tax	\$ 571	\$ 3,700	\$ 3,700	\$ 3,700

1996-97 Biennial Budget

AGENCY: Revenue, Department of

REVENUE NAME: Aviation Gasoline Tax

FUND: State Airports Fund (22)

STATUTORY CITATION: M.S. Section 296.02, 296.025, and 296.026

DESCRIPTION:

The Aviation Gasoline Tax, adopted in 1983, applies to all fuel used in aircraft. The tax rate is 5¢ per gallon. Aviation fuel taxes are refundable on a graduated basis, depending on the number of gallons purchased in excess of 50,000 gallons.

POLICY ISSUES:

No policy issues are known at this time.

GOVERNOR'S RECOMMENDATION:

The Governor proposes no change to current policy law.

NOVEMBER 1994 FORECAST BASIS:

	<u>Actual</u> <u>F.Y. 1994</u>	<u>Forecast</u> <u>F.Y. 1995</u>	<u>Forecast</u> <u>F.Y. 1996</u>	<u>Forecast</u> <u>F.Y. 1997</u>
Aviation Gas Tax	\$ 3,409	\$ 3,527	\$ 3,562	\$ 3,616

**Directory of Local Aids and Credits**

**Major Local Aids and Credits**  
 General Fund and Local Government Trust Fund  
 November, 1994 Forecast

(\$ 000s)

	Actual F.Y. 1992	Actual F.Y. 1993	Actual F.Y. 1992-93	Actual F.Y. 1994	11-94 Fcst F.Y. 1995	11-94 Fcst F.Y. 1994-95	Gov's Recs. F.Y. 1996	Gov's Recs. F.Y. 1997	Gov's Recs. F.Y. 1996-97
<b><u>LOCAL AIDS &amp; CREDITS</u></b>									
<b>Property Tax Refunds</b>	<b>145,559</b>	<b>149,419</b>	<b>294,978</b>	<b>164,297</b>	<b>160,400</b>	<b>324,697</b>	<b>163,900</b>	<b>173,100</b>	<b>337,000</b>
Regular Homeowners	48,072	48,603	96,675	57,993	62,300	120,293	72,400	82,200	154,600
Regular Renters	77,933	87,669	165,602	90,699	90,200	180,899	83,800	85,400	169,200
Targeting	19,554	13,147	32,701	15,605	7,900	23,505	7,700	5,500	13,200
<b>Aid to Local Government (LGA)</b>	<b>285,227</b>	<b>305,906</b>	<b>591,133</b>	<b>291,173</b>	<b>333,071</b>	<b>624,244</b>	<b>311,934</b>	<b>328,287</b>	<b>640,221</b>
<b>Equalization Aid</b>	<b>19,477</b>	<b>21,078</b>	<b>40,555</b>	<b>20,011</b>	<b>0</b>	<b>20,011</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Disparity Reduction Aid</b>	<b>43,251</b>	<b>42,619</b>	<b>85,870</b>	<b>42,476</b>	<b>28,409</b>	<b>70,885</b>	<b>28,444</b>	<b>28,446</b>	<b>56,890</b>
Aid To School Districts	12,938	12,763	25,701	12,804	12,648	25,452	12,629	12,631	25,260
Cities, Towns, Counties	30,313	29,856	60,169	29,672	15,761	45,433	15,815	15,815	31,630
<b>Border City Disparity Credit</b>	<b>2,355</b>	<b>2,596</b>	<b>4,951</b>	<b>3,916</b>	<b>4,425</b>	<b>8,341</b>	<b>4,913</b>	<b>5,454</b>	<b>10,367</b>
Aid To School Districts	877	835	1,712	1,373	1,593	2,966	1,765	1,960	3,725
Cities, Towns, Counties	1,478	1,761	3,239	2,543	2,832	5,375	3,148	3,494	6,642
<b>Attached Machinery Aid</b>	<b>3,218</b>	<b>3,218</b>	<b>6,436</b>	<b>3,218</b>	<b>3,218</b>	<b>6,436</b>	<b>3,218</b>	<b>3,218</b>	<b>6,436</b>
Aid To School Districts	836	836	1,672	836	836	1,672	836	836	1,672
Cities, Towns, Counties	2,382	2,382	4,764	2,382	2,382	4,764	2,382	2,382	4,764
<b>Homestead Agric Credit Aid</b>	<b>490,017</b>	<b>532,153</b>	<b>1,022,170</b>	<b>606,185</b>	<b>594,219</b>	<b>1,200,404</b>	<b>562,356</b>	<b>594,915</b>	<b>1,157,271</b>
Aid To School Districts	149,061	164,865	313,926	186,180	148,505	334,685	142,374	142,565	284,939
Cities, Towns, Counties	340,956	367,288	708,244	420,005	445,714	865,719	419,982	452,350	872,332
<b>HACA Mobile Home</b>	<b>5,766</b>	<b>6,037</b>	<b>11,803</b>	<b>6,302</b>	<b>6,354</b>	<b>12,656</b>	<b>6,386</b>	<b>6,419</b>	<b>12,805</b>
Aid To School Districts	2,881	3,028	5,909	3,173	3,193	6,366	3,192	3,192	6,384
Cities, Towns, Counties	2,885	3,009	5,894	3,129	3,161	6,290	3,194	3,227	6,421
<b>Prior Year Credit</b>	<b>1,574</b>	<b>262</b>	<b>1,836</b>	<b>34</b>	<b>49</b>	<b>83</b>	<b>50</b>	<b>50</b>	<b>100</b>
Aid To School Districts	629	154	783	25	17	42	18	18	36
Cities, Towns, Counties	945	108	1,053	9	32	41	32	32	64
<b>TIF HACA</b>	<b>24</b>	<b>24</b>	<b>48</b>	<b>24</b>	<b>24</b>	<b>48</b>	<b>24</b>	<b>24</b>	<b>48</b>
<b>Taconite Aid Reimbursement</b>	<b>561</b>	<b>561</b>	<b>1,122</b>	<b>561</b>	<b>561</b>	<b>1,122</b>	<b>561</b>	<b>561</b>	<b>1,122</b>
<b>Suppl Hmstd Prop Tax Relief</b>	<b>346</b>	<b>364</b>	<b>710</b>	<b>402</b>	<b>427</b>	<b>829</b>	<b>434</b>	<b>434</b>	<b>868</b>

**Major Local Aids and Credits**  
 General Fund and Local Government Trust Fund  
 November, 1994 Forecast

(\$ 000s)

	Actual F.Y. 1992	Actual F.Y. 1993	Actual F.Y. 1992-93	Actual F.Y. 1994	11-94 Fcst F.Y. 1995	11-94 Fcst F.Y. 1994-95	Gov's Recs. F.Y. 1996	Gov's Recs. F.Y. 1997	Gov's Recs. F.Y. 1996-97
<b><i>LOCAL AIDS &amp; CREDITS</i></b>									
<b>Transition Credit Aid</b>	<b>52</b>	<b>108</b>	<b>160</b>	<b>49</b>	<b>3</b>	<b>52</b>	<b>0</b>	<b>0</b>	<b>0</b>
Aid To School Districts	17	43	60	23	3	26	0	0	0
Cities, Towns, Counties	35	65	100	26	0	26	0	0	0
<b>Aid to Police &amp; Fire</b>	<b>41,408</b>	<b>43,268</b>	<b>84,676</b>	<b>44,917</b>	<b>47,876</b>	<b>92,793</b>	<b>50,445</b>	<b>53,157</b>	<b>103,602</b>
<b>RTB Levy Reduction</b>	<b>2,849</b>	<b>2,075</b>	<b>4,924</b>	<b>3,503</b>	<b>2,025</b>	<b>5,528</b>	<b>2,158</b>	<b>2,158</b>	<b>4,316</b>
<b>Disaster Credit</b>	<b>0</b>	<b>4</b>	<b>4</b>	<b>34</b>	<b>3</b>	<b>37</b>	<b>0</b>	<b>0</b>	<b>0</b>
Aid To School Districts	0	2	2	14	3	17	0	0	0
Cities, Towns, Counties	0	2	2	20	0	20	0	0	0
<b>Enterprise Zone Credit</b>	<b>78</b>	<b>29</b>	<b>107</b>	<b>24</b>	<b>24</b>	<b>48</b>	<b>49</b>	<b>49</b>	<b>98</b>
Aid To School Districts	13	9	22	8	8	16	8	8	16
Cities, Towns, Counties	65	20	85	16	16	32	16	16	32
Economic Security Enterprise Zone Credit	0	0	0	0	0	0	25	25	50
<b>Criminal Justice Aid</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>8,202</b>	<b>8,400</b>	<b>16,128</b>	<b>10,000</b>	<b>10,265</b>	<b>19,454</b>
<b>Family Preservation Aid</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,500</b>	<b>1,540</b>	<b>3,040</b>

1996-97 Biennial Budget

AGENCY: Revenue, Department of

AID/CREDIT: Basic and Mobile Home Homestead-Agricultural Credit Aid (HACA)

FUND: General Fund

STATUTORY CITATION: M.S. 273.1398, 273.166

PURPOSE:

This program provides general property tax relief aid of local governments to compensate for a reduction in taxable value class rates on homesteads, rental, commercial/industrial, and other selected properties.

DESCRIPTION:

The homestead and agricultural credit aid (HACA) was adopted in 1988 with the first effective year being for taxes payable in 1990. In general, the intent of HACA is to replace the homestead and agricultural credit property tax relief system with a general aid that compensates local governments for the loss in tax capacity resulting from lower class rates (taxable assessment value) on selected property types. The original aid was determined by a complicated formula which basically computes the difference between "gross" tax capacity and "net" tax capacity. The initial base year for this computation is 1989 and the aid is apportioned to all types of local governments. The formula has various inflation and other growth adjustment factors for taxes payable in 1991 and subsequent years. The final aid amounts distributed to local governments are also subject to general aid reduction provisions and program offsets for state takeover of income maintenance and court costs.

RECENT TRENDS:

	<u>Dollars in Thousands</u>			
	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>	<u>F.Y. 1996</u>	<u>F.Y. 1997</u>
HACA	\$612,487	\$600,573	\$598,410	\$601,334

POLICY ISSUES:

HACA is an "undesignated" property tax relief aid that is not well targeted to "needy" communities nor targeted to individuals with little ability to pay. In general, this aid mechanism is very inefficient in targeting property tax relief to needy individuals.

EXPLANATION OF ESTIMATE:

The Department of Revenue estimates the cost of HACA by modeling the interaction of gross and net tax capacity, inflation in market values, changes in local tax rates, and other adjustments at the unique taxing jurisdiction level.

<b>NOVEMBER 1994 FORECAST BASIS:</b>				
	<u>Actual</u>	<u>Forecast</u>	<u>Forecast</u>	<u>Forecast</u>
	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>	<u>F.Y. 1996</u>	<u>F.Y. 1997</u>
Basic and Mobile Home Homestead-Agricultural Credit Aid (HACA)	\$612,487	\$600,573	\$598,410	\$601,334
HACA Reduction			\$(29,668)	
<b>RECOMMENDATION:</b>	\$612,487	\$600,573	\$568,742	\$601,334

GOVERNOR'S RECOMMENDATION:

The Governor recommends that non-school HACA be reduced by \$29,668,000 for aids payable in 1995 (FY 1996). This reduction is made as part of the Governor's solution to the Cambridge Bank tax refund court ruling and the restoration of the General Fund advance made to the local government trust fund in FY 1995. The aid reduction was applied to aids payable in 1995 (FY 1996). Because this aid reduction, combined with the city LGA reductions, will amount to less than 1% of total local government revenues in 1995, the Governor recommends that local government officials adjust their budgets to absorb the loss of this aid. The Governor also recommends that after the Pay 96/FY 97 allocation of non-school basic HACA (\$452,350,000) and non-school mobile home HACA (\$3,227,000) that these dollars be consolidated into a new county homestead block grant.

1996-97 Biennial Budget

AGENCY: Revenue, Department of

AID/CREDIT: Local Government Aid (LGA)/Equalization Aid

FUND: General Fund

STATUTORY CITATION: M.S. 477A

PURPOSE:

To provide general support aid and property tax relief to local governments.

DESCRIPTION:

Counties (M.S. 477A.012): The initial aid allocation to counties has been generally frozen since 1987. In F.Y. 1993 permanent court cost and public defense cost offsets and a general aid reduction reduced county aid to zero.

Townships (M.S. 477A.013, Subd. 1): Township local government aid was increased by two percent for F.Y. 1996. The aid is indexed with the implicit price deflator for state and local government purchases of goods and services for F.Y. 1997 and following.

Cities M.S. (477A.013, Subd. 6-9): Local government aid (LGA) for cities was changed for F.Y. 1995 and following to include a new formula for distribution of aid increases. The formula recognized proportions of old housing stock, commercial-industrial concentration, population decline, and city size. The city portion of disparity reduction aid, and the F.Y. 1994 equalization aid, was folded into the LGA base for F.Y. 1995. City LGA for F.Y. 1996 was increased two percent, and indexed with the implicit price deflator for F.Y. 1997 and following.

RECENT TRENDS:

	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>	<u>F.Y. 1996</u>	<u>F.Y. 1997</u>
	(\$ Millions)			
City LGA	\$288.1	\$329.9	\$336.1	\$345.0
City Equalization Aid	20.0			
Township LGA	<u>3.1</u>	<u>3.1</u>	<u>3.2</u>	<u>3.3</u>
Total	\$311.2	\$333.0	\$339.3	\$348.3

POLICY ISSUES:

The primary policy issues are determining the appropriate level of state "general support" aid to local governments and how to best "target" that aid to communities with higher need and low wealth.

EXPLANATION OF ESTIMATE:

Dollar amounts are appropriated for F.Y. 1996 and increased by law by the national state-local price deflator for F.Y. 1997 and beyond.

NOVEMBER 1994 FORECAST BASIS:

	<u>Actual</u> <u>F.Y. 1994</u>	<u>Forecast</u> <u>F.Y. 1995</u>	<u>Forecast</u> <u>F.Y. 1996</u>	<u>Forecast</u> <u>F.Y. 1997</u>
Local Government Aid LGA/ Equalization Aid	\$311,184	\$333,071	\$339,266	\$348,287
<i>LGA Reduction</i>			\$(27,332)	\$(20,000)
RECOMMENDATION:	\$311,184	\$333,071	\$311,976	\$328,287

GOVERNOR'S RECOMMENDATION:

The Governor recommends that LGA growth be reduced by \$27,332,000 for aids payable in 1995 (F.Y. 1996). Of this amount, approximately \$9,021,000 results from cost savings due to his recommendation to eliminate the automatic inflationary adjustment for F.Y. 1997 and beyond. This reduction would be applied against Pay 1995. LGA is also reduced by an additional \$18,332,000 in F.Y. 1996 as part of the Governor's solution to the Cambridge Bank judgment and the restoration of the General Fund advance made to the Local Government Trust Fund in F.Y. 1995. These aid reductions are also applied to Pay 1995/F.Y. 1996. The Governor also recommends that Pay 1996/F.Y. 1997 LGA be reduced by \$20,000,000. The Governor will reexamine this reduction in growth at the time of the February forecast. Because these aid reductions, combined with the city HACA reductions, will amount to less than 1% of total city revenues in 1995, the Governor recommends that city government officials can adjust their budgets to absorb this loss of the aid. Finally, the Governor recommends that, after the Pay 1996/F.Y. 1997 allocation of LGA to individual cities and townships, the program be eliminated and the dollars consolidated into a new county homestead block grant.

1996-97 Biennial Budget

AGENCY: Revenue, Department of

AID/CREDIT: Property Tax Refund (PTR)

FUND: General Fund

STATUTORY CITATION: M.S. 290A

**PURPOSE:**

To provide property tax relief to homeowners and renters based on an income definition of ability to pay.

**DESCRIPTION:**

The property tax refund program is designed to "target" state paid financial assistance to households which have high property taxes relative to income. In addition to the regular refunds provided to homeowners and renters, the legislature provides additional "targeting" refunds to specified property owners who are affected by high property taxes due to certain economic conditions or other related state property tax policies.

**RECENT TRENDS:**

	Dollars in Thousands				
	F.Y. 1993	F.Y. 1994	F.Y. 1995	F.Y. 1996	F.Y. 1997
PTR					
Homeowners	\$48,603	\$56,303	\$62,300	\$72,400	\$82,200
Renters	87,669	90,498	90,200	83,800	85,400
Targeting	13,147	15,725	7,900	7,700	5,500
Total	\$149,419	\$162,526	\$160,400	\$163,900	\$173,100

**POLICY ISSUES:**

The property tax refund for homeowners is currently underutilized. This type of program is far more efficient than other state aid policies in "targeting" property tax relief to households who need it. The targeting refund is an important property tax relief mechanism especially during periods when other major state property tax law changes are being implemented.

**EXPLANATION OF ESTIMATE:**

The Department of Revenue estimates PTR costs by modeling growth in state personal income, change in the number of applicants, changes in property taxes on homesteads and rental property, and changes, if any, made to the property tax refund schedule.

**GOVERNOR'S RECOMMENDATION:**

Governor recommends a pilot program to make property tax credits available to eligible low-income recipients on a monthly basis. Program costs result from the shift of payments into earlier fiscal years. Repayment of tax credits will assist families in meeting their needs throughout the year and will provide additional work incentives.

**NOVEMBER 1994 FORECAST BASIS:**

	Actual F.Y. 1994	Forecast F.Y. 1995	Forecast F.Y. 1996	Forecast F.Y. 1997
Property Tax Refund (PTR)	\$164,297	\$160,400	\$163,900	\$173,100
Prepayment of Tax Credits			\$3,000	\$180
RECOMMENDATION:	\$164,297	\$160,400	\$166,90	\$173,280

1996-97 Biennial Budget

AGENCY: Revenue, Department of

AID/CREDIT: Police and Fire Aids & Insurance Surcharge Aid

FUND: Insurance Gross Premium Tax & State General Fund

STATUTORY CITATION: M.S. 1994, 69.011, 69,021, 69.54

**PURPOSE:**

To support retirement pensions of local police and firefighters.

**DESCRIPTION:**

Current law provides for aid equal to 2% of a portion of auto and fire insurance premiums.

**RECENT TRENDS:**

<u>Fiscal Year</u>	<u>Insurance Gross Premium Tax (\$ Millions)</u>	<u>Police and Fire Aid (\$ Millions)</u>
1991	\$128.2	\$39.0
1992	124.0	41.0
1993	133.7	43.3
1994	144.2	45.0

**POLICY ISSUES:**

No policy issues are known at this time.

**GOVERNOR'S RECOMMENDATION:**

Governor recommends continuation of current law.

**NOVEMBER 1994 FORECAST BASIS:**

	<u>Actual F.Y. 1994</u>	<u>Forecast F.Y. 1995</u>	<u>Forecast F.Y. 1996</u>	<u>Forecast F.Y. 1997</u>
Police and Fire Aids & Insurance Surcharge Aid	\$44,917	\$47,876	\$50,445	\$53,157

1996-97 Biennial Budget

AGENCY: Revenue, Department of

AID/CREDIT: Disparity Reduction Aid (DRA)

FUND: Disparity Reduction Aid (DRA)

STATUTORY CITATION: M.S. 273.1398, Subd. 3

PURPOSE:

To provide aid to jurisdictions which have relatively high property tax rates.

DESCRIPTION:

Disparity Reduction Aid (DRA) was legislated in 1988 and became effective for taxes payable in 1989. The aid is designed to reduce local government property taxes in areas which had relatively high tax rates. It is a permanent aid to be paid at a relatively fixed level (it is adjusted each year for class rate changes) to each qualifying taxing jurisdiction. In F.Y. 1991 the amount declined by \$21.1 million due to a technical adjustment and interaction with the calculation of HACA. In F.Y. 1995 the city portion of the aid is folded into the city local government aid base.

POLICY ISSUES:

In effect, the DRA was a one-time buy down of high local government property tax rates. The formula does not provide for future growth nor other adjustments to effectively "target" aid to communities which have both high need and low tax capacity.

EXPLANATION OF ESTIMATE:

For taxes payable in 1991 and subsequent years the aid amount is basically a fixed amount except that the city portion is folded into city LGA. The Department of Revenue is required to recompute the aid if changes are made to the property tax classification rate system.

GOVERNOR'S RECOMMENDATION:

The Governor recommends no funding change to DRA through the F.Y. 1996/1997 biennium. However, the Governor does recommend that after the Pay 1996/F.Y. 1997 allocation of DRA, the non-school share (\$15,815,000) be consolidated into a new county homestead block grant.

NOVEMBER 1994 FORECAST BASIS:

	<u>Actual</u> <u>F.Y. 1994</u>	<u>Forecast</u> <u>F.Y. 1995</u>	<u>Forecast</u> <u>F.Y. 1996</u>	<u>Forecast</u> <u>F.Y. 1997</u>
Disparity Reduction Aid (DRA)	\$42,476	\$28,409	\$28,444	\$28,446
RECOMMENDATION:	\$42,476	\$28,409	\$28,444	\$28,446

1996-97 Biennial Budget

**AGENCY:** Revenue, Department of

**AID/CREDIT:** County Criminal Justice Aid

**FUND:** State General Fund

**STATUTORY CITATION:** M.S. Section 477A.0121

**PURPOSE:**

County criminal justice aid is intended to reduce the reliance of county criminal justice and correction programs on local property taxes.

**DESCRIPTION:**

A statewide appropriation is allocated to county governments such that one-half is distributed based on each county's share of population, and one-half based on shares of total serious crimes. Beginning in F.Y. 1997, the aid is indexed using the implicit price deflator.

**POLICY ISSUES:**

No policy issues are known at this time.

**GOVERNOR'S RECOMMENDATION:**

The Governor recommends the elimination of the statutory automatic inflation adjustment effective F.Y. 2000.

**NOVEMBER 1994 FORECAST BASIS:**

	Actual <u>F.Y. 1994</u>	Forecast <u>F.Y. 1995</u>	Forecast <u>F.Y. 1996</u>	Forecast <u>F.Y. 1997</u>
County Criminal Justice Aid (Includes Department of Finance Reimbursement)	\$8,202	\$8,400	\$10,000	\$10,265
<b>RECOMMENDATION:</b>	\$8,202	\$8,400	\$10,000	\$10,265

1996-97 Biennial Budget

AGENCY: Revenue, Department of

AID/CREDIT: Disparity Reduction Credit

FUND: Disparity Reduction Credit

STATUTORY CITATION: M.S. 273.1398, Subd. 4

**PURPOSE:**

To provide a property tax credit for apartment and commercial/industrial property in the border cities of Breckenridge, Dilworth, East Grand Forks, and Moorhead.

**DESCRIPTION:**

The credit amount for each commercial or industrial parcel is set at a level that will yield a tax equal to 3.3% of market value; the credit for apartment property is set to yield a tax equal to 3% of market value. All commercial/industrial or apartment parcels in the eligible cities receive the credit. The credit began for taxes payable in 1989.

**POLICY ISSUES:**

The cities eligible for this credit also have designated border city enterprise zones under the provisions of M.S. 469.168, Subd. 4. The credit should be evaluated in tandem with the enterprise zone credit program.

**GOVERNOR'S RECOMMENDATION:**

The Governor proposes no change to current law.

**NOVEMBER 1994 FORECAST BASIS:**

	Actual F.Y. 1994	Forecast F.Y. 1995	Forecast F.Y. 1996	Forecast F.Y. 1997
Disparity Reduction Credit	\$3,916	\$4,425	\$4,913	\$5,454

1996-97 Biennial Budget

AGENCY: Revenue, Department of

AID/CREDIT: Attached Machinery Aid

FUND: General Fund

STATUTORY CITATION: M.S. 1994, 273.138

**PURPOSE:**

To compensate counties and school districts for lost revenue due to the removal of ponderous attached machinery (previously classed as taxable personal property) from the tax base.

**DESCRIPTION:**

The aid is a fixed amount, paid to counties based on the 1972 assessed value of attached machinery times the counties' total mill rate for 1983 times 1.25; the aid to schools is based on the 1972 assessed value times the pay 1973 mill rate for certain school levies, and the aid is subtracted from school levy limits.

**RECENT TRENDS:**

The aid is a fixed amount each year.

**POLICY ISSUES:**

The aid is based on attached machinery 1972 assessed values. Only 13 counties qualify for the aid. The limited eligibility and dated basis suggests that a new look at the purpose of the aid is needed.

**EXPLANATION OF ESTIMATE:**

The aid is a fixed amount each year.

**GOVERNOR'S RECOMMENDATION:**

The Governor recommends no funding change through the F.Y. 1996/1997 biennium. However, the Governor does recommend that after the Pay 1996/F.Y. 1997 allocation of non-school attached machinery aid (\$2,382,000) these dollars be consolidated into a new county homestead block grant.

**NOVEMBER 1994 FORECAST BASIS:**

	<u>Actual</u> <u>F.Y. 1994</u>	<u>Forecast</u> <u>F.Y. 1995</u>	<u>Forecast</u> <u>F.Y. 1996</u>	<u>Forecast</u> <u>F.Y. 1997</u>
Attached Machinery Aid	\$3,218	\$3,218	\$3,218	\$3,218
<b>RECOMMENDATION:</b>	\$3,218	\$3,218	\$3,218	\$3,218

1996-97 Biennial Budget

AGENCY: Revenue, Department of

AID/CREDIT: Taconite Aid Reimbursement

FUND: General Fund

STATUTORY CITATION: M.S. 1994, 477A.15

**PURPOSE:**

To provide aid to the Deer River School District (317) it formerly received in taconite production aid.

**DESCRIPTION:**

The taconite aid reimbursement is a fixed aid payment of \$561,000 per year. The aid was first paid on 7-15-81 to the Deer River School District and has since remained constant.

**POLICY ISSUES:**

If the Deer River School District is affected by taconite mining activity, the aid might be paid from the taconite tax.

**GOVERNOR'S RECOMMENDATION:**

The Governor proposes no change to current law.

**NOVEMBER 1994 FORECAST BASIS:**

	Actual <u>F.Y. 1994</u>	Forecast <u>F.Y. 1995</u>	Forecast <u>F.Y. 1996</u>	Forecast <u>F.Y. 1997</u>
Taconite Aid Reimbursement	\$561	\$561	\$561	\$561

1996-97 Biennial Budget

AGENCY: Revenue, Department of

AID/CREDIT: Regional Transit Board Reimbursement

FUND: General Fund

STATUTORY CITATION: M.S. 1994, 473.446, Subd. 1

**PURPOSE:**

This state aid reimburses the regional transit board for a reduction in levies collected from property in suburban portions of the metropolitan transit district that receive limited transit service.

**DESCRIPTION:**

Since 1986, property in suburban areas of the metropolitan transit district has received a reduction in the regional transit board levy. Under current law the reduction is equal to 0.510% of net tax capacity for property receiving "full peak and limited off-peak" service, and the reduction is 0.765 % of net tax capacity for property receiving only limited peak service.

**POLICY ISSUES:**

The policy of levying a lower transit tax rate in areas of limited service could be preserved by allowing a differential tax rate without a state reimbursement, though the core transit area would have a higher tax burden given the same total levy.

**GOVERNOR'S RECOMMENDATION:**

The Governor proposes no change to current law.

**NOVEMBER 1994 FORECAST BASIS:**

	<u>Actual</u> <u>F.Y. 1994</u>	<u>Forecast</u> <u>F.Y. 1995</u>	<u>Forecast</u> <u>F.Y. 1996</u>	<u>Forecast</u> <u>F.Y. 1997</u>
Regional Transit Board Reimbursement	\$3,503	\$2,025	\$2,158	\$2,158

1996-97 Biennial Budget

AGENCY: Revenue, Department of

AID/CREDIT: Family Preservation Aid

FUND: General Fund

STATUTORY CITATION: M.S. Section 477A.0122

**PURPOSE:**

Family preservation aid is paid to county governments to reduce the rate of increase in the costs of out-of-home placement of children.

**DESCRIPTION:**

A statewide appropriation is allocated among counties based on each county's share of statewide total number of children in out-of-home placement. Beginning in F.Y. 1997 the aid is indexed using the implicit price deflator for state and local government purchase of goods and services

**POLICY ISSUES:**

No policy issues are known at this time.

**GOVERNOR'S RECOMMENDATION:**

The Governor recommends the elimination of the statutory automatic inflation adjustment effective F.Y. 2000.

**NOVEMBER 1994 FORECAST BASIS:**

	<u>Actual</u> <u>F.Y. 1994</u>	<u>Forecast</u> <u>F.Y. 1995</u>	<u>Forecast</u> <u>F.Y. 1996</u>	<u>Forecast</u> <u>F.Y. 1997</u>
Family Preservation Aid	\$-0-	\$-0-	\$1,500	\$1,540
<b>RECOMMENDATION:</b>	\$-0-	\$-0-	\$1,500	\$1,540

1996-97 Biennial Budget

AGENCY: Revenue, Department of

AID/CREDIT: Supplementary Property Tax Relief

FUND: General Fund

STATUTORY CITATION: M.S. 1994, 273.1391

PURPOSE:

To provide property tax relief similar to the taconite homestead credit for school districts that do not meet the eligibility requirements of section 273.134 as a taconite tax relief area but are located in a county where taconite is mined or quarried.

DESCRIPTION:

A total of 3 school districts receive this aid. The supplementary property tax relief program is a homestead credit with the same formula as the taconite relief credit and thus the credit reimbursement varies each year.

POLICY ISSUES:

The fact that the school districts receiving this aid do not have sufficient unmined ore or do not have taconite plants or quarries that qualify them for regular taconite property tax relief suggests that their need for relief is less than nearby taconite communities.

GOVERNOR'S RECOMMENDATION:

The Governor recommends continuation of current law.

NOVEMBER 1994 FORECAST BASIS:

	<u>Actual</u> <u>F.Y. 1994</u>	<u>Forecast</u> <u>F.Y. 1995</u>	<u>Forecast</u> <u>F.Y. 1996</u>	<u>Forecast</u> <u>F.Y. 1997</u>
Supplementary Property Tax Relief	\$402	\$427	\$434	\$434

1996-97 Biennial Budget

AGENCY: Revenue, Department of

AID/CREDIT: Enterprise Zone Credit

FUND: General Fund

STATUTORY CITATION: M.S. 1994, 469.171, Subd. 1 and 7a

**PURPOSE:**

Enterprise zone property tax credits are given to businesses in designated enterprise zones to encourage business development and retention in distressed areas.

**DESCRIPTION:**

Businesses in enterprise zones receive state-paid property tax credits at the option of the business and city government for a period up to 5 years. The credit reduces the property tax bill of the business, and the state reimburses the local governments.

**POLICY ISSUES:**

The remaining 5 border city enterprise zones also receive state-paid disparity reduction credit. The program should be evaluated in tandem with the disparity reduction credit.

**GOVERNOR'S RECOMMENDATION:**

The Governor proposes no change to current law.

**NOVEMBER 1994 FORECAST BASIS:**

	<u>Actual</u> <u>F.Y. 1994</u>	<u>Forecast</u> <u>F.Y. 1995</u>	<u>Forecast</u> <u>F.Y. 1996</u>	<u>Forecast</u> <u>F.Y. 1997</u>
Enterprise Zone Credit	\$24	\$24	\$49	\$49

**Appendix A**

**Governor's Price of Government Recommendation Detail**

**Governor's Price of Government Recommendation  
State & Local Revenues, C.Y. 1990-1998  
Percent of Personal Income  
(\$ in Thousands)**

	C.Y. 1990 F.Y. 1991	C.Y. 1991 F.Y. 1992	C.Y. 1992 F.Y. 1993	C.Y. 1993 F.Y. 1994	C.Y. 1994 F.Y. 1995	C.Y. 1995 F.Y. 1996	C.Y. 1996 F.Y. 1997	C.Y. 1997 F.Y. 1998	C.Y. 1998 F.Y. 1999
<b>State Revenues</b>									
<i>Tax Revenues:</i>									
Individual Income Tax	2,972,983	3,144,636	3,471,374	3,539,994	3,724,000	3,861,700	4,048,980	4,243,800	4,451,330
General Sales Tax	1,965,209	2,193,451	2,378,482	2,522,271	2,667,300	2,712,550	2,800,450	2,918,750	3,019,450
Corporate Income Tax	457,934	420,278	509,534	551,822	662,800	558,600	554,300	611,500	647,000
Gasoline & Special Fuels Taxes	430,213	437,817	441,619	457,614	466,078	475,497	486,898	497,478	504,981
Motor Vehicle License Tax	351,664	370,650	404,655	425,036	437,909	441,550	455,338	459,302	473,488
Motor Vehicle Excise Tax	236,720	270,356	296,284	332,994	362,600	361,100	371,500	389,700	404,500
Health Care Taxes	0	0	13,566	67,708	154,544	182,770	212,365	231,685	250,421
All Other Taxes	549,253	585,022	666,630	763,343	748,620	764,214	772,871	784,638	803,794
Subtotal - State Taxes	6,963,976	7,422,210	8,182,144	8,660,782	9,223,851	9,357,981	9,702,702	10,136,853	10,554,964
<i>Non-Tax Revenues:</i>									
Fees & Charges	249,168	338,879	326,518	366,305	358,031	359,877	365,104	359,385	359,271
Investment Earnings	172,861	109,360	77,989	79,419	64,354	90,265	84,563	80,354	77,127
Post-Secondary Tuition	354,404	379,134	409,787	415,135	438,006	427,938	443,494	443,494	443,494
All Other Resources	570,118	560,559	566,791	644,126	662,782	666,846	655,306	633,132	623,247
Subtotal - State Non Tax Revenues	1,346,551	1,387,932	1,381,085	1,504,985	1,523,173	1,544,926	1,548,467	1,516,365	1,503,139
Subtotal - State Own Source Revenues	8,310,527	8,810,142	9,563,229	10,165,767	10,747,024	10,902,907	11,251,169	11,653,218	12,058,103
Federal Grants	2,260,587	2,530,697	2,778,303	3,133,023	3,377,056	3,514,875	3,617,188	3,617,537	3,617,954
<b>TOTAL STATE REVENUES</b>	<b>10,571,114</b>	<b>11,340,839</b>	<b>12,341,532</b>	<b>13,298,790</b>	<b>14,124,080</b>	<b>14,417,782</b>	<b>14,868,357</b>	<b>15,270,755</b>	<b>15,676,057</b>
<b>Local Non-School Revenues</b>									
<i>Tax Revenues:</i>									
Property Tax	1,781,966	1,979,384	2,091,076	2,165,435	2,219,505	2,311,160	2,393,276	2,482,998	2,581,692
Sales Tax	49,852	52,750	60,272	62,449	66,333	67,898	70,329	73,621	76,558
Other Taxes	34,131	39,188	42,272	47,093	52,427	58,366	59,081	59,805	60,538
Subtotal - Local Taxes	1,865,949	2,071,322	2,193,620	2,274,977	2,338,265	2,437,424	2,522,686	2,616,424	2,718,788
<i>Non-Tax Revenues:</i>									
Special Assessments	203,949	207,957	239,171	242,300	255,598	269,644	272,744	275,882	279,057
Licenses and Permits	58,168	62,802	68,530	72,843	78,308	84,185	85,128	86,083	87,048
Charges for Services	343,549	371,433	393,946	427,696	459,067	492,764	496,860	500,997	505,175
Investment Earnings	326,643	291,536	260,507	255,987	255,987	255,987	258,364	260,765	263,193
Selected Enterprise Revenues	1,238,569	1,418,282	1,527,277	1,663,853	1,844,532	2,048,021	2,066,695	2,085,566	2,104,633
Miscellaneous Revenues	300,126	305,924	317,825	327,599	342,423	358,055	469,967	584,793	741,132
Subtotal - Local Non Tax Revenues	2,471,004	2,657,934	2,807,256	2,990,278	3,235,915	3,508,656	3,649,758	3,794,086	3,980,238
Subtotal - Local Own Source Revenues	4,336,953	4,729,256	5,000,876	5,265,255	5,574,180	5,946,080	6,172,444	6,410,510	6,699,026
<i>Intergovernmental Revenue:</i>									
State Aid	1,755,914	1,709,311	1,738,490	1,818,545	1,841,031	1,832,118	1,909,143	1,944,360	1,997,017
Local Aid	66,439	72,799	72,554	79,751	84,794	90,280	90,988	91,702	92,423
Federal Aid	542,064	470,091	441,744	453,277	438,895	425,398	425,398	425,398	425,398
Subtotal - Intergovernmental Revenue	2,364,417	2,252,201	2,252,788	2,351,573	2,364,720	2,347,796	2,425,529	2,461,460	2,514,838
<b>TOTAL LOCAL NON-SCHOOL REVENUES</b>	<b>6,701,370</b>	<b>6,981,457</b>	<b>7,253,664</b>	<b>7,616,828</b>	<b>7,938,900</b>	<b>8,293,876</b>	<b>8,597,973</b>	<b>8,871,970</b>	<b>9,213,864</b>

**Governor's Price of Government Recommendation  
State & Local Revenues, C.Y. 1990-1998  
Percent of Personal Income**  
(\$ in Thousands)

	C.Y. 1990 F.Y. 1991	C.Y. 1991 F.Y. 1992	C.Y. 1992 F.Y. 1993	C.Y. 1993 F.Y. 1994	C.Y. 1994 F.Y. 1995	C.Y. 1995 F.Y. 1996	C.Y. 1996 F.Y. 1997	C.Y. 1997 F.Y. 1998	C.Y. 1998 F.Y. 1999
<b>School District Revenues</b>									
<i>Tax Revenues:</i>									
Property Tax	1,358,929	1,516,894	1,614,766	1,783,311	1,841,830	2,016,588	2,100,020	2,181,921	2,299,963
<i>Non-Tax Revenues:</i>									
Sales & Fee Revenue	113,882	110,820	119,372	125,077	131,247	137,379	143,539	149,523	155,014
Other Miscellaneous Revenue	190,002	213,822	261,181	270,900	281,170	291,551	302,105	312,654	322,928
Subtotal - School District Non Tax Revenues	303,884	324,642	380,553	395,977	412,417	428,930	445,644	462,177	477,942
Subtotal - School Dist Own Source Revenues	1,662,813	1,841,536	1,995,319	2,179,288	2,254,247	2,445,518	2,545,664	2,644,098	2,777,905
<i>Intergovernmental Revenue:</i>									
State Aid	2,096,763	2,172,952	2,118,177	2,587,260	2,749,806	2,637,103	2,786,674	2,917,312	3,055,315
Local Aid	40,595	41,430	43,551	44,858	46,203	47,590	49,017	50,489	52,002
Federal Aid	182,442	200,863	225,429	236,817	249,186	261,442	273,724	285,591	296,347
Subtotal - Intergovernmental Revenue	2,319,800	2,415,245	2,387,157	2,868,935	3,045,195	2,946,135	3,109,415	3,253,392	3,403,664
<b>TOTAL SCHOOL DISTRICT REVENUES</b>	<b>3,982,613</b>	<b>4,256,781</b>	<b>4,382,476</b>	<b>5,048,223</b>	<b>5,299,442</b>	<b>5,391,653</b>	<b>5,655,079</b>	<b>5,897,490</b>	<b>6,181,569</b>

**Total State, Local & School District Revenues**

<i>Tax Revenues</i>	10,188,854	11,010,426	11,990,530	12,719,070	13,403,946	13,811,993	14,325,408	14,935,198	15,573,715
<i>Non-Tax Revenues</i>	4,121,439	4,370,508	4,568,894	4,891,240	5,171,505	5,482,512	5,643,869	5,772,628	5,961,319
<i>Intergovernmental Revenue</i>	6,944,804	7,198,143	7,418,248	8,353,531	8,786,971	8,808,806	9,152,132	9,332,389	9,536,456
<b>TOTAL ALL REVENUES</b>	<b>21,255,097</b>	<b>22,579,077</b>	<b>23,977,672</b>	<b>25,963,841</b>	<b>27,362,422</b>	<b>28,103,311</b>	<b>29,121,409</b>	<b>30,040,215</b>	<b>31,071,490</b>
Less: Intergovernmental Revenues	(6,944,804)	(7,198,143)	(7,418,248)	(8,353,531)	(8,786,971)	(8,808,806)	(9,152,132)	(9,332,389)	(9,536,456)
<b>Total Own Source Revenues</b>	<b>14,310,293</b>	<b>15,380,934</b>	<b>16,559,424</b>	<b>17,610,310</b>	<b>18,575,451</b>	<b>19,294,505</b>	<b>19,969,277</b>	<b>20,707,826</b>	<b>21,535,034</b>
<b>Minnesota Personal Income</b>	<b>82,320,000</b>	<b>85,270,000</b>	<b>91,510,000</b>	<b>94,940,000</b>	<b>101,210,000</b>	<b>105,430,000</b>	<b>110,160,000</b>	<b>116,000,000</b>	<b>122,070,000</b>
<b>Revenue as Percent of Personal Income</b>	<b>17.4%</b>	<b>18.0%</b>	<b>18.1%</b>	<b>18.5%</b>	<b>18.4%</b>	<b>18.3%</b>	<b>18.1%</b>	<b>17.9%</b>	<b>17.6%</b>