

**TO:** Chair Hodges and Committee Members  
**FROM:** IGR Staff  
**DATE:** September 15, 2006  
**RE:** September 19 Committee Meeting: 2007 Legislative Agenda: Public Finance

---

At its September 19 meeting, the committee will begin a discussion of the 2007 legislative agenda. A discussion of the public finance section of the 2006 agenda is scheduled for the meeting. A copy of the 2006 agenda is attached as well as a memorandum that provides additional information on the issues. In addition, staff from the Finance Department and Assessor's Office will provide brief overviews of the issues and present related information.

Copies of the referenced reports prepared by the House Research Department will be available at the meeting.

**TO:** Chair Hodges and Committee Members  
**FROM:** IGR Staff  
**DATE:** September 15, 2006  
**RE:** Legislative Process

---

## **Public Finance.**

The Public Finance section includes four policy statements. One is a priority issue while two are support items and one is a statement of opposition.

**Priority Issue Local Government Aid (LGA).** In 2006 the city received \$93.4 million in LGA but for 2007 it is anticipating a payment of \$83.98 million. One-time funding (due to limitations related to the maximum amount of the LGA increase to a city permitted by the LGA formula), the increase of the property tax base, and the lack of an increase in the LGA appropriation contributed to the reduction. A description of the LGA program including a discussion of the formula factors can be found at the following link.  
<http://www.house.leg.state.mn.us/hrd/issinfo/ssnewlga.htm>

The LGA program was established in 1971 and is currently funded at \$484.0 million annually. Prior to 2003 the appropriation was increased by an inflation factor and in 2003, \$586.0 million in LGA was certified to be paid to cities. In 2004 the total amount was reduced to \$436.0 million. The reduction was one of several needed to balance the state budget.

The city supports full funding for the program as well a formula that minimizes one-time funding. The city should reaffirm its support for LGA but consider redrafting the statement to recommend increased annual funding, formula changes to increase the predictability of funding levels, and adjustments to the data to recognize inflation. The statement should also oppose proposals to target or direct the use of LGA.

**Support Issue Limited Market Value.** Limited Market Value (LMV) is a statutory limitation on the amount that a property's value may increase from one year to the next for the purposes of property taxation. The existing LMV was enacted in 1993 to help mitigate rising property taxes resulting from rapidly inflating market values. The LMV law was scheduled to phase-out for taxes payable in 2008. However the legislature extended the phase-out until 2010. The link to House Research is for a briefing paper that explains LMV. <http://www.house.leg.state.mn.us/hrd/issinfo/sslmtmv.htm>

The Minnesota Department of Revenue 2005 LMV report indicates that the amount of value excluded has decreased from \$34.860 billion to \$33.068 billion. The 2005 amount

represented 9.1% of all market value that was excluded while in 2006 the amount excluded was 7.9%. In Minneapolis the limited value decreased from 19.5% to 16.6%.

The Department report also examined the impact of the LMV on property taxes paid. If LMV was eliminated for taxes paid in 2006, 78% or 1.4 million of all homesteads would have paid additional taxes. The average increase would have been \$96 per homestead or a total of \$106.0 million. The remaining 314,000 homesteads would have had an average decrease of \$273 per homestead or a total of \$86.0 million.

The city policy supported the extension of the sunset. The policy could be amended to recommend that if the sunset occurs the legislature provide tax relief for homesteads that will experience a significant tax increase due to the sunset. The relief could be provided through an enhanced circuit-breaker or modifications to the special property tax relief program.

**Support Issue Local Revenue Diversity.** The city supports the diversity of local revenues. Among possible new revenues are the sales tax, street utility, special assessments for maintenance and improvements of public infrastructure and other user fees.

In 2005 the city council approved a legislative proposal requesting a ½ cent local sales tax. The tax proceeds would be used for public safety purposes. The proposal was drafted but no author was found for the bill.

Minnesota permits the imposition of a local sales tax but the proposal must follow the procedures outlined in Minnesota Statute 297A.99. As required by the statute the city would need to:

- Prior to requesting special legislation, adopt a resolution supporting the tax. The resolution must also identify the tax rate, the use for the revenues, and the time the tax will be in effect.
- Conduct a referendum at a general election.

Under current law, the sales tax “must be dedicated exclusively to repayment of the cost of a specific capital improvement which is designated at least 90 days before the referendum.”

Approximately 15 cities and counties have local sales taxes. With the exception of Duluth, the local sales tax has been used for capital projects. The St. Paul tax is used for new projects as well as paying debt service on public improvements that may have not been originally funded by the sales tax. The legislature has also exempted local governments from the referendum provision.

If a sales tax is proposed for operations rather than capital projects the bill could, as occurred in 2005, require an offset to local government aid (LGA). In 2005 the House tax bill included a provision that required that a city’s annual LGA be reduced by an amount

equal to 50% of the amount raised by the sales tax in the previous year. It was estimated that Minneapolis would receive \$14.0 million less in LGA due to the sales tax offset.

The League of Minnesota Cities has supported legislation to enable a city to establish a street utility. The legislation has been heard at the committee level but has not passed either the House or Senate.

Many cities have used special assessments to maintain and operate its public infrastructure. Cities have assessed street maintenance, tree trimming and street lighting. Minneapolis is not permitted by a 1973 special law to use the maintenance special assessment process.

It is recommended that the committee reaffirm the revenue diversity policy.

**Opposition.** The city has opposed constitutional or statutory limits on government revenues. The continuation of the policy is recommended.

**New Issue: Sales Tax Exemption.** Prior legislative agendas supported the repeal of the state sales tax on local government purchases. The tax was imposed in 1995 and a repeal is estimated to cost the state approximately \$90.0 million annually. The legislature however has exempted certain public institutions and purchases from the sales tax. School districts, state higher educational institutions, public hospitals and nursing homes, and libraries are exempt from the sales tax. Local governments do not pay the sales tax on such purchases as ambulances, bullet resistant body armor, emergency rescue vehicles, firefighter personal protective equipment, marked police vehicles, and transit vehicles. It is recommended that the city support the repeal of the sales tax on all local government purchases.

