

To: Council Member Hodges

Fr: IGR and Finance

Re: Staff Direction

**Minneapolis: State Taxes and Aids and Credits.**

The state of Minnesota budget is funded by a variety of taxes and fees. The major budget revenue sources are the individual income tax, the corporate income tax, the sales and use tax and the property tax on commercial and industrial property. The Minnesota Department of Management and Budget periodically publishes reports that compare actual revenues to budgeted amounts. The data is reported on a statewide basis. The next revenue report including a revenue forecast is scheduled for March 3.

State revenue generated by point of origin is not regularly reported by state executive agencies. However, House Research annually publishes a report entitled "Major State Aids and Taxes: A Comparative Analysis." The report presents tax and aids information for each of the 87 counties but it does not report information for jurisdictions smaller than a county. The analysis provides information on taxes received from individual and businesses in the county as well as aid and refunds paid to individuals and local governments in the county. From the data in the report an aids/tax ratio can be developed for each county.

The "aid/tax ratio" measures the tax relief through various state aids, credits and refunds within the county as a percentage of state taxes paid. A high aid/tax ratio indicates that residents of an area are receiving a high level of relief in the form of aids and credits relative to the amount of taxes paid. A low/aid tax ratio indicates the opposite.

Based on a review of the three most recent House research reports, Hennepin County residents and businesses contribute more in taxes to the state than the county's residents and local governments receive in aids, credits and refunds. The county's aids/tax ratio is also included in the table.

Year	Aids/credits	Major State Taxes	Aids/tax ratio
2004	\$2,481,252,000	\$3,648,906,000	67.9
2005	2,489,000,000	3,858,797,000	64.5
2006	2,642,994,000	4,148,267,000	63.7

Is it possible to calculate an aids/tax ratio for Minneapolis? The city has attempted to calculate a ratio but the ratio needs to estimate the amount of school aids and human service aids attributable to Minneapolis residents. In a 1992 city study the aid ratio was 72% while in 2003 the ratio was based on two methodologies which reported a ratio of 64% and 91%. The 2003 study noted that the "calculation of the Minneapolis aid/tax ratio is, at best, an imprecise science. Precise information regarding the aids, credits and refunds received within Minneapolis and the taxes paid is generally not available and must

be estimated. While both alternative methods used are rational and defensible, a substantial margin of error remains.

Within the next few months the Department of Revenue should have its update tax data base operating. The new base should allow more accurate analysis of taxes and aids by locations. When available, the city should request data from the department to conduct a city aid/tax ratio.

**Sales Tax and the City of Minneapolis.**

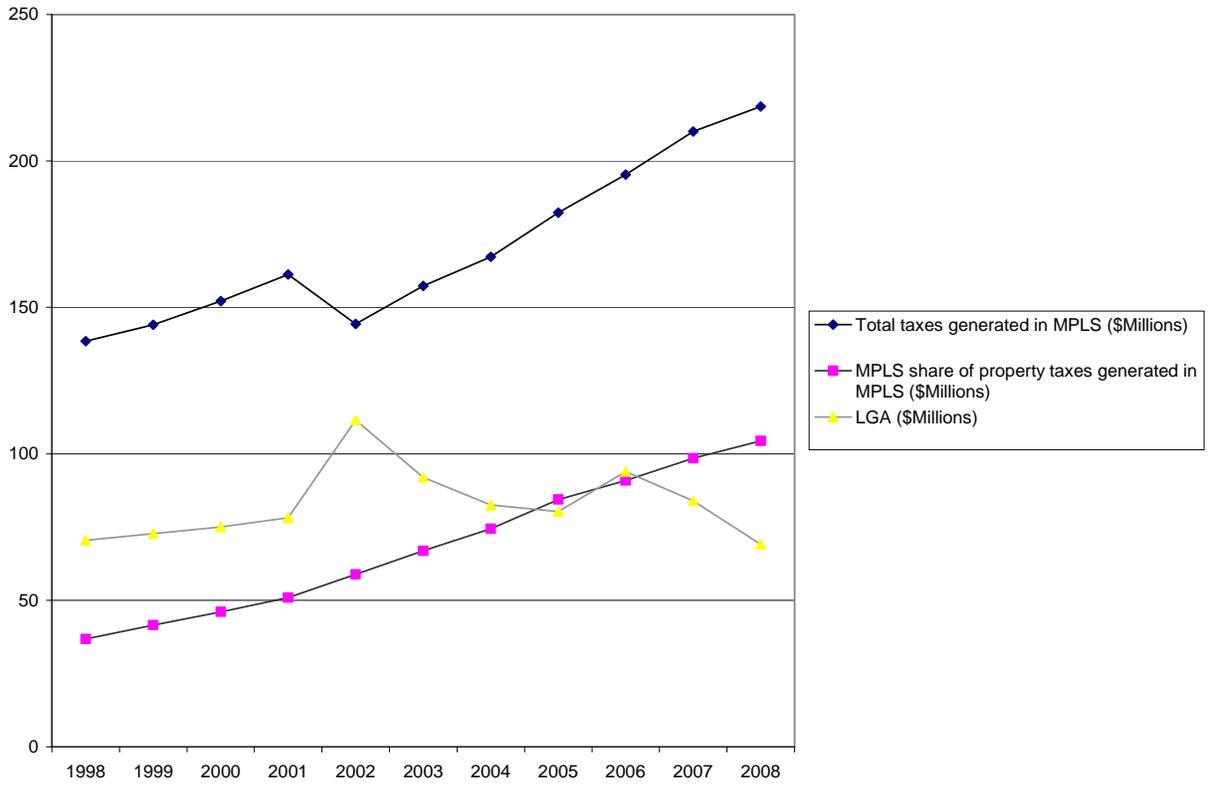
The city with the assistance of the Department of Revenue can calculate the state and local sales taxes collected in Minneapolis. The following table summarizes the sales taxes collected in Minneapolis from 2003 to 2007 and the proportion retained the city. “Retained” taxes are local taxes (entertainment, sales, and downtown district) collected for the city by the Department of Revenue. The chart clearly shows that Minneapolis is a net contributor to the state in terms of sales tax revenue, even when coupled with LGA.

Year	Total Sales Tax Generated in MPLS	Total Sales Tax Retained by City	Total Sales Tax Transfer from MPLS to State	LGA	Amount MPLS Contributes to State Above LGA	State Return on MPLS Sales Tax Transfer
2003	\$427,214,391	\$48,908,092	\$378,306,299	\$91,934,000	\$286,372,299	24.3%
2004	\$446,202,941	\$52,169,306	\$394,033,635	\$82,515,000	\$311,518,635	20.9%
2005	\$477,364,575	\$55,064,219	\$422,300,356	\$80,339,000	\$341,961,356	19.0%
2006	\$479,032,604	\$56,724,560	\$422,308,044	\$93,948,000	\$328,360,044	22.2%
2007	\$481,134,268	\$60,065,202	\$421,069,066	\$83,980,000	\$337,089,066	19.9%

In addition to the sales tax, the city industrial commercial properties paid approximately \$74 million in property taxes to the state in 2008.

**Property Tax Collection vs. LGA.**

The chart on the next page illustrates the total property taxes generated within the city limits of Minneapolis versus Minneapolis’s retained share of property taxes (the rest goes to other entities), overlaid with LGA amounts.

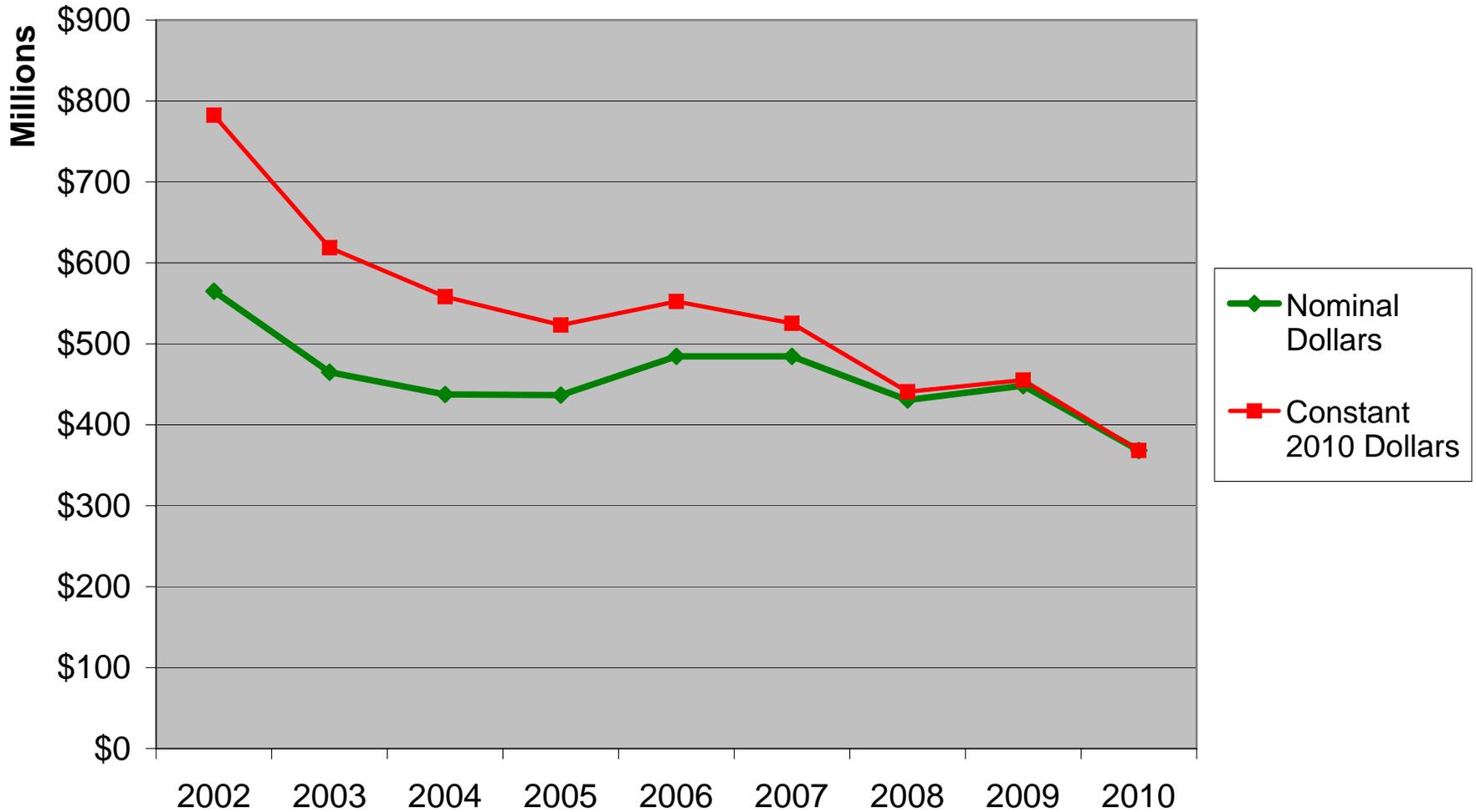


**LGA Appropriations.**

The following charts provide detailed supplemental information on the LGA appropriation from the state to Minneapolis and as a whole to all cities.

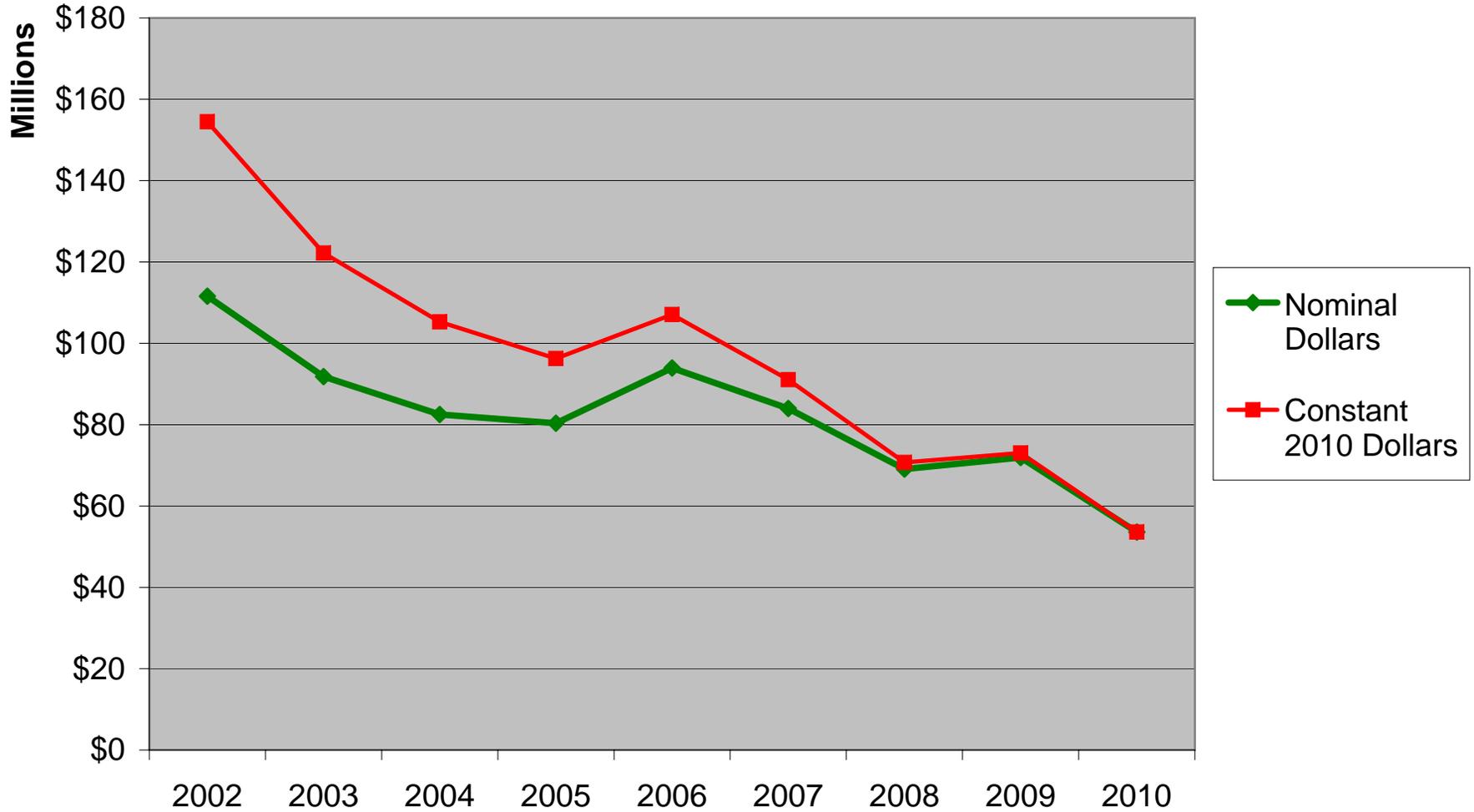
# Total MN City Local Government Aid (LGA) 2009 & 2010 Based on Governor's Budget

Inflation adjustment based on implicit price deflator for state & local gov't purchases



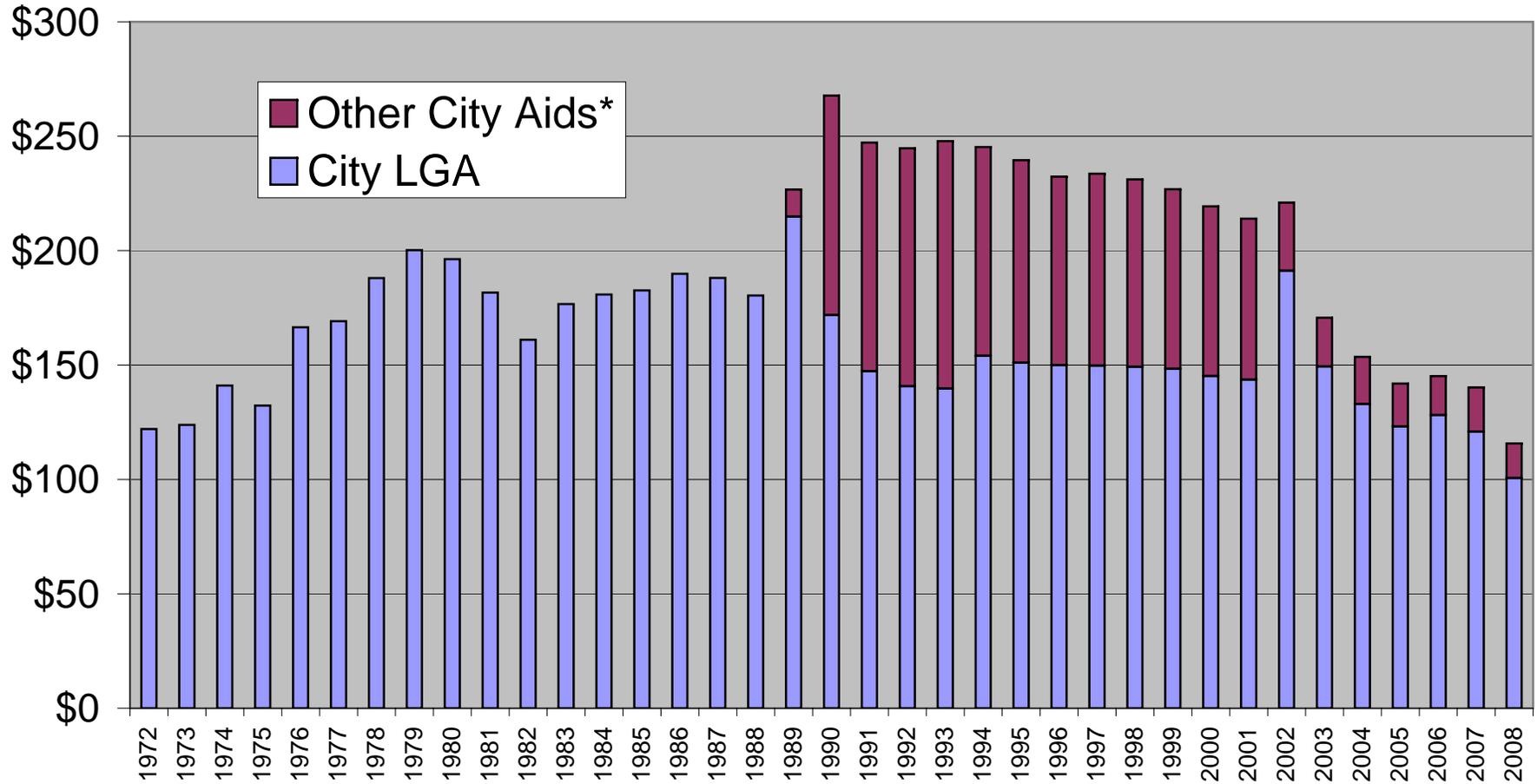
# Minneapolis Local Government Aid (LGA) 2009 & 2010 Based on Governor's Budget

Inflation adjustment based on implicit price deflator for state & local gov't purchases



# City LGA and Total City Aid\* in Constant 2008 Dollars Per Capita: 1972 to 2008

Inflation adjustment based on implicit price deflator for state & local gov't purchases



\*Other city aids include disparity reduction aid, equalization aid, homestead and agricultural credit aid, local performance aid, and the city share of the market value homestead credit.