

2001 Omnibus Tax Bill Frequently Asked Questions

the League of Minnesota Cities

What happened:

The 2001 omnibus tax bill enacted several sweeping reforms to the Minnesota state/local finance system. The combined impact of these changes will mean that school property taxes will drop markedly while city property taxes will generally increase—in some cases dramatically.

The governor proposed and the Legislature ultimately enacted a state takeover of the general education property taxes for school districts to fulfill what the governor saw as a huge state mandate on local school boards. Under the old education finance system, schools were required by the state to levy property taxes at a state-determined rate to fund education costs in that school district. If the tax rate did not generate enough revenue to fund the education costs for each pupil, the education finance formula would automatically allocate additional state resources to make up the difference.

Although this state takeover will not entirely eliminate school property taxes, it will significantly reduce the school share of the typical taxpayer's bill. To fund the state takeover of general education costs, the Legislature enacted a number of other changes to the state's budget including eliminating the homestead and agricultural credit aid (HACA), enacting a state property tax and class rate reductions, and changing Local Government Aid appropriations and disbursements.

Why was HACA eliminated and how are cities affected?

There isn't a single, clear answer to this question. HACA was viewed by many legislators as an undefined state aid that had little purpose because the distributions were based on what cities had historically received, rather than on an active formula. Secondly, the elimination of HACA gave the state more money to pay for some of the other property tax reforms that were enacted. Had it not been eliminated, HACA would have provided \$200 million in state aid to cities in 2002.

Wasn't LGA increased to make up for some loss of aid? Why do some cities receive more (or less) LGA in 2002 even though the appropriation was increased by \$140 million?

An additional \$140 million was appropriated for Local Government Aid; however, this money was not evenly distributed among all cities. Some cities will receive a large enough increase in their LGA to completely make up for the loss of HACA. Still others will lose all of their HACA and receive less LGA than they did last year.

Can cities increase their levies to cover their loss of aid?

Yes. Even with levy limits, cities will be able to make up for lost state aids through the property tax. However, doing so will result in significant increases in a city's property tax levy.

How are cities affected by new levy limits?

Levy limits will be in place for 2002 and 2003 for all cities with populations more than 2,500. The state will calculate an allowable growth of a city's levy based on inflation, that city's household growth and its growth in commercial/industrial property. Levy limits also allow cities to "levy back" lost state aids.

Local governments can exceed their levy limits to cover debt service, disaster costs, matching fund requirements, tax abatement levies, and the Public Employees Retirement Account contribution increase mandated by the state. And with voter approval, counties and affected cities can exceed their levy limits for any reason.

But the Legislature and governor have said most taxpayers will see property tax reductions. What do their estimates take into account?

All of the analyses prepared by the House Research Department assumed that cities would replace 100 percent of lost state aid with property taxes. In other words, even with these increases in the city share of the property tax bill, taxpayers are expected to see property tax reductions in 2001.

What about class rate reductions and how are city budgets affected?

During the 2001 session, the Legislature approved class rate reductions for virtually every category of property. This will reduce the tax base of each jurisdiction, forcing the tax rate to increase in order to raise the same amount of money as they did last year.

In the future, will schools levy any property taxes?

Yes, school districts will still levy some property taxes including levies for community service, health and safety, integration and building leases. Many school districts also have additional voter approved levies for operation and debt service for capital projects. In fact, due to school district concerns about the level of available school revenue under the 2001 omnibus education funding bill, many school districts sought new or expanded voter approval for operating levies on Nov. 6.

What about this new state property tax?

The state will levy a new property tax that will be applied only to commercial, industrial and seasonal recreational (cabin) properties. The state tax will be administered just like any other local government's property tax levy and will be included as a line item on the property tax statement. The state property taxes will be deposited in the state's general fund and will therefore be available for general state spending.