

Budget Activity Analysis for Tax Aids and Credits FYs 2010-2011

Presentation to the House Property Tax and
Local Sales Tax Division
January 21, 2009

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Overall Budget Recap

November 2008 Forecast

FYs 2010-11

Projected Spending Statewide

Total General Fund **\$36.7 billion**

**Total Property Tax Aids
& Credits** **\$ 3.4 billion or 9.4%**
of Total General Fund

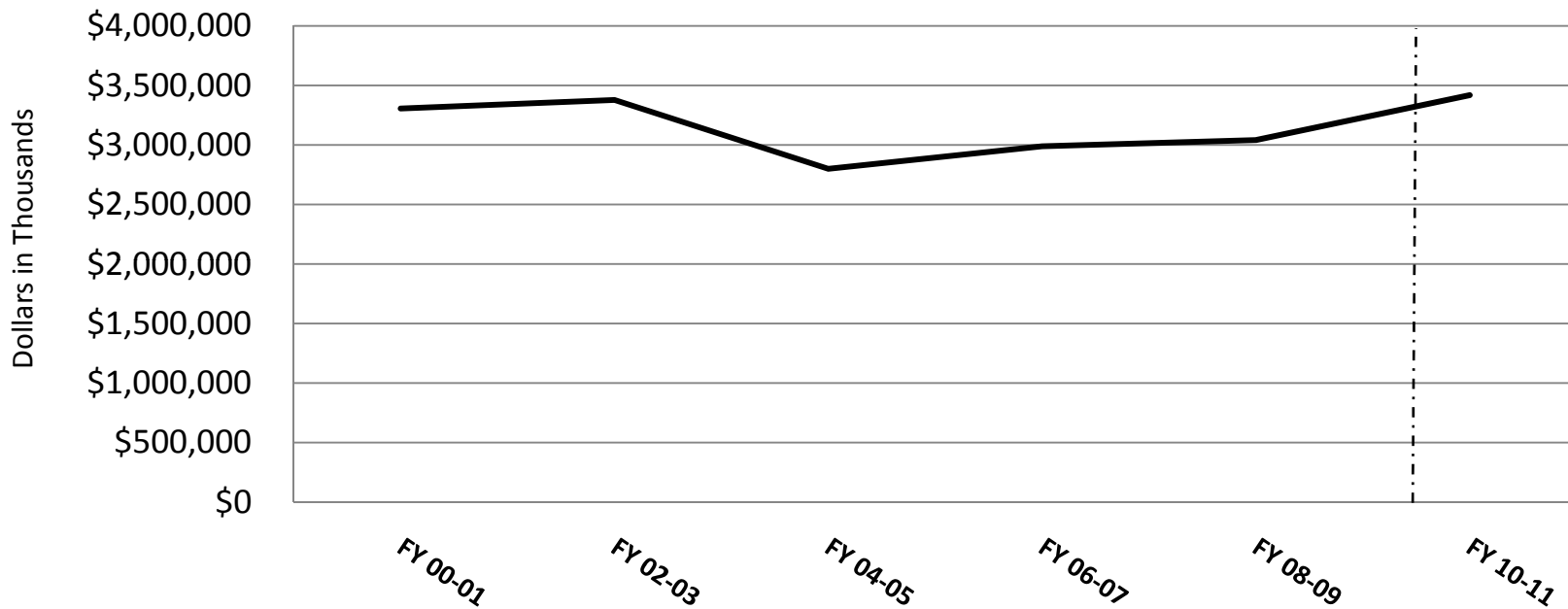
Historic Comparison - Tax Aids & Credits

FYs 2000-01 vs FYs 2010-11

Biennial Comparison	<u>FY 2000-01</u>	<u>FY 2010-11</u>
Total General Fund	\$ 25.4 Bil	\$36.7 Bil
Tax Aids & Credits	\$ 3.3 Bil	\$ 3.4 Bil
% Total General Fund	13.0%	9.4%

A Decade of Biennial Spending - Tax Aids & Credits

Property Tax Aids & Credits



Property Tax Aids & Credits Spending

	Dollars in Thousands					
	Actual FY 00-01	Actual FY 02-03	Actual FY 04-05	Actual FY 06-07	Projected FY 08-09	Estimated FY 10-11
Total GF	\$25,437,925	26,751,791	\$29,364,444	\$31,489,542	\$34,173,109	\$36,713,149
Tax Aids & Credits	\$3,306,343	3,378,622	\$2,800,431	\$2,989,962	\$3,041,824	\$3,418,955
% of Total GF	13.0%	12.6%	9.5%	9.5%	8.9%	9.3%

Note: FY 08-09 includes unallotments from December 18, 2008.

Property Tax Aids & Credits Budget

Spreadsheet Detail

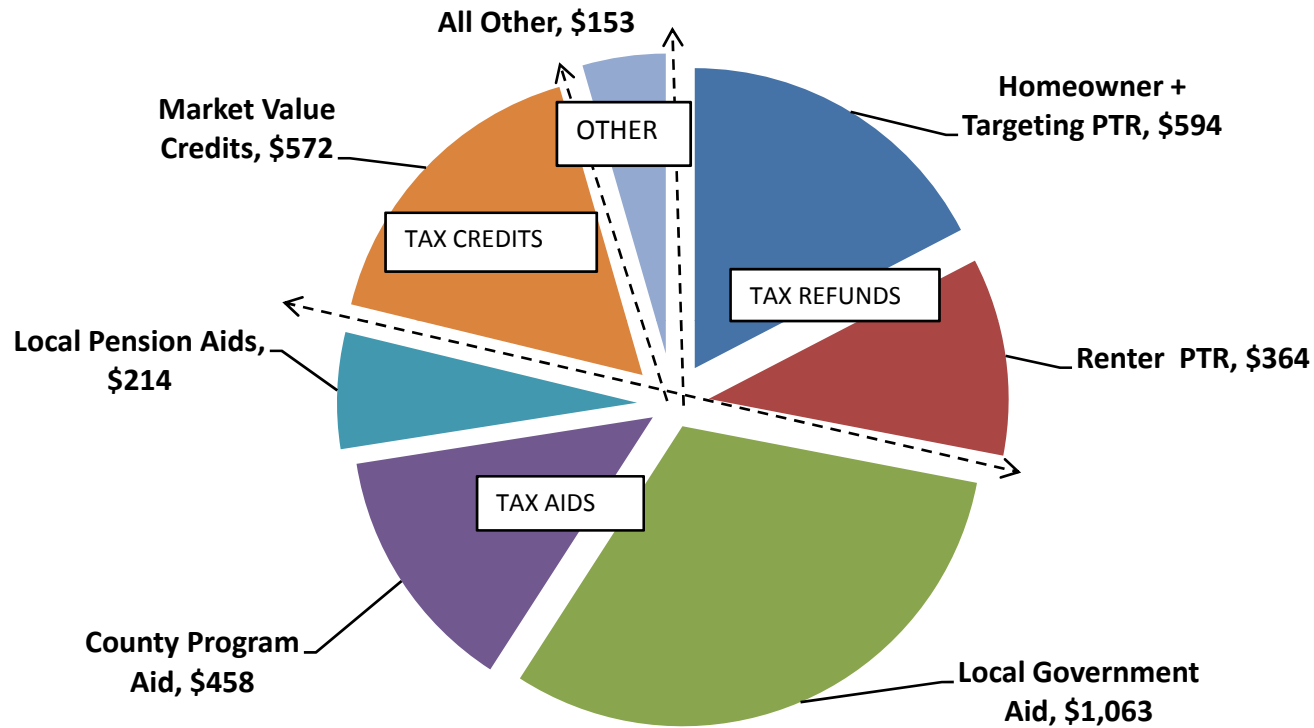
- The House Tax Aids and Credits spreadsheet contains **31 budget activities.**
- **Categories of Expenditure** include:
 - I. Property Tax Refunds
 - II. Local Government Aids
 - III. Property Tax Credits
 - IV. Local Pension Aids and
 - V. Other Appropriations.

Tax Aids & Credits FYs 2010-11

Base: \$3.42 Billion

(All Numbers in Millions)

November 2008
Forecast



Major Property tax aids represent	50.8%
Property tax refunds (PTR) represent	28.0%
Major Property tax credits represent	16.7%
All Other represent	<u>4.5%</u>
Total	100.0%

Property Tax Aids & Credits Budget

Who Receives Tax Aids & Credits?

Property Tax Refunds

Homeowners and renters

Property Tax Aids

Local Taxing Jurisdictions,
mostly Counties and eligible Cities

Property Tax Credits

Local Taxing Jurisdictions

Tax Aids & Credits

Spreadsheet Detail – List of Accounts

Refunds

Homeowners Property Tax Refund

Renters Property Tax Refund

Targeting Refund

Sustainable Forest Land Credits

Political Contribution Refund

Tax Refund Interest

Taconite Tax Relief

Aids & Credits

Taconite Reimbursement

Supplemental Homestead Aid

Taconite Replacement Aid

Property Tax Credits

Market Value Homestead Credit

Agricultural Market Value Credit

Border City Disparity Credit

Disaster Credit

Wetlands Reimbursement Credit

Senior Deferral Reimbursement

*Minnesota Conservation Credit (SR)

Bovine TB Property Tax Credit

Local Aids

Local Government Aid (LGA)

County Program Aid

County Transition Aid

Utility Transition Aid

Public Defender Cost

Local Impact Notes

Disparity Reduction Aid

Tribal Casino Aid

Local Pension Aids

Aid to Police & Fire

Public Employees Retirement Assoc.

Police/Fire Additional Amortization Aid

Police/Fire Suppl'tl Amortization Aid

Firefighters Relief Reimbursements

Redistributed Amortization Aid -TRFA

Other Tax Expenditures

Payment-in-Lieu of Taxes (PILT) for

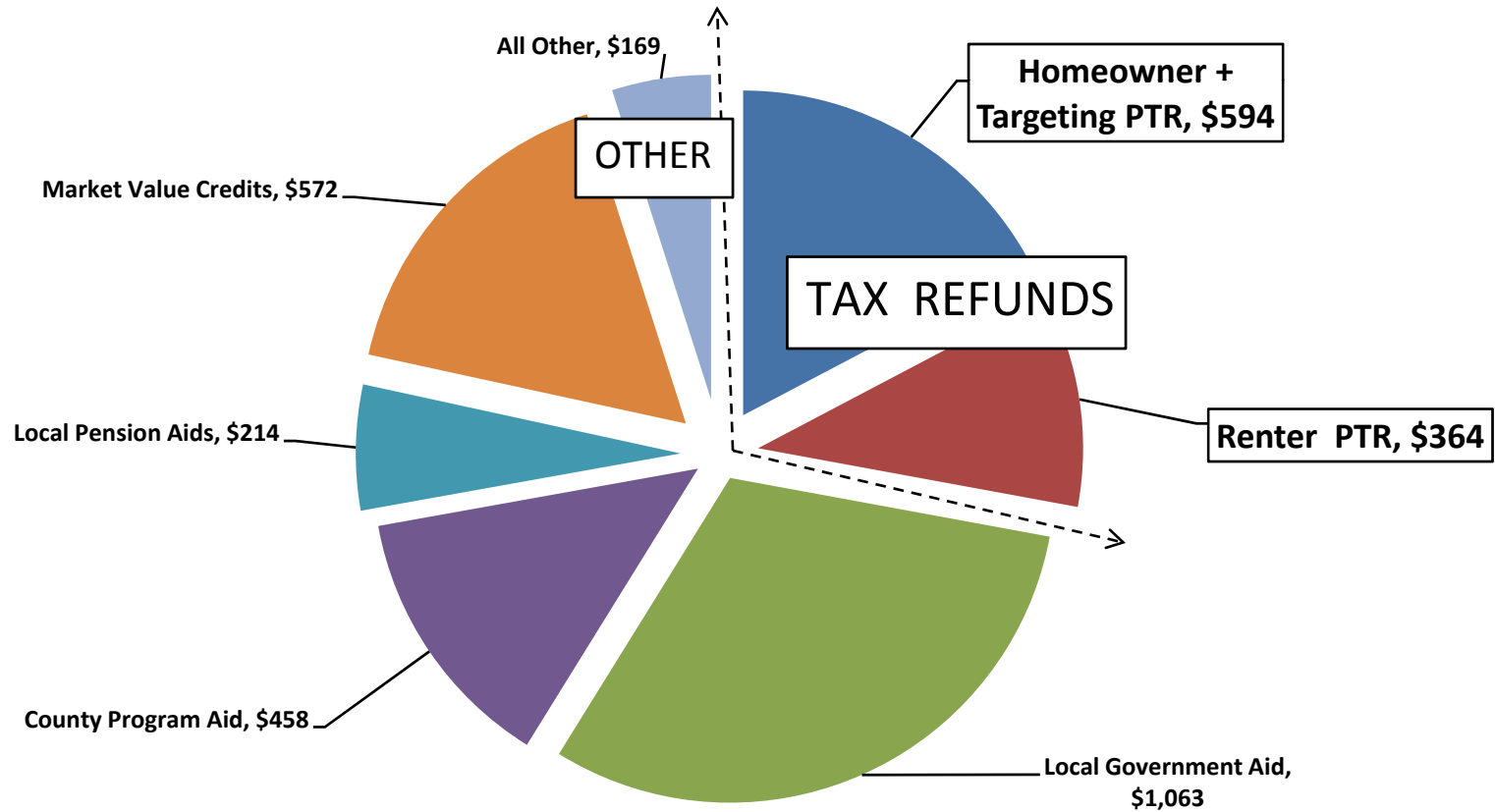
Dept. of Transportation (DOT)

Owned Lands

Tax Aids & Credits

I. Property Tax Refunds

Tax Aids & Credits FYs 2010-11
Base: \$3.42 Billion
(All Numbers in Millions)



Tax Aids & Credits

I. Property Tax Refunds

Property tax refunds are direct payments from the state to certain homeowners and renters to offset their property tax liabilities.

1. Homeowner Property Tax Refund
2. Renter Property Tax Refund
3. Targeting Property Tax Refund

4. Sustainable Forest Land Credits
5. Political Contribution Refund
6. Tax Refund Interest

27.9% of all Tax Aids & Credits

1.7% of all Tax Aids & Credits

Property tax refunds represent 29.6% of all Aids & Credits

I. Property Tax Refunds

1. Homeowner Property Tax Refund

This budget activity, also known as the “circuit breaker” program, provides direct payments to homeowners based on their net property taxes relative to income.

Who Benefits?

In CY 2007, over 263,000 homeowners received an average refund of \$590. For CY 2009, the maximum income for eligibility is \$100,010.

2. Renter Property Tax Refund

This is the “renters credit.” It provides direct payments to renters whose rent and implicit property taxes are high relative to their incomes.

Who Benefits?

In calendar year 2007, approximately 283,500 renters received an average refund of \$535. For CY 2009, the maximum income for eligibility is \$53,950.

I. Property Tax Refunds

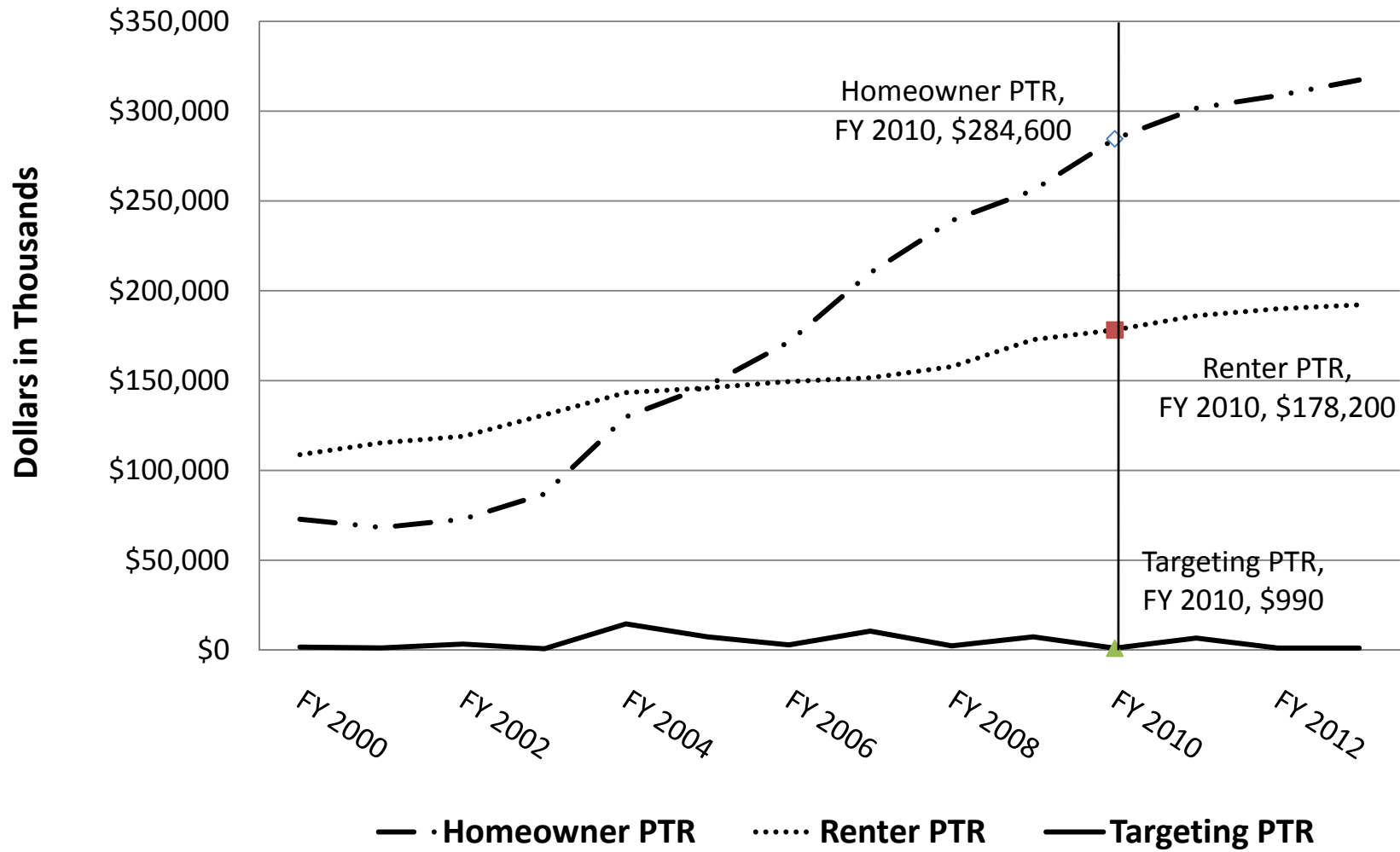
3. Targeting Property Tax Refund

This refund is provided to homeowners, regardless of income, when there is a relatively large, one-year increase (greater than 12 percent and over \$100) in property taxes. The refund equals 60% of the property tax increase in excess of 12%, up to a maximum of \$1,000.

Who Benefits?

In CY 2005, over 87,500 homeowners received an average refund of \$85.

Property Tax Refund Programs FYs 2000-2012



I. Property Tax Refunds

4. Sustainable Forest Land Credits

This credit is a reimbursement to counties for property tax relief to private landowners who practice long-term forest management investment in accordance with the Sustainable Forest Incentive Act (2001).

Who Benefits?

In calendar year 2008, approximately 710,600 acres were enrolled in the program and participants received \$8.61 per acre for each acre enrolled .

Note: This is one of the fastest growing expenditure programs in the state.

I. Property Tax Refunds

5. Political Contribution Refund

This program allows a taxpayer to claim a refund equal to the amount of the taxpayer's contributions made in the calendar year to candidates and to a political party. The maximum refund for an individual must not exceed \$50 and for a married couple, filing jointly, must not exceed \$100.

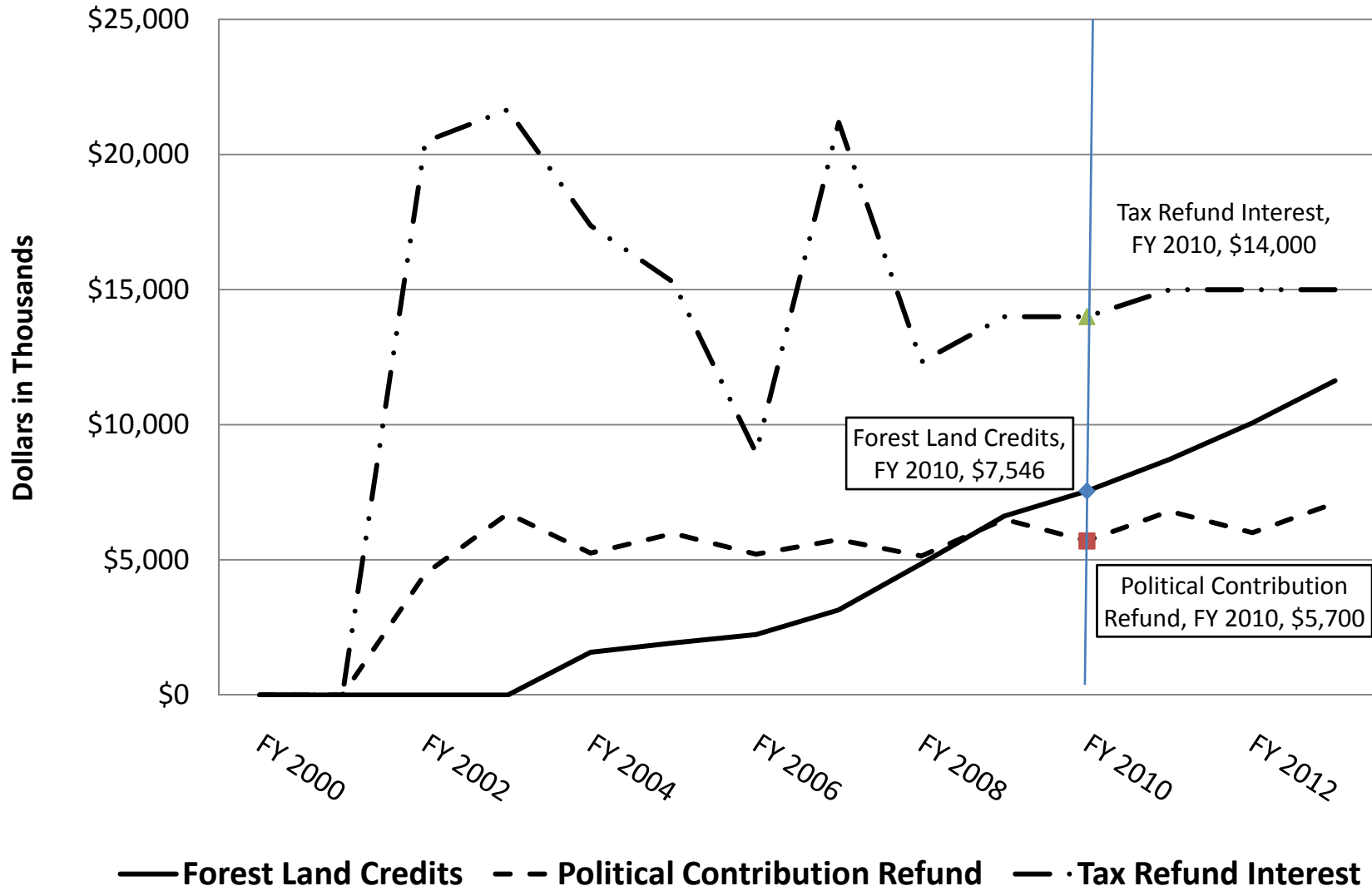
Who Benefits?

In calendar year 2005, almost 100,000 individuals received an average political contribution refund of \$50.

6. Tax Refund Interest

This account pays interest expenses on an overpayment refunded or credited to taxpayers from the date of payment of the tax until the date the refund is paid or credited.

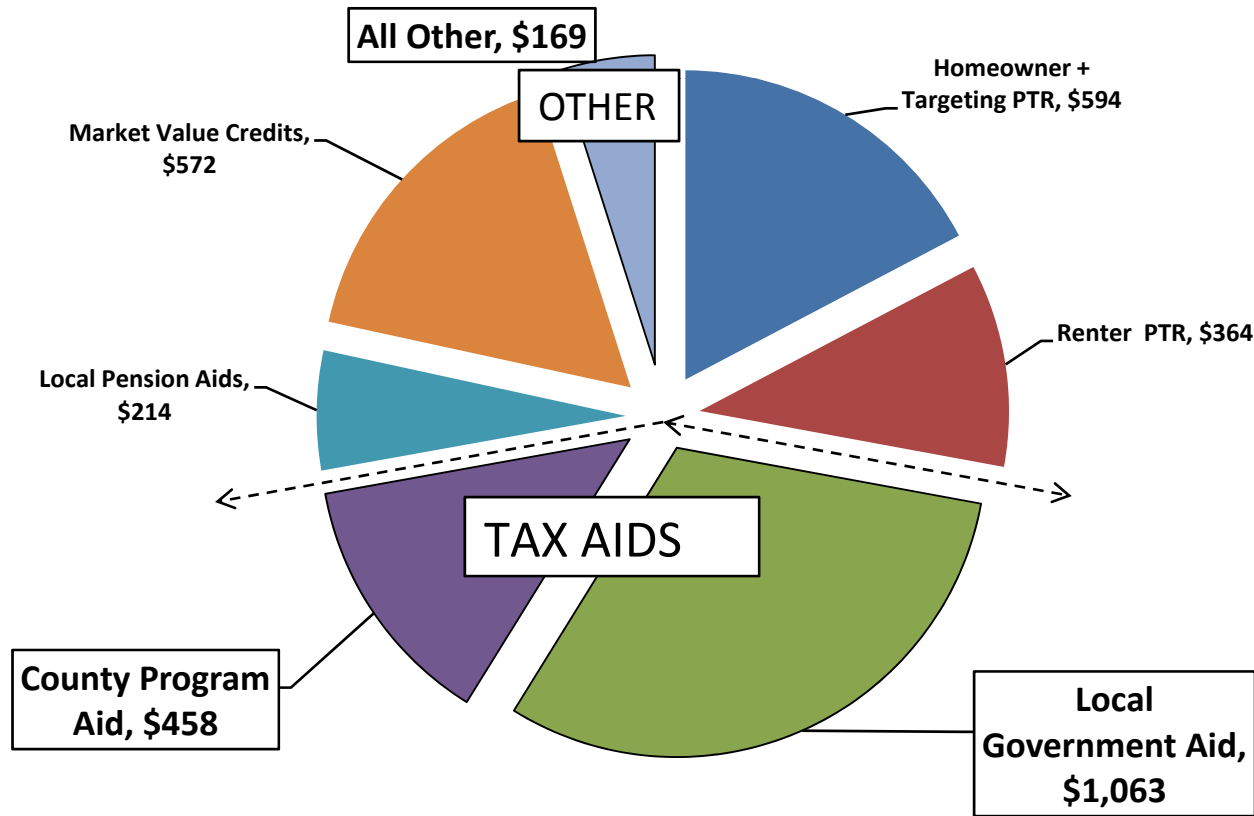
Other Tax Refund Programs FY 2000-2012



Tax Aids & Credits

II. Local Property Tax Aids

Tax Aids & Credits FYs 2010-11
Base: \$3.42 Billion
(All Numbers in Millions)



Tax Aids & Credits

II. Local Property Tax Aids

Property tax aids are state payments to local taxing jurisdictions intended to supplement local government budgets.

- | | | |
|-------|--|---------------------------------|
| 1. | Local Government Aid | 44.3% of all Tax Aids & Credits |
| 2. | County Program Aid | |
| ----- | | |
| 3. | County Transition Aid | 1.5% of all Tax Aids & Credits |
| 4. | Utility Transition Aid | |
| 5. | Public Defender Costs and Local Impact Notes | |
| 6. | Disparity Reduction Aid | |
| 7. | Tribal Casino Aid | |
| 8. | Mahnomen Aid | |

Local Tax Aids represent 45.8% of all Aids & Credits

II. Local Property Tax Aids

1. Local Government Aid

This budget activity provides state property tax relief aid to cities that is distributed according to “need factors” – measured differently for small cities (with populations of under 2,500 residents) versus large cities (with populations of 2,500 or more)- minus the “ability to pay” measured by cities’ tax base and taconite aid.

Who Benefits?

Local Government Aid (LGA) provides general-purpose funding to 763 of the Minnesota’s 854 cities; 608 of these recipient cities have a population less than 2,500.

II. Local Property Tax Aids

1. Local Government Aid (continued)

Estimated FY 2010 LGA distributions:

608 cities with populations < 2,500	\$ 90.6 million
155 cities with populations >2,500	\$435.5 million

Who does not benefit from LGA?

Total population in townships	988,009
Total population in 69 large cities and 22 small cities w/o LGA	<u>1,477,884</u>
Subtotal	2,465,893 or 47%
Total State population	5,231,106

II. Local Property Tax Aids

2. County Program Aid

- This budget activity provides general purpose aid to counties to reduce property tax levies, based on the needs of the populations they serve relative to the size of their tax bases.
- In 2003, county program aid was created to consolidate county general purpose aids into a single program; counties previously received an array of aids including homestead and agricultural credit aid (HACA), county criminal justice aid, family preservation aid, and attached machinery aid.
- Appropriations payable for CY 2009 and annually thereafter are limited to \$111.5 million for need aid and \$116.1 million for equalization aid .

II. Local Property Tax Aids

2. County Program Aid (continued)

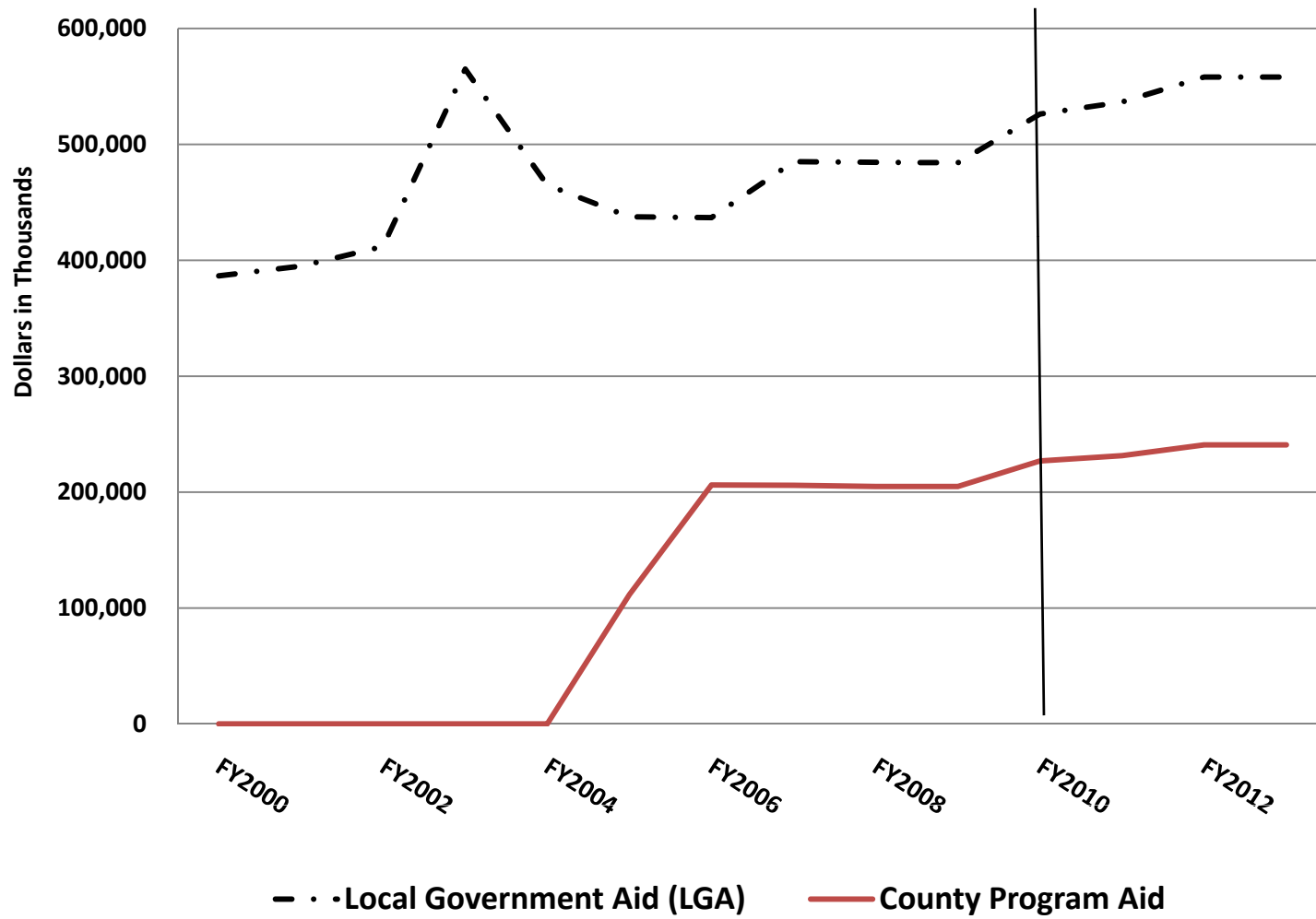
Of this amount, \$500,000 is retained by the Commissioner of Revenue to pay for public defender costs pursuant to MS 611.27.

Who Benefits? All 87 Minnesota counties

- Need aid tends to be distributed among the counties approximately equal to each county's relative share of the state population.
- Counties in greater Minnesota generally receive a greater share of tax base equalization aid because their tax bases generally are smaller.

II. Local Property Tax Aids

Local Government Aid and County Program Aid



II. Local Property Tax Aids

3. County Transition Aid

This state aid was provided to certain counties to buffer reductions in aid attributable to the 2003 consolidation of County Program Aid.

Who benefits? Seven counties: Aitkin, Chippewa, Cook, Kanabec, Kittson, Traverse, and Wilkin

4. Utility Transition Aid

State aid provided to 14 cities and 29 towns where utility property rule changes have resulted in a reduction in tax capacity that is greater than 4 percent. During FYs 2010-11, the program covers 50 percent of the excess loss in FY 2010 and 100 percent of the excess loss in FY 2011.

II. Local Property Tax Aids

5. Public Defender Costs and Local Impact Notes

This budget activity represents set-aside moneys from the county program aid appropriation for:

- A. Public defense services for correctional facility inmates.
- B. Annual funding of up to \$207,000 for the Commissioner of Finance and up to \$7,000 for the Commissioner of Education to pay for administrative costs for producing local fiscal impact notes on legislation considered by the Minnesota Legislature.

6. Disparity Reduction Aid

This budget activity, created in 1988, reflects state aid paid to counties, townships and school districts to provide relief to high tax rate areas.

II. Local Property Tax Aids

7. Tribal Casino Aid

This budget activity reflects state aid payments to counties with a tribal casino. The state pays ten percent of the state's share of excise taxes (tobacco, alcoholic beverage, and motor fuels) collected under the tribal tax agreement. Because the tribal government receives one-half of the taxes collected, the county, in effect, receives 5 percent of these shared taxes.

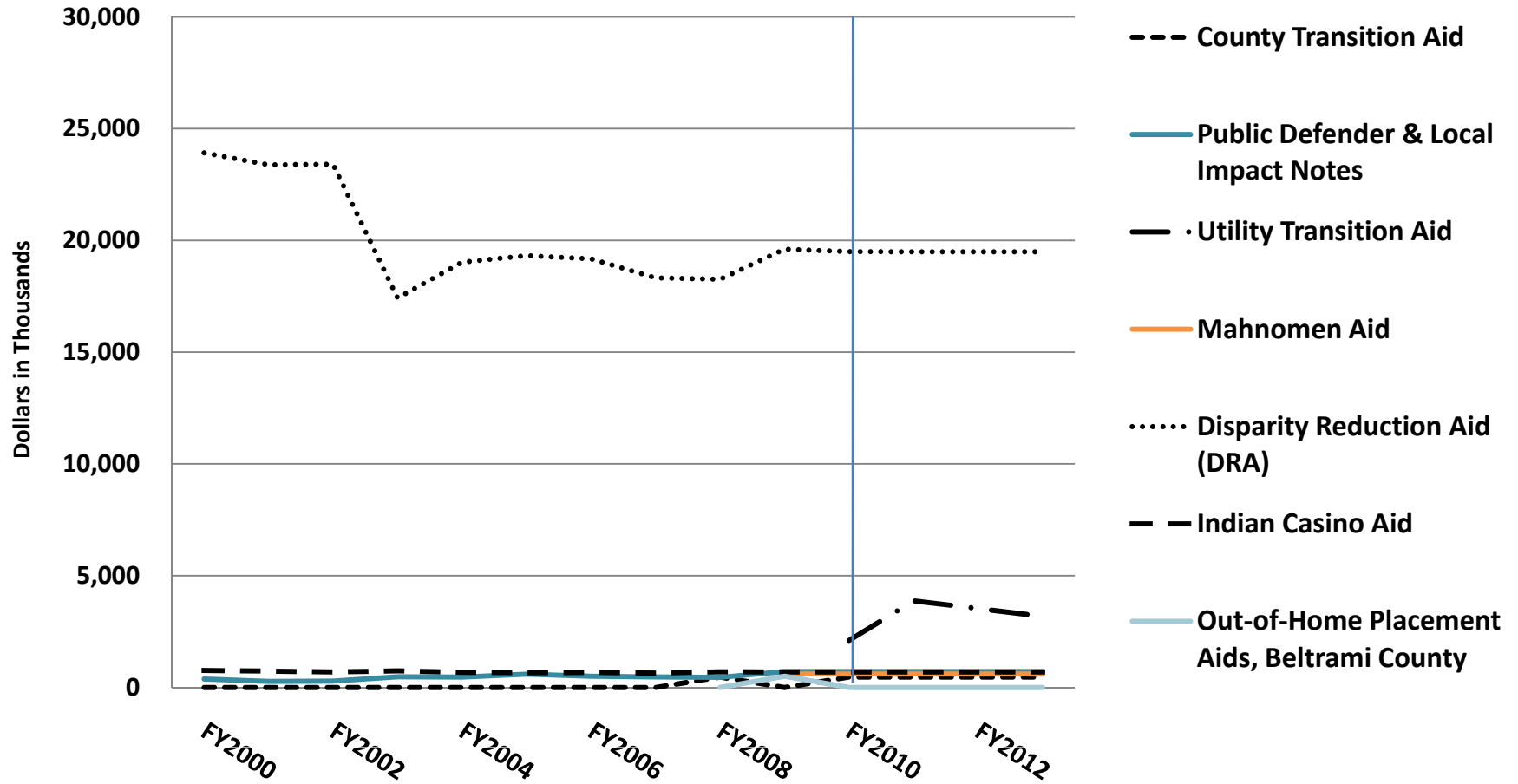
Who benefits? Counties with one of the 17 casinos currently operating in Minnesota.

8. Mahnomen Aid

Aid provided to Mahnomen local governments to mitigate the removal of tribal property in 2006 from the county's tax rolls.

II. Local Property Tax Aids

Other Property Tax Aids



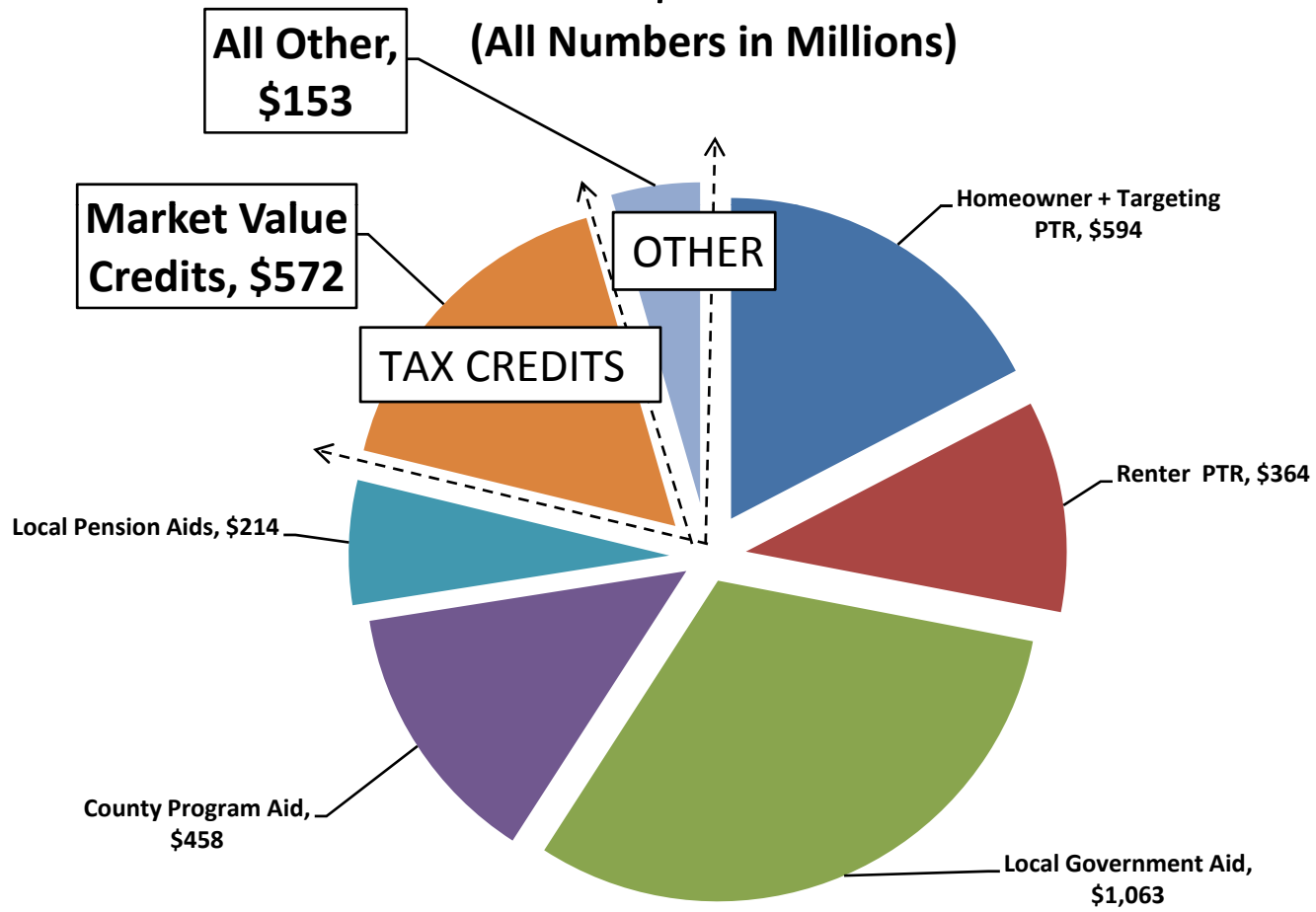
Tax Aids & Credits

III. Property Tax Credits

Tax Aids & Credits FYs 2010-11

Base: \$3.42 Billion

(All Numbers in Millions)



Tax Aids & Credits

III. Property Tax Credits

Property tax credits reduce property tax liabilities for individual taxpayers; local taxing jurisdictions receive state payment for these credits.

1. Market Value Homestead Credit

16.7% of all Tax Aids & Credits

2. Agricultural Market Value Credit

3. Border City Disparity Credit

4. Disaster Credit

0.5% of all Tax Aids & Credits

5. Wetlands Reimbursement Credit

6. Senior Deferral Reimbursement

7. Bovine Tuberculosis Property Tax Credit

8. Prior Year Credits

Property tax credits represent 17.2% of all Aids & Credits

III. Property Tax Credits

1. Market Value Homestead Credit

- This budget activity provides reimbursements to taxing districts for property tax credits issued to residential homeowners.
- Homeowners may receive tax credits equal to 0.4 percent of the market value of the parcel up to a maximum of \$304, subject to a phase-out of the credit beginning at \$76,000 in market value. The phase-out rate is equal to .09 percent of market value above \$76,000 with no credit issued for homes valued at \$414,000 and above.

Who Benefits?

For CY 2008, the average credit was \$210 for homes in greater Minnesota and \$141 for homes in the metro area.

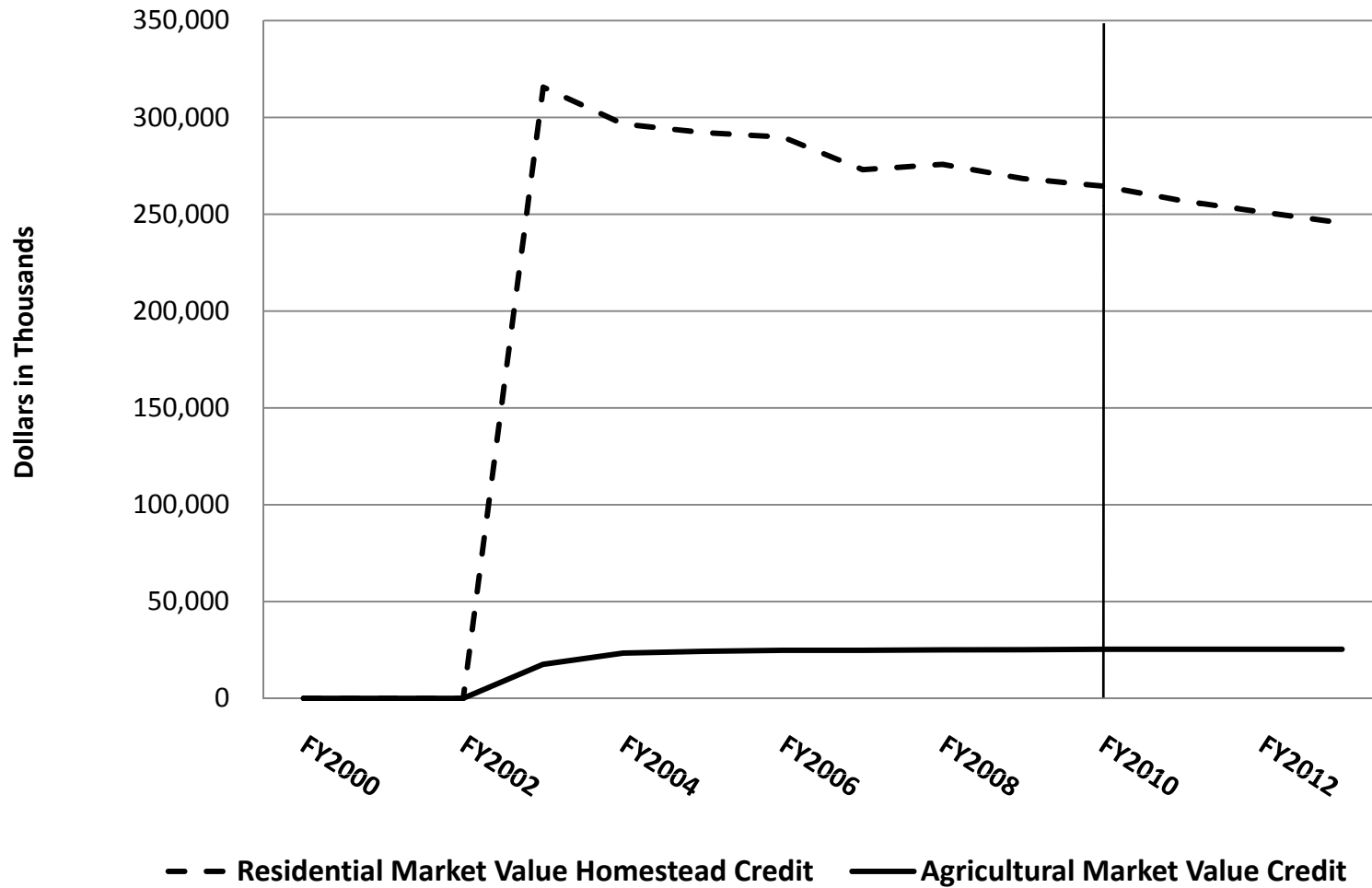
III. Property Tax Credits

2. Agricultural Market Value Credit

- This budget activity reflects reimbursements to localities for property tax credits issued to owners of agricultural property minus the value of the house, garage and 1 acre of land.
- Applicants receive tax credits equal to 0.3 percent of the market value of the parcel up to a maximum of \$345 subject to a phase-back of the credit beginning at \$115,000 in market value. The phase-back rate, equal to .05 percent of market value above \$115,000, reduces the credit amount to a maximum of \$230 for farms valued at \$345,000 or more.

III. Property Tax Credits

Residential and Agricultural Market Value Credits



III. Property Tax Credits

3. Border City Disparity Credit

This budget activity provides reimbursement for property tax credits issued to qualified commercial/industrial properties located in an enterprise zone .

Who Benefits? Five designated border cities: Breckenridge, Dilworth, East Grand Forks, Moorhead, and Ortonville.

4. Disaster Credit

This budget activity reflects reimbursement for property tax credits to counties within a disaster or an emergency area. Specifically, counties must re-adjust property valuations to reflect damages and subsequent losses in market value caused by the event, creating a void in anticipated property tax revenues for the year.

III. Property Tax Credits

5. Wetlands Reimbursement Credit

- Counties receive payments for lost revenue resulting from the exemption of land in a wetland preservation area.
- Payments are based on tax revenue that would have been received if the wetlands had a net tax capacity of 50 cents per acre.

6. Senior Deferral Reimbursement

- Eligible seniors, age 65 years or older with an income of \$60,000 or less, may defer the amount of their property taxes that exceeds 3% of their household income to a later time.
- The state pays the amount of the deferred tax plus other charges to the county where the property is located.

Who Benefits?

In 2006, over 130 seniors participated in this program.

III. Property Tax Credits

7. Bovine Tuberculosis Property Tax Credit

This property tax credit is for agricultural land located in the "modified" Bovine Tuberculosis accredited zone if the property owner eradicated a cattle herd on that land during the year in order to prevent the onset or spread of bovine tuberculosis. The state is required to reimburse taxing districts for taxes lost under this credit.

Who benefits? Approximately 300 farms with a net tax loss of \$1,227 per farm.

8. Prior Year Credits

This budget activity accounts for reimbursements for a variety of property tax credits that are attributable to previous year tax liabilities.

III b. Taconite Tax Relief Aids & Credits

1. Supplemental Taconite Homestead Credit - School & Non School

This budget activity provides reimbursements to schools and local governments in the Iron Range for tax credits issued under the homestead property tax relief program.

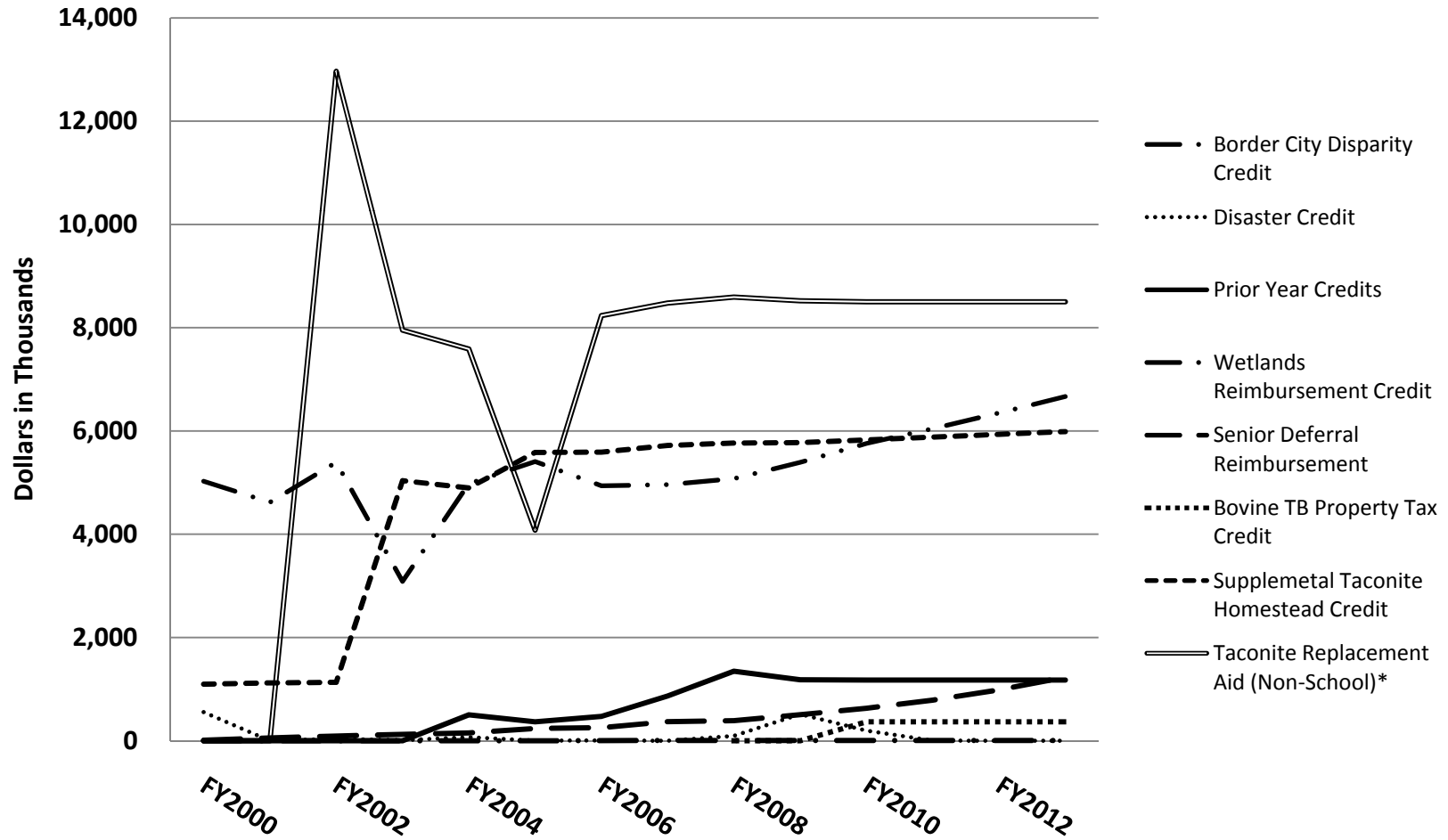
2. Taconite Replacement Aid

This budget activity provides state aid (an amount equal to 22 cents per taxable ton of iron ore concentrates per production year) to local governments in the Iron Range to replenish their taconite municipal aid accounts.

Taconite tax aids & credits represent 0.8% of all Aids & Credits

III. Property Tax Credits

Other Property Tax Credits



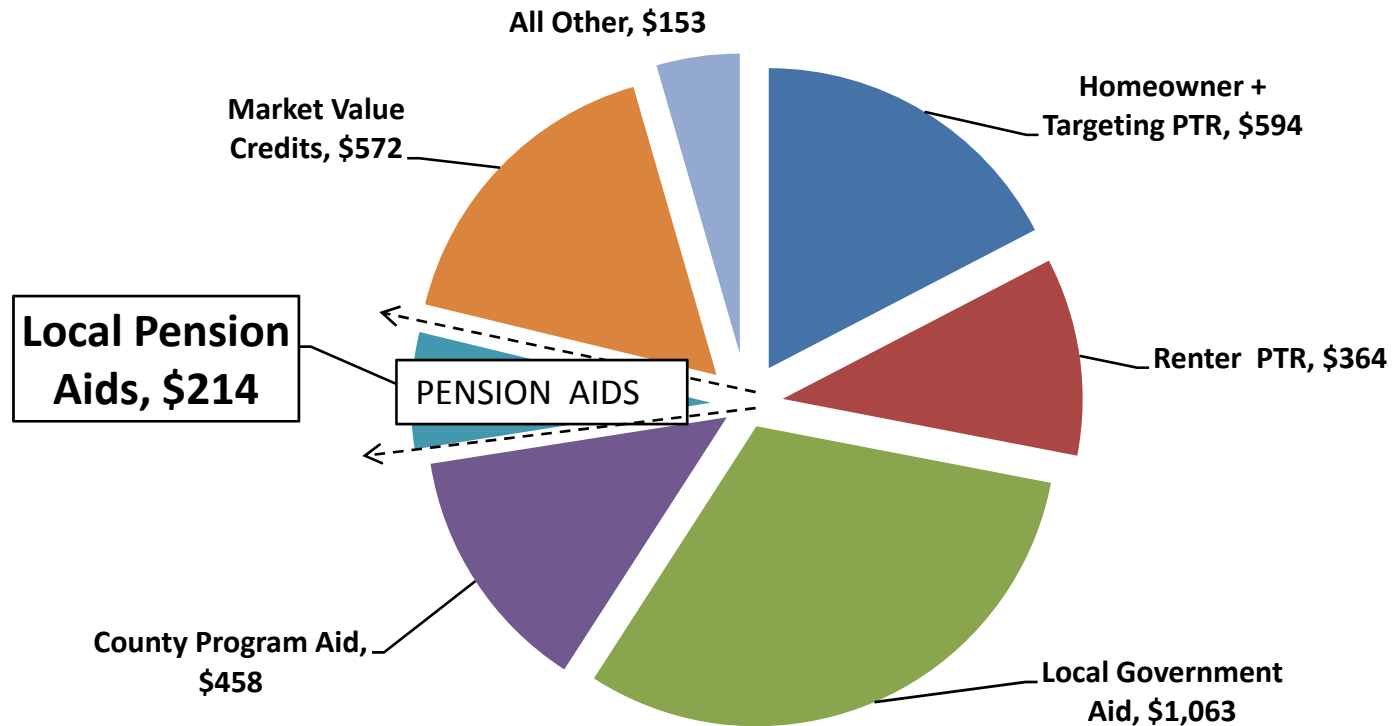
Tax Aids & Credits

IV. Local Pension Aids

Tax Aids & Credits FYs 2010-11

Base: \$3.42 Billion

(All Numbers in Millions)



Tax Aids & Credits

IV. Local Pension Aids

Property tax aids are state payments to local taxing jurisdictions intended to replace property tax levy income.

1. Aid to Police and Fire

6.1% of all Tax
Aids & Credits

2. Public Employees Retirement Assoc.

3. Police/Fire Additional Amortization Aid

0.2% of all Tax
Aids & Credits

4. Police/Fire Supplemental Amortization Aid

5. Firefighters Relief Reimbursements

6. Redistributed Amortization Aid – TRFA

Local Pension Aids represent 6.3% of all Aids & Credits

IV. Local Pension Aids

1. Aid to Police and Fire

- Provides payments to certain counties, municipalities , independent nonprofit firefighting corporations and other entities to supplement their budgets.
 - Allocation of state fire aid uses population and market value information in each service area to determine a minimum aid amount per firefighter.
 - Allocation of state police aid is based on the number of licensed police officers employed by the entity, up to the amount of the employer's prior year's pension contribution.
 - Allocation of First Class City fire insurance surcharge is the geographic location of the property on which the fire insurance is written.
- Fire State Aid comes from the dedicated proceeds of the state insurance premium tax (generally 2%) on fire insurance.
- Police State Aid is financed by the dedicated proceeds of a 2% automobile insurance premium tax.

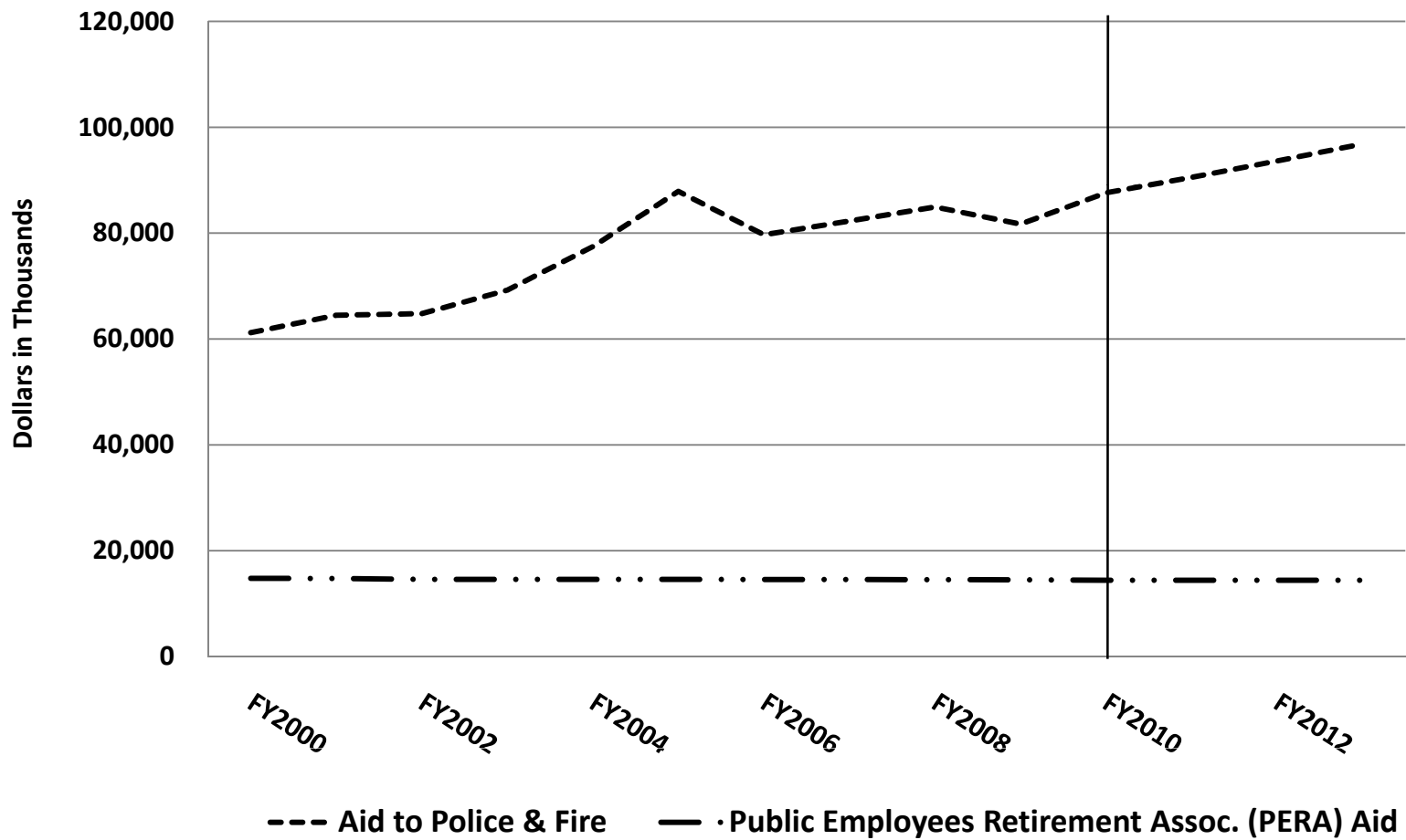
IV. Local Pension Aids

2. Public Employees Retirement Assoc.

- This budget activity reflects payments to each city, county, town, and other non-school jurisdictions to offset a 1997 employer contribution increase.
- Payments equal to 0.35 percent of the fiscal year 1997 payroll for employees who were members of the general plan of the Public Employees Retirement Association.
- There is no statutory provision that terminates this aid program.

IV. Local Pension Aids

Police & Fire, PERA Pension Aids



IV. Local Pension Aids

State Aid Supporting Local Government Pensions

November 2008 Forecast

Fund Balance Name

Dec 08 Fund Balance Report

House Committee	Budget Activity	All Numbers in Thousands								
		Actual FY 2006	Actual FY 2007	Actual FY 2008	Nov 08 Fcst FY 2009	Nov 08 Fcst FY 2010	Nov 08 Fcst FY 2011	Plan Est FY 2012	Plan Est FY 2013	
Tax Aids/Cred	Local Aids to Police & Fire	\$ 87,967	\$ 87,127	\$ 88,180	\$ 81,858	\$ 87,761	\$ 90,543	\$ 93,625	\$ 96,848	
	Police - 431 depts in FY 08	\$ 47,616	\$ 48,320	\$ 54,987	\$ 55,634	\$ 63,865	\$ 66,811	\$ 69,893	\$ 73,116	
	Fire - 766 depts in FY 08	\$ 30,461	\$ 32,358	\$ 28,287	\$ 24,401	\$ 22,073	\$ 22,073	\$ 22,073	\$ 22,073	
	Insurance Surcharge (1st class cities)	\$ 1,606	\$ 1,606	\$ 1,659	\$ 1,659	\$ 1,659	\$ 1,659	\$ 1,659	\$ 1,659	
	Additional Amortization Aid	\$ 8,284	\$ 4,843	\$ 3,247	\$ 164	\$ 164	\$ -	\$ -	\$ -	
Tax Aids/Cred	Local Police and Fire Amort	\$ 5,288	\$ 4,808	\$ 4,366	\$ 4,365	\$ 4,365	\$ 2,845	\$ 2,845	\$ 2,845	
	P/F Amortization	\$ 2,616	\$ 2,136	\$ 942	\$ 948	\$ 948	\$ -	\$ -	\$ -	
	Redistribution of Amort Aid	\$ 1,436	\$ 1,436	\$ 2,281	\$ 2,274	\$ 2,274	\$ 2,274	\$ 2,274	\$ 2,274	
	P/F Supplemental Amort	\$ 750	\$ 750	\$ 572	\$ 572	\$ 572	\$ -	\$ -	\$ -	
	Firefighter Reimbursement	\$ 486	\$ 486	\$ 571	\$ 571	\$ 571	\$ 571	\$ 571	\$ 571	
Tax Aids/Cred	PERA Pension Aid	\$ 14,568	\$ 14,560	\$ 14,534	\$ 14,520	\$ 14,431	\$ 14,431	\$ 14,431	\$ 14,431	
	Subtotal - Tax Aids & Credits	\$ 107,823	\$ 106,495	\$ 107,080	\$ 100,743	\$ 106,557	\$ 107,819	\$ 110,901	\$ 114,124	
State Gov	Mpls TRA 1993 Aid	\$ 2,472	\$ 2,500	\$ 2,501	\$ 2,500	\$ 2,500	\$ 2,500	\$ 2,500	\$ 2,500	
	Mpls TRA 1997 Aid	\$ 13,298	\$ 13,300	\$ 13,300	\$ 13,300	\$ 12,954	\$ 12,954	\$ 12,954	\$ 12,954	
	St Paul TRA 1997 Aid	\$ 2,969	\$ 2,967	\$ 2,967	\$ 2,967	\$ 2,827	\$ 2,827	\$ 2,827	\$ 2,827	
	Mpls Employee Retrmt Fnd (MERF)	\$ 8,065	\$ 9,000	\$ 9,000	\$ 9,000	\$ 9,000	\$ 9,000	\$ 9,000	\$ 9,000	
	Duluth TRA	\$ -	\$ -	\$ -	\$ -	\$ 346	\$ 346	\$ 346	\$ 346	
	Subtotal - State Government	\$ 26,804	\$ 27,767	\$ 27,768	\$ 27,767	\$ 27,627	\$ 27,627	\$ 27,627	\$ 27,627	
	TOTAL	\$ 134,627	\$ 134,262	\$ 134,848	\$ 128,510	\$ 134,184	\$ 135,446	\$ 138,528	\$ 141,751	

Tax Aids & Credits

V. Other Expenditures

Other expenditures are direct appropriations with a tax-related purpose, usually to a state agency or local government, and usually administrative in nature.

1. Payment-in-Lieu of Taxes (PILT) for Dept. of Transportation (DOT) Owned Lands
2. Various One-time appropriations, e.g.
 - Special Session Disaster Relief funds in 2007,
 - Out-of-Home Placement Aids for Beltrami County in 2009
 - Voss Database support - Dept of Revenue

Other Expenditures represent 0.0% of all Aids & Credits

More Information Available: Catalog of Budget Activities Tax Aids & Credits

Sample Catalog Entry:

Property Tax - Regular Homeowners Refund [*Minnesota Statutes*, section 290A.04, subd. 2 and 290A.23]

Dollars in Thousands							
FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Forecast	FY 2010 Projected	FY 2011 Projected	FY 2012 Planning	FY 2013 Planning
\$171,488	\$214,100	\$239,080	\$255,900	\$284,600	\$301,700	\$308,700	\$317,400
% Chg	24.8%	11.7%	7.0%	11.2%	6.0%	2.3%	2.8%

Appropriation Type: Statutory, Open

Fund: General

Description: This budget activity provides property tax relief (in the form of direct payments) to homeowners based on their net property taxes relative to income. Known as the “circuit breaker” program, in calendar year 2007, over 263,000 homeowners received an average refund of \$590.

For additional information on
Tax Aids & Credits, please email
[*katherine.schill@house.mn*](mailto:katherine.schill@house.mn)