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Levy Limits

General levy limits are currently not imposed

The general levy limits under Minnesota Statutes, sections 275.70 to 275.74, restrict the amount of property taxes cities with a population of 2,500 or more and all counties may impose for general fund expenditures. Levy limits are currently not in force; they were last effective for taxes payable in 2014.

Levy limits are intended to ensure that state aid reduces property taxes and limits the growth rate of property taxes

Levy limits are adopted to keep the growth in property taxes low and to help ensure that cities and counties use increased state aid payments to reduce property taxes and not for higher local spending. Because of this, general purpose state aids are included in calculating the limit. When a local government's state aid increases, its maximum allowed levy decreases. Conversely, if a local government's aid decreases, its allowed levy increases. If a local government receives no state aid, the limit applies only to its property tax levy.

Although the purpose of levy limits is to limit growth in property taxes, some opponents argue that they may actually increase taxes by encouraging cities and counties to levy up to the maximum allowed.

Levy limits have expired several times and been reenacted

In recent years, the legislature has generally imposed levy limits as part of property tax reforms, or when state aid reductions may have led to higher property taxes. They were re-imposed for Pay 2009–2011 to limit rising property taxes; that might have been attributed to aid decreases and freezes. They were reimposed for 2014 when the aid appropriations were increased significantly. The table shows the years in which levy limits were imposed.

Chronology of Levy Limits

Taxes payable years	Limits Apply?	Instigating Event
1972–1992	Yes	Enactment of 1971 property tax reform
1993–1997	No	Enactment of Truth-in-Taxation notices as a replacement
1998–2000	Yes	"Compression" of class rates
2001	No	Allowed to expire
2002–2003	Yes	2001 property tax reform
2004	Yes	2003 and 2004 aid reductions
2005–2008	No	Allowed to expire
2009–2011	Yes	Previous county and city levy increases
2012–2013	No	Allowed to expire
2014	Yes	Large aid increases
2015–future	No	Allowed to expire

State aids are used to calculate limits

As noted above, state general-purpose aids are used to calculate levy limits. The aids included in the levy limit base are (1) taconite aid; (2) county program aid, for counties only; and (3) local government aid (LGA), for cities only. The combination of levy plus aid is known as the levy limit base.

The allowed growth in the levy limit base for Pay 2009–2011 was less than usual

In recent history, the levy limit base has usually been adjusted for inflation, new households, and new commercial and industrial property. For Pay 2009–2011, stricter limits were imposed. A local government's levy limit base (levy plus aids) was increased for growth for the three factors but limited as follows:

- The rate of inflation, as measured by the implicit price deflator (IPD) for state and local government purchases, *but only to a maximum of 3.9 percent*
- *Only one-half* of the percent growth number of households in the local jurisdiction, as estimated by the state demographer or the Metropolitan Council, rather than the usual 100 percent of the growth rate
- One-half of the increase in the total market value in the jurisdiction due to new commercial/industrial development

The 2014 levy limit allowed a flat 3 percent growth rate.

Local governments may levy "outside of limits" for certain purposes

The levy limits do not apply to "special levies." Special levies can be imposed for whatever amount the city or county needs outside of levy limits for specified purposes. For taxes payable in 2009 these purposes include the following:

- debt for capital purchases and projects
- state and federal required matching grants
- preparation for and recovery from natural disasters
- certain abatements
- increases in public employee pension plans
- required jail operation costs
- operation of lake improvement districts
- repayment of a state or federal loan related to highway or capital projects
- for an animal humane society
- increased costs related to reductions in federal health and human service program grants
- inspections and other related city costs in cities with high foreclosure rates
- for Minneapolis to cover unreimbursed costs related to the I-35W bridge collapse
- increases in police, fire, and sheriff personnel salaries and benefits
- to recoup any LGA, county program aid, or market value credit reductions that occur after levies have been set for the year

The 2014 levy limits allowed special levies for debt and natural disasters.

Local governments may go to voters for authority to exceed limits

When levy limits are in effect, a local government may certify a levy higher than its levy limit *if* approved by the voters at a referendum. A vote to exceed the limit may be for any amount, and the tax is spread on tax capacity. Unless approved by a referendum, the final levy may not exceed the limited amount plus the amounts levied for authorized special levies.

For more information: Contact legislative analyst Pat Dalton at 651-296-7434. Statutes governing levy limits are Minnesota Statutes, sections 275.70 to 275.74.