Chapter Eight

Revenue, Finance & Debt

§ 8-1. Sources of Town Revenue

There are several sources of town revenue, some of which are available to all townships and others that are available only under certain circumstances. The money from some sources may also come with restrictions on its use. The most common sources of revenue are described here.

A. Property Taxes

Property taxes are the primary source of revenue for town government. The electors set the town's property tax levy at the annual town meeting. The town clerk certifies the amount of the levy to the county auditor annually by September 15th. A property tax statement is mailed to each property owner showing the amount of the town levy as well as the levies being imposed by other governmental entities. The town receives tax money twice a year, once in June and again in December. Minn. Stat. §§ 276.09; 276.11; 276.111. Any remaining property tax proceeds are distributed in January.

The town levy may be set only at a town meeting. It is important to distinguish between the budget and the levy. The budget is produced by the board to suggest a plan for spending in the next year. The levy is the tax set by the voters, which may consider the budget suggested by the board.

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Because the annual town meeting is held on the second Tuesday in March, some towns find it difficult to predict their financial needs and approve a levy nearly a year in advance. To remedy this, some towns continue the annual town meeting to August so it can better anticipate its financial needs in the upcoming year before setting the levy. Once the levy is set, it still must be certified to the county auditor by September 15th.

Regardless of how much effort a town puts into determining a budget and setting the levy, it may still be necessary to change the levy after it is set. In that situation, a special town meeting may be called to ask the electors to modify the levy. Towns may modify the levy up to five working days after December 20th. Minn. Stat. § 275.07, subd. 1. If a need arises to modify the levy after September 15th, be sure to notify the county auditor as soon as possible of the possible change.

B. Aid Programs

Towns receive income from a variety of aid programs established by the state to assist local governments and property owners. Aid programs are discussed at the legislature every year, and changes are frequently made. Because of the volatile nature of local government aids, towns must be aware of how proposed changes to the programs may affect the town budget. The following are the aid programs that most significantly impact towns.

C. Local Government Aid (LGA)

Local government aid (LGA) is a vital source of funds for local governments; unfortunately, towns have traditionally been at the bottom of the list to receive such aid. The amount of LGA available for towns is set by the legislature and distributed based on a formula. The formula considers the geographic area of the town, its population, and the amount of agricultural property as a ratio of all other property in the town. Minn. Stat. § 477A.013, subd. 1. The current formula essentially favors towns with larger agricultural areas.

D. Disparity Reduction Aid (DRA)

Disparity reduction aid helps areas where a disparity exists in the amount of taxes imposed across an area. Minn. Stat. § 273.1398. To help address this, the state established a formula the county auditor uses to reduce the tax rate applied to properties in the more heavily taxed areas. The aid from the state makes up for the rate reduction.

E. Highway Aid

Highway aid is a significant source of financial help for towns. Counties and cities with a population of over 5,000 also receive highway aid. Highway aid is reserved for road building, repair, and maintenance activities only. Highway aid for towns provides funding for both town roads and bridges. Minn. Stat. §§ 161.081, subd. 1; 161.082, subd. 2a.

Much of this aid comes from the state gas tax, a portion of which is placed into a town road account. Minn. Stat. § 162.081. Money from the account is then apportioned to each county based on the total miles of town roads located in the county compared with the overall total of town road miles. The apportioned amount is distributed to the county treasurer to be redistributed to each town based on a formula adopted by the county board. The distribution formula must consider each town's levy for road and bridge purposes, its population, the town's road miles, and other factors the county board deems advisable to achieve an equitable distribution among towns. Each town should receive its distribution from the county by March 1.

For a town road to be included in the road mileage for which the town receives a gas tax distribution, the road must be kept opened and maintained by the town at least eight months of the year.

The town bridge account provides funds for town bridges that are ten or more feet in length and for culverts that replace existing town road bridges. Minn. Stat. § 161.082, subd. 2a(a). The county engineer inspects town bridges and those in need of replacement are ranked and placed on a list. When funds become available to replace the bridge, the town works with the county engineer to initiate the replacement project. Towns are usually responsible for paying the engineering and approach work costs for the replacement.

Some towns also receive funds from the state park road account. Minn. Stat. § 162.06, subd. 5. One of the uses for this fund is for the reconstruction, improvement, repair, and maintenance of town roads that provide access to public lakes, rivers, state parks, and state campgrounds.

F. Payment-in-Lieu of Taxes (PILT)

Because the federal and state governments do not pay property taxes on land they own within townships, towns receive money to offset the lost revenue. Minn. Stat. §§ 477A.12-.14; 471.653. These payments, called payments-in-lieu of taxes, are made through the county. The amounts paid depend on factors such as the classification given to a piece of property by the state and the amount of revenue generated on the property.

G. Revenue Distribution Programs

In the Twin Cities metropolitan area, the metropolitan revenue distribution act was created to redistribute some of the economic benefits occurring in some areas because of commercial development to other areas that were not experiencing the same degree of growth. Minn. Stat. Chap. 473F. A similar, but to date much smaller, program was established for an area including Aitkin, Cook, Crow Wing, Itasca, Koochiching, Lake, and St. Louis Counties. Minn. Stat. Chap. 276A.

H. Mining Taxes

Towns located in the Taconite Tax Relief Area impacted by mining activities receive funds from mining taxes. Distributions are made to towns where mining and concentrating occur and to towns that are affected by mining because they are within three miles of a taconite mine pit. Minn. Stat. § 298.28. A taconite municipal aid account also provides payments to certain towns in September based on a complex formula that considers fiscal need. Minn. Stat. § 298.282.

§ 8-2. Town Debt

Towns incur debt for a variety of reasons, which may range from construction of a town hall to acquisition of a new piece of road equipment. Town debt goes by several names, including "bonds," "certificates of indebtedness," and "lease-purchase agreements." Regardless of its name, public borrowing is not as simple as going to a bank and requesting a loan. As with the exercise of any power granted by the legislature, it is important for towns to carefully follow the required statutory procedures applicable to the power. Unfortunately, the specific requirements and tax issues associated with incurring debt are often misunderstood.

In some cases, voter approval is required to issue debt. Certificates of indebtedness are an exception to this rule, but they must have a term of ten years or less. Minn. Stat. § 366.095. Depending on the amount of the certificate of indebtedness compared to the town's estimated market value, the issuance may also be subject to a petition calling for a reverse referendum.

The interest paid on town debt may be tax free to the recipient. Many banks and other lenders are therefore willing to lend money to a town at a rate below that is charged to private individuals and companies. The tax exemption depends on compliance with federal law and Internal Revenue Service regulations and many banks will require an opinion from a qualified bond attorney.

Refer to Document **F6000** for additional information on town debt and Document **F4000** for information on financing possible project.

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