05.02 LEVIES AND AIDS

Overview of the Budget Process

The property tax levy is the major source of revenues for local governments. It is normally equal to the total budget amount for a district minus its other sources of revenue. One of the most significant categories of other revenue for many jurisdictions is state aids. Additional aid can offset property tax levies, while cuts in aid may cause levies to increase. Limitations on property tax levies, whether formal statutory limits or more driven by political acceptability, will constrain budget amounts or force local governments to find other revenues.

This section overviews the levy certification process and summarizes some of the various aids that have the most direct relationships to property taxes.

The Levy Process

The fiscal year of most local governments follows the calendar year. School districts follow the state fiscal year of July 1 to June 30. With assessments set in one year and taxes payable in the following year, final levies must be set by the end of a calendar year so tax statements can be prepared and mailed for first half payment in May. The levy process in Minnesota is unique, however, in that the legislature has also created a process of certifying and reviewing proposed levies, called "truth-in-taxation." After proposed levies are established, parcel-specific notices are sent to taxpayers showing the taxes that would be due on their property if the proposed levies are adopted. Public meetings follow the proposed tax notices to allow for public feedback before final budgets and levies are adopted.[1]

Timing by Type of Jurisdiction

Counties, cities, and special taxing districts generally begin their budgeting process early in the summer. At this point, the legislature should have completed its work, setting the landscape of mandates, levy authority, levy restrictions, and aid funding. Assessments are also largely known, although not completely free of changes. Most aids affecting budget decisions are certified in July or August. Special taxing districts must then certify their proposed levies by September 15, and counties and cities by September 30.[2] Proposed tax notices are sent in November to be received after November 10 and by November 24. Truth-in-taxation meetings are held in late November through late December.[3] The final levy certification is then set on or before five business days after December 20.[4]

School districts follow a different budgeting schedule and process because of their fiscal year differences and because much of their levies are dictated more directly by equalization and aid factors as determined by the state. For a school district, proposed levies are not set until September 30.[5] The truth-in-taxation meetings are informational and feedback-oriented and have no impact on determining the final levy.

[1] See Section 05.03 for more information on truth-in-taxation.
[2] Minn. Stat. § 275.065, subd. 1, para. (a) and (b).
[3] Minn. Stat. § 275.065, subd. 3, para. (a) and (c).
[4] Minn. Stat. § 275.07, subd. 1, para. (a).
[5] Minn. Stat. § 275.065, subd. 1, para. (b).

Towns follow much of the levy timing and processes of counties and cities, except that townships set their levies and budgets at their annual meetings in March and they are not required to hold truth-in-taxation meetings. The March timing reflects the agricultural orientation of most townships, where summer and fall meetings would conflict with harvesting and other farming activities. Towns do have an opportunity to call a special meeting, at which their levies may be changed, but without such a meeting, the levy determined in March will become the proposed levy certified by September 15 and the final levy certified five business days after December 20. Statute in fact refers to the September 15 certification as the final levy for a town but also allows for recertification of the final levy in December if it is changed at a special meeting.[6]

The state levy amount and structure is set by the legislature. The Department of Revenue certifies a preliminary rate by October 1 for truth-in-taxation purposes, but this is not a proposed levy and the final rate, set by January 1, will differ only in that more updated tax base data becomes available.[7]

Final Levy Recertification Due to Unallotments

Local governments are allowed to recertify their final levy in the event of an unallotment of December aids or credits occurring after levies have been adopted. If an unallotment is announced after levies have been adopted, local governments may increase their final levy up to the amount of the unallotment. If necessary, local governments may exceed their proposed levy in this situation. The recertified levy must be reported to the county auditor within two business days of January 15. If this deadline is not met, the original certification must be used. Counties must report any recertified levies to the Department of Revenue by January 30.[8]

Levy in Specific Amounts

All taxes must be levied or voted on in specific amounts, and the rates must be determined from the amount of property as equalized by the State Board of Equalization each year, except those taxes which are definitely fixed by law.[9]

Accounting for Manufactured Home Tax Revenues

Generally, local taxing districts do not account for taxes on manufactured homes taxed as personal property in setting their levies. As discussed in Section 04.07, these taxes are assessed and taxed in the same year, and the county auditor determines taxes by applying the tax rates of the current year, as levied in the preceding year. As such, these are additional taxes above the levy amount that determined the tax rates. For most jurisdictions this is a marginal source of revenue and for counties, the administration costs can consume much of the tax receipts. Some communities that have a concentration of manufactured homes may, however, informally account for expected manufactured home tax receipts in setting their levy.

Accounting for Energy Production Tax Revenues

As discussed in Section 06.07, wind and solar energy production taxes are production taxes for the energy produced by certain wind energy conversion systems and solar energy generating systems. The

[6] Minn. Stat. § 275.07, subd. 1, para. (a).
[7] See Minn. Stat. § 275.025 for more information on the state general levy.
[8] Minn. Stat. § 275.07, subd. 6.
[9] Minn. Stat. § 275.01.

Minnesota Department of Revenue determines the total amount of production taxes by February 28 of the current year.[10] The tax is based on production that occurred during the previous calendar year. The department can issue corrections on or before April 1 of the current year. The county bills and collects the tax. The tax is paid to the county treasurer by May 15.[11] Wind and solar energy production taxes are distributed 80% to the counties and 20% to the cities or towns where the systems are located.[12]

Energy production tax revenues are not part of a county's levy. However, if your county receives a substantial amount of energy production tax, your county may want to project potential revenues when setting levies in the prior year.

Aids

There are two basic types of aids to consider in setting levies: general purpose aids that the legislature intends to supplement property taxes and specific purpose aids tied to a particular purpose or mandate that are perhaps less directly tied to property tax levies. A third category of aids are direct replacements for levied dollars that ease burdens on taxpayers. This last category is NOT a factor in setting levies, and to do so would be erroneous, except to the extent that they may ease otherwise stronger resistance to levies by taxpayers.

General-purpose aids include:
- Local Government Aid (LGA)
- County Program Aid (CPA)
- Town Aid

Specific-purpose aids paid by the Department of Revenue include:
- PERA Rate Increase Aid
- Police State Aid
- Fire State Aid
- Police and Fire Retirement Supplemental State Aid
- Amortization Aid and Additional Amortization Aid
- Taconite Aid
- Utility Valuation Transition Aid (UVTA)
- Out of Home Placement Aid
- Riparian Protection Aid

Other specific-purpose aids which are not described in this section may include:
- Education Aid
- Human Services Aid
- Highway Aid

Disparity Reduction Aid (DRA) is the only aid that directly offsets levies and should NOT be considered when setting levies.

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[10] Minn. Stat. §§ 272.029, subd. 4, and 272.0295, subd. 5.
[11] Minn. Stat. §§ 272.029, subd. 5; 272.0295, subd. 6; and 277.01.
[12] Minn. Stat. § 272.029, subd. 6, and Minn. Stat. § 272.0295.

State-paid credits are not aids and do not affect the levy and budgeting process, except when these promised reimbursements are cut by the legislature, leaving a hole in a jurisdiction's levy.[13]

Unless otherwise stated, the Department of Revenue pays each taxing jurisdiction their aid amounts in two installments each year, on or before July 20 and December 26.

Local Government Aid

Local Government Aid (LGA) is a general-purpose aid established under Minn. Stat. § 477A.013, subd. 8 to 10 and 13. LGA is intended for city property tax relief and can be used for any lawful expenditure.

The city formula aid compares each city's expenditure need to its ability to pay, otherwise known as its revenue raising capacity. A city's revenue raising capacity is calculated by multiplying a city's net tax capacity by the statewide average city tax rate. The difference between a city's expenditure need and revenue raising capacity is referred to as its aid gap. Cities with a positive aid gap have spending needs that are greater than their revenue raising capacity, and therefore receive a share of the LGA distribution.

The Department of Revenue calculates LGA for each city based on factors defined in statute such as population, percent of housing built during certain periods, jobs per capita, sparsity, household size, and population decline. Separate formulas are used for small (population under 2,500), medium (population between 2,500 and 10,000), and large (population over 10,000) cities. Separate formulas are also used for cities in transition between small, medium, and large.[14]

The city revenue need for small cities cannot be over $630 per capita.

For up-to-date LGA amounts and distributions, see Minn. Stat. § 477A.03, subd. 2a, or the Department of Revenue's website.

County Program Aid

County Program Aid (CPA) is a general-purpose aid established under Minn. Stat. § 477A.0124. CPA directly offsets county levies and is accounted for in setting levies. CPA began with aids paid in 2004, replacing Homestead and Agricultural Credit Aid (HACA), County Criminal Justice Aid, Family Preservation Aid, Manufactured Home HACA, and Attached Machinery Aid.

CPA consists of two components: county need aid and county tax-base equalization aid.

Total appropriation for **county need aid** is determined by the legislature and distributed to counties based on each county's need.[15] 40% of the aid is distributed based on each county's share of the state's total households receiving food stamps, 40% is distributed based on each county's share of the state's age-adjusted population, and 20% is distributed based on each county's share of the state's total Part I crimes.

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[13] See Section 06.06 for more information on credits.
[14] Minn. Stat. § 477A.011.
[15] Minn. Stat. § 477A.03, subd. 2b, para. (a).

Total appropriation for c**ounty tax-base equalization aid** is determined by the legislature and is distributed to counties based on each county's tax-base equalization aid factor (TBEA).[16] A county's TBEA is equal to the greater of:

1) the county's tax base equalization factor; or
2) the greater of either 0.27% of the statewide total appropriation for TBEA or 95% of the county's TBEA from the previous year.

The county's tax base equalization factor is the amount by which $190 times the county's population exceeds 9 percent of the county's net tax capacity. The factor is adjusted for population as follows:

- If the county's population is less than 10,000, the factor is multiplied by 3.
- If the county's population is greater than 10,000, but less than 12,500, the factor is multiplied by 2.
- If the county's population is greater than 500,000, the factor is multiplied by 0.25.

Once the tax base equalization factor is adjusted for population, it is compared against 0.27% of the statewide total appropriation for TBEA (which adjusts annually) and the amount that equals 95% of the TBEA your county received in the previous year. The greatest of these is your county's final TBEA.

For up to date CPA amounts and distributions, see the Department of Revenue's website.

Town Aid

Town Aid is a general-purpose aid established under Minn. Stat. § 477A.013, subd. 1. Town aid is intended for town property tax relief and can be used for any lawful expenditure.

The Department of Revenue calculates and certifies aid amounts for towns by August 1 each year. Town aid is based on three factors: agricultural property, area, and population.

The agricultural property factor is the ratio of adjusted net tax capacity of agricultural property located in a town to the adjusted net tax capacity of all other property located in the town. Agricultural property includes homestead and non-homestead agricultural property, rural vacant land, and noncommercial seasonal recreational property. Each town's final agricultural factor cannot exceed eight.

The area factor is the most recent estimate of a town's total acreage. This amount includes both land and water acreage. The area estimate is current as of July 1 of the year aid is calculated, and includes all annexations and detachments. The final area factor is simply each town's acreage, but this factor is not to exceed 50,000 for the purposes of calculating aid.

The population factor is equal to the square root of each town's total population.

The total appropriation for town aid is $10,000,000. If the total aid calculated exceeds $10,000,000, each town's aid amounts is reduced proportionately to reach $10,000,000. Certifications amounts can be found on the Department of Revenue's website.

Utility Valuation Transition Aid

Utility valuation transition aid (UTVA), under Minn. Stat. § 477A.16, is paid to cities and towns to compensate for reductions of 4% or more in tax base due to the reassessment of public utility property

[16] Minn. Stat. § 477A.03, subd. 3b, para. (b),

phased in over the three-year period from 2008 to 2010. Payments are equal to the difference between the public utility tax capacity prior to reassessment and the public utility tax capacity for the current year, multiplied by the jurisdiction's tax rate. Aid continues until the new assessment valuation exceeds its 2007 old assessment valuation.[17]

PERA Rate Increase Aid

PERA rate increase aid, under Minn. Stat. § 273.1385, is paid to any county, city, town, or special taxing district with an account or accounts in the Public Employees Retirement Association (PERA) during fiscal year 1997. PERA rate increase aid is intended to offset the cost of the increase to the PERA employer contribution rates that were effective beginning in fiscal year 1998.

Aid amounts remain the same from year to year, equal to 0.7% of the jurisdiction’s fiscal year 1997 PERA payroll. A jurisdiction’s aid could decrease if the Department of Revenue determines that the current PERA payroll has dropped significantly below the fiscal year 1997 levels. Jurisdictions will no longer receive aid if they dissolve or privatize. Consolidations and changes in governmental subdivision boundaries will also reduce the number of jurisdictions receiving aid. 1,115 received aid in 2014.

This program will terminate on June 30, 2020.

Police State Aid

Police state aid, under Minn. Stat. § 69.021, is meant to subsidize local governments for the pension costs of their peace officers, essentially reimbursing employer contributions made to PERA.

Local units can apply for this aid by submitting a Form PA-1 to the Department of Revenue by March 15 each year. Each police department certifies the name, POST license number, pension fund, employment data, and number of months worked in the previous year for each licensed peace officer employed by the department. The Department of Revenue reviews these aid applications and determines the total number of peace officer months for each department.

The total amount of aid available for distribution is certified by the Department of Revenue and is based on the collection of insurance premium taxes relating to auto insurance coverage. The total amount of aid available for distribution is divided by the total number of peace officer months to determine the aid per officer month. A department’s initial aid is equal to its number of officer months multiplied by the aid per officer month. This initial aid amount is compared with the department's prior year PERA employer obligation, and the department receives the lesser of the two amounts.

The first $900,000 of any excess police aid not distributed to departments reverts to the general fund. One-half of any excess aid over $900,000 is transferred to the additional amortization aid program, which is described below.

For up to date Police State Aid amounts and distributions, see the Department of Revenue’s website.

Fire State Aid

Fire state aid, under Minn. Stat. § 69.021, is meant to subsidize local governments for the pension costs of both salaried and volunteer firefighters.

[17] For up to date UTVA amounts, see the Department of Revenue’s website.

Municipal fire departments, tribal fire departments, and independent nonprofit firefighting corporations apply for this aid by submitting a Form FA-1 to the Department of Revenue by March 15. This form certifies that the departments maintain at least the minimum equipment and personnel to qualify for the aid. The departments must also certify the service areas for the prior year, current fire service contracts, and current apportionment agreements with other fire departments.

The total amount of aid available for the initial fire aid formula is certified by the Department of Revenue and is based on the collection of insurance premiums taxes relating to fire insurance.

Initial fire aid is distributed as follows: 50% of the aid is distributed on the basis of the estimated market value of the service areas of the qualifying fire departments, and 50% of the aid is distributed on the basis of the population of the service areas of the qualifying fire departments. Estimated market value includes the estimated market value of exempt property as well as the estimated market value of taxable real and personal property, including manufactured homes. Minimum fire aid, available only to certain qualifying volunteer fire departments, is distributed on a per firefighter basis to bring them up to a minimum aid level. Minimum fire aid is funded by redirected amortization aid (30% of the unused amortization aid from a benchmark level).[18]

Police and Fire Retirement Supplemental Aid

Police and fire retirement supplemental aid was created by the 2013 Legislature under Minn. Stat. § 423A.022 to help subsidize pension costs for local governments and fire departments by supplementing the police and fire state aids.

$15,500,000 is allocated towards this aid program annually and distributed as follows:
- $9 million paid to the Public Employees Retirement Association for police and paid firefighters
- $1 million paid to the Minnesota State Retirement System for the State Patrol Fund
- $5.5 million apportioned to municipalities with volunteer firefighters

Municipal volunteer fire departments and independent nonprofit firefighting corporations must submit Form FA-1 to apply for fire state aid to receive this supplemental aid.

Police and fire retirement supplemental aid is paid by October 1 each year.

Amortization Aid

Amortization aid, under Minn. Stat. § 423A.02, is meant to amortize the unfunded accrued liability/deficit of the local police or salaried firefighter pension fund or the unfunded accrued liability of a police or salaried firefighter consolidation account in PERA. Amortization aid is first allocated to the City of Fairmont and the City of Minneapolis, and whatever is left for the program is allocated to the Teachers Retirement Association, the St. Paul Teachers Retirement Fund Association, and minimum fire state aid.

If there is police state aid in excess of actual employer contributions to the police and fire fund of PERA, $900,000 reverts to the general fund. If there is excess over $900,000, half of that excess is redirected to

[18] For more information on fire state aid, see the Department of Revenue's website.

additional amortization aid.[19] There has not been enough excess police state aid since 2008 to pay this aid.

When a pension fund or consolidation account becomes fully funded, a unit no longer qualifies for these aids.

The amortization state aid and additional amortization state aid programs terminate on December 31 of the year when the assets of the St. Paul Teachers Retirement Fund Association equal the accrued liability of that plan or when the assets of the Duluth Teachers Retirement Fund Association equal the accrued liability of that plan, whichever is later.

Taconite Aid

Taconite aid, under Minn. Stat. § 298.28, subd. 6, is meant to provide property tax relief using the revenues from taconite production taxes. Each county auditor from Cook, Lake, St. Louis, Itasca, Crow Wing, and Aitkin counties is responsible for making the taconite aid payments to the various jurisdictions within the county. St. Louis County is designated as the fiscal agent for the taconite property tax relief account and is responsible for issuing taconite property tax relief checks to the other counties. The Department of Revenue makes all computations regarding the amount paid by the mining companies and the aid payments to the counties, cities, towns, and school districts within the counties.

Disparity Reduction Aid

Disparity Reduction Aid (DRA), under Minn. Stat. § 279.1398, is not a general- or specific-purpose aid and should not affect levies and budgeting. Disparity reduction aid started for aids payable in 1989 as part of the conversion from mill rates and assessed values to net tax capacities. It was designed to prevent tax rates from being disparately high for individual unique taxing areas.

> **NOTE**
> Amounts of DRA have been grandfathered in since the initial calculation. These calculations were previously adjusted for class rate changes, but this requirement was repealed in 2014.

DRA directly reduces the tax rate in a unique taxing area so that the area's levies are paid in part by DRA rather than completely by taxpayers. Therefore, DRA is part of the taxes levied and ignored when setting levies.[20]

Production Property Transition Aid

Production Property Transition Aid is an aid established under Minn. Stat. § 477A.18 . This aid provides transitional relief for cities and townships whose net tax capacity was reduced from assessment year 2014 to assessment year 2015 2015 due to the change in the definition of real property in Minn. Stat. § 272.03. If a local unit of government, either a home rule charter or statutory city or a town, has a net tax capacity differential that exceeds 5 percent of its 2015 net tax capacity, the local unit is eligible for transition aid. The aid equals the difference in net tax capacity multiplied by that year's tax rate. The aid is phased out as follows:

- 100% of the transition aid is paid in taxes payable 2016,
- 80% of the aid amount paid in 2017,
- 60% of the aid amount is paid in 2018,

[19] Minn. Stat. § 69.021, subd. 11, para. (d).
[20] See Section 06.03 for more information on Disparity Reduction Aid.

- 40% of the aid amount is paid in 2019,
- 20% of the aid amount is paid 2020, and
- No aid is paid after 2020.

Aquatic Invasive Species Prevention Aid

Aquatic Invasive Species Prevention Aid is a specific purpose aid distributed at the county level established under Minn. Stat. § 477A.19. The proceeds from this aid must be used solely to prevent or limit the spread of nonnative, aquatic species at water access points within the county. The aid is allocated to all counties in the state as follows: 50 percent based on each county's share of watercraft trailer launches and 50 percent based on each county's share of watercraft trailer parking spaces. Each county must submit a copy of its guidelines for use of the proceeds to the Department of Natural Resources by December 31 of the year the payments are received. For aids payable in 2014, the total appropriation was $4,500,000. For aids payable in 2015 and each year thereafter the appropriation is $10,000,000.

Out of Home Placement Aid

Out of Home Placement Aid is a specific-purpose aid distributed at the county and tribe level. This program was established in 2017, with the first payments being made in 2018.[21] This aid is designed to subsidize costs incurred by counties and tribes for out-of-home placement costs for children under the Indian Child Welfare Act (ICWA).

There is a $5 million total annual appropriation for this aid. The amount of aid dispersed to tribes will be the greater of:

- 5% of the average reimbursement amount received from the federal government for these costs for the previous certified calendar year, or
- $200,000.

The amount of aid dispersed to counties will be the county's proportionate share of the remaining $5,000,000 not dispersed to tribes. The Department of Revenue will certify aid amounts to counties by August 1 each year.

For up to date Out of Home Placement Aid amounts and distributions, see the Department of Revenue's website.

Riparian Protection Aid

Riparian Protection Aid is a specific purpose aid distributed to counties, watershed districts and the Board of Water and Soil Resources. Each authority's aid amount is based on several factors, including its share of the total statewide:

- class 2a agricultural acreage
- centerline miles of public watercourses
- miles of public drainage ditches

The Board of Water and Soil Resources and the Department of Natural Resources certify the data used to calculate the aid to the Department of Revenue.

[21] Minn. Stat. § 477A.0126.

If $10 million of aid is appropriated to the commissioner of revenue, the aid to a county cannot be greater than $200,000 or less than $50,000. If a different amount of aid is appropriated, the minimum and maximum amounts are adjusted proportionally.

In areas where neither the county nor the watershed district has affirmed its jurisdiction to the Board of Water and Soil Resources, the jurisdiction's share of aid is distributed to the Board of Water and Soil Resources. The aid is paid in two equal installments on July 20 and December 26.

For up to date information on Riparian Protection Aid, see the Department of Revenue's website.