Principles of Good Tax System

- Efficiency
- Simplicity
- Equity
- Stability
- Competitiveness
- Responsiveness
Brief History

- Four separate programs before 2004
- 2005 one program in three parts
- CPA fluctuates over the years but is losing buying power to inflation
  - 1996 aid to counties: $202,463,384
- Aid received was lower than certified amount during recession
Brief History

- CPA is becoming a smaller percentage of county levies
- 2014 CPA = 7.5% of county levies
• Need aid
  • 40% elderly population
  • 40% food stamps
  • 20% crime
• Tax-base equalization aid (TBE)
  • Based on population and adjusted net tax capacity
• Transition aid
  • Created to help counties that lost from 2005 changes
  • 7 counties receive

<table>
<thead>
<tr>
<th>Year</th>
<th>Need</th>
<th>TBE</th>
<th>Transition</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>$100.00</td>
<td>$104.79</td>
<td>$1.39</td>
<td>$206.18</td>
</tr>
<tr>
<td>2006</td>
<td>$100.00</td>
<td>$104.92</td>
<td>$0.93</td>
<td>$205.85</td>
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<tr>
<td>2007</td>
<td>$100.00</td>
<td>$104.92</td>
<td>$0.46</td>
<td>$205.38</td>
</tr>
<tr>
<td>2008</td>
<td>$100.00</td>
<td>$104.92</td>
<td>$0.00</td>
<td>$204.92</td>
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<tr>
<td>2009</td>
<td>$110.95</td>
<td>$115.87</td>
<td>$1.06</td>
<td>$227.88</td>
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<tr>
<td>2010</td>
<td>$113.23</td>
<td>$118.24</td>
<td>$0.46</td>
<td>$231.94</td>
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<td>2011</td>
<td>$95.90</td>
<td>$101.10</td>
<td>$0.46</td>
<td>$197.46</td>
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<tr>
<td>2012</td>
<td>$95.90</td>
<td>$101.10</td>
<td>$0.46</td>
<td>$197.46</td>
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<tr>
<td>2013</td>
<td>$80.41</td>
<td>$84.70</td>
<td>$0.46</td>
<td>$165.57</td>
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<tr>
<td>2014</td>
<td>$100.34</td>
<td>$104.70</td>
<td>$1.20</td>
<td>$206.24</td>
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<td>2015</td>
<td>$104.81</td>
<td>$104.70</td>
<td>$0.46</td>
<td>$209.97</td>
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</tbody>
</table>

Dollars in millions
Total Aid Change (2005-2015)

- 2005 CPA = $206 million
- 2015 CPA = $210 million
  - 2015 had $4.5 million in special CPA spending
- More counties lost than gained
  - 28 counties lost 50% or more
Need Aid
Need Aid Change (2005-2015)

- No big gains or losses
- Outstate MN typically had small losses
- Counties surrounding Hennepin and Ramsey all gained
Age Factor Change (2005-2015)

- Makes up 40% of need aid
- Similar results to need aid

![Map of Minnesota with age factor change data]

![Bar chart showing loss/gain of counties]

Number of Counties

Loss/Gain

- (100%–75%)
- (75%–50%)
- (50%–25%)
- (25%–0%)
- (0%–25%)
- (25%–50%)
- (50%–75%)
- (75%–100%)
Food Stamp Factor Change (2005-2015)

- Makes up 40% of need aid
- Similar results to need and age
- A few counties had large losses or gains
- 2006 to 2011 food stamps in MN more than doubled

- Makes up 20% of need aid
- Some counties with small populations experience huge percent changes
Percent change in Need Aid

- On average 2.5 counties increase need aid by more than 5% annually
- On average 4 counties decrease need aid by more than 5% annually
- No certification in 2012, so 2013 includes 2 years’ worth of change
Tax Base Equalization Aid
• Areas with large percentages of their net tax capacities in farmland or cabins lost huge amounts (in many cases all) of their TBE aid
• Areas with large percentages of their net tax capacities in residential gained large amounts of TBE aid
TBE Formula

- Factor = N[(pop.*185)-(Adjusted Net Tax Capacity*0.0945)]

- (Population*185) must be higher than (ANTC*0.0945) in order to receive TBE Aid

- If (population*185) is higher than (ANTC*0.0945) then population multiplier is applied
  - N=3, population below 10,000 (19 counties)
  - N=2, population between 10,000-12,500 (7 counties)
  - N=1, population between 12,500-500,000 (59 counties)
  - N=.25, population greater than 500,000 (2 counties)

- From 2005-2015 2 counties have changed groups (neither currently receive TBE)
## Tax Base Determines TBE Aid

<table>
<thead>
<tr>
<th>Category</th>
<th>ANTC per capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>All counties</td>
<td>$1,160</td>
</tr>
<tr>
<td>Counties receiving TBE</td>
<td>$1,067</td>
</tr>
<tr>
<td>Counties receiving no TBE</td>
<td>$2,951</td>
</tr>
</tbody>
</table>
Tax Base Determines TBE
Percent change in TBE Aid

- On average 5 counties increase TBE aid by more than 10% annually
- On average 20 counties decrease TBE aid by more than 10% annually
- More counties had TBE aid changes than need aid changes
- Fewer big declines recently since many counties are now at zero TBE
Aid Per Capita
Per capita CPA is much more similar statewide in 2015 than 2005.
Change in Aid Per Capita

- 63 counties have less per capita CPA in 2015 than 2005
  - 21 counties lost $50 per capita or more
- Some of the counties with the highest per capita CPA in 2005 are now some of the lowest

![Map of Minnesota with different shades indicating counties based on change in aid per capita.](image)

![Bar chart showing the number of counties in different change intervals.](chart)
Both CPA and city LGA have utilized grandfathers to achieve a distributional goal outside of the main formula.

- Jurisdiction-specific grandfathers
  - Pre-2014 LGA identified about 30 cities to receive extra aid
  - CPA: Beltrami and Mahnomen counties

- Categorical grandfathers
  - CPA: Transition aid
  - LGA: Historical anchors

- LGA Annual change limits
Conclusion

• Farmland value growth has shifted CPA in the last 10 years

• 25 counties no longer receive TBE aid

• Real CPA has been decreasing for a long time

• Volatility has come mostly from tax base changes, law changes, food stamp changes