

PART VI
FINANCE, BUDGETING, AND DEBT

CHAPTER 20: SOURCES OF REVENUE

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1. Sources of revenue

There are several major sources of revenue for counties. This chapter will discuss these sources. In order to develop and implement a budget, the board should consider all of these sources. Sources of revenue are as follows:

I. Taxes

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Market value homestead credit

Federal and state grants-in-aid

Charges for services

Gifts

Interest income

Investment of idle funds

I. Taxes

See [Handbook, Chapter 22](#)

Although county revenue sources are diversified, most counties receive between 30 and 50 percent of their revenues from property tax collections.. This section discusses the property tax as a revenue source.

A. Authority to tax

[Minn. Const. art. X, § 1.](#)

The essential features of Minnesota's tax system are contained in the state Constitution, which vests all taxing authority in the Minnesota Legislature. Without legislative authorization, counties may not levy any taxes under their own authority.

B. Role of the property tax

There are, essentially, only three kinds of taxes: government levies against what a person earns, owns, or spends. The income tax is an example of the first, while the sales tax represents the last. The property tax, levied against real or personal property, is a tax against the wealth a person owns.

Because most property is relatively fixed in location and because the U.S. Constitution makes its use impractical on the national level, the property tax has been primarily a tool for local governments. Consequently, it has become the backbone of local revenue systems.

Most counties depend on the property tax for much of their operating revenues. Many considerations of equity are involved in the property tax concept and process. For these reasons, local officials should be familiar with the tax itself, with the details of its execution, and with the maintenance and improvement of the tax base.

C. Intergovernmental problems

The property tax supports many governmental jurisdictions. Through the property tax, the average property owner pays for the support of the county, city or town, school district, and any special districts—such as sanitary districts, housing and redevelopment authorities, hospital districts, watershed districts, soil and water conservation districts, and park districts. This multiplicity of taxing jurisdictions creates problems, including the taxpayers' confusion regarding who is using their money.

D. Real and personal property taxes

[Minn. Stat. § 272.03, subd. 1](#) (definition of real property).

[Minn. Stat. § 272.04](#) (mineral, gas, coal).

[Minn. Stat. § 272.03, subd. 2](#) (personal property).

[Minn. Stat. § 272.02](#) (exempt property).

Minnesota law defines the term “real property” as the land itself plus all buildings, improvements, and other fixtures on the land; all rights and privileges pertaining to it; and all mines, mineral quarries, fossils, and trees on or under the land. The statutes state that wealth connected with the land, such as minerals, may be separately owned and taxed as real estate.

The term “personal property” refers to all detached or detachable, moveable property, including furniture and other personal belongings, as well as commercial inventories and equipment a business uses to produce income. (In addition, the legislature specifically exempts certain innovative energy facilities, such as biomass electric generation.) Virtually all personal property is exempt from taxation, except for the property outlined in [Minn. Stat. § 272.02, subd. 9](#).

[Minn. Stat. § 272.02, subd. 1.](#)

All real property in the state is taxable as property under the laws of Minnesota, with certain exceptions. The county has no authority to determine what property is taxable, nor in what proportions or amounts. The Legislature alone prescribes the procedures to follow, and sets all rates and exemptions. The assessor and the local board of review only have authority to determine valuations in accordance with the procedures the Legislature has prescribed.

[Minn. Stat. § 273.01.](#)

Assessors must list all real property that is subject to taxation. The county assessor must assess at least one-fifth of the listed parcels each year, providing reappraisal of each parcel at maximum intervals of five years. The assessor's list must include all real property becoming taxable in any year with reference to its value on Jan. 2 of that year.

E. Assessment of property

There are four steps in the assessment of property: appraising property to determine its full and true value; classifying property to establish its tax capacity category; equalizing valuations to reduce inequities; and, reassessing property.

F. Assessment officials

In addition to members of boards of review or equalization, the state, each county, and some cities have an official responsible for property assessment. Any county may require the county assessor to assess all property, except for property in cities over 30,000 population.

See Minnesota Dept. of Revenue's *Property Tax Administrators' Manual*.

Instructions for these officials' duties are available from several sources, including an annual meeting with a representative from the Minnesota Dept. of Revenue. Assessors may obtain valuable assistance from the *Property Tax Administrators' Manual*, a book available from the department. The Minnesota Board of Assessment establishes courses and approves classes offered by schools, colleges, and universities.

1. State officials

[Minn. Stat. § 270C.03](#)
[Minn. Stat. § 270C.94](#)
[Minn. Stat. § 270C.928](#)
[Minn. Stat. § 270C.92.](#)

The commissioner of revenue administers assessment laws, striving for a fair and equal assessment of all property in the state. The commissioner's duties include instructing assessors, satisfying grievances, and refunding taxes if the county board and the county auditor recommend such action; ordering the reassessment of any real or personal property; and, requiring counties to supply information relating to property assessment and tax collection. The county, or any person directly interested in the order, may appeal an order to a special board of tax appeals.

2. County assessor

Minn. Stat. § 273.061.

Minn. Stat. § 273.08.

The assessment official at the county level is the county assessor who makes the final determination of the value of all property subject to assessment and taxation. The county assessor must determine the assessed value of all property in the county (except for cities with their own assessors—see below), and prepare all necessary assessment books and records.

Minn. Stat. § 273.061 subd. 8

The county assessor is responsible for overseeing and advising local assessors within the county. The county assessor should give local officials instructions about how to fulfill their duties, instruct them in the preparation and proper use of land maps and record cards, and keep them advised of all changes in assessment laws.

When there are no duly appointed local assessors, or when one or more cities or towns within the county have contracted with the county for assessment services, the county assessor is also responsible for assessing property within those cities or towns.

Minn. Stat. § 273.064.

The assessor must examine the assessment appraisal records of local assessors any time after Dec. 1 of each year and must notify the local governing body of any deficiencies. If the local assessor does not correct the deficiencies within 30 days, the county assessor, with the approval of the commissioner of revenue, may do so. The auditor may charge the local unit for the work. If the local unit doesn't pay by Sept. 1, the county auditor may levy a tax against property in the local unit.

In addition to overseeing local officials and performing assessments, the county assessor should regularly confer with assessors in all adjacent counties about the assessment of property in order to uniformly assess and equalize the value of similar properties and classes of property located in adjacent counties.

Minn. Stat. § 275.065 subd. 1a;

Minn. Stat. § 273.065.

Minn. Stat. § 273.063.

If city boundaries overlap into two or more counties, the home county auditor may delay certification of the city's proposed property tax levy, and local tax rate, to the other county auditor until October 10; the typical deadline for certification is October 5. If districts do not complete their assessments by Feb. 1, the county assessor will do the work and charge accordingly (These provisions do not apply in cities over 30,000 population).

Minn. Stat. § 273.061 subd. 8

The county assessor is also responsible for gathering, maintaining and displaying data to assist in valuation of county properties. For instance, the assessor must:

- create a large scale topographical land map of the county, showing any features which might affect the value of the land;
- prepare tables showing fair average minimum and maximum market values per acre of cultivated, meadow, pasture, cutover, timber and waste lands of each township;

- prepare a land valuation map of the county, which shall include the bordering tier of townships of each county adjoining, showing the average market value per acre, both with and without improvements, as finally equalized in the last assessment of real estate, of all land in each town or unorganized township which lies outside the corporate limits of cities;
- search each year for real and personal property which has been omitted from assessment in the county, and report all such omissions to the county auditor; and
- maintain a record, in conjunction with other county offices, of all transfers of property to assist in determining the proper classification of property.

3. City and town assessors

[Minn. Stat. § 273.08.](#)

If a city or town has a local assessor, that person must place valuations on all taxable real property in the local jurisdiction. To do this, the assessor receives the necessary assessment books and blanks annually from the county auditor, on or before the first Monday in December of each year.

[Minn. Stat. § 273.03.](#)

[Minn. Stat. § 273.061 subd. 7.](#)

The duty of the local assessor shall be to view and appraise the value of all property as provided by law, but all the book work shall be done by the county assessor, and the value of all property subject to assessment and taxation shall be determined by the county assessor.

4. Joint assessment under contract

[Minn. Stat. § 273.072.](#)

Any city or town that is completely within a county and a separate assessment district may enter into either of two kinds of agreements that allow someone other than a local assessor to assess the property.

The local government may contract with the county to have the county assessor assess property, or participate in an agreement with another city or town. Under the latter agreement, either governmental unit could employ an assessor, or they could jointly employ an assessor to assess property in both jurisdictions.

[Minn. Stat. § 471.59.](#)

See Handbook, ch. 17

Local governments must make these contracts or agreements under the terms of the Joint Powers Act.

G. Valuation of property

[Minn. Stat. § 273.11, subd. 1](#)

Assessors must value all property at its market value. Market value is a complex definition in statute, and includes both the value of the land—including any resources contained on or within that land—and the value of the buildings or structures on that land, but excludes the value of any crops growing on the land. The assessor must take into account the effect on the market value of property of environmental factors in the vicinity of the property. It is basically the price which the assessor believes the property is worth at a private sale or auction sale. The price obtained at a forced sale shall not be considered to be the fair market value.

Additional rules for valuing specific types of properties—for example, condominiums, vacant hospitals, and others—are given in [Minn. Stat. § 273.11](#)

[Minn. Stat. § 273.11, subd. 1a](#)

For property classified as agricultural homestead or nonhomestead, residential homestead or nonhomestead, timber, or noncommercial seasonal residential recreational, the increase in valuation is capped by the “limited market value.” To determine the limited market value, the assessor must compare the value of the property with the taxable portion of the value determined in the preceding assessment. For assessment year 2008, the amount of the increase shall not exceed the greater of (1) 15 percent of the value in the preceding assessment, or (2) 50 percent of the difference between the current assessment and the preceding assessment. However, this limitation does not apply to increases in value due to improvements.

H. Property tax classifications

[Minn. Stat. § 273.13.](#)

[Class Rates and Credit Rates for Taxes Payable in 2006 and 2007](#)

The primary cause of variation in property tax burdens is Minnesota’s classified property tax system. In a classified system, each class of property is assigned one or more *class rates*. The property’s taxable market value is multiplied by the class rate(s) to determine the property’s tax base, technically called its *net tax capacity*. Property tax classifications are set by state statute and are amended regularly by the Legislature.

I. Exempt property

[Minn. Const. art. X, § 1.](#)

[Minn. Stat. § 272.02.](#)

Several classes of property are exempt from property taxation, but not necessarily from special assessments. Some of these property classes include:

- Public burying grounds.
- Public schoolhouses.
- Public hospitals.
- Academies, colleges, universities, and seminaries of learning.

- Churches, church property, and houses of worship.
- Institutions of purely public charity.
- Public property, including all county-owned property, for exclusive public purpose use.
- Real and personal property for the abatement and control of air or water pollution.

There are a number of other specific types of properties listed as exempt from property taxes.

[A.G. Op. 474d \(Aug. 28, 1961\).](#)

Local governments in Minnesota may not generally exempt any land from taxation for the purpose of attracting or keeping industry.

[Minn. Stat. § 469.310 to 469.320.](#)

See [Minnesota Department of Employment and Economic Development](#) website for JOBz zones.

The commissioner of the Dept. of Employment and Economic Development (DEED) can designate up to 10 “job opportunity zones” (JOBZ) in areas outside the seven-county metropolitan area that meet specified economically-distressed criteria. These zones provide property tax breaks to businesses to encourage job growth and business investment. Contact DEED at (651) 297-1291 for information on Minnesota’s JOBZ zones.

J. Property tax process

The steps in levying property taxes begin with instructions to local assessors, and end with the tax settlements made by the county auditor.

1. Determining county property taxes

[Minn. Stat. § 274.01.](#)

See discussion of boards of review below.

Between April 1 and May 31, or later if the commissioner of revenue gives an extension, the local board of review must hold a meeting. The board may be the board of review or it may delegate its authority to a special board of review. The board or review examines the assessor’s list to determine if it accurately lists all taxable property.

[Minn. Stat. § 275.065 subd. 1](#)

On or before September 15, the county shall adopt a proposed budget and shall certify to the county auditor the proposed property tax levy for taxes payable in the following year.

[Minn. Stat. § 275.065 subd. 3](#)

The county auditor shall prepare and the county treasurer shall deliver after November 10 and on or before November 24 each year, by first class mail to each taxpayer at the address listed on the county’s current year’s assessment roll, a notice of proposed property taxes.

[Minn. Stat. § 275.07, subd. 1.](#)

On or before five working days after Dec. 20 each year, the board must set the tax levy for the next year and send a certified copy to the county auditor. If a city, town, county, school district, or special district fails to do this, the county auditor will levy the amount the city, town, county, school district, or special district levied in the previous year.

Minn. Stat. § 275.065

The requirement to publish a notice of TNT hearing and proposed property taxes has been repealed. At the meeting in which the proposed levy is adopted, taxing authorities are required to announce the meeting time and location of the subsequent meeting in which public testimony will be allowed and the final levy and budget will be discussed. The taxing authority must also provide the home county auditor with the meeting information so it may be included on the parcel specific notices. The meeting date and location must be provided at the same time or prior to certifying the proposed property tax levy.

2. Certifying and levying property taxes of other local governments

Minn. Stat. § 274.14.

Minn. Stat. § 270.12.

State statutes specify when county boards of equalization must meet to examine and compare the assessment of property within the county, and equalize them so that each tract or lot is assessed at its market value. Action a board takes after adjournment is not valid unless the commissioner of revenue approves a longer session. The law also specifies when the state board of equalization meets.

Minn. Stat. § 275.07, subd. 1.

On or before five working days after Dec. 20 each year, cities, school districts, and special districts must set the tax levy for the next year and send a certified copy to the county auditor. If a local government fails to do this, the county auditor will levy the amount that government levied in the previous year.

A town must certify the levy adopted by the town board to the county auditor by September 15 each year. If the town board modifies the levy at a special town meeting after September 15, the town board must recertify its levy to the county auditor on or before five working days after December 20.

Minn. Stat. § 275.079

Minn. Stat. § 276.01.

The county auditor shall calculate the tax rate necessary to raise the required amount of the various taxes on the net tax capacity of all property as returned by the commissioner and the State Board of Equalization. The auditor spreads local governments' tax levies on all taxable property in those governments' jurisdictions. On or before the first business day in March, the county auditor delivers the tax records to the county treasurer who then collects the tax.

Minn. Stat. § 276.09.

Minn. Stat. § 276.11.

On or sometime shortly after May 20 of each year, the county treasurer pays each local government its portion of all monies the county received from the levy and collection of taxes.

Property tax distributions—the estimated collections the county treasurer makes to local jurisdictions—must include taxes, special assessments, and any penalties and interest due to the taxing jurisdiction. The treasurer or fiscal officer of any taxing district may appeal the county treasurer's estimated collection to the county board, if the local official believes the amount is incorrect.

K. Equalization procedures

Once the assessors have completed their work, the city, county, and state levels of government review and modify the assessments with limitations. During this review, two kinds of corrections are possible: the governing body may check the assessor's lists for accuracy, hear individual complaints and make any necessary adjustments; and, the governing body may equalize the ratio of market to assessed market values. For incorporated portions of the county, the first function is the sole concern of the city or town board of review, while the county and state boards devote more time to the latter task.

When the entire procedure is complete, the county auditor puts the valuations in the records to use when making up the tax rate figures. Only when all three levels of government have reviewed and equalized the assessments, do they become the official assessed values.

1. City or town board of review

[Minn. Stat. § 274.01, subd. 1\(a\).](#) Typically, the city council or town board serves as the board of review. However, that power may be delegated to either a special board of review or to the county, as described below.

NOTE: in the following section, all references to city councils are also applicable to town boards.

[Minn. Stat. § 274.01, subd. 2.](#) The council may appoint a special board of review with all of the powers and duties the council would have if it acted as the board of review. The members of the special board of review serve at the direction and discretion of the council. The council determines the number of members, the compensation and expense payments, and the term of office. At least one member of the board must be an appraiser, realtor or familiar with property valuations in the assessment district.

[Minn. Stat. § 274.01, subd. 3.](#) Instead of performing the duties of a board of review itself or delegating it to a special board of review, any city council of a city for which the county does the assessing, may transfer its local board of review or equalization power and duties to the county board.

[Minn. Stat. § 274.01, subd. 1\(a\).](#) The meeting date of the board of review must be between April 1 and May 31, and is fixed by the county assessor on or before Feb. 15 of each year by giving written notice to the city clerk.

[Minn. Stat. § 274.01, subd. 1\(g\).](#) A majority of the members may take action at the board of review meeting, and may adjourn the meeting from day to day for a period of 20 days until they complete their work. After 20 days, the board has no authority and any action it takes is invalid unless the commissioner of revenue has granted an extension.

[Minn. Stat. § 274.01, subd. 1\(b\).](#) In fulfilling its role, the board of review has three main functions:

- It must review the assessor's list, making sure all taxable property in the city has been properly placed on the list.
- It must review the assessor's valuations, striving to standardize the ratio between market value and adjusted market value for each individual piece of property. To accomplish this, the board may raise or lower valuations on individual properties, but it cannot increase valuations without notifying the property owner and giving that person an opportunity to be heard.
- The board must hear and settle the complaints of individual property owners regarding the valuations on their property.

[Minn. Stat. § 274.01, subd. 1\(d\).](#) A local board does not have authority to grant an exemption or to order property removed from the tax rolls.

[Minn. Stat. § 274.01, subd. 1\(f\).](#) If a person fails to appear in person or through counsel or written communication before the board of review after receiving notice of intent to raise the assessment, or if a person fails to apply for a review of the assessment, that person may not appear before the county board of equalization for a review of the assessment. An exception is when the assessment takes place after the meeting of the board of review, or when aggrieved individuals can establish that they did not receive notice at least five days before the local board of review meeting.

[Minn. Stat. § 274.01, subd. 1\(c\).](#) The local board of review may not reduce the total or aggregate amount of the county assessor's assessment by more than one percent. This means the board must often compensate for reductions in assessed values by making comparable increases in assessments against other parcels of property.

[Minn. Stat. § 274.01, subd. 1\(g\).](#) All complaints about an assessment or classification made after the meeting of the board must be heard and determined by the county board of equalization.

2. County board of equalization

[Minn. Stat. § 274.13.](#) The county board of equalization consists of either the county auditor and the county commissioners, or a special board of equalization appointed by the auditor and the board of county commissioners. The statutes establish meeting dates.

[Minn. Stat. § 273.061 subd. 8](#) While the board is in session, the assessor must provide every possible assistance to enable it to perform its duties. The assessor shall furnish the board with all necessary charts, tables, comparisons, and data which it requires in its deliberations, and shall make whatever investigations the board may desire.

- [Minn. Stat. § 274.13.](#) Although the county board of equalization may decrease and, after notice to the taxpayer, increase individual valuations, its primary task is to secure uniformity of assessed value from district to district, with only occasional attention to uniformity between taxpayers within any one district. The board may not reduce the aggregate valuations of either real or personal property in the county below the amounts the assessors have determined, but it may increase these amounts.
- [Minn. Stat. § 274.13, subd. 1\(7\).](#) The county board does not have the authority to grant an exemption or to order the property removed from the tax rolls.
- [Minn. Stat. § 375.192.](#) Upon the property owner's application, the board may change a property's homestead classification or reduce its market value, reducing or refunding any taxes the property owner erroneously or unjustly paid.
- [Minn. Stat. § 274.13, subd. 1a.](#) If a person fails to appear in person, by counsel, or by written communication before the county board after being duly notified of the board's intent to raise the assessment of the person's property, or if a person fails to appeal a decision of the board of review, the person may not appear before the commissioner of revenue under section [Minn. Stat. 270C.92, subs. 1-2](#) to contest the valuation.

3. State board of equalization

- [Minn. Stat. § 270.11, subd. 1.](#)
[Minn. Stat. § 270C.92, subd. 2.](#) The commissioner of revenue acts as the state board of equalization. The commissioner's primary assessment task is to ensure uniformity of valuations between counties. The commissioner may adjust valuations between districts and between classes of property. The commissioner may raise or lower individual assessments, but may increase individual assessments only after the taxpayer has received notice and has had an opportunity to be heard. The commissioner may not reduce the aggregate value of all property in the state by more than 1 percent below the total the county boards of equalization have reported. The commissioner may order a reassessment of property in any district.
- [Minn. Stat. § 270.12.](#)

4. Appeals to tax court

- [Minn. Stat. § 271.01.](#) The tax court is the final authority for the hearing and determination of all questions under the property tax laws of the state, except for an appeal to the Supreme Court. The tax court has no jurisdiction involving an order of the state board of equalization unless a taxpayer contests the valuation of the property.
- [Minn. Stat. § 271.04.](#) The tax court must hold hearings at any place in the state so taxpayers may appear before the court with as little inconvenience and expense to the taxpayer as possible.

[Minn. Stat. § 271.21.](#)

The small claims division of the tax court has jurisdiction in any case concerning the valuation, assessment or taxation of certain homesteaded property and of non-homesteaded property if the estimated market value is less than \$300,000. The small claims division also hears cases concerning the tax laws in which the amount in controversy does not exceed \$5,000, including penalties and interest.

[Minn. Stat. § 271.06.](#)

The notice that goes to the taxpayer of the assessment, determination or order of the commissioner or the appropriate unit of government should include written notice that the taxpayer has the right to appeal to the tax court and, if applicable, to the small claims division.

L. Other taxes

See MN Revenue Sales Tax Fact Sheet 164, [Local Sales and Use Tax](#).

[Minn. Stat. § 297A.99.](#)

The Legislature has granted local governments the authority to impose some utility taxes and taxes on lodging, as well as special sales taxes for some localities. In order to impose a local sales tax, a county must obtain special legislation.

[Minn. Stat. § 469.190](#), subd. 4.

A county may impose, by ordinance, a local lodging tax of up to 3 percent of the gross receipts of lodging in the unincorporated area of the county. 95 percent of the gross proceeds must be used to fund a local convention or tourism bureau.

II. County Program Aid

[Minn. Stat. § 477A.0124](#)

County Program Aid (CPA) is a state aid to counties. Like other aspects of the state tax system, it is usually manipulated by the Legislature annually. [Minn. Stat. § 477A.03 subd. 2b](#) sets the maximum amount of aid that can be distributed for each given year.

[Minn. Stat. § 477A.03](#)

See House Research Memo "2003 Legislation Relating to Local and Metropolitan Government."

Effective in 2005, the formula for calculating CPA was altered to consist of two parts: county need aid and county tax base equalization aid. For several years a third type of aid, county transition aid, was available to ease the transition to the new formulas; transition aid was phased out from FY 2005 to FY 2007.

M. County need aid

[Minn. Stat. § 477A.0124 subd. 3](#)

Need aid is distributed to counties according to the following formula:

- 40 percent based on each county's share of age-adjusted population,
- 40 percent based on each county's share of the state total of households receiving food stamps, and
- 20 percent based on each county's share of the state total of Part I crimes.

N. County tax base equalization aid

[Minn. Stat. § 477A.0124 subd. 4](#)

Before the money appropriated to county base equalization aid is distributed, up to \$73,259 is allocated to Anoka County and up to \$59,664 is allocated to Washington County for postretirement costs of health insurance premiums for court employees; Anoka and Washington Counties also receive their portions of tax base equalization aid according to the formula below.

The money appropriated to county base equalization aid, less the money distributed to Anoka and Washington Counties as explained above, is distributed to each county according to the county's tax-base equalization aid factor. The tax-base equalization aid factor is equal to the amount by which \$185 times the county's population exceeds 9.45 percent of the county's net tax capacity.

Several adjustments are applied to this general formula:

- For a county with a population less than 10,000, the factor is multiplied by three.
- For a county with a population greater than or equal to 10,000, but less than 12,500, the factor is multiplied by two.
- For a county with a population greater than 500,000, the factor is multiplied by 0.25.

III. Market value homestead credit

[Minn. Stat. § 273.1384.](#)

The market value homestead credit (MVHC) program replaced homestead and agricultural aid (HACA), which was repealed in 2002. Beginning with taxes payable in 2002, each homestead is eligible for a state paid credit equal to 0.4 percent of the home's market value, limited to a maximum amount established by law. The credit is phased out for higher value homes. The county auditor determines the amount of tax reductions, and the commissioner of revenue reimburses counties for the lost revenue as a result of the reductions in two equal installments per year.

IV. PERA aid

[Minn. Stat. § 273.1385.](#)

This aid is intended to offset an increase in Public Employee Retirement Association (PERA) employer contribution rates made in 1997. The amount is equal to 0.35 percent of a county's PERA payroll from July 1, 1996, to June 30, 1997. It is paid in two equal installments on July 20 and Dec. 26. The amount of this aid remains the same from year to year. However, any significant decrease in payroll below fiscal year 1997 levels may result in a decrease in PERA aid.

V. Street and highway funding

The highway user distribution fund consists of revenues from two major tax levies: the state gasoline tax, and fees from motor vehicle registration.

[Minn. Const. art. XIV, § 7-13](#)

[Minn. Stat. § 162.02](#)

The Minnesota Constitution requires state gasoline taxes and motor vehicle registration fees to provide funding for certain county, city, and state roads. As of July 1, 2007, 63.75% of the revenue from state sales taxes on the sale of a new or used motor vehicle must be used for the transportation purposes, increasing by ten percent for each subsequent fiscal year through June 30, 2011; 100% of the money must be used for transportation purposes after June 30, 2011.

O. County state-aid highway system

[Minn. Stat. § 162.02 subd. 1](#)

[Minn. Stat. § 162.05](#)

The county state-aid highway system consists of highways which are established, located, constructed, reconstructed, improved, and maintained as public highways by the counties. 29 percent of the net highway user tax distribution fund is paid into the county state-aid highway fund; in addition, all money accruing from the income derived from the investments in the internal improvement land fund is also paid into the highway fund.

[Minn. Stat. § 162.06](#)

By December 15 of each year, the commissioner of transportation shall estimate the total amount of money that will be available to the county state-aid highway fund during that fiscal year. Some funds are deducted for administrative costs, a disaster account, a research account, and state park roads. The remainder is distributed to the counties as follows:

[Minn. Stat. § 162.07](#)

- a. 10 percent of the total shall be apportioned equally among the 87 counties.
- b. An additional 10 percent of the total shall be apportioned so that each county shall receive a percentage equal to the percentage that the motor vehicle registrations by county residents bears to the total statewide motor vehicle registration. This percentage shall be calculated for the calendar year preceding the one last past.
- c. 30 percent of the total shall be apportioned so that each county shall receive of such amount the percentage that its total lane-miles of approved county state-aid highways bears to the total lane-miles of approved statewide county state-aid highways

- d. 50 percent of the total shall be apportioned so that each county shall receive of such amount the percentage that its money needs bears to the sum of the money needs of all of the individual counties; provided that counties shall never receive a percentage of the apportionment sum less than the percentage that such county received in 1958.

The “money needs” of each county are defined as the estimated total annual costs of constructing the county state-aid highway system in that county for the next 25 years.

- For counties with less than 175,000 people, this equals the total estimated construction costs, less 0.01596 percent times the total taxable market value for the last preceding calendar year.
- For counties with more than 175,000 people, this equals the total estimated construction costs, less 0.00967 percent times the total taxable market value for the last preceding calendar year.

[Minn. Stat. § 162.08](#), subd. 3.

A county may, by resolution, allocate to the towns within its boundaries an amount of this money that it deems necessary to aid in the construction of town roads.

[Minn. Stat. § 162.08](#), subd. 1.

In addition, the commissioner of transportation will allocate a percentage of the county state-aid money for expenditure solely on those portions of each county's county state-aid highways located within cities having a population of less than 5,000. The percentage so allocated shall equal the percentage that the total needs of the county state-aid highway system in such cities bears to the total county state-aid highway needs in each county.

[Minn. Stat. § 162.02](#), subd. 8.

No portion of the county state-aid highway system lying within the corporate limits of any city shall be constructed, reconstructed, or improved without the prior approval of the city council.

1. Maintenance of state-aid roads

[Minn. Stat. § 162.08](#), subd. 9.

The county may use up to 40 percent of its allotment (or more with the approval of the transportation commissioner) for maintenance of the state-aid road system.

P. Mass transit aid

[Minn. Stat. § 174.24](#).

Public transit systems may be eligible for financial assistance from the state public transit participation program.

VI. Federal and state grants-in-aid

Intergovernmental grants and aids are another form of local financial assistance. In Minnesota, there are certain limitations on usage. Counties can generally get federal assistance (when available) if they are willing to plan each project carefully in consultation with Minnesota planning offices.

Most federal grants fall into two categories: those that the federal government provides and administers exclusively, and those that the federal government provides, but state agencies administer.

Any county wishing to determine whether a federal grant may be available for a particular purpose or project, should contact its regional development commission or the Dept. of Employment and Economic Development (DEED).

VII. Charges for services

As a general rule, the people benefiting from a particular service should bear the cost of providing the service. General revenues should fund services of direct and essential benefit to the county as a whole, and for which the county cannot equitably apportion costs.

See Handbook, ch. 25

Counties can finance many capital improvement costs, such as the construction of streets, improvement of parks and installation of sewers, by levying charges against the benefited property owners. These charges are called special assessments.

Q. Establishing charges for services

Fees and service charges should depend strictly on the costs involved in providing the program. The general formula is that income from fees should equal total costs, minus any appropriation from the general fund. In turn, costs should include both operating and capital expenditures. The general fund should supplement the income from fees and service charges only if the county as a whole derives some benefit from the service program.

If a program provides a general county benefit, the county should use the following formula in determining the amount of the general fund appropriation: the total amount of the county appropriation, divided by the total income from fees, should be equal to the benefits accruing to the general public, divided by the benefits to private users. The proportion of operating costs the county treasury bears should equal the ratio of public benefit to private benefit.

See Handbook, ch. 11

When a county extends a service that receives funds in whole or part by service charges to non-residents, the county should charge non-residents a higher fee than the residents. Such differential pricing is, in most cases, the only means of ensuring equitable treatment for all concerned, and is often used when establishing user fees for park and recreation facilities. However, higher license fees for non-residents have generally been more difficult to justify.

County service programs should not make a profit. Service charges should enable the program to operate in an efficient manner without accumulating large surpluses or sizable deficits over a period of several years. There is no statutory authority to have a deficit in an enterprise without specific board action to appropriate funds to cover the deficit.

Service programs should reimburse the county for indirect expenses they incur. For example, the general fund should be reimbursed for the efforts of general county staff in matters relating to the program.

Reimbursement should, however, be in the form of a lump sum amount set in advance of the budget year. A residual profit, transferred to the general fund at the close of the budget year, is not a satisfactory way to handle this item.

Minn. Stat. § 326B.145

Counties that collect an annual cumulative total that exceeds \$5,000 of “construction and development-related fees” from “developers, builders, and subcontractors” must file a report with the Building Codes and Standards Division of the Minnesota Dept. of Administration by June 30 of each year.

R. Allowable service charges

Besides fees for public service enterprises, many counties commonly charge fees for the following:

- Garbage and refuse disposal.
- Collection of recyclables.
- Street lighting.
- Police escort.
- Duplication of traffic accident reports.
- Sewer maintenance.
- Non-county use of county facilities and other equipment.
- The use of county-owned recreation facilities, such as swimming pools.
- The use of facilities in local parks and picnic grounds.

VIII. Regulatory services

Generally, counties may not use regulatory ordinances for revenue-raising purposes. Regulatory revenues are a byproduct of the power to preserve the public welfare. However, revenue adequacy should play a role in the establishment of license and permit fees. Charges should reimburse the county for the entire cost of regulatory programs. For example, dog license fees should finance the canine control program.

S. License and permit fees

See Handbook, ch. 11.

A complete discussion of the problems and legalities of establishing license and permit fees is found in Chapter 11 of the *Handbook*. Care should be taken when establishing these fees.

T. Fines

[Minn. Stat. § 375.53](#)

[Minn. Stat. § 609.02, subd. 3, 4a.](#)

When boards pass regulatory ordinances, they should include penalties for violations. These penalties for a misdemeanor may include a maximum fine of \$1,000 or 90 days in jail, or both. The penalty for a petty misdemeanor is a maximum fine of \$300. The ordinance may, but usually does not, provide for a fixed minimum fine upon conviction.

[Minn. Stat. § 375.55](#)

Beyond establishing where an ordinance violation is a misdemeanor or petty misdemeanor, boards have no control over revenues from this source. A judicial officer (district court judge) imposes and collects fines for ordinance violations. The county may not receive the entire fine due to fees for court services.

IX. Gifts

[Minn. Stat. § 465.03](#)

[Minn. Stat. § 471.895.](#)

Counties may accept gifts of real or personal property, including money, and use them in accordance with the terms prescribed by the donor. A county may not, however, accept or use gifts for religious or sectarian purposes. A resolution accepting the gift and the donor's terms must receive an affirmative vote of two-thirds of the members of the board. Under the state gift ban law, an individual officer or employee of a county may generally not accept a gift.

X. Interest income

[Minn. Stat. § 276.131.](#)

Counties receive interest and penalties on delinquent general taxes and special assessments. A county receives all penalties and interest collected on special assessments levied by the county. Penalties collected on delinquent property tax are split between counties and school districts, with half going to the county and the other half being distributed to school districts within the county. For any taxes delinquent for more than one year, school districts get half, and the remaining half is split between counties and cities and towns. Of the remaining half, cities and towns receive a proportion equal to the proportion that the city's or town's local tax rate is to the sum of the city's or town's local tax rate and the county's local tax rate; the county gets the remainder

XI. Investment of idle funds

[Minn. Stat. ch. 118A.](#)

[Minn. Stat. § 118A.04](#)

County officials sometimes overlook another significant source of interest income—proceeds from the investment of idle county funds. The term, “idle funds,” refers to the money in the treasury the county does not need to meet current demands for cash payments. The statutes specifically authorize the investment of such funds in interest-earning securities. All county investment practices must conform to state law.

Not all investments available to private investors are available for the investment of public funds. Recent experiences have demonstrated the difference between legal investments and wise investments. A key factor in the success of any investment program is determining which idle funds are available for investment.

Counties should invest as much money as possible, thereby maximizing their interest income, but they should not invest so much that it hampers their administrative operations. Determining when and how much money to invest requires a cash forecast. The county must consider the annual budget, prior years' financial statements, departmental budget requests, engineering and construction timetables, expenditure plans, and other data when preparing a forecast.

XII. Borrowing

[See Handbook, ch. 24](#)

Care should be taken to follow the law when borrowing money or issuing debt.

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