

# County Government Revenue

A publication of the Association of Minnesota Counties

In Minnesota, local governments derive the majority of their funding from property taxes and from state and federal grants. Fees, fines, forfeitures, sale of public lands, investments, gaming revenues and special assessments are other sources that augment these major revenue sources.

## Property Tax

The property tax is the chief source of revenue for Minnesota counties. Most counties receive between 30 and 50 percent of their revenues from property tax collections. All property except that owned by governments, churches, charitable institutions and certain other tax exempt entities, is subject to the "ad valorem" property tax. The ad valorem tax is based on the value of an undivided piece of property or building.

Minnesota has one of the most complicated property tax systems in the nation. Property taxes are levied by counties, cities and school districts, and some special purpose taxing jurisdictions such as watershed districts. County commissioners have the power to raise the county property tax levy, i.e., the amount of money which homes, businesses and land within the county will pay, if additional income is needed to fund county programs and services. However, city and school district officials also levy taxes on property within the county. The state establishes the class rates, or the percentage of each property's market value subject to taxation. For example, the class rate for low value homes is 1.0 percent while the class rate for most commercial property is 3.4 percent (recently reduced from 4.0 percent). These class rates are one factor that makes Minnesota's property tax system so complex.

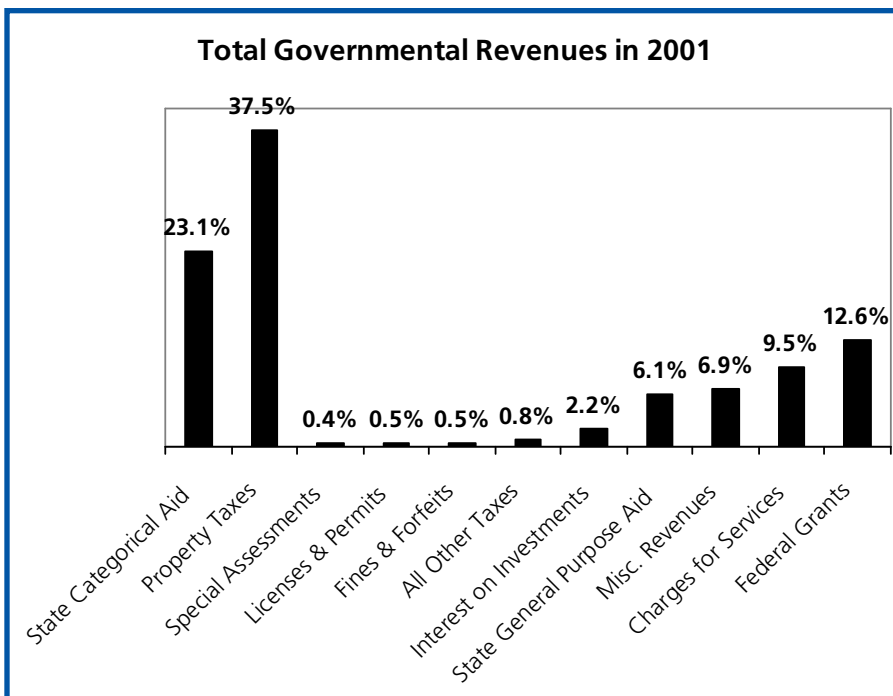
## State and Federal Grants

Grants from the state and federal government are another large source of revenue for counties. Generally, these grants assist the county in providing and paying for mandated services. However, the amount of the grant is often insufficient to cover the full cost of services, and the county must supplement the state or federal revenues with local property tax dollars.

Categorical aids and block grants are the two basic categories of grants. They differ primarily in terms of the amount of flexibility they offer the county board. Categorical aids are the most restrictive, with the money provided on the condition that it is spent to provide specific services. Often, the purpose of a categorical grant and the associated mandate is to increase spending for specific programs.

Block grants provide the county board with greater flexibility in using the money. In fact, some block grants are intended to provide property tax relief by replacing local property tax dollars. Community Social Services Aid, Family Preservation Aid and Criminal Justice Aid are programs of this type. These grants are intended to help counties pay for social services and criminal justice activities, and to help counties reduce the amount of property taxes levied for these purposes.

The distinctions between categorical aids and property tax relief are not always clear. One of the larger aids to counties, the County State Aid Highway money, has characteristics of both a block grant and a categorical aid. It reduces the property tax cost for county highway maintenance, the money must be used for county highways, and there are specific requirements and highway standards that accompany the money.



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## Fees

The law permits certain fees to be charged for services provided by various county departments. Counties charge fees for, among other things, examining the record for taxes due, serving and filing legal papers in court actions, and renewing licenses. Most of the money generated by these fees go into the county's general revenue fund.

In some cases, fees are set to fully cover the cost of the related services. Counties, acting as an agent of the state, also collect fees set by the state. In some instances, such as for game and fish licenses, the law allows counties to keep a small portion of the fees collected when acting as an agent of the state.

## Homestead/Agricultural Credit Aid (HACA)

Homestead Agricultural Credit Aid (HACA) is a property tax relief program implemented by the State of Minnesota. It was the successor to the old homestead credit, but has now been supplemented with a new credit for homeowners, beginning in 1998.

HACA compensates all local taxing jurisdictions for various classes of property that have reduced class rates and tax capacities. Without a program like HACA, lowering the class rates would shift tax burden onto other taxpayers, resulting in higher tax rates and no real property tax relief.

Every HACA dollar that the state pays to a county is one less dollar to be paid by county property taxpayers. HACA also helps counties pay for the many county services that are important to the state. Some counties receive very little HACA, due to trade-offs for various state takeovers of programs such as income maintenance, public defender and court costs. Counties received approximately \$204.7 million in HACA payments in 2001. Substantial class rate reductions for commercial/industrial property and a tradeoff for court costs has significantly effected individual county HACA amounts for several years.

## Other Revenue Sources

Fines and forfeitures of bail money are paid into a county's general fund. Some of this money is shared with the State of Minnesota as payment for state takeovers of certain judicial districts. Counties can assess property owners with a special assessment if their property benefits from county-made improvements. Such special assessments account for a small amount of county revenue.

Some counties have pursued an aggressive program of investing county funds not needed immediately and have yielded considerable returns on their investments. In most cases, the law requires that income from such investments be used to support county expenditures. Counties can also invest funds not currently needed for cash flow purposes (i.e., funds needed on hand to pay bills as they become due) in securities issued by the U.S. government, the State of Minnesota, or any political subdivision or municipality therein subject to certain conditions and repurchase agreements as laid out in Minnesota statute. ■

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125 Charles Avenue  
Saint Paul, MN 55103-2108  
Main Line/Switchboard: 651.224.3344 Fax: 651.224.6540  
[www.mncounties.org](http://www.mncounties.org)