

MINNESOTA • REVENUE

March 21, 2013

PROPERTY TAX LGA Formula Modifications

	Yes	No
DOR Administrative Cost/Savings		X

Department of Revenue
Analysis of H.F. 1608 (Lien) as amended (H1608A1)

	Fund Impact			
	FY2014	FY2015	FY2016	FY2017
	(000's)			
Local Government Aid Appropriation Increase	\$0	(\$80,000)	(\$80,000)	(\$80,000)
Inflation & Population Growth Adjustment	\$0	\$0	(\$14,100)	(\$29,000)
Property Tax Refund Interactions	\$0	\$1,860	\$2,190	\$2,540
Income Tax Interactions	\$0	\$1,850	\$2,180	\$2,530
General Fund Total	\$0	(\$76,290)	(\$89,730)	(\$103,930)

Effective for aids payable in calendar year 2014 and thereafter.

EXPLANATION OF THE BILL

The bill would permanently increase the appropriation for city local government aid (LGA) by \$80 million in CY 2014. Each year thereafter the appropriation would be increased for inflation and population growth, not less than 2.5% and not more than 5.0% annually. The proposal would also create a new three-tiered formula for distributing aid to cities. In the first year, no city would receive less than it was certified to receive in 2013.

REVENUE ANALYSIS DETAIL

- Under current law, the city LGA appropriation is set to approximately \$426.4 million. Beginning in FY 2015, the appropriation would be increased to approximately \$506.4 million.
- The bill would annually adjust the appropriation for inflation and population growth, which is estimated to increase city LGA by an additional \$14.1 million in FY 2016 and an additional \$29.0 million in FY 2017.
- It is assumed that the net increase in aid to cities would reduce property tax levies by a portion of the increase. This would reduce property taxes on all property classes including homesteads.
- The reduced property tax burden would reduce state-paid homeowner property tax refunds and income tax deductions beginning in FY 2015, resulting in a savings to the state general fund.

PROPERTY TAX BENCHMARKS (Minn. Stat. § 270C.991)

<i>Transparency, Understandability, Simplicity & Accountability</i>	Increase	The small city formula more is much simpler than current law. Side pots and most city specific grandfathers are eliminated.
<i>Efficiency & Compliance</i>	Neutral	
<i>Equity (Vertical & Horizontal)</i>	Neutral	
<i>Stability & Predictability</i>	Increase	Annual distributions to cities will be more consistent year to year.
<i>Competitiveness for Businesses</i>	Increase	Business property taxes would generally decrease with an increase in local government aid.
<i>Responsiveness to Economic Conditions</i>	Neutral	

The bill is scored on a three point scale (decrease, neutral, increase) for each principle in comparison to current law.

Source: Minnesota Department of Revenue
Property Tax Division - Research Unit
[www.revenue.state.mn.us/research_stats/
pages/revenue-analyses.aspx](http://www.revenue.state.mn.us/research_stats/pages/revenue-analyses.aspx)

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