

MINNESOTA • REVENUE

PROPERTY TAX Local Government Aid (LGA) Appropriation Increase

March 13, 2014

	Yes	No
DOR Administrative Cost/Savings		X

Department of Revenue

Analysis of H.F. 2689 (Simonson) / S.F. 2292 (Koenen) as introduced

	Fund Impact			
	FY2014	FY2015	FY2016	FY2017
	(000's)			
LGA Appropriation Increase	\$0	\$0	(\$55,878)	(\$53,378)
Property Tax Refund Interactions	\$0	\$0	\$1,480	\$1,410
Income Tax Interactions	\$0	\$0	\$1,030	\$1,010
General Fund Total	\$0	\$0	(\$53,368)	(\$50,958)

Effective beginning for aids payable in 2015.

EXPLANATION OF THE BILL

Under current law the LGA appropriation is \$509,098,012 for aids payable in 2015 and \$511,598,012 for aids payable in 2016 and thereafter.

The bill would make two modifications to the local government aid (LGA) distribution to cities:

1. The appropriation for LGA would be increased to \$564,975,921 for aids payable in 2015 and thereafter.
2. Modify the formula distribution for cities with unmet need less than previous year aid by setting the city's formula aid equal to its unmet need amount.

REVENUE ANALYSIS DETAIL

- Increasing the appropriation for LGA to cities would increase costs to the state general fund by \$55.9 million in FY 2016 and \$53.4 million in FY 2017 and thereafter.
- 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 2016, resulting in a savings to the state general fund.
- The modification to the formula distribution for cities with unmet need less than previous year aid would not impact state general fund costs because aid would shift among cities.

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

<i>Transparency, Understandability, Simplicity & Accountability</i>	Neutral
<i>Efficiency & Compliance</i>	Neutral
<i>Equity (Vertical & Horizontal)</i>	Neutral
<i>Stability & Predictability</i>	Neutral
<i>Competitiveness for Businesses</i>	Neutral
<i>Responsiveness to Economic Conditions</i>	Increase Compared to current law, more cities will receive their formula need amount.

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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