DEPARTMENT OF REVENUE

March 08, 2019

PROPERTY TAX
LGA appropriation increase and alternative aid calculation

	Yes	No
DOR Administrative Cost/Savings		X

Department of Revenue
Analysis of H.F. 2031 (Hertaus) as introduced

	Fund Impact			
	FY2020	**FY2021**	**FY2022**	**FY2023**
	(000's)			
LGA Appropriation Increase	$0	($30,593)	($30,593)	($30,593)
Property Tax Refund Interactions	$0	$740	$740	$740
Income Tax Interactions	$0	$580	$580	$580
General Fund Total	$0	($29,273)	($29,273)	($29,273)

Effective beginning for aids payable year 2020.

EXPLANATION OF THE BILL

Under current law, the LGA appropriation is $534,398,012 for aids payable in 2019 and thereafter.

The bill would increase the LGA appropriation to $564,990,952 for aids payable in 2020 and thereafter. The bill would also create an alternative per capita aid calculation for those cities that receive zero LGA under the current formula. The alternative aid would be funded with two percent of the LGA appropriation.

REVENUE ANALYSIS DETAIL

- Increasing the appropriation for LGA to cities would increase costs to the state general fund by $30.6 million in CY 2020 and thereafter.
  - It is assumed that the 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 2021, resulting in a savings to the state general fund.
- Under current law, 751 cities are estimated to receive LGA for payable year 2020. Under the proposal, all 853 cities would receive some amount of LGA.
- Because total aid is set to a fixed appropriation level, there would be no state cost associated with the alternative aid formula. However, the alternative aid formula would shift approximately $11.3 million in aid to some cities and away from other cities.

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

Transparency, Understandability, Simplicity & Accountability	Decrease	Creates an additional calculation in the LGA formula.
Efficiency & Compliance	Neutral	
Equity (Vertical & Horizontal)	Neutral	
Stability & Predictability	Neutral	
Competitiveness for Businesses	Increase	Business property taxes would generally decrease with an increase in local government aid.
Responsiveness to Economic Conditions	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

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