

**PROPERTY TAX**  
**Extending the state aid to local governments to fund increased PERA contributions**

March 22, 2019

|  |            |           |
|--|------------|-----------|
|  | <b>Yes</b> | <b>No</b> |
| <b>DOR Administrative Cost/Savings</b> |            | <b>X</b>  |

Department of Revenue  
 Analysis of H.F. 2387 (Murphy) / S.F. 2488 (Rosen) as introduced

|                                 | <b>Fund Impact</b> |                   |                   |                   |
|---------------------------------|--------------------|-------------------|-------------------|-------------------|
|                                 | <b>FY2020</b>      | <b>FY2021</b>     | <b>FY2022</b>     | <b>FY2023</b>     |
|                                 | (000's)            |                   |                   |                   |
| PERA Aid                        | \$0                | (\$13,800)        | (\$13,740)        | (\$13,690)        |
| Property Tax Refund Interaction | \$0                | \$330             | \$330             | \$330             |
| Income Tax Interactions         | \$0                | \$260             | \$260             | \$260             |
| <b>General Fund Total</b>       | <b>\$0</b>         | <b>(\$13,210)</b> | <b>(\$13,150)</b> | <b>(\$13,100)</b> |

Effective the day following final enactment.

**EXPLANATION OF THE BILL**

Under current law, state aid to local governments to help pay for employer contributions to the Public Employees Retirement Association (PERA) terminates on June 30, 2020.

Under the proposal, PERA Aid would continue until the earlier of:

1. the last day of the fiscal year immediately following the fiscal year in which the actuarial value of assets of the PERA general employees retirement plan first equals or exceeds the actuarial accrued liabilities of the plan; or
2. June 30, 2048.

**REVENUE ANALYSIS DETAIL**

- Estimates are based on the February 2019 forecast.
- Aid amounts paid to jurisdictions cannot increase. However, if a PERA unit privatizes or otherwise disbands, aid payments cease.
- Based on aid payments in previous years, a slight annual decrease in total aid is assumed.
- It is further assumed that local governments would reduce their levies by a portion of the PERA Aid payments. Under this assumption:
  - Property taxes would be reduced in jurisdictions receiving the additional aid.
  - Lower property taxes paid by homesteads would decrease state-paid property tax refunds beginning in FY 2021.
  - Lower property taxes would also reduce deductions on corporate and individual income tax returns, increasing state income tax collections beginning in FY 2021.
- The net cost to the state general fund would be an estimated \$13.2 million in FY 2021.
- Tax year impacts are allocated to the following fiscal year.

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

|   |         |
|---|---------|
| <i>Transparency, Understandability, Simplicity &amp; Accountability</i> | Neutral |
| <i>Efficiency &amp; Compliance</i>                                      | Neutral |
| <i>Equity (Vertical &amp; Horizontal)</i>                               | Neutral |
| <i>Stability &amp; Predictability</i>                                   | Neutral |
| <i>Competitiveness for Businesses</i>                                   | Neutral |
| <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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