

**PROPERTY TAX  
LGA appropriation increase with  
annual inflation, and formula  
modifications**

March 08, 2019

	<b>Yes</b>	<b>No</b>
DOR Administrative Cost/Savings		x

Department of Revenue

Analysis of H.F. 1101 (Brand) as proposed to be amended by H1101A1

	<b>Fund Impact</b>			
	<b>FY2020</b>	<b>FY2021</b>	<b>FY2022</b>	<b>FY2023</b>
	(000's)			
LGA Appropriation Increase	\$0	(\$30,593)	(\$53,800)	(\$77,100)
Property Tax Refund Interactions	\$0	\$740	\$1,300	\$1,870
Income Tax Interactions	\$0	\$580	\$1,020	\$1,460
<b>General Fund Total</b>	<b>\$0</b>	<b>(\$29,273)</b>	<b>(\$51,480)</b>	<b>(\$73,770)</b>

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. For aids payable in 2021 and thereafter, the LGA appropriation would be increased annually by an inflation adjustment. The inflation adjustment would be equal to the sum of (1) the percentage increase in the implicit price deflator for state and local government purchases, and (2) the percentage increase in total city population. The annual inflation adjustment would not be less than 2.5 percent or more than 5.0 percent. The bill would also modify the revenue need formulas for all cities.

**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. With annual inflation adjustments, the LGA appropriation increases are estimated at \$53.8 million in CY 2021 and \$77.1 million in CY 2022.
  - 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.
- Because total aid is set to a fixed appropriation level, there would be no state cost associated with the changes in the revenue need formulas. However, the revenue need formula changes would shift aid to some cities and away from other cities.

**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>	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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