

**PROPERTY TAX
LGA appropriation increase
and alternative aid calculation**

March 17, 2022

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of H.F. 4155 (Hertaus) as proposed to be amended by H4155A1

	Fund Impact			
	<u>F.Y. 2022</u>	<u>F.Y. 2023</u>	<u>F.Y. 2024</u>	<u>F.Y. 2025</u>
	(000's)			
LGA Appropriation Increase	\$0	\$0	(\$20,000)	(\$20,000)
Property Tax Refund Interaction	\$0	\$0	\$530	\$530
Income Tax Interaction	\$0	\$0	\$200	\$200
General Fund Total	<u>\$0</u>	<u>\$0</u>	<u>(\$19,270)</u>	<u>(\$19,270)</u>

Effective for aids payable in calendar year 2023 and thereafter.

EXPLANATION OF THE BILL

Under current law, the appropriation for local government aid (LGA) is \$564,398,012 for aids payable in 2023 and thereafter.

The bill would increase the LGA appropriation to \$584,398,012 for aids payable in 2023 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. For pay 2023 no city would receive less local government aid in payable year 2023 than it received in 2022.

REVENUE ANALYSIS DETAIL

- Increasing the appropriation for LGA to cities would increase costs to the state general fund by \$20 million in CY 2023 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 2024, resulting in a savings to the state general fund.
- Under current law, 742 cities are estimated to receive LGA for payable year 2023. Under the proposal, all 854 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 \$11.7 million in aid to some cities and away from other cities.

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

<i>Transparency, Understandability, Simplicity & Accountability</i>	Decrease	Creates an additional calculation in the LGA formula.
<i>Efficiency & Compliance</i>	Neutral	
<i>Equity (Vertical & Horizontal)</i>	Neutral	
<i>Stability & 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
<https://www.revenue.state.mn.us/revenue-analyses>

hf4155(sf4001)_pt_2/nrg