

**PROPERTY TAX
Distribution of state general
tax to low-aid municipalities**

April 6, 2022

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of S.F. 3340 (Housley) as proposed to be amended by SCS3340A-1

	Fund Impact			
	F.Y. 2022	F.Y. 2023	F.Y. 2024	F.Y. 2025
	(000's)			
Distribution to Municipalities	\$0	\$0	(\$1,900)	(\$1,900)
Property Tax Refund Interaction	\$0	\$0	\$50	\$50
Income Tax Interaction	\$0	\$0	\$20	\$20
General Fund Total	\$0	\$0	(\$1,830)	(\$1,830)

Effective for property taxes payable in 2023 and thereafter.

EXPLANATION OF THE BILL

The bill would provide a distribution to certain municipalities in the seven-county metropolitan area that meet the follow qualifications:

- has a population of less than 5,000 and does not receive municipal street aid
- does not receive city Local Government Aid
- is a net contributor to the fiscal disparities tax base pool (i.e., has a contribution net tax capacity that exceeds its distribution net tax capacity)

The distribution would be equal to the municipality’s local tax rate multiplied by its net fiscal disparities contribution tax capacity multiplied by two. The distribution may not exceed the amount of state general tax paid within the municipality or \$200,000, whichever is less.

REVENUE ANALYSIS DETAIL

- It is estimated that 40 municipalities would be eligible for a distribution totaling approximately \$1.9 million annually. The distribution would reduce state general property tax levy revenues to the state general fund beginning in FY 2024.
- It is assumed that the permanent increase in aid to cities and townships would reduce property tax levies by a portion of the increase. This would reduce property taxes on all property including homesteads.
- The reduced property tax burden would reduce state-paid homeowner property tax refunds and income tax deductions beginning in fiscal year 2024, resulting in a savings to the state general fund.

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

<i>Transparency, Understandability, Simplicity & Accountability</i>	Neutral	Additional tax distribution calculation
<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>	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>

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