

**PROPERTY TAX
Local Government Aid and
County Program Aid Annual
Inflation Adjustment**

March 5, 2024

Department of Revenue

Analysis of H. F. 3848 (Lislegard) / S.F. 4247 Hauschild as introduced

	Yes	No
DOR Administrative Costs/Savings		X

Fund Impact

	<u>F.Y. 2024</u>	<u>F.Y. 2025</u>	<u>F.Y. 2026</u>	<u>F.Y. 2027</u>
	(000's)			
LGA Appropriation Increase	\$0	(\$3,000)	(\$29,200)	(\$49,300)
Property Tax Refund Interaction	\$0	\$0	\$910	\$1,390
Income Tax Interaction	\$0	\$0	\$310	\$470
CPA Appropriation Increase	\$0	\$0	(\$17,100)	(\$26,100)
Property Tax Refund Interaction	\$0	\$0	\$480	\$740
Income Tax Interaction	<u>\$0</u>	<u>\$0</u>	<u>\$170</u>	<u>\$250</u>
General Fund Total	\$0	(\$3,000)	(\$44,430)	(\$72,550)

Effective beginning for aids payable in calendar year 2025.

EXPLANATION OF THE BILL

Under current law, for aids payable in 2025 and thereafter, the appropriation for local government aid (LGA) is \$644,398,012 and the appropriation for county program aid (CPA) is \$341,668,444.

The proposal would annually increase the appropriations for LGA and CPA by an inflation adjustment beginning for aids payable in 2025. 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.

REVENUE ANALYSIS DETAIL

- The annual inflation adjustments would increase the LGA appropriation by \$32.2 million in calendar year 2025 and \$49.3 million in calendar year 2026, and increase the CPA appropriation by \$17.1 million in calendar year 2025 and \$26.1 million in calendar year 2026.
- It is assumed that the permanent increase in aid to cities and counties 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 2026, resulting in a savings to the state general fund.

- Generally, LGA and CPA payments are made in two equal installments on July 20 and December 26. For payable year 2025 only, current law provides that 9.402% of the LGA payments be paid on March 20, 2025 (fiscal year 2025). Under the proposal, 9.402% of the additional \$32.2 million LGA appropriation increase would also be paid on March 20, 2025, shifting approximately \$3.0 million from fiscal year 2026 to fiscal year 2025.

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

<i>Transparency, Understandability, Simplicity & Accountability</i>	Neutral	
<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 aid to local governments.
<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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