DEPARTMENT OF REVENUE

PROPERTY TAX
Distribution of State General Tax to Low-aid Municipalities

April 24, 2024

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of S.F. 5139 (Kreun) / H.F. 5104 (West) as introduced

	Fund Impact			
	F.Y. 2024	F.Y. 2025	F.Y. 2026	F.Y. 2027
	(000's)			
Distribution to Municipalities	$0	$0	($1,300)	($1,300)
Property Tax Refund Interaction	$0	$0	$40	$40
Income Tax Interaction	$0	$0	$10	$10
General Fund Total	$0	$0	($1,250)	($1,250)

Effective beginning with property taxes payable in 2025.

EXPLANATION OF THE BILL

Under current law, a municipality is eligible for a distribution from the proceeds of the state general levy if it:

- is located in the metropolitan area but outside the metropolitan transit taxing district; and
- has a net fiscal disparities contribution equal to or greater than eight percent of its total taxable net tax capacity.

The distribution is equal to the municipality's net tax capacity tax rate, multiplied by the municipality's net fiscal disparities contribution in excess of eight percent of its total taxable net tax capacity. The distribution may not exceed the amount of state general tax imposed on taxpayers within the municipality.

Under the proposal, an additional distribution of proceeds from the state general levy would be created for "low-aid" municipalities. A "low-aid municipality" is defined as any municipality that:

- lies wholly or partially within the metropolitan area;
- does not receive a municipal state-aid street fund distribution;
- does not receive a local government aid distribution (for cities or for townships);
- has a fiscal disparities contribution net tax capacity that exceeds its distribution net tax capacity (i.e., it is a net contributor to the shared fiscal disparities tax base); and
- has a population of less than 5,000.

The distribution would be equal to the municipality's net tax capacity tax rate, multiplied by the municipality's net fiscal disparities contribution. The distribution may not exceed the amount of state general tax imposed on taxpayers within the municipality. The amounts distributed would be deducted from the settlement of the state general levy for the taxes payable year.

REVENUE ANALYSIS DETAIL

- It is estimated that 17 cities would be eligible for an annual distribution of proceeds from the state general levy, reducing state general tax settlements to the state general fund by $1.3 million beginning in FY 2026.
- It is assumed that eligible cities would decrease property tax levies by a portion of the increase in aid. Lower levies would decrease property taxes on all property.
    - Lower levies would result in lower homeowner property tax refunds, reducing costs to the state general fund by an estimated $40,000 in FY 2026.
    - Lower levies would result in lower income tax deductions, increasing revenues to the state general fund by an estimated $10,000 in FY 2026.
- Tax year impact is allocated to the following fiscal year.

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

Transparency, Understandability, Simplicity & Accountability	Neutral	Additional tax distribution calculation
Efficiency & Compliance	Neutral	
Equity (Vertical & Horizontal)	Neutral	
Stability & Predictability	Neutral	
Competitiveness for Businesses	Neutral	
Responsiveness to Economic Conditions	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

sf5139(hf5104) Low-aid Municipality Distribution_pt_1/jtb