DEPARTMENT OF REVENUE

PROPERTY TAX LGA Formula Modified -Sparsity Adjustment

January 28, 2025

Department of Revenue

	Yes	No
DOR Administrative		x
Costs/Savings		1

Analysis of S.F. 128 (Farnsworth) as proposed to be amended by SCS0128A-2

	Fund Impact			
	F.Y. 2026	F.Y. 2027	F.Y. 2028	F.Y. 2029
		(00)0's)	
LGA Appropriation	\$0	(\$26)	(\$26)	(\$26)
Property Tax Refund Interaction	\$0	negligible	negligible	negligible
Income Tax Interaction	\$0	negligible	negligible	negligible

Effective beginning for aids payable in calendar year 2026.

EXPLANATION OF THE BILL

The bill would create a sparsity adjustment in the city local government aid (LGA) formula. A sparsity adjustment of 200 would be added to the revenue need calculation for:

- 1. cities with a population of 10,000 or more and an average population density of less than 150 per square mile, and
- 2. cities with a population of less than 10,000 and an average population density of less than 30 per square mile.

The bill would also increase the LGA appropriation by \$25,500.

REVENUE ANALYSIS DETAIL

- The estimate is based on the November 2024 forecast.
- Under the proposal, there would be 15 cities estimated to qualify for a sparsity adjustment.
- Increasing the appropriation for city LGA would increase state general fund costs by \$25,500 in calendar year 2026 and thereafter.
- It is assumed that the permanent increase in aid to cities would reduce property tax levies by a portion of the increase. This would reduce property taxes on all property including homesteads.
- Lower property taxes would reduce homeowner property tax refunds paid by the state by less than \$5,000 beginning in fiscal year 2027.
- Lower property taxes would reduce deductions on income tax returns, increasing state tax collections by less than \$5,000 beginning in fiscal year 2027.

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

Transparency, Understandability, Simplicity & Accountability	Neutral	Creates an additional formula factor in the LGA formula.
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

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