

**PROPERTY TAX  
LGA Formula Modifications  
and Appropriation Increase**

March 17, 2022

|                                  | Yes | No |
|----------------------------------|-----|----|
| DOR Administrative Costs/Savings |     | X  |

Department of Revenue  
Analysis of H.F. 4064 (Youakim) / S.F. 3971 (Klein) as introduced

|   | <b>Fund Impact</b> |                  |                   |                   |
|---|--------------------|------------------|-------------------|-------------------|
|   | <b>F.Y. 2022</b>   | <b>F.Y. 2023</b> | <b>F.Y. 2024</b>  | <b>F.Y. 2025</b>  |
|   | (000's)            |                  |                   |                   |
| LGA Appropriation Increase              | \$0                | \$0              | (\$28,220)        | (\$28,220)        |
| Mahnomen Property Tax Reimbursement Aid | \$0                | \$0              | (\$160)           | (\$160)           |
| Property Tax Refund Interaction         | \$0                | \$0              | \$750             | \$750             |
| Income Tax Interaction                  | \$0                | \$0              | \$290             | \$290             |
| <b>General Fund Total</b>               | <b>\$0</b>         | <b>\$0</b>       | <b>(\$27,340)</b> | <b>(\$27,340)</b> |

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 \$592,617,913 for aids payable in 2023 and thereafter. The proposal would also modify the LGA distribution formulas and increase the city of Mahnomen property tax reimbursement.

**REVENUE ANALYSIS DETAIL**

- The estimates are based on the February 2022 forecast.
- Increasing the appropriation for LGA to cities would increase state general fund costs by \$28.22 million in calendar year 2023 and thereafter.
- The proposal would also increase the annual property tax reimbursement to the city of Mahnomen by \$160,000.
- 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.
- 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 &amp; Accountability</i> | Increase | Eliminates remaining aid base adjustment in the LGA formula                                |
| <i>Efficiency &amp; Compliance</i>                                      | Neutral  |  |
| <i>Equity (Vertical &amp; Horizontal)</i>                               | Neutral  |  |
| <i>Stability &amp; 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>

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