

**PROPERTY TAX
Local Government Aid and
County Program Aid
Formula Modifications and
Appropriations Increases**

March 8, 2023

Department of Revenue

Analysis of S. F. 1828 (Klein) as proposed to be amended by SC1828A-2

	Yes	No
DOR Administrative Costs/Savings		X

Fund Impact

	F.Y. 2024	F.Y. 2025	F.Y. 2026	F.Y. 2027
	(000's)			
LGA Appropriation Increased	\$0	(\$150,000)	(\$179,800)	(\$208,000)
Mahnommen Reimbursement Aid	\$0	(\$160)	(\$160)	(\$160)
Property Tax Refund Interaction	\$0	\$4,100	\$4,910	\$5,680
Income Tax Interaction	\$0	\$1,470	\$1,770	\$2,040
CPA Appropriation Increased	\$0	(\$150,000)	(\$167,300)	(\$183,600)
Property Tax Refund Interaction	\$0	\$4,100	\$4,570	\$5,010
Income Tax Interaction	<u>\$0</u>	<u>\$1,470</u>	<u>\$1,640</u>	<u>\$1,800</u>
General Fund Total	<u>\$0</u>	<u>(\$289,020)</u>	<u>(\$334,370)</u>	<u>(\$377,230)</u>

Effective beginning for aids payable in calendar year 2024.

The proposal would make formula modifications and increase appropriations to the Local Government Aid and County Program Aid programs.

LGA Appropriation Increase

Under current law, the appropriation for local government aid (LGA) is \$564,398,012 for aids payable in 2024 and thereafter.

The bill would increase the LGA appropriation by \$150 million for aids payable in 2024. For aids payable in 2025 and thereafter, the LGA appropriation would be increased annually by an inflation adjustment. 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.

The bill would also modify the LGA distribution formulas and increase the city of Mahnommen property tax reimbursement.

- Increasing the appropriation for LGA to cities would increase state general fund costs by \$150 million in calendar year 2024. With annual inflation adjustments, the LGA appropriation increases are estimated at \$179.8 million in calendar year 2025 and \$208.0 million in calendar year 2026.

- The proposal would also increase the annual property tax reimbursement to the city of Mahanomen 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 2025, resulting in a savings to the state general fund.
- Because total aid is set to a fixed appropriation level, there would be no state cost associated with the changes in the revenue need formulas. However, the revenue need formula changes would shift aid to some cities and away from other cities.

CPA Appropriation Increase

Under current law, the appropriation for county program aid (CPA) is \$118,795,000 for need aid and \$145,873,444 for tax base equalization aid for aids payable in 2024.

The proposal would increase the CPA appropriation by \$150 million for aids payable in 2024. The appropriation increase would be split with need aid increasing \$67.4 million and tax base equalization aid increasing \$82.6 million.

For aids payable in 2025 and thereafter, the CPA appropriation would be increased annually by an inflation adjustment. 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.

- Increasing the appropriation for CPA would increase state general fund costs by \$150 million in calendar year 2024. With annual inflation adjustments, the CPA appropriation increases are estimated at \$167.3 million in calendar year 2025 and \$183.6 million in calendar year 2026.
- It is assumed that the permanent increase in aid to 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 2025, resulting in a savings to the state general fund.

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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