MINNESOTA · REVENUE

PROPERTY TAX
House Omnibus Tax Bill

March 22, 2011

	Yes	No
DOR Administrative Costs/Savings	X	

Property Taxes and Local Aids Only –
See Separate Analysis for State Taxes

Department of Revenue
Analysis of H.F. 42 (Davids), 1st Engrossment

	Fund Impact			
	F.Y. 2012	**F.Y. 2013**	**F.Y. 2014**	**F.Y. 2015**
	(000's)			
Article 3: Economic Development				
Pooled Tax Increments	$0	$0	$0	$0
Ramsey TIF	$0	$0	$0	$0
Lino Lakes TIF	$0	$0	$0	$0
Taylor's Falls Border City Development Zone	$0	($11)	($11)	($11)
Article 4: Local Taxes				
Glenwood Township Aggregate Materials Tax	$0	$0	$0	$0
Article 5: Property Taxes				
Electric Generation Facility Exemption	$0	$0	$0	$0
Valuation Notice Modification	$0	$0	$0	$0
Class 4c Modification	$0	(negligible)	(negligible)	(negligible)
Disabled Veteran Homestead	$0	$10	$30	$110
Maintenance of Effort Requirements Suspension	$0	$0	$0	$0
Property Tax Late Payment Penalties Modified	$0	$0	$0	$0
Regional Rail; Property Tax Levy Authority Eliminated	$0	$0	$0	$0
Metro Fiscal Disparities Program Repeal	$0	$0	$0	$0
Article 6: Tax Aids and Credits				
PILT 15% Reduction	$3,800	$4,000	$4,160	$4,350

	Fund Impact			
	F.Y. 2012	**F.Y. 2013**	**F.Y. 2014**	**F.Y. 2015**
	(000's)			
Repeal Political Contribution Refunds	$5,400	$6,400	$5,500	$6,500
Disparity Reduction Aid	$0	$9,157	$9,584	$9,584
Renter PTR Reduction	$92,400	$93,700	$95,300	$96,200
Local Government Aid Reduction				
Local Government Aid Reduction	$74,565	$172,858	$208,326	$243,808
Residential Market Value Credit Reduction	$47,964	$0	$0	$0
Agricultural Market Value Credit Reduction	$135	($42)	($39)	($32)
General Fund Total	$122,664	$172,816	$208,287	$243,776
County Program Aid Reduction				
County Program Aid Reduction	$36,354	$36,348	$36,354	$36,354
Residential Market Value Credit Reduction	$56,091	$0	0	$0
Agricultural Market Value Credit Reduction	$0	$0	$0	$0
General Fund Total	$92,445	$36,348	$36,354	$36,354
Township Market Value Credits				
Residential Market Value Credits	($4,851)	$0	$0	$0
Agricultural Market Value Credits	($99)	($92)	($85)	($70)
General Fund Total	($4,950)	($92)	($85)	($70)
Market Value Homestead Credit Conversion	$0	$261,200	$264,900	$273,700
Repeal Sustainable Forest Incentive Act	$15,079	$16,304	$17,634	$19,067
Local Government Redesign Grants	($2,500)	($2,500)	$0	$0
Interactions for Aid and Credit Reductions				
PTR Interactions from Levy Changes	$0	($16,960)	($13,640)	($14,400)
Income Tax Interactions from Levy Changes	$0	($16,200)	($13,410)	($14,160)
Article 7: Green Acres and Rural Preserve				
Green Acres and Rural Preserve Modifications	$0	($35)	($35)	($35)
Article 8: Minerals				
Nonferrous Mineral Tax Rate Modifications	$0	$0	(negligible)	(negligible)
Article 9: Miscellaneous				
State General Levy Reduction	($17,700)	($32,400)	($32,900)	($33,600)
Total General Fund	**$306,638**	**$531,737**	**$581,668**	**$627,365**

Various Effective Dates

EXPLANATION OF THE BILL & REVENUE ANALYSIS DETAIL

Article 3: Economic Development

Pooled Tax Increments Authorization (Section 11)
The bill makes several changes to housing replacement tax increment financing (TIF) districts. First, the bill allows housing replacement TIF districts to expend increments to develop housing that does not exceed the lesser of 150 percent of the average market value of single family homes in a city, or $200,000 in metro area cities, or $125,000 for non-metro municipalities, if one of the following criteria are met. The parcel must contain a residence with one to four dwelling units that have been vacant for 6 or more months, structurally substandard, is in foreclosure, or is a vacant site. This new authority expires on December 31, 2016, although bonds may continue to be paid. Effective for taxes payable 2012 and thereafter.

- The proposed changes to the general TIF provisions may have an impact on the local tax base and tax rate in the future and may result in a small change in property tax refunds paid by the state.

Ramsey TIF (Section 12)
The bill modifies a tax increment financing district (TIF) established for the city of Ramsey last year for the North Star Transit Station. The boundary description is modified. Cost of land acquisition and cost of public improvements are permitted as uses of tax increments. The four year limit for activity to begin after certification does not apply. A listing of prior planned improvements is not required. Effective day upon local approval.

- The proposed changes to the general TIF provisions may have an impact on the local tax base and tax rate in the future and may result in a small increase in property tax refunds paid by the state.

Lino Lakes TIF (Section 13)
The bill allows the city of Lino Lakes to collect increments from tax increment financing (TIF) district 1-10 through December 31, 2023. The increments available after February 1, 2011 may only be spent on bond debt service to finance the interchange of Anoka highway 23 and 35W and public improvements to the Legacy at Wood Edge development. General TIF provisions concerning increment pooling, economic development districts, and five-year activity limits do not apply. Effective following local approval.

- The proposed changes to the general TIF provisions may have an impact on the local tax base and tax rate in the future and may result in a small change in property tax refunds paid by the state.

Taylors Falls Border City Development Zone Authorization (Section 14)
The bill allows the City of Taylors Falls to designate all or any part of the city as a border city development zone. The cumulative total amount of state tax reductions for all years for the city of Taylors Falls is limited to $100,000. The allocation may be used to offset taxes imposed on or

EXPLANATION OF THE BILL & REVENUE ANALYSIS DETAIL (continued)

remitted by businesses in the development zone only if the city determines that the tax reduction is necessary to enable a business to expand within the city or to attract a business to the city. The commissioner may waive the limit under the same rules and standards used for other border city development zones. Effective upon local approval.

- The development zone for Taylors Falls currently undeveloped land, with the first construction expected in the summer. Based on information from the Chisago County Economic Development Authority, the analysis assumes that the $100,000 will be spent over nine years beginning in Fiscal Year 2013.
- Number of Taxpayers: Selected businesses within the city of Taylors Falls.

Article 4: Local Taxes

Glenwood Township Aggregate Materials Tax (Section 1)
The bill allows the town of Glenwood in Pope County to impose an aggregate materials tax if Pope County does not. The town of Glenwood would be deemed to be the county for purposes of collecting the tax, except that all tax must be retained by the town. If Pope County imposes an aggregate materials tax, the tax imposed by the town of Glenwood would be repealed on the effective date of the Pope County tax.

- The bill would have no impact on any state funds. Revenue from the proposed tax would go to the town of Glenwood.

Article 5: Property Taxes

Electric Generation Facility Personal Property Exemption (Section 1)
This bill exempts the attached machinery and other personal property of a new multiple reciprocating engine natural gas electric generation facility. The qualifications include a generation capacity of between 20 and 30 megawatts at a site with 10-15 megawatts already installed, be owned by a municipal power agency, be located within one mile of an existing natural gas pipeline, and be designed to furnish emergency backup power service with black start capability. In addition, the facility must satisfy a resource deficiency identified in an approved integrated resource plan and have approval of the city and county governing bodies. Construction must be commenced between January 1, 2012 and January 1, 2015. Transmission and lines and other connections are not exempt, nor are other existing facilities on the site. Effective for assessments in 2012, taxes payable in 2013, and thereafter.

- According to the PUC, no data has been filed for this facility. The proposed location for this facility is Fairmont.
- The proposed exemption to the general public utility valuation provisions may have an impact on the local tax base and tax rate in the future and may result in a small increase in property tax refunds paid by the state.
- Number of Taxpayers: Few taxpayers would be directly affected.

EXPLANATION OF THE BILL & REVENUE ANALYSIS DETAIL (continued)

Valuation Notice Modification (Section 2)
The bill requires that the valuation notice mailed to taxpayers include a notification if the classification of the property has changed in the past year. The bill also strikes obsolete language. Effective for taxes payable in 2013 and thereafter. Effective for taxes payable 2012 and thereafter.

- There are no state general fund impacts for this bill.

Class 4c Modification (Sections 3 & 5)
The bill adds a subcategory to class 4c resort classification. The new category qualifying for class 4c would have 20 or fewer rental units, have occupancy less than 250 days per year, and be located in a municipality of less than 2,500 outside the metro area that contains a portion of a state trail administered by the Department of Natural Resources.

New language is added to re-codify the commercial and non-commercial seasonal recreational residential classifications in the 4c statute, so that cabins become class 4c(12). Effective for taxes payable 2012 and thereafter.

- A few properties are expected to qualify for the new state trail provision.
- Taxes will shift from preferred properties to other classes.
- Property tax refund increases due to tax shifting onto class 1a or 2a homesteads is expected to be negligible.
- Number of Taxpayers: Few.

Disabled Veteran Homestead (Section 4)
The proposal would make the following modifications to the disabled veterans valuation exclusion:
- Provide an additional three taxable years of exclusion for surviving spouses;
- Allow the $300,000 valuation exclusion to the homestead of a service member who died while serving in active duty;
- Include primary family caregivers of a qualified disabled veteran as eligible to receive the market value exclusion if the veteran is living with the caregiver;
- Add remarrying to the conditions for termination of the surviving spouse exclusion.

Surviving Spouse Extension
- For assessment year 2010, approximately 9,440 veterans in Minnesota with a disability rating of at least 70% received a homestead valuation exclusion, the third year it was available. Approximately 6,310 have a disability rating of 100%.
- Due to the passing of a qualifying disabled veteran, it is estimated that 3% of homesteads receiving the valuation exclusion would lose eligibility each year under current law. It is assumed that 25% of these homesteads would have no surviving spouse or the spouse would choose to transfer the property. The remaining 75% would be eligible to continue receiving the homestead valuation exclusion.

EXPLANATION OF THE BILL & REVENUE ANALYSIS DETAIL (continued)

- The valuation exclusion would result in a net property tax refund savings to the state general fund. There would be no income tax interaction as shifting property taxes yield zero net change. The average state savings per homestead with a disability rating of 100% is estimated to be approximately $420. A 3% annual growth rate is assumed.
- The first assessment year impacted would be 2013, for taxes payable in 2014. The proposal would shift an estimated $250,000 in property tax onto all other property types in the first year.

Inclusion of Primary Family Caregivers

- Under the proposal, the primary family caregiver with a qualified disabled veteran living in their home would be eligible for the market value exclusion.
- It is assumed that 25 primary family caregivers would apply for an exclusion each of the first three years, for a total of 75.
- The average state savings per homestead with a disability rating above 70% is estimated to be approximately $430. A 3% annual growth rate is assumed.
- The first assessment year impacted would be 2011, for taxes payable in 2012. The proposal would shift an estimated $40,000 in property tax onto all other property types in the first year.

Exclusion for Deaths while Serving in Active Duty

- Under the proposal, the spouse of a service member who died while serving in active duty would be eligible for a homestead valuation exclusion. The state revenue impact for this exclusion is estimated to be negligible for taxes payable year 2012.

Regional Rail Authorities; Property Tax Levy Authority Eliminated (Section 6, 9-10)
The proposal transfers regional rail levies and authority to counties. There would be no impact on the state general fund.

Maintenance of Effort Requirements Suspension (Section 7)
The bill would suspend county and city local maintenance of effort requirements, except in those cases where spending is required by federal law and there would be a cost to the state general fund without the requirement. There is no assumed impact to the state general fund.

Property Tax Late Payment Penalties Modified (Sections 8 & 12)
The bill makes several changes to penalties for late payments of property taxes. The penalty for late payment of first half property taxes for non-homestead property taxes of 4% until May 31, and 8% on June 1 is stricken. The penalty for late payment of first half property taxes of 2% until May 31 and 4% on June 1 for homestead property would apply to all property types. The late payment penalty for second half property taxes for all property would be 2% after October 15, 4% on November 1, and 6% on December 1. A redundant section concerning noncommercial seasonal recreational property is repealed. Effective for taxes payable 2012 and thereafter.

- The bill would have no impact on the state general fund.

EXPLANATION OF THE BILL & REVENUE ANALYSIS DETAIL (continued)

Metro Fiscal Disparities Program Repeal (Section 12)
The bill would repeal the metropolitan Fiscal Disparities program.

- Effective for property taxes payable in 2012 and thereafter.
- Repealing this program would result in a shift in property taxes including an increase in property taxes on homesteads.
- Repealing this program will eliminate the authority for an annual levy of up to $5 million for the metropolitan livable communities fund.

Article 6: Tax Aids and Credits

Reduce PILT 15% (Sections 1-2, 25-27, 32)
The bill would reduce payments in lieu of taxes (PILT) by 15%. The bill would also eliminate the inflation adjustment for PILT payment rates. Effective for aids payable in fiscal year 2012 and thereafter.

- The reduction would be effective beginning for payments made in FY 2012.
- It is assumed that jurisdictions receiving a reduction in PILT would increase property tax levies for a portion of the reduction. This would increase property taxes on all property classes including homesteads.
- The increased property tax burden would increase state-paid homeowner property tax refunds and income tax deductions beginning in FY 2013.

Repeal Political Contribution Refunds (Sections 3, 13-14, 32)
The political contribution refund provides a refund to individuals for contributions made to qualifying political parties and candidates. The maximum refund is $50 for an individual and $100 for a married couple filing jointly. The refund claim must be filed no later than April 15 of the calendar year following the calendar year in which the contribution was made.

Under current law the refund provisions are eliminated for contributions made after June 30, 2009, and before July 1, 2011.

The bill would repeal the political contribution refund.

- Effective for political contribution refund claims based on contributions made after June 30, 2011.
- The annual estimates correspond to the February 2011 Minnesota Management and Budget economic forecast.
- The repeal of the inactive refund program would result in no additional claims being processed
- Previously, about 90,000 political contribution refunds were made annually.

EXPLANATION OF THE BILL & REVENUE ANALYSIS DETAIL (continued)

Market Value Homestead Credit Conversion (Sections 4-8, 10, 12, 30, 32)
The bill converts the market value homestead credit in M.S. 273.1384 into a reduction in net tax capacity for class 1a, 1b, and 2a homesteads. Effective for taxes payable in 2012 and thereafter.

- The market value homestead credit is eliminated, resulting in savings to the general fund of $261.2 million in FY 2013, $264.9 million in FY 2014, and $273.7 million in FY 2015.Homesteads that had qualified for the credit would have a reduction in net tax capacity. Total net tax capacity statewide would be reduced by about 4.5%.
- It is assumed that county, city and township governments on the whole would treat the elimination of the credit like an aid reduction.
- There may be additional school levy and aid impacts that are not included in this revenue estimate.
- Number of Taxpayers: All property taxpayers.

Disparity Reduction Aid Payments Reduced (Sections 9 & 11)
The bill reduces the total for Disparity Reduction Aid (DRA) to 50% of the certified taxes payable 2011 amount. In addition, the aid may not lower the local tax rate less than 105%. Calculation and adjustment language is stricken. Effective for taxes payable in 2012 and thereafter.

- The cuts to DRA would be a savings to the state general fund of $9.157 million in FY 2013, and $9.584 million each fiscal year thereafter.
- There may be additional school equalized levy impacts.

Renter PTR Reduction (Sections 15-16, 28)
For purposes of the property tax refund (PTR) program, current Minnesota statutes allow a renter to claim 19% of the rent paid for the year as the amount of property tax paid by the renter. This figure is used, along with the renter's income, to determine eligibility for and the amount of the property tax refund. The proposal would change the percentage from 19% to 12% starting with tax year 2010 (fiscal year 2012).

> **Note: returns submitted for tax year 2010 would require an adjustment after the claim has been filed by the taxpayer to reflect the reduced refund amount. This would result in increased administrative costs.**

- Effective beginning with 2010 returns filed in 2011.
- The estimates are based on the February 2011 forecast.
- Lowering the percentage of rent constituting property taxes would reduce refunds to almost every claimant. Approximately 38,000 renters, or about 21%, would no longer be eligible for a refund beginning in FY 2012.
- Under the proposal, the average renter property tax refund would be reduced by $300.

EXPLANATION OF THE BILL & REVENUE ANALYSIS DETAIL (continued)

Local Government Aid and Market Value Credit Reduction (Sections 18-24, 29)
The proposal would reduce local government aid (LGA) and market value credit reimbursements to cities. The reduction amounts would be as follows:

Fiscal Year	LGA Reduction	MV Credit Reduction
2012	$74.6m	$48.1m
2013	$172.9m	$0.0m
2014	$208.3m	$0.0m
2015	$243.8m	$0.0m

For aids payable in 2011 and 2012, the LGA payment would be equal to the lesser of (1) the total amount of aid received in 2010, or (2) the amount of aid it was certified to receive in 2011. First class cities would receive 75% in 2011 and 50% in 2012. For aids payable in 2013 and thereafter, the reduced appropriation would be distributed through the local government aid formula. First class cities would receive 25% in 2013 and zero in 2014 and thereafter.

The city market value credit reimbursement payments for 2011 could not exceed the amount paid in 2010. The market value homestead credit would be eliminated after 2011.

No city could receive a reduction greater than their certified LGA or market value credit.

- Effective for aids payable in 2011 and thereafter.
- It is assumed that cities receiving a reduction would increase property tax levies for a portion of the reduction. This would increase property taxes on all property classes including homesteads.
- Cities would receive additional agricultural market value credit beginning in pay 2011 due to the repeal of the permanent reductions.

County Program Aid and Market Value Credit Reduction
The proposal would reduce county program aid (CPA) and market value credit reimbursements to counties. The reduction amounts would be as follows:

Fiscal Year	CPA Reduction	MV Credit Reduction
2012	$36.4m	$56.1m
2013	$36.4m	$0.0m
2014	$36.4m	$0.0m
2015	$36.4m	$0.0m

For aids payable in 2011 and 2012, the CPA payment would be equal to the lesser of (1) the total amount of aid received in 2010, or (2) the amount of aid it was certified to receive in 2011. For

EXPLANATION OF THE BILL & REVENUE ANALYSIS DETAIL (continued)

aids payable in 2013 and thereafter, the reduced appropriation would be distributed through the county program aid formula.

The county market value credit reimbursement payments for 2011 could not exceed the amount paid in 2010. The market value homestead credit would be eliminated after 2011.

No county could receive a reduction greater than their certified CPA or market value credits.

- Effective for aids payable in 2011 and thereafter.
- It is assumed that counties receiving a reduction would increase property tax levies for a portion of the reduction. This would increase property taxes on all property including homesteads.

Township Market Value Credits
Under current law, townships have a permanent market value credit reduction of approximately $5 million under 477A.0133. The proposal would repeal this reduction.

- Townships would receive an additional $4.85 million in homestead market value credit for pay 2011 due to the repeal of the permanent reductions, resulting in a cost to the state general fund. Market value homestead credits are eliminated after 2011.
- Townships would receive additional agricultural market value credit beginning in pay 2011 due to the repeal of the permanent reductions.

PTR and Income Tax Interactions for Aid and Credit Reductions
The proposal changes several property tax aid and credit programs. The proposed reductions in aids and credits cause increases in local property taxes, resulting in an increase in property tax refunds paid directly to homeowners and an increase in deductions claimed on individual and corporate income tax forms.

- Effective for taxes payable 2012 and thereafter.
- Net property tax increases are estimated to be $351 million for FY 2013, $284 million for FY 2014, and $300 million for FY 2015.
- It is assumed that local government spending reductions or other non-property tax revenues will be used to address the balance of aid or credit reductions that are not levied back.
- Net taxes would be affected by the levy change. A portion of those levies would be paid by homesteads. Property tax refunds would be proportionately affected by homestead net tax changes. Property tax refunds would increase $17.0 million in FY 2013, $13.6 million in FY 2014, and $14.4 million in FY 2015.
- Individual income tax receipts are expected to decrease $13.9 million in FY 2013, $11.6 million in FY 2014, and $12.2 million in FY 2015.
- Corporate income tax receipts are expected to decrease $2.3 million in FY 2013, $1.8 million in FY 2014, and $2.0 million in FY 2015.

EXPLANATION OF THE BILL & REVENUE ANALYSIS DETAIL (continued)

Local Government Redesign Grants (Section 17 & 31)
The bill would allow the commissioner of administration to make grants of up to $100,000 each to local governments to plan and implement service cooperation/consolidation or innovation with at least one other local government.

- An appropriation of $5 million is provided from the state general fund. The analysis assumes the grants would be split evenly between FY 2012 and FY 2013.

Repeal Sustainable Forest Incentive Act (Section 32)
Under current law, land enrolled in the sustainable forest resource management program is eligible for an annual per acre incentive payment. The payment rate in 2010 was $15.67 per acre, and cannot be less than $7.00 per acre in any year. The proposal would repeal the SFIA program and payment.

- Effective beginning with payments made in 2011.
- State general fund savings would be realized beginning in FY 2012.

<u>Article 7: Green Acres and Rural Preserves</u>

Green Acres and Rural Preserves
The bill makes several modifications to the Green Acres (MS 273.111) and Rural Preserve (MS 273.114) property tax programs.

A purpose statement is added to the green acres statute. For property enrolled after May 1, 2012 the payback provision is five years. The requirements for a conservation plan and a minimum 8 year enrollment in the Rural Preserve program are stricken, and covenant restrictions are also repealed. Land removed from the Green Acres program through legislative action between May 21, 2008 and enactment may re-enroll. Land transferred to the Rural Preserve program may be considered to have been enrolled in the Green Acres program until transfer. Counties must pay back any additional taxes due to withdrawal from the Green Acres program. The Department of Revenue must study alternative methods for determining agricultural value of property enrolled in the two programs. The report is due to the legislature by February 15, 2012.

In addition, a new qualifier allows parcels contiguous to class 2a property enrolled under green acres to be eligible for rural preserves valuation.

- The analysis is based on a partial survey of assessors reporting acres withdrawn from the green acres program. It is derived that approximately 150,000 acres of property withdrawn from the green acres program would re-enroll in the rural preserve program under the less strict qualifications in the bill. Additional property receiving deferral treatment would decrease jurisdictions' net tax capacity, thereby driving up the local tax rate. $800,000 of taxes would shift onto other property types, including homesteads. Property tax refunds would increase

EXPLANATION OF THE BILL & REVENUE ANALYSIS DETAIL (continued)

due to higher homestead property taxes. It is estimated that property tax refunds would increase by $35,000 per year beginning in FY 2013.
- The new contiguous parcels qualifier may allow significantly more property to qualify. This is not reflected in the estimate pending the availability of new data.

Article 8: Minerals

Minerals

The bill would lower the occupation tax rate from 2.45% to 1.75%, increase the net proceeds tax rate from 2.00% to 2.7%, and modify the distribution of proceeds from the taconite production tax and net proceeds tax.

- Nonferrous mineral production is currently projected to be zero through calendar year 2012. Production is assumed to begin in 2013 and increase annually in the short term.
- The bill would significantly reduce occupation tax revenues in Minnesota if/when nonferrous mineral production increases. The occupation tax rate reduction is estimated to reduce tax revenues by less than $5,000 for FY 2014 and $7,000 for FY 2015.
- Occupation tax revenues are deposited into the state general fund, with 50% dedicated to the general fund and 50% to schools and the University of Minnesota. The state general fund impact would be less than $5,000 in FY 2014 and FY 2015.
- There would be no impact to the state general fund from the net proceeds tax rate change as any revenues from production inside the taconite assistance area would be distributed to local jurisdictions and taconite funds.

Article 9: Miscellaneous

State General Levy Reduction (Section 3)

The bill resets the state general levy targets for class 3a property to $739 million and the seasonal recreational residential target to $40.6 million for pay 2012. The 95%-5% share split between class 3a and seasonal recreational residential taxes is stricken.

- The class 3a reduction in state general levy results in a loss to the state general fund in pay 2012 of $32.2 million.
- The fiscal year impact of the reduction is $17.7 million in FY 2012, $32.4 million in FY 2013, $32.9 million in FY 2014, and $33.6 million in FY 2015.

Source: Minnesota Department of Revenue
Property Tax Division – Research Unit
http://www.taxes.state.mn.us/taxes/legal_policy