PROPERTY TAX
House Property and Local Tax Division Report

March 15, 2011

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

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H.F. 481 (Runbeck), as proposed to be amended by A11-0139

	Fund Impact			
	F.Y. 2012	**F.Y. 2013**	**F.Y. 2014**	**F.Y. 2015**
	(000's)			
Article 1: 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 2: Local Taxes				
Glenwood Township Aggregate Materials Tax	$0	$0	$0	$0
Article 3: Property Taxes				
Electric Generation Facility Exemption	$0	$0	$0	$0
Valuation Notice Modification	$0	$0	$0	$0
Class 4c Modification	$0	(negligible)	(negligible)	(negligible)
Property Tax Late Payment Penalties Modified	$0	$0	$0	$0
Regional Rail; Property Tax Levy Authority Eliminated	$0	$0	$0	$0
Article 4: Tax Aids and Credits				
PILT 15% Reduction	$3,800	$4,000	$4,160	$4,350
Repeal Political Contribution Refunds	$5,400	$6,400	$5,500	$6,500
Disparity Reduction Aid	$0	$9,157	$9,584	$9,584

	Fund Impact			
	F.Y. 2012	**F.Y. 2013**	**F.Y. 2014**	**F.Y. 2015**
	(000's)			
Renter PTR Reduction	$59,100	$60,000	$60,900	$61,500
Local Government Aid Reduction				
Local Government Aid Reduction	$100,430	$190,856	$226,173	$261,654
LGA Reduction – Opt Out from Levy Freeze	$0	$500	$0	$0
Residential Market Value Credit Reduction	$47,964	$0	$0	$0
Agricultural Market Value Credit Reduction	$135	($42)	($39)	($32)
General Fund Total	$148,529	$191,314	$226,134	$261,622
County Program Aid Reduction				
County Program Aid Reduction	$36,354	$36,348	$36,354	$36,354
CPA Reduction – Opt Out from Levy Freeze	$0	$500	$0	$0
Residential Market Value Credit Reduction	$56,091	$0	0	$0
Agricultural Market Value Credit Reduction	$0	$0	$0	$0
General Fund Total	$92,445	$36,848	$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	(Unknown)	(Unknown)	(Unknown)	(Unknown)
Interactions for Aid and Credit Reductions				
PTR Interactions from Levy Changes	$0	($12,080)	($12,720)	($13,410)
Income Tax Interactions from Levy Changes	$0	($13,090)	($14,130)	($14,890)
Article 5: Property Tax Freeze				
Property Taxes Frozen at Pay 2011 Levels	$0	$0	$0	$0
Total General Fund	**$319,403**	**$559,950**	**$598,220**	**$644,296**

Various Effective Dates

EXPLANATION OF THE BILL & REVENUE ANALYSIS DETAIL

Article 1: Economic Development

Pooled Tax Increments Authorization (Section 1)
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 2)
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 3)
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.

EXPLANATION OF THE BILL & REVENUE ANALYSIS DETAIL (continued)

Taylors Falls Border City Development Zone Authorization (Section 4)
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 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 2: Local Taxes

Glenwood Township Aggregate Materials Tax (Section 2)
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 3: 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.

EXPLANATION OF THE BILL & REVENUE ANALYSIS DETAIL (continued)

- 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.

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 3-4)
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.

Property Tax Late Payment Penalties Modified (Sections 5 & 8)
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)

Regional Rail Authorities; Property Tax Levy Authority Eliminated (Sections 6-7)

The proposal transfers regional rail levies and authority to counties. There would be no impact on the state general fund.

Article 4: Tax Aids and Credits

Reduce PILT 15% (Sections 1-2, 25-28, 33)
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, 33)
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, 31, 33)
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, 29)
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 14.5% 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 21,000 renters, or about 7%, 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 $190.

EXPLANATION OF THE BILL & REVENUE ANALYSIS DETAIL (continued)

Local Government Aid and Market Value Credit Reduction (Sections 18-24)
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	$100.4m	$48.1m
2013	$190.9m	$0.0m
2014	$226.2m	$0.0m
2015	$261.7m	$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, and suburban cities would receive 50% in 2011 and zero 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. Suburban cities would continue to receive zero in 2013 and thereafter.

It is assumed cities choosing to opt out of the property tax levy freeze in 2012 would forgo a total of $500,000 in LGA for FY 2013.

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

EXPLANATION OF THE BILL & REVENUE ANALYSIS DETAIL (continued)

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

It is assumed counties choosing to opt out of the property tax levy freeze in 2012 would forgo a total of $500,000 in CPA for FY 2013.

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 $305 million for FY 2013, $321 million for FY 2014, and $338 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 $12.1 million in FY 2013, $12.7 million in FY 2014, and $13.4 million in FY 2015.

EXPLANATION OF THE BILL & REVENUE ANALYSIS DETAIL (continued)

- Individual income tax receipts are expected to decrease $10.1 million in FY 2013, $11.0 million in FY 2014, and $11.6 million in FY 2015.
- Corporate income tax receipts are expected to decrease $3.0 million in FY 2013, $3.1 million in FY 2014, and $3.3 million in FY 2015.

Local Government Redesign Grants (Section 17 & 32)
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.

- The appropriation amount is left blank in the current bill. Therefore the state cost impact is unknown.

Repeal Sustainable Forest Incentive Act (Section 33)
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 5: Property Tax Freeze</u>

Property Taxes Frozen at Pay 2011 Levels
The proposal would cap payable 2012 county and city levies at the lesser of 2011 certified levels or 102% of 2010 levies. A county or city is exempt from the levy freeze if it does not receive LGA or CPA or if it chooses to forgo those payments for payable 2012. Some increased levy authority is allowed for debt service incurred prior to June 1, 2011, reductions in utility transition aid, new construction, and annexation.

- The general fund impact of the property tax freeze is included in the above ***PTR and Income Tax Interactions for Aid and Credit Reductions*** section.

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

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