Property Tax
Exemption and Grant Program for
Ethanol Blend Motor Fuel

	Yes	No
Separate Official Fiscal Note Requested	X	
Fiscal Impact		
DOR Administrative Costs/Savings	X	

February 21, 2001

Department of Revenue
Analysis of H.F. 77 (Peterson)

	Revenue Gain or (Loss)			
	F.Y. 2002	**F.Y. 2003**	**F.Y. 2004**	**FY2005**
	(000's)			
General Fund	*	*	(Negligible)	(Negligible)

*An unspecified appropriation is made effective July 1, 2001 to June 30, 2003.
The property tax exemption is effective for property taxes payable in 2002 and subsequent years.

EXPLANATION OF THE BILL

The proposal provides that the state must buy E85 fuel (a blend of agriculturally derived denatured ethanol and gasoline that typically contains 85 percent ethanol by volume) for use in flexible-fuel state vehicles if the desired or required model has a flexible-fuel engine available.

The proposal also requires the commissioner of agriculture to establish a program to encourage motor fuel retail outlets to dispense E85 fuel, and provides an unspecified appropriation for that purpose. The grants would be available for half of the costs of installation up to $20,000 per retailer, and the state share must be matched by funds from private industry or other entities.

The proposal also establishes a property tax exemption for a five-year period for motor fuel retail outlets that dispense E85 fuel. The assessor will determine the market value increase, if any, to the real property of the outlet caused by the installation of equipment for dispensing E85 fuel, and deduct the increase, if any, from the real property market value for a five-year period. The reduction will then be phased back into the market value over a five-year period.

REVENUE ANALYSIS DETAIL

- According to the state department of agriculture, a total of 56 E85 pumps are operated currently in the state. The average cost of installation of the tank and equipment is $30,000 to $40,000. Assuming that local assessors adjust the taxable market value of the fuel outlets by a corresponding amount, the maximum amount of market value exempted for existing pumps would be about $1.7 million.

- Although a small tax shift would result from the proposed property tax exemption, and homeowner taxes would rise somewhat, the potential state cost from homeowner property tax refunds would be negligible.
- The proposed grant program could result in an increase in the property tax exemption from new E85 pumps, but it is not known to what extent this would occur. There is some evidence that the grant program might encourage conversion of existing gasoline pumps and tanks to E85 fuel, rather than installation of new equipment.

Number of Taxpayers Affected: About 56 motor fuel outlets would qualify for the proposed property tax exemption. An unknown number of new installations would qualify for the proposed grant program and the property tax exemption.

ADMINISTRATIVE/OPERATIONAL IMPACT

See fiscal note.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/polic.html#analyses

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