

**PROPERTY TAX
Taconite Tax, Taconite Credit and School
Aid Changes**

April 24, 2001

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

Department of Revenue
Analysis of H.F. 2450 (Rukavina) / S.F. 2327 (Tomassoni) **Revised for Amendment (H2450A1)**

	<u>Revenue Gain or (Loss)</u>			
	<u>F.Y. 2002</u>	<u>F.Y. 2003</u>	<u>F.Y. 2004</u>	<u>FY2005</u>
	(000's)			
General Fund:				
Supplemental homestead credit		(\$4,100)	(\$4,100)	(\$4,100)
School district aid		(\$10,877)	(\$10,877)	(\$10,877)
State payment to make up for LTV tax	(\$14,800)	\$0	\$0	\$0
Net impact on general fund:	(\$14,800)	(\$14,977)	(\$14,977)	(\$14,977)
Late LTV tax payment		Unknown	Unknown	Unknown

Effective various dates. Most provisions effective for calendar year 2002.

EXPLANATION OF THE BILL

Current Law:

Taconite Production Tax, Distributions, and Credits:

The taconite production tax rate for concentrates and pellets produced in 1999 was \$2.141 per taxable ton. For concentrates produced in 2000 and subsequent years the tax rate is equal to the rate in the preceding year adjusted for inflation with the implicit price deflator for gross domestic product. The production tax is paid directly to each eligible county and the Iron Range Resources and Rehabilitation Board (IRRRB), on or before February 24, covering production in the previous year.

Annual distribution of the production tax to school districts includes a distribution of 4.46 cents per ton for the taconite districts in which mining and concentrating occurs. Another 17.82 cents per ton is split among the 15 school districts in the taconite relief area. This amount may be increased or reduced by the percentage aid guarantee provisions in current law. Taconite school districts qualify for an additional \$175 per pupil unit by passing a special levy referendum equal to 1.8 percent of net tax capacity.

The production tax also funds a 38.81 cents per ton distribution to the taconite relief area for a taconite homestead credit relief program for homeowners. In addition, 15.4 cents per ton is distributed to the

taconite economic development fund, 5 cents per ton to the taconite environmental fund, and 3.35 cents per ton to the northeast Minnesota economic protection trust fund. Beginning in 2000, these distributions will be indexed for inflation using the implicit price deflator. No distribution is made to the taconite economic development fund or the taconite environmental fund in a year when total taconite production falls below 30 million tons.

The distribution of 17.82 cents per ton to the 15 school districts in the taconite relief area is guaranteed equally from the taconite environmental protection fund and the northeast Minnesota economic protection trust fund. This guarantee is the lesser of a variable guarantee or 40.5 percent of the distribution from the 1983 production year. The 38.31 cents per ton distribution to the taconite relief area to fund taconite homestead credit for homeowners is guaranteed by the northeast economic protection trust fund at the level required to reimburse local governments for the taconite homestead credit. When total taxable tonnage falls below 42 million tons, distributions to the funds are reduced proportionately by two percent per each 1 million tons less than 42 million tons. For example, if the taxable tonnage falls below 39.8 million tons, the decrease is 4.4 percent.

The taconite property tax relief account provides funding for the taconite homestead credit in the taconite relief area on the Mesabi, Vermillion, and Cuyuna Ranges. If a homestead property is located in a city or town that contained at least 40 percent of its valuation as iron ore on May 1, 1941, or currently has a taconite mine, processing plant, or electric generating facility, the taconite credit is 66 percent of the qualifying tax up to a maximum credit of \$315.20. If the property is not located in such a city or town but is located in a school district containing such a city or town, the taconite credit is 57 percent of the tax up to a maximum of \$289.80.

A separate supplemental taconite homestead credit is currently paid from the state general fund. The supplemental relief area includes two small school districts adjoining the taconite relief area. The supplemental relief area includes school districts not qualified for the taconite relief area but located in counties with less than 100,000 population in which taconite is mined or quarried. The supplemental credit equals 57 percent of qualifying tax up to \$289.80.

Proposed Law: As amended, the boundaries of the taconite tax relief area are changed to exclude a school district whose boundaries are more than 20 miles from a taconite mine or plant or in which the assessed valuation of unmined iron ore on May 1, 1941, was less than 40 percent of the assessed valuation of all real property. This new definition excludes school districts in Aitkin and Crow Wing counties and the Grand Rapids school district from the taconite relief area eligible for taconite homestead credit paid for from the taconite relief fund. Instead, homeowners in the excluded districts would become eligible for the supplemental taconite homestead credit paid for from the state general fund. Within the new taconite relief area boundaries, the taconite homestead credit maximum would remain at \$289.50 to \$315.10.

The proposal also changes the boundaries of the Iron Range fiscal disparities area to exclude school districts in Aitkin and Crow Wing counties and the City of Grand Rapids in Itasca County. The IRRRB would target expenditures on programs or projects to the new taconite relief area, especially to areas that have the largest percentage of job losses and population losses related to the economic downturn in the taconite industry.

The proposal also adds the \$.04 mining effects fund to the taconite tax distribution guarantee, but uses 1999 as a base year. It also changes the tonnage threshold from 42 million tons to 35 million tons. The percentage reduction for each 1 million tons below 35 million tons is changed from 2 percent to 2.4 percent.

The taconite tax rate is frozen at its year 2000 level of \$2.173 per ton in calendar year 2001. For calendar year 2004 and after, the rate is increased for inflation using the implicit price deflator. If any part of the tax bill is held unconstitutional, the rate is frozen at \$2.173 per ton beginning in 2004.

The proposal changes the distributions to school districts, currently funded by a 4.46 cents per ton taconite tax distribution (the taconite school fund), and 17.82 cents per ton distribution (the regular school fund), so that these distributions are made from the state general fund by the Department of Children, Families, and Learning (CFL), beginning with calendar year 2002 (F.Y. 2002). The current distribution of 38.81 cents per ton to the taconite relief fund is reduced to 35.9 cents per ton. In addition, the current distribution of 0.7282 cents per ton to a school district with an electric power plant owned by and providing the primary source of power for a mining plant located in another school district will be changed so that distributions to school districts under this provision will be paid by the state general fund.

The current distribution of 3.35 cents per ton to the northeastern Minnesota economic protection trust fund in 1999 is changed to a permanent distribution per year. The current distribution of 15.4 cents per ton to the taconite economic development fund for 1999 to 2002 is extended to 2003 and 2004. The current 5 cents per ton distribution to the taconite environmental fund for producer grants is increased to 15 cents per ton, and the period extended from 2002 to 2004. The current distribution to the taconite relief fund and the northeastern Minnesota economic protection trust fund will be indexed for inflation beginning in 2003. For the production year 2000 only, any late payments of taconite tax will be deposited in the state general fund.

The proposal also requires that delayed payment of taconite production tax as a result of a mining company bankruptcy, for production year 2000 only will be deposited in the state general fund.

Finally, all of the difference between the taconite tax distributions to taconite funds, municipalities, counties or schools, including the IRRRB in 2001 that would have been paid based on average production for 1998, 1999, and 2000 disregarding the bankruptcy of one of the taxpayers and the actual taconite tax payments will be made up by the state general fund in one state payment on or before July 1, 2001 (F.Y. 2002).

REVENUE ANALYSIS DETAIL

- According to estimates by the department's minerals office, supplemental taconite homestead credit will increase by \$4.1 million per year for F.Y. 2003, FY. 2004, and F.Y. 2005. **As amended**, supplemental homestead credit payments would be changed to July 20 and December 15 beginning in 2002. Thus the first half payment of calendar year 2002 credit reimbursements would be made on July 20, 2002, in F.Y. 2003. **Also, as amended**, the general fund payment of the school district portion of taconite school funds would be changed from February 25 to July 1, so the first proposed payment would be in F.Y. 2003.
- According to the minerals office, the state takeover of school district distributions will total \$10.877 million per year.
- The timing and final amount of the late payment of the LTV tax obligation of \$14.8 million is unknown, as there remain issues in dispute.
- The payment from the general fund in F.Y. 2002 to make up the difference from a three-year average distribution of taconite tax not received from a bankrupt owner will be \$14.8 million. It is assumed that the payment will be made on July 1, 2001.

Number of Taxpayers Affected: All taxpayers in the Iron Range will be affected, and all taconite mining companies would be affected by the freezing of the taconite tax rate.

ADMINISTRATIVE/OPERATIONAL IMPACT

There will be no significant administrative or operational costs or savings to DOR in administration of this bill.

Source: Minnesota Department of Revenue
Tax Research Division

<http://www.taxes.state.mn.us/polic.html#analyses>