

MINNESOTA · REVENUE

PROPERTY TAX Exemption of Property Leased to School Districts

March 14, 2002

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

Department of Revenue
Analysis of S.F. 3428 (Olson) / H.F. 3674 (Smith) **Revised for new information and an amendment**

	Revenue Gain or (Loss)			
	<u>F.Y. 2002</u>	<u>F.Y. 2003</u>	<u>F.Y. 2004</u>	<u>F.Y. 2005</u>
		(000's)		
General Fund			\$(33)	\$(33)

Effective for taxes payable in 2003 and thereafter.

EXPLANATION OF THE BILL

Current Law: Property that is leased or rented to school districts for direct classroom instruction is exempt if the lease is for at least 12 consecutive months, the owner charges a nominal charge for use of the building, and the school district has exclusive use.

Proposed Law: Owners of taxable property who lease or rent space to a school district for direct classroom instruction for a lease of at least 12 consecutive months are eligible for a tax exemption on the property if the lease or rental is reduced by an amount equal to the property tax foregone due to the exemption, as verified by the assessor. **As amended, the original lease rate before reduction for property tax must be no more than market rent, and owners must provide assessors with information required to verify the rates.**

REVENUE ANALYSIS DETAIL

- According to information from the Department of Children, Families and Learning (DCFL), about half of the property leased or rented by public school districts is exempt municipal or charitable organization property. Most of the property leased or rented to school districts by owners of commercial property is rented at more than a nominal consideration but at a favorable lease rate, and such property would be eligible for this exemption.
- According to DCFL records, charter schools paid \$13,540,368 in 2001 for lease payments on 1,431,906 square feet, at an average lease rate of \$9.46 per square foot.

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- According to DCFL records, regular schools paid \$25,107,113 for lease payments in 2001. Assuming that the average lease rate is the same as for charter schools, the total leased space would be about 2,654,000 square feet.
- Thus, the total leased space for charter schools and regular schools is about 4,086,000 square feet.
- Lease rate information and assessors records indicate that the average market value per square foot of space is about \$40 per square foot for property with lease rates of \$10 per square foot or less. Thus the total market value of space leased by schools is about \$163.4 million.
- Assuming that about half, or \$81.7 million of the total is taxable commercial property, and that owners already charge favorable lease rates sufficient to receive the exemption, the total tax shift onto other taxpayers would be about \$3.1 million statewide, of which \$1.4 million would be a shift in the state levy to other business and cabin property, and \$1.7 million would be a local tax shift to all other property including homeowners.
- The exemption of commercial property for taxes payable 2003 will not affect the total revenue generated by the state levy, but the proposal would shift the state levy burden to other commercial, industrial and cabin property subject to the state levy.
- The local property tax exemption of commercial property will increase homeowner tax burden, and increase the homeowner property tax refund by about \$33,000 per year.
- It is assumed that most commercial property owners already offer reduced lease rates to school districts and that all of the owners would offer the property tax discount on lease rates to obtain the property tax exemption.
- Because little if any further reduction of lease rates would be needed to comply with the proposal, the state lease aid for charter schools and the lease levy for regular schools would be affected only by a nominal amount by the proposal.

Number of taxpayers affected: All commercial, industrial and cabin property owners would be affected by the shift in state levy burden caused by the proposed exemptions. Other taxpayers in the local area where exemptions are granted would be affected by the shift in local property tax burden.

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>