

MINNESOTA • REVENUE

SALES AND USE TAX PROPERTY TAX CORPORATE FRANCHISE TAX Personal Rapid Transit System

February 13, 2004

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

Department of Revenue

Analysis of H.F. 1687 (Olson) / S.F. 1703 (Solon) - **Preliminary Analysis**

	<u>Revenue Gain or (Loss)</u>			
	<u>F.Y. 2004</u>	<u>F.Y. 2005</u>	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>
	(000's)			
General Fund*	\$0	\$0	\$0	\$0

* costs are not expected to occur until after fiscal year 2007

Effective for sales and purchases made after June 30, 2004.

Effective for property taxes payable beginning in 2005.

Effective for corporate franchise tax for taxable years beginning after December 31, 2003.

EXPLANATION OF THE BILL

The bill proposes to exempt the construction and operation of personal rapid transit systems, as defined, from property tax, corporate franchise tax, and sales tax. The exemptions apply only if the system is operated independent of public subsidies.

REVENUE ANALYSIS DETAIL

- There are currently no personal rapid transit systems in Minnesota. The building of a personal rapid transit system in Minnesota prior to June 2007 is uncertain.
- A potential site for an initial personal rapid transit system is the city of Duluth. The city council in Duluth approved a resolution in December 2003 to establish a test track for Taxi 2000, a Minnesota company interested in constructing a small certification track. It has been reported that Duluth is competing with four other cities for the placement of this demonstration project. One of the other cities has been reported to be Fridley, Minnesota. At least one of the cities seeking the project is not located in Minnesota.

REVENUE ANALYSIS DETAIL (cont.)

- Information was obtained from Taxi 2000.
- It is assumed that an initial demonstration project would qualify for the sales tax exemption.
- The test site would include a 1/3-mile loop with one station and three vehicles. The cost of this project would be \$24 million.
- The sales tax construction exemption would apply to the demonstration project. For the proposed \$24 million project the materials, supplies, and equipment for construction would be approximately \$6 million. The initial sales tax construction exemption might, therefore, cost approximately \$400,000.
- More generally, the capital costs of building a personal rapid transit system are often estimated to be \$10 million per mile, which includes elevated guideways, cabs, and control systems. The sales tax exemption for the additional construction of a personal rapid transit system would be approximately \$400,000 per mile of track.
- There would be additional costs for exempting the ongoing operation of the personal rapid transit system from the sales and use tax that are not estimated (e.g. computers, maintenance, replacement, and electricity).
- The remaining engineering process, site selection, and permitting process is expected to take about 15 months. The construction process would be about 24 months. The likely timeframes for construction preclude any impact for the corporate franchise tax prior to the end of fiscal year 2007. Long term profitability for the personal rapid transit system is uncertain.
- The property tax exemption would result in a relative cost shift to other properties. The increased tax on homeowners would increase the state cost for homeowner property tax refunds.

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