

MINNESOTA • REVENUE

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

March 15, 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**

Analysis revised to reflect uncertain project start date.

	<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	(Unknown)	(Unknown)
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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.
- The initial demonstration project might qualify for the tax exemptions provided that it is operated independent of any government subsidies.
- 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.
- 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).
- Without the property tax exemption, the personal transit system would be assessed a personal property tax based on the value of the system. The property tax exemption would result in a small relative cost shift to other properties. The higher tax on homeowners would cause an increase in the state cost for homeowner property tax refunds.
- The expected construction timeframes make it unlikely that there would be 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 remaining engineering process, site selection, and permitting process is expected to take about 15 months. The construction is estimated to take 24 months. The actual costs in fiscal years 2006 and 2007 are unknown because of the uncertain timing. It is possible that construction could begin during this timeframe. However, the representative from Taxi 2000 did not think that significant costs would take place this soon.

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