

MINNESOTA • REVENUE

SALES AND USE TAX Public Safety Radio Communication Systems

April 15, 2004

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

Department of Revenue
Analysis of H.F. 1974 (Knoblach), 1st Engrossment, As Proposed to be Amended
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	(\$1,440)	(\$1,310)	(\$1,650)

Sales tax exemption effective for sales and purchases after June 30, 2004.

EXPLANATION OF THE BILL

Current Law: The Metropolitan Radio Board has a sales and use tax exemption for items acquired in constructing, operating, maintaining, and enhancing a public safety radio communication system in the Twin Cities metropolitan area. The exemption expires after July 31, 2005.

Proposed Law: The bill permanently exempts products and services used for construction, ownership, operation, maintenance, and enhancement of public safety radio communication systems. **As proposed to be amended,** the exemption is limited to the first, second, and third phases of the Public Safety Statewide Radio Communication System, and, for phase 3, to the counties of Benton, Sherburne, Stearns, and Wright in the Central Division of the State Patrol. The bill provides that the Metropolitan Council may provide money to a local government unit for up to 50% of the cost of building a subsystem in the southeast or central districts of the State Patrol. It also authorizes the Metropolitan Council to issue revenue bonds of up to \$9,557,000 for funding the cost of building a subsystem in the southeast or central districts of the State Patrol.

REVENUE ANALYSIS DETAIL

- The estimates and their impact by year were based on information from the Departments of Public Safety and Transportation, and from the Metropolitan Radio Board.
- The amended bill affects taxable expenditures from the first and second phases (the metropolitan area) that will be paid after July 31, 2005, and third phase subsystems planned for Rochester and Olmsted County, St. Cloud and Stearns County, and other counties in the Southeast District and the counties of Benton, Sherburne, Stearns, and Wright of the Central

REVENUE ANALYSIS DETAIL (Cont.)

District of the State Patrol.

- The analysis assumes that phase 3 receives full state funding this year and federal money as currently expected.
- In the four fiscal years of estimation, phase two has total costs of approximately \$47.9 million, and phase three, as amended, approximately \$44.9 million. The Metropolitan Radio Board expects to have about \$0.3 million in taxable maintenance costs each year.
- Taxable expenditures fall into three categories: capital costs, radio equipment costs, and costs for enhancements and on-going maintenance.
- In estimating the impact of capital costs, the analysis subtracted 20% to exclude hired construction labor, engineering services, and other nontaxable transactions. The adjusted figures were then multiplied by the 6.5% state sales and use tax base.

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