Omnibus Tax Bill, Articles 1, 2, 3, and 9

April 10, 2008

	Yes	No
DOR Administrative Costs/Savings	X	

Property Taxes and Local Aids Only – See Separate Analysis for State Taxes

Department of Revenue
Analysis of S.F. 2869 (Bakk), 2nd Engrossment

	Fund Impact			
	F.Y. 2008	**F.Y. 2009**	**F.Y. 2010**	**F.Y. 2011**
		(000's)		
Article 1: Aids to Local Governments				
Local Government Aid				
Local Government Aid Appropriation Increase	$0	$0	($70,000)	($70,000)
Appropriation Inflation Adjustment	$0	$0	$0	($13,850)
Property Tax Refund Interaction	$0	$0	$1,740	$2,090
Total	$0	$0	($68,260)	($81,760)
County Program Aid				
County Program Aid Appropriation Increase	$0	$0	($40,000)	($40,000)
Appropriation Inflation Adjustment	$0	$0	$0	($6,120)
Permanent County Transition Aid	$0	$0	($464)	($464)
Property Tax Refund Interaction	$0	$0	$1,010	$1,160
Total	$0	$0	($39,454)	($45,424)
County Out-of-Home Placement Aid	$0	$0	($500)	$0
Township Aid				
Township Aid Appropriation Increase	$0	$0	($5,000)	($5,000)
Appropriation Inflation Adjustment	$0	$0	$0	($125)
Property Tax Refund Interaction	$0	$0	$125	$130
Total	$0	$0	($4,875)	($4,995)
Article 2: Property Taxes				
Leased Land Exemption	$0	$0	($44)	($44)
Green Acres				
Farm Market Value Credit	$0	$0	($2,900)	($3,000)
Property Tax Refunds	$0	$0	$450	$450
Total	$0	$0	(2,450)	($2,550)
Aggregate Resources	$0	$0	$0	(unknown)

	Fund Impact			
	F.Y. 2008	**F.Y. 2009**	**F.Y. 2010**	**F.Y. 2011**
		(000's)		
Bovine Tuberculosis Management Zone Credit	$0	$0	($25)	($25)
Homestead Classification				
Market Value Homestead Credit	$0	$0	($390)	($390)
Property Tax Refunds	$0	$0	($27)	($27)
Total	$0	$0	($417)	($417)
Agricultural Homestead Classification				
Property Tax Refunds	$0	$0	($365)	($365)
Public Utility Class Rate Provisions	$0	$0	$620	$1,100
State General Levy Changes	$0	$10,000	$29,600	$53,000
Refund Allowed for Delinquent Taxes	$0	$0	($6,400)	($6,800)
First Responder Levy Authority	$0	$0	(unknown)	(unknown)
Article 3: Senior Citizens Property Tax Cap				
Senior Citizens Property Tax Cap	$0	$0	$0	$3,600
Article 9: Local Development				
Metropolitan Council Transit Bonds	$0	$0	$0	$0
General Fund Total	$0	$10,000	($92,570)	($84,680)

Various Effective Dates

EXPLANATION OF THE BILL

Article 1: Aids to Local Governments

Local Government Aid
For aids payable in 2009 and thereafter, the bill makes a number of modifications to the city local government aid formula and also increases the appropriation by $70 million.

A city jobs base would be created for cities with a population greater than or equal to 5,000.

The bill also provides that 2009 city aid amounts would be based on formula factors used to calculate 2008 aid distributions. The minimum revenue need for a city with population greater than or equal to 2,500, before inflation adjustment, would be 290. The 2009 aid amount for each city would be used to calculate future year aid distribution amounts, adjusted for inflation.

Other modifications include increasing the small city aid base from $6 per capita to $12 per capita and including it in the formula aid calculation, eliminating the regional center aid base, changing the maximum aid cap for cities in 2009 by adjusting the percentage of net levy increase to 75%, and setting the minimum aid cap for cities in 2009 equal to the city's certified 2008 aid amount.

The total appropriation would be increased to $555,052,000 for aids payable in 2009. For aids payable in 2010 and thereafter, each city's previous year certified aid distribution amount would be adjusted for inflation, increasing the appropriation annually. The inflation adjustment applied to the amount certified in the previous year is equal to the annual growth of the implicit price deflator for state and local government purchases of goods and services. The inflation adjustment would be a minimum of 2.5% and a maximum of 5.0%.

County Program Aid
The bill would increase the appropriation for county program aid and provide an annual inflation adjustment to the total appropriation amount. For aids payable in 2010 and subsequent years, the inflation adjustment applied to the appropriation amount in the previous year would be equal to the annual growth of the implicit price deflator for state and local government purchases of goods and services, not less than 2.5% or greater than 5.0%.

The bill would also modify the formula for calculating tax base equalization aid and extend the transition aid amount certified to seven counties in CY 2007.

County Out-of-Home Placement Aid
The bill creates an out-of-home placement aid for counties. In payable year 2009 only, a county would receive $500,000 to be used to meet the county's cost of out-of-home placement programs if the percentage of households receiving food stamps divided by age-adjusted population is greater than 5%. The eligibility percentage is determined using data for certified 2008 county program aid.

EXPLANATION OF THE BILL (continued)

Township Aid
The bill would create a $5 million appropriation for township aid and provide an annual inflation adjustment to the total appropriation amount.

The aid amount for each township would be equal to the product of 1) its agricultural property factor, 2) its town area factor, 3) its population factor, and 4) 0.225%. The agricultural property factor refers to the ratio of agricultural adjusted net tax capacity in the town divided by the total adjusted net tax capacity. The town area factor means the most recent total acreage, not to exceed 50,000 acres, located in the township.

For aids payable in 2010 and subsequent years, the inflation adjustment applied to the appropriation amount in the previous year would be equal to the annual growth of the implicit price deflator for state and local government purchases of goods and services, not less than 2.5% or greater than 5.0%.

If the sum of the aids payable to all towns exceeds the appropriation, the distribution to each town would be reduced proportionately to equal the appropriation amount.

Article 2: Property Taxes

Leased Land Exemption
This section of the bill exempts the underlying land of non-commercial seasonal recreational residential (cabin) property on leased federal, state, county, city, or township land.

Green Acres
The bill makes several changes to MS 273.111, agricultural property tax preferential provisions commonly referred to as "green acres". New income criteria are specified for parcels between ten and 20 acres. Slough, wasteland, and woodland would no longer qualify for green acres treatment if not used in agricultural production. Applications for green acres treatment would be required to include a copy of schedule F of the applicant's most recent federal tax return. Watershed special assessments would no longer be eligible. The commissioner of revenue would develop a fair and uniform system of assessment for agricultural land.

Aggregate Resources
The proposal would establish the Aggregate Resource Preservation Property Tax Law. Property would be entitled to the valuation provided under this law if the following requirements are met:

(1) the property is classified as residential homestead, farm homestead, or agricultural land;
(2) the property is at least 10 contiguous acres;
(3) the owner has filed a completed application with the county assessor;
(4) there are no delinquent taxes on the property; and

EXPLANATION OF THE BILL (continued)

(5) a covenant on the land restricts the use for the property's surface to that which exists on the date of application and limits future use to the preparation and removal of the aggregate commercial deposit under its surface. The covenant is binding on the owner or owner's successor and runs with the land unless canceled.

Upon application, qualifying land would be valued as if it were agricultural property, using a per- acre valuation equal to the per-acre valuation of agricultural land in the county. The assessor shall not consider any additional value resulting from the potential alternative and future uses of the property. The buildings located on the land shall be valued by the assessor in the normal manner.

Additional taxes are imposed when the land no longer qualifies for the agricultural valuation. The additional taxes are determined by computing the difference between (i) the current year's taxes determined with the agricultural valuation, and (ii) an amount based upon the property's current year's estimated market value of like real estate at its highest and best use and the appropriate local tax rate. This difference is multiplied by the number of years the land was in the program to determine the additional tax. The additional tax is a lien upon the property.

Bovine Tuberculosis Management Zone Credit
The bill creates a property tax credit for farmers whose cattle herds have been eradicated to control bovine tuberculosis. The farm parcel must be within a Bovine Tuberculosis Management Zone. The credit equals the tax on class 2a or 2b agricultural land for each year following the year that cattle were eradicated, through the year following when new cattle are placed on the land. The owner must apply to the county by January 2 of the year after the calendar year the herd was eradicated. Counties would be reimbursed for the credit by the state, and allocated proportionately to the affected jurisdictions. The credit ceases in the assessment year when the Board of Animal Health certifies that the state is free of bovine tuberculosis.

Homestead Classification
For property classified as both homestead and nonhomestead, the bill provides that the portion classified as homestead would be the greater of: the value attributable to the portion of the property used as a homestead; or $76,000. These provisions would not apply to buildings containing fewer than four residential units or to single rented or leased dwelling units located within or attached to a garage. The bill would provide for borrowing against other classes in split-class properties to increase the homestead value to $76,000. A similar provision was phased out in 2006.

Agricultural Homestead Classification
The bill makes a classification change to agricultural homestead provisions. The class rate for farmland in the first tier (indexed annually under current law, $790,000 for taxes payable in 2008) would be reduced from 0.55% to 0.5%.

EXPLANATION OF THE BILL (continued)

Public Utility Class Rate Provisions
Section 20 of the bill changes the class rate from 2.0% to 2.5% in payable 2009 for public utility property associated with an electric generation system, including tools, implements, and machinery, and to 2.8% for payable 2010 and thereafter. The class rate is changed from 2.0% to 2.15% for payable 2009 for personal property related to a pipeline system or an electric transmission or distribution system, including tools, implements, and machinery, and to 2.25% for payable 2010 and thereafter.

Changes to Minnesota Rules, Chapter 8100, related to the valuation of utility property, were adopted February 28, 2007. The new rules will be phased in at 20% for payable 2008, 50% for payable 2009, and 100% for payable 2010.

State General Levy Changes
The proposal makes several changes to the state general levy. First, seasonal recreational residential property is removed from the tax base of the levy. Second, public utility electric generating machinery is added to the tax base of the levy. Third, the taxes payable 2009 target levy is changed to $746,900,000 multiplied by the implicit price deflator for state and local governments. The state general levy rate would be frozen at the 2009 level for following years. The bill also removes the exemption from the state general levy for taxable property located at the Minneapolis and St. Paul airports.

Refund Allowed for Delinquent Taxes
The bill would provide counties the option to allow a homestead with delinquent property taxes to claim a property tax refund to be applied to the claimant's delinquent taxes, excluding penalties and interest. The refund would be required to be sent by electronic payment to the county.

First Responder Levy Authority
The bill authorizes a county to levy taxes on property located within the area of unorganized territory to which a Responder or Fire Protection Association provides first responder services. The proceeds of the levy are to be distributed to the association.

Article 3: Senior Citizens Property Tax Cap

Senior Citizens Property Tax Cap
The bill creates a maximum homestead property tax program for qualified senior citizen homeowners. A qualified property must meet all of the following requirements:

1) The property must be owned and occupied as a homestead in a county that has approved the program by a person 65 years of age or older. In the case of a married couple, both spouses must be at least 65 years old.
2) The taxpayer's total household income may not exceed $40,000.

EXPLANATION OF THE BILL (continued)

3) The homestead must have been owned and occupied by at least one of the taxpayers for at least 25 years.

For a qualified taxpayer, the property tax payable would be the lesser of the current law amount or the proposed maximum amount. The proposed maximum would be the amount of property taxes payable in the base year in which the taxpayer applied and became qualified for the program, increased by any tax amounts attributable to i) an increase after the base year in the homestead square footage, ii) the market value of any other improvements made after the base year exceeding 15%, or iii) voter-approved levies exceeding the amount attributable to voter-approved levies in the base year.

Article 9: Local Development

Metropolitan Council Transit Bonds
The bill authorizes the Metropolitan Council to issue up to an additional $33.6 million in certificates of indebtedness, bonds, or other obligations for capital expenditures prescribed in the council's regional transit master plan and transit capital improvement program. The authority is limited to the seven metropolitan counties.

REVENUE ANALYSIS DETAIL

Article 1: Aids to Local Governments

Local Government Aid
- Increasing the appropriation for local government aid would increase state general fund costs beginning in FY 2010.
- The annual inflation adjustment would increase appropriations for local government aid in FY 2011 and thereafter.
- There is no state cost associated with all other formula modifications because total aid would be set to a fixed appropriation level each year.
- All other formula modifications would shift aid to certain cities impacted by the changes and away from other cities receiving local government aid.
- It is assumed that cities receiving an aid increase would decrease property tax levies on all property including homesteads.
- The decreased property tax burden on homesteads caused by the levy decrease will reduced state-paid homeowner property tax refunds by about $1.74 million in FY 2010 and $2.09 million in FY 2011.

County Program Aid
- Increasing the appropriation for county program aid would increase state general fund costs beginning in FY 2010.

REVENUE ANALYSIS DETAIL (continued)

- The annual inflation adjustment would increase appropriations for county program aid in FY 2011 and thereafter.
- There is no state cost associated with the formula change because total aid is set to a fixed appropriation level.
- The following counties would receive transition aid in FY 2010 and thereafter: Aitkin, Chippewa, Cook, Kanabec, Kittson, Traverse, and Wilkin. Total transition aid would equal approximately $464,000 in FY 2010 and thereafter.
- It is assumed that counties receiving an aid increase would decrease property tax levies on all property including homesteads.
- The decreased property tax burden on homesteads caused by the levy decrease will reduced state-paid homeowner property tax refunds by about $995,000 in FY 2010 and $1.15 million in FY 2011.

County Out-of-Home Placement Aid
- The only county eligible for out-of-home placement aid is the Beltrami County.
- The proposed out-of-home placement aid would increase state costs to the general fund by $500,000 in FY 2010.

Township Aid
- The appropriation for township aid would increase state general fund costs beginning in FY 2010.
- The annual inflation adjustment would increase appropriations for township aid in FY 2011 and thereafter.
- It is assumed that townships receiving an aid increase would decrease property tax levies on all property including homesteads.
- The decreased property tax burden on homesteads caused by the levy decrease will reduced state-paid homeowner property tax refunds by about $125,000 in FY 2010 and $130,000 in FY 2011.

Article 2: Property Taxes

Leased Land Exemption
- Under current law, land underlying leased cabins is taxable.
- A survey of county assessors was sent to determine the estimated value of land on leased cabins. About $108 million of market value would be exempted.
- The exempted land value as a result of this bill would raise tax rates on all property in affected jurisdictions. Net taxes on homestead property would be higher, resulting in increased property tax refunds of $44,000 in FY 2010 and FY 2011.
- Number of Taxpayers: About 3,600 parcels would be directly affected by the exemption.

REVENUE ANALYSIS DETAIL (continued)

Green Acres

- According to the 2007 fall mini abstract, the market value difference between the high (best use) and low (agricultural) values for all green acres valuation is $10.3 billion.
- From a survey of county officials, it is assumed that 26% of acres receiving green acres treatment is non-productive land, resulting in $2.7 billion of additional taxable market value.
- The additional land value as a result of this bill would lower tax rates on all property in affected jurisdictions.
- Net taxes on homestead property would be lower, resulting in lowering property tax refunds by $3.6 million in FY 2010 and 2011.
- Number of Taxpayers: Unknown.

Aggregate Resources

- It is not known how many acres of property with commercial aggregate deposit would enroll in the program.
- Qualifying land in the program would be valued as agricultural property, and is prevented from being classified as commercial industrial property before aggregate removal begins. This classification change would reduce the taxable property base, causing a tax shift to all other property including homesteads and increasing state-paid homeowner property tax refunds.

Bovine Tuberculosis Management Zone Credit

- The current Bovine Tuberculosis Management Zone includes portions of Beltrami, Roseau, Lake of the Woods, and Marshall Counties.
- According the Minnesota Board of Animal Health, eleven herds have been found to have bovine tuberculosis since 2005. 53 eligible herds remain within the management zone. At least five are expected to take advantage of a voluntary buy-out and restocking moratorium. The restocking moratorium would last until the state is tuberculosis free. For this analysis, it is assumed that 20 will participate in the buy-out.
- The average farm in the townships in the Bovine Tuberculosis Management Zone is assumed to have a market value of $250,000. The net tax on the land portion of each farm is assumed to be $1,227.
- Number of Taxpayers: A few owners of class 2a and 2b farmland.

Homestead Classification

- Split-class properties that would be affected by this proposal include apartment/homestead or commercial/homestead property where the homestead value is less than $76,000.
- Market value homestead credits would increase by $390,000 annually as each qualifying properties’ qualifying market value increases to the maximum of $76,000.

REVENUE ANALYSIS DETAIL (continued)

- Taxes would shift due to the class rate difference between apartment or commercial value and homestead value. The increase in homestead value of split-class homesteads will directly result in a $16,000 FY 2010 increase in property tax refunds paid by the state.
- The proposed changes would reduce the class rate applied to borrowed market value, reducing the tax base and shifting property taxes to homestead property. This would increase property tax refunds an additional $11,000 in FY 2010.
- Number of Taxpayers: About 2,900 split-class homestead properties would be directly affected.

Agricultural Homestead Classification
- The proposal was simulated on a payable 2008 property tax model.
- Property taxes on agricultural homesteads would decrease 3.5% under this proposal.
- The classification change would result in property taxes being shifted from farmland to residential and farm house, garage, and an acre homestead property. As a result, property tax refunds would increase by $365,000 annually.
- Number of Taxpayers: About 100,000 agricultural homestead properties would be directly affected.

Public Utility Class Rate Provisions
- The proposal was simulated on a payable 2008 property tax model.
- Current law includes the phased-in implementation of changes to public utility valuation rules. The intent of the classification rate increase is to offset the net tax shifting due to the rule change.
- Taxes would be shifted to public utility property from other types. Property taxes on homesteads would decrease $9.6 million for payable 2009, and $16.5 million for payable 2010.
- Lower homestead taxes will result in lower property tax refunds, estimated to be $620,000 for payable 2009, and $1.1 million for payable 2010.
- Number of Taxpayers: Owners of utility property and property owners in jurisdictions with utility property would be directly affected.

State General Levy Changes
- The proposal was simulated on a payable 2008 property tax model.
- The target state general levy amount for 2009 is calculated to be $785,800,000.
- Non-commercial seasonal recreation residential property taxes decrease by 18.5%, while class 3 and 5 commercial, industrial, and public utility non-airport net taxes increase by $51 million, which is the sum of the levy shifted from seasonal recreational residential property, plus the amount raised from the addition of electric generating machinery. The state general levy on the airports at the new higher tax rate is $3.8 million.
- A 5% growth in commercial-industrial market values for 2010 and following years is assumed.

REVENUE ANALYSIS DETAIL (continued)

- The net increase in the state general levy would be $10 million in FY 2009, $29.6 million in FY 2010 and $53 million in FY 2011.
- Number of Taxpayers: Owners of seasonal recreational residential and commercial, industrial, and utility property would be directly affected.

Refund Allowed for Delinquent Taxes

- It is assumed that approximately 1.4% of homesteads statewide, or 21,000, have delinquent property taxes.
- It is assumed that 50% of homestead with delinquent property taxes would be eligible for a property tax refund, and 90% would petition the county to set up electronic payment to apply the refund to their delinquent property taxes.
- The average homeowner property tax refund in FY 2008 was approximately $650.
- A 5% annual growth rate is assumed.
- Number of Taxpayers: 9,450 homeowners with delinquent homestead property taxes claiming a property tax refund.

First Responder Levy Authority

- The size of the levy and number of parcels directly affected are unknown.
- The increase in the property tax could result in a small increase in state-paid homeowner property tax refunds.

Article 3: Senior Citizens Property Tax Cap

Senior Citizens Property Tax Cap

- Residential homestead net property tax after credits and refunds is estimated at approximately $3.15 billion for taxes payable in 2008. Based on information from the U.S. Census Bureau, it is estimated that senior citizen homeowners paid approximately 18.1%, or $573 million.
- Senior citizens with household incomes less than $40,000 who have owned and occupied their home for at least 25 years are estimated to account for 25.3% of residential homestead net property tax paid by all senior citizens, or $145 million for taxes payable in 2008.
- Assuming a base year of taxes payable in 2009, residential homestead property taxes would be capped for qualified senior citizens beginning for taxes payable in 2010.
- The initial participation rate in the program is assumed to be 75%.
- Property taxes for qualified senior citizens would be reduced by an estimated $8 million for taxes payable in 2010, and $17 million for taxes payable in 2011.
- The main impact of the property tax cap on the state general fund would be the reduction in property tax refunds for qualified senior citizens.
- It was assumed that 75% of the qualified senior citizens are eligible for the property tax refund under current law. With the property tax cap reducing property taxes paid, refunds would also decrease by an average of $50, resulting in a savings to the state general fund.

REVENUE ANALYSIS DETAIL (continued)

- It is assumed local governments would choose to adjust tax rates in the same taxes payable year to compensate for any revenue loss resulting from the cap. The tax rate adjustment would result in some shift of property tax to other types of property, increasing state-paid homeowner property tax refunds. The general fund impact is net of this increase.
- The property tax burden shifted onto all other property is assumed to increase annually.

Number of Taxpayers Affected: An estimated 79,000 senior citizen long-term homesteads.

Article 9: Local Development

Metropolitan Council Transit Bonds
- Bond principal and interest would be paid by increasing property tax levies.
- According to the Metropolitan Council, $18.3 million of bonds would be issued in 2010 and $14.7 million in 2011.
- Additional debt service levies would increase homeowner taxes, starting with taxes payable in 2011. Property tax refunds would increase by an estimated $120,000 in FY 2012.

Number of Taxpayers Affected: All property owners in the seven metropolitan counties.

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

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