

MINNESOTA • REVENUE

PROPERTY TAX Aggregate Resources Preservation Program and Production Tax

March 18, 2008

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of S.F. 3722 (Langseth) / H.F. 4022 (Atkins)

	<u>Fund Impact</u>			
	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>	<u>F.Y. 2010</u>	<u>F.Y. 2011</u>
General Fund	\$0	\$0	\$0	(Unknown)

Effective for property taxes payable in 2010 and thereafter.

EXPLANATION OF THE BILL

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
- (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.

EXPLANATION OF THE BILL (continued)

When any portion of the property begins to be actively mined, the owner must file a supplemental affidavit within 60 days from the day any aggregate is removed. The acres actively being mined shall be valued and classified as commercial industrial property in the next assessment year and removed from the aggregate resource preservation property tax program. The additional tax is not imposed on that portion of property which is actively mined and has been removed from the program through this procedure.

The restrictive covenant may be canceled in two ways:

- (1) by the owner with the additional taxes paid at the time of cancellation.
- (2) by the city or town if it changes the conditional use of the property, revokes the mining permit, or changes the zoning to disallow mining. No additional taxes are imposed.

A county may terminate application of this program within two years of the effective date. A termination would apply prospectively and would not affect property enrolled in the program prior to the termination date.

The definition of class 2b property is modified to include land with commercial aggregate deposit that is not actively being mined and is not otherwise classified as agricultural property.

The bill also modifies the aggregate materials production tax distribution percentages and maximum allowable tax rates as follows:

Tax Rate Maximum	Current Law	Proposed Law
Per Cubic Yard	10¢	21.5¢
Per Ton	7¢	15¢

Distribution	Current Law	Proposed Law
County road and bridge fund	60%	42.5%
City or town for roads and bridges	30%	42.5%
Restoration of abandoned pits	10%	15%

The bill also changes the definition of an importer of aggregate, allows the county auditor to retain an annual distribution fee of up to 5%, and restricts local jurisdictions receiving revenue from the aggregate material production tax from imposing any additional fees on aggregate production.

REVENUE ANALYSIS DETAIL

Aggregate Resource Preservation Program

- 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.

Aggregate Materials Production Tax

- There would be no impact to the state general fund from the modifications to the aggregate materials production tax received by local government jurisdictions.
- Aggregate material production tax collections totaled approximately \$4.2 million in CY 2005. The proposal more than doubles the maximum allowable tax rates that may be imposed.

Number of Taxpayers: 34 counties currently imposing the aggregate materials production tax.

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