MINNESOTA · REVENUE

PROPERTY TAX
Mechanisms for Local Governments to Respond to State Aid Reductions

April 6, 2009

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of H.F. 2077 (Lenczewski), **as amended by H2077A1**

	Fund Impact			
	F.Y. 2010	**F.Y. 2011**	**F.Y. 2012**	**F.Y. 2013**
		(000's)		
Municipal Electricity Franchise Tax	$0	Unknown	Unknown	Unknown
Emergency Debt Certificates	$0	(Unknown)	(Unknown)	(Unknown)
Municipal Street Improvement Districts	$0	Unknown	Unknown	Unknown
Tax Increment Finance Revenue Transfer	$0	Unknown	Unknown	Unknown
Lodging Tax Revenues for Other Purposes	$0	$70	$70	$70

Effective the day following final enactment.

EXPLANATION OF THE BILL

Utility Franchise Tax
The bill would allow municipalities to impose a tax on electricity service to customers at a per kilowatt hour rate. The enabling municipal ordinance must specify the times of payment, interest and penalties, and other terms and conditions. A lien may be allowed against public utility property in the city. The lien would be enforced by the county. The municipality may not contract away the authority to impose this tax.

Emergency Debt Certificates
The bill would allow counties, cities and towns to authorize and sell certificates of indebtedness to cover revenue shortfalls during a fiscal year when final property tax levies have already been certified. The maximum principal amount of the certificates would be limited to the expected reduction in receipts plus the cost of issuance. The certificates must mature within two years from the end of the fiscal year in which they were issued, and the local unit would levy property taxes for the payment of principal and interest on the certificates.

EXPLANATION OF THE BILL (continued)

Municipal Street Improvement Districts
The bill would allow cities to establish municipal street improvement districts to cover part or all of the costs of street improvements and maintenance by apportioning street improvement fees to all of the parcels in the district. The city may collect municipal street improvement fees for up to a maximum of 20 years, and unpaid fees may be certified to the county auditor for collection as property taxes payable in the following year. Special assessments could not be imposed for projects funded with street improvement fees.

Prior to establishing a district, a city must propose and adopt a street improvement plan and authorize a street improvement fee. After authorization to impose a fee, a reverse referendum may be triggered if owners of at least 35% of the net tax capacity in the district file an objection with the city.

Tax Increment Finance Revenues
A municipality may elect to transfer increments from tax increment financing (TIF) districts to the municipality's general fund. The maximum transfer is the lesser of (1) the excess of the increment over the sum of district obligations plus other TIF district deficits, or (2) the sum of unallotted aid payments, reductions in state credit reimbursements, and local government aid reductions less unallotment special levies for 2008 through 2012. Increments may be spent only on payments of bonds and binding contracts, to offset deficits in other TIF districts, on administrative expenses, or on other transfers allowed in the bill. The commissioner of revenue may certify aid reductions for a city on request. The authority to transfer increments expires on December 31, 2012. Effective the day following final enactment.

Lodging Tax Revenues
The bill would allow counties, cities, or towns to use proceeds from a tax or fee on lodging for any permitted municipal purpose. It would not apply to lodging tax proceeds that are pledged to pay bonds or other debt, or any proceeds from a general sales and use tax on lodging. This provision would expire on December 31, 2012.

REVENUE ANALYSIS DETAIL

Utility Franchise Tax
- The proposed utility franchise tax would appear on utility bills.
- The utility franchise tax could potentially reduce property taxes levies, which would reduce property tax burdens on all property including homesteads.
- The reduced property tax burden on homesteads would reduce state-paid homeowner property tax refunds beginning in FY 2011.
- It is unknown how many cities would choose to establish a utility franchise tax, and what level of property tax relief would result.

REVENUE ANALYSIS DETAIL, continued.

Emergency Debt Certificates

- The proposal would provide additional levy authority to counties, cities and towns beginning for taxes payable in 2010.
- Local government units choosing to sell certificates of indebtedness would increase property taxes levies to cover principal and interest on the debt certificates, which would increase property tax burdens on all property including homesteads.
- The increased property tax burden on homesteads caused by the levy for debt certificates could increase state-paid homeowner property tax refunds beginning in FY 2011.
- It is unknown how many local government units would choose to authorize and sell certificates of indebtedness.

Municipal Street Improvement Districts

- For cities choosing to establish a municipal street improvement district, the proposal would provide additional revenue authority beginning for taxes payable in 2010.
- The municipal street improvement fees for street construction and maintenance costs in the district could potentially reduce property taxes levies, which would reduce property tax burdens on all property including homesteads.
- The reduced property tax burden on homesteads would reduce state-paid homeowner property tax refunds beginning in FY 2011.
- It is unknown how many cities would choose to establish a municipal street improvement district and what level of property tax relief would result from street improvement fees.

Tax Increment Finance Revenues

- The amount of increments available for transfer is unknown at this time.
- Transfer of increments to other purposes may have the effect of extending the duration of the TIF district. The proposed changes to the general TIF provisions may have an impact on the local tax base and tax rate in the future and may result in a small increase in property tax refunds paid by the state.
- Transfer may provide municipalities with revenues that will allow them to recoup losses from aid unallotments without increasing property taxes. This would impact local levies and result in savings to the state in property tax refunds.

REVENUE ANALYSIS DETAIL, continued.

Lodging Tax Revenues

- It is estimated that cities would have approximately $26 million in lodging tax revenues that are not pledged to pay bonds or other debt and could be available for general purpose spending.
- It is assumed cities would elect to apply 10% of these available lodging tax revenues for general purpose spending, which would reduce the property tax burden on all property types including homesteads.
- The reduced property tax burden on homesteads caused by using lodging tax revenues would reduce state-paid homeowner property tax refunds by $70,000 beginning in FY 2011.

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

hf2077_pt_2/nrg, lm