

# MINNESOTA • REVENUE

**PROPERTY TAX**  
**House Omnibus Tax Bill**  
**Articles 1, 2, 3, 6, 7, 8, 9 & 10**

May 10, 2010

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

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue  
 Analysis of H.F. 3729 (Lenczewski), 3<sup>rd</sup> *Engrossment*

	<b>Fund Impact</b>			
	<b><u>F.Y. 2010</u></b>	<b><u>F.Y. 2011</u></b>	<b><u>F.Y. 2012</u></b>	<b><u>F.Y. 2013</u></b>
<b><u>Article 1: Property Taxes</u></b>	(000's)			
Assessor Duties (Sec.1, 4, 6, 7)	\$0	\$0	\$0	\$0
Leased Seasonal Recreational Land (Sec.5)	\$0	\$0	(\$14)	(\$14)
Disaster Valuation Exclusion (Sec.8-10)	\$0	\$0	negligible	negligible
Relative Homestead Restriction (Sec.11)	\$0	\$0	unknown	unknown
Manufactured Home Parkland Modification (Sec.12)	\$0	\$0	(negligible)	(negligible)
Agricultural Homestead Extension (Sec.13)	\$0	\$0	(unknown)	(unknown)
Marshall County Special Homesteads (Sec.14)	\$0	\$0	\$0	\$0
Commercial Cheese Processing as Agricultural (Sec.15)	\$0	\$0	\$0	\$0
Commercial Boarding as Agricultural (Sec.15)	\$0	\$0	\$0	\$0
Class 4c Resort Modification (Sec.16)	\$0	\$0	negligible	negligible
Disabled Veterans Homestead Exclusion (Sec.17,27)	\$0	\$0	(negligible)	\$95
Notice of Property Taxes, Contact Information (Sec.18)	\$0	\$0	\$0	\$0
County Veteran Service Officer Special Levy (Sec.19)	\$0	\$0	(negligible)	\$0
Adjusted Levy Limit Base IPD Floor (Sec.20)	\$0	\$0	\$0	\$0
Charter Exemption for Aid Loss (Sec.21)	\$0	\$0	\$0	\$0
Electronic Payments (Sec.22, 25)	\$0	\$0	\$0	\$0

	<b>Fund Impact</b>			
	<u>F.Y. 2010</u>	<u>F.Y. 2011</u>	<u>F.Y. 2012</u>	<u>F.Y. 2013</u>
	(000's)			
Contents of Tax Statements (Sec.23)	\$0	\$0	\$0	\$0
Minimum Installment Amount (Sec.24)	\$0	\$0	\$0	\$0
Senior Citizen Property Tax Deferral (Sec.26, 28-30)	\$0	\$0	(\$45)	(\$50)
Housing Improvement Areas (Sec.31-32)	\$0	\$0	\$0	\$0
Agricultural Preserves Deadline (Sec.33)	\$0	\$0	\$0	\$0
City Aid Base – St. Charles (Sec.34)	\$0	\$0	\$0	\$0
Flood Area Abatements (Sec.35-36)	\$0	\$0	\$0	\$0
Metropolitan Fiscal Disparities Study (Sec.37)	\$0	\$0	\$0	\$0
Thief River Falls Airport Levy Modification (Sec.38)	\$0	\$0	(unknown)	(unknown)

**Article 2: Property Tax Reform, Accountability, Value and Efficiency Provisions**

**Council on Local Results and Innovation (Sec.1)**    \$0                      \$0                      \$0                      \$0

**Local Performance Measurement Program and Aid (Sec.2)**

City Per Capita Reimbursements	\$0	\$0	(\$530)	(\$490)
County Per Capita Reimbursements	\$0	\$0	(\$410)	(\$390)
Administrative Appropriation	<u>\$0</u>	<u>(\$6)</u>	<u>(\$2)</u>	<u>(\$2)</u>
General Fund Total	\$0	(\$6)	(\$942)	(\$882)

**Property Tax Benchmarks and Critical Indicators (Sec.3)**

Administrative Appropriation                      \$0                      (\$30)                      (\$25)                      (\$25)

**Article 3: Income, Corporate and Estate Taxes (Section 23)**

Homeowner Property Tax Refund                      \$0                      \$0                      (\$5,511)                      (\$5,749)

**Article 6: Special Taxes (Section 19)**

Taconite Municipal Aid Account Distribution                      \$0                      \$0                      \$0                      \$0

**Article 7: Finance**

Watershed District Borrowing Authority (Sec.1)                      \$0                      \$0                      \$0                      \$0

	<b>Fund Impact</b>			
	<b><u>F.Y. 2010</u></b>	<b><u>F.Y. 2011</u></b>	<b><u>F.Y. 2012</u></b>	<b><u>F.Y. 2013</u></b>
	(000's)			
Economic Development Districts (Sec.2)	\$0	\$0	\$0	\$0
JOBZ Waiver (Sec. 3)	\$0	\$0	\$0	\$0
JOBZ Certification (Sec. 4)	\$0	\$0	\$0	\$0
Metropolitan Council Transit Bonds (Sec.5)	\$0	\$0	\$0	\$0
Bond Allocation (Sec.6)	\$0	\$0	\$0	\$0
Student Loan Bonds (Sec.7)	\$0	\$0	\$0	\$0
Implementing Entities (Sec. 8-16)	\$0	\$0	\$0	\$0
Landfall TIF (Sec.17)	\$0	\$0	\$0	\$0
Wayzata TIF (Sec. 18)	\$0	\$0	\$0	\$0
<b><u>Article 8: Cash Flow (Section 2)</u></b>				
State Levy Cash Flow Modifications	\$0	\$0	\$0	\$0
<b><u>Article 9: Property Taxes - Technical</u></b>				
Regional Library Support Grants (Sec.1)	\$0	\$0	\$0	\$0
Revision of Assessor's Manual (Sec.2)	\$0	\$0	\$0	\$0
Reassessment Authority (Sec.3)	\$0	\$0	\$0	\$0
Statement of Exemption (Sec.4-5)	\$0	\$0	\$0	\$0
Wind Energy Production Tax (Sec.6)	\$0	\$0	\$0	\$0
JOBZ Wind Energy Prod. Tax (Sec.7)	\$0	\$0	\$0	\$0
Bovine Tuberculosis Credit (Sec.8, 10)	\$0	\$0	\$0	\$0
Rural Reserve Property Tax Program (Sec.9)	\$0	\$0	\$0	\$0
Notice of Proposed Property Taxes (Sec.11)	\$0	\$0	\$0	\$0

	<b>Fund Impact</b>			
	<u>F.Y. 2010</u>	<u>F.Y. 2011</u>	<u>F.Y. 2012</u>	<u>F.Y. 2013</u>
	(000's)			
Overall Levy Limitations (Sec.12-13, 16)	\$0	\$0	\$0	\$0
Property Tax Installments (Sec.14-15)	\$0	\$0	\$0	\$0
City Formula Aid (Sec.17)	\$0	\$0	\$0	\$0
Emergency Medical Service Districts (Sec.18)	\$0	\$0	\$0	\$0
<b><u>Article 10: Conditional Use Deeds</u></b>				
Tax Forfeit Land Mgmt / Conditional Use Deeds	\$0	\$0	\$0	\$0
<b>General Fund Total</b>	<b>\$0</b>	<b>(\$36)</b>	<b>(\$6,537)</b>	<b>(\$6,625)</b>
<b>State Airport Fund Total</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
Airflight Property Tax Modification (Art. 1, Sec. 2-3)				
<b>Total – All Funds</b>	<b>\$0</b>	<b>(\$36)</b>	<b>(\$6,537)</b>	<b>(\$6,625)</b>

Various Effective Dates.

## **EXPLANATION OF THE BILL & REVENUE ANALYSIS DETAIL**

### **Article 1: Property Taxes**

#### ***Assessor Duties***

The bill clarifies the duties of local and county assessors. Among other duties, the county assessor is to perform appraisals of property and testify before any court or other body as an expert on behalf of the assessor's jurisdiction with respect to the properties in that jurisdiction. The county assessor may direct the local assessor to perform these duties. The proposal would become effective the day following final enactment for testimony offered and opinions or reports prepared in cases or proceedings that have not been finally resolved.

- The provisions would have no direct impact on property taxes.

#### ***Airflight Property Tax Modification***

The bill states a formula for which the airflight property tax is calculated. The formula added states that the levy amount will be the difference between the total state airport fund appropriation and the individual estimated fund revenues. The Department of Transportation would certify the levy before December 31 of each year instead of September 1. The Department of Transportation is given the option of not re-certifying a new levy, in which case the Department of Revenue would levy the last previous certified amount. The Legislature would be informed if the levy were not changed. The notification date is changed from December 1 to March 1, and the due date is changed from January 1, to April 1. A carry-over provision is included.

- Currently, the annual airflight property levy is \$7.8 million.
- According to information from the Department of Transportation, the levy could grow by \$1.85 million in future years. It is thought that the commissioner of transportation already has the discretion to raise the airflight levy, but has in the past chosen not to use it. It is also not known whether the decision to increase the levy in future years will be pursued. The bill is scored as no impact.
- Number of Taxpayers: Unknown.

#### ***Leased Seasonal Recreational Land***

This bill makes seasonal recreational lands which are leased from the federal government exempt from property taxation. Effective for taxes payable in 2011, and thereafter.

- A 2008 survey of county assessors was used to determine the estimated value of land on leased cabins. About \$35 million of federal leased 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 \$14,000 in FY 2012 and thereafter.
- Number of Taxpayers: About 500 parcels would be directly affected by the exemption.

## **EXPLANATION OF THE BILL & REVENUE ANALYSIS DETAIL (continued)**

### ***Disaster Valuation Exclusion***

The proposal abates the tax on homesteads that sustain damage from a disaster or emergency. Qualifying homesteads must have a reduction in market value of at least \$15,000 compared to the pre-disaster valuation, and when rebuilt must exceed \$25,000 of the pre-disaster valuation. Additionally, the rebuilt homestead gross living area must not exceed 130% of the original homestead. For the first assessment year following reconstruction, 100% of the difference between the pre- and post- reconstruction values is exempt. In the second assessment year following reconstruction 50% of the difference between the pre- and post- reconstruction values is exempt. Gross living area is defined as above grade living area. Application by the homeowner must be filed with the county.

- The analysis is based on parcel level data from assessment years 2007 – 2009.
- It is assumed that a few homesteads would qualify for this provision each year.
- The reduction in net taxes would reduce property tax refunds and market value homestead credit for homesteads by a minimal amount each year.

### ***Relative Homestead Restriction***

This provision prohibits new relative homestead applications for non-agricultural property after December 16, 2010.

### ***Manufactured Home Parkland Modification***

The bill makes several changes to manufactured home parkland taxation. Manufactured home parks owned by owners as a cooperative would no longer qualify for market value homestead credit as individual lots. In addition, the classification rate would be changed from 1.0% on the first \$500,000 of market value, and 1.25% on the remainder, to 0.75%.

- Between 4 and 6 cooperative owned manufactured home parks are expected to qualify for this provision.
- Property refund increases due to tax shifting onto class 1a or 2a homesteads is expected to be minimal.

### ***Agricultural Homestead Extension***

The bill extends agricultural homestead treatment. Members of family farm corporations, joint farm ventures, limited liability companies, or partnerships would be allowed to add the value of corporation property to any occupied by a member for homestead purposes. This would allow the added market value to claim the first tier class rate of 0.5% up to the maximum tier bracket. The property must be within 4 townships of the member's homestead. Effective for assessment year 2010, for taxes payable in 2011 and thereafter.

- According to the 2007 Census of Agriculture, 10.8% of all Minnesota farms are held by partnerships or family held corporations.
- An unknown number of properties would be expected to qualify under the bill's provisions.
- Lowering agricultural land net tax capacity would shift net taxes onto homestead property. Property tax refunds would increase due to the increase in homestead taxes.

## **EXPLANATION OF THE BILL & REVENUE ANALYSIS DETAIL (continued)**

- Number of taxpayers: Owners of certain agricultural homestead property would be directly affected.

### ***Marshall County Special Homesteads***

The bill expands the definition of special provisions agricultural homesteads to include class 2a homesteads that were abandoned as a result of the March 2009 floods. The dwelling must be in Marshall County, assessed as class 2a in 2008, and remain agricultural. The current dwelling of the owner must be in Minnesota, and within 50 miles of the abandoned homestead. The owner must notify the county assessor that the relocation was due to the 2009 floods. Effective for assessment years 2010 and 2011, for taxes payable 2011 and 2012.

- The provision is assumed to affect one or a few properties.
- The proposed exemption may have an impact on the local tax base and rate in the future, and may result in a small increase in property tax refunds paid by the state.
- Number of Taxpayers: Owners of flooded and abandoned agricultural homesteads in Marshall County would be directly affected.

### ***Commercial Cheese Processing as Agricultural***

This bill adds commercial processing of milk into cheese products to the definition of class 2 agricultural classification. The property must include the owner's homestead. Effective for assessment 2010, taxes payable in 2011, and thereafter.

- According to the Minnesota Department of Agriculture, there are 5 current, and 2 pending farmstead cheese processing licenses in the state.
- An unknown number of typically small facilities might shift classification from homestead or commercial to agricultural due to the clarified interpretation of the law. Property taxes would shift onto homesteads, resulting in an unknown increase in property tax refunds.
- Number of Taxpayers: A few agricultural homesteads would be directly affected by the classification change.

### ***Commercial Boarding as Agricultural***

This bill clarifies that definition of commercial boarding of horses done in conjunction with agricultural production includes pasturing boarding horses and encompasses related horse training and riding instruction.

- Under past interpretation of current law, the department of revenue classified horse facilities as agricultural, except horse boarding properties without other agricultural production.
- After participating in a legislative working group on horse boarding, the department of revenue has refined its administrative interpretation of the definition of commercial boarding of horses done in conjunction with agricultural production to include pasturing boarding horses and encompasses related horse training and riding instruction.
- The bill is a clarification of current law that is consistent with the department's administrative interpretation, therefore the bill is assumed to have no impact.

## **EXPLANATION OF THE BILL & REVENUE ANALYSIS DETAIL (continued)**

- An unknown number of typically small facilities might shift classification from homestead or commercial to agricultural due to the clarified interpretation of the law. Property taxes would shift onto homesteads, resulting in an unknown increase in property tax refunds.
- Number of Taxpayers: HorseBoarding.com lists 381 horse boarding facilities in Minnesota.

### ***Class 4c Resort Modification***

The bill adds a subcategory to class 4c resort classification. The new category qualifying for class 4c would have 20 or fewer rental units, have occupancy less than 250 days per year, and be located in a municipality of less than 2,500 outside the metro area that contains a portion of a state trail administered by the Department of Natural Resources.

- One or a few properties are expected to qualify for this provision.
- Property tax refund increases due to tax shifting onto class 1a or 2a homesteads is expected to be negligible.
- Number of Taxpayers: Few.

### ***Disabled Veterans Homestead Property Valuation Exclusion***

*Current Law:* A market value exclusion is available for homestead property owned by a disabled veteran who is at least 70% disabled as a result of a service-connected disability. The exclusion amount is a graduated scale based on the disability percentage: 70% to <100% disabled = \$150,000 valuation exclusion; and 100% disabled = \$300,000 valuation exclusion.

If upon the death of a 100% disabled veteran the spouse is the legal owner of the property, the exclusion carries over to the benefit of the veteran's spouse for one additional assessment year or until the spouse sells, transfers, or disposes of the property, whichever comes first.

*Proposed Law:* The proposal would make the following modifications to the disabled veterans valuation exclusion:

- Provide an additional three years of exclusion on top of the current one year extension for surviving spouses;
- Allow the \$300,000 valuation exclusion to the homestead of a service member who died while serving in active duty;
- Allow surviving spouses of 100% disabled veterans and those who died while serving in active duty to participate in the senior property tax deferral program, regardless of age or housing tenure, after their valuation exclusion extension period ends.
- Allow nonagricultural homesteads to continue including any class 2b property contiguous to the homestead that is under the same ownership, provided the total number of acres covered by the exclusion does not exceed 40.

The proposal would be effective beginning with property taxes payable in 2011.

## **EXPLANATION OF THE BILL & REVENUE ANALYSIS DETAIL (continued)**

### *Surviving Spouse Extension*

- For assessment year 2009, approximately 8,550 veterans in Minnesota with a disability rating of at least 70% received a homestead valuation exclusion, the second year it was available. Approximately 5,800 have a disability rating of 100%.
- Due to the passing of a qualifying disabled veteran, it is estimated that 3% of homesteads receiving the valuation exclusion would lose eligibility each year under current law. It is assumed that 25% of these homesteads would have no surviving spouse or the spouse would choose to transfer the property. The remaining 75% would be eligible to continue receiving the homestead valuation exclusion.
- A property qualifying for the disabled veteran valuation exclusion is not eligible to receive the market value homestead credit, resulting in a savings to the state general fund. The valuation exclusion also results in a net property tax refund savings to the state general fund. The average state savings per homestead with a disability rating of 100% is estimated to be approximately \$655. A 5% annual growth rate is assumed.
- The first assessment year impacted would be 2011, for taxes payable in 2012. The proposal would shift an estimated \$230,000 in property tax onto all other property types in the first year.
- Tax year impact is allocated to the following fiscal year.

### *Exclusion for Deaths while Serving in Active Duty*

- Under the proposal, the spouse of a service member who died while serving in active duty would be eligible for a five-year homestead valuation exclusion. The state revenue savings impact for this exclusion is estimated to be zero for taxes payable in 2011 and negligible for taxes payable year 2012.

### *Senior Deferral Program Participation*

- The surviving spouse of a 100% disabled veteran or service member killed while serving in active duty would be eligible to apply for participation in the senior property tax deferral program, regardless of age or housing tenure, after their valuation exclusion extension period ends.
- There would be no state costs during the current forecast period. The first year of eligibility in the senior property tax deferral program would be for property taxes payable in 2015.

### *Class 2b Property*

- Class 2b property is not eligible to receive market value credit, so there would be no state savings from including class 2b property contiguous to nonagricultural homestead.
- The market value exclusion would shift property tax onto all other property, including homesteads. The increased tax burden on homesteads would increase state-paid homeowner property tax refunds by a negligible amount beginning in FY 2012.

Number of Taxpayers: In the first year, an estimated 134 widowed spouses of veterans would continue receiving the homestead valuation exclusion.

## **EXPLANATION OF THE BILL & REVENUE ANALYSIS DETAIL (continued)**

### ***Notice of Property Taxes, Contact Information***

The bill would clarify the requirement regarding contact information on property tax notices. If no public offices are maintained by a taxing authority, they would not be required to include personal contact information on the notice. The taxing authority would inform the county of the lack of a public telephone number and the county would not list a telephone number on the notice. The proposal would become effective for notices sent in 2009 and thereafter.

- The bill would have no direct impact on property taxes.

### ***County Veteran Service Officer Special Levy***

The proposal would create special levy authority for the estimated costs of all salaries and expenses of county veteran service officers. Effective for taxes payable in 2011 and thereafter.

- Current projections indicate that about 39 counties will have general levies limited by levy limits in pay 2011.
- For those counties with limited levies, additional special levy authority for county veteran service officers would permit higher levy amounts.
- It is assumed that some of these counties will have expenses related to county veteran officers that grow moderately faster than their general limited levy base and choose to exercise the additional levy authority granted by the proposal.
- This moderate increase in levies would increase the tax burden on homesteads and consequently would increase state-paid homeowner property tax refunds.
- Number of Taxpayers: Unknown.

### ***Adjusted Levy Limit Base IPD Floor***

The proposal would create a floor of 0% for the implicit price deflator portion of the adjusted levy limit base multiplier. Effective for taxes levied in 2010 and thereafter.

- Adding an IPD floor would increase the projected limited levy authority of counties and large cities if the statutory floor were higher than the actual change in IPD. This would result in an increase in projected levies and state-paid homeowner property tax refunds.
- The forecasted percentage growth in the implicit deflator is greater than the proposed floor of 0%. Because of this the imposition of a 0% floor is projected to have no impact on county and city levies and therefore no General Fund impact.

### ***Charter Exemption for Aid Loss***

The proposal would exempt cities from their requirement for voter approval in order to levy for aid and credit reductions due to unallotments or legislative reductions. The proposal would affect a small number of cities.

### ***Electronic Payments***

The bill would allow property tax payments to be paid by electronic means. Counties would be authorized to impose a charge for any dishonored electronic payments, and all charges for dishonored payments of property taxes may be added to the tax, shall constitute a lien on the

## **EXPLANATION OF THE BILL & REVENUE ANALYSIS DETAIL (continued)**

property, and when collected shall be distributed to the county. The proposal would become effective beginning with property taxes payable in 2011.

- The bill would have no impact on state revenues.

### ***Contents of Tax Statements***

The proposal would require the property taxes attributable to each special taxing district be stated separately on the tax statement. Under current law, the amount of property taxes attributable to special taxing districts may be aggregated on the property tax statement, except for the portion attributable to certain metropolitan special taxing districts. The combined portions attributable to the Met Council, Airports Commission and the Mosquito Control Commission must be stated separately, and the portion attributable to a metropolitan regional rail authority must be listed on a separate line directly under the appropriate county's levy. The proposal would become effective beginning with tax statements relating to property taxes payable in 2011 and thereafter.

- The bill would have no direct impact on property taxes. Modifications to the tax statement layout to accommodate up to ten separate special taxing district listings could increase county costs for printing and mailing the forms.

### ***Minimum Installment Amount***

The bill would reduce from \$250 to \$100 the minimum property tax amount for which counties must allow payments in two installments. The two installment payments are due in May and October. Prior to 2010, the minimum property tax amount was \$50. The proposal would become effective beginning with property taxes payable in 2011.

- The bill would have no direct impact on property taxes.

### ***Senior Citizen Property Tax Deferral***

Under current law, participants in the senior citizen property tax deferral program must have a household income less than \$60,000 and be 65 years of age or older. In the case of a married couple, both spouses must be at least 65 years of age when the first deferral is granted. The state reimburses counties for the amount of property tax deferred. Interest is accrued beginning on September 1 of the payable year the property taxes are deferred. Effective July 1, 2010.

The proposal would increase the household income limit to \$75,000.

- The senior property tax deferral program had 170 participants who deferred property taxes in 2009. The total amount deferred was approximately \$560,000, or \$3,300 per participant.
- With the increase in the household income limit, it is assumed program participation would increase 8%. Using the average amount deferred in the current program, the estimated total cost increase would be approximately \$45,000 beginning in FY 2012.
- A 5% annual growth rate is assumed.
- Number of Taxpayers: An estimated 13 senior citizen homesteads.

## **EXPLANATION OF THE BILL & REVENUE ANALYSIS DETAIL (continued)**

### ***Housing Improvement Areas, Petition & Veto Changes***

The proposal increases the percentage of owners of housing units required to petition for proposed housing improvement area action or fee imposition from 25 to 50 percent. Additionally the proposal increases the percentage of residents and the percentage of ownership interest (based on housing units' tax capacity) required to veto a fee increase from 35 to 45 percent. Effective July 1, 2010.

- Changes to the petition and veto requirements may affect the level of housing improvement area fees. However, the spread of levies and the general fund would be unaffected.
- Number of Taxpayers: unknown

### ***Agricultural Preserves Deadline***

The bill changes the filing deadline from March 1 to June 1 for applications for the agricultural preserve program under M.S. 473H.10. Effective day following final enactment, except for applications filed in 2010, where the deadline would be extended to August 1.

- The proposed extension to the agricultural preserve program may have an impact on the local tax base and tax rate and may result in a small increase in property tax refunds paid by the state.

### ***City Aid Base – St. Charles***

The bill would increase the city aid base by \$50,000 for the city of St. Charles in CY 2011 and 2012 only.

- There is no state cost associated with this change in the aid base because total aid is set to a fixed appropriation level.
- The only city eligible for this aid base increase is the city of St. Charles in Winona County.
- The increase in aid base would shift aid to the city of St. Charles and away from other cities receiving local government aid.

### ***Flood Area Abatements***

The bill extends the period construction of homes may qualify for abatements by one year (to 2011)

### ***Metropolitan Fiscal Disparities Study***

The bill requires the Department of Revenue to conduct a study of the metropolitan fiscal disparities program. Topics to be included are how economic benefits are shared within the region, program impacts on tax rates, program impacts on homestead property tax burdens, and impacts on properties with regional benefits. A report to the legislature of the findings and any recommendations of the study is due by February 1, 2012.

The bill authorizes a supplemental levy within the fiscal disparities distribution levy of \$100,000 in payable year 2011. The regular distribution levy for other jurisdictions is reduced by the \$100,000. The \$100,000 is to be transferred from the administrative auditor to the Commissioner of Revenue for conducting the study.

## **EXPLANATION OF THE BILL & REVENUE ANALYSIS DETAIL (continued)**

- The \$100,000 cost of the study would be spread on metropolitan commercial, industrial, utility, and railroad property as a supplemental distribution levy.
- The regular distribution levy is reduced slightly for all other jurisdictions, but there is no significant general fund impact.

### ***Thief River Falls Airport Levy Modification***

The bill allows the Thief River Falls Regional Airport to levy against referendum market value, instead of net tax capacity, if it chooses. The option must be stated in the airport authority's joint powers agreement with the city of Thief River Falls. Effective day following final enactment.

- The city of Thief River Falls approved the joint powers agreement June 16, 2009.
- The airport does not currently levy separately from the city. The transfer to the airport fund from the City of Thief River Falls' general fund is estimated to be \$167,110 in pay 2010.
- An unknown number of properties would be affected by the tax base shift under the bill's provisions.
- Spreading a levy against referendum market value instead of net tax capacity would shift taxes onto homestead property. Property tax refunds would increase due to the increase in homestead taxes.
- Number of taxpayers: Owners of certain agricultural and seasonal recreational residential property would be directly affected.

## **Article 2: Property Tax Reform, Accountability, Value, and Efficiency Provisions**

### ***Council on Local Results and Innovation and Performance Measurement Program and Aid***

The bill creates the Council on Local Results and Innovation and a local performance measurements program.

Appointment of members to the Council on Local Results and Innovations must be made within two months of the date of enactment.

By February 15, 2011, the council would be responsible for developing a standard set of performance measures that will assist residents, taxpayers, and state and local elected officials in determining the efficacy of counties and cities in providing services, and measure residents' opinions of those services.

A county or city that elects to participate in the local performance measurement and improvement program must annually report its results to its citizens and file a report with the state auditor by July 1. For jurisdictions participating in the standard measures program, the report shall consist of the jurisdiction's results for the standard set of performance measures developed by the Council of Local Results and Innovations.

By February 15, 2012, the council shall develop minimum standards for performance measurement systems, which may vary by size and type of local government jurisdiction.

## **EXPLANATION OF THE BILL & REVENUE ANALYSIS DETAIL (continued)**

In 2012, jurisdictions participating in the comprehensive performance measurement system must submit a resolution approved by its local governing body indicating that it either has implemented or is in the process of implementing a local government performance measurement system that meets the minimum standards specified by the council.

In 2013 and thereafter, jurisdictions participating in the comprehensive performance measurement system must submit a statement approved by its local governing body affirming that it has implemented a local performance measurement system that meets the minimum standards specified by the council.

A county or city that elects to participate in the local performance measurement program is eligible for annual benefits.

For 2011 participants in the standard measures program are eligible for:

- (1) a reimbursement payment of 14¢ per capita, up to \$25,000, and
- (2) an exemption from levy limits for taxes payable in 2012, if in effect.

For 2012 and thereafter, participants in the standard measures program are eligible for:

- (1) a reimbursement payment of 14¢ per capita, up to \$25,000.

In addition, participants in the comprehensive performance measurement system are also eligible for:

- (2) an exemption from levy limits for taxes payable in the following year if in effect.

The state auditor would certify to the commissioner of revenue by August 1 each year the counties and cities that are participating in the local performance measurement program, and the level of participation. The commissioner would notify each county or city that is entitled to an exemption from levy limits by August 10 of each levy year.

Per capita reimbursements would be made to counties and cities on the same day as the second half state aid payments in the year that the measurements were reported. An amount sufficient to pay the reimbursements is annually appropriated from the general fund.

The council expires on January 1, 2020.

- It is assumed that counties and cities would participate in the new local performance measurement program at a similar rate to the local performance aid program in the late 1990's. First year participation is assumed to include 100% of the county population and 99% of city population. Beginning in year two and thereafter, it is assumed that 95% of the county population and 90% of the city population would participate and receive the 14¢ per capita reimbursement.
- Per capita reimbursements would first be paid beginning in December 2011.
- Under current law, levy limits are set to expire after payable year 2011. Under the proposal, there would be no levy impact from exempting participants in the local performance measure program from levy limits.

## **EXPLANATION OF THE BILL & REVENUE ANALYSIS DETAIL (continued)**

- Administrative appropriations to the State Auditor are \$6,000 in FY 2011 and \$2,000 in FY 2012 and thereafter.

### ***Property Tax Benchmarks and Critical Indicators***

The bill establishes a property tax working group to investigate ways to simplify the property tax system, reexamine the property tax calendar and determine the cost versus benefits of the various components of the property tax system. The working group shall make its advisory recommendations by February 1, 2012.

The proposal identifies basic property tax principles and major indicators that should be considered when evaluating various property tax proposals that come before the legislature.

The bill requires the commissioner of revenue to identify in revenue estimates how the basic property tax principles apply to the proposed tax changes.

The bill would be effective the day following final enactment.

- Administrative appropriations to the Department of Revenue are \$30,000 in FY 2011 and \$25,000 in FY 2012 and thereafter.

## **Article 3: Income, Corporate and Estate Taxes**

### ***Homeowner Property Tax Refund***

The bill would increase the homeowner property tax refund paid to eligible claimants by 1.7%, effective for refunds based on property taxes payable in 2011 and thereafter.

- Based on the February 2010 forecast, increasing all homeowner property tax refunds by 1.7% would increase state costs by approximately \$5.5 million in FY 2012 and \$5.75 million in FY 2013.

## **Article 6: Special Taxes**

### ***Taconite Municipal Aid Account Distribution***

The bill would replace a reference to “tax relief area” with “taconite assistance area.”

- There would be no impact on the amount of taconite aid. Municipalities in Crow Wing County would no longer receive taconite municipal aid. Their amount would be redistributed among the remaining recipients of taconite municipal aid.

## **EXPLANATION OF THE BILL & REVENUE ANALYSIS DETAIL (continued)**

### **Article 7: Public Finance**

#### ***Watershed District Borrowing Authority***

The proposal would increase the authority of watershed districts with more than \$500 million in taxable market value to borrow from counties and financial institutions. The total amount of loans allowed from these sources would increase from \$600,000 to \$2,000,000.

- An increase in borrowing authority does not result in additional property tax authority. Therefore, no impact on state revenues is projected.

#### ***Economic Development Districts***

The bill removes a restriction for economic development districts. The districts would no longer have to fulfill the requirements of a redevelopment tax increment financing (TIF) district. These restrictions include 70% of the area of the district must be occupied by structures, and half of the buildings must be structurally substandard. Effective upon final enactment.

- The proposed modification to the general economic development 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.

#### ***JOBZ Waiver***

The bill would require businesses no longer eligible to receive JOBZ benefits to request waiver of repayment of JOBZ benefits within 60 days of being assessed by the Commissioner of Revenue. For property taxes, the waiver must be requested within 60 days of mailing of a property tax bill by the county auditor.

- The provision would have no direct impact on property taxes.

#### ***JOBZ Certification***

The bill would change the due date of the annual certification by qualified businesses of compliance with their JOBZ obligations from December 1 of each year to October 15 of each year.

- The provision would have no direct impact on property taxes.

#### ***Metropolitan Council Transit Bonds***

The bill authorizes the Metropolitan Council to issue up to an additional \$34.6 million in certificates of indebtedness, bonds, or other obligations for capital expenditures prescribed in the council's transit capital improvement program. The authority is limited to the seven metropolitan counties. Effective day following final enactment, for bonding after July 1, 2010.

- Bond principal and interest would be paid by increasing property tax levies.
- Based on data from the Metropolitan Council, \$8.2 million of bonds would be issued in 2012 and the remainder following years.

## **EXPLANATION OF THE BILL & REVENUE ANALYSIS DETAIL (continued)**

- Any additional debt service levies would increase homeowner taxes, starting with taxes payable in 2013. Property tax refunds would increase by \$330,000 in FY 2014.
- Number of Taxpayers: All property owners in the seven metropolitan counties.

### ***Bond Allocation***

The bill would authorize the Minnesota Housing Finance Agency, the Minnesota Office of Higher Education, and the Minnesota Rural Finance Authority to transfer allocated bonding authority available to them to each other.

- The proposal would have no direct impact on property taxes.

### ***Student Loan Bonds***

The bill would increase the amount of bond allocation for student loan bonds from the unified pool from \$10 million to \$25 million per year.

- The proposal would have no direct impact on property taxes.

### ***Implementing Entities for Energy Improvements***

The bill provides that local governments may designate a housing and redevelopment authority or an economic development authority or another entity that exercises the powers of those authorities to be an "implementing entity" with respect to the new program that provides for the financing of the energy improvements to buildings.

- The proposal would have no direct impact on property taxes.

### ***Landfall TIF***

The bill allows the village of Landfall to extend the deadline for the commencement of activity from certification for in a tax increment financing (TIF) district for district 1-1 from five years to eight years. Local approval is required.

- The proposed modification 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.

### ***Wayzata TIF***

The bill allows the city of Wayzata to extend the duration of Redevelopment Tax Increment Financing (TIF) District No. 5, for the first year of receipt of increment, for up to nine years following approval of the district. The five year rule for activities to begin is also extended to ten years. The parcels are deemed to be occupied if a building on the parcel is demolished. Any successor district also starts up to ten years after the date of demolition on the parcel. Local approval is required.

## **EXPLANATION OF THE BILL & REVENUE ANALYSIS DETAIL (continued)**

- The proposed exemptions 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.

### **Article 8: Cash Flow (Section 2)**

#### ***Cash Flow Modifications***

The bill changes the dates that counties remit state general levy payments to the state, effective the day following final enactment.

- The payment dates would change from June 28<sup>th</sup> and December 3<sup>rd</sup> to May 24<sup>th</sup> and June 5<sup>th</sup>, and October 24<sup>th</sup> and November 2<sup>nd</sup>.
- Counties may incur cash flow difficulties of their own due to the advanced payment dates.
- No fiscal year boundaries are crossed, so there would be no state general fund impact.
- Number of Taxpayers: None.

### **Article 9: Property Taxes - Technical**

#### ***Regional Library Support-grant Requirements***

The bill corrects two references to market value credit reimbursements and changes the reference to credit reductions.

- The corrections would have no state cost impact.

#### ***Revision of Assessor's Manual***

The bill corrects an erroneous cross-reference that requires the commissioner to periodically revise the Minnesota assessors' manual.

- The provision would have no direct impact on property taxes.

#### ***Reassessment Authority***

The bill provides that in the event that the assessor does not appraise at least one-fifth of all parcels in the district or county during the year, the commissioner has the discretion to order a reappraisal of all property in the district or county.

- The provision would have no direct impact on property taxes.

#### ***Statement of Exemption***

The bill would require churches and schools to file a property tax exemption application in order to be exempt. The application requirement is only for newly-exempt properties and will not require subsequent filings after the initial filing. The provision would be effective for taxes payable in 2012 and thereafter.

## **EXPLANATION OF THE BILL & REVENUE ANALYSIS DETAIL (continued)**

- The provisions would have no direct impact on property taxes.

### ***Wind Energy Production Tax***

The bill would increase the default tax calculation from 40 percent to 60 percent of nameplate capacity for owners who do not file the required reports with the Department of Revenue by the due date.

- The provision would have no direct impact on property taxes.

### ***JOBZ Wind Energy Prod. Tax***

The bill would clarify that the JOBZ exemption from the wind energy production tax is available only if the wind energy production system is owned by a taxpayer who has entered into a business subsidy agreement that covers the area where the system is situated.

- The provision would have no direct impact on property taxes.

### ***Bovine Tuberculosis Credit***

The bill provides that the reimbursement for the bovine tuberculosis credit will be paid to school districts at the same time as all other tax credit reimbursements.

- The provisions would have no direct impact on property taxes.

### ***Rural Reserve Property Tax Program***

The bill would modify the requirements of the new Rural Reserve Property Tax Program. The prohibition against also being enrolled under Minn. Stat. § 273.117 is stricken because it is not a redundant benefit; and, a prohibition against also being enrolled in the Metropolitan Agricultural Preserve Program is added because that does provide virtually the same benefits.

- The provision would have no direct impact on property taxes.

### ***Notice of Proposed Property Taxes***

The bill provides clarifications for various items related to the Truth in Taxation local budget process.

- The provision would have no direct impact on property taxes.

### ***Overall Levy Limitations***

The bill would clarify existing limitations on special levies relating to the new special levy authority for repaying emergency debt certificates.

- These clarifications would have no direct impact on property taxes.

## **EXPLANATION OF THE BILL & REVENUE ANALYSIS DETAIL (continued)**

### ***Property Tax Installments***

The bill clarifies references to class 2b property relating to property tax due dates and allowing installment agreements for paying delinquent property taxes over an extended time.

- The proposal would have no direct impact on property taxes.

### ***City Formula Aid***

The bill corrects obsolete language regarding the data used to calculate local government aid.

- The provision would have no direct impact on property taxes.

### ***Emergency Medical Service Districts***

Under the current law, a city, county or township may establish a special taxing district to support the providing of out-of-hospital emergency medical services, in an amount sufficient to pay operating expenses and debt payable. This authority is effective through taxes levied in 2011, payable in 2012. Under the proposed law the sunset date is eliminated (with respect to the list of special taxing districts). Effective the day following final enactment.

- Elimination of the payable 2012 sunset date would have no general fund impact within the forecast period.

## **Article 10: Conditional Use Deeds**

### ***Tax Forfeit Land Management / Conditional Use Deeds***

The bill makes numerous changes to tax forfeit land and conditional use deed laws. The bill changes the process by which county boards classify tax forfeit lands. County boards may hold public meetings for the purpose of classifying tax-forfeited lands, as specified. Tracts may be subdivided or grouped. Classification is effective for a minimum of five years.

Upon request from a state agency or governmental subdivision, a parcel may be withheld from sale for a maximum of 6 months. Non-conservation parcels may be sold to governmental subdivisions or state entities for less than market value under certain conditions specified. Authorized public uses for which lands may be acquired for no cost with a use-restricted deed are limited to: roads, parks, trails, transit facilities, public beaches or boat launches, public parking, civic recreation or conference facilities, and public service facilities. The commissioner of revenue may convey certain parcels to governmental subdivisions or associations of common interest communities. Targeted neighborhood lands must be in a city of the first class. Property held by a governmental subdivision of the state under a conditional use deed may be acquired by that subdivision after 15 years if compliant with the use restriction. Transfers under a conditional use deed may be cancelled under certain conditions.

**EXPLANATION OF THE BILL & REVENUE ANALYSIS DETAIL (continued)**

State subdivisions applying for a conditional use deed must pay a fee of \$250 to the commissioner of revenue to a conditional use deed revolving fund. Conveyance forms must be approved by the attorney general.

Lands classified as conservation lands may not be conveyed unless exempted under specified circumstances. Proceeds from the sale of crops, timber, or other revenue from lands under the commissioner of natural resources must be credited to the state general fund.

Except as specified, land may not be sold for less than full market value.

- The proposed changes to tax forfeit provisions may have an impact on the local tax base and tax rate in the future and may result in a small change in property tax refunds paid by the state.

Source: Minnesota Department of Revenue  
Property Tax Division – Research Unit  
[http://www.taxes.state.mn.us/taxes/legal\\_policy](http://www.taxes.state.mn.us/taxes/legal_policy)