MINNESOTA · REVENUE

May 5, 2009

Senate Omnibus Tax Bill

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

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of S.F. 2074 (Bakk), **2nd Engrossment**

	Fund Impact			
	F.Y. 2010	**F.Y. 2011**	**F.Y. 2012**	**F.Y. 2013**
		(000's)		
Article 4: Property Tax				
Non-commercial SRR PTR	$0	$700	$700	$700
Institutions of Purely Public Charity	$0	$0	$0	$0
Apprenticeship Training Facilities	$0	$0	$0	$0
Utility Machinery Exemption Phase-out	$0	$175	$350	$525
Elderly Living Facility Exemption	$0	(negligible)	(negligible)	(negligible)
Nursing Home Exemption	$0	(negligible)	(negligible)	(negligible)
Leased Seasonal Recreational Land	$0	($45)	($45)	($45)
Bovine Tuberculosis Credit Changes	$0	$100	$100	$100
Utility Class Rate Change Property Tax Refunds	$0	$1,100	$1,100	$1,100
Class 4c Commercial Change	$0	unknown	unknown	unknown
State General Levy Changes	$72,600	$156,000	$200,400	$244,600
Current Year Fiscal Disparities Data	$0	$0	$0	$0
Truth-In-Taxation	$0	$0	$0	$0
Special Service District Deadline Repeal	$0	$0	$0	$0
Housing Improvement Districts	$0	$0	$0	$0
County Abatements for Certain Improvements	$0	$0	$0	$0
Emergency Debt Certificates for Local Government Units	$0	unknown	unknown	unknown
Cloquet Area Fire and Ambulance Taxing District	$0	(negligible)	(negligible)	(negligible)
Repeal Levy Limits and Other PTR Interactions	$0	($1,180)	($3,450)	($1,980)

	Fund Impact, continued			
	F.Y. 2010	**F.Y. 2011**	**F.Y. 2012**	**F.Y. 2013**
		(000's)		
Article 5: Aids and Credits				
City of Taylors Falls Aid Base Increase	$0	$0	$0	$0
City of Mayer Aid Base Increase	$0	$0	$0	$0
City of St. Charles Aid Base Increase	$0	$0	$0	$0
City Local Government Aid Reductions				
City Local Government Aid Reductions	$0	$10,990	$11,640	$11,980
City Residential Market Value Credit Reduction	$0	$4,990	$5,230	$5,440
City Agricultural Market Value Credit Reduction	$0	$10	$10	$10
County Program Aid Reduction	$0	$13,960	$14,600	$15,020
Repeal Targeting PTR	$0	$3,520	$2,420	$2,750
Repeal Utility Transition Aid	$0	$1,246	$879	$578
Article 6: Local Development				
JOBZ Terminate New Designations	$1,260	$2,800	$4,000	$4,620
TIF Provisions	$0	$0	$0	$0
Chisago City & Lindstrom Joint Venture	$0	$0	$0	$0
Article 7: Public Finance	$0	$0	$0	$0
Article 8: Minerals	$0	$0	$0	$0
Income Tax Interactions	**($2,180)**	**($6,030)**	**($10,030)**	**($9,590)**
General Fund Total	**$71,680**	**$188,336**	**$227,904**	**$275,808**

Various Effective Dates

EXPLANATION OF THE BILL

Article 4: Property Tax

Non-Commercial Seasonal Recreational Property
The bill removes the exemption that class 4c non-commercial seasonal recreational property had from referendum levies being spread against them.

Institutions of Purely Public Charity
The bill clarifies qualifications of the property tax exemption for institutions of purely public charity. Factors that must be considered include expectation of no reward, donation support or grants, number of recipients receiving benefits, profit status, restrictions of beneficiaries, and whether dividends or assets would be available to private interests if the institution were dissolved. Some qualifications may be omitted if justified. Grants are defined for this section.

Apprenticeship Training Facilities
The bill allows the current exemption for apprenticeship training facilities to be extended up to five acres of land. Parking facilities are exempt in proportion of apprenticeship training facilities to the total building square footage.

Utility Machinery Exemption Phase-out
This provision terminates the exemptions of attached machinery and other personal property of electric generation facilities. Each exemption granted to begin in assessment 2007 or later will apply in full for 3 years. For exemptions granted earlier, the phase-out begins in assessment year 2009. For the first year of phase-in of value, one third of the value of previously exempted property will be subject to taxation. An additional one-third will become taxable in each of the following two assessment years.

Elderly Living Facility Exemption
The bill provides a property tax exemption to an elderly living facility that meets all of the following requirements:

- Consist of no more than 75 living units;
- located in a first class city with a population greater than 350,000;
- owned and operated by a nonprofit corporation organized under chapter 317A;
- the owner of the facility is an affiliate of entities that own and operate assisted living and skilled nursing facilities that are located across a street from the facility, are adjacent to a church, include congregate dining programs, and provide assisted living;
- the residents of the facility must be at least 62 years of age or handicapped;
- a portion of the units are occupied by persons whose annual income does not exceed specified limits; and
- must have received design approval from the city.

The property is exempt for the term of the facility's initial permanent financing or 25 years, whichever is later.

EXPLANATION OF THE BILL, continued

Nursing Home Exemption
This bill specifies that qualifying nursing homes that are exempt from federal income taxation are also exempt from property taxation. Such facilities must be certified to participate in the medical assistance program under title 19 of the social security act, or must certify to the commissioner of revenue that they do not discharge residents due to inability to pay.

Leased Seasonal Recreational Land
This bill makes several changes to leased seasonal recreation land provisions. The county board approval requirement is eliminated. The requirement that the property be exempt in 2008 is eliminated.

Bovine Tuberculosis Credit Changes
This bill makes several changes to the bovine tuberculosis credit. Eligible animals are defined as cattle, bison, goats, and farmed deer. The qualifying time period when animals were located on land is increased from 2007 to include 2006 and 2008. Class 2b rural vacant land is included in the eligible property classes. A new formula to calculate the credit will be the greater of $5 per acre on the first 160 acres of the property, or $25 times the highest number of animals tested on the property for whole-herd bovine tuberculosis tests in 2006, 2007, or 2008. The credit cannot exceed the tax payable on the parcel.

Utility Class Rate Changes
Personal property that is part of an electric generation system, including tools, implements, and machinery, would have a class rate of 2.8%. Personal property that is part of a water, gas, oil, or petroleum products pipeline, or part of an electric transmission or distribution system has a class rate of 2.25%.

Class 4c Commercial Change
This bill adds new qualifications for class 4c commercial seasonal recreational residential property. Class 4c property may also include property that contains no more than 20 rental units, is devoted to temporary residential occupancy, and is located in a non-metro city or township with a population of 2,500 or less.

State General Levy Changes
The proposal makes changes to the state general levy and public utility property taxes. First, seasonal recreational residential property is removed from the tax base of the state general levy. Second, the state general levy tax rate is set at the pay 2003 rate of 54.447%.

Current Year Fiscal Disparities Data
The bill makes several changes to the metropolitan fiscal disparities programs. Current year tax rates are used to determine the distribution levies instead of the previous year's tax rates. The area-wide rate certification from the administrative auditor is changed from September 1 to February 10th. Distribution levies must be re-calculated the following year for jurisdictions that have not determined a tax rate by January 31st.

EXPLANATION OF THE BILL, continued

Truth-In-Taxation
The bill would eliminate the requirement of truth-in-taxation hearings.

County Abatements for Certain Improvements
The bill would expand county authorization to abate special assessments for certain improvements to include abatements of nuisances.

Emergency Debt Certificates for Local Government Units
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.

Repeal Levy Limits and Other PTR Interactions
The proposal would repeal Minnesota Statutes 2008, sections 275.70-75, ending levy limits beginning with taxes payable in 2010.

Special Service District Deadline Repeal
The bill would extend the deadline for establishing special service districts without special legislation to June 30, 2013.

Housing Improvement Districts
The bill extends the June 30, 2009 deadline for establishing housing improvement districts without special legislation to June 30, 2013.

Cloquet Area Fire and Ambulance Taxing District
The proposal would authorize the establishment of the Cloquet Area Fire and Ambulance Taxing District.

Article 5: Aids and Credits

City of Taylors Falls Aid Base Increase
The bill would increase the city aid base by $30,000 for the city of Taylors Falls in CY 2010 only.

City of Mayer Aid Base Increase
The bill would increase the city aid base by $150,000 for the city of Mayer in CY 2010 only.

City of St. Charles Aid Base Increase
The bill would increase the city aid base by $163,036 for the city of St. Charles in CY 2010 and 2011 only.

EXPLANATION OF THE BILL, continued

City Local Government Aid Reductions
The proposal would reduce local government aid (LGA) to cities. For aids payable in 2010 to 2012, the reduction would be calculated as 0.7% of the previous year's levy plus aid for each city. The reduction would first be taken from the local government aid and then from the market value homestead and agricultural homestead credits if there is not enough state aid.

County Program Aid Reductions
The proposal would reduce county program aid (CPA). For aids payable in 2010 to 2012, the reduction would be calculated as 0.5% of the previous year's levy plus aid for each county. The reduction would first be taken from the county program aid and then from the market value homestead and agricultural homestead credits if there is not enough state aid.

Repeal Targeting PTR
The special property tax refund (targeted refund) is repealed.

Repeal Utility Transition Aid
Under current law, cities and townships are eligible for utility transition aid if their net tax capacity decrease due to the rule change in utility property valuation was at least 4%. Jurisdictions are eligible to receive utility transition aid until their current year utility net tax capacity exceeds their pay 2008 utility net tax capacity under the old valuation rule. The proposal would eliminate utility transition aid.

Article 6: Local Development

JOBZ Terminate New Designations
Under current law, the duration of the Job Opportunity Building Zone (JOBZ) program is twelve years, from January 1, 2004, through December 31, 2015. Qualifying businesses are eligible for tax benefits for the duration of the zone. The proposal would terminate the designation of qualified businesses into the JOBZ program. Only qualified businesses that entered into business subsidy agreements before May 1, 2009, would be eligible for JOBZ tax benefits.

Compact Development TIF Districts
A new type of tax increment financing (TIF) district is created. Compact development districts consist of parcels where 70 percent of the area is occupied by class 3a commercial-industrial property, and development will increase the square footage of class 3a buildings by a multiple of three or more. Compact development districts expire 25 years after the receipt of the first increment. Tax increments may be used to pay administrative expenses, land acquisition costs, demolition, or installation of public infrastructure costs.

EXPLANATION OF THE BILL, continued

Chisago City & Lindstrom Joint Venture
The bill would allow the cities of Chisago City and Lindstrom, their economic development authorities, housing redevelopment authorities, and Chisago County to enter into a joint powers agreement to acquire and develop a business park in Chisago City. Any party to the agreement may levy taxes or spend its funds to finance the project, including issuing debt not subject to election requirements.

If the project is included in a tax increment financing district, each city and authority that is a party to the agreement may treat the district as being located within its corporate boundaries for purposes of spending increments or issuing bonds for the project.

<u>Article 7: Public Finance</u>
The article would make a number of public finance modifications including:
- eliminating the prohibition on submitting more than two ballot questions at a mail election;
- modifying the referendum requirement for airport improvement bonds; and
- extending the maximum maturity of certificates of indebtedness issued by towns from five to ten years.

<u>Article 8: Minerals</u>
The article would make a number of modifications including:
- modifying the distribution of excess occupation tax proceeds;
- extending the authorization to use production tax proceeds for a biomass energy facility; and
- clarification of the annual adjustment to the production tax rate.

REVENUE ANALYSIS DETAIL

<u>Article 4: Property Tax</u>

Non-Commercial Seasonal Recreational Property
- Adding cabin property to the referendum tax base lowers the referendum rate. Therefore, net taxes for homestead property decrease. As a result, property tax refunds decrease by $700,000.

Institutions of Purely Public Charity
- The proposed clarifications to the public charity exemption in individual cases may have an impact on the local tax base and tax rate in the future and may result in a small increase or decrease in property tax refunds paid by the state.

Apprenticeship Training Facilities
- Apprenticeship training facilities (buildings) were exempted by the 2007 Legislature. At the time, 20-30 buildings were thought to be involved.
- A few properties could be affected by the additional exemption. The reduction in tax for these properties could result in a shift to homestead properties and a small increase in homeowner property tax refunds.

REVENUE ANALYSIS DETAIL, continued

Utility Machinery Exemption Phase-out

- It is assumed that the exempt electric generation property referred to in this provision is listed in M.S. 272.02 and M.S. 272.027 as specific exempt public utility properties. Wind energy, pollution control, and other potential exemptions were excluded.
- The total amount of current exempt public utility property is estimated to be $670 million of market value.
- Apportionment of market value would affect all public utility property owned by the qualifying utilities, not just in jurisdictions where exempt property is located. Furthermore, the statewide apportionment factor may increase or decrease by utility.
- The state general levy total would remain the same, but the distribution by use type would change, with public utilities paying a larger share of the commercial-industrial total.
- The proposed exemption to the general public utility valuation provisions would have an impact on the local tax base and tax rate in the future and result in a decrease in property tax refunds (PTR) paid by the state. The PTR impact is estimated to be $175,000 in FY 2011, $350,000 in FY 2012, and $525,000 for FY 2013.

Elderly Living Facility Exemption

- It is assumed one facility in the city of Minneapolis would be the only property affected by the proposal.
- The property tax exemption will reduce the local tax base relative to the base under current law, and cause a property tax shift to all other property including homesteads. The increased property tax burden on homesteads caused by the exemption (relative to current law) will increase state-paid homeowner property tax refunds by less than $5,000 beginning in FY 2011.

Nursing Home Exemption

- There are approximately seven currently taxable nursing home facilities.
- A small number of facilities might become exempt. Property taxes would shift onto homesteads, resulting in a negligible increase in property tax refunds.

Leased Seasonal Recreational Land

- A 2008 survey of county assessors was used to determine the estimated value of land on leased cabins. About $108 million of market value would be exempted.
- The removal of the restrictions is assumed to make all qualifying property eligible for exemption.
- 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 $45,000 in FY 2011 and thereafter.

REVENUE ANALYSIS DETAIL, continued

Bovine Tuberculosis Credit Changes

- Testing data was supplied by the Board of Animal Health.
- The proposal calculations result in a total credit of about $400,000, a reduction from the current law estimate of $500,000 annually in the period.

Utility Class Rate Changes

- Because taxes shift from homesteads to public utility property, property tax refunds decrease. Property tax refunds are expected to decrease by $1.1 million in each fiscal year.

Class 4c Commercial Change

- The number of properties changing classification under the provisions of the bill is not known.
- An unknown number of properties would shift from commercial 3a classification to commercial seasonal recreational residential. Class 3a commercial property has a class rate of 1.5% on the first $150,000 of market value, and 2% on market value exceeding $150,000. Class 4c commercial seasonal recreational residential property has a class rate of 1.0% on the first $500,000 of market value, and 1.25% on market value exceeding $500,000.
- Net taxes on homestead property would increase as a result of shifting, resulting in raising property tax refunds by an unknown amount.

State General Levy Changes

- The net increase in the state general levy would be $72.6 million in FY 2010, $156.0 million in FY 2011 and $200.4 million in FY 2012, and $244.6 in FY 2013.

Current Year Fiscal Disparities Data

- The property tax impacts of the bill are beyond the forecast period.
- The proposal may cause taxes to shift among homesteads and class 3a property, which would change property tax refunds beyond the forecast period.

Truth-In-Taxation

- The proposed elimination of truth-in-taxation hearings would have no impact on state revenues.

County Abatements for Certain Improvements

- The proposal would have no impact on any state revenues.

REVENUE ANALYSIS DETAIL, continued

Emergency Debt Certificates for Local Government Units

- 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.

Repeal Levy Limits and Other PTR Interactions

- It is assumed that in the absence of levy limits jurisdictions' levies would revert to 50% of their three year average rate of growth for taxes payable in 2010, 75% of average growth for taxes payable 2011, and their full three year average rate of growth thereafter.
- Additionally, it is assumed that jurisdictions will increase levies to recoup 66% of their 2008 unallotment amount.
- The increased property tax burden on homesteads caused by increased levies will increase state-paid homeowner property tax refunds by $1.18 million in FY 2011, $3.45 million in FY 2012, and $1.98 million in FY 2013.

Special Service District Deadline Repeal

- It is unknown how many new special service districts would be established due to the deadline removal.
- The bill may result in increases in local fees on affected properties.
- The bill would have no impact on state funds.

Housing Improvement Districts

- The extension of the deadline would allow for the creation of new housing improvement districts in future years and the implementation of additional fees in those districts. However, the spread of levies and the general fund would be unaffected.

Cloquet Area Fire and Ambulance Taxing District

- It is assumed that the services provided by the new special taxing district are already being provided by other governmental units under current law.
- Transferring these services from a city to a new special taxing district may provide for a higher level of service and/or a higher levy authority.
- The increased levy authority would be due to the lack of levy limits on special taxing districts (although this impact is significantly moderated by the presence of safety personnel and debt servicing special levies).
- The net impact is assumed to be a slight increase in state-paid property tax relief resulting in a cost to the general fund of less than $5,000 beginning in FY 2011.

REVENUE ANALYSIS DETAIL, continued

Article 5: Aids and Credits

City Aid Base Increases
- There is no state cost associated with the changes in city aid base.

City Local Government Aid Reductions
- For aids payable in 2009, there were 763 cities certified to receive LGA, and 91 cities receiving no LGA.
- An estimated 97 cities would receive at least a partial reduction in market value credit.
- It is assumed that cities receiving a reduction would increase property tax levies. The levy back would increase property taxes on all property including homesteads.
- The increased property tax burden on homesteads caused by the levy back would increase state-paid homeowner property tax refunds beginning in FY 2011.

County Program Aid Reductions
- It is estimated county program aid would be reduced by $13.96 million for pay 2010, $14.60 million for pay 2011, and $15.02 million for pay 2012.
- It is assumed that counties receiving a reduction would increase property tax levies. The levy back would increase property taxes on all property including homesteads.
- The increased property tax burden on homesteads caused by the levy back would increase state-paid homeowner property tax refunds beginning in FY 2011.

Repeal Targeting PTR
- The February Forecast amounts for repealing targeting are $3.52 million for FY 2011, $2.42 million for FY 2012, and $2.75 million for FY 2013.

Repeal Utility Transition Aid
- Under the proposal, eligible cities and townships would no longer receive utility valuation transition aid.
- No direct impact on property tax levies is assumed from the elimination of utility valuation transition aid due to the proposed class rate change for utility property.
- Tax year impacts are allocated to the following fiscal year.

REVENUE ANALYSIS DETAIL, continued

Article 6: Local Development

JOBZ Terminate New Designations

- According to the Department of Employment and Economic Development, there are 325 businesses in the JOBZ program as of February 6, 2009. JOBZ program business subsidy agreements signed by calendar year are as follows: 109 in 2004, 82 in 2005, 61 in 2006, 41 in 2007, 30 in 2008, and 2 in 2009 to date.
- Under current law, the number of businesses entering the program would be expected to decline each year. It is assumed the number of business entering the program would be: 25 in 2009, 22 in 2010, 17 in 2011, and 9 in 2012.
- Under the proposal, it is assumed that 7 of the 25 businesses in 2009 would enter the program before May 1, 2009. The JOBZ program would not be available to the other 18 businesses in 2009 nor to any businesses that would have signed agreements in subsequent years.
- It was assumed that the average annual state revenue savings per business would be similar to the tax benefits reported by JOBZ business submitting Form M500 for tax years 2004 to 2007, which was approximately $70,000.
- Calendar year impact was allocated to the following fiscal year.
- The total savings for FY 2010 to FY 2016 is estimated at $27.2 million.

Compact Development TIF Districts

- The proposed legislation 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.

Chisago City & Lindstrom Joint Venture

- The proposal would have no impact on state revenues.

Article 7: Public Finance

- The proposed modifications are assumed to have no impact on state revenues.

Article 8: Minerals

- The proposed modifications are assumed to have no impact on state revenues.

INCOME TAX INTERACTION OF PROPERTY TAX PROPOSALS

- Net taxes are expected to increase $73 million in FY 2010, $186 million in FY 2011, $286 million in FY 2012, and $295 million in FY 2013.
- Individual income tax receipts are expected to decrease $0.2 million in FY 2010, $1.5 million in FY 2011, $3.7 million in FY 2012, and $2.5 million in FY 2013.
- Corporate income tax receipts are expected to decrease $2.0 million in FY 2010, $4.5 million in FY 2011, $6.4 million in FY 2012, and $7.1 million in FY 2013.

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

sf2074_SOmniTax_4/nrg, mtw, lm