PROPERTY TAX
Senate Omnibus Tax Bill

March 24, 2011

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. 27 (Ortman), as proposed to be amended (SCS0027A-1)

	Fund Impact			
	F.Y. 2012	**F.Y. 2013**	**F.Y. 2014**	**F.Y. 2015**
	(000's)			
Article 3: Tax Aids and Credits				
PILT 15% Reduction	$3,800	$4,000	$4,160	$4,350
Repeal Political Contribution Refunds	$5,400	$6,400	$5,500	$6,500
Disparity Reduction Aid	$0	$10,041	$10,041	$10,041
Disparity Reduction Credit	$0	$1,524	$3,077	$4,630
Renter PTR Reduction	$52,500	$53,200	$54,000	$54,500
Homeowner PTR Modifications	$0	($44,300)	($46,900)	($49,600)
Local Government Aid Reduction				
Local Government Aid Reduction	$101,755	$101,862	$100,663	$100,663
LGA Offset for Local Sales Taxes (Article 2)	$0	$0	$6,500	$11,000
Residential Market Value Credit Reduction	$47,964	$0	$0	$0
Agricultural Market Value Credit Reduction	$135	($42)	($39)	($32)
General Fund Total	$149,854	$101,820	$107,124	$111,631
County Program Aid Reduction				
County Program Aid Reduction	$36,354	$36,348	$32,000	$32,000
Residential Market Value Credit Reduction	$56,091	$0	0	$0
Agricultural Market Value Credit Reduction	$0	$0	$0	$0
General Fund Total	$92,445	$36,348	$32,000	$32,000
Township Market Value Credits				
Residential Market Value Credits	$0	$0	$0	$0
Agricultural Market Value Credits	$0	($92)	($85)	($70)
General Fund Total	$0	($92)	($85)	($70)
Market Value Homestead Credit Conversion	$0	$261,200	$264,900	$273,700
Sustainable Forest Incentive Act	$15,079	$16,304	$17,634	$19,067

	Fund Impact			
	F.Y. 2012	**F.Y. 2013**	**F.Y. 2014**	**F.Y. 2015**
	(000's)			
Wetlands Reimbursement Repealed	$13	$13	$13	$13
Local Government Redesign Grants	($3,500)	($3,500)	$0	$0
Interactions for Aid and Credit Reductions				
PTR Interactions from Levy Changes	$0	($16,560)	($9,740)	($6,830)
Income Tax Interactions from Levy Changes	$0	($13,880)	($8,400)	($5,890)
Education Aid Interactions (MVC)	$7,473	($10,921)	($11,982)	($12,328)
Article 4: Property Taxes				
Property Tax Working Group	$0	$0	$0	$0
Exempt Property Held for Economic Development	$0	$0	$0	$0
Electric Generation Facility Exemption	$0	$0	$0	$0
Green Acres and Rural Preserve Modifications	$0	($35)	($35)	($35)
Disabled Veteran Homesteads	$0	$100	$160	$230
State General Levy Reduction	($38,100)	($76,800)	($113,300)	($169,000)
Article 5: Economic Development				
Economic Development TIF Extension	$0	$0	$0	$0
Ramsey TIF	$0	$0	$0	$0
Cohasset TIF	$0	$0	$0	$0
Lino Lakes TIF	$0	$0	$0	$0
Article 6: Minerals				
Taconite State Aid Repealed	$6,590	$7,545	$8,500	$8,500
Total General Fund	**$291,554**	**$332,407**	**$316,667**	**$281,409**

Various Effective Dates

EXPLANATION OF THE BILL & REVENUE ANALYSIS DETAIL

Article 2: LGA Offset for Local Sales Tax (Sections 11-13)
The bill provides a reduction to local government aid for any city that imposes or renews a local sales tax after June 30, 2011. The aid reduction is limited to the city jobs base and non-metro regional center aid base amounts.

- The total potential aid offset for cities is approximately $44 million. The analysis assumes 15% of cities with an aid offset would first impose a local sales tax beginning in CY 2012, with an aid offset beginning in CY 2013.
- It is assumed a combined 25% of cities with a potential aid offset would impose a local sales tax in CY 2013, with an offset aid reduction in CY 2014.
- Local government aid would be reduced by $6.5 million for pay 2013 and $11 million for pay 2014, resulting in a savings to the state general fund.
- It is assumed that cities receiving an aid reduction under the proposal would choose to increase property tax levies by a portion reduction as the new local sales tax revenue is dedicated to specified capital projects.
- The increased property tax burden would increase state-paid homeowner property tax refunds and income tax deductions beginning in FY 2014.

Article 3: Tax Aids and Credits

Reduce PILT 15% (Sections 1-2, 24-27, 31)
The bill would reduce payments in lieu of taxes (PILT) by 15%. The bill would also eliminate the inflation adjustment for PILT payment rates. Effective for aids payable in fiscal year 2012 and thereafter.

- The reduction would be effective beginning for payments made in FY 2012.
- It is assumed that jurisdictions receiving a reduction in PILT would increase property tax levies for a portion of the reduction. This would increase property taxes on all property classes including homesteads.
- The increased property tax burden would increase state-paid homeowner property tax refunds and income tax deductions beginning in FY 2013.

Repeal Political Contribution Refunds (Sections 3, 14-15, 31)
The political contribution refund provides a refund to individuals for contributions made to qualifying political parties and candidates. The maximum refund is $50 for an individual and $100 for a married couple filing jointly. The refund claim must be filed no later than April 15 of the calendar year following the calendar year in which the contribution was made.

Under current law the refund provisions are eliminated for contributions made after June 30, 2009, and before July 1, 2011.

The bill would repeal the political contribution refund.

EXPLANATION OF THE BILL & REVENUE ANALYSIS DETAIL (continued)

- Effective for political contribution refund claims based on contributions made after June 30, 2011.
- The annual estimates correspond to the February 2011 Minnesota Management and Budget economic forecast.
- The repeal of the inactive refund program would result in no additional claims being processed
- Previously, about 90,000 political contribution refunds were made annually.

Market Value Homestead Credit Conversion (Sections 4-9, 12-13, 29, 31)
The bill converts the market value homestead credit in M.S. 273.1384 into a reduction in net tax capacity for class 1a, 1b, and 2a homesteads. Effective for taxes payable in 2012 and thereafter.

- The market value homestead credit is eliminated, resulting in savings to the general fund of $261.2 million in FY 2013, $264.9 million in FY 2014, and $273.7 million in FY 2015. Homesteads that had qualified for the credit would have a reduction in net tax capacity. Total net tax capacity statewide would be reduced by about 4.5%.
- It is assumed that county, city and township governments on the whole would treat the elimination of the credit like an aid reduction.
- According to the Department of Education the elimination of the credit reduces school levies approximately $13 million per year beginning with taxes payable in 2012.
- Number of Taxpayers: All property taxpayers.

Disparity Reduction Aid Payments Reduced (Sections 10)
The bill eliminates county and township Disparity Reduction Aid (DRA) beginning in taxes payable 2012. The school DRA is equal to the payable 2011 amount. Calculation and adjustment language is stricken. Effective for taxes payable in 2012 and thereafter.

- The cuts to DRA would be a savings to the state general fund of $10.041 million in FY 2013, and each fiscal year thereafter.

Disparity Reduction Credit Reduced (Sections 11)
The bill phases out the Disparity Reduction Credit (DRC) by reducing the total calculated credit by 25% each year beginning in payable 2012. By payable 2015, the credit would be eliminated.

- The cuts to DRC would be a savings to the state general fund of $1.524 million in FY 2013, $3.077 million in FY 2014, and $4.63 million in FY 2015.

Renter PTR Reduction (Sections 16-17, 28)
For purposes of the property tax refund (PTR) program, current Minnesota statutes allow a renter to claim 19% of the rent paid for the year as the amount of property tax paid by the renter. This figure is used, along with the renter's income, to determine eligibility for and the amount of the

EXPLANATION OF THE BILL & REVENUE ANALYSIS DETAIL (continued)

property tax refund. The proposal would change the percentage from 19% to 15% starting with tax year 2010 (fiscal year 2012).

> **Note: returns submitted for tax year 2010 would require an adjustment after the claim has been filed by the taxpayer to reflect the reduced refund amount. This would result in increased administrative costs.**

- Effective beginning with 2010 returns filed in 2011.
- The estimates are based on the February 2011 forecast.
- Lowering the percentage of rent constituting property taxes would reduce refunds to almost every claimant. Approximately 19,000 renters, or about 6%, would no longer be eligible for a refund beginning in FY 2012.
- Under the proposal, the average renter property tax refund would be reduced by $170.

Homeowner PTR Modifications (Sections 18-19)
The proposal would make changes to the homeowner property tax refund (PTR) by increasing the maximum refund range up to $2,500 and also modifying the copay percentage for some income ranges in the refund calculation table.

- The estimates are based on the February 2011 forecast.
- Approximately 410,000 claimants received a homeowner property tax refund in the current year.
- The proposal would increase refunds to almost all current filers.
- The average homeowner property tax refund increase would be about $105.

Local Government Aid and Market Value Credit Reduction (Sections 20-23)
The proposal would reduce local government aid (LGA) and market value credit reimbursements to cities. The reduction amounts would be as follows:

Fiscal Year	LGA Reduction	MV Credit Reduction
2012	$101.8m	$48.1m
2013	$101.9m	$0.0m
2014	$100.7m	$0.0m
2015	$100.7m	$0.0m

For aids payable in 2011 and 2012, the LGA payment would be equal to the lesser of (1) the total amount of aid received in 2010, or (2) the amount of aid it was certified to receive in 2011. For aids payable in 2013 and thereafter, the reduced appropriation would be distributed through the local government aid formula.

The city market value credit reimbursement payments for 2011 could not exceed the amount paid in 2010. The market value homestead credit would be eliminated after 2011.

EXPLANATION OF THE BILL & REVENUE ANALYSIS DETAIL (continued)

No city could receive a reduction greater than their certified LGA or market value credit.

- Effective for aids payable in 2011 and thereafter.
- It is assumed that cities receiving a reduction would increase property tax levies for a portion of the reduction. This would increase property taxes on all property classes including homesteads.
- Cities would receive additional agricultural market value credit beginning in pay 2011 due to the repeal of the permanent reductions.

County Program Aid and Market Value Credit Reduction
The proposal would reduce county program aid (CPA) and market value credit reimbursements to counties. The reduction amounts would be as follows:

Fiscal Year	CPA Reduction	MV Credit Reduction
2012	$36.4m	$56.1m
2013	$36.4m	$0.0m
2014	$32.0m	$0.0m
2015	$32.0m	$0.0m

For aids payable in 2011 and 2012, the CPA payment would be equal to the lesser of (1) the total amount of aid received in 2010, or (2) the amount of aid it was certified to receive in 2011. For aids payable in 2013 and thereafter, the reduced appropriation would be distributed through the county program aid formula.

The county market value credit reimbursement payments for 2011 could not exceed the amount paid in 2010. The market value homestead credit would be eliminated after 2011.

No county could receive a reduction greater than their certified CPA or market value credits.

- Effective for aids payable in 2011 and thereafter.
- It is assumed that counties receiving a reduction would increase property tax levies for a portion of the reduction. This would increase property taxes on all property including homesteads.

Township Market Value Credits
Under current law, townships have a permanent market value credit reduction of approximately $5 million under 477A.0133. The proposal would repeal this reduction effective for taxes payable year 2012.

- Townships would receive additional agricultural market value credit beginning in pay 2012 due to the repeal of the permanent reductions. The market value homestead credit would be eliminated after 2011.

EXPLANATION OF THE BILL & REVENUE ANALYSIS DETAIL (continued)

PTR and Income Tax Interactions for Aid and Credit Reductions

The proposal changes several property tax aid and credit programs. The proposed reductions in aids and credits cause increases in local property taxes, resulting in an increase in property tax refunds paid directly to homeowners and an increase in deductions claimed on individual and corporate income tax forms.

- Effective for taxes payable 2012 and thereafter.
- Net property tax increases are estimated to be $302 million for FY 2013, $178 million for FY 2014, and $125 million for FY 2015.
- It is assumed that local government spending reductions or other non-property tax revenues will be used to address the balance of aid or credit reductions that are not levied back.
- Net taxes would be affected by the levy change. A portion of those levies would be paid by homesteads. Property tax refunds would be proportionately affected by homestead net tax changes. Property tax refunds would increase $16.6 million in FY 2013, $9.7 million in FY 2014, and $6.8 million in FY 2015.
- Individual income tax receipts are expected to decrease $12.0 million in FY 2013, $7.3 million in FY 2014, and $5.1 million in FY 2015.
- Corporate income tax receipts are expected to decrease $1.9 million in FY 2013, $1.1 million in FY 2014, and $0.8 million in FY 2015.

Local Government Redesign Grants (Section 30)

The bill would allow the commissioner of administration to make grants of up to $100,000 each to local governments to plan and implement service cooperation/consolidation or innovation with at least one other local government.

- An annual appropriation of $3.5 million is provided from the state general fund in both FY 2012 and FY 2013.

Repeal Sustainable Forest Incentive Act (Section 31)

Under current law, land enrolled in the sustainable forest resource management program is eligible for an annual per acre incentive payment. The payment rate in 2010 was $15.67 per acre, and cannot be less than $7.00 per acre in any year. The proposal would repeal the SFIA program and payment.

- Effective beginning with payments made in 2011.
- State general fund savings would be realized beginning in FY 2012.

Repeal Wetlands Reimbursement (Section 31)

The proposal would repeal the wetlands reimbursement.

- Effective beginning with payments made in 2011.
- State general fund savings of $13,000 per year would be realized beginning in FY 2012.

EXPLANATION OF THE BILL & REVENUE ANALYSIS DETAIL (continued)

Article 4: Property Taxes

Property Tax Working Group (Section 1)
The bill requires the Property Tax Working Group to analyze and present specific recommendations on the metropolitan area fiscal disparities program and the distribution of proceeds of the taconite production tax and the net proceeds tax. There would be no impact to the state general fund.

Exempt Property Held for Economic Development (Section 2)
The bill increases the permitted holding period for property held by governmental units for economic development purposes to be exempt from property taxes. Under current law, the holding period is 8 years, except that properties located in a city under 5,000 population in a non-metro county may hold the property 15 years. The bill increase the holding period for cities over 5,000 population to 10 years.

- It is assumed that a relatively small number of additional properties would be withheld from the taxable property rolls.
- Taxes would shift onto the remaining properties, including homesteads. Property tax refunds for homesteads would increase a minimal amount.

Electric Generation Facility Personal Property Exemption (Section 3)
This bill exempts the attached machinery and other personal property of a new multiple reciprocating engine natural gas electric generation facility. The qualifications include a generation capacity of between 20 and 30 megawatts at a site with 10-15 megawatts already installed, be owned by a municipal power agency, be located within one mile of an existing natural gas pipeline, and be designed to furnish emergency backup power service with black start capability. In addition, the facility must satisfy a resource deficiency identified in an approved integrated resource plan and have approval of the city and county governing bodies. Construction must be commenced between January 1, 2012 and January 1, 2015. Transmission and lines and other connections are not exempt, nor are other existing facilities on the site. Effective for assessments in 2012, taxes payable in 2013, and thereafter.

- According to the PUC, no data has been filed for this facility. The proposed location for this facility is Fairmont.
- The proposed exemption to the general public utility valuation 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.
- Number of Taxpayers: Few taxpayers would be directly affected.

Green Acres and Rural Preserves (Sections 4-7, 9, 12)
The bill makes several modifications to the Green Acres (MS 273.111) and Rural Preserve (MS 273.114) property tax programs.

EXPLANATION OF THE BILL & REVENUE ANALYSIS DETAIL (continued)

Denied green acres applications may be appealed to the local board of appeal and equalization. The requirements for a conservation plan and a minimum 8 year enrollment in the Rural Preserve program are stricken, and covenant restrictions are also repealed. Photographic and application requirements are specified. Local boards of appeal and equalization may opt out of green acres appeals.

- The analysis is based on a partial survey of assessors reporting acres withdrawn from the green acres program. It is derived that approximately 150,000 acres of property withdrawn from the green acres program would re-enroll in the rural preserve program under the less strict qualifications in the bill. Additional property receiving deferral treatment would decrease jurisdictions' net tax capacity, thereby driving up the local tax rate. $800,000 of taxes would shift onto other property types, including homesteads. Property tax refunds would increase due to higher homestead property taxes. It is estimated that property tax refunds would increase by $35,000 per year beginning in FY 2013.

Disabled Veteran Homestead (Section 8)

The bill would provide an additional three taxable years of exclusion for surviving spouses of disabled veterans receiving the homestead market valuation exclusion.

- For assessment year 2010, approximately 9,440 veterans in Minnesota with a disability rating of at least 70% received a homestead valuation exclusion, the third year it was available. Approximately 6,310 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.
- The valuation exclusion would result in a net property tax refund savings to the state general fund. There would be no income tax interaction as shifting property taxes yield zero net change. The average state savings per homestead with a disability rating of 100% is estimated to be approximately $420. A 3% annual growth rate is assumed.
- The first assessment year impacted would be 2011, for taxes payable in 2012. It is assumed that any eligible spouse who stopped receiving the market value exclusion for pay 2011 would be allowed to continue receiving the exclusion beginning again in pay 2012.
- The proposal would shift an estimated $400,000 in property tax onto all other property types in the first year, $625,000 in the second year, and $875,000 in the third year.

State General Levy Reduction (Sections 10-12)

The bill resets the state general levy targets for class 3a property to $702.7 million and the seasonal recreational residential target to $39.8 million for payable years 2012 and 2013. The inflation factor calculation is stricken. The 95%-5% share split between class 3a and seasonal recreational residential taxes is also removed. The state general levy target is reduced by 10% per year until pay 2024, when the program is repealed.

EXPLANATION OF THE BILL & REVENUE ANALYSIS DETAIL (continued)

- The class 3a reduction in state general levy results in a loss to the state general fund in pay 2012 of $68.4 million. Seasonal recreational residential levies are reduced by $800,000 in pay 2012.
- The fiscal year impacts of the reductions are $38.1 million in FY 2012, $76.8 million in FY 2013, $113.3 million in FY 2014, and $169.0 million in FY 2015.

Article 5: Tax Increment Financing

Economic Development District TIF Extension (Sections 1-2)
The bill extends the deadline for construction to begin in economic development districts from July 1, 2011 to July 1, 2012. The certification date is also extended one year, as well as the authority to spend increments. Effective day following final enactment.

- 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 change in property tax refunds paid by the state.

Ramsey TIF (Section 3)
The bill modifies a tax increment financing district (TIF) established for the city of Ramsey last year for the North Star Transit Station. The boundary description is modified. Effective day upon local approval.

- 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.

Cohasset TIF (Section 4)
The bill allows the authority operating tax increment financing (TIF) districts 2-1 and 3-1 in the city of Cohasset to transfer increments from districts in an amount equal to repay advances made by the city from its general fund to the districts. Effective upon local approval.

- 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.

Lino Lakes TIF (Section 5)
The bill allows the city of Lino Lakes to collect increments from tax increment financing (TIF) district 1-10 through December 31, 2023. The increments available after February 1, 2011 may only be spent on bond debt service to finance the interchange of Anoka highway 23 and 35W and public improvements to the Legacy at Wood Edge development. General TIF provisions

EXPLANATION OF THE BILL & REVENUE ANALYSIS DETAIL (continued)

concerning increment pooling, economic development districts, and five-year activity limits do not apply. Effective following local approval.

- 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 change in property tax refunds paid by the state.

Article 6: Minerals

The bill would repeal the state taconite aid payment of $0.22 per taxable ton, freeze the taconite production tax rate at $2.074 per taxable ton, and modify various distributions of taconite proceeds.

- Repealing the state taconite aid payment of $0.22 per ton would result in a general fund savings beginning in FY 2012.

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

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