SALES AND USE TAX
Public Safety Radio Systems

March 1, 2011

	Yes	No
DOR Administrative Costs/Savings		X

Preliminary Analysis

Department of Revenue
Analysis of S.F. 267 (Dahms), As Proposed to be Amended (SCS0267A-3)

	Fund Impact			
	F.Y. 2012	**F.Y. 2013**	**F.Y. 2014**	**F.Y. 2015**
	(000's)			
ARMER System	($9,300)	($2,300)	($30)	($30)
NW Minnesota Radio Board Region	($200)	($100)	(Negl.)	(Negl.)
Radio Dispatch Centers	($470)	($390)	($310)	($310)
911 Communication System	($900)	($900)	($900)	($900)
General Fund Total	($10,870)	($3,690)	($1,240)	($1,240)
ARMER System	($540)	($130)	(Negl.)	(Negl.)
NW Minnesota Radio Board Region	($10)	($10)	(Negl.)	(Negl.)
Radio Dispatch Centers	($30)	($20)	($20)	($20)
911 Communication System	($50)	($50)	($50)	($50)
Natural Resources and Arts Funds Total	($630)	($210)	($70)	($70)
Total – All Funds	($11,500)	($3,900)	($1,310)	($1,310)

Effective retroactively to qualifying purchases made after January 1, 2010

EXPLANATION OF THE BILL

Sales to state and local government are generally taxable. A sales and use tax exemption is in effect for end user items purchased in constructing, operating, maintaining, and enhancing portions of the 800 megahertz public safety radio communication system, also known as the Allied Radio Matrix for Emergency Response, or ARMER (defined in M.S. Ch. 403). The exemption applies to phases one and two (the seven metropolitan counties plus Chisago and Isanti counties) and the portion of phase three that is located in the southeast district of the state patrol and in the counties of Benton, Sherburne, Stearns, Wright, and Itasca. Planning and development of the project is done by the Department of Public Safety; the system is owned and operated by the Department of Transportation.

As proposed to be amended, the bill expands the current exemption to all public safety radio communication systems and public safety radio dispatch centers in the state. The terms "public safety radio communication systems" and "public safety radio dispatch center" are not defined.

REVENUE ANALYSIS DETAIL

The estimates are based on known projects. The revenue loss could be considerably higher depending on how broadly the terms "public safety radio communication systems" and "radio dispatch centers" are interpreted. Note that costs for maintenance and enhancements would also be exempt and would carry a smaller revenue impact into future years.

ARMER System

- The total cost to local governments (mostly counties) for the rest of the ARMER system is estimated at about $93.2 million. The estimate for state government is about $86 million, for a total of $179.2 million.
- The ARMER project is scheduled for completion by the end of fiscal year 2013.
- The ARMER estimate for F.Y. 2012 includes retroactive refunds for tax paid retroactively. It is assumed that all retroactive refunds would be paid in F.Y. 2012.

Northwestern Minnesota Radio Board (15 counties)

- The estimates are based on information provided by Beltrami County.
- It is estimated that $1.579 million in purchases qualify under the retroactive effective date. It is also estimated that $3.362 will be spent on normally taxable purchases after June 30, 2011.
- It was assumed that the impact of all retroactive refunds and one-half of future exempt purchases will occur in FY 2012 and the remaining purchases in FY 2013.

Public Safety Radio Dispatch Centers

- The estimate was based on information from the Department of Public Safety
- It was assumed that the exemption applies to technology (radios, computers, software, etc.) and not to furniture or common office supplies, although the amendment could be interpreted to exempt every sales taxable item used in a center.
- It was assumed that the cost per county of a "public safety radio dispatch center" is $600,000.
- It was further assumed that 12 counties will make qualifying purchases in fiscal year 2012, with 10 counties in FY 2013 and eight counties in both FY 2014 and FY 2015.

911 Emergency Response System

- According to the Department of Public Safety, costs for each public safety answering point (PSAP) range between $350,000 and $1 million. The analysis used a mid-point figure of $650,000. This number was multiplied by 87 (counties) and then reduced by 7.5% to exclude purchases made before the January 1, 2010 effective date. The adjusted figure was increased by 5% to include purchases by state government. It was assumed that the revenue impact would be spread out equally over the four fiscal years.

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