

MINNESOTA • REVENUE

PROPERTY TAX House Omnibus Tax Bill Articles 1, 4, and 5

March 26, 2012

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. 2337 (Davids), 3rd Engrossment

	Fund Impact			
	<u>F.Y. 2012</u>	<u>F.Y. 2013</u>	<u>F.Y. 2014</u>	<u>F.Y. 2015</u>
<u>Article 1: Property Taxes</u>	(000's)			
Bovine Tuberculosis Property Tax Credit	\$0	(\$70)	(\$70)	\$0
State General Levy	\$0	(\$40,300)	(\$117,400)	(\$199,000)
Delinquent Property Tax Interest Rates	\$0	\$0	\$0	\$0
Reduce Renter Property Tax Refund	\$0	\$66,700	\$73,600	\$79,600
Senior Citizen Property Tax Deferral Program	\$0	\$0	(\$180)	(\$190)
Mining Occupation Tax	\$0	\$0	(negligible)	(negligible)
Local Government Aid Increase	\$0	\$0	(\$1,069)	\$0
Payment for City of Tamarack	\$0	(\$12)	\$0	\$0
Cook/Orr Hospital District Tax Levy Authority	\$0	\$0	\$0	\$0
Agricultural Homestead Extension	\$0	\$0	(negligible)	(negligible)
Targeting Refund	\$0	(\$4,100)	\$0	\$0
Economic Development Exemption Extension	\$0	\$0	\$0	\$0
Truth in Taxation Task Force	\$0	\$0	\$0	\$0
Moorhead New Construction	\$0	\$0	\$0	\$15
<u>Article 4: TIF</u>				
Tax Increments Spending Deadline Extended	\$0	\$0	\$0	\$0
TIF Expenditures Outside the District	\$0	\$0	\$0	\$0

Oakdale TIF	\$0	\$0	\$0	\$0
Apple Valley TIF	\$0	\$0	\$0	\$0
Maple Grove TIF	\$0	\$0	\$0	\$0
Dakota County TIF	\$0	\$0	\$0	\$0
Bloomington TIF	\$0	\$0	\$0	\$0
Mall of America TIF	\$0	\$0	\$0	\$0
Brooklyn Park TIF	\$0	\$0	\$0	\$0

Article 5: Miscellaneous

Aggregate Materials Tax – City of Vergas	\$0	\$0	\$0	\$0
Additional Border City Allocation	\$0	(\$150)	\$0	\$0
St. Paul Maximum Debt Limit	\$0	\$0	\$0	\$0
Itasca General Obligation Bonds	\$0	\$0	\$0	\$0
Woodbury Public Debt Authorization	\$0	\$0	\$0	\$0
Steele County CIP Bonding Authority	\$0	\$0	\$0	\$0
Wadena County CIP Bonding Authority	\$0	\$0	\$0	\$0

Property Tax Interactions

Property Tax Refund Interactions	\$0	\$0	\$36	\$6
Income Tax Interactions	<u>\$0</u>	<u>\$0</u>	<u>\$2,232</u>	<u>\$4,602</u>
General Fund Total*	\$0	\$22,068	(\$42,851)	(\$114,967)

*Under the proposal, \$4.3 million of the balance in the Revenue Department service and recovery special revenue fund would be transferred to the general fund in fiscal year 2012. The impact of this provision is not included in this analysis.

Various effective dates.

EXPLANATION OF THE BILL & REVENUE ANALYSIS DETAIL

Article 1: Property Taxes

Bovine Tuberculosis Property Tax Credit (Section 1)

The proposal reinstates the property tax bovine market value credit. The amount of the credit to recipients is their 2011 payment. The 2012 reimbursement would be paid by the counties directly to recipients. The 2013 reimbursement would be a property tax credit. The reinstated credit would expire the year following the removal of all restrictions regarding the raising of animals in the tuberculosis management zone.

- The bovine tuberculosis credit expired after the state was certified tuberculosis-free by the state Board of Animal Health.
- The Board estimates that if no other cases of infection are found, testing requirements would cease by the end of June 2013.
- The reinstated credit would be the same as the amount paid in 2011 and assumes 100% application.
- It is estimated that fewer than two dozen taxpayers would qualify, and that the credit would be confined to the 12 townships in the smaller management zone.
- The credit cost would decrease the state general fund by \$70,000 in FY 2013 and FY 2014.
- Lower property taxes would reduce property tax refunds by \$6,000 in FY 2014 and FY 2015.
- Lower property taxes would reduce deductions on corporate and individual income tax returns, increasing state tax collections by \$2,000 in FY 2014 and FY 2015.
- Number of Taxpayers: Fewer than two dozen taxpayers in the Bovine Tuberculosis management zone would be directly affected.

State General Levy (Sections 2-4)

The proposal makes several changes to the state general levy. The proposal sets the state general levy at \$721.752 million for class 3a commercial, industrial, railroad, and public utility property. The state general levy is set at \$40.871 million for seasonal recreational residential property. For pay 2014 and thereafter, each levy is reduced from the previous year's levy by 8.33% (a 12 year phase out.) For taxes payable in 2025, the two levies would be zero. The tax capacity of the first \$150,000 of market value for the spreading the state general levy for class 3a property is reduced to 30% of the amount used for local levies.

- Data is from the February, 2012 forecast.
- The state general levy total for payable 2013 is \$73.3 million lower than current law.
- The state general levy would decrease by \$40.3 million in FY 2013, \$117.4 million in FY 2014, and by \$199 million in FY 2015.
- Lower property taxes would reduce deductions on corporate and individual income tax returns, increasing state tax collections by \$2.2 million in FY 2014 and by \$4.6 million in FY 2015.

Delinquent Property Tax Interest Rates (Sections 5-6)

The bill makes several changes to interest rates applied to delinquent property taxes and penalties. On or after January 1, 2013, the interest rate charged would be the prime rate for that year plus two percent. The prime rate is that rate charged by commercial banks to large businesses, as determined by the Federal Reserve. For delinquent payments due between January 1, 1991 and before January 1, 2013, the interest rate would be between 10 and 14 percent, depending on the official rate. Effective day following final enactment.

- The bill would have no state general fund impacts from Department of Revenue administered aids and credits.
- There may be additional school district county apportionment impacts. Apportionment dollars lost are required to be made up dollar for dollar by the state.

Reduce Renter Property Tax Refund (Sections 7-12, 27)

The proposal would change the percentage from 17% to 15% starting with tax year 2011 (fiscal year 2013). The proposal would also create a separate refund table for senior/disabled renters, and modify the maximum household income for eligibility, copay percentage and maximum refund amounts for both refund tables. Annual inflation indexing would also be eliminated for both refund tables.

- Effective beginning with 2011 returns filed in 2012.
- The estimates are based on the February 2012 forecast.
- Lowering the percentage of rent constituting property taxes and maximum household income would reduce refunds to almost every claimant. Approximately 66,000 renters, or about 21%, would no longer be eligible for a refund beginning in FY 2013.
- Under the proposal, the average renter property tax refund would be reduced by \$213.

Note: returns submitted for rent paid in 2011 or taxes payable in 2012 would require an adjustment after the claim has been filed by the taxpayer to reflect the increased refund amount. This would result in increased administrative costs.

Senior Citizen Property Tax Deferral Program (Sections 13-14)

Under current law, property taxes deferred through the senior deferral program accrue interest annually. The proposal would eliminate the accrual of interest on deferred property tax beginning with property taxes payable in 2013.

- The senior property tax deferral program had 288 participants who deferred property taxes in 2011. The total amount deferred was approximately \$1.1 million, or \$3,800 per participant.
- With the elimination of the accrual of interest, it is assumed program participation would increase an additional 15%. Using the average amount deferred in the current program, the estimated total cost increase would be approximately \$180,000 beginning in FY 2014.

- The state cost from eliminating the accrual of interest on deferred property taxes would be negligible in the short term but would grow in the future.

Mining Occupation Tax (Sections 15-19)

The bill would lower the occupation tax rate from 2.45% to 1.45%, increase the net proceeds tax rate from 2.00% to 3.00%, and modify the distribution of proceeds from the taconite production tax and net proceeds tax.

- Nonferrous mineral production is currently projected to be zero through calendar year 2012. Production is assumed to begin in 2013 and increase annually in the short term.
- The bill would significantly reduce occupation tax revenues in Minnesota if/when nonferrous mineral production increases. The occupation tax rate reduction is estimated to reduce tax revenues by less than \$5,000 for FY 2014 and FY 2015.
- Occupation tax revenues are deposited into the state general fund, with 50% dedicated to the general fund and 50% to schools and the University of Minnesota. The state general fund impact would be less than \$5,000 in FY 2014 and FY 2015.
- There would be no impact to the state general fund from the net proceeds tax rate change as any revenues from production inside the taconite assistance area would be distributed to local jurisdictions and taconite funds.

Local Government Aid Increase (Sections 20-22, 25)

For aids payable in 2013, each city with a population of 5,000 or more would receive the same distribution amount as 2012. For cities under 5,000 population, the distribution would be equal to the greater of its 2012 distribution or its certified 2013 amount. The proposal would also provide a \$12,000 increase to the city of Tamarack.

- Under current law, cities were certified to receive \$425.2 million in 2012 and estimated to receive \$426.4 million in 2013 and thereafter.
- Under the proposal, the net increase in aid would be \$1.069 million in 2013. The appropriation would be unchanged for 2014 and thereafter.
- It is assumed that the net increase in aid to cities would reduce property tax levies by a portion of the increase. This would reduce property taxes on all property classes including homesteads.
- The decreased property tax burden would reduce state-paid homeowner property tax refunds and income tax deductions in FY 2014, resulting in a savings to the state general fund.

Cook-Orr Hospital District Tax Levy Authority (Section 23)

The bill would modify the use of proceeds of the tax levied by the Cook-Orr Hospital District. Current law provides for proceeds to be used solely for ambulance acquisitions. Under the proposal, the list of purposes would be broadened to include attached and portable equipment for

ambulances and repair parts for maintenance of the ambulances. The list of unauthorized uses is also broadened to exclude operation expenses in addition to administrative and salary expenses.

- The bill does not change the maximum levy authority of the district. There would be no impact to the state general fund from the proposed changes.

Agricultural Homestead Extension (Section 24)

The bill permanently extends a special agricultural homestead provision for qualifying agricultural property owners in Marshall County. The property must have been homesteaded before floods in 2009, and remain under the same ownership. The current owner must live within 50 miles of one of his agricultural parcels.

- It is assumed that one or a few property owners would continue to qualify under this proposal.
- Higher property taxes on other homesteads and lower property taxes on qualifying agricultural property would have a negligible effect on property tax refunds.

Targeting (Special Supplemental) Refund (Section 26)

Under current law, the special refund formula amount is 60% of the property tax increase greater than 12%, subject to a maximum refund of \$1,000 and a minimum tax change over \$100. The bill proposes to change the 60% factor to 90% for taxes payable 2012 only.

- The estimates are based on the February 2012 forecast.
- Due to the formula change, the targeting (special supplemental) refund would increase by \$4.1 million for payable 2012.

Note: returns submitted for rent paid in 2011 or taxes payable in 2012 would require an adjustment after the claim has been filed by the taxpayer to reflect the increased refund amount. This would result in increased administrative costs.

Economic Development Exemption Extension (Section 28)

Under current law, the holding of property by a jurisdiction for later resale for economic development purposes is exempt from property taxation for up to 9 years, and up to 15 years for property located in a city of less than 5,000 population outside the seven county metropolitan area. The bill allows outstate property in a city over 5,000 population to be held for up to 11 years. Effective for assessment year 2012 and thereafter, and for taxes payable 2013 and thereafter.

- The proposed modifications to exemption 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.

Truth in Taxation Task Force (Section 29)

The bill establishes a task force to study and make recommendations on the form of Truth-in-Taxation statements. The report is due December 15, 2012.

- There would be no assumed impact to the state general fund

Moorhead New Construction (Section 30)

The bill exempts the property tax on class 1a, 1b, 2a, 4a, 4b, 4bb, and 4d farm homestead, residential, and apartment property whose construction commences between January 1, 2012 and December 31, 2013. Construction is deemed to have commenced if a building permit has been issued, and a footing or foundation inspection has been completed. The exemption also applies to improvements to existing class 1a, 1b, 2a, 4a, 4b, 4bb, and 4d farm homestead, residential, and apartment property if construction commenced between January 1, 2012 and December 31, 2013. The improvement must add at least \$10,000 of market value to the property. Qualifying cities include Moorhead, Dilworth, East Grand Forks, and Breckinridge. The exemption is capped at \$200,000 of market value for class 1a, 1b, 2a, 4a, 4b, and 4bb structures. The exemption is capped at \$20,000 of market value per unit for class 4d apartments. The exemption extends 2 years after completion per parcel. Application for the exemption must be filed with the county assessor. Effective for taxes payable 2014 through 2016.

- The analysis is based on February, 2012 forecast data.
- The analysis assumes that the previous level of activity for a similar abatement program will continue.
- The homestead property tax exemption 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. A decrease on exempted property would reduce refunds by \$35,000 in the first year, \$70,000 in the second year, and 35,000 in the third year.
- The proposal would shift an estimated \$500,000 of property tax onto all other property types in the first year. Higher property taxes on non-qualifying homesteads would increase property tax refunds by \$20,000 in FY 2015.

Article 4: TIF

Tax Increments Spending Deadline Extended (Sections 1, 2)

The bill extends the deadline for construction stimulus economic development tax increment financing (TIF) districts 1½ years. Effective day following final enactment, and is applicable to all TIF districts.

- The proposed modifications 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.

TIF Expenditures Outside the District (Section 3)

The bill modifies the clause in tax increment financing (TIF) statute defining increment expenditures outside the district. The market value of housing definition is modified to reflect market value prior to demolition or rehabilitation. Effective for all TIF districts under this statute regardless of when certified.

- 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.

Oakdale TIF (Section 4)

The bill allows the city of Oakdale to extend the deadline for certification to December 31, 2017 for a redevelopment tax increment financing (TIF) district. The bill also allows specified parcels to qualify under structurally substandard clauses if buildings have been removed and request for certification is file before December 31, 2015. 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.

Apple Valley TIF (Section 5)

The bill allows the city of Apple Valley or its economic development authority to create one or more redevelopment tax increment financing (TIF) districts from the listed parcels. The project will be referred to as the Mining Reclamation Project Area. Requirements for qualifying redevelopment districts (such as vacant and substandard housing percentages) do not apply. The limitations on spending increments outside the district boundaries do not apply, but must be expended in the area defined by the listed parcels. The five year rule for activity to commence after certification does not apply. The authority under this bill expires December 31, 2022. 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 change in property tax refunds paid by the state.

Maple Grove TIF (Section 6)

The bill creates a soil deficiency tax increment financing (TIF) district for the city of Maple Grove. The project area is defined by legal description. A soil deficiency TIF district is defined as one which has terrain that requires fill & grading for over 80% of the area, and that the cost of physical preparation exceeds the fair market value of the property exclusive of roads and local improvements. These rules may apply to any redevelopment, renewal and renovation, soil condition, or soil deficiency district. The city must pass a resolution stating that 70% of the

district has peat or other soils with geotechnical deficiencies, require substantial fill, contains a landfill, quarry, floodway, or has 30% substandard buildings. The five year rule for activity to commence does not apply. The total revenue that may be spent outside the district (but within the project area) is increased from 25% to not more than eighty percent. Increments from a soil deficiency district may be collected for 20 years. Increments may be used to acquire parcels, correct terrain or soil deficiencies, install public improvements, and administrative expenses. The authority to establish TIF plans under this statute expires December 31, 2022. 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 change in property tax refunds paid by the state.

Dakota County TIF (Section 7)

The bill allows the Dakota County Community Development Authority to establish a redevelopment tax increment financing (TIF) district. The parcels are identified. The new district terminates no later than December 31, 2027. Requirements in statute for redevelopment districts do not apply. Increments may be spent on decorative or aesthetic purposes. Increments may be used for park, recreational, social, or conference purposes. The original tax capacity of the district is specified as \$93,239. Increments may be expended for any eligible activity within the redevelopment area. The captured net tax capacity (NTC) of the district must be included in the adjusted NTC of city, county, and school district for the purposes of determining local government aid (LGA), education aid, and county program aid (CPA). Effective following local approval.

- The proposed exceptions 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.
- Total LGA and CPA would remain the same as current law.

Bloomington TIF (Section 8)

The bill allows the city of Bloomington and its port authority to extend the duration limits of tax increment financing (TIF) district No.1-I, which contains the Bloomington Central Station property. The TIF district would be extended through December 31, 2035. 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.

Mall of America TIF (Section 9)

The bill allows the city of Bloomington and its port authority to extend the duration limits of tax increment financing (TIF) district No.1-G, which contains the former Met Center property, including Lindau Lane and part of No. 1-C. The TIF district would be extended through December 31, 2028. Expenditures over \$5 million of increment requires written justification from the city of Bloomington. 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.

Brooklyn Park TIF (Section 10)

This section allows the city of Brooklyn Park's tax increment financing (TIF) district #23 to qualify under the 5 year requirement for activity to begin if activities are undertaken by July 1, 2014. 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 change in property tax refunds paid by the state.

Article 5: Miscellaneous

Aggregate Materials Tax – City of Vergas in Otter Tail County (Section 4)

The bill allows the city of Vergas in Otter Tail County to impose an aggregate materials tax if Otter Tail County does not. The city of Vergas would be deemed to be the county for purposes of collecting the tax, except that all tax must be retained by the city. If Otter Tail County imposes an aggregate materials tax, the tax imposed by the city of Vergas would be repealed on the effective date of the Otter Tail County tax.

- The bill would have no impact on any state funds. Revenue from the proposed tax would go to the city of Vergas.

Additional Border City Allocation (Section 5)

The bill provides a one-time additional allocation of \$150,000 for border city zones in 2012.

- The state cost impact would be \$150,000 in FY 2013.

City of St. Paul Maximum Debt Extended (Section 6)

The bill would extend the annual maximum debt limit for the city of St. Paul. The current law limit of \$20 million would be effective through taxes payable 2024.

- The proposal would not impact the state general fund. Under current law city levy limits are not in effect and the property tax levy authority of the city of St. Paul would be unaffected.

Itasca County General Obligation Bonds (Section 7)

Under current law, the bonds issued by Itasca County to finance the construction of a nursing home facility must be payable solely from revenues and may not be general obligations of the county.

- The bill would change the requirement that revenues be the sole method of repayment and would allow the bonds to be general obligations of the county.
- The proposal would not impact the state general fund. Under current law county levy limits are not in effect and the property tax levy authority of Itasca County would be unaffected.

Woodbury Public Debt Authorization (Section 12)

The bill would authorize the city of Woodbury to issue and sell obligations without a referendum to pay for the cost of renovating the Bielenberg Sports Center, provided that the obligations are secured by a pledge of revenues from the facility and without the imposition of an additional property tax levy.

- There would be no assumed impact to the state general fund

Steele County CIP Bonding Authority (Section 14)

This section allows the governing body of Steele County to issue up to \$650,000 of bonds for capital improvements for its fairgrounds and a highway operations and maintenance complex. Effective following local approval.

- There would be no assumed impact to the state general fund

Wadena County CIP Bonding Authority (Section 15)

This section allows the governing body of Wadena County to issue up to \$1 million of bonds for capital improvements for its fairgrounds. Effective following local approval.

- There would be no assumed impact to the state general fund

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