PROPERTY TAX
Senate Omnibus Tax Bill
Articles 3, 4 and 5

March 21, 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 S.F. 1972 (Ortman), as proposed to be amended by SCS1972A-1

	Fund Impact			
	F.Y. 2012	**F.Y. 2013**	**F.Y. 2014**	**F.Y. 2015**
Article 3: Property Taxes		(000's)		
Local Government Reporting, Performance Measures	$0	$70	$0	$0
Career and Technical Levy^	$0	$0	$0	$0
Lease Levy Authority Extension^	$0	$0	$0	$0
State General Levy	$0	($31,000)	($65,500)	($83,600)
Targeting Refund	$0	($1,980)	($875)	($1,060)
Reduce Local Government Aid	$0	$0	$1,200	$0
Lease Levy Administrative Space^	$0	$0	$0	$0
Article 4: Local Development				
Mining Reclamation District	$0	$0	$0	$0
TIF Redevelopment District	$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
Mall of America TIF	$0	$0	$0	$0
Bloomington TIF	$0	$0	$0	$0
Dakota County TIF	$0	$0	$0	$0
St. Cloud TIF	$0	$0	$0	$0

Article 5: Homestead Market Value Cleanup				
EMV/TMV Modifications	$0	$0	($400)	($400)
Property Tax Interactions				
Property Tax Refund Interactions	$0	$0	($30)	$0
Income Tax Interactions	$0	$0	$1,660	$2,190
General Fund Total*	**$0**	**$32,910**	**($63,945)**	**($82,870)**

*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.

^ The state interaction impacts for the school levy provisions are not included in this analysis (Article 3, sections 2-3, 12-13).

Various effective dates.

EXPLANATION OF THE BILL & REVENUE ANALYSIS DETAIL

Article 3: Property Taxes

Local Government Reporting, Performance Measures (Sections 1, 6-7, 9)
The bill would require cities with a population over 2,500 and counties to publish electronic budgetary information. The budget information would include four years of revenues and expenditures by function and by expenditure type, including the three most recently concluded budget years and estimated data for the current budget year. The adopted final budget would also be posted within 14 days of adoption. The forms and reporting requirements would be established by the state auditor's office.

The bill would also modify the local performance measurements program to require participating jurisdictions to meet the new budgetary reporting requirements in 2012 in order to receive their $0.14 per capita benefits in 2012.

Beginning in 2013, the penalty for failing to provide the required budgetary information would be the withholding of local government aid, county program aid, state highway aids and amortization aids in the following calendar year.

- In 2012, it is assumed that some counties and cities currently participating in the performance measurement program would not meet the new reporting requirements for 2012 and would forgo their $0.14 per capita payment for one year. This would result in an estimated state savings of $70,000.
- Beginning in 2013, the analysis assumes all cities and counties required to publish electronic budgetary information would comply.

Career and Technical Levy (Sections 2, 12)
These sections change the career and technical authorizations. The levy may not exceed $17.85 million for taxes payable 2012.

Lease Levy Authority Extension (Section 3)
This section extends authority for a district in the St. Croix River Education District to levy for a lease.

State General Levy (Sections 4-5, 15)
The proposal makes several changes to the state general levy. The proposal sets the state general levy at $739 million for class 3a commercial, industrial, railroad, and public utility property. The state general levy is set at $40.6 million for seasonal recreational residential property. The levy is frozen at that level for payable 2014-2016. For payable 2017 and beyond, the levy is phased out over 10 years. Effective beginning with taxes payable in 2013.

- Data is from the February, 2012 forecast.
- The state general levy total for payable 2013 is $56.4 million lower than current law.
- The state general levy would decrease by $31.0 million in FY 2013, $65.5 million in FY 2014, and by $83.6 million in FY 2015.
- Lower property taxes would reduce deductions on corporate and individual income tax returns, increasing state tax collections by $1.69 million in FY 2014 and by $2.19 million in FY 2015.

Targeting Refund (Sections 8, 14)
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 proposal changes the 60% factor to 75% for taxes payable 2012 and thereafter.

- Data is for the February, 2012 forecast.

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.

Reduce Local Government Aid (Sections 10-11)
For aids payable in 2013, the proposal would set LGA payments at the 2012 distribution amounts. Aid distribution calculations would return to the formula for aids payable in 2014 and thereafter.

- 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 reduction in aid would be $1.2 million in 2013. The appropriation would be unchanged for 2014 and thereafter.
- It is assumed that the net reduction in aid to cities would increase property tax levies by 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 in FY 2014, resulting in a cost to the state general fund.

Lease Levy Administrative Space (Section 13)
This section allows Faribault and Wayzata school districts to levy for leases for administrative space if they can demonstrate cost savings.

Article 4: Local Development

Mining Reclamation District (Sections 1-2, 4-6)
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 for districts for which certification is made after April 30, 2012

- 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.

TIF Redevelopment District (Section 3)
The bill allows redevelopment tax increment financing (TIF) districts that have 50% substandard buildings to qualify under this section. 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.

TIF Expenditures Outside the District (Section 7)
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 8)
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, 2017. 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 9)
The bill allows the city of Apple Valley to use tax increment financing (TIF) to provide improvements, loans, subsidies, grants, interest rate subsidies, or other assistance to developments if all the following criteria are met. The project must create or retain jobs, would not commence before July 1, 2013 without TIF, request certification before June 30, 2013, construction begins no later than July 1, 2013, and housing construction begins no later than December 31, 2012.

The bill also allows the city to spend tax increments under temporary construction authority for one more year until December 31, 2013. 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.

Mall of America TIF (Section 10)
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, 2038. 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.

Bloomington TIF (Section 11)
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, 2038. 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.

Dakota County TIF (Section 12)
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.

St. Cloud TIF (Section 13)
The bill allows the city of St. Cloud's economic development authority to use tax increments from tax increment financing (TIF) district number two within the Central Urban Renewal Project area of the city. Eligible expenditures are for public infrastructure improvements, and are endorsed to be in compliance with applicable law. Any funds remaining in TIF district number two must be expended by December 31, 2015, or distributed as excess increment. Effective following local approval.

- 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.

Article 5: Homestead Market Value Cleanup

TMV/EMV Modifications

The bill changes numerous property tax statutes. Levy limits for special taxing districts are changed from a rate multiplied by taxable market value (TMV) to a rate multiplied by estimated market value (EMV). Special taxing districts affected include economic development, watershed, port authority, regional railroad, and park museum districts. Other definitions, apportionments, and qualifications are altered as well.

- The major impact of the bill is expected to be an increase in levy authority over current law for those special taxing districts currently at their levy limits.
- Higher residential property taxes would increase property tax refunds by $200,000 in FY 2014 and FY 2015.
- Higher property taxes would reduce income taxes by $200,000 in FY 2014 and FY 2015.

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

sf1972_pt_2/lam,nrg