PROPERTY TAX
Laws 2012, Chapter 285,
Omnibus Tax Bill (vetoed)

May 11, 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 Laws 2012, Chapter 285, Articles 1, 4, 6-8 (vetoed)

	Fund Impact			
	F.Y. 2012	F.Y. 2013	F.Y. 2014	F.Y. 2015
Article 1: Property Taxes		(000's)		
Local Government Reporting, Performance Measures	$0	$70	$0	$0
Bovine Tuberculosis Property Tax Credit	$0	($70)	($70)	$0
State General Levy	$0	($10,200)	($27,700)	($45,800)
Special Taxing Districts on Property Tax Statements	$0	$0	$0	$0
Targeting Refund	$0	($4,100)	($875)	($1,060)
Local Government Aid Increase	$0	$0	($1,069)	$0
Payment for City of Tamarack	$0	($12)	$0	$0
LGA Penalties FY 2012	$0	$0	$0	$0
Cook/Orr Hospital District Tax Levy Authority	$0	$0	$0	$0
Carlton County Levy Authority	$0	$0	$0	$0
Agricultural Homestead Extension	$0	$0	(negligible)	(negligible)
Economic Development Exemption Extension	$0	$0	$0	$0
Article 4: Local Development				
Mining Reclamation District	$0	$0	$0	$0
TIF Redevelopment District	$0	$0	$0	$0
Tax Increments Spending Deadline Extended	$0	$0	$0	$0
TIF Expenditures Outside the District	$0	$0	$0	$0

Oakdale 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
Brooklyn Park TIF	$0	$0	$0	$0
Article 6: Public Finance				
Capital Improvement Bonds	$0	$0	$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
Article 7: Homestead Market Value Cleanup				
EMV/TMV Modifications	$0	$0	($400)	($400)
Article 8: Miscellaneous				
Aggregate Materials Tax – City of Vergas	$0	$0	$0	$0
Additional Border City Allocation	$0	($250)	$0	$0
Property Tax Interactions				
Property Tax Refund Interactions	$0	$0	$36	$6
Income Tax Interactions	$0	$0	$592	$1,062
General Fund Total*	**$0**	**($14,562)**	**($29,486)**	**($46,192)**

*Under the proposal, $4 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

Local Government Reporting, Performance Measures (Sections 1, 4-5, 9)
The bill would require cities with a population over 5,000 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 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 with a population over 5,000 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.

Bovine Tuberculosis Property Tax Credit (Section 2)
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 (Section 3)
The proposal sets the state general levy at $817.423 million for taxes payable 2013 and thereafter.

- Data is from the February, 2012 forecast.
- The state general levy total for payable 2013 is $18.6 million lower than current law.
- The state general levy would decrease by $10.2 million in FY 2013, $27.7 million in FY 2014, and by $45.8 million in FY 2015.
- Lower property taxes would reduce deductions on corporate and individual income tax returns, increasing state tax collections by $0.56 million in FY 2014 and by $1.06 million in FY 2015.

Special Taxing Districts Requirement on Property Tax Statements (Sections 6-7)
The bill requires that special taxing district levies exceeding 25% of the total of all special taxing district levies be listed separately on the tax statement mailed to taxpayers. Contact information for these special taxing districts must also be included. Effective for tax statements beginning in 2013 and thereafter.

- In practice, the additional language would require each special taxing district to be listed separately, potentially making the statement 2 pages long in some jurisdictions.

Targeting Refund (Sections 8, 20)
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 90% for taxes payable 2012, and to 75% for taxes payable 2013 and thereafter.

- 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, $875 thousand for payable 2013 and $1.1 million for payable 2014.

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.

Local Government Aid Increase (Sections 10-12, 19)
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.

LGA Penalties (Section 13-14)
The bill would specify penalties for counties and cities failing to submit the required financial reporting information to the state auditor. The penalty would be a forfeit of a percentage of state aid: 10% penalty if submitting required information within 45 days of the reporting deadline; 30% if within 60 days; 50% if within 90 days.

The bill would provide payments to seventeen cities that had 2011 local government aid (LGA) payments withheld due to noncompliance with financial reporting requirements. The payment of withheld LGA to these cities would be made before June 30, 2012 provided that the financial reports are received by the State Auditor by May 31, 2012. Up to $794,597 of the existing FY 2012 appropriation made available for these payments.

- The February 2012 forecast assumes the full LGA appropriation would be paid to cities.
- LGA payments withheld for the 17 cities total $794,579.
- The $794,579 that will be unpaid under current law will cancel at the end of the fiscal year.
- Under the bill, it is assumed that all 17 cities would provide the financial reports and the withheld amounts would be paid in FY 2012.

Cook-Orr Hospital District Tax Levy Authority (Section 15)
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.

Carlton County Levy Authority (Section 16)
The proposal would authorize Carlton County to annually levy in and for the unorganized township of Sawyer for cemetery purposes. The authority would become effective upon local approval. Effective for taxes payable in 2013 and thereafter.

- The proposal would not impact the state general fund. Under current law, general county levy limits are not in effect and the overall property tax levy authority of Carlton County would be unaffected.

Agricultural Homestead Extension (Section 17)
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.

Economic Development Exemption Extension (Section 18)
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.

Article 4: Local Development

Mining Reclamation District (Sections 1, 3-7, 10, 12-13)
A soil deficiency TIF district is defined as one which has unusual terrain or soil deficiencies over 70% of the area, or requires fill & grading for over 50% of the area, and that the cost of physical preparation exceeds the fair market value of the property exclusive of roads and local improvements. The city authority 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. These rules may apply to any redevelopment, renewal and renovation, soil condition, or soil deficiency district. The five year rule for activity

to commence is extended to 10 years. The percentage of the district's total revenue that may be spent outside the district (but within the project area) is increased up to 80%. Increments may be used to acquire parcels, correct terrain or soil deficiencies, install public improvements, and pay administrative expenses. 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 2)
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.

Tax Increments Spending Deadline Extended (Sections 8-9)
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 11)
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 14)
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.

Mall of America TIF (Section 15)
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 16)
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 17)
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.

Brooklyn Park TIF (Section 18)
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.

<u>Article 6: Public Finance</u>

Capital Improvement Bonds
The bill would make a number of modifications to the terms, conditions and definitions relating to capital improvement bonding.

- There is no assumed impact to the state general fund.

City of St. Paul Maximum Debt Extended (Section 8)
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 9)
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 10)
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

Article 7: 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.

Article 8: 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 $250,000 for border city zones in 2012.

- The state cost impact would be $250,000 in FY 2013.

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