

MINNESOTA • REVENUE

PROPERTY TAX House Omnibus Tax Bill Articles 2-4, 9-12, 14, 17

April 26, 2013

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. 677 (Lenczewski), 3rd Engrossment, Articles 2-4, 9-12, 14, 17

	Fund Impact			
	<u>F.Y. 2014</u>	<u>F.Y. 2015</u>	<u>F.Y. 2016</u>	<u>F.Y. 2017</u>
<u>Article 2: Homestead Credit Refund and Renter Property Tax Refund</u>				
Renter Property Tax Refund	\$0	(\$15,500)	(\$16,400)	(\$17,200)
Homestead Credit Property Tax Refund	\$0	(\$85,600)	(\$88,200)	(\$91,100)
Notification of PTR Eligibility	\$0	(\$71,000)	(\$73,000)	(\$75,000)
<u>Article 3: Property Tax Aids and Credits</u>				
Pension Aid Modifications				
Surcharge Fire Pension Aid Fund	\$3,750	\$7,500	\$7,500	\$7,500
Surcharge Police Pension Aid Fund	\$7,750	\$15,500	\$15,500	\$15,500
Fire Aid/Pension Expenditure	(\$3,750)	(\$7,500)	(\$7,500)	(\$7,500)
Police Aid/Pension Expenditure	(\$7,750)	(\$15,500)	(\$15,500)	(\$15,500)
Disparity Reduction Credit	\$0	(\$1,560)	(\$1,600)	(\$1,600)
Income Tax Interactions	\$0	\$0	\$50	\$50
Sustainable Forest Incentive Payments	\$0	\$2,000	\$2,100	\$2,200
Local Government Aid Increase	\$0	(\$80,000)	(\$80,000)	(\$80,000)
Inflation Adjustment	\$0	\$0	(\$9,900)	(\$19,500)
Population Growth Adjustment	\$0	\$0	(\$4,200)	(\$9,500)
Property Tax Refund Interactions	\$0	\$2,640	\$3,070	\$3,550
Income Tax Interactions	\$0	\$1,950	\$2,240	\$2,610
County Program Aid	\$0	(\$30,000)	(\$30,000)	(\$30,000)
Property Tax Refund Interactions	\$0	\$980	\$980	\$980
Income Tax Interactions	\$0	\$720	\$720	\$720
Mahnomen Payments Sunset	\$0	\$600	\$600	\$600
Property Tax Refund Interactions	\$0	(\$20)	(\$20)	(\$20)
Income Tax Interactions	\$0	(\$10)	(\$10)	(\$10)

	Fund Impact			
	<u>F.Y. 2014</u>	<u>F.Y. 2015</u>	<u>F.Y. 2016</u>	<u>F.Y. 2017</u>
<u>Article 4: Property Taxes</u>				
Board of Water and Soil Resources Levy Authority	\$0	\$0	\$0	\$0
Manufactured Homes Owned by a Dealer	\$0	(unknown)	(unknown)	(unknown)
Exempt Property Held for Economic Development	\$0	\$0	(unknown)	(unknown)
Indian Tribal Non-profit Property Exemption	\$0	(negligible)	(negligible)	(negligible)
Minneapolis Basketball Arena Exemption Property Tax Refund Interactions	\$0	(\$170)	(\$180)	(\$360)
St. Paul Minor League Ballpark Exemption Property Tax Refund Interactions	\$0	\$0	\$0	(\$110)
Electric Generation Facility Exemption	\$0	\$0	(unknown)	(unknown)
Class 4d Limited Market Value	\$0	(unknown)	(unknown)	(unknown)
Property Tax Due Date Modifications	\$0	(unknown)	(unknown)	(unknown)
Cook-Orr Hospital District Levy Authority	\$0	\$0	\$0	\$0
Carlton County Cemetery Tax Levy	\$0	\$0	\$0	\$0
Multicounty Housing and Redevelopment Authority	\$0	\$0	\$0	\$0
Agricultural Homestead Extension	\$0	(negligible)	(negligible)	(negligible)
Valuation Freeze on Certain Equipment	\$0	\$0	\$0	\$0
Hennepin County Abatement Reimbursement	(\$336)	\$0	\$0	\$0
Iron Range Fiscal Disparities Study	\$0	\$0	\$0	\$0
Special Service and Housing Improvement Districts	\$0	\$0	\$0	\$0
<u>Article 9: Economic Development</u>				
Bloomington Provisions				
Property Tax Refund Interactions	\$0	(\$690)	(\$720)	(\$760)
Income Tax Interactions	\$0	(\$470)	(\$490)	(\$510)

	Fund Impact			
	<u>F.Y. 2014</u>	<u>F.Y. 2015</u>	<u>F.Y. 2016</u>	<u>F.Y. 2017</u>
Border City Enterprise Zone Allocation	(\$1,500)	\$0	\$0	\$0
TIF Changes (Sections 3-4)	\$0	\$0	\$0	\$0
TIF Extension	\$0	\$0	\$0	\$0
TIF Original Net Tax Capacity Adjustment	\$0	\$0	\$0	\$0
Oakdale TIF	\$0	\$0	\$0	\$0
St. Cloud TIF	\$0	\$0	\$0	\$0
Dakota County TIF	\$0	\$0	\$0	\$0
Glencoe TIF	\$0	\$0	\$0	\$0
Ely TIF	\$0	\$0	\$0	\$0
Maplewood TIF	\$0	\$0	\$0	\$0
Transit Improvement TIF	\$0	\$0	\$0	\$0

Article 10: Destination Medical Center

General State Infrastructure Aid	\$0	\$0	(\$6,405)	(\$9,660)
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Article 11: Mining Taxes

Fracturing Sand Extraction Tax	\$800	\$900	\$900	\$900
Fracturing Sand Production Tax	\$2,500	\$2,600	\$2,700	\$2,800
Mining Occupation Tax Rate Increase	\$18,900	\$19,800	\$19,800	\$20,800
Taconite Production Tax Modifications	\$0	\$0	\$0	\$0
Aggregate Materials Production Tax	\$0	\$0	\$0	\$0

Article 12: Public Finance

Municipal Street Improvement Districts	\$0	\$0	\$0	\$0
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	Fund Impact			
	<u>F.Y. 2014</u>	<u>F.Y. 2015</u>	<u>F.Y. 2016</u>	<u>F.Y. 2017</u>
Metro Area Transit Capital Expenditures				
Property Tax Refund Interactions	\$0	\$0	\$0	(\$630)
Income Tax Interactions	\$0	\$0	\$0	(\$470)
St. Paul Capital Bonding Extension	\$0	\$0	\$0	\$0
<u>Article 14: Market Value Definitions</u>				
Property Tax Refund Interactions	\$0	(\$280)	(\$280)	(\$280)
Income Tax Interactions	\$0	(\$150)	(\$150)	(\$150)
<u>Article 17: Department of Revenue</u>				
<u>Property and Minerals Provisions</u>	\$0	\$0	\$0	\$0
General Fund Total	\$20,364	(\$253,260)	(\$278,395)	(\$301,650)

Various effective dates.

EXPLANATION OF THE BILL & REVENUE ANALYSIS DETAIL

Article 2: Homestead Credit Refund and Renter Property Tax Refund

The bill modifies the definition of household income used to calculate property tax refunds by excluding taxable and nontaxable retirement contributions and deferred compensation from the definition of household income used to calculate property tax refunds. Distributions from individual retirement accounts would be included in household income.

Renter Property Tax Refund (Sections 1, 3-4)

For the renter PTR program, the current percentage of income threshold ranges from 1.0 percent to 3.5 percent based on household income. The proposal would reduce the percentage of income threshold to 2.0 percent for renters with household incomes above \$31,030. Household income ranges below \$31,030 would remain between 1.0 percent and 2.0 percent. The proposal would also increase the renter maximum refund for all income ranges. Maximum refund increases range between \$10 and \$370.

- The estimates are based on the February 2013 forecast.
- Under current law, approximately 334,000 renters are expected to receive an average property tax refund of \$609.
- The proposed formula changes would increase refunds to approximately 24 percent of current filers. The average renter property tax refund increase would be \$152.
- It is assumed that some new claimants would become eligible and file for a renter refund due to the proposed formula changes. This would increase renter refunds an additional \$5 million beginning in FY 2015.

Homestead Credit Property Tax Refund (Sections 1-2, 4)

The bill renames the homeowner PTR program the Homestead Credit Refund. The current percentage of income threshold ranges from 1.0 percent to 3.5 percent based on household income. The proposal would reduce the homeowner percentage of income threshold to between 2.0 percent and 2.5 percent for household incomes above \$19,530. Household income ranges below \$19,530 would remain between 1.0 percent and 2.0 percent.

- The estimates are based on the February 2013 forecast.
- Under current law, approximately 410,000 homeowners are expected to receive an average property tax refund of \$830.
- The proposed formula changes would increase homeowner refunds to approximately 76 percent of current filers. It is assumed that approximately 112,000 new claimants would become eligible and file for a refund due to the proposed formula changes.
- Under the proposal, the average refund increase would be approximately \$219.

Notification of Potential Eligibility Homeowner PTR (Section 5)

The proposal would also require the state to notify individual homeowners who may be eligible for a refund but have not filed. In determining whether to notify a homeowner, the commissioner

of revenue would consider the property tax information reported by county auditors and the income information reported by the taxpayer on their income tax return. The notification must be delivered by Aug. 1, 2014 and include information on how to file for the refund and the range of potential refunds the homeowner could qualify to receive.

- Current participation for the homeowner property tax refund program is estimated to be approximately two-thirds, leaving one-third of potentially eligible refunds unclaimed.
- Assuming one-half of the unclaimed refunds would be claimed, the increased state cost would total approximately \$71 million in FY 2015, \$73 million in FY 2016 and \$75 million in FY 2017.

Article 3: Property Tax Aids and Credits

Fire Pension Aid Surcharge (Sections 1, 6)

The bill creates two new surcharge pension aid accounts administered by the commissioner of revenue. The surcharge fire pension aid account is allocated 17.342 percent to PERA, 8.658 percent to municipalities with public employees police and fire retirement plan, and 74 percent to other municipalities receiving state fire aid. Funds from the surcharge police pension aid account are split 1/3 police state aid, and 2/3 apportioned on the basis of the number of active police officers certified for state aid to PERA and the state patrol retirement fund. The amount of the fire surcharge equals \$5 per calendar year of each homeowners insurance policy. The amount of the police surcharge equals \$5 per calendar year of each automobile insurance policy. The surcharge terminates when assets equal 90 percent of accrued liabilities for the state patrol or public employees fire and police retirement plans, whichever comes last. Effective for policies issued after June 30, 2013.

- Data is from Legislative Commission on Pensions and Retirement.
- The annual amount raised and spent in the surcharge fire pension aid account is estimated to be \$7.5 million. Half would be available in the first fiscal year.
- The annual amount raised and spent in the surcharge police pension aid account is estimated to be \$15.5 million. Half would be available in the first fiscal year.

Disparity Reduction Credit (Section 2)

The proposal lowers the effective tax rate threshold for calculating disparity reduction credit (DRC) from 2.3 percent to 2.0 percent.

- The proposal was modeled on payable 2013 data.
- DRC would increase by \$1.55 million in FY 2015, and by \$1.6 million in FY 2106 and FY 2017. The slightly lower increase in the first year is due to the school levy recognition shift.
- Lower property taxes on apartments and commercial property would decrease income and corporate franchise tax deductions. Collections on those taxes would therefore increase by \$50,000 in FY 2016 and FY 2017.

Sustainable Forest Incentive Payments (Sections 3-5)

The proposal would limit the SFIA payment to the lesser of (1) \$7.00 per acre or (2) 50 percent of the actual property tax per acre. The maximum of \$100,000 per land owner would remain in effect. Each land owner enrolled in the program would be required to submit a copy of the property tax statements with their annual certification.

The proposal would also make ineligible for the SFIA program any land subject to a conservation easement or other permanent easement conveyed to a government or nonprofit entity.

- Estimates are based on the February 2013 forecast.
- Approximately 769,000 acres were enrolled in the SFIA program in 2012.
- Of the current lands enrolled in SFIA, 25 percent are estimated to also be subject to an easement. Under the proposal these lands would no longer be eligible for the SFIA payment.
- Limiting the SFIA payment to the lesser of \$7.00 per acre or 50 percent of the actual property tax per acre would reduce SFIA payments to lands with property taxes below \$14.00 per acre. It is estimated that most lands enrolled in SFIA have property taxes of less than \$14.00 per acre and would receive a payment of less than \$7.00 per acre under the proposal.
- State general fund savings would be realized beginning in FY 2015.

Local Government Aid Increase (Sections 7-17, 19-20)

The proposal would permanently increase the appropriation for city Local Government Aid (LGA) by \$80 million in CY 2014. Each year thereafter the appropriation would be increased for inflation and population growth, not less than 2.5 percent and not more than 5.0 percent annually. The proposal would also create a new three-tiered formula for distributing aid to cities. In the first year, no city would receive less than it was certified to receive in 2013. Effective for aids payable in calendar year 2014 and thereafter.

- Under current law, the city LGA appropriation is set to approximately \$426.4 million. Beginning in FY 2015, the appropriation would be increased to approximately \$506.4 million.
- The bill would annually adjust the appropriation for inflation and population growth, which is estimated to increase city LGA by an additional \$14.1 million in FY 2016 and an additional \$29.0 million in FY 2017.
- 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 reduced property tax burden would reduce state-paid homeowner property tax refunds and income tax deductions beginning in FY 2015, resulting in a savings to the state general fund.

County Program Aid (Section 18)

The proposal would permanently increase the appropriation for county program aid (CPA) by \$30 million. The increase would be split evenly between formula need aid and tax base equalization aid.

- Under current law, the CPA appropriation is set to approximately \$165.5 million. Beginning in FY 2015, the appropriation would be increased to approximately \$195.5 million.
- It is assumed that counties receiving an increase in aid would reduce property tax levies for a portion of the increase. This would reduce property taxes on all property classes including homesteads.
- The reduced property tax burden would reduce state-paid homeowner property tax refunds and income tax deductions beginning in FY 2015, resulting in a savings to the state general fund.

Mahnomen LGA Payment Sunset (Section 20)

Under current law, \$600,000 is paid annually from the state general fund as a property tax reimbursement to the city of Mahnomen (\$80,000), Mahnomen County (\$450,000), and the Mahnomen school district (\$70,000). The bill would repeal the payments effective beginning with CY 2014.

- The property tax reimbursement payment reduction to local governments in Mahnomen County would reduce state costs by \$600,000 beginning in CY 2014.
- The increased property tax burden would increase state-paid homeowner property tax refunds and income tax deductions beginning in FY 2015, resulting in a cost to the state general fund.

Article 4: Property Taxes

Board of Water and Soil Resources Levy Authority (Sections 1-5)

The bill would make modifications to the Board of Water and Soil Resources. The modifications include specifying local levy authority for implementation funds for a comprehensive watershed management plan, authorizing the use of county conservation fees to be used for matching funds for base grants, and eliminating the board's cost-share fund allocation requirements. Effective date is assumed to be Aug. 1, 2013.

- The modifications related to local water planning and management is assumed to have no state cost impact. The local jurisdictions have the authority to levy for the cost of implementing a watershed management plan in their overall levy under current law.

Manufactured Homes Owned by a Dealer (Sections 6-7)

The bill exempts from personal property taxes manufactured homes held as inventory by a "limited" dealer. Qualifying manufactured homes must be listed as inventory by a licensed or limited dealer, unoccupied and not rented, and may or may not be connected to utilities.

- The bill expands exemption eligibility by adding "limited dealers" and allowing connections of gas and utilities to exemption qualifications.
- An unknown additional number of personal property manufactured homes would become exempt, lowering local collections of personal manufactured home property taxes.
- In addition, an unknown number of real property manufactured homes would become exempt, reducing the tax base. Taxes would shift onto other property types, including homesteads. Property tax refunds would change by an unknown amount as a result.
- All new exemptions are assumed to be unoccupied.

Exempt Property Held for Economic Development (Section 8)

The bill changes the property tax exemption for property held by political subdivisions for economic development purposes. Metro counties are added, and the size threshold is increased from 5,000 population to 20,000 population.

- An unknown number of additional properties would become exempt while held for redevelopment.
- The proposal would shift property taxes from exempt properties to homeowners, thereby increasing property tax refunds by an unknown amount beginning in FY 2015 and thereafter.

Indian Tribal Non-profit Property Exemption (Section 9)

The bill exempts property in a first class city of greater than 300,000 population owned by a federally recognized Indian tribe and used for noncommercial tribal purposes. Those purposes include tribal government activities and services to members of the tribe. The exemption is limited to two contiguous properties not to exceed 20,000 square feet. Property acquired for single family housing, market rate apartments, agriculture, or forestry does not qualify. The exemption expires in 2024.

- Two properties in Minneapolis may qualify for this provision.
- Assumes any exemption for taxes payable 2013 would be abated by the county.
- The exemption may have an impact on the local tax base and tax rate in the future, and may result in a negligible change in property tax refunds paid by the state.

Minneapolis Basketball Arena Exemption (Section 10)

The bill exempts real or personal property acquired, owned, leased, controlled, used, or occupied by the city of Minneapolis for the primary purpose of an arena for a professional basketball team from ad valorem property taxes. The property is subject to special assessments for local improvements in proportion to benefits received. Leased property related to the operation of the arena or parking is exempt regardless of the length of lease. Real property used for other residential, business, commercial purposes, including restaurants open more than 200 days per year, is not exempt.

- According to the Minneapolis Assessor's Office, the Target Center facility has a market value of \$31 million. (Currently in a TIF district scheduled to decertify for taxes payable 2014)

- It is assumed that the value would double by payable 2016, when renovations are complete.
- Property taxes would shift from newly exempt property to other property types, including homesteads.
- As a result of property taxes shifting onto homesteads, property tax refunds would increase by an estimated \$170,000 in FY 2015, \$180,000 in FY 2016, and \$360,000 in FY 2017.

Minor League Ballpark Exemption (Section 11)

This section exempts from property taxes the real or personal property acquired, owned, leased, controlled, used, or occupied by the city of St. Paul for a minor league baseball park and related parking. The exemption does not apply to property used for non-ballpark business or residential purposes.

- The new stadium is expected to open in spring of 2015. Estimate assumes \$54 million ballpark would be taxable without bill.
- The exemption from the state property tax levy would have no impact on state revenues because the tax rates would be adjusted to yield the amount of revenue required by statute. The tax reduction for the stadium property would be shifted to the other properties subject to the state levy.
- The proposed exemption to the general property tax provisions may have an impact on the local tax base and tax rate in the future, and may result in a \$110,000 increase in property tax refunds paid by the state in FY 2017.

Electric Generation Facility Personal Property (Section 12)

The bill exempts the attached machinery and other personal property of new electric generating facilities that exceed five megawatts of installed capacity. At time of construction, the facility must use natural gas as fuel, be owned and operated by a municipal power agency, use reciprocating engines and generators, be located in a service territory exclusively in a metro county, and be connected directly to a municipality's substation. Construction must commence between June 1, 2013, and June 1, 2017. Transmission lines, gas lines, and other connections are not exempt. Effective for assessment year 2013, for taxes payable 2014 and thereafter.

- According to the PUC, no data has been filed for these facilities. As many as 10 facilities may be built for Minnesota Municipal Power Association in Anoka, Chaska, North St. Paul, and Shakopee.
- The proposed exemption to the general public utility provisions may have an unknown 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.

Class 4d Limited Market Value (Section 13)

The bill requires that the taxable market value of class 4d subsidized housing on a per unit basis be less than \$100,000 for assessment year 2013. For subsequent years, the limit is adjusted by the average statewide change in estimated market value of class 4a and 4d apartment property for the previous year, excluding new construction, rounded to the nearest \$1,000. Beginning with

assessment year 2014, the commissioner of revenue must certify the new threshold amount by Nov. 1 of the previous year.

- According to the assessment 2012 parcel file, there are 533 apartment properties that have a per unit average market value greater than \$100,000. An unknown number of these are subsidized 4d properties.
- Property taxes would shift from subsidized housing with a per unit value over \$100,000 to other property types, including homesteads.
- As a result of property taxes shifting onto homesteads, property tax refunds would increase by an unknown amount, beginning in FY 2015.

Property Tax Due Date Modifications (Sections 14-16)

The bill grants owners of homestead property who are federal active servicemen a six month grace period in complying with property tax payment due dates. No penalties may accrue during this period. A written copy of orders or form DD214 showing dates of service must be submitted. Taxpayers on federal active service may not be deemed delinquent if due dates occur while on active service.

- The bill would have no state general fund impacts from Department of Revenue administered aids and credits.
- The bill would reduce the amount of penalties distributed to schools and counties. Lower school penalties will reduce an offset to state education aids, increasing state costs.

Cook-Orr Hospital District Levy Authority (Section 19)

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 Cemetery Tax Levy Authority (Section 20)

The proposal would authorize Carlton County to annually levy in and for the unorganized territory of Sawyer for cemetery purposes. The authority would become effective upon local approval.

- 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.

Multicounty Housing and Redevelopment Authority (Section 21)

The repeal of this statute is postponed five years.

- The extension may have an impact on the local tax base and tax rate in the future, and may result in a negligible change in property tax refunds paid by the state.

Agricultural Homestead Extension (Section 22)

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, remain the same owner, and 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.

Valuation Freeze on Certain Equipment (Section 24)

Requires assessors to use current practices in determining the taxable status of property used in the production of biofuels, wine, beer, distilled beverages or dairy products.

- The proposed changes to general property tax policies may have an impact on the local tax base and tax rate in the future, and may result in a negligible change in property tax refunds paid by the state.

Study and Report on Certain Property used in Business and Production (Section 25)

The bill requires the commissioner of revenue to study the impact of the exception of certain real property used in business and production. The study must be presented to the chairs and ranking minority members of the house and senate tax committees by Feb. 1, 2014.

- No state general fund appropriations are involved.

Hennepin County Abatement Reimbursement (Section 26)

The bill would reimburse Hennepin County taxing jurisdictions for property tax abatements granted for the May 2011 tornadoes. The amount necessary would be appropriated from the state general fund to the commissioner of revenue to make the payments, not to exceed \$400,000. The appropriation would be available until June 30, 2014.

- The state general fund costs to reimbursing Hennepin County for property tax abatements granted would total approximately \$336,000. Assuming an effective date in May 2013, the one-time payment would be provided before June 30, 2013.

Iron Range Fiscal Disparities Study (Section 27)

The bill requires the commissioner of revenue to conduct a study of the iron range tax relief area revenue distribution program (iron range fiscal disparities program). The study must be presented to the chairs and ranking minority members of the house and senate tax committees by Feb. 1, 2015. The study must analyze the extent to which benefits of the economic growth are shared in the region, the program's impact on tax rate variability, the program's impact on homestead property tax burdens, and the relationship of the program and impact on jurisdictions containing properties that provide regional benefits, specifically the costs those properties impose on their host jurisdictions in excess of their tax payments. The report must also include a description of other property tax aid and local development programs that interact with the fiscal disparities program. The study funds would be raised by increasing the pay 2014 areawide rate by the amount required to raise \$75,000. The St. Louis County auditor would forward half the funds in FY 2014 and half in FY 2015 to the commissioner of revenue.

- No state general fund appropriations are involved. The study funds are raised by increasing the distribution levy by \$75,000 in payable 2014.

Special Service and Housing Improvement Districts Deadline Repealed (Section 28)

Under current law, a special service district or housing improvement district established before June 30, 2013 requires no special legislative authorization. After June 30, 2013 the establishment of these districts would each require special legislative authorization.

The bill would repeal the June 30, 2013 deadline after which special legislative authorization would be required to establish a special service district or housing improvement district.

- There is assumed to be no impact to the state general fund from the proposed changes.

Article 9: Economic Development

Bloomington Provisions (Sections 1, 7-8, 11, 18)

The bill redirects the TIF net tax capacity of TIF districts 1-C and 1-G from the fiscal disparities program, and allows the city to retain the contribution levy as if it were a TIF district. The bill allows the city of Bloomington and its port authority to extend the duration limits of TIF district No. 1-G, which contains the former Met Center property, including Lindau Lane and part of No. 1-C, but only for the purposes of redirecting the fiscal disparities contribution. The local tax base in the TIF district decertifies as under current law. The duration limits for these two districts are extended to December 31, 2034. Increments from these districts may also be used to repair or replace the Old Cedar Avenue Bridge. Effective following local approval.

The bill also 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 5 year rule for activities to commence is extended to 15 years. The TIF district would be extended eight additional years through Dec. 31, 2039.

- The proposed changes to the TIF provision for district No. 1-I 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.
- The fiscal disparities provisions would lower the contribution and distribution net tax capacities, and lower the metro distribution levy by an estimated \$9 million in 2014. The amount of the lower fiscal disparities levy would be replaced by municipal, county, school and special district levies. The switch increases the amount of levy paid by metro taxpayers. Property tax refunds and income tax deductions would increase due to higher property taxes. It is estimated that property tax refunds would increase by \$490,000 in FY 2015, by \$515,000 in FY 2016, and by \$540,000 in FY 2017. Income tax revenues would decrease by \$460,000 in FY 2015, \$480,000 in FY 2016, and by \$500,000 in FY 2017.

Border City Enterprise Zone Allocation (Section 2)

The bill allocates an additional \$1,500,000 for income, sales, or property business tax reductions to border city enterprise zones for cities on the western border of the state. The allocation will be apportioned among the cities of Dilworth, East Grand Forks, Moorhead, Ortonville, and Breckenridge by population.

- A small fraction of the enterprise zone payments are for property tax relief, and would have no impact on homeowner property taxes.

TIF Changes (Sections 3-4)

Qualified border retail facilities no longer qualify as economic development districts. A provision for housing districts is also stricken. Restrictions on expenditure of increments on aesthetic purposes are stricken. 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 Extension (Section 5)

The bill extends the duration of certain TIF districts to Dec. 31, 2016. Qualifying districts must have been certified on or after Jan. 1, 2005 and before April 20, 2009. Effective following final enactment.

- 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 Original Net Tax Capacity Adjustment (Section 6)

The bill allows qualifying TIF districts to subtract the amount of the homestead market value exclusion from the original net tax capacity of the district. Qualifying TIF districts must have a taxes payable 2011 homestead market value credit for the district equal to or greater than \$10,000, and a taxes payable 2013 ratio of exclusion to captured net tax capacity equal to or greater than 1.75 percent.

County auditor notifications made before July 1, 2013 are effective for taxes payable in 2014. County auditor notifications made after that date are effective for taxes payable 2015. This provision applies to all qualifying TIF districts regardless of certification.

- About 60 TIF districts appear to qualify for this provision.
- 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 (Sections 9-10)

The bill allows the city of Oakdale to qualify parcels for a housing and redevelopment TIF district if buildings on specified parcels are demolished by the housing and redevelopment authority, developer, or owner, and that the certification for the parcel as part of the district is filed by Dec. 31, 2017. Specific parcels are listed. The provisions are subject to 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.

St. Cloud TIF (Section 12)

The bill allows the city of St. Cloud to deem that the certification for TIF district #2 (Northwest District) was made on or after Aug. 1, 1979, and before July 1, 1982 and revenues from increments used accordingly. 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 13)

The bill allows the Dakota County Community Development Agency to establish a redevelopment TIF district comprised of properties in the CDA 10 Robert and South Street district in the city of West St Paul that were not decertified before July 1, 2012. The TIF district would terminate no later than Dec. 31, 2018. 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 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.
- Total LGA and CPA would remain the same as current law.

Glencoe TIF (Section 14)

The bill allows the city of Glencoe to collect increments from TIF district No. 4 through Dec. 31, 2023. Tax increments collected from that district after Dec. 31, 2013 may only be used to pay debt service on outstanding bonds issued to finance improvements serving TIF district 14, TIF district 15, and series 2007A bonds dated Sept. 1, 2007. 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.

Ely TIF (Section 15)

The bill allows the city of Ely to collect increments from TIF district #1 through Dec. 31, 2021. In addition, increments from TIF districts #1 and #3 may be spent on activities outside the districts. The amounts are limited to that needed to meet the obligations of TIF districts #1 and #3 that cannot be paid by revenues derived from within the districts, to a maximum of \$168,000. 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.

Maplewood TIF (Section 16)

The bill allows the city of Maplewood or its economic development authority to create one or more new redevelopment TIF districts. The parcel is specified, and the district is referred to as the 3M Renovation and Retention Project Area. Requirements for qualifying redevelopment districts are waived, and the rule requiring 90 percent of revenues to correct conditions in the district does not apply. Limitations on use of increments outside the district do not apply, the five year rule for activity to commence does not apply, and the rules for use of revenues for decertification do not apply. Expenditures may only be made in the project area. If there is no demolition, rehabilitation, or renovation in the first year after certification of the district, no additional increment may be taken, and the net tax capacity of the parcel excluded. If activity subsequently commences, 3M must notify the county auditor, and new net tax capacity will be

added. The authority to establish a new TIF district expires Dec. 31, 2018. 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.

Transit Improvement TIF (Section 17)

This section allows the city of Minneapolis to create up to four street car improvement TIF districts. The boundaries of the four areas are delineated. The TIF authority may spend tax increments on administration costs, engineering services, construction, rolling stock, maintenance facilities, transit stations, related green space, and streetscape improvements. The city may bond for capital improvements. Tax revenues may not be used for operating costs. The district duration is the later of 25 years or the period required to pay off any related bonds.

- The new transit districts 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 10: Destination Medical Center

The bill establishes a Destination Medical Center Corporation (DMCC) to provide for the development of the city of Rochester as a global destination medical center. The authority would be required to prepare a development plan for the city that identifies projects necessary to attract medical-related and other businesses to the city and to support growing numbers of patients, visitors, and residents. Officers and duties of the non-profit DMCC are specified, as are the scope of the projects that can be undertaken.

The city of Rochester may also issue bonds for related public improvements.

Fund sources may include a lodging tax, food and beverage tax, entertainment tax, general city sales tax, county transit tax, county wheelage tax, and state infrastructure aid of up to \$30 million per year after the first \$200 million of expenditures. Special property tax abatement and tax increment financing rules are established. A study of the area's economic development and transportation impacts is specified.

- An unknown amount of property tax revenue may be raised as part of the project. New abatements and tax increment financing may have an impact on the local tax base and tax rate in the future and may result in a change in property tax refunds paid by the state.

Article 11: Mining Taxes

Fracturing Sand Extraction and Processing Taxes (Sections 1, 3-8, 16)

The bill would create two production taxes on silica sand that can be used for the production of oil or gas:

1. A mining and storage tax of \$0.55 per cubic yard of fracturing sand extracted in Minnesota. The tax is payable by the person extracting the sand and the volume is assumed to be measured before washing. A person is exempt from paying the mining tax if they transport less than 10 percent of the finished product on public roadways. A credit is provided against the tax equal to the aggregate tax imposed by the county on the sand mining.
2. A processing tax of 3 percent of the market value of the fracturing sand washed in Minnesota. Market value is based on the sale price of the fracturing sand after washing and the tax is payable by the person washing the sand. For a qualified processor, the processing tax rate is 1 percent of the market value.

The revenues generated from the fracturing sand taxes would be deposited into the state general fund and credited as follows: \$2.0 million in FY 2014, \$2.69 million in FY 2015, and \$2.0 million in FY 2016 and thereafter must be credited to the silica sand mining account in the special revenue fund; the balance of remaining revenues would be credited to the general fund.

The bill includes creating a registration process for persons engaged in extracting or washing fracturing sand, monthly reporting requirements, and penalties for noncompliance.

The bill would also increase the tax rates imposed for the local aggregate materials production tax.

Fracturing Sand Taxes

- The analysis assumes the taxes would go into effect for fracturing sand extracted or washed after May 31, 2013.
- According to the Minnesota Department of Natural Resources, there are currently eight sand mines extracting approximately 8-10 million tons of material annually in Minnesota. This includes silica sand and other materials including clay and silt. Approximately 75 percent of the extraction is assumed to be exempt from the mining tax.
- Based on a conversion rate of 1.35 tons per cubic yard, the mining tax is estimated to generate approximately \$800,000 annually beginning in FY 2014.
- Based on a current market value of \$40 per ton after processing, the fracturing sand processing tax is estimated to generate approximately \$2.5 million annually beginning in FY 2014. Approximately 90 percent is assumed to come from qualified processors with a tax rate of 1 percent.
- The first month of fracturing sand tax collection is assumed to be July 2013.

Aggregate Materials Production Tax

- The increase in aggregate materials production tax rates would not impact the state general fund as revenues would go to local governments imposing the tax.

Mining Occupation Tax Rate Increase (Sections 9-10)

The bill would increase the mining occupation tax rate on taxable income attributable to the business of mining or producing ores from 2.45 percent to 4.9 percent.

- Based on the February 2013 forecast, current occupation tax revenues are projected to be \$18.9 million in FY 2014, \$19.8 million in FY 2015, \$19.8 million in FY 2016 and \$20.8 million in FY 2017.
- The proposal would increase occupation tax revenues to the state general fund beginning in FY 2014.
- Of the total increased occupation tax revenues credited to the general fund, 50 percent would be statutorily distributed to support elementary and secondary schools and the University of Minnesota.

Taconite Production Tax Modifications (Sections 2, 11-15, 17-18)

The bill would make a number of modifications to the distribution of taconite production taxes.

- Section 2 would set the school share of taconite production tax that is used for property tax relief at 95 percent. The remaining 5 percent would be directed to cities and townships within the school district.
- Section 11 would require taconite companies to provide a dollar-for-dollar match to any funds received from the Taconite Economic Development Fund.
- Section 12 would increase the taconite production tax rate by 5 cents per ton.
- Section 13 would increase the distributions to taconite area school districts.
- Section 14 reduces the distribution to the property tax relief fund.
- Section 15 increases the distribution to the taconite homestead credit fund.
- Section 17 would divert an unspecified amount from the 2013 distribution to the Taconite Property Tax Relief Account for projects in the cities of Hibbing, Mountain Iron and Tower.
- Section 18 would allow the IRRRB to issue bonds to make grants to schools within the taconite tax relief area. The amount of additional bonds is unspecified. Taconite production tax revenues of up to 10 cents per ton would be used to pay the principal and interest on the bonds. If the production tax revenues are insufficient in any year, an additional appropriation from the Douglas J. Johnson fund would make up the deficiency.
- The changes to the local distribution of taconite production taxes are assumed to have no impact on the state general fund.

Article 12: Public Finance

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

Metro Area Transit and Paratransit Capital Expenditures (Section 11)

The proposal authorizes the Metropolitan Council to issue up to \$35.8 million in certificates of indebtedness, bonds, or other obligations for capital expenditures as prescribed in the council's transit improvement program and related costs.

- Bonding principal and interest would be paid by increasing property tax levies.

- Based on data from the Metropolitan Council, \$10,396,704 of new bonds would be issued in 2015 and the remainder in the following years.
- Any additional debt service levies would increase homeowner taxes, starting with taxes payable in 2016. Property tax refunds would increase by about \$450,000 in FY 2017.
- Additional deductions for income tax itemization would lower income tax receipts. Income tax collections are estimated to be reduced by \$460,000 in FY 2017.
- For all other provisions there is no assumed impact to the state general fund.

Article 14: Market Value Definitions

The proposal 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 and qualifications are altered as well.

- The major state 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 \$280,000 in FY 2015, FY 2016, and FY 2017.
- Higher commercial and residential property tax deductions would decrease income taxes by \$150,000 in FY 2015, FY 2016, and FY 2017.

Article 17: Department of Revenue Property and Minerals Provisions

- There is no assumed state revenue impact from these provisions.

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