MINNESOTA · REVENUE

PROPERTY TAX
Senate Omnibus Tax Bill
Articles 1-3, 8-12, 15

May 2, 2013

	Yes	No
DOR Administrative Costs/Savings	X	

Property Taxes and Local Aids Only – See Separate Analysis for State Taxes

Department of Revenue
Analysis of H.F. 677, 1st unofficial engrossment, Articles 1-3, 8-12, 15 (Senate Omnibus Tax Bill)

	Fund Impact			
	F.Y. 2014	**F.Y. 2015**	**F.Y. 2016**	**F.Y. 2017**
Article 1: Aids and Credits		(000's)		
Pension Aid Modifications	$0	($2,295)	($22,950)	($22,950)
Local Government Aid Increase	$0	($80,000)	($80,000)	($80,000)
Property Tax Refund Interactions	$0	$1,890	$1,890	$1,890
Income Tax Interactions	$0	$1,980	$1,980	$1,980
Township Aid Increase	$0	($5,000)	($5,000)	($5,000)
Property Tax Refund Interactions	$0	$230	$230	$230
Income Tax Interactions	$0	$250	$250	$250
County Program Aid	$0	($40,000)	($40,000)	($40,000)
Property Tax Refund Interactions	$0	$930	$930	$930
Income Tax Interactions	$0	$980	$980	$980
Natural Resources PILT	($4,750)	($4,750)	($4,750)	($4,750)
Property Tax Refund Interactions	$0	$90	$90	$90
Income Tax Interactions	$0	$110	$110	$110
Mahnomen Reimbursement Payment	($600)	($600)	($600)	($600)
Property Tax Refund Interactions	$0	$10	$10	$10
Income Tax Interactions	$0	$10	$10	$10
Article 2: Property Tax				
Board of Water and Soil Resources Levy Authority	$0	$0	$0	$0
Manufactured Homes Owned by a Dealer	$0	(unknown)	(unknown)	(unknown)
Assessor Licensing	$0	$0	$0	$0
Pollution Control Exemption	$0	$660	$670	$680
Indian Tribal Non-profit Property Exemption	$0	(negligible)	(negligible)	(negligible)
Electric Generation Facility Exemption	$0	$0	(unknown)	(unknown)

	Fund Impact			
	F.Y. 2014	**F.Y. 2015**	**F.Y. 2016**	**F.Y. 2017**
Valuation Criteria for Conservation Easements	$0	unknown	unknown	unknown
Agricultural Homestead Modifications	$0	$0	$540	$540
Class 4d Maximum Property Tax	$0	$0	$0	(unknown)
Disparity Reduction Credit	$0	($2,080)	($2,140)	($2,140)
Income Tax Interactions	$0	$0	$60	$60
State General Levy Modifications	$61,000	$114,700	$124,100	$137,400
Income Tax Interactions	$0	($3,330)	($3,530)	($3,880)
Delinquent Property Tax Payment Modifications	$0	$0	$0	$0
Renter Property Tax Refund Modifications	$0	($18,400)	($19,100)	($19,700)
Sustainable Forest Incentive Payments	($2,150)	($2,160)	($2,170)	($2,180)
Special Service and Housing Improvement Districts	$0	$0	$0	$0
Special Assessments on State Property	($5,000)	($5,000)	($5,000)	($5,000)
Fiscal Disparities Bloomington	$0	$0	$0	$0
Income Tax Interactions	$0	($120)	($120)	($120)
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
Cloquet Area Fire and Ambulance Taxing District	$0	$0	$0	$0
Agricultural Homestead Extension	$0	(negligible)	(negligible)	(negligible)
Hennepin County Abatement Reimbursement	($336)	$0	$0	$0
Minor League Ballpark Exemption	$0	$0	$0	($80)
Minneapolis Basketball Arena Exemption	$0	($120)	($130)	($260)
Valuation Freeze on Certain Equipment	$0	$0	$0	$0
Business and Production Property Report	$0	$0	$0	$0

	Fund Impact			
	F.Y. 2014	**F.Y. 2015**	**F.Y. 2016**	**F.Y. 2017**
Property Tax Savings Report	$0	$0	$0	$0
Metropolitan Fiscal Disparities Working Group	$0	$0	$0	$0
Article 3: Education Aids and Levies				
Education Provisions				
Property Tax Refund Interactions	$0	$14,500	$12,120	$11,440
Income Tax Interactions	$0	$12,670	$10,850	$10,300
Article 8: Local Development				
Mining Reclamation District	$0	$0	$0	$0
TIF Temporary Authority Extension	$0	$0	$0	$0
TIF Ten Year Rule	$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
Transit Improvement TIF	$0	$0	$0	$0
Bloomington TIF	$0	$0	$0	$0
Apple Valley TIF	$0	$0	$0	$0
Maplewood TIF	$0	$0	$0	$0
Article 9: Destination Medical Center				
Destination Medical Center	$0	(unknown)	(unknown)	(unknown)
Article 10: Minerals Tax				
Taconite Production Tax Modifications	$0	$0	$0	$0

	Fund Impact			
	F.Y. 2014	**F.Y. 2015**	**F.Y. 2016**	**F.Y. 2017**
Occupation Tax Distribution Modifications				
General Fund	($1,940)	($1,960)	($2,020)	($2,120)
Special Revenue Fund	$1,940	$1,960	$2,020	$2,120
Iron Range Fiscal Disparities Study	$0	$0	$0	$0
Article 11: Public Finance				
Public Finance Provisions	$0	$0	$0	$0
Article 12: Market Value Definitions				
Property Tax Refund Interactions	$0	($200)	($200)	($200)
Income Tax Interactions	$0	($150)	($150)	($150)
Article 15: Department Policy and Technical: Minerals Taxes; Property Tax	$0	$0	$0	$0
General Fund Total	**$48,164**	**($15,195)**	**($31,020)**	**($20,110)**

Various effective dates.

EXPLANATION OF THE BILL & REVENUE ANALYSIS DETAIL

Article 1: Aids and Credits

Pension Aid Modifications (Section 1)
The bill appropriates from the general fund $130,065 to PERA, $64,935 to public police and fire retirement plan, $550,000 for state fire aid, and $1,550,000 for police state aid for FY 2015. The base for FY 2016 and thereafter is $7,450,000 for fire aid and $15,500,000 for police aids. The appropriation terminates when assets equal 90 percent of accrued liabilities for the state patrol or public employees fire and police retirement plans, or December 31, 2020, whichever comes last.

- The annual general fund disbursement amounts are specified by fiscal year.

Local Government Aid Increase (Sections 2-7, 9-12, 27)
The proposal would permanently increase the appropriation for city Local Government Aid (LGA) by $80 million in CY 2014. The proposal would also create a new three-tiered formula for distributing aid to cities. In the first year, no city would receive less that it was certified to receive in 2013.

- 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.
- 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.

Township Aid Increase (Section 8, 14)
The bill would create a township aid formula based on agricultural property, size in acres and population. The appropriation for township aid would be capped at $5 million per year beginning in FY 2015.

- The appropriation for township aid would increase state costs by $5 million annually beginning in FY 2015.
- It is assumed that townships receiving an increase in aid would reduce property tax levies. 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 13)
The proposal would permanently increase the appropriation for County Program Aid (CPA) by $40 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 $205.5 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.

Natural Resources PILT (Sections 15-25)
The bill would increase the per acre payment rates for certain PILT lands beginning with CY 2013. Payments for DNR and county administered lands would be increased to $1.50 per acre and land utilization project (LUP) land payments would be increased to $5.133 per acre. The bill would also provide an additional $300,000 for land assessments.

- Increasing the per acre payment rates for county-administered, DNR-administered, and land utilization project lands would increase annual PILT payments by approximately $4.45 million beginning in FY 2014.
- It is assumed that the increase in PILT payments to counties 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.
- The additional $300,000 in PILT for land assessments would increase state costs beginning in FY 2014.

Mahnomen Reimbursement Payment Increase (Section 26)
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 double the payments to $1,200,000 annually for the city of Mahnomen ($160,000), Mahnomen County ($900,000), and the Mahnomen school district ($140,000) effective beginning with CY 2013.

- The property tax reimbursement payment increase to local governments in Mahnomen County would increase state costs by $600,000 beginning in CY 2013.
- It is assumed that the increase in payments to the city of Mahnomen and Mahnomen County 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.

<u>Article 2: Property Tax</u>

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. Property tax refunds would change by an unknown amount as a result.

Assessor Licensing (Section 8)
The bill requires every that every individual that appraises or physically inspects real property to determine valuation or classification for property tax purposes must obtain licensure as an accredited assessor by the Minnesota State Board of Assessors by July 1, 2017, or by the time they become licensed as a certified assessor, whichever is later.

- There is no assumed state revenue impact from this provision.

Pollution Control Exemption (Section 9)
The bill removes the property tax exemption for qualifying electric generation pollution control equipment if required by a standard, rule, criteria, guideline or order of the Minnesota Pollution Control Agency.

- The total amount of currently exempt public utility property is estimated to be $800 million of market value.
- Apportionment of market value would affect all public utility property owned by the qualifying utilities not just in jurisdictions where exempt property is located. Furthermore, the statewide apportionment factor may increase or decrease by utility.
- The state general levy total would remain the same, but the distribution by use type would change, with public utilities paying a larger share of the commercial-industrial total.
- The proposal would increase taxes on public utility property by an unknown amount and lower property taxes on homesteads.

- As a result of lower homestead net taxes, property tax refunds (PTR) paid by the state would decrease. The PTR impact is estimated to be $660,000 in FY 2015, $670,000 in FY 2016, and $680,000 in FY 2017.

Indian Tribal Non-profit Property Exemption (Section 10)
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 2 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.

Electric Generation Facility Personal Property (Section 11)
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.

Valuation Criteria for Conservation Easements (Section 13)
Under current law, the value of certain real property which is subject to a conservation restriction or easement may be adjusted by the assessor. Under the proposal, the assessor would not be allowed to reduce the value of the property due to conservation restrictions or easements. Under the proposal, subject property may have a higher assessed value than under current law.

- The proposal may increase forest land values by an unknown amount. Increased forest land values may shift a modest amount of property taxes away from homestead property, reducing state-paid property tax refunds by an unknown amount.

Agricultural Homestead Modifications (Sections 14-15)
The bill modifies several special agricultural homestead qualification provisions. Relative homestead provisions allowing the owner's actively farming spouse, child, grandchild, sibling, or parent to qualify as an agricultural homestead are repealed. Obsolete sections related to a 1998 tornado and March 2009 flood is stricken.

- According to a survey of county assessors, $4.4 billion of market value is currently deemed actively farming.
- Property taxes would shift from other properties to the classes losing special agricultural homestead status, including homesteads.
- As a result of property taxes shifting onto homesteads, property tax refunds would decrease by $540,000, beginning in FY 2016.

Class 4d Maximum Property Tax (Section 16)
The bill requires that property taxes on class 4d subsidized housing may not exceed ten percent of the gross potential rent. Application must be made to Housing Finance Agency by March 31 of the assessment year to determine the gross potential rent. Effective for assessment year 2015 and thereafter.

- An unknown number of subsidized 4d properties would have their net tax limited.
- Property taxes would shift from limited subsidized housing 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 2017.

Disparity Reduction Credit (Section 17)
The proposal lowers the effective tax rate threshold for calculating disparity reduction credit (DRC) from 2.3 percent to 1.9 percent.

- The proposal was modeled on payable 2013 data.
- DRC would increase by $2.08 million in FY 2015, and by $2.14 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 $60,000 in FY 2016 and FY 2017.

State General Levy Modifications (Sections 18-19)
The bill removes the exemption from the state general levy for public utility electric generating machinery, and requires that the 2002 rate of 57.933 percent be applied.

- The state general levy would increase by $61 million in FY 2014, $114.7 million in FY 2015, $124.1 million in FY 2016, and by $137.4 million in FY 2017.
- Higher property taxes would increase deductions on corporate and individual income tax returns, decreasing state tax collections by $3.3 million in FY 2015, $3.5 million in FY 2016, and by $3.9 million in FY 2017.

Delinquent Property Tax Payment Modifications (Sections 20-23)
The bill makes several changes to property tax delinquency statutes. A confession of judgment market value cap of $500,000 for class 3a commercial-industrial property is stricken, and a new county auditor approval requirement is added. A new section allowing cities of the first class to waive or abate repayment of a portion of special assessments is added. The county auditor may require conditions when considering a request for approval of a confession of judgment for delinquent taxes on a class 3a commercial-industrial parcel. The size and number of payments includes an option for four annual payments. A tax judgment sale redemption period of 5 years for homesteaded or seasonal residential recreational land is stricken, so that the redemption period for most parcels is three years. A redemption period of 2 years for owners of multiple delinquent properties is stricken.

- Timing of payments could potentially speed up or be stretched out compared to current law.
- The proposed modifications 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 small change in property tax refunds paid by the state.

Renter Property Tax Refund Modifications (Sections 24-26)
The bill would increase the maximum renter refund by 10 percent for all income ranges and lower the renter copay percentages by 5 percent for most income ranges. The bill would also increase the household income subtractions provided to renter property tax refund claimants only. For claimants who are disabled or at least age 65 the base subtraction amount would be increased 50 percent. An additional subtraction would be created for a claimant's spouse who is disabled or at least age 65. The subtraction amount for qualifying dependents would also be increased.

Note: the household income subtractions for homeowner property tax refunds would remain unchanged from current law.

- 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 93 percent of current filers. The average renter property tax refund increase would be $57.

Sustainable Forest Incentive Payments (Sections 27-30, 48)
The proposal would increase the SFIA payment from $7.00 per acre to $7.25 per acre and remove the $100,000 limit on payments per landowner. The proposal would also make ineligible for the SFIA program any land exceeding 60,000 acres that is subject to a single 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, approximately 25 percent are estimated to also be subject to a single conservation easement exceeding 60,000 acres. Under the proposal these lands would no longer be eligible for the SFIA payment.

- The net impact of increasing the payment rate, removing the $100,000 limit and excluding lands with conservation easements exceeding 60,000 acres would be an increase in SFIA payments totaling approximately $870,000, resulting in increased state cost beginning in FY 2014.
- An additional 175,000 acres were removed from the SFIA program in 2012 by land owners impacted by the maximum payment limit. It is assumed these acres would be reenrolled in the program and state payment costs would increase by an additional $1.3 million per year beginning in FY 2014.

Special Service and Housing Improvement Districts Deadline Extended (Sections 31-32)
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 extend the June 30, 2013 deadline to June 30, 2018, 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.

Special Assessments on State Property (Sections 33-34)
The state appropriates from the general fund up to $5 million per year beginning in FY 2014 to reimburse entities for abatements.

- $5 million per year is appropriated beginning in FY 2014.

Fiscal Disparities Bloomington (Section 35)
The bill increases the metro fiscal disparities areawide tax rate by the equivalent of $4 million, and the funds are returned to the city of Bloomington. The additional distribution terminates for taxes payable year 2023.

- The fiscal disparities provisions would increase the metro areawide tax rate the equivaluent of $4 million. Individual and corporate income tax deductions would increase due to higher property taxes. It is estimated that income tax revenues would decrease by $120,000 per year beginning in FY 2015.

Cook-Orr Hospital District Levy Authority (Section 36)
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 37)
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 38)
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.

Cloquet Area Fire and Ambulance Taxing District (Sections 39-40)
Under current law, any other municipality that is contiguous to a municipality in the Cloquet Area Fire and Ambulance Special Taxing District may join the district with agreement of the member municipalities. The tax levy imposed shall not exceed 0.2835 percent of the district's taxable market value for taxes payable 2010.

The bill would allow municipalities that are not contiguous to a member city to join the special taxing district. The tax levy would be modified to apply to all taxable market value in the primary service area that receives the services.

- For new municipalities that may join the Cloquet Area Fire and Ambulance Special Taxing District, it is assumed that the services provided by the special taxing district are already being provided by other governmental units under current law.
- Transferring these services from a city to a special taxing district is assumed to provide a similar level of service at a similar tax levy amount. Therefore there is no assumed impact to the state general fund.

Agricultural Homestead Extension (Section 41)
The bill extends through assessment 2016 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.

Hennepin County Abatement Reimbursement (Section 42)
The bill would reimburse Hennepin County taxing jurisdictions for property tax abatements granted for the May 2011 tornadoes. $336,000 is appropriated from the state general fund to the commissioner of revenue to make the payments. The appropriation would be available for FY 2014 only.

- The state general fund costs to reimbursing Hennepin County for property tax abatements granted would total $336,000.

Minor League Ballpark Exemption (Section 43)
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 an $80,000 increase in property tax refunds paid by the state in FY 2017.

Minneapolis Basketball Arena Exemption (Sections 44-45)
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. An engineer, architect, program manager, or construction manager may be hired.

- 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 $120,000 in FY 2015, $130,000 in FY 2016, and $260,000 in FY 2017.

Valuation Freeze on Certain Equipment (Section 46)
This section 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 47)
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 February 1, 2014.

- No state general fund appropriations are involved.

Property Tax Savings Report (Section 49)
The bill would require each county and city with a population over 500 to report the amount of sales and use taxes paid in 2012 and discuss the estimated savings realized to their budgets that resulted from the sales tax exemption.

- No state general fund appropriations are involved.

Metropolitan Fiscal Disparities Working Group (Section 50)
The bill requires creation of a metropolitan fiscal disparities working group of interested individuals to examine issues faced by local governments related to paying for metro services provided by the Metropolitan Council.

- No state general fund appropriations are involved.

Article 3: Education Aids and Levies

The bill makes a number of changes to education aid and levy provisions, including general education, achievement and integration, education advancement, and referendum aids and levies.

Article 8: Local Development

Mining Reclamation District (Sections 1-6, 9, 12)
A soil deficiency TIF district is defined as one which has unusual terrain or soil deficiencies over 70 percent of the area, or requires fill and grading for over 50 percent 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 percent of the district has peat or other soils with geotechnical deficiencies, require substantial fill, contains a landfill, quarry,

floodway, or has 30 percent substandard buildings. These rules may apply to any redevelopment, renewal and renovation, soil condition, or soil deficiency district. Increments may be used to acquire parcels, correct terrain or soil deficiencies, install public improvements, and pay administrative expenses.

- 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 Temporary Authority Extension (Sections 7-8)
The bill extends the deadline for construction stimulus economic development TIF districts 2 years. In addition, qualified border retail facilities no longer qualify as economic development districts. A provision for housing districts is also 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 10)
The bill extends the duration of certain increment financing (TIF) districts to December 31, 2016. Qualifying districts must have been certified on or after January 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 Five-year Rule Extended (Section 11)
The bill extends the deadline for activity to commence for TIF districts from 5 years to 10 years. A redundant provision for housing districts is also stricken. Redevelopment, soils condition, and soil deficiency TIF districts may also elect to extend the ten year period. Effective for TIF districts certified after June 30, 2003.

- 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 Local Tax Rate Exclusion (Section 13)
This section allows TIF districts to exclude the school general education levy rate when computing the original local tax rate.

- The proposed changes to the general TIF provisions may have an unknown 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.

Bloomington TIF (Section 14)
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 5 year rule for activities to commence is extended to 15 years. The TIF district would be extended eight additional years through December 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.

Oakdale TIF (Section 15-17)
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 December 31, 2017. Specific parcels are listed. Increments from TIF district 1-6 may be used to pay related costs. 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.

Transit Improvement TIF (Section 18)
This section allows the city of Minneapolis to create a street car improvement tax increment financing (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 lesser of 25 years or the period required to pay off any related bonds.

- The new transit district 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 19)
The bill allows the Dakota County Community Development Agency to establish a redevelopment increment financing (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 December 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.

St. Cloud TIF (Section 20)
The bill allows the city of St. Cloud to deem that the certification for tax increment financing (TIF) district #2 (Northwest District) was made on or after August 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.

Ely TIF (Section 21)
The bill allows the city of Ely to collect increments from tax increment financing (TIF) district #1 through December 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.

Glencoe TIF (Section 22)
The bill allows the city of Glencoe to collect increments from tax increment financing (TIF) district No. 4 through December 31, 2023. Tax increments collected from that district after December 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 September 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.

Bloomington Provisions (Section 23)
The bill allows the city and port authority of Bloomington to transfer parcels and original tax capacity from TIF district 1-C to TIF district 1-G.

- The proposed changes to the TIF provision for district No. 1-G 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 24)
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 consisting of buildings and ancillary facilities if all the following criteria are met. The project must create or retain jobs, would not commence before July 1, 2014 without TIF, request certification before June 30, 2014, construction begins no later than July 1, 2014, and housing construction begins no later than December 31, 2013.

The bill also allows the city to spend tax increments under temporary construction authority until December 31, 2014. Effective day 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.

Maplewood TIF (Section 25)
The bill allows the city of Maplewood or its economic development authority to create one or more new redevelopment increment financing (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 is extended to 10 years, 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 December 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.

Article 9: 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 general city sales tax, a city entertainment tax, a city lodging tax, county transit tax, county wheelage tax, and state infrastructure aid after the first $250 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 10: Minerals Tax

Taconite Production Tax Modifications (Sections 1, 3-8)

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

- Section 1 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 3 would require taconite companies to provide a dollar-for-dollar match to any funds received from the Taconite Economic Development Fund.
- Section 4 would increase the taconite production tax rate by 5 cents per ton.
- Section 5 would increase the distributions to taconite area school districts.
- Section 6 reduces the distribution to the property tax relief fund.
- Section 7 would divert 32 cents per ton from the 2013 distribution various local projects.
- Section 18 would allow the IRRRB to issue bonds to make grants to schools within the taconite tax relief area. 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.

Mining Occupation Tax Distribution Modifications (Section 2)

The bill would redirect a portion of the occupation tax deposited in the state general fund for an annual appropriation in the special revenue fund. The annual amount distributed would be equal to 5 cents per ton on the taconite production tax.

- Five cents per taxable ton would yield approximately $2 million in production tax being transferred from the general fund to the special revenue fund beginning in FY 2014.

Iron Range Fiscal Disparities Study (Section 9)

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 February 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.

Article 11: Public Finance

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

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

Article 12: 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 $200,000 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 15: 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