

MINNESOTA • REVENUE

*Estimates updated to reflect the February 2016 Forecast
Includes new effective dates*

PROPERTY TAX House Omnibus Tax Bill Articles 2-3, 5, 9-10

May 18, 2016

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. 848 (Davids), 3rd Engrossment, Articles 2-3, 5, 9-10 as amended (H0848A172 as amended by H0848A178)

	Fund Impact			
	<u>F.Y. 2016</u>	<u>F.Y. 2017</u>	<u>F.Y. 2018</u>	<u>F.Y. 2019</u>
			(000's)	
<u>Article 2: Property Taxpayer Empowerment</u>				
Reverse Referendum Allowed	\$0	\$0	unknown	unknown
Reverse Referendum Debt Issuance Provided	\$0	\$0	unknown	unknown
<u>Article 3: Property Taxes</u>				
Early Termination of Agricultural Preserve	\$0	negligible	negligible	negligible
Termination of Local Assessor's Office	\$0	\$0	\$0	\$0
Agricultural Homesteads Classification	\$0	\$0	\$0	(negligible)
Farm Winery Class 2a Property	\$0	\$0	\$0	(negligible)
Veteran's Organization Class 4c Property	\$0	\$0	\$0	(\$20)
Disabled Veterans Spouse Exclusion Permanent	\$0	\$0	\$0	\$60
Local Boards Course Requirements	\$0	\$0	\$0	\$0
Overvalued Property Tax Credits	\$0	\$0	(\$140)	(\$110)
Income Tax Interactions	\$0	\$0	\$0	\$10
State General Levy Phaseout	\$0	(\$137,720)	(\$316,000)	(\$438,460)
Income Tax Interactions	\$0	\$0	\$7,510	\$11,090
State Levy Underserved Municipal Distribution	\$0	(\$310)	(\$580)	(\$580)
Certification Dates Special Taxing Districts	\$0	\$0	\$0	\$0
Refunds of Overpayment	\$0	\$0	\$0	\$0
Modifying Late Payment Penalties	\$0	(unknown)	(unknown)	(unknown)

	Fund Impact			
	<u>F.Y. 2016</u>	<u>F.Y. 2017</u>	<u>F.Y. 2018</u>	<u>F.Y. 2019</u>
Tax Forfeited Land Interest Rate	\$0	(unknown)	(unknown)	(unknown)
SFIA Early Withdrawal Procedure	\$0	negligible	negligible	negligible
Metro Area Transit Tax Use Clarification	\$0	\$0	\$0	\$0
Carlton County Authorized Levy	\$0	\$0	(negligible)	(negligible)

Article 5: Economic Development

Border City Allocations	\$0	(\$1,000)	(\$1,000)	(\$1,000)
TIF Workforce Housing	\$0	\$0	\$0	\$0
TIF Interfund Loan Requirements Clarified	\$0	\$0	\$0	\$0
TIF Duluth Seaway Port Authority	\$0	\$0	\$0	\$0
TIF Eagan	\$0	\$0	\$0	\$0
TIF Coon Rapids	\$0	\$0	\$0	\$0
TIF Cottage Grove	\$0	\$0	\$0	\$0
TIF St. Paul	\$0	\$0	\$0	\$0
TIF Wayzata	\$0	\$0	\$0	\$0

Article 9: Property Tax Aids and Credits

Eliminate Minneapolis Transfer to State	\$0	(\$2,019)	(\$2,440)	\$0
Eliminate State Transfer to MSFA	\$0	\$2,019	\$2,440	\$0
Reduce Minneapolis Local Government Aid	\$0	\$0	\$4,459	\$0

Agricultural Property Income Tax Credit

See separate analysis of state taxes

Local Government Aid First Class Cities	\$0	\$0	\$84,400	\$84,400
Property Tax Refund Interactions	\$0	\$0	(\$1,880)	(\$1,820)
Income Tax Interactions	\$0	\$0	(\$1,410)	(\$1,370)
Modifying Town Audit Requirement	\$0	\$0	\$0	\$0
State Aid Reporting Penalty Provisions	\$0	\$0	\$0	\$0

	Fund Impact			
	<u>F.Y. 2016</u>	<u>F.Y. 2017</u>	<u>F.Y. 2018</u>	<u>F.Y. 2019</u>
CPA Repeal Local Impact Note Subsidy	\$0	\$214	\$214	\$214
CPA Repeal Public Defender Aid	\$0	\$500	\$500	\$500
Property Tax Refund Interactions	\$0	(\$10)	(\$10)	(\$10)
Income Tax Interactions	\$0	(\$10)	(\$10)	(\$10)
CPA Working Group	\$0	\$0	\$0	\$0
LGA Penalty Forgiveness Pay 2013	\$0	(\$37)	\$0	\$0
LGA Penalty Forgiveness Pay 2014	\$0	(\$102)	\$0	\$0
Repeal Minneapolis Debt Service Aid	\$0	\$3,720	\$3,720	\$3,720
Property Tax Refund Interactions	\$0	\$0	(\$90)	(\$90)
Income Tax Interactions	\$0	\$0	(\$70)	(\$70)
Repeal Aquatic Invasive Species Prevention Aid	\$0	\$10,000	\$10,000	\$10,000
Property Tax Refund Interactions	\$0	\$0	(\$250)	(\$250)
Income Tax Interactions	\$0	\$0	(\$190)	(\$190)
<u>Article 10: Miscellaneous</u>				
PILT General Fund Savings	\$0	\$0	\$0	\$70
Assessor Accreditation	\$0	\$0	\$0	\$0
Direct Reduced Iron Tax Incentive Reinstated	\$0	\$0	\$0	\$0
State General Fund Impact	\$0	(\$124,715)	(\$210,827)	(\$333,986)

Various effective dates

Non-General Fund Impacts

Special Revenue Fund – Outdoor Heritage Trust Fund Account

Payments to Counties	\$0	\$0	\$0	(\$900)
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Special Revenue Fund – Environment and Natural Resources Trust Fund Payment Account

Payments to Counties	\$0	\$0	\$0	(\$100)
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EXPLANATION OF THE BILL & REVENUE ANALYSIS DETAIL

Article 2: Property Taxpayer Empowerment

The proposed bill requires county, city, and school district referendum elections to be held on the first Tuesday after the first Monday in November of even or odd numbered years. Allowances can be made in cases of disasters or emergencies.

Reverse referendum allowed (Sections 7-8, 10-12)

The effective date is taxes payable year 2017.

The proposed bill allows voters to reverse referendum property tax levies under the following circumstances:

- The proposed levy must be higher than the previous year's levy
- Must be a county or city levy, cities must have a population of at least 500
- By June 30th, a petition signed with at least 10% of the number of votes cast in the previous general election is given to the county auditor
- A majority vote at the next election.
- If all the above occur, the highest the county or city may levy is the non-debt levy from two years ago plus the current proposed debt levy.

An unknown number of reverse referendums would occur under the proposed law. Successful reverse referenda would lower levies, thus resulting in:

- Lower homeowner property tax refunds, reducing costs to the state general fund.
- Lower income tax deductions, reducing costs to the state general fund.

Reverse referendum approval of debt issuance provided (Section 15)

The effective date applies to leases entered after July 1, 2016.

This proposal would require municipalities (with the exception of first class cities) who wish to execute a qualified lease to first publish a notice of intention in a local newspaper 14-28 days before the date of the hearing. If 5% of the voting population from the previous election signs a petition, the lease proposal would go on the ballot and would require a majority vote in order for the lease to occur.

An unknown number of reverse referendums would occur under the proposed law. Successful reverse referenda would cancel or delay public building projects. This could lower levies, thus resulting in:

- Lower homeowner property tax refunds, reducing costs to the state general fund.
- Lower income tax deductions, reducing costs to the state general fund.

Article 3: Property Taxes**Early Termination of Agricultural Preserve (Sections 1 & 19-20)**

The effective date is July 1, 2016.

Under current law, an Agricultural Preserve covenant can expire no sooner than eight years after the date when termination of the covenant is officially requested.

The proposal would allow for immediate withdrawal from the Metropolitan Agricultural Preserves Program if it is requested by the surviving owner within 180 days of the death of an owner, an owner's spouse, or other qualifying person. When the covenant is terminated in this manner, the property is subject to additional taxes equal to 50% of the total tax amount actually levied against the property in the current payable year. The additional taxes are distributed among the various taxing jurisdictions in proportion to the current year's taxes.

In addition, the bill would permit wireless communication equipment and structures on agricultural preserve land when the associated technology has a potential benefit to farming activities. This modification of current law would apply to parcels enrolled in both the Metropolitan Agricultural Preserves Program and the non-metro Agricultural Land Preservation Program.

- It is assumed that fewer than five properties per year would withdraw early under this proposal. Under this assumption, there would be only a negligible effect on the state-administered Agricultural Preserve Credit.
- However, any parcel that withdraws from the program would no longer be assessed solely for its agricultural value. This means that for each parcel that exits the Metropolitan Agricultural Preserves Program, there would be some shifting of taxes within individual jurisdictions onto the parcel in question and away from other properties, including residential homesteads.
- The early termination conditions of the bill do not apply to parcels enrolled in the Agricultural Land Preservation Program.
 - There are 1,582 parcels in three counties currently enrolled in the non-metro Agricultural Land Preservation Program
 - There are 3,556 parcels in six counties currently enrolled in the Metropolitan Agricultural Preserves Program.

Termination of Local Assessor's Office (Section 2)

The effective date is July 1, 2016.

Under current law, any town or city may abolish its local assessor's office by entering into an agreement with the county. Under such an agreement, all property in the town or city is assessed by the county assessor.

Under the proposal, a township may elect at its annual meeting to terminate the local assessor's office. The county would then be required to enter into an agreement with the town or township. If unable to come to mutual terms with the town or township, the bill would require the county to use the authority granted to it in already existing law to assess properties in the township. Following a four-year waiting period, the town or township could revoke its election to transfer assessment duties to the county and restore the office of the local assessor.

- There would be no impact on property taxes or state-administered aids and credits.

Agricultural Homesteads Classification (Section 3)

The effective date is assessment year 2017.

The proposal expands the provisions for special agricultural homestead eligibility. Homestead eligibility would be expanded to include unoccupied property that the owner or the owner's spouse actively farmed for at least ten years, if the owner applies for qualification within four years of actively farming the property. The property must be at least 40 acres and the owner must be a resident of Minnesota, claim no other agricultural homestead, and not live more than four townships or cities away.

- It is assumed that a small number of properties would be directly impacted by the proposal.
- The proposal would cause a shift in property taxes away from properties newly qualifying for special agricultural homestead and onto all other properties, including other homesteads.
- The number of properties eligible for agricultural homestead status would increase, increasing property tax refunds paid by the state by a negligible amount beginning in FY 2019.
- The proposal would also increase the number of properties eligible for the agricultural homestead market value credit.

Farm Winery Class 2a Property (Section 4)

The effective date is assessment year 2017.

The proposal expands the definition of agricultural products for property tax classification purposes to include wine produced by a farm winery licensed under section 340A.315. In addition, the bottling of wine produced by a farm winery would be considered an agricultural purpose.

- According to the Department of Public Safety, there were 71 licensed farm wineries in Minnesota in 2014.
- Under current law, property used for wine fermentation and storage is classified as preferred commercial property, with a class rate of 1.50%. This property is subject to the state general tax. Fermentation tanks are exempt from property taxes. Land used to grow grapes for wine production is classified as agricultural.
- Under the proposal, the property, other than tanks, used for wine fermentation and storage and bottling wine would be classified as agricultural, with a class rate of 0.50% for the first \$2.05 million in value and 1.00% for the remaining value (for assessment year 2016). This property is usually a small portion of the property currently classified as commercial for a winery.
- The proposal would shift property taxes away from farm winery property and onto all other property, including homesteads. State general taxes would also shift away from property newly receiving agricultural classification and onto all other commercial-industrial property.
- As a result of shifting taxes onto homesteads, property tax refunds paid by the state would have a negligible increase beginning in FY 2019.

Congressionally Chartered Veterans' Organization Class 4c Property (Section 5)

The effective date is taxes payable year 2018.

The proposal would grant a reduced classification rate for class 4c(3) properties that are owned and operated by congressionally chartered veterans' organizations. The classification rate for these properties would be reduced from 1.50% to 1.00% for taxes payable in 2018 through 2027.

- Congressionally chartered veterans organizations in Minnesota include the American Legion and Veterans of Foreign Wars, as well as a number of other veterans' organizations. Not all of the organizations located in Minnesota own property that would qualify for the reduced class rate.
- There is approximately \$100 million of market value statewide in class 4c(3) nonprofit community service oriented organization property, which includes veterans' organizations. It is assumed that approximately \$50 million of this market value is for qualifying veterans' organizations that would receive the reduced classification rate.
- Property taxes would shift away from properties receiving the reduced classification rate. Property taxes would shift onto all other property types, including homesteads.
- As a result of property taxes shifting onto homesteads, property tax refunds paid by the state would increase by \$20,000 beginning in FY 2019.

Disabled Veteran's Spouse Exclusion Permanent (Section 6)

The effective date is taxes payable 2017.

Under current law, a market value exclusion is available for homestead property owned by a disabled veteran who is at least 70% disabled as a result of a service-connected disability. The exclusion amount is based on the disability percentage: 70% to <100% disabled = \$150,000 valuation exclusion; and 100% disabled = \$300,000 valuation exclusion.

If upon the death of a 100% disabled veteran the spouse is the legal owner of the property, the exclusion carries over to the benefit of the veteran's spouse for eight additional years or until the spouse sells, transfers, or disposes of the property, whichever comes first.

The proposal would make permanent the exclusion extension for surviving spouses.

- For taxes payable year 2016, approximately 13,800 veterans in Minnesota with a disability rating of at least 70% received a homestead valuation exclusion, the seventh year it was available. Approximately 8,430 have a disability rating of 100%.
- Due to the passing of a qualifying disabled veteran, it is estimated that 3% of homesteads receiving the valuation exclusion would lose eligibility each year under current law. It is assumed that 25% of these homesteads would have no surviving spouse or the spouse would choose to transfer the property. The remaining 75% would be eligible to continue receiving the homestead valuation exclusion.
- The disabled veteran valuation exclusion results in a net property tax refund savings to the state general fund. The average state savings per homestead with a disability rating of 100% is estimated to be approximately \$510. A 3% annual growth rate is assumed.

- The first new extensions would impact taxes payable in 2018.
- The proposal would shift an estimated \$220,000 in property tax onto all other property types in the first year, which would increase homeowner property tax refunds. The property tax refund savings is net of these costs.
- Tax year impact is allocated to the following fiscal year.

Number of Taxpayers: An estimated 110 widowed spouses of veterans would have their homestead valuation exclusion extended in the first year.

Local Boards Course Requirements (Section 7)

The effective date is June 1, 2016.

Under current law, there must be at least one member at each meeting of a local board of appeal and equalization who has attended an appeals and equalization course within the last four years.

The proposal would exempt boards from meeting the requirement in any year in which in-person training is not offered by the Commissioner of Revenue. The exemption would be available until the Office of Broadband Development certifies that broadband service exists in every jurisdiction with a local board of appeal and equalization.

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

Overvalued Property Tax Credits (Section 8)

The effective date is taxes payable 2017.

The proposal would create a property tax credit for overvalued property. A property would qualify for the credit if its value is reduced by a local, special, or county board of appeal and equalization or an abatement to correct an error in valuation.

The credit is based on the property value change. The auditor would determine the reduced value tax balance, which is the difference in the amount of taxes paid and the amount of taxes due under the property's reduced value. If the reduced value tax balance is less than 25% of the current year's property taxes due, the full credit would be applied the next year. If the reduced value tax balance is 25% or more of the current year's property taxes due, the credit would be applied at a rate of 25% of the taxes due until the full credit is applied. The credit would be applied regardless of changes in ownership or changes in the person liable for paying the taxes. The reduced value tax balance credit would reduce the tax payable to each jurisdiction in proportion to the total taxes payable on the property. The proposal would be effective for appeals, orders, and abatements in 2017 and thereafter.

- In assessment year 2014, local board orders decreased property value by \$107 million and county board orders decreased value by \$46 million. These totals do not include orders from open book meetings for local boards of appeal and equalization or abatements.
- It is estimated that the credit would reduce state tax receipts by \$140,000 in FY 2018 and \$110,000 in FY 2019.
- It is estimated that the credit would reduce local tax receipts by \$2.1 million per year.

- Since the credit would reduce the tax payable on a property, local governments are assumed to adjust their levies to account for the loss in taxes. This would increase taxes on all other property in the jurisdiction.
- The cost to local jurisdictions may have an impact on board order decisions by local and county boards in the future.

State General Property Tax Levy Phase out (Section 9)

The effective date is taxes payable 2017.

The proposal would eliminate the state general levy over six years. The state general levy for commercial-industrial property would be set at \$599.277 million for taxes payable in 2017. The state general levy for seasonal recreational property would be set at \$12.542 million for taxes payable in 2017. In subsequent years, each levy would be reduced by 16.7% of the payable 2017 amounts. The levy would be \$0 beginning in taxes payable year 2023.

The proposal would also exempt certain property from the state general tax. The first \$500,000 of market value of commercial, industrial, and public utility real property would be exempt from the state general tax. The first \$250,000 of market value of noncommercial seasonal residential recreational property would also be exempt.

- The state general levy would decrease by \$137.72 million in FY 2017, \$316.00 million in FY 2018, and \$438.46 million on FY 2019. The amount of state general levy raised would be \$0 beginning in FY 2024.
- Lower property taxes would reduce deductions on corporate and individual income tax returns, increasing state tax collections by \$7.51 million in FY 2018 and \$11.09 million in FY 2019.

State General Levy Underserved Municipal Distribution (Section 9)

The effective date is taxes payable in 2017.

The proposal would provide a distribution of the state general levy paid by properties within a municipality back to the municipality. For municipalities located within the metro area but outside the transit district area, a distribution would be provided equal to the amount of fiscal disparities contribution tax capacity that exceeds 8% of the municipality's total net tax capacity multiplied by its municipal tax rate.

- It is estimated that three municipalities would be eligible for the distribution: the city of Coates in Dakota County, the city of Rogers in Hennepin County, and the township of Louisville in Scott County.
- The estimated total distribution to the three municipalities would be \$580,000 annually. The distribution would reduce state general property tax levy revenues to the state general fund beginning in FY 2017.

Proposed Levy Certification Dates for Special Tax Districts (Section 10)

The effective date is taxes payable year 2017.

The proposed bill would move special taxing districts, with the exception of the Metropolitan Council and the Metropolitan Mosquito Control Commission, levy certification date from September 15th to September 30th. The Metropolitan Council levy certification deadline would remain September 1st. The Metropolitan Mosquito Control Commission levy certification deadline would remain August 1st.

- This proposal would have no impact on the state general fund. The date levies are implemented would not change.

Refunds of Overpayment (Section 11)

The effective date is refunds payable 2016.

The proposed bill deals with refunding property taxes to taxpayers who were overcharged. If the county auditor and taxpayer both agree, the overcharged amount can be credited against future taxes owed.

- Changing the timeline for when counties refund overpaid property taxes will not affect the general fund.

Modifying Late Payment Penalties (Sections 12 & 13)

The effective date is taxes payable in 2017.

The bill would replace the current penalty rates for late second non-agricultural property tax payments (due by October 15) with the same rate structure used for late first payments.

Late Second Payment (Non-Ag)	Current Penalty			Proposed Penalty		
	Oct 16	Nov 1	Dec 1	Oct 16	Nov 1	Dec 1
Homestead	2%	6%	8%	2%	4%	5%
Non-homestead	4%	8%	12%	4%	8%	9%

In addition, the bill would replace the current penalty rates for late second agricultural property tax payments (due by November 15) with a rate structure that mirrors the proposal for late first payments on non-agricultural property.

Late Second Payment	Current Penalty		Proposed Penalty	
	Nov 16	Dec 1	Nov 16	Dec 1
Agricultural homestead	6%	8%	2%	4%
Agricultural non-homestead	8%	12%	4%	8%

The bill would reduce the amount of penalty collections distributed to schools and counties.

- This would not impact state-administered local government aids.

- However, it would increase MDE payments to schools by an unknown amount.

Tax Forfeited Lands Unpaid Balance Interest Rate (Sections 14-16)

The effective date is for sales and repurchases occurring after June 30, 2016.

Under current law, the unpaid balance of sales and repurchases of tax-forfeited property is subject to interest at a rate which equals the prime rate charged by banks during the six-month period ending on September 30 of the previous year, rounded to the nearest full percent, but no greater than 14% and no less than 10%. (The current rate is 10%).

Under the proposal, the unpaid balance of sales and repurchases of tax-forfeited property would be subject to the same interest rate as installment payments for a confession of judgment on class 1a or 1b homestead property. Accordingly, the proposed rate would be 2% above the prime rate charged by banks during the six-month period ending on September 30 of the previous year, rounded to the nearest full percent, but no greater than 14% and no less than 5%. (The current rate is 5%).

Proceeds from the sale of any parcel of forfeited land are apportioned to the county (40%), the school district (40%), and the town or city (20%).

- By replacing the 10% minimum interest rate with a 5% minimum, the total amount of sale proceeds that are distributed to the county, school district, and town or city would be reduced.
 - This would not impact state-administered local government aids.
 - However, it would increase MDE payments to schools by an unknown amount.

SFIA Early Withdrawal Procedures (Section 17)

The effective date is July 1, 2016.

The bill would provide early withdrawal without penalty for lands enrolled in the SFIA program if the state acquires a permanent conservation easement on the enrolled property.

- Under the proposal, providing early withdrawal to lands currently enrolled in the SFIA program could reduce the number of acres receiving the state incentive payment of \$7 per acre.
- The state general fund savings due to fewer enrolled acres is assumed to be less than \$5,000 per year during the forecast period.

Metro Area Transit Tax Use Clarification (Section 18)

The effective date is taxes payable in 2017.

The bill would clarify that the metropolitan council may not levy property taxes to pay for transit operations.

- This proposal would have no impact on the state general fund.

Carlton County Levy Authorization (Section 21)

The effective date is taxes payable year 2016.

The proposal would grant the Carlton County Board of Commissioners the authority to levy in and for the unorganized township of Sawyer for recreational purposes. This levy cannot exceed \$2,000 annually.

- A levy increase of \$2,000 would have a negligible effect on the state's general fund.

Article 5: Economic Development**Border City Allocations (Section 16)**

The effective date is July 1, 2016.

The bill would allocate an additional \$1 million annually for income, sales, or property business tax reductions to border city enterprise zones for cities on the western border of the state. The allocations would be apportioned among the cities of Dilworth, East Grand Forks, Moorhead, Ortonville, and Breckenridge by population. The allocations to cities would not cancel or expire, but remain available until used by the city.

- The annual appropriation of \$1 million would increase state general fund costs beginning in FY 2017.
- A small fraction of the enterprise zone payments are for property tax relief, and would have no impact on homeowner property taxes.

TIF Workforce Housing (Sections 17, 19, 21-22)

The effective date is for districts whose request for certification is made after June 30, 2016.

The proposal creates a new class of tax increment financing (TIF) district for workforce housing. Municipalities qualifying for workforce housing projects must determine that (1) the city is located outside of the metropolitan area, (2) the average vacancy rate for rental housing has been 3% or less for at least the immediately preceding two-year period, (3) at least one qualifying business employs a minimum of 20 full-time equivalent employees and has provided a written statement indicating that the lack of available rental housing has impeded their ability to recruit and hire employees, and (4) the municipality and development authority intend to use increments from the district for the development of rental housing, new modular homes, new manufactured homes, or new manufactured homes on leased land or in a manufactured home park to serve employees of businesses located in the municipality or the surrounding area.

Increments may be spent on the acquisition of property, construction of improvements, loans, subsidies, grants, interest rate subsidies, public infrastructure, and related financial costs for rental housing developments. Income limits under this proposal do not apply for districts receiving a loan or grant from the Minnesota Housing Finance Agency challenge program or a grant from the Department of Employment and Economic Development for workforce housing.

- The proposal 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 Interfund Loan Requirements Clarified (Sections 18, 20, 23-26)

The effective date is following final enactment.

The proposal modifies provisions for administrative expenses and limitations on the use of tax increments, as well as clarifying interfund loan requirements.

The administrative expenses subdivision is modified to exclude maintenance costs necessary for preserving property acquired or constructed with tax increments and owned by the authority or the municipality. Capital reserves for these costs, in an amount up to 10% of the market value of the property, are also excluded from administrative expenses. These costs are proposed to be included as an authorized use of tax increment revenue, without limitation on the amount. Proceeds from the sale or lease of property purchased by the authority using tax increments may be used for operation and maintenance costs for that property. The proposal adds the clarification that only increments paid by properties located in the district are subject to the five-year rule and pooling rules.

The interfund loans subdivision is modified to clarify reporting requirements and loan rules. The power to make interfund loans is extended to include the municipality or an appropriate officer of the municipality. In addition, interfund loans may be made up to 60 days after money has been transferred or spent, they may be authorized before the TIF plan is approved, and terms may be rewritten before the TIF district is terminated. Loans or advances must be structured as draw-down or line-of-credit obligations of the lending fund. The authority must report the amount of any interfund loan or advance and any amendment of an interfund loan or advance in its annual report.

The proposal provides exemption from the interfund loan rules for (1) administrative expenses, (2) planning, inspection, architectural, engineering, surveying, and soil testing or any similar expenses, or (3) transfers made in anticipation of a negative cash balance.

- 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 Duluth Seaway Port Authority (Section 33)

The effective date is upon local approval.

The proposal would allow the Seaway Port Authority of Duluth to establish an interfund loan program before approval of the tax increment financing (TIF) plan. The authority may make loans and use the proceeds for any uses permitted for tax increments. Loans may also be repaid with increments from the district. The interfund loan provision applies to action authorized by the authority on or after March 25, 2010. The proposal also adds parcels of land that may be included in the district.

- 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 Eagan (Section 34)

The effective date is upon local approval.

The proposal would allow the three-year extension for the Cedar Grove TIF District, passed in 2014, to take effect only for those local government units that approved the extension. If a governing body of a local government unit does not approve the extension, but the extension takes effect because other units approve, then the county will pay the tax increments for the unit that did not approve during the extension period. If the local government unit that did not approve is a school district, the amount of increments paid to the school district during the extension that attribute to the state equalized levy will be deducted from the state aid payable to the school district.

- The proposed changes to 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 Coon Rapids (Section 35)

The effective date is upon local approval.

The proposal allows the city of Coon Rapids to compute tax increments for District 6-1 Port Riverwalk using the current local tax rate.

- The proposed changes to 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 Cottage Grove (Section 36)

The effective date is upon local approval.

The proposal expands the tax increment financing (TIF) five-year rule for activities that must be undertaken within five years of certification for District No. 1-12 (Gateway North), administered by the Cottage Grove economic development authority. The district is considered to have met the five-year rule if the activities are undertaken prior to January 1, 2017.

- The proposed changes to 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 Richfield (Section 37)

The effective date is upon local approval.

The proposal allows the city of Richfield and its housing and redevelopment authority to extend the duration of the Cedar Avenue Tax Increment Financing (TIF) district by 10 years.

- The proposed changes to 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 St. Paul (Section 38)

The effective date is upon local approval.

If the housing and redevelopment authority of the city of St. Paul authorizes the creation of a redevelopment tax increment financing (TIF) district for parcel numbers 17-28-23-31-0001 and 17-28-23-13-0002, then the proposal allows the district to have met redevelopment district conditions for a structurally substandard building if specified provisions are met. The provisions include: (1) buildings on the parcels were demolished after the authority adopted a resolution that the buildings were structurally substandard, (2) the buildings were removed either by the authority or by the owner of the property by entering into a development agreement, and (3) the request for certification of the parcels as part of the district is filed by December 31, 2020.

- The proposed changes to 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 Wayzata (Section 40)

The effective date is upon local approval.

The proposal expands the tax increment financing (TIF) five-year rule for activities that must be undertaken within five years of certification for District 3 (Widsten) in the city of Wayzata. The district is considered to have met the five-year rule if the revenues from tax increments in the district are used for any project contemplated by the original TIF plan for the district, including a municipal parking ramp within the district.

- The proposed changes to 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: Property Tax Aids and Credits**Eliminate Minneapolis Sales Tax Transfer to MSFA (Sections 1, 8, 20)**

The effective date is the day following final enactment for aids payable in 2017 only.

The bill would eliminate the transfer of Minneapolis local sales tax revenues to the Minnesota Sports Facilities Authority until the city of Minneapolis receives a set amount of additional sales tax revenues that would have otherwise gone to the authority. The bill offsets the increased sales tax revenue by reducing the city's Local Government Aid (LGA) distribution by the same amount.

- Under the proposal, the Minnesota Sports Facilities Authority would not receive \$4.459 million in state general fund distributions. The city of Minneapolis would have a net impact of zero and the state general fund would save \$4.459 million due to lower LGA payments.

Agricultural Property Income Tax Credit (Sections 2 – 7)

Impact covered in separate analysis of state taxes.

Local Government Aid for First Class Cities (Sections 9 – 10, 13)

The effective date is aids payable in 2017 and thereafter.

The bill would create a maximum aid limit for cities of the first class. Cities of the first class could not receive more aid per capita than 112.5% of the average per capita aid for all non-first class cities.

- Of the four first class cities, three would receive lower aid amounts under the proposal: Duluth, Minneapolis and St. Paul. The city of Rochester currently receives less per capita aid than the average non-first class city and would not be immediately impacted by the proposal.
- The proposed per capita aid limits would reduce LGA paid to first class cities by approximately \$84.4 million annually, reducing state general fund costs beginning in FY 2018.
- It is assumed that the decrease in aid to cities would increase property tax levies by a portion of the reduction. This would increase property taxes on all property classes including homesteads.
- The increased property tax burden would increase state-paid homeowner property tax refunds and income tax deductions beginning in FY 2018, resulting in a cost to the state general fund.

Modifying Town Audit Requirement (Section 11)

The effective date is for financial reporting years ending on or after December 31, 2016.

Under current law, all cities (regardless of population) and towns with a population greater than 2,500 must conform to the financial accounting and reporting standards as prescribed by the state auditor. Failure to comply with the standards results in the loss of Department of Revenue aid.

Under the proposal, towns with a population of less than 2,500 would also be required to follow the financial accounting and reporting standards that are prescribed by the state auditor.

- It is assumed that all cities and towns would conform to the standards set by the state auditor. Under this assumption, there would be no impact on state-administered aids.

State Aid Noncompliance Measures (Sections 12 & 23)

The effective date is aids payable in 2017 and thereafter.

The bill would repeal the statute that requires the Department of Revenue to cancel aid payments to counties and cities that do not comply with the reporting standards. Instead of canceling aid payments if a county, city, or town fails to make financial reports as prescribed, the proposal would allow the state auditor to make arrangements to have the financial reports completed and filed, for which the county, city, or town would be charged 105% of the cost of the service.

- The proposal would have no impact on the state general fund.

County Program Aid, Repeal Aids (Sections 14 – 16, 21)

The effective date is aids payable 2016.

Under current law, County Program Aid (CPA) must annually spend \$500,000 on public defense services and \$214,000 on transcripts. The proposed legislation would remove these two mandated expenditures from CPA. The proposal would also lower the annual allocation to CPA by \$714,000.

The proposed legislation creates a working group with the goal of recommending formula changes to County Program Aid (CPA). The objective of the changes is to promote greater fairness and stability in CPA distribution. Members of the group will include two representatives, two senators, two persons appointed by the governor, and five county officials from the Association of Minnesota Counties. The working group must finish before February 1, 2017, at which point they will present their recommendations to the tax committees.

Members of the working group are not compensated and the working group is only tasked with making recommendations, so there is no effect on the general fund.

- Decreasing CPA funding by \$714,000 annually saves the general fund this amount annually. It is assumed counties will increase their levies by a proportion to cover the loss in public defender aid. Higher county levies will have the following effects on the state general fund:
 - Higher homeowner property tax refunds, increasing costs to the state general fund.
 - Higher income tax deductions, increasing costs to the state general fund.

LGA Penalty Forgiveness Pay 2013 (Section 17)

The effective date is the day following final enactment.

The bill would provide a payment to the city of Oslo for its 2013 LGA withheld for failing to meet financial reporting requirements with the state auditor. The state auditor must certify that it received the city's financial reports for 2012 before December 31, 2013. An appropriation equal to \$37,473.50 would be made for the payment in July 2016.

- Under current law, unpaid LGA payments cancel to the state general fund.
- The bill would provide for payment of the withheld amount at a cost to the state general fund.
- The city of Oslo in Marshall County would receive a payment of \$37,473.50 in FY 2017.

LGA Penalty Forgiveness Pay 2014 (Section 18)

The effective date is the day following final enactment for payment in FY 2017.

The bill would allow any city that had all or a portion of its 2014 LGA payments withheld for failing to meet financial reporting requirements with the state auditor. The state auditor must certify that it has received the city's financial reports for 2013 and 2014 before June 1, 2015. An appropriation equal to \$101,570 would be made for the payment.

- Under current law, unpaid LGA payments cancel to the state general fund.

- The bill would provide for payment of the withheld amounts at a cost to the state general fund.
- Three cities would be eligible to receive payment of withheld LGA under the proposal: the cities of Dundee (\$10,600), Jeffers (\$58,064), and Woodstock (\$32,906). The three payments would total \$101,570.

Repeal Minneapolis Debt Service Aid (Section 23)

The effective date is following final enactment.

Under current law, the commissioner is required to pay the city of Minneapolis an amount equal to 40% of the levy required to pay general obligation library referendum bonds beginning in payable year 2016. The proposal would repeal this aid.

- The savings to the general fund are estimated to be \$3.72 million beginning in payable year 2016.
- It is assumed that the decrease in aid would increase property tax levies beginning in payable year 2017 for a portion of the aid decrease. This would increase property taxes on all property classes, including homesteads.
- The increased property tax burden would increase state paid homeowner property tax refunds and income tax deductions beginning in FY 2018, resulting in a cost to the state general fund.

Repeal Aquatic Invasive Species Prevention Aid (Section 23)

The effective date is the day following final enactment.

Under current law, \$10 million from the general fund is allocated to counties annually for the prevention and control of aquatic invasive species. Yearly payments are made in two installments, the first in July and the second in December.

The proposal would repeal Aquatic Invasive Species Prevention Aid beginning with aids payable in 2016, meaning all payments certified for 2016 would be cancelled.

- The state general fund would save \$10 million in calendar year 2016, and an estimated \$9.5 million per year beginning with aids payable in 2017.
- Under the current aid formula, only the counties of Dodge, Fillmore, Pipestone, and Rock do not receive any Aquatic Invasive Species Prevention Aid.
- Beginning with aids payable in 2017, it is assumed that the net decrease in aid to counties would increase property tax levies by a portion of the decrease. This would increase property taxes on all property classes, including homesteads.
- Beginning in FY 2018, it is estimated that the increased property tax burden would increase state-paid homeowner property tax refunds by \$250,000 and increase income tax deductions by \$190,000.

Article 10: Miscellaneous

PILT Trust Fund (Sections 1-7, 17-20)

The effective date is July 1, 2017.

The bill would create two trust fund accounts to provide payments to counties after the state acquires natural resource land. One-time payments from the accounts would be made for each land acquisition where at least 20% of the money comes from the Outdoor Heritage Trust Fund Account or the Environmental and Natural Resources Trust Fund Payment Account. The one-time trust fund payments would be equal to 30 times the property taxes assessed on the acquired land. Each year the counties would distribute proceeds from the trust fund payment to each affected local government equal to its share of total current property taxes.

The acquired lands eligible for trust fund payments would no longer be eligible for annual payments in lieu of taxes (PILT) from the state general fund.

- According to the Department of Natural Resources, approximately 4,400 acres purchased annually would qualify as state acquired lands and be eligible for trust account payments under the proposal. The first year land purchases are assumed to be half of the annual average.
- Two trust funds would be created to provide payments to counties for 30 years of property taxes for state acquired lands: the Outdoor Heritage Trust Fund Account (OHTF) and the Environmental and Natural Resources Trust Fund Payment Account (ENRTF). The appropriations to these funds are currently blank in the bill.
- Beginning in FY 2019, if funds are appropriated, trust account payments to counties would be paid each year for qualifying state acquired lands. It is estimated that \$1.0 million would be paid in FY 2019 and \$2.1 million in FY 2020. It is assumed that 90% would come from the OHTF and 10% from the ENRTF.
- Lands qualifying for a trust account payment would no longer be eligible for annual PILT payments from the state general fund, resulting in a state savings beginning in FY 2020. The amount of savings would grow annually as more lands receive trust fund payments rather than state general fund PILT payments.

Assessor Accreditation (Sections 11-12)

The effective date is July 1, 2016.

Under current law, assessors must be accredited by July 1, 2019, or within four years of becoming licensed as a certified Minnesota assessor, whichever is later. County assessors may employ one or more assistants and sufficient clerical help upon approval of the board of county commissioners.

The proposal would modify licensure requirements for both assessors and assistants. The proposal requires only assessors who assess income-producing property to be accredited by July 1, 2019, or within four years of becoming licensed, whichever is later. Assessors who inspect real property, not including income-producing property, have no date requirement for accreditation. The proposal would also require assistants to assessors to obtain the qualifications and licensure determined by the board of county commissioners in consultation with the assessor.

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

Direct Reduced Iron Tax Incentive Reinstated (Section 15)

The effective date is production year 2016.

The bill would make the following changes related to the production of direct reduced iron (DRI): (1) modify the definition of direct reduced iron ore from a product that has iron content of at least 75% down to 67% percent and silica plus alumina content of no greater than 3%, (2) allow new producers of direct reduced iron to be eligible for the phase in production tax incentive by eliminating the July 1, 2008 deadline for obtaining all environmental permits and commencing construction, and (3) exempt from production tax the taconite or iron sulphides consumed in the noncommercial production of direct reduced ore.

- The proposed changes related to direct reduced iron ore are assumed to have no impact on the state general fund.
- Under current law, there is no direct reduced iron production anticipated from new producers during the current forecast period, but modifying the definition of direct reduced iron to 67% iron content instead of 75% could allow some companies to qualify sooner as DRI producers.
- Allowing new producers of direct reduced iron to phase in production tax paid would reduce the amount of production tax collected during the first five years for a new producer. Exempting taconite consumed in noncommercial production of direct reduced iron from the production tax could also reduce production tax collections.
- Lower production tax collections would result in less revenue distributed to the Taconite Environmental Protection Fund and the Douglas J. Johnson Economic Protection Fund.

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

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