Updated to reflect the February 2016 Forecast
Includes new effective dates

May 18, 2016

PROPERTY TAX
Senate Omnibus Tax Bill
Articles 2-3, 5-12, 15

	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. 848, 1st Unofficial Engrossment, Articles 2-3, 5-12, 15 as amended (SCH0848A84)

	Fund Impact			
	F.Y. 2016	F.Y. 2017	F.Y. 2018	F.Y. 2019
	(000's)			
Article 2: Property Taxes				
Soil & Water Conservation District Levy Notify	$0	$0	$0	$0
State General Levy / Classification Changes	$0	($33,000)	($60,620)	($61,970)
Property Tax Refund Interactions	$0	$0	$4,220	$4,220
Income Tax Interactions	$0	$0	$2,950	$2,950
Use of Levy Proceeds for Historical Societies	$0	$0	$0	$0
Agricultural Purposes Class 2 Definition	$0	$0	$0	(negligible)
Agricultural Land Targeting Credit	$0	$0	($5,000)	($4,200)
Income Tax Interactions	$0	$0	$180	$150
Certification Dates for Special Taxing Districts	$0	$0	$0	$0
Fiscal Disparities Areawide Tax Rate Limited	$0	$0	$0	unknown
Late Payment Penalty Date Modified	$0	$0	$0	$0
Tax Forfeited Land Interest Rate	$0	(unknown)	(unknown)	(unknown)
Business Use of Home on Property Tax Refund	$0	$250	$330	$420
PTR Targeting 12% to 10%	$0	$0	($2,690)	($1,250)
Senior Property Tax Deferral Program	$0	$0	($150)	($210)
Early Termination of Agricultural Preserve	$0	negligible	negligible	negligible
Carlton County Authorized Levy	$0	$0	(negligible)	(negligible)
Local Board Course Requirements	$0	$0	$0	$0
St. Louis County Grant	$0	($1,000)	$0	$0

	Fund Impact			
	F.Y. 2016	**F.Y. 2017**	**F.Y. 2018**	**F.Y. 2019**
Study Agricultural Production	$0	$(200)	$0	$0
Tofte Municipal Housing Authority	$0	$0	$0	$0
Hennepin County Grant	$0	($1,130)	$0	$0
Repeal Ag Containment Facility Exemption	$0	$150	$150	$150
Article 3: Local Development				
TIF Interfund Loan Requirements Clarified	$0	$0	$0	$0
TIF Coon Rapids	$0	$0	$0	$0
TIF Cottage Grove	$0	$0	$0	$0
TIF Richfield	$0	$0	$0	$0
TIF St. Paul	$0	$0	$0	$0
Article 5: Property Tax Aids and Credits				
County Program Aid Appropriation Increase	$0	$0	($25,000)	($29,600)
Property Tax Refund Interactions	$0	$0	$630	$750
Income Tax Interactions	$0	$0	$470	$560
Out of Home Placement Aid for ICWA	$0	$0	$0	($19,300)
Property Tax Refund Interactions	$0	$0	$0	$470
Income Tax Interactions	$0	$0	$0	$360
Township Aid Appropriation Increase	$0	$0	($2,000)	($2,000)
Property Tax Refund Interactions	$0	$0	$10	$50
Income Tax Interactions	$0	$0	negligible	$40
Aid Payment Dates Shift	$0	($209,300)	($13,600)	$50
Town Audit Requirement Modified	$0	$0	$0	$0
Local Government Aid Appropriation Increase	$0	$0	($21,540)	($45,580)
Property Tax Refund Interactions	$0	$0	$550	$1,150
Income Tax Interactions	$0	$0	$410	$870
Payment in Lieu of Taxes (PILT) Increase	$0	($3,750)	($3,755)	($3,755)

	Fund Impact			
	F.Y. 2016	**F.Y. 2017**	**F.Y. 2018**	**F.Y. 2019**
Property Tax Refund Interactions	$0	$0	$90	$90
Income Tax Interactions	$0	$0	$70	$70
Lewis & Clark Debt Service Aid Increase	$0	$0	($1,000)	($1,000)
LGA Penalty Forgiveness Pay 2013	$0	($37)	$0	$0
LGA Penalty Forgiveness Pay 2014	$0	($102)	$0	$0
Article 6: Workforce Housing				
Workforce Housing - TIF Portion Only	$0	$0	$0	$0
Article 7: Minerals				
Mining Occupation Tax				
$1.5m Minimum Cap for Apportionment	$0	$0	($620)	($610)
New 15¢ Per Ton Apportionment	$0	$0	($5,270)	($5,330)
July 1 Distribution Date Shift	$0	$2,640	$30	$270
Direct Reduced Iron Tax Incentive Reinstated	$0	$0	$0	$0
Redirection of Essar Steel Production Tax	$0	$0	$0	$0
Unorganized Territories Receive Distribution	$0	$0	$0	$0
Taconite Production Tax Inflation Capture To School Account	$0	$0	$0	$0
Article 8: Electric Generation Machinery				
Electric Generation Transition Aid	$0	$0	$0	($6,470)
Property Tax Refund Interactions	$0	$0	$0	$310
Article 9: Railroad Recodification				
Railroad Recodification				
Property Tax Refund Interactions	$0	$0	$3,300	$3,300
Income Tax Interactions	$0	$0	($100)	($100)
Article 10: Public Finance				
State General Fund	$0	$0	$0	$0

	Fund Impact			
	F.Y. 2016	**F.Y. 2017**	**F.Y. 2018**	**F.Y. 2019**
Article 11: Sustainable Forest Incentive Act				
SFIA Payment Rate Modifications	$0	$0	($4,200)	($4,400)
Article 12: Miscellaneous				
Tax Court; Written Order and Jurisdiction	$0	$0	$0	$0
Border City Allocations	$0	($2,000)	$0	$0
Article 15: Department Policy and Technical Provisions				
State General Fund	$0	$0	$0	$0
State General Fund Impact	**$0**	**($247,629)**	**($132,180)**	**($169,575)**

Various effective dates.

Non-General Fund Impacts

Douglas J. Johnson Economic Protection Trust Fund				
Distribution Impact	$0	unknown	unknown	unknown
Taconite Environmental Protection Fund				
Distribution Impact	$0	$0	($2,500)	($2,500)

EXPLANATION OF THE BILL & REVENUE ANALYSIS DETAIL

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

Soil and Water Conservation District Levy Modification (Sections 1 & 13-14)
The effective date is certifications in 2016.
The bill would add soil and water conservation districts to the list of special taxing districts. Counties that levy for soil and water conservation would need to certify that portion of their levy separate from their general levy.

- Adding soil and water conservation districts to the special taxing districts would have no effect on the state general fund.

State General Property Tax Levy and Classification changes (Section 2, 5, 9-10, 34)
The effective date is beginning with taxes payable in 2017.
The proposal would enact various changes to the state general levy, class rates for commercial-industrial property, and the seasonal residential recreational property tax base.

Under current law, seasonal residential recreational (cabin) property is not subject to referendum market value levies, but is subject to the state property tax. The proposal would exempt cabin value over $300,000 from the state general levy and make this value subject to referendum market value levies.

The proposal would change the classification rate of commercial, industrial, railroad, and utility property from 1.5% of the first tier of market value to 1.55%. The class rate for the remaining market value would change from 2% to 2.1%.

The proposal would set the state general levy for commercial-industrial property at $768,443,200 and the state general levy for seasonal residential recreational property at $33,778,700, for taxes payable in 2017. In subsequent years, each levy base amount would grow by the change in the implicit price deflator for government consumption expenditures and gross investment for state and local governments.

- Adding seasonal residential recreational property to the referendum tax base would lower the referendum rate. This would result in a decrease in net taxes for homesteads, which would decrease property tax refunds.
- The proposal would increase the tax capacity of commercial, industrial, and utility property, shifting local taxes onto these properties and away from all other properties, including homesteads. This shift would also decrease property tax refunds for homeowners.
- Property tax refunds would decrease by $4.22 million in the first year as a result of adding seasonal residential recreational property to the referendum tax base and increasing commercial, industrial, and utility tax capacity.
- The proposal would decrease the state general levy by $33 million in FY 2017, $60.62 million in FY 2018, and $61.97 million in FY 2019.
- The net decrease in commercial and individual taxes would reduce deductions on income tax returns, increasing state tax collections by $2.95 million beginning in FY 2018.

Use of Levy Proceeds for Local Historical Societies (Section 3)
The effective date is the day following final enactment.
The bill would allow cities and towns to appropriate funds within its general fund to be paid to the historical society of its respective city or town. Current law provides that funds must be paid to the historical society of its respective county only.

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

Agricultural Purposes Class 2 Definition (Section 4)
The effective date is assessment year 2017.
The proposal allows property enrolled in the federal Conservation Reserve Program, as contained in Public Law 98-198, to be classified as agricultural. Under current law, property enrolled in this program can only be classified as agricultural if it was classified as agricultural in the previous year, or in taxes payable 2003.

- It is assumed that the majority of property enrolled in the federal Conservation Reserve Program is already classified as agricultural under current law.
- It is assumed that a small number of properties would receive a lower class rate due to the proposal. Under current law, these properties are classified as 2b non-homestead rural vacant land with a class rate of 1.00%. Under the proposal, they would be classified as class 2a, the remainder of agricultural homestead used for productive agriculture. For the 2016 assessment, the class rate would be 0.50% for the first $2.05 million of value and 1.00% for the remaining value.
- The proposal would cause a shift in property taxes away from properties newly qualifying as agricultural and onto all other properties, including homesteads.
- The shift in taxes onto homesteads would cause an increase in property tax refunds paid by the state by a negligible amount beginning in FY 2019.

Agricultural Land Targeting Credit (Section 6-8, 12, 15)
The effective date is taxes payable in 2017.
The proposal creates a targeted agricultural land property tax credit. Properties classified in whole or in part as class 2a agricultural land would be eligible for the credit if the gross property taxes payable increase more than 8% over the previous year, and the amount of increase is $200 or more. The credit would be equal to the amount of the increase over the greater of 8% of the prior year's property taxes payable or $200. The maximum credit allowed would be $2,000. Several restrictions on eligible property are proposed; the increases due to new improvements would not apply towards the credit.

- The proposed targeted agricultural land credit is estimated to be $5.0 million in taxes payable 2017. The credit is expected to decrease in payable years 2018 due to slowing growth in agricultural land values.
- Approximately 15,000 parcels of land are estimated to receive the credit in taxes payable 2017. The average credit per parcel is estimated to be $335.
- Lower farm taxes would decrease deductions for income taxes, raising collections. The increase in income tax receipts are estimated to be $180,000 in the first year.

- Estimates are based on forecasted statewide growth in agricultural land property taxes of less than 3% per year.
- If growth in agricultural land property taxes are higher than currently forecasted, the credit will be more costly.

Proposed Levy Certification Dates for Special Tax Districts (Section 11)
The effective date is taxes payable in 2017.
The bill would move the levy certification date of special taxing districts, with the exception of the Metropolitan Council and the Metropolitan Mosquito Control Commission, 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.

Iron Range Fiscal Disparities Areawide Tax Rate Limited (Section 16-17)
The effective date is taxes payable in 2018.
The bill would modify the iron range fiscal disparities program by limiting the annual change in the areawide tax rate to five percentage points. If the change in the areawide tax rate exceeded five percentage points, the administrative auditor would determine the percentage increase or decrease to each jurisdiction's distribution levy and recalculate the adjusted areawide tax rate for fiscal disparities.

- Under the proposal, any state general fund impact would be related to changes in property tax refunds paid to residential homesteads due to shifts in property taxes onto or away from business property as a result of limiting the annual change in the areawide tax rate.
- The impact of limiting annual changes in the iron range fiscal disparities areawide tax are summarized in the following table:

If the iron range fiscal disparities areawide tax rate:	Increased by more than 5%	Decreased by more than 5%
The areawide tax rate would be adjusted:	Lower	Higher
Fiscal disparities tax paid by businesses would be:	Lower	Higher
Distribution levies for local jurisdictions would be:	Lower	Higher
Portion of jurisdiction's levy paid locally would be:	Higher	Lower
Local property taxes on residential homesteads would be:	Higher	Lower
State costs for homestead property tax refunds would be:	Higher	Lower

- The state general fund impact is unknown because the future magnitude and direction of changes in the fiscal disparities areawide tax rate are not known.

Late Payment Penalty Date Modified (Section 18)
The effective date is taxes payable in 2017.
Under the proposal, no penalty would accrue on property tax payments received by mail after the due date if the envelope is postmarked within two business days of the due date.

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

Tax Forfeited Lands Unpaid Balance Interest Rate (Sections 19-21)
The effective date is for sales and repurchases 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.

Business Use of Home on Property Tax Refund (Section 22)
The effective date is for refunds based on property taxes payable in 2016 and rent paid in 2015.
Under current law, homeowner and renters using a portion of their dwelling for business must apportion the amount of property tax not used for business for purposes of claiming a property tax refund only if they claimed business depreciation expenses.

The proposal would require PTR claimants to apportion the amount of property tax not used for business if they claimed either business depreciation or deduction expenses.

- Requiring PTR claimants to apportion out the amount of property tax used for business would lower the amount of property tax eligible for the property tax refund, which would lower refund amounts.
- Based on a sample of 2013 property tax refund filings, it is estimated that the average refund reduction would be approximately $100 under the proposal.

- It is assumed that a majority of current PTR filers with a home business will continue to apportion the amount of property tax not used for business when determining their property tax refund and would not be impacted under the proposal.
- The share of PTR filers electing to not apportion their property tax would be assumed to increase annually if the proposal is not enacted.
- The first year of state general fund savings would be FY 2017.

PTR Targeting 12% to 10% (Section 23)
The effective date is refunds based on taxes payable in 2017.
Current law provides a refund for property taxes on a homestead that increases more than 12% over the property taxes payable in the prior year, and the amount of the increase is more than $100. The refund is equal to 60% of the amount of the increase over the greater of 12% of the prior year's property taxes payable or $100.

The proposal would decrease the minimum year-to-year change from 12% to 10%. The refund amount would also change to be equal to 60% of the amount of the increase over the greater of 10% of the prior year's property taxes payable or $100.

- Under current law, it is estimated that 56,000 taxpayers will claim targeted property tax refunds in payable year 2017 for a total of $5 million.
- By decreasing the minimum year-to-year change for the refund, the number of eligible taxpayers and the total refund amount are expected to increase. Under the proposal, it is estimated that the number of taxpayers that will claim targeted refunds will increase by 29,000 in the first year. The total refunds paid are expected to increase by $2.69 million in the same year.

Senior Property Tax Deferral Program Modifications (Sections 24-25)
The effective date is for applications received for taxes payable in 2017.
The proposal would modify the numbers of years a senior citizen would be required to live in their home from 15 to 5 years to be eligible for the senior citizen property tax deferral program and change the application deadline from July 1 to November 1.

Note: Changing the application deadline for the senior citizen property tax deferral program creates a shift in state expenditures. The main impact occurs in the initial fiscal year as a portion of the deferral payments that would have been paid in one fiscal year are shifted into the previous fiscal year. The impact of the shift in subsequent years is calculated as the difference between forecasted amounts to be paid under current law and the effect of shifting those amounts to the previous fiscal year.

- According to U.S. Census data, approximately three-quarters of senior citizen homeowners have lived in their homes for at least 15 years.
- Under the proposal, reducing the requirement from 15 years to 5 years would increase eligibility for the senior citizen property tax deferral program.
- It is assumed that participation would increase approximately 20% under the proposal, increasing state general fund costs.

- The first partial year of impact is assumed to be FY 2018. Applications received between June 2016 and October 2016 would be eligible for deferral under the new requirement beginning for taxes payable in 2017. The first full year of impact would be FY 2019.
- Changing the application deadline would mean that applicants filing after July 1 would become eligible for property tax deferral one year earlier than compared to current law.
- The first year impacted under the proposal would be applications filed in 2016 for taxes payable in 2017 (state deferral payment in FY 2018). It is estimated that approximately $60,000 in deferral payments that would have first been made in FY 2019 would now be made in FY 2018 under the proposal.
- The state general fund net impact in subsequent years is estimated to be less than $10,000 in FY 2019.

Early Termination of Agricultural Preserve (Section 27)
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.

- 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.

Carlton County Levy Authorization (Section 28)
The effective date is taxes payable in 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.

Local Boards Course Requirements (Section 29)
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 appeals and equalization who has attended an appeals and equalization course within the last four years.

The proposal would require the Department of Revenue to offer at least 12 in-person board of appeals and equalization trainings in 2016 and 2017.

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

St. Louis County Appropriation - Removal of Tax-Forfeited Structures (Section 30)
The payment date is July 1, 2016.
The proposal addresses a situation in St. Louis County whereby residential structures that have separate ownership from the underlying land and have their own parcel identification number (PIN) sit on land with a separate PIN. The structures have been forfeited to the state and the land owner, a mining company, wants the structures removed.

The proposal would allow the county auditor to cancel the certificates of forfeiture without reinstating the unpaid property taxes, special assessments, penalties, interest, or costs. In addition, the bill would allow the county auditor to combine the structure PINs with the PIN of the land underneath, meaning the structure PINs would be eliminated and the land PIN would now include the previously tax-forfeited structures. As a result, the forfeited structures would become property of the mining company that owns the land, but no back taxes would be owed.

The bill also authorizes a one-time appropriation from the general fund of $1 million in FY 2017 to be used for the removal of tax-forfeited structures once their separate PINs have been eliminated and only if so requested by the landowner.

- The appropriation would increase state general fund costs by $1 million in FY 2017.
- The proposal 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 Agricultural Production (Section 31)
The effective date is the day following final enactment.
The proposed bill mandates a study from the department of agriculture and revenue on the valuation of agricultural land in the state for property tax purposes. The study would explore basing the value of agricultural land using agricultural commodities produced minus the cost of agricultural production. The bill specifically asks for 11 issues to be examined in the study. The study must seek input from the dean of the University of Minnesota College of Food, Agricultural, and Natural Resource Sciences as well as various stakeholders. The study must be completed by February 1, 2017.

- The bill appropriates $200,000 from the state general fund in FY 2016.

Tofte Municipal Housing Authority (Section 32)
The effective date is the day after compliance by the governing body of the town of Tofte.
The proposed bill would give the town of Tofte the authority to own and operate housing projects. Tofte would also be given the authority to levy for housing projects. Currently only counties and cities have this authority.

- According to a Tofte supervisor, Tofte plans on building 6 twin homes. These homes would be financed through grants, tax abatement bonds, and rental fees from the homes. Assuming these homes would not be built without the proposed bill and the increased tax base will be used for the abatement, the levy in Tofte would not be affected. Since the levy would not change in Tofte, the state general fund would not change.

Hennepin County Library Appropriation (Section 33)
The effective date is fiscal year 2017.
The bill would provide a one-time appropriation equal to $1.13 million in FY 2017 for a grant to Hennepin County. Of the total, $880,000 must be used for the North Branch Library EMERGE Career & Technology Center, and $250,000 must be used for the Cedar Riverside Opportunity Center.

- The appropriation would increase state general fund costs by $1.13 million in FY 2017.

Repeal Agricultural Containment Facility Exemption (Section 34)
The effective date is taxes payable in 2016.
Under current law, agricultural containment tanks, cache basins, and the portion of the structure needed for the containment facility used to confine agricultural chemicals are exempt from property taxes.

The proposal would remove the exemption from property taxes for this property.

- The change from exempt to taxable status for agricultural containment property would increase the market value subject to property taxes and property taxes paid. The increase in market value would be approximately $115 million. This change would begin in payable year 2016.
- The proposal would also shift property taxes on to agricultural containment property that was previously exempt and away from all other property types, including homesteads. The result of this interaction would be a statewide property tax refund savings of approximately $150,000 beginning in FY 2017.

Article 3: Local Development

TIF Interfund Loan Requirements Clarified (Sections 1-4)
The effective date is the day following final enactment.
The proposal modifies provisions of tax increment financing (TIF) expenditures and clarifies interfund loan requirements.

The proposal adds the clarification that expenditures outside the district only apply to increments paid by properties located in the district. The same provision is added to revenues under the five-year rule.

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. 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 would be effective following final enactment and applies to all TIF districts, regardless of when request for certification was made.

- 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 Coon Rapids (Section 5)
The effective date is upon local approval.
The proposal would extend the duration of tax increment financing (TIF) district No. 6-1 (Port Riverwalk) in Coon Rapids by five years.

- The proposed changes 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 6)
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 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 7)
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 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 8)
The effective date is upon local approval.
The proposal allows the housing and redevelopment authority of the city of St. Paul to create one or more redevelopment tax increment finance (TIF) districts from listed parcels. The two parcels listed are within the area of the former Ford Motor Company plant properties, including adjacent roads and right-of-way. The proposal provides for an exception to the blight test for establishing redevelopment districts and pooling requirements, except that expenditures for activities outside the district are limited to the percentage limits under current law.

The authority to request certification with the proposed rules expires June 30, 2020, unless the city has requested certification of at least one district by that date. The authority to request certification expires June 30, 2030.

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

<u>Article 5: Property Tax Aids and Credits</u>

County Program Aid, Repeal Aids (Sections 1, 9)
The effective date is aids payable in 2017.
The proposed bill would change aspects of the County Program Aid (CPA) formula as well as increase the appropriation to CPA.

- Five formula changes would affect tax-base equalization aid, most notably placing a floor on the amount a county can receive equal to 95% of the previous year's amount.
- The appropriation would increase for the tax-base equalization aid portion of CPA from $104,909,575 to $129,909,575 in FY 2017 and to $132,509,575 starting in FY 2018 and thereafter.
- The appropriation would increase the need aid portion of CPA from $100,795,000 to $102,895,000 starting in FY 2018 and thereafter.

- Increasing the appropriation to CPA will cost the state general fund $25 million in FY 2017 and $29.7 million starting in FY 2018 and thereafter.
- It is assumed that increasing CPA will result in counties lowering their levies by a portion of the aid increase. Lower levies will decrease property taxes on all property and result in:
    - Lower homeowner property tax refunds, reducing costs to the state general fund.
    - Lower income tax deductions, reducing costs to the state general fund.

State Aid for Out-of-Home Placement Costs (Section 2)
The effective date is aids payable in 2018.
The bill would create a new state aid payment to counties and tribes for costs related to the out-of-home placement of children under the Indian Child Welfare Act (ICWA).

The aid payment would be equal to 100% of the nonfederal share of costs incurred by a county's social service agency or a county's correctional agency for out-of-home placement, based on a three year average. These costs would be reported to and certified by the Department of Human Services and the Department of Corrections, and the aid payments to counties would be made by the Department of Revenue.

The bill would also provide an annual aid payment to Indian tribes equal to the greater of: (1) $200,000, or (2) 5% of the average federal reimbursement of out-of-home placement costs.

- According to the Department of Human Services, the estimated non-federal share of costs for out-of-home placement of children under the Indian Child Welfare Act including county correctional facility costs was approximately $18.9 million in 2014. There are also two Indian tribes that would be eligible to receive an additional $400,000.
- The proposed state aid payments to counties and tribes would first be made in calendar year 2018, increasing state general fund costs beginning in FY 2019.
- It is assumed that counties receiving an increase in state 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 2019, resulting in a savings to the state general fund.

Township Aid Appropriation Increase (Sections 3-4, & 10)
The effective date is aids payable in 2017.
Under current law, unorganized territories are not eligible to receive township aid. The proposal would allow counties to receive township aid on behalf of unorganized territories within the county. The payment to counties would be calculated by aggregating all unorganized territory data at the county level. The formula for calculating aid to counties with unorganized territories would be the same as the formula used for townships, with the exception that total area would be capped at 75,000 acres (instead of the township limit of 50,000 acres). All aid received by a county must be spent in and for its unorganized territories.

Under the proposal, total aid (to townships and counties with unorganized territories) would increase from $10 million to $12 million beginning with aids payable in 2017.

- Under the proposal, aid to counties with unorganized territories is estimated to be about $300,000. Aid to townships would equal approximately $11.7 million.
- Fifteen counties in the state have unorganized territories. Thirteen would qualify for aid:
    - Aitkin, Beltrami, Carlton, Cass, Cook, Crow Wing, Itasca, Kittson, Koochiching, Lake, Lake of the Woods, Roseau, and St. Louis.
    - Clearwater County would receive no aid due to a lack of agricultural property within its unorganized territories.
    - Marshall County would receive no aid due to a lack of both agricultural property and population within the Mud Lake UT.
- It is assumed that the net increase in aid 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 2018, resulting in a savings to the state general fund.

State Aid Payment Date Shifts (Sections 5, 13-14)
The effective date is aids payable in 2017.
The bill would also modify the state aid payment dates to local governments. Under current law, the payment of numerous state aids to local governments are made in two installments on July 20 and December 26. The proposal would change the payments to four installments on March 15, July 15, September 15, and November 15.

Changing the payment dates for aids and credits creates a shift in state expenditures. The main impact occurs in the initial fiscal year as a portion of the aids and credits paid at the beginning of the fiscal year (July and August) are shifted into the previous fiscal year. The impact of the shift in subsequent years is calculated as the difference between forecasted amounts to be paid under current law and the effect of shifting those amounts to the previous fiscal year.

- There are currently 13 state aid payments that would be impacted by the date changes: Local Government Aid (LGA) to cities, County Program Aid (CPA), Township Aid, Public Employee Retirement Association (PERA) Aid, Disparity Reduction Aid (DRA), Payment in Lieu of Taxes (PILT), Supplement Taconite Homestead Credit, Performance Measurement Reimbursement, Taconite Aid Reimbursement, Lewis & Clark Debt Service Aid, County Aquatic Invasive Species Prevention Aid, Production Property Transition Aid, and Utility Valuation Transition Aid. For CY 2017, these aids would total approximately $880 million under the proposal.
- 10 of the 13 aids currently being paid in two installments would be paid in four installments. Under the proposal, the first installment payment on March 15 would shift 25% of the total payment into the previous fiscal year. In the first year, the payment amount shifted from FY 2018 to FY 2017 would be approximately $209 million.
- Two of the aids currently paid in full on the first installment date of July 20th (PILT and Taconite Aid Reimbursement) would now be paid on the second installment date of July 15th. A third currently paid in full on the second installment date of December 26th (Performance Measurement Reimbursement) would now be paid on the second installment date of July 15th.
- Two newly proposed aids (Electric Generation Transition Aid and County Out-of-Home Placement Aid for ICWA) would also be paid in four installments beginning in CY 2018.

Town Audit Requirement Modified (Sections 6 & 7)
The effective date is aids payable in 2017.
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. In the case of cities (and counties) only, 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. For all towns and cities, failure to comply would result in the loss of Department of Revenue aid.

- 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.

Local Government Aid Appropriation Increase (Section 8)
The effective date is aids payable in 2017.
Under current law the LGA appropriation is $519.4 million for aids payable in 2017 and thereafter.

The bill would increase the LGA appropriation to $540.9 million for aids payable in 2017 and to $565.0 million for aids payable in 2018 and thereafter.

- Increasing the appropriation for LGA to cities would increase costs to the state general fund by $21.5 million in FY 2018 and $45.6 million in FY 2019 and thereafter.
- It is assumed that the 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 2018, resulting in a savings to the state general fund.

PILT Payment Rate Increases (Sections 11-12, 17)
The effective date is aids payable in 2016.
Under current law, lands enrolled in the PILT program that are administered by counties or the Department of Natural Resources receive a per acre payment of $1.50. The proposal would increase the per acre PILT payment rate to $2.00 for these types of land.

The proposal would also create a new $300,000 state appropriation for distribution to counties with state-owned conservation lands, provide a payment for acres purchased by a federally recognized Indian tribe with funding from the state Outdoor Heritage Fund, and modify the Red River watershed management board's local spending authority for PILT.

- Increasing the per acre payment rates and adding a new $300,000 appropriation would increase annual PILT payments to counties by approximately $3.75 million beginning in FY 2017.
- PILT payments to counties for acres purchased by a federally recognized Indian tribe with funding from the state Outdoor Heritage Fund would increase state costs by an additional $5,000 beginning in FY 2019.
- 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 2018, resulting in a savings to the state general fund.
- There would be no impact to the state general fund from modifying the Red River watershed management board's local spending authority.

Lewis & Clark Debt Service Aid (Sections 15-16, Article 2 Sections 26 & 34)
The effective date is aids payable in 2017.
Under current law, funding is authorized for a water system project in the southwestern Minnesota counties of Nobles and Rock. The governing bodies involved are authorized to issue up to $45 million in bonds for the project to be repaid with federal aid, state aid and local revenues. The state-paid debt service aid is based on the annual debt service payment amount less 50% of any federal aid received and an assumed local effort of 1.5% of the combined tax base of the two counties. Local sales taxes were also authorized to pay debt service on bonds.

The proposal would increase the maximum dollar limit of aggregate principal from $45 million to $50 million and make the city of Worthington the single governing body with bonding authority. The proposal would also modify the calculation of the state-paid debt service aid to be equal to the annual principal and interest paid less any local share payments. The annual local share payments would be: (1) $300,000 for the city of Worthington; (2) $100,000 for the city of Luverne; (3) $50,000 for the county of Rock; and (4) $50,000 for the county of Nobles. If a jurisdiction fails to pay its local share in any year, the state would reduce its LGA or CPA payment by that amount.

- It is assumed that the full bonding authority allowed would be issued by the city of Worthington.
- Based on information from Minnesota Management and Budget, the annual debt service payment would increase from an estimated $3.35 million to $3.7 million under the proposal.
- It is assumed that each jurisdiction would make its annual local share payment, totaling $500,000 beginning in payable year 2017.
- The proposed changes would increase the amount of state-paid debt service aid by $1,000,000 in FY 2018 and thereafter.
- Eliminating the federal aid offset in the state-paid debt service aid formula would not impact the current estimates because there is currently no federal aid assumed. Theoretically, if federal aid became available, eliminating the federal aid offset in the state aid formula would increase the amount of state aid to be paid.

LGA Penalty Forgiveness Pay 2013 (Section 18)
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 19)
The effective date is the day following final enactment.
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 before June 30, 2017.

- 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.

Article 6: Workforce Housing

TIF Workforce Housing (Sections 3-6)
The effective date is for requests for certification made after June 30, 2016.
The proposal creates a new class of economic development tax increment financing (TIF) district for workforce housing. Municipalities qualifying for workforce housing projects must make the following findings:

(1) the city has a population greater than 1,500;
(2) the median number of full-time jobs was at least 500 for the last five years;
(3) located in a census block with a population density over 200 persons per square mile;
(4) located in an area served by a joint county-city economic development authority or outside the counties of Anoka, Benton, Carver, Chisago, Dakota, Hennepin, Isanti, Olmsted, Ramsey, Scott, Sherburne, Stearns, Washington, and Wright;
(5) the average vacancy rate for rental housing within 15 miles of the city has been less than 4% for the preceding two years;
(6) at least one business in or within 15 miles of the city and employing at least 20 full-time employees has provided a written statement indicating that the lack of available rental housing has hindered their ability to recruit and hire employees;
(7) fewer than four market rate residential rental units per 1,000 residents were constructed in the last ten years without government financing, grants, or subsidies; and
(8) increments are intended to be used for the development of rental housing to serve employees of businesses located in the city or surrounding area.

The authority to request certification because of these findings expires June 30, 2020.

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.

- 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.

Article 7: Minerals

Mining Occupation Tax (Sections 1-2)

The effective date is production year 2016.

The bill would make a number of modifications to the apportionment of mining occupation tax proceeds.

First, the date that mining occupation tax proceeds would be transferred from the state general fund is changed to "on July 1" for those apportionments that are not already made on July 1. Currently these transfers occur in May.

Second, the bill adds a minimum apportionment amount for a current transfer to the mining environmental and regulatory account in the special revenue fund. Under current law, 2.5¢ per taxable ton of mining occupation tax is appropriated to this account. The proposal would create a minimum floor of $1.5 million, or 2.5¢ per taxable ton, whichever is greater.

Third, the bill creates a new apportionment of 15¢ per taxable ton from the state general fund to the Iron Range Resources and Rehabilitation Board (IRRRB) energy efficiency and mining protection account. The funds would be released annually to each producer of taconite or direct reduced ore in direct proportion to the amount of mining occupation tax paid by that producer in the preceding year.

- Based on projected mining occupation tax revenues, the amount apportioned from the state general fund to the mining environmental and regulatory account in the special revenue fund would increase from approximately $0.9 million to $1.5 million beginning in FY 2018.
- The new 15¢ per taxable ton apportionment would transfer approximately $5.3 million from the state general fund to the IRRRB beginning in FY 2018. With this new apportionment, the total annual transfers from the general fund would exceed the amount of mining occupation tax revenues deposited in the general fund.
- Modifying the transfer date to "on July 1" would shift current fiscal year apportionments to the following fiscal year. The main impact occurs in the initial fiscal year as the apportionments transferred at the end of the fiscal year (May and June) are shifted into the following fiscal year. The impact of the shift in subsequent years is calculated as the difference between forecasted amounts to be transferred under current law and the effect of shifting those amounts to the following fiscal year.

Direct Reduced Iron Tax Incentive Reinstated (Section 3)

The effective date is production year 2016.

The bill would allow new producers of direct reduced iron to be eligible for the phase in production tax incentive by changing the July 1, 2008 deadline for obtaining all environmental permits and commencing construction to July 1, 2020.

- The proposal is assumed to have no impact on the state general fund.

- 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.
- There is no direct reduced iron production anticipated from new producers during the current forecast period.

Redirection of Essar Steel Deposits to Douglas J. Johnson Fund (Section 4)
The effective date is production year 2016.
The bill would redirect the portion of production tax paid by Essar Steel into the Douglas J. Johnson Economic Protection Trust Fund (DJJ). Under current law this tax would be deposited into the Taconite Economic Development Fund (TEDF) and distributed back to Essar Steel as grants for business investments. The redirection to the DJJ would continue until terms of the reimbursement agreement are met. During this time Essar Steel would not receive distributions from the TEDF.

- The proposed change to the local distribution of taconite production taxes is assumed to have no impact on the state general fund.
- The estimated annual amount of production tax redirected from the TEDF to the DJJ is unknown.

Unorganized Territories Receive Distribution (Section 5)
The effective date is production year 2016.
The bill would modify the distribution of taconite production tax by making unorganized townships in St. Louis County eligible for the current 3¢ per ton distribution.

- The change to the local distribution of taconite production taxes is assumed to have no impact on the state general fund.
- Six unorganized townships qualifying for a distribution would lower allocations to other townships currently receiving a distribution.

Taconite Production Tax Inflation Capture To School Account (Section 6)
The effective date is production year 2016.
Under current law, the Iron Range school consolidation and cooperatively operated school account would receive revenues in distribution years 2015 to 2017 equal to two-thirds of the amount of production tax generated from the annual inflation adjustment under 298.24 subdivision1. This amount reduces the allocation to the Taconite Environmental Protection Fund (for distribution years 2015-2017).

The bill would make permanent the two-thirds inflation capture by the school account beginning in distribution year 2018. The distribution would be based on the cumulative inflation for 2015, 2016, and 2017.

- The modification in the distribution of taconite production tax revenues would shift an additional $2.5 million to the school account beginning in distribution year 2018. These revenues would have otherwise gone to the IRRRB Taconite Environmental Protection Fund.

Article 8: Electric Generation Machinery

The effective date is assessment year 2017/aids payable in 2018.

Under current law, electric generating machinery is valued locally or by the state using unitary valuation. Public utility property is subject to personal property taxes on electric generating machinery. Wind energy and solar energy facilities pay a production tax per kilowatt-hour of energy produced and are exempt from personal property taxes.

Under the proposal, the personal property tax on electric generating machinery would be eliminated. The proposal would create a new tax base for electric generating machinery using a combination of capacity, generation, and spent nuclear fuel times specified rates. Capacity rates, per megawatt hour of nameplate capacity, are as follows:

- $0 for hydroelectric generating systems;
- $5,000 for machinery used to generate electricity from biomass, natural gas, or nuclear fuel; and
- $10,000 for machinery used to generate electricity from coal, oil, or any other fossil fuel.

Rates for generation, per kilowatt hour of energy produced, are as follows:

- $0.05 for hydroelectric generating systems;
- $0.0525 for machinery used to generate electricity from biomass, natural gas, or nuclear fuel; and
- $0.055 for machinery used to generate electricity from coal, oil, or any other fossil fuel.

Nuclear energy facilities would also have a spent fuel tax base, which equals $150 million plus $100,000 per ton of spent fuel. Spent fuel is defined as fuel that has been irradiated in a nuclear reactor to the point where it is no longer useful in sustaining a nuclear reaction. The generation and capacity rates would increase annually by the percentage change in the retail price of electricity for residential property.

The electric generation tax base of a facility would equal the sum of: (1) its nameplate capacity, in megawatts, multiplied by its generation capacity rate; (2) the average electric energy production for the last five years, as reported to the commissioner of revenue, multiplied by its generation rate; and, (3) its spent fuel tax base. For electric generating systems that have been in operation for less than five years, its average production would be its average since the facility began operating. For levies based on market value, the electric generation tax base would be included as part of the jurisdiction's market value tax base. For levies based on net tax capacity, the electric generation tax base multiplied by two percent would be included as part of the jurisdiction's net tax capacity.

Non-operating property and operating real property of electric light and power companies that is part of an electric generation system would be assessed by local or county assessors. The proposal removes a number of exemptions and exclusions, including exemptions for personal property at specific facilities and the sliding scale exclusion. The proposal also excludes real or personal property of an electric generation system from the pollution control exemption. Reporting requirements for electric generating systems are also included.

The proposal would also create a transition aid for counties, cities, and towns in which net tax capacity is reduced due to the changes made to the valuation and taxation of electric generating machinery. The aid would be equal to (1) the net tax capacity of all personal property of electric generating systems for assessment year 2016, multiplied by the 2016 local tax rate; plus (2) the net tax capacity in the current year of all electric generating systems multiplied by the current local tax rate. Once a jurisdiction becomes ineligible for this aid, it would not be able to receive the aid again. Transition aid would be effective beginning with aids payable in 2018.

- Due to the valuation change for electric generating machinery, statewide public utility market value would increase by approximately $94 million. At the local level, the proposal would cause increases in public utility market value in some locations and decreases in others.
- The increase in public utility market value statewide would shift taxes onto public utility property and away from all other property, including homesteads. The decrease in property taxes for homesteads would cause a decrease in property tax refunds paid by the state of $310,000 beginning in FY 2019.
- 74 local taxing units would be eligible for electric generation property transition aid in the first year. The total transition aid is estimated to be $6.47 million in FY 2019.

Article 9: Railroad Recodification

The effective date is assessment year 2016.

The proposal recodifies provisions in Chapter 270 and amends sections of Chapter 272 regarding the taxation of railroad operating property. The proposal would include all operating property as part of the calculation of a railroad’s market value, modernize statutory language, move sections of Chapter 270 dealing with railroad valuation into Chapter 273 where other property tax provisions are located, and repeal Rule 8106 because all necessary provisions regarding valuation would be in the statute.

Outdated valuation methods would be updated and would allow the commissioner to use appraisal judgment in determining which valuation methods to use and the validity of the valuation approaches. Language would be modernized regarding how the commissioner must apportion the market value of each railroad company’s operating property to each county and taxing district.

Additionally, reporting requirements for railroad property are amended to require filing with the commissioner. If a company fails to file the required reports, the commissioner may make the valuation based on available information. This valuation may not be appealed.

- Under the proposed new valuation methodology, the aggregate market value of railroad property statewide is estimated to increase by 149% from approximately $1.7 billion to $4.1 billion.
- The increase in railroad market value would shift an estimated $61 million in local property taxes onto railroad property and away from all other property, including homesteads.
- The reduced property tax burden on homesteads would reduce state-paid homeowner property tax refunds beginning in FY 2018, resulting in a savings to the state general fund.

Article 10: Public Finance

The effective date is August 1, 2016.

The bill would make a number of modifications to the terms, conditions and definitions relating to capital improvement bonding. Among other changes, the bill would increase the general obligation revenue bond maximum amount issued from $3 million to $5 million for qualified housing development projects. The bill also would allow 20 year repayment of bonds issued for projects that eliminate R-22 by replacing ice-making systems in existing public facilities with systems that use alternative non-ozone-depleting refrigerants.

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

Article 11: Sustainable Forest Incentive Act

The effective date is applications due in 2017.

The bill would make a number of modifications to the SFIA program.

SFIA Payment Changes

- Removes the provision that restricts land from enrolling in SFIA if it is subject to a single conservation easement of at least 60,000 acres prior to May 31, 2013. If enrolled, these lands would be required to allow public access similar to enrolled lands exceeding 1,920 acres.
- Modifies the length of SFIA covenants: lands subject to a single conservation easement of at least 60,000 acres would be allowed an 8 year covenant. All other enrolled lands may choose between an 8 year, 20 year, or 50 year covenant.
- Payment rates would vary depending on the length of the covenant, but would all be based on the average statewide property tax per acre for managed forest land. Easement lands with an 8 year covenant would receive a per acre payment equal to 25% of the average property tax per acre; other 8 year covenants would receive 65%; 20 year covenants would receive 90%; and 50 year covenants would receive 115%.
- The per acre payment rates could not be lower than the initial 2017 amounts and the annual change in per acre payment rates would be limited to 10% from the previous year.

SFIA Administrative Changes

- Clarifies the purpose statement of the SFIA program.
- Clarifies how land ownership changes are handled with regards to SFIA certifications and payments.
- Requires enrolled land to register their forest management plan with the Department of Natural Resources (DNR). The DNR would be required to annually provide county assessors with verification information regarding forest management plan registration.
- As part of their annual certification, land owners would be required to report what forest management practices have been carried out over the past year on the enrolled property.
- Requires a minimum of three acres be excluded from enrolled lands with structures that are not minor, ancillary or nonresidential. Conservation and agricultural land that is not forest land is also explicitly excluded from enrolling in SFIA.
- Requires DNR to certify the eligibility of each claimant to receive payment to the Department of Revenue by September 15th each year.
- Clarifies the withdrawal process and penalty language to account for different length covenants and also adds language providing for early withdrawal of enrolled lands if the state acquires an easement on the land.

- Approximately 756,000 acres were enrolled in the SFIA program in 2015.

- Under the proposal, it is assumed that one-third of the enrolled acres would opt for an 8 year covenant, one-third would opt for a 20 year covenant, and one-third would opt for a 50 year covenant.
- Lands with 60,000 acres subject to a single conservation easement would again be allowed to enroll in SFIA for an eight year covenant. It is assumed that 186,000 acres subject to a qualifying easement would enroll for SFIA. Lands that become subject to a new conservation easement would still be restricted from enrolling in SFIA.
- The proposed per acre payment rates would be based on the average market value for class 2c managed forest lands multiplied by the average township tax rate times one percent, which was estimated at $13.66 per acre for payable year 2016. The table below shows the proposed SFIA payment rates based on length of SFIA covenant.

Covenant Length	Proposed SFIA Per Acre Payment Rate	SFIA Payment % of Average Statewide Tax
50 years	$15.71	115%
20 years	$12.29	90%
8 years, no easement	$8.88	65%
8 years, with easement	$3.42	25%

- The SFIA payment rates would be recalculated each year but any change would be limited to 10% from the previous year payment rates.
- It is assumed that the proposed increase in SFIA payment rates compared to current law would increase the number of new acres enrolled for 50 year covenants by 25,000 in the first year and an additional 5,000 in subsequent years.
- Under the proposal, payments to lands enrolled in SFIA would increase $4.2 million beginning in FY 2018, increasing costs to the state general fund.

Article 12: Miscellaneous

Tax Court; written order and jurisdiction (Sections 3, 4)
The effective date is the day following final enactment.
The proposed bill makes the following changes relating to Tax Court:

- Rehearing motions must be served within 30 days instead of 15, and these motions must be heard within 60 days instead of 30.
- Disputes up to $15,000 instead of $5,000, in cases not relating to valuation, would be covered in the small claims division.
- Tax court would be able to spend their annual budget on operating expenses as opposed to just two law clerks, education costs, and Westlaw costs.

This proposal has no impact on state-administered property tax aids, credits, and refunds.

Border City Allocations (Section 24)
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.

Article 15: Department Policy and Technical Provisions

The bill would make modifications to certain property tax provisions. Changes include changing definitions relating to the taxation of airflight property, modifications to the timing of taxation of wind energy conversion systems, and adding additional language to improve and clarify the administration of a number of state programs.

The bill would also make a number of technical and clarifying changes to various property tax provisions. Changes include clarifying the assessment of transportation pipelines, adding clarifying dates and specifying clerical error correction deadlines, and removing obsolete language and correcting administrative language.

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

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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