PROPERTY TAX
Senate Omnibus Tax Bill 2
Articles 3-5

May 9, 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. 3931, Articles 3-5, as proposed to be amended (SCH3931A-2)

	Fund Impact			
	F.Y. 2016	**F.Y. 2017**	**F.Y. 2018**	**F.Y. 2019**
	(000's)			
Article 3: Property Taxes				
Refund of State General Levy for Certain Businesses	$0	($9,600)	($19,900)	($20,600)
Met Council Bonds	$0	$0	$0	$0
Property Tax Refund Interactions	$0	$0	$0	($120)
Income Tax Interactions	$0	$0	$0	($90)
Riparian Protection Aid	$0	$0	($10,000)	($10,000)
Cloquet Fire District	$0	$0	$0	$0
Township Board of Appeals Course Waiver	$0	$0	$0	$0
Soccer Stadium Property Tax Exemption				
Property Tax Refund Interactions	$0	$0	$0	$0
Madelia Fire Relief - Grant	($1,200)	$0	$0	$0
Article 4: Local Development				
TIF Burnsville	$0	$0	$0	$0
TIF Maple Grove	$0	$0	$0	$0
TIF Anoka	$0	$0	$0	$0
TIF Edina	$0	$0	$0	$0
TIF Northfield	$0	$0	$0	$0

	Fund Impact			
	F.Y. 2016	**F.Y. 2017**	**F.Y. 2018**	**F.Y. 2019**
Article 5: Iron Range Resources and Rehabilitation Board (IRRRB)				
IRRRB Board Authority	$0	$0	$0	$0
IRRRB Early Retirement Incentive	$0	$0	$0	$0
State General Fund Impact	**($1,200)**	**($9,600)**	**($29,900)**	**($30,810)**

Various effective dates.

EXPLANATION OF THE BILL & REVENUE ANALYSIS DETAIL

Article 3: Property Taxes

Refund of State General Levy for Certain Businesses (Section 1)
Effective for applications filed in 2016 for refunds payable in 2016 through 2026.
The proposal would create a refund of state general property tax for certain businesses located in areas with higher unemployment rates. The eligible areas, referred to as job creation zones, would be defined as one or more contiguous census tracts where the three-year average unemployment rate is at least 75 percent higher than the statewide average unemployment rate.

Businesses eligible for a refund must:
1. be located in a job creation zone
2. pay at least 50 percent of its wages to employees who reside either within the job creation zone where the business is located or any contiguous census tract
3. be a for-profit business

For businesses located outside the seven-county metropolitan area and not in a city with a population greater than 40,000, an eligible employer need not be located in a job creation zone but 50% of the business's total wages must be paid to employees who reside in any job creation zone not located in the seven-county metropolitan area or a city with a population greater than 40,000.

The owner of an eligible business would be required to apply annually to the commissioner of employment and economic development (DEED) by July 1. The refund amount for an eligible business would be equal to the state general tax payable on the property multiplied by the percentage of the property's total area that is occupied by the eligible business. The commissioner of DEED would notify the commissioner of revenue by September 1, who would pay the refunds by December 1.

A business that no longer qualifies for a refund after receiving a refund in the preceding year would be eligible to apply for a onetime refund in the current year equal to one-half the refund amount in the preceding year. A business that relocates outside of a job creation zone would not qualify for this refund.

The bill requires DEED to report the number and amount of refunds issued, the identification and location of businesses receiving a refund, and employment data used to determine eligibility. The report would be due January 15, 2023.

- Based on data from the U.S. Census Bureau's American Community Survey, the statewide three-year average unemployment rate in Minnesota was 6.9 percent. Of the 1,338 census tracts in Minnesota, 122 had an average unemployment rate 75% higher than the statewide average (that is, exceeding 12.0 percent).
- The 122 census tracts currently qualifying as job creation zones are located throughout 25 counties statewide and include an estimated 9,300 for-profit businesses. These businesses would be eligible for a state general property tax refund if at least 50% of their wages are paid to employees who reside within the zone or any contiguous census tract.

- The annual refund of state general property tax under the proposal is projected to be approximately $19 million. The state general fund impact in the first year is assumed to be half due to lower participation as businesses learn about the new refund.
- Businesses that become ineligible after receiving a refund could receive a onetime refund for one-half the previous year's amount, which is estimated to total $1.4 million annually. The state general fund impact in the second year (fiscal year 2018) is assumed to be half due to lower participation in the first year of the program.

Metropolitan Council Financing Authorization (Section 2)
The effective date is following final enactment.
The proposal authorizes the Metropolitan Council to issue up to $82.1 million in certificates of indebtedness, bonds, or other obligations for capital expenditures prescribed in the council's transit capital improvement program. Of the total authorization, the council may issue debt obligations of up to $40.1 million after July 1, 2016 and $42.0 million after July 1, 2017.

- Bonding principal and interest would be paid by increasing property tax levies.
- Based on data from the Metropolitan Council, $2.3 million of new debt service would be paid in taxes payable year 2018. Debt service levies would increase in future years as more of the authorized bonds are issued.
- Any additional debt service levies would increase homeowner taxes starting in taxes payable 2018. Property tax refunds would increase by about $120,000 in FY 2019.
- Additional deductions for income tax itemization would lower income tax receipts. Income tax collections are estimated to be reduced by $90,000 in FY 2019.

Riparian Protection Aid (Section 3)
The effective date is beginning with aids payable in 2017.
The proposal would create an aid of $10 million per year for riparian buffer protection. Using the definitions in sections 273.13, subdivision 3 and 103G.005, the aid would equal (1) each county's share of the total number of acres in the state classified as class 2a, divided by 2; plus (2) each county's share of the number of miles of shoreline of public water basins, each county's share of the number of centerline miles of watercourses, and each county's share of the number of miles of public drainage system ditches established under chapter 103E, divided by two; multiplied by (3) $10,000,000. The maximum aid for a county is $200,000; the minimum aid is $25,000.

- Under the proposal, the state general fund costs would increase by $10 million for aids payable in 2017 and thereafter.

Cloquet Fire District (Sections 4-8)
The proposal would become effective the day following final enactment
The proposal clarifies the Cloquet Area Fire and Ambulance Special Taxing District's authority to incur debt. Current statute is unclear if the Cloquet Area Fire and Ambulance Special Taxing District has authority to incur debt. The bill allows the Cloquet Area Fire and Ambulance Special Taxing District to issue certificates of indebtedness or capital notes.

- This proposal would have no impact on the state general fund during the forecast period. According to an official within the special taxing district the levy would not immediately change if the proposal were enacted. The debt authority may be used in the future for the construction of a new fire station, resulting in higher property tax levies in the future.

Township Board of Appeals Course Waiver (Section 9)
The proposal would become effective the day following final enactment
The proposal would change the requirements of cities and towns for conducting local board of appeal and equalization meetings in 2017. City and town boards in 2016 who were in compliance on February 1, 2016 but had no qualifying member at the time of their board meeting would be eligible to conduct their 2017 boards as long as someone on their board takes the training by February 1st, 2017 and receives a resolution from the governing body of the city or town.

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

Soccer Stadium Property Tax Exemption (Section 10)
Effective upon local approval.
The bill provides for an exemption from property tax for a proposed major league soccer stadium in the city of St. Paul. Any properties with a primary purpose of providing a stadium for professional soccer are included as being exempt from ad valorem taxation by the state or any political subdivision of the state. The exemption includes property leased for stadium related purposes, including the operation of the stadium and related parking facilities.

- A professional soccer stadium built in St. Paul is estimated to have a project cost of $150 million. Assuming a final stadium valuation of $75 million and a completion date of late 2017 (prior to the start of the 2018 Major League Soccer season), the full effect on property taxes would start with payable year 2019. If the stadium were built without the exemption, property taxes would shift onto the stadium and away from neighboring property, including homesteads. The additional property tax burden on homesteads caused by the exemption of the completed facility will increase state-paid homeowner refunds by about $110,000 beginning in fiscal year 2020.
- The exemption from the state property tax levy would have no impact on state revenues because the tax rates would be adjusted to yield the amount of revenue required by statute. The tax reduction for the stadium property would be shifted to the other commercial and industrial properties subject to the state levy.

Madelia Fire Relief - Grant (Section 11)
The effective date is July 1, 2016.
The bill would provide a one-time grant to the city of Madelia equal to $1.2 million.

- The state-paid grant to the city of Madelia would increase state general fund costs by $1.2 million in fiscal year 2017 only.

Article 4: Local Development

TIF Burnsville (Section 1)
The effective date is following local approval.
The proposal extends the city of Burnsville's authority under a 2008 special law to establish a TIF district from December 31, 2018 to March 20, 2020. The proposal also extends the four-year knockdown rule to nine years.

- The proposed changes to this special TIF provision 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 Maple Grove (Section 2)
The effective date is following local approval.
The proposal would modify the definition of the TIF project area in Maple Grove. The definition would change from the whole project area identified in a 2014 special law to the whole or just a portion of the area. The project area may also include any additional property necessary for the district to consist of complete parcels.

- The proposed changes to this special TIF provision 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 Anoka (Section 3)
The effective date following local approval.
The proposal changes the certification date for the Greens of Anoka redevelopment TIF district in the city of Anoka from July 2, 2012 to June 29, 2012. The five-year rule and requirements for use of revenues for decertification would be applied using the updated certification date.

- The proposed exceptions to the general TIF provisions may have an impact on the local tax base and tax rate in the future and may result in a small change in property tax refunds paid by the state.

TIF Edina (Section 4)
The effective date is following final enactment.
The proposal provides an extension for the city of Edina to file the certificate of approval for the 2014 special law regarding the establishment of housing TIF districts. The extension would be until June 30, 2016. Once the certificate is filed, the 2014 special law would be approved. Any actions taken by the city prior to the effective date of this proposal would be deemed consistent with the 2014 special law.

- The proposed changes to this special TIF provision 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 Northfield (Section 5)
The effective date is following local approval.
The proposal creates an exception to the five-year rule requirements for the Riverfront TIF District in the city of Northfield. It allows the five-year rule requirements to be considered met if the activities are undertaken before July 12, 2017.

- The proposed exception 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 5: Iron Range Resources and Rehabilitation Board (IRRRB)

IRRRB Board Authority (Sections 1-32, 34)
The proposal is assumed to become effective August 1, 2016.
The bill would transfer various approval authorities of the Iron Range Resources and Rehabilitation Board (IRRRB) to the commissioner of IRRRB. The commissioner would be required to seek the recommendation of the board in certain circumstances, including expenditures for qualifying projects, transfers of production tax revenues, requests for areawide property tax levy allocations, purchasing forest lands in the taconite assistance area, and preparation of an annual budget.

IRRRB Early Retirement Incentive (Section 32)
The proposal would become effective the day following final enactment and be repealed April 2, 2017.
The bill would require the commissioner of the Iron Range Resources and Rehabilitation Board (IRRRB) to offer a targeted early separation incentive program for employees who are at least 60 years of age and have at least 30 years of state service credit. A similar program shall also be offered to employees whose positions are in support of operations at Giants Ridge and will be eliminated if the agency no longer directly manages Giants Ridge operations.

The incentive may only be offered at the sole discretion of the commissioner and acceptance of the offered incentive must be voluntary by the employee.

The cost of the incentive would be payable solely by funds made available to IRRRB by law, but only on prior approval of the expenditures by members of the IRRRB.

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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