

VETOED

**PROPERTY TAX
Omnibus Tax Bill
Articles 5-8, 14-15**

June 5, 2018

**Property Taxes and Local Aids Only --
See Separate Analysis for State Taxes**

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of Laws 2018, Chapter 205, Articles 5-8, 14-15

	Fund Impact			
	<u>F.Y. 2018</u>	<u>F.Y. 2019</u>	<u>F.Y. 2020</u>	<u>F.Y. 2021</u>
	(000's)			
<u>Article 1: K-12 Education</u>				
Education Aid Payments and Revenue				
Property Tax Refund Interaction	\$0	\$0	\$0	\$0
Income Tax Interaction	\$0	\$0	\$0	\$0
<u>Article 5: Property Tax</u>				
Historical Society Expenditures for Cities/Towns	\$0	\$0	\$0	\$0
Exclusion for Veterans with a Disability Modified				
PTR Interaction – Due Date Change	\$0	\$0	\$600	negligible
PTR Interaction – Transfer Allowed	\$0	\$0	\$60	\$70
Inc Tax Interaction – One-Time Refund	\$0	negligible	\$0	\$0
Exemption for Pharmacy Owned by Indian Tribe	\$0	\$0	(negligible)	(negligible)
Property Tax Refund for Manufactured Home Cooperatives	\$0	\$0	(\$180)	(\$180)
Ag Homestead for Business Entities				
Property Tax Refund Interaction	\$0	\$0	(\$100)	(\$100)
Ag Homestead Market Value Credit	\$0	\$0	(\$230)	(\$230)
Ag Homesteads Owned by Trusts				
Property Tax Refund Interaction	\$0	\$0	(negligible)	(negligible)
Ag Homestead Market Value Credit	\$0	\$0	(negligible)	(negligible)
Homestead Percentage Modified for Partial Homesteads				
Property Tax Refund Interaction	\$0	\$0	unknown	unknown
Ag Homestead Market Value Credit	\$0	\$0	unknown	unknown
Homestead Resort Classification	\$0	\$0	\$0	(\$5)
Classification of Land Used for Environmental Benefits				

Property Tax Refund Interaction	\$0	\$0	\$0	(negligible)
Ag Homestead Market Value Credit	\$0	\$0	\$0	(negligible)
Classification of Certain Holding Ponds				
Property Tax Refund Interaction	\$0	\$0	\$0	(negligible)
Ag Homestead Market Value Credit	\$0	\$0	\$0	(negligible)
State Levy Abatement for Certain Pipelines				
State General Levy	\$0	\$0	(negligible)	(\$10)
Income Tax Interaction	\$0	\$0	\$0	negligible
State Levy Abatement for Medical Facilities in Underserved Areas				
State General Levy	\$0	(negligible)	(\$9)	(\$15)
Income Tax Interaction	\$0	\$0	negligible	negligible
Tax Forfeited Land Sale Requirements Modified	\$0	\$0	\$0	\$0
Senior Deferral Modified, Reconsideration Provided	\$0	\$0	(\$70)	negligible
Border City Enterprise Zone Clarification of Restrictions	\$0	\$0	\$0	\$0
Ag Preserves Termination for Parks or Trails	\$0	\$0	\$0	\$0
LGA Adjustment – Hermantown	\$0	\$0	\$0	\$0
LGA Adjustment – Lilydale	\$0	\$0	\$0	\$0
Housing and Redevelopment Levy Authority Extended	\$0	\$0	\$0	\$0
Cloquet Area Fire and Ambulance Taxing District Modified				
Property Tax Refund Interaction	\$0	\$0	(\$50)	(\$50)
Income Tax Interaction	\$0	\$0	(\$40)	(\$40)
SFIA Trail Clarification	\$0	\$0	\$0	\$0
School Property Tax Reform Working Group	\$0	\$0	\$0	\$0
<u>Article 6: Public Finance</u>				
Drainage Lien Interest Rates Modified	\$0	\$0	\$0	\$0
Light Rail Funding Restrictions	\$0	\$0	\$0	\$0
Bond Allocation Act Modified	\$0	\$0	\$0	\$0

Article 7: Miscellaneous

Mining Occupation Tax Refund Established	\$0	\$0	(\$1,900)	(\$1,800)
Taconite Municipal Aid Modified	\$0	\$0	\$0	\$0
Taconite Economic Development Fund Modified	\$0	\$0	\$0	\$0
Bloomington TIF	\$0	\$0	\$0	\$0
Melrose Fire Remediation Grants Modified	\$0	\$0	\$0	\$0
Champlin TIF	\$0	\$0	\$0	\$0
One-Time Transfer of Taconite Funds	\$0	\$0	\$0	\$0
Mazeppa Fire Remediation Grants	\$0	\$5	\$0	\$0

Article 8, 14-15: Department Policy and Technical Provisions

Policy and Technical Provisions	\$0	\$0	\$0	\$0
General Fund Total	\$0	\$5	(\$1,919)	(\$2,360)
Various Effective Dates				

***Non-General Fund Impacts**

Taconite Environmental Protection Fund

Modifications to Municipal Aid	\$0	\$0	\$0	(\$129)
Modify Pellet Chips and Fines TEDF Credit	\$0	\$0	\$413	\$419

Douglas J. Johnson Economic Protection Fund

Modifications to Municipal Aid	\$0	\$0	\$0	(\$130)
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Taconite Municipal Aid Account

Modifications to Municipal Aid (from TEPF and DJJ)	\$0	\$0	\$0	\$259
Distributions to Municipalities	\$0	\$0	\$0	(\$259)

Taconite Economic Development Fund

Modify Pellet Chips and Fines TEDF Credit	\$0	\$0	(\$413)	(\$419)
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Taconite Property Tax Relief Account

One-Time Transfer to IRRR Account	\$0	(\$3,211)	\$0	\$0
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Iron Range Resources and Rehabilitation Account

One-Time Transfer from TPTR Account	\$0	\$3,211	\$0	\$0
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REVENUE ANALYSIS DETAIL

Article 1: K-12 Education

K-12 Education Aid Payments and Revenue (Sections 1-4)

The effective date is July 1, 2018.

The bill appropriates additional one-time school aid payments for student and staff safety. The bill also allows school boards to waive the staff development reserve and to transfer surplus funds from their community education reserve account to the general fund.

- The changes to K-12 education aid and revenues would have a net zero impact on property tax levies. It is assumed that there would be no impact to state paid property tax refunds or deductions on income tax returns.

Article 5: Property Tax

Historical Society Expenditures Authorized for Cities and Towns (Section 1)

The effective date is the day following final enactment.

Under current law, cities and towns may levy up to 0.02418 percent of their estimated market value (EMV) for their respective county historical societies. The bill would allow cities and towns to appropriate that money for not just their county historical societies, but also their own city/town historical societies. Historical societies must be affiliated with the Minnesota Historical Society.

- This provision would have no impact on the state general fund. It is assumed that any additional money levied as a result of the bill would be shifted away from other levies.

Exclusion for Veterans with a Disability Modified (Sections 2, 9, 12, 36)

The effective date for sections 2 and 9 is the day following final enactment.

The effective date for section 13 is beginning with assessments in 2018, for taxes payable in 2019.

The effective date for section 36 is for refund applications received in 2018.

Sections 2 and 9:

The bill would allow the county veterans service officer and the assessor to exchange data needed for determining a person's eligibility for the exclusion.

Section 13:

Under current law:

1. The homestead of a veteran with a disability becomes eligible for a valuation exclusion in the current assessment year if the application is received by July 1. For applications received after July 1, the exclusion becomes effective for the following assessment year; and
2. When a veteran who had a 100 percent and permanent disability dies, the surviving spouse is allowed to receive the exclusion for the year in which the veteran died and for eight additional taxes payable years, provided that the surviving spouse holds legal or beneficial title to the homestead and resides there; however, a surviving spouse no longer qualifies for the exclusion if the spouse remarries, ceases to use the property as a permanent residence, or sells, transfers, or otherwise disposes of the property.

Under the bill:

1. The due date for applications would be changed to December 15, and all approved applications filed by December 15 would receive the exclusion for the current assessment year; and
2. The general requirements for surviving spouses regarding remarriage, ownership, and residency would remain; however, a surviving spouse would be allowed a once-per-lifetime transfer of the exclusion to a different property, provided that on the date of sale of the original property, the estimated market value of the new property is less than or equal to the estimated market value of the property that originally received the exclusion. The total number of years that a surviving spouse is allowed to receive the exclusion would still be limited to eight taxes payable years.

Application due date changed to December 15:

- The bill would allow veterans or surviving spouses who move after July 1 to reapply for the exclusion in the same assessment year as the move occurred.
- In addition, the later application date would allow newly eligible veterans to apply after July 1 of the current year and receive the exclusion for the current assessment year, rather than the following assessment year (as under current law).
- Changing the application deadline for the exclusion creates a shift in net state savings due to property tax refund interactions.
 - The main impact occurs in the initial fiscal year. A portion of the state-paid property tax refund that under current law is saved in one fiscal year would now be shifted into the previous fiscal year.
 - The impact of the shift in subsequent years is the difference between forecasted refund savings under current law and the effect of shifting those amounts into the previous fiscal year.
 - The first year the state general fund would be impacted under the bill would be for applications filed in 2018 for taxes payable in 2019 (state-paid property tax refunds in fiscal year 2020).
- It is assumed that approximately 2,000 applications would be received in calendar year 2018, and that about half of the applications would be filed between July 2 and December 15.
 - Approximately 14,800 parcels received the exclusion for taxes payable in 2017, while approximately 15,400 parcels received the exclusion for taxes payable in 2018. This is a net increase of about 600 parcels. However, from taxes payable 2017 to taxes payable 2018, more than 1,400 parcels ceased receiving the exclusion, while more than 2,000 parcels began receiving the exclusion.
- Beginning with taxes payable in 2019, the later application deadline would result in a net savings to the state due to a reduction in property tax refunds paid to veteran homesteads. The average savings per homestead (with either a 70% or a 100% disability rating) is an estimated \$560, assumed to grow annually at a 3% rate.
- At the same time, the bill would shift an estimated \$2 million in property tax (for taxes payable in 2019) onto all other property types, including other homesteads. This would increase homeowner property tax refunds. The overall property tax refund savings to the state is net of these costs.
- Under the bill, an estimated \$600,000 of property tax refund savings currently projected for fiscal year 2021 would shift into fiscal year 2020.

- For subsequent years (beginning in fiscal year 2021) the net impact on the state general fund is estimated to be less than \$5,000.

Surviving spouse one-time transfer of exclusion to a different property:

- It is estimated that 5% of surviving spouse homeowners move each year.
- For surviving spouses that moved prior to calendar year 2018, a participation rate of 25% is assumed.
- For surviving spouses moving in calendar year 2018 or later, a participation rate of 50% is assumed.
- It is estimated that approximately 100 surviving spouses would benefit from the bill in taxes payable 2019.
- Beginning with taxes payable in 2019, the transfer of the exclusion would result in a net savings to the state due to a reduction in property tax refunds paid to veteran homesteads. The average savings per homestead with a 100% disability rating is an estimated \$570, assumed to grow annually at a 3% rate.
- At the same time, the bill would shift an estimated \$210,000 in property tax (for taxes payable in 2019) onto all other properties, including other homesteads. This would increase homeowner property tax refunds. The overall property tax refund savings to the state is net of these costs.
- Under the bill, an estimated \$60,000 in property tax refund amounts would be saved by the state in fiscal year 2020.
- Tax year impacts are allocated to the following fiscal year.

Section 36:

The bill would provide a one-time refund of property taxes paid for a veteran who was notified between July 1, 2017 and November 1, 2017 as having a total (100 percent) and permanent disability, but who did not apply to the assessor by July 1, 2016 or July 1, 2017 for a valuation exclusion for assessment years 2016 and 2017. The refund of property taxes would be paid by the local governments to the taxpayer.

- The one-time refund payment paid by the local governments would reduce homeowner property taxes. It is assumed that fewer than five taxpayers would qualify for the one-time refund.
- Lower property taxes would reduce deductions on individual income tax returns, increasing state tax collections by less than \$5,000 in fiscal year 2019 only.

Property Tax Exemption for Pharmacy Owned by Indian Tribe (Section 3)

The effective date is beginning with taxes payable in 2019.

The bill would exempt property that is located in a first class city with a population of more than 380,000, owned by a federally recognized Indian tribe, and used exclusively as a pharmacy.

Property qualifying for the exemption would be limited to parcels and structures that do not exceed a total of 4,000 square feet. The exemption would expire with taxes payable in 2028.

- The Fond Du Lac Band's Mashkiki Waakaaigan Pharmacy in Minneapolis would be eligible for the property tax exemption.

- For taxes payable in 2019 and thereafter, a property tax exemption would reduce the amount of taxable market value, shifting property taxes away from the exempted pharmacy property and onto all other property, including homesteads.
- The additional property tax burden on homesteads caused by the exemption would increase state-paid homeowner refunds by less than \$5,000 beginning in fiscal year 2020.
- The exemption from the state property tax levy would have no impact on state revenues in payable year 2019 and thereafter because the tax rates would be adjusted to yield the amount of revenue required by statute. The tax reduction for the pharmacy would be shifted onto the other commercial and industrial properties subject to the state levy.

Property Tax Refund for Manufactured Home Cooperatives (Sections 4, 19)

The effective date is beginning with claims for taxes payable in 2019.

Under current law, residents living in a manufactured home park cooperative are provided homestead treatment if the cooperative is wholly owned by residents of the park and paying property taxes. The residents may claim a property tax refund for the property taxes paid on their manufactured home structure, but any property taxes attributable to the rent paid to lease their land in the park may not be included.

The bill would allow manufactured home park cooperative residents to include 17% of the rent paid for their site rental in the determination of property taxes payable for claiming a property tax refund.

- According to the Northcountry Cooperative Foundation there are seven resident-owned manufactured home park cooperatives in Minnesota. These cooperative parks include over 500 units located in the cities of Cannon Falls, Clarks Grove, Fairmont, Fridley, Lindstrom, Madelia and Moorhead.
- For many manufactured homes, the property taxes attributable to rent paid for land is many times greater than the property taxes due on the structure itself.
- Under the bill, allowing 17% of rent paid for the land site to be included as property taxes payable would increase the amount of property tax eligible for the state-paid refund and the number of taxpayers eligible for a refund.
- It is assumed that 125 residents would receive an average property tax refund increase of \$600 beginning in fiscal year 2020. An additional 275 residents are projected to become eligible and receive an average refund of \$400.

Agricultural Homestead Classification for Business Entities Provided (Sections 5-6)

The effective date is beginning with assessment year 2018.

Under current law, a business entity that farms on behalf of a separate entity does not receive agricultural homestead classification.

The bill would extend agricultural homestead classification to properties owned by one entity and operated by another entity as long as both business entities have the same owners.

- It is assumed that one percent, or approximately \$500 million, of 2a and 2b non-homestead land value statewide would qualify as 2a homestead agricultural land under the bill. The classification rate for these properties would change from 1.00% to 0.50% for the first \$1.94 million of value and 1.00% for the remaining value.

- The bill would cause a shift in property taxes away from properties newly qualifying as agricultural homestead and onto all other properties, including homesteads.
- The shift in taxes onto homesteads would cause property tax refunds paid by the state to increase by \$100,000 beginning in fiscal year 2020.
- The bill would also increase the number of properties eligible for the agricultural homestead market value credit, increasing the credit by \$230,000 beginning in fiscal year 2020.

Agricultural Homestead Rules Modified for Properties Owned by Trusts (Sections 6-7)

The effective date is beginning with taxes payable in 2019.

Under current law, property cannot qualify for special agricultural homestead treatment unless all of the property is under the same ownership. Portions of an agricultural homestead can be disqualified for homestead treatment if some property is owned by an individual (or trust of which the individual is a grantor) and a portion of the property is owned by a trust of which a deceased spouse was the grantor and the individual has limited interest.

The bill allows property to qualify as a special agricultural homestead when all or a portion of the property is owned by a trust for which a deceased or surviving spouse was the grantor.

- It is assumed that a small number of properties would be directly impacted by the bill.
- The bill would cause a shift in property taxes away from properties newly qualifying for special agricultural homestead and onto all other properties, including other homesteads.
- As a result of property taxes shifting onto homesteads, property tax refunds paid by the state would increase by a negligible amount beginning in fiscal year 2020.
- The bill would also increase the number of properties eligible for the agricultural homestead market value credit, increasing the credit by a negligible amount beginning in fiscal year 2020.

Homestead Percentage Modified for Partial Homesteads (Sections 8, 14-15)

The effective date is beginning with taxes payable in 2019.

Under current law, the homestead share of a property for a partial homestead parcel is based on the number of owners. Each owner receives equitable distribution for homestead, homestead market value exclusion, and agricultural homestead market value credit purposes.

The bill would change how homestead share is determined for partial homesteads. Under the bill, properties that are receiving a partial homestead due to one of the owners not meeting the requirements for homestead would receive a percentage of homestead based on their ownership interest in the property rather than a percentage based on the number of owners.

- There are approximately 20,000 agricultural homestead and residential homestead parcels statewide that include both homestead and non-homestead property.
- According to a January 2018 survey by the Minnesota Association of Assessing Officers (MAAO), approximately 10% of fractional homesteads have ownership interests that are not equal. (This survey question was answered by 24 counties.)

- The actual ownership interest for partial homestead properties statewide is unknown. Therefore, the share of homestead property that would become non-homestead, and vice versa, under the bill is unknown.
 - Properties receiving a larger share of homestead under the bill would have a lower classification rate.
 - Properties receiving a smaller share of homestead under the bill would have a higher classification rate.
- Property taxes would shift away from properties receiving a larger share of homestead under the bill and onto all other properties, including other homesteads. Property taxes would also shift onto properties receiving a smaller share of homestead under the bill and away from all other properties, including other homesteads.
- The shift in taxes onto/away from homesteads would cause property tax refunds paid by the state to change by an unknown amount beginning in fiscal year 2020.
- The bill would change the amount of market value eligible for the agricultural homestead market value credit, changing the credit by an unknown amount beginning in fiscal year 2020.

Homestead Resort Classification Requirements Modified (Section 10)

The effective date is beginning with taxes payable in 2019.

Under current law, in order to qualify for homestead resort classification, a portion of a property must be used as a homestead (dwelling) by the owner. The dwelling can be occupied as a homestead by an owner as sole proprietor, a shareholder of a corporation that owns the resort, a partner in a partnership that owns the resort, or a member of a limited liability company that owns the resort even if the title to the homestead is held by a corporation, partnership, or limited liability company.

The bill expands ownership qualifications for homestead resort classification. Specifically, it expands the allowed ownership of the homestead to include a shareholder of a corporation who owns the resort, a partner in a partnership who owns the resort, or a member of a limited liability company who owns the resort. The bill also requires property owners to include information regarding the portion of the resort used for homestead and the owner of the homestead in their declaration for homestead resort classification.

- It is assumed that approximately \$25 million of market value would change from seasonal residential recreational commercial (resort) classification to homestead resort classification.
- The change in classification would decrease the class rate for these properties from 1.0% or 1.25% for resort property to 0.5%, 1.0%, or 1.25% for homestead resorts, depending on the property's market value. The classification change would reduce the property's state tax liability. A decrease in the class rate would also decrease local property taxes paid, shifting taxes away from these properties.
- Taxes would be shifted onto all other property, including homesteads. An increase in property taxes on homestead property would result in an increase of \$5,000 in property tax refunds paid by the state.

Land Used for Environmental Benefits Classification Modified (Section 11)

The effective date is beginning with assessment year 2019.

Under current law, land that is used for agricultural purposes, as defined in statute, is classified as 2a agricultural land.

The bill expands the definition of agricultural purposes to include land used for environmental benefits, such as buffer strips, retention ponds, or old growth forest restoration. In order to qualify as an agricultural purpose, the land area cannot exceed the greater of three acres or ten percent of the total land area. Under the bill, this land would be classified as 2a agricultural land.

- Under the bill, land used for environmental purposes would qualify as 2a homestead or non-homestead agricultural land. Depending on the land's current classification, land qualifying as 2a homestead agricultural land under the bill may receive a lower class rate than it has under current law.
- It is assumed that a small number of properties would receive a reduced class rate under the bill.
- The bill 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 state-paid property tax refunds by less than \$5,000 beginning in fiscal year 2021.
- The bill would also increase the market value eligible for the agricultural homestead market value credit, increasing the credit by a negligible amount beginning in fiscal year 2021.

Classification of Property Used for Holding Ponds (Section 11)

The effective date is beginning with assessment year 2019.

Under current law, land that is used for agricultural purposes, as defined in statute, is classified as 2a agricultural land.

The bill expands the definition of agricultural purposes to include land consisting of a holding pond designed to prevent runoff onto a divided four-lane expressway that is outside the metropolitan area. The land has to have been classified as agricultural for assessment year 2017. The land would need to be certified by the local soil and water conservation district and be in accordance with USDA Field Office Technical Guide conservation practice standards.

- It is assumed that at least one property would qualify as homestead agricultural land under the bill and receive a classification rate of 0.50% for the first \$1.94 million of value and 1.00% for remaining value.
- The bill 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 state-paid property tax refunds by less than \$5,000 beginning in fiscal year 2021.
- The bill would also increase the market value eligible for the agricultural homestead market value credit, increasing the credit by less than \$5,000 beginning in fiscal year 2021.

State Levy Abatement Provided for Certain Pipelines (Section 15)

The effective dates is beginning with taxes payable in 2020.

Under current law, the state general levy for commercial-industrial property is \$784,590,000 and is paid for by specified commercial-industrial property, except the first \$100,000 of market value.

The bill would abate state general property tax for personal property that is part of an intrastate natural gas transportation or distribution pipeline system if it meets certain qualifications. These qualifications include: construction began after January 1, 2018, the property is located outside the metropolitan area, and the property is located in an area in which households or businesses lacked access to natural gas distribution before January 1, 2018. The abatement could not apply for more than 12 years. Taxpayers must file an application by March 1 of the first assessment year they seek to receive the abatement. The net tax capacity for this property would still be included in the commercial-industrial tax capacity used to calculate the state general levy tax rate.

- As of assessment year 2018, there are no properties that would qualify for the state levy abatement under the bill. However, properties that are a part of a gas pipeline project would be eligible for the abatement once construction begins in a qualifying area.
- It is assumed that one gas pipeline system will be partially constructed by assessment year 2019 for taxes payable in 2020. Because it is assumed the system will not be fully constructed by taxes payable 2020 (the effective date of this bill), there would be additional state general levy impacts outside the forecast window due to the property's increase in value as construction is completed.
- By abating state general tax for certain properties, state revenues would be reduced by a negligible amount in fiscal year 2020 and \$10,000 in fiscal year 2020.
- Lower property taxes would reduce deductions on corporate and individual income tax returns, increasing state tax collections by less than \$5,000 beginning in fiscal year 2021.
- Additional gas pipeline system properties may receive the state general tax abatement in the future.

State Levy Abatement Provided for Medical Facilities in Underserved Areas (Sections 16, 21-24)

The effective dates is beginning with taxes payable in 2019.

The bill would abate the state general levy for qualifying medical facilities. In order to receive the abatement, medical facilities would need to meet the following requirements:

1. The facility must be a medical clinic, birth center, hospital, urgent care clinic, or outpatient surgical center;
2. The facility must be in a county that has either a "medically underserved area" or "medically underserved population" as determined by the federal secretary of health and human services located in it;
3. The facility cannot be located in a metropolitan county;
4. Both the county and city/town have abated local property taxes on the facility for at least 15 years; and
5. At least one governing body must provide a resolution declaring the facility addresses an underserved need for medical services in the area.

State general levies would be abated for 15 years. The net tax capacity of the state levy would not change.

- Medical facilities in 20 counties would not be eligible for this abatement: Anoka, Carver, Chippewa, Crow Wing, Dakota, Douglas, Goodhue, Hennepin, Isanti, Kanabec, Kandiyohi, Lake, Le Sueur, Olmsted, Pennington, Ramsey, Scott, Steele, Stevens, and Washington.
- Data from the Department of Employment and Economic Development quarterly census of employment and wages estimates there are 1,100 private for-profit medical facilities in the qualifying counties (dental offices were not included). Note: Publicly owned and non-profit facilities are already exempt from property tax.
- In greater Minnesota 45% of commercial businesses pay the state general levy tax. The median state general levy paid by these commercial properties is \$1,200.
- It is assumed that, over the next five years, 55 current or new medical facilities will receive the proposed abatement of the state general property tax levy.
- The state general levy would decrease by \$6,000 in taxes payable 2019, \$12,000 in payable 2020, and \$18,000 in payable 2021. These numbers have been converted to fiscal years for the purposes of this estimate.
- Lower property taxes would reduce deductions on corporate and individual income tax returns, increasing state tax collections by less than \$5,000 beginning in fiscal year 2020.

Tax-Forfeited Land Sale Requirements Modified (Section 17)

The effective date is for conveyances issued after December 31, 2018.

Under current law, the purchase price of tax-forfeited property must be paid in full before the state will issue a deed for the property.

Under the bill, a deed would also be issued to the county auditor for mortgage-financed sales of tax-forfeited property before closing of the sale has occurred, with the following requirements:

1. For a deed to be issued under these circumstances, the county auditor would approve the sale based upon a written commitment from a licensed closing agent, title insurer, or title insurance agent that the funding of the purchase is held in an escrow account and available for disbursement upon receipt of the deed.
 2. The county auditor would hold the deed until it is requested by a licensed closing agent, title insurer, or title insurance agent to settle and close on the purchase of the property. If not requested within 30 days, the county auditor would return the deed to the state for cancellation.
 3. If the deed is delivered to a licensed closing agent, title insurer, or title insurance agent, but the closing does not occur within 10 days, the deed would be returned to the county auditor, who, upon receipt, would return the deed to the state for cancellation.
- The bill may have an impact on the sales of tax-forfeited property.
 - It is assumed that there would be no impact on the state general fund.

Senior Citizens' Property Tax Deferral Modified, Reconsideration Provided (Section 19)

The effective date is beginning with applications 2019.

Under current law, applications received prior to July 1 of a calendar year are eligible for a property tax deferral beginning in the following taxes payable year. Applications received on or after July 1 are required to wait an additional taxes payable year before receiving their first property tax deferral

(e.g. applications received on or after July 1, 2018, would first be eligible for a property tax deferral beginning with taxes payable in 2020).

The bill would modify the application deadline for the senior citizen property tax deferral program by changing the application deadline from July 1 to November 1. In addition, taxpayers would be able to request an early notification of approval or denial. If an applicant received a denial, the department would need provide the reason and the applicant could reapply before the normal deadline.

- Under the bill, applicants filing after July 1 but before November 1 would become eligible for a property tax deferral one year earlier than under current law.
- 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. A portion of the deferral payments that under current law would be paid in one fiscal year are now shifted into the previous fiscal year.
 - The impact of the shift in subsequent years is the difference between forecasted payments under current law and the effect of shifting those amounts to the previous fiscal year.
- The first year impacted under the bill would be applications filed in 2020 for taxes payable in 2021 (state deferral payment in fiscal year 2022).
- Under the bill, an estimated \$70,000 in deferral payments projected to be paid by the state in fiscal year 2023 would now be paid in fiscal year 2022.
- For subsequent years (beginning in fiscal year 2023) the net impact on the state general fund is estimated to be less than \$5,000.

Border City Enterprise Zone Clarification of Restrictions (Section 20)

The effective date is the day following final enactment.

The bill clarifies language restricting what types of property can qualify for border city enterprise zone tax reductions.

- There would be no impact to the state general fund.

Agricultural Preserves Termination Allowed for Parks or Trails (Sections 25-27)

The effective date is the day following final enactment.

Under current law, agricultural preserve status is allowed to expire no earlier than eight years after notice has been given by either the landowner or the local authority for planning and zoning.

Under the bill, agricultural preserve status would expire immediately if a state agency or other governmental unit purchases the property or obtains an easement over the property for the purpose of creating or expanding a public trail or park. However, agricultural preserve status would expire only on the portion of the property that is acquired for trail or park purposes, even if the remaining acreage is less than 40 acres.

The bill would apply only to agricultural preserve land in the seven-county metropolitan area.

- If a state agency or other governmental unit purchases the property, the property would become exempt and removing the land's status as an agricultural preserve would have no impact on property taxes.
- If a state agency or other governmental unit obtains an easement over a portion of the property, it is assumed that the property would receive the same valuation assessment as under current law, and that the property would continue to receive the same amount of agricultural preserve credit as under current law.
- It is assumed that there would be no impact on the state general fund.

Local Government Aid Adjustment – Hermantown (Section 28)

The effective date is for aids payable in calendar year 2019.

The bill would increase local government aid (LGA) to a city if:

1. the city's aid decreased by more than \$50,000 between aids payable in 2016 and 2017, and
2. the city's unmet need for aids payable in 2017 exceeded its aid payable in 2016

The one-time aid increase for payable year 2019 only would be equal to the city's decrease in aid between aids payable 2016 and 2017.

- The city of Hermantown would receive an aid increase equal to \$97,260 for aids payable in 2019 only.
- The LGA appropriation is increased by \$97,260 for aids payable in 2019 only, which would increase state general fund costs in fiscal year 2020.

Local Government Aid Adjustment – Lilydale (Section 28)

The effective date is for aids payable in calendar year 2019.

The bill would increase local government aid (LGA) to the city of Lilydale by \$150,000 for aids payable year 2019.

- The LGA appropriation is increased by \$150,000 for aids payable in 2019 only, which would increase state general fund costs in fiscal year 2020.

Levy Authority Extended for Northwest Minnesota Multicounty Housing and Redevelopment Authority (Section 29)

The effective date is beginning with taxes payable in 2019.

Under current law, the Northwest Minnesota Multicounty Housing and Redevelopment Authority (HRA) is a special taxing district operating in Kittson, Polk, Marshall, Pennington, Red Lake and Roseau counties. Levy amounts are limited to 0.0185 percent of the taxable market value within the district. The HRA authority to levy without approval by the governing bodies of the above counties and their cities is 25 percent of the total permitted amount. The 25 percent levy authority provision expires after taxes payable 2019.

The bill would authorize the Northwest Minnesota Multicounty House and Redevelopment Authority to levy 25 percent of the total permitted amount without the approval of counties and cities through taxes payable 2024.

- There would be no assumed state revenue impact. Increasing the special taxing district levy authority causes an equal reduction in its governing bodies levy authority, so the net change in levy authority is zero.

Cloquet Area Fire and Ambulance Taxing District Modified (Sections 30-34)

The effective date is after local compliance.

Under current law, it is unclear if the Cloquet Area Fire and Ambulance Taxing District has authority to incur debt. The bill would allow the Cloquet Area Fire and Ambulance Special Taxing District to issue certificates of indebtedness or capital notes. The district would be allowed to levy debt in the same manner as municipalities.

- According to a local official with the taxing district, under the bill, bonds would be issued for the construction of a new fire station in 2019. The bonds would increase the levy for taxpayers by \$885,000 starting in payable year 2019.
- Higher levies will result in higher homeowner property tax refunds, increasing costs to the state general fund beginning FY 2020.
- Higher levies will result in higher income tax deductions, decreasing revenues to the state general fund beginning in FY 2020.

Clarification of SFIA for Paved Trails (Section 35)

The effective date is the day following final enactment

Under current law, forest land enrolled in the Sustainable Forest Incentive Act (SFIA) program is generally prohibited from making improvements to the land, including residential structures and roads. Current law allows land to be improved with a paved trail under easement, lease, or terminable license to the state of Minnesota or a political subdivision beginning for applications made in 2018.

The bill would clarify the eligibility of land with a paved trail by modifying the effective date to include certifications made in 2018.

- The proposed clarification to the eligibility of forest land in SFIA would have no impact on the state general fund.

School Property Tax Reform Working Group Established (Section 37)

The effective date is the day following final enactment.

The bill establishes a school property tax working group. The goals of the group would be to develop legislative proposals that would:

1. Evaluate the farmland tax burden from the costs of school capital investments;
2. Simplify the tax system used for school district levies;
3. Coordinate interactions with the state general levy; and
4. Accomplish these objectives with optimal levels of state aid and local property tax.

The bill specifies the members of the working group and lays out rules for meetings. The working group would have to make its recommendations on or before January 1, 2019, at which point the group would be disbanded.

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

Article 6: Public Finance

Drainage Lien Principle Interest Rate Modification (Sections 1-2, 5)

The effective date is July 1, 2018.

Under current law, the interest rate charged on drainage lien principal may not exceed the interest rate set by the State Court Administrator for judgments and awards. Drainage liens are a type of local special assessment. This interest is part of what a property owner pays when a drainage lien applies to their property.

The bill would modify the maximum interest rate allowed for drainage liens on properties so that it may not exceed the rate set by the State Court Administrator, or six percent, whichever is greater. The bill also updates language referencing the United States Bankruptcy Code and the definition of "municipality" for the purpose of capital improvement bonds.

- There is no assumed impact to the state general fund due to the proposed change in the maximum interest rate allowed to be charged on drainage lien principal.

Metropolitan Council Debt Obligations (Section 3)

The effective date is July 1, 2018.

The bill would limit the prohibition on using Metropolitan Council debt for light rail improvements enacted in 2017 to obligations authorized in 2017. Under current law the prohibition applies to any debt obligations issued by the Metropolitan Council under section 473.39.

- There is no assumed impact to the state general fund due to the proposed change in the prohibition.

Bond Allocation Act Modified (Section 4)

The effective date is July 1, 2018.

Under current law, a public facilities project for purposes of the Minnesota Bond Allocation Act means any publicly owned facility, or a facility owned by a nonprofit organization that is used for district heating or cooling, that is eligible to be financed with public facilities bonds.

The bill would modify the ownership requirements to allow public or privately owned facilities used for district heating or cooling to qualify as a public facilities project.

- There is no assumed impact to the state general fund due to the proposed change in the definition of a public facilities project.

Article 7: Miscellaneous

Mining Occupation Tax Refund Established (Section 1)

The effective date is beginning with distributions made in 2020 and thereafter.

The bill creates a refund for mining producers equal to the amount of occupation tax remaining in the state general fund after all statutory allocations have been paid. Each producer would receive a proportionate refund based on the amount of occupation tax paid. The total amount of refunds issued shall not exceed \$5 million in any year.

- Based on projected mining production and occupation tax revenues, the new refund is estimated to total \$1.9 million in fiscal year 2020 and \$1.8 million in fiscal year 2021.

Taconite Municipal Aid Guaranteed (Sections 2)

The effective date is beginning with distributions in 2020.

The bill would modify taconite production tax distributions by changing the guarantee for the taconite municipal aid account.

- The changes to the local distribution of taconite production taxes would have no impact on the state general fund.
- The increased distribution to cities and townships would equal approximately \$250,000 for distribution year 2020.
- The increased distribution to cities and townships would reduce distributions to the Taconite Environmental Protection Fund and the Douglas J. Johnson Economic Fund.

Taconite Economic Development Fund Modified (Sections 3-4)

The effective date is retroactive to December 31, 2016.

Under current law, a credit of up to up to \$700,000 for all producers combined from the Taconite Economic Development fund. The bill would modify the chips/fines/concentrate credit by limiting the credit to only Minnesota taconite pellet producers. Any unused portion of the funds for the credit would be deposited into the Taconite Environmental Protection Fund.

- The changes to the local distribution of taconite production taxes would have no impact on the state general fund.
- Limiting the chips/fines/concentrate credit to Minnesota taconite pellet producers would reduce the amount of credit paid, and result in approximately \$400,000 of unused funds being distributed to the Taconite Environmental Protection Fund in FY 2020 and FY 2021.

TIF Bloomington (Section 10)

The effective date is following local approval.

Under current law, the Port Authority of the City of Bloomington's Tax Increment Financing (TIF) District No. 1-I, Bloomington Central Station has a 15 year limit (under 2013 special legislation) to complete activities required under the five-year rule.

The bill would extend the five-year rule time limit from 15 years to 20 years for the Bloomington Central Station TIF District. The bill also removes limits on the use of revenues after the five-year rule activities are completed.

- The proposed changes to the 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.

Melrose Fire Remediation Grants Extension (Section 12)

The effective date is the day following final enactment

The 2017 tax bill appropriated \$1,392,258 from the state general fund to the city of Melrose and Stearns County in response to a 2016 fire. The appropriation for grants is available until June 30, 2018. This proposal would extend that deadline one year to June 30, 2019 and would move some of the appropriation from Stearns County to Melrose.

- The 2017 revenue estimate assumed the full state general fund cost of the appropriation in FY2018. Under the bill, the deadline extension may shift some authorized expenditure into FY2019.

TIF Champlin (Section 14)

The effective date is following local approval.

The five-year rule essentially requires development activity for a tax increment financing (TIF) district to be finished within a five-year period that begins with certification of the district's original tax capacity. After this five-year period has expired, increments may only be spent to pay off obligations that were incurred to fund work done during the five-year period or to the extent permitted under the pooling rules. When these obligations are paid or enough money has been collected to pay them, the district must be decertified.

The bill extends the five-year rule to ten years for the Mississippi Crossings TIF district in the city of Champlin. In addition to extending the five-year rule, the bill exempts the Mississippi Crossings TIF district from the requirements for the use of revenues for decertification.

- The proposed exceptions to special 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.

Taconite Funds One-Time Transfer (Section 15)

The effective date is for the 2018 distribution.

The bill would provide a one-time transfer in 2018 from the taconite property tax relief account balance to the Iron Range Resources and Rehabilitation account. The transfer amount would be equivalent to 10 cents per ton of any excess balance remaining after required distributions are made.

- The one-time transfer from the taconite property tax relief account would shift approximately \$3.2 million to the Iron Range Resources and Rehabilitation account in FY 2019.
- The transfer would have no impact on the state general fund.

Mazeppa Fire Remediation Grants (Section 16)

The effective date is July 1, 2018.

The bill provides an appropriation of \$5,000 in fiscal year 2019 for grants to the city of Mazeppa and Wabasha County that may be used for property tax abatements or other costs incurred as a result of the fire on March 11, 2018. The city of Mazeppa would receive a grant of \$2,600 and Wabasha County would receive a grant of \$2,400.

- The grants would result in a cost to the state general fund of \$5,000 in fiscal year 2019.

Articles 8, 14-15: Department Policy and Technical Provisions

The bill makes modifications to certain property tax provisions. Changes include requiring the commissioner of transportation certify the aid amount for the Small Cities Assistance program by June 1, specifying the process for the commissioner of revenue to make recommendations to the Board of Assessors for sanctions and how applicants or licensees can dispute these, and increasing the minimum value threshold for filing a Certificate of Real Estate Value.

The bill also makes a number of technical and clarifying changes to various property tax provisions. Changes include updating out-of-date references to abstracts for property tax data reporting and updating language referencing persons who are blind or have a disability and married spouses.

- There is no impact to the state general fund from the 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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